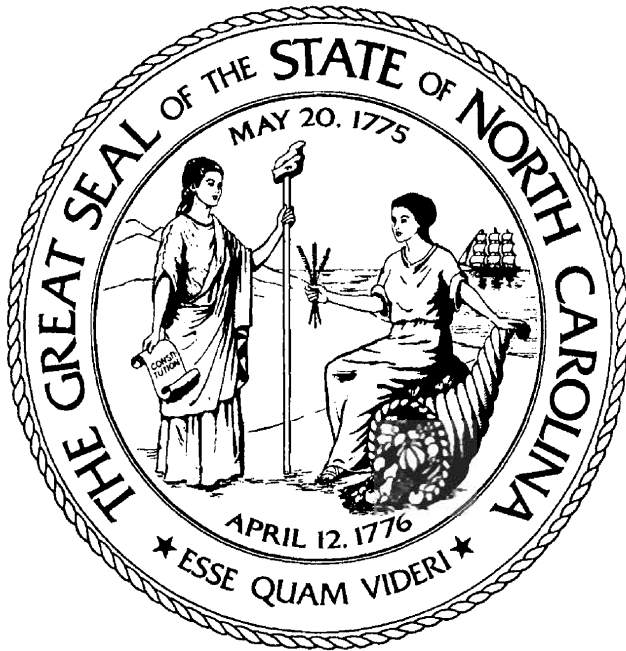

NORTH CAROLINA

*COMPREHENSIVE
ANNUAL
FINANCIAL
REPORT*

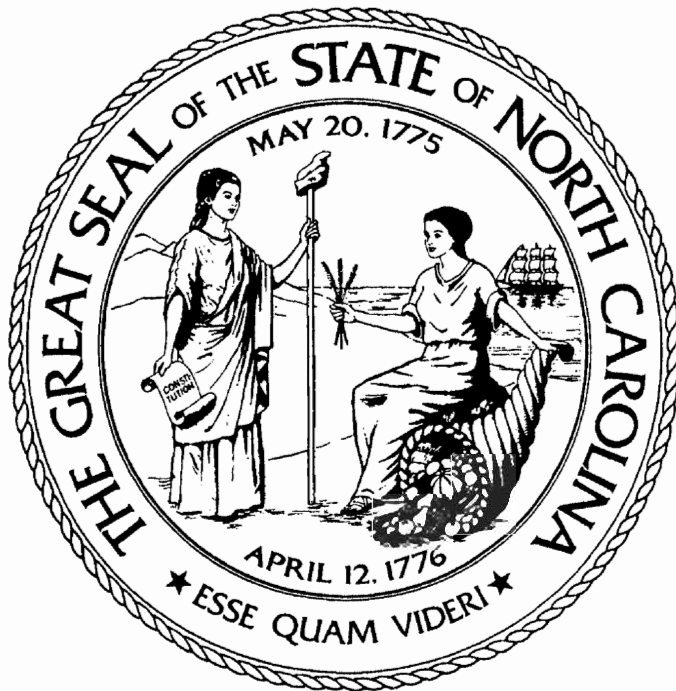


*For the Fiscal
Year Ended
June 30, 2007*

NORTH CAROLINA

COMPREHENSIVE ANNUAL FINANCIAL REPORT

FOR THE FISCAL YEAR
ENDED JUNE 30, 2007



MICHAEL F. EASLEY
GOVERNOR

ROBERT L. POWELL
STATE CONTROLLER

Prepared by Statewide Accounting Division
Office of the State Controller

<http://www.ncosc.net>

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



MICHAEL F. EASLEY
Governor of North Carolina

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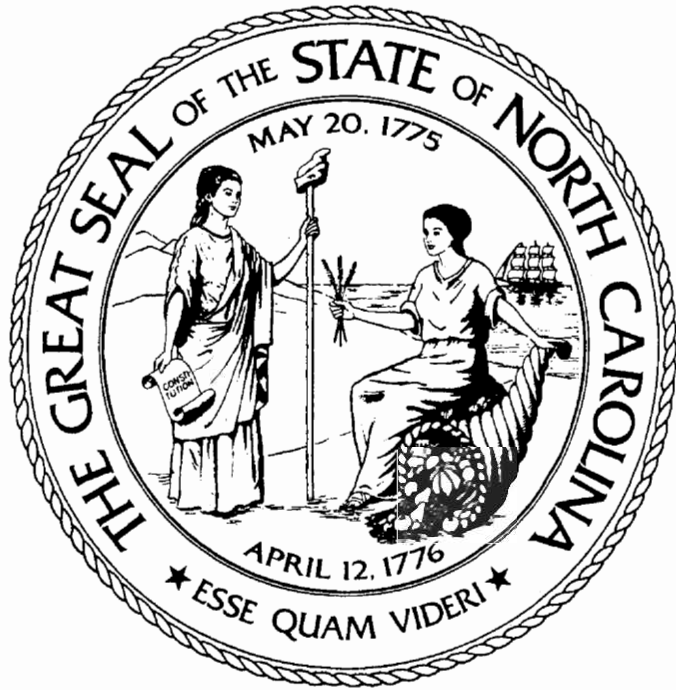
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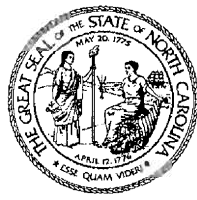
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INTRODUCTORY SECTION



State of North Carolina Office of the State Controller

Michael F. Easley, Governor

Robert L. Powell, State Controller

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

It is our pleasure to furnish you with the 2007 Comprehensive Annual Financial Report (CAFR) of the State of North Carolina in compliance with G.S. 143B-426.40H. 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. 143B-426.40H 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 (MD&A), 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.

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, the EPA Revolving Loan Fund and the N.C. State Lottery Fund. The MD&A can be found immediately following the Independent Auditor's Report.

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An Equal Opportunity/Affirmative Action/Americans With Disabilities Employer

Profile of the State of North Carolina

The Old North State, The Tar Heel State

North Carolina became the 12th state of the union in 1789. North Carolina is located on the Atlantic coast and is bordered by Georgia, South Carolina, Tennessee and Virginia. The State has a land area of approximately 50,000 square miles. The State's estimated population is 9 million, making it the 10th most populated state in the nation. Sixty percent of the population is found in urban areas, while forty percent is found in rural areas. The North Carolina coastline is 301 miles, the greatest distance east to west is 543 miles, and the greatest distance north to south is 188 miles. The State's elevation rises from sea level on the eastern coastline to 6,684 feet at Mount Mitchell in the Appalachian mountain range on our western border. There are 79,042 miles of roads, with Interstate 40 crossing North Carolina east to west, and Interstates 85 and 95 crossing the State north to south. North Carolina's capital and central state government administration is located in Raleigh, in the central piedmont. Charlotte, Raleigh, Greensboro, Durham, and Winston-Salem are North Carolina's largest cities and there are 100 counties.

Government

North Carolina's state government consists of an executive branch, a legislative branch, and a judicial branch. The executive branch is headed by the Governor. The Governor, Lieutenant Governor, and eight other statewide elected officers form the Council of State. The State Constitution provides that, "A Secretary of State, an Auditor, a Treasurer, a Superintendent of Public Instruction, an Attorney General, a Commissioner of Agriculture, a Commissioner of Labor, and a Commissioner of Insurance shall be elected by the qualified voters of the State...."

The legislative power of the State is vested in the General Assembly, which consists of a Senate and a House of Representatives. The Senate is composed of 50 Senators, elected on a biennial basis. The House of Representatives is composed of 120 Representatives, elected on a biennial basis.

The Courts of the Judicial Branch are split into three divisions, the Appellate Division, the Superior Court Division, and the District Court Division. Judges are elected on a non-partisan basis.

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 k-12 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, 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. The *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. These changes result in the *final budget* presented in the required supplementary information.

Economic Condition

Prospects for Fiscal Year 2007-08

Overview

In general, the economy will remain in choppy waters for the next couple of years as the nation's businesses and consumers work through the housing market slump and the economic slowdown. A large part of the economy's projected sluggish growth is being attributed to the loss in household wealth caused by the housing market decline. Fewer home sales coupled with stagnant or even declining prices has led to a decline in retail activity related to the housing market. For example, sales related to home purchases and home construction such as furniture and appliances have started to decline. Despite the slowing economy and housing woes, consumer confidence, though weakened, remains steady even in the face of higher gasoline prices, which reached record highs (in constant dollars) during the second quarter of 2007.

The housing market slump began to show significant signs of affecting the national economy in the second quarter of 2007 as economic growth slowed to 2.7 percent, which is below average economic growth over the last 30 years of 3.1 percent. Some slowdown was expected in the middle of a business cycle, but the impact of the sub-prime lending market meltdown further exacerbated the housing market slump and contributed to weakness in the financial sector.

There are several risks that will need to be monitored as we move into 2008. One of the stronger facets of the nation's economy in the past year has been the increase in export demand. A growing global market coupled with falling exchange rates for the dollar have fueled growth in exports. Thus, exports have bolstered parts of the economy and helped soften the blow caused by housing and financial sector declines. Economic stagnation in global markets, however, could raise recession fears.

Likewise, as we experience the normal mid-cycle slowdown any disruptions to oil supplies raising energy prices significantly could further dampen prospects for economic growth and a quick rebound from the housing slump. Finally, if the sub-prime market failure spreads into other financial markets, including global financial markets, then both consumers and businesses could be hurt resulting in a possible deepening of the slowdown. While these risks exist, their occurrence is not anticipated. So while the economy is projected to slow, it is expected to be relatively mild for both the nation and North Carolina.

National Economic Outlook

United States Economic Indicators

	FY2005-06	FY2006-07	FY2007-08	FY2008-09
	<u>Actual</u>	<u>Actual</u>	<u>Projected</u>	<u>Projected</u>
Economic Growth (GDP)*	3.3%	2.9%	2.3%	2.1%
Personal Income	6.2%	6.4%	5.4%	4.7%
Corporate Pre-Tax Profits	20.2%	9.3%	-10.1%	4.5%
Retail Sales and Food Services	6.8%	4.4%	3.7%	3.1%
CPI	3.8%	2.6%	2.5%	1.8%
30-yr Fixed Mortgage Interest Rate	6.2%	6.3%	6.5%	7.0%

*adjusted for inflation

The forecasted economic growth for the nation is expected to be below the long-term, average growth of 3.1 percent through 2009. With this economic slowdown, personal income growth will slow to 4.7 percent in FY2008-09, which falls below the long-term trend. Businesses coming out of the last recession were able to experience strong growth from increased sales and cost-cutting efficiencies, both of which boosted profits. The impact of slowing demand and upward cost pressures (labor, interest rates, energy) will reduce corporate profits with negative yearly growth projected for 2008, and only a slight increase for 2009.

One key indicator of how the economy is performing is retail sales. This activity is not expected to rebound until late 2009, when the majority of the housing slump and business cycle slowdown will be behind us. Until then, growth will be significantly lower than in the past several years. If the inflation rate is held in check, the Federal Reserve Board will have more flexibility to lower interest rates in response to the housing slump. Nonetheless, forecasted 30-year mortgage rates are expected to increase in both the 2008 and 2009 fiscal years.

The Federal Reserve Board noted most labor markets remain tight; however, the financial services sector layoffs combined with the risk of the housing slump further hurting consumer spending could result in declines in both employment and income. The sub-prime market implosion has only heightened these risks to employment and income growth. To summarize, the nation's economy is headed for a period of sluggish growth with added risks created by housing and financial market troubles, nonetheless, the economy is expected to avoid a recession and return to near normal growth by the end of 2009.

North Carolina Economic Outlook

North Carolina Economic Indicators

	FY2005-06	FY2006-07	FY2007-08	FY2008-09
	<u>Actual</u>	<u>Actual</u>	<u>Projected</u>	<u>Projected</u>
Personal Income	6.1%	6.4%	5.6%	4.6%
Wages and Salaries	6.2%	6.6%	5.8%	4.7%
Retail Sales	7.6%	5.8%	3.6%	3.9%
Unemployment Rate	5.0%	4.8%	5.2%	5.2%
Employment: (Nonagricultural)	2.3%	2.5%	1.4%	1.1%
Existing Single-family Home Sales	17.2%	-0.6%	-14.8%	6.8%
Average Hourly Earnings: Manufacturing	0.7%	2.9%	3.8%	3.8%

The impact from the economic slowdown in North Carolina was still unrealized by the end of 2006. The state is typically more volatile with respect to economic cycles than the nation as a whole. However, by early 2007, it was evident the slowdown had begun nationally, yet the state's economy showed less of an effect than the national economy. The mild slowdown experienced by the state in FY2006-07, may be due in part to North Carolina's relatively mild housing problems. For example, real estate conveyance tax receipts in North Carolina have been essentially flat compared to double-digit declines in a many other states. It is projected that the biggest impact to the state's economy from the mid-cycle slowdown, plus the housing and financial sector slump, will occur in 2008. By the end of 2009, the economic and fiscal impacts are expected to dissipate with a return to near normal growth in the state.

North Carolina's impact from the housing slump has been different than many other states. There was negative year-over-year sales growth statewide in existing, single-family homes for the fourth quarter of 2006 and the second quarter of 2007, and only 1.2 percent growth in the first quarter of 2007. The state's housing bubble was limited to a few resort areas, therefore the statewide impact from the housing slowdown has been far less severe than in many states. In addition, the state continued to experience strong population growth as well as employment growth, which may have dampened the impact from the national housing slump.

The state's population is expected to continue growing at a rate above two percent through 2009. Comparatively, the nation's population is only expected to grow at slightly less than one percent. Likewise, non-farm employment grew in the state from August 2006 to August 2007, by 1.7 percent while national employment grew at only 1.2 percent. Another part of the employment story is the state's continued strong growth in the service-providing sectors with annual growth above 2.2 percent. This has more than offset the loss in manufacturing jobs, which continued to decline at a rate of 1.7 percent (an estimated 9,300 jobs) over this same period.

North Carolina's economy has held up well under the strain of the housing slump and the economic slowdown. Therefore, income growth is projected to continue at a moderate pace and grow only slightly below the long-term average of 5.8 percent. As with the nation, the majority of the housing slump's effects will have worked themselves out by 2009, but residual effects will continue to be a drain on the state's economy. These impacts show up in slower than normal growth in retail sales and employment.

The long-term negative growth trends in manufacturing continue as the state transitions from a manufacturing and agricultural based economy to a service and technological economy. The past year also saw a slowing of growth in the housing related industries including financial services, residential construction, and transportation.

In general, North Carolina's economy is expected to expand at a faster pace than the nation. This should bode well for overall employment and help bolster income growth. Employment losses in the manufacturing industries will continue, but growth in the service and tech industries should continue to be a major stimulus to economic growth. There is little doubt that the state will experience an economic slowdown in the next couple of years, but it is in a position to perform better than the nation as a whole.

Issues and Observations

BEACON

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

BEACON (*Building Enterprise Access for NC's Core Operational Needs*) is a statewide collaborative effort aimed at transforming the way we do business in North Carolina by modernizing and standardizing key business processes in human resources, payroll, budget management, taxation, data storage and accounting. With the implementation of SAP's Enterprise Resource Planning software solution, the goal of BEACON is to build a foundation for management flexibility, increased efficiency, improved access to information, and ultimately to enhance the quality of services provided to the citizens of North Carolina.

The Office of the State Controller, the Office of Information Technology Services, the Office of State Budget and Management, the Office of State Personnel, and the Department of Transportation are overseeing the implementation effort with the full support of Governor Easley and the General Assembly. BEACON will impact many of the systems and processes utilized by state agencies and universities. Representatives from nearly every agency in the State are participating in the design of the new infrastructure.

The seven year plan for implementation of the new SAP business infrastructure involves a gradual roll-out of functionality beginning with HR/Payroll. Since 2004 the General Assembly has appropriated \$76.831 million in non-recurring funding and approximately \$10 million in recurring dollars to support this initiative. The HR/Payroll project is on budget and on schedule to be operational with the Department of Transportation in December 2007, the first agency group in January 2008 and the second agency group in April 2008.

The next phase of implementation will begin in early 2008 with an SAP financials planning project and in summer of 2008 with an E-Recruitment and Learning Solutions Management project. The 2007 Session of the General Assembly authorized \$1.5 million of receipts to the Office of the State Controller for the SAP financials planning project and \$7.39 million of receipts for the two new Human Resource modules. In addition, BEACON will embark on a Data Migration project and a University project in 2008-09.

Session Law 2007-323 directed the Office of the State Controller, in cooperation with the State Chief Information Officer, to develop a Strategic Implementation Plan for the integration of data bases and the sharing of information among state agencies and programs. It further directed that the plan be developed under the governance of the BEACON Project Steering Committee, in conjunction with the leadership in the state agencies and with the support of the Office of State Budget and Management. There was \$5 million appropriated for each fiscal year 2008 and 2009 to deliver the BEACON Data Integration Project. The plan is to be completed and reported to the General Assembly no later than April 30, 2008.

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

State Budget Act

On July 20, 2006, the General Assembly passed House Bill 914 State Budget Act to replace the Executive Budget Act. This new legislation was effective July 1, 2007 and affects budget development and management by simplifying, reorganizing, updating the current budget statutes, and making changes to conform the statutes to the state constitutional provisions governing appropriations. The State Budget Act defines key budget aspects and increases the targeted balance of the General Fund savings reserve from 5 percent to 8 percent of prior year operating appropriations expenditures. The new legislation provides that agency budgets be classified in accordance with generally accepted accounting principles as interpreted by the State Controller.

As part of the implementation of the State Budget Act, several budgetary processes and the State's budget code structure have been reviewed and revised as appropriate. Some revisions have required adjustment to the State's budgetary and accounting systems. The State Budget Manual has been updated to reflect changes required by House Bill 914.

Other Post-Employment Benefits: Retiree Healthcare

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).

Beginning in fiscal year 2006-07, the actuarial data is disclosed in the notes to the State's CAFR, based on the disclosure requirements for a cost-sharing, multiple-employer plan, 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.

Aon Consulting completed an actuarial valuation of retiree health benefits earned as of December 31, 2005. Aon's report was released on December 7, 2006 by the State Health Plan. The State retiree healthcare benefit is currently funded on a pay-as-you-go basis, with minimal additional accumulation of funds to pay the retiree health benefit. Based on the current funding method with limited accumulation of funds, the actuarial assumptions reflect a short-term discount rate of 4.25%.

The actuarial valuation using the unit credit method indicated an accrued liability of \$23.925 billion for the retiree healthcare plan (\$23.786 billion unfunded), with an annual required contribution (ARC) of \$2.39 billion. This accrued liability and annual required contribution are most indicative of the administration and funding of the current retiree health benefit plan and will be incorporated into the required GASB disclosures in the 2007 CAFR.

The General Assembly passed legislation during the 2007 Session that will require annual retiree healthcare valuations. The first valuation under this new law is expected to be conducted for the calendar year ended December 31, 2007, and to be available by August 31, 2008. Currently there are annual valuations for the Disability Income Plan and the pension plans administered by the State Treasurer.

Participating employers in the retiree health care benefit plan include the primary government state employees, local education agencies (LEAs), the University of North Carolina, community colleges, and several local governments. For the fiscal year ended June 30, 2007, North Carolina's, retiree healthcare employer contributions were \$528.401 million, representing an annual increase of 10.8%. Retiree healthcare premium costs paid to the State Health Plan were \$436.748 million, representing an annual increase of 6%. Plan net assets of \$270.639 million represent an increase of \$99.514 million, or 58.2% from the prior year.

Program Evaluation

The 2007 General Assembly established the Program Evaluation Division and the Joint Legislative Program Evaluation Oversight Committee of the General Assembly. The purpose of the Division is to assist the General Assembly in fulfilling its responsibility to oversee government functions by providing an independent, objective source of information to be used in evaluating whether public services are delivered in an effective and efficient manner and in accordance with law. The Division has the following powers and duties:

- (1) Examine a program or an activity and evaluate the merits of the program or activity and the effectiveness in conducting the program or activity.
- (2) Develop quantitative indicators for measuring the activities performed and services provided and the extent to which the activities and services are achieving desired results.
- (3) Develop unit cost measures to determine the cost of activities performed and services provided.
- (4) Determine if a program or an activity complies with the agency's mission, as established by law.
- (5) Make unannounced visits when needed to evaluate a program or an activity.
- (6) Make recommendations to improve the efficiency and effectiveness.
- (7) Determine the extent to which a State agency has implemented any of the Division's recommendations concerning the agency.
- (8) Require a State agency to submit a written response to a proposed or final recommendation of the Division and to submit a written explanation of the extent to which the agency has implemented the Division's recommendations.
- (9) Make periodic reports of the activities and recommendations of the Division and of any savings achieved by the implementation of its recommendations.

The Joint Legislative Program Evaluation Oversight Committee will receive and review requests for evaluations to be performed by the Program Evaluation Division of the General Assembly. Based on these requests, the Committee will establish an annual work plan for the Program Evaluation Division that describes the evaluations to be performed by the Division. The Committee will consult with the Director of the Program Evaluation Division in performing this duty. Additionally, the Committee will receive reports prepared by the Program Evaluation Division, and will recommend to the General Assembly any changes that are required to implement a recommendation that is included in a report of the Program Evaluation Division and is endorsed by the Committee.

A report of an evaluation of a program or an activity of a State agency by the Program Evaluation Division of the General Assembly must include the findings of the Division concerning the program or activity, specific recommendations for making the program or activity more efficient or effective, legislation needed to implement the Division's findings and recommendations concerning the program or activity, and an estimate of the costs or savings expected from implementing the Division's findings and recommendations concerning the program or activity.

**North Carolina
Internal Audit
Act**

The *North Carolina Internal Audit Act* applies to State agencies that have an annual operating budget exceeding \$10 million; more than 100 full-time equivalent employees; or receive and process more than \$10 million in cash in a fiscal year.

Each State agency meeting the above requirements will establish a program of internal auditing that implements an effective system of internal controls, safeguards public funds and assets, and minimizes incidences of fraud, waste, and abuse. Each State agency program should ensure programs and business operations are administered in compliance with federal and state laws, regulations, and other requirements. The State agency program will also review the effectiveness and efficiency of agency and program operations and service delivery. Under this new legislation, major State agency accounting, administrative, and electronic data processing systems and controls, will be periodically audited.

All internal audits will comply with current *Standards for the Professional Practice of Internal Auditing* issued by the Institute for Internal Auditors or, if appropriate, *Government Auditing Standards* issued by the Comptroller General of the United States.

Each affected agency head will appoint a *Director of Internal Auditing* who will report directly to the agency head. Any internal auditor employed by a State agency will at a minimum have a bachelor's degree from an accredited college or university and; certification or licensure as a certified public accountant, certified internal auditor, certified fraud examiner, certified information systems auditor, professional engineer, or attorney; a minimum of five years' experience in internal or external auditing, management consulting, program evaluation, management analysis, economic analysis, industrial engineering, or operations research.

As part of this new legislation the *Council of Internal Auditing* was created, consisting of the State Controller, who will serve as Chair, the State Budget Officer, the Secretary of Administration, the Attorney General, the Secretary of Revenue, and the State Auditor who will serve as a nonvoting member. The State Auditor may appoint a designee.

The *Council of Internal Auditing* will play a significant role in the implementation of the *North Carolina Internal Audit Act*. The *Council* will be responsible for promulgating guidelines for the uniformity and quality of State agency internal audit activities; recommending the number of internal audit employees required by each State agency; developing internal audit guides, technical manuals, and suggested best internal audit practices; administering an independent peer review system for each State agency internal audit activity; specify the frequency of such reviews consistent with applicable national standards; and assisting agencies with selection of independent peer reviewers from other State agencies; providing central training sessions, professional development opportunities, and recognition programs for internal auditors; administering a program for sharing internal auditors among State agencies needing temporary assistance and assembly of interagency teams of internal auditors to conduct internal audits beyond the capacity of a single agency; maintaining a central database of all annual internal audit plans; topics for review proposed by internal audit plans; internal audit reports issued and individual findings and recommendations from those reports; and requiring reports in writing from any State agency relative to any internal audit matter.

If determined necessary by a majority vote of the *Council*, the *Council* will conduct hearings relative to any attempts to interfere with, compromise, or intimidate an internal auditor, inquire as to the effectiveness of any internal audit unit, authorize the State Controller, as Chair, to issue subpoenas for the appearance of any person or internal audit working papers, report drafts, and any other pertinent document or record regardless of physical form needed for the hearing.

The *Council* will also issue an annual report including, but not limited to, service efforts and accomplishments of State agency internal auditors and to propose legislation for consideration by the Governor and General Assembly.

**State Governmental
Accountability and
Internal Control
Act**

The purpose of the *State Governmental Accountability and Internal Control Act* is to establish internal control standards for State government and to increase fiscal accountability. Recognizing the public interest and the importance of oversight over public institutions, the Governor and General Assembly enacted new legislation that provides for the implementation of an effective and efficient system of internal control providing reasonable assurance that the public's objectives are met. Moving forward, the *State Governmental Accountability and Internal Control Act* will ensure that our State system of internal control incorporates applicable statewide standards and clearly defines and assigns specific internal control related responsibilities.

Internal control is defined to be an integral process, affected by an entity's governing body, management, and other personnel, designed to provide reasonable assurance regarding the achievement of objectives related to the effectiveness and efficiency of operations, reliability of financial reporting, and compliance with applicable laws and regulations.

Standards setting responsibilities

The State Controller, in consultation with the State Auditor, will establish comprehensive standards, policies, and procedures to ensure a strong and effective system of internal control within State government. These standards, policies, and procedures will be made readily available to all State agencies, and the State Controller will make appropriate education efforts to inform relevant State agency staffs of the standards, policies, procedures, and internal control best practices. These efforts will include the development of training courses, manuals, and other information sources to promulgate internal control standards, policies, procedures, and best practices throughout all State agencies.

Agency management responsibilities

The management of each State agency bears full responsibility for establishing and maintaining a proper system of internal control within that agency. Each principal executive officer and each principal fiscal officer will annually certify, in a manner prescribed by the State Controller, that the agency has in place a proper system of internal control. The State Controller will develop policies and procedures to direct agencies in their evaluation.

The management of each State agency also bears the responsibility periodically to submit accurate and complete financial information to the State Controller for compilation into North Carolina State government's various financial reports and other related financial information disseminated to the public. With the submission of such periodic reports to the State Controller, each agency's principal executive officer and each agency's principal fiscal officer will certify, in a manner prescribed by the State Controller, to the accuracy and completeness of the financial information submitted.

Debt Affordability

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.

The Committee produces the *Debt Affordability Study* on an annual basis. The report was created to serve as a tool for sound debt management practices by the State of North Carolina. The report provides the Governor and the General Assembly with a basis for assessing the impact of future debt issuance on the State's fiscal position and enables informed decision-making regarding both financing proposals and capital spending priorities. The report also provides a methodology for measuring, monitoring and managing the State's debt levels. The concept of debt affordability is widely regarded as an essential management tool. The methodology used in the study to analyze the State's debt position incorporates historical and future trends in debt levels, peer group comparisons and provides recommendations within adopted guidelines. The study also provides recommendations regarding other debt management related policies considered desirable and consistent with the sound management of the State's debt. Such recommendations were developed by incorporating management practices consistent with those utilized by the most highly rated states.

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, 2006. This was the 13th consecutive year (1994 to 2006) the State has received the 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 7, 2007

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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, 2006

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.



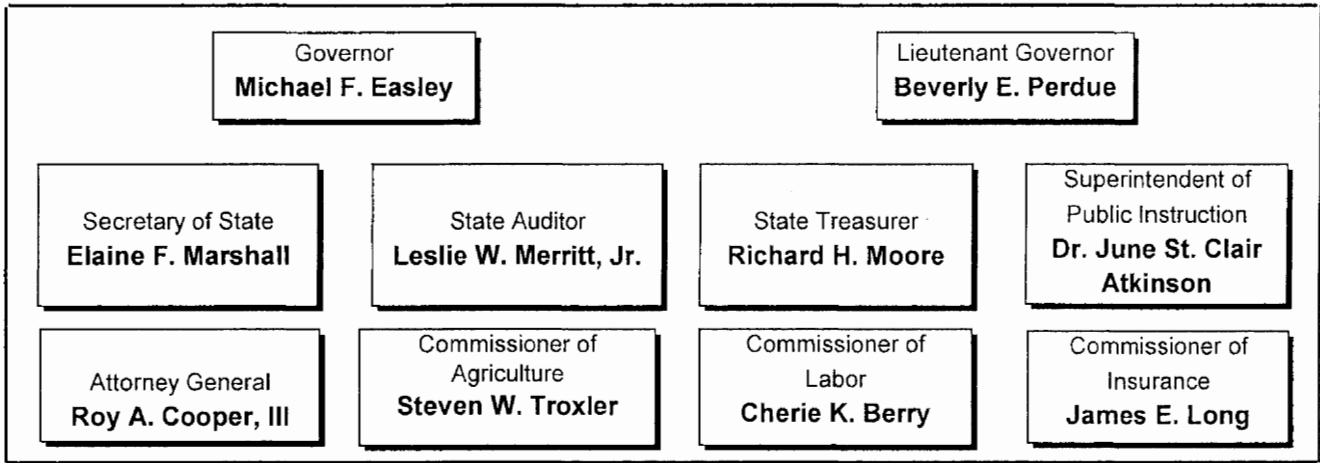
President

Executive Director

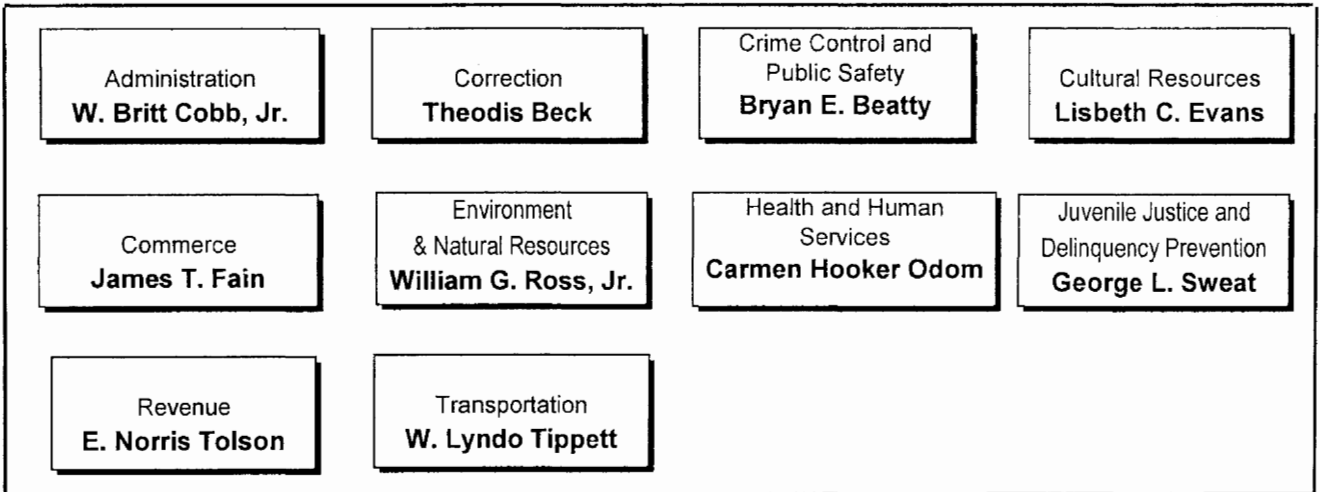
**ORGANIZATION OF NORTH CAROLINA STATE GOVERNMENT
INCLUDING PRINCIPAL STATE OFFICIALS**

EXECUTIVE BRANCH

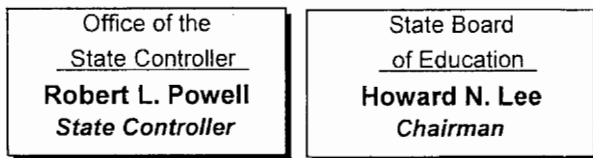
Council of State



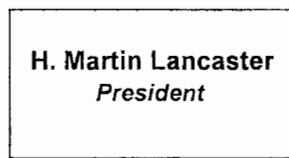
Cabinet Secretaries — Appointed by the Governor



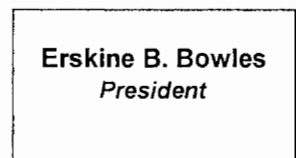
Appointed by Governor, confirmed by Legislature



**Appointed by State Board
of Community Colleges**



**Appointed by University
Board of Governors**



LEGISLATIVE BRANCH

JUDICIAL BRANCH

General Assembly

<div style="border: 1px solid black; padding: 10px; margin-bottom: 10px;">Senate</div> <p>President Lieutenant Governor Beverly E. Perdue</p> <p>President Pro Tempore Marc Basnight</p> <p>Deputy Pres. Pro Tempore Charlie Smith Dannelly</p> <p>Majority Leader Anthony E. Rand</p> <p>Minority Leader Philip E. Berger</p>	<div style="border: 1px solid black; padding: 10px; margin-bottom: 10px;">House of Representatives</div> <p>Speaker Joe Hackney</p> <p>Speaker Pro Tempore William L. Wainwright</p> <p>Majority Leader L. Hugh Holliman</p> <p>Minority Leader Paul Stam</p>
--	--

North Carolina Supreme Court

Chief Justice
Sarah Parker

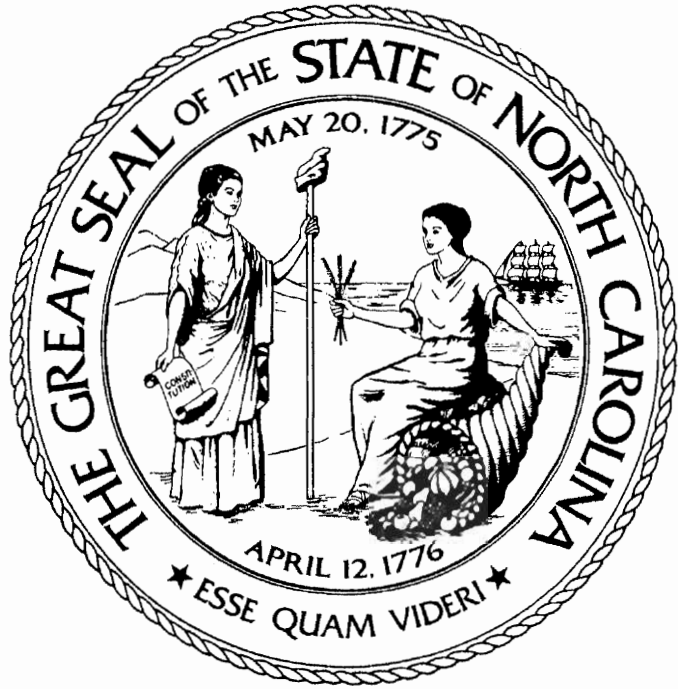
Associate Justices
**Edward Thomas Brady
Robert H. Edmunds, Jr.
Paul M. Newby
Mark D. Martin
Patricia Timmons-Goodson
Robin E. Hudson**

Administrative
Office of the Courts
Judge Ralph A. Walker
Director

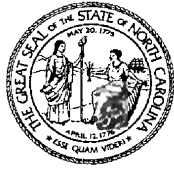
Component Units

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



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

STATE OF NORTH CAROLINA
Office of the State Auditor

2 S. Salisbury Street
20601 Mail Service Center
Raleigh, NC 27699-0601
Telephone: (919) 807-7500
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, 2007, 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 State Lottery Fund, which is both a major fund and 6 percent, 0 percent, and 41 percent, respectively, of the assets, net assets, and revenues of the business-type activities; the financial statements of the North Carolina Housing Finance Agency, which represent 8 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 16 percent, 4 percent, and 3 percent, respectively, of the assets, net assets, and revenues of the aggregate discretely presented component units; nor the financial statements of the University of North Carolina System – University of North Carolina Health Care System – Rex Healthcare, which represent 2 percent, 2 percent, and 4 percent, respectively, of the assets, net assets, and revenues of the aggregate discretely presented component units. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our 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 State Education Assistance Authority and the University of North Carolina System – University of North Carolina Health Care System – Rex Healthcare 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, 2007, 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 implemented Governmental Accounting Standards Board Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other than Pension Plans*, during the year ended June 30, 2007.

In accordance with *Government Auditing Standards*, we will also issue our report dated December 7, 2007 on our consideration of the State of North Carolina's internal control over financial reporting and on 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; Schedules of Funding Progress – All Defined Benefit Pension Trust Funds; Schedules of Contributions from the Employers and Other Contributing Entities – All Defined Benefit Pension Trust Funds; Schedules of Funding Progress – Other Postemployment Benefits; Schedules of Employer Contributions – Other Postemployment Benefits; Schedule of Revenues, Expenditures and Changes in Unreserved Fund Balances – Budget and Actual – General Fund; and the Notes to Required Supplementary Information – Budgetary Reporting, as listed in the table of contents, are not required parts 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.

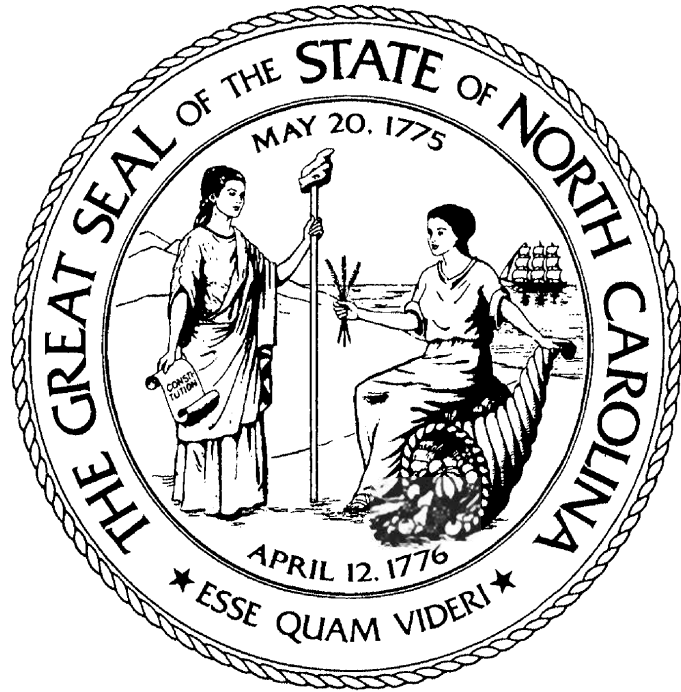
Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the State of North Carolina's basic financial statements. The introductory section, the combining fund financial statements and schedules, and the statistical section are presented for purposes 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. CPA, CFP
State Auditor

December 7, 2007

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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, 2007. 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 \$2.534 billion or 8.7% as a result of this year's operations. Net assets of governmental activities increased by \$2.211 billion, or 8% due, in part, to higher than expected growth in tax revenues. Net assets of business-type activities increased by \$323.184 million, or 23.3% due to the strong financial results of the Unemployment Compensation Fund. At year-end, net assets of governmental activities and business-type activities totaled \$29.844 billion and \$1.712 billion, respectively.
- Component units reported net assets of \$15.425 billion, an increase of \$2.107 billion or 15.8% from the previous year. About a quarter of the increase (\$562.2 million) is due to the net increase in capital assets, net of related debt 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 increased from \$1.966 billion at June 30, 2006 (as restated) to \$2.577 billion at June 30, 2007. The increase is explained primarily by higher than expected growth in individual income and corporate income taxes.
- The fund balance of the Highway Fund increased from \$568.785 million at June 30, 2006 to \$593.969 million at June 30, 2007, an increase of 4.4%. The fund balance growth was attributable to higher gasoline taxes and to legislative increases in motor vehicle license and registration fees, effective October 1, 2006.
- The fund balance of the Highway Trust Fund increased substantially from negative \$134.998 million at June 30, 2006 to a positive \$17.121 million at June 30, 2007. Key factors in eliminating the 2006 deficit were the substantial reduction in transfers to the General Fund and the growth in gasoline tax and highway use tax revenues.
- The net assets of the Unemployment Compensation Fund grew from \$507.477 million at June 30, 2006 to \$746.108 million at June 30, 2007. The net asset growth is explained by the State's lower unemployment rate and by a 20% statutory surcharge on unemployment contributions.
- The N.C. Education Lottery (NCEL) began selling instant game tickets in March 2006 and Powerball tickets in May 2006. In the first fifteen months of operation, the NCEL earned more than \$377 million to support educational programs for the State, meeting its goal of transferring 35% of total revenues.

Capital Assets:

- The State's investment in capital assets (net of accumulated depreciation) was \$30.916 billion, an increase of 5.2% from the previous fiscal year-end.
- This year's major capital asset additions were for highway construction (\$1.2 billion), highway land improvements (\$477 million), construction of correctional facilities (\$70 million), and construction of a new psychiatric hospital (\$47 million).

Long-term Debt:

- The State had long-term debt (bonds and similar debt payable) outstanding of \$6.912 billion, an increase of 6% from the previous fiscal year-end. The long-term debt balance includes \$972.685 million of special obligation (non-voted) debt issued for governmental activities.
- The State regained Moody's Rating Service Aaa rating status in January 2007 after having been downgraded to Aa1 in August 2002. In support of the upgrade, Moody's cited strong financial performance, replenishment of depleted reserves, recent economic gains that surpass national averages, and the State's effective fiscal management and healthy financial outlook.
- The State maintained its AAA bond rating with Standard and Poor's and Fitch Ratings.

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, the N.C. State Lottery 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 76. 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 153 and 154).

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 180 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, the N.C. State Lottery 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, the N.C. State Lottery Fund, and the EPA Revolving Loan Fund, all 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 – Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the State's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds. The State's fiduciary activities are reported in separate Statements of Fiduciary Net Assets and Changes in Fiduciary Net Assets. These funds include pension and other employee benefit trust funds, private-purpose trust funds, investment trust funds, and agency funds.

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 74** 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

Over time, increases or decreases in net assets serve as a useful indicator of whether a government's financial position is improving or deteriorating. The State's combined net assets increased \$2.534 billion or 8.73% over the course of this fiscal year's operations. The net assets of the governmental activities increased \$2.211 billion or 8% and business-type activities increased \$323.184 million or 23.3%. The following table was derived from the government-wide Statement of Net Assets:

Net Assets June 30, 2007 and 2006 (dollars in thousands)

	Governmental Activities		Business-type Activities		Total Primary Government	
	2007	2006	2007	2006	2007	2006
Current and other non-						
current assets.....	\$ 17,519,604	\$ 15,182,356	\$ 2,115,414	\$ 1,706,801	\$ 19,635,018	\$ 16,889,157
Capital assets, net.....	30,889,259	29,363,786	26,673	26,975	30,915,932	29,390,761
Total assets.....	48,408,863	44,546,142	2,142,087	1,733,776	50,550,950	46,279,918
Long-term liabilities.....	7,599,257	7,285,532	3,885	3,779	7,603,142	7,289,311
Other liabilities.....	10,965,284	9,627,568	426,458	341,437	11,391,742	9,969,005
Total liabilities.....	18,564,541	16,913,100	430,343	345,216	18,994,884	17,258,316
Net assets:						
Invested in capital assets,						
net of related debt.....	29,689,201	28,052,926	26,673	26,975	29,715,874	28,079,901
Restricted.....	1,076,470	890,602	1,612,943	1,286,477	2,689,413	2,177,079
Unrestricted.....	(921,349)	(1,310,486)	72,128	75,108	(849,221)	(1,235,378)
Total net assets.....	\$ 29,844,322	\$ 27,633,042	\$ 1,711,744	\$ 1,388,560	\$ 31,556,066	\$ 29,021,602

The largest component of the State's net assets (\$29.716 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 (\$2.689 billion). Net assets are restricted when constraints placed on their use are 1) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments or 2) legally imposed through constitutional provisions. 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 \$921.3 million 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 \$6.875 billion of bonds and certificates of participation outstanding at June 30, 2007, \$5.88 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, 2007, the State's governmental activities have significant unfunded liabilities for compensated absences in the amount of \$382.316 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, 2007 and 2006
(dollars in thousands)

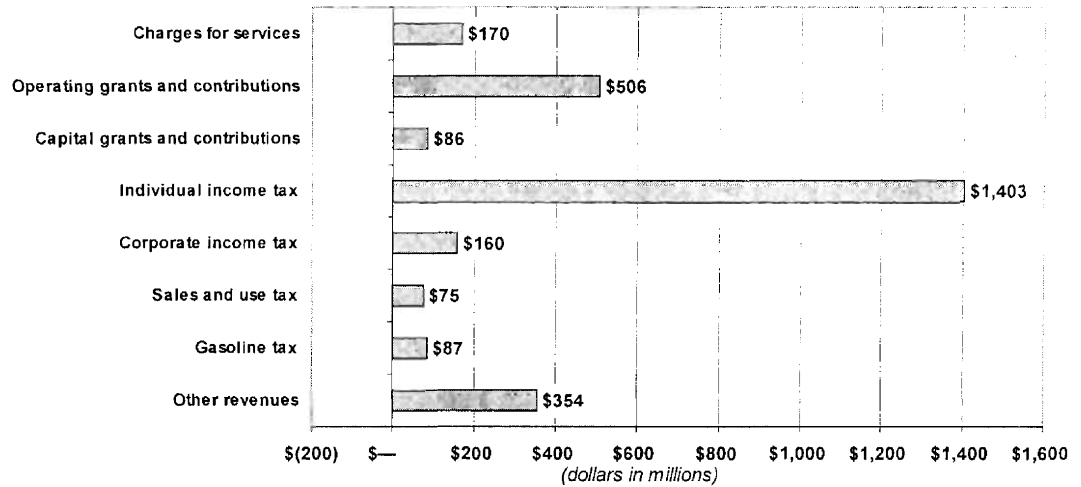
	Governmental Activities		Business-type Activities		Total Primary Government	
	2007	2006	2007	2006	2007	2006
Revenues:						
Program revenues:						
Charges for services.....	\$ 2,160,500	\$ 1,990,401	\$ 2,043,306	\$ 1,400,064	\$ 4,203,806	\$ 3,390,465
Operating grants and contributions.....	12,009,937	11,504,184	106,000	63,745	12,115,937	11,567,929
Capital grants and contributions.....	1,000,079	914,090	142	258	1,000,221	914,348
General revenues:						
Taxes						
Individual income tax.....	10,739,562	9,336,745	—	—	10,739,562	9,336,745
Corporate income tax.....	1,466,148	1,306,193	—	—	1,466,148	1,306,193
Sales and use tax.....	5,108,456	5,033,040	—	—	5,108,456	5,033,040
Gasoline tax.....	1,601,764	1,514,626	—	—	1,601,764	1,514,626
Franchise tax.....	671,151	628,029	—	—	671,151	628,029
Highway use tax.....	607,511	577,237	—	—	607,511	577,237
Insurance tax.....	487,081	442,297	—	—	487,081	442,297
Beverage tax.....	245,990	233,315	—	—	245,990	233,315
Inheritance tax.....	162,746	133,158	—	—	162,746	133,158
Tobacco products tax.....	241,687	187,566	—	—	241,687	187,566
Other taxes.....	330,888	294,986	—	—	330,888	294,986
Tobacco settlement.....	144,075	139,638	—	—	144,075	139,638
Unrestricted investment earnings.....	212,074	123,170	—	—	212,074	123,170
Miscellaneous.....	47,170	37,252	15	—	47,185	37,252
Total revenues.....	37,236,819	34,395,927	2,149,463	1,464,067	39,386,282	35,859,994
Expenses:						
General government.....	1,265,450	1,028,506	—	—	1,265,450	1,028,506
Primary and secondary education.....	9,096,758	8,213,146	—	—	9,096,758	8,213,146
Higher education.....	4,405,930	3,471,916	—	—	4,405,930	3,471,916
Health and human services.....	14,360,634	13,439,582	—	—	14,360,634	13,439,582
Economic development.....	624,306	644,733	—	—	624,306	644,733
Environment and natural resources.....	723,504	614,527	—	—	723,504	614,527
Public safety, corrections and regulation.....	2,483,398	2,250,524	—	—	2,483,398	2,250,524
Transportation.....	2,019,917	1,798,846	—	—	2,019,917	1,798,846
Agriculture.....	89,257	105,256	—	—	89,257	105,256
Interest on long-term debt.....	273,123	264,287	—	—	273,123	264,287
Unemployment compensation.....	—	—	864,981	849,945	864,981	849,945
N.C. State Lottery.....	—	—	559,373	153,125	559,373	153,125
EPA Revolving Loan.....	—	—	14,228	11,414	14,228	11,414
Regulatory commissions.....	—	—	31,144	28,510	31,144	28,510
Insurance programs.....	—	—	26,624	16,009	26,624	16,009
North Carolina State Fair.....	—	—	11,433	10,497	11,433	10,497
Other business-type activities.....	—	—	5,686	5,735	5,686	5,735
Total expenses.....	35,342,277	31,831,323	1,513,469	1,075,235	36,855,746	32,906,558
Increase (decrease) in net assets before contributions and transfers.....	1,894,542	2,564,604	635,994	388,832	2,530,536	2,953,436
Contributions to permanent funds.....	3,928	4,674	—	—	3,928	4,674
Transfers.....	312,810	67,740	(312,810)	(67,740)	—	—
Increase (decrease) in net assets.....	2,211,280	2,637,018	323,184	321,092	2,534,464	2,958,110
Net assets - beginning - restated.....	27,633,042	24,996,024	1,388,560	1,067,468	29,021,602	26,063,492
Net assets - ending.....	\$ 29,844,322	\$ 27,633,042	\$ 1,711,744	\$ 1,388,560	\$ 31,556,066	\$ 29,021,602

Governmental Activities

For fiscal year 2007, revenues outpaced expenses and when combined with transfers from the State's business-type activities, an increase of \$2.211 billion in net assets resulted for governmental activities. Total revenues increased 8.3% in fiscal year 2007 to \$37.237 billion. The increase in revenues is attributable mostly to higher than expected growth in individual income and corporate income tax collections. Additionally, the legislature increased driver's license, vehicle registration, and other motor vehicle fees, effective October 1, 2005. Fiscal year 2007 includes a full year implementation of these fee increases (included in "Charges for services" above). Gasoline tax collections were higher because of increases in the motor fuels tax rate. Net transfers-in were much higher in fiscal year 2007 due to the new State lottery, which only had 3 months of sales in the prior year.

The following chart reflects the dollar change in the revenues by source of governmental activities between fiscal years 2006 and 2007:

**Dollar Change in Governmental Activities Revenues by Source
Between Fiscal Years 2006 and 2007**



Total expenses increased by 11% to \$35.342 billion, primarily because of funding increases in the State’s three largest functional areas, primary and secondary education, higher education, and health and human services. In 2007, primary and secondary education increased 10.8% and higher education increased 26.9%. The growth in education funding is related to enrollment increases at the State’s universities, community colleges, and public schools and to salary increases for teachers and faculty. The significant growth in higher education is also due to larger distributions of higher education bond proceeds in 2007.

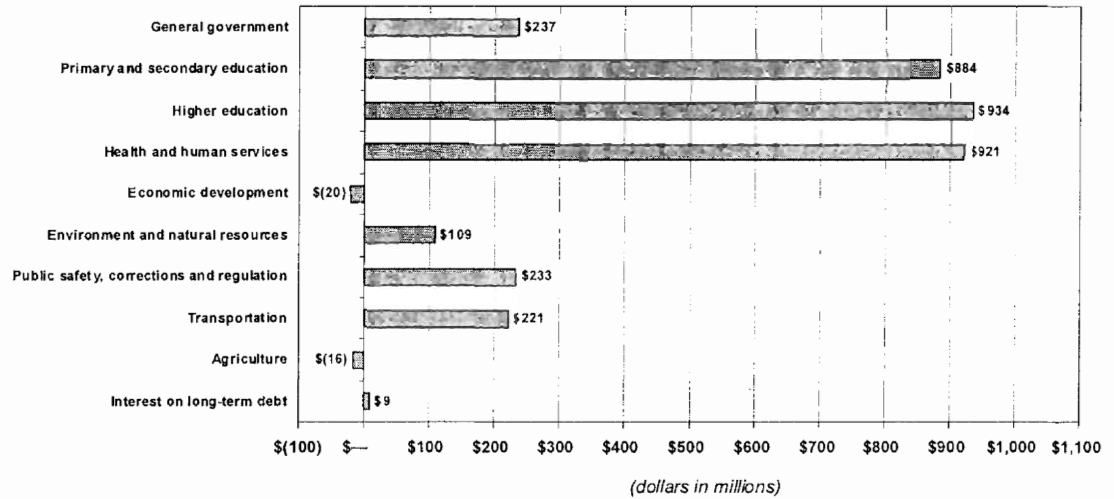
Higher education expenses are financed primarily by State appropriations. The State Constitution provides that “the benefits of the University North Carolina and other public institutions of higher education, as far as practicable, be extended to the people of the State free of expense.”

Total health and human services (HHS) spending increased 6.9% in 2007. For comparison, HHS spending increased by less than 1% in 2006 and increased by 14.1% in 2005 and 10.5% in 2004. The growth in health and human services is the result of increased spending for Medicaid, which is the State’s largest public assistance program. Medicaid is a federal entitlement program, which means individuals found eligible for Medicaid have legal rights to receive services and cannot be denied coverage by the State. In North Carolina, Medicaid is administered by the State and counties and financed with federal, State, and county funds. The slow growth in State funding for Medicaid in 2007 was due to a higher federal match rate and savings to the State from the new Medicare Drug Plan. Higher growth rates occur during years of economic distress and when major Medicaid expansions are enacted. Lower growth rates occur when the Medicaid population is stable or declining.

The 2007 Session of the General Assembly enacted legislation requiring the State to assume the counties’ share of the nonfederal share of Medicaid costs over a three-year period, beginning October 1, 2007. To provide resources to assume these costs, the legislation phases out the local sales tax by one-half cent and makes a corresponding increase in the State sales tax rate.

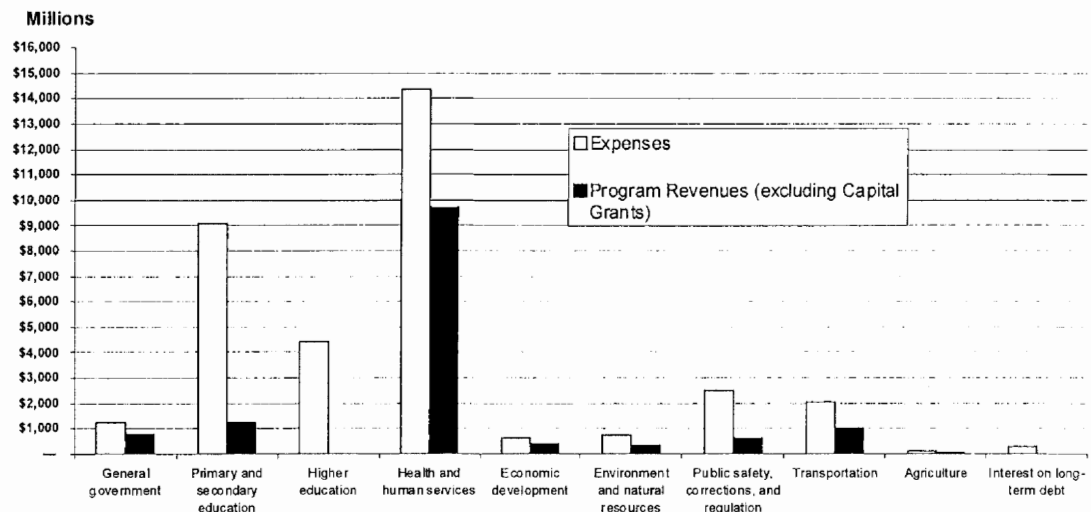
The following chart reflects the dollar change in the functional expenses of governmental activities between fiscal years 2006 and 2007:

Dollar Change in Governmental Activities Functional Expenses Between Fiscal Years 2006 and 2007



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, 2007



Business-type Activities

Business-type activities reflect an increase in net assets of \$323.184 million or 23.3%, primarily because of the strong financial results of the Unemployment Compensation Fund. For fiscal year 2007, the Unemployment Compensation Fund had an operating income (excess of operating revenues over operating expenses) of \$236.448 million. The Unemployment Compensation Fund and the EPA Revolving Loan Fund comprise 94% of the total net assets of business-type activities. The N.C. State Lottery Fund has no net assets since its net profits are distributed to the State's governmental activities, as required by statute. A more detailed discussion of the State's business-type enterprise activities is provided in the following section (see Enterprise Funds).

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 \$6.349 billion, an increase of 21.2% or over a billion dollars from the prior fiscal year-end (as restated). Over half of the increase is explained by the strong financial performance of the General Fund, which realized higher than expected growth in tax revenues during the fiscal year. Another contributing factor was the \$164 million increase in fund balance of the Escheat Fund (nonmajor governmental fund) in 2007. The Escheat Fund reported a substantial increase in total revenues due, in part, to the General Assembly reducing the holding period for unclaimed securities and to a settlement reached in March 2000 with insurance companies that led to large remittances of uncashed refund checks in the current period. 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 increased from \$1.966 billion at June 30, 2006 (as restated) to \$2.577 billion at June 30, 2007, an increase of 31.1%. The increase is explained primarily by higher than expected growth in individual income and corporate income taxes. For individual income taxes, withholding tax collections grew by 8% while collections of estimated taxes and final payments grew by 11% and 26%, respectively. The withholding growth rate is similar to that of a pre-recession economy and reflects both job and wage growth. Increases in estimated and final payments also reflect changes in non-wage income. Corporate income taxes, which are highly volatile over the business cycle, grew by 12.3% because of improved demand for products and services and because of the Department of Revenue's Settlement Initiative Program. This initiative began in February 2006 and allowed taxpayers who had participated in income-shifting or other identified tax strategies to pay 100% of the tax and interest and receive a waiver of some percentage of the penalties. For the 2006-07 fiscal year, corporate income tax collections under this initiative were over \$101 million. A more detailed analysis of the General Fund is provided in the budgetary highlights section below.

2006-07 General Fund Budgetary Highlights

The appropriated budget included provisions that were designed to adjust 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 2006 Short Session of the General Assembly (2006 Session) reduced the State sales tax rate to 4.25%, effective December 1, 2006 and reduced the top income tax bracket to 8%, effective January 1, 2007. Additionally, they increased the baseline revenue forecast by \$698.9 million because of the growing economy and reduced the transfer from the Highway Trust Fund by \$195.2 million to complete reimbursement of a one-time transfer made to the General Fund in fiscal year 2002-03. Prior to fiscal year 2005-06, the tobacco products tax had traditionally not been considered a major source of General Fund tax revenue. However, the 2005 Session of the General Assembly raised the tobacco products tax by 25 cents effective September 1, 2005 and by another 5 cents effective July 1, 2006. The following table summarizes the revenue adjustments made by the 2006 Session (dollars in millions).

Revenue Adjustments – 2007 Fiscal Year

2006 Short Session of the General Assembly

Adjustment to baseline revenue forecast	\$ 698.9
Reduce State sales tax from 4.5% to 4.25%	(140.1)
Reduce top income tax rate at 8.25% to 8%	(28.6)
Reduce transfer from Highway Trust Fund	(195.2)
Other changes	(24.1)
Total 2007 adjustments	\$ 310.9

The majority of funding increases for 2007 were for education, human services, and employee benefit programs. The budget provided full funding for enrollment increases in the public schools (\$76.3 million), the University of North Carolina System (\$79 million), and the community college system (\$7.1 million). In addition, the budget appropriated \$41.9 million to ensure full funding for low wealth local education agencies whose ability to generate local revenue per student is below the State average. It also provided funds for ABC teacher bonuses earned in the 2005-06 school year (\$90 million). In accordance with General Statutes, receipts from the N.C. Education Lottery Fund were budgeted to support class size reduction (\$127.9 million) and to support the Governor's More-at-Four Program (\$66.6 million). An additional \$18 million of lottery proceeds will support program expansion. The More-at-Four program prepares at risk four-year-old children for success in school.

The budget provided \$664 million in 2006-07 for teacher and State employee salary increases. Specifically, teachers received an average 8% salary increase, community college faculty and professional staff received a 6% recurring increase and a 2% one-time bonus, university faculty and professional staff received a 6% increase, and all other State employees received a 5.5% increase. In addition, the budget included a 3% cost-of-living adjustment for retirees and approved payment of \$30 million to repay funds withheld from the Retirement System in 2000-01 due to the budget crisis.

State funding for the Medicaid Program totaled \$2.6 billion in 2006-07 (compared to \$2.5 billion in 2005-06) and the total Medicaid budget was \$8.9 billion. The slow growth in General Fund appropriations for the Medicaid Program in fiscal year 2006-07 was due to a higher federal match rate and savings to the State from the new Medicare Drug Plan. The 2006 Session of the General Assembly made policy changes to the Medicaid program and increased the budget by \$45.6 million to support these changes. The most significant policy changes included a one-time cap on the county share of Medicaid (\$27.4 million) and funding for inflationary increases for Medicaid providers effective January 1, 2007 (\$12 million).

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 2006-07 fiscal year was prepared approximately 18 months prior to the final budget existing at June 30, 2007. The final budget reflects all budget revisions made throughout the fiscal year to adjust for known facts. Furthermore, it cannot be assumed that each agency accurately prepares their budget. Consequently, when the original budget is compared to the final budget, it would be expected that significant variances can occur.

The *federal funds* budget variance between original and final budget was \$1.4 billion. This variance resulted from the awarding of new federal grants and the awarding of increased amounts in long-standing federally supported programs. Also, variances occurred because of understatement of the original federal budget during the continuation budget process.

The budget increase for *intra-governmental transactions* revenue is primarily attributable to the following: \$242.8 million of statewide encumbrance carry forward amounts from fiscal year 2005-2006, \$144.3 million of Department of Health and Human Services (DHHS) Medicaid Disproportionate Share, \$24.36 million of Mental Health Trust Fund transfers to DHHS, and transfers between divisions of DHHS. None of these amounts were included in the original budget.

The budget increase for *contributions, gifts, and grants* of \$1.1 billion is attributable primarily to DHHS's budgeting of state match throughout the fiscal year, as opposed to including a reasonable original budget estimate. The budget increase for *Universities* of \$609.8 million is attributed to underestimated tuition amounts and the budgeting of fiscal year 2005-06 carry-forward amounts.

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, hospitalization, retirement, and salary adjustment.

Variances - Final Budget and Actual Results

Actual revenues collected exceeded final budget for several reasons. First, the revenue forecast was on the conservative side of "most likely". Secondly, this forecast was prepared months prior to the beginning of the fiscal year and as the time period between a fiscal year and forecast preparation increases, forecasted amounts become less accurate. Finally, the economy performed much better than anticipated. Strong employment and wage growth fueled individual income collections that exceeded expectations. In addition, corporate collections continued to surge due to strong corporate profits and improvement in the business climate.

Departmental *federal funds* actually received by agencies were \$1.32 billion less than the final budget. Actual federal draw downs are reflective of the actual expenditures of federal funds. Therefore, if qualifying costs are not incurred by an agency, the actual drawdown of federal funds could be significantly less than what has been budgeted. This was the situation in fiscal year 2006-07.

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 State Highway Fund increased from \$568.785 million at June 30, 2006 to \$593.969 million at June 30, 2007, an increase of 4.4%. Total revenues decreased by \$46.8 million or 1.68% primarily because of a significant decrease in federal funds. Full Federal Obligation Authority was not available from the Federal Highway Administration until March 2007, thereby delaying the rate at which federal reimbursement could be billed. However, the decrease in federal funds was partially offset by increases in gasoline taxes and fees, licenses, and fines. Gasoline taxes increased due to a revised rate of 29.9 cents per gallon in fiscal year 2007 (now capped) versus an average of 28.5 cents per gallon in fiscal year 2006. Gasoline taxes are indexed to the wholesale price of fuel over a six-month period, which remained high in fiscal year 2007. The tax rate increase offsets the 2.8% decrease in gallons of motor fuel sold during the fiscal year. In 2006, the General Assembly increased motor vehicle license and registrations fees effective October 1, 2006. The increase in 2007 represents a full year implementation of these increases versus a partial impact in 2006. These fees included driver's license, vehicle registration, and other fees collected by the Division of Motor Vehicles.

Transportation expenditures increased by \$61.184 million or 2.5%. Double-digit inflationary increases in the costs of aggregate, asphalt, and gasoline along with increased costs to replace heavy equipment countered decreased contract lettings to result in an overall expenditure increase. Debt service expenditures increased from zero in 2006 to \$20.766 million in 2007. Outstanding loans from the Town of Cary and the City of Wilson were repaid. These loans are part of the Department of Transportation's innovative financing plan to assist in accelerating project delivery and to help offset double digit inflation in construction costs.

Population growth is placing an increasing demand on the State's transportation system. North Carolina's population grew from 7.55 million in 1998 to 9.03 million in 2007, an increase of 19.6%. According to the *2006 Report on the Condition of the State Highway System*, prepared by the Division of Highways, over the past 10 years (1995 to 2005), the number of paved miles increased by more than 12.3% and the square footage of bridge deck area grew by 20.5%. During this same 10 year period, vehicle miles traveled increased by 32.6%. This rapid increase in vehicle miles traveled places a heavier burden on the existing infrastructure and accentuates the need for additional capacity, safety, and maintenance funding to address the deterioration in service created by the increase in traffic. Furthermore, many of the State's highways were built as farm-to-market roads and were not designed to handle the heavy traffic volumes of today and other highways such as the interstate highway system, which has celebrated its 50th anniversary, are nearing the end of their functional life.

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.

On October 17, 2007 the State issued \$287.57 million of Grant Anticipation Revenue Vehicle (GARVEE) bonds. The GARVEE bonds are payable solely from federal aid revenues received on behalf of the State. There are currently 29 projects slated for the use of GARVEE funds. By the use of innovative financing plans such as the GARVEE program, project delivery time can be accelerated and inflationary pressures minimized.

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 a specific set of highway construction needs in North Carolina. Additionally, the Highway Trust Fund provides supplemental allocations for secondary road construction, supplemental assistance to municipalities for local street projects, and 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 (see Note 9 to the financial statements). The amounts transferred to the General Fund for fiscal years 2006 and 2005 were \$252.55 million and \$243.77 million, respectively. The amount transferred for fiscal year 2007 was reduced to \$57.49 million. This decrease represented the repayment of the balance of a loan made to the General Fund in fiscal year 2003.

The fund balance of the Highway Trust Fund increased substantially from negative \$134.998 million at June 30, 2006 to \$17.121 million at June 30, 2007. The key factors in eliminating the 2006 deficit were the substantial reduction in transfers to the General Fund referenced above and the growth in gasoline tax and highway use tax revenues, which increased by 5.8% and 5.2%, respectively. Gasoline tax collections increased due to the revised rate of 29.9 cents per gallon in fiscal year 2007 versus an average of 28.5 cents per gallon in fiscal year 2006. The tax rate increase offsets the 2.8% decrease in gallons of motor fuel sold during the fiscal year. Highway use tax transactions decreased by 0.2% in 2007; however, the average dollar amount per transaction increased by 5.4% resulting in an overall increase in collections. Total expenditures increased by \$13.308 million or 1.5%.

The 2006 Report on the Condition of the State Highway System also noted that since passage of the Highway Trust Fund in 1989, the Department of Transportation has paved over 10 thousand miles of unpaved secondary roads, leaving only 3,400 miles of secondary roads to be paved. In view of the fact that the paved secondary road system has not kept up with the demands of increased urbanization and traffic, the 2006 Session of the General Assembly approved changes in the General Statutes that govern the use of secondary road construction funds. House Bill 1825 allows the use of these funds, originally designated to pave secondary roads, on the paved secondary road system in order to improve their functionality through safety, modernization, and condition improvements.

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" projects. Additionally, it allows \$70 million for public transit, rail, ferry, bicycle, and pedestrian projects. The State is nearing completion of the "Moving Ahead" initiative.

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 (Trust Fund) increased from \$507.477 million at June 30, 2006 to \$746.108 million at June 30, 2007, an increase of 47%. The net asset growth is explained by the State's lower unemployment rate and by a 20% surcharge on unemployment contributions that became effective January 1, 2005, as required by State statute. The surcharge, which is projected to remain in effect through August 31, 2008, was assessed because of the Trust Fund's low reserves in prior years. The State's unemployment rate was 4.9% at June 2007 compared to 4.8% in June 2006. Overall employment increased by 52,123 workers over the past twelve months. The slight decline in manufacturing jobs was more than offset by growth in service jobs. The State unemployment rate is down significantly from the recession peak in 2002, when the seasonally adjusted rate climbed to 7% in January 2002.

The Trust Fund's improved financial performance over the last two fiscal years allowed its reserves to be replenished and its short-term debt to be extinguished. The operating income (excess of operating revenues over operating expenses) was \$236.448 million this year versus \$252.998 million in 2006. Unemployment benefit expenses increased 1.8% in fiscal year 2007 to \$863.511 million. In May 2006, the State officially ended borrowing from the federal government to cover unemployment benefits. The use of short-term borrowing came about in early 2002 when the economic downturn caused the State to pay significantly more in unemployment benefits than it received in employer contributions for three consecutive years. The Trust Fund's cash and cash equivalent balances now exceed \$399 million.

N.C. State Lottery Fund

The N.C. Education Lottery Fund (NCEL) first began selling game tickets on March 30 2006 (instant game) and first began selling multi-state on-line (Powerball) game tickets on May 30, 2006. The NCEL borrowed \$4 million from the State Treasurer in February 2006 to help cover start-up expenses before the start of ticket sales. These funds were repaid to the State Treasurer in April 2006.

During the 2006-07 fiscal year, the NCEL moved into permanent offices and launched its own on-line games, Carolina Pick 3 and Carolina Cash 5. In addition to launching these two new games, the NCEL increased the number of retailers to approximately 5,800. The NCEL also created new instant scratch-off games and introduced them every two weeks. In the first fifteen months of operation, the NCEL earned more than \$377 million to support educational programs for the State, meeting its goal of transferring 35% of total revenues.

The Lottery Commission approved a budget for 2007-08 to provide \$341.5 million to the State's Education Lottery Fund. The NCEL introduced its first on-line raffle game, Sizzlin' Millionaire, on May 11, 2007 and plans to offer another one in fiscal year 2008. Subsequent to 2007, the General Assembly approved new legislation to provide the NCEL with more flexibility in instant ticket prize payouts.

As established in the enabling legislation, lottery funds are to be distributed for educational purposes as follows:

1. 50% to support reduction of class size in early grades and to support prekindergarten programs for at-risk four-year-olds who would otherwise not be served in high-quality settings (*Note: to this point, these programs have been funded by the General Fund*).
2. 40% for public school construction.
3. 10% to the State Education Assistance Authority to fund college and university scholarships.

EPA Revolving Loan Fund

The net assets of the EPA Revolving Loan Fund increased by \$87.8 million during the current fiscal year, which was an 11.3% increase from the prior fiscal year-end. Operating income was \$11.1 million (excess of operating revenues over operating expenses). Net nonoperating revenues were \$66.564 million, consisting primarily of federal capitalization grants and investment earnings. The \$10.513 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, 2007, the State's investment in capital assets was \$30.916 billion, an increase of 5.19% 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	
	2007	2006	2007	2006	2007	2006
Land.....	\$ 10,064,383	\$ 9,481,462	\$ 3,114	\$ 3,114	\$ 10,067,497	\$ 9,484,576
Buildings.....	1,823,159	1,860,631	12,830	13,529	1,835,989	1,874,160
Machinery and equipment.....	661,101	662,585	3,256	2,321	664,357	664,906
Infrastructure:						
State highway system.....	16,314,633	15,368,301	—	—	16,314,633	15,368,301
Other infrastructure.....	88,126	112,560	6,941	7,479	95,067	120,039
Intangible assets.....	105,734	106,943	—	—	105,734	106,943
Art, literature, and other artifacts.....	64,833	60,485	—	—	64,833	60,485
Construction in progress.....	1,767,290	1,710,819	532	532	1,767,822	1,711,351
Total.....	<u>\$ 30,889,259</u>	<u>\$ 29,363,786</u>	<u>\$ 26,673</u>	<u>\$ 26,975</u>	<u>\$ 30,915,932</u>	<u>\$ 29,390,761</u>
Total percent change between fiscal years 2006 and 2007		5.20 %		(1.12)%		5.19 %

This year's major capital asset additions were for highway construction (\$1.2 billion), highway land improvements (\$477 million), construction of correctional facilities (\$70 million), and construction of a new psychiatric hospital (\$47 million).

The largest component of capital assets is the State highway system. North Carolina has a 79 thousand mile highway system, making it the second largest state-maintained highway system in the nation. The most recent report on the condition of the State highway system (December 2006) noted that while the system continues to grow, the traditional highway maintenance funds necessary to maintain it have not changed significantly when adjusted for inflation.

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. Each of the 16 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. At year-end, the authorized but unissued repair and renovation debt was \$75 million.

A 1,000 bed close custody prison is currently under construction in Columbus County, with an estimated completion date of April 2008 and inmate occupancy estimated for September 2008. The total estimated cost of this facility is \$104.3 million. The primary funding source for this facility was certificates of participation (COPs). In addition, COPs have been authorized for the planning and construction of a new regional 120 bed medical center and 200 bed mental health center to be located at Central Prison in Raleigh. The estimated cost for the construction of the medical and mental health centers is \$151.86 million, of which \$132.2 million will be financed by COPs. The remaining balance will be financed by capital appropriations and federal grants.

The Department of Correction is undertaking construction initiatives to address a prison 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 39 thousand inmates as of November 2007. 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 \$1.31 billion for the construction of highway infrastructure, which are expected to be financed by gasoline tax collections, motor vehicle fees, and federal funds. Other commitments for the construction and improvement of state government facilities totaled \$572.61 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 (bonds and similar debt payable) outstanding of \$6.912 billion, an increase of 6.03% from the previous fiscal year-end (see table below).

Outstanding Debt as of June 30

(dollars in thousands)

	Governmental Activities	
	2007	2006
General obligation bonds.....	\$ 5,902,330	\$ 5,738,815
Lease-purchase revenue bonds.....	245,045	263,845
Certificates of participation.....	727,640	454,060
Notes payable.....	37,276	62,298
Total.....	<u>\$ 6,912,291</u>	<u>\$ 6,519,018</u>
Total percent change between fiscal years 2006 and 2007	6.03 %	

During the 2006-07 fiscal year, the State issued \$502.745 million in general obligation bonds (excluding refunding bonds) and \$300 million in certificates of participation (COPs). The new general obligation debt represents a consolidation of clean water bonds and higher education bonds and constitutes the remaining authorized amounts of such bonds (see next page). The proceeds of the COPs will be used to finance the repair and renovation of State facilities and related infrastructure (\$100 million) and various State and university capital projects authorized for special indebtedness financing by previous sessions of the General Assembly (\$200 million). The repair and renovation projects were prioritized based on those projects related to life safety code requirements and water intrusion remediation.

The State refinanced \$80 million of its existing debt in fiscal year 2007 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 \$4.48 million over the next fifteen years.

The State issues two types of tax-supported debt: general obligation bonds and various types of "special indebtedness", which are also known as appropriation-supported debt. General obligation bonds are secured by the full faith, credit, and taxing power of the State. The payments on all other types of long-term debt, including COPs, lease purchase revenue bonds, and equipment installment purchase contracts are subject to appropriation by the General Assembly. Some appropriation-supported debt is also secured by a lien on facilities or equipment. Article 9 of Chapter 142 of the General Statutes prohibits the issuance of special indebtedness 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.

The State's long-term debt (bonds and similar debt payable) has increased significantly in recent years, rising from \$1.521 billion in 1997 to \$6.912 billion in 2007, in part due to large issuances for higher education capital projects. The following is a summary of recent debt authorizations.

Special Indebtedness

The budget bill enacted by the 2007-2008 Session of the General Assembly authorized the issuance of up to \$669.15 million of special indebtedness (e.g., COPs) as follows:

- \$481.14 million for higher education projects. Significant projects include \$119.61 million to for a genetics science building at the University of North Carolina at Chapel Hill, \$53 million for a nanoscience building to be used jointly by the University of North Carolina at Greensboro and North Carolina Agricultural and Technical State University, \$41.61 million for a health and gerontological building at Western Carolina University, and \$38 million for an animal hospital at North Carolina State University.
- \$120 million to acquire State park land, natural heritage land, and to acquire waterfront properties or develop facilities for the purposes of providing public and commercial waterfront access.
- \$35 million for an education and visitors center at Tyron Palace.
- \$33.01 million for correctional facilities.

The budget bill enacted by the 2006-07 Session of the General Assembly authorized the issuance of up to \$672.1 million of special indebtedness as follows: \$429.3 million for psychiatric hospitals and a public health laboratory for the Department of Health and Human Services, \$132.2 million for medical and mental health centers for the Department of Correction, \$45.8 million for higher education projects, and \$64.8 million for other State projects.

Higher Education Authorization

The 1999-2000 Session of the General Assembly authorized the issuance of \$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 are being 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. The State has issued all of the authorized higher education bonds.

Clean Water and Natural Gas Authorization

The 1997-1998 Session of the General Assembly authorized the issuance of \$1 billion of clean water and natural gas general obligation bonds, which were subsequently approved by the voters of the State. The bonds proceeds were allocated as follows: 1) \$800 million to provide grants and loans to local governments for clean water projects and 2) \$200 million to provide grants and loans to public or private entities for construction of natural gas facilities to facilitate the expansion of natural gas service to unserved areas of the State. The State has issued all of the authorized clean water and natural gas bonds.

Highway Bond Authorization

The 1995-1996 Session of the General Assembly authorized the issuance of \$950 million of highway general obligation bonds, which were subsequently approved by the voters of the State. The bond proceeds were allocated to pay capital costs as follows: 1) \$500 million for urban loops, 2) \$300 million for highways in the Intrastate System, and 3) \$150 million for paving unpaved roads of the secondary highway system. The State has issued all of the authorized highway bonds.

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 2007, the State Treasurer completed the most recent Debt Affordability Study for North Carolina. The report provides the Governor and the General Assembly with a basis for assessing the impact of future debt issuance on the State's fiscal position and enables informed decision-making regarding both financing proposals and capital spending priorities. A secondary purpose of the report is to provide a methodology for measuring, monitoring and managing the State's debt levels, thereby protecting, and perhaps enhancing North Carolina's bond ratings.

The Committee adopted the following target and ceiling guidelines as the preferred measure used to determine the amount of net tax-supported debt that can be prudently authorized by the State:

- Net Tax-Supported Debt Service as a percentage of General Tax Revenues should be targeted at no more than 4% and not exceed 4.75%;
- Net Tax-Supported Debt as a percentage of Personal Income should be targeted at no more than 2.5% and not exceed 3.0%; and
- The amount of debt to be retired over the next ten years should be targeted at no less than 55% and not decline below 50%.

The definition of net tax-supported debt excludes obligations of component units, highway construction general obligation debt supported by separate taxes, special indebtedness (e.g., COPs) supported by funds other than the General Fund, guaranteed energy performance contracts approved pursuant to G.S. 142-64 and not supported by separate appropriations, and other postemployment benefits ("OPEB").

According to the report, all of the State's debt ratios are below median levels for all 50 states and for the State's peer group composed primarily of states rated "triple A" by all three rating agencies. Thus, the study concludes that North Carolina's debt is considered manageable at current levels. 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 bond credit ratings are as follows:

State of North Carolina General Obligation Bond Credit Ratings		
<u>Rating Agency</u>	<u>Rating</u>	<u>Outlook</u>
Fitch Ratings	AAA	Stable
Moody's Investors Service	Aaa	Stable
Standard & Poor's Rating Services	AAA	Stable

The State's general obligation bonds are rated AAA with a "stable" outlook by Fitch Ratings, AAA with a "stable" outlook by Standard & Poor's Ratings Services, and Aaa by Moody's Investors Service with a "stable" rating, the highest ratings attainable. On January 12, 2007, Moody's reinstated North Carolina's Aaa rating, citing the State's strong financial performance, replenishment of depleted reserves, recent economic gains that surpass national averages, and the State's effective fiscal management and healthy financial outlook.

The COPs and lease-purchase revenue bonds issued by the North Carolina Infrastructure Finance Corporation have underlying ratings of AA+ by Standard & Poor's, AA+ by Fitch, and Aa1 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 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 2007 Session of the General Assembly made the following changes to revenue laws and the State Health Plan.

Revenue Law Changes

The 4.25% State sales tax rate that was originally scheduled to be reduced to 4% on July 1, 2007 was permanently extended. Effective October 1, 2008, the 4.25% rate will increase to 4.5%, and effective October 1, 2009, the rate will increase to 4.75%. On these effective dates, there will be a corresponding reduction in the local sales and use tax rates. These changes reflect the State's decision to begin a phased-in assumption of county Medicaid payments and include hold harmless provisions that will be paid from State sales and use tax collections.

The top individual income tax rate of 8% is statutorily set to decrease to 7.75% for taxable years beginning on or after January 1, 2008.

The existing cap on the variable component of the motor fuels tax was extended by two years. The variable wholesale component of the motor fuels tax rate is capped at 12.4 cents per gallon for the period July 1, 2007 through June 30, 2009 for a total tax of 29.9 cents per gallon.

The excise tax on tobacco products other than cigarettes was raised from 3% to 10%, effective October 1, 2007. The tax increase is to be credited to the newly established University Cancer Research Fund of the University of North Carolina System. Allocations from this fund are to be used only for the purpose of cancer research under University of North Carolina Hospitals or the Lineberger Comprehensive Cancer Center.

State Health Plan Changes

Several changes to the Preferred Provider Organization (PPO) Plans were approved and the Indemnity Plan was eliminated, effective July 1, 2008. The premium rate increase for fiscal years 2008 and 2009 was 11.2 percent for the PPO plans and 11.4 percent for the Indemnity plan. The rate increases were effective October 1, 2007. Other PPO plan changes include the removal of the visit limitation for mental health, occupational, speech and physical therapy services and an increase in the copayment for chiropractic visits. The pharmacy copayment for second tier drugs was also increased by \$5 on both the PPO and Indemnity plans. The individual deductible for the Indemnity Plan increased from \$350 to \$450 and the aggregate family amount increased from \$1,050 to \$1,350.

Conditions Expected to Impact Future Operations

Escheats Fund

Legislation passed in 2005 authorized the State Treasurer to diversify the investments of the Escheats 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 Escheats Fund in other public and private investments. As of June 30, 2007, the Escheats Fund had invested \$72.3 million in these investment types.

Providing Retirement Benefits

It is widely anticipated that the progression of the baby boomer cohort from full-time career status into retirement will have significant economic, social, and political impact throughout the country. Predicting specific ramifications of this phenomenon is difficult. In North Carolina, we anticipate some impact to the State's public sector workforce, as boomers increasingly leave active service and retire, and to the state and local government retirement systems. The impact to the retirement systems could be both financial and administrative.

Administratively, the significant increase in the number of retirements to process and maintain will challenge current operations. The total number of members receiving a retirement benefit in the state and local system is approximately 181,000 (includes system retirees, beneficiaries, and members receiving a disability retirement allowance). That number is projected to increase to 345,000 by the year 2025 – roughly a doubling in the total number of state and local retiree accounts maintained by the agency over the next 17 years. To help address this need, the Retirement Systems Division is currently increasing organizational efficiencies by implementing a \$34 million replacement of its information technology system, which became operational in October 2007.

Financially, the North Carolina retirement systems have experienced a trend of robust fiscal health (the system's funding has averaged 108% for the last six years). Any substantive cost increases will not primarily be driven by the cost of providing an actual pension, since employees and employers fund the pension over an employee's service career. However, a significant increase in cost may come from providing cost of living adjustments (COLAs) for a significantly larger retiree pool since those are not pre-funded.

University of North Carolina System

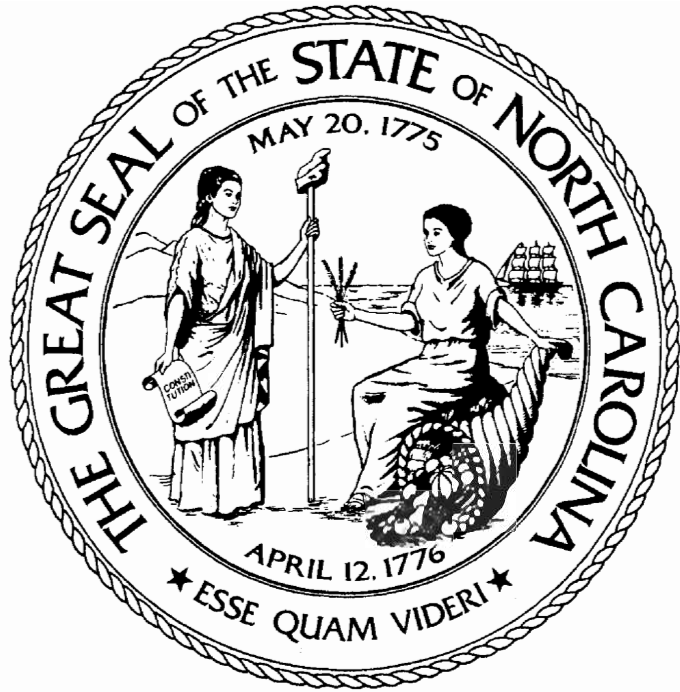
Dental Education and Outreach. The University of North Carolina at Chapel Hill (UNC) and East Carolina University (ECU) have engaged in a collaborative effort for dental education and dental outreach. The core steps are to expand the size of the dental school at UNC with a focus on education, research, and outreach and to establish a new dental school at ECU, which would expand the education of comprehensive general dentistry practitioners, conduct research, and extend dental services into unserved and underserved primarily rural areas of North Carolina. This initiative is expected to raise the national recognition of dental education in North Carolina through an expansion of the availability of primary care dentists, the development of innovative clinical educational models for the provision of dental service to the underserved, the extensive use of distance education and teledentistry clinical consultation, and expanded research.

UNC Online. The University of North Carolina System established a common gateway, UNC Online, to provide online courses and degree programs offered by the sixteen campuses of the University of North Carolina in March 2007. This project takes the current on-line education offerings from the system's sixteen campuses and centralizes them with plans to expand the operation into a national program. The first focus is to serve students within the State, then advertise in surrounding states to become the dominant regional provider of online education.

Requests for Information

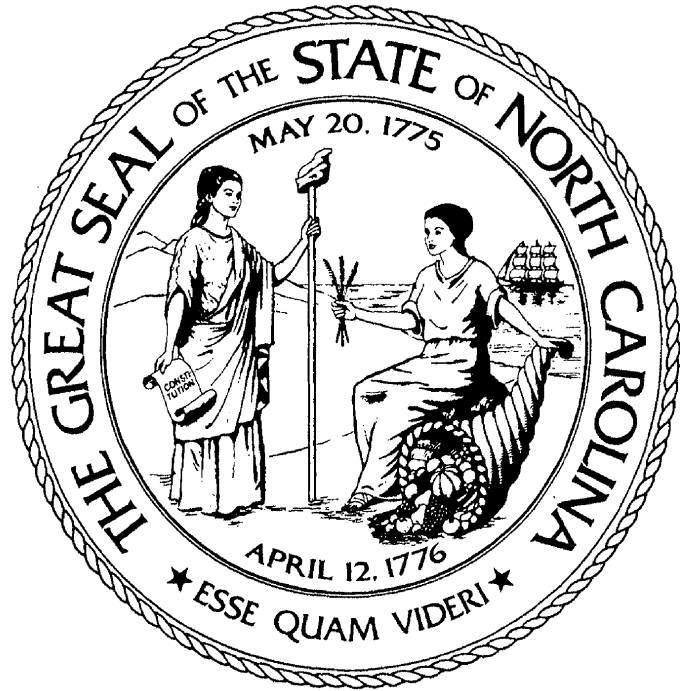
This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the State's finances and to demonstrate the State's accountability for the money it receives. If you have questions about this report or need additional financial information, 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>.

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*BASIC
FINANCIAL
STATEMENTS*

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*GOVERNMENT-WIDE
FINANCIAL
STATEMENTS*

STATEMENT OF NET ASSETS

June 30, 2007

Exhibit A-1

(Dollars in Thousands)

	Primary Government			Component Units
	Governmental Activities	Business-type Activities	Total	
Assets				
Cash and cash equivalents (Note 3).....	\$ 5,360,478	\$ 710,332	\$ 6,070,810	\$ 1,510,493
Investments (Note 3).....	454,303	60,963	515,266	2,982,803
Securities lending collateral (Note 3).....	6,352,947	294,528	6,647,475	—
Receivables, net (Note 4).....	3,328,114	412,720	3,740,834	905,297
Due from component units (Note 17).....	14,071	—	14,071	39,177
Due from primary government (Note 17).....	—	—	—	67,894
Internal balances.....	2,497	(2,497)	—	—
Inventories.....	203,972	1,244	205,216	82,242
Prepaid items.....	9,370	2,484	11,854	17,387
Advances to component units (Note 17).....	29,298	—	29,298	—
Notes receivable, net (Note 4).....	336,572	635,640	972,212	4,368,597
Investment in joint venture.....	—	—	—	8,319
Deferred charges.....	—	—	—	28,389
Securities held in trust.....	42,693	—	42,693	—
Pension assets (Note 11).....	114	—	114	—
Restricted/designated cash and cash equivalents.....	532,305	—	532,305	1,634,755
Restricted investments (Note 3).....	852,870	—	852,870	3,741,334
Restricted due from primary government.....	—	—	—	381,504
Capital assets-nondepreciable (Note 5).....	11,896,506	3,646	11,900,152	1,904,907
Capital assets-depreciable, net (Note 5).....	18,992,753	23,027	19,015,780	7,801,748
Total Assets	48,408,863	2,142,087	50,550,950	25,474,846
Liabilities				
Accounts payable and accrued liabilities.....	1,323,910	91,470	1,415,380	594,499
Medical claims payable.....	958,985	—	958,985	2,587
Unemployment benefits payable.....	—	18,292	18,292	—
Tax refunds payable.....	1,192,880	—	1,192,880	—
Obligations under securities lending.....	6,352,947	294,528	6,647,475	—
Interest payable.....	81,788	—	81,788	75,984
Short-term debt (Note 6).....	—	—	—	279,584
Due to component units (Note 17).....	449,398	—	449,398	39,177
Due to primary government (Note 17).....	—	—	—	14,071
Unearned revenue.....	549,821	22,160	571,981	162,754
Advance from primary government (Note 17).....	—	—	—	29,298
Deposits payable.....	60	8	68	12,460
Funds held for others.....	55,495	—	55,495	1,028,943
Long-term liabilities (Note 7):				
Due within one year.....	487,664	290	487,954	1,000,358
Due in more than one year.....	7,111,593	3,595	7,115,188	6,809,946
Total Liabilities	18,564,541	430,343	18,994,884	10,049,661
Net Assets				
Invested in capital assets, net of related debt.....	29,689,201	26,673	29,715,874	6,953,325
Restricted for:				
Nonexpendable:				
Environment and natural resources.....	63,887	—	63,887	—
Higher education.....	529	—	529	1,291,074
Expendable:				
Primary and secondary education.....	2,217	—	2,217	—
Higher education.....	711,818	—	711,818	3,759,209
Health and human services.....	73,829	—	73,829	4,871
Economic development.....	11,475	—	11,475	452,395
Environment and natural resources.....	34,161	—	34,161	—
Public safety, corrections, and regulation.....	69,341	—	69,341	—
Unemployment compensation.....	—	746,108	746,108	—
EPA revolving loan.....	—	863,095	863,095	—
Other purposes.....	109,213	3,740	112,953	—
Unrestricted.....	(921,349)	72,128	(849,221)	2,964,311
Total Net Assets	\$ 29,844,322	\$ 1,711,744	\$ 31,556,066	\$ 15,425,185

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, 2007

(Dollars in Thousands)

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Primary Government:					
Governmental Activities:					
General government.....	\$ 1,265,450	\$ 480,378	\$ 334,184	\$ 4,163	\$ (446,725)
Primary and secondary education.....	9,096,758	17,867	1,227,304	—	(7,851,587)
Higher education.....	4,405,930	445	21,926	—	(4,383,559)
Health and human services.....	14,360,634	212,789	9,503,187	241,410	(4,403,248)
Economic development.....	624,306	29,531	355,962	—	(238,813)
Environment and natural resources.....	723,504	190,809	117,302	95,484	(319,909)
Public safety, corrections, and regulation.....	2,483,398	429,824	178,826	18,682	(1,856,066)
Transportation.....	2,019,917	782,405	258,020	635,561	(343,931)
Agriculture.....	89,257	16,452	13,226	4,779	(54,800)
Interest on long-term debt.....	273,123	—	—	—	(273,123)
Total Governmental Activities.....	<u>35,342,277</u>	<u>2,160,500</u>	<u>12,009,937</u>	<u>1,000,079</u>	<u>(20,171,761)</u>
Business-type Activities:					
Unemployment Compensation.....	864,981	1,099,959	14,953	—	249,931
N.C. State Lottery.....	559,373	866,195	8,545	—	315,367
EPA Revolving Loan.....	14,228	16,400	75,447	—	77,619
Regulatory commissions.....	31,144	29,347	1,163	—	(634)
Insurance programs.....	26,624	13,901	5,309	—	(7,414)
North Carolina State Fair.....	11,433	11,617	210	112	506
Other business-type activities.....	5,686	5,887	373	30	604
Total Business-type Activities.....	<u>1,513,469</u>	<u>2,043,306</u>	<u>106,000</u>	<u>142</u>	<u>635,979</u>
Total Primary Government.....	<u>\$ 36,855,746</u>	<u>\$ 4,203,806</u>	<u>\$ 12,115,937</u>	<u>\$ 1,000,221</u>	<u>\$ (19,535,782)</u>
Component Units:					
The Golden LEAF, Inc.	\$ 34,644	\$ 6	\$ 101,470	\$ —	\$ 66,832
University of North Carolina System.....	7,281,729	4,294,352	1,225,603	837,391	(924,383)
Community Colleges.....	1,590,634	249,576	473,449	296,442	(571,167)
N.C. Housing Finance Agency.....	273,974	261,993	25,859	—	13,878
State Education Assistance Authority.....	321,257	205,973	86,341	—	(28,943)
Other component units.....	210,793	56,131	6,558	27,842	(120,262)
Total Component Units.....	<u>\$ 9,713,031</u>	<u>\$ 5,068,031</u>	<u>\$ 1,919,280</u>	<u>\$ 1,161,675</u>	<u>\$ (1,564,045)</u>

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

STATEMENT OF ACTIVITIES

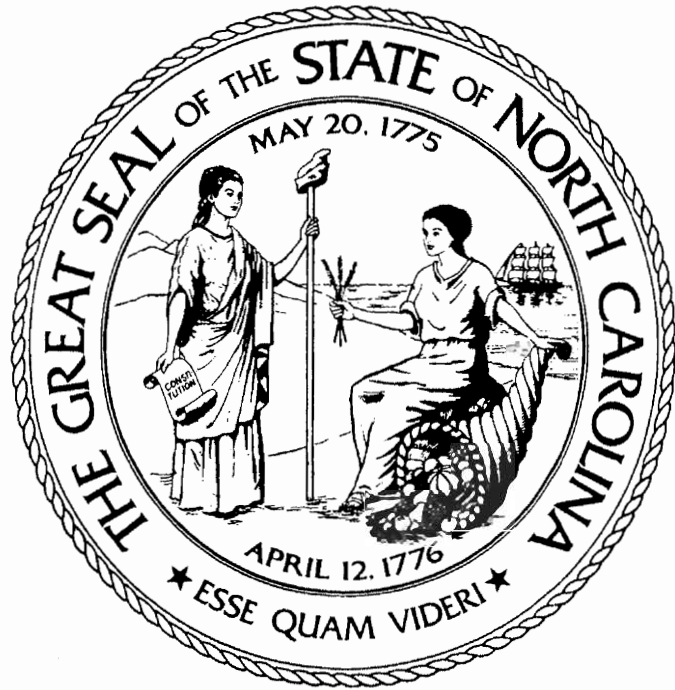
For the Fiscal Year Ended June 30, 2007

Exhibit A-2

(Dollars in Thousands)

	Primary Government		Component Units	
	Governmental Activities	Business-type Activities		Total
Changes in Net Assets:				
Net (expense) revenue	\$ (20,171,761)	\$ 635,979	\$ (19,535,782)	\$ (1,564,045)
General Revenues:				
Taxes:				
Individual income tax.....	10,739,562	—	10,739,562	—
Corporate income tax.....	1,466,148	—	1,466,148	—
Sales and use tax.....	5,108,456	—	5,108,456	—
Gasoline tax.....	1,601,764	—	1,601,764	—
Franchise tax.....	671,151	—	671,151	—
Highway use tax.....	607,511	—	607,511	—
Insurance tax.....	487,081	—	487,081	—
Beverage tax.....	245,990	—	245,990	—
Inheritance tax.....	162,746	—	162,746	—
Tobacco products tax.....	241,687	—	241,687	—
Other taxes.....	330,888	—	330,888	—
Tobacco settlement.....	144,075	—	144,075	—
Unrestricted investment earnings.....	212,074	—	212,074	—
State operating aid.....	—	—	—	3,563,045
Miscellaneous.....	47,170	15	47,185	5,903
Contributions to permanent funds.....	3,928	—	3,928	—
Contributions to endowments.....	—	—	—	102,252
Transfers.....	312,810	(312,810)	—	—
Total general revenues, contributions, and transfers.....	22,383,041	(312,795)	22,070,246	3,671,200
Change in net assets.....	2,211,280	323,184	2,534,464	2,107,155
Net assets — July 1, as restated (Note 22).....	27,633,042	1,388,560	29,021,602	13,318,030
Net assets — June 30.....	\$ 29,844,322	\$ 1,711,744	\$ 31,556,066	\$ 15,425,185

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*FUND FINANCIAL
STATEMENTS*

**BALANCE SHEET
GOVERNMENTAL FUNDS**

June 30, 2007

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).....	\$ 2,928,971	\$ 642,700	\$ 151,239	\$ 1,583,092	\$ 5,306,002
Investments (Note 3).....	2,121	—	—	434,123	436,244
Securities lending collateral (Note 3).....	4,407,723	526,227	163,077	1,223,286	6,320,313
Receivables, net: (Note 4)					
Taxes receivable.....	1,932,799	105,911	37,767	2,217	2,078,694
Accounts receivable.....	233,729	13,271	35	23,117	270,152
Intergovernmental receivable.....	859,671	55,295	3,191	8,004	926,161
Interest receivable.....	19,950	2,717	619	10,680	33,966
Other receivables.....	—	3,532	—	—	3,532
Due from other funds (Note 9).....	164	41,255	—	32,775	74,194
Due from component units (Note 17).....	1,866	—	—	11,047	12,913
Inventories.....	86,016	79,879	—	37,743	203,638
Advances to component units (Note 17).....	—	—	7,556	21,742	29,298
Notes receivable, net (Note 4).....	14,319	1,022	100	321,131	336,572
Securities held in trust.....	425	2,824	—	39,444	42,693
Restricted/designated cash and cash equivalents.....	145,000	—	—	387,305	532,305
Restricted investments (Note 3).....	—	—	—	852,870	852,870
Total Assets.....	\$ 10,632,754	\$ 1,474,633	\$ 363,584	\$ 4,988,576	\$ 17,459,547
Liabilities and Fund Balances					
Liabilities:					
Accounts payable and accrued liabilities:					
Accounts payable.....	\$ 85,781	\$ 175,415	\$ 73,645	\$ 79,036	\$ 413,877
Accrued payroll.....	6,565	23,365	—	927	30,857
Intergovernmental payable.....	610,968	96,730	64,387	12,047	784,132
Claims payable.....	—	—	—	26,599	26,599
Medical claims payable.....	958,985	—	—	—	958,985
Tax refunds payable.....	1,183,264	7,212	2,404	—	1,192,880
Obligations under securities lending.....	4,407,723	526,227	163,077	1,223,286	6,320,313
Due to fiduciary funds (Note 9).....	46,057	7,891	—	47	53,995
Due to other funds (Note 9).....	16,330	7,301	41,255	24,046	88,932
Due to component units (Note 17).....	43,179	—	—	406,219	449,398
Deferred revenue.....	696,191	21,269	1,695	15,431	734,586
Deposits payable.....	51	—	—	9	60
Funds held for others.....	749	15,254	—	39,492	55,495
Total Liabilities.....	8,055,843	880,664	346,463	1,827,139	11,110,109
Fund Balances:					
Reserved (Note 10).....	178,427	62,068	7,656	946,895	1,195,046
Unreserved/Designated (Note 10).....	680,442	—	—	—	680,442
Unreserved/Undesignated, reported in:					
General Fund.....	1,718,042	—	—	—	1,718,042
Special Revenue Funds.....	—	531,901	9,465	1,985,748	2,527,114
Capital Projects Funds.....	—	—	—	227,196	227,196
Permanent Funds.....	—	—	—	1,598	1,598
Total Fund Balance.....	2,576,911	593,969	17,121	3,161,437	6,349,438
Total Liabilities and Fund Balances.....	\$ 10,632,754	\$ 1,474,633	\$ 363,584	\$ 4,988,576	\$ 17,459,547

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, 2007

Exhibit B-1a

(Dollars in Thousands)

Total fund balances - governmental funds (see Exhibit B-1) **\$ 6,349,438**

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).....	\$ 31,229,399	
Less: Accumulated depreciation (excluding internal service funds).....	(437,150)	
Net capital assets.....		30,792,249
- 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.		189,393
- 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).		114
- 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.....	(5,902,330)	
Lease-purchase revenue bonds payable.....	(245,045)	
Certificates of participation payable.....	(727,640)	
Unamortized debt premiums (to be amortized as interest expense).....	(309,261)	
Less: Unamortized debt discounts (to be amortized as interest expense).....	369	
Less: Unamortized loss on refunding (to be amortized as interest expense).....	92,259	
Notes payable.....	(37,276)	
Capital leases payable.....	(25,740)	
Net long-term debt.....		(7,154,664)
- 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.....	(81,788)	
Compensated absences (excluding internal service funds).....	(378,165)	
Obligations for workers compensation.....	(5,036)	
Arbitrage rebate payable.....	(5,717)	
Deferred death benefit payable.....	(410)	
Cost settlement payable.....	(50,300)	
Net pension obligation.....	(814)	
Total other liabilities.....		(522,230)
- 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).		190,022
Total net assets - governmental activities (see Exhibit A-1)		\$ 29,844,322

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, 2007

Exhibit B-2

(Dollars in Thousands)

	General Fund	Highway Fund	Highway Trust Fund	Other Governmental Funds	Total Governmental Funds
Revenues:					
Taxes:					
Individual income tax.....	\$ 10,737,494	\$ —	\$ —	\$ 2,068	\$ 10,739,562
Corporate income tax.....	1,357,454	—	—	109,168	1,466,622
Sales and use tax.....	5,078,997	—	—	29,900	5,108,897
Gasoline tax.....	—	1,179,097	393,673	28,783	1,601,553
Franchise tax.....	669,235	—	—	—	669,235
Highway use tax.....	—	—	607,511	—	607,511
Insurance tax.....	475,546	—	—	11,535	487,081
Beverage tax.....	245,430	—	—	560	245,990
Inheritance tax.....	161,604	—	—	—	161,604
Tobacco products tax.....	241,687	—	—	—	241,687
Other taxes.....	180,923	—	—	150,054	330,977
Federal funds.....	10,312,318	793,637	—	413,972	11,519,927
Local funds.....	665,532	30,786	5,339	23,885	725,542
Investment earnings.....	433,152	49,039	6,475	180,631	669,297
Interest earnings on loans.....	399	—	—	5,240	5,639
Sales and services.....	94,835	797	—	168,449	264,081
Rental and lease of property.....	8,433	14,892	1,636	3,761	28,722
Fees, licenses, and fines.....	525,497	643,225	109,374	247,832	1,525,928
Tobacco settlement.....	142,825	—	—	—	142,825
Contributions, gifts, and grants.....	17,207	11,618	—	127,133	155,958
Funds escheated.....	—	—	—	214,500	214,500
Miscellaneous.....	79,344	18,619	5,924	18,274	122,161
Total revenues.....	<u>31,427,912</u>	<u>2,741,710</u>	<u>1,129,932</u>	<u>1,735,745</u>	<u>37,035,299</u>
Expenditures:					
Current:					
General government.....	1,011,709	—	—	90,803	1,102,512
Primary and secondary education.....	8,723,640	—	—	364,265	9,087,905
Higher education.....	3,613,384	—	—	792,383	4,405,767
Health and human services.....	14,117,990	—	—	85,484	14,203,474
Economic development.....	258,793	—	—	364,245	623,038
Environment and natural resources.....	261,803	—	—	400,493	662,296
Public safety, corrections, and regulation.....	2,010,415	—	—	457,348	2,467,763
Transportation.....	—	2,510,000	786,301	—	3,296,301
Agriculture.....	84,436	—	—	7,626	92,062
Capital outlay.....	—	—	—	451,716	451,716
Debt service:					
Principal retirement.....	332,923	18,354	54,675	11,855	417,807
Interest and fees.....	263,421	2,412	36,623	3,954	306,410
Debt issuance costs.....	527	—	—	1,929	2,456
Total expenditures.....	<u>30,679,041</u>	<u>2,530,766</u>	<u>877,599</u>	<u>3,032,101</u>	<u>37,119,507</u>
Excess revenues over (under) expenditures.....	<u>748,871</u>	<u>210,944</u>	<u>252,333</u>	<u>(1,296,356)</u>	<u>(84,208)</u>
Other Financing Sources (Uses):					
Bonds issued.....	—	—	—	502,745	502,745
Certificates of participation issued.....	—	—	—	300,000	300,000
Refunding bonds issued.....	84,385	—	—	—	84,385
Other debt issued.....	2,747	150	—	—	2,897
Premium on debt issued.....	1,305	—	—	39,562	40,867
Payment to refunded bond escrow agent.....	(85,519)	—	—	—	(85,519)
Capital leases.....	799	—	—	—	799
Sale of capital assets.....	1,848	9,191	819	4,040	15,898
Insurance recoveries.....	350	5,124	—	226	5,700
Transfers in (Note 9).....	575,989	77,377	5,700	1,681,871	2,340,937
Transfers out (Note 9).....	(732,938)	(277,277)	(106,733)	(913,214)	(2,030,162)
Total other financing sources (uses).....	<u>(151,034)</u>	<u>(185,435)</u>	<u>(100,214)</u>	<u>1,615,230</u>	<u>1,178,547</u>
Net change in fund balances.....	597,837	25,509	152,119	318,874	1,094,339
Fund balances — July 1, as restated (Note 22).....	1,966,400	568,785	(134,998)	2,838,638	5,238,825
Increase (decrease) in reserve for related assets.....	12,674	(325)	—	3,925	16,274
Fund balances — June 30.....	<u>\$ 2,576,911</u>	<u>\$ 593,969</u>	<u>\$ 17,121</u>	<u>\$ 3,161,437</u>	<u>\$ 6,349,438</u>

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

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

For the Fiscal Year Ended June 30, 2007

Exhibit B-2a

(Dollars in Thousands)

Net change in fund balances - total governmental funds (see Exhibit B-2) \$ 1,094,339

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

- Capital outlays are reported as expenditures in governmental funds. However, in the Statement of Activities, the cost of capital assets is allocated over their estimated useful lives as depreciation expense. In the current period, these amounts are:		
Capital outlays (including construction-in-progress)	\$ 1,958,552	
Less: Depreciation expense (excluding internal service funds)	(586,723)	
Net capital outlay adjustment		1,371,829
- 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.		(88,634)
- 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.		241,410
- 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	(805,642)	
Refunding bonds issued	(84,385)	
Capital lease financings	(799)	
Premiums on debt issued	(40,867)	
Principal repayments:		
Bonds, notes, and similar debt	416,754	
Capital leases	1,053	
Payments to escrow agent for refundings	85,519	
Net debt adjustments		(428,367)
- 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.		(106,578)
- 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	5,099	
Compensated absences (excluding internal service funds)	(12,720)	
Workers compensation	230	
Arbitrage rebate	(5,209)	
Deferred death benefit	(70)	
Cost settlement	103,700	
Net pension obligation	456	
Amortization of deferred amounts	28,188	
Net expense accruals		119,674
- Inventories of governmental funds are recorded as expenditures when purchased but in the Statement of Activities are recorded as expenses when consumed.		16,274
- 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).		(8,667)
Change in net assets - governmental activities (see Exhibit A-2)		<u>\$ 2,211,280</u>

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

**STATEMENT OF NET ASSETS
PROPRIETARY FUNDS**

June 30, 2007

(Dollars in Thousands)

	Business-type Activities — Enterprise Funds				Total Enterprise Funds
	Unemployment Compensation Fund	EPA Revolving Loan Fund	N.C. State Lottery Fund	Other Enterprise Funds	
Assets					
Current Assets:					
Cash and cash equivalents (Note 3).....	\$ 399,217	\$ 217,638	\$ 49,566	\$ 43,911	\$ 710,332
Investments (Note 3).....	—	—	—	49,757	49,757
Securities lending collateral (Note 3).....	11,112	180,320	56,940	46,156	294,528
Receivables: (Note 4)					
Accounts receivable, net.....	30,430	—	11,054	3,455	44,939
Intergovernmental receivables.....	—	109	—	2	111
Interest receivable.....	62	3,330	406	38	3,836
Premiums receivable.....	—	—	—	1,102	1,102
Contributions receivable, net.....	339,520	—	—	—	339,520
Notes receivable, net (Note 4).....	—	34,809	—	—	34,809
Due from fiduciary funds (Note 9).....	—	—	—	—	—
Due from other funds (Note 9).....	174	—	—	—	174
Due from component units (Note 17).....	—	—	—	—	—
Inventories.....	—	—	795	449	1,244
Prepaid items.....	—	—	—	2,484	2,484
Restricted investments (Note 3).....	—	6,895	—	—	6,895
Total current assets.....	<u>780,515</u>	<u>443,101</u>	<u>118,761</u>	<u>147,354</u>	<u>1,489,731</u>
Noncurrent Assets:					
Investments (Note 3).....	—	—	—	572	572
Receivables:					
Contributions receivable, net.....	23,212	—	—	—	23,212
Notes receivable, net (Note 4).....	—	600,831	—	—	600,831
Restricted investments (Note 3).....	—	—	—	3,739	3,739
Capital assets-nondepreciable (Note 5).....	—	—	—	3,646	3,646
Capital assets-depreciable, net (Note 5).....	—	88	1,282	21,657	23,027
Total noncurrent assets.....	<u>23,212</u>	<u>600,919</u>	<u>1,282</u>	<u>29,614</u>	<u>655,027</u>
Total Assets.....	<u>803,727</u>	<u>1,044,020</u>	<u>120,043</u>	<u>176,968</u>	<u>2,144,758</u>
Liabilities					
Current Liabilities:					
Accounts payable and accrued liabilities:					
Accounts payable.....	14,239	96	59,633	458	74,426
Accrued payroll.....	—	4	16	112	132
Intergovernmental payable.....	2,299	11	—	—	2,310
Claims payable.....	—	—	—	14,602	14,602
Unemployment benefits payable.....	18,292	—	—	—	18,292
Obligations under securities lending.....	11,112	180,320	56,940	46,156	294,528
Due to other funds (Note 9).....	16	28	2,582	45	2,671
Unearned revenue.....	11,661	—	—	10,499	22,160
Deposits payable.....	—	—	8	—	8
Compensated absences - current.....	—	26	80	184	290
Total current liabilities.....	<u>57,619</u>	<u>180,485</u>	<u>119,259</u>	<u>72,056</u>	<u>429,419</u>
Noncurrent Liabilities:					
Compensated absences.....	—	352	784	2,459	3,595
Total noncurrent liabilities.....	<u>—</u>	<u>352</u>	<u>784</u>	<u>2,459</u>	<u>3,595</u>
Total Liabilities.....	<u>57,619</u>	<u>180,837</u>	<u>120,043</u>	<u>74,515</u>	<u>433,014</u>
Net Assets					
Invested in capital assets, net of related debt.....	—	88	1,282	25,303	26,673
Restricted for:					
Capital outlay.....	—	—	—	2,618	2,618
Other purposes.....	—	—	—	1,122	1,122
Unrestricted.....	746,108	863,095	(1,282)	73,410	1,681,331
Total Net Assets.....	<u>\$ 746,108</u>	<u>\$ 863,183</u>	<u>\$ —</u>	<u>\$ 102,453</u>	<u>\$ 1,711,744</u>

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

Exhibit B-3

Governmental Activities — Internal Service Funds	
\$	54,476
	18,059
	32,634
	14,212
	—
	107
	1,279
	—
	—
	11
	18,718
	1,158
	334
	9,370
	—
	<u>150,358</u>
	—
	—
	—
	3,703
	93,307
	<u>97,010</u>
	<u>247,368</u>
	7,373
	563
	1
	6,513
	—
	32,634
	1,483
	4,628
	—
	441
	<u>53,636</u>
	3,710
	<u>3,710</u>
	<u>57,346</u>
	97,010
	—
	—
	93,012
\$	<u>190,022</u>

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

For the Fiscal Year Ended June 30, 2007

(Dollars in Thousands)

	Business-type Activities — Enterprise Funds				
	Unemployment Compensation Fund	EPA Revolving Loan Fund	N.C. State Lottery Fund	Other Enterprise Funds	Total Enterprise Funds
Operating Revenues:					
Employer unemployment contributions.....	\$ 1,068,320	\$ —	\$ —	\$ —	\$ 1,068,320
Federal funds.....	31,639	—	—	—	31,639
Sales and services.....	—	1,439	861,675	1,061	864,175
Interest earnings on loans.....	—	14,961	—	—	14,961
Rental and lease earnings.....	—	—	—	5,345	5,345
Fees, licenses, and fines.....	—	—	4,520	40,264	44,784
Insurance premiums.....	—	—	—	13,901	13,901
Miscellaneous.....	—	—	—	181	181
Total operating revenues.....	<u>1,099,959</u>	<u>16,400</u>	<u>866,195</u>	<u>60,752</u>	<u>2,043,306</u>
Operating Expenses:					
Personal services.....	—	3,678	12,279	27,963	43,920
Supplies and materials.....	—	41	145	1,405	1,591
Services.....	—	975	88,049	14,263	103,287
Cost of goods sold.....	—	—	—	431	431
Depreciation/amortization.....	—	21	391	1,289	1,701
Lottery prizes.....	—	—	451,792	—	451,792
Claims.....	—	—	—	19,918	19,918
Unemployment benefits.....	863,511	—	—	—	863,511
Insurance and bonding.....	—	—	5	4,291	4,296
Other.....	—	630	2,773	3,399	6,802
Total operating expenses.....	<u>863,511</u>	<u>5,345</u>	<u>555,434</u>	<u>72,959</u>	<u>1,497,249</u>
Operating income (loss).....	<u>236,448</u>	<u>11,055</u>	<u>310,761</u>	<u>(12,207)</u>	<u>546,057</u>
Nonoperating Revenues (Expenses):					
Noncapital grants.....	44	57,220	—	244	57,508
Noncapital gifts.....	—	—	—	259	259
Investment earnings.....	14,909	18,227	7,984	6,531	47,651
Insurance recoveries.....	—	—	—	—	—
Gain (loss) on sale of equipment.....	—	—	—	15	15
Miscellaneous.....	(1,470)	(8,883)	(3,378)	(1,907)	(15,638)
Total nonoperating revenues (expenses)...	<u>13,483</u>	<u>66,564</u>	<u>4,606</u>	<u>5,142</u>	<u>89,795</u>
Income (loss) before contributions.....					
and transfers.....	249,931	77,619	315,367	(7,065)	635,852
Capital contributions.....	—	—	—	142	142
Transfers in (Note 9).....	—	10,513	—	4,649	15,162
Transfers out (Note 9).....	(11,300)	(328)	(315,367)	(977)	(327,972)
Change in net assets.....	238,631	87,804	—	(3,251)	323,184
Net assets — July 1, as restated (Note 22).....	507,477	775,379	—	105,704	1,388,560
Net assets — June 30.....	<u>\$ 746,108</u>	<u>\$ 863,183</u>	<u>\$ —</u>	<u>\$ 102,453</u>	<u>\$ 1,711,744</u>

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

**Governmental
Activities —
Internal
Service
Funds**

\$	—
	—
	255,974
	—
	20
	54
	20,264
	540
	<u>276,852</u>
	51,278
	17,896
	114,218
	506
	28,753
	—
	1,133
	—
	26,995
	49,904
	<u>290,683</u>
	<u>(13,831)</u>
	—
	—
	4,390
	135
	271
	<u>(1,746)</u>
	<u>3,050</u>
	(10,781)
	79
	2,349
	<u>(314)</u>
	<u>(8,667)</u>
	198,689
\$	<u><u>190,022</u></u>

STATEMENT OF CASH FLOWS PROPRIETARY FUNDS

For the Fiscal Year Ended June 30, 2007

(Dollars in Thousands)

	Business-type Activities —				
	Enterprise Funds				
	Unemployment Compensation Fund	EPA Revolving Loan Fund	N.C. State Lottery Fund	Other Enterprise Funds	Total Enterprise Funds
Cash Flows From Operating Activities:					
Receipts from customers.....	\$ 1,068,065	\$ 1,440	\$ 803,256	\$ 68,025	\$ 1,940,786
Receipts from federal agencies.....	31,638	—	—	—	31,638
Receipts from other funds.....	—	—	—	—	—
Payments to suppliers.....	—	(1,285)	(30,964)	(23,086)	(55,335)
Payments to employees.....	—	(3,709)	(11,924)	(28,148)	(43,781)
Payments for prizes, benefits, and claims.....	(869,401)	—	(406,235)	(17,283)	(1,292,919)
Payments to other funds.....	—	—	—	—	—
Other receipts (payments).....	—	(359)	569	(1,123)	(913)
Net cash flows provided (used) by operating activities.....	230,302	(3,913)	354,702	(1,615)	579,476
Cash Provided From (Used For)					
Noncapital Financing Activities:					
Grant receipts (refunds).....	44	57,214	—	244	57,502
Transfers from other funds.....	—	10,513	—	4,649	15,162
Transfers to other funds.....	(11,300)	(328)	(326,409)	(977)	(339,014)
Gifts.....	—	—	—	259	259
Total cash provided from (used for) noncapital financing activities.....	(11,256)	67,399	(326,409)	4,175	(266,091)
Cash Provided From (Used For)					
Capital Financing Activities:					
Acquisition and construction of capital assets.....	—	—	(1,059)	(233)	(1,292)
Proceeds from the sale of capital assets.....	—	—	10	15	25
Capital contributions.....	—	—	—	25	25
Insurance recoveries.....	—	—	—	—	—
Total cash provided from (used for) capital financing activities.....	—	—	(1,049)	(193)	(1,242)
Cash Provided From (Used For)					
Investment Activities:					
Purchase of non-State Treasurer investments.....	—	—	—	(455)	(455)
Purchase into State Treasurer investment pool.....	—	(2,628)	—	—	(2,628)
Redemptions from State Treasurer investment pool.....	—	2	—	3,000	3,002
Loan issuances.....	—	(128,008)	—	—	(128,008)
Loan repayments — interest.....	—	15,731	—	—	15,731
Loan repayments — principal.....	—	37,938	—	—	37,938
Investment earnings.....	13,426	9,154	3,822	1,163	27,565
Total cash provided from (used for) investment activities.....	13,426	(67,811)	3,822	3,708	(46,855)
Net increase (decrease) in cash and cash equivalents.....	232,472	(4,325)	31,066	6,075	265,288
Cash and cash equivalents at July 1, as restated.....	166,745	221,963	18,500	37,836	445,044
Cash and cash equivalents at June 30.....	\$ 399,217	\$ 217,638	\$ 49,566	\$ 43,911	\$ 710,332

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

Governmental
Activities —
Internal
Service
Funds

\$	51,051
	—
	214,581
	(189,226)
	(50,855)
	(1,162)
	(11,171)
	(903)
	<u>12,315</u>
	—
	2,349
	(314)
	—
	<u>2,035</u>
	(29,542)
	271
	—
	<u>135</u>
	<u>(29,136)</u>
	—
	—
	4,000
	—
	—
	—
	<u>1,462</u>
	<u>5,462</u>
	(9,324)
	<u>63,800</u>
\$	<u><u>54,476</u></u>

Continued

STATEMENT OF CASH FLOWS PROPRIETARY FUNDS

For the Fiscal Year Ended June 30, 2007

(Dollars in Thousands)

	Business-type Activities --				
	Enterprise Funds				
	Unemployment Compensation Fund	EPA Revolving Loan Fund	N.C. State Lottery Fund	Other Enterprise Funds	Total Enterprise Funds
Reconciliation of Operating Income to Net Cash Provided					
From (Used For) Operating Activities:					
Operating income (loss).....	\$ 236,448	\$ 11,055	\$ 310,761	\$ (12,207)	\$ 546,057
Adjustments to reconcile operating income to net cash flows from operating activities:					
Depreciation/amortization.....	—	21	391	1,289	1,701
Interest earnings on loans classified as investing activity.....	—	(14,961)	—	—	(14,961)
Restatements and adjustments.....	—	—	—	42	42
Nonoperating miscellaneous income (expense).....	—	—	561	21	582
(Increases) decreases in assets:					
Receivables.....	(8,958)	—	(1,007)	3,834	(6,131)
Due from other funds.....	(115)	—	—	—	(115)
Due from fiduciary funds.....	—	—	—	—	—
Due from component units.....	—	—	—	—	—
Inventories.....	—	—	(795)	51	(744)
Prepaid items.....	—	—	—	(271)	(271)
Increases (decreases) in liabilities:					
Accounts payable and accrued liabilities.....	706	(5)	44,443	2,319	47,463
Due to other funds.....	16	20	—	—	36
Unemployment benefits payable.....	500	—	—	—	500
Compensated absences.....	—	(43)	340	(191)	106
Unearned revenue.....	1,705	—	—	3,498	5,203
Deposits payable.....	—	—	8	—	8
Total cash provided from (used for) operations.....	<u>\$ 230,302</u>	<u>\$ (3,913)</u>	<u>\$ 354,702</u>	<u>\$ (1,615)</u>	<u>\$ 579,476</u>
Noncash Investing, Capital, and Financing Activities:					
Noncash distributions from the State Treasurer					
Long-Term Investment Portfolio and/or other agents.....	\$ —	\$ —	\$ —	\$ (1,241)	\$ (1,241)
Donated assets (fair market value).....	—	—	—	—	—
Transferred assets.....	—	—	—	117	117
Assets acquired through the assumption of a liability.....	11,112	180,320	56,940	46,156	294,528
Change in fair value of investments.....	—	—	—	583	583

Governmental
Activities —
Internal
Service
Funds

\$ (13,831)

28,753

—

(5,535)

29

(5,405)

(3,070)

17

(78)

(19)

4,078

8,976

259

—

291

(2,150)

—

\$ 12,315

\$ (1,008)

79

—

32,634

302

STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS

June 30, 2007

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).....	\$ 482,277	\$ 4,946	\$ 98,153	\$ 2,818,551
Investments (Note 3):				
Annuity contracts.....	1,018,905	—	—	—
U.S. government securities.....	—	—	4,287	—
Corporate bonds.....	—	—	—	54,801
Corporate stocks.....	—	—	—	1,011
Mutual funds.....	3,577,119	—	—	—
Certificates of deposit.....	—	—	63,528	392
State Treasurer investment pool.....	76,506,083	167,427	—	40,868
Securities lending collateral (Note 3).....	15,556,311	112,788	694	1,848,214
Receivables:				
Taxes receivable.....	—	—	—	165,600
Accounts receivable.....	63,360	—	—	8,620
Intergovernmental receivables.....	16,085	—	—	—
Interest receivable.....	3,034	501	4	276
Contributions receivable.....	129,077	—	—	—
Due from other funds (Note 9).....	41,216	—	—	12,779
Notes receivable.....	171,810	—	—	—
Inventories.....	—	—	—	301
Sureties.....	—	—	888,146	96,198
Capital assets-depreciable, net.....	127	—	—	—
Total Assets.....	97,565,404	285,662	1,054,812	5,047,611
Liabilities				
Accounts payable and accrued liabilities:				
Accounts payable.....	12,541	—	—	418
Intergovernmental payables.....	—	—	—	648,823
Benefits payable.....	9,991	—	—	—
Medical claims payable.....	189,643	—	—	—
Obligations under securities lending.....	15,556,311	112,788	694	1,848,214
Due to other funds (Note 9).....	11	—	—	—
Unearned revenue.....	3,493	—	—	—
Deposits payable.....	—	—	—	1,640
Funds held for others.....	—	—	—	2,548,516
Compensated absences.....	162	—	—	—
Total Liabilities.....	15,772,152	112,788	694	5,047,611
Net Assets				
Held in trust for:				
Employees' pension and other benefits.....	81,793,252	—	—	—
Pool participants.....	—	172,874	—	—
Individuals, organizations, and other governments.....	—	—	1,054,118	—
Total Net Assets.....	\$ 81,793,252	\$ 172,874	\$ 1,054,118	\$ —

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, 2007

Exhibit B-7

(Dollars in Thousands)

	Pension and Other Employee Benefit Trust Funds	Investment Trust Fund	Private- Purpose Trust Funds
Additions:			
Contributions:			
Employer.....	\$ 3,313,223	\$ —	\$ —
Members.....	1,413,902	—	—
Trustee deposits.....	—	—	120,469
Other contributions.....	57,774	—	—
Total contributions.....	<u>4,784,899</u>	<u>—</u>	<u>120,469</u>
Investment income:			
Investment earnings (loss).....	11,222,690	15,256	3,342
Less investment expenses.....	(747,556)	(7,527)	(35)
Net investment income (loss).....	<u>10,475,134</u>	<u>7,729</u>	<u>3,307</u>
Pool share transactions:			
Reinvestment of dividends.....	—	7,729	—
Net share purchases/(redemptions).....	—	(35,687)	—
Net pool share transactions.....	<u>—</u>	<u>(27,958)</u>	<u>—</u>
Other additions:			
Fees, licenses, and fines.....	4,962	—	—
Interest earnings on loans.....	10,390	—	—
Miscellaneous.....	2,480	—	—
Total other additions.....	<u>17,832</u>	<u>—</u>	<u>—</u>
Total additions.....	<u>15,277,865</u>	<u>(20,229)</u>	<u>123,776</u>
Deductions:			
Claims and benefits.....	5,734,530	—	—
Medical insurance premiums.....	437,001	—	—
Refund of contributions.....	137,057	—	—
Distributions paid and payable.....	—	7,729	—
Payments in accordance with trust arrangements.....	—	—	222,974
Administrative expenses.....	138,346	—	3
Other deductions.....	250	—	—
Total deductions.....	<u>6,447,184</u>	<u>7,729</u>	<u>222,977</u>
Change in net assets.....	8,830,681	(27,958)	(99,201)
Net assets — July 1, as restated (Note 22).....	72,962,571	200,832	1,153,319
Net assets — June 30.....	<u>\$ 81,793,252</u>	<u>\$ 172,874</u>	<u>\$ 1,054,118</u>

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

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NOTES TO THE FINANCIAL STATEMENTS

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Financial Reporting Entity

The accompanying government-wide financial statements present the State of North Carolina and its component units. The State of North Carolina, as primary government, consists of all organizations that make up its legal entity. All funds, organizations, agencies, boards, commissions, and authorities that are not legally separate are, for financial reporting purposes, part of the primary government. The primary government has a separately elected governing body (the General Assembly) and the primary government must be both legally separate and fiscally independent. Component units are legally separate entities for which the State is financially accountable. Accountability is defined as the State's substantive appointment of a majority of the component unit's governing board. Furthermore, to be financially accountable, the State must be able to impose its will upon the component unit or there must be a possibility that the component unit may provide specific financial benefits to, or impose specific financial burdens on, the State. 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 58 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 58 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 housing opportunities for low and moderate income individuals. 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 Agency's mission is defined in its authorizing statute, which is modified or expanded from time to time by the General Assembly. The General Assembly also appropriates funds that assist the Agency in its mission to finance housing for very low income individuals and those with special needs.

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 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. The Entity made a final payment to quota and tobacco owners in late 2005. Management believes that it will wrap up its affairs by June 30, 2008.

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 North Carolina and advancing the economic interests of the State. The Railroad is governed by a thirteen 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 loans to farmers and agribusiness at reasonable terms and interest rates. 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 twenty-six-member board governs the Partnership. Certain elected state officials appoint twenty-two 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 financial 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 in the sixteen counties in northeastern North Carolina. The Commission consists of eighteen members, with six members appointed by the Governor, six by the Speaker of the House, and six by the President Pro Tempore of the Senate. The Secretary of Commerce serves as an ex-officio member. 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 nineteen members, with seven appointed by the N.C. House of Representatives, seven 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.

NOTES TO THE FINANCIAL STATEMENTS

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 and five members appointed by the Governor, including 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 Turnpike Authority
 North Carolina State Ports Authority
 North Carolina Partnership for Children, Inc.
 North Carolina Agricultural Finance Authority
 North Carolina Global TransPark Authority

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. 107 SE Main Street, Suite 500 Rocky Mount, N.C. 27801	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, N.C. 27604-1000
N.C. Phase II Tobacco Certification Entity, Inc. 3000 Highwoods Boulevard, 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 134 Wright Brothers Way Fletcher, N.C. 28732

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

B. Basis of Presentation

The accompanying financial statements of the State of North Carolina financial reporting entity have been prepared in accordance with generally accepted accounting principles in the United States of America ("GAAP") as applicable to governments. The Governmental Accounting Standards Board (GASB) establishes standards of financial accounting and reporting for state and local governmental entities. 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, 2007, except for the USS North Carolina Battleship Commission whose statements are as of and for the fiscal year ended September 30, 2006, 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, 2006.

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. The unemployment taxes collected from employers are transferred to the United States Treasury and deposited into North Carolina's Unemployment Insurance Trust Fund.

N.C. State Lottery Fund

This fund accounts for the activities of the N.C. Education Lottery Commission, which began ticket sales on March 30, 2006. The net profits of the fund are transferred periodically to the Education Lottery Fund, a nonmajor special revenue 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, Internal Revenue Code (IRC) Section 401(k) plan, IRC Section 457 plan, other defined contribution plans, death benefit plan, disability income plan, State health plan, and retiree health benefit fund.

NOTES TO THE FINANCIAL STATEMENTS**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, insurance company receivership assets, and other resources held by the State in a purely custodial capacity for individuals, private organizations, or other governments. Insurance company receivership assets are held by the Commissioner of Insurance exclusively in his capacity as Receiver. These assets belong to insurance companies and other entities in receivership and are not the property of the State.

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.

Lottery games are sold to the public by contracted retailers. For Powerball, revenue is recognized at the time of sale. For instant games, revenue is recognized at the time a pack of tickets is settled. For Powerball, prize expense is recorded at fifty percent of sales. For instant games, prize expense is accrued based on the final production prize structure percentage provided by the gaming vendor for each game and recorded on the value of packs settled. For instant games with prize tickets, the final prize structure percentage used is adjusted to eliminate the value of the prize tickets.

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 collected within thirty-one days after year-end. Exceptions are individual income tax revenues and federal and county funds accrued for the matching share of medicaid claims payable, which the State considers to be available if they are collected within twelve months after year-end. Furthermore, in the circumstance where underpayments exceed overpayments, individual income tax revenues are recognized to the extent of estimated overpayments (i.e., refunds payable and applied refunds). 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.

NOTES TO THE FINANCIAL STATEMENTS
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 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 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.

In governmental funds, prepaid items are recorded as expenditures when purchased and balances of prepaid items are not reported as assets.

I. Restricted/Designated Assets

In the government-wide and enterprise fund financial statements, certain resources are reported as restricted assets because restrictions on asset use change the nature or normal understanding of the availability of the asset. The following resources are not available for current operations and are reported as restricted assets: 1) resources restricted or designated for the acquisition/construction of the government's own's capital assets, 2) resources legally segregated for the payment of principal and interest as required by debt covenants, 3) temporarily invested debt proceeds, and 4) nonexpendable resources of permanent funds.

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

NOTES TO THE FINANCIAL STATEMENTS

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 its component units are as follows:

<u>Asset Class</u>	<u>Method</u>	<u>Estimated Useful Life</u>
Buildings.....	Straight-line	10-50 years
Machinery and Equipment.....	Straight-line	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. If material, debt premiums of the State are deferred and amortized over the life of the debt using the effective interest method. Losses on the State's refundings are deferred and amortized over the remaining life of the old debt or the life of the new debt, whichever is shorter, using the effective interest method. Losses on refundings of the NC Housing Finance Agency are deferred and amortized using the straight-line method. If material, 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. 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.

NOTES TO THE FINANCIAL STATEMENTS

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

N. Sureties

Sureties include various assets, including securities from insurance companies 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. Constraints placed on net asset use by enabling legislation are not reported as net asset restrictions since such constraints are not legally enforceable. An Attorney General Advisory Opinion referenced that the Governor, pursuant to his constitutional authority under Article III, Section 5(3), may use resources restricted by enabling legislation in his discretion to meet a budget shortfall. Legal enforceability means that the State can be compelled by an external party, such as citizens, public interest groups, or the judiciary to use resources created by enabling legislation only for the purposes specified by the 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.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 2: STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Fund Balance / Net Assets Deficit**Primary Government**

At June 30, 2007, the following internal service fund reported a net assets deficit: Mail Service Center, \$531 thousand.

Component Unit

At June 30, 2007, the following component unit reported a net assets deficit: N. C. Turnpike Authority, \$1.925 million.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 3: DEPOSITS AND INVESTMENTS

A. Deposits and Investments with State Treasurer

Unless specifically exempt, every agency of the State and certain component units are required by General Statute 147-77 to deposit moneys received with the State Treasurer or with a depository institution in the name of the State Treasurer. Certain local governmental units that are not part of the reporting entity are also allowed to deposit money with the State Treasurer. Expenditures for the primary government and certain component units are made by warrants issued by the agencies and drawn on the State Treasurer. The State Treasurer processes these warrants each day when presented by the Federal Reserve Bank. General Statute 147-69.1 authorizes the State Treasurer to invest all deposits in obligations of or fully guaranteed by the United States; obligations of certain federal agencies; 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 the UNC Hospitals, Public Hospitals, Escheat Fund, and bond proceeds investment accounts, 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 Securities and Exchange Commission and is not subject to any formal oversight other than that of the legislative body.

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

NOTES TO THE FINANCIAL STATEMENTS

Statement of Net Assets
June 30, 2007

Assets:	
Cash and cash equivalents.....	\$ 332,026
Other assets.....	466,298
Investments.....	111,164,012
Total assets.....	<u>111,962,336</u>
Liabilities:	
Distributions payable.....	8,546
Other payables.....	108,918
Obligations under securities lending.....	24,173,594
Total liabilities.....	<u>24,291,058</u>
Net Assets:	
Internal:	
Primary government.....	85,267,391
Component units.....	2,231,013
External.....	172,874
Total net assets.....	<u>\$ 87,671,278</u>

Statement of Operations and Changes in Net Assets
For the Fiscal Year Ended June 30, 2007

Revenues:	
Investment income.....	\$ 11,997,824
Expenses:	
Securities lending.....	1,253,677
Investment management.....	257,655
Total expenses.....	<u>1,511,332</u>
Net increase in net assets	
resulting from operations.....	10,486,492
Distributions to participants:	
Distributions paid and payable.....	(10,486,492)
Share transactions:	
Reinvestment of distributions.....	10,486,791
Net share redemptions.....	<u>(636,775)</u>
Total increase in net assets.....	9,850,016
Net assets:	
Beginning of year.....	<u>77,821,262</u>
End of year.....	<u>\$ 87,671,278</u>

The external portion of the Investment Pool is presented in the State's financial statements as an investment trust fund. Each fund and component unit's share of the internal equity in the Investment Pool is reported in the State's financial statements as an asset of those funds or component units. Equity in the Short-term Investment portfolio is reported as cash and cash equivalents while equity in the Long-term Investment, Equity Investment, Real Estate Investment, and 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, 2007, \$69.1 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	\$ 10,854,374	\$ 2,843,275	\$ 1,695,590	\$ 2,445,956	\$ 3,869,553
U.S. agencies	10,409,357	2,528,330	4,047,522	2,919,673	913,832
Mortgage pass-throughs	6,509,240	—	—	5,110	6,504,130
Domestic corporate bonds	8,984,852	34,929	1,198,033	4,084,426	3,667,464
Securities purchased with cash collateral under securities lending program:					
Asset-backed securities	10,748,538	3,318,767	7,429,771	—	—
Repurchase agreements	4,791,694	4,791,694	—	—	—
Domestic corporate bonds	8,633,362	2,427,095	6,206,267	—	—
	60,931,417	\$ 15,944,090	\$ 20,577,183	\$ 9,455,165	\$ 14,954,979
Other securities:					
Equity based trust - domestic	31,768,585				
Equity based trust - international	13,051,121				
Alternative investments:					
Hedge funds	968,459				
Private equity investment partnerships	1,174,438				
Stock distributions	6,126				
Real estate trust funds	3,263,866				
Total investment securities	\$ 111,164,012				

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	\$ 10,050,848	2.62%-8.87%
U.S. agencies	10,467,708	0.00%-7.12%
Mortgage pass-throughs	6,633,702	5.00%-9.00%
Domestic corporate bonds	8,935,557	3.45%-9.80%
Securities purchased with cash collateral under securities lending program:		
Asset-backed securities	10,750,210	5.31%-5.48%
Repurchase agreements	4,791,694	5.24%-5.45%
Domestic corporate bonds	8,635,826	5.31%-5.57%
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 1.6 years as of June 30, 2007. 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 98% of the Long-term Investment portfolio and the Escheats Fund (included with other governmental funds) owned 1%.

The Long-term Investment portfolio holds investments in Government National Mortgage Association (GNMA) 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. 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. 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):

Investment Type	Carrying Amount by Credit Rating - Moody's/S&P/Fitch				
	Aaa/AAA	Aa/AA	A	Baa/BBB	Ba/BB and Below
U.S. agencies	\$ 10,239,390	\$ 169,967	\$ —	\$ —	\$ —
Domestic corporate bonds	725,977	2,923,715	3,755,529	1,384,236	195,395
Securities purchased with cash collateral under securities lending program:					
Asset-backed securities	10,748,538	—	—	—	—
Repurchase agreements	4,791,694	—	—	—	—
Domestic corporate bonds	2,160,270	2,407,376	4,065,716	—	—
Total	<u>\$ 28,665,869</u>	<u>\$ 5,501,058</u>	<u>\$ 7,821,245</u>	<u>\$ 1,384,236</u>	<u>\$ 195,395</u>

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 \$24.17 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			Total
	Equity Based Trust - International	Alternative Investment - Private Equity Investment Partnerships	Real-Estate Trust Fund Investment Partnerships	
Euro	\$ 4,111,719	\$ 138,848	\$ 80,734	\$ 4,331,301
Japanese Yen	2,360,461	2,533	54,039	2,417,033
Pound Sterling	1,991,357	—	53,017	2,044,374
Swiss Franc	871,956	—	—	871,956
Australian Dollar	460,652	—	34,428	495,080
Hong Kong Dollar	458,034	—	34,930	492,964
Canadian Dollar	232,990	—	—	232,990
Swedish Krona	229,935	—	—	229,935
New Taiwan Dollar	161,124	—	—	161,124
South Korean Won	160,520	—	—	160,520
Other Currencies	821,778	—	22,766	844,544
Total	<u>\$ 11,860,526</u>	<u>\$ 141,381</u>	<u>\$ 279,914</u>	<u>\$ 12,281,821</u>

Although there is no formally adopted investment policy, the State Treasurer's investment policy permits up to 20% of the retirement systems' invested assets to be in international securities. At year-end, the retirement systems had approximately 16.2% invested in international securities.

Securities Lending

Based on the authority provided in General Statute 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, GNMA's, 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 investments was approximately 20 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.

NOTES TO THE FINANCIAL STATEMENTS

Bond Proceeds Investment Accounts

The State Treasurer has established separate investment accounts for each State bond issue to comply with Internal Revenue Service 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	\$ 647,684	6
Total investments	<u>\$ 647,684</u>	

Interest Rate Risk and Credit Risk. As established in the contract with the private investment company, all bond proceeds are managed in compliance with 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.

Custodial Credit Risk. Investments purchased with bond proceeds 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. There is no custodial policy related to these securities.

University of North Carolina (UNC) Hospitals Investment Account

The State Treasurer has contracted with an external party (Trustee) to create the University of North Carolina Hospitals at Chapel Hill Trust (Trust). The UNC Hospitals are the only depositor in the Trust. However, the Trust is a participant of a commingled equity investment fund. The Trustee manages the assets, primarily in equity and equity-based securities in accordance with the General Statutes. The Trustee maintains custody of the underlying securities in the name of the Trust, services the securities, and maintains all related accounting records. The investments are valued at fair market value using market prices provided by third party professionals.

At year-end, the UNC Hospitals investment account maintained by the State Treasurer had the following investments (settled transactions) (dollars in thousands):

Investment Type	Carrying Amount
Other securities:	
Equity based trust - domestic	\$ 241,216
Equity based trust - international	115,456
Total investment securities	<u>\$ 356,672</u>

Foreign Currency Risk. There is no formally adopted investment policy to limit foreign currency exposure. At year-end, the UNC Hospitals investment account's exposure to foreign currency was as follows (dollars in thousands):

Currency	Carrying Value by Investment Type
	Equity Based Trust-International
Euro	\$ 24,901
Pound Sterling	17,140
Japanese Yen	15,571
Hong Kong Dollar	15,516
Swiss Franc	9,658
Canadian Dollar	5,439
Australian Dollar	4,514
South Korean Won	3,508
Swedish Krona	2,882
Norwegian Krone	2,170
New Turkish Lira	1,136
Other Currencies	9,808
Total	<u>\$ 112,243</u>

Note: The totals in this table do not agree to the totals disclosed in the investment table above because this foreign currency table includes equities based on trade date while the investment table is reported on settle date.

Public Hospitals Investment Account

The State Treasurer has contracted with an external party (Trustee) to create the Public Hospitals investment account. The investment account currently consists of Margaret R. Pardee Hospital Trust and New Hanover Regional Medical Center Trust. These Trusts are part of a commingled equity investment fund. The Trustee manages the assets, primarily in equity and equity-based securities in accordance with the General Statutes. The Trustee maintains custody of the underlying securities in the name of the Trust, services the securities, and maintains all related accounting records. The investments are valued at fair market value using market prices provided by third party professionals.

At year-end, the Public Hospitals investment accounts maintained by the State Treasurer had the following investments (settled transactions) (dollars in thousands):

Investment Type	Carrying Amount
Other securities:	
Equity based trust - domestic	\$ 49,905
Equity based trust - international	18,111
Total investment securities	<u>\$ 68,016</u>

NOTES TO THE FINANCIAL STATEMENTS

Foreign Currency Risk. There is no formally adopted investment policy to limit foreign currency exposure. At year-end, the Public Hospitals investment account's exposure to foreign currency was as follows (dollars in thousands):

Currency	Carrying Value by Investment Type Equity Based Trust- International
Euro	\$ 4,727
Pound Sterling	3,241
Japanese Yen	2,989
Hong Kong Dollar	2,163
Swiss Franc	1,063
Canadian Dollar	1,033
Australian Dollar	857
South Korean Won	666
Swedish Krona	547
Other Currencies	2,465
Total	<u>\$ 19,751</u>

Note: The totals in this table do not agree to the totals disclosed in the investment table above because this foreign currency table includes equities based on trade date while the investment table is reported on settle date.

Escheat Investment Account

Pursuant to General Statute 147-69.2(b)(12), the State Treasurer has established a separate investment account on behalf of the Escheat Fund. The investments are valued at fair market value using market prices provided by third party professionals. At year-end, the Escheat investment account maintained by the State Treasurer had the following investments (dollars in thousands):

Investment Type	Carrying Amount
Other securities:	
Real estate trust funds	\$ 23,475
Private equity investment partnerships	12,789
Public equities - domestic	20,672
Public equities - international	15,369
Total investment securities	<u>\$ 72,305</u>

Foreign Currency Risk. There is no formally adopted investment policy to limit foreign currency exposure. At year-end, the Escheat investment account's exposure to foreign currency was as follows (dollars in thousands):

Currency	Carrying Value by Investment Type Public Equities - International
Euro	\$ 4,986
Pound Sterling	2,833
Japanese Yen	2,562
South African Rand	1,538
Swiss Franc	645
Other Currencies	2,805
Total	<u>\$ 15,369</u>

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 Employment Security Commission and the various clerks of superior court. General Statute 96-6 requires that Employment Security Commission funds be deposited with the United States Treasury to the credit of North Carolina. 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	\$ 19,188
Uninsured and collateral held by pledging bank's trust department but not in State's name	350
Total	<u>\$ 19,538</u>

Component Units**(University of North Carolina System, The Golden LEAF, Inc. 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	\$ 71,023
Uninsured and collateral held by pledging bank's trust department or agent but not in State's name	175
Total	<u>\$ 71,198</u>

NOTES TO THE FINANCIAL STATEMENTS

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

Uninsured and uncollateralized	\$	2,711
Total	\$	<u>2,711</u>

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	\$	25,252
Uninsured and collateral held by pledging bank's trust department or agent but not in State's name ..		9,159
Total	\$	<u>34,411</u>

C. Investments Outside the State Treasurer

Investments in participating investment contracts, external investment pools, open-end mutual funds, debt securities,

At December 31, 2006, 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	\$ 245,517	\$ —	\$ 245,517	\$ —	\$ —
Prudential Stable Value Fund:					
U.S. Treasuries	236,380	—	128,890	51,067	56,423
U.S. agencies	101,880	—	79,561	14,782	7,537
Collateralized mortgage obligations	334,673	76,075	1,395	663	256,540
Asset-backed securities	10,436	—	4,162	5,772	502
Commercial mortgage backed securities	42,996	—	—	—	42,996
Domestic corporate bonds	218,709	10,172	86,391	75,026	47,120
Foreign corporate bonds	10,951	—	2,465	4,064	4,422
	1,201,542	\$ 86,247	\$ 548,381	\$ 151,374	\$ 415,540
Other securities:					
International mutual funds	181,179				
Other mutual funds	2,471,192				
Total investment securities	\$ 3,853,913				

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. Principal and accrued interest is guaranteed by The Prudential Insurance Company of America.

Interest Rate Risk and Credit Risk. The Fidelity Intermediate Bond Fund, which is unrated, had a weighted

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, 77% 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.

average maturity of 4.2 years as of August 31, 2006. 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, \$230.74 million were rated BBB or above by Moody's or Standard & Poor's and \$403.72 million were unrated.

NOTES TO THE FINANCIAL STATEMENTS

Other Primary Government Investments

The other primary government investments held outside the State Treasurer consisted almost entirely of balances maintained by the North Carolina Public Employee Deferred Compensation Plan (the 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.

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	\$ 808	\$ 324	\$ 289	\$ 144	\$ 51
U.S. Treasury STRIPS	3,258	618	2,603	37	—
U.S. agencies	2,610	451	241	1,918	—
Mortgage pass throughs	148	3	36	18	91
Collateralized mortgage obligations	57	1	49	5	2
State and local government	119	—	107	12	—
Asset-backed securities	45	—	4	2	39
Repurchase agreements	154,089	151,920	2,169	—	—
Annuity contracts	31,895	—	—	—	31,895
Money market mutual funds	1,186	1,186	—	—	—
Mutual bond funds	13,400	—	5	13,395	—
Domestic corporate bonds	56	—	29	23	4
	<u>207,671</u>	<u>\$ 154,503</u>	<u>\$ 5,532</u>	<u>\$ 15,554</u>	<u>\$ 32,082</u>
Other securities:					
International mutual funds	11,639				
Other mutual funds	656,506				
Real estate investment trusts	23,475				
Limited partnerships	12,789				
Domestic stocks	172,518				
Other	577				
Total investment securities	<u>\$ 1,085,175</u>				

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.

NOTES TO THE FINANCIAL STATEMENTS

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	\$ 2,610	\$ —	\$ —	\$ —	\$ —	\$ —
Mortgage pass throughs	98	—	—	—	—	38
Collateralized mortgage obligations	44	12	1	—	—	—
State and local government	59	4	—	56	—	—
Asset-backed securities	45	—	—	—	—	—
Repurchase agreements	2,169	—	—	—	—	—
Annuity contracts	—	—	—	—	—	31,895
Money market mutual funds	1,010	—	—	—	—	176
Mutual bond funds	9,701	1,589	787	684	548	91
Domestic corporate bonds	3	9	22	22	—	—
Total	<u>\$ 15,739</u>	<u>\$ 1,614</u>	<u>\$ 810</u>	<u>\$ 762</u>	<u>\$ 548</u>	<u>\$ 32,200</u>

Foreign Currency Risk. Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair market value of an investment. At year-end there were no formally adopted policies that address foreign currency risk of other primary government investments outside the State Treasurer.

NOTES TO THE FINANCIAL STATEMENTS

Component Units

(University of North Carolina System, State Education Assistance Authority and The Golden LEAF, Inc.)

University of North Carolina System

The General Statutes place no specific investment restrictions on the University of North Carolina System (the UNC 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 (the University) 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 Type	Carrying Amount	Investment Maturities (in Years)			
		Less Than 1	1 to 5	6 to 10	More Than 10
Debt securities:					
U.S. Treasuries	\$ 52,162	\$ 6,968	\$ 20,944	\$ 397	\$ 23,853
U.S. Treasury STRIPS	30	—	—	—	30
U.S. agencies	24,859	3,902	14,303	2,546	4,108
Mortgage pass throughs	58,280	—	7,060	14,198	37,022
Collateralized mortgage obligations	166,332	—	1,758	6,620	157,954
State and local government	6,339	60	1,560	28	4,691
Asset-backed securities	3,583	—	—	—	3,583
Repurchase agreements	56,401	36,824	19,577	—	—
Commercial paper	2,697	2,697	—	—	—
Annuity contracts	40	—	—	—	40
Money market mutual funds	170,701	170,701	—	—	—
Mutual bond funds	236,578	6,666	43,111	162,244	24,557
Domestic corporate bonds	40,715	8,605	14,061	2,674	15,375
Foreign corporate bonds	5,148	—	5,089	43	16
	823,865	\$ 236,423	\$ 127,463	\$ 188,750	\$ 271,229
Other securities:					
Investment agreements	5,059				
International mutual funds	129,382				
Other mutual funds	537,351				
Investments in real estate	46,741				
Real estate investment trusts	15,520				
Hedge funds	783,845				
Limited partnerships	1,011,123				
Pooled investments	392				
Domestic stocks	192,631				
Foreign stocks	43,645				
Other	246,117				
Total investment securities	\$ 3,835,671				

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.

NOTES TO THE FINANCIAL STATEMENTS

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):

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	\$ 10,102	\$ —	\$ —	\$ —	\$ —	\$ 12,163
Mortgage pass throughs	4,964	—	91	—	—	51,678
Collateralized mortgage obligations	71,261	13,065	33,180	29	23	48,737
State and local government	6,129	18	92	40	—	60
Asset-backed securities	410	2,057	616	500	—	—
Commercial paper	—	—	2,697	—	—	—
Annuity contracts	—	—	—	—	—	40
Money market mutual funds	70,430	1	99,748	—	—	522
Mutual bond funds	51,832	40,412	10,541	3,378	12,243	118,172
Domestic corporate bonds	2,424	5,415	21,964	10,625	287	—
Foreign corporate bonds	—	5,056	16	51	25	—
Total	\$ 217,552	\$ 66,024	\$ 168,945	\$ 14,623	\$ 12,578	\$ 231,372

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):

Investment Type	Carrying Amount	
	Held by Counterparty	Held by Counterparty's Trust Dept. or Agent but not in State's Name
U.S. Treasuries	\$ 13,349	\$ 685
U.S. agencies	11,446	—
Mortgage pass throughs	16,749	—
Collateralized mortgage obligations	11,437	—
State and local government	4,559	—
Repurchase agreements	672	—
Commercial paper	2,697	—
Domestic corporate bonds	15,747	—
Domestic stocks	63,749	—
Foreign stocks	211	—
Total	\$ 140,616	\$ 685

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):

Currency	Carrying Amount		
	Foreign Stocks	Limited Partnerships	Hedge funds
Euro	\$ 2,230	\$ 30,928	\$ 26,498
Japanese Yen	16,871	—	—
Canadian Dollar	8,197	—	—
Pound Sterling	1,017	3,032	—
Singapore Dollar	1,992	—	—
Hong Kong Dollar	1,972	—	—
Other Currencies	3,489	—	—
Total	\$ 35,768	\$ 33,960	\$ 26,498

NOTES TO THE FINANCIAL STATEMENTS

The State Education Assistance Authority

The State Education Assistance Authority (the 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, 2007, for the Authority's investments (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	\$ 14,161	\$ —	\$ —	\$ 8,835	\$ 5,326
Repurchase agreements	8,958	—	—	3,657	5,301
Annuity contracts	16,756	8,328	8,428	—	—
Mutual bond funds	44,017	—	43,680	337	—
Money market mutual funds	2,617	2,617	—	—	—
	86,509	\$ 10,945	\$ 52,108	\$ 12,829	\$ 10,627
Other securities:					
Investment agreements	330,128				
International mutual funds	36,672				
Other mutual funds	151,297				
Domestic stocks	23,753				
Total investment securities	\$ 628,359				

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, 2007, the Authority's investments were rated as follows (dollars in thousands):

Investment Type	Carrying Amount by Credit Rating - S&P	
	Unrated	
Repurchase agreements	\$ 8,958	
Annuity contracts	16,756	
Money market mutual funds	2,617	
Mutual bond funds	44,017	
Total	\$ 72,348	

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	\$ 8,958	
Domestic Stocks	23,753	
Total	\$ 32,711	

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 Plus Funding Company, AIG Matched Funding Corporation, Natixis Funding Corporation, and FSA Capital Management Services. These investments are 26.8%, 12.3%, 6.9% and 6.4%, respectively, of the Authority's investments.

NOTES TO THE FINANCIAL STATEMENTS**The Golden LEAF, Inc.**

The General Statutes place no specific investment restrictions on The Golden LEAF, Inc (Foundation). The Foundation is authorized by its Board of Directors to invest in any of the following broad asset classes: domestic equities, real estate, mutual funds, foreign equities, fixed income securities, cash equivalents, and alternatives.

Interest Rate Risk. Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The Foundation monitors the interest rate risk inherent in its portfolio by measuring the effective duration of its portfolio. The Foundation has no specific limitations with respect to duration. At year-end, the Foundation had the following investments and durations that were maintained outside the State Treasurer (dollars in thousands):

Investment Type	Carrying Amount	Effective Duration (in years)
Debt securities:		
Money market mutual funds	\$ 32,252	0.08
Mutual bond funds	<u>82,636</u>	5.50
	114,888	
Other securities:		
International mutual funds	193,945	
Other mutual funds	63,536	
Hedge funds	144,846	
Limited partnerships	92,414	
Domestic stocks	<u>105,934</u>	
Total investment securities	<u>\$ 715,563</u>	

Credit Risk. Credit risk is the risk that an issuer of an investment will not fulfill its obligation. Credit risk is measured by the assignment of a rating by a nationally recognized statistical rating organization. The Foundation investment policy requires fixed income investments be investment grade or better at the time of purchase and that the portfolio maintain an average rating of AA or better at all times. At June 30, 2007, the Foundation had investments in mutual bond funds rated AAA with fair value of \$82.636 million and an unrated money market mutual fund with a fair value of \$32.252 million.

Foreign Currency Risk. Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair market value of an investment. At year-end the Foundation has no formally adopted policies that address foreign currency risk.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 4: RECEIVABLES

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

Governmental Activities:

	General Fund	Highway Fund	Highway Trust Fund	Other Governmental Funds	Internal Service Funds ⁽¹⁾	Total
Receivables, gross (excluding notes).....	\$ 3,446,863	\$ 188,557	\$ 41,612	\$ 44,066	\$ 15,609	\$ 3,736,707
Allowance for doubtful accounts.....	(400,714)	(7,831)	—	(48)	—	(408,593)
Receivables, net.....	<u>\$ 3,046,149</u>	<u>\$ 180,726</u>	<u>\$ 41,612</u>	<u>\$ 44,018</u>	<u>\$ 15,609</u>	<u>\$ 3,328,114</u>
Notes receivable, gross.....	\$ 14,319	\$ 1,022	\$ 100	\$ 363,278	\$ —	\$ 378,719
Allowance for doubtful accounts.....	—	—	—	(42,147)	—	(42,147)
Notes receivable, net.....	<u>\$ 14,319</u>	<u>\$ 1,022</u>	<u>\$ 100</u>	<u>\$ 321,131</u>	<u>\$ —</u>	<u>\$ 336,572</u>

(1) Includes balances due from fiduciary funds.

Within governmental activities, the only significant receivables not expected to be collected within one year are \$210.66 million of notes receivable in other governmental funds, \$12.25 million of notes receivable in the General Fund.

Business-Type Activities:

	Unemployment Compensation Fund	EPA Revolving Loan Fund	N.C. State Lottery Fund	Other Enterprise Funds	Total
Receivables, gross (excluding notes).....	\$ 442,949	\$ 3,439	\$ 11,460	\$ 4,612	\$ 462,460
Allowance for doubtful accounts.....	(49,725)	—	—	(15)	(49,740)
Receivables, net.....	<u>\$ 393,224</u>	<u>\$ 3,439</u>	<u>\$ 11,460</u>	<u>\$ 4,597</u>	<u>\$ 412,720</u>
Notes receivable, gross.....	\$ —	\$ 635,640	\$ —	\$ —	\$ 635,640
Allowance for doubtful accounts.....	—	—	—	—	—
Notes receivable, net.....	<u>\$ —</u>	<u>\$ 635,640</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 635,640</u>

Within business-type activities, the only significant receivables not expected to be collected within one year are \$600.83 million of notes receivable in the EPA Revolving Loan Fund. Revenues of other enterprise funds are net of uncollectible amounts.

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NOTES TO THE FINANCIAL STATEMENTS

NOTE 5: CAPITAL ASSETS

Primary Government. A summary of changes in capital assets for the year ended June 30, 2007 is presented below (dollars in thousands).

Governmental Activities:	Balance			Balance
	July 1, 2006			June 30, 2007
	(as restated)	Additions	Deductions	
Capital Assets, nondepreciable:				
Land	\$ 9,481,462	\$ 583,191	\$ (270)	\$ 10,064,383
Art, literature, and other artifacts	60,485	4,544	(196)	64,833
Construction in progress	1,710,819	1,475,422	(1,418,951)	1,767,290
Total capital assets-nondepreciable	<u>11,252,766</u>	<u>2,063,157</u>	<u>(1,419,417)</u>	<u>11,896,506</u>
Capital Assets, depreciable:				
Buildings	2,511,182	29,067	(28,287)	2,511,962
Machinery and equipment	1,591,316	165,601	(144,195)	1,612,722
Intangibles	200,551	5,224	(6,057)	199,718
General infrastructure	206,188	2,339	(32,317)	176,210
State highway system	20,918,462	1,392,553	(58,390)	22,252,625
Total capital assets-depreciable	<u>25,427,699</u>	<u>1,594,784</u>	<u>(269,246)</u>	<u>26,753,237</u>
Less accumulated depreciation for:				
Buildings	(650,551)	(48,918)	10,666	(688,803)
Machinery and equipment	(928,731)	(111,389)	88,499	(951,621)
Intangibles	(93,608)	(4,854)	4,478	(93,984)
General infrastructure	(93,628)	(5,262)	10,806	(88,084)
State highway system	(5,550,161)	(445,053)	57,222	(5,937,992)
Total accumulated depreciation	<u>(7,316,679)</u>	<u>(615,476)</u>	<u>171,671</u>	<u>(7,760,484)</u>
Total capital assets-depreciable, net	<u>18,111,020</u>	<u>979,308</u>	<u>(97,575)</u>	<u>18,992,753</u>
Governmental activities				
capital assets, net	<u>\$ 29,363,786</u>	<u>\$ 3,042,465</u>	<u>\$ (1,516,992)</u>	<u>\$ 30,889,259</u>

NOTES TO THE FINANCIAL STATEMENTS

Business-type Activities:

	Balance July 1, 2006 (as restated)	Additions	Deductions	Balance June 30, 2007
Capital Assets, nondepreciable:				
Land	\$ 3,114	\$ —	\$ —	\$ 3,114
Construction in progress	532	—	—	532
Total capital assets-nondepreciable	<u>3,646</u>	<u>—</u>	<u>—</u>	<u>3,646</u>
Capital Assets, depreciable:				
Buildings	30,704	—	—	30,704
Machinery and equipment	4,558	1,410	(170)	5,798
General infrastructure	15,306	—	—	15,306
Total capital assets-depreciable	<u>50,568</u>	<u>1,410</u>	<u>(170)</u>	<u>51,808</u>
Less accumulated depreciation for:				
Buildings	(17,175)	(699)	—	(17,874)
Machinery and equipment	(2,237)	(464)	159	(2,542)
General infrastructure	(7,827)	(538)	—	(8,365)
Total accumulated depreciation	<u>(27,239)</u>	<u>(1,701)</u>	<u>159</u>	<u>(28,781)</u>
Total capital assets-depreciable, net	<u>23,329</u>	<u>(291)</u>	<u>(11)</u>	<u>23,027</u>
Business-type activities capital assets, net	<u>\$ 26,975</u>	<u>\$ (291)</u>	<u>\$ (11)</u>	<u>\$ 26,673</u>

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

Governmental activities:

General government	\$ 37,404
Primary and secondary education	1,822
Higher Education	49
Health and human services	12,955
Economic development	1,007
Environment and natural resources	12,254
Public safety, correction, and regulation	48,472
Transportation	497,984
Agriculture	3,529
Total depreciation expense	<u>\$ 615,476</u>

Business-type activities:

N.C. State Fair	\$ 654
USS North Carolina Battleship Commission	124
Agricultural Farmers Market	291
EPA Revolving Loan Fund	21
State Banking Commission	6
ABC Commission	117
Utilities Commission	6
N.C. State Lottery	391
Other business-type activities	91
Total depreciation expense	<u>\$ 1,701</u>

NOTES TO THE FINANCIAL STATEMENTS

Component Units (University of North Carolina System and community colleges). Capital asset activity for the University of North Carolina System and community colleges for the fiscal year ended June 30, 2007, was as follows (dollars in thousands):

University of North Carolina System:	Balance			Balance June 30, 2007
	July 1, 2006 (as restated)	Additions	Deductions	
Capital Assets, nondepreciable:				
Land	\$ 203,459	\$ 13,053	\$ (4,051)	\$ 212,461
Art, literature, and other artifacts	107,877	7,314	(46)	115,145
Construction in progress	1,100,532	608,111	(563,099)	1,145,544
Total capital assets-nondepreciable	<u>1,411,868</u>	<u>628,478</u>	<u>(567,196)</u>	<u>1,473,150</u>
Capital Assets, depreciable:				
Buildings	6,051,451	752,738	(15,184)	6,789,005
Machinery and equipment	1,346,247	147,607	(64,755)	1,429,099
Intangibles	1,000	2,513	—	3,513
Art, literature, and other artifacts	1,966	179	(50)	2,095
General infrastructure	841,442	58,499	(900)	899,041
Total capital assets-depreciable	<u>8,242,106</u>	<u>961,536</u>	<u>(80,889)</u>	<u>9,122,753</u>
Less accumulated depreciation for:				
Buildings	(1,732,656)	(174,815)	7,934	(1,899,537)
Machinery and equipment	(879,813)	(110,653)	51,349	(939,117)
Art, literature, and other artifacts	(949)	(162)	—	(1,111)
General infrastructure	(298,835)	(29,373)	837	(327,371)
Total accumulated depreciation	<u>(2,912,253)</u>	<u>(315,003)</u>	<u>60,120</u>	<u>(3,167,136)</u>
Total capital assets-depreciable, net	<u>5,329,853</u>	<u>646,533</u>	<u>(20,769)</u>	<u>5,955,617</u>
University of North Carolina System capital assets, net	<u>\$ 6,741,721</u>	<u>\$ 1,275,011</u>	<u>\$ (587,965)</u>	<u>\$ 7,428,767</u>

Capital assets of nongovernmental component units of the University of North Carolina System are excluded from the above amounts. At June 30, 2007, nongovernmental component unit foundations and similarly affiliated organizations of the University of North Carolina System had nondepreciable capital assets of \$25.297 million and net depreciable capital assets of \$165.263 million.

NOTES TO THE FINANCIAL STATEMENTS

Community Colleges:	Balance			Balance
	July 1, 2006	Additions	Deductions	June 30, 2007
	(as restated)			
Capital Assets, nondepreciable:				
Land	\$ 103,030	\$ 6,762	\$ (17)	\$ 109,775
Art, literature, and other artifacts	345	55	—	400
Construction in progress	191,437	94,242	(127,506)	158,173
Total capital assets-nondepreciable	<u>294,812</u>	<u>101,059</u>	<u>(127,523)</u>	<u>268,348</u>
Capital Assets, depreciable:				
Buildings	1,525,733	119,569	(7,723)	1,637,579
Machinery and equipment	199,752	27,036	(9,636)	217,152
Art, literature, and other artifacts	371	—	—	371
General infrastructure	87,436	25,341	(344)	112,433
Total capital assets-depreciable	<u>1,813,292</u>	<u>171,946</u>	<u>(17,703)</u>	<u>1,967,535</u>
Less accumulated depreciation for:				
Buildings	(398,112)	(37,262)	3,867	(431,507)
Machinery and equipment	(97,847)	(15,470)	9,765	(103,552)
Art, literature, and other artifacts	(22)	(11)	—	(33)
General infrastructure	(27,075)	(3,405)	963	(29,517)
Total accumulated depreciation	<u>(523,056)</u>	<u>(56,148)</u>	<u>14,595</u>	<u>(564,609)</u>
Total capital assets-depreciable, net	<u>1,290,236</u>	<u>115,798</u>	<u>(3,108)</u>	<u>1,402,926</u>
Community Colleges capital assets, net	<u>\$ 1,585,048</u>	<u>\$ 216,857</u>	<u>\$ (130,631)</u>	<u>\$ 1,671,274</u>

Capital assets of nongovernmental component units of community colleges are excluded from the above amounts. At June 30, 2007, nongovernmental component unit foundations and similarly affiliated organizations of community colleges had nondepreciable capital assets of \$2.448 million and net depreciable capital assets of \$1.134 million.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 6: SHORT-TERM DEBT

Component Units**University of North Carolina System**

North Carolina State University has available commercial paper program financing for short-term credit up to \$100 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, 2007, \$80 million in tax-exempt commercial paper was outstanding.

At the University of North Carolina at Chapel Hill, 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.

North Carolina A&T University issued a bond anticipation note to secure funds for the construction of a 500 space parking deck. Construction began in the spring of 2006 and was completed in the fall of 2006. The note was paid in full with the issuance of University of North Carolina System Pool Revenue Bonds, Series 2006 B issued in February 2007.

Winston-Salem State University engaged in interim financing in anticipation of bonds to be issued in the spring of 2008 to be used for the renovation of Brown Residence Hall and the development of Athletic Fields at Civitan Park. The note was issued from Bank of America, N.A. at 4.06% with a maturity date of January 15, 2008.

Short-term debt activity for the University of North Carolina System for the fiscal year ended June 30, 2007, was as follows (dollars in thousands):

	<u>Balance</u> <u>July 1, 2006</u>		<u>Draws</u>		<u>Repayments</u>		<u>Balance</u> <u>June 30, 2007</u>
Commercial Paper							
Program.....	\$ 133,414	\$	139,000	\$	—	\$	272,414
Anticipation Notes.....	6,168		7,170		(6,168)		7,170

NOTES TO THE FINANCIAL STATEMENTS

NOTE 7: LONG-TERM LIABILITIES

A. Changes in Long-Term Liabilities

Primary Government. Long-term liability activity for the year ended June 30, 2007, was as follows (dollars in thousands):

	Balance July 1, 2006 (as restated)	Increases	Decreases	Balance June 30, 2007	Amounts Due Within One Year
Governmental activities:					
Bonds and similar debt payable:					
General obligation bonds	\$ 5,738,815	\$ 587,130	\$ (423,615)	\$ 5,902,330	\$ 368,570
Lease-purchase revenue bonds	255,045	—	(10,000)	245,045	10,000
Certificates of participation	454,060	300,000	(26,420)	727,640	36,760
Revenue bonds	8,800	—	(8,800)	—	—
Less deferred amounts:					
For issuance discounts	(721)	—	352	(369)	—
On refunding	(103,059)	(5,519)	16,319	(92,259)	—
Add issuance premium	313,253	40,867	(44,859)	309,261	—
Total bonds and similar debt payable	6,666,193	922,478	(497,023)	7,091,648	415,330
Notes payable	62,298	2,897	(27,919)	37,276	10,271
Capital leases payable	25,994	799	(1,053)	25,740	1,094
Arbitrage rebate payable	508	5,444	(235)	5,717	—
Compensated absences	369,306	244,573	(231,563)	382,316	39,269
Net pension obligation	1,627	22,020	(22,833)	814	—
Workers' compensation	5,266	580	(810)	5,036	1,180
Deferred death benefit payable	340	70	—	410	220
Cost settlement payable	154,000	5,300	(109,000)	50,300	20,300
Governmental activity					
long-term liabilities	<u>\$ 7,285,532</u>	<u>\$ 1,204,161</u>	<u>\$ (890,436)</u>	<u>\$ 7,599,257</u>	<u>\$ 487,664</u>
Business-type activities:					
Compensated absences	<u>\$ 3,779</u>	<u>\$ 9,860</u>	<u>\$ (9,754)</u>	<u>\$ 3,885</u>	<u>\$ 290</u>
Business-type activity					
long-term liabilities	<u>\$ 3,779</u>	<u>\$ 9,860</u>	<u>\$ (9,754)</u>	<u>\$ 3,885</u>	<u>\$ 290</u>

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, \$4.151 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, 2007, was as follows (dollars in thousands):

	Balance July 1, 2006 (as restated)	Increases	Decreases	Balance June 30, 2007	Amounts Due Within One Year
University of North Carolina System:					
Bonds payable:					
Revenue bonds	\$ 2,019,383	\$ 169,611	\$ (123,590)	\$ 2,065,404	\$ 179,166
Certificates of participation	29,790	—	(1,755)	28,035	1,810
Less deferred amounts:					
For issuance discounts	(48,571)	(99)	4,172	(44,498)	—
On refunding	(27,280)	(1,706)	2,130	(26,856)	—
Add issuance premium	43,946	3,087	(2,878)	44,155	—
Total bonds payable	2,017,268	170,893	(121,921)	2,066,240	180,976
Notes payable	128,650	9,147	(40,847)	96,950	49,081
Capital leases payable	103,425	76,816	(43,059)	137,182	13,651
Arbitrage rebate payable	289	—	(20)	269	—
Annuity and life income payable	10,979	1,669	(803)	11,845	998
Compensated absences	268,390	188,972	(170,976)	286,386	28,890
Liability insurance trust fund payable	52,230	—	(1,552)	50,678	13,303
Total long-term liabilities	<u>\$ 2,581,231</u>	<u>\$ 447,497</u>	<u>\$ (379,178)</u>	<u>\$ 2,649,550</u>	<u>\$ 286,899</u>

Long-term liabilities of nongovernmental component units of the University of North Carolina System are excluded from the above amounts. At June 30, 2007, nongovernmental component unit foundations and similarly affiliated organizations of the University of North Carolina System had total long-term liabilities of \$370.726 million, of which \$14.63 million was due within one year and \$356.096 million was due in more than one year.

	Balance July 1, 2006	Increases	Decreases	Balance June 30, 2007	Amounts Due Within One Year
North Carolina Housing Finance Agency:					
Bonds payable:					
Revenue bonds	\$ 1,564,880	\$ 360,000	\$ (268,765)	\$ 1,656,115	\$ 179,865
Less deferred amounts:					
For issuance discounts	(19,043)	(3,485)	2,922	(19,606)	—
On refunding	(105)	—	75	(30)	—
Total bonds payable	1,545,732	356,515	(265,768)	1,636,479	179,865
Arbitrage rebate payable	348	881	(166)	1,063	58
Compensated absences	658	377	(295)	740	30
Total long-term liabilities	<u>\$ 1,546,738</u>	<u>\$ 357,773</u>	<u>\$ (266,229)</u>	<u>\$ 1,638,282</u>	<u>\$ 179,953</u>

	Balance July 1, 2006	Increases	Decreases	Balance June 30, 2007	Amounts Due Within One Year
State Education Assistance Authority:					
Bonds payable:					
Revenue bonds	\$ 2,558,654	\$ 570,000	\$ (156,928)	\$ 2,971,726	\$ 506,300
Arbitrage rebate payable	4,153	3,545	(74)	7,624	628
Compensated absences	256	38	(9)	285	9
Total long-term liabilities	<u>\$ 2,563,063</u>	<u>\$ 573,583</u>	<u>\$ (157,011)</u>	<u>\$ 2,979,635</u>	<u>\$ 506,937</u>

NOTES TO THE FINANCIAL STATEMENTS**B. Bonds, Certificates of Participation, and Notes Payable**

Bonds, certificates of participation, and notes payable at June 30, 2007 were as follows (dollars in thousands):

	Interest Rates	Maturing Through Year	Original Issue Amount	Outstanding Balance
Primary Government:				
<u>Governmental activities</u>				
General obligation bonds.....	2.60% - 6.90%*	2028	\$ 8,055,314	\$ 5,902,330
Lease-purchase revenue bonds.....	2.15% - 5.25%	2024	272,045	245,045
Certificates of participation.....	3.25% - 5.25%	2027	789,840	727,640
Notes payable.....	2.89% - 5.06%	2018	58,889	37,276
Component Units:				
<u>University of North Carolina System</u>				
Revenue bonds.....	1.51% - 10.00%*	2037	\$ 2,436,894	\$ 2,065,404
Certificates of participation.....	3.00% - 5.00%	2035	31,545	28,035
Notes payable.....	2.48% - 9.45%*	2019	132,110	96,950
<u>North Carolina Housing Finance Agency</u>				
Revenue bonds.....	2.15% - 8.25%*	2043	\$ 3,701,066	\$ 1,656,115
<u>State Education Assistance Authority</u>				
Revenue bonds.....	3.71% - 5.68%*	2036	\$ 3,154,850	\$ 2,971,726

* For variable rate debt, interest rates in effect at June 30, 2007 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 debt of the primary government subject to annual appropriation requirements at June 30, 2007 totaled \$1.16 billion as follows: university projects \$350 million, psychiatric hospital \$321 million, correctional facilities \$167 million, repair and renovation \$75 million, guaranteed energy savings contracts \$68 million, youth facilities \$22 million, parks and land \$14 million, and State and other projects \$143 million.

In 2005, the N.C. General Assembly enacted G.S. 136-18(12b) providing for the issuance of Grant Anticipation Revenue Vehicle Bonds ("GARVEEs"), which are payable from revenues consisting primarily of federal transportation funds, with the proceeds to finance federal-aid highway projects. The GARVEEs are limited obligations of the State payable solely from these funding sources. The total amount of GARVEEs that may be issued is subject to limitations contained in the authorizing legislation tied to the historic and future level of federal transportation funds the State has or is expected to receive.

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 \$54.97 million (2001B) and \$54.97 million (2001C) that each has a final maturity date of December 1, 2025. The bonds are subject to mandatory sinking

NOTES TO THE FINANCIAL STATEMENTS

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 entered into a new line of credit agreement in the amount of \$300 million with Wachovia Bank, N.A. on September 21, 2006 and canceled its line of credit in the amount of \$107.46 million with JP Morgan Chase Bank. Under the new line of credit agreement, the University is entitled to draw amounts sufficient to pay the principal and accrued interest on variable rate demand bonds or commercial paper bonds delivered for purchase. Under the new line of credit agreement, the University may request that Wachovia Bank, N.A. increase the commitment by increments of \$25 million for a total commitment of up to \$400 million. A request for increase is subject to the Bank's sole discretion, and the University cannot be in default under the agreement.

The University is required to pay a quarterly facility fee for the line of credit in the amount of .08% per annum based on the size of the commitment. If a long-term debt rating assigned by Standard & Poor's (S&P), Fitch Ratings (Fitch), or Moody's Investors Service (Moody's) is lowered, the facility fee assigned to the lowest rating in the below table shall apply:

S&P	Fitch	Moody's	Facility Fee
AA	AA	Aa2	0.10%
AA-	AA-	Aa3	0.11%
A+	A+	A1	0.14%
A	A	A2	0.18%

In the event that the Bank increases the available commitment prior to the due date for payment of a facility fee, the University must pay a supplemental fee based on the facility fee applied to the amount of the increase at the time of commitment to increase. The University will also pay an accrued interest fee equal to the amount of accrued interest, at the time of purchase of the bonds, multiplied by the prime rate multiplied by the ratio of the number of days from the date of purchase of the bonds until the date of payment of the accrued interest to 365 days. At June 30, 2007 no purchase draws had been made under the line of credit.

Under the line of credit agreement, draws to purchase bonds will accrue interest at the prime rate payable on the same interest date as provided in the Trust Agreement for the original bonds. The University is required to begin making a series of ten fully amortizing semi-annual principal payments on bonds held by the Bank six months after the date of purchase.

Commercial paper bonds held by the Bank may be rolled over for a period of 180 days and must be reduced by 1/10th of the original amount of the commercial paper bonds for a period of up to 10 rollovers. All outstanding principal and accrued but unpaid interest is due in full at the maturity of the line of credit.

The line of credit agreement expires on September 21, 2011 and is subject to covenants customary to this type of transaction, including a default provision in the event that the University's long-term bond ratings were lowered to below a BBB- for S&P, BBB- for Fitch, and Baa3 for Moody's.

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 (\$21.48 million 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 North Carolina Central University 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.

The Student Housing Facilities Revenue Demand Bonds (Series 2003) has an Irrevocable Letter of Credit (LOC) for \$21.82 million. 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 expired 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. The LOC was extended until December 31, 2007. At June 30, 2007, the LOC rate for the bonds was 1.4% and the total amount drawn on it was \$1.1 million.

The Foundation paid Wachovia Bank, N.A. a commitment fee of \$109 thousand for the letter of credit on the date the bonds were issued. If the Foundation terminates the letter of credit on or before December 31, 2007, then the Foundation must pay a termination fee of \$25 thousand. 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%. The amount of any tender advance made is repaid based on the earliest to occur of the date the credit provider bonds purchased

NOTES TO THE FINANCIAL STATEMENTS

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, 2007, the remarketing fee rate for the bonds was 0.13%.

With regard 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 - General Revenue Bonds, Series 2003B

On June 20, 2003 the University issued tax-exempt variable rate revenue demand bonds in the amount of \$45.66 million 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 0.13% 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, 2007, 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 \$44.75 million of demand bonds was "put" and not resold, the University would be required to pay \$11.01 million a year for 5 years under this agreement assuming an 8.25% 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 million (2001A) and \$55 million (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 million 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-Thüringen Girozentrale, a Liquidity Facility has been established for the tender agent to

NOTES TO THE FINANCIAL STATEMENTS

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 0.25% with the new long-term agreement that became effective on July 11, 2005. The percentage will remain 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 0.5% 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, 2007, 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 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 \$103.6 million of demand bonds was "put" and not resold, the Hospitals would be required to pay \$25.50 million a year for 5 years under the installment loan agreement assuming an 8.25% 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 \$63.77 million (2003A) and \$34.25 million (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 \$88.33 million 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% of the available commitment for Series 2003A and for Series 2003B, 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%; for Series 2003B, the rate equals Prime Rate for the first 90 days and then equals Prime plus 1%) 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, 2007, 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 \$62.53 million of demand bonds was "put" and not resold, the Hospitals would be required to pay \$24.13 million a year for 3 years under the installment loan agreement assuming a 9.32%

NOTES TO THE FINANCIAL STATEMENTS

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 \$33.60 million of demand bonds was "put" and not resold, the Hospitals would be required to pay \$12.87 million a year for three years under the installment loan agreement assuming a 9.25% interest rate (Prime plus 1%).

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

State Education Assistance Authority

Guaranteed Student Loan Revenue Bonds, Series 2005A

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.

In October, 2005, the Authority issued Guaranteed Student Loan Revenue Bonds, Series 2005A, in the amount of \$506.3 million consisting of four tranches of tax-exempt bonds totaling \$471.6 million and two tranches of taxable bonds totaling \$34.7 million. This series of bonds matures on September 1, 2035, but \$12.4 million must be retired by mandatory sinking fund redemption on October 1, 2012. The proceeds of this issuance were used to finance student loans, refund the Authority's outstanding Series 1995A bonds, make a deposit into the operating fund, and pay issuance costs. While bearing interest at a weekly rate, the bonds are subject to purchase on demand with seven day's notice to the tender agent.

Payment of principal and interest on the Series 2005A bonds is insured by a financial guaranty insurance policy by Ambac Assurance Corporation. The Authority has entered into a standby bond purchase agreement with a commercial bank for each respective tranche. Pursuant to each agreement, the respective bank has agreed to purchase any bonds of that respective tranche that have been tendered for purchase during the term of the agreement.

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 \$499.87 million 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 3.28% (Swap 1) and 3.09% (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 4.45%.

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 section within this note (see section F). 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	<u>\$ 675,955</u>		

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 \$499.87 million matches the \$499.87 million variable-rate bonds. The swaps were entered into at the same time the bonds were issued (December 2002). Starting in fiscal year 2012 the combined notional value of the swaps and the combined principal amount of the associated debt begin to decline. Under the swaps, the State pays the counterparties a fixed payment of 3.28% (Swap 1) and 3.09% (Swap 2) and receives a variable payment computed at 64% of the LIBOR. Conversely, the bonds' variable-rate coupons are closely associated with the Securities Industry and Financial Markets Swap Index (SIFMA). The SIFMA index replaced the Bond Market Association (BMA) index on November 1, 2006 due to a merger between the Securities Industry Association and the Bond Market Association, forming the Securities Industry and Financial Markets Association.

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 \$675.96 million matches the \$675.96 million fixed rate bonds. Under the terms of the basis rate swap and swaption agreement, the State will pay the SIFMA 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 risen since execution of swaps 1 and 2, the swaps have positive fair values of \$5.97 million (Swap 1) and \$7.14 million (Swap 2) at June 30, 2007. The 2005 basis rate swaps had positive valuations at

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2007 of: \$18.6 million (Counterparty 1), \$11.4 million (Counterparty 2), and \$7.5 million (Counterparty 3). The mark-to-market valuations were established by market quotations from the counterparties, representing estimates of the amounts that would be paid for replacement transactions.

Credit risk. The swaps' fair value represented the State's credit risk exposure to the counterparty as of June 30, 2007. The State's maximum possible loss is equivalent to the aggregate fair value of the swaps. The current counterparty ratings for each swap are presented in the table below:

<u>Swap Counterparty</u>	<u>Moody's</u>	<u>S&P</u>	<u>Fitch</u>
Swap 1	Aaa	AA+	AA
Swap 2	Aaa	AAA	-
Basis Swap Counterparty 1	Aa1	AA	AA-
Basis Swap Counterparty 2	Aa3	AA-	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 or A+ as determined by either S&P or Fitch and their exposure exceeds \$5 million, 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 million, 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 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). 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, or BBB or higher as determined by S&P or Fitch. For counterparty 2, an additional termination event occurs if it has one or more issues of rated, unsecured, unenhanced senior debt 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

SIFMA 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 3.28% (Swap 1) and 3.09% (Swap 2) and the synthetic rates as of June 30, 2007 of 3.61% (Swap 1) and 3.41% (Swap 2). As of June 30, 2007, the average rate on the State's variable rate bonds was 3.73%, whereas 64% of LIBOR was 3.40%. 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.

2005 Basis Swaps: These swaps expose the State to basis risk should the relationship between the two variable indexes SIFMA and LIBOR converge, which would affect the amount of interest savings realized. The State pays SIFMA 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, 2007, there was no basis risk as the State was paying SIFMA equal to 3.73% and receiving 4.41% (70% of LIBOR plus 69 basis points). LIBOR is 5.32% at June 30, 2007. 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, or BBB or higher as determined by S&P or 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. 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 rollover risk exists.

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 million 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 Demand 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 SIFMA on a quarterly basis. On a semiannual basis, the University pays Lehman Brothers interest at the fixed rate of

NOTES TO THE FINANCIAL STATEMENTS

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, 2007, rates were as follows:

	<u>Terms</u>	<u>Rates</u>
Fixed payment to Lehman	Fixed	5.24%
Variable payment from Lehman	SIFMA	<u>3.73%</u>
Net interest rate swap payments		1.51%
Variable rate bond coupon payments		<u>3.70%</u>
Synthetic interest rate on bonds		<u>5.21%</u>

Fair value. As of June 30, 2007, the swap had a fair value of negative \$2.47 million. 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, 2007, 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 million, 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 AA- by Fitch for unsecured long-term debt.

Basis risk. The University receives the SIFMA 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 SIFMA. 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 SIFMA 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.

Future swaps. The University entered into interest rate swap agreements with the Bank of New York for \$150 million and Wachovia N.A. for \$100 million to be effective December 1, 2007. The University has the option to (1) issue variable rate bonds in December 2007, thereby effectively creating synthetic fixed-rate debt, or (2) unwind the swap, capturing the value of the movement of interest rates from the issuance date, and issuing traditional fixed rate bonds.

North Carolina State University

Objective. In order to protect against the potential of rising interest rates, the University entered into four 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, 2007 were as follows (dollars in thousands):

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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 General Revenue	\$ 8,200	10/1/1999	4.57%	67% of LIBOR	\$(429)	12/01/2019	A1 / AA- / AA-
2003B	24,655	6/20/2003	3.54%	75% of LIBOR	1,952	10/01/2027	Aaa / AA+ / AA
Total	<u>\$32,855</u>				<u>\$1,523</u>		

Because rates have changed since the effective dates of the swaps, the 1999A swap has a negative fair value as of June 30, 2007. 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, 2007.

As of June 30, 2007, the University was exposed to credit risk on the swap with a positive fair value. The State's maximum possible loss is equivalent to the positive fair value of the swap. 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. To mitigate the potential for credit risk, if the counterparty's credit quality falls below A3 as determined by Moody's or A- as determined by S&P, the swap will be collateralized by the counterparty with cash, U.S. government or agency securities. If the counterparty is required to collateralize, then the collateral will be posted with a third party custodian or secured party. The swap agreements entered into by the University are held with separate counterparties. 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 SIFMA. Should the relationship between LIBOR and SIFMA move to convergence, the expected cost savings may not be realized. As of June 30, 2007, the SIFMA rate was 3.73%, whereas 67% of LIBOR was 3.56% and 75% of LIBOR was 3.99%.

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.

Future swaps. The University has also entered into two future dated interest rate swap agreements; one for \$50 million and one for \$22.4 million to be effective September 1, 2008 and March 1, 2017, respectively, on a General Revenue Bond Issue planned for 2008.

North Carolina Central University

In October of 2003, the North Carolina Capital Facilities Finance Agency issued Student Housing Facilities Revenue Bonds (\$21.48 million 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 \$21.48 million 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 3.52% (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 \$17.18 million hedges 80% of the \$21.48 million variable-rate bonds. The combined notional value of the swaps and the combined principal amount of the associated debt is declining. Under the swaps, the Foundation pays Wachovia Bank, N.A. a fixed rate of 3.52% (Swap 1) and 2.71% (Swap 2) and receives a variable rate at 70% and 100% of LIBOR and SIFMA, respectively. The bonds' variable-rate coupons are closely associated with the SIFMA.

Fair value. Because interest rates have risen since execution of the swaps, the swaps have positive fair values of \$322 thousand (Swap 1) and \$134 thousand (Swap 2) as of June 30, 2007. The swaps' positive fair value 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.

NOTES TO THE FINANCIAL STATEMENTS

Credit risk. As of June 30, 2007, the Foundation was exposed to credit risk because the swaps had a positive fair value. The exposed credit risk is in the amount of the derivatives' aggregate fair value. Swap 1 and Swap 2's counterparty (Wachovia Bank, N.A.) was rated Aa1 by Moody's, AA by S&P and AA- by Fitch at June 30, 2007.

Basis risk and termination risk. Swap 1 exposes the Foundation to basis risk should the relationship between LIBOR and SIFMA 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 3.52% and the actual rate of 3.55% (Swap 1) at June 30, 2007. As of June 30, 2007, the rate on the Foundation's Bonds was 3.76% where as 70% of LIBOR was 3.73%. Swap 2 exposes the Foundation to basis risk should the actual rate on the Foundation's Bond vary from the SIFMA. 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 2.74% (Swap 2) at June 30, 2007. As of June 30, 2007, the rate on the Foundation's Bonds was 3.76%, whereas the SIFMA index was 3.73%. 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 \$63.77 million and Series 2003B for \$34.25 million. 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, 2007, rates were as follows:

		2003A	2003B
	<u>Terms</u>	<u>Rates</u>	<u>Rates</u>
Fixed payment to BOA	Fixed	3.48%	3.48%
Variable payment from BOA	LIBOR-BBA	<u>3.56%</u>	<u>3.56%</u>
Net interest rate swap payments		-0.08%	-0.08%
Variable rate bond payments		<u>3.73%</u>	<u>3.72%</u>
Synthetic interest rate on bonds		<u>3.65%</u>	<u>3.64%</u>

*British Bankers Association

The swap agreement has a mark-to-market value of \$2.66 million as of June 30, 2007. 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, 2007, the Hospitals are exposed to credit risk equal to the market value of the swap. BOA's current long-term ratings are AA+ by Fitch, Aaa 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 pay a floating rate to their bondholders set by the remarketing agent. The Hospitals incur basis risk when its bonds trade at a yield above 67% of 1-month LIBOR-BBA Index. If the relationship of the Hospitals' bonds trade to a percentage of LIBOR greater than 67%, the Hospitals will experience an increase in debt service above the fixed rate on the swap.

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

Future Swap. The University of North Carolina Hospitals entered into a fixed/float swap for \$44.3 million to be effective February 12, 2007, on a General Revenue Bond Issue planned for 2009.

NOTES TO THE FINANCIAL STATEMENTS
North Carolina Housing Finance Agency

Objective. The Agency has entered into interest rate swaps in connection with its \$76.3 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 swap 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, 2007 were as follows (dollars in thousands).

Series	Counterparty	Counterparty Credit Rating Moody's/S&P	Notional Amount	Date of Swap	Maturity Date of Swap	Fixed Rate	Fair Values
15	UBS AG	Aa2/AA+	\$17,975	5/8/2003	7/1/2032	3.51%	\$ 637
16	Bank of America, N.A.	Aaa/AA+	18,335	9/16/2003	7/1/2032	3.81%	236
17	Bank of America, N.A.	Aaa/AA+	20,000	12/11/2003	7/1/2032	3.73%	212
18	Goldman Sachs Mitsui Marine	Aaa/AAA	20,000	4/20/2004	1/1/2035	3.29%	1,036
			<u>\$76,310</u>				<u>\$2,121</u>

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 SIFMA, which was 3.80% as of June 30, 2007.

Fair value. In total, the swaps have a positive fair value of \$2.121 million as of June 30, 2007. 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.

Credit risk. All of the Agency's swaps rely upon the performance of the third parties who serve as swap counterparties, and as a result the Agency is exposed to credit risk – i.e., the risk that a swap counterparty fails to perform according to its contractual obligations. The appropriate measurement of this risk at the reporting date is the fair value of the swaps, as shown in the column labeled "Fair Values" in the table above. The Agency is exposed to credit risk in the amount of any positive net fair value exposure to each counterparty. As of June 30, 2007, the Agency was exposed to a total of \$2.121 million of credit risk to 3 counterparties. To mitigate the credit risk to each party to the swap agreement of a decline in credit quality of the other party, each swap agreement provides that collateral must be posted if either party's rating falls below A1 for Moody's and A+ for S&P. The collateral must be posted with a third party in the form of cash or U.S. Government Securities. Additionally, each of the swap agreements has termination provisions if ratings fall below certain levels.

Basis risk and termination risk. The swaps expose the Agency to basis risk should the relationship between LIBOR and SIFMA converge, changing the synthetic rate on the bonds. For all swaps, 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 or the Agency's rating falls below Baa2 as issued by Moody's or BBB as issued by S&P. Series 15 swap may be terminated if the counterparty's or the Agency's rating falls below Baa3 as issued by Moody's and BBB- as issued by S&P.

NOTES TO THE FINANCIAL STATEMENTS

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 swap 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.

Bond Series	Principal or Notional Amount (dollars in thousands)				Call Date /
	Counterparty 1	Counterparty 2	Counterparty 3	Series Total	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	<u>\$ 337,977</u>	<u>\$ 202,787</u>	<u>\$ 135,191</u>	<u>\$ 675,955</u>	

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 million 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 (SIFMA) 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. The terms of the swaptions are listed below, which include counterparty credit ratings as of June 30, 2007.

Counterparty	Based on Respective Notional Amounts			Counterparty Credit Rating Moody's/S&P
	Swaption Annuity Payment Received	Fixed Rate Paid by the State	Variable Rate Received by the State	
Counterparty 1	28 Basis Points	4.8%	SIFMA	Aa1/AA
Counterparty 2	28 Basis Points	4.8%	SIFMA	Aa3/AA-
Counterparty 3	28 Basis Points	4.8%	SIFMA	Aaa/AAA

Fair value. As of June 30, 2007, the swaptions had fair values of negative \$10.8 million (Counterparty 1), negative \$6.2 million (Counterparty 2) and negative \$4.0 million (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 from the prior fiscal year, 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 SIFMA and 4.8% fixed rate.

NOTES TO THE FINANCIAL STATEMENTS**G. Debt Service Requirements**

The following schedules show the debt service requirements for the primary government (governmental 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, 2007 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

Fiscal Year Ending June 30	Governmental Activities						
	General Obligation Bonds			Certificates of Participation		Lease-Purchase Revenue Bonds	
	Principal	Interest	Interest Rate Swaps, Net	Principal	Interest	Principal	Interest
2008	\$ 368,570	\$ 274,435	\$ (1,131)	\$ 36,760	\$ 35,149	\$ 10,000	\$ 11,374
2009	364,495	257,580	(1,131)	37,110	33,500	10,000	11,041
2010	364,385	240,039	(1,131)	37,470	31,838	10,000	10,615
2011	364,550	222,032	(1,131)	37,880	30,151	10,000	10,154
2012	365,575	203,693	(1,131)	38,325	28,342	10,000	9,687
2013-2017	1,833,740	753,677	(3,548)	199,040	114,048	50,000	41,234
2018-2022	1,563,710	343,160	(391)	209,805	63,273	92,000	25,973
2023-2027	660,805	65,713	—	131,250	14,660	53,045	2,776
2028-2032	16,500	495	—	—	—	—	—
Total	<u>\$ 5,902,330</u>	<u>\$ 2,360,824</u>	<u>\$ (9,594)</u>	<u>\$ 727,640</u>	<u>\$ 350,961</u>	<u>\$ 245,045</u>	<u>\$ 122,854</u>

Fiscal Year Ending June 30	Governmental Activities Notes Payable	
	Principal	Interest
2008	\$ 10,271	\$ 1,409
2009	5,291	921
2010	3,281	767
2011	2,244	662
2012	1,881	590
2013-2017	11,523	1,823
2018-2022	2,785	102
Total	<u>\$ 37,276</u>	<u>\$ 6,274</u>

The general obligation bonds include \$355 million of variable rate debt without interest rate swaps. For this debt, the variable interest rates change on a weekly basis and are based on the rate paid by each bank. The banks base their rate on what they perceive to be the market (7-day) for debt of this type given the credit standing of the unit of government. The general obligation bonds also include \$499.87 million of variable rate debt with interest rate swaps (see Note 7E).

NOTES TO THE FINANCIAL STATEMENTS

Component Units

University of North Carolina System							
Fiscal Year Ending June 30	Revenue Bonds			Certificates of Participation		Notes Payable	
	Principal	Interest	Interest Rate	Principal	Interest	Principal	Interest
			Swaps, Net				
2008	\$ 75,724	\$ 92,202	\$ 97	\$ 1,810	\$ 1,182	\$ 49,081	\$ 3,383
2009	78,640	88,488	111	1,870	1,128	17,784	1,545
2010	78,735	84,792	165	1,930	1,064	17,975	837
2011	80,625	81,024	156	2,000	989	6,865	291
2012	82,770	77,486	146	2,075	916	744	193
2013-2017	421,441	334,623	488	5,725	3,432	3,183	589
2018-2022	388,339	245,794	10	2,540	2,750	1,318	72
2023-2027	308,255	166,755	(270)	3,170	2,115	—	—
2028-2032	161,845	113,207	(21)	4,015	1,276	—	—
2033-2037	389,030	30,127	—	2,900	272	—	—
Total	<u>\$ 2,065,404</u>	<u>\$ 1,314,498</u>	<u>\$ 882</u>	<u>\$ 28,035</u>	<u>\$ 15,124</u>	<u>\$ 96,950</u>	<u>\$ 6,910</u>

Revenue Bonds					
Fiscal Year Ending June 30	North Carolina Housing Finance Agency			State Education Assistance Authority	
	Principal	Interest	Interest Rate	Principal	Interest
			Swaps, Net		
2008	\$ 179,865	\$ 79,218	\$ (55)	\$ —	\$ 134,021
2009	38,175	73,566	(55)	—	134,021
2010	40,360	71,943	(54)	—	134,021
2011	41,490	70,164	(49)	—	134,021
2012	42,170	68,331	(45)	—	134,021
2013-2017	240,100	307,527	(171)	408,776	626,430
2018-2022	208,150	248,556	(105)	300,000	524,213
2023-2027	292,810	191,557	(61)	—	476,318
2028-2032	345,195	104,088	(21)	330,000	417,544
2033-2037	210,400	29,872	(2)	1,932,950	199,226
2038-2042	16,790	1,141	—	—	—
2043-2047	610	25	—	—	—
Total	<u>\$ 1,656,115</u>	<u>\$ 1,245,988</u>	<u>\$ (618)</u>	<u>\$ 2,971,726</u>	<u>\$ 2,913,836</u>

For revenue bonds of the University of North Carolina System and the State Education Assistance Authority, the fiscal year 2008 principal requirements exclude demand bonds classified as current liabilities (see Note 7D).

NOTES TO THE FINANCIAL STATEMENTS**H. Bond Defeasances**

The State and its component units have defeased certain bonds through current and/or advance refundings. New debt proceeds from current refundings may be used to repay the old debt immediately while new debt proceeds from advance refundings are placed 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 May 9, 2007, the State of North Carolina issued \$84.39 million in General Obligation Refunding Bonds, Series 2007B with an average interest rate of 4.49%. The bonds were issued to advance refund \$80 million of outstanding General Obligation Public Improvement Bonds, Series 2005A with an average interest rate of 5.25%. The net proceeds of the refunding bonds were used to purchase U.S. government securities. These securities were deposited in an irrevocable trust to provide for all future debt service on the refunded bonds. As a result, the refunded bonds are considered to be defeased and the liability has been removed from the statement of net assets. This advance refunding was undertaken to reduce total debt service payments by \$4.48 million over the average life of 15.4 years and resulted in an economic gain of \$2.18 million. At June 30, 2007, the outstanding balance was \$80 million for the defeased General Obligation Public Improvement Bonds.

Component Units**University of North Carolina System***East Carolina University*

On November 30, 2006, East Carolina University issued \$10.89 million in The University of North Carolina System Pool Revenue Bonds, Series 2006A refunding bonds with an average interest rate of 4.67%. The bonds were issued to advance refund \$2.12 million of outstanding Student Fee Revenue Bonds, Series 1999 and \$8.61 million of Housing and Dining System Bonds, Series 2001A bonds with an average interest rate of 5.30%. The net proceeds of the refunding bonds were used to purchase U.S. government securities. These securities were deposited in an irrevocable trust to provide for all future debt service on the refunded bonds. As a result, the refunded bonds are considered to be defeased and the liability has been removed from the statement of net assets. This advance refunding was undertaken to reduce total debt service payments by \$686 thousand over the next 15 years and resulted in an economic gain of \$469 thousand. At June 30, 2007, the outstanding balance was \$2.12 million for the defeased Student Fee Revenue Bonds, Series 1999 and \$8.61 million for the Housing and Dining System Bonds, Series 2001A.

North Carolina Agricultural and Technical State University

On November 30, 2006, North Carolina Agricultural and Technical State University issued \$7.53 million in The University of North Carolina System Pool Revenue Bonds Series 2006B, refunding bonds with an average interest rate of 4.23%. The bonds were issued to advance refund \$7.91 million of the outstanding balance of University of North Carolina System Pool Revenue Bonds, Series 2000, with an average interest rate of 5.38%. The net proceeds of the refunding bonds, along with other resources, were used to purchase U.S. government securities. These securities were deposited in an irrevocable trust to provide for all future debt service on the refunded bonds. As a result, the refunded bonds are considered to be defeased and the liability has been removed from the statement of net assets. This advance refunding was undertaken to reduce total debt service payments by \$1.44 million over the next 28 years and resulted in an economic gain of \$290 thousand. At June 30, 2007, the outstanding principal balance was \$7.91 million for the defeased University of North Carolina System Pool Revenue Bonds, Series 2000 bonds.

Appalachian State University

On November 30, 2006, Appalachian State University (ASU) issued \$7.68 million in UNC System Pool Revenue Bonds, Series 2006A with an average interest rate of 4.81%. The bonds were issued to advance refund \$7.63 million of outstanding ASU General Revenue Bonds, Series 2003A with an average interest rate of 5.13%. The net proceeds of the refunding bonds were used to purchase U.S. government securities. These securities were deposited in an irrevocable trust to provide for all future debt service on the refunded bonds. As a result, the refunded bonds are considered to be defeased and the liability has been removed from the statement of net assets. This advance refunding was undertaken to reduce total debt service payments by \$473 thousand over the next fifteen years and resulted in an economic gain of \$230 thousand. At June 30, 2007, the outstanding balance was \$7.63 million for the defeased ASU General Revenue Bonds, Series 2003A.

State Education Assistance Authority

On August 8, 2006, the Authority issued \$194 million in 2006 Series Q Tax-Exempt Guaranteed Student Loan Revenue Bonds with an average interest rate of 3.67%. The refunding component of this issue was used for a current refunding of \$25 million of outstanding 1996 Series C Tax-Exempt Guaranteed Student Loan Revenue Bonds with an interest rate of 6.35%. The refunding was undertaken to reduce total debt service payments by \$6.09 million over the next 11 years and resulted in an economic gain of \$4.98 million.

NOTES TO THE FINANCIAL STATEMENTS**Prior Year Defeasances**

During prior years, the State and certain component units defeased certain general obligation and other bonds. For those defeasances involving advance refundings, the proceeds and any securities purchased with the proceeds were placed in an irrevocable trust with an escrow agent in an amount sufficient to provide for all future debt service payments on the refunded bonds. 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, 2007, the outstanding balance of prior year defeased bonds was \$926.4 million for the primary government and \$123.56 million for the University of North Carolina System (component unit).

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 12 years after the date of issue.

NOTES TO THE FINANCIAL STATEMENTS

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, 2007, total operating lease expenditures were \$68.1 million for Primary Government, \$36.53 million for the University of North Carolina System, and \$5.43 million for Community Colleges. Future minimum lease commitments for noncancelable operating leases and capital leases as of June 30, 2007 are as follows (dollars in thousands):

Fiscal Year	Operating Leases			Capital Leases		
	Primary Government	Component Units		Governmental Activities	Component Units	
		University of North Carolina System	Community Colleges		University of North Carolina System	Community Colleges
2008	\$ 49,584	\$ 18,702	\$ 4,247	\$ 1,132	\$ 14,334	\$ 802
2009	37,788	12,617	2,944	1,132	9,910	673
2010	26,402	9,319	2,339	1,151	8,935	623
2011	18,848	6,049	1,471	1,189	8,251	426
2012	12,220	3,429	833	1,214	7,490	290
2013 - 2017	22,205	7,865	741	6,779	36,040	290
2018 - 2022	11,077	4,942	110	7,911	34,683	—
2023 - 2027	8,082	1,298	110	5,510	33,596	—
2028 - 2032	8,082	75	110	—	32,695	—
2033 - 2037	8,082	83	—	—	29,229	—
2038 - 2042	8,082	50	—	—	2,419	—
2043 - 2047	8,082	24	—	—	—	—
2048 - 2052	8,082	24	—	—	—	—
2053 - 2057	—	24	—	—	—	—
Total Future Minimum Lease Payments.....	\$ 226,616	\$ 64,501	\$ 12,905	26,018	217,582	3,104
Less: Amounts Representing Interest				(278)	(80,400)	(430)
Present Value of Future Minimum Lease Payments				\$ 25,740	\$ 137,182	\$ 2,674

At June 30, 2007, 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.....	\$ 26,051	\$ 132,234	\$ 1,782
Machinery and Equipment.....	212	7,924	3,369
Other.....	—	695	43
Less: Accumulated Depreciation.....	—	(8,594)	(1,195)
Total Capital Assets.....	\$ 26,263	\$ 132,259	\$ 3,999

NOTES TO THE FINANCIAL STATEMENTS

NOTE 9: INTERFUND BALANCES AND TRANSFERS

A. Interfund Balances**Due To/From Fiduciary Funds**

The General Fund balance of \$46.057 million due to fiduciary funds is composed of \$12.732 million related to local sales taxes collected in the general fund and due to the agency fund, as well as \$33.325 million related to retirement contributions payable to retirement systems at year end. The Highway Fund balance of \$7.891 million due to fiduciary funds is all 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 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, 2007, consisted of the following (dollars in thousands):

	Due From Other Funds					Total
	General Fund	Highway Fund	Other Governmental Funds	Unemployment Compensation Fund	Internal Service Funds	
Due To Other Funds						
General Fund.....	\$ —	\$ —	\$ 2,527	\$ —	\$ 13,803	\$ 16,330
Highway Fund.....	—	—	5,174	—	2,127	7,301
Highway Trust Fund.....	—	41,255	—	—	—	41,255
Other Governmental Funds.....	156	—	22,512	174	1,204	24,046
Unemployment Compensation Fund....	—	—	16	—	—	16
EPA Revolving Loan Fund.....	—	—	—	—	28	28
NC State Lottery Fund.....	—	—	2,543	—	39	2,582
Nonmajor Enterprise Funds.....	—	—	1	—	44	45
Internal Service Funds.....	8	—	2	—	1,473	1,483
Total.....	\$ 164	\$ 41,255	\$ 32,775	\$ 174	\$ 18,718	\$ 93,086

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.

NOTES TO THE FINANCIAL STATEMENTS
B. Interfund Transfers

Transfers in/out of other funds for the fiscal year ended June 30, 2007 consisted of the following (dollars in thousands):

	Transfers In							Total
	General Fund	Highway Fund	Highway Trust Fund	Other Governmental Funds	EPA Revolving Loan Fund	Other Enterprise Funds	Internal Service Funds	
Transfers Out								
General Fund.....	\$ —	\$ 28,984	\$ 5,700	\$ 686,513	\$ 6,071	\$ 4,500	\$ 1,170	\$ 732,938
Highway Fund.....	48,448	—	—	228,829	—	—	—	277,277
Highway Trust Fund.....	58,340	48,393	—	—	—	—	—	106,733
Other Governmental Funds.....	467,804	—	—	439,689	4,442	149	1,130	913,214
Unemployment Compensation Fund	—	—	—	11,300	—	—	—	11,300
EPA Revolving Loan Fund.....	328	—	—	—	—	—	—	328
NC State Lottery Fund.....	13	—	—	315,354	—	—	—	315,367
Other Enterprise Funds.....	791	—	—	186	—	—	—	977
Internal Service Funds.....	265	—	—	—	—	—	49	314
Total.....	\$ 575,989	\$ 77,377	\$ 5,700	\$ 1,681,871	\$ 10,513	\$ 4,649	\$ 2,349	\$ 2,358,448

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

When the Highway Trust Fund was created in 1989, the revenue from the sales tax on motor vehicles was transferred from the General Fund to the Highway Trust Fund. To offset a portion of this revenue loss in the General Fund, the Highway Trust Fund is required to transfer funds to the General Fund each year. Senate Bill 1741 [Session Law 2006-66], reduced the amount transferred in fiscal year 2006-2007 to \$57.487 million, considerably less than the transfer requirement in prior years.

In compliance with the North Carolina State Lottery Act, House Bill 1023 [Session Law 2005], all "Net Revenues" of the NC State Lottery Fund are required to be transferred to the Education Lottery Fund (other governmental funds) for educational purposes. The total transfer for this fiscal year was \$314.354 million, as set forth in General Statute 18C-164. Since this was the first full year of operation the amount transferred was significantly greater than the prior year.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 10: FUND BALANCE RESERVES AND DESIGNATIONS

Reserved Fund Balance. The State's reserved fund balances represent those portions of the fund balances that are either (a) externally restricted for a specific use, (b) not available for appropriation or expenditure because the underlying asset is not an available financial resource for current appropriation or expenditure, or (c) for encumbrances, which represent commitments related to unperformed contracts for services and undelivered goods. The reserved fund balances at June 30, 2007, are (dollars in thousands):

	Governmental Funds				
	General Fund	Highway Fund	Highway Trust Fund	Other Governmental Funds	Total Governmental Funds
Specific encumbrances.....	\$ 46,779	\$ 14,478	\$ —	\$ —	\$ 61,257
Inventories.....	86,016	4,508	—	37,743	128,267
Investments.....	58	—	—	1,968	2,026
Permanent investments.....	—	—	—	64,646	64,646
Notes receivable.....	14,319	1,022	100	321,131	336,572
Compensated absences charged to federal projects....	—	36,387	—	—	36,387
Continuing programs.....	28,493	—	—	—	28,493
Capital projects.....	—	—	—	110,409	110,409
Advance to component unit.....	—	—	7,556	21,742	29,298
Loan and grant commitments.....	—	2,246	—	359,966	362,212
Other purposes.....	2,762	3,427	—	29,290	35,479
Total reserved fund balance.	<u>\$ 178,427</u>	<u>\$ 62,068</u>	<u>\$ 7,656</u>	<u>\$ 946,895</u>	<u>\$ 1,195,046</u>

Unreserved Designated Fund Balance. The State's unreserved fund balance designations in the General Fund represent tentative plans for use in a future period. The State's internal governing body (*General Assembly*) establishes restrictions on the use of these assets which are reported as fund balance designations. Fund balance designations in the General Fund are established based on the amount of reserves available as measured on the budgetary basis of accounting and authorized carryforwards for continuing General Fund programs. These designations totaled \$680.442 million at June 30, 2007. As shown in the table below, the fund balance available to be designated was a positive \$2.398 billion on a modified accrual basis at June 30, 2007 (dollars in thousands):

Unreserved Designated Fund Balance	General Fund
Disaster relief.....	\$ 114,041
Repairs and renovations.....	145,000
Higher education.....	57,924
Agriculture.....	42
Primary and secondary education.....	69,573
Economic development programs.....	43,295
General government programs.....	110,161
Health and human services programs.....	110,098
Public safety, corrections, and regulation programs.....	26,629
Environment and natural resources.....	3,679
Total designations.....	<u>\$ 680,442</u>
Unreserved fund balance.....	<u>\$ 2,398,484</u>

NOTES TO THE FINANCIAL STATEMENTS

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 Education Agencies (LEAs) not in the reporting entity. Membership is comprised of employees of state agencies and institutions, LEAs, universities and community colleges and certain proprietary component units. At June 30, 2007, the number of participating LEAs and component unit employers was 194 as shown below:

Local Education Agencies.....	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 fiscal year ended June 30, 2007, the State made the actuarially based required contribution of 2.66% of covered payroll. Benefit and contribution provisions are established by General Statutes 135-5 and 135-8 and may be amended only by the North Carolina General Assembly.

In addition to the actuarially based required contribution for this year, the State's General Fund contributed an additional \$30 million to help offset the actuarial impact caused by the underpayment of contributions in fiscal year 2001. The State's

total payments and pension costs are shown in *Section D* of this note. Required contributions and the percentage received from all employers can be found in the *Required Supplementary Information* section of this report.

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

2. CONSOLIDATED JUDICIAL RETIREMENT SYSTEM

This plan is a single-employer, defined benefit plan established by the State of North Carolina to provide pension benefits for employees of the State Judicial System. Membership is comprised of judges, district attorneys and clerks of court. The plan provides retirement, disability and death benefits. Benefits and administrative expenses are funded by member contributions of 6% of compensation, investment income, and by employer contributions. For the fiscal year ended June 30, 2007, the State made a statutory contribution of 12.59% of covered payroll. This was greater than the actuarially required contribution of 11.36%. The difference of 1.23% (\$706 thousand) was applied against the State's net pension obligation to this plan. Benefit and contribution provisions are established by General Statutes 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 fiscal year ended June 30, 2007, there was no actuarially based required contribution and none was made. Benefit and actuarially based contribution provisions are established by General Statutes 120-4.21, 120-4.19 and 120-4.20 and may be amended only by the North Carolina General Assembly.

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

NOTES TO THE FINANCIAL STATEMENTS*OTHER STATE ADMINISTERED SYSTEMS*

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

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

This plan is a defined benefit pension plan established by the State of North Carolina to provide pension benefits for all eligible firemen and rescue squad workers. Membership is composed of both volunteer and locally employed firemen and emergency medical personnel who elect membership. At June 30, 2007, there were 1,492 participating fire and rescue units. This is a special funding situation in that the State is not the employer but is legally obligated to contribute to the plan.

Benefits and administrative expenses are funded by a ten dollar monthly contribution by the member, investment income and an actuarially based state appropriation. Benefit and contribution provisions are established by General Statute 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 General Statute 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, 2007, there were 74 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 General Statute 161-50 and may be amended only by the North Carolina General Assembly.

NOTES TO THE FINANCIAL STATEMENTS

7. SHERIFFS' SUPPLEMENTAL PENSION FUND

This plan is 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, 2007, there were 88 sheriffs and one beneficiary enrolled in the plan with all 100 of the State's counties eligible to participate.

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

Receipts collected by each county's Clerk of Superior Court under General Statutes 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 fiscal year ended June 30, 2007, the Clerks remitted \$1.38 million. All benefit and contribution provisions are established by General Statute 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, 2007, the number of participating local governments was 926, as shown below:

Cities.....	428
Counties.....	100
Special districts.....	398

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. The annual required contribution (ARC) for all employers was 4.81% of covered payroll for law enforcement officers and 4.34% for general employees and firemen. Actual contributions were 5.27% of covered payroll for law enforcement officers and 4.80% for general employees and firemen. In addition, employers with an unfunded liability, 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 General Statutes 128-27 and 128-30 and may be amended only by the North Carolina General Assembly.

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

NOTES TO THE FINANCIAL STATEMENTS

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

Employee Groups	Teachers' and State Employees'	Judicial	Legislative	Firemen's and Rescue Squad	North Carolina National Guard	Registers of Deeds'	Local Governmental
	Retirees and beneficiaries currently receiving benefits	140,292	460	245	9,659	2,835	76
Terminated employees entitled to benefits but not yet receiving them	59,934	46	87	140	3,718	1	20,762
Active plan members	330,117	512	170	34,112	5,644	98	124,844
Total	530,343	1,018	502	43,911	12,197	175	186,180
Date of valuation	12-31-06	12-31-06	12-31-06	6-30-06	12-31-06	12-31-06	12-31-06

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, 2006 (June 30, 2006, 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* section of this report. The actuarial value of assets for all systems is based on a five-year smoothed market value. Under this method, realized and unrealized gains and losses on investments are smoothed over five years. Below are listed the various actuarial methods and significant assumptions for these valuations that will be used to determine future annual required contributions.

Retirement System	Valuation Date	Actuarial Cost Method	Amortization Method	Remaining Amortization Period	Period Open/Closed	Asset Valuation Method	Actuarial Assumptions	
							Investment Rate of Return	Projected Salary Increase
Teachers' and State Employees'	12/31/06	Entry age	Level dollar	9 years	Open	5 year smoothed	7.25%	4.50-16.10%
Consolidated Judicial	12/31/06	Projected unit credit	Level percentage	9 years	Open	5 year smoothed	7.25%	5.75-11.75%
Legislative	12/31/06	Projected unit credit	Level dollar	8 years	Open	5 year smoothed	7.25%	7.50%
Firemen's and Rescue Squad	6/30/06	Entry age	Level dollar	9 years	Open	5 year smoothed	7.25%	N/A
North Carolina National Guard	12/31/06	Entry age	Level dollar	9 years	Open	5 year smoothed	7.25%	N/A
Registers of Deeds'	12/31/06	Entry age	Level dollar	N/A	Open	5 year smoothed	7.25%	4.50-14.65%
Local Governmental Employees'	12/31/06	Frozen entry age	Level percentage	Various	Closed	5 year smoothed	7.25%	4.50-14.73%

N/A-Not applicable

NOTES TO THE FINANCIAL STATEMENTS

The valuations for the Teachers' and State Employees' system, Legislative system, and Consolidated Judicial system reflect a 2.2% cost of living increase for retirees in those systems. The Firemen's and Rescue Squad Workers' Fund increases retirement benefits by \$2 (from \$165 to \$167). The National Guard system increases basic benefits from \$80 to \$95 and total potential benefits from \$160 to \$190. The Local Governmental Employee's system reflects a 2.2% 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, 2007.

As of this valuation, the unfunded actuarial accrued liability for the Registers of Deeds' system, when amortized over 30 years is less than zero. 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, 2007, 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, 2004, the Legislative system was valued at December 31, 2005, and the Firemen's and Rescue Squad Worker's Fund was valued at June 30, 2005. These valuations used amortization periods of eight years for Legislative and nine years for all the other systems. Registers of Deeds' was valued at December 31, 2004, 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, 2007, retirees in the Local Governmental Employees' system received a 2.8% cost of living adjustment. The Teachers' and State Employees' system, Legislative Retirement system and the Consolidated Judicial system provided a 3% cost of living increase for retirees. The Firemen's and Rescue Squad Workers' Fund increased retirement benefits from \$163 to \$165. The National Guard system increased basic benefits from \$75 to \$80 and total potential benefits from \$150 to \$160. All of these benefit enhancements reflect legislation enacted by the North Carolina General Assembly effective July 1, 2006. These enhancements were either reflected as liabilities in the valuations described above, or paid for with the systems' 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.....	\$ 6,520	\$ —	\$ 8,440	\$ 7,327
Interest on net pension obligation.....	73	(1)	45	(34)
Adjustment to annual required contribution.....	(129)	4	(96)	68
Annual pension cost.....	6,464	3	8,389	7,361
Less: Contributions made.....	7,226	—	8,440	7,007
Increase (decrease) in net pension obligation.....	(762)	3	(51)	354
Net pension (asset) obligation beginning of year....	1,007	(17)	620	(454)
Net pension (asset) obligation end of year.....	\$ 245	\$ (14)	\$ 569	\$ (100)

NOTES TO THE FINANCIAL STATEMENTS

The following table presents the required three year trend of pension costs for the State's single-employer and special funding defined benefit plans and the 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, 2005 through June 30, 2007(dollars in thousands)

	<u>Teachers' and State Employees'</u>	<u>Judicial</u>	<u>Legislative</u>	<u>Firemen's and Rescue Squad</u>	<u>North Carolina National Guard</u>
Primary Government:					
2007 (A)	\$ 112,551	\$ 6,464	\$ 3	\$ 8,389	\$ 7,361
2006	66,873	6,371	4	7,870	5,974
2005	59,021	6,432	4	7,460	1,431
Component units:					
Universities:					
2007	\$ 44,089				
2006	35,445				
2005	31,037				
Community Colleges:					
2007	\$ 18,649				
2006	14,990				
2005	13,037				
Proprietary Funds:					
2007	\$ 570				
2006	481				
2005	410				
Total Primary Government and Component Units:					
2007	\$ 175,859	\$ 6,464	\$ 3	\$ 8,389	\$ 7,361
2006	117,789	6,371	4	7,870	5,974
2005	103,505	6,432	4	7,460	1,431
Percentage of APC Contributed:					
2007		112%	0%	101%	95%
2006		106%	0%	101%	101%
2005		101%	0%	101%	109%
Percentage of ARC Contributed:					
2007	100%				
2006	100%				
2005	100%				
Net Pension (Asset) Obligation:					
2007		\$ 245	\$ (14)	\$ 569	\$ (100)
2006		1,007	(17)	620	(454)
2005		1,368	(21)	676	(386)

(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.

NOTES TO THE FINANCIAL STATEMENTS**E. Optional Retirement Plan**

The Optional Retirement Program (Program) is a defined contribution retirement plan that provides retirement benefits with options for payments to beneficiaries in the event of the participant's death. Faculty and administrators with faculty rank in universities of the University of North Carolina System may join the Program instead of the Teachers' and State Employees' Retirement System. At June 30, 2007, the Plan had 12,048 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 General Statutes 135-5.1. Participants contribute 6% of compensation and the universities contributes 6.84%. There is no liability other than the universities' required contributions. The universities contributed \$ 75.05 million for the fiscal year ended June 30, 2007. Annual covered payroll was \$1.10 billion and employer contributions expressed as a percentage of annual covered payroll were the required 6.84% for the fiscal year ended June 30, 2007. Employee contributions expressed as a percentage of annual covered payroll were the required 6%, with actual employee contributions of \$65.84 million for the fiscal year ended June 30, 2007.

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 General Statutes 135-1(11b) or General Statutes 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 General Statutes 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, 2007, the State and its component units paid \$12.46 million for 898 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 General Statute 143-166.41 and may be amended only by the General Assembly.

NOTES TO THE FINANCIAL STATEMENTS

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 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 (IRC) 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 State Treasurer at 325 North Salisbury Street, Raleigh, NC 27603-1385.

IRC Section 401(k) Plan - Effective January 1, 1985, Chapter 135, Article 5 of the General Statutes authorized the creation of the Supplemental Retirement Income Plan of North Carolina (the Plan) in accordance with Internal Revenue Code (IRC) 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 and retirement and pension plans sponsored by political subdivisions of the State that qualify under Section 401(a) of the IRC are eligible to enroll in the Plan and may contribute up to 80% (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 contractor prepares financial statements based on the Plan's fiscal year. The unaudited statements for the year ended December 31, 2006, 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 Supplemental Retirement Income Plan of North Carolina, 150 Fayetteville Street Mall, Suite 1340, Raleigh, NC 27601.

In addition to the voluntary contribution criteria above, General Statute 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. General Statute 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 General Statute 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 provisions define the actual voluntary contribution a law enforcement officer can make. All contributions are immediately vested in the name of each participant. At December 31, 2006, 50 state agencies and component units along with 462 local governmental units outside our reporting entity contributed the required 5%. In addition, 4 state agencies and 418 local government employers contributed to the Plan on a voluntary basis.

At December 31, 2006, the Plan disclosed the following investments (at fair value) exceeding 5% of the Plan's net assets (in thousands):

Van Kampen Growth and Equity A.....	\$737,434
Vanguard Equity Index.....	652,483
Growth Fund of America.....	507,864
Fidelity Intermediate Bond Fund	245,517
Van Kampen Equity Income A.....	253,791

In addition, the Plan owned \$987.01 million of Prudential's Stable Value Fund. This investment exceeded 5% of net assets and is disclosed as a related party transaction because the Prudential Insurance Company is the Plan's contractor. The Plan's remaining investment risks are described in Note 3. The Plan also reported total member contributions of \$233.83 million. The payrolls for law enforcement officers, on which the required contributions were based for the year ended December 31, 2006, amounted to \$153.9 million for the State, \$18.5 million for universities, and \$2.2 million for community colleges and other miscellaneous component units. The required 5% employer's contribution was made by the State for \$7.7 million, by universities for \$926.4 thousand, and by the remaining component units and community colleges for \$109 thousand. In addition, the State contributed \$554 thousand for required court cost assessments.

NOTES TO THE FINANCIAL STATEMENTS

IRC Section 403(b) Plans - Employees of the UNC System and community colleges can participate in tax-sheltered annuity contracts and custodial accounts created under Internal Revenue Code (IRC) Section 403(b). Generally all employees are eligible, but the IRC does allow the establishment of a minimum contribution of \$200 and the exclusion from participation of certain classes of employees. Each institution may exclude one or more of these classes if every employee within the institution meeting the class criteria is excluded from participation. The employees' eligible contributions, made through salary reduction agreements, are exempt from federal and state income taxes until the accumulated balances are received or the contributions are withdrawn. Effective January 1,

1989, contributions may be withdrawn by employees only upon separation from service, death, disability, reaching age 59 1/2 or age 55 with qualifying retirement, or due to certain financial hardships. Currently, there is no restriction on the withdrawal of the value of annuity contracts. Custodial accounts established as of December 31, 1988 can be withdrawn only in respect to hardship established as of December 31, 1988. These plans are exclusively for employees of public educational organizations and certain charitable and other non-profit institutions as defined by the IRC. Since all contributions are made voluntarily by employees, all costs are borne by the plans' participants. No direct costs are incurred by the State.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 13: OTHER POSTEMPLOYMENT BENEFITS

The State administers two postemployment benefit plans, the Retiree Health Benefit Fund and the Disability Income Plan, as pension and other employee benefit trust funds. 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 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. The financial statements and other required disclosures are presented in Note 15 and in the *Required Supplementary Information* section of this *CAFR*.

A. 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. Employer contributions are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits 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 other postemployment benefits funds. The State Treasurer maintains various investment portfolios in its Investment Pool. Investments are reported at fair value, which is based on quoted market prices. The investment balance of the Disability Income Plan represents its share of the fair value of the net assets of the various portfolios within the pool. The Retiree Health Benefit Fund currently does not have investments.

Additionally, the securities lending balance represents assets occurring from securities lending transactions that result from the funds' participation in the pool. The investments of the State Treasurer and securities lending are fully discussed in Note 3.

B. Plan Descriptions and Contribution Information

1. HEALTH BENEFITS

Pursuant to North Carolina General Statutes, the State makes available a Comprehensive Major Medical Plan (the Plan), a cost-sharing multiple-employer defined benefit healthcare plan, exclusively for the benefit of employees and former employees of the State, the University of North Carolina System, community colleges, certain other component units, and Local Education Agencies that are not part of the financial reporting entity. At June 30, 2007, 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

The Plan, (also referred to as the State Health Plan) is reported as an employee benefit trust fund. It is administered by the Executive Administrator and Board of Trustees of the Plan, which establishes premium rates except as may be established by the General Assembly in an appropriation act. Plan benefits received by retired employees and disabled employees are other post employment benefits (OPEB). The healthcare benefits for retired and disabled employees are the same as for active employees as described in Note 14, except that the coverage becomes secondary when former employees become eligible for Medicare.

Those former employees who are eligible to receive medical benefits 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 their retirement system prior to disability or retirement, with the following exceptions. For employees first hired on and after October 1, 2006, and members of the General Assembly first taking office on or after February 1, 2007, future coverage as retired employees and retired members of the General Assembly is subject to the requirement that the future retiree have 20 or more years of retirement service credit in order to receive coverage on a noncontributory basis. Employees first hired on and after October 1, 2006 and members of the General Assembly first taking office on or after February 1, 2007 with 10 but less than 20 years of retirement service credit are eligible for coverage on a partially contributory basis. For such future retirees, the State will pay 50% of the State Health Plan's total noncontributory premium. There is no impact of this legislation in the current fiscal year.

The Plan's benefit and contribution provisions are established by Chapter 135-7, Article 1, and Chapter 135, Article 3 of the General Statutes and may be amended only by the North Carolina General Assembly. The plan does not provide for automatic post-retirement benefit increases.

By General Statute, a Retiree Health Benefit Fund (the Fund) has been established as a fund in which accumulated contributions from employers and any earnings on those contributions shall be used to provide health benefits to retired and disabled employees and their applicable beneficiaries. By statute, the Fund is administered by the Board of Trustees Teachers' and State Employees' Retirement System and

NOTES TO THE FINANCIAL STATEMENTS

contributions to the Fund are irrevocable. Also by law, Fund assets are dedicated to providing benefits to retired and disabled employees and their applicable beneficiaries and are not subject to the claims of creditors of the employers making contributions to the Fund. Contribution rates to the Fund, which are intended to finance benefits and administrative expenses on a pay-as-you-go basis, are determined by the General Assembly in the Appropriations Bill. For the current fiscal year, legislation mandated employer contributions of \$518.129 million or 3.8% of active employee salaries to the Fund, and the Fund paid premiums totaling \$436.748 million to the Plan. The Fund is reported as an employee benefit trust fund.

2. *DISABILITY INCOME*

As discussed in Note 14, short-term and long-term disability benefits are provided through the Disability Income Plan of North Carolina (DIPNC), a cost-sharing, multiple-employer defined benefit plan, 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. 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 96 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. Effective August 1, 2005, employees that have not yet vested in the long-term disability plan will have to comply with revised standards to determine long-term disability.

Although the DIPNC operates on a calendar year, disability income benefits are funded by actuarially determined 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, 2007, the employers made a statutory contribution of .52% of covered payroll. This was greater than the actuarially required contribution of .51%.

The contributions cannot be separated between the amounts that relate to other postemployment benefits and employment benefits for active employees. 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.

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

The plan does not provide for automatic post-retirement benefit increases.

NOTES TO THE FINANCIAL STATEMENTS

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

Employee Groups	<u>Retiree Health Benefit</u>	<u>Disability Income</u>
Retirees and beneficiaries currently receiving benefits	148,795	n/a
Disabled members receiving long term disability benefits	n/a	5,743
Terminated employees entitled to benefits but not yet receiving them	27,825	-
Active plan members	<u>333,404</u>	<u>343,086</u>
Total	<u>510,024</u>	<u>348,829</u>
Date of valuation	12/31/05	12/31/06

The funded status of each plan as of the most recent actuarial valuation date is as follows (dollars in thousands):

	Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c) (3)	UAAL as a Percentage of Covered Payroll ([b-a]/c)
Retiree Health (1)	12/31/05	\$ 139,175	\$ 23,925,139	\$ 23,785,964	0.6%	\$ 12,359,975	192.4%
Disability Income (2)	12/31/06	\$ 302,632	\$ 459,284	\$ 156,652	65.9%	\$ 12,736,915	1.2%

(1) The AAL has been prepared using the projected unit credit cost method.

(2) The AAL has been prepared using the entry age actuarial cost method. The information presented is intended to approximate the funding progress of the plan as required by GASB Statements 43 and 45.

(3) Buck Consulting reported the unadjusted covered payroll for the DIPNC long-term disability benefits.

Aon Consulting reported the adjusted, annualized payroll for postemployment health benefits.

C. Actuarial Methods and Assumptions

Actuarial valuations of the plans involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future. The latest actuarial valuation for Retiree Health is dated December 31, 2005. The latest actuarial valuation for DIPNC is dated December 31, 2006. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, present multiyear trend information about whether the actuarial values of plan assets are increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

The actuarial assumptions used for the Retiree Health Benefit are consistent with those used to value the pension benefits of the TSERS where appropriate. These assumptions

are based on the experience investigation prepared as of December 31, 2004 and adopted beginning with the December 31, 2005 pension valuation. The discount rate used for Retiree Health reflects a pay-as-you-go approach.

Projections of benefits for financial reporting purposes of the plans are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. Historically, the benefits funded solely by employer contributions applied equally to all retirees. Currently, as described earlier in the note, benefits are dependent on membership requirements. The actuarial methods and assumptions used for DIPNC include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

NOTES TO THE FINANCIAL STATEMENTS

Below are listed the actuarial methods and significant assumptions for these valuations that will be used to determine future annual required contributions.

	Retiree Health Benefit	Disability Income
Valuation Date	12/31/05	12/31/06
Actuarial Cost Method	Projected Unit Credit	Aggregate
Amortization Method	Level percent of pay	Level percent of pay
Remaining Amortization Period	30 years	(1)
Period Open/Closed	Open	Open
Asset Valuation Method	Market Value of Assets	5 year smoothed
Actuarial Assumptions:		
Investment Rate of Return (2)	4.25%	7.25%
Healthcare Cost Trend Rate (2) (3)	11% initial 5% ultimate	N/A
Projected Salary Increases	4.5%-14.73%	4.5%-16.1%

(1) The aggregate cost method does not identify or separately amortize unfunded liabilities, thus information about the plan's funded status and funding progress has been prepared using the entry age actuarial cost method. The information presented is intended to approximate the funding progress of the plan.

(2) Includes inflation at 3.75%.

(3) Trend rates apply to both Medicare eligible and pre-Medicare-eligible members.

N/A Not Applicable

NOTES TO THE FINANCIAL STATEMENTS

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 property investments 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 General Statute 115D-58.11(c). The board of each LEA and the board of trustees of each community college are required to insure not less than seventy-five percent (75%) of the current value for each insurable building. Additionally, the boards are to insure adequately the equipment and contents of buildings. The Fund is financed by premiums collected from the LEAs and the community colleges and interest is 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 Fund a detailed list of all school buildings, contents and other insurable school property. While policies remain in effect, the Fund shall act as insurer of the properties covered by such insurance. The Fund currently insures 98 out of 115 LEAs and 28 out of 58 community colleges.

Claim liabilities are based on estimates of the ultimate cost of losses that have been reported but not settled. There are no salvage claims 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	
	2007	2006
Unpaid claims at beginning of year ...	\$ 796	\$ 1,229
Incurred claims:		
Provision for insured events		
of the current year	14,961	3,273
Increases (decreases) in provision		
for insured events of prior years	(46)	(177)
Total incurred claims	14,915	3,096
Payments:		
Claims attributable to insured		
events of the current year	15,285	2,326
Claims attributable to insured		
events of the prior years	(3,304)	1,203
Total payments	11,981	3,529
Total unpaid claims at end		
of the year	\$ 3,730	\$ 796

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 \$45.5 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 is provided under separate contract underwritten by the Fund. Incurred losses are reduced by estimated amounts recoverable under the Fund's reinsurance policies. Currently, there is one claim for reinsurance, resulting from the East Guilford High School fire loss that occurred November 1, 2006.

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

NOTES TO THE FINANCIAL STATEMENTS

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 for the indemnity plan but an unlimited benefit is provided for the Preferred Provider Organization (PPO) plans. The authority for the PPO plans is provided in General Statute 135-39.5B.

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
2005-06	\$ 231,963	\$ 1,698,407	\$ (1,759,906)	\$ 170,464
2006-07	170,465	1,981,126	(1,961,948)	189,643

2. Death Benefit Plan of North Carolina

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

For the period July 1, 2006 to June 30, 2007, death benefits were funded by actuarially based employer contributions that are established in the biennial appropriation bill by the General Assembly. The State, the University of North Carolina system, community colleges, and certain participating proprietary component units and LEAs contributed .16% of active employees' salaries to fund the Death Benefit Plan for the period July 2006 to June 2007.

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
2005-06	\$ 2,268	\$ 26,412	\$ (25,931)	\$ 2,747
2006-07	2,747	39,593	(38,740)	3,600

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.

NOTES TO THE FINANCIAL STATEMENTS
C. Other Risk Management and Insurance Activities
1. Automobile, Fire and Other Property Losses

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

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

The State Property Fire Insurance Fund (the Fund), an internal service fund of the State, was created by Chapter 58, Article 31, of the General Statutes. The Fund insures State owned buildings and contents for fire, extended coverage, and other property losses. The Fund does not charge premiums for fire insurance for 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, 2007 are disclosed on the balance sheet as claims payable. The 2006 fiscal year activity was restated for prior period adjustments made because of additional automobile claims payable at June 30, 2006. 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
2005-06	\$ 7,216	\$ 1,242	\$ (1,863)	\$ 6,595
2006-07	6,595	1,133	(1,215)	6,513

NOTES TO THE FINANCIAL STATEMENTS

2. Medical Malpractice Protection**a. Professional Liability Insurance for State Medical Personnel**

All agencies of the State and participating component units are insured for tort claims up to \$500,000 under the authority of the State Tort Claims Act, Chapter 143, Article 31, of the General Statutes. Organizations within the reporting entity carry excess commercial liability insurance to supplement the coverage provided by the State Tort Claims Act; however, claims involving medical malpractice are generally excluded from this coverage. The University of North Carolina at Chapel Hill Medical School 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.

For the period July 1, 2006 through June 30, 2007, the Trust Fund provided coverage on an occurrence basis of \$3 million per individual and \$7 million in the aggregate per claim. At July 1, 2006 through June 30, 2007, the Trust Fund provided coverage on an occurrence basis of \$7 million per individual for each and every claim, self-insured through the Trust Fund. Reinsurance coverage carries a \$10 million aggregate limit in excess of a self-insured aggregate of \$33 million subject to a \$7 million per occurrence limit (sub-limit of \$3 million per individual) with a \$200,000 continuing underlying amount per claim. Excess of loss coverage is also in place at various levels for prior periods. Excess reinsurance coverage was not purchased for the policy year ended June 30, 2007, as the Trust Fund chose to retain 100% of the liability. In lieu of reinsurance, the participants contributed \$10 million in the aggregate toward the Reimbursement Fund for future losses.

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 council believes adequate funds are on deposit in the Trust Fund to meet estimated losses based upon the results of the independent actuary's report.

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 \$52.230 million and \$50.678 million are the present values of the aggregate actuarially determined claims liabilities of \$55.30 million and \$53.09 million, discounted at 5% at June 30, 2006 and June 30, 2007. 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
2005-06	\$ 48,178	\$ 10,453	\$ (6,401)	\$ 52,230
2006-07	52,230	9,025	(10,577)	50,678

NOTES TO THE FINANCIAL STATEMENTS

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, 2007, workers' compensation costs were recognized as follows (dollars in thousands):

Primary government	\$ 82,683
University of North Carolina System	8,217
All other component units	1
Total	<u>\$ 90,901</u>

NOTES TO THE FINANCIAL STATEMENTS

6. Workers' Compensation Fund

The Workers' Compensation Fund (the Fund) is an insurance enterprise reported within the enterprise funds. The Fund is created in the Department of Insurance (the Department) and is administered by the State Fire and Rescue Commission (the Commission) through a service contract with a third-party administrator. In accordance with Chapter 58, Article 87, of the General Statutes, the purpose of the Statewide Workers' Compensation Program (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 General Statute 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, 2007 was \$4.5 million. As of June 30, 2007, the Fund consisted of 1,254 eligible units representing approximately 43,829 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, 2007, 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 \$1.5 million 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, 2007, there are claims recoverable from reinsurers in the amount of \$867,062.

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
2005-06	\$ 10,114	\$ 6,715	\$ (5,656)	\$ 11,173
2006-07	11,173	5,002	(5,303)	10,872

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, 2007, \$50.21 million 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 114,247 children as of June 30, 2007, and an average enrollment of 109,623 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
2005-06	\$ 32,353	\$ 223,718	\$ (235,070)	\$ 21,001
2006-07	21,001	181,611	(180,449)	22,163

NOTES TO THE FINANCIAL STATEMENTS

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, 2007 are presented below.

COMBINING STATEMENT OF PLAN NET ASSETS

June 30, 2007

(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.....	\$ 49,501	\$ 2,209	\$ 100	\$ 1,028	\$ 1,342	\$ 21,214	\$ 27
Investments:							
Annuity contracts.....	—	—	—	—	—	—	987,010
Mutual funds.....	—	—	—	—	—	—	2,897,888
State Treasurer investment pool.....	57,663,713	448,203	32,965	335,685	74,105	17,398,662	—
Securities lending collateral.....	11,301,450	89,273	6,514	66,378	15,575	3,417,494	—
Receivables:							
Accounts receivable.....	2,808	—	—	—	—	2,585	—
Intergovernmental receivable.....	—	—	—	—	—	—	—
Interest receivable.....	956	13	—	9	6	208	—
Contributions receivable.....	48,144	—	21	—	—	35,983	12,061
Due from other funds.....	26,634	909	—	—	—	—	—
Notes receivable.....	—	—	—	—	—	—	171,810
Capital assets-depreciable, net.....	—	—	—	—	—	—	—
Total Assets.....	<u>69,093,206</u>	<u>540,607</u>	<u>39,600</u>	<u>403,100</u>	<u>91,028</u>	<u>20,876,146</u>	<u>4,068,796</u>
Liabilities							
Accounts payable and accrued liabilities:							
Accounts payable.....	—	—	—	3	—	—	—
Benefits payable.....	5,868	—	—	—	13	319	—
Medical claims payable.....	—	—	—	—	—	—	—
Obligations under securities lending.....	11,301,450	89,273	6,514	66,378	15,575	3,417,494	—
Due to other funds.....	—	—	—	—	—	—	—
Unearned revenue.....	—	—	—	—	—	—	—
Compensated absences.....	—	—	—	—	—	—	—
Total Liabilities.....	<u>11,307,318</u>	<u>89,273</u>	<u>6,514</u>	<u>66,381</u>	<u>15,588</u>	<u>3,417,813</u>	<u>—</u>
Net Assets							
Held in trust for:							
Employees' pension and other benefits.....	57,785,888	451,334	33,086	336,719	75,440	17,458,333	4,068,796
Total Net Assets.....	<u>\$ 57,785,888</u>	<u>\$ 451,334</u>	<u>\$ 33,086</u>	<u>\$ 336,719</u>	<u>\$ 75,440</u>	<u>\$ 17,458,333</u>	<u>\$ 4,068,796</u>

A schedule of funding progress for each defined benefit plan is presented on page 168.

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
\$ 2,957	\$ 6,567	\$ 156,705	\$ 232,390	\$ 6,085	\$ 1,737	\$ 415	\$ 482,277
31,895	—	—	—	—	—	—	1,018,905
679,231	—	—	—	—	—	—	3,577,119
—	246,232	—	—	274,918	—	31,600	76,506,083
—	145,493	140,238	192,720	161,420	1,440	18,316	15,556,311
5,788	45	43,965	—	8,169	—	—	63,360
—	—	16,085	—	—	—	—	16,085
—	32	830	934	38	7	1	3,034
2,222	1,183	—	25,670	3,509	—	284	129,077
—	460	—	11,645	1,568	—	—	41,216
—	—	—	—	—	—	—	171,810
—	—	127	—	—	—	—	127
<u>722,093</u>	<u>400,012</u>	<u>357,950</u>	<u>463,359</u>	<u>455,707</u>	<u>3,184</u>	<u>50,616</u>	<u>97,565,404</u>
239	150	12,149	—	—	—	—	12,541
—	3,600	—	—	191	—	—	9,991
—	—	189,643	—	—	—	—	189,643
—	145,493	140,238	192,720	161,420	1,440	18,316	15,556,311
—	—	11	—	—	—	—	11
—	—	3,493	—	—	—	—	3,493
—	—	162	—	—	—	—	162
<u>239</u>	<u>149,243</u>	<u>345,696</u>	<u>192,720</u>	<u>161,611</u>	<u>1,440</u>	<u>18,316</u>	<u>15,772,152</u>
<u>721,854</u>	<u>250,769</u>	<u>12,254</u>	<u>270,639</u>	<u>294,096</u>	<u>1,744</u>	<u>32,300</u>	<u>81,793,252</u>
<u>\$ 721,854</u>	<u>\$ 250,769</u>	<u>\$ 12,254</u>	<u>\$ 270,639</u>	<u>\$ 294,096</u>	<u>\$ 1,744</u>	<u>\$ 32,300</u>	<u>\$81,793,252</u>

NOTES TO THE FINANCIAL STATEMENTS

COMBINING STATEMENT OF CHANGES IN PLAN NET ASSETS

For the Fiscal Year Ended June 30, 2007

(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.....	\$ 371,476	\$ 8,090	\$ —	\$ —	\$ —	\$ 241,094	\$ 149,460
Members.....	777,300	4,442	260	2,785	—	294,060	233,833
Other contributions.....	—	—	—	8,440	7,007	—	—
Total contributions.....	<u>1,148,776</u>	<u>12,532</u>	<u>260</u>	<u>11,225</u>	<u>7,007</u>	<u>535,154</u>	<u>383,293</u>
Investment Income:							
Investment earnings (loss).....	8,140,435	63,342	4,705	47,469	10,199	2,429,190	382,313
Less investment expenses.....	(545,761)	(4,296)	(317)	(3,271)	(738)	(162,748)	—
Net investment income (loss).....	<u>7,594,674</u>	<u>59,046</u>	<u>4,388</u>	<u>44,198</u>	<u>9,461</u>	<u>2,266,442</u>	<u>382,313</u>
Other additions:							
Fees, licenses and fines.....	—	—	—	—	—	4,962	—
Interest earnings on loans.....	—	—	—	—	—	—	10,390
Miscellaneous.....	2,406	2	—	8	—	59	—
Total other additions.....	<u>2,406</u>	<u>2</u>	<u>—</u>	<u>8</u>	<u>—</u>	<u>5,021</u>	<u>10,390</u>
Total additions.....	<u>8,745,856</u>	<u>71,580</u>	<u>4,648</u>	<u>55,431</u>	<u>16,468</u>	<u>2,806,617</u>	<u>775,996</u>
Deductions:							
Claims and benefits.....	2,717,868	24,192	1,750	19,912	4,358	643,257	192,790
Medical insurance premiums.....	—	—	—	—	—	—	—
Refund of contributions.....	80,973	—	2	596	—	55,486	—
Administrative expenses.....	12,367	42	12	1,003	64	4,349	1,040
Other deductions.....	14	—	—	—	—	—	—
Total deductions.....	<u>2,811,222</u>	<u>24,234</u>	<u>1,764</u>	<u>21,511</u>	<u>4,422</u>	<u>703,092</u>	<u>193,830</u>
Change in net assets.....	<u>5,934,634</u>	<u>47,346</u>	<u>2,884</u>	<u>33,920</u>	<u>12,046</u>	<u>2,103,525</u>	<u>582,166</u>
Net assets — July 1, as restated (Note 22)....	51,851,254	403,988	30,202	302,799	63,394	15,354,808	3,486,630
Net assets — June 30.....	<u>\$ 57,785,888</u>	<u>\$ 451,334</u>	<u>\$ 33,086</u>	<u>\$ 336,719</u>	<u>\$ 75,440</u>	<u>\$ 17,458,333</u>	<u>\$ 4,068,796</u>

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
\$ —	\$ 24,594	\$ 1,913,605	\$ 528,401	\$ 71,975	\$ 1,378	\$ 3,150	\$ 3,313,223
41,173	—	60,049	—	—	—	—	1,413,902
—	10,243	32,084	—	—	—	—	57,774
41,173	34,837	2,005,738	528,401	71,975	1,378	3,150	4,784,899
60,381	20,310	23,984	15,884	21,961	140	2,377	11,222,690
—	(4,805)	(11,834)	(7,837)	(5,312)	(69)	(568)	(747,556)
60,381	15,505	12,150	8,047	16,649	71	1,809	10,475,134
—	—	—	—	—	—	—	4,962
—	—	—	—	—	—	—	10,390
—	—	5	—	—	—	—	2,480
—	—	5	—	—	—	—	17,832
101,554	50,342	2,017,893	536,448	88,624	1,449	4,959	15,277,865
41,653	39,593	1,981,126	—	66,247	991	793	5,734,530
—	253	—	436,748	—	—	—	437,001
—	—	—	—	—	—	—	137,057
2,258	358	116,004	186	542	96	25	138,346
—	—	236	—	—	—	—	250
43,911	40,204	2,097,366	436,934	66,789	1,087	818	6,447,184
57,643	10,138	(79,473)	99,514	21,835	362	4,141	8,830,681
664,211	240,631	91,727	171,125	272,261	1,382	28,159	72,962,571
\$ 721,854	\$ 250,769	\$ 12,254	\$ 270,639	\$ 294,096	\$ 1,744	\$ 32,300	\$ 81,793,252

NOTES TO THE FINANCIAL STATEMENTS

NOTE 16: SEGMENT INFORMATION

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 two segments of the North Carolina Housing Finance Agency as of and for the fiscal year ended June 30, 2007 are presented below (dollars in thousands).

	N.C. Housing Finance Agency	
	Home	
	Ownership	Rental
Condensed Statement of Net Assets		
Assets:		
Current assets.....	\$ 60,400	\$ 7,791
Noncurrent assets.....	1,692,472	123,719
Total assets.....	<u>1,752,872</u>	<u>131,510</u>
Liabilities:		
Current liabilities.....	192,144	4,313
Noncurrent liabilities.....	1,379,382	78,237
Total liabilities.....	<u>1,571,526</u>	<u>82,550</u>
Net assets:		
Restricted.....	181,346	48,960
Total net assets.....	<u>\$ 181,346</u>	<u>\$ 48,960</u>
Condensed Statement of Revenues, Expenses, and Changes in Net Assets		
Operating revenues (pledged against bonds).....	\$ 91,273	\$ 8,316
Operating expenses.....	(77,071)	(5,402)
Operating income.....	14,202	2,914
Transfers out.....	(1,538)	(1,223)
Change in net assets.....	12,664	1,691
Net assets — July 1.....	168,682	47,269
Net assets — June 30.....	<u>\$ 181,346</u>	<u>\$ 48,960</u>
Condensed Statement of Cash Flows		
Net cash provided (used) by:		
Operating activities.....	\$ (102,029)	\$ 20,378
Noncapital financing activities.....	33,120	(19,574)
Investing activities.....	56,522	(5,029)
Net increase (decrease).....	(12,387)	(4,225)
Cash and cash equivalents at July 1.....	55,996	11,202
Cash and cash equivalents at June 30.....	<u>\$ 43,609</u>	<u>\$ 6,977</u>

NOTES TO THE FINANCIAL STATEMENTS

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, 2007 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.....	\$ 3,008	\$ 1,319,164	\$ 125,160	\$ 771	\$ 42,932	\$ 19,458	\$ 1,510,493
Investments.....	715,769	2,149,662	58,465	5,615	39,017	14,275	2,982,803
Receivables, net.....	3	714,305	77,972	21,544	77,943	13,530	905,297
Due from component units.....	—	33,613	3,644	—	1,750	170	39,177
Due from primary government.....	—	1,786	—	41,393	24,715	—	67,894
Inventories.....	—	66,307	15,113	—	10	812	82,242
Prepaid items.....	27	14,178	1,485	—	938	759	17,387
Notes receivable, net.....	—	172,964	487	1,388,410	2,793,479	13,257	4,368,597
Investment in joint venture.....	—	8,319	—	—	—	—	8,319
Deferred charges.....	—	13,265	—	—	14,316	808	28,389
Restricted/designated cash and cash equiv.....	—	1,065,028	64,266	123,737	346,955	34,769	1,634,755
Restricted investments.....	—	2,470,296	123,974	515,760	628,359	2,945	3,741,334
Restricted due from primary government.....	—	228,249	153,255	—	—	—	381,504
Capital assets-nondepreciable.....	1,056	1,498,447	270,796	101	—	134,507	1,904,907
Capital assets-depreciable, net.....	273	6,120,880	1,404,060	2,354	7,740	266,441	7,801,748
Total Assets.....	720,136	15,876,463	2,298,677	2,099,685	3,978,154	501,731	25,474,846
Liabilities							
Accounts payable and accrued liabilities.....	30,780	498,066	42,397	8,905	572	13,779	594,499
Medical claims payable.....	—	2,587	—	—	—	—	2,587
Interest payable.....	—	27,563	2	16,119	32,203	97	75,984
Short-term debt.....	—	279,584	—	—	—	—	279,584
Due to component units.....	39,177	—	—	—	—	—	39,177
Due to primary government.....	1,279	1,106	32	—	—	11,654	14,071
Unearned revenue.....	—	143,945	16,753	874	—	1,182	162,754
Advance from primary government.....	—	—	—	—	—	29,298	29,298
Deposits payable.....	—	9,120	—	3,169	—	171	12,460
Funds held for others.....	—	688,387	3,941	—	336,466	149	1,028,943
Long-term liabilities:							
Due within one year.....	—	301,529	9,279	179,953	506,937	2,660	1,000,358
Due in more than one year.....	—	2,718,747	74,575	1,458,329	2,472,698	85,597	6,809,946
Total Liabilities.....	71,236	4,670,634	146,979	1,667,349	3,348,876	144,587	10,049,661
Net Assets							
Invested in capital assets, net of related debt....	1,329	4,988,129	1,659,284	2,455	7,740	294,388	6,953,325
Restricted for:							
Nonexpendable:							
Higher education.....	—	1,184,894	106,180	—	—	—	1,291,074
Expendable:							
Higher education.....	—	2,898,650	286,805	—	573,754	—	3,759,209
Health and human services.....	—	—	—	—	—	4,871	4,871
Economic development.....	—	—	—	417,733	—	34,662	452,395
Unrestricted.....	647,571	2,134,156	99,429	12,148	47,784	23,223	2,964,311
Total Net Assets.....	\$ 648,900	\$ 11,205,829	\$ 2,151,698	\$ 432,336	\$ 629,278	\$ 357,144	\$ 15,425,185

NOTES TO THE FINANCIAL STATEMENTS

Statement of Activities

	University		N.C.		State		Total
	of North		Housing		Education		
	The Golden	Carolina	Community	Finance	Assistance	Other	
	LEAF, Inc.	System	Colleges	Agency	Authority	Units	
Total expenses.....	\$ 34,644	\$ 7,281,729	\$ 1,590,634	\$ 273,974	\$ 321,257	\$ 210,793	\$ 9,713,031
Program revenues:							
Charges for services.....	6	4,294,352	249,576	261,993	205,973	56,131	5,068,031
Operating grants and contributions.....	101,470	1,225,603	473,449	25,859	86,341	6,558	1,919,280
Capital grants and contributions:							
State capital aid.....	—	785,699	211,495	—	—	24,239	1,021,433
Other capital grants and contributions.....	—	51,692	84,947	—	—	3,603	140,242
Net program (expense) revenue.....	66,832	(924,383)	(571,167)	13,878	(28,943)	(120,262)	(1,564,045)
Non-tax general revenues:							
State operating aid.....	71,412	2,419,596	815,895	22,188	98,394	135,560	3,563,045
Miscellaneous.....	1	5,619	—	—	—	283	5,903
Total non-tax general revenues.....	71,413	2,425,215	815,895	22,188	98,394	135,843	3,568,948
Contributions to endowments.....	—	91,007	11,245	—	—	—	102,252
Change in net assets.....	138,245	1,591,839	255,973	36,066	69,451	15,581	2,107,155
Net assets — July 1, as restated (Note 22).....	510,655	9,613,990	1,895,725	396,270	559,827	341,563	13,318,030
Net assets — June 30.....	\$ 648,900	\$ 11,205,829	\$ 2,151,698	\$ 432,336	\$ 629,278	\$ 357,144	\$ 15,425,185

Significant Balances and Transactions Between Component Units

	University		N.C.		State		Total
	of North		Housing		Education		
	The Golden	Carolina	Community	Finance	Assistance	Other	
	LEAF, Inc.	System	Colleges	Agency	Authority	Units	
The Golden LEAF, Inc.:							
Due from (due to) component units.....	\$ (39,177)	\$ 33,613	\$ 3,644	\$ —	\$ 1,750	\$ 170	\$ —
Grant revenue (expense).....	(13,614)	9,252	2,622	—	1,740	—	—
UNC System operating aid.....	—	(35,572)	—	—	35,572	—	—

Advances To Component Units/Advances From Primary Government

The balance of \$21.742 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, 2009, 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 \$7.556 million 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 / Restricted 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.....	\$ —	\$ —	\$ —	\$ —	\$ 1,786	\$ —	\$ 41,393	\$ —	\$ 43,179
Other Governmental Funds.....	—	—	—	—	228,249	153,255	—	24,715	406,219
Due To Primary Government:									
The Golden LEAF, Inc.....	564	715	—	1,279	—	—	—	—	—
University of North Carolina System.....	—	5	1,101	1,106	—	—	—	—	—
Community Colleges.....	—	—	32	32	—	—	—	—	—
Other Component Units.....	1,302	10,327	25	11,654	—	—	—	—	—
Total.....	\$ 1,866	\$ 11,047	\$ 1,158	\$ 14,071	\$ 230,035	\$ 153,255	\$ 41,393	\$ 24,715	\$ 449,398

NOTES TO THE FINANCIAL STATEMENTS

NOTE 18: RELATED ORGANIZATIONS

MCNC

MCNC (formerly the Microelectronics Center of North Carolina) is a legally separate non-profit corporation fostering the advancement of education, innovation and economic development throughout North Carolina by providing high quality network infrastructure and network-based services. It is managed by a Board of Directors ranging from thirteen to twenty members. Six of the members are appointed by the Governor. Another seven members serve ex officio as follows: four are chancellors of universities in the UNC System, a component unit of the State; one is the president of 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 Governor-appointed members and ex officio members may elect up to seven other board members. Any appointed director may be removed from office by the Governor for cause. Any elected director may be removed by the Board of Directors at will.

Centennial Authority

The Centennial Authority (Authority) is a legally separate organization created by the 1995 General Assembly to study, design, plan, construct, own, promote, finance, and operate a regional facility on land owned by the State. Prior to this legislation, the General Assembly authorized the construction by N.C. State University (NCSU) of a facility to be known as the Entertainment and Sports Arena (ESA). In fiscal year 2003, a naming rights agreement was executed to change the name of the ESA to the RBC Center. As a result of this agreement, NCSU will receive \$13.18 million over a ten-year period beginning in fiscal year 2003. The RBC Center houses entertainment shows and is home to two sports teams, the National Hockey League's Carolina Hurricanes and NCSU 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 NCSU (or the Chancellor's designee). A member may be removed by the appointing authority for cause.

The Authority entered into a ground lease with the State of North Carolina to lease land for the RBC Center for a period of 99 years at an annual rent of \$1. NCSU entered into a use agreement with the Authority. Both parties agreed that NCSU shall be the primary and preferred user of all areas of the RBC Center. NCSU is required to pay the greater of 10% of gross ticket revenues or \$45 thousand for each men's and \$20 thousand for each women's basketball game to compensate the Authority for facility rental and operating expenses. Rent and expense payments for miscellaneous events will be negotiated on an event by event basis based on the availability of the RBC Center and the anticipated attendance.

North Carolina Capital Facilities Finance Agency

The North Carolina Capital Facilities Finance Agency provides the benefits of tax-exempt financing to non-profit institutions providing elementary and secondary education, private institutions of higher education, and various other entities for special purpose projects serving a public interest (see Note 20). The agency is governed by a seven member board comprised of two members appointed by the General Assembly, three members appointed by the Governor, and the State Treasurer and the State Auditor, both of whom serve ex officio.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 19: RELATED PARTY TRANSACTIONS

Primary Government

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 \$39.486 million in 2006. 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 \$2.185 million in expenses related to Great-West for the year ended December 31, 2006. The portion of annuity payout contract assets attributable to contracts with Great-West at December 31, 2006 was \$23.848 million.

Component Units

University of North Carolina System and Community College Foundations

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, 2007, this support approximated \$49.038 million for the UNC System and \$475 thousand for community colleges.

NOTES TO THE FINANCIAL STATEMENTS

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, 2007, was \$6.4 billion with interest rates varying from 2.2% to 8%.

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, and various other nonprofit entities. Its authority to issue bonds and notes also 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 2045, the outstanding principal of such bonds and notes as of June 30, 2007, was \$2.3 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 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. Based upon information supplied by the defendant state agencies, the amount owed could be as much as \$770 million. The case is now pending in Superior Court while the parties discuss a negotiated resolution.

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 and in September, 2006 allowed the State's motions as to several claims. The parties will continue to litigate the remaining claims.

State Employees Association of North Carolina (SEANC) 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. The Court of Appeals remanded the case to the Superior Court of Wake County without opinion and without considering any remaining issues.

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 currently proceeding through class notification and toward trial. On September 6, 2006, the trial court issued an interlocutory order in response to cross-motions for summary judgment. The court's order found the diversion of funds to be in violation of the constitution, but did not direct any repayment of funds. The State has appealed this decision.

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. The plaintiff filed a petition for discretionary review with the North Carolina Supreme Court, and the Court agreed on March 2, 2006 to review a portion of the Court of Appeals' decision and oral argument is scheduled for October 16, 2006. In an opinion filed December 15, 2006, the Supreme Court reversed the Court of Appeals, concluding that plaintiffs have standing to pursue their claims. The case has been remanded to Wake County Superior Court for further proceedings.

DirecTV, Inc. and EchoStar Satellite Corporation v. State of North Carolina, et al. — Refund of Sales Tax. Effective January 1, 2002, the legislature enacted a provision to impose the sales tax on satellite TV service providers. On

NOTES TO THE FINANCIAL STATEMENTS

September 30, 2003, DirecTV and EchoStar filed a complaint in Wake County Superior court for a refund of state sales tax paid, which currently amounts to approximately \$70 million. A separate challenge was filed in federal court. Plaintiffs claim this tax, which was not imposed on cable television providers, is unconstitutional under the Commerce Clause because it discriminates against interstate commerce. It is the State's position that the sales tax does not violate the Commerce Clause. 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. In 2005, the State trial court allowed summary judgment in the State's favor. Plaintiffs appealed to the North Carolina Court of Appeals. Oral arguments were heard on May 9, 2006. On August 1, 2006, the Court of Appeals unanimously affirmed the decision and upheld the constitutionality of the tax. The Federal District Court also granted the State's motion to dismiss. This order is pending before the Fourth Circuit Court of Appeals.

Lessie J. Dunn, et al. v. The State of North Carolina, et al. — **Tax on Municipal Bonds.** 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 and seeking class certification. An order certifying a class has been entered by the superior court. The State has appealed the scope of the class certification to the North Carolina Court of Appeals. On October 17, 2006, the Court of Appeals unanimously affirmed the order certifying the class. The State's Petition for Discretionary Review has been granted by the North Carolina Supreme Court. On December 7, 2007, the North Carolina Supreme Court ruled that its earlier grant of discretionary review was improvidently allowed, which means that the Court of Appeals' decision upholding class certification will stand. Under the superior court's order, the class includes all individuals and entities that have paid tax on interest earned on non-North Carolina municipal bonds from October 29, 2000 through the date of final judgment.

Wal-Mart Stores East, Inc. v. Tolson and Sam's East, Inc. v. Tolson — **Refund of Corporate Income Tax.** On March 17, 2006, the Plaintiffs filed complaints seeking a refund of over \$33.5 million in corporate income taxes in Wake County Superior Court (06 CVS 3928 and 06 CVS 3929). Plaintiffs are challenging the Secretary's authority to require them to file a "combined return" on various statutory and constitutional grounds. Defendant has filed a motion to dismiss under Rule 12(b)(6) and Plaintiffs have filed a motion for summary judgment. On August 31, 2006, Defendant's Motion to Dismiss was denied by Judge Horton

who has been assigned to hear the actions as exceptional cases, and discovery is in progress.

State of North Carolina v. Philip Morris, Inc., et al., 98 CVS 14377 — **Master Settlement Agreement (MSA) Payments.** On April 20, 2006, the State of North Carolina filed a Motion for Declaratory Order in the North Carolina Business Court against defendants Philip Morris, Inc., R.J. Reynolds Tobacco Company, and Lorillard Tobacco Company. The Motion is seeking a declaration that (1) in 2003, North Carolina continuously had a Qualifying Statute in full force and effect and "diligently enforced" its provisions throughout that year in accordance with the MSA; (2) North Carolina is not subject to a Non-Participating Manufacturers' Adjustment for 2003; and (3) defendants are obligated not to withhold or pay into a disputed payments account any payments due, or seek any offset of any payments made, on the basis that North Carolina is subject to a Non-Participating Manufacturers' Adjustment for 2003. If the State is unable to ultimately prevail in the diligent enforcement litigation, the State may be unable to recover a portion of this year's MSA payment. On December 4, 2006, Judge Tennille allowed the defendant's motion to compel arbitration of these issues. The State has appealed.

Petroleum Traders Corporation (PTC) v. State. Petroleum Traders Corporation (PTC) brought a Declaratory Judgment action in Wake County Superior Court on July 19, 2006, seeking a declaration that the North Carolina e-procurement fee is a tax and is unconstitutional under provisions of the state and national constitutions. PTC claims to have paid over \$1 million itself in e-procurement fees. PTC also seeks to have the action proceed as a class action, allegedly involving potential refunds in excess of \$100 million. The State's motion to dismiss was allowed in part and denied in part. An appeal will be filed in the Court of Appeals.

Kevin Patrick Rowlette, et. al. and the class of those similarly situated v. Richard Moore, State Treasurer — **Interest on Unclaimed Property Refunds.** On November 23, 2004 Plaintiffs filed suit in Guilford County Superior Court alleging that the State Treasurer's retention of the interest and gain from property held in the Escheat Fund is an unconstitutional taking of property under the State Constitution and the United State Constitution. Plaintiffs seek interest on past and future payments of claims by owners of monies, held in the Escheat Fund, and class certification for all persons receiving claims payments. Upon the most recent information supplied by the Treasurer, the interest liability may now exceed \$25 million. The action was transferred to Wake County Superior Court and heard on May 30, 2006. The trial court granted the Defendant's Motion to Dismiss on June 8, 2006. Defendants filed Notice of Appeal, and oral arguments were heard on March 15, 2007.

NOTES TO THE FINANCIAL STATEMENTS

Other Litigation. The State is involved in numerous other claims and legal proceedings, many of which are normal for 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. During the fiscal year ending June 30, 2006, the U.S. Department of Health and Human Services (USDHHS) notified the state Department of Health and Human Services (DHHS) of a disallowance of \$95 million in federal funds under Title IV-E of the Social Security Act. This disallowance has been appealed by DHHS to the USDHHS Departmental Appeals Board.

Any disallowance as a result of questioned costs could become a liability of the State. As of June 30, 2007, the State is unable to estimate what liabilities may result from such audits except for the \$50.3 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 \$51.99 million to contractors for highway construction claims that the State has contested. The State may also be liable for an additional \$29.11 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 \$112.21 million.

E. USDA-Donated Commodities

The State has custodial responsibility for \$1.96 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, 2007, the State had commitments of \$1.31 billion for construction of highway facilities. Of this amount, \$883.22 million relates to the Highway Fund, and \$423.13 million relates to the Highway Trust Fund. The other

commitments for construction and improvements of state government facilities totaled \$572.61 million (including \$465.62 million for the Department of Environment and Natural Resources and \$36.6 million for the Department of Administration).

At June 30, 2007, the University of North Carolina System (component unit) had outstanding construction commitments of \$664.15 million (including \$171.55 million for UNC Hospitals, \$101.77 million for North Carolina State University, \$96.38 million for University of North Carolina – Chapel Hill, \$57.4 million for University of North Carolina – Charlotte, and \$46.75 million for East Carolina University).

At June 30, 2007, community colleges (component units) had outstanding construction commitments of \$134.96 million (including \$27.34 million for Wake Technical Community College, \$16 million for Guilford Technical Community College, \$10.04 million for Blue Ridge Community College, \$8.21 million for Southeastern Community College, \$7.97 million for Caldwell Community College and Technical Institute and \$7.61 million for Craven Community College).

At June 30, 2007, The Golden LEAF, Inc. (component unit) had outstanding commitments of \$52.81 million.

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.

NOTES TO THE FINANCIAL STATEMENTS

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, 2007, the North Carolina Global TransPark Authority (Authority), a component unit of the State, had a loan outstanding including accrued interest payable totaling \$32.06 million to the Escheat Fund (special revenue fund). The loan is due on October 1, 2009. As of October 16, 2007, the investment balance of \$1.82 million was unchanged from June 30. 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, funding received to date from the Federal Aviation Administration (FAA) may be required to be paid back. As of June 30, 2007, the Authority has an amortized commitment of approximately \$18.1 million from the FAA.

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NOTES TO THE FINANCIAL STATEMENTS

NOTE 21: CHANGES IN FINANCIAL ACCOUNTING AND REPORTING

CHANGE RESULTING FROM ADOPTION OF NEW ACCOUNTING PRINCIPLE

For the fiscal year ended June 30, 2007, the State implemented Governmental Accounting Standards Board (GASB) Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other than Pension Plans*, which establishes uniform financial reporting standards for other postemployment benefit (OPEB) plans. The approach followed in this Statement generally is consistent with the approach adopted in Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, with modifications to reflect differences between pension plans and other postemployment benefit plans.

The financial reporting framework for defined benefit OPEB plans that are administered as trusts or equivalent arrangements include two financial statements and two multiyear schedules that are required to be presented as required supplementary information (RSI) immediately following the notes to the financial statements. The financial statements focus on reporting current financial information about plan net assets held in trust for OPEB and financial activities related to the administration of the trust. Required notes to the financial statements include a brief plan description, a summary of significant accounting policies, and information about contributions. In addition, OPEB plans are required to disclose information about the current funded status of the plan as of the most recent actuarial valuation date, and actuarial methods and assumptions used in the valuation. The RSI provides actuarially determined historical trend information from a long-term perspective about a) the funded status of the plan and the progress being made in accumulating sufficient assets to pay benefits when due and b) employer contributions to the plan.

NOTES TO THE FINANCIAL STATEMENTS

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 Reclassification* column result from the following: reclassification of the Town of Butler from an enterprise fund to governmental funds and reclassification of special revenue funds supported by appropriations to the General Fund. The amount in the *Change in Capital Assets Valuation* column represents adjustments to beginning balances of accumulated depreciation on capital assets previously reported as fully depreciated that remain in use. The amounts in the *Other Adjustments* column are due primarily to the correction of errors related to prior periods, including an adjustment for the accounting liability incurred in the Disability Income Plan.

	July 1, 2006 Fund Equity as Previously Reported	Change in Capital Assets Valuation	Fund Reclassifications	Other Adjustments	July 1, 2006 Fund Equity as Restated
Primary Government					
Major Governmental Funds:					
General Fund	\$ 1,925,198	\$ —	\$ 40,672	\$ 530	\$ 1,966,400
Highway Fund	568,785	—	—	—	568,785
Highway Trust Fund	(134,998)	—	—	—	(134,998)
Other Governmental Funds:					
Special Revenue Funds	2,562,527	—	(35,911)	(1,578)	2,525,038
Capital Projects Funds	253,083	—	1,627	—	254,710
Permanent Funds	58,890	—	—	—	58,890
Total Governmental Funds	5,233,485	—	6,388	(1,048)	5,238,825
Internal Service Funds	203,818	—	—	(5,129)	198,689
Government-wide adjustments:					
Capital assets	29,063,499	115,332	26,070	62,743	29,267,644
Unavailable deferred revenues	297,302	—	—	(1,331)	295,971
Long-term debt	(7,277,788)	—	(10,285)	6,402	(7,281,671)
Accrued interest payable	(86,887)	—	—	—	(86,887)
Pension assets	471	—	—	—	471
Total Government-wide adjustments	21,996,597	115,332	15,785	67,814	22,195,528
Total Governmental Activities	\$ 27,433,900	\$ 115,332	\$ 22,173	\$ 61,637	\$ 27,633,042
Business-type Activities - Enterprise Funds:					
Unemployment Compensation Fund	\$ 507,477	\$ —	\$ —	\$ —	\$ 507,477
EPA Revolving Loan Fund	775,379	—	—	—	775,379
Other enterprise funds	127,819	—	(22,173)	58	105,704
Total Business-type Activities - Enterprise Funds ...	\$ 1,410,675	\$ —	\$ (22,173)	\$ 58	\$ 1,388,560
Fiduciary Funds					
Pension and Other Employee Benefit Trust Funds	\$ 72,643,578	\$ —	\$ —	\$ 318,993	\$ 72,962,571
Component Units					
The Golden LEAF, Inc.	\$ 510,655	\$ —	\$ —	\$ —	\$ 510,655
University of North Carolina System	9,601,715	2,359	—	9,916	9,613,990
Community Colleges	1,804,351	86,953	—	4,421	1,895,725
NC Housing Finance Agency	396,270	—	—	—	396,270
State Education Assistance Authority	559,827	—	—	—	559,827
Other component units	318,362	—	—	23,201	341,563
Total Component Units	\$ 13,191,180	\$ 89,312	\$ —	\$ 37,538	\$ 13,318,030

NOTES TO THE FINANCIAL STATEMENTS**NOTE 23: SUBSEQUENT EVENTS****Primary Government****Repair and Renovation Certificates of Participation**

On October 24, 2007 the State issued \$75 million of Repairs and Renovations Certificates of Participation, Series 2007B. The certificates are dated October 24, 2007 and will bear interest from that date. Interest will be payable semiannually on each June 1 and December 1, commencing June 1, 2008. The certificates will mature, subject to the redemption provisions, from June 1, 2009 to 2028 inclusive, and were issued at coupon rates ranging from 4.0% to 5.0%. Pursuant to the provisions of Article 9 of Chapter 142 of the North Carolina General Statutes (the "State Capital Facilities Finance Act") and Session Laws 2003-284, the certificates were issued for the purpose of financing the repairs and renovations of State facilities and related infrastructure that are supported from the State's General Fund and to pay certain costs incurred in connection with the execution and delivery of the 2007B Certificates.

Capital Improvement Certificates of Participation

On October 3, 2007, the State issued \$200 million of Capital Improvement Certificates of Participation, Series 2007A. The certificates are dated September 13, 2007 and will bear interest from that date. Interest will be payable semiannually on each May 1 and November 1, commencing May 1, 2008. The certificates will mature, subject to the redemption provisions, from May 1, 2009 to 2028 inclusive, and were issued at coupon rates ranging from 4% to 5%. Pursuant to the provisions of Article 9 of Chapter 142 of the North Carolina General Statutes (the "State Capital Facilities Finance Act"), and Session Laws 2003-314, 2004-126, 2004-179, 2005-276, 2006-66, 2006-146 and 2006-231 which authorized a total of \$1.41 billion of varying state projects and related infrastructure, the certificates were issued for the purpose of providing funding in varying amounts for the authorized capital projects and to pay certain costs incurred in connection with the execution and delivery of the 2007A Certificates.

Grant Anticipation Revenue Vehicle Bonds

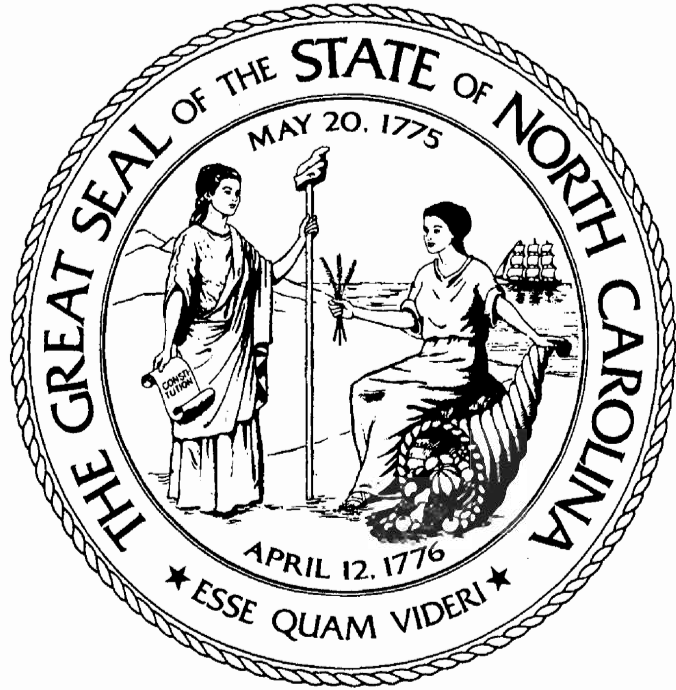
On October 17, 2007 the State of North Carolina issued \$287.57 million of Grant Anticipation Revenue Vehicle (GARVEE) Bonds, Series 2007. The bonds are dated October 17, 2007 and will bear interest from that date. Interest will be payable semiannually on each March 1 and September 1, commencing March 1, 2008. The bonds will mature, subject to redemption provisions, from March 1,

2009 to 2019 inclusive, and were issued at coupon rates ranging from 4.0% to 5.0%. Pursuant to Section 136-18(12b) of the North Carolina General Statutes (the "GARVEE Act") and the State and Local Government Revenue Bond Act, Section 159-80, the bonds were issued for the purpose of accelerating various transportation projects across the State and to pay certain costs incurred in connection with the execution and delivery of the 2007 Bonds. The GARVEE Bonds are payable solely from certain federal aid revenues received on behalf of the State and do not create a debt, liability or obligation of the State or any political subdivision of the State. Such federal aid revenues consist of amounts derived from the National Highway System and other federal surface transportation programs.

Component Units**State Education Assistance Authority, Bond Issuance**

On August 7, 2007 the State Education Assistance Authority (the Authority) issued \$424 million State of North Carolina Education Assistance Authority Tax-Exempt Guaranteed Student Loan Revenue Bonds 2007 Series S (Senior Lien) and \$10 million State of North Carolina Education Assistance Authority Tax-Exempt Guaranteed Student Loan Revenue Bonds 2007 Series S (Subordinate Lien). The proceeds from these issuances will be used to fund student loans.

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REQUIRED
SUPPLEMENTARY
INFORMATION

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

June 30, 2007

(Expressed in Thousands)

Retirement System	Valuation Date	Actuarial	Actuarial	Unfunded	Funded	Annual	UAAL as a
		Value of Assets (a)	Liability (AAL) (b)	AAL (UAAL) (b) - (a) <i>NOTE 1</i>	Ratio (a) / (b)	Covered Payroll (c)	Percentage of Covered Payroll ((b-a)/c)
Teachers' and State Employees'	12-31-06	\$ 52,420,808	\$ 49,391,907	\$ (3,028,901)	106.1%	\$ 11,711,386	(25.9)%
	12-31-05	49,670,182	46,624,668	(3,045,514)	106.5%	10,990,239	(27.7)%
	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)%
Consolidated Judicial	12-31-06	\$ 406,015	\$ 378,490	\$ (27,525)	107.3%	\$ 53,348	(51.6)%
	12-31-05	382,501	355,498	(27,003)	107.6%	51,018	(52.9)%
	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)%
Legislative	12-31-06	\$ 29,589	\$ 21,742	\$ (7,847)	136.1%	\$ 3,695	(212.4)%
	12-31-05	28,381	21,524	(6,857)	131.9%	3,681	(186.3)%
	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)%
Firemen's and Rescue Squad Workers'	6-30-06	\$ 287,933	\$ 304,339	\$ 16,406	94.6%	N/A	N/A
	6-30-05	274,265	285,356	11,091	96.1%	N/A	N/A
	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
North Carolina National Guard	12-31-06	\$ 66,898	\$ 105,017	\$ 38,119	63.7%	N/A	N/A
	12-31-05	59,204	81,803	22,599	72.4%	N/A	N/A
	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
Registers of Deeds'	12-31-06	\$ 32,371	\$ 17,375	\$ (14,996)	186.3%	\$ 5,558	(269.8)%
	12-31-05	28,242	11,788	(16,454)	239.6%	5,367	(306.6)%
	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)%
Local Governmental Employees'	12-31-06	\$ 15,564,789	\$ 15,643,377	\$ 78,588	99.5%	\$ 4,468,394	1.8%
	12-31-05	14,395,849	14,480,208	84,359	99.4%	4,241,334	2.0%
	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%

NOTE 1 A negative UAAL denotes excess actuarial 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 131.

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

For the Six-Year Period 2002 to 2007 (July 1 to June 30)

(Expressed in Thousands)

<u>Retirement System</u>	<u>State Fiscal Year</u>	<u>Annual Required Contribution</u>	<u>Percentage Contributed</u>	
Teachers' and State Employees'	2007	\$ 332,149	100%	Note 1
	2006	269,587	100%	
	2005	237,170	100%	
	2004	23,135	100%	Note 2
	2003	—	NR	
	2002	196,003	100%	
Consolidated Judicial	2007	\$ 6,520	100%	Note 1
	2006	6,448	100%	Note 2
	2005	6,513	100%	
	2004	5,583	100%	Note 2
	2003	5,993	100%	
	2002	7,003	100%	
Legislative	2007	\$ —	NR	
	2006	—	NR	
	2005	—	NR	
	2004	—	NR	
	2003	—	NR	
	2002	858	97%	
Firemen's and Rescue Squad Workers'	2007	\$ 8,440	100%	
	2006	7,926	100%	
	2005	7,521	100%	
	2004	6,801	100%	Note 2
	2003	6,856	100%	
	2002	10,027	100%	
North Carolina National Guard	2007	\$ 7,327	96%	
	2006	5,944	102%	
	2005	1,412	111%	
	2004	1,176	100%	Note 2
	2003	1,132	—	
	2002	1,542	58%	
Registers of Deeds' NOTE 3	2007	\$ —	NR	
	2006	—	NR	
	2005	29	10,458%	
	2004	286	1,158%	
	2003	1,722	197%	
	2002	1,722	128%	
Local Governmental Employees'	2007	\$ 233,003	100%	
	2006	226,665	100%	
	2005	216,097	100%	
	2004	208,092	100%	
	2003	233,753	100%	
	2002	192,170	100%	

NR- No contribution was required or made.

Note 1- Additional contributions not related to the ARC for \$30 million to Teacher's and State Employees' and \$706 thousand to Consolidated Judicial were made in this fiscal year.

Note 2- The State made additional contributions not related to the ARC. The amounts were disclosed in that year's CAFR.

Note 3- For Registers, significant fees and collections are contributed based on legislation. They are not directly related to the ARC.

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 131.

REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULES OF FUNDING PROGRESS
OTHER POSTEMPLOYMENT BENEFITS

June 30, 2007

(Expressed in Thousands)

	Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b) (1)	Unfunded AAL (UAAL) (b) - (a)	Funded Ratio (a) / (b)	Covered Payroll (c) (3)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
Retiree Health Benefit (2)	12-31-05	\$ 139,175	\$ 23,925,139	\$ 23,785,964	0.6%	\$ 12,359,975	192.4%
Disability Income	12-31-06	\$ 302,632	\$ 459,284	\$ 156,652	65.9%	\$ 12,736,915	1.2%
	12-31-05	279,286	438,186	158,900	63.7%	11,928,558	1.3%

(1) The Retiree Health Benefit AAL has been prepared using the projected unit credit cost method.
The Disability Income AAL has been prepared using the entry age actuarial cost method. The information presented is intended to approximate the funding progress of the plan as required by GASB Statements 43 and 45.

(2) The State legislature recently enacted legislation, which established service-based contributions for employees hired October 1, 2006 or later (February 1, 2007 for legislators). However, this legislation did not impact the current valuation since the valuation date was prior to the effective date of the legislation.

(3) Buck Consulting reported the unadjusted covered payroll for the DIPNC long-term disability benefits.
Aon Consulting reported the adjusted, annualized payroll for postemployment health benefits.

**REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULES OF EMPLOYER CONTRIBUTIONS
OTHER POSTEMPLOYMENT BENEFITS**

For the Year Ended June 30, 2007

(Expressed in Thousands)

	<u>State Fiscal Year</u>	<u>Annual Required Contribution</u>	<u>Percentage Contributed</u>
Retiree Health Benefit	2007	\$ 2,389,583	22%
Disability Income	2007	\$ 70,116	102%

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, 2007

(Dollars in Thousands)

	<i>Budgeted Amounts</i>		<i>Actual</i>	<i>Variance with Final Budget</i>
	<i>Original</i>	<i>Final</i>		
Revenues:				
Taxes:				
Individual income.....	\$ 9,635,400	\$ 9,635,400	\$ 10,507,967	\$ 872,567
Corporate income.....	1,052,500	1,052,500	1,451,399	398,899
Sales and use.....	5,032,500	5,032,500	4,995,571	(36,929)
Franchise.....	504,900	504,900	531,412	26,512
Insurance.....	491,900	491,900	475,545	(16,355)
Beverage.....	209,100	209,100	212,608	3,508
Inheritance.....	139,200	139,200	161,587	22,387
Tobacco products tax.....	238,200	238,200	241,175	2,975
Other.....	128,400	128,400	134,862	6,462
Non-Tax:				
Fees, licenses and fines.....	164,000	164,000	167,640	3,640
Investment income.....	124,400	124,400	202,543	78,143
Disproportionate share receipts.....	100,000	100,000	100,000	—
Other.....	238,574	238,574	220,235	(18,339)
Transfers in.....	57,500	57,500	57,487	(13)
Departmental:				
Federal funds.....	9,266,485	10,704,913	9,386,599	(1,318,314)
Local funds.....	989,626	1,073,594	1,063,588	(10,006)
Inter-agency grants and allocations.....	21,938	25,342	22,403	(2,939)
Intra-governmental transactions.....	1,630,511	2,253,554	2,168,717	(84,837)
Sales and services.....	91,251	81,828	89,477	7,649
Rental and lease of property.....	5,907	8,911	8,960	49
Fees, licenses and fines.....	711,212	310,929	325,652	14,723
Contributions, gifts and grants.....	87,995	1,202,925	1,217,740	14,815
Miscellaneous.....	83,938	95,359	94,230	(1,129)
Universities.....	509,471	1,119,224	1,087,600	(31,624)
Total Revenues.....	31,514,908	34,993,153	34,924,997	(68,156)
Expenditures:				
Current:				
General government.....	1,820,719	710,545	670,657	39,888
Primary and secondary education.....	7,991,049	9,886,038	8,944,690	941,348
Community colleges.....	1,047,340	1,204,480	1,176,727	27,753
Health and human services.....	14,937,005	16,664,074	16,273,859	390,215
Environment and natural resources.....	395,720	445,263	390,667	54,596
Economic development.....	181,204	204,109	200,339	3,770
Public safety, corrections, and regulation.....	1,819,464	2,158,780	2,057,200	101,580
Agriculture.....	77,623	93,614	86,474	7,140
Capital outlay.....	206,343	206,343	206,343	—
Debt service.....	615,382	621,675	611,089	10,586
Universities.....	3,172,445	3,547,618	3,508,999	38,619
Total Expenditures.....	32,264,294	35,742,539	34,127,044	1,615,495
Excess revenues over (under) expenditures.....	(749,386)	(749,386)	797,953	1,547,339
Transfers to reserves.....	—	—	(326,157)	(326,157)
Unreserved fund balances (budgetary basis) at July 1, 2006.....	749,386	749,386	749,386	—
Unreserved fund balances (budgetary basis) at June 30, 2007.....	\$ —	\$ —	\$ 1,221,182	\$ 1,221,182

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

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, 2007 to the fund balances on a modified accrual basis (GAAP). Amounts are expressed in thousands.

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

	<u>General Fund</u>
Unreserved fund balance (budgetary basis), June 30, 2007.....	\$ 1,221,182
Reserved fund balance (budgetary basis),	
Savings.....	786,650
Repairs and renovations.....	145,000
Disproportionate share.....	19,304
Disaster relief.....	114,041
One North Carolina Fund.....	1,083
Job Development Investment Grant.....	16,061
Fund balance (budgetary basis).....	<u>2,303,321</u>
Reconciling Adjustments:	
Entity Differences:	
Primary government:	
Other.....	272,860
Basis Differences:	
Accrued revenues:	
Taxes receivable.....	1,932,799
Accounts receivable.....	231,447
Federal funds, net.....	680,492
Other receivables.....	118,620
Less:	
Tax refunds payable.....	(1,183,264)
Deferred revenue.....	(655,450)
Total accrued revenues.....	<u>1,124,644</u>
Accrued expenditures:	
Medical claims payable.....	(936,822)
Accounts payable and accrued liabilities.....	(524,773)
Other payables.....	(59,256)
Total accrued expenditures.....	<u>(1,520,851)</u>
Other Adjustments:	
Notes receivable.....	14,319
Inventories.....	86,016
Investments.....	58
Timing Differences:	
Authorized carryforward for specific encumbrances.....	46,779
Authorized carryforward for designated programs.....	249,765
Fund balance (GAAP basis) June 30, 2007.....	<u>\$ 2,576,911</u>

D. Budgetary Reserves

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

Savings Reserve Account (General Statute 143-15.3). 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. However in accordance with Session Law, Senate Bill 1473, Section 2.2(c1) the State Controller was directed to transfer \$175 million from the unreserved fund balance to the Savings Reserve on June 30, 2007. At the end of the fiscal year 2006-2007, the balance of the Savings Reserve was \$786.65 million.

Repairs and Renovations Reserve Account (General Statute 143-15.3A). 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 2007-323, House Bill 1473, Section 2.2(b) the State Controller was directed to transfer \$145 million from the unreserved credit balance to the Repairs and Renovations Reserve Account on June 30, 2007. At the end of the fiscal year 2006-2007, the balance of this reserve was \$145 million.

Disproportionate Share Reserve Account (Session Law 2005-276, Senate Bill 622, Section 10.12). 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 non-tax revenues. At the end of the fiscal year 2006-2007, the remaining balance of this reserve was \$19.3 million.

Disaster Relief Reserve (Session Law 2005-1, Senate Bill 7). During fiscal year 2004-2005 \$248.17 million was transferred to the Disaster Relief Reserve. This \$248.17 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 2006-2007, the remaining balance of this reserve was \$114.04 million.

One North Carolina Fund Reserve. 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 Fund Reserve. This reserve was funded by a transfer from the unexpended legislative increase appropriation of \$1.5 million. During the fiscal year an establishment of \$0.4 million was expended. However, since that time no further funds have been disbursed. Therefore, for fiscal years 2003-2004 through 2006-2007 the balance has remained at \$1.08 million.

Job Development Investment Grant Program Reserve (General Statute 143-15.3E). 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

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

Job Development Investment Grant Program established pursuant to General Statute 143B-437.52. Funds in the amount of \$4.5 million were appropriated for fiscal year 2004-2005, \$9 million for fiscal year 2005-2006, and \$12.4 million for fiscal year 2006-2007. At the end of fiscal year 2006-2007, the balance of JDIG was \$16.06 million.

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

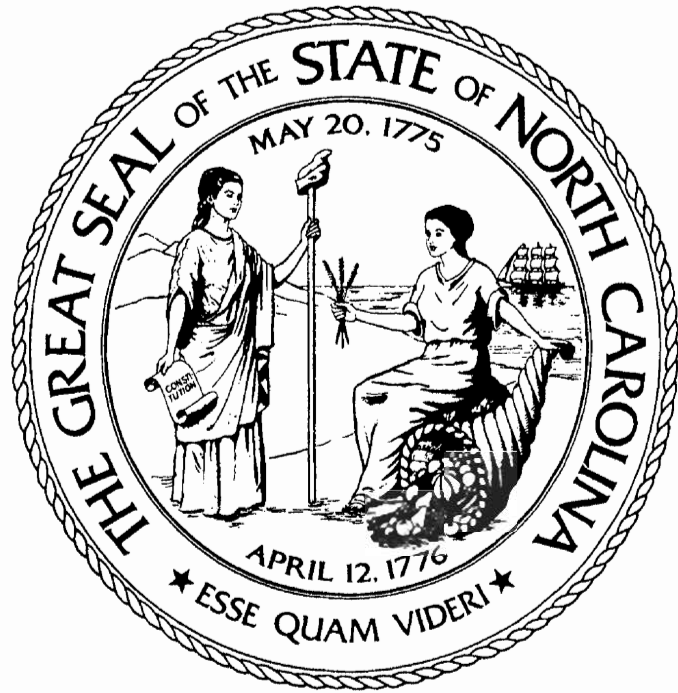
General Fund Reserved Fund Balance	Balance June 30, 2006	Transfers from General Fund Unreserved Fund Balance	Transfers to General Fund Unreserved Fund Balance	Balance June 30, 2007
Savings.....	\$ 628,793	\$ 180,790	\$ (22,933)	\$ 786,650
Repairs and renovations.....	222,229	145,000	(222,229)	145,000
Disproportionate share.....	19,304	—	—	19,304
Disaster relief.....	141,712	8,948	(36,619)	114,041
One North Carolina Fund.....	1,083	—	—	1,083
Job Development Investment Grant.....	7,798	12,400	(4,137)	16,061
Total.....	\$ 1,020,919	\$ 347,138	\$ (285,918)	\$ 1,082,139

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*COMBINING FUND
STATEMENTS
AND
SCHEDULES*

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*NONMAJOR
GOVERNMENTAL
FUNDS*

**COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS**

June 30, 2007

Exhibit C-1

(Dollars in Thousands)

	Special Revenue Funds	Capital Projects Funds	Permanent Funds	Total Nonmajor Governmental Funds
Assets				
Cash and cash equivalents	\$ 1,583,092	\$ —	\$ —	\$ 1,583,092
Investments	434,123	—	—	434,123
Securities lending collateral	1,183,523	1,015	38,748	1,223,286
Receivables, net:				
Taxes receivable	2,217	—	—	2,217
Accounts receivable	23,103	—	14	23,117
Intergovernmental receivable	7,769	235	—	8,004
Interest receivable	10,655	4	21	10,680
Due from other funds	15,418	17,357	—	32,775
Due from component units	11,047	—	—	11,047
Inventories	37,743	—	—	37,743
Advances to component units	21,742	—	—	21,742
Notes receivable, net	321,131	—	—	321,131
Securities held in trust	39,444	—	—	39,444
Restricted/designated cash and cash equivalents	40,967	340,770	5,568	387,305
Restricted investments	784,215	8,014	60,641	852,870
Total Assets	\$ 4,516,189	\$ 367,395	\$ 104,992	\$ 4,988,576
Liabilities and Fund Balances				
Liabilities:				
Accounts payable and accrued liabilities:				
Accounts payable	\$ 51,221	\$ 27,815	\$ —	\$ 79,036
Accrued payroll	927	—	—	927
Intergovernmental payable	11,107	940	—	12,047
Claims payable	26,599	—	—	26,599
Obligations under securities lending	1,183,523	1,015	38,748	1,223,286
Due to fiduciary funds	47	—	—	47
Due to other funds	24,027	19	—	24,046
Due to component units	406,219	—	—	406,219
Deferred revenue	15,431	—	—	15,431
Deposits payable	8	1	—	9
Funds held for others	39,492	—	—	39,492
Total Liabilities	1,758,601	29,790	38,748	1,827,139
Fund Balances:				
Reserved	771,840	110,409	64,646	946,895
Unreserved	1,985,748	227,196	1,598	2,214,542
Total Fund Balances	2,757,588	337,605	66,244	3,161,437
Total Liabilities and Fund Balances	\$ 4,516,189	\$ 367,395	\$ 104,992	\$ 4,988,576

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

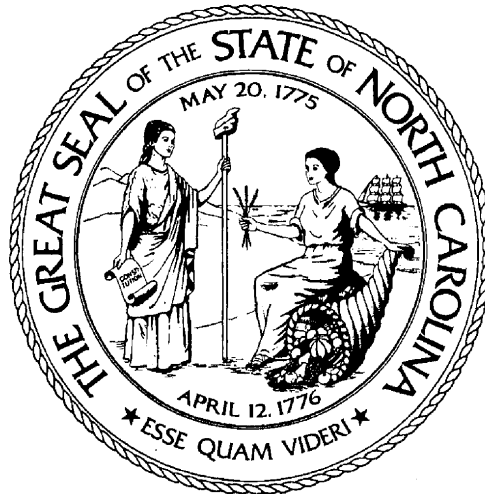
For the Fiscal Year Ended June 30, 2007

Exhibit C-2

(Dollars in Thousands)

	Special Revenue Funds	Capital Projects Funds	Permanent Funds	Total Nonmajor Governmental Funds
Revenues:				
Taxes:				
Individual income tax.....	\$ 2,068	\$ —	\$ —	\$ 2,068
Corporate income tax.....	109,168	—	—	109,168
Sales and use tax.....	29,900	—	—	29,900
Gasoline tax.....	28,783	—	—	28,783
Insurance tax.....	11,535	—	—	11,535
Beverage tax.....	560	—	—	560
Other taxes.....	150,054	—	—	150,054
Federal funds.....	393,025	20,947	—	413,972
Local funds.....	23,885	—	—	23,885
Investment earnings.....	174,697	943	4,991	180,631
Interest earnings on loans.....	5,240	—	—	5,240
Sales and services.....	167,723	665	61	168,449
Rental and lease of property.....	3,761	—	—	3,761
Fees, licenses, and fines.....	243,973	—	3,859	247,832
Contributions, gifts, and grants.....	25,113	100,471	1,549	127,133
Funds escheated.....	214,500	—	—	214,500
Miscellaneous.....	18,029	245	—	18,274
Total revenues.....	<u>1,602,014</u>	<u>123,271</u>	<u>10,460</u>	<u>1,735,745</u>
Expenditures:				
Current:				
General government.....	90,803	—	—	90,803
Primary and secondary education.....	364,265	—	—	364,265
Higher education.....	792,355	—	28	792,383
Health and human services.....	85,473	—	11	85,484
Economic development.....	364,245	—	—	364,245
Environment and natural resources.....	399,025	47	1,421	400,493
Public safety, corrections, and regulation.....	457,348	—	—	457,348
Agriculture.....	7,626	—	—	7,626
Capital outlay.....	—	451,716	—	451,716
Debt service:				
Principal retirement.....	11,852	3	—	11,855
Interest and fees.....	3,897	57	—	3,954
Debt issuance costs.....	1,929	—	—	1,929
Total expenditures.....	<u>2,578,818</u>	<u>451,823</u>	<u>1,460</u>	<u>3,032,101</u>
Excess revenues over (under) expenditures.....	<u>(976,804)</u>	<u>(328,552)</u>	<u>9,000</u>	<u>(1,296,356)</u>
Other Financing Sources (Uses):				
Bonds issued.....	502,745	—	—	502,745
Certificates of participation issued.....	300,000	—	—	300,000
Premium on debt issued.....	39,562	—	—	39,562
Sale of capital assets.....	3,978	62	—	4,040
Insurance recoveries.....	226	—	—	226
Transfers in.....	1,266,035	414,019	1,817	1,681,871
Transfers out.....	(907,117)	(2,634)	(3,463)	(913,214)
Total other financing sources (uses).....	<u>1,205,429</u>	<u>411,447</u>	<u>(1,646)</u>	<u>1,615,230</u>
Net change in fund balances.....	228,625	82,895	7,354	318,874
Fund balances — July 1, as restated.....	2,525,038	254,710	58,890	2,838,638
Increase (decrease) in reserve for related assets.....	3,925	—	—	3,925
Fund balances — June 30.....	<u>\$ 2,757,588</u>	<u>\$ 337,605</u>	<u>\$ 66,244</u>	<u>\$ 3,161,437</u>

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NONMAJOR SPECIAL REVENUE FUNDS

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

The following are included in the nonmajor special revenue funds:

- Escheat Fund
- Health and Wellness Trust 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
- Correction 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
- Education Lottery Funds
- Departmental Funds

COMBINING BALANCE SHEET NONMAJOR SPECIAL REVENUE FUNDS

June 30, 2007

(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	\$ 285,622	\$ 66,226	\$ 6,315	\$ —	\$ —	\$ —	\$240,114	\$ 205,043
Investments	429,930	—	—	—	—	—	—	—
Securities lending collateral	363,514	54,930	5,242	25,200	—	—	222,691	170,068
Receivables, net:								
Taxes receivable.....	—	—	—	—	—	—	—	—
Accounts receivable.....	—	—	31	—	—	—	—	—
Intergovernmental receivable.....	—	—	—	—	—	—	—	—
Interest receivable.....	1,164	277	—	818	13	2,660	1,092	856
Due from other funds	—	—	—	—	—	6	—	—
Due from component units	10,321	—	—	—	—	—	—	—
Inventories.....	—	—	—	—	—	—	—	—
Advances to component units	21,742	—	—	—	—	—	—	—
Notes receivable, net.....	—	—	—	110,762	—	—	—	—
Securities held in trust.....	—	—	—	—	—	—	—	—
Restricted/designated								
cash and cash equivalents.....	—	—	—	39,876	830	135	—	—
Restricted investments.....	—	—	—	13,053	2,184	621,920	—	—
Total Assets.....	<u>\$1,112,293</u>	<u>\$ 121,433</u>	<u>\$ 11,588</u>	<u>\$ 189,709</u>	<u>\$ 3,027</u>	<u>\$ 624,721</u>	<u>\$463,897</u>	<u>\$ 375,967</u>
Liabilities and Fund Balances								
Liabilities:								
Accounts payable and accrued liabilities:								
Accounts payable.....	\$ 11	\$ 1,043	\$ 2	\$ 3	\$ 1	\$ 45	\$ —	\$ 433
Accrued payroll.....	—	3	—	—	—	—	—	—
Intergovernmental payable.....	—	—	—	—	—	—	—	2,583
Claims payable.....	26,599	—	—	—	—	—	—	—
Obligations under securities lending.....	363,514	54,930	5,242	25,200	—	—	222,691	170,068
Due to fiduciary funds	—	—	—	—	—	—	—	—
Due to other funds	—	4	—	—	—	—	—	7
Due to component units	22,731	—	—	—	—	341,765	—	—
Deferred revenue.....	13,178	—	—	—	—	—	—	—
Deposits payable.....	—	—	—	—	—	—	—	—
Funds held for others.....	—	—	—	—	—	—	—	—
Total Liabilities.....	<u>426,033</u>	<u>55,980</u>	<u>5,244</u>	<u>25,203</u>	<u>1</u>	<u>341,810</u>	<u>222,691</u>	<u>173,091</u>
Fund Balances:								
Reserved for:								
Inventories.....	—	—	—	—	—	—	—	—
Investments.....	—	—	—	—	—	—	—	—
Notes receivable.....	—	—	—	110,762	—	—	—	—
Loan and grant commitments.....	—	—	—	21,243	—	—	—	150,672
Advance to component unit.....	21,742	—	—	—	—	—	—	—
Other purposes.....	—	—	—	—	—	—	—	—
Unreserved:								
Undesignated.....	664,518	65,453	6,344	32,501	3,026	282,911	241,206	52,204
Total Fund Balances.....	<u>686,260</u>	<u>65,453</u>	<u>6,344</u>	<u>164,506</u>	<u>3,026</u>	<u>282,911</u>	<u>241,206</u>	<u>202,876</u>
Total Liabilities and Fund Balances.....	<u>\$1,112,293</u>	<u>\$ 121,433</u>	<u>\$ 11,588</u>	<u>\$ 189,709</u>	<u>\$ 3,027</u>	<u>\$ 624,721</u>	<u>\$463,897</u>	<u>\$ 375,967</u>

Exhibit C-3

N.C. Infrastructure Finance Corporation	Natural Gas Funds	Correction 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
\$ 3	\$ —	\$ 17,218	\$ 62,133	\$ 13,901	\$ 11,338	\$ 42	\$ 36,060	\$ 55,722
—	—	—	—	—	—	—	—	—
—	105	—	—	—	2,930	—	28,876	46,414
—	—	—	—	—	—	—	1,524	—
—	—	1,490	71	685	1,129	—	444	—
—	—	177	294	549	1	—	—	—
—	1	—	—	—	—	—	137	248
—	—	4,358	—	16	829	—	—	—
—	—	11	—	—	—	—	—	—
—	—	16,478	4,088	323	12,152	—	—	—
—	—	—	—	—	—	—	—	—
—	200,000	—	—	—	—	—	671	—
—	—	—	—	—	—	—	—	—
1	125	—	—	—	—	—	—	—
147,058	—	—	—	—	—	—	—	—
<u>\$ 147,062</u>	<u>\$ 200,231</u>	<u>\$ 39,732</u>	<u>\$ 66,586</u>	<u>\$ 15,474</u>	<u>\$ 28,379</u>	<u>\$ 42</u>	<u>\$ 67,712</u>	<u>\$ 102,384</u>
\$ —	\$ —	\$ 1,686	\$ 18,976	\$ 2,867	\$ 4,116	\$ 16	\$ 7,423	\$ 4,008
—	—	41	—	121	23	4	—	1
—	—	—	3	438	17	—	—	—
—	—	—	—	—	—	—	—	—
—	105	—	—	—	2,930	—	28,876	46,414
—	—	—	—	—	—	—	—	—
17,363	—	153	—	386	146	9	—	15
8,595	—	—	—	—	—	—	—	—
—	—	128	—	—	1,103	—	—	—
—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—
<u>25,958</u>	<u>105</u>	<u>2,008</u>	<u>18,979</u>	<u>3,812</u>	<u>8,335</u>	<u>29</u>	<u>36,299</u>	<u>50,438</u>
—	—	16,478	4,088	323	12,152	—	—	—
—	—	—	—	—	—	—	—	—
—	200,000	—	—	—	—	—	671	—
—	—	—	—	—	—	—	—	125,008
—	—	—	—	—	—	—	—	—
—	—	229	—	—	—	—	—	—
121,104	126	21,017	43,519	11,339	7,892	13	30,742	(73,062)
121,104	200,126	37,724	47,607	11,662	20,044	13	31,413	51,946
<u>\$ 147,062</u>	<u>\$ 200,231</u>	<u>\$ 39,732</u>	<u>\$ 66,586</u>	<u>\$ 15,474</u>	<u>\$ 28,379</u>	<u>\$ 42</u>	<u>\$ 67,712</u>	<u>\$ 102,384</u>

Continued

COMBINING BALANCE SHEET NONMAJOR SPECIAL REVENUE FUNDS

June 30, 2007

Exhibit C-3

(Dollars in Thousands)

	Wildlife Resources Commission Fund	Natural Heritage Trust Fund	Wireless 911 Fund	Parks and Recreation Trust Fund	Education Lottery Funds	Departmental Funds	Total Nonmajor Special Revenue Funds
Assets							
Cash and cash equivalents	\$ 9,128	\$ 25,099	\$ 18,680	\$ 61,079	\$ 51,984	\$ 417,385	\$ 1,583,092
Investments	—	—	—	—	—	4,193	434,123
Securities lending collateral	4,447	19,415	15,434	—	41,474	182,783	1,183,523
Receivables, net:							
Taxes receivable.....	—	—	—	—	—	693	2,217
Accounts receivable.....	270	—	6,377	—	—	12,606	23,103
Intergovernmental receivable.....	3,604	—	—	—	—	3,144	7,769
Interest receivable.....	20	96	81	—	212	2,980	10,655
Due from other funds	—	—	—	—	2,543	7,666	15,418
Due from component units	—	—	—	—	—	715	11,047
Inventories.....	1,581	—	—	—	—	3,121	37,743
Advances to component units	—	—	—	—	—	—	21,742
Notes receivable, net.....	—	—	—	—	—	9,698	321,131
Securities held in trust.....	—	—	—	—	—	39,444	39,444
Restricted/designated							
cash and cash equivalents.....	—	—	—	—	—	—	40,967
Restricted investments.....	—	—	—	—	—	—	784,215
Total Assets.....	\$ 19,050	\$ 44,610	\$ 40,572	\$ 61,079	\$ 96,213	\$ 684,428	\$ 4,516,189
Liabilities and Fund Balances							
Liabilities:							
Accounts payable and accrued liabilities:							
Accounts payable.....	\$ 1,216	\$ —	\$ 39	\$ —	\$ —	\$ 9,336	\$ 51,221
Accrued payroll.....	200	—	—	—	—	534	927
Intergovernmental payable.....	—	—	6,167	672	—	1,227	11,107
Claims payable.....	—	—	—	—	—	—	26,599
Obligations under securities lending.....	4,447	19,415	15,434	—	41,474	182,783	1,183,523
Due to fiduciary funds	—	—	—	—	—	47	47
Due to other funds	176	—	1,440	—	—	4,328	24,027
Due to component units	—	—	—	—	1,984	31,144	406,219
Deferred revenue.....	—	—	—	—	—	1,022	15,431
Deposits payable.....	—	—	—	—	—	8	8
Funds held for others.....	—	—	—	—	—	39,492	39,492
Total Liabilities.....	6,039	19,415	23,080	672	43,458	269,921	1,758,601
Fund Balances:							
Reserved for:							
Inventories.....	1,581	—	—	—	—	3,121	37,743
Investments.....	—	—	—	—	—	1,968	1,968
Notes receivable.....	—	—	—	—	—	9,698	321,131
Loan and grant commitments.....	—	17,515	—	43,927	—	1,601	359,966
Advance to component unit.....	—	—	—	—	—	—	21,742
Other purposes.....	11,430	—	—	—	—	17,631	29,290
Unreserved:							
Undesignated.....	—	7,680	17,492	16,480	52,755	380,488	1,985,748
Total Fund Balances.....	13,011	25,195	17,492	60,407	52,755	414,507	2,757,588
Total Liabilities and Fund Balances.....	\$ 19,050	\$ 44,610	\$ 40,572	\$ 61,079	\$ 96,213	\$ 684,428	\$ 4,516,189

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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, 2007

(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.....	—	—	—	—	—	—	109,168	—
Sales and use tax.....	—	—	—	—	—	—	—	—
Gasoline tax.....	—	—	—	—	—	—	—	—
Insurance tax.....	—	—	—	—	—	—	—	—
Beverage tax.....	—	—	—	—	—	—	—	—
Other taxes.....	—	—	—	—	—	—	—	—
Federal funds.....	—	—	—	120	—	—	—	—
Local funds.....	—	—	—	—	—	—	—	—
Investment earnings.....	55,104	4,593	510	4,944	271	23,507	18,648	18,712
Interest earnings on loans.....	—	—	—	4,327	—	—	—	—
Sales and services.....	—	—	—	55	—	—	—	—
Rental and lease of property.....	—	—	—	—	—	—	—	—
Fees, licenses, and fines.....	—	—	—	—	—	—	—	—
Contributions, gifts, and grants.....	—	—	—	—	—	—	—	—
Funds escheated.....	214,500	—	—	—	—	—	—	—
Miscellaneous.....	—	—	1	—	—	—	—	—
Total revenues.....	269,604	4,593	511	9,446	271	23,507	127,816	18,712
Expenditures:								
Current:								
General government.....	20,227	—	—	—	5	153	—	—
Primary and secondary education.....	—	—	—	—	9,302	—	136,416	—
Higher education.....	65,642	—	—	—	—	609,630	—	—
Health and human services.....	—	16,145	—	—	—	—	—	—
Economic development.....	—	—	—	27,420	—	—	—	—
Environment and natural resources.....	—	—	—	20,125	—	—	—	98,548
Public safety, corrections, and regulation....	—	—	—	—	—	—	—	—
Agriculture.....	—	—	2,157	—	—	—	—	—
Debt service:								
Principal retirement.....	—	—	—	—	—	—	—	—
Interest and fees.....	—	—	—	—	—	965	—	—
Debt issuance costs.....	—	—	—	—	—	—	—	—
Total expenditures.....	85,869	16,145	2,157	47,545	9,307	610,748	136,416	98,548
Excess revenues over (under) expenditures..	183,735	(11,552)	(1,646)	(38,099)	(9,036)	(587,241)	(8,600)	(79,836)
Other Financing Sources (Uses):								
Bonds issued.....	—	—	—	—	—	502,745	—	—
Certificates of participation issued.....	—	—	—	—	—	—	—	—
Premium on debt issued.....	—	—	—	—	—	23,245	—	—
Sale of capital assets.....	—	—	—	—	—	—	—	—
Insurance recoveries.....	—	—	—	—	—	—	—	—
Transfers in.....	—	35,706	35,706	1,861	—	—	131,012	108,873
Transfers out.....	(19,549)	(5,814)	(32,817)	(16,147)	(3)	(50,046)	(6,726)	(1,027)
Total other financing sources (uses).....	(19,549)	29,892	2,889	(14,286)	(3)	475,944	124,286	107,846
Net change in fund balances.....	164,186	18,340	1,243	(52,385)	(9,039)	(111,297)	115,686	28,010
Fund balances — July 1, as restated.....	522,074	47,113	5,101	216,891	12,065	394,208	125,520	174,866
Increase (decrease) in reserve for related assets.....	—	—	—	—	—	—	—	—
Fund balances — June 30.....	\$ 686,260	\$ 65,453	\$ 6,344	\$ 164,506	\$ 3,026	\$ 282,911	\$ 241,206	\$ 202,876

Exhibit C-4

N.C. Infrastructure Finance Corporation	Natural Gas Funds	Correction 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
\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	18,411	—
—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—
—	—	—	—	194,967	132	94,813	—	—
—	—	—	—	11,765	—	—	—	—
12,809	135	—	—	—	285	—	2,387	4,249
—	—	—	—	—	—	—	1	—
—	—	82,062	6,106	—	1,367	—	—	—
—	—	147	1,598	—	—	—	—	—
—	—	2	—	4,961	1,979	—	8,011	74,054
—	—	—	—	1,712	1,130	—	—	—
—	—	—	—	—	—	—	—	—
—	—	171	284	1,429	88	—	—	—
12,809	135	82,382	7,988	214,834	4,981	94,813	28,810	78,303
120	—	—	—	—	—	—	—	—
—	—	—	138,309	—	—	—	—	—
91,854	—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—
—	1,885	—	—	224,902	—	94,648	—	—
—	—	—	—	—	—	—	14,610	67,167
—	—	82,309	—	—	233,400	—	—	—
—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—
96	—	—	—	—	—	—	—	—
1,929	—	—	—	—	—	—	—	—
93,999	1,885	82,309	138,309	224,902	233,400	94,648	14,610	67,167
(81,190)	(1,750)	73	(130,321)	(10,068)	(228,419)	165	14,200	11,136
—	—	—	—	—	—	—	—	—
300,000	—	—	—	—	—	—	—	—
16,317	—	—	—	—	—	—	—	—
—	—	32	1,135	—	2,523	—	—	—
—	—	1	—	—	225	—	—	—
—	—	202	131,385	15,721	224,403	—	5,386	—
(236,591)	(464)	(2,715)	(575)	(4,110)	(1,375)	(194)	(4,273)	(1,223)
79,726	(464)	(2,480)	131,945	11,611	225,776	(194)	1,113	(1,223)
(1,464)	(2,214)	(2,407)	1,624	1,543	(2,643)	(29)	15,313	9,913
122,568	202,340	38,733	51,133	10,166	14,510	42	16,100	42,033
—	—	1,398	(5,150)	(47)	8,177	—	—	—
\$ 121,104	\$ 200,126	\$ 37,724	\$ 47,607	\$ 11,662	\$ 20,044	\$ 13	\$ 31,413	\$ 51,946

Continued

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

For the Fiscal Year Ended June 30, 2007

Exhibit C-4

(Dollars in Thousands)

	Wildlife Resources Commission Fund	Natural Heritage Trust Fund	Wireless 911 Fund	Parks and Recreation Trust Fund	Education Lottery Funds	Departmental Funds	Total Nonmajor Special Revenue Funds
Revenues:							
Taxes:							
Individual income tax.....	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 2,068	\$ 2,068
Corporate income tax.....	—	—	—	—	—	—	109,168
Sales and use tax.....	21,933	—	—	—	—	7,967	29,900
Gasoline tax.....	1,988	—	—	—	—	8,384	28,783
Insurance tax.....	—	—	—	—	—	11,535	11,535
Beverage tax.....	—	—	—	—	—	560	560
Other taxes.....	—	18,611	55,830	55,833	—	19,780	150,054
Federal funds.....	14,151	—	—	—	—	88,842	393,025
Local funds.....	204	—	—	—	—	11,916	23,885
Investment earnings.....	546	2,254	1,945	—	4,661	19,137	174,697
Interest earnings on loans.....	—	—	—	—	—	912	5,240
Sales and services.....	6,275	—	492	—	—	71,366	167,723
Rental and lease of property.....	49	—	—	—	—	1,967	3,761
Fees, licenses, and fines.....	21,245	3,825	—	1,247	—	128,649	243,973
Contributions, gifts, and grants.....	1,239	—	—	—	—	21,032	25,113
Funds escheated.....	—	—	—	—	—	—	214,500
Miscellaneous.....	79	—	—	—	—	15,977	18,029
Total revenues.....	<u>67,709</u>	<u>24,690</u>	<u>58,267</u>	<u>57,080</u>	<u>4,661</u>	<u>410,092</u>	<u>1,602,014</u>
Expenditures:							
Current:							
General government.....	—	—	—	—	—	70,298	90,803
Primary and secondary education.....	—	—	—	—	35,052	45,186	364,265
Higher education.....	—	—	—	—	—	25,229	792,355
Health and human services.....	—	—	—	—	—	69,328	85,473
Economic development.....	—	—	—	—	—	15,390	364,245
Environment and natural resources.....	65,718	29,648	—	45,072	—	58,137	399,025
Public safety, corrections, and regulation.....	—	—	51,179	—	—	90,460	457,348
Agriculture.....	—	—	—	—	—	5,469	7,626
Debt service:							
Principal retirement.....	665	—	—	—	—	11,187	11,852
Interest and fees.....	907	—	—	—	—	1,929	3,897
Debt issuance costs.....	—	—	—	—	—	—	1,929
Total expenditures.....	<u>67,290</u>	<u>29,648</u>	<u>51,179</u>	<u>45,072</u>	<u>35,052</u>	<u>392,613</u>	<u>2,578,818</u>
Excess revenues over (under) expenditures.....	<u>419</u>	<u>(4,958)</u>	<u>7,088</u>	<u>12,008</u>	<u>(30,391)</u>	<u>17,479</u>	<u>(976,804)</u>
Other Financing Sources (Uses):							
Bonds issued.....	—	—	—	—	—	—	502,745
Certificates of participation issued.....	—	—	—	—	—	—	300,000
Premium on debt issued.....	—	—	—	—	—	—	39,562
Sale of capital assets.....	200	—	—	—	—	88	3,978
Insurance recoveries.....	—	—	—	—	—	—	226
Transfers in.....	4,486	3,718	—	3,979	314,354	249,243	1,266,035
Transfers out.....	(1,644)	(350)	(7,133)	(8,251)	(294,766)	(211,324)	(907,117)
Total other financing sources (uses).....	<u>3,042</u>	<u>3,368</u>	<u>(7,133)</u>	<u>(4,272)</u>	<u>19,588</u>	<u>38,007</u>	<u>1,205,429</u>
Net change in fund balances.....	<u>3,461</u>	<u>(1,590)</u>	<u>(45)</u>	<u>7,736</u>	<u>(10,803)</u>	<u>55,486</u>	<u>228,625</u>
Fund balances — July 1, as restated.....	10,222	26,785	17,537	52,671	63,558	358,802	2,525,038
Increase (decrease) in reserve for related assets.....	(672)	—	—	—	—	219	3,925
Fund balances — June 30.....	<u>\$ 13,011</u>	<u>\$ 25,195</u>	<u>\$ 17,492</u>	<u>\$ 60,407</u>	<u>\$ 52,755</u>	<u>\$ 414,507</u>	<u>\$ 2,757,588</u>

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

For the Fiscal Year Ended June 30, 2007

(Dollars in Thousands)

	Employment and Training Administration Fund				Clean Water Funds			
	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget</u>	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>			<u>Original</u>	<u>Final</u>		
Revenues:								
Departmental:								
Federal funds.....	\$ 97,095	\$ 167,060	\$ 94,812	\$ (72,248)	\$ —	\$ —	\$ —	\$ —
Local funds.....	—	—	—	—	—	—	—	—
Inter-agency grants and allocations.....	—	—	—	—	—	—	—	—
Intra-governmental transactions.....	—	—	3	3	320	1,915	1,310	(605)
Sales and services.....	—	—	1	1	—	—	—	—
Sale, rental, and lease of property.....	1	1	—	(1)	—	—	—	—
Fees, licenses, and fines.....	—	—	—	—	—	—	—	—
Contributions, gifts, and grants.....	—	—	—	—	—	—	—	—
Miscellaneous.....	—	—	—	—	430	901	215	(686)
Total revenues.....	97,096	167,061	94,816	(72,245)	750	2,816	1,525	(1,291)
Expenditures:								
Current:								
General government.....	—	—	—	—	—	—	—	—
Health and human services.....	—	—	—	—	—	—	—	—
Environment and natural resources.....	—	—	—	—	—	—	—	—
Economic development.....	97,096	167,061	94,842	72,219	750	8,758	1,594	7,164
Primary and secondary education.....	—	—	—	—	—	—	—	—
Public safety and corrections.....	—	—	—	—	—	—	—	—
Debt service:.....	—	—	—	—	—	—	—	—
Principal retirement.....	—	—	—	—	—	—	—	—
Interest and fees.....	—	—	—	—	—	—	—	—
Total expenditures.....	97,096	167,061	94,842	72,219	750	8,758	1,594	7,164
Excess revenues over (under) expenditures	\$ —	\$ —	(26)	\$ (26)	\$ —	\$ (5,942)	(69)	\$ 5,873
Unreserved fund balances (budgetary basis) at July 1, 2006.....			26				7,497	
Unreserved fund balances (budgetary basis) at June 30, 2007.....			\$ —				\$ 7,428	

Employment Security Commission Funds				Highway Patrol Fund			
<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget</u>	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget</u>
<u>Original</u>	<u>Final</u>			<u>Original</u>	<u>Final</u>		
\$ 159,306	\$ 195,598	\$ 195,149	\$ (449)	\$ —	\$ 349	\$ 132	\$ (217)
15,195	12,195	12,135	(60)	—	—	—	—
6,788	2,789	1,789	(1,000)	—	2,172	1,113	(1,059)
20,072	37,120	36,586	(534)	188,423	251,557	224,411	(27,146)
—	—	—	—	1,544	1,669	1,374	(295)
—	—	—	—	5,894	5,894	2,544	(3,350)
—	—	—	—	—	30	170	140
—	—	—	—	—	32	—	(32)
1,205	1,705	1,665	(40)	1	103	305	202
<u>202,566</u>	<u>249,407</u>	<u>247,324</u>	<u>(2,083)</u>	<u>195,862</u>	<u>261,806</u>	<u>230,049</u>	<u>(31,757)</u>
—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—
202,566	249,407	247,003	2,404	—	—	—	—
—	—	—	—	—	—	—	—
—	—	—	—	195,862	275,633	237,176	38,457
—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—
<u>202,566</u>	<u>249,407</u>	<u>247,003</u>	<u>2,404</u>	<u>195,862</u>	<u>275,633</u>	<u>237,176</u>	<u>38,457</u>
<u>\$ —</u>	<u>\$ —</u>	321	<u>\$ 321</u>	<u>\$ —</u>	<u>\$ (13,827)</u>	(7,127)	<u>\$ 6,700</u>
		<u>1,364</u>				<u>14,933</u>	
		<u>\$ 1,685</u>				<u>\$ 7,806</u>	

Continued

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

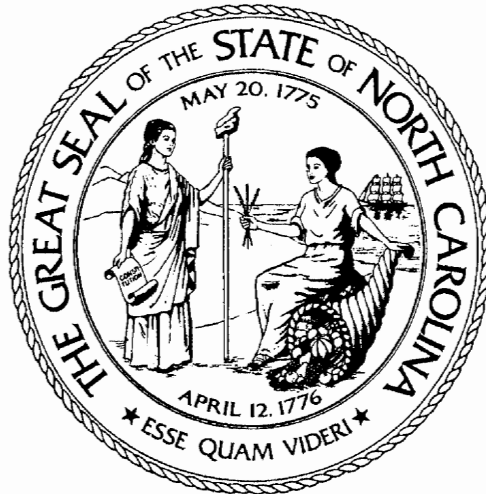
For the Fiscal Year Ended June 30, 2007

(Dollars in Thousands)

	Wildlife Resources Commission Fund				Education Lottery Funds			
	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget</u>	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>			<u>Original</u>	<u>Final</u>		
Revenues:								
Departmental:								
Federal funds.....	\$ 8,522	\$ 12,470	\$ 12,223	\$ (247)	\$ —	\$ —	\$ —	\$ —
Local funds.....	13	206	204	(2)	—	—	—	—
Inter-agency grants and allocations.....	266	392	260	(132)	—	—	—	—
Intra-governmental transactions.....	41,143	85,493	84,057	(1,436)	475,000	475,000	325,358	(149,642)
Sales and services.....	1,619	5,799	6,531	732	—	—	—	—
Sale, rental, and lease of property.....	165	243	245	2	—	—	—	—
Fees, licenses, and fines.....	18,056	21,788	21,514	(274)	—	—	—	—
Contributions, gifts, and grants.....	85	597	561	(36)	—	—	—	—
Miscellaneous.....	12	443	352	(91)	—	2,160	2,160	—
Total revenues.....	<u>69,881</u>	<u>127,431</u>	<u>125,947</u>	<u>(1,484)</u>	<u>475,000</u>	<u>477,160</u>	<u>327,518</u>	<u>(149,642)</u>
Expenditures:								
Current:								
General government.....	—	—	—	—	—	—	—	—
Health and human services.....	—	—	—	—	—	—	—	—
Environment and natural resources.....	69,881	126,385	123,162	3,223	—	—	—	—
Economic development.....	—	—	—	—	—	—	—	—
Primary and secondary education.....	—	—	—	—	475,000	477,160	325,533	151,627
Public safety and corrections.....	—	—	—	—	—	—	—	—
Debt service.....	—	—	—	—	—	—	—	—
Principal retirement.....	—	665	665	—	—	—	—	—
Interest and fees.....	—	907	907	—	—	—	—	—
Total expenditures.....	<u>69,881</u>	<u>127,957</u>	<u>124,734</u>	<u>3,223</u>	<u>475,000</u>	<u>477,160</u>	<u>325,533</u>	<u>151,627</u>
Excess revenues over (under) expenditures.....	<u>\$ —</u>	<u>\$ (526)</u>	<u>1,213</u>	<u>\$ 1,739</u>	<u>\$ —</u>	<u>\$ —</u>	<u>1,985</u>	<u>\$ 1,985</u>
Unreserved fund balances (budgetary basis) at July 1, 2006.....			<u>7,916</u>				<u>50,000</u>	
Unreserved fund balances (budgetary basis) at June 30, 2007.....			<u>\$ 9,129</u>				<u>\$ 51,985</u>	

Departmental Funds				Totals - Budgeted Special Revenue Funds			
<u>Budgeted Amounts</u>			<u>Variance</u>	<u>Budgeted Amounts</u>			<u>Variance</u>
<u>Original</u>	<u>Final</u>	<u>Actual</u>	<u>with Final</u> <u>Budget</u>	<u>Original</u>	<u>Final</u>	<u>Actual</u>	<u>with Final</u> <u>Budget</u>
\$ 99,984	\$ 57,770	\$ 45,359	\$ (12,411)	\$ 364,907	\$ 433,247	\$ 347,675	\$ (85,572)
110	266	—	(266)	15,318	12,667	12,339	(328)
1,973	3,091	1,926	(1,165)	9,027	8,444	5,088	(3,356)
156,668	240,302	195,145	(45,157)	881,626	1,091,387	866,870	(224,517)
4,549	9,330	8,128	(1,202)	7,712	16,798	16,034	(764)
89	99	120	21	6,149	6,237	2,909	(3,328)
84,067	85,214	83,805	(1,409)	102,123	107,032	105,489	(1,543)
414	2,541	1,749	(792)	499	3,170	2,310	(860)
2,409	3,274	5,211	1,937	4,057	8,586	9,908	1,322
<u>350,263</u>	<u>401,887</u>	<u>341,443</u>	<u>(60,444)</u>	<u>1,391,418</u>	<u>1,687,568</u>	<u>1,368,622</u>	<u>(318,946)</u>
75,407	154,438	102,724	51,714	75,407	154,438	102,724	51,714
157,959	130,137	100,426	29,711	157,959	130,137	100,426	29,711
52,032	78,593	43,642	34,951	121,913	204,978	166,804	38,174
32,614	92,714	30,807	61,907	333,026	517,940	374,246	143,694
—	—	—	—	475,000	477,160	325,533	151,627
31,344	48,239	46,216	2,023	227,206	323,872	283,392	40,480
—	930	930	—	—	1,595	1,595	—
—	1,678	1,677	1	—	2,585	2,584	1
<u>349,356</u>	<u>506,729</u>	<u>326,422</u>	<u>180,307</u>	<u>1,390,511</u>	<u>1,812,705</u>	<u>1,357,304</u>	<u>455,401</u>
<u>\$ 907</u>	<u>\$(104,842)</u>	<u>15,021</u>	<u>\$119,863</u>	<u>\$ 907</u>	<u>\$(125,137)</u>	<u>11,318</u>	<u>\$ 136,455</u>
		<u>216,262</u>				<u>297,998</u>	
		<u>\$ 231,283</u>				<u>\$ 309,316</u>	

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NONMAJOR CAPITAL PROJECTS FUNDS

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

**COMBINING BALANCE SHEET
NONMAJOR CAPITAL PROJECTS FUNDS**

June 30, 2007

Exhibit C-6

(Dollars in Thousands)

	Capital Projects Fund	N.C. Infrastructure Finance Corporation	State Energy Contracts	Total Nonmajor Capital Projects Funds
Assets				
Securities lending collateral.....	\$ 895	\$ —	\$ 120	\$ 1,015
Receivables, net:				
Intergovernmental receivable.....	235	—	—	235
Interest receivable.....	4	—	—	4
Due from other funds	—	17,357	—	17,357
Restricted/designated cash and cash equivalents....	339,836	789	145	340,770
Restricted investments.....	—	5,845	2,169	8,014
Total Assets.....	\$ 340,970	\$ 23,991	\$ 2,434	\$ 367,395
Liabilities and Fund Balances				
Liabilities:				
Accounts payable and accrued liabilities:				
Accounts payable.....	\$ 10,220	\$ 17,595	\$ —	\$ 27,815
Intergovernmental payable.....	940	—	—	940
Obligations under securities lending.....	895	—	120	1,015
Due to other funds	19	—	—	19
Deposits payable.....	1	—	—	1
Total Liabilities.....	12,075	17,595	120	29,790
Fund Balances:				
Reserved for:				
Capital projects.....	60,219	35,414	14,776	110,409
Unreserved:				
Undesignated	268,676	(29,018)	(12,462)	227,196
Total Fund Balances.....	328,895	6,396	2,314	337,605
Total Liabilities and Fund Balances.....	\$ 340,970	\$ 23,991	\$ 2,434	\$ 367,395

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

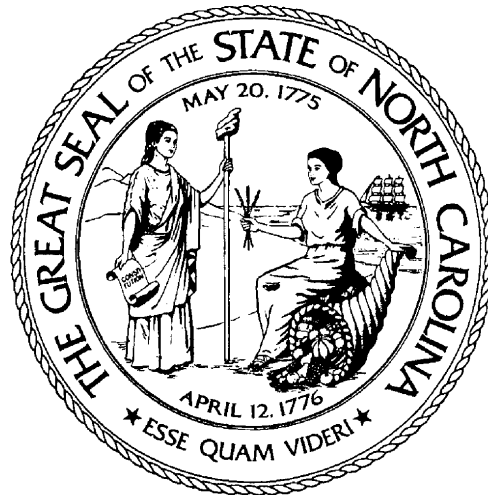
For the Fiscal Year Ended June 30, 2007

Exhibit C-7

(Dollars in Thousands)

	Capital Projects Fund	N.C. Infrastructure Finance Corporation	State Energy Contracts	Total Nonmajor Capital Projects Funds
Revenues:				
Federal funds.....	\$ 20,947	\$ —	\$ —	\$ 20,947
Investment earnings.....	94	467	382	943
Sales and services.....	665	—	—	665
Contributions, gifts, and grants.....	80,687	19,784	—	100,471
Miscellaneous.....	245	—	—	245
Total revenues.....	<u>102,638</u>	<u>20,251</u>	<u>382</u>	<u>123,271</u>
Expenditures:				
Current:				
Environment & natural resources.....	47	—	—	47
Capital outlay.....	195,311	243,568	12,837	451,716
Debt service:				
Principal retirement.....	—	3	—	3
Interest and fees.....	—	50	7	57
Total expenditures.....	<u>195,358</u>	<u>243,621</u>	<u>12,844</u>	<u>451,823</u>
Excess revenues over (under) expenditures.....	<u>(92,720)</u>	<u>(223,370)</u>	<u>(12,462)</u>	<u>(328,552)</u>
Other Financing Sources (Uses):				
Sale of capital assets.....	62	—	—	62
Transfers in.....	193,896	220,123	—	414,019
Transfers out.....	(1,541)	(1,093)	—	(2,634)
Total other financing sources (uses).....	<u>192,417</u>	<u>219,030</u>	<u>—</u>	<u>411,447</u>
Net change in fund balances.....	99,697	(4,340)	(12,462)	82,895
Fund balances — July 1, as restated	229,198	10,736	14,776	254,710
Fund balances — June 30.....	<u>\$ 328,895</u>	<u>\$ 6,396</u>	<u>\$ 2,314</u>	<u>\$ 337,605</u>

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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, 2007

Exhibit C-8

(Dollars in Thousands)

	Wildlife Endowment Fund	Departmental Funds	Total Nonmajor Permanent Funds
Assets			
Receivables, net:			
Accounts receivable.....	\$ —	\$ 14	\$ 14
Interest receivable.....	1	20	21
Securities lending collateral	34,511	4,237	38,748
Restricted/designated cash and cash equivalents...	443	5,125	5,568
Restricted investments.....	60,090	551	60,641
Total Assets.....	<u>\$ 95,045</u>	<u>\$ 9,947</u>	<u>\$ 104,992</u>
Liabilities and Fund Balances			
Liabilities:			
Obligations under securities lending.....	\$ 34,511	\$ 4,237	\$ 38,748
Total Liabilities.....	<u>34,511</u>	<u>4,237</u>	<u>38,748</u>
Fund Balances:			
Reserved for:			
Permanent investments.....	59,879	4,767	64,646
Unreserved:			
Undesignated.....	655	943	1,598
Total Fund Balances.....	<u>60,534</u>	<u>5,710</u>	<u>66,244</u>
Total Liabilities and Fund Balances.....	<u>\$ 95,045</u>	<u>\$ 9,947</u>	<u>\$ 104,992</u>

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

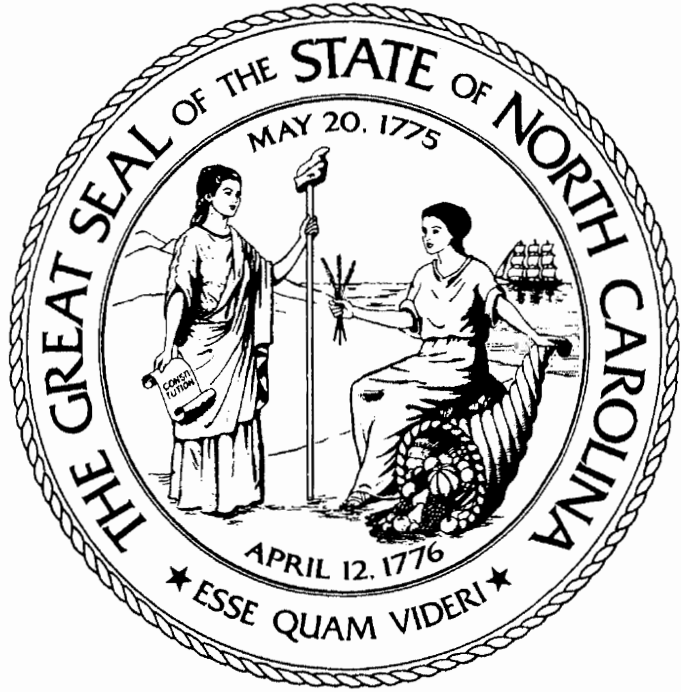
For the Fiscal Year Ended June 30, 2007

Exhibit C-9

(Dollars in Thousands)

	Wildlife Endowment Fund	Departmental Funds	Total Nonmajor Permanent Funds
Revenues:			
Investment earnings.....	\$ 4,733	\$ 258	\$ 4,991
Sales and services.....	61	—	61
Fees, licenses, and fines.....	3,019	840	3,859
Contributions, gifts, and grants.....	8	1,541	1,549
Total revenues.....	<u>7,821</u>	<u>2,639</u>	<u>10,460</u>
Expenditures:			
Current:			
Higher education.....	—	28	28
Health and human services.....	—	11	11
Environment and natural resources.....	1,219	202	1,421
Total expenditures.....	<u>1,219</u>	<u>241</u>	<u>1,460</u>
Excess revenues over (under) expenditures.....	<u>6,602</u>	<u>2,398</u>	<u>9,000</u>
Other Financing Sources (Uses):			
Transfers in.....	—	1,817	1,817
Transfers out.....	(3,463)	—	(3,463)
Total other financing sources (uses).....	<u>(3,463)</u>	<u>1,817</u>	<u>(1,646)</u>
Net change in fund balances.....	3,139	4,215	7,354
Fund balances — July 1.....	57,395	1,495	58,890
Fund balances — June 30.....	<u>\$ 60,534</u>	<u>\$ 5,710</u>	<u>\$ 66,244</u>

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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
- 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, 2007

(Dollars in Thousands)

	Public School Insurance	North Carolina State Fair	USS North Carolina Battleship Commission	Agricultural Farmers Market	Workers' Compensation	Utilities Commission	State Banking Commission
Assets							
Current Assets:							
Cash and cash equivalents.....	\$ 3,097	\$ 4,127	\$ 965	\$ 1,437	\$ 6,773	\$ 10,584	\$ 8,649
Investments.....	35,433	—	—	—	14,324	—	—
Securities lending collateral.....	22,910	—	—	—	13,760	9,486	—
Receivables:							
Accounts receivable, net.....	—	130	2	—	—	3,163	127
Intergovernmental receivable.....	—	—	—	—	—	—	—
Interest receivable.....	13	—	—	—	25	—	—
Premiums receivable.....	1,102	—	—	—	—	—	—
Inventories.....	—	111	212	8	—	43	—
Prepaid items.....	2,383	—	64	—	37	—	—
Total current assets.....	<u>64,938</u>	<u>4,368</u>	<u>1,243</u>	<u>1,445</u>	<u>34,919</u>	<u>23,276</u>	<u>8,776</u>
Noncurrent Assets:							
Investments.....	—	—	572	—	—	—	—
Restricted investments.....	—	—	3,739	—	—	—	—
Capital assets-nondepreciable.....	—	1,379	630	1,087	—	—	—
Capital assets-depreciable, net.....	—	8,343	1,945	6,132	—	131	91
Total noncurrent assets.....	<u>—</u>	<u>9,722</u>	<u>6,886</u>	<u>7,219</u>	<u>—</u>	<u>131</u>	<u>91</u>
Total Assets.....	<u>64,938</u>	<u>14,090</u>	<u>8,129</u>	<u>8,664</u>	<u>34,919</u>	<u>23,407</u>	<u>8,867</u>
Liabilities							
Current Liabilities:							
Accounts payable and accrued liabilities:							
Accounts payable.....	115	36	43	19	—	33	131
Accrued payroll.....	—	61	22	8	—	2	4
Claims payable.....	3,730	—	—	—	10,872	—	—
Obligations under securities lending.....	22,910	—	—	—	13,760	9,486	—
Due to other funds.....	2	14	—	1	—	9	8
Unearned revenue.....	4,828	1,526	9	—	1,299	—	2,693
Compensated absences - current.....	6	17	9	5	—	82	45
Total current liabilities.....	<u>31,591</u>	<u>1,654</u>	<u>83</u>	<u>33</u>	<u>25,931</u>	<u>9,612</u>	<u>2,881</u>
Noncurrent Liabilities:							
Compensated absences.....	71	237	62	71	—	1,152	636
Total noncurrent liabilities.....	<u>71</u>	<u>237</u>	<u>62</u>	<u>71</u>	<u>—</u>	<u>1,152</u>	<u>636</u>
Total Liabilities.....	<u>31,662</u>	<u>1,891</u>	<u>145</u>	<u>104</u>	<u>25,931</u>	<u>10,764</u>	<u>3,517</u>
Net Assets							
Invested in capital assets, net of related debt.....	—	9,722	2,575	7,219	—	131	91
Restricted for:							
Capital outlay.....	—	—	2,618	—	—	—	—
Other purposes.....	—	—	1,122	—	—	—	—
Unrestricted.....	33,276	2,477	1,669	1,341	8,988	12,512	5,259
Total Net Assets.....	<u>\$ 33,276</u>	<u>\$ 12,199</u>	<u>\$ 7,984</u>	<u>\$ 8,560</u>	<u>\$ 8,988</u>	<u>\$ 12,643</u>	<u>\$ 5,350</u>

Exhibit D-1

ABC Commission	Departmental Funds	Total Nonmajor Enterprise Funds
\$ 5,930	\$ 2,349	\$ 43,911
—	—	49,757
—	—	46,156
33	—	3,455
—	2	2
—	—	38
—	—	1,102
32	43	449
—	—	2,484
<u>5,995</u>	<u>2,394</u>	<u>147,354</u>
—	—	572
—	—	3,739
550	—	3,646
<u>2,971</u>	<u>2,044</u>	<u>21,657</u>
<u>3,521</u>	<u>2,044</u>	<u>29,614</u>
<u>9,516</u>	<u>4,438</u>	<u>176,968</u>
45	36	458
4	11	112
—	—	14,602
—	—	46,156
11	—	45
—	144	10,499
13	7	184
<u>73</u>	<u>198</u>	<u>72,056</u>
<u>181</u>	<u>49</u>	<u>2,459</u>
<u>181</u>	<u>49</u>	<u>2,459</u>
<u>254</u>	<u>247</u>	<u>74,515</u>
3,521	2,044	25,303
—	—	2,618
—	—	1,122
<u>5,741</u>	<u>2,147</u>	<u>73,410</u>
<u>\$ 9,262</u>	<u>\$ 4,191</u>	<u>\$ 102,453</u>

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

For the Fiscal Year Ended June 30, 2007

(Dollars in Thousands)

	Public School Insurance	North Carolina State Fair	USS North Carolina Battleship Commission	Agricultural Farmers Market	Workers' Compensation	Utilities Commission
Operating Revenues:						
Sales and services.....	\$ —	\$ 203	\$ 663	\$ 22	\$ —	\$ 8
Rental and lease earnings.....	—	3,854	—	568	—	—
Fees, licenses, and fines.....	—	7,560	1,435	786	—	11,852
Insurance premiums.....	11,059	—	—	—	2,842	—
Miscellaneous.....	—	—	124	—	—	36
Total operating revenues.....	<u>11,059</u>	<u>11,617</u>	<u>2,222</u>	<u>1,376</u>	<u>2,842</u>	<u>11,896</u>
Operating Expenses:						
Personal services.....	534	4,558	990	719	—	11,243
Supplies and materials.....	2	945	55	78	—	37
Services.....	57	4,197	684	282	623	684
Cost of goods sold.....	—	—	302	—	—	—
Depreciation/amortization.....	—	654	124	291	—	6
Claims.....	14,915	1	—	—	5,002	—
Insurance and bonding.....	3,077	155	18	41	944	1
Other.....	2	923	80	22	—	994
Total operating expenses.....	<u>18,587</u>	<u>11,433</u>	<u>2,253</u>	<u>1,433</u>	<u>6,569</u>	<u>12,965</u>
Operating income (loss).....	<u>(7,528)</u>	<u>184</u>	<u>(31)</u>	<u>(57)</u>	<u>(3,727)</u>	<u>(1,069)</u>
Nonoperating Revenues (Expenses):						
Noncapital grants.....	—	—	—	—	—	244
Noncapital gifts.....	—	191	—	5	—	—
Investment earnings (loss).....	3,450	—	303	—	1,859	919
Gain (loss) on sale of equipment.....	—	15	—	—	—	—
Miscellaneous.....	(899)	19	—	—	(569)	(460)
Total nonoperating revenues (expenses).....	<u>2,551</u>	<u>225</u>	<u>303</u>	<u>5</u>	<u>1,290</u>	<u>703</u>
Income (loss) before contributions and transfers.....	(4,977)	409	272	(52)	(2,437)	(366)
Capital contributions.....	—	112	25	—	—	—
Transfers in.....	—	—	—	—	4,500	—
Transfers out.....	—	(245)	—	(2)	—	(431)
Change in net assets.....	<u>(4,977)</u>	<u>276</u>	<u>297</u>	<u>(54)</u>	<u>2,063</u>	<u>(797)</u>
Net assets — July 1, as restated.....	<u>38,253</u>	<u>11,923</u>	<u>7,687</u>	<u>8,614</u>	<u>6,925</u>	<u>13,440</u>
Net assets — June 30.....	<u>\$ 33,276</u>	<u>\$ 12,199</u>	<u>\$ 7,984</u>	<u>\$ 8,560</u>	<u>\$ 8,988</u>	<u>\$ 12,643</u>

Exhibit D-2

State Banking Commission	ABC Commission	Departmental Funds	Total Nonmajor Enterprise Funds
\$ —	\$ 3	\$ 162	\$ 1,061
—	—	923	5,345
11,067	6,360	1,204	40,264
—	—	—	13,901
10	11	—	181
<u>11,077</u>	<u>6,374</u>	<u>2,289</u>	<u>60,752</u>
7,003	2,114	802	27,963
39	45	204	1,405
2,274	4,891	571	14,263
—	—	129	431
6	117	91	1,289
—	—	—	19,918
1	14	40	4,291
936	279	163	3,399
<u>10,259</u>	<u>7,460</u>	<u>2,000</u>	<u>72,959</u>
<u>818</u>	<u>(1,086)</u>	<u>289</u>	<u>(12,207)</u>
—	—	—	244
—	—	63	259
—	—	—	6,531
—	—	—	15
—	—	2	(1,907)
—	—	65	5,142
818	(1,086)	354	(7,065)
—	—	5	142
—	—	149	4,649
(182)	(117)	—	(977)
636	(1,203)	508	(3,251)
4,714	10,465	3,683	105,704
<u>\$ 5,350</u>	<u>\$ 9,262</u>	<u>\$ 4,191</u>	<u>\$ 102,453</u>

COMBINING STATEMENT OF CASH FLOWS NONMAJOR ENTERPRISE FUNDS

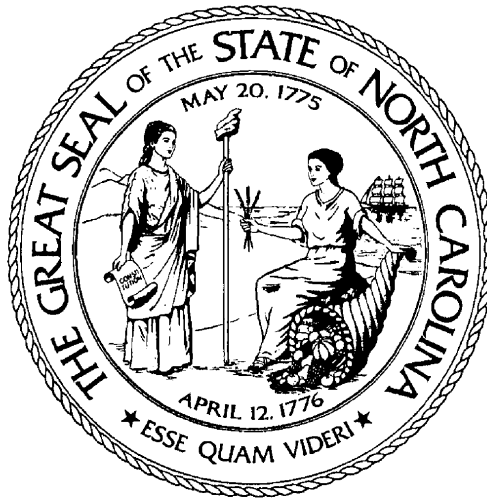
For the Fiscal Year Ended June 30, 2007

(Dollars in Thousands)

	Public School Insurance	North Carolina State Fair	USS North Carolina Battleship Commission	Agricultural Farmers Market	Workers' Compensation	Utilities Commission
Cash Flows from Operating Activities:						
Receipts from customers.....	\$ 12,854	\$ 12,492	\$ 2,228	\$ 1,384	\$ 2,771	\$ 13,571
Payments to suppliers.....	(3,276)	(6,271)	(1,115)	(419)	(1,598)	(1,151)
Payments to employees.....	(538)	(4,498)	(989)	(713)	—	(11,361)
Payments for prizes, benefits, and claims.....	(11,979)	(1)	—	—	(5,303)	—
Other receipts (payments).....	—	19	—	—	—	(547)
Net cash flows provided (used) by operating activities.....	(2,939)	1,741	124	252	(4,130)	512
Cash Provided From (Used For)						
Noncapital Financing Activities:						
Grant receipts (refunds).....	—	—	—	—	—	244
Transfers from other funds.....	—	—	—	—	4,500	—
Transfers to other funds.....	—	(245)	—	(2)	—	(431)
Gifts.....	—	191	—	5	—	—
Total cash provided from (used for) noncapital financing activities.....	—	(54)	—	3	4,500	(187)
Cash Provided From (Used For)						
Capital Financing Activities:						
Acquisition and construction of capital assets.....	—	(61)	—	(124)	—	(27)
Proceeds from the sale of capital assets.....	—	15	—	—	—	—
Capital contributions.....	—	—	25	—	—	—
Total cash provided from (used for) capital financing activities.....	—	(46)	25	(124)	—	(27)
Cash Provided From (Used For)						
Investment Activities:						
Purchase of non-State Treasurer investments.....	—	—	(455)	—	—	—
Redemptions from State Treasurer investment pool...	3,000	—	—	—	—	—
Investment earnings (loss).....	221	—	177	—	306	459
Total cash provided from (used for) investment activities.....	3,221	—	(278)	—	306	459
Net increase (decrease) in cash and cash equivalents	282	1,641	(129)	131	676	757
Cash and cash equivalents at July 1.....	2,815	2,486	1,094	1,306	6,097	9,827
Cash and cash equivalents at June 30.....	\$ 3,097	\$ 4,127	\$ 965	\$ 1,437	\$ 6,773	\$ 10,584
Reconciliation of Operating Income to Net Cash Provided						
From (Used For) Operating Activities:						
Operating income (loss).....	\$ (7,528)	\$ 184	\$ (31)	\$ (57)	\$ (3,727)	\$ (1,069)
Adjustments to reconcile operating income to net cash flows from operating activities:						
Depreciation/amortization.....	—	654	124	291	—	6
Restatements and adjustments.....	—	—	—	—	42	—
Nonoperating miscellaneous income (expense)....	—	19	—	—	—	—
(Increases) decreases in assets:						
Receivables.....	155	75	(1)	8	13	1,711
Inventories.....	—	(5)	(1)	1	—	(5)
Prepaid items.....	(242)	—	8	—	(37)	—
Increases (decreases) in liabilities:						
Accounts payable and accrued liabilities.....	3,037	(48)	23	1	(337)	(13)
Due to other funds.....	1	3	—	—	—	—
Compensated absences.....	(1)	58	(5)	8	—	(118)
Unearned revenue.....	1,639	801	7	—	(84)	—
Total cash provided from (used for) operations.....	\$ (2,939)	\$ 1,741	\$ 124	\$ 252	\$ (4,130)	\$ 512
Noncash Investing, Capital, and Financing Activities:						
Noncash distributions from the State Treasurer						
Long-Term Investment Portfolio and/or other agents	\$ (2,023)	\$ —	\$ —	\$ —	\$ 782	\$ —
Transferred assets.....	—	112	—	—	—	—
Assets acquired through the assumption of a liability..	22,910	—	—	—	13,760	9,486
Change in fair value of investments.....	302	—	87	—	194	—

State Banking Commission	ABC Commission	Departmental Funds	Total Nonmajor Enterprise Funds
\$ 12,430	\$ 8,011	\$ 2,284	\$ 68,025
(2,692)	(5,474)	(1,090)	(23,086)
(7,096)	(2,148)	(805)	(28,148)
—	—	—	(17,283)
(603)	6	2	(1,123)
<u>2,039</u>	<u>395</u>	<u>391</u>	<u>(1,615)</u>
—	—	—	244
—	—	149	4,649
(182)	(117)	—	(977)
—	—	63	259
<u>(182)</u>	<u>(117)</u>	<u>212</u>	<u>4,175</u>
(21)	—	—	(233)
—	—	—	15
—	—	—	25
<u>(21)</u>	<u>—</u>	<u>—</u>	<u>(193)</u>
—	—	—	(455)
—	—	—	3,000
—	—	—	1,163
—	—	—	3,708
1,836	278	603	6,075
6,813	5,652	1,746	37,836
<u>\$ 8,649</u>	<u>\$ 5,930</u>	<u>\$ 2,349</u>	<u>\$ 43,911</u>
\$ 818	\$ (1,086)	\$ 289	\$ (12,207)
6	117	91	1,289
—	—	—	42
—	—	2	21
225	1,648	—	3,834
—	56	5	51
—	—	—	(271)
(50)	(305)	11	2,319
(2)	(1)	(1)	—
(96)	(34)	(3)	(191)
1,138	—	(3)	3,498
<u>\$ 2,039</u>	<u>\$ 395</u>	<u>\$ 391</u>	<u>\$ (1,615)</u>
\$ —	\$ —	\$ —	\$ (1,241)
—	—	5	117
—	—	—	46,156
—	—	—	583

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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:

Workers' 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, 2007

(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.....	\$ 1,657	\$ 26,865	\$ 6,513	\$ —	\$ 1,513
Investments.....	—	18,059	—	—	—
Securities lending collateral.....	—	32,634	—	—	—
Receivables:					
Accounts receivable, net.....	2,441	—	2,025	122	1,090
Interest receivable.....	—	107	—	—	—
Premiums receivable.....	—	1,279	—	—	—
Due from fiduciary funds.....	—	—	—	—	—
Due from other funds.....	1,267	—	4,804	—	11
Due from component units.....	—	—	694	—	—
Inventories.....	—	—	198	117	—
Prepaid items.....	—	—	—	—	—
Total current assets.....	<u>5,365</u>	<u>78,944</u>	<u>14,234</u>	<u>239</u>	<u>2,614</u>
Noncurrent Assets:					
Capital assets-nondepreciable.....	—	—	418	—	—
Capital assets-depreciable, net.....	—	—	66,480	326	—
Total noncurrent assets.....	<u>—</u>	<u>—</u>	<u>66,898</u>	<u>326</u>	<u>—</u>
Total Assets.....	<u>5,365</u>	<u>78,944</u>	<u>81,132</u>	<u>565</u>	<u>2,614</u>
Liabilities					
Current Liabilities:					
Accounts payable and accrued liabilities:					
Accounts payable.....	—	—	3,479	17	1
Accrued payroll.....	—	—	9	25	446
Intergovernmental payable.....	—	—	—	—	—
Claims payable.....	—	6,513	—	—	—
Obligations under securities lending.....	—	32,634	—	—	—
Due to other funds.....	—	—	2	873	1
Unearned revenue.....	—	4,628	—	—	—
Compensated absences - current.....	—	29	26	28	5
Total current liabilities.....	<u>—</u>	<u>43,804</u>	<u>3,516</u>	<u>943</u>	<u>453</u>
Noncurrent Liabilities:					
Compensated absences.....	—	295	139	153	19
Total noncurrent liabilities.....	<u>—</u>	<u>295</u>	<u>139</u>	<u>153</u>	<u>19</u>
Total Liabilities.....	<u>—</u>	<u>44,099</u>	<u>3,655</u>	<u>1,096</u>	<u>472</u>
Net Assets					
Invested in capital assets, net of related debt.....	—	—	66,898	326	—
Unrestricted.....	5,365	34,845	10,579	(857)	2,142
Total Net Assets.....	<u>\$ 5,365</u>	<u>\$ 34,845</u>	<u>\$ 77,477</u>	<u>\$ (531)</u>	<u>\$ 2,142</u>

Exhibit E-1

Computing Services	State		Totals
	Telecommu- nications Services	Surplus Property	
\$ 6,944	\$ 9,995	\$ 989	\$ 54,476
—	—	—	18,059
—	—	—	32,634
6,496	1,981	57	14,212
—	—	—	107
—	—	—	1,279
—	11	—	11
4,890	6,888	858	18,718
6	458	—	1,158
19	—	—	334
7,655	1,715	—	9,370
<u>26,010</u>	<u>21,048</u>	<u>1,904</u>	<u>150,358</u>
3,266	—	19	3,703
23,687	2,749	65	93,307
<u>26,953</u>	<u>2,749</u>	<u>84</u>	<u>97,010</u>
<u>52,963</u>	<u>23,797</u>	<u>1,988</u>	<u>247,368</u>
2,562	166	1,148	7,373
68	15	—	563
—	—	1	1
—	—	—	6,513
—	—	—	32,634
341	92	174	1,483
—	—	—	4,628
242	96	15	441
<u>3,213</u>	<u>369</u>	<u>1,338</u>	<u>53,636</u>
2,162	858	84	3,710
<u>2,162</u>	<u>858</u>	<u>84</u>	<u>3,710</u>
<u>5,375</u>	<u>1,227</u>	<u>1,422</u>	<u>57,346</u>
26,953	2,749	84	97,010
20,635	19,821	482	93,012
<u>\$ 47,588</u>	<u>\$ 22,570</u>	<u>\$ 566</u>	<u>\$ 190,022</u>

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

For the Fiscal Year Ended June 30, 2007

(Dollars in Thousands)

	Workers' Compensation Program	State Property Fire Insurance	Motor Fleet Management	Mail Service Center	Temporary Solutions
Operating Revenues:					
Sales and services.....	\$ 49,444	\$ —	\$ 42,155	\$ 3,079	\$ 9,599
Rental and lease earnings.....	—	—	—	—	—
Fees, licenses, and fines.....	—	—	—	—	—
Insurance premiums.....	—	20,264	—	—	—
Miscellaneous.....	—	—	57	—	—
Total operating revenues.....	<u>49,444</u>	<u>20,264</u>	<u>42,212</u>	<u>3,079</u>	<u>9,599</u>
Operating Expenses:					
Personal services.....	—	1,822	2,226	2,989	9,624
Supplies and materials.....	—	5	17,041	70	23
Services.....	48,994	170	2,710	681	98
Cost of goods sold.....	—	—	312	—	—
Depreciation/amortization.....	—	—	18,803	77	—
Claims.....	—	1,133	—	—	—
Insurance and bonding.....	—	24,385	2,434	—	—
Other.....	—	72	5	189	27
Total operating expenses.....	<u>48,994</u>	<u>27,587</u>	<u>43,531</u>	<u>4,006</u>	<u>9,772</u>
Operating income (loss).....	450	(7,323)	(1,319)	(927)	(173)
Nonoperating Revenues (Expenses):					
Investment earnings.....	—	4,390	—	—	—
Insurance recoveries.....	—	—	135	—	—
Gain (loss) on sale of equipment.....	—	—	271	—	—
Miscellaneous.....	—	(1,775)	18	—	—
Total nonoperating revenues (expenses).....	<u>—</u>	<u>2,615</u>	<u>424</u>	<u>—</u>	<u>—</u>
Income (loss) before contributions and transfers.....	450	(4,708)	(895)	(927)	(173)
Capital contributions.....	—	—	—	—	—
Transfers in.....	806	—	—	385	—
Transfers out.....	—	(1)	(44)	(20)	(1)
Change in net assets.....	<u>1,256</u>	<u>(4,709)</u>	<u>(939)</u>	<u>(562)</u>	<u>(174)</u>
Net assets — July 1, as restated.....	4,109	39,554	78,416	31	2,316
Net assets — June 30.....	<u>\$ 5,365</u>	<u>\$ 34,845</u>	<u>\$ 77,477</u>	<u>\$ (531)</u>	<u>\$ 2,142</u>

Exhibit E-2

Computing Services	State Telecommu- nications Services	Surplus Property	Totals
\$ 77,398	\$ 72,881	\$ 1,418	\$ 255,974
—	—	20	20
—	—	54	54
—	—	—	20,264
—	134	349	540
<u>77,398</u>	<u>73,015</u>	<u>1,841</u>	<u>276,852</u>
21,150	12,027	1,440	51,278
592	96	69	17,896
11,629	49,338	598	114,218
—	—	194	506
8,171	1,681	21	28,753
—	—	—	1,133
108	48	20	26,995
39,293	10,271	47	49,904
<u>80,943</u>	<u>73,461</u>	<u>2,389</u>	<u>290,683</u>
<u>(3,545)</u>	<u>(446)</u>	<u>(548)</u>	<u>(13,831)</u>
—	—	—	4,390
—	—	—	135
—	—	—	271
5	—	6	(1,746)
<u>5</u>	<u>—</u>	<u>6</u>	<u>3,050</u>
(3,540)	(446)	(542)	(10,781)
48	31	—	79
1,092	66	—	2,349
<u>(130)</u>	<u>(116)</u>	<u>(2)</u>	<u>(314)</u>
<u>(2,530)</u>	<u>(465)</u>	<u>(544)</u>	<u>(8,667)</u>
50,118	23,035	1,110	198,689
<u>\$ 47,588</u>	<u>\$ 22,570</u>	<u>\$ 566</u>	<u>\$ 190,022</u>

COMBINING STATEMENT OF CASH FLOWS INTERNAL SERVICE FUNDS

For the Fiscal Year Ended June 30, 2007

(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.....	\$ 9,972	\$ 9,439	\$ 5,708	\$ 1,053	\$ —
Receipts from other funds.....	39,027	7,657	35,063	2,708	9,639
Payments to suppliers.....	(48,994)	(24,631)	(15,978)	(254)	(45)
Payments to employees.....	—	(1,800)	(2,227)	(2,995)	(9,489)
Payments for benefits and claims.....	—	(1,162)	—	—	—
Payments to other funds.....	—	(53)	(5,326)	(589)	(79)
Other receipts (payments).....	—	—	71	(188)	(27)
Net cash flows provided (used) by operating activities.....	5	(10,550)	17,311	(265)	(1)
Cash Provided From (Used For) Noncapital Financing Activities:					
Transfers from other funds.....	806	—	—	385	—
Transfers to other funds.....	—	(1)	(44)	(20)	(1)
Total cash provided from (used for) noncapital financing activities.....	806	(1)	(44)	365	(1)
Cash Provided From (Used For) Capital Financing Activities:					
Acquisition and construction of capital assets.....	—	—	(16,666)	(100)	—
Proceeds from the sale of capital assets.....	—	—	271	—	—
Insurance recoveries.....	—	—	135	—	—
Total cash provided from (used for) capital financing activities.....	—	—	(16,260)	(100)	—
Cash Provided From (Used For) Investment Activities:					
Redemptions from State Treasurer investment pool.....	—	4,000	—	—	—
Investment earnings.....	—	1,462	—	—	—
Total cash provided from (used for) investment activities.....	—	5,462	—	—	—
Net increase (decrease) in cash and cash equivalents.....	811	(5,089)	1,007	—	(2)
Cash and cash equivalents at July 1.....	846	31,954	5,506	—	1,515
Cash and cash equivalents at June 30.....	<u>\$ 1,657</u>	<u>\$ 26,865</u>	<u>\$ 6,513</u>	<u>\$ —</u>	<u>\$ 1,513</u>
Reconciliation of Operating Income to Net Cash Provided From (Used For) Operating Activities:					
Operating income (loss).....	\$ 450	\$ (7,323)	\$ (1,319)	\$ (927)	\$ (173)
Adjustments to reconcile operating income to net cash flows from operating activities:					
Depreciation/amortization.....	—	—	18,803	77	—
Restatements and adjustments.....	—	(5,535)	—	—	—
Nonoperating miscellaneous income (expense).....	—	—	18	—	—
(Increases) decreases in assets:					
Receivables.....	(603)	(1,018)	(467)	682	33
Due from other funds.....	158	—	(770)	—	7
Due from fiduciary funds.....	—	—	—	—	—
Due from component units.....	—	—	(148)	—	—
Inventories.....	—	—	(16)	(2)	—
Prepaid items.....	—	—	—	—	—
Increases (decreases) in liabilities:					
Accounts payable and accrued liabilities.....	—	5,453	1,245	(27)	131
Due to other funds.....	—	—	(40)	(81)	(1)
Compensated absences.....	—	23	5	13	2
Unearned revenue.....	—	(2,150)	—	—	—
Total cash provided from (used for) operations.....	<u>\$ 5</u>	<u>\$ (10,550)</u>	<u>\$ 17,311</u>	<u>\$ (265)</u>	<u>\$ (1)</u>
Noncash Investing, Capital, and Financing Activities:					
Noncash distributions from the State Treasurer Long-Term Investment Portfolio and/or other agents.....	\$ —	\$ (1,008)	\$ —	\$ —	\$ —
Donated or transferred assets (fair market value).....	—	—	—	—	—
Assets acquired through the assumption of a liability.....	—	32,634	—	—	—
Change in fair value of investments.....	—	302	—	—	—

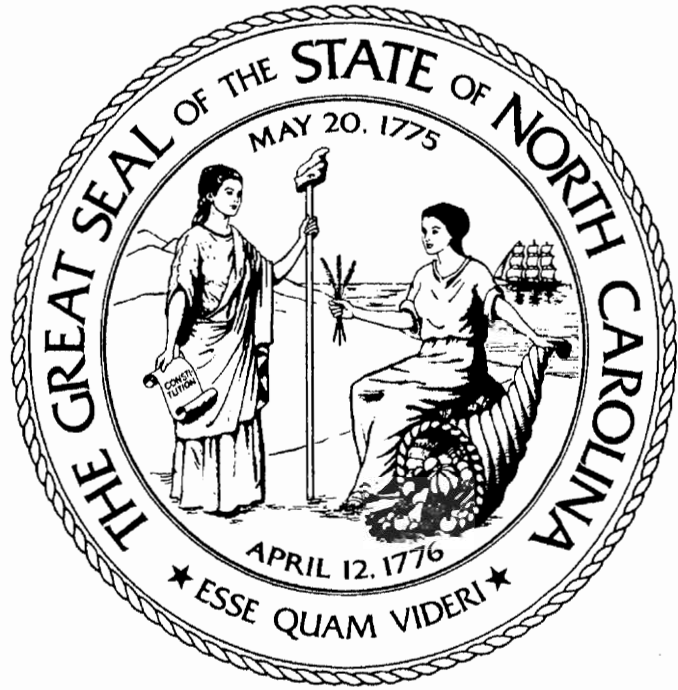
Exhibit E-3

Computing Services	State Telecommu- nications Services	Surplus Property	Totals
\$ 821	\$ 23,472	\$ 586	\$ 51,051
70,605	48,933	949	214,581
(41,618)	(57,403)	(303)	(189,226)
(20,828)	(12,049)	(1,467)	(50,855)
—	—	—	(1,162)
(3,530)	(1,032)	(562)	(11,171)
(979)	(68)	308	(903)
<u>4,471</u>	<u>1,833</u>	<u>(489)</u>	<u>12,315</u>
1,092	66	—	2,349
(130)	(116)	(2)	(314)
<u>962</u>	<u>(50)</u>	<u>(2)</u>	<u>2,035</u>
(10,867)	(1,909)	—	(29,542)
—	—	—	271
—	—	—	135
<u>(10,867)</u>	<u>(1,909)</u>	<u>—</u>	<u>(29,136)</u>
—	—	—	4,000
—	—	—	1,462
—	—	—	5,462
(5,434)	(126)	(491)	(9,324)
12,378	10,121	1,480	63,800
<u>\$ 6,944</u>	<u>\$ 9,995</u>	<u>\$ 969</u>	<u>\$ 54,476</u>

\$ (3,545)	\$ (446)	\$ (548)	\$ (13,831)
8,171	1,681	21	28,753
—	—	—	(5,535)
5	—	6	29
(6,334)	2,261	41	(5,405)
365	(2,830)	—	(3,070)
—	17	—	17
(5)	75	—	(78)
(1)	—	—	(19)
3,012	1,066	—	4,078
2,197	36	(59)	8,976
306	(2)	77	259
300	(25)	(27)	291
—	—	—	(2,150)
<u>\$ 4,471</u>	<u>\$ 1,833</u>	<u>\$ (489)</u>	<u>\$ 12,315</u>

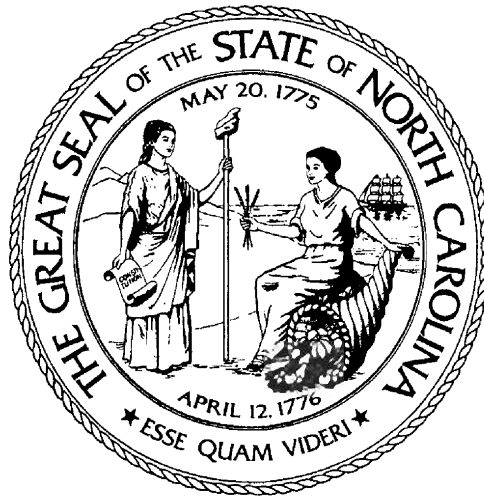
\$ —	\$ —	\$ —	\$ (1,008)
48	31	—	79
—	—	—	32,534
—	—	—	302

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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, 2007

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.....	\$ 445	\$ 97,316	\$ 392	\$ 98,153
Investments:				
U.S. Government securities.....	—	4,287	—	4,287
Certificates of deposit.....	—	63,528	—	63,528
Securities lending collateral.....	369	—	325	694
Receivables:				
Interest receivable.....	2	—	2	4
Sureties.....	888,146	—	—	888,146
Total Assets.....	<u>888,962</u>	<u>165,131</u>	<u>719</u>	<u>1,054,812</u>
Liabilities				
Obligations under securities lending.....	369	—	325	694
Total Liabilities.....	<u>369</u>	<u>—</u>	<u>325</u>	<u>694</u>
Net Assets				
Held in trust for:				
Individuals, organizations, and other governments.....	888,593	165,131	394	1,054,118
Total Net Assets.....	<u>\$ 888,593</u>	<u>\$ 165,131</u>	<u>\$ 394</u>	<u>\$ 1,054,118</u>

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

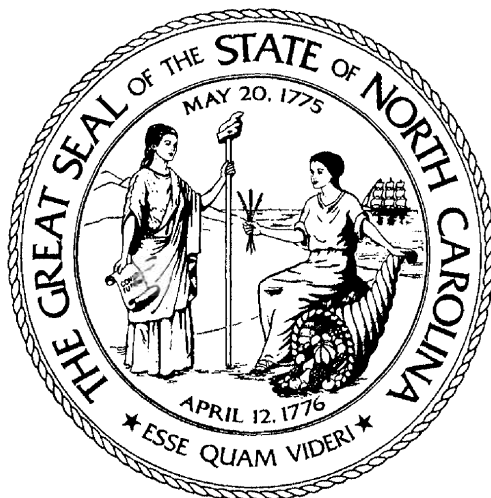
For the Fiscal Year Ended June 30, 2007

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.....	\$ 14,707	\$ 105,745	\$ 17	\$ 120,469
Total contributions.....	<u>14,707</u>	<u>105,745</u>	<u>17</u>	<u>120,469</u>
Investment income:				
Investment earnings.....	38	3,270	34	3,342
Less investment expenses.....	(18)	—	(17)	(35)
Net investment income.....	<u>20</u>	<u>3,270</u>	<u>17</u>	<u>3,307</u>
Total additions.....	<u>14,727</u>	<u>109,015</u>	<u>34</u>	<u>123,776</u>
Deductions:				
Payments in accordance with trust arrangements.....	115,004	107,970	—	222,974
Administrative expenses.....	3	—	—	3
Total deductions.....	<u>115,007</u>	<u>107,970</u>	<u>—</u>	<u>222,977</u>
Change in net assets.....	(100,280)	1,045	34	(99,201)
Net assets — July 1.....	988,873	164,086	360	1,153,319
Net assets — June 30.....	<u>\$ 888,593</u>	<u>\$ 165,131</u>	<u>\$ 394</u>	<u>\$ 1,054,118</u>

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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
- Insurers in Receivership
- Departmental Funds

COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES AGENCY FUNDS

For the Fiscal Year Ended June 30, 2007

(Dollars in Thousands)

	Balance, July 1, 2006	Additions	Deductions	Balance, June 30, 2007
Local Sales Tax Collections				
Assets				
Cash and cash equivalents.....	\$ 413,649	\$ 2,937,347	\$ (2,891,932)	\$ 459,064
Receivables:				
Taxes receivable.....	200,000	8,600	(43,000)	165,600
Due from other funds.....	12,824	—	(92)	12,732
Total Assets.....	\$ 626,473	\$ 2,945,947	\$ (2,935,024)	\$ 637,396
Liabilities				
Accounts payable and accrued liabilities:				
Intergovernmental payables.....	\$ 626,473	\$ 2,971,411	\$ (2,960,488)	\$ 637,396
Total Liabilities.....	\$ 626,473	\$ 2,971,411	\$ (2,960,488)	\$ 637,396
Clerks of Court				
Assets				
Cash and cash equivalents.....	\$ 93,656	\$ 1,438,535	\$ (1,429,995)	\$ 102,196
Receivables:				
Accounts receivable.....	471	5,933	(5,987)	417
Sureties.....	86,901	56,377	(47,080)	96,198
Total Assets.....	\$ 181,028	\$ 1,500,845	\$ (1,483,062)	\$ 198,811
Liabilities				
Accounts payable and accrued liabilities:				
Intergovernmental payables.....	\$ 6,612	\$ 121,603	\$ (122,935)	\$ 5,280
Funds held for others.....	174,416	535,619	(516,504)	193,531
Total Liabilities.....	\$ 181,028	\$ 657,222	\$ (639,439)	\$ 198,811
Intra-Entity Investment Fund Deposits				
Assets				
Cash and cash equivalents.....	\$ 1,989,387	\$ 200,758	\$ —	\$ 2,190,145
Investments:				
State Treasurer investment pool.....	38,477	2,391	—	40,868
Securities lending collateral.....	1,722,531	109,715	—	1,832,246
Total Assets.....	\$ 3,750,395	\$ 312,864	\$ —	\$ 4,063,259
Liabilities				
Obligations under securities lending.....	\$ 1,722,531	\$ 109,715	\$ —	\$ 1,832,246
Funds held for others.....	2,027,864	203,149	—	2,231,013
Total Liabilities.....	\$ 3,750,395	\$ 312,864	\$ —	\$ 4,063,259
Insurers in Receivership				
Assets				
Cash and cash equivalents.....	\$ 22,167	\$ 18,718	\$ —	\$ 40,885
Investments:				
Corporate bonds.....	50,827	3,974	—	54,801
Corporate stocks.....	1,008	3	—	1,011
Receivables:				
Accounts receivable.....	2,630	5,552	—	8,182
Interest receivable.....	287	—	(12)	275
Total Assets.....	\$ 76,919	\$ 28,247	\$ (12)	\$ 105,154
Liabilities				
Funds held for others.....	\$ 76,919	\$ 28,247	\$ (12)	\$ 105,154
Total Liabilities.....	\$ 76,919	\$ 28,247	\$ (12)	\$ 105,154

COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES**AGENCY FUNDS**

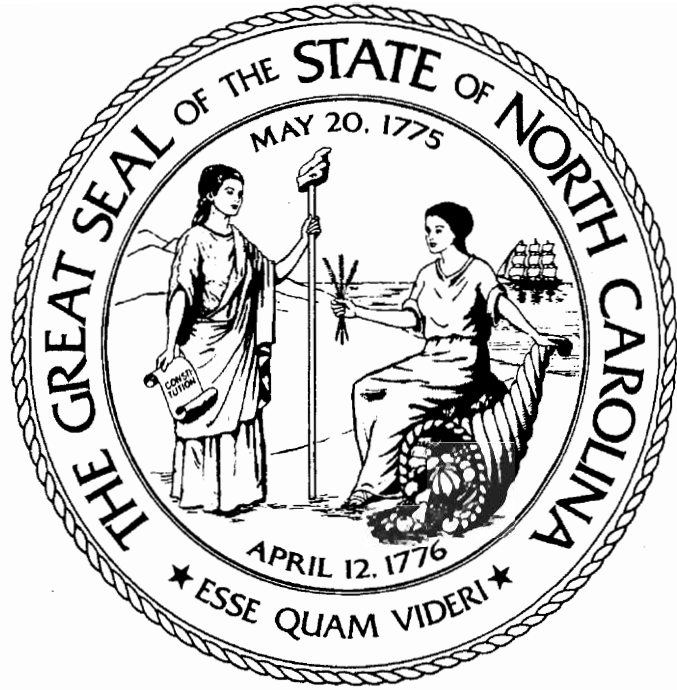
For the Fiscal Year Ended June 30, 2007

Exhibit F-3

(Dollars in Thousands)

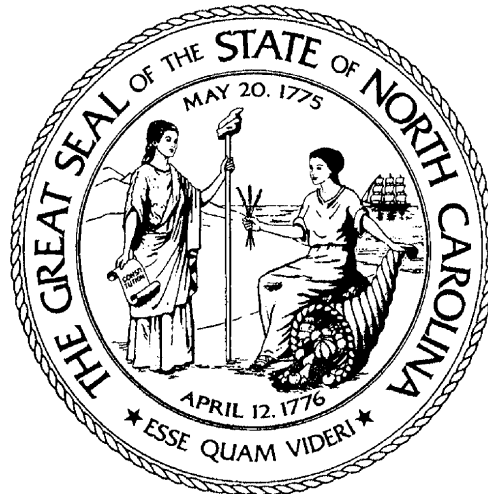
	Balance, July 1, 2006	Additions	Deductions	Balance, June 30, 2007
Departmental Funds				
Assets				
Cash and cash equivalents.....	\$ 23,652	\$ 1,072,410	\$ (1,069,801)	\$ 26,261
Investments:				
Certificates of deposit.....	467	—	(75)	392
Securities lending collateral.....	14,681	1,287	—	15,968
Receivables:				
Accounts receivable.....	123	6	(108)	21
Interest receivable.....	1	—	—	1
Due from other funds.....	47	—	—	47
Inventories.....	301	—	—	301
Total Assets.....	<u>\$ 39,272</u>	<u>\$ 1,073,703</u>	<u>\$ (1,069,984)</u>	<u>\$ 42,991</u>
Liabilities				
Accounts payable and accrued liabilities:				
Accounts payable.....	\$ 941	\$ 6,669	\$ (7,192)	\$ 418
Intergovernmental payables.....	6,148	194,585	(194,586)	6,147
Obligations under securities lending.....	14,681	1,287	—	15,968
Deposits payable.....	1,682	5,009	(5,051)	1,640
Funds held for others.....	15,820	105,193	(102,195)	18,818
Total Liabilities.....	<u>\$ 39,272</u>	<u>\$ 312,743</u>	<u>\$ (309,024)</u>	<u>\$ 42,991</u>
Total Agency Funds				
Assets				
Cash and cash equivalents.....	\$ 2,542,511	\$ 5,667,768	\$ (5,391,728)	\$ 2,818,551
Investments:				
Corporate bonds.....	50,827	3,974	—	54,801
Corporate stocks.....	1,008	3	—	1,011
Certificates of deposit.....	467	—	(75)	392
State Treasurer investment pool.....	38,477	2,391	—	40,868
Securities lending collateral.....	1,737,212	111,002	—	1,848,214
Receivables:				
Taxes receivable.....	200,000	8,600	(43,000)	165,600
Accounts receivable.....	3,224	11,491	(6,095)	8,620
Interest receivable.....	288	—	(12)	276
Due from other funds.....	12,871	—	(92)	12,779
Inventories.....	301	—	—	301
Sureties.....	86,901	56,377	(47,080)	96,198
Total Assets.....	<u>\$ 4,674,087</u>	<u>\$ 5,861,606</u>	<u>\$ (5,488,082)</u>	<u>\$ 5,047,611</u>
Liabilities				
Accounts payable and accrued liabilities:				
Accounts payable.....	\$ 941	\$ 6,669	\$ (7,192)	\$ 418
Intergovernmental payables.....	639,233	3,287,599	(3,278,009)	648,823
Obligations under securities lending.....	1,737,212	111,002	—	1,848,214
Deposits payable.....	1,682	5,009	(5,051)	1,640
Funds held for others.....	2,295,019	872,208	(618,711)	2,548,516
Total Liabilities.....	<u>\$ 4,674,087</u>	<u>\$ 4,282,487</u>	<u>\$ (3,908,963)</u>	<u>\$ 5,047,611</u>

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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, 2007

(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.....	\$ 41	\$ 3,677	\$ 9,802	\$ 236	\$ 2,668	\$ 1,798
Investments.....	9,677	—	1,820	2,087	691	—
Receivables, net.....	8,035	347	100	4,484	412	100
Due from component units.....	—	—	—	—	170	—
Inventories.....	810	2	—	—	—	—
Prepaid items.....	580	—	—	104	15	59
Notes receivable, net.....	—	13,078	—	—	179	—
Deferred charges.....	808	—	—	—	—	—
Restricted/designated cash and cash equiv...	4,678	—	248	—	—	29,784
Restricted investments.....	1,146	—	—	1,799	—	—
Capital assets-nondepreciable.....	73,547	172	23,955	—	67	29,654
Capital assets-depreciable, net.....	170,234	21	54,335	161	948	40,660
Total Assets.....	<u>269,556</u>	<u>17,297</u>	<u>90,260</u>	<u>8,871</u>	<u>5,150</u>	<u>102,055</u>
Liabilities						
Accounts payable and accrued liabilities.....	6,420	146	244	156	101	4,962
Interest payable.....	15	—	82	—	—	—
Due to primary government.....	26	1	10,325	1,302	—	—
Unearned revenue.....	197	—	—	—	985	—
Advance from primary government.....	—	—	21,742	—	—	—
Deposits payable.....	—	—	3	—	—	168
Funds held for others.....	—	—	—	90	—	—
Long-term liabilities:						
Due within one year.....	2,082	2	430	43	97	—
Due in more than one year.....	82,237	27	3,119	156	—	—
Total Liabilities.....	<u>90,977</u>	<u>176</u>	<u>35,945</u>	<u>1,747</u>	<u>1,183</u>	<u>5,130</u>
Net Assets						
Invested in capital assets, net of related debt.....	160,601	193	54,910	161	1,015	70,314
Restricted for:						
Expendable:						
Health and human services.....	—	—	—	4,871	—	—
Economic development.....	4,655	—	248	—	—	29,759
Unrestricted.....	13,323	16,928	(843)	2,092	2,952	(3,148)
Total Net Assets.....	<u>\$ 178,579</u>	<u>\$ 17,121</u>	<u>\$ 54,315</u>	<u>\$ 7,124</u>	<u>\$ 3,967</u>	<u>\$ 96,925</u>

Exhibit G-1

N.C. Phase II Tobacco Certification Entity, Inc.		N.C. Turnpike Authority		Total	
\$	1,027	\$	209	\$	19,458
	—		—		14,275
	—		52		13,530
	—		—		170
	—		—		812
	1		—		759
	—		—		13,257
	—		—		808
	59		—		34,769
	—		—		2,945
	—		7,112		134,507
	10		72		266,441
	<u>1,097</u>		<u>7,445</u>		<u>501,731</u>
	—		1,750		13,779
	—		—		97
	—		—		11,654
	—		—		1,182
	—		7,556		29,298
	—		—		171
	59		—		149
	—		6		2,660
	—		58		85,597
	<u>59</u>		<u>9,370</u>		<u>144,587</u>
	10		7,184		294,388
	—		—		4,871
	—		—		34,662
	1,028		(9,109)		23,223
\$	<u>1,038</u>	\$	<u>(1,925)</u>	\$	<u>357,144</u>

**COMBINING STATEMENT OF ACTIVITIES
NONMAJOR COMPONENT UNITS**

For the Fiscal Year Ended June 30, 2007

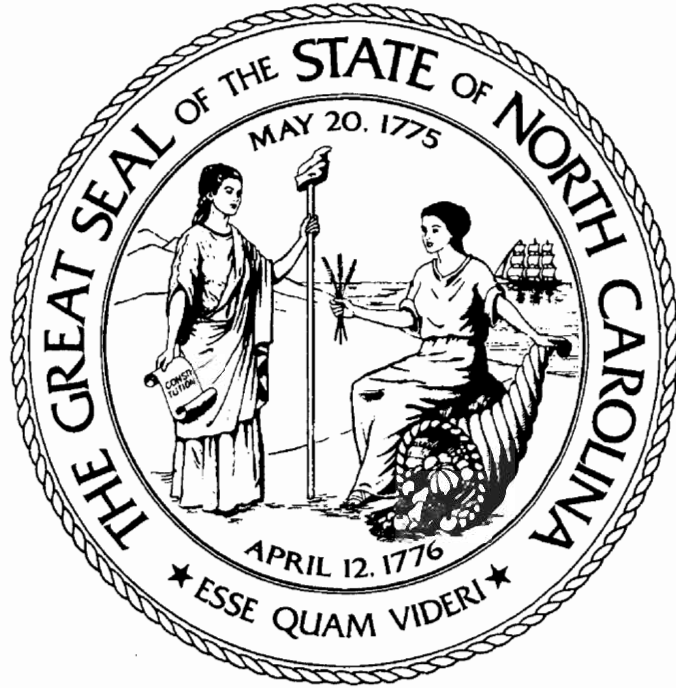
(Dollars in Thousands)

	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	\$ 40,789	\$ 715	\$ 6,987	\$ 131,643	\$ 6,275	\$ 18,439
Program revenues:						
Charges for services	39,202	1,262	1,480	—	335	13,852
Operating grants and contributions	672	191	929	740	2,525	1,402
Capital grants and contributions:						
State capital aid	11,200	—	—	—	—	10,065
Other capital grants and contributions ..	—	—	53	—	—	—
Net program (expense) revenue	10,285	738	(4,525)	(130,903)	(3,415)	6,880
Non-tax general revenues:						
State operating aid	—	—	1,600	130,172	3,788	—
Miscellaneous	—	—	—	—	—	283
Total non-tax general revenues	—	—	1,600	130,172	3,788	283
Change in net assets	10,285	738	(2,925)	(731)	373	7,163
Net assets — July 1, as restated	168,294	16,383	57,240	7,855	3,594	89,762
Net assets — June 30	<u>\$ 178,579</u>	<u>\$ 17,121</u>	<u>\$ 54,315</u>	<u>\$ 7,124</u>	<u>\$ 3,967</u>	<u>\$ 96,925</u>

Exhibit G-2

N.C. Phase II Tobacco Certification Entity, Inc.	N.C. Turnpike Authority	Total
\$ 1,539	\$ 4,406	\$ 210,793
—	—	56,131
92	7	6,558
—	2,974	24,239
—	3,550	3,603
<u>(1,447)</u>	<u>2,125</u>	<u>(120,262)</u>
—	—	135,560
—	—	283
—	—	<u>135,843</u>
<u>(1,447)</u>	<u>2,125</u>	<u>15,581</u>
<u>2,485</u>	<u>(4,050)</u>	<u>341,563</u>
<u>\$ 1,038</u>	<u>\$ (1,925)</u>	<u>\$ 357,144</u>

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STATISTICAL SECTION

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Index to Statistical Section

This part of the State of North Carolina's comprehensive annual financial report presents detailed information as a context for understanding what the information in the financial statements, note disclosures, and required supplementary information says about the State's overall financial health.

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Sources: Unless otherwise noted, the information in these schedules is derived from the comprehensive annual financial report for the relevant year.

NET ASSETS BY COMPONENT

For the Fiscal Years 2002-2007

(Dollars in Thousands)

	2007	2006	2005	2004	2003
Governmental activities:					
Invested in capital assets, net of related debt...	\$ 29,689,201	\$ 28,052,926	\$ 26,434,617	\$ 24,706,355	\$ 23,449,373
Restricted.....	1,076,470	890,602	1,314,397	1,474,405	1,071,626
Unrestricted.....	(921,349)	(1,310,486)	(3,839,972)	(3,199,354)	(2,210,477)
Total governmental activities net assets [1].....	<u>\$ 29,844,322</u>	<u>\$ 27,633,042</u>	<u>\$ 23,909,042</u>	<u>\$ 22,981,406</u>	<u>\$ 22,310,522</u>
Business-type activities:					
Invested in capital assets, net of related debt...	\$ 26,673	\$ 26,975	\$ 44,007	\$ 40,277	\$ 38,450
Restricted.....	1,612,943	1,286,477	970,615	665,547	863,426
Unrestricted.....	72,128	75,108	76,988	48,295	56,448
Total business-type activities net assets.....	<u>\$ 1,711,744</u>	<u>\$ 1,388,560</u>	<u>\$ 1,091,610</u>	<u>\$ 754,119</u>	<u>\$ 958,324</u>
Primary government:					
Invested in capital assets, net of related debt...	\$ 29,715,874	\$ 28,079,901	\$ 26,478,624	\$ 24,746,632	\$ 23,487,823
Restricted.....	2,689,413	2,177,079	2,285,012	2,139,952	1,935,052
Unrestricted.....	(849,221)	(1,235,378)	(3,762,984)	(3,151,059)	(2,154,029)
Total primary government net assets.....	<u>\$ 31,556,066</u>	<u>\$ 29,021,602</u>	<u>\$ 25,000,652</u>	<u>\$ 23,735,525</u>	<u>\$ 23,268,846</u>

Note: The State of North Carolina did not begin reporting government-wide statements until implementation of GASB Statement 34 in 2002.

[1] For fiscal year ended June 30, 2006, the State changed its methodology for applying GASB Statement No. 33, Accounting and Financial Reporting for Nonexchange Transactions to individual income taxes. The State now reports an estimate of underpayments of individual income taxes. The State has also changed its method to estimate overpayments of individual income taxes (i.e., income tax refunds payable and applied refunds). For the purpose of reporting underpayments, the availability period for General Fund individual income taxes was extended from thirty-one days to twelve months after year-end. Where underpayments exceed overpayments, individual income tax revenues are recognized to the extent of estimated overpayments (i.e., income tax refunds payable and applied refunds).

Table 1

2002

\$ 22,025,039
1,604,772
(1,615,102)
\$ 22,014,709

\$ 38,267
797,437
50,479
\$ 886,183

\$ 22,063,306
2,402,209
(1,564,623)
\$ 22,900,892

CHANGES IN NET ASSETS

For the Fiscal Years 2002-2007

(Dollars in Thousands)

	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>
Expenses					
Governmental activities:					
General government.....	\$ 1,265,450	\$ 1,039,513	\$ 917,209	\$ 807,248	\$ 773,835
Primary and secondary education.....	9,096,758	8,215,445	7,699,208	7,223,766	6,865,921
Higher education.....	4,405,930	3,472,024	3,576,384	3,140,794	2,814,375
Health and human services.....	14,360,634	13,491,119	13,375,794	11,729,904	10,614,411
Economic development.....	624,306	647,434	625,561	536,055	489,062
Environment and natural resources.....	723,504	676,049	570,241	599,575	537,540
Public safety, corrections, and regulation.....	2,483,398	2,304,900	2,125,385	2,093,404	2,034,225
Transportation.....	2,019,917	1,781,865	1,795,490	1,870,578	1,639,866
Agriculture.....	89,257	112,467	81,628	82,394	73,972
Interest on long-term debt.....	273,123	264,287	249,433	191,228	151,258
Total governmental activities expenses.....	<u>35,342,277</u>	<u>32,005,103</u>	<u>31,016,333</u>	<u>28,274,946</u>	<u>25,994,465</u>
Business-type activities:					
Unemployment Compensation Fund.....	864,981	849,945	824,934	1,389,266	1,603,796
N.C. State Lottery..... [2]	559,373	153,125	-	-	-
EPA Revolving Loan..... [4]	14,228	11,414	7,170	5,342	4,266
Regulatory commissions..... [3]	31,144	28,526	25,974	-	-
Insurance programs.....	26,624	16,051	13,580	25,237	13,752
North Carolina State Fair.....	11,433	10,497	10,759	8,956	8,257
Other business-type activities.....	5,686	10,255	9,753	8,821	8,748
Total business-type activities expenses.....	<u>1,513,469</u>	<u>1,079,813</u>	<u>892,170</u>	<u>1,437,622</u>	<u>1,638,819</u>
Total primary government expenses.....	<u>\$ 36,855,746</u>	<u>\$ 33,084,916</u>	<u>\$ 31,908,503</u>	<u>\$ 29,712,568</u>	<u>\$ 27,633,284</u>
Program Revenues:					
Governmental activities:					
Charges for services:					
Transportation.....	\$ 782,405	\$ 725,311	\$ 588,357	\$ 553,229	\$ 526,609
Public safety, corrections, and regulation.....	429,824	411,188	378,059	371,625	355,793
General government.....	480,378	339,053	202,514	211,648	162,311
Other activities.....	467,893	512,449	503,552	368,588	306,036
Operating grants and contributions.....	12,009,937	11,503,844	11,380,864	10,108,124	9,043,064
Capital grants and contributions.....	1,000,079	914,090	1,011,451	884,345	527,498
Total governmental activities program revenues.....	<u>15,170,516</u>	<u>14,405,935</u>	<u>14,064,797</u>	<u>12,497,559</u>	<u>10,921,311</u>
Business-type activities:					
Charges for services:					
Unemployment Compensation Fund.....	1,099,959	1,101,357	1,062,549	878,722	646,273
N.C. State Lottery..... [2]	866,195	216,906	-	-	-
EPA Revolving Loan..... [4]	16,400	15,237	14,078	13,876	12,550
Regulatory commissions..... [3]	29,347	33,550	32,223	-	-
Insurance programs.....	13,901	14,860	15,993	13,259	12,076
North Carolina State Fair.....	11,617	12,581	12,227	11,961	8,343
Other business-type activities.....	5,887	7,973	8,906	9,073	9,275
Operating grants and contributions.....	106,000	64,085	54,760	305,053	504,550
Capital grants and contributions.....	142	258	452	892	1,241
Total business-type activities program revenues.....	<u>2,149,448</u>	<u>1,466,807</u>	<u>1,201,188</u>	<u>1,232,836</u>	<u>1,194,308</u>
Total primary government program revenues.....	<u>\$ 17,319,964</u>	<u>\$ 15,872,742</u>	<u>\$ 15,265,985</u>	<u>\$ 13,730,395</u>	<u>\$ 12,115,619</u>
Net (expense) revenue					
Governmental activities.....	\$ (20,171,761)	\$ (17,599,168)	\$ (16,951,536)	\$ (15,777,387)	\$ (15,073,154)
Business-type activities.....	635,979	386,994	309,018	(204,786)	(444,511)
Total primary government net expense.....	<u>\$ (19,535,782)</u>	<u>\$ (17,212,174)</u>	<u>\$ (16,642,518)</u>	<u>\$ (15,982,173)</u>	<u>\$ (15,517,665)</u>

Table 2

2002

\$ 874,208
6,802,979
2,519,703
10,376,807
469,102
627,369
2,109,487
1,530,870
121,729
148,595
25,580,849

1,336,718
-
-
-
-
25,431
1,362,149
\$ 26,942,998

\$ 524,198
327,457
184,982
276,322
8,787,254
714,084
10,814,297

433,364
-
-
-
-
27,477
438,760
1,121
900,722
\$ 11,715,019

\$ (14,766,552)
(461,427)
\$ (15,227,979)

Continued

CHANGES IN NET ASSETS

For the Fiscal Years 2002-2007

(Dollars in Thousands)

	2007	2006	2005	2004	2003
General Revenues and Other Changes in Net Assets					
Governmental activities:					
Taxes					
Individual income tax..... [1]	\$ 10,739,562	\$ 9,336,745	\$ 8,244,275	\$ 7,407,455	\$ 7,122,099
Corporate income tax.....	1,466,148	1,306,193	1,143,458	760,180	921,611
Sales and use tax.....	5,108,456	5,033,040	4,621,098	4,293,040	4,029,403
Gasoline tax.....	1,601,764	1,514,626	1,354,699	1,276,627	1,154,986
Franchise tax.....	671,151	628,029	613,033	560,708	584,584
Highway use tax.....	607,511	577,237	580,118	578,346	552,759
Insurance tax.....	487,081	442,297	442,228	432,975	417,126
Beverage tax.....	245,990	233,315	220,782	213,271	198,848
Inheritance tax.....	162,746	133,158	135,107	128,352	112,150
Tobacco products tax..... [5]	241,687	-	-	-	-
Other tax.....	330,888	482,552	306,991	313,985	289,261
Tobacco settlement.....	144,075	140,969	148,800	147,224	173,256
Federal grants not restricted to specific programs.....	-	-	-	136,859	136,859
Unrestricted investment earnings.....	212,074	123,170	78,546	77,225	103,987
Miscellaneous.....	47,170	37,248	53,488	62,601	41,137
Contributions to permanent funds.....	3,928	4,674	2,288	2,068	1,806
Transfers.....	312,810	67,978	(11,620)	(302)	4,918
Total governmental activities.....	<u>22,383,041</u>	<u>20,061,231</u>	<u>17,933,291</u>	<u>16,390,614</u>	<u>15,844,790</u>
Business-type activities:					
Miscellaneous.....	15	4	79	3	-
Transfers.....	(312,810)	(67,978)	11,620	302	(4,918)
Total business-type activities.....	<u>(312,795)</u>	<u>(67,974)</u>	<u>11,699</u>	<u>305</u>	<u>(4,918)</u>
Total primary government.....	<u>\$ 22,070,246</u>	<u>\$ 19,993,257</u>	<u>\$ 17,944,990</u>	<u>\$ 16,390,919</u>	<u>\$ 15,839,872</u>
Change in Net Assets					
Governmental activities.....	\$ 2,211,280	\$ 2,462,063	\$ 981,755	\$ 613,227	\$ 771,636
Business-type activities.....	323,184	319,020	320,717	(204,481)	(449,429)
Total primary government.....	<u>\$ 2,534,464</u>	<u>\$ 2,781,083</u>	<u>\$ 1,302,472</u>	<u>\$ 408,746</u>	<u>\$ 322,207</u>

Note: The State of North Carolina did not begin reporting government-wide statements until implementation of GASB Statement 34 in 2002.

[1] For fiscal year ended June 30, 2006, the State changed its methodology for applying GASB Statement No. 33, Accounting and Financial Reporting for Nonexchange Transactions to individual income taxes. The State now reports an estimate of underpayments of individual income taxes. The State has also changed its method to estimate overpayments of individual income taxes (i.e., income tax refunds payable and applied refunds). For the purpose of reporting underpayments, the availability period for General Fund individual income taxes was extended from thirty-one days to twelve months after year-end. Where underpayments exceed overpayments, individual income tax revenues are recognized to the extent of estimated overpayments (i.e., income tax refunds payable and applied refunds).

[2] N.C. State Lottery established in 2006.

[3] Prior to 2005 Regulatory commissions were classified as Special Revenue Funds.

[4] Prior to 2003 EPA Revolving Loan was classified as Special Revenue Funds.

[5] Prior to 2007 tobacco products tax was included in other tax. A significant increase in the tobacco products tax rate determined the need to present tobacco products tax separately beginning 2007.

Table 2

2002

\$ 7,234,431
599,382
3,778,873
1,212,788
590,992
555,320
347,893
200,593
106,491
-
278,740
175,836
139,350
-
57,484
2,019
47,957
15,328,149

-
(47,957)
(47,957)
\$ 15,280,192

\$ 561,597
(509,384)
\$ 52,213

FUND BALANCES OF GOVERNMENTAL FUNDS

For the Fiscal Years 2002-2007

Table 3

(Dollars in Thousands)

	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>	<u>2002</u>
General Fund						
Reserved.....	\$ 178,427	\$ 155,948	\$ 172,633	\$ 197,448	\$ 166,172	\$ 227,767
Unreserved.....	2,398,484	1,810,452	(251,442)	(393,735)	(333,127)	(576,318)
Total General Fund [1].....	<u>\$ 2,576,911</u>	<u>\$ 1,966,400</u>	<u>\$ (78,809)</u>	<u>\$ (196,287)</u>	<u>\$ (166,955)</u>	<u>\$ (348,551)</u>
All Other Governmental Funds						
Reserved.....	\$ 1,016,619	\$ 951,701	\$ 911,966	\$ 847,174	\$ 672,653	\$ 1,099,039
Unreserved, reported in:						
Special revenue funds.....	2,527,114	2,204,146	2,170,533	2,260,374	2,041,905	2,254,227
Capital projects funds.....	227,196	115,060	44,237	110,395	84,677	73,751
Permanent funds.....	1,598	1,518	2,645	2,380	6,903	226
Total all other governmental funds.....	<u>\$ 3,772,527</u>	<u>\$ 3,272,425</u>	<u>\$ 3,129,381</u>	<u>\$ 3,220,323</u>	<u>\$ 2,806,138</u>	<u>\$ 3,427,243</u>

Note: Due to changes in the State's fund structure initiated when GASB Statement 34 was implemented, the changes in fund balance information is not available before 2002.

[1] For fiscal year ended June 30, 2006, the State changed its methodology for applying GASB Statement No. 33, Accounting and Financial Reporting for Nonexchange Transactions to individual income taxes. The State now reports an estimate of underpayments of individual income taxes. The State has also changed its method to estimate overpayments of individual income taxes (i.e., income tax refunds payable and applied refunds). For the purpose of reporting underpayments, the availability period for General Fund individual income taxes was extended from thirty-one days to twelve months after year-end. Where underpayments exceed overpayments, individual income tax revenues are recognized to the extent of estimated overpayments (i.e., income tax refunds payable and applied refunds).

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CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS

For the Fiscal Years 1998-2007

(Dollars in Thousands)

	2007	2006	2005	2004	2003
Revenues					
Taxes.....	[3] \$ 21,660,719	\$ 19,848,465	\$ 17,618,730	\$ 15,961,629	\$ 15,394,024
Federal funds.....	11,519,927	11,315,722	11,287,454	10,089,075	8,672,065
Local funds.....	725,542	610,501	767,067	657,954	586,638
Investment earnings.....	669,297	384,014	292,406	160,846	320,023
Interest earnings on loans.....	5,639	5,405	5,664	5,801	7,165
Sales and services.....	264,081	260,538	235,894	210,161	184,739
Rental and lease of property.....	28,722	25,982	38,585	27,848	22,175
Fees, licenses and fines.....	1,525,928	1,405,569	1,218,431	1,035,303	915,380
Tobacco settlement.....	142,825	136,453	148,641	146,452	173,256
Contributions, gifts, and grants.....	155,958	118,936	108,450	150,731	90,486
Funds escheated.....	214,500	108,075	49,684	55,330	41,369
Federal funds for fiscal relief.....	—	—	—	136,859	136,859
Miscellaneous.....	122,161	161,052	146,529	196,937	147,777
Total revenues.....	[1] <u>37,035,299</u>	<u>34,380,712</u>	<u>31,917,535</u>	<u>28,834,926</u>	<u>26,691,956</u>
Expenditures					
Current:					
General government.....	1,102,512	963,899	754,175	711,327	691,267
Education.....	[2] N/A	N/A	N/A	N/A	N/A
Primary and secondary education.....	[2] 9,087,905	8,211,998	7,713,265	7,223,143	6,863,338
Higher education.....	[2] 4,405,767	3,471,604	3,576,766	3,140,698	2,813,629
Health and human services.....	14,203,474	13,318,071	13,376,364	11,722,721	10,583,184
Economic development.....	623,038	643,510	622,000	532,674	484,298
Environment and natural resources.....	662,296	626,442	579,853	581,726	534,405
Public safety, corrections, and regulation.....	2,467,763	2,291,596	2,123,837	2,073,338	1,998,576
Transportation.....	3,296,301	3,219,549	3,511,161	3,389,042	2,967,551
Agriculture.....	92,062	110,626	82,508	81,488	81,857
Retiree tax judgements.....	—	—	—	—	—
Capital outlay.....	451,716	270,882	313,932	385,506	104,379
Debt service:					
Principal retirement.....	417,807	367,946	303,818	235,792	168,009
Interest and fees.....	306,410	288,088	241,936	185,350	152,110
Debt issuance costs.....	2,456	1,645	7,454	4,830	1,410
Total expenditures.....	[1] <u>37,119,507</u>	<u>33,785,856</u>	<u>33,207,069</u>	<u>30,267,635</u>	<u>27,444,013</u>
Excess revenues over (under) expenditures.....	<u>(84,208)</u>	<u>594,856</u>	<u>(1,289,534)</u>	<u>(1,432,709)</u>	<u>(752,057)</u>
Other Financing Sources (Uses)					
Bonds issued.....	502,745	370,000	1,075,140	1,377,560	711,600
Certificates of participation issued.....	300,000	—	188,385	283,955	17,500
Refunding bonds issued.....	84,385	—	959,665	326,710	556,350
Other debt issued.....	2,897	30,688	12,686	17,597	—
Premium on debt issued.....	40,867	16,338	210,116	137,256	25,017
Discount on debt issued.....	—	—	—	—	(254)
Payments to refunded bond escrow agent.....	(85,519)	—	(1,059,663)	(346,915)	(558,444)
Capital leases.....	799	26,745	212	—	150
Sale of capital assets.....	15,898	20,131	14,674	10,105	8,882
Insurance recoveries.....	5,700	6,537	—	—	—
Transfers in.....	2,340,937	1,784,222	1,754,448	1,566,520	1,587,388
Transfers out.....	(2,030,162)	(1,718,585)	(1,760,801)	(1,557,208)	(1,583,075)
Total other financing sources (uses).....	<u>1,178,547</u>	<u>536,076</u>	<u>1,394,862</u>	<u>1,815,580</u>	<u>765,114</u>
Net change in fund balances.....	<u>\$ 1,094,339</u>	<u>\$ 1,130,932</u>	<u>\$ 105,328</u>	<u>\$ 382,871</u>	<u>\$ 13,057</u>
Debt service as a percentage of noncapital expenditures...	2.07%	2.08%	1.80%	1.53%	1.26%

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.

Table 4

2002	2001	2000	1999	1998
\$ 14,894,796	\$ 15,147,177	\$ 14,569,104	\$ 13,817,577	\$ 13,287,609
8,459,344	7,924,893	7,253,282	6,297,196	5,983,003
702,076	760,607	511,350	469,539	462,879
335,082	487,824	500,854	529,028	575,901
47,421	5,789	5,356	6,665	5,676
194,548	97,686	94,751	92,237	84,087
24,359	43,046	25,059	26,913	26,321
864,912	896,435	1,046,042	895,892	826,491
175,836	140,272	—	N/A	N/A
93,802	122,871	79,554	71,787	61,189
90,181	N/A	N/A	N/A	N/A
N/A	N/A	N/A	N/A	N/A
145,887	165,349	147,816	172,103	148,794
<u>26,028,244</u>	<u>25,791,949</u>	<u>24,233,168</u>	<u>22,378,937</u>	<u>21,461,950</u>
809,398	1,035,440	1,229,513	1,039,855	1,115,763
N/A	6,964,812	6,674,757	6,253,838	5,416,486
6,802,662	N/A	N/A	N/A	N/A
2,519,624	N/A	N/A	N/A	N/A
10,398,386	9,617,423	8,411,025	7,665,461	7,300,262
498,644	453,931	428,819	370,124	321,613
574,871	459,170	371,238	354,025	332,803
2,070,166	1,948,423	1,999,894	1,670,703	1,578,985
2,992,187	2,820,290	2,598,605	2,508,886	2,384,455
122,337	88,623	143,936	72,562	68,573
—	58,679	440,000	399,000	400,000
126,011	155,228	159,241	182,793	203,605
180,398	151,120	141,934	123,952	91,585
147,580	130,343	122,943	103,678	78,454
734	N/A	N/A	N/A	N/A
<u>27,242,998</u>	<u>23,883,482</u>	<u>22,721,905</u>	<u>20,744,877</u>	<u>19,292,584</u>
<u>(1,214,754)</u>	<u>1,908,467</u>	<u>1,511,263</u>	<u>1,634,060</u>	<u>2,169,366</u>
605,000	680,000	200,000	450,055	700,000
—	—	—	—	—
—	—	—	26,182	—
4,832	—	—	—	—
14,733	—	—	—	—
—	—	—	—	—
—	—	—	(26,182)	—
216	—	339	841	—
12,570	—	—	—	—
—	—	—	—	—
1,478,308	1,415,317	1,573,875	1,273,470	1,215,549
<u>(1,414,418)</u>	<u>(1,427,607)</u>	<u>(1,576,980)</u>	<u>(1,307,996)</u>	<u>(1,217,753)</u>
<u>701,241</u>	<u>667,710</u>	<u>197,234</u>	<u>416,370</u>	<u>697,796</u>
<u>\$ (513,513)</u>	<u>\$ 2,576,177</u>	<u>\$ 1,708,497</u>	<u>\$ 2,050,430</u>	<u>\$ 2,867,162</u>
1.30%	1.26%	1.24%	1.17%	0.94%

[1] 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.

[2] 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.

[3] For fiscal year ended June 30, 2006, the State changed its methodology for applying GASB Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions* to individual income taxes. The State now reports an estimate of underpayments of individual income taxes. The State has also changed its method to estimate overpayments of individual income taxes (i.e., income tax refunds payable and applied refunds). For the purpose of reporting underpayments, the availability period for General Fund individual income taxes was extended from thirty-one days to twelve months after year-end. Where underpayments exceed overpayments, individual income tax revenues are recognized to the extent of estimated overpayments (i.e., income tax refunds payable and applied refunds).

SCHEDULE OF REVENUES BY SOURCE — GENERAL FUND GAAP BASIS

For the Fiscal Years 1998-2007

(Dollars in Thousands)

	2007	2006	2005	2004	2003
TAX REVENUES					
Individual income tax..... [2]	\$ 10,737,494	\$ 9,493,714	\$ 8,206,026	\$ 7,404,956	\$ 7,126,655
Corporate income tax.....	1,357,454	1,208,356	1,065,374	699,441	922,936
Sales and use tax.....	5,078,997	5,007,567	4,587,542	4,268,292	4,020,923
Franchise tax.....	669,235	628,665	613,093	560,502	583,781
Beverage tax.....	245,430	232,987	220,782	213,271	198,848
Insurance tax.....	475,546	431,729	431,664	423,405	408,873
Piped natural gas.....	61,345	58,397	60,739	64,327	63,219
Intangible tax.....	—	—	—	—	—
Inheritance tax.....	161,604	133,248	134,419	129,579	112,605
Soft drink tax.....	—	—	—	—	—
Tobacco products tax.....	241,687	187,566	43,361	44,126	41,899
License tax.....	48,137	46,035	44,219	42,418	44,565
Real estate conveyance tax.....	—	—	—	—	—
Gift tax.....	15,669	16,251	18,924	16,615	19,328
Manufacturing tax.....	39,132	11,992	—	—	—
Other taxes.....	16,640	15,579	14,114	13,571	12,508
Total tax revenues.....	19,148,370	17,472,086	15,440,257	13,880,503	13,556,140
NON-TAX REVENUES					
Federal Funds:					
Departmental revenues.....	10,312,318	9,905,879	9,755,067	8,769,925	7,564,627
Federal Funds for Fiscal Relief:					
Federal funds for fiscal relief.....	—	—	—	136,859	136,859
Local Funds:					
Departmental revenues.....	665,532	574,300	731,368	636,900	562,498
Investment Earnings:					
Income from General Fund investments.....	208,955	122,405	75,669	76,415	103,788
Income from securities lending.....	216,072	133,098	48,463	21,305	30,604
Departmental revenues.....	8,059	7,357	8,539	2,613	4,745
Other investment earnings.....	66	44	14	3	5
	433,152	262,904	132,685	100,336	139,140
Investment Earnings on Loans:					
Departmental revenues.....	399	—	—	—	—
Sales and Services:					
Departmental revenues.....	94,664	94,994	85,592	76,010	61,316
Other non-tax revenues.....	171	184	168	182	198
	94,835	95,178	85,760	76,192	61,514
Rental and Lease of Property:					
Proceeds from rental and lease of property.....	41	57	4,304	102	92
Departmental revenues.....	8,392	7,885	7,072	6,620	6,140
	8,433	7,942	11,376	6,722	6,232
Fees, Licenses and Fines:					
Court fines and fees.....	159,583	158,646	142,798	138,878	126,381
Secretary of State service fees.....	58,046	55,976	46,975	40,638	36,807
Banking and investment fees.....	5,466	5,386	5,165	4,758	4,485
Self insurer fees (Industrial Commission).....	14,292	14,269	14,128	13,777	13,512
Probation supervision fees.....	16,629	16,471	16,476	16,748	14,339
Department of Insurance fees.....	27,991	25,990	24,526	25,147	21,198
DWI service and restoration fees.....	8,782	8,420	8,398	8,709	7,332
Departmental revenues.....	160,006	157,024	200,452	62,578	41,747
Fines from tax collection activity.....	69,758	53,663	—	—	—
Other non-tax revenues.....	4,944	5,173	3,818	4,388	4,181
	525,497	501,018	462,736	315,621	269,962
Tobacco settlement					
Tobacco settlement.....	142,825	136,453	148,641	146,452	173,256
Contributions, Gifts and Grants:					
Departmental revenues.....	17,207	17,632	34,375	50,140	29,702
Other non-tax revenues.....	—	1	105	234	1
	17,207	17,633	34,480	50,374	29,703
Miscellaneous:					
Local sales and use tax administration.....	16,979	14,356	13,932	13,989	12,495
Sales tax refunds.....	4,124	3,014	10,253	14,456	7,908
Departmental revenues.....	56,733	113,171	84,927	123,852	95,753
Other non-tax revenue.....	1,508	1,302	1,253	2,083	315
	79,344	131,843	110,365	154,380	116,471
Total non-tax revenues.....	12,279,542	11,633,150	11,472,478	10,393,761	9,060,262
Total Revenues..... [1], [2]	\$ 31,427,912	\$ 29,105,236	\$ 26,912,735	\$ 24,274,264	\$ 22,616,402

Table 5

	2002	2001	2000	1999	1998
\$	7,219,794	\$ 7,605,542	\$ 7,097,514	\$ 6,586,153	\$ 6,124,709
	548,046	712,161	989,280	920,583	999,759
	3,766,285	3,429,532	3,361,189	3,342,157	3,272,774
	592,259	746,687	557,544	567,497	567,869
	200,593	198,646	193,003	182,970	155,352
	340,785	305,791	273,367	291,202	283,828
	64,852	64,854	52,025	—	—
	—	4	20	31	217
	104,799	123,094	162,997	163,608	144,203
	2	48	144	11,463	22,338
	41,500	42,137	43,104	44,694	47,304
	44,432	43,874	42,595	27,202	38,209
	—	—	—	1,215	894
	13,392	20,254	25,084	19,243	20,722
	—	—	—	—	—
	17,479	11,152	10,292	10,973	1,501
	<u>12,954,218</u>	<u>13,303,776</u>	<u>12,808,158</u>	<u>12,168,991</u>	<u>11,679,679</u>
	<u>7,266,016</u>	<u>6,777,503</u>	<u>6,156,189</u>	<u>5,361,839</u>	<u>5,174,406</u>
	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
	<u>682,310</u>	<u>737,063</u>	<u>482,387</u>	<u>436,609</u>	<u>436,347</u>
	129,924	163,479	204,083	248,657	252,162
	44,659	111,490	112,011	112,531	136,955
	4,217	10,022	7,300	4,416	58,415
	9,531	320	251	81	137
	<u>188,331</u>	<u>285,311</u>	<u>323,645</u>	<u>365,685</u>	<u>447,669</u>
	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
	61,031	68,736	69,793	70,036	67,214
	228	405	276	350	319
	<u>61,259</u>	<u>69,141</u>	<u>70,069</u>	<u>70,386</u>	<u>67,533</u>
	546	573	1,035	786	1,811
	6,556	16,989	7,218	5,773	4,255
	<u>7,102</u>	<u>17,562</u>	<u>8,253</u>	<u>6,559</u>	<u>6,066</u>
	109,575	111,012	97,808	99,986	93,252
	31,357	29,584	24,255	20,099	19,257
	4,336	10,914	4,029	4,332	3,031
	6,795	7,098	6,360	4,128	3,556
	10,833	10,453	10,605	11,166	11,778
	22,854	20,210	18,433	18,205	1,096
	5,822	5,706	5,703	5,936	6,050
	41,540	40,422	38,300	110,664	103,296
	—	—	—	—	—
	4,124	4,065	4,181	2,652	3,358
	<u>237,236</u>	<u>239,464</u>	<u>209,674</u>	<u>277,168</u>	<u>244,674</u>
	<u>175,836</u>	<u>140,272</u>	<u>—</u>	<u>—</u>	<u>—</u>
	33,658	53,425	15,452	17,511	13,205
	30	—	2	101	1
	<u>33,688</u>	<u>53,425</u>	<u>15,454</u>	<u>17,612</u>	<u>13,206</u>
	11,774	11,568	10,973	10,293	10,060
	11,120	11,494	15,514	10,406	10,936
	89,489	123,230	108,555	130,518	115,529
	6,307	914	866	844	744
	<u>118,690</u>	<u>147,206</u>	<u>135,908</u>	<u>152,061</u>	<u>137,269</u>
	<u>8,770,468</u>	<u>8,466,947</u>	<u>7,401,579</u>	<u>6,687,919</u>	<u>6,527,170</u>
\$	<u>21,724,686</u>	<u>21,770,723</u>	<u>20,209,737</u>	<u>18,856,910</u>	<u>18,206,849</u>

[1] 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.

[2] For fiscal year ended June 30, 2006, the State changed its methodology for applying GASB Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions* to individual income taxes. The State now reports an estimate of underpayments of individual income taxes. The State has also changed its method to estimate overpayments of individual income taxes (i.e., income tax refunds payable and applied refunds). For the purpose of reporting underpayments, the availability period for General Fund individual income taxes was extended from thirty-one days to twelve months after year-end. Where underpayments exceed overpayments, individual income tax revenues are recognized to the extent of estimated overpayments (i.e., income tax refunds payable and applied refunds).

PERSONAL INCOME BY INDUSTRY

For the Fiscal Years 1998-2005

(Dollars in thousands)

	<u>2005</u>	<u>2004</u>	<u>2003</u>	<u>2002</u>	<u>2001</u>
Manufacturing.....	\$ 34,269,266	\$ 33,548,821	\$ 32,744,219	\$ 32,957,483	\$ 33,339,686
Retail trade.....	14,177,755	13,429,246	12,967,684	12,770,117	12,587,584
Services.....	60,382,349	56,406,055	52,284,237	50,615,389	48,236,817
Agricultural, forestry, fishing, etc.....	623,849	601,058	610,273	600,946	618,682
Government.....	40,012,420	37,172,280	34,622,175	32,293,906	30,616,692
Construction.....	13,430,344	12,150,555	11,065,474	11,039,949	11,565,880
Wholesale trade.....	11,125,943	10,454,386	9,561,303	9,033,833	8,588,296
Transportation and warehousing.....	5,917,422	5,766,079	5,450,793	5,428,763	5,324,201
Finance and insurance.....	12,400,299	11,317,399	10,768,135	10,132,069	9,440,396
Mining.....	334,404	282,015	247,892	240,364	278,288
Utilities..... [1]	1,347,225	1,353,932	1,316,184	1,275,067	-
Information..... [1]	5,735,716	5,435,116	5,168,423	5,138,686	-
Real estate and rental and leasing.....	4,400,850	3,924,984	3,625,524	3,304,984	3,268,078
Total.....	<u>\$ 204,157,842</u>	<u>\$ 191,841,926</u>	<u>\$ 180,432,316</u>	<u>\$ 174,831,556</u>	<u>\$ 163,864,600</u>
Average effective rate [2]:					
Individual income tax.....	4.0%	3.9%	3.9%	4.1%	4.6%

[1] 2002 is the first fiscal year data was collected for this industry.

[2] Average effective rate equals individual income tax revenues divided by personal income.

Source: Bureau of Economic Analysis(Data for 2007 & 2006 is not available.)

Information prior to 1998 was not available.

Table 6

<u>2000</u>	<u>1999</u>	<u>1998</u>
\$ 35,305,549	\$ 33,669,223	\$ 32,650,010
14,265,654	13,517,581	12,414,512
34,278,925	31,337,093	28,119,353
907,049	827,266	738,696
29,435,566	27,538,020	26,140,579
8,799,938	8,300,149	7,592,861
9,641,533	9,108,928	8,511,319
5,073,577	4,808,932	4,542,317
9,343,795	8,469,976	7,742,498
212,489	206,714	201,577
-	-	-
-	-	-
1,264,710	1,180,757	1,083,707
<u>\$ 148,528,785</u>	<u>\$ 138,964,639</u>	<u>\$ 129,737,429</u>
4.8%	4.7%	4.7%

Individual Income Tax Filers and Liability - Calendar Years 1997 and 2005

Individual Income Tax Rates - Calendar Years 1997-2007

Table 7

North Carolina Taxable Income	Individual Income Tax Filers and Liability by Income Level							
	Calendar Year 2005				Calendar Year 1997			
	Number of Returns	% of Total	Tax Liability	% of Total	Number of Returns	% of Total	Tax Liability	% of Total
0 to \$15,000.....	1,955,376	51.3%	\$ 438,892,867	5.2%	1,905,113	55.1%	\$ 488,197,412	8.6%
\$15,001 to \$25,000.....	514,930	13.5%	585,357,062	7.0%	511,583	14.8%	594,444,487	10.5%
\$25,001 to \$50,000.....	694,238	18.2%	1,541,020,371	18.3%	651,213	18.8%	1,439,015,941	25.5%
\$50,001 to \$75,000.....	311,340	8.2%	1,220,935,516	14.5%	216,854	6.3%	841,378,659	14.9%
\$75,001 to \$100,000.....	136,413	3.6%	778,913,320	9.3%	73,427	2.1%	418,097,539	7.4%
\$100,001 to \$200,000.....	140,037	3.7%	1,288,851,509	15.3%	70,304	2.0%	649,278,481	11.5%
\$200,001 and up.....	62,132	1.6%	2,555,930,408	30.4%	32,224	0.9%	1,220,905,346	21.6%
	<u>3,814,466</u>	100.0%	<u>\$ 8,409,901,053</u>	100.0%	<u>3,460,718</u>	100.0%	<u>\$ 5,651,317,865</u>	100.0%

Note: Due to confidentiality issues, the names of the ten largest revenue payers are not available. The categories presented are intended to provide alternative information regarding the sources of the State's revenue. Calendar year 2005 is the most recent year for which data are available.

Individual Income Tax Rates - Last 10 Years

1997-2000				
Tax Year	Bracket 1	Bracket 2	Bracket 3	Bracket 4
Married - Joint:				
Taxable income	\$1-\$21,250	\$21,251-\$100,000	> \$100,000	
Tax rate	6%	7%	7.75%	
Married - Separate:				
Taxable income	\$1-\$10,625	\$10,626-\$50,000	> \$50,000	
Tax rate	6%	7%	7.75%	
Head of Household:				
Taxable income	\$1-\$17,000	\$17,001-\$80,000	> \$80,000	
Tax rate	6%	7%	7.75%	
Single:				
Taxable income	\$1-\$12,750	\$12,751-\$60,000	> \$60,000	
Tax rate	6%	7%	7.75%	
2001-2006				
Tax Year	Bracket 1	Bracket 2	Bracket 3	Bracket 4
Married - Joint:				
Taxable income	\$1-\$21,250	\$21,251-\$100,000	\$100,001-\$200,000	> \$200,000
Tax rate	6%	7%	7.75%	8.25%
Married - Separate:				
Taxable income	\$1-\$10,625	\$10,626-\$50,000	\$50,001-\$100,000	> \$100,000
Tax rate	6%	7%	7.75%	8.25%
Head of Household:				
Taxable income	\$1-\$17,000	\$17,001-\$80,000	\$80,001-\$160,000	> \$160,000
Tax rate	6%	7%	7.75%	8.25%
Single:				
Taxable income	\$1-\$12,750	\$12,751-\$60,000	\$60,001-\$120,000	> \$120,000
Tax rate	6%	7%	7.75%	8.25%
2007				
Tax Year	Bracket 1	Bracket 2	Bracket 3	Bracket 4
Married - Joint:				
Taxable Income	\$1-\$21,250	\$21,251-\$100,000	\$100,001-\$200,000	>\$200,000
Tax Rate	6%	7%	7.75%	8%
Married - Separate:				
Taxable Income	\$1-\$10,625	\$10,626-\$50,000	\$50,001-\$100,000	>\$100,000
Tax Rate	6%	7%	7.75%	8%
Head of Household:				
Taxable Income	\$1-\$17,000	\$17,001-\$80,000	\$80,001-\$160,000	>\$160,000
Tax Rate	6%	7%	7.75%	8%
Single:				
Taxable Income	\$1-\$12,750	\$12,751-\$60,000	\$60,001-\$120,000	>\$120,000
Tax Rate	6%	7%	7.75%	8%

Temporary Rate Increase -

Effective for the tax years January 1, 2001 through December 31, 2003, the General Assembly temporarily raised the highest individual income tax rate from 7.75% to 8.25%. This temporary increase was extended in subsequent budgets. In 2006-07, the General Assembly reduced the top rate from 8.25% to 8.0%, effective January 1, 2007.

Income tax rate restrictions -

The State Constitution (Article V, section 2(6)) places the following limitation on the income tax: "The rate of tax on incomes shall not in any case exceed ten percent, and there shall be allowed personal exemptions and deductions so that only net incomes are taxed".

Information prior to 1997 not available.

Source: North Carolina Department of Revenue

TAXABLE SALES BY BUSINESS GROUP

For the Fiscal Years 2006-2007
 (Dollars in Thousands)

Table 8

	<u>2007</u>	<u>2006</u>
General merchandise.....	\$ 27,814,179	\$ 24,141,458
Food.....	18,856,362	17,333,935
Lumber & building material.....	15,625,168	14,749,083
Automotive.....	6,138,450	5,416,622
1%, 2%, 2.5% and 3% Tax group.....	1,350,932	4,551,097
Furniture.....	4,733,484	4,387,923
Apparel.....	3,753,902	3,481,573
Unclassified.....	28,314,743	27,490,165
Total.....	<u>\$ 106,587,220</u>	<u>\$ 101,551,856</u>
Direct sales tax rate	4.25%	4.50%

Source: North Carolina Department of Revenue

SALES TAX REVENUE PAYERS BY BUSINESS GROUP

For the Fiscal Years 1998 & 2006

Table 9

	2006		1998	
	Tax Liability	Percentage of Total	Tax Liability	Percentage of Total
General merchandise.....	\$ 1,221,612,749	22.39%	\$ 625,352,352	19.33%
Food.....	831,453,408	15.24%	740,721,893	22.90%
Utilities.....	855,902,217	15.68%	351,593,637	10.87%
Lumber & building material.....	686,415,346	12.58%	342,385,447	10.59%
Automotive.....	294,970,806	5.41%	182,729,329	5.65%
Furniture.....	208,499,382	3.82%	142,354,550	4.40%
Apparel.....	164,582,009	3.02%	100,886,318	3.12%
Farming.....	2,795,484	0.05%	54,697,552	1.69%
Unclassified.....	1,190,113,490	21.81%	693,807,982	21.45%
Total.....	<u>\$ 5,456,344,891</u>	100.00%	<u>\$ 3,234,529,060</u>	100.00%
General state sales tax rate.....	4.25%		4.00%	

Information prior to 1998 is not available.

Recent Significant Sales Tax Rate and Base Changes

1998-99	Effective July 1, 1998, the State rate application to food purchased for home consumption was reduced from 3% to 2%. Effective May 1, 1999, food purchased for home consumption was exempted from the State sales tax.
1999-00	Effective July 1, 1999, sales of piped natural gas became exempt from sales tax and, instead, became subject to the piped natural gas excise tax.
2001-02	Effective October 16, 2001, the general sales rate increased from 4% to 4.5%. Effective December 1, 2001, sales of spiritous liquor, other than mixed beverages, became subject to 6% State sales and use tax. Effective January 1, 2002, gross receipts of direct-to-home satellite service to subscribers in this State became subject to 5% State sales tax. Effective January 1, 2002, gross receipts derived from providing telecommunications services became subject to 6% State sales tax. [Prior to the law change, local telecommunications services were subject to a 3% State sales tax rate and a 3.22% utility franchise tax rate; interstate long distance calls were taxed at 6.5% and interstate long distance calls were exempt.]
2003-04	Effective July 1, 2003, all sales of soft drinks became subject to both the State and local rates. Effective January 1, 2004, sales of closed container soft drinks sold through vending machines were taxed on only 50% of the sale price. Effective January 1, 2004, candy was exempted from the State tax and subject to only the 2% local tax. Effective for sales made on or after January 1, 2004, modular homes became subject to a 2.5% State sales and use tax rate.
2005-06	Effective October 1, 2005, all sales of candy became subject to the combined general State and county tax rate. Effective October 1, 2005, the sales and use tax imposed on telecommunications, direct-to-home satellite services, and spiritous liquors increased to 7%. Effective January 1, 2006, a 7% State sales and use tax was imposed on cable services, and satellite digital audio radio became subject to both the State general rate of tax and local rates.
2006-07	Effective June 29, 2007, the additional 0.25% State sales and use tax was extended for one month. Effective June 29, 2007, the combined general rate is the State's general rate (4.25%) plus the sum of the rates of local tax authorized for every county in the State (2.5%).

Source: North Carolina Department of Revenue

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RATIOS OF OUTSTANDING DEBT BY TYPE

For the Fiscal Years 1998-2007

(Dollars in Thousands)

	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>
Governmental activities:					
General obligation bonds.....	\$ 5,902,330	\$ 5,738,815	\$ 5,698,535	\$ 4,982,860	\$ 4,066,990
Lease-purchase revenue bonds.....	245,045	255,045	265,045	218,405	—
Revenue bonds.....	—	8,800	—	—	—
Certificates of participation.....	727,640	454,060	475,170	301,165	17,500
Tax judgements payable.....	—	—	—	—	—
Notes payable.....	37,276	62,298	34,007	25,008	9,629
Capital leases payable.....	25,740	26,879	330	304	322
Total Governmental Activities.....	<u>6,938,031</u>	<u>6,545,897</u>	<u>6,473,087</u>	<u>5,527,742</u>	<u>4,094,441</u>
Business-type activities:					
Revenue bonds..... (a)	—	—	9,070	9,325	9,570
Notes payable..... (a)	—	—	1,569	—	—
Total Business-type Activities.....	<u>—</u>	<u>—</u>	<u>10,639</u>	<u>9,325</u>	<u>9,570</u>
Total Primary Government.....	<u>\$ 6,938,031</u>	<u>\$ 6,545,897</u>	<u>\$ 6,483,726</u>	<u>\$ 5,537,067</u>	<u>\$ 4,104,011</u>
Debt as a Percentage of Personal Income.....	2.24%	2.29%	2.44%	2.22%	1.73%
Amount of Debt per Capita.....	\$ 768	\$ 739	\$ 747	\$ 648	\$ 488

Note:

(a) The Town of Butner has changed its Enterprise Funds functions

Table 10

<u>2002</u>	<u>2001</u>	<u>2000</u>	<u>1999</u>	<u>1998</u>
\$ 3,467,325	\$ 3,038,693	\$ 2,509,986	\$ 2,451,973	\$ 2,123,944
—	—	—	—	—
—	—	—	—	—
—	—	—	—	—
—	—	58,744	440,000	732,000
11,753	7,870	8,797	3,270	4,166
216	—	853	904	190
<u>3,479,294</u>	<u>3,046,563</u>	<u>2,578,380</u>	<u>2,896,147</u>	<u>2,860,300</u>
9,905	9,905	—	—	—
—	—	—	—	—
<u>9,905</u>	<u>9,905</u>	<u>—</u>	<u>—</u>	<u>—</u>
<u>\$ 3,489,199</u>	<u>\$ 3,056,468</u>	<u>\$ 2,578,380</u>	<u>\$ 2,896,147</u>	<u>\$ 2,860,300</u>
1.52%	1.36%	1.18%	1.48%	1.54%
\$ 419	\$ 373	\$ 320	\$ 379	\$ 379

RATIOS OF GENERAL BONDED AND SIMILAR DEBT OUTSTANDING

For the Fiscal Years 1998-2007

Table 11

(Dollars in Thousands except Per Capita)

Fiscal Year Ended June 30	General Obligation Bonds	Lease Purchase Revenue Bonds	Certificates of Participation	Total	Per Capita
2007	\$ 5,902,330	\$ 245,045	\$ 727,640	\$ 6,875,015	\$ 761.05
2006	5,738,815	255,045	454,060	6,447,920	728.04
2005	5,698,535	265,045	475,170	6,438,750	741.51
2004	4,982,860	218,405	301,165	5,502,430	644.22
2003	4,066,990	—	1,750	4,068,740	483.96
2002	3,467,326	—	—	3,467,326	416.74
2001	3,042,570	—	—	3,042,570	371.67
2000	2,514,730	—	—	2,514,730	312.42
1999	2,457,650	—	—	2,457,650	321.35
1998	2,130,615	—	—	2,130,615	282.36

Note: Population data can be found in table 15.

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SCHEDULE OF GENERAL OBLIGATION BONDS PAYABLE

June 30, 2007

(Dollars in Thousands)

	<i>Payable from General Fund Revenues</i>							
	Total General Obligation Bonds	<i>Total General Fund</i>	Capital Improve- ment	Public School Building	Public School Building	Clean Water Refunding	Public Improvement	Public Improvement
			Series 1989 5-1-89 6.5 - 6.9% [*]	Series 1998A 4-1-98 4.75-5.0%	Series 1999 4-1-99 4.5-5.0%	Series 1999 4-1-99 2.9-5.0%	Series 1999A 9-1-99 5.0-5.4%	Series 2000A 9-1-00 5.0-5.1%
Bonds Authorized and Issued:								
Ch. 1048, 1987 session law...	\$ 20,499	\$ 20,499	\$ 20,499	\$ —	\$ —	\$ —	\$ —	\$ —
Ch. 631, 1995 session law....	1,350,000	1,350,000	—	450,000	450,000	—	—	295,000
General Statute Ch. 142.....	908,965	908,965	—	—	—	25,905	—	—
Ch. 590, 1995 session law....	400,000	—	—	—	—	—	—	—
Ch. 132, 1998 session law....	684,755	684,755	—	—	—	—	177,400	5,000
Ch. 3, 2000 session law.....	2,122,800	2,122,800	—	—	—	—	—	—
2004 session law.....	<u>2,568,295</u>	<u>2,169,925</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
Total bonds authorized and issued.....	8,055,314	7,256,944	20,499	450,000	450,000	25,905	177,400	300,000
Accretion.....	16,232	16,232	16,232	—	—	—	—	—
Bonds retired.....	1,227,185	1,130,895	33,270	128,000	148,000	7,815	42,000	72,000
Partial defeasances.....	<u>942,400</u>	<u>942,400</u>	<u>—</u>	<u>306,000</u>	<u>228,000</u>	<u>—</u>	<u>116,400</u>	<u>180,000</u>
Bonds outstanding— 6/30/2007.....	<u>\$ 5,901,961</u>	<u>\$5,199,881</u>	<u>\$ 3,461</u>	<u>\$ 16,000</u>	<u>\$ 74,000</u>	<u>\$ 18,090</u>	<u>\$ 19,000</u>	<u>\$ 48,000</u>
Bond Maturity As Follows:								
2007-08.....	\$ 368,327	\$ 314,272	\$ 1,672	\$ 16,000	\$ 18,500	\$ 2,110	\$ 9,500	\$ 12,000
2008-09.....	364,369	310,279	1,789	—	18,500	2,080	9,500	12,000
2009-10.....	364,385	310,320	—	—	18,500	2,050	—	12,000
2010-11.....	364,550	310,520	—	—	18,500	2,025	—	12,000
2011-12.....	365,575	311,575	—	—	—	2,000	—	—
2012-13.....	367,510	313,670	—	—	—	1,980	—	—
2013-14.....	367,685	313,085	—	—	—	1,965	—	—
2014-15.....	366,940	312,340	—	—	—	1,950	—	—
2015-16.....	366,970	312,370	—	—	—	1,930	—	—
2016-17.....	364,635	310,035	—	—	—	—	—	—
2017-18.....	368,430	313,830	—	—	—	—	—	—
2018-19.....	369,525	314,925	—	—	—	—	—	—
2019-20.....	335,175	284,775	—	—	—	—	—	—
2020-21.....	254,785	254,785	—	—	—	—	—	—
2021-22.....	235,795	235,795	—	—	—	—	—	—
2022-23.....	228,760	228,760	—	—	—	—	—	—
2023-24.....	203,000	203,000	—	—	—	—	—	—
2024-25.....	123,400	123,400	—	—	—	—	—	—
2025-26.....	61,400	61,400	—	—	—	—	—	—
2026-27.....	44,245	44,245	—	—	—	—	—	—
2027-28.....	16,500	16,500	—	—	—	—	—	—
Total Bonds Outstanding.....	<u>\$ 5,901,961</u>	<u>\$5,199,881</u>	<u>\$ 3,461</u>	<u>\$ 16,000</u>	<u>\$ 74,000</u>	<u>\$ 18,090</u>	<u>\$ 19,000</u>	<u>\$ 48,000</u>

[*] Capital
Appreciation
Bonds

Table 12

Payable from General Fund Revenues

Public Improvement Series 2001A 3-1-01 4.5-5.0%	Public Improvement Series 2002A 3-1-02 4.0-5.5%	Public Improvement Series 2002D 5-1-02 Variable to 18%	Public Improvement Series 2002E 5-1-02 Variable to 18%	Public Improvement Series 2002F 5-1-02 Variable to 18%	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%
\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
100,000	—	55,000	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	56,480	100,000
—	—	—	—	—	—	—	—	—	—
30,000	204,400	—	—	—	—	50,000	18,800	—	—
250,000	—	33,750	88,750	88,750	88,750	—	—	—	—
—	—	—	—	—	—	—	—	—	—
380,000	204,400	88,750	88,750	88,750	88,750	50,000	18,800	56,480	100,000
—	—	—	—	—	—	—	—	—	—
96,000	79,400	—	—	—	—	40,000	830	23,030	—
112,000	—	—	—	—	—	—	—	—	—
<u>\$ 172,000</u>	<u>\$ 125,000</u>	<u>\$ 88,750</u>	<u>\$ 88,750</u>	<u>\$ 88,750</u>	<u>\$ 88,750</u>	<u>\$ 10,000</u>	<u>\$ 17,970</u>	<u>\$ 33,450</u>	<u>\$ 100,000</u>
\$ 16,000	\$ 25,000	\$ —	\$ —	\$ —	\$ —	\$ 10,000	\$ 225	\$ 6,250	\$ —
16,000	25,000	—	—	—	—	—	235	6,795	—
16,000	25,000	—	—	—	—	—	255	10,030	—
16,000	25,000	—	—	—	—	—	270	10,375	—
16,000	25,000	—	—	—	—	—	750	—	4,520
16,000	—	6,250	6,250	6,250	6,250	—	1,815	—	10,920
16,000	—	6,250	6,250	6,250	6,250	—	1,795	—	10,815
16,000	—	6,250	6,250	6,250	6,250	—	1,775	—	10,700
16,000	—	6,250	6,250	6,250	6,250	—	2,245	—	13,385
28,000	—	6,250	6,250	6,250	6,250	—	510	—	3,520
—	—	10,750	10,750	10,750	10,750	—	4,915	—	27,975
—	—	23,250	23,250	23,250	23,250	—	3,180	—	18,165
—	—	18,750	18,750	18,750	18,750	—	—	—	—
—	—	4,750	4,750	4,750	4,750	—	—	—	—
—	—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—	—
<u>\$ 172,000</u>	<u>\$ 125,000</u>	<u>\$ 88,750</u>	<u>\$ 88,750</u>	<u>\$ 88,750</u>	<u>\$ 88,750</u>	<u>\$ 10,000</u>	<u>\$ 17,970</u>	<u>\$ 33,450</u>	<u>\$ 100,000</u>

Continued

SCHEDULE OF GENERAL OBLIGATION BONDS PAYABLE

June 30, 2007

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

	Refunding Series 2002C 12-12-02 Variable to 20%	Refunding Series 2002D 12-12-02 Variable to 20%	Refunding Series 2002E 12-12-02 Variable to 20%	Refunding Series 2002F 12-12-02 Variable to 20%	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%
Bonds Authorized and Issued:								
Ch. 1048, 1987 session law.....	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
Ch. 631, 1995 session law.....	—	—	—	—	—	—	—	—
General Statute Ch. 142.....	100,000	100,000	100,000	99,870	—	—	—	—
Ch. 590, 1995 session law.....	—	—	—	—	—	—	—	—
Ch. 132, 1998 session law.....	—	—	—	—	2,900	38,355	—	33,000
Ch. 3, 2000 session law.....	—	—	—	—	—	281,645	283,255	—
2004 session law.....	—	—	—	—	—	—	—	—
Total bonds authorized and issued.....	100,000	100,000	100,000	99,870	2,900	320,000	283,255	33,000
Accretion.....	—	—	—	—	—	—	—	—
Bonds retired.....	—	—	—	—	2,400	20,000	17,840	26,400
Partial defeasances.....	—	—	—	—	—	—	—	—
Bonds outstanding— 6/30/2007.....	<u>\$ 100,000</u>	<u>\$ 100,000</u>	<u>\$ 100,000</u>	<u>\$ 99,870</u>	<u>\$ 500</u>	<u>\$ 300,000</u>	<u>\$ 265,415</u>	<u>\$ 6,600</u>
Bond Maturity As Follows:								
2007-08.....	\$ —	\$ —	\$ —	\$ —	\$ 500	\$ 5,000	\$ 4,460	\$ 6,600
2008-09.....	—	—	—	—	—	13,000	13,000	—
2009-10.....	—	—	—	—	—	13,000	13,000	—
2010-11.....	—	—	—	—	—	13,000	13,000	—
2011-12.....	4,520	4,520	4,520	4,500	—	13,000	13,000	—
2012-13.....	10,920	10,920	10,920	10,915	—	13,000	13,000	—
2013-14.....	10,815	10,815	10,815	10,795	—	13,000	13,000	—
2014-15.....	10,700	10,700	10,700	10,690	—	13,000	13,000	—
2015-16.....	13,385	13,385	13,385	13,370	—	13,000	13,000	—
2016-17.....	3,520	3,520	3,520	3,525	—	13,000	13,000	—
2017-18.....	27,975	27,975	27,975	27,950	—	13,000	13,000	—
2018-19.....	18,165	18,165	18,165	18,125	—	16,500	18,000	—
2019-20.....	—	—	—	—	—	16,500	30,000	—
2020-21.....	—	—	—	—	—	16,500	30,000	—
2021-22.....	—	—	—	—	—	16,500	30,000	—
2022-23.....	—	—	—	—	—	16,500	22,955	—
2023-24.....	—	—	—	—	—	16,500	—	—
2024-25.....	—	—	—	—	—	16,500	—	—
2025-26.....	—	—	—	—	—	16,500	—	—
2026-27.....	—	—	—	—	—	16,500	—	—
2027-28.....	—	—	—	—	—	16,500	—	—
Total Bonds Outstanding.....	<u>\$ 100,000</u>	<u>\$ 100,000</u>	<u>\$ 100,000</u>	<u>\$ 99,870</u>	<u>\$ 500</u>	<u>\$ 300,000</u>	<u>\$ 265,415</u>	<u>\$ 6,600</u>

Table 12

Payable from General Fund Revenues

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%	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%
\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
—	—	—	—	—	—	—	—	—	—
—	91,000	235,710	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—	—
3,645	—	—	—	36,000	15,255	—	—	—	—
—	—	—	707,900	—	—	—	—	—	—
—	—	—	—	—	—	11,900	59,275	155,245	57,470
3,645	91,000	235,710	707,900	36,000	15,255	11,900	59,275	155,245	57,470
—	—	—	—	—	—	—	—	—	—
3,000	70,655	76,700	42,000	21,600	9,300	6,175	13,160	—	295
—	—	—	—	—	—	—	—	—	—
<u>\$ 645</u>	<u>\$ 20,345</u>	<u>\$ 159,010</u>	<u>\$ 665,900</u>	<u>\$ 14,400</u>	<u>\$ 5,955</u>	<u>\$ 5,725</u>	<u>\$ 46,115</u>	<u>\$ 155,245</u>	<u>\$ 57,175</u>
\$ 645	\$ 13,475	\$ 27,585	\$ 14,000	\$ 7,200	\$ 3,100	\$ 2,870	\$ 11,580	\$ 30,825	\$ 70
—	6,870	27,650	14,000	7,200	2,855	2,855	11,545	31,260	70
—	—	27,715	25,000	—	—	—	11,515	31,160	9,575
—	—	27,785	25,000	—	—	—	11,475	31,055	9,555
—	—	27,855	25,000	—	—	—	—	30,945	9,535
—	—	20,420	25,000	—	—	—	—	—	9,510
—	—	—	25,000	—	—	—	—	—	9,490
—	—	—	25,000	—	—	—	—	—	9,370
—	—	—	25,000	—	—	—	—	—	—
—	—	—	25,000	—	—	—	—	—	—
—	—	—	25,000	—	—	—	—	—	—
—	—	—	25,000	—	—	—	—	—	—
—	—	—	65,000	—	—	—	—	—	—
—	—	—	65,000	—	—	—	—	—	—
—	—	—	65,000	—	—	—	—	—	—
—	—	—	65,000	—	—	—	—	—	—
—	—	—	65,000	—	—	—	—	—	—
—	—	—	65,000	—	—	—	—	—	—
—	—	—	62,900	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—	—
<u>\$ 645</u>	<u>\$ 20,345</u>	<u>\$ 159,010</u>	<u>\$ 665,900</u>	<u>\$ 14,400</u>	<u>\$ 5,955</u>	<u>\$ 5,725</u>	<u>\$ 46,115</u>	<u>\$ 155,245</u>	<u>\$ 57,175</u>

Continued

SCHEDULE OF GENERAL OBLIGATION BONDS PAYABLE

June 30, 2007

(Dollars in Thousands)

Payable from General Fund Revenues

	Public Improvement Series 2005A 1-12-05 4%-5.5%	Natural Gas 2005 1-12-05 3%-4%	Refunding Series 2005A 1-12-05 3%-5%	Refunding Series 2005B 6-29-05 5%	Clean Water Series 2006A 3-15-06 3.875%-5.5%	Higher Education Series 2006A 6-14-06 4.25%-5%	Public Improvement Series 2007A 3-1-07 4.125%-5%	Refunding Series 2007B 5-9-07 4%-4.5%
Bonds Authorized and Issued:								
Ch. 1048, 1987 session law.....	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
Ch. 631, 1995 session law.....	—	—	—	—	—	—	—	—
General Statute Ch. 142.....	—	—	—	—	—	—	—	—
Ch. 590, 1995 session law.....	—	—	—	—	—	—	—	—
Ch. 132, 1998 session law.....	—	—	—	—	70,000	—	—	—
Ch. 3, 2000 session law.....	—	—	—	—	—	300,000	—	—
2004 session law.....	705,500	16,000	106,895	470,510	—	—	502,745	84,385
Total bonds authorized and issued.....	705,500	16,000	106,895	470,510	70,000	300,000	502,745	84,385
Accretion.....	—	—	—	—	—	—	—	—
Bonds retired.....	123,600	6,400	90	3,235	2,700	15,000	—	—
Partial defeasances.....	—	—	—	—	—	—	—	—
Bonds outstanding— 6/30/2007.....	<u>\$ 581,900</u>	<u>\$ 9,600</u>	<u>\$ 106,805</u>	<u>\$ 467,275</u>	<u>\$ 67,300</u>	<u>\$ 285,000</u>	<u>\$ 502,745</u>	<u>\$ 84,385</u>
Bond Maturity As Follows:								
2007-08.....	\$ 21,800	\$ 3,200	\$ 50	\$ —	\$ 3,200	\$ 15,000	\$ 25,000	\$ 855
2008-09.....	21,800	3,200	50	19,650	3,200	15,000	25,000	175
2009-10.....	21,800	3,200	50	27,085	3,200	15,000	25,000	185
2010-11.....	25,000	—	50	27,040	3,200	15,000	25,000	190
2011-12.....	25,000	—	12,025	45,490	3,200	15,000	25,000	195
2012-13.....	25,000	—	11,935	53,010	3,200	15,000	25,000	205
2013-14.....	25,000	—	11,810	73,555	3,200	15,000	25,000	215
2014-15.....	25,000	—	11,680	73,650	3,200	15,000	25,000	225
2015-16.....	25,000	—	11,600	69,255	3,200	15,000	25,000	230
2016-17.....	25,000	—	47,555	71,925	3,200	15,000	25,000	240
2017-18.....	25,000	—	—	6,615	3,200	15,000	25,000	250
2018-19.....	25,000	—	—	—	3,200	15,000	25,000	260
2019-20.....	54,000	—	—	—	4,000	15,000	25,000	275
2020-21.....	80,000	—	—	—	4,000	15,000	25,000	285
2021-22.....	80,000	—	—	—	4,000	15,000	25,000	295
2022-23.....	—	—	—	—	4,000	15,000	25,000	80,305
2023-24.....	77,500	—	—	—	4,000	15,000	25,000	—
2024-25.....	—	—	—	—	4,000	15,000	25,000	—
2025-26.....	—	—	—	—	4,900	15,000	25,000	—
2026-27.....	—	—	—	—	—	—	27,745	—
2027-28.....	—	—	—	—	—	—	—	—
Total Bonds Outstanding.....	<u>\$ 581,900</u>	<u>\$ 9,600</u>	<u>\$ 106,805</u>	<u>\$ 467,275</u>	<u>\$ 67,300</u>	<u>\$ 285,000</u>	<u>\$ 502,745</u>	<u>\$ 84,385</u>

Table 12

Payable from Highway Trust Fund

<i>Total Highway Trust</i>	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%
\$ —	\$ —	\$ —	\$ —
—	—	—	—
—	—	—	—
400,000	400,000	—	—
—	—	—	—
—	—	—	—
398,370	—	98,370	300,000
798,370	400,000	98,370	300,000
—	—	—	—
96,290	54,000	2,290	40,000
—	—	—	—
—	—	—	—
<u>\$ 702,080</u>	<u>\$ 346,000</u>	<u>\$ 96,080</u>	<u>\$ 260,000</u>
\$ 54,055	\$ 18,000	\$ 16,055	\$ 20,000
54,090	18,000	16,090	20,000
54,065	18,000	16,065	20,000
54,030	18,000	16,030	20,000
54,000	18,000	16,000	20,000
53,840	18,000	15,840	20,000
54,600	34,600	—	20,000
54,600	34,600	—	20,000
54,600	34,600	—	20,000
54,600	34,600	—	20,000
54,600	34,600	—	20,000
54,600	34,600	—	20,000
50,400	30,400	—	20,000
—	—	—	—
—	—	—	—
—	—	—	—
—	—	—	—
—	—	—	—
—	—	—	—
—	—	—	—
—	—	—	—
—	—	—	—
<u>\$ 702,080</u>	<u>\$ 346,000</u>	<u>\$ 96,080</u>	<u>\$ 260,000</u>

Source: Compiled by the Department of State Treasurer

SCHEDULE OF SPECIAL OBLIGATION DEBT

June 30, 2007

(Dollars in Thousands)

	<i>Lease Purchase Revenue Bonds</i>				<i>Certificates of Participation</i>				
	Total Special Obligation Debt	<i>Total Lease Purchase Revenue Bonds</i>	NC	NC	<i>Total Certificates of Participation</i>	Wildlife	Correctional	Repair and	Capital
			Facilities	Facilities		Capital	Facilities	Renovation	Improvements
			Series 2003	Series 2004		Series 2003A	Series 2004A	Series 2004A	Series 2005A
		7-15-03	11-1-04		4-1-03	2-1-04	5-8-04	6-9-05	
		2.0% - 5.25%	2.0% - 5.25%		2.0% - 5.25%	2.0% - 5.0%	2.0% - 5.0%	3.5% - 5.0%	
Bonds Authorized and Issued:									
Ch. 284, 2003 session law.....	\$ 802,360	\$ 218,405	\$ 218,405	\$ ---	\$ 583,955	\$ ---	\$ 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.....	1,061,885	272,045	218,405	53,640	789,840	17,500	158,955	125,000	188,385
Bonds retired.....	89,200	27,000	23,000	4,000	62,200	2,040	23,845	18,000	13,315
Bonds outstanding—									
June 30, 2007.....	<u>\$ 972,685</u>	<u>\$ 245,045</u>	<u>\$ 195,405</u>	<u>\$ 49,640</u>	<u>\$ 727,640</u>	<u>\$ 15,460</u>	<u>\$ 135,110</u>	<u>\$ 107,000</u>	<u>\$ 175,070</u>
Bond Maturity As Follows:									
2007-08.....	\$ 46,760	\$ 10,000	\$ 8,000	\$ 2,000	\$ 36,760	\$ 690	\$ 7,950	\$ 6,000	\$ 7,120
2008-09.....	47,110	10,000	8,000	2,000	37,110	720	7,950	6,000	7,440
2009-10.....	47,470	10,000	8,000	2,000	37,470	740	7,950	6,000	7,780
2010-11.....	47,880	10,000	8,000	2,000	37,880	765	7,950	6,000	8,165
2011-12.....	48,325	10,000	8,000	2,000	38,325	795	7,950	6,000	8,580
2012-13.....	48,780	10,000	8,000	2,000	38,780	825	7,950	6,000	9,005
2013-14.....	49,265	10,000	8,000	2,000	39,265	860	7,950	6,000	9,455
2014-15.....	49,780	10,000	8,000	2,000	39,780	905	7,950	6,000	9,925
2015-16.....	50,325	10,000	8,000	2,000	40,325	950	7,950	6,000	10,425
2016-17.....	49,540	8,650	8,000	650	40,890	1,000	7,945	6,000	10,945
2017-18.....	49,995	8,500	8,000	500	41,495	1,055	7,945	6,000	11,495
2018-19.....	50,120	8,000	8,000	---	42,120	1,110	7,945	6,000	12,065
2019-20.....	72,630	28,850	19,000	9,850	43,780	1,165	7,945	7,000	12,670
2020-21.....	65,175	24,000	19,000	5,000	41,175	1,230	7,945	7,000	10,000
2021-22.....	65,235	24,000	19,000	5,000	41,235	1,290	7,945	7,000	10,000
2022-23.....	65,305	24,000	19,000	5,000	41,305	1,360	7,945	7,000	10,000
2023-24.....	66,170	26,225	23,405	2,820	39,945	---	7,945	7,000	10,000
2024-25.....	27,820	2,820	---	2,820	25,000	---	---	---	10,000
2025-26.....	15,000	---	---	---	15,000	---	---	---	---
2026-27.....	10,000	---	---	---	10,000	---	---	---	---
Total Bonds Outstanding.....	<u>\$ 972,685</u>	<u>\$ 245,045</u>	<u>\$ 195,405</u>	<u>\$ 49,640</u>	<u>\$ 727,640</u>	<u>\$ 15,460</u>	<u>\$ 135,110</u>	<u>\$ 107,000</u>	<u>\$ 175,070</u>

Source: Compiled by the Department of State Treasurer.

Table 13

Certificates of Participation

Repair and Renovation Projects Series 2006A 8-16-06 <u>4.0% - 5.0%</u>	Capital Improvements Series 2006A 10-18-06 <u>4.0% - 5.0%</u>
\$ 100,000	\$ 200,000
—	—
—	—
<u>—</u>	<u>—</u>
100,000	200,000
<u>5,000</u>	<u>—</u>
<u>\$ 95,000</u>	<u>\$ 200,000</u>

\$ 5,000	\$ 10,000
5,000	10,000
5,000	10,000
5,000	10,000
5,000	10,000
5,000	10,000
5,000	10,000
5,000	10,000
5,000	10,000
5,000	10,000
5,000	10,000
5,000	10,000
5,000	10,000
5,000	10,000
5,000	10,000
5,000	10,000
5,000	10,000
5,000	10,000
5,000	10,000
5,000	10,000
—	10,000
<u>\$ 95,000</u>	<u>\$ 200,000</u>

PLEDGED REVENUE COVERAGE REVENUE BONDS

For the Fiscal Years 2002-2007

(Dollars in Thousands)

	2007	2006	2005	2004	2003
Town of Butner					
Pledged Revenue-					
Sales and services.....	(a) \$ 2,377	\$ 2,377	\$ 3,531	\$ 3,673	\$ 3,936
Rental lease earnings.....	(a) 5	5	3	8	-
Fees, licenses and fines.....	(a) 8	8	14	14	13
Miscellaneous revenue.....	(a) 147	147	156	106	243
Less: Operating expenses.....	(a) (2,261)	(2,261)	(2,470)	(2,372)	(2,341)
Net available revenue.....	<u>\$ -</u>	<u>\$ 276</u>	<u>\$ 1,234</u>	<u>\$ 1,429</u>	<u>\$ 1,851</u>
Debt service					
Principal.....	(a) \$ 270	\$ 270	\$ 255	\$ 245	\$ 235
Interest.....	(a) 394	394	414	419	434
Coverage.....	(a) .42	.42	1.85	2.16	2.77
N.C. Housing Finance Agency					
Pledged Revenue-					
Interest on investments.....	\$ 26,088	\$ 23,718	\$ 17,659	\$ 17,357	\$ 14,687
Interest on mortgage loans.....	71,892	66,515	69,816	74,650	83,045
Net increase/decrease in fair value of investments.....	1,544	(2,372)	544	-	-
Other revenue.....	65	444	198	147	92
Less: Operating expenses.....	(4,868)	(4,640)	(4,996)	(4,678)	(4,739)
Net available revenue.....	<u>\$ 94,721</u>	<u>\$ 83,665</u>	<u>\$ 83,221</u>	<u>\$ 87,476</u>	<u>\$ 93,085</u>
Debt service					
Principal.....	\$ 178,050	\$ 175,670	\$ 27,967	\$ 24,245	\$ 21,465
Interest.....	73,845	70,059	63,242	69,622	74,408
Coverage.....	.38	.34	.91	.93	.97
State Education Assistance Authority					
Pledged Revenue-					
Student loan principal collections.....	\$ 618,723	\$ 660,332	\$ 300,827	\$ 277,552	\$ 214,782
Interest earnings on loans.....	151,237	115,306	80,912	50,037	46,587
Investment earnings.....	24,551	15,174	4,157	2,686	2,450
Less: Operating expenses.....	(30,290)	(24,627)	(19,395)	(17,603)	(14,781)
Net available revenue.....	<u>\$ 764,221</u>	<u>\$ 766,185</u>	<u>\$ 366,501</u>	<u>\$ 312,672</u>	<u>\$ 249,038</u>
Debt service					
Principal.....	\$ -	\$ 1,000	\$ 1,000	\$ 1,000	\$ 1,000
Interest.....	117,324	60,912	25,212	17,736	23,351
Coverage.....	6.51	12.38	13.98	16.69	10.23
University of North Carolina System					
Pledged Revenue-					
Sales and services.....	\$ 623,743	\$ 570,509	\$ 531,673	\$ 513,867	\$ 479,714
Student tuition and fees.....	52,758	52,002	51,657	54,525	54,025
Patient services.....	1,367,363	1,210,356	1,131,038	1,057,614	928,153
Contracts and grants.....	120,662	120,513	113,049	104,373	98,371
State appropriations.....	45,674	44,510	39,334	37,788	37,771
Fees, licenses and fines.....	15,517	14,863	13,056	12,413	11,834
Rental lease earnings.....	29,587	21,182	18,802	17,781	17,470
Investment income.....	100,018	32,793	19,121	20,580	53,432
Other operating revenues.....	20,318	30,385	30,133	32,284	38,509
Non-operating revenues.....	50,929	37,274	39,558	35,688	46,521
Less: Operating expenses.....	(1,924,281)	(1,767,630)	(1,653,952)	(1,604,207)	(1,487,632)
Net available revenue.....	<u>\$ 502,288</u>	<u>\$ 366,757</u>	<u>\$ 333,469</u>	<u>\$ 282,706</u>	<u>\$ 278,168</u>
Debt service					
Principal.....	\$ 57,475	\$ 57,783	\$ 54,917	\$ 54,467	\$ 48,520
Interest.....	71,964	71,473	58,146	53,067	53,351
Coverage.....	3.88	2.84	2.95	2.63	2.73

Notes:

(a) The Town of Butner has changed its Enterprise Funds functions

Information prior to 2002 not available.

Table 14

2002

\$ 3,581

-

17

407

(2,276)

\$ 1,729

\$ 100

431

3.26

\$ 13,315

82,789

3,926

710

(5,165)

\$ 95,575

\$ 15,762

77,487

1.03

\$ 133,041

55,281

3,121

(10,692)

\$ 180,751

\$ 1,000

36,385

4.84

\$ 466,789

48,773

949,442

85,045

39,092

9,416

16,150

43,196

41,003

39,569

(1,460,074)

\$ 278,401

\$ 48,515

55,104

2.69

SCHEDULE OF DEMOGRAPHIC DATA

For the Years 1950, 1960, 1970, 1980, 1990, 1998-2007

Year	Population [1]				Per Capita Income [2]			Personal Income (millions) [3]	
	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.	United States	North Carolina
2007	302,422,409 [F]	1.01%	9,033,635 [F]	2.00%	\$ 38,793 [G]	\$ 34,250 [G]	88.29%	\$ 11,731,873	\$ 309,402
2006	299,398,484 [D]	1.01%	8,856,505 [D]	2.00%	36,629 [E]	32,338 [E]	88.29%	10,966,667	286,402
2005	296,410,404 [D]	0.94%	8,683,242 [D]	1.66%	34,586 [E]	30,553 [E]	88.34%	10,251,650	265,299
2004	293,655,404 [D]	0.98%	8,541,221 [D]	1.59%	32,937 [E]	29,246 [E]	88.79%	9,672,128	249,797
2003	290,809,777 [D]	0.85%	8,407,248 [D]	1.05%	31,632 [E]	28,235 [E]	89.26%	9,198,895	237,379
2002	288,368,698 [D]	1.25%	8,320,146 [D]	1.64%	30,832 [E]	27,566 [E]	89.41%	8,890,984	229,353
2001	284,797,000 [D]	0.95%	8,186,268 [D]	1.70%	30,472 [E]	27,514 [E]	90.29%	8,678,334	225,237
2000	282,125,000 [D]	3.46%	8,049,313 [D]	5.25%	29,770 [E]	27,055 [E]	90.88%	8,398,861	217,774
1999	272,691,000 [B]	0.90%	7,647,934 [C]	1.35%	27,880 [E]	25,504 [E]	91.48%	7,602,625	195,053
1998	270,248,000 [B]	0.92%	7,545,735 [C]	1.58%	26,893 [E]	24,661 [E]	91.70%	7,267,779	186,085
1990	248,791,000 [A]	9.82%	6,632,448 [A]	12.79%	19,588	17,295	88.29%	4,873,318	114,708
1980	226,546,000 [A]	11.13%	5,880,095 [A]	15.65%	10,062	8,090	80.40%	2,279,506	47,570
1970	203,849,000 [A]	13.26%	5,084,411 [A]	11.59%	4,072	3,255	79.94%	830,073	16,550
1960	179,979,000 [A]	18.51%	4,556,155 [A]	12.17%	2,254	1,615	71.65%	405,673	7,358
1950	151,868,000 [A]		4,061,929 [A]		1,496	1,037	69.32%	227,195	4,212

[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

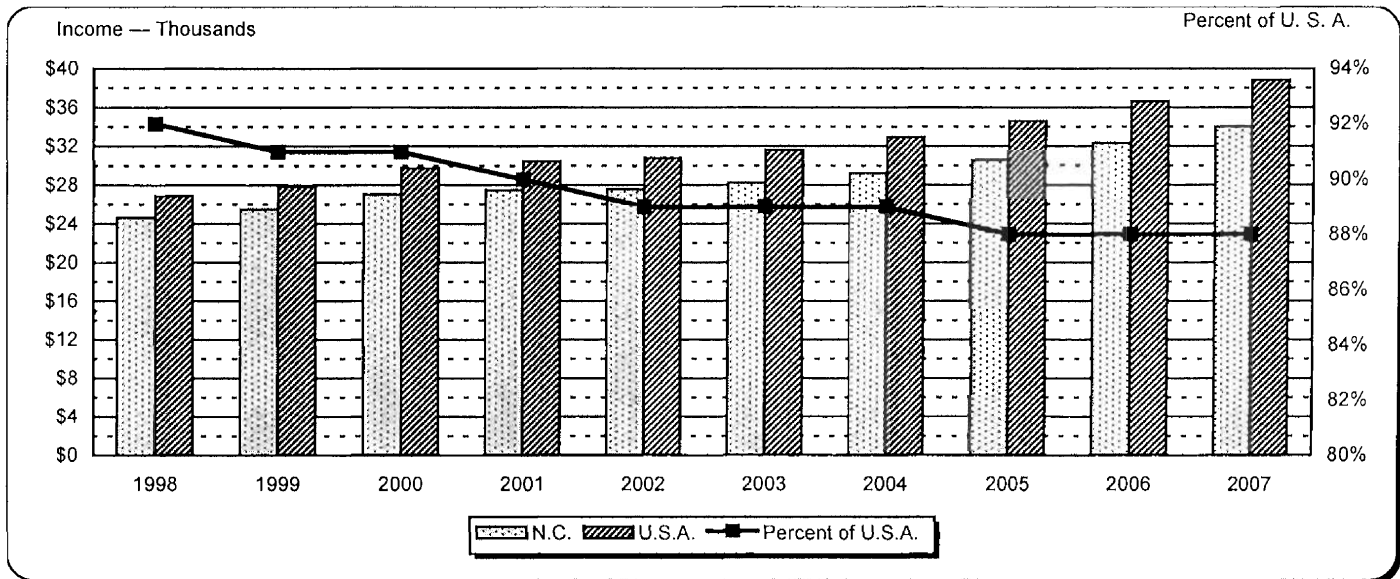
[D] - U.S. Census estimates based on 2000 census

[E] - Bureau of Economic Analysis estimate

[F] - Since the 2007 population estimates are not available, the Office of State Controller used the growth rate of the previous year to project the 2007 amounts.

[G] - Since the 2007 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 2007 U.S. Per Capita Income and the previous year "N.C. as a Percentage of U.S." was used to project the "2007 Per Capita Income for North Carolina".

**Per Capita Income
North Carolina Compared to United States
1998 to 2007**



Sources: [1] Population
[2] Per Capita Income
[3] Personal Income

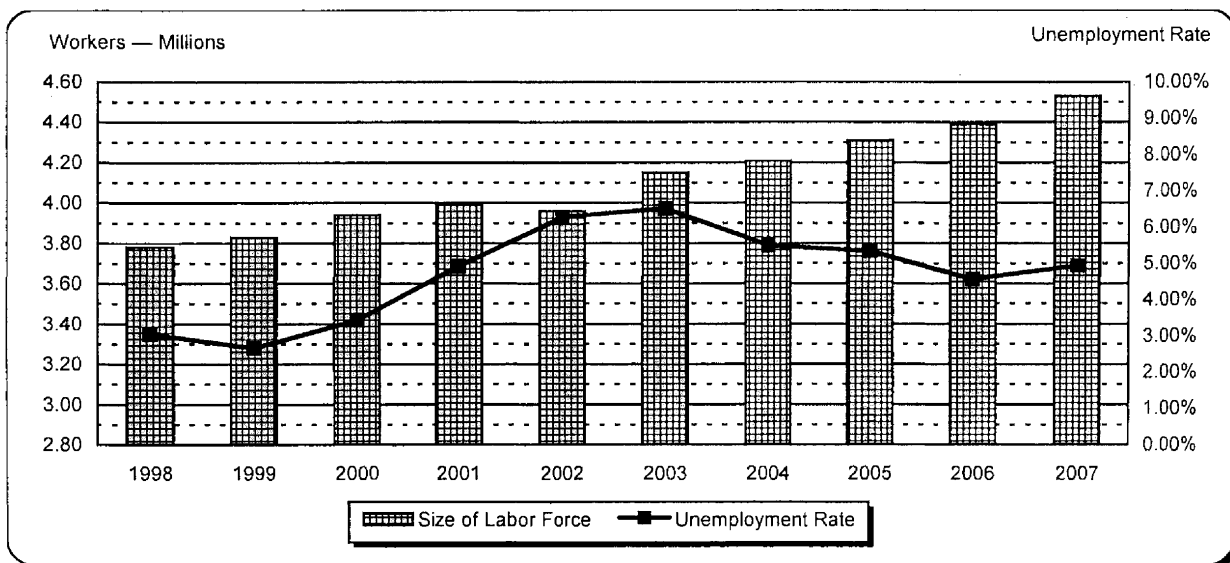
U.S. Department of Commerce, Bureau of the Census
U.S. Department of Commerce, Bureau of Economic Analysis
Calculated from sources 1 and 2

Table 15

North Carolina Civilian Labor Force Data ^[4]					North Carolina - Other Data	
Year	Total	Employed	Unemployed	Unemployed Percentage Rate	^[5] Motor Vehicles Registered	^[6] Residential Construction Authorized
2007	4,533,682	4,309,833	223,849	4.94%	8,523,302	46,140
2006	4,394,216	4,193,971	200,245	4.56%	8,407,473	54,626
2005	4,308,482	4,078,645	229,837	5.33%	7,925,587	50,488
2004	4,208,568	3,977,421	231,147	5.49%	7,701,410	46,735
2003	4,152,243	3,882,026	270,217	6.51%	7,624,272	38,137
2002	3,964,000	3,715,400	248,600	6.27%	7,498,181	40,763
2001	3,999,300	3,802,500	196,800	4.92%	7,344,437	23,555
2000	3,941,000	3,805,300	135,700	3.44%	7,112,610	77,351
1999	3,826,000	3,724,100	101,900	2.66%	6,911,814	105,117
1998	3,776,300	3,661,000	115,300	3.05%	6,428,104	103,432
1990	3,471,000	3,339,000	132,000	3.80%	5,600,050	30,471
1980	2,759,197	2,607,925	151,272	5.48%	5,094,814	6,730
1970	2,054,838	1,984,402	70,436	3.43%	3,218,292	N/A
1960	1,680,442	1,605,478	74,964	4.46%	1,907,988	N/A
1950	1,512,924	1,463,352	49,572	3.28%	1,171,228	N/A

N/A = Data not available.

**Civilian Labor Force Trends
With Unemployment Percentages
1998 to 2007**



Sources: [4] Seasonally Adjusted Labor Force Data - As of June 30

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

[6] Residential Housing Permits

N.C. Employment Security Commission

N.C. Division of Motor Vehicles

U.S. Department of Commerce, Bureau of the Census

PRINCIPAL EMPLOYERS

For the Fiscal Years 2001 & 2007

Table 16

Employer	2007			2001		
	Employees	Rank	Percentage of Total State Employment	Employees	Rank	Percentage of Total State Employment
State of North Carolina	175,000-179,999	1	3.93%	160,000-164,999	1	4.27%
Federal Government	60,000-64,999	2	1.38%	60,000-64,999	2	1.64%
Wal-Mart Stores, Inc.	50,000-54,999	3	1.16%	30,000-34,999	3	0.85%
Duke University	25,000-29,999	4	0.61%	20,000-24,999	5	0.59%
Food Lion LLC	25,000-29,999	5	0.61%	25,000-29,999	4	0.72%
Charlotte Board of Ed.	20,000-24,999	6	0.50%	15,000-19,999	7	0.45%
Wachovia Bank, NA	20,000-24,999	7	0.50%	10,000-14,999	9	0.32%
Wake Public Schools	15,000-19,999	8	0.39%	10,000-14,999	8	0.32%
Charlotte Hospital Authority	15,000-19,999	9	0.39%	10,000-14,999	10	0.32%
Lowes Home Centers, Inc.	15,000-19,999	10	0.39%	-	-	-
IBM Corporation	-	-	-	15,000-19,999	6	0.45%
Total	420,000-469,990		9.85%	355,000-404,990		9.93%

Notes: All figures are based on 1st quarter average. Percentage of total state employment is based on the midpoints in the ranges given. Information prior to 2001 is not available.

Source: North Carolina Employment Security Commission

TEACHERS AND STATE EMPLOYEES BY FUNCTION

For the Fiscal Years 2002-2007

Table 17

Functions	2007	2006	2005	2004	2003	2002
General government.....	6,045	5,680	5,435	5,301	5,635	5,635
Primary and secondary education.....	160,086	156,463	152,746	147,798	143,428	140,103
Higher education:						
Universities.....	56,964	55,800	53,560	51,902	50,787	49,625
Community colleges.....	15,935	15,610	15,764	15,277	14,582	13,959
Health and human services.....	21,128	20,766	20,665	20,366	18,545	18,816
Economic development.....	2,623	2,567	2,366	2,469	2,466	2,591
Environment and natural resources.....	4,653	4,616	4,493	4,341	4,337	4,750
Public safety, corrections and regulations.....	31,971	31,448	30,429	30,125	30,810	30,982
Transportation.....	14,664	14,007	14,379	14,218	14,438	14,378
Agriculture.....	1,405	1,377	1,339	1,343	1,275	1,295
Totals.....	315,474	308,334	301,176	293,140	286,303	282,134

Source: North Carolina Office of State Budget and Management
Counts for fiscal year end 2007 are projected from prior year data.
Information prior to 2002 not available.

OPERATING INDICATORS BY FUNCTION

For the Fiscal Years 2002-2007

	2007	2006	2005	2004	2003
General Government					
Department of Revenue					
Number of tax returns filed electronically.....	2,799,979	2,487,716	1,922,459	1,666,765	1,436,218
Number of tax returns processed.....	10,386,112	10,437,669	9,947,817	9,725,620	9,778,591
Number of individual refunds direct deposited.....	925,321	809,473	673,976	564,200	446,217
Number of individual refunds processed.....	2,832,152	2,834,960	2,732,523	2,658,709	2,654,339
Number of pieces of incoming mail.....	8,092,899	7,986,688	8,334,624	8,122,589	8,222,560
Number of pieces of outgoing mail.....	7,844,614	9,206,342	8,687,346	8,922,981	10,098,087
Department of Administration					
Construction projects administered.....	61	71	226	181	213
Construction value excluding design fee (thousands).....	\$ 60,028	\$ 73,006	\$ 873,713	\$ 486,287	\$ 522,060
Cultural Resources					
Visitation to historical sites and museums.....	2,748,455	2,068,910	2,356,046	2,465,484	2,234,241
Primary and Secondary Education					
Public School(K-12)					
Public school enrollment.....	1,435,275	1,368,607	1,346,681	1,325,344	1,303,777
Total high school graduates.....	88,691	72,580	74,691	71,853	69,568
Graduate intention to pursue further education.....	84.63%	87.09%	84.64%	83.26%	83.63%
Higher Education					
Community Colleges					
Number of students (annualized FTE).....	193,410	190,644	194,235	192,693	185,490
Number of certificates and degrees awarded.....	27,117	28,983	29,600	27,050	23,645
Universities					
Number of regular term students (FTE).....	181,886	176,619	158,398	152,224	171,409
Number of certificates and degrees awarded.....	38,260	37,348	37,569	36,689	34,580
Health and Human Services					
Department of Health and Human Services					
Medicaid recipients (a).....	1,667,354	1,673,510	1,545,366	1,541,450	N/A
Food stamp recipients.....	874,426	838,064	818,141	791,241	N/A
Clients served by mental health facilities.....	18,501	18,678	18,894	16,353	N/A
Clients served by developmental disabilities facilities.....	1,312	2,114	2,172	2,189	N/A
Clients served by substance abuse facilities.....	144	3,854	3,633	3,572	N/A
Children served through subsidized child care.....	167,568	149,946	155,339	156,534	N/A
Participation in Special Supplemental Nutrition Program.....	239,441	230,140	224,670	218,345	N/A
Clients served through Work First.....	59,340	69,885	39,426	42,177	N/A
NC Health Choice annual enrollment.....	171,580	199,160	169,491	N/A	N/A
Economic Development					
Department of Commerce					
Jobs generated company recruitment/expansion.....	19,259	20,293	18,246	15,393	9,531
Capital investment (thousands).....	\$ 3,336,864	\$ 3,024,914	\$ 2,982,292	\$ 1,863,213	\$ 1,127,466
Employment Security Commission					
Total employed.....	4,309,833	4,193,971	4,087,359	3,977,421	3,882,026
Percentage of unemployment.....	4.90%	4.56%	5.38%	5.49%	6.51%

Table 18

<u>2002</u>
1,239,844
9,658,531
N/A
2,595,070
9,061,094
9,332,605
205
\$ 359,381
1,326,603
1,285,729
65,681
83.13%
176,743
22,853
141,272
32,644
N/A
N/A
N/A
N/A
N/A
N/A
N/A
N/A
N/A
13,459
\$ 2,690,123
3,715,400
6.27%

Continued

OPERATING INDICATORS BY FUNCTION

For the Fiscal Years 2002-2007

	2007	2006	2005	2004	2003
<u>Environment and Natural Resources</u>					
Department of Environment and Natural Resources					
Public drinking water systems in compliance.....	95%	94%	93%	94%	93%
Visitation to Museum of Natural Sciences.....	667,014	622,915	556,422	913,751	518,132
Visitation to NC Zoo.....	746,650	682,977	705,030	676,956	576,093
Wildlife Resources Commission					
Hunting licenses sold.....	204,425	204,451	107,242	107,572	109,511
Fishing licenses sold.....	511,974	451,412	331,688	329,314	302,581
Vessels registered.....	142,808	363,641	354,096	361,134	354,863
<u>Public Safety and Correction</u>					
Department of Correction					
Incarcerated offenders.....	38,218	37,121	36,481	34,990	33,378
Supervised offenders.....	117,164	116,513	117,611	117,196	118,285
Administrative Office of the Courts					
Cases disposed as a % of cases filed-Superior Court.....	98.50%	93.80%	95.52%	96.27%	93.40%
Cases disposed as a % of cases filed-District Court.....	98.70%	98.10%	97.56%	95.92%	97.46%
<u>Agriculture</u>					
Department of Agriculture and Consumer Services					
Motor fuel dispensers tested (b).....	100,928	109,699	95,735	103,026	80,390
Rejection rate.....	13.80%	10.77%	8.87%	7.22%	9.25%
Retail scales tested (c).....	20,051	24,896	27,678	23,335	29,021
Rejection rate.....	10.70%	8.28%	9.09%	8.70%	7.54%

Notes:

(a) A significant portion of the increase in Medicaid recipients from 2005 to 2006 is the result of legislation moving children formerly covered under State Child Health Insurance Program to Medicaid for 2006. This change resulted in minimal additional cost to the Medicaid program.

(b) Governed by Gasoline and Oil Inspection Law (G.S. 119)

(c) Governed by North Carolina Weights and Measures Act (G.S. 81A)

Information prior to 2002 not available.

Table 18

2002

95%
517,058
671,619

114,304
343,045
358,007

32,856
117,374

94.28%
96.76%

85,353
9.99%
24,021
7.07%

CAPITAL ASSET STATISTICS BY FUNCTION

For the Fiscal Years 2002-2007

	2007	2006	2005	2004	2003	2002
Primary Government						
General Government						
Department of Administration						
Buildings.....	135	136	134	132	132	132
Parking lots.....	49	49	17	18	20	N/A
Parking spaces.....	8,215	8,156	7,879	7,961	8,249	N/A
Motor Fleet vehicles	9,506	10,785	16,145	14,592	13,190	13,098
Health and Human Services						
Mental Health Institutions.....	12	12	12	12	12	12
Number of certified beds.....	4,961	5,009	4,885	5,083	5,220	5,390
Environment and Natural Resources						
Department of Environment and Natural Resources						
Number of state park lands.....	33	32	32	30	30	30
Acres of state park lands.....	119,664	222,251	182,251	176,146	173,833	172,763
Number of state recreation areas.....	4	4	4	4	4	4
Acres of state recreation areas.....	12,240	12,240	12,240	12,240	12,240	12,238
Number of state natural areas.....	18	14	17	17	16	14
Acres of state natural areas.....	34,288	32,930	30,513	30,323	28,999	27,643
Number of state lakes.....	7	7	7	7	7	7
Acres of state lakes.....	29,135	29,135	29,135	29,135	29,135	29,135
Zoo animals (a).....	1,786	1,942	2,024	2,643	2,411	2,059
Vehicles	1,789	1,723	1,618	1,574	1,471	1,403
Boats/Trailers.....	1,295	366	327	308	278	254
Aircraft.....	45	30	40	40	39	39
Scientific equipment.....	4,666	4,454	3,979	3,572	3,366	3,155
Wildlife Resources Commission						
Number of Game Lands.....	54	38	37	35	34	33
Acres of Game Lands.....	431,449	341,351	317,467	325,794	288,238	294,471
Public Safety and Correction						
Department of Correction						
Close security prisons.....	13	13	13	16	13	13
Medium security prisons.....	26	26	26	24	24	24
Minimum security prisons.....	39	39	37	36	36	39
Vehicles:						
Passenger/Cargo vans.....	170	99	85	69	67	61
Inmate transfer vans/buses.....	448	481	418	398	391	386
Inmate workcrew vans/buses.....	274	301	380	394	349	351
Pickup trucks.....	305	287	275	325	248	277
Roving patrol pickups.....	80	84	78	77	64	55
One ton maintenance trucks.....	105	105	92	98	99	112
Specialty/Other trucks (b).....	109	103	113	108	103	94
Enterprise Vehicles:						
Passenger/Cargo vans.....	22	23	24	31	29	30
Inmate workcrew buses.....	24	21	22	21	25	28
Pickup trucks.....	51	47	51	41	45	41
One ton maintenance trucks.....	18	18	16	21	18	21
Other/Specialty trucks.....	98	93	95	86	91	88

Table 19

	2007	2006	2005	2004	2003	2002
Department of Crime Control and Public Safety						
Vehicles:						
<i>Alcohol Law Enforcement</i>						
Cars/SUV's.....	151	156	134	154	124	127
<i>State Highway Patrol</i>						
Cars.....	2,530	2,417	2,283	2,312	1,799	1,846
Trucks/Vans.....	115	114	59	63	65	99
Motorcycles.....	16	9	(c)	(c)	(c)	(c)
Air craft:						
<i>State Highway Patrol</i>						
Helicopters.....	8	13	14	11	11	11
Transportation						
Department of Transportation						
Pavement in lane-miles:						
Primary subsystem.....	(d)	14,833	14,805	14,760	14,705	14,670
Secondary subsystem.....	(d)	64,209	64,204	64,085	63,910	63,820
Bridges:						
Number of bridges.....	13,053	13,007	12,961	12,916	12,839	12,806
Number of culverts.....	4,979	4,912	4,879	4,761	4,683	4,620
Vehicles.....	8,850	5,823	6,347	7,466	7,015	6,182
Heavy Equipment.....	8,920	3,119	3,359	3,788	3,741	3,448
Component Units						
Higher Education						
Community colleges						
Buildings.....	1,024	1,014	1,025	1,064	1,054	1,043
Universities						
Academic/Administrative buildings.....	971	930	918	893	873	866
Dormitories/Auxiliary buildings.....	613	583	565	537	524	510
Medical (e).....	58	51	51	51	51	51
University system hospitals						
Administration.....	4	4	4	4	4	3
Clinical.....	11	10	10	10	10	10
Facility services.....	6	6	6	6	6	6
Hospital.....	4	4	4	4	4	4

Notes:

- (a) 500-600 fish were lost due to aquarium malfunction in 2005.
 (b) Includes boom trucks, cranes, flat beds, rollbacks, yard trucks, dump trucks, semi-trucks, etc.
 (c) Prior year data from the source was not available.
 (d) Recent data from the source was not available, as of the date of publication.
 (e) East Carolina Teaching Hospital

Information prior to 2002 is not available.

REQUIRED SUPPLEMENTARY INFORMATION
TEN-YEAR CLAIMS DEVELOPMENT INFORMATION
PUBLIC SCHOOL INSURANCE FUND
For the Fiscal Years Ended June 30, 1998-2007

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, 1998-2007

Table 20

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.

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
1) Required contribution and investment revenue:										
Earned.....	\$ 8,354	\$ 6,343	\$ 6,687	\$ 8,136	\$ 9,599	\$ 12,255	\$ 10,826	\$ 16,219	\$ 12,538	\$ 14,509
Ceded.....	2,041	1,683	1,727	2,453	2,839	3,396	3,121	2,380	2,489	3,077
Net earned.....	6,313	4,660	4,960	5,683	6,760	8,859	7,705	13,839	10,049	11,432
2) Unallocated expenses	2,706	2,398	2,541	3,214	3,597	3,953	3,689	2,951	3,092	3,672
3) Estimated claims and expenses, end of policy year:										
Incurred.....	8,496	8,615	21,141	6,449	4,846	2,690	12,586	2,093	3,096	14,915
Ceded.....	700	357	—	—	—	—	—	—	—	—
Net incurred.....	7,796	8,258	21,141	6,449	4,846	2,690	12,586	2,093	3,096	14,915
4) Paid (cumulative) as of:										
End of policy year.....	2,044	4,077	13,158	422	392	1,921	10,381	3,129	3,130	15,174
One year later.....	4,193	5,931	15,818	2,475	640	2,765	12,788	3,536	4,005	
Two years later.....	4,297	6,108	17,368	2,475	640	3,219	13,120	3,536		
Three years later.....	4,324	6,388	17,368	2,475	640	3,681	13,120			
Four years later.....	4,324	6,388	17,368	2,475	640	3,681				
Five years later.....	4,324	6,388	17,368	2,475	640					
Six years later.....	4,324	6,388	17,638	2,475						
Seven years later.....	4,324	6,388	17,638							
Eight years later.....	4,324	6,388								
Nine years later.....	4,324									
5) Reestimated ceded claims and expenses.....	700	359	—	—	—	—	—	—	—	—
6) Reestimated net incurred claims and expenses:										
End of policy year.....	7,796	8,258	21,141	6,449	4,846	2,690	12,586	2,093	3,096	14,915
One year later.....	3,724	6,740	17,240	2,475	4,846	3,543	12,911	2,093	3,096	
Two years later.....	3,735	6,161	17,368	2,475	4,846	3,947	12,911	2,093		
Three years later.....	3,640	6,031	17,368	2,475	4,846	3,947	12,911			
Four years later.....	3,624	6,031	17,368	2,475	4,846	3,947				
Five years later.....	3,624	6,031	17,368	2,475	4,846					
Six years later.....	3,624	6,031	17,368	2,475						
Seven years later.....	3,625	6,031	17,368							
Eight years later.....	3,624	6,031								
Nine years later.....	3,624									
7) Increase (decrease) in estimated net incurred claims and expenses from end of policy year.....	(4,172)	(2,227)	(3,773)	(3,974)	—	1,257	325	—	—	—

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