
NORTH CAROLINA

**COMPREHENSIVE
ANNUAL
FINANCIAL
REPORT**



***For the Fiscal
Year Ended
June 30, 2008***

NORTH CAROLINA

COMPREHENSIVE ANNUAL FINANCIAL REPORT

FOR THE FISCAL YEAR
ENDED JUNE 30, 2008



MICHAEL F. EASLEY
GOVERNOR

DAVID MCCOY
STATE CONTROLLER

Prepared by Statewide Accounting Division
Office of the State Controller

<http://www.osc.nc.gov>

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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

TABLE OF CONTENTS

*Comprehensive Annual Financial Report
For the Fiscal Year Ended June 30, 2008*

INTRODUCTORY SECTION

	Page
Letter of Transmittal.....	8
Certificate of Achievement for Excellence in Financial Reporting.....	21
Organization of North Carolina State Government, including principal State officials.....	22

FINANCIAL SECTION

Report of Independent Auditor.....	26
Management's Discussion and Analysis.....	30

Basic Financial Statements**Government-wide Financial Statements**

Statement of Net Assets — Exhibit A-1.....	54
Statement of Activities — Exhibit A-2.....	56

Fund Financial Statements

Balance Sheet—Governmental Funds — Exhibit B-1.....	60
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets — Exhibit B-1a.....	61
Statement of Revenues, Expenditures, and Changes in Fund Balances—Governmental Funds — Exhibit B-2.....	62
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities — Exhibit B-2a.....	63
Statement of Net Assets—Proprietary Funds — Exhibit B-3.....	64
Statement of Revenues, Expenses, and Changes in Fund Net Assets—Proprietary Funds — Exhibit B-4.....	66
Statement of Cash Flows—Proprietary Funds — Exhibit B-5.....	68
Statement of Fiduciary Net Assets—Fiduciary Funds — Exhibit B-6.....	72
Statement of Changes in Fiduciary Net Assets—Fiduciary Funds — Exhibit B-7.....	73
Notes to the Financial Statements.....	76

Required Supplementary Information

Schedules of Funding Progress—All Defined Benefit Pension Trust Funds.....	172
Schedules of Contributions from the Employers and Other Contributing Entities—All Defined Benefit Pension Trust Funds.....	173
Schedules of Funding Progress—Other Postemployment Benefits.....	174
Schedules of Employer Contributions—Other Postemployment Benefits.....	175
Schedule of Revenues, Expenditures and Changes in Fund Balance—Budget and Actual —(Budgetary Basis—Non-GAAP) General Fund.....	176
Notes to Required Supplementary Information—Budgetary Reporting.....	177

Combining Fund Statements and Schedules**Nonmajor Governmental Funds**

Combining Balance Sheet—Nonmajor Governmental Funds — Exhibit C-1.....	184
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances—Nonmajor Governmental Funds — Exhibit C-2.....	185
Combining Balance Sheet—Nonmajor Special Revenue Funds — Exhibit C-3.....	188
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances—Nonmajor Special Revenue Funds — Exhibit C-4.....	192
Combining Schedule of Revenues, Expenditures and Changes in Fund Balances —Budget and Actual (Budgetary Basis—Non-GAAP) Nonmajor Special Revenue Funds — Exhibit C-5.....	196
Combining Balance Sheet—Nonmajor Capital Projects Funds — Exhibit C-6.....	204
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances—Nonmajor Capital Projects Funds — Exhibit C-7.....	205
Combining Balance Sheet—Nonmajor Permanent Funds — Exhibit C-8.....	208
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances—Nonmajor Permanent Funds — Exhibit C-9.....	209
Combining Schedule of Revenues, Expenditures, and Changes in Fund Balance..... —Budget and Actual (Budgetary Basis—Non-GAAP) Nonmajor Permanent Funds — Exhibit C-10.....	210

Proprietary Funds

Nonmajor Enterprise Funds	
Combining Statement of Net Assets—Nonmajor Enterprise Funds — Exhibit D-1.....	216
Combining Statement of Revenues, Expenses, and Changes in Fund Net Assets—Nonmajor Enterprise Funds — Exhibit D-2.....	218
Combining Statement of Cash Flows—Nonmajor Enterprise Funds — Exhibit D-3.....	220

*Comprehensive Annual Financial Report
For the Fiscal Year Ended June 30, 2008*

	Page
Internal Service Funds	
Combining Statement of Net Assets—Internal Service Funds — Exhibit E-1.....	224
Combining Statement of Revenues, Expenses, and Changes in Fund Net Assets—Internal Service Funds — Exhibit E-2.....	226
Combining Statement of Cash Flows—Internal Service Funds — Exhibit E-3.....	228
<u>Fiduciary Funds</u>	
Combining Statement of Fiduciary Net Assets—Private Purpose Trust Funds — Exhibit F-1.....	234
Combining Statement of Changes in Fiduciary Net Assets—Private Purpose Trust Funds — Exhibit F-2.....	235
Combining Statement of Changes in Assets and Liabilities—Agency Funds — Exhibit F-3.....	238
<u>Nonmajor Component Units - Discretely Presented</u>	
Combining Statement of Net Assets—Nonmajor Component Units — Exhibit G-1.....	244
Combining Statement of Activities—Nonmajor Component Units — Exhibit G-2.....	246

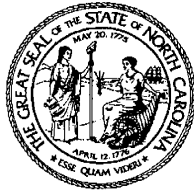
STATISTICAL SECTION

Index to Statistical Section.....	251
Net Assets by Component — Table 1.....	252
Changes in Net Assets — Table 2.....	254
Fund Balances of Governmental Funds — Table 3.....	258
Changes in Fund Balances of Governmental Funds — Table 4.....	260
Schedule of Revenues by Source — General Fund GAAP Basis — Table 5.....	262
Personal Income by Industry — Table 6.....	264
Individual Income Tax Filers and Liability & Individual Income Tax Rates — Table 7.....	266
Taxable Sales by Business Group — Table 8.....	267
Sales Tax Revenue Payers by Business Group — Table 9.....	268
Ratios of Outstanding Debt by Type — Table 10.....	270
Ratios of General Bonded and Similar Debt Outstanding — Table 11.....	272
Schedule of General Obligation Bonds Payable — Table 12.....	274
Schedule of Special Indebtedness Debt — Table 13.....	280
Pledged Revenue Coverage — Table 14.....	282
Schedule of Demographic Data — Table 15.....	286
Principal Employers — Table 16.....	288
Teachers and State Employees by Function — Table 17.....	290
Operating Indicators by Function — Table 18.....	292
Capital Asset Statistics by Function — Table 19.....	296
Required Supplementary Information—Ten-Year Claims Development Information—Public School Insurance Fund — Table 20.....	298

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INTRODUCTORY SECTION



State of North Carolina Office of the State Controller

Michael F. Easley, Governor

David McCoy, 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 2008 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 schedules 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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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 79,261 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, departmental special revenue funds, and permanent 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

Overview

The economy over the last twelve months has been battling significant headwinds caused by the slow unwinding of the housing market recession and the subsequent turmoil in the financial markets. The result is that both businesses and consumers will struggle until the financial markets stabilize and the housing market begins to recover.

Problems in the economy began to surface from significant losses in household wealth caused by the housing market recession. As early as 2006, troubles in the housing sector started to appear. At first, the housing slump seemed isolated to a few regions in the nation, but by the start of 2007 most of the nation was feeling the impact from a significant slowdown in housing. The drop in home purchases began to affect industries tied to home sales and construction. For example, retail sales items such as furniture and appliance purchases declined. The fallout from the housing recession began to impact financial markets as well, where loans and investments tied to real estate began to falter.

In the second quarter of 2007, the housing slowdown and financial market troubles deepened and began to show significant signs of affecting the overall economy. While some slowdown is expected in the middle of a business cycle, the impact of the financial market upheaval, exacerbated by the prolonged housing recession, put the economy perilously close to a recession and by the end of the second quarter of 2008 many economist were expecting a recession to occur.

Consumers were starting to feel the strain caused by a slowing economy. In addition to troubles in the housing and financial market, they faced higher commodity prices. Most noticeably they were paying higher prices at the gas pump and in grocery stores. Consumers were being hit hard by these economic conditions. Employment opportunities began to decline, real wages (adjusted for inflation) were falling, credit markets made it difficult to borrow money, and household debt was at an all time high. By the end of the summer of 2008, consumer confidence, as measured by the Consumer Confidence Index survey, dropped to recession-like levels.

One bright spot in the economy has been the global demand for U.S. products. In fact, one of the stronger facets of the nation's economy during 2007, were exports. Strong growth of global economies coupled with falling exchange rates for the dollar fueled demand for U.S. products. Exports helped bolster the national economy and soften the blow caused by problems in the housing and financial sectors.

For North Carolina, economic conditions did not begin to weaken until early in 2008. Through 2007, the State seemed less vulnerable to the nation's economic downturn, which was already well underway. By mid-summer 2008 however, many industry sectors in the State were beginning to feel the strain as financial market conditions deteriorated and consumer spending weakened further. Recent economic developments nationally, globally, and in the State indicate most of 2008, and all

of 2009, will be characterized by stagnant employment growth, lower real wages and reduced consumer spending.

National Economic Outlook

United States Economic Indicators

	FY2006-07 Actual	FY 2007-08 Actual	FY2008-09 Projected	FY2009-10 Projected
Economic Growth (GDP)*	2.9%	2.4%	0.6%	2.4%
Personal Income	6.5%	5.3%	2.7%	4.1%
Corporate Pre-Tax Profits	7.9%	-3.2%	-5.4%	-2.1%
Retail Sales and Food Services	4.2%	3.6%	0.3%	3.3%
CPI	2.6%	3.7%	3.8%	1.7%
30-yr Fixed Mortgage Interest Rate	6.2%	6.1%	6.1%	7.3%

*adjusted for inflation

The nation's economic indicators point to the onset of a slowdown in FY2007-08 and the projected continued downturn in the economy for FY2008-09. Through calendar year 2009, economic growth is expected to be well below the long-term, average growth of 3.1 percent. With this economic slowdown, total personal income growth will slow to 2.7 percent in FY2008-09 and only rise modestly to 4.1 percent the following fiscal year.

Businesses coming out of the last recession experienced a boost in profits from robust growth in sales and cost-cutting efficiencies undertaken during the recession. The current downturn will make it difficult for businesses to maintain current profit levels. The impact of falling consumer demand, the global downturn, plus upward cost pressures (inputs, interest rates, energy) will reduce corporate profits and negative yearly growth is projected for 2008 and 2009. A slight increase in profitability is anticipated for 2010 as both the nation and global economies begin a modest economic recovery.

One indication of how well the economy is performing is retail sales. Projections anticipate this key indicator will experience zero to slightly negative growth the last quarter of 2008 and the first two quarters of 2009. Retail is not expected to fully rebound until 2010. The key to a rebound in retail sales will be a recovery in the real estate market and a stable financial market offering low, attractive interest rates to consumers.

If inflation can be held in check, then the Federal Reserve Board will have more flexibility to continue fighting the economic recession, but there is little more they can do to lower interest rates in response to the housing slump. In fact, forecasted 30-year mortgage rates are expected to fall slightly in 2009 and then increase going into the 2010 fiscal year.

To summarize, a housing recession that began in 2006 grew much worse in 2007. The housing recession led to a financial market crisis that will send the nation into a period of recession-like economic conditions. Conditions marked by higher unemployment, reduced income, and a drop in consumer spending. The earliest an economic recovery is anticipated to occur will be the last half of 2009.

**North
Carolina
Economic
Outlook**

North Carolina Economic Indicators

	FY2006-07	FY2007-08	FY2008-09	FY2009-10
	Actual	Actual	Projected	Projected
Personal Income	6.9%	5.4%	4.1%	3.4%
Wages & Salaries	7.3%	4.4%	2.5%	3.3%
Retail Sales	7.0%	4.9%	0.6%	2.7%
Unemployment Rate	4.7%	5.0%	7.1%	7.5%
Employment (Nonagricultural)	3.4%	1.7%	-0.8%	0.4%
Existing Single-family Home Sales	-0.1%	-21.3%	2.7%	9.8%
Average Hourly Earnings: Manufacturing	2.9%	3.2%	3.9%	3.0%

For North Carolina, the economic slowdown began in earnest the second quarter of 2008. Prior to then, it appeared the State might weather the economic turmoil experienced by some states and avoid recession-like conditions. The initially mild slowdown experienced by the State may be due in part to North Carolina's relatively mild housing problems. The State's housing bubble was limited to a few resort areas, therefore the statewide impact from the initial housing slowdown was far less severe than in many states. Through the first half of 2007, the State continued to experience strong population and employment growth. This growth helped dampen the impact from the housing slump. Even towards the end of 2007, the State's economy remained one of the few state economies still experiencing near-normal employment and income growth. However, by the spring of 2008, the national economic slowdown had spread to North Carolina and employment and income growth began to stall.

Thus, for FY2007-08, State economic indicators such as employment and income growth had noticeably slowed compared to the previous fiscal year. Going forward income growth is projected to continue to slow for the next two fiscal years with a modest rebound in wage and salary growth forecast for 2010. 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. For FY2008-09, the economic downturn and the strain on consumers will result in almost no growth in retail sales (0.6 percent) and falling employment (-0.8 percent).

As the State's economy suffers through the downturn, unemployment will increase and is projected to remain at, or above, 7 percent through 2009 and into 2010. This past year a drop in employment in the housing related industries including financial services, residential construction, and transportation occurred. Long-term negative growth trends in manufacturing continued as the State transitions away from traditional manufacturing jobs. In the last recession, manufacturing, particularly in the furniture and textile industries, shed jobs at a rate of 10 percent per quarter. The State's manufacturing sector will not be as vulnerable during this recession and job losses in this industry sector will continue, but are not projected to fall at the accelerated pace experienced during the last recession.

Additionally, the recent financial market upheaval has had a detrimental impact on the financial service sector's employment. Current estimates indicate job losses in this sector will continue into 2010. Compounding problems in the job market will be employment cutbacks in the service and retail sectors due to falling consumer spending. Thus, the number of people employed in non-agricultural industries in the State are expected to decline in FY2008-09, and the following fiscal year only grow at a rate of 0.4 percent.

An indication of the magnitude of the recession in the housing market can be represented by the 21.3 percent decline of existing-home sales in FY2007-08. This pullback in the sale of real estate can take a long time to recover from and for stability to return to the real estate market. Once the housing market stabilizes and an economic recovery is underway, North Carolina's economy is expected to expand at a faster pace than the nation. This should bode well for overall employment in the State and help bolster income growth going into 2010. Employment losses in the manufacturing industries will continue, but growth in the service and tech industries should rebound and continue to be a major stimulus to economic growth.

There is little doubt that the State will experience an economic slowdown with recession-like conditions possible over the next couple of years, but it is in a position to perform better than the nation as a whole during this period and is expected to bounce back faster than many other regions of the country.

*— Economic analysis prepared by Barry Boardman, Ph.D., Staff Economist
North Carolina General Assembly, Fiscal Research Division
October 31, 2008*

Issues and Observations

BEACON

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. In December 2007, after five years in the planning and development phases, the State completed a historic upgrade of its antiquated business systems by replacing them with SAP's Enterprise Resource Planning (ERP) software solution.

The HR/Payroll system uses a technology framework from SAP that ties agency information together in a single network. The SAP software also allows for future business operations to be added to the central system. The North Carolina State Legislature already has approved funding to add electronic recruiting, which will keep track of state job applicants; and electronic training, which will handle a number of training-related functions, to the new system. Once full stabilization of the HR/Payroll system is achieved, projects like electronic recruitment and others will be prioritized and resources will be directed to those projects.

Planning has started on the next phase of the project, which will potentially add budgeting, accounting and cash management functions. When completed, the BEACON system will provide centralized, coordinated business operations that can improve efficiency and provide timely, accurate information for decision-makers and the public.

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. 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.

Subsequent to the initial data integration legislation, SL 2008-107 was passed in response to the unfortunate death of two university students. The legislation directed that the Office of the State Controller, in cooperation with the State Chief Information Officer and under the governance of the BEACON Program Steering Committee, to develop and implement a Criminal Justice Data Integration Pilot Program in Wake County. The objective of the pilot program is to provide law enforcement professionals with enhanced decision making ability through access to a secure network that offers timely, complete and accurate criminal information.

**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, budgetary processes, budget code structures, and budgetary reports 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).

The actuarial data for the retiree healthcare benefit plan is disclosed in Note 13, Other Postemployment Benefits, based on the disclosure requirements for a cost-sharing, multiple-employer plan, and is also presented as required supplementary information (RSI). Based on the disclosure requirements of a cost-sharing, multiple-employer plan, the unfunded actuarial liability is not recorded as an accounting liability.

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 December 31, 2007 actuarial valuation using the projected unit credit cost method indicated an accrued liability of \$28.89 billion for the retiree healthcare plan (\$28.594 billion unfunded), with an annual required contribution (ARC) of \$2.714 billion.

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, 2008, retiree healthcare employer contributions were \$601.032 million, representing an annual increase of 13.75%. Retiree healthcare premium costs paid to the State Health Plan were \$523.267 million, representing an annual increase of 19.8%. Plan net assets of \$361.524 million represent an increase of \$90.885 million, or 33.6% from the prior year.

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.

On February 26, 2008, the Office of the State Controller launched an exciting new initiative for state government. This initiative, referred to as EAGLE, resulted from the passage of the State Governmental Accountability and Internal Control Act (North Carolina General Statutes, Chapter 143D) during the 2007 session of the General Assembly. EAGLE, which stands for *Enhancing Accountability in Government through Leadership and Education*, is intended to meet the public's increasing expectations for effective operations and accountability within state government and provides an opportunity for North Carolina to leverage on the best practices that have recently been implemented in the private sector.

The legislation passed in 2007 defines internal control as: "an integral process, effected 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."

During 2008, OSC began a phased-in implementation of the EAGLE Program. In Phase I of the implementation, each agency is required to perform an annual assessment of internal control over financial reporting. By performing these assessments, agencies are able to identify risks and compensating controls that reduce the possibility of material misstatements and misappropriation of assets. Opportunities to increase efficiency and control effectiveness in business processes and operations also result from these assessments.

To assist the agencies in their efforts to comply with the requirements of the Statewide Governmental Accountability and Internal Control Act, the Office of the State Controller conducted statewide training sessions to educate the participants on the EAGLE Program requirements, in addition to providing general guidance on understanding basic internal control concepts/principles. Approximately 300 participants attended the March 31, 2008 training session and another 225 attended the one on October 22, 2008. In addition, our staff has conducted one-on-one agency training sessions. Keeping with our goal of educating agency personnel on internal control concepts/principles, the Office of the State Controller plans to offer additional training opportunities in the future.

The first group of state entities implementing Phase I of the EAGLE Program is nearing completion of their Year 1 efforts. The Office of the State Controller recently solicited comments from the initial participants regarding their implementation experiences. We believe this feedback is imperative for the success of the EAGLE Program. The Office of the State Controller will evaluate the comments received and, where feasible, incorporate necessary changes to the Program.

The EAGLE Program has begun to generate national interest and should further solidify North Carolina's status as a proven national leader in governmental accountability and fiscal management.

North Carolina Internal Audit Act

The North Carolina General Assembly enacted the Internal Audit Act in Chapter 143 of the North Carolina General Statutes. The purpose of the Act is to promote effective use of internal audit efforts throughout the State. The Act requires State agencies and universities to establish a program of internal auditing; establishes the Council of Internal Auditing; and directs the Office of State Budget and Management (OSBM) to serve as staff and support to the Council. The Act applies to State agencies and universities 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.

State agencies and universities meeting the Internal Audit Act participation requirements are directed to establish a program of internal auditing that promotes an effective system of internal controls, safeguards public funds and assets, and minimizes incidences of fraud, waste, and abuse. Internal auditing programs review the effectiveness and efficiency of agency and program operations and service delivery. Specifically, state agencies and universities internal audit activities include:

- Appointing an Internal Audit Director
- Establishing an internal audit program
- Complying with auditing standards
- Submitting an audit charter and organizational chart to the Office of Internal Audit (OIA) as they are updated
- Following the North Carolina Internal Audit Manual
- Submitting internal audit plans on a yearly basis
- Submitting internal audit reports regularly
- Submitting reports or information to the OIA as requested by the Council

The Council of Internal Auditing plays a significant role in the implementation of the North Carolina Internal Audit Act. The Council consists of the State Controller, who serves as Chair, the State Budget Officer, the Secretary of Administration, the Attorney General, the Secretary of Revenue, and the State Auditor who serves as a nonvoting member. The Council of Internal Auditing meets every other month and works to:

- Develop guidelines for the uniformity and quality of state agency internal audit activities
- Administer an independent peer review system
- Recommend the number of internal audit employees required by each state agency
- Provide central training sessions, professional development opportunities, and recognition programs for internal auditors
- Administer a program for sharing internal auditors
- Maintain a central database of all internal audit plans and reports
- Issue an annual report including, but not limited to, service efforts and accomplishments of State agency internal auditors
- Propose legislation for consideration by the Governor and General Assembly

To support the Council, OSBM established the Office of Internal Audit (OIA) to assist in carrying out Council's responsibilities. The staff develops yearly objectives based on the legislative mandates and reports the progress of the objectives at each Council meeting. In addition, staff members are working to develop the following programs:

- **Interagency Internal Audit Program:** The Interagency Internal Audit Program provides technical expertise to internal audit functions and assists state agencies with internal audit activities whose budgets are between \$10 and \$70 million. The Program helps agencies develop and implement audit plans to add value and improve a state agency's operations.
- **OIA Peer Review Program:** The OIA Peer Review Program will help state agencies and universities comply with The Institute of Internal Auditors (IIA) Standards for the Professional Practice of Internal Auditing (Standards). In order to comply with the Standards, internal auditing offices are required to have an external assessment at least once every five years. The purpose of an external review is to evaluate and express an opinion on an Internal

Audit function's compliance with the Standards. The Peer Review Program will enable state agencies and universities to obtain their external assessment in a method that is cost-effective and educational.

- On-going Training Opportunities: The OIA provides centralized training for State internal auditors on a yearly basis. Staff members conduct an annual training survey to understand internal auditor needs and interests. One to two trainings are planned per year depending upon fund availability. In addition, staff members provide information on external professional development opportunities on a regular basis.

Additional information on the Council of Internal Auditing and the Office of Internal Audit can be found on the Office of State Budget and Management website.

Economic Development

North Carolina has again been recognized for its economic development efforts. North Carolina, for the fourth year in a row and seven of the last eight years, is the state with the *Top Business Climate* according to *Site Selection* magazine. *Site Selection* is one of the nation's premier magazines for economic development.

"Corporate executives know North Carolina is listening to them and we understand what they need to succeed," Easley said. "We are investing in education to provide a skilled workforce and offering an unmatched quality of life so people want to live and work here. All these make our state the top choice for companies looking to grow."

Site Selection magazine's annual *Top Business Climate* rankings are based on quantitative and qualitative factors that corporate site-seekers, those who help companies expand or relocate, say they consider most important. Fifty percent of the ranking comes from a survey of corporate site selection executives who were asked to rank their top 10 states and 50 percent is based on four measures of new plant activity as tracked by *Site Selection*. The magazine describes the ranking process as "a blend of objective, actual new or expansion project announcements, and subjective input from corporate site seekers." According to the magazine, corporate executives identified incentives, low taxes and an effective economic development team as well as the Governor's commitment to retooling the state's workforce as the factors behind North Carolina's winning business climate.

The article about North Carolina's No. 1 ranking can be found at: www.siteselection.com.

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, 2007. This was the 14th consecutive year (1994 to 2007) 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,



David McCoy
State Controller

December 8, 2008

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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, 2007

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.



Charles S. Cox

President

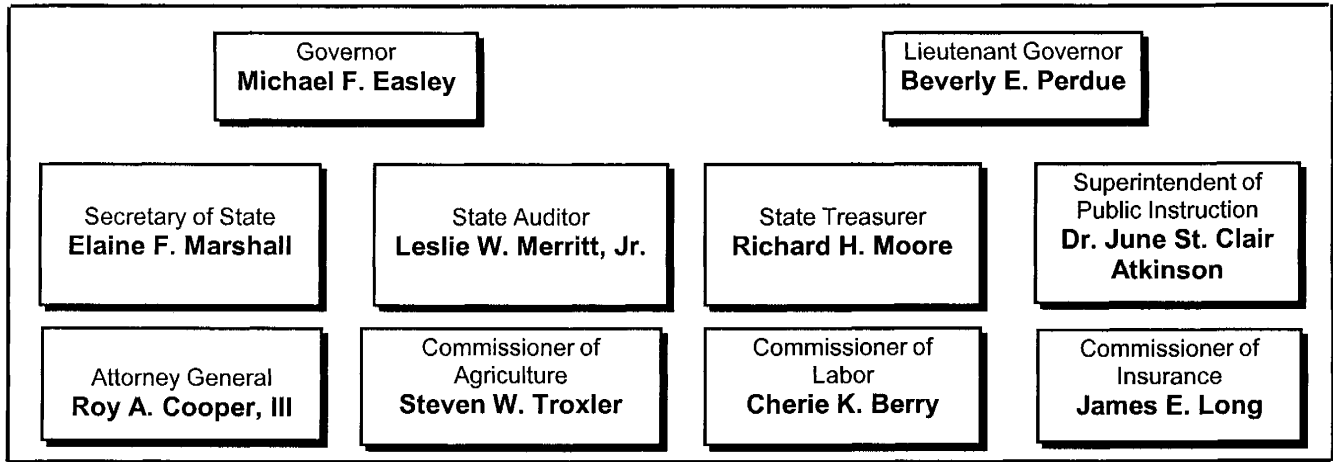
Jeffrey R. Emer

Executive Director

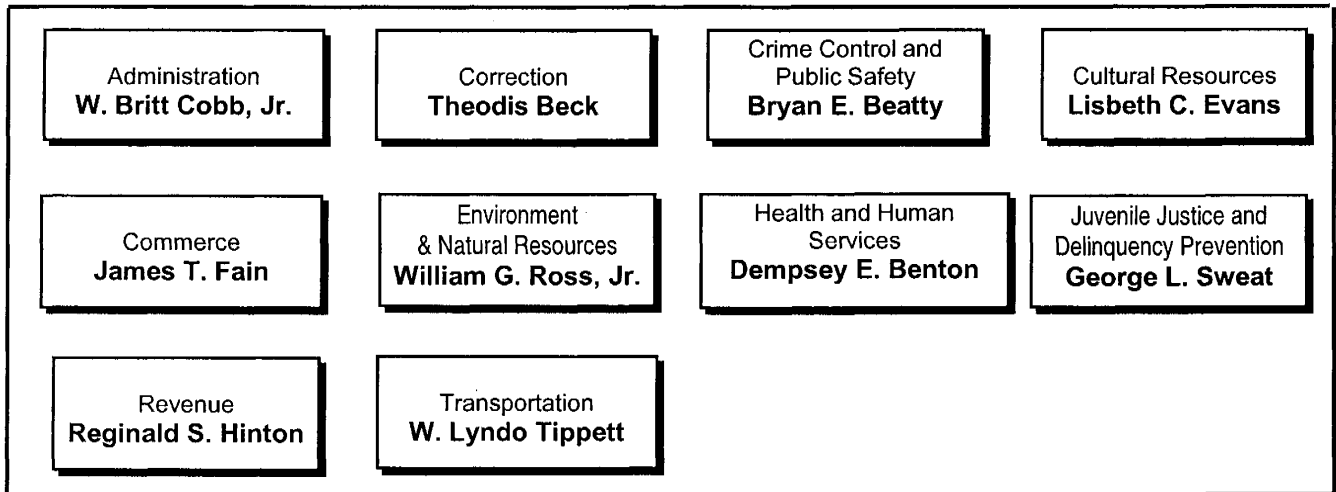
**ORGANIZATION OF NORTH CAROLINA STATE GOVERNMENT
INCLUDING PRINCIPAL STATE OFFICIALS**

EXECUTIVE BRANCH

Council of State



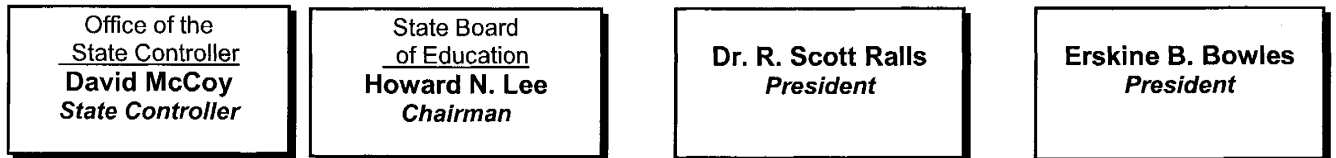
Cabinet Secretaries — Appointed by the Governor



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

Senate

President
**Lieutenant Governor
Beverly E. Perdue**

President Pro Tempore
Marc Basnight

Deputy Pres. Pro Tempore
Charlie Smith Dannelly

Majority Leader
Anthony E. Rand

Minority Leader
Philip E. Berger

**House of
Representatives**

Speaker
Joe Hackney

Speaker Pro Tempore
William L. Wainwright

Majority Leader
L. Hugh Holliman

Minority Leader
Paul Stam

**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.

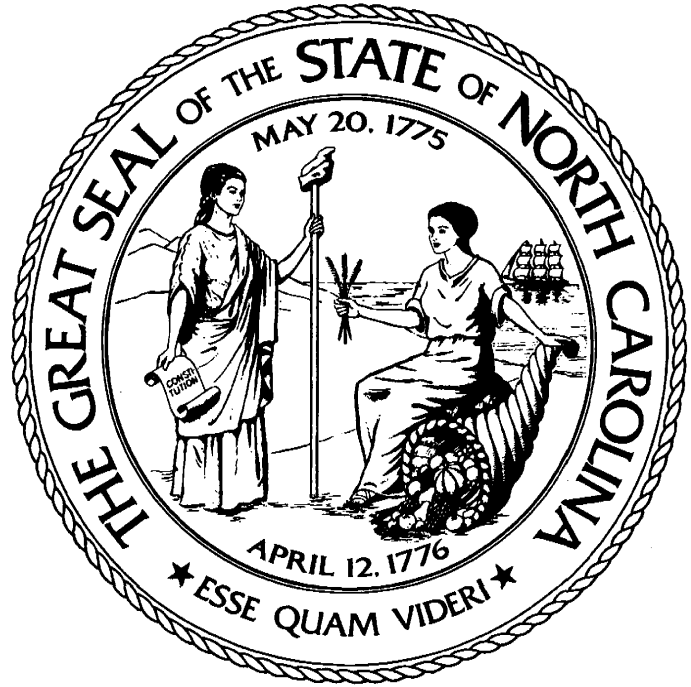
**N.C. Housing Finance
Agency**

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, 2008, 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 following:

- The financial statements of the North Carolina State Lottery Fund, which is a major enterprise fund and represents 4 percent, 0 percent, and 46 percent, respectively, of the assets, net assets, and revenues of the business-type activities.
- Cash basis claims and benefits of the State Health Plan, which represent 35 percent of the deductions of the fiduciary funds.
- The financial statements of the North Carolina Housing Finance Agency, which represent 7 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 17 percent, 4 percent, and 4 percent, respectively, of the assets, net assets, and revenues of the aggregate discretely presented component units.
- The financial statements of the University of North Carolina System – University of North Carolina Health Care System – Rex Healthcare, which represent 2 percent, 2 percent, and 4 percent, respectively, of the assets, net assets, and revenues of the aggregate discretely presented component units.

The financial statements and financial statement element listed above were audited by other auditors whose reports thereon have been furnished to us, and our opinions, insofar as they relate to these amounts, 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 *Government 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.

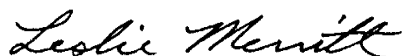
In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State of North Carolina, as of June 30, 2008, 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 22 to the financial statements, the State implemented Governmental Accounting Standards Board Statement No. 45 - *Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions*, Statement 48 - *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues*, and Statement 50 - *Pension Disclosures (an amendment of GASB Statements No. 25 and 27)* during the year ended June 30, 2008.

In accordance with *Government Auditing Standards*, we will also issue our report dated December 8, 2008 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 and required supplementary information, 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.

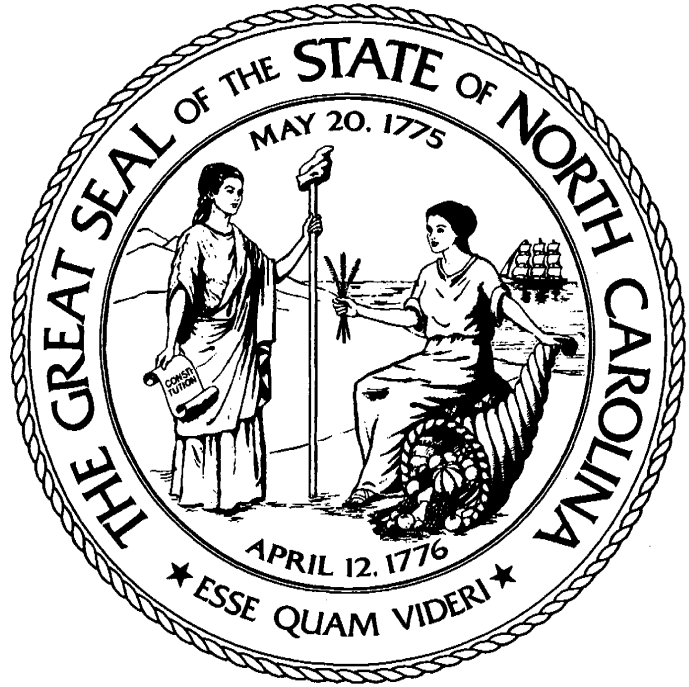
Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the State of North Carolina's basic financial statements. The introductory section, the combining fund financial statements and schedules, and the statistical section are presented for purposes 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 8, 2008

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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, 2008. 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 \$337.17 million or 1.07% as a result of this year's operations. Net assets of governmental activities increased by \$154.87 million, or 0.52%, and the lack of growth is attributable to the slowdown in the national and State economy. Net assets of business-type activities increased by \$182.29 million, or 10.63%, primarily due to the financial results of the Unemployment Compensation Fund. At year-end, net assets of governmental activities and business-type activities totaled \$29.97 billion and \$1.9 billion, respectively.
- Component units reported net assets of \$16.58 billion, an increase of \$986.22 million or 6.32% from the previous year.

Fund Financial Statements:

- The fund balance of the General Fund decreased from \$2.607 billion at June 30, 2007 (as restated) to \$1.679 billion at June 30, 2008, a decrease of 34.84%. For fiscal year 2008, the General Assembly authorized the drawdown of beginning unreserved fund balance to finance the deficiency of total revenues under total expenditures of \$958.166 (excluding other financing sources and uses).
- The fund balance of the State Highway Fund increased from \$678.9 million at June 30, 2007 to \$891.75 million at June 30, 2008, an increase of 31.35%. The significant increase is attributable to \$287.57 million in grant anticipation revenue vehicle bonds (GARVEE's) issued in October 2007.
- The fund balance of the Highway Trust Fund decreased from negative \$67.81 million at June 30, 2007 to negative \$74.62 million at June 30, 2008, a decrease of 10.03%. Total revenues decreased by \$59.53 million or 5.27% due to decreases in gasoline tax and highway use tax revenues.
- The net assets of the Unemployment Compensation Fund (Trust Fund) increased from \$746.11 million at June 30, 2007 to \$847.69 million at June 30, 2008, an increase of 13.61%. However, the Trust Fund's financial performance has weakened because of the recent downturn in the national and State economy.
- The N.C. Education Lottery (NCEL) began selling instant game tickets in March 2007 and Powerball tickets in May 2007. Net ticket sales surpassed \$1 billion, a 21.7% increase from the previous fiscal year. The NCEL transferred \$349.31 million in 2008 to support educational programs.

Capital Assets:

- The State's investment in capital assets (net of accumulated depreciation) was \$32.655 billion, an increase of 5.54% from the previous fiscal year-end.
- This year's major capital asset additions were for highway construction (\$1.5 billion), highway land improvements (\$525 million), construction/improvements of correctional facilities (\$34 million), and construction of a new psychiatric hospital (\$46 million).

Long-term Debt:

- The State had total long-term debt (bonds and similar debt payable) outstanding of \$7.055 billion, an increase of 2.08% from the previous fiscal year-end. The long-term debt balance includes \$1.2 billion 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 and other postemployment benefits 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 157 and 158).

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 184 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 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 and other postemployment benefits 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, non-major discretely presented component units, and the statistical section.

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 \$337.166 million or 1.07% over the course of this fiscal year's operations. The net assets of the governmental activities increased \$154.873 million or 0.52% and business-type activities increased \$182.293 million or 10.63%. The following table was derived from the government-wide Statement of Net Assets:

Net Assets June 30, 2008 and 2007 (dollars in thousands)

	Governmental Activities		Business-type Activities		Total Primary Government	
	2008	2007	2008	2007	2008	2007
Current and other non-current assets.....	\$ 15,223,629	\$ 17,524,607	\$ 2,252,278	\$ 2,118,160	\$ 17,475,907	\$ 19,642,767
Capital assets, net.....	32,622,721	30,915,226	32,515	26,673	32,655,236	30,941,899
Total assets.....	47,846,350	48,439,833	2,284,793	2,144,833	50,131,143	50,584,666
Long-term liabilities.....	8,571,615	7,676,773	4,682	3,885	8,576,297	7,680,658
Other liabilities.....	9,303,820	10,947,018	383,342	426,472	9,687,162	11,373,490
Total liabilities.....	17,875,435	18,623,791	388,024	430,357	18,263,459	19,054,148
Net assets:						
Invested in capital assets, net of related debt.....	30,931,799	29,715,168	32,515	26,673	30,964,314	29,741,841
Restricted.....	878,856	1,094,352	1,773,018	1,612,943	2,651,874	2,707,295
Unrestricted.....	(1,839,740)	(993,478)	91,236	74,860	(1,748,504)	(918,618)
Total net assets.....	\$ 29,970,915	\$ 29,816,042	\$ 1,896,769	\$ 1,714,476	\$ 31,867,684	\$ 31,530,518

The largest component of the State's net assets (\$30.964 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 (\$2.652 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 \$1.840 billion unrestricted net asset balance. The State of North Carolina, like many other state and local governments, issues general obligation debt and distributes the proceeds to local governments and component units. The proceeds are used to construct new buildings and renovate and modernize existing buildings on the State's community college and university campuses, assist county governments in meeting their public school building capital needs, and to provide grants and loans to local governments for clean water and natural gas projects. Of the \$7.022 billion of bonds and certificates of participation outstanding at June 30, 2008, \$5.41 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, 2008, the State's governmental activities have significant unfunded liabilities for a court judgment payable of \$749.886 million and compensated absences of \$403.249 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, 2008 and 2007
(dollars in thousands)

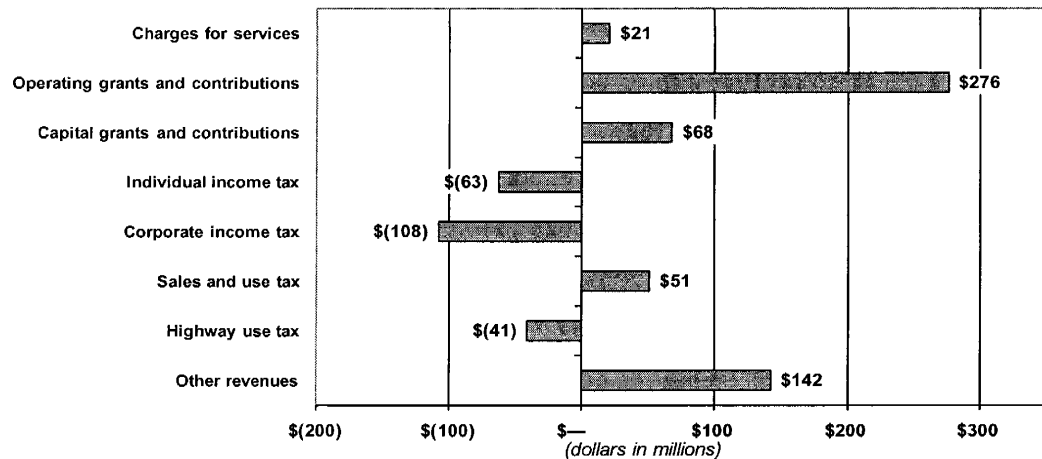
	Governmental Activities		Business-type Activities		Total Primary Government	
	2008	2007	2008	2007	2008	2007
Revenues:						
Program revenues:						
Charges for services.....	\$ 2,181,235	\$ 2,160,376	\$ 2,237,965	\$ 2,043,306	\$ 4,419,200	\$ 4,203,682
Operating grants and contributions.....	12,302,301	12,026,012	83,695	106,000	12,385,996	12,132,012
Capital grants and contributions.....	826,646	758,910	6,589	142	833,235	759,052
General revenues:						
Taxes	—	—	—	—	—	—
Individual income tax.....	10,676,156	10,739,562	—	—	10,676,156	10,739,562
Corporate income tax.....	1,357,670	1,466,148	—	—	1,357,670	1,466,148
Sales and use tax.....	5,159,453	5,108,456	—	—	5,159,453	5,108,456
Gasoline tax.....	1,579,847	1,601,764	—	—	1,579,847	1,601,764
Franchise tax.....	738,741	671,151	—	—	738,741	671,151
Highway use tax.....	566,132	607,511	—	—	566,132	607,511
Insurance tax.....	505,936	487,081	—	—	505,936	487,081
Beverage tax.....	258,193	245,990	—	—	258,193	245,990
Inheritance tax.....	158,178	162,746	—	—	158,178	162,746
Tobacco products tax.....	249,664	241,687	—	—	249,664	241,687
Other taxes.....	339,158	330,888	—	—	339,158	330,888
Tobacco settlement.....	168,583	144,075	—	—	168,583	144,075
Unrestricted investment earnings.....	238,239	211,663	—	—	238,239	211,663
Miscellaneous.....	49,345	47,015	—	15	49,345	47,030
Total revenues.....	37,355,477	37,011,035	2,328,249	2,149,463	39,683,726	39,160,498
Expenses:						
General government.....	1,248,228	1,264,132	—	—	1,248,228	1,264,132
Primary and secondary education.....	10,635,026	9,126,169	—	—	10,635,026	9,126,169
Higher education.....	4,207,421	4,500,010	—	—	4,207,421	4,500,010
Health and human services.....	14,956,584	14,117,426	—	—	14,956,584	14,117,426
Economic development.....	746,660	624,106	—	—	746,660	624,106
Environment and natural resources.....	771,783	672,726	—	—	771,783	672,726
Public safety, corrections and regulation.....	2,623,835	2,465,974	—	—	2,623,835	2,465,974
Transportation.....	1,938,394	2,019,942	—	—	1,938,394	2,019,942
Agriculture.....	119,395	88,970	—	—	119,395	88,970
Interest on long-term debt.....	304,020	273,123	—	—	304,020	273,123
Unemployment compensation.....	—	—	1,002,866	864,981	1,002,866	864,981
N.C. State Lottery.....	—	—	712,718	559,373	712,718	559,373
EPA Revolving Loan.....	—	—	12,454	14,228	12,454	14,228
Regulatory commissions.....	—	—	34,791	31,144	34,791	31,144
Insurance programs.....	—	—	17,539	23,892	17,539	23,892
North Carolina State Fair.....	—	—	12,601	11,433	12,601	11,433
Other business-type activities.....	—	—	6,139	5,686	6,139	5,686
Total expenses.....	37,551,346	35,152,578	1,799,108	1,510,737	39,350,454	36,663,315
Increase (decrease) in net assets before contributions and transfers.....	(195,869)	1,858,457	529,141	638,726	333,272	2,497,183
Contributions to permanent funds.....	3,894	3,928	—	—	3,894	3,928
Transfers.....	346,848	312,810	(346,848)	(312,810)	—	—
Increase (decrease) in net assets.....	154,873	2,175,195	182,293	325,916	337,166	2,501,111
Net assets - beginning - restated.....	29,816,042	27,640,847	1,714,476	1,388,560	31,530,518	29,029,407
Net assets - ending.....	\$ 29,970,915	\$ 29,816,042	\$ 1,896,769	\$ 1,714,476	\$ 31,867,684	\$ 31,530,518

Governmental Activities

For fiscal year 2008, revenues outpaced expenses and when combined with transfers from the State's business-type activities, an increase of \$154.873 million in net assets resulted for governmental activities. Total revenues increased 0.93% to \$37.355 billion. Total expenditures grew much faster at 6.82% to \$37.551 billion. The nominal growth in total revenues is attributable, in part, to the slowdown in the national and State economy. In 2008, employment and economic growth stalled, which explains the overall decrease in tax revenues (e.g., individual income, corporate income, highway use taxes, etc). However, transfers-in were higher in fiscal year 2008 due to the larger net profits achieved by the N.C. Education Lottery, a business-type activity.

The following chart reflects the dollar change in the revenues by source of governmental activities between fiscal years 2007 and 2008:

**Dollar Change in Governmental Activities Revenues by Source
Between Fiscal Years 2007 and 2008**



The 6.82% increase in total expenses is attributable to growth in the State's two largest functional areas, primary and secondary education and health and human services. In 2008, primary and secondary education increased 16.53%, due, in part, to a recent court judgment made against the State. A Superior Court judge ruled that the State owed \$749.89 million for certain civil fines and penalties that should have been remitted North Carolina public schools and not diverted to other uses (see Note 21 to the financial statements). Education funding also increased because of enrollment increases at the State's universities, community colleges, and public schools and to salary increases for teachers and faculty. Despite enrollment and other funding increases, higher education expenses fell in fiscal year 2008 due to larger distributions of higher education bond proceeds in the prior year. Distributions of bond proceeds to colleges and universities for capital projects were \$609.63 million in 2007 compared to \$67.28 million in 2008.

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."

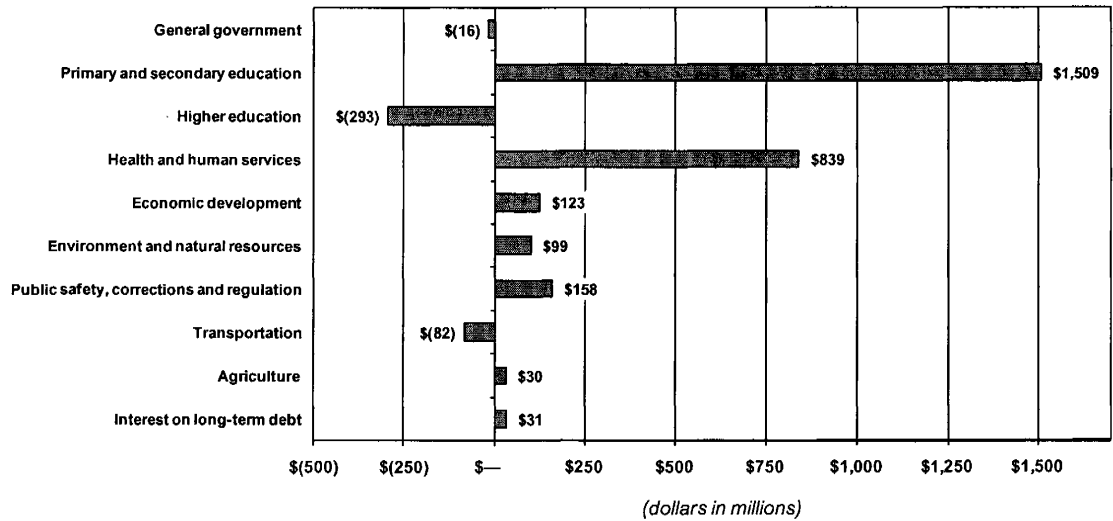
Total health and human services (HHS) spending increased 5.94% in 2008. The growth in health and human services is the result of increased spending for Medicaid (the State's largest public assistance program) and the opening of the new Central Regional psychiatric hospital in Butner. Because the State receives federal matching funds for the Medicaid Program, there was also a corresponding increase in program revenues (e.g., operating grants and contributions). The 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. Below is a schedule of the Medicaid funding changes and the shift in local sales tax to the State:

<u>Date</u>	<u>Medicaid Funding Change</u>	<u>Shift Local Sales Tax to State</u>
10-01-07	State assumes 25% of counties' share	
7-01-08	State assumes 50% of counties' share	
10-01-08		50% of ½% local sales tax is shifted to State
7-01-09	State assumes 100% of counties' share	
10-01-09		Remaining 50% is shifted to State

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. Higher growth rates occur during years of economic distress and when major Medicaid expansions are enacted. Lower growth rates occur when the Medicaid eligible population is stable or declining.

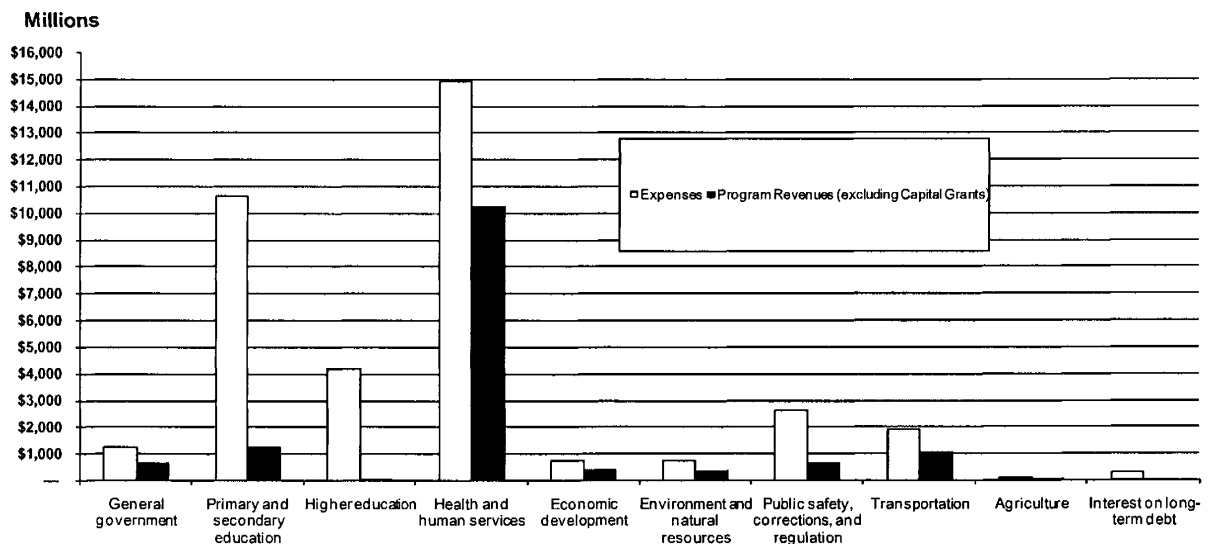
The following chart reflects the dollar change in the functional expenses of governmental activities between fiscal years 2007 and 2008:

Dollar Change in Governmental Activities Functional Expenses Between Fiscal Years 2007 and 2008



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, 2008



**Business-type
Activities**

Business-type activities reflect an overall increase in net assets of \$182.293 million or 10.63%, primarily because of the financial results of the Unemployment Compensation Fund. For fiscal year 2008, the Unemployment Compensation Fund had an operating income (excess of operating revenues over operating expenses) of \$90.439 million. The Unemployment Compensation Fund and the EPA Revolving Loan Fund comprise 93% 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 \$5.668 billion, a decrease of 11.06% from the prior fiscal year-end (as restated). The primary contributor to the decline was the General Fund, which had a 35.59% decrease in fund balance in 2008. However, the fund balance decline in the General Fund was partially offset by unspent debt proceeds reported in the Highway Fund and other governmental funds. The State issued debt in fiscal year 2007-08 for transportation improvement projects (Highway Fund) and for capital improvement and repair and renovation projects (other governmental funds). 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 decreased from \$2.607 billion at June 30, 2007 (as restated) to \$1.679 billion at June 30, 2008, a decrease of 35.59%. For fiscal year 2008, the General Assembly authorized the drawdown of beginning unreserved fund balance to finance the deficiency of total revenues under total expenditures of \$958.166 (excluding other financing sources and uses). While total revenues increased slightly, individual income taxes and sales and use taxes were virtually unchanged (changed less than 1%) and corporate income taxes fell by 6.76%. The tax rate on higher income taxpayers was reduced from 8.25% to 8% for tax year 2007 and from 8% to 7.75% for tax years beginning on or after January 1, 2008. Corporate income taxes are highly volatile over the business cycle. The rise in the North Carolina unemployment rate since June 2007 also contributed to the nominal change in tax revenues. A more detailed analysis of the General Fund is provided in the budgetary highlights section below.

2007-08 General Fund Budgetary Highlights

The appropriated budget included provisions that were designed to adjust General Fund revenues. The most significant revenue adjustments include 1) making permanent the additional 0.25% State sales tax rate that was set to expire on July 1, 2007, 2) reducing the top individual income tax rate from 8% to 7.75% effective January 1, 2008, and 3) authorizing a earned income tax credit for low income individuals and families effective January 1, 2008. 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 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, over-collection of revenues and unexpended appropriations for fiscal year 2006-07 were included to increase General Fund availability for fiscal year 2007-08.

The majority of funding increases for 2008 were for education, health and human services, employee benefit programs, and capital improvement projects. The budget for the public school system included an additional \$308.3 million. These funds were used to implement programs to improve student performance and graduation rates, to expand access to quality education alternatives, and to ensure students and faculty have 21st century technology in all classrooms. Specifically, the More-at-Four Program was increased by \$56 million to provide an additional 10,000 slots for at-risk four-year olds, \$17.6 million was provided to the Disadvantaged School Supplemental Fund, and \$37.5 million was provided to reduce class sizes in elementary school. Finally, \$70 million was appropriated for Accountability Based Curriculum bonuses for public school teachers. The budget for the University of North Carolina System included an additional \$185.5 million. The new EARN (Education Access Rewards North Carolina) scholars program, which will help low and moderate income students attend and graduate from a University of North Carolina campus debt free, is a unique partnership between high schools, community colleges, and universities. The EARN program will provide up to \$4,000 in individual need-based scholarships. Other expansion items that were funded include a summer bridge program designed to reduce dropout rates and recruitment and retention programs for teachers.

State funding for the Medicaid Program totaled \$2.92 billion in 2007-08 (compared to \$2.65 billion in 2006-07) and the total Medicaid budget was \$11.35 billion. The State Medicaid budget included \$252.88 million to support anticipated service cost increases and \$86.2 million to reduce the county share of Medicaid from 15% of the nonfederal share to 11.25% of the nonfederal share, effective October 1, 2007 (Note: the funds required to assume the counties' share were generated by reducing the amounts counties receive from an earmarking of the corporate income tax for school facilities). Additionally, the health and human services budget included \$62.4 million to begin operating the new Central Regional Hospital in Butner. This hospital is the first of three new state-operated psychiatric hospitals being built in North Carolina. Central Regional Hospital, which opened in September 2008, will serve patients from 26 counties.

The budget appropriated an additional \$758.6 million to support employee benefit programs. Specifically, the budget provided an average 5% compensation increase for all staff on the teacher salary schedule, an average 4.44% increase for public school administrators, a 5.0% increase for community college and University System faculty and a 4.0% increase for all other State employees. In addition, the budget provided funds to cover the increase in active and retired employee health-care premiums associated with rising costs. Finally, the budget authorized the final payment to the retirement system for funds that were withheld in fiscal year 2000-01.

The budget provided \$230.7 million in pay-as-you-go appropriations for priority education, public safety and infrastructure projects outlined in the State's Capital Improvement Plan. Specifically, the budget included \$108.2 million for several university systems projects, \$20 million for water resource development initiatives, \$8 million for a secondary data center, and \$7.5 million for infrastructure improvements at the State Ports. In addition, \$145 million from the fiscal year 2006-2007 credit balance was earmarked for the Repairs and Renovations Reserve.

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 State 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 2007-08 fiscal year was prepared approximately 18 months prior to the final budget existing at June 30, 2008. The final budget reflects all budget revisions made throughout the fiscal year to adjust for known facts. Therefore, the original budget is an estimate based on information that is 18 months old. Consequently, when the original budget is compared to the final budget, it would be expected that significant variances can occur.

Additional factors leading to variances between original and final budget in fiscal year 2007-08 include the following:

- 1) Awarding of new unanticipated federal grants and/or the awarding of unanticipated increased or decreased amounts in long-standing federally supported programs. This also leads to the necessity of budgeting the unanticipated required state match.
- 2) Statewide encumbrance carry-forward budgeted amounts from fiscal year 2006-07 totaled \$379.5 million.
- 3) Allocation of statewide reserves (\$758.6) to agencies and universities for the purposes of legislative increases, salary adjustments, retirement and hospitalization formula adjustments, contingency and emergency, and information technology related programs.
- 4) Receipt of and the budgeting of over-realized receipts, prior year receipts, and unanticipated donations or grants.
- 5) Inaccurate and unreasonable revenue and expenditure budget amounts entered by the agency during the continuation budget preparation process.

Variances - Final Budget and Actual Results

Actual total revenue collected (both tax and non-tax) slightly exceeded budgeted amounts in fiscal year 2007-2008. This primarily occurred because North Carolina adopted a cautious revenue outlook for fiscal year 2007-08 and thus was able to avoid the budget shortfalls affecting so many other states. Reflective of a slowing economy, sales and use tax collections for fiscal year 2007-08 were \$67.7 million under budget, as the consumer continued to fight a tightening labor market, falling home prices, and rising fuel and food prices. The individual and corporate income tax collections fueled by North Carolina's strong employment and income gains slightly exceeded the 2007-08 forecasts.

Departmental federal funds actually received by agencies were less than the final authorized budgeted federal fund revenues. A variance between the budget and actual federal funds will usually occur because federal fund actual receipts are reflective of the actual expenditures. Therefore, if qualifying federal costs are not incurred by an agency, the actual receipt of federal funds could be significantly less than what has been budgeted.

The expenditure variances between the final budget and actual for the functional areas of education, health and human services, justice and public safety, and correction and regulation were the result of these agencies receiving actual departmental revenues that were less than the budgeted amounts. Therefore, expenditures and requirements that are dependent upon the receipts of these revenues could not occur.

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 (NCDOT), including the maintenance and construction of the State's primary and secondary road systems, the Division of Motor Vehicles, the State Highway Patrol, transit, rail and ferry system. 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 \$678.9 million at June 30, 2007 to \$891.75 million at June 30, 2008, an increase of 31.35%. The significant increase is attributable to \$287.57 million in grant anticipation revenue vehicle bonds (GARVEE's) issued in October 2007. This innovative financing tool was used to accelerate the funding of transportation improvement projects across the State by leveraging future federal transportation revenues. At June 30, 2008, \$187.79 million of the GARVEE proceeds were unspent.

Total revenues increased by \$117.35 million or 4.28% primarily due to an increase and more timely notification of federal obligational authority required to seek reimbursement from the Federal Highway Administration. However, the increase in federal funds was partially offset by a decrease in gasoline tax collections. Higher gas prices and a cap on the State gas tax are the major causes for the gasoline tax decrease.

Transportation expenditures increased by \$199.71 million or 7.96%. The increase is attributable to national and international demand for steel, concrete and asphalt. The costs for these products have increased by over 79% since 2002. The North Carolina Construction index, which reflects the prices of construction materials for projects, has risen faster than the consumer price index. Higher gas prices also resulted in spending 20% more on fuel this year.

Population growth is placing an increasing demand on the State's transportation system. North Carolina's population grew from 7.65 million in 1999 to 9.27 million in 2008, an increase of 21.18%. This growth is expected to continue for the foreseeable future. The *U.S. Census* estimates North Carolina's population growing to approximately 12.2 million by 2030, which would place the state as the 7th most populated state in the country. 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.

Transportation is fundamental in continuing North Carolina's prosperity and quality of life as the state's population continues to grow. To address the growing demand on the on the transportation system, increased cost of supplies, and declining funding, NCDOT continues to seek innovative solutions to meet the growing stress on the transportation system.

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 2008 and 2007 were \$172.543 million and \$57.49 million, respectively. The amount transferred in 2007 was reduced to reflect 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 decreased from negative \$67.81 million at June 30, 2007 to negative \$74.62 million at June 30, 2008, a decrease of 10.03%. Total revenues decreased by \$59.53 million or 5.27% due to decreases in gasoline tax and highway use tax revenues. The factors contributing to the decrease in gasoline tax revenues were discussed previously in the analysis of the Highway Fund. Gasoline tax revenues decreased as consumers reduced fuel consumption. A decrease in vehicle sales and a lower value per transaction contributed to the overall decrease in highway use tax.

Total expenditures decreased by \$24.67 million or 2.81%. The decrease was due primarily to the Governor's "Moving Ahead" transportation initiative, which is coming to completion.

NCDOT will be challenged in its ability to meet the future transportation needs of the State. Flexibility in current revenues and investigation into other revenue sources and innovative financing will be needed to help meet these demands.

**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 \$746.11 million at June 30, 2007 to \$847.69 million at June 30, 2008, an increase of 13.61%. However, the Trust Fund's financial performance has weakened because of the recent downturn in the national and State's economy. The Trust Fund's operating margin (operating revenues less operating expenses) decreased from \$236.45 million (or 21.5% of operating revenues) in 2007 to \$90.44 million (or 8.28% of operating revenues) in 2008. Unemployment benefit expenses increased 15.97% in fiscal year 2008 to over \$1 billion. The decline in operating margin is explained by the State's rising unemployment rate, which increased from 4.9% in 2007 to 6% in June 2008. The State's unemployment rate in September 2008 rose further to 7%. A 20% surcharge on unemployment contributions, effective January 1, 2005 as required by statute, remained in effect during the current fiscal year. The surcharge was assessed because of the Trust Fund's low reserves in prior years.

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. As required by enabling legislation, net revenues of the NCEL are transferred four times a year to the N.C. Education Lottery Fund (a nonmajor governmental fund). At year end, the net assets of the NCEL are zero. The NCEL has no changes in the net assets from year to year.

For fiscal year 2008, net ticket sales surpassed \$1 billion, a 21.7% from the previous fiscal year. The growth in sales is attributable, in part, to the NCEL creating 51 new instant scratch-off games and increasing instant prize payouts. The NCEL transferred \$348.31 million to the N.C. Education Lottery Fund in 2008 to support educational programs for the State. The amount transferred in 2007 was \$314.354 million.

The Lottery Commission approved a budget for 2008-09 to provide \$385.5 million to the State's Education Lottery Fund. 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 \$59.68 million during the current fiscal year, a 6.91% increase from the prior fiscal year-end. Operating income was \$11.677 million (excess of operating revenues over operating expenses). Net nonoperating revenues were \$38.087 million, consisting primarily of federal capitalization grants and investment earnings. The \$10.183 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, 2008, the State's investment in capital assets was \$32.655 billion, an increase of 5.54% 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	
	2008	2007	2008	2007	2008	2007
Land.....	\$ 10,660,936	\$ 10,083,640	\$ 3,452	\$ 3,114	\$ 10,664,388	\$ 10,086,754
Buildings.....	1,815,826	1,826,814	17,306	12,830	1,833,132	1,839,644
Machinery and equipment.....	671,094	662,798	4,339	3,256	675,433	666,054
Infrastructure:						
State highway system.....	17,081,956	16,314,633	—	—	17,081,956	16,314,633
Other infrastructure.....	97,442	98,644	6,886	6,941	104,328	105,585
Intangible assets.....	103,669	105,734	—	—	103,669	105,734
Art, literature, and other artifacts.....	66,280	64,823	—	—	66,280	64,823
Construction in progress.....	2,125,518	1,758,140	532	532	2,126,050	1,758,672
Total.....	<u>\$ 32,622,721</u>	<u>\$ 30,915,226</u>	<u>\$ 32,515</u>	<u>\$ 26,673</u>	<u>\$ 32,655,236</u>	<u>\$ 30,941,899</u>
Total percent change between fiscal years 2008 and 2007	5.52 %		21.90 %		5.54 %	

This year's major capital asset additions were for highway construction (\$1.5 billion), highway land improvements (\$525 million), construction/improvements of correctional facilities (\$34 million), and construction of a new psychiatric hospital (\$46 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 increased significantly when adjusted for inflation.

The State completed construction of a 1,000 bed close custody prison in Columbus County in May 2008 and inmate occupancy began in September 2008. The total cost of this facility was \$102.4 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 216 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 \$153.4 million, of which \$132.2 million will be financed by COPs. The remaining balance will be financed by capital appropriations and federal grants. At year-end, construction in progress for the Central Prison medical center totaled \$10.06 million.

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 40 thousand inmates as of November 2008. 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 21(F) to the financial statements, the State has commitments of \$1.22 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 \$618.83 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 \$7.055 billion, an increase of 2.08% from the previous fiscal year-end (see table below).

Outstanding Debt as of June 30
(dollars in thousands)

	Governmental Activities	
	2008	2007
General obligation bonds.....	\$ 5,533,760	\$ 5,902,330
Special Indebtedness:		
Lease-purchase revenue bonds.....	235,045	245,045
Certificates of participation.....	965,880	727,640
GARVEE bonds.....	287,565	—
Notes payable.....	33,187	36,901
Total.....	<u>\$ 7,055,437</u>	<u>\$ 6,911,916</u>
Total percent change between fiscal years 2008 and 2007	2.08 %	

During the 2007-08 fiscal year, the State issued \$275 million in certificates of participation (COPs) and \$287.565 million in grant anticipation revenue vehicle bonds (GARVEEs). The proceeds of the COPs will be used to finance various State and university capital improvement projects (\$200 million) and projects for the repair and renovation of State facilities and related infrastructure (\$75 million), which were authorized for special indebtedness financing by previous sessions of the General Assembly. The repair and renovation projects were prioritized based on those projects related to life safety code requirements and water intrusion remediation. The proceeds of the GARVEEs will be used to accelerate the funding of various transportation projects identified in the current State Transportation Improvement Plan (see Note 17).

The State issues two types of tax-supported debt: general obligation bonds and various types of “special indebtedness” (i.e., debt not subject to a vote of the people). General obligation bonds are secured by the full faith, credit, and taxing power of the State. The payments on special indebtedness (e.g., lease-purchase revenue bonds and COPs) and equipment installment purchase contracts are subject to appropriation by the General Assembly. Some appropriated-supported debt may also be 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 GARVEEs are a revenue bond-type debt instrument where the debt service is to be paid solely from federal transportation revenues.

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 \$7.055 billion in 2008, in part due to large issuances for higher education capital projects. Prior to 2004, the State only issued general obligation debt. The following is a summary of recent debt authorizations.

Special Indebtedness

The budget bill enacted by the 2008-2009 Session of the General Assembly authorized the issuance of up to \$734.03 million of special indebtedness (e.g., COPs) as follows:

- \$512.22 million for higher education projects. Significant projects include \$109.1 million for the Centennial Campus library at North Carolina State University, \$69 million for a School of Dentistry at East Carolina University, \$69 million for a School of Dentistry expansion at the University of North Carolina at Chapel Hill, and \$57.22 million for the Energy Production Infrastructure Center at the University of North Carolina at Charlotte.

- \$109.09 million for correctional facilities. The projects include \$45.17 million for a health care and mental health facility at the N.C. Correctional Institute for Women, \$26.02 million for minimum security additions at Scotland Correctional Institution and Tabor Correctional Institution, and \$37.9 million for medium security additions at Bertie Correctional Institution and Lanesboro Correctional Institution.
- \$50 million for acquiring State park lands and conservation areas.
- \$62.72 million for other State projects.

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, \$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, and \$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.

Repair and Renovation Authorization

The 2002-2003 Session of the General Assembly authorized the issuance of \$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 was allocated to the University of North Carolina System. Each of the 16 constituent institutions of the UNC System received a portion of the proceeds for repairs and renovations. The remaining \$143 million of the proceeds was used to make repairs and renovations to various state facilities. The State has issued all of the authorized repair and renovation debt.

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 2008, 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 fund debt paid from highway fund revenues, non tax-supported special indebtedness (e.g., COPs) paid from non-general fund supported trust funds, other self-supporting or non-tax supported debt such as revenue bonds and short term tax anticipation notes, and other postemployment benefits ("OPEB").

According to the report, all of the State's debt ratios are at or below the median levels for the State's peer group composed 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

These ratings are the highest attainable from all three rating agencies. 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 Fitch Ratings, Aa1 by Moody's Investors Service, and AA+ by Standard & Poor's. Special indebtedness, such as COPs, is not subject to a vote of the people and its repayment is based on the State's annual debt service appropriation. For these reasons, special indebtedness is rated lower than the State's general obligation bonds and typically carries a higher interest rate.

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

During the budget deliberations, the Governor recommended lowering revenue expectations for fiscal year 2008-09 because of a slowing national economy. The budgeted revenue forecast for fiscal year 2008-09 assumed slow growth in the first half of the fiscal year, with strengthening to begin in the spring of 2009. In order to deal with the possibility of a weaker than expected April, the Governor directed the Office of State Budget and Management to take steps necessary to ensure that the budget is balanced on June 30, 2009. Specifically, allotments (on an annualized basis) for general government agencies were reduced by 5% and allotments for other state agencies were reduced between 1.5 % and 4%. In addition, capital projects paid for with cash will be delayed, reserves and unspent capital funds will be retained, and repairs and renovations of state buildings will be delayed.

The 2007 Session of the General Assembly enacted the following changes to revenue laws:

- Effective October 1, 2008, the 4.25% state sales tax 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. 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.

Conditions Expected to Impact Future Operations

State Health Plan

The State Health Plan (Plan) ended fiscal year 2008 with a deficit of \$140.14 million (see Note 15 to the financial statements). The deficit was incurred because the Plan underestimated administrative expenses, which increased by 19%, and used an incorrect forecasting model. More specifically, the Plan did not fully realize savings associated with member out-of-pocket cost sharing and provider discounts under the preferred provider organization (PPO) options. In addition, utilization of medical services, including outpatient services in particular, was higher than projected. The phase-out of the indemnity plan, including the transition of all members to one of three PPO options, was completed, effective July 1, 2008. The Plan revised its financial projections for fiscal year 2009 as a result of the financial performance in fiscal year 2008 and to address forecasting concerns and other factors. Current estimates indicate the Plan will need \$300 million in additional resources to operate through the end of fiscal year 2009, and to ensure cash availability going into fiscal year 2010.

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 209,000 (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 65% increase 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 and improving customer service through its new information technology system, which went live in October 2007.

Financially, the North Carolina retirement systems are better positioned than most retirement systems for the current financial difficulties. The primary system was funded at 104.7% at the end of 2007. The primary system is also conservatively invested, with significant holdings of U.S. Treasury and agency bonds. However, the State has taken advantage of the overfunding in recent years to reduce its contribution below the cost of currently accruing benefits. It is likely that the State will have to increase its contribution in future years to levels that are more in line with historical funding and the cost of current accruals. In addition, 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.

Impact of Current Market Conditions on Retirement System Funding

The N.C. Retirement Systems are designed and administered to fare better than those in many other states in the current financial turmoil. They are generally overfunded and conservatively invested, and do not guarantee cost of living adjustments. However, the financial crisis could have the following key impacts on the Retirement Systems:

- **State Contribution.** The State has reduced its contribution to the Teachers' and State Employees' Retirement System (TSERS) in recent years by spending the overfunding in the system. The State is currently contributing 3.36% of pay for most employees, totaling about \$400 million. This contribution is significantly lower than the actuarial normal contribution of 6.26%. The State's employer contribution will need to increase modestly to 3.57%, equivalent to approximately \$29 million, in the next fiscal year. However, continuing market difficulties impacting investment returns could speed the necessary acceleration of the State's employer contribution toward the actuarial normal level. By the 2010-2011 fiscal year, the State's contribution to TSERS could increase to close to 6%.

- Local Government Contribution. Local governments have paid essentially the same contribution for over 20 years, but current market conditions may force them to increase their contribution.
- Cost of Living Adjustments (COLAs). COLAs for retirees are not guaranteed in the N.C. Retirement Systems, so limited funds in both the Retirement Systems and the State budget will likely result in lower or no COLAs. The contribution increases noted above are before granting any COLAs. Any COLAs that the Governor and the General Assembly want to provide for next fiscal year and the year after will require additional appropriations.

Escheats Fund

Legislation passed in 2005 authorized the State Treasurer to diversify the investments of the Escheats Fund (Fund). Previously, the Fund was limited to participating in the Long Term Investment Portfolio. The State Constitution mandates that proceeds of the 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 Fund in other public and private investments. As of June 30, 2008, the Fund had invested \$89.9 million in these investment types.

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.osc.nc.gov/financial/financial.html>.



*BASIC
FINANCIAL
STATEMENTS*

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*GOVERNMENT-WIDE
FINANCIAL
STATEMENTS*

STATEMENT OF NET ASSETS

June 30, 2008

Exhibit A-1

(Dollars in Thousands)

	Primary Government			Component Units
	Governmental Activities	Business-type Activities	Total	
Assets				
Cash and cash equivalents (Note 3).....	\$ 5,052,983	\$ 859,534	\$ 5,912,517	\$ 1,814,547
Investments (Note 3).....	477,021	60,587	537,608	2,853,932
Securities lending collateral (Note 3).....	4,815,114	262,094	5,077,208	—
Receivables, net (Note 4).....	3,010,784	411,266	3,422,050	980,522
Due from component units (Note 18).....	15,693	—	15,693	15,806
Due from primary government (Note 18).....	—	—	—	77,923
Internal balances.....	719	(719)	—	—
Inventories.....	183,893	1,408	185,301	97,016
Prepaid items.....	6,173	2,662	8,835	19,477
Advances to component units (Note 18).....	32,922	—	32,922	—
Notes receivable, net (Note 4).....	344,127	655,446	999,573	5,024,704
Investment in joint venture.....	—	—	—	8,319
Deferred charges.....	—	—	—	34,184
Securities held in trust.....	60,735	—	60,735	—
Pension assets (Note 11).....	3,527	—	3,527	—
Restricted/designated cash and cash equivalents.....	529,495	—	529,495	1,990,191
Restricted investments (Note 3).....	690,443	—	690,443	3,980,283
Restricted due from primary government (Note 18).....	—	—	—	191,288
Restricted due from component units (Note 18).....	—	—	—	103,263
Capital assets-nondepreciable (Note 5).....	12,852,734	3,984	12,856,718	2,114,824
Capital assets-depreciable, net (Note 5).....	19,769,987	28,531	19,798,518	8,629,643
Total Assets.....	47,846,350	2,284,793	50,131,143	27,935,922
Liabilities				
Accounts payable and accrued liabilities.....	1,472,468	88,690	1,561,158	645,774
Medical claims payable.....	871,345	—	871,345	—
Unemployment benefits payable.....	—	12,216	12,216	—
Tax refunds payable.....	1,286,033	—	1,286,033	—
Obligations under securities lending.....	4,815,114	262,094	5,077,208	—
Interest payable.....	84,248	—	84,248	84,523
Short-term debt (Note 6).....	—	—	—	176,657
Due to component units (Note 18).....	269,211	—	269,211	119,069
Due to primary government (Note 18).....	—	—	—	15,693
Unearned revenue.....	395,490	20,340	415,830	169,783
Advance from primary government (Note 18).....	—	—	—	32,922
Deposits payable.....	86	2	88	9,726
Funds held for others.....	109,825	—	109,825	1,218,689
Long-term liabilities (Note 7):				
Due within one year.....	533,211	260	533,471	860,443
Due in more than one year.....	8,038,404	4,422	8,042,826	8,021,316
Total Liabilities.....	17,875,435	388,024	18,263,459	11,354,595
Net Assets				
Invested in capital assets, net of related debt.....	30,931,799	32,515	30,964,314	7,656,986
Restricted for:				
Nonexpendable:				
Environment and natural resources.....	66,976	—	66,976	—
Higher education.....	552	—	552	1,594,039
Expendable:				
Primary and secondary education.....	4,788	—	4,788	—
Higher education.....	643,480	—	643,480	3,409,133
Health and human services.....	12,828	—	12,828	4,597
Economic development.....	13,577	—	13,577	597,356
Environment and natural resources.....	17,617	—	17,617	—
Public safety, corrections, and regulation.....	14,086	—	14,086	—
Transportation.....	12,398	—	12,398	—
Unemployment compensation.....	—	847,690	847,690	—
EPA revolving loan.....	—	922,784	922,784	—
Other purposes.....	92,554	2,544	95,098	—
Unrestricted.....	(1,839,740)	91,236	(1,748,504)	3,319,216
Total Net Assets.....	\$ 29,970,915	\$ 1,896,769	\$ 31,867,684	\$ 16,581,327

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, 2008

(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.....	\$ 1,248,228	\$ 365,920	\$ 243,967	\$ 1,382	\$ (636,959)
Primary and secondary education.....	10,635,026	12,895	1,236,211	—	(9,385,920)
Higher education.....	4,207,421	425	20,071	—	(4,186,925)
Health and human services.....	14,956,584	315,363	9,929,258	—	(4,711,963)
Economic development.....	746,660	30,442	321,479	—	(394,739)
Environment and natural resources.....	771,783	159,960	142,003	68,059	(401,761)
Public safety, corrections, and regulation.....	2,623,835	501,837	150,545	3,860	(1,967,593)
Transportation.....	1,938,394	777,059	244,364	749,513	(167,458)
Agriculture.....	119,395	17,334	14,403	3,832	(83,826)
Interest on long-term debt.....	304,020	—	—	—	(304,020)
Total Governmental Activities.....	<u>37,551,346</u>	<u>2,181,235</u>	<u>12,302,301</u>	<u>826,646</u>	<u>(22,241,164)</u>
Business-type Activities:					
Unemployment Compensation.....	1,002,866	1,091,856	21,378	—	110,368
N.C. State Lottery.....	712,718	1,053,131	8,897	—	349,310
EPA Revolving Loan.....	12,454	17,297	44,921	—	49,764
Regulatory commissions.....	34,791	37,163	1,134	—	3,506
Insurance programs.....	17,539	16,991	6,478	—	5,930
North Carolina State Fair.....	12,601	15,029	310	58	2,796
Other business-type activities.....	6,139	6,498	577	6,531	7,467
Total Business-type Activities.....	<u>1,799,108</u>	<u>2,237,965</u>	<u>83,695</u>	<u>6,589</u>	<u>529,141</u>
Total Primary Government.....	<u>\$ 39,350,454</u>	<u>\$ 4,419,200</u>	<u>\$ 12,385,996</u>	<u>\$ 833,235</u>	<u>\$ (21,712,023)</u>
Component Units:					
The Golden LEAF, Inc.	\$ 140,822	\$ 54	\$ (16,676)	\$ —	\$ (157,444)
University of North Carolina System.....	7,891,720	4,536,193	812,665	446,901	(2,095,961)
Community Colleges.....	1,706,114	263,017	488,865	218,527	(735,705)
N.C. Housing Finance Agency.....	297,975	280,084	40,256	—	22,365
State Education Assistance Authority.....	406,585	203,100	86,892	—	(116,593)
Other component units.....	203,708	56,832	5,929	137,457	(3,490)
Total Component Units.....	<u>\$ 10,646,924</u>	<u>\$ 5,339,280</u>	<u>\$ 1,417,931</u>	<u>\$ 802,885</u>	<u>\$ (3,086,828)</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, 2008

Exhibit A-2

(Dollars in Thousands)

	Primary Government			Component Units
	Governmental Activities	Business-type Activities	Total	
Changes in Net Assets:				
Net (expense) revenue	\$ (22,241,164)	\$ 529,141	\$ (21,712,023)	\$ (3,086,828)
General Revenues:				
Taxes:				
Individual income tax.....	10,676,156	—	10,676,156	—
Corporate income tax.....	1,357,670	—	1,357,670	—
Sales and use tax.....	5,159,453	—	5,159,453	—
Gasoline tax.....	1,579,847	—	1,579,847	—
Franchise tax.....	738,741	—	738,741	—
Highway use tax.....	566,132	—	566,132	—
Insurance tax.....	505,936	—	505,936	—
Beverage tax.....	258,193	—	258,193	—
Inheritance tax.....	158,178	—	158,178	—
Tobacco products tax.....	249,664	—	249,664	—
Other taxes.....	339,158	—	339,158	—
Tobacco settlement.....	168,583	—	168,583	—
Unrestricted investment earnings.....	238,239	—	238,239	—
State aid.....	—	—	—	3,950,199
Miscellaneous.....	49,345	—	49,345	2,463
Contributions to permanent funds.....	3,894	—	3,894	—
Contributions to endowments.....	—	—	—	120,385
Transfers.....	346,848	(346,848)	—	—
Total general revenues, contributions, and transfers.....	22,396,037	(346,848)	22,049,189	4,073,047
Change in net assets.....	154,873	182,293	337,166	986,219
Net assets — July 1, as restated (Note 23).....	29,816,042	1,714,476	31,530,518	15,595,108
Net assets — June 30.....	\$ 29,970,915	\$ 1,896,769	\$ 31,867,684	\$ 16,581,327

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*FUND FINANCIAL
STATEMENTS*

**BALANCE SHEET
GOVERNMENTAL FUNDS**

June 30, 2008

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).....	\$ 2,401,698	\$ 864,744	\$ 6,811	\$ 1,701,514	\$ 4,974,767
Investments (Note 3).....	2,233	—	—	455,148	457,381
Securities lending collateral (Note 3).....	3,147,335	548,297	24,258	1,065,210	4,785,100
Receivables, net: (Note 4)					
Taxes receivable.....	1,735,612	103,214	36,770	2,123	1,877,719
Accounts receivable.....	257,113	10,076	107	29,730	297,026
Intergovernmental receivable.....	744,395	35,850	3,999	6,426	790,670
Interest receivable.....	14,324	3,349	108	8,627	26,408
Other receivables.....	—	3,170	—	—	3,170
Due from other funds (Note 9).....	2,599	17,398	47	21,794	41,838
Due from component units (Note 18).....	1,478	—	—	13,104	14,582
Inventories.....	55,705	87,604	—	40,369	183,678
Advances to component units (Note 18).....	—	—	11,180	21,742	32,922
Notes receivable, net (Note 4).....	25,427	1,025	96	317,579	344,127
Securities held in trust.....	423	17,933	—	42,379	60,735
Restricted/designated cash and cash equivalents.....	69,839	—	—	459,656	529,495
Restricted investments (Note 3).....	—	187,793	—	502,650	690,443
Total Assets.....	<u>\$ 8,458,181</u>	<u>\$ 1,880,453</u>	<u>\$ 83,376</u>	<u>\$ 4,688,051</u>	<u>\$ 15,110,061</u>
Liabilities and Fund Balances					
Liabilities:					
Accounts payable and accrued liabilities:					
Accounts payable.....	\$ 122,103	\$ 240,402	\$ 61,029	\$ 110,010	\$ 533,544
Accrued payroll.....	4,134	35,244	—	676	40,054
Intergovernmental payable.....	586,582	102,772	52,746	14,870	756,970
Claims payable.....	—	—	—	26,218	26,218
Medical claims payable.....	871,345	—	—	—	871,345
Tax refunds payable.....	1,276,922	6,833	2,278	—	1,286,033
Obligations under securities lending.....	3,147,335	548,297	24,258	1,065,210	4,785,100
Due to fiduciary funds (Note 9).....	103,901	—	—	47	103,948
Due to other funds (Note 9).....	18,617	7,982	17,398	16,180	60,177
Due to component units (Note 18).....	50,439	—	—	218,772	269,211
Deferred revenue.....	562,357	15,201	282	21,775	599,615
Deposits payable.....	—	—	—	86	86
Funds held for others.....	35,368	31,975	—	42,482	109,825
Total Liabilities.....	<u>6,779,103</u>	<u>988,706</u>	<u>157,991</u>	<u>1,516,326</u>	<u>9,442,126</u>
Fund Balances:					
Reserved (Note 10).....	173,850	233,579	11,276	937,868	1,356,573
Unreserved/Designated (Note 10).....	685,965	—	—	—	685,965
Unreserved/Undesignated, reported in:					
General Fund.....	819,263	—	—	—	819,263
Special Revenue Funds.....	—	658,168	(85,891)	1,947,009	2,519,286
Capital Projects Funds.....	—	—	—	284,536	284,536
Permanent Funds.....	—	—	—	2,312	2,312
Total Fund Balance.....	<u>1,679,078</u>	<u>891,747</u>	<u>(74,615)</u>	<u>3,171,725</u>	<u>5,667,935</u>
Total Liabilities and Fund Balances.....	<u>\$ 8,458,181</u>	<u>\$ 1,880,453</u>	<u>\$ 83,376</u>	<u>\$ 4,688,051</u>	<u>\$ 15,110,061</u>

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, 2008

Exhibit B-1a

(Dollars in Thousands)

Total fund balances - governmental funds (see Exhibit B-1) \$ 5,667,935

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

<ul style="list-style-type: none"> - Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds (see Note 5). These consist of: <table style="width: 100%; margin-left: 20px;"> <tr> <td style="width: 80%;">Cost of capital assets (excluding internal service funds).....</td> <td style="text-align: right;">\$ 32,978,140</td> <td></td> </tr> <tr> <td>Less: Accumulated depreciation (excluding internal service funds).....</td> <td style="text-align: right;">(471,813)</td> <td></td> </tr> <tr> <td>Net capital assets.....</td> <td></td> <td style="text-align: right;">32,506,327</td> </tr> </table> - 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. 209,085 - 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). 3,527 - 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: <table style="width: 100%; margin-left: 20px;"> <tr> <td style="width: 80%;">General obligation bonds payable.....</td> <td style="text-align: right;">(5,533,760)</td> <td></td> </tr> <tr> <td>Lease-purchase revenue bonds payable.....</td> <td style="text-align: right;">(235,045)</td> <td></td> </tr> <tr> <td>Certificates of participation payable.....</td> <td style="text-align: right;">(965,880)</td> <td></td> </tr> <tr> <td>GARVEE bonds payable.....</td> <td style="text-align: right;">(287,565)</td> <td></td> </tr> <tr> <td>Unamortized debt premiums (to be amortized as interest expense).....</td> <td style="text-align: right;">(287,272)</td> <td></td> </tr> <tr> <td>Less: Unamortized debt discounts (to be amortized as interest expense).....</td> <td style="text-align: right;">126</td> <td></td> </tr> <tr> <td>Less: Unamortized loss on refunding (to be amortized as interest expense).....</td> <td style="text-align: right;">76,923</td> <td></td> </tr> <tr> <td>Notes payable.....</td> <td style="text-align: right;">(33,187)</td> <td></td> </tr> <tr> <td>Capital leases payable.....</td> <td style="text-align: right;">(24,659)</td> <td></td> </tr> <tr> <td>Net long-term debt.....</td> <td></td> <td style="text-align: right;">(7,290,319)</td> </tr> </table> - Other liabilities not due and payable in the current period and, therefore, not reported in the funds (see Note 7 as applicable) consist of: <table style="width: 100%; margin-left: 20px;"> <tr> <td style="width: 80%;">Accrued interest payable.....</td> <td style="text-align: right;">(84,248)</td> <td></td> </tr> <tr> <td>Compensated absences (excluding internal service funds).....</td> <td style="text-align: right;">(398,324)</td> <td></td> </tr> <tr> <td>Obligations for workers' compensation.....</td> <td style="text-align: right;">(88,749)</td> <td></td> </tr> <tr> <td>Arbitrage rebate payable.....</td> <td style="text-align: right;">(3,025)</td> <td></td> </tr> <tr> <td>Deferred death benefit payable.....</td> <td style="text-align: right;">(565)</td> <td></td> </tr> <tr> <td>Court judgment payable.....</td> <td style="text-align: right;">(749,886)</td> <td></td> </tr> <tr> <td>Cost settlement payable.....</td> <td style="text-align: right;">(35,300)</td> <td></td> </tr> <tr> <td>Net pension obligation.....</td> <td style="text-align: right;">(522)</td> <td></td> </tr> <tr> <td>Total other liabilities.....</td> <td></td> <td style="text-align: right;">(1,360,619)</td> </tr> </table> - 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). 234,979 	Cost of capital assets (excluding internal service funds).....	\$ 32,978,140		Less: Accumulated depreciation (excluding internal service funds).....	(471,813)		Net capital assets.....		32,506,327	General obligation bonds payable.....	(5,533,760)		Lease-purchase revenue bonds payable.....	(235,045)		Certificates of participation payable.....	(965,880)		GARVEE bonds payable.....	(287,565)		Unamortized debt premiums (to be amortized as interest expense).....	(287,272)		Less: Unamortized debt discounts (to be amortized as interest expense).....	126		Less: Unamortized loss on refunding (to be amortized as interest expense).....	76,923		Notes payable.....	(33,187)		Capital leases payable.....	(24,659)		Net long-term debt.....		(7,290,319)	Accrued interest payable.....	(84,248)		Compensated absences (excluding internal service funds).....	(398,324)		Obligations for workers' compensation.....	(88,749)		Arbitrage rebate payable.....	(3,025)		Deferred death benefit payable.....	(565)		Court judgment payable.....	(749,886)		Cost settlement payable.....	(35,300)		Net pension obligation.....	(522)		Total other liabilities.....		(1,360,619)	<p>Total net assets - governmental activities (see Exhibit A-1) \$ 29,970,915</p>
Cost of capital assets (excluding internal service funds).....	\$ 32,978,140																																																																		
Less: Accumulated depreciation (excluding internal service funds).....	(471,813)																																																																		
Net capital assets.....		32,506,327																																																																	
General obligation bonds payable.....	(5,533,760)																																																																		
Lease-purchase revenue bonds payable.....	(235,045)																																																																		
Certificates of participation payable.....	(965,880)																																																																		
GARVEE bonds payable.....	(287,565)																																																																		
Unamortized debt premiums (to be amortized as interest expense).....	(287,272)																																																																		
Less: Unamortized debt discounts (to be amortized as interest expense).....	126																																																																		
Less: Unamortized loss on refunding (to be amortized as interest expense).....	76,923																																																																		
Notes payable.....	(33,187)																																																																		
Capital leases payable.....	(24,659)																																																																		
Net long-term debt.....		(7,290,319)																																																																	
Accrued interest payable.....	(84,248)																																																																		
Compensated absences (excluding internal service funds).....	(398,324)																																																																		
Obligations for workers' compensation.....	(88,749)																																																																		
Arbitrage rebate payable.....	(3,025)																																																																		
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Cost settlement payable.....	(35,300)																																																																		
Net pension obligation.....	(522)																																																																		
Total other liabilities.....		(1,360,619)																																																																	

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, 2008

Exhibit B-2

(Dollars in Thousands)

	General Fund	Highway Fund	Highway Trust Fund	Other Governmental Funds	Total Governmental Funds
Revenues:					
Taxes:					
Individual income tax.....	\$ 10,672,362	\$ —	\$ —	\$ 3,794	\$ 10,676,156
Corporate income tax.....	1,265,654	—	—	87,202	1,352,856
Sales and use tax.....	5,125,674	—	—	31,413	5,157,087
Gasoline tax.....	—	1,163,527	387,776	28,437	1,579,740
Franchise tax.....	739,947	—	—	—	739,947
Highway use tax.....	—	—	566,132	—	566,132
Insurance tax.....	492,699	—	—	13,237	505,936
Beverage tax.....	257,393	—	—	800	258,193
Inheritance tax.....	158,789	—	—	—	158,789
Tobacco products tax.....	249,664	—	—	—	249,664
Other taxes.....	185,351	—	—	153,670	339,021
Federal funds.....	10,843,765	904,400	—	348,189	12,096,354
Local funds.....	486,536	20,989	5,452	14,348	527,325
Investment earnings.....	385,833	67,905	2,592	164,499	620,829
Interest earnings on loans.....	113	12	—	5,031	5,156
Sales and services.....	102,445	863	—	182,540	285,848
Rental and lease of property.....	8,006	13,700	1,999	4,032	27,737
Fees, licenses, and fines.....	614,990	649,948	103,884	225,071	1,593,893
Tobacco settlement.....	159,954	—	—	—	159,954
Contributions, gifts, and grants.....	16,054	13,329	1,199	109,993	140,575
Funds escheated.....	—	—	—	74,743	74,743
Miscellaneous.....	128,368	24,387	1,367	13,327	167,449
Total revenues.....	<u>31,893,597</u>	<u>2,859,060</u>	<u>1,070,401</u>	<u>1,460,326</u>	<u>37,283,384</u>
Expenditures:					
Current:					
General government.....	1,083,760	—	—	83,330	1,167,090
Primary and secondary education.....	9,463,994	—	—	415,608	9,879,602
Higher education.....	3,880,171	—	—	326,993	4,207,164
Health and human services.....	14,822,331	—	—	95,737	14,918,068
Economic development.....	400,812	—	—	346,916	747,728
Environment and natural resources.....	284,244	—	—	404,875	689,119
Public safety, corrections, and regulation.....	2,167,484	—	—	462,083	2,629,567
Transportation.....	—	2,709,713	764,005	—	3,473,718
Agriculture.....	93,181	—	—	24,199	117,380
Capital outlay.....	—	—	—	346,764	346,764
Debt service:					
Principal retirement.....	368,736	3,100	54,055	1,659	427,550
Interest and fees.....	287,047	6,607	34,788	1,371	329,813
Debt issuance costs.....	3	667	78	1,393	2,141
Total expenditures.....	<u>32,851,763</u>	<u>2,720,087</u>	<u>852,926</u>	<u>2,510,928</u>	<u>38,935,704</u>
Excess revenues over (under) expenditures.....	<u>(958,166)</u>	<u>138,973</u>	<u>217,475</u>	<u>(1,050,602)</u>	<u>(1,652,320)</u>
Other Financing Sources (Uses):					
Special indebtedness issued.....	—	—	—	275,000	275,000
GARVEE bonds issued.....	—	287,565	—	—	287,565
Other debt issued.....	4,590	—	—	2,835	7,425
Premium on debt issued.....	—	12,231	—	9,612	21,843
Sale of capital assets.....	11,592	11,549	1,073	5,356	29,570
Insurance recoveries.....	540	6,525	—	252	7,317
Transfers in (Note 9).....	789,758	53,458	—	1,723,925	2,567,141
Transfers out (Note 9).....	(745,653)	(300,257)	(225,351)	(952,177)	(2,223,438)
Total other financing sources (uses).....	<u>60,827</u>	<u>71,071</u>	<u>(224,278)</u>	<u>1,064,803</u>	<u>972,423</u>
Net change in fund balances.....	<u>(897,339)</u>	<u>210,044</u>	<u>(6,803)</u>	<u>14,201</u>	<u>(679,897)</u>
Fund balances — July 1, as restated (Note 23).....	2,606,718	678,902	(67,812)	3,154,899	6,372,707
Increase (decrease) in reserve for related assets.....	<u>(30,301)</u>	<u>2,801</u>	<u>—</u>	<u>2,625</u>	<u>(24,875)</u>
Fund balances — June 30.....	<u>\$ 1,679,078</u>	<u>\$ 891,747</u>	<u>\$ (74,615)</u>	<u>\$ 3,171,725</u>	<u>\$ 5,667,935</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, 2008
(Dollars in Thousands)

Exhibit B-2a

Net change in fund balances - total governmental funds (see Exhibit B-2) \$ (679,897)

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

- Capital outlays are reported as expenditures in governmental funds. However, in the Statement of Activities, the cost of capital assets is allocated over their estimated useful lives as depreciation expense. In the current period, these amounts are:		
Capital outlays (including construction-in-progress)	\$ 2,401,659	
Less: Depreciation expense (excluding internal service funds)	(611,162)	
Net capital outlay adjustment		1,790,497
- 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.		(102,677)
- 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.		115
- 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	(569,990)	
Premiums on debt issued	(21,843)	
Principal repayments:		
Bonds, notes, and similar debt	426,469	
Capital leases	1,081	
Net debt adjustments		(164,283)
- 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.		19,692
- Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not recognized in the funds. Also, some payments related to prior periods are recognized in the funds but are eliminated in the Statement of Activities. In the current period, the net adjustments consist of:		
Accrued interest	(2,460)	
Compensated absences (excluding internal service funds)	(21,542)	
Workers' compensation	(4,327)	
Arbitrage rebate	2,692	
Deferred death benefit	(155)	
Court judgment	(749,886)	
Cost settlement	15,000	
Net pension obligation	3,705	
Amortization of deferred amounts	28,253	
Net expense accruals		(728,720)
- Inventories of governmental funds are recorded as expenditures when purchased but in the Statement of Activities are recorded as expenses when consumed.		(24,875)
- 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).		45,021
Change in net assets - governmental activities (see Exhibit A-2)		<u>\$ 154,873</u>

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

**STATEMENT OF NET ASSETS
PROPRIETARY FUNDS**

June 30, 2008

(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
Assets					
Current Assets:					
Cash and cash equivalents (Note 3).....	\$ 503,905	\$ 261,671	\$ 38,755	\$ 55,203	\$ 859,534
Investments (Note 3).....	—	—	—	53,831	53,831
Securities lending collateral (Note 3).....	22,569	165,809	25,633	48,083	262,094
Receivables: (Note 4)					
Accounts receivable, net.....	30,076	—	13,728	4,643	48,447
Intergovernmental receivable.....	—	129	—	—	129
Interest receivable.....	137	3,823	418	65	4,443
Premiums receivable.....	—	—	—	1,281	1,281
Contributions receivable, net.....	330,535	—	—	—	330,535
Notes receivable, net (Note 4).....	—	39,549	—	—	39,549
Due from fiduciary funds (Note 9).....	—	—	—	—	—
Due from other funds (Note 9).....	3,025	—	—	—	3,025
Due from component units (Note 18).....	—	—	—	—	—
Inventories.....	—	—	910	498	1,408
Prepaid items.....	—	—	—	2,662	2,662
Restricted investments (Note 3).....	—	2,244	—	—	2,244
Total current assets.....	<u>890,247</u>	<u>473,225</u>	<u>79,444</u>	<u>166,266</u>	<u>1,609,182</u>
Noncurrent Assets:					
Investments (Note 3).....	—	—	—	721	721
Receivables:					
Contributions receivable, net.....	26,431	—	—	—	26,431
Notes receivable, net (Note 4).....	—	615,897	—	—	615,897
Restricted investments (Note 3).....	—	—	—	3,791	3,791
Capital assets-nondepreciable (Note 5).....	—	—	—	3,984	3,984
Capital assets-depreciable, net (Note 5).....	—	83	1,487	26,961	28,531
Total noncurrent assets.....	<u>26,431</u>	<u>615,980</u>	<u>1,487</u>	<u>35,457</u>	<u>679,355</u>
Total Assets.....	<u>916,678</u>	<u>1,089,205</u>	<u>80,931</u>	<u>201,723</u>	<u>2,288,537</u>
Liabilities					
Current Liabilities:					
Accounts payable and accrued liabilities:					
Accounts payable.....	17,860	116	50,160	1,149	69,285
Accrued payroll.....	—	2	405	75	482
Intergovernmental payable.....	3,578	—	10	—	3,588
Claims payable.....	—	—	—	15,335	15,335
Unemployment benefits payable.....	12,216	—	—	—	12,216
Obligations under securities lending.....	22,569	165,809	25,633	48,083	262,094
Due to other funds (Note 9).....	109	30	3,564	41	3,744
Unearned revenue.....	12,656	—	7	7,677	20,340
Deposits payable.....	—	—	—	2	2
Compensated absences.....	—	21	57	182	260
Total current liabilities.....	<u>68,988</u>	<u>165,978</u>	<u>79,836</u>	<u>72,544</u>	<u>387,346</u>
Noncurrent Liabilities:					
Compensated absences.....	—	360	1,095	2,967	4,422
Total noncurrent liabilities.....	<u>—</u>	<u>360</u>	<u>1,095</u>	<u>2,967</u>	<u>4,422</u>
Total Liabilities.....	<u>68,988</u>	<u>166,338</u>	<u>80,931</u>	<u>75,511</u>	<u>391,768</u>
Net Assets					
Invested in capital assets, net of related debt.....	—	83	1,487	30,945	32,515
Restricted for:					
Capital outlay.....	—	—	—	2,544	2,544
Unrestricted.....	847,690	922,784	(1,487)	92,723	1,861,710
Total Net Assets.....	<u>\$ 847,690</u>	<u>\$ 922,867</u>	<u>\$ —</u>	<u>\$ 126,212</u>	<u>\$ 1,896,769</u>

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

Exhibit B-3

Governmental
Activities —
Internal
Service
Funds

\$	78,216
	19,640
	30,014
	14,336
	—
	111
	1,337
	—
	—
	7
	20,671
	1,111
	215
	6,173
	—
	<u>171,831</u>
	—
	—
	—
	3,396
	112,998
	<u>116,394</u>
	<u>288,225</u>
	2,779
	747
	1
	8,207
	—
	30,014
	1,613
	4,960
	—
	325
	<u>48,646</u>
	4,600
	<u>4,600</u>
	<u>53,246</u>
	116,394
	—
	118,585
\$	<u>234,979</u>

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

For the Fiscal Year Ended June 30, 2008

(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	
Operating Revenues:					
Employer unemployment contributions.....	\$ 1,064,643	\$ —	\$ —	\$ —	\$ 1,064,643
Federal funds.....	27,213	—	—	—	27,213
Sales and services.....	—	1,883	1,048,349	1,208	1,051,440
Interest earnings on loans.....	—	15,414	—	—	15,414
Rental and lease earnings.....	—	—	—	7,362	7,362
Fees, licenses, and fines.....	—	—	4,579	49,701	54,280
Insurance premiums.....	—	—	—	16,991	16,991
Miscellaneous.....	—	—	203	419	622
Total operating revenues.....	<u>1,091,856</u>	<u>17,297</u>	<u>1,053,131</u>	<u>75,681</u>	<u>2,237,965</u>
Operating Expenses:					
Personal services.....	—	4,013	13,793	30,914	48,720
Supplies and materials.....	—	59	120	1,332	1,511
Services.....	—	970	105,071	15,851	121,892
Cost of goods sold.....	—	—	—	374	374
Depreciation/amortization.....	—	25	382	1,226	1,633
Lottery prizes.....	—	—	588,485	—	588,485
Claims.....	—	—	—	11,434	11,434
Unemployment benefits.....	1,001,417	—	—	—	1,001,417
Insurance and bonding.....	—	—	4	3,585	3,589
Other.....	—	553	1,791	4,464	6,808
Total operating expenses.....	<u>1,001,417</u>	<u>5,620</u>	<u>709,646</u>	<u>69,180</u>	<u>1,785,863</u>
Operating income (loss).....	<u>90,439</u>	<u>11,677</u>	<u>343,485</u>	<u>6,501</u>	<u>452,102</u>
Nonoperating Revenues (Expenses):					
Noncapital grants.....	—	26,407	—	189	26,596
Noncapital gifts.....	—	—	—	338	338
Investment earnings.....	21,378	18,514	8,350	7,932	56,174
Interest and fees.....	—	(13)	—	—	(13)
Insurance recoveries.....	—	—	—	2	2
Gain (loss) on sale of equipment.....	—	—	—	—	—
Miscellaneous.....	(1,449)	(6,821)	(2,525)	(1,852)	(12,647)
Total nonoperating revenues (expenses).....	<u>19,929</u>	<u>38,087</u>	<u>5,825</u>	<u>6,609</u>	<u>70,450</u>
Income (loss) before contributions.....					
and transfers.....	110,368	49,764	349,310	13,110	522,552
Capital contributions.....	—	—	—	6,589	6,589
Transfers in (Note 9).....	2,006	10,183	—	4,500	16,689
Transfers out (Note 9).....	(10,792)	(263)	(349,310)	(3,172)	(363,537)
Change in net assets.....	101,582	59,684	—	21,027	182,293
Net assets — July 1, as restated (Note 23).....	746,108	863,183	—	105,185	1,714,476
Net assets — June 30.....	<u>\$ 847,690</u>	<u>\$ 922,867</u>	<u>\$ —</u>	<u>\$ 126,212</u>	<u>\$ 1,896,769</u>

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

Exhibit B-4

Governmental Activities — Internal Service Funds	
\$	—
	—
	283,108
	—
	20
	140
	19,257
	422
	<u>302,947</u>
	60,885
	15,936
	113,419
	617
	28,058
	—
	1,170
	—
	18,203
	56,412
	<u>294,700</u>
	<u>8,247</u>
	—
	—
	4,850
	—
	153
	168
	<u>(1,407)</u>
	<u>3,764</u>
	12,011
	29,865
	3,307
	<u>(162)</u>
	45,021
	189,958
\$	<u><u>234,979</u></u>

STATEMENT OF CASH FLOWS PROPRIETARY FUNDS

For the Fiscal Year Ended June 30, 2008

(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.....	\$ 1,072,174	\$ 1,883	\$ 975,093	\$ 72,267	\$ 2,121,417
Receipts from federal agencies.....	27,212	—	—	—	27,212
Receipts from other funds.....	—	—	—	—	—
Payments to suppliers.....	—	(1,153)	(31,484)	(22,824)	(55,461)
Payments to employees.....	—	(4,007)	(13,117)	(30,401)	(47,525)
Payments for prizes, benefits, and claims.....	(1,005,766)	—	(598,203)	(8,955)	(1,612,924)
Payments to other funds.....	—	—	—	—	—
Other receipts (payments).....	(577)	(423)	548	(2,117)	(2,569)
Net cash flows provided (used) by operating activities.....	<u>93,043</u>	<u>(3,700)</u>	<u>332,837</u>	<u>7,970</u>	<u>430,150</u>
Cash Provided From (Used For)					
Noncapital Financing Activities:					
Grant receipts (refunds).....	—	26,386	—	189	26,575
Interest expense and issuance cost.....	—	(13)	—	—	(13)
Transfers from other funds.....	2,006	10,183	—	4,500	16,689
Transfers to other funds.....	(10,792)	(263)	(348,327)	(3,172)	(362,554)
Gifts.....	—	—	—	367	367
Total cash provided from (used for) noncapital financing activities.....	<u>(8,786)</u>	<u>36,293</u>	<u>(348,327)</u>	<u>1,884</u>	<u>(318,936)</u>
Cash Provided From (Used For)					
Capital and Related Financing Activities:					
Acquisition and construction of capital assets.....	—	(19)	(587)	(306)	(912)
Proceeds from the sale of capital assets.....	—	—	—	157	157
Insurance recoveries.....	—	—	—	—	—
Total cash provided from (used for) capital and related financing activities.....	<u>—</u>	<u>(19)</u>	<u>(587)</u>	<u>(149)</u>	<u>(755)</u>
Cash Provided From (Used For)					
Investment Activities:					
Purchase into State Treasurer investment pool.....	—	(1,489)	—	—	(1,489)
Redemptions from State Treasurer investment pool.....	—	6,140	—	—	6,140
Loan issuances.....	—	(60,909)	—	—	(60,909)
Loan repayments — interest.....	—	14,981	—	—	14,981
Loan repayments — principal.....	—	41,102	—	—	41,102
Investment earnings.....	20,431	11,634	5,266	1,587	38,918
Total cash provided from (used for) investment activities.....	<u>20,431</u>	<u>11,459</u>	<u>5,266</u>	<u>1,587</u>	<u>38,743</u>
Net increase (decrease) in cash and cash equivalents.....	104,688	44,033	(10,811)	11,292	149,202
Cash and cash equivalents at July 1, as restated.....	399,217	217,638	49,566	43,911	710,332
Cash and cash equivalents at June 30.....	<u>\$ 503,905</u>	<u>\$ 261,671</u>	<u>\$ 38,755</u>	<u>\$ 55,203</u>	<u>\$ 859,534</u>

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

**Governmental
Activities —
Internal
Service
Funds**

\$	46,510
	—
	254,354
	(185,302)
	(59,811)
	(3,668)
	(14,573)
	(1,304)
	<u>36,206</u>
	—
	—
	3,307
	(162)
	—
	<u>3,145</u>
	(17,805)
	241
	153
	<u>(17,411)</u>
	—
	—
	—
	—
	1,800
	<u>1,800</u>
	23,740
	54,476
\$	<u><u>78,216</u></u>

Continued

STATEMENT OF CASH FLOWS PROPRIETARY FUNDS

For the Fiscal Year Ended June 30, 2008

(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).....	\$ 90,439	\$ 11,677	\$ 343,485	\$ 6,501	\$ 452,102
Adjustments to reconcile operating income to net cash flows from operating activities:					
Depreciation/amortization.....	—	25	382	1,226	1,633
Interest earnings on loans classified as investing activity.....	—	(15,414)	—	—	(15,414)
Restatements and adjustments.....	—	—	—	2,732	2,732
Nonoperating miscellaneous income (expense).....	(577)	—	546	36	5
(Increases) decreases in assets:					
Receivables.....	6,120	—	(2,674)	(1,367)	2,079
Due from other funds.....	(2,851)	—	—	—	(2,851)
Due from fiduciary funds.....	—	—	—	—	—
Due from component units.....	—	—	—	—	—
Inventories.....	—	—	(115)	(49)	(164)
Prepaid items.....	—	—	—	(178)	(178)
Increases (decreases) in liabilities:					
Accounts payable and accrued liabilities.....	4,900	7	(9,074)	1,387	(2,780)
Due to other funds.....	93	2	—	(4)	91
Unemployment benefits payable.....	(6,076)	—	—	—	(6,076)
Compensated absences.....	—	3	288	506	797
Unearned revenue.....	995	—	7	(2,822)	(1,820)
Deposits payable.....	—	—	(8)	2	(6)
Total cash provided from (used for) operations.....	<u>\$ 93,043</u>	<u>\$ (3,700)</u>	<u>\$ 332,837</u>	<u>\$ 7,970</u>	<u>\$ 430,150</u>
Noncash Investing, Capital, and Financing Activities:					
Noncash distributions from the State Treasurer					
Long-Term Investment Portfolio and/or other agents.....	\$ —	\$ —	\$ —	\$ 3,127	\$ 3,127
Donated or transferred assets (fair value).....	—	—	—	6,560	6,560
Assets acquired through the assumption of a liability.....	22,569	165,809	25,633	48,083	262,094
Change in fair value of investments.....	—	—	—	1,148	1,148

**Governmental
Activities —
Internal
Service
Funds**

\$ 8,247

28,058

—

112

37

(268)

(1,867)

4

47

119

3,197

(2,716)

130

—

774

332

—

\$ 36,206

\$ —

29,865

30,014

434

**STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS**

June 30, 2008

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).....	\$ 812,048	\$ 17,733	\$ 100,992	\$ 3,349,938
Investments (Note 3):				
U.S. government and agency securities.....	446,222	—	2,073	—
Collateralized mortgage obligations.....	404,982	—	—	—
Asset-backed securities.....	32,554	—	—	—
Repurchase agreements.....	2,100	—	—	—
Commercial mortgage backed securities.....	57,715	—	—	—
Annuity contracts.....	27,925	—	—	—
Corporate bonds.....	254,193	—	—	45,893
Corporate stocks.....	—	—	—	1,011
Certificates of deposit.....	619	—	63,602	392
Mutual funds.....	3,824,915	—	—	—
State Treasurer investment pool.....	72,894,447	441,790	—	44,163
Securities lending collateral (Note 3).....	15,648,705	260,172	412	1,756,444
Receivables:				
Taxes receivable.....	—	—	—	136,400
Accounts receivable.....	66,291	—	—	15,460
Intergovernmental receivable.....	17,923	—	—	—
Interest receivable.....	16,703	4,968	2	1
Contributions receivable.....	135,021	—	—	—
Due from other funds (Note 9).....	89,271	—	—	14,677
Due from component units.....	15,207	—	—	—
Notes receivable.....	177,619	—	—	—
Sureties.....	—	—	905,225	93,286
Capital assets-depreciable, net.....	138	—	—	—
Total Assets.....	94,924,598	724,663	1,072,306	5,457,665
Liabilities				
Accounts payable and accrued liabilities:				
Accounts payable.....	69,571	—	—	595
Intergovernmental payable.....	7,392	—	—	635,598
Benefits payable.....	9,659	—	—	—
Medical claims payable.....	263,242	—	—	—
Obligations under securities lending.....	15,648,705	260,172	412	1,756,444
Due to other funds (Note 9).....	7	—	—	—
Unearned revenue.....	25,057	—	—	—
Deposits payable.....	—	—	—	1,821
Funds held for others.....	—	—	—	3,063,207
Notes Payable.....	11,870	—	—	—
Compensated absences.....	193	—	—	—
Total Liabilities.....	16,035,696	260,172	412	5,457,665
Net Assets				
Held in trust for:				
Employees' pension and other benefits.....	78,888,902	—	—	—
Pool participants.....	—	464,491	—	—
Individuals, organizations, and other governments.....	—	—	1,071,894	—
Total Net Assets.....	\$ 78,888,902	\$ 464,491	\$ 1,071,894	\$ —

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, 2008

Exhibit B-7

(Dollars in Thousands)

	Pension and Other Employee Benefit Trust Funds	Investment Trust Fund	Private- Purpose Trust Funds
Additions:			
Contributions:			
Employer.....	\$ 3,389,501	\$ —	\$ —
Members.....	1,849,863	—	—
Trustee deposits.....	—	—	145,487
Other contributions.....	71,929	—	—
Total contributions.....	<u>5,311,293</u>	<u>—</u>	<u>145,487</u>
Investment income:			
Investment earnings (loss).....	(194,724)	26,655	3,738
Less investment expenses.....	(922,715)	(9,805)	(31)
Net investment income (loss).....	<u>(1,117,439)</u>	<u>16,850</u>	<u>3,707</u>
Pool share transactions:			
Reinvestment of dividends.....	—	16,850	—
Net share purchases/(redemptions).....	—	274,767	—
Net pool share transactions.....	<u>—</u>	<u>291,617</u>	<u>—</u>
Other additions:			
Fees, licenses, and fines.....	5,147	—	—
Interest earnings on loans.....	13,026	—	—
Miscellaneous.....	3,225	—	—
Total other additions.....	<u>21,398</u>	<u>—</u>	<u>—</u>
Total additions.....	<u>4,215,252</u>	<u>308,467</u>	<u>149,194</u>
Deductions:			
Claims and benefits.....	6,244,251	—	—
Medical insurance premiums.....	523,672	—	—
Refund of contributions.....	116,204	—	—
Distributions paid and payable.....	—	16,850	—
Payments in accordance with trust arrangements.....	—	—	131,409
Administrative expenses.....	188,114	—	9
Other deductions.....	7,640	—	—
Total deductions.....	<u>7,079,881</u>	<u>16,850</u>	<u>131,418</u>
Change in net assets.....	<u>(2,864,629)</u>	<u>291,617</u>	<u>17,776</u>
Net assets — July 1, as restated (Note 23).....	81,753,531	172,874	1,054,118
Net assets — June 30.....	<u>\$ 78,888,902</u>	<u>\$ 464,491</u>	<u>\$ 1,071,894</u>

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

NOTES TO THE FINANCIAL STATEMENTS
INDEX

	Page
Note 1—Summary of Significant Accounting Policies	76
A. Financial Reporting Entity.....	76
B. Basis of Presentation	79
C. Measurement Focus and Basis of Accounting.....	81
D. Cash and Cash Equivalents	82
E. Investments.....	82
F. Securities Lending.....	82
G. Receivables and Payables.....	82
H. Inventories and Prepaid Items	82
I. Restricted/Designated Assets	82
J. Capital Assets.....	82
K. Tax Refund Liabilities.....	83
L. Compensated Absences.....	83
M. Long-Term Liabilities.....	83
N. Sureties.....	84
O. Net Assets/Fund Balance.....	84
P. Revenues and Expenses.....	84
Q. Food and Nutrition Services.....	84
Note 2—Stewardship, Compliance, and Accountability	85
DETAIL NOTES ON ALL FUNDS AND ACTIVITIES	
Note 3—Deposits and Investments	86
A. Deposits and Investments with State Treasurer	86
B. Deposits Outside the State Treasurer.....	93
C. Investments Outside the State Treasurer	93
Note 4—Receivables	101
Note 5—Capital Assets	102
Note 6—Short-Term Debt	106
Note 7—Long-Term Liabilities	107
A. Changes in Long-Term Liabilities.....	107
B. Bonds, Certificates of Participation, and Notes Payable	109
C. Bonds Authorized but Unissued.....	109
D. Demand Bonds	109
E. Interest Rate and Basis Swaps	113
F. Swaptions	120
G. Debt Service Requirements	121
H. Bond Defeasances	123
I. Bond Redemptions	123
Note 8—Lease Obligations—Operating and Capital	124
Note 9—Interfund Balances and Transfers	125
A. Interfund Balances.....	125
B. Interfund Transfers.....	126
Note 10—Fund Balance Reserves and Designations	127

NOTES TO THE FINANCIAL STATEMENTS

	Page
Note 11—Retirement Plans	128
A. Plan Descriptions and Contribution Information.....	128
B. Summary of Significant Accounting Policies and Plan Asset Matters	131
C. Actuarial Methods and Assumptions.....	131
D. Annual Pension Cost and Net Pension Obligation	132
E. Funding Status and Funding Progress	134
F. Optional Retirement Plan	134
G. Special Separation Allowance.....	134
Note 12—Deferred Compensation Plans	135
Note 13—Other Postemployment Benefits	137
A. Summary of Significant Accounting Policies and Plan Asset Matters	137
B. Plan Descriptions and Contribution Information.....	137
C. Actuarial Methods and Assumptions.....	140
Note 14—Risk Management and Insurance	142
A. Public Entity Risk Pool	142
B. Employee Benefit Plans	142
C. Other Risk Management and Insurance Activities	144
Note 15—Individual Plan Financial Statements - Pension and Other Employee Benefit Trust Funds	150
Note 16—Segment Information	154
Note 17—Pledged Revenues	155
Note 18—Component Units—Financial Information	157
Note 19—Related Organizations	159
Note 20—Related Party Transactions	160
Note 21—Commitments and Contingencies	161
A. No Commitment Debt	161
B. Litigation	161
C. Federal Grants	163
D. Highway Construction.....	164
E. USDA-Donated Commodities.....	164
F. Construction and Other Commitments.....	164
G. Tobacco Settlement	164
H. Other Contingencies	165
Note 22—Changes in Financial Accounting and Reporting	166
Note 23—Fund Equity Reclassifications and Restatements	167
Note 24—Subsequent Events	168

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; a constituent high school; and the University of North Carolina Health Care System (UNCHCS). Each of the sixteen universities and the high school, 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
 North Carolina School of Science and Mathematics

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. The Entity wrapped up its affairs and filed Articles of Dissolution with the Secretary of State on June 19, 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:**North Carolina's Northeast Commission**

North Carolina's Northeast 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. 301 North Winstead Avenue Rocky Mount, NC 27804	N.C. Housing Finance Agency P.O. Box 28066 Raleigh, NC 27611-8066
State Education Assistance Authority P.O. Box 14103 Research Triangle Park, NC 27709-4103	North Carolina Railroad Company 2809 Highwoods Boulevard, Suite 100 Raleigh, NC 27604-1000
N.C. Phase II Tobacco Certification Entity, Inc. 3000 Highwoods Boulevard, Suite 315 Raleigh, NC 27604	North Carolina's Northeast Commission 119 West Water Street Edenton, NC 27932
Southeastern N.C. Regional Economic Development Commission P.O. Box 2556 Elizabethtown, NC 28337	Western N.C. Regional Economic Development Commission 134 Wright Brothers Way Fletcher, NC 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, 2008, except for the USS North Carolina Battleship Commission whose statements are as of and for the fiscal year ended September 30, 2007, 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, 2007.

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	10-75 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 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 and Nutrition Services

In accordance with GASB Statement No. 24, Accounting and Financial Reporting for Certain Grants and Other Financial Assistance, the State recognizes distributions of food and nutrition services benefits as revenue and expenditures in the General Fund. Revenues and expenditures are recognized based on the fair market value at the time the benefits are distributed to the individual recipients. In North Carolina, benefits are distributed in electronic form, thus distribution takes place when the individual recipients use the benefits.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 2: STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

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

At June 30, 2008, the following internal service fund reported a net assets deficit: Mail Service Center, \$518 thousand.

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 Escheat 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 and the Local Government Other Post-Employment Benefits Fund, 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, 2008

Assets:	
Cash and cash equivalents.....	\$ 159,914
Other assets.....	524,009
Investments.....	107,162,475
Total assets.....	<u>107,846,398</u>
Liabilities:	
Distributions payable.....	11,192
Obligations under securities lending.....	22,753,195
Total liabilities.....	<u>22,764,387</u>
Net Assets:	
Internal:	
Primary government.....	81,869,816
Component units.....	2,747,704
External.....	464,491
Total net assets.....	<u>\$ 85,082,011</u>

Statement of Operations and Changes in Net Assets
For the Fiscal Year Ended June 30, 2008

Revenues:	
Investment income.....	\$ 399,998
Expenses:	
Securities lending.....	971,496
Investment management.....	283,386
Total expenses.....	<u>1,254,882</u>
Net increase in net assets resulting from operations.....	(854,884)
Distributions to participants:	
Distributions paid and payable.....	854,884
Share transactions:	
Reinvestment of distributions.....	(857,531)
Net share redemptions.....	<u>(1,731,736)</u>
Total increase in net assets.....	(2,589,267)
Net assets:	
Beginning of year.....	87,671,278
End of year.....	<u>\$ 85,082,011</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, 2008, \$54.2 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	\$ 9,847,070	\$ 2,655,768	\$ 422,966	\$ 2,641,452	\$ 4,126,884
U.S. agencies	12,763,949	1,821,787	5,093,274	4,814,410	1,034,478
Mortgage pass-throughs	7,040,414	—	—	4,070	7,036,344
Domestic corporate bonds	10,142,008	71,815	1,289,368	4,653,708	4,127,117
Securities purchased with cash collateral under securities lending program:					
Asset-backed securities	8,640,121	4,990,258	3,649,863	—	—
Repurchase agreements	3,388,405	3,388,405	—	—	—
Domestic corporate bonds	10,724,669	3,338,565	7,386,104	—	—
	62,546,636	\$ 16,266,598	\$ 17,841,575	\$ 12,113,640	\$ 16,324,823
Other securities:					
Equity based trust - domestic	23,242,643				
Equity based trust - international	12,858,444				
Alternative investments:					
Hedge funds	951,778				
Private equity investment partnerships	2,497,877				
Stock distributions	6,925				
Real estate trust funds	4,716,822				
Total investment securities	\$ 106,821,125				

In addition to the above amount, certificates of deposit in the amount of \$341 million are reported as investments in the Condensed Statement of Net Assets presented previously.

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	\$ 8,603,016	1.62%-8.87%
U.S. agencies	12,634,375	0.00%-7.12%
Mortgage pass-throughs	7,009,763	4.50%-9.00%
Domestic corporate bonds	10,341,796	3.87%-9.65%
Securities purchased with cash collateral under securities lending program:		
Asset-backed securities	8,640,733	2.46%-3.58%
Repurchase agreements	3,388,405	2.10%-2.94%
Domestic corporate bonds	10,725,900	2.42%-3.47%
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, engages in securities lending transactions, and maintains all related accounting records. The Trustee also 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,

NOTES TO THE FINANCIAL STATEMENTS

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 2.9 years as of June 30, 2008. Most of the cash and cash equivalents of the major governmental and enterprise funds are invested in this portfolio.

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.

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	\$ 12,616,007	\$ 147,942	\$ —	\$ —	\$ —
Domestic corporate bonds	583,590	3,143,277	4,442,465	1,799,798	172,878
Securities purchased with cash collateral under securities lending program:					
Asset-backed securities	8,590,513	49,608	—	—	—
Repurchase agreements	3,388,405	—	—	—	—
Domestic corporate bonds	2,728,436	4,143,306	3,852,927	—	—
Total	<u>\$ 27,906,951</u>	<u>\$ 7,484,133</u>	<u>\$ 8,295,392</u>	<u>\$ 1,799,798</u>	<u>\$ 172,878</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 \$22.8 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	Alternative	Real-Estate		
	Based Trust - International	Investment - Private Equity Investment Partnerships	Trust Fund Investment Partnerships		
Euro	\$ 2,980,049	\$ 378,326	\$ 130,086	\$ 3,488,461	
Pound Sterling	1,864,669	—	51,605	1,916,274	
Japanese Yen	1,859,074	—	44,035	1,903,109	
Swiss Franc	627,644	—	795	628,439	
Hong Kong Dollar	505,935	—	41,590	547,525	
Australian Dollar	347,017	—	22,303	369,320	
Canadian Dollar	240,522	—	736	241,258	
Swedish Krona	179,545	—	2,293	181,838	
South Korean Won	146,173	—	—	146,173	
New Taiwan Dollar	136,612	—	—	136,612	
Other Currencies	832,301	—	12,747	845,048	
Total	\$ 9,719,541	\$ 378,326	\$ 306,190	\$ 10,404,057	

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 14.4% 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 weighted average maturities of the cash collateral investments generally match the weighted 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 23 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)
Commercial paper	\$ 39,975	11
Repurchase agreements	264,037	3
Total investments	<u>\$ 304,012</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. At year-end, Standard and Poor's rated investments in commercial paper as A-1.

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	\$ 244,871
Equity based trust - international	87,638
Total investment securities	<u>\$ 332,509</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	\$ 22,056
Pound Sterling	14,781
Japanese Yen	13,353
Swiss Franc	5,760
Canadian Dollar	5,158
Australian Dollar	4,326
Hong Kong Dollar	3,828
South Korean Won	3,144
Brazil Cruzeiro Real	2,118
Swedish Krona	1,257
Danish Krone	1,237
Norwegian Krone	1,233
Russian Rouble	1,105
Malaysian Dollar	1,008
China Yuan Renminbi	900
Other Currencies	7,055
Total	<u>\$ 88,319</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

NOTES TO THE FINANCIAL STATEMENTS

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	\$ 42,698
Equity based trust - international	16,629
Total investment securities	\$ 59,327

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	\$ 4,172
Pound Sterling	2,800
Japanese Yen	2,529
Swiss Franc	1,068
Canadian Dollar	978
Australian Dollar	821
Hong Kong Dollar	726
South Korean Won	596
Brazil Cruzeiro Real	402
Swedish Krona	238
Danish Krone	235
Norwegian Krone	234
Russian Rouble	210
Malaysian Dollar	191
China Yuan Renminbi	170
Other Currencies	1,334
Total	\$ 16,704

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	\$ 23,699
Private equity investment partnerships	24,777
Public equities - domestic	31,073
Public equities - international	10,323
Total investment securities	\$ 89,872

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	\$ 2,925
Japanese Yen	1,667
Pound Sterling	1,528
Swiss Franc	840
Brazil Cruzeiro Real	342
South Korean Won	326
Hong Kong Dollar	324
Canadian Dollar	324
Australian Dollar	256
Swedish Krona	234
Singapore Dollar	228
New Taiwan Dollar	178
Russian Rouble	136
South Africa Rand	122
Mexican New Peso	116
Other Currencies	777
Total	\$ 10,323

Local Government Other Post-Employment Benefits (OPEB) Fund

Pursuant to General Statute 147-69.4, the State Treasurer has established an irrevocable trust fund (Local Government OPEB Fund) to be used by local governments, public authorities, and certain other entities in North Carolina that choose to fund all or part of their annually required contribution for other post-employment benefits provided to former employees or beneficiaries of former employees of the contributing unit. This trust fund may be invested in public equity and both long-term and short-term fixed income obligations, as determined by the State Treasurer. At year-end, the Local Government OPEB Fund had contributions of \$12.3 million, which was invested solely in the State's Short-term Investment portfolio. On July 1, 2008, \$8 million was invested in public equities, \$1.2 million was invested in the State's

NOTES TO THE FINANCIAL STATEMENTS

Long-term Investment portfolio, and \$3.1 million remained in the State’s Short-term Investment portfolio.

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	\$	50,111
Uninsured and collateral held by pledging bank's trust department but not in State's name		4,704
Total	\$	<u>54,815</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	\$	80,221
Uninsured and collateral held by pledging bank's trust department or agent but not in State's name		613
Total	\$	<u>80,834</u>

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	\$	767
Total	\$	<u>767</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	\$	163,667
Uninsured and collateral held by pledging bank's trust department or agent but not in State's name		16,816
Total	\$	<u>180,483</u>

C. Investments Outside the State Treasurer

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

Primary Government

At year-end, 78% 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, custodial credit risk, concentration of credit risk, or foreign currency risk.

NOTES TO THE FINANCIAL STATEMENTS

At December 31, 2007, 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	\$ 233,056	\$ —	\$ 233,056	\$ —	\$ —
U.S. Treasuries	222,049	12,435	106,418	47,831	55,365
U.S. agencies	92,938	5,187	68,185	15,516	4,050
Collateralized mortgage obligations	404,982	16,375	1,180	19,146	368,281
Asset-backed securities	13,679	—	11,996	492	1,191
Commercial mortgage-backed securities	57,715	—	—	—	57,715
Domestic corporate bonds	234,137	11,393	100,586	74,611	47,547
Foreign government bonds	12,479	—	4,522	3,535	4,422
	<u>1,271,035</u>	<u>\$ 45,390</u>	<u>\$ 525,943</u>	<u>\$ 161,131</u>	<u>\$ 538,571</u>
Other securities:					
International mutual funds	342,321				
Other mutual funds	2,667,920				
Total investment securities	<u>\$ 4,281,276</u>				

Interest Rate Risk and Credit Risk. The Fidelity Intermediate Bond Fund, which is rated AA, had a weighted average maturity of 3.8 years as of August 31, 2007. In the above table, it is disclosed as an investment with a maturity of one to five years. The Plan's investment policy requires that debt securities, at the time of purchase, shall have a minimum Standard & Poor's rating of BBB-. Any security downgraded below BBB- by Standard & Poor's will be liquidated within six months. At year-end, the Plan 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	\$ 92,938	\$ —	\$ —	\$ —	\$ —	\$ —
Collateralized mortgage obligations	—	—	—	—	—	367,053
Asset-backed securities	12,969	—	710	—	—	—
Commercial mortgage-backed securities	47,953	—	—	—	—	9,762
Domestic corporate bonds	7,074	52,769	104,165	70,129	—	—
Foreign government bonds	—	—	3,030	8,396	—	1,053
Total	<u>\$ 160,934</u>	<u>\$ 52,769</u>	<u>\$ 107,905</u>	<u>\$ 78,525</u>	<u>\$ —</u>	<u>\$ 377,868</u>

Custodial Credit Risk. For an investment, custodial credit risk is the risk that in the event of the failure of the counterparty, the Plan will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Plan does not have a formal policy to limit custodial credit risk. At December 31, 2007, the investments of the Supplemental Retirement Income Plan of North Carolina maintained outside the State Treasurer were exposed to custodial credit risk as follows (dollars in thousands):

Investment Type	Carrying Amount Held by Counterparty
U.S. Treasuries	\$ 222,049
U.S. agencies	92,938
Collateralized mortgage obligations	404,982
Asset-backed securities	13,679
Commercial mortgage-backed securities	57,715
Domestic corporate bonds	234,137
Foreign government bonds	12,479
Total	<u>\$ 1,037,979</u>

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	\$ 630	\$ 74	\$ 198	\$ 348	\$ 10
U.S. Treasury STRIPS	1,350	21	1,128	201	—
U.S. agencies	213,423	79,639	9,157	25,551	99,076
Mortgage pass-throughs	163	—	20	21	122
Collateralized mortgage obligations	94	3	63	19	9
State and local government	93	—	3	90	—
Asset-backed securities	18,897	—	3,708	3,960	11,229
Repurchase agreements	245,981	243,574	2,407	—	—
Annuity contracts	28,544	—	28,544	—	—
Money market mutual funds	2,278	2,278	—	—	—
Mutual bond funds	37	—	—	33	4
Domestic corporate bonds	7,654	496	6,592	45	521
	519,144	\$ 326,085	\$ 51,820	\$ 30,268	\$ 110,971
Other securities:					
International mutual funds	50,413				
Other mutual funds	533,264				
Domestic stocks	122,275				
Total investment securities	\$ 1,225,096				

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	\$ 213,379	\$ —	\$ —	\$ 44	\$ —	\$ —
Mortgage pass-throughs	129	—	—	—	28	6
Collateralized mortgage obligations	59	1	13	—	18	3
State and local government	15	—	—	78	—	—
Asset-backed securities	18,897	—	—	—	—	—
Repurchase agreements	110,560	—	—	—	—	—
Annuity contracts	—	—	—	—	—	28,544
Money market mutual funds	212	—	—	155	—	1,911
Mutual bond funds	—	—	—	—	—	37
Domestic corporate bonds	1,035	3,524	3,068	27	—	—
Total	<u>\$ 344,286</u>	<u>\$ 3,525</u>	<u>\$ 3,081</u>	<u>\$ 304</u>	<u>\$ 46</u>	<u>\$ 30,501</u>

Custodial Credit Risk. For an investment, custodial credit risk is the risk that in the event of the failure of the counterparty, the primary government will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. There were no formally adopted policies that address custodial credit risk of other primary government investments outside the State Treasurer. At year-end, the other primary government investments maintained outside the State Treasurer were exposed to custodial credit risk as follows (dollars in thousands):

Investment Type	Carrying Amount Held by Counterparty
U.S. agencies	\$ 131,235
Asset-backed securities	18,875
Repurchase agreements	2,100
Domestic corporate bonds	7,577
Total	<u>\$ 159,787</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	\$ 54,105	\$ 2,686	\$ 22,965	\$ 4,174	\$ 24,280
U.S. agencies	20,385	3,245	11,180	794	5,166
Mortgage pass-throughs	68,536	974	2,064	8,922	56,576
Collateralized mortgage obligations	153,046	41	6,015	8,893	138,097
State and local government	4,042	808	414	283	2,537
Asset-backed securities	2,216	—	—	—	2,216
Repurchase agreements	32,557	32,557	—	—	—
Annuity contracts	40	—	—	—	40
Money market mutual funds	205,798	203,356	2,418	—	24
Mutual bond funds	198,359	38,813	48,145	89,478	21,923
Domestic corporate bonds	30,590	5,711	6,519	2,632	15,728
Foreign corporate bonds	270	—	71	114	85
Foreign government bonds	10	10	—	—	—
	<u>769,954</u>	<u>\$ 288,201</u>	<u>\$ 99,791</u>	<u>\$ 115,290</u>	<u>\$ 266,672</u>
Other securities:					
International mutual funds	379,499				
Other mutual funds	421,557				
Investments in real estate	49,676				
Real estate investment trusts	9,005				
Hedge funds	1,039,211				
Limited partnerships	1,015,350				
Pooled investments	347				
Domestic stocks	190,235				
Foreign stocks	9,676				
Other	158,434				
Total investment securities	<u>\$ 4,042,944</u>				

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	\$ 3,374	\$ —	\$ —	\$ —	\$ —	\$ 5,646
Mortgage pass-throughs	4,393	—	26	—	—	63,077
Collateralized mortgage obligations	62,622	4,354	15,640	18	3,255	67,157
State and local government	1,247	2,364	196	71	—	164
Asset-backed securities	32	1,396	99	689	—	—
Annuity contracts	—	—	—	—	—	40
Money market mutual funds	39,904	—	163,576	—	—	2,318
Mutual bond funds	40,831	48,968	6,419	2,713	1,328	98,100
Domestic corporate bonds	4,493	5,315	12,938	7,492	352	—
Foreign corporate bonds	35	61	35	42	97	—
Foreign government bonds	—	10	—	—	—	—
Total	<u>\$ 156,931</u>	<u>\$ 62,468</u>	<u>\$ 198,929</u>	<u>\$ 11,025</u>	<u>\$ 5,032</u>	<u>\$ 236,502</u>

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	\$ 17,772	\$ 725
U.S. agencies	11,502	—
Mortgage pass-throughs	16,489	—
Collateralized mortgage obligations	8,551	—
Repurchase agreements	672	—
Domestic corporate bonds	10,157	—
Domestic stocks	6,596	—
Foreign stocks	220	—
Total	<u>\$ 71,959</u>	<u>\$ 725</u>

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	\$ —	\$ 51,146	\$ 23,333
Pound Sterling	—	5,394	—
Australian Dollar	—	1,360	—
Canadian Dollar	1,308	—	—
Hong Kong Dollar	1,223	—	—
Total	<u>\$ 2,531</u>	<u>\$ 57,900</u>	<u>\$ 23,333</u>

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.

Interest Rate Risk. 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, 2008, 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	\$ 15,664	\$ —	\$ —	\$ —	\$ 15,664
Repurchase agreements	7,170	—	—	3,657	3,513
Annuity contracts	9,729	9,729	—	—	—
	<u>32,563</u>	<u>\$ 9,729</u>	<u>\$ —</u>	<u>\$ 3,657</u>	<u>\$ 19,177</u>
Other securities:					
Investment agreements	519,132				
Other mutual funds	302,221				
Domestic stocks	20,841				
Total investment securities	<u>\$ 874,757</u>				

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, 2008, the Authority's investments were rated as follows (dollars in thousands):

Investment Type	Carrying Amount by Credit Rating - S&P	
	Rated	Unrated
Repurchase agreements	\$ 7,170	
Annuity contracts		9,729
Total	<u>\$ 16,899</u>	

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	Not Held by Counterparty's Trust Dept. or Agent but not in State's Name
Repurchase agreements	\$ 7,170	
Domestic stocks		20,841
Total	<u>\$ 28,011</u>	

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 and Pallas Capital Funding Corporation. These investments are 6.0% and 44%, 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	\$ 27,896	0.08
Mutual bond funds	64,145	5.90
	92,041	
Other securities:		
International mutual funds	167,051	
Other mutual funds	62,714	
Real estate investment trusts ...	30,705	
Hedge funds	179,537	
Limited partnerships	89,396	
Domestic stocks	105,363	
Total investment securities	\$ 726,807	

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, 2008, the Foundation had investments in mutual bond funds rated AAA with fair value of \$28.773 million, mutual bond funds rated AA with fair value of \$35.372 million, and an unrated money market mutual fund with a fair value of \$27.896 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).....	\$ 3,172,828	\$ 161,838	\$ 40,984	\$ 46,937	\$ 15,791	\$ 3,438,378
Allowance for doubtful accounts.....	(421,384)	(6,179)	—	(31)	—	(427,594)
Receivables, net.....	<u>\$ 2,751,444</u>	<u>\$ 155,659</u>	<u>\$ 40,984</u>	<u>\$ 46,906</u>	<u>\$ 15,791</u>	<u>\$ 3,010,784</u>
Notes receivable, gross.....	\$ 25,427	\$ 1,025	\$ 96	\$ 359,726	\$ —	\$ 386,274
Allowance for doubtful accounts.....	—	—	—	(42,147)	—	(42,147)
Notes receivable, net.....	<u>\$ 25,427</u>	<u>\$ 1,025</u>	<u>\$ 96</u>	<u>\$ 317,579</u>	<u>\$ —</u>	<u>\$ 344,127</u>

(1) Includes balances due from fiduciary funds.

Within governmental activities, the only significant receivables not expected to be collected within one year are \$206.26 million of notes receivable in other governmental funds, and, in the General Fund, \$15.22 million of notes receivable and \$1.36 million of accounts receivable.

Business-Type Activities:

	Unemployment Compensation Fund	EPA Revolving Loan Fund	N.C. State Lottery Fund	Other Enterprise Funds	Total
Receivables, gross (excluding notes).....	\$ 444,305	\$ 3,952	\$ 14,146	\$ 5,992	\$ 468,395
Allowance for doubtful accounts.....	(57,126)	—	—	(3)	(57,129)
Receivables, net.....	<u>\$ 387,179</u>	<u>\$ 3,952</u>	<u>\$ 14,146</u>	<u>\$ 5,989</u>	<u>\$ 411,266</u>
Notes receivable, gross.....	\$ —	\$ 655,446	\$ —	\$ —	\$ 655,446
Allowance for doubtful accounts.....	—	—	—	—	—
Notes receivable, net.....	<u>\$ —</u>	<u>\$ 655,446</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 655,446</u>

Within business-type activities, the only significant receivables not expected to be collected within one year are \$615.90 million of notes receivable in the EPA Revolving Loan Fund and \$26.43 million of contributions receivable in the Unemployment Compensation Fund. Revenues of other enterprise funds are net of uncollectible amounts.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 5: CAPITAL ASSETS

Primary Government. A summary of changes in capital assets for the year ended June 30, 2008 is presented below (dollars in thousands).

Governmental Activities:

	Balance July 1, 2007 (as restated)	Additions	Deductions	Balance June 30, 2008
Capital Assets, nondepreciable:				
Land	\$ 10,083,640	\$ 578,073	\$ (777)	\$ 10,660,936
Art, literature, and other artifacts	64,823	1,458	(1)	66,280
Construction in progress	1,758,140	1,662,246	(1,294,868)	2,125,518
Total capital assets-nondepreciable	<u>11,906,603</u>	<u>2,241,777</u>	<u>(1,295,646)</u>	<u>12,852,734</u>
Capital Assets, depreciable:				
Buildings	2,507,613	61,477	(40,061)	2,529,029
Machinery and equipment	1,614,721	168,570	(129,045)	1,654,246
Intangibles	199,718	3,036	(5,468)	197,286
General infrastructure	177,102	4,785	(1,711)	180,176
State highway system	22,252,625	1,237,118	(60,160)	23,429,583
Total capital assets-depreciable	<u>26,751,779</u>	<u>1,474,986</u>	<u>(236,445)</u>	<u>27,990,320</u>
Less accumulated depreciation for:				
Buildings	(680,799)	(47,854)	15,450	(713,203)
Machinery and equipment	(951,923)	(113,239)	82,010	(983,152)
Intangibles	(93,984)	(4,848)	5,215	(93,617)
General infrastructure	(78,458)	(4,687)	411	(82,734)
State highway system	(5,937,992)	(468,592)	58,957	(6,347,627)
Total accumulated depreciation	<u>(7,743,156)</u>	<u>(639,220)</u>	<u>162,043</u>	<u>(8,220,333)</u>
Total capital assets-depreciable, net	<u>19,008,623</u>	<u>835,766</u>	<u>(74,402)</u>	<u>19,769,987</u>
Governmental activities capital assets, net	<u>\$ 30,915,226</u>	<u>\$ 3,077,543</u>	<u>\$ (1,370,048)</u>	<u>\$ 32,622,721</u>

NOTES TO THE FINANCIAL STATEMENTS

Business-type Activities:

	Balance July 1, 2007	Additions	Deductions	Balance June 30, 2008
Capital Assets, nondepreciable:				
Land	\$ 3,114	\$ 338	\$ —	\$ 3,452
Construction in progress	532	—	—	532
Total capital assets-nondepreciable	<u>3,646</u>	<u>338</u>	<u>—</u>	<u>3,984</u>
Capital Assets, depreciable:				
Buildings	30,704	5,158	—	35,862
Machinery and equipment	5,798	1,531	(103)	7,226
General infrastructure	15,306	446	—	15,752
Total capital assets-depreciable	<u>51,808</u>	<u>7,135</u>	<u>(103)</u>	<u>58,840</u>
Less accumulated depreciation for:				
Buildings	(17,874)	(682)	—	(18,556)
Machinery and equipment	(2,542)	(450)	105	(2,887)
General infrastructure	(8,365)	(501)	—	(8,866)
Total accumulated depreciation	<u>(28,781)</u>	<u>(1,633)</u>	<u>105</u>	<u>(30,309)</u>
Total capital assets-depreciable, net	<u>23,027</u>	<u>5,502</u>	<u>2</u>	<u>28,531</u>
Business-type activities capital assets, net	<u>\$ 26,673</u>	<u>\$ 5,840</u>	<u>\$ 2</u>	<u>\$ 32,515</u>

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

Governmental activities:

General government	\$ 35,763
Primary and secondary education	893
Higher education	51
Health and human services	12,259
Economic development	1,010
Environment and natural resources	12,928
Public safety, correction, and regulation	47,490
Transportation	525,212
Agriculture	3,614
Total depreciation expense	<u>\$ 639,220</u>

Business-type activities:

N.C. State Fair	\$ 597
USS North Carolina Battleship Commission	120
Agricultural Farmers Market	291
EPA Revolving Loan Fund	25
State Banking Commission	4
ABC Commission	117
Utilities Commission	6
N.C. State Lottery	382
Other business-type activities	91
Total depreciation expense	<u>\$ 1,633</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, 2008, was as follows (dollars in thousands):

University of North Carolina System:

	Balance			Balance
	July 1, 2007			June 30, 2008
	(as restated)	Additions	Deductions	
Capital Assets, nondepreciable:				
Land	\$ 213,224	\$ 19,984	\$ (4,504)	\$ 228,704
Art, literature, and other artifacts	115,145	8,591	(18)	123,718
Intangibles	3,513	13,454	(359)	16,608
Construction in progress	1,148,044	600,034	(460,906)	1,287,172
Total capital assets-nondepreciable	<u>1,479,926</u>	<u>642,063</u>	<u>(465,787)</u>	<u>1,656,202</u>
Capital Assets, depreciable:				
Buildings	6,804,755	600,725	(21,078)	7,384,402
Machinery and equipment	1,428,233	184,051	(60,686)	1,551,598
Art, literature, and other artifacts	2,088	303	—	2,391
General infrastructure	930,211	66,567	(5,228)	991,550
Total capital assets-depreciable	<u>9,165,287</u>	<u>851,646</u>	<u>(86,992)</u>	<u>9,929,941</u>
Less accumulated depreciation for:				
Buildings	(1,882,241)	(164,826)	19,324	(2,027,743)
Machinery and equipment	(917,557)	(118,295)	50,262	(985,590)
Art, literature, and other artifacts	(1,094)	(156)	—	(1,250)
General infrastructure	(327,754)	(29,183)	4,908	(352,029)
Total accumulated depreciation	<u>(3,128,646)</u>	<u>(312,460)</u>	<u>74,494</u>	<u>(3,366,612)</u>
Total capital assets-depreciable, net	<u>6,036,641</u>	<u>539,186</u>	<u>(12,498)</u>	<u>6,563,329</u>
University of North Carolina System				
capital assets, net	<u>\$ 7,516,567</u>	<u>\$ 1,181,249</u>	<u>\$ (478,285)</u>	<u>\$ 8,219,531</u>

Capital assets of nongovernmental component units of the University of North Carolina System are excluded from the above amounts. At June 30, 2008, nongovernmental component unit foundations and similarly affiliated organizations of the University of North Carolina System had nondepreciable capital assets of \$25.072 million and net depreciable capital assets of \$141.147 million.

NOTES TO THE FINANCIAL STATEMENTS**Community Colleges:**

	Balance July 1, 2007 (as restated)	Additions	Deductions	Balance June 30, 2008
Capital Assets, nondepreciable:				
Land	\$ 108,731	\$ 14,724	\$ (359)	\$ 123,096
Art, literature, and other artifacts	345	—	—	345
Construction in progress	153,713	146,123	(137,573)	162,263
Total capital assets-nondepreciable	<u>262,789</u>	<u>160,847</u>	<u>(137,932)</u>	<u>285,704</u>
Capital Assets, depreciable:				
Buildings	1,641,525	150,202	(767)	1,790,960
Machinery and equipment	216,959	26,795	(9,686)	234,068
Art, literature, and other artifacts	371	25	—	396
General infrastructure	112,093	5,683	(817)	116,959
Total capital assets-depreciable	<u>1,970,948</u>	<u>182,705</u>	<u>(11,270)</u>	<u>2,142,383</u>
Less accumulated depreciation for:				
Buildings	(412,146)	(35,927)	678	(447,395)
Machinery and equipment	(91,898)	(16,337)	7,642	(100,593)
Art, literature, and other artifacts	(32)	(10)	—	(42)
General infrastructure	(26,479)	(3,944)	1,261	(29,162)
Total accumulated depreciation	<u>(530,555)</u>	<u>(56,218)</u>	<u>9,581</u>	<u>(577,192)</u>
Total capital assets-depreciable, net	<u>1,440,393</u>	<u>126,487</u>	<u>(1,689)</u>	<u>1,565,191</u>
Community Colleges capital assets, net	<u>\$ 1,703,182</u>	<u>\$ 287,334</u>	<u>\$ (139,621)</u>	<u>\$ 1,850,895</u>

Capital assets of nongovernmental component units of community colleges are excluded from the above amounts. At June 30, 2008, nongovernmental component unit foundations and similarly affiliated organizations of community colleges had nondepreciable capital assets of \$2.428 million and net depreciable capital assets of \$2.520 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, 2008, \$75.5 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.

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 paid in full during 2008 with the issuance of University of North Carolina System Revenue Bonds, Series 2008A.

Short-term debt activity for the University of North Carolina System for the fiscal year ended June 30, 2008, was as follows (dollars in thousands):

	<u>Balance</u> <u>July 1, 2007</u>	<u>Draws</u>	<u>Repayments</u>	<u>Balance</u> <u>June 30, 2008</u>
Commercial Paper Program.....	\$ 272,414	\$ 122,719	\$ (218,476)	\$ 176,657
Anticipation Notes.....	7,170	—	(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, 2008, was as follows (dollars in thousands):

	Balance July 1, 2007 (as restated)	Increases	Decreases	Balance June 30, 2008	Amounts Due Within One Year
Governmental activities:					
Bonds and similar debt payable:					
General obligation bonds	\$ 5,902,330	\$ —	\$ (368,570)	\$ 5,533,760	\$ 364,495
Special indebtedness:					
Lease-purchase revenue bonds	245,045	—	(10,000)	235,045	10,000
Certificates of participation	727,640	275,000	(36,760)	965,880	46,295
GARVEE bonds	—	287,565	—	287,565	45,745
Less deferred amounts:					
For issuance discounts	(369)	—	243	(126)	—
On refunding	(92,259)	—	15,336	(76,923)	—
Add issuance premium	309,261	21,843	(43,832)	287,272	—
Total bonds and similar debt payable	7,091,648	584,408	(443,583)	7,232,473	466,535
Notes payable	36,901	7,425	(11,139)	33,187	6,484
Capital leases payable	25,740	—	(1,081)	24,659	1,096
Arbitrage rebate payable	5,717	2,023	(4,715)	3,025	—
Compensated absences	380,821	233,491	(211,063)	403,249	32,259
Net pension obligation	814	22,874	(23,166)	522	—
Workers' compensation	84,422	10,895	(6,568)	88,749	11,552
Deferred death benefit payable	410	155	—	565	285
Court judgment payable	—	749,886	—	749,886	—
Cost settlement payable	50,300	—	(15,000)	35,300	15,000
Governmental activity					
long-term liabilities	<u>\$ 7,676,773</u>	<u>\$ 1,611,157</u>	<u>\$ (716,315)</u>	<u>\$ 8,571,615</u>	<u>\$ 533,211</u>
Business-type activities:					
Compensated absences	\$ 3,885	\$ 3,103	\$ (2,306)	\$ 4,682	\$ 260
Business-type activity					
long-term liabilities	<u>\$ 3,885</u>	<u>\$ 3,103</u>	<u>\$ (2,306)</u>	<u>\$ 4,682</u>	<u>\$ 260</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, \$4.925 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, 2008, was as follows (dollars in thousands):

	Balance July 1, 2007 (as restated)	Increases	Decreases	Balance June 30, 2008	Amounts Due Within One Year
University of North Carolina System:					
Bonds payable:					
Revenue bonds	\$ 2,058,359	\$ 379,390	\$ (97,710)	\$ 2,340,039	\$ 156,218
Certificates of participation	35,080	—	(1,945)	33,135	2,010
Less deferred amounts:					
For issuance discounts	(44,498)	—	4,467	(40,031)	—
On refunding	(26,856)	(345)	1,896	(25,305)	—
Add issuance premium	44,155	4,903	(1,400)	47,658	—
Total bonds payable	2,066,240	383,948	(94,692)	2,355,496	158,228
Notes payable	97,050	12,614	(18,720)	90,944	50,980
Capital leases payable	137,182	25,691	(20,094)	142,779	9,405
Arbitrage rebate payable	269	48	—	317	42
Annuity and life income payable	11,845	4,934	(73)	16,706	1,420
Compensated absences	287,769	210,425	(187,858)	310,336	34,516
Liability insurance trust fund payable	50,678	14,874	(4,594)	60,958	14,317
Total long-term liabilities	<u>\$ 2,651,033</u>	<u>\$ 652,534</u>	<u>\$ (326,031)</u>	<u>\$ 2,977,536</u>	<u>\$ 268,908</u>

Long-term liabilities of nongovernmental component units of the University of North Carolina System are excluded from the above amounts. At June 30, 2008, nongovernmental component unit foundations and similarly affiliated organizations of the University of North Carolina System had total long-term liabilities of \$461.847 million, of which \$19.35 million was due within one year and \$442.497 million was due in more than one year.

	Balance July 1, 2007 (as restated)	Increases	Decreases	Balance June 30, 2008	Amounts Due Within One Year
North Carolina Housing Finance Agency:					
Bonds payable:					
Revenue bonds	\$ 1,619,025	\$ 275,000	\$ (324,790)	\$ 1,569,235	\$ 35,635
Less deferred amounts:					
For issuance discounts	(19,636)	(2,809)	3,208	(19,237)	—
On refunding	(30)	—	30	—	—
Total bonds payable	1,599,359	272,191	(321,552)	1,549,998	35,635
Arbitrage rebate payable	1,063	542	(41)	1,564	—
Compensated absences	740	474	(339)	875	40
Total long-term liabilities	<u>\$ 1,601,162</u>	<u>\$ 273,207</u>	<u>\$ (321,932)</u>	<u>\$ 1,552,437</u>	<u>\$ 35,675</u>

	Balance July 1, 2007	Increases	Decreases	Balance June 30, 2008	Amounts Due Within One Year
State Education Assistance Authority:					
Bonds payable:					
Revenue bonds	\$ 2,971,726	\$ 1,524,200	\$ (800,989)	\$ 3,694,937	\$ 506,300
Arbitrage rebate payable	7,624	—	(1,886)	5,738	—
Compensated absences	285	28	(9)	304	8
Total long-term liabilities	<u>\$ 2,979,635</u>	<u>\$ 1,524,228</u>	<u>\$ (802,884)</u>	<u>\$ 3,700,979</u>	<u>\$ 506,308</u>

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

Bonds, certificates of participation, and notes payable at June 30, 2008 were as follows (dollars in thousands):

	<u>Interest Rates</u>	<u>Maturing Through Year</u>	<u>Original Issue Amount</u>	<u>Outstanding Balance</u>
Primary Government:				
<u>Governmental activities</u>				
General obligation bonds.....	1.30% - 6.90%*	2028	\$ 7,515,769	\$ 5,533,760
Special obligation debt:				
Lease-purchase revenue bonds.....	2.40% - 5.25%	2024	272,045	235,045
Certificates of participation.....	2.50% - 5.25%	2028	1,064,840	965,880
GARVEE Bonds.....	3.75% - 4.00%	2019	287,565	287,565
Notes payable.....	0.00% - 4.00%	2018	44,137	33,187
Component Units:				
<u>University of North Carolina System</u>				
Revenue bonds.....	1.45% - 10.00%*	2038	\$ 2,772,230	\$ 2,340,039
Certificates of participation.....	3.00% - 5.00%	2036	38,745	33,135
Notes payable.....	2.35% - 9.45%*	2033	141,999	90,944
<u>North Carolina Housing Finance Agency</u>				
Revenue bonds.....	2.70% - 8.25%*	2039	\$ 3,589,241	\$ 1,569,235
<u>State Education Assistance Authority</u>				
Revenue bonds.....	0.00% - 9.00%*	2037	\$ 3,788,150	\$ 3,694,937

* For variable rate debt, interest rates in effect at June 30, 2008 are included. For variable rate debt with interest rate swaps, the synthetic fixed rates are included.

General obligation bonds are secured by the full faith, credit, and taxing power of the State. Certificates of participation (COPs) and lease-purchase revenue bonds, which are also referred to as special obligation debt, are secured by lease and installment payments made by the State and sometimes by a security interest in the leased facilities pursuant to a leasehold deed of trust. The payments on special obligation debt of the State 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, 2008 totaled \$1.554 billion as follows: university projects \$725 million, psychiatric hospital \$306 million, correctional facilities \$166 million, guaranteed energy savings contracts \$68 million, youth facilities \$7 million, parks and land \$120 million, and State and other projects \$162 million.

In 2005, the N.C. General Assembly enacted General Statute 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

NOTES TO THE FINANCIAL STATEMENTS

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

The University 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.

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. At June 30, 2008, no purchase draws had been made under 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 subsequently extended until August 31, 2009. At June 30, 2008, the LOC rate for the bonds was 1.4% and the total amount drawn on it was \$966 thousand.

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 August 31, 2009, 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%.

NOTES TO THE FINANCIAL STATEMENTS

According to the Reimbursement Agreement Amendment dated May 2008, the amount of any tender advance made is repaid based on the earliest to occur of the date the credit provider bonds purchased pursuant to such tender advances are remarketed, the close of business on the date that is 366 days after the tender was made, and/or the termination date.

The Student Housing Facilities Revenue Demand Bonds (Series 2003) has a remarketing fee. 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, 2008, 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 Mellon. Upon notice from the paying agent, the Remarketing Agent, Wachovia Bank, N.A., 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 Mellon) 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, 2008, 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 twelve 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 \$44.43 million of demand bonds was "put" and not resold, the University would be required to pay \$16 million a year for 3 years under this agreement assuming a 5% 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 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

NOTES TO THE FINANCIAL STATEMENTS

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 long-term agreement that became effective on July 11, 2005. This agreement has been extended to October 11, 2011 at a percentage of 0.40% effective October 11, 2008.

Under the Agreements, any bonds purchased through the Liquidity Facility become Bank Bonds and shall, from the date of such purchase and while they are Bank Bonds, bear interest at the formula rate (base rate equal to the higher of the prime rate for such day or the sum of 0.50% plus the federal funds rate) subject to a maximum rate as permitted by law. Upon remarketing of Bank Bonds and the receipt of the sales price by the Liquidity Provider, such bonds are no longer considered Bank Bonds. Payment of the interest on the Bank Bonds is due quarterly (the first business day of January, April, July and October) for each period in which Bank Bonds are outstanding. At June 30, 2008 there were no Bank Bonds held by the Liquidity Facility.

Included in the Agreements is a take-out provision, in case the Remarketing Agent is unable to resell any bonds that are "put" within 90 days of the "put" date. In this situation, the Hospitals is required to redeem the Bank Bonds held by the Liquidity Facility. The agreements allow the Hospitals to redeem Bank Bonds in equal quarterly installments, on the first business day of January, April, July and October. The payments will commence with the first business day of any such month that is at least 90 days following the applicable Purchase Date of the Bank Bond and end no later than the fifth anniversary of such Purchase Date. If the take out agreement were to be exercised because the entire outstanding \$102.4 million of demand bonds was "put" and not resold, the Hospitals would be required to pay \$23.27 million a year for five years under the installment loan agreement assuming an 5.0% 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, 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 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 London Inter-Bank Offered Rate (LIBOR) plus 2.50% for the first 90 days and then equals LIBOR plus 4.00%; for Series 2003B, the rate equals prime rate for the first 90 days and then equals prime plus 1.00%) subject to a maximum rate as permitted by law. Upon remarketing of Bank Bonds and the receipt of the sales price by the Liquidity Provider, such bonds are no longer considered Bank Bonds. Payment of the interest on the Bank Bonds is on the first business day of each month for each period in which Bank Bonds are outstanding. At June 30, 2008 there were no Bank Bonds held by the Liquidity Facility.

Included in the Agreements is a take-out provision, in case the Remarketing Agent is unable to resell any bonds that are "put" within 90 days of the "put" date. In this situation, the Hospitals is required to redeem the Bank Bonds held by the Liquidity Facility. The 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 were to be exercised because the entire outstanding \$62.21 million of demand bonds was "put" and not resold, the Hospitals would be required to pay \$22.98 million a year for three years under the installment loan agreement assuming a 6.46% interest rate (LIBOR plus 4%). The Series 2003B

NOTES TO THE FINANCIAL STATEMENTS

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 \$33.43 million of demand bonds was "put" and not resold, the Hospitals would be required to pay \$12.20 million a year for three years under the installment loan agreement assuming a 6.0% interest rate (Prime plus 1%).

The current expiration date of the Series 2003A Agreement is July 1, 2010 and July 31, 2009 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).

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; Series 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 declined since execution of Swaps 1 and 2, the swaps have negative fair values of \$6.66 million (Swap 1) and \$4.91 million (Swap 2) at June 30, 2008. The 2005 basis rate swaps had positive valuations at June 30, 2008 of: \$12.7 million (Counterparty 1), \$7.9 million (Counterparty 2), and \$5.1 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.

NOTES TO THE FINANCIAL STATEMENTS

Credit risk. As of June 30, 2008, the swaps did not expose the State to credit risk because the swaps had negative fair values. However, should interest rates change and the aggregate fair value of the swaps become positive, the State would be exposed to credit risk in the amount of the derivatives' aggregate fair value. The current counterparty ratings for each swap are presented in the table below:

<u>Swap Counterparty</u>	<u>Moody's</u>	<u>S&P</u>	<u>Fitch</u>
Swap 1	Aa1	AA+	AA-
Swap 2	Aaa	AAA	-
Basis Swap Counterparty 1	Aa1	AA	A+
Basis Swap Counterparty 2	A1	A	A+
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, 2008 of

3.25% (Swap 1) and 3.05% (Swap 2). As of June 30, 2008, the average rate on the State's variable rate bonds was 1.54%, whereas 64% of LIBOR was 1.58%. 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, 2008, there was no basis risk as the State was paying SIFMA equal to 1.55% and receiving 2.41% (70% of LIBOR plus 69 basis points). LIBOR is 2.46% at June 30, 2008. 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***Swap 1**

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 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

NOTES TO THE FINANCIAL STATEMENTS

agreement matures November 1, 2025. As of June 30, 2008, rates were as follows:

	<u>Terms</u>	<u>Rates</u>
Fixed payment to Lehman Bros.	Fixed	5.24%
Variable payment from Lehman Bros.	SIFMA	<u>1.78%</u>
Net interest rate swap payments		3.46%
Variable rate bond coupon payments		<u>1.60%</u>
Synthetic interest rate on bonds		<u>5.06%</u>

Fair value. As of June 30, 2008, the swap had a fair value of negative \$3.56 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, 2008, 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 A2 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.

Swap 2

Objective. The University entered into an interest rate swap agreement with Wachovia Bank, N.A. on December 5, 2006, based on a notional amount of \$100 million effective December 1, 2007, maturing in December 1, 2036. The purpose of the transaction was to hedge the risk of rising interest rates for the

University's planned issuance of long-term bonds in 2007 and 2009. Due to cash market fixed rates remaining at historically low levels at the time of the General Revenue 2007A issuance, the University decided to issue the bonds as traditional fixed-rate bonds. The University took delivery of the Wachovia swap beginning on December 1, 2007 and uses it as a portfolio hedge for its current variable rate debt, which includes General Revenue 2001 B&C bonds and the University's outstanding balance of commercial paper, and for a planned long-term bond issue in 2009.

Terms. Under the agreement, Wachovia Bank, N.A. pays the University 67% of the 1-month LIBOR index times the notional amount, payable monthly. The University pays Wachovia Bank, N.A. a fixed rate of 3.31% on the notional amount, payable monthly. The effective date of this swap was December 1, 2007.

	<u>Terms</u>	<u>Rates</u>
Fixed payment to Wachovia	Fixed	3.31%
Variable payment from Wachovia	SIFMA	<u>1.64%</u>
Net interest rate swap payments		1.67%
Weighted average variable rates		<u>1.65%</u>
Synthetic interest rate on bonds		<u>3.32%</u>

Fair value. As of June 30, 2008, the swap had a fair negative value of \$1.12 million. The fair value was developed by Wachovia Bank, N.A.. Market value represents the amount that would be paid to (or received from) another swap dealer to assume the payments under the swap.

Credit risk. As of June 30, 2008, the University was not exposed to credit risk because the swap had a negative fair value. In the event that the swap carried a positive fair value for the University and in the event of a specified ratings downgrade of Wachovia's unsecured long-term debt, Wachovia Bank, N.A. would be required to post collateral in the amount of the difference between the positive fair value of the swap and the thresholds in the below tables. The University is also subject to the same provisions. Wachovia Bank, N.A. was rated A+ by S&P, A+ by Fitch and A1 by Moody's.

<u>Moody's/S&P Ratings</u>	<u>Threshold</u>
AA3/AA- or above	\$Infinity
A1/A+	\$15 million
A2/A	\$10 million
A3/A- or below	\$0

Basis risk. Changes in swap interest rates and tax-exempt bond interest rates may differ, introducing basis risk in the event the swap is unwound and traditional fixed-rate debt is issued. In the event that the University issues variable rate debt to create synthetic fixed rate debt, the University will be paying a rate on the bonds that may not correlate with 67% of the 1-month LIBOR index, altering the "fixed" cost of synthetic debt.

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

NOTES TO THE FINANCIAL STATEMENTS

being required to make an unanticipated termination payment. The swap terminates if the University or Wachovia Bank, N.A. fails to perform under terms of the contract.

Future Swap. The University entered into an interest rate swap agreement with the Bank of New York for \$150 million to be effective December 1, 2009. The University has the option to (1) issue variable rate bonds in December 2009, 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 two 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, 2008 were as follows (dollars in thousands):

Associated Bond Issue	Notional Amounts	Effective Date	Fixed Rate Paid	Variable Rate Received	Fair Values	Swap Termination Date	Counterparty Credit Rating Moody's/S&P/Fitch
Centennial Campus 1999A General Revenue 2003B	\$ 7,800	10/1/1999	4.57%	67% of LIBOR	\$(727)	12/01/2019	A1 / A+ / A+
	24,655	6/20/2003	3.54%	75% of LIBOR	67	10/01/2027	Aaa / AA+ / AA
Total	<u>\$32,455</u>				<u>\$(660)</u>		

Because rates have changed since the effective dates of the swaps, the 1999A swap has a negative fair value as of June 30, 2008. 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, 2008.

As of June 30, 2008, the swaps did not expose the University to credit risk since the swaps had a negative fair value, in aggregate. However, should interest rates change and the fair value of the swaps become positive, the University would be exposed to credit risk in the amount of the derivatives' aggregate fair value. The swap agreements require termination should the University's or the counterparty's credit rating fall below either Baa2 as issued by Moody's or BBB as issued by S&P or Fitch. Also, under the terms of the swap agreements, should one party become insolvent or otherwise default on its obligations, provisions permit the nondefaulting party to accelerate and terminate all outstanding transactions. 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, 2008, the SIFMA rate was 1.55%, whereas 67% of LIBOR was 1.65% and 75% of LIBOR was 1.85%.

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

NOTES TO THE FINANCIAL STATEMENTS

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 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.

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 mature on October 1, 2034, 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. As of June 30, 2008, the swaps have fair values of negative \$199 thousand (Swap 1) and negative \$43 thousand (Swap 2). The mark-to-market valuations were established by market quotations from Wachovia Bank, N.A. representing estimates of the amounts that would be paid upon terminating the transactions.

Credit risk. As of June 30, 2008, the Foundation was not exposed to credit risk because the swaps had a negative fair value.

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 3.27% (Swap 1) at June 30, 2008. As of June 30, 2008, the rate on the Foundation's Bonds was 1.48% whereas 70% of LIBOR was 1.72%. 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 2.64% (Swap 2) at June 30, 2008. As of June 30, 2008, the rate on the Foundation's Bonds was 1.48%, whereas the SIFMA index was 1.55%. 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 (\$63.77 million) and Series 2003B (\$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 LIBOR (with a designated maturity of one month) on a monthly basis. Also on a monthly basis, the Hospitals pays BOA interest at the fixed rate of 3.48%. No cash was paid or received by the 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, 2008, rates were as follows:

	<u>Terms</u>	<u>2003A Rates</u>	<u>2003B Rates</u>
Fixed payment to BOA	Fixed	3.48%	3.48%
Variable payment from BOA	LIBOR	<u>1.65%</u>	<u>1.65%</u>
Net interest rate swap payments		1.83%	1.83%
Variable rate bond payments		<u>1.55%</u>	<u>1.45%</u>
Synthetic interest rate on bonds		<u>3.38%</u>	<u>3.28%</u>

The swap agreement has a mark-to-market value of negative \$3.39 million as of June 30, 2008. 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.

NOTES TO THE FINANCIAL STATEMENTS

As of June 30, 2008, the Hospitals was not exposed to credit risk because the swap had a negative fair value. However, should interest rates change and the fair value of the swap becomes positive, the Hospitals would be exposed to credit risk in the amount of the derivative's fair value. 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 receives 67% of 1-month LIBOR-BBA Index from BOA and pays a floating rate to its bondholders set by the Remarketing Agent. The Hospitals incurs basis risk when its bonds trade at a yield above 67% of 1-month LIBOR-BBA Index. If the relationship of the Hospitals' bonds trade to a percentage of LIBOR greater than 67%, the Hospitals will experience an increase in debt service above the fixed rate on the swap.

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

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 \$74.69 million variable-rate revenue bonds associated with several series in its 1998 Home Ownership Revenue Bond Resolution as a means to lower its borrowing costs when compared against fixed-rate bonds at the time of issuance. The intention of the swaps was to effectively lower the Agency's interest rate on the long-term bonds to a fixed rate.

Terms and fair value. The terms and fair value of the outstanding swaps as of June 30, 2008 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-	\$17,170	5/8/2003	7/1/2032	3.51%	\$ (251)
16	Bank of America, N.A.	Aaa/AA+	17,520	9/16/2003	7/1/2032	3.81%	(625)
17	Bank of America, N.A.	Aaa/AA+	20,000	12/11/2003	7/1/2032	3.73%	(800)
18	Goldman Sachs Mitsui Marine	Aaa/AAA	20,000	4/20/2004	1/1/2035	3.29%	88
			<u>\$74,690</u>				<u>\$ (1,588)</u>

Under all of the swaps, the Agency pays the counterparties a fixed rate and receives a variable payment computed as 63% of the LIBOR plus 30 basis points. The bonds' variable-rate coupons are based on the variable SIFMA, which was 1.70% as of June 30, 2008.

Fair value. In total, the swaps have a fair value of negative \$1.59 million as of June 30, 2008. 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. As of June 30, 2008, the swaps did not expose the Agency to credit risk since the swaps had a negative fair value, in aggregate. However, should interest rates change and the aggregate fair value of the swaps become positive, the Agency would be exposed to credit risk in the amount of the derivatives' aggregate fair value. 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 United States 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 / Swaption
	Counterparty 1	Counterparty 2	Counterparty 3	Series Total	Exercise Date
Public Improvement Bonds, Series 2003A	\$ 85,500	\$ 51,300	\$ 34,200	\$ 171,000	3/1/2013
Public Improvement Bonds, Series 2003B	84,977	50,987	33,991	169,955	4/1/2013
Public Improvement Bonds, Series 2004A	167,500	100,500	67,000	335,000	3/1/2014
Total	\$ 337,977	\$ 202,787	\$ 135,191	\$ 675,955	

Terms. The swaption agreements were entered into on March 9, 2005 and mature March 1, 2026. The swaption annuity was based on the total notional amount of \$675.955 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, 2008.

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	A1/A
Counterparty 3	28 Basis Points	4.8%	SIFMA	Aaa/AAA

Fair value. As of June 30, 2008, the swaptions had fair values of negative \$17.7 million (Counterparty 1), negative \$10.4 million (Counterparty 2) and negative \$6.7 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 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, 2008 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, GARVEE 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	
2009	\$ 364,495	\$ 238,367	\$ 8,010	\$ 46,295	\$ 46,677	\$ 10,000	\$ 11,041	
2010	364,385	220,826	8,010	46,985	44,556	10,000	10,615	
2011	364,550	202,819	8,010	47,740	42,393	10,000	10,154	
2012	365,575	184,480	8,010	48,550	40,092	10,000	9,687	
2013	367,510	166,846	7,669	49,395	37,889	10,000	9,220	
2014-2018	1,834,660	600,278	26,224	261,520	152,345	50,000	38,780	
2019-2023	1,424,040	264,697	1,550	283,250	84,911	106,000	21,162	
2024-2028	448,545	36,833	—	182,145	20,770	29,045	820	
Total	<u>\$ 5,533,760</u>	<u>\$ 1,915,146</u>	<u>\$ 67,483</u>	<u>\$ 965,880</u>	<u>\$ 469,633</u>	<u>\$ 235,045</u>	<u>\$ 111,479</u>	

Fiscal Year Ending June 30	Governmental Activities			
	GARVEE Bonds		Notes Payable	
	Principal	Interest	Principal	Interest
2009	\$ 45,745	\$ 13,585	\$ 6,484	\$ 1,074
2010	38,670	11,465	4,736	868
2011	36,245	9,658	3,764	706
2012	24,470	7,939	2,421	590
2013	25,660	6,753	2,369	508
2014-2018	97,120	17,702	13,413	1,215
2019-2023	19,655	907	—	—
Total	<u>\$ 287,565</u>	<u>\$ 68,009</u>	<u>\$ 33,187</u>	<u>\$ 4,961</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 Swaps, Net	Principal	Interest	Principal	Interest
2009	\$ 78,200	\$ 96,252	\$ 3,299	\$ 2,010	\$ 1,419	\$ 50,980	\$ 2,250
2010	79,685	92,713	3,195	2,075	1,350	23,466	1,124
2011	81,605	89,551	3,157	2,150	1,270	8,388	408
2012	83,770	86,219	3,119	2,230	1,192	1,699	297
2013	84,495	82,931	3,063	2,335	1,086	708	253
2014-2018	423,680	366,461	14,013	4,910	4,465	3,458	882
2019-2023	397,619	288,903	10,032	3,745	3,700	1,050	357
2024-2028	366,480	213,676	3,865	4,650	2,786	470	236
2029-2033	365,460	143,523	89	5,870	1,575	590	111
2034-2038	379,045	30,674	—	3,160	246	135	3
Total	<u>\$ 2,340,039</u>	<u>\$ 1,490,903</u>	<u>\$ 43,832</u>	<u>\$ 33,135</u>	<u>\$ 19,089</u>	<u>\$ 90,944</u>	<u>\$ 5,921</u>

Revenue Bonds					
Fiscal Year Ending June 30	North Carolina Housing Finance Agency			State Education Assistance Authority	
	Principal	Interest	Interest Rate Swaps, Net	Principal	Interest
2009	\$ 35,635	\$ 77,111	\$ 1,289	\$ —	\$ 148,627
2010	39,620	75,566	1,262	—	148,627
2011	40,695	73,878	1,234	—	148,627
2012	42,635	72,069	1,208	—	148,627
2013	44,480	70,074	1,183	—	148,627
2014-2018	234,480	316,725	5,557	176,787	727,717
2019-2023	211,795	260,343	4,756	300,000	691,101
2024-2028	314,455	199,089	3,321	30,000	675,669
2029-2033	361,185	110,094	1,161	1,275,000	664,041
2034-2038	238,150	31,224	21	1,913,150	192,919
2039-2043	6,105	205	—	—	—
Total	<u>\$ 1,569,235</u>	<u>\$ 1,286,378</u>	<u>\$ 20,992</u>	<u>\$ 3,694,937</u>	<u>\$ 3,694,582</u>

For revenue bonds of the University of North Carolina System and the State Education Assistance Authority, the fiscal year 2009 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.

Component Units**University of North Carolina System***Appalachian State University*

On April 2, 2008, Appalachian State University issued \$19.23 million in The University of North Carolina System Pool Revenue Bonds with an average interest rate of 4.41%. The bonds were issued for a current refunding of \$19.09 million of outstanding Appalachian State University Utility System Revenue Refunding Bonds with an average interest rate of 5%. The refunding was undertaken to reduce total debt service payments by \$1.53 million over the next 15 years and resulted in an economic gain of \$685 thousand.

State Education Assistance Authority

On June 30, 2008, the Authority issued \$1.09 billion in 2008-1 Series Student Loan Revenue Private Placement Bonds with an average interest rate of 3.9%. The refunding component of this issue was used for a current refunding of \$647.4 million of outstanding Taxable Guaranteed Student Loan Revenue Bonds with an average interest rate of 4.7%. The refunding was undertaken to reduce total debt service payments by \$102.71 million over the next 25 years and resulted in an economic gain of \$68.94 million.

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, 2008, the outstanding balance of prior year defeased bonds was \$716.4 million for the primary government and \$160.09 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, 2008, total operating lease expenditures were \$71.32 million for Primary Government, \$39.9 million for the University of North Carolina System, and \$5.53 million for Community Colleges. Future minimum lease commitments for noncancelable operating leases and capital leases as of June 30, 2008 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
2009	\$ 50,893	\$ 25,901	\$ 3,723	\$ 1,971	\$ 14,375	\$ 869
2010	35,841	19,270	3,204	1,955	9,117	803
2011	27,575	14,034	2,262	1,956	8,589	580
2012	20,323	7,582	1,408	1,944	7,828	421
2013	12,073	5,377	422	1,943	7,411	290
2014 - 2018	35,165	8,370	157	9,842	38,186	—
2019 - 2023	28,222	5,039	110	9,692	41,420	—
2024 - 2028	8,082	335	—	3,810	43,065	—
2029 - 2033	8,082	76	—	—	42,366	—
2034 - 2038	8,082	85	—	—	37,823	—
2039 - 2043	8,082	37	—	—	—	—
2044 - 2048	8,082	24	—	—	—	—
2049 - 2053	6,466	24	—	—	—	—
2054 - 2058	—	24	—	—	—	—
Total Future Minimum Lease Payments.....	\$ 256,968	\$ 86,178	\$ 11,286	33,113	250,180	2,963
Less: Amounts Representing Interest				(8,454)	(107,401)	(353)
Present Value of Future Minimum Lease Payments				\$ 24,659	\$ 142,779	\$ 2,610

At June 30, 2008, 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	\$ 138,973	\$ 1,782
Machinery and Equipment.....	215	11,652	3,630
Other.....	—	1,381	43
Less: Accumulated Depreciation.....	—	(16,989)	(1,698)
Total Capital Assets.....	\$ 26,266	\$ 135,017	\$ 3,757

NOTES TO THE FINANCIAL STATEMENTS

NOTE 9: INTERFUND BALANCES AND TRANSFERS

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

The General Fund balance of \$103.901 million due to fiduciary funds is composed primarily of \$14.474 million related to local sales taxes collected in the general fund and due to the agency fund, as well as \$89.271 million related to retirement contributions payable to retirement systems at year end. The other balances due to fiduciary funds are related to balances held on behalf of patients at the State's mental health facilities.

The 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, 2008, consisted of the following (dollars in thousands):

	Due From Other Funds						Total
	General Fund	Highway Fund	Highway Trust Fund	Other Governmental Funds	Unemployment Compensation Fund	Internal Service Funds	
Due To Other Funds							
General Fund.....	\$ —	\$ —	\$ —	\$ 3,651	\$ —	\$ 14,966	\$ 18,617
Highway Fund.....	—	—	47	5,496	—	2,439	7,982
Highway Trust Fund.....	—	17,398	—	—	—	—	17,398
Other Governmental Funds.....	2,595	—	—	9,034	3,025	1,526	16,180
Unemployment Compensation Fund.....	—	—	—	109	—	—	109
EPA Revolving Loan Fund.....	—	—	—	1	—	29	30
NC State Lottery Fund.....	—	—	—	3,501	—	63	3,564
Nonmajor Enterprise Funds.....	—	—	—	—	—	41	41
Internal Service Funds.....	4	—	—	2	—	1,607	1,613
Total.....	\$ 2,599	\$ 17,398	\$ 47	\$ 21,794	\$ 3,025	\$ 20,671	\$ 65,534

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, 2008 consisted of the following (dollars in thousands):

	Transfers In							Total
	General Fund	Highway Fund	Other Governmental Funds	Unemployment Compensation Fund	EPA Revolving Loan Fund	Other Enterprise Funds	Internal Service Funds	
Transfers Out								
General Fund.....	\$ —	\$ 1,241	\$ 727,715	\$ 6	\$ 9,617	\$ 4,500	\$ 2,574	\$ 745,653
Highway Fund.....	65,634	—	234,623	—	—	—	—	300,257
Highway Trust Fund.....	173,134	52,217	—	—	—	—	—	225,351
Other Governmental Funds.....	549,866	—	399,092	2,000	566	—	653	952,177
Unemployment Compensation Fund..	—	—	10,792	—	—	—	—	10,792
EPA Revolving Loan Fund.....	263	—	—	—	—	—	—	263
NC State Lottery Fund.....	-	—	349,310	—	—	—	—	349,310
Other Enterprise Funds.....	779	—	2,393	—	—	—	—	3,172
Internal Service Funds.....	82	—	—	—	—	—	80	162
Total.....	\$ 789,758	\$ 53,458	\$ 1,723,925	\$ 2,006	\$ 10,183	\$ 4,500	\$ 3,307	\$ 2,587,137

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

When the Highway Trust Fund was created in 1989, the revenue from the sales tax on motor vehicles was transferred from the General Fund to the Highway Trust Fund. To offset a portion of this revenue loss in the General Fund, the Highway Trust Fund is required to transfer funds to the General Fund each year. The total transfer for this fiscal year was \$172.543 million.

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 \$348.310 million, as set forth in General Statute 18C-164.

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, 2008, are (dollars in thousands):

	Governmental Funds				Total Governmental Funds
	General Fund	Highway Fund	Highway Trust Fund	Other Governmental Funds	
Specific encumbrances.....	\$ 25,041	\$ 9,753	\$ —	\$ —	\$ 34,794
Inventories.....	55,705	7,309	—	40,369	103,383
Permanent investments.....	—	—	—	70,813	70,813
Notes receivable.....	25,427	1,025	96	317,579	344,127
Compensated absences charged to federal projects.....	—	46,978	—	—	46,978
Capital projects commitments.....	—	—	—	127,229	127,229
Transportation improvement projects..	—	166,147	—	—	166,147
Specific programs/projects.....	—	—	—	2,120	2,120
Advance to component unit.....	—	—	11,180	21,742	32,922
Loan and grant commitments.....	—	2,367	—	358,016	360,383
General government.....	22,821	—	—	—	22,821
Primary and secondary education.....	2,501	—	—	—	2,501
Higher education.....	2,827	—	—	—	2,827
Health and human services.....	12,743	—	—	—	12,743
Economic development.....	13,522	—	—	—	13,522
Environment and natural resources.....	2,920	—	—	—	2,920
Public safety, corrections and regulation.....	10,343	—	—	—	10,343
Total reserved fund balance.....	<u>\$ 173,850</u>	<u>\$ 233,579</u>	<u>\$ 11,276</u>	<u>\$ 937,868</u>	<u>\$ 1,356,573</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 \$685.965 million at June 30, 2008. As shown in the table below, the fund balance available to be designated was a positive \$1.505 billion on a modified accrual basis at June 30, 2008 (dollars in thousands):

Unreserved Designated Fund Balance	General Fund
Disaster relief.....	\$ 97,159
Repairs and renovations.....	69,839
Higher education.....	76,086
Primary and secondary education.....	89,424
Economic development programs.....	34,451
General government programs.....	129,513
Health and human services programs.....	151,090
Public safety, corrections, and regulation programs.....	34,996
Environment and natural resources.....	3,407
Total designations.....	<u>\$ 685,965</u>
Unreserved fund balance.....	<u>\$ 1,505,228</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 the State (state agencies and institutions), universities' and community colleges and certain proprietary component units along with the LEAs and some small miscellaneous educational units. At June 30, 2008, the number of participating LEAs and component unit employers was 244 as shown below:

LEAs and miscellaneous units	164
Community colleges	58
University of North Carolina System	19
Proprietary component units	3

Benefits and administrative expenses are funded by member contributions of 6% of compensation, investment income, and by an actuarially based required employer contribution established by legislation. For the fiscal year ended June 30, 2008, the State made a statutory contribution of 3.05% of covered payroll. This was less than the actuarially required contribution of 3.07%. The difference resulted in an insignificant underfunding of \$2.6 million. 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 \$42.4 million to help offset the actuarial impact caused by the underpayment of contributions in fiscal 2001. Actual payments made in relation to the required contributions for the State are shown in *Section D* of this note and in the *Required Supplementary Information* section of this report.

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, 2008, the State made a statutory contribution of 13.21% of covered payroll. This was greater than the actuarially required contribution of 12.7%. The difference of .51% and an additional \$2.3 million were applied against the State's net pension obligation for the 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. Actual payments made in relation to the required contributions for the State are shown in *Section D* of this note and in the *Required Supplementary Information* section of this report.

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, 2008, there was no actuarially based required contribution, but an additional legislative contribution of \$209 thousand was made for the year.

NOTES TO THE FINANCIAL STATEMENTS

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. Actual payments made in relation to the required contributions for the State are shown in *Section D* of this note and in the *Required Supplementary Information* section of this report.

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

OTHER STATE ADMINISTERED SYSTEMS

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

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

This plan is a defined benefit pension plan established by the State of North Carolina to provide pension benefits for all eligible firemen and rescue squad workers. Membership is composed of both volunteer and locally employed firemen and emergency medical personnel who elect membership. At June 30, 2008, there were 1,914 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 (see *Section D* for the amount). 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 (see *Section D*) 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, 2008, there were 77 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 1.5% 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. The actuarially required contribution this year and in the foreseeable future is zero. 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.

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, 2008, there were 88 sheriffs and three beneficiaries enrolled in the plan with all 100 of the State's counties eligible to participate.

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

NOTES TO THE FINANCIAL STATEMENTS

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, 2008, the Clerks remitted \$1.4 million. All benefit and contribution provisions are established by Chapter 143, Article 12H of the General Statutes 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, 2008, the number of participating local governments was 879, as shown below:

Cities.....	417
Counties.....	100
Special districts.....	362

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 4.94% of covered payroll for law enforcement officers and 4.47% 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.

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	145,855	482	265	10,170	3,130	78	42,408
Terminated employees entitled to benefits but not yet receiving them	69,420	54	86	116	4,582	1	24,907
Active plan members	338,490	548	170	34,948	5,315	100	127,959
Total	553,765	1,084	521	45,234	13,027	179	195,274
Date of valuation	12-31-07	12-31-07	12-31-07	6-30-07	12-31-07	12-31-07	12-31-07

NOTES TO THE FINANCIAL STATEMENTS

B. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND PLAN ASSET MATTERS*BASIS OF ACCOUNTING*

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

INVESTMENTS / 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 pension trust funds are the primary participants in the Long-term Investment portfolio and the sole participants in the Equity Investment, Real Estate Investment and Alternative Investment portfolios.

The investment balance of each pension trust fund represents its share of the fair value of the net assets of the various portfolios within the pool. Detailed descriptions of how the fair value is determined in the various portfolios are presented in Note 3. 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, 2007 (June 30, 2007, for Firemen's and Rescue Squad Workers' Fund). The actuarial accrued liability and the schedule of funding progress for the past six years are presented by system in the *Required Supplementary Information* section of this report. Actuarial valuations involve estimates of reported amounts and assumptions about the probability of the occurrence of events. 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'	12/31/07	Entry age	Level dollar	9 years	Open	5 year smoothed	7.25%	4.50-16.10%
Consolidated Judicial	12/31/07	Projected unit credit	Level percentage	9 years	Open	5 year smoothed	7.25%	5.75-11.75%
Legislative	12/31/07	Projected unit credit	Level dollar	8 years	Open	5 year smoothed	7.25%	7.50%
Firemen's and Rescue Squad	6/30/07	Entry age	Level dollar	9 years	Open	5 year smoothed	7.25%	N/A
North Carolina National Guard	12/31/07	Entry age	Level dollar	9 years	Open	5 year smoothed	7.25%	N/A
Registers of Deeds'	12/31/07	Entry age	Level dollar	N/A	Open	5 year smoothed	7.25%	4.50-14.65%
Local Governmental Employees'	12/31/07	Frozen entry age	Level percentage	Various	Closed	5 year smoothed	7.25%	4.50-14.73%

N/A-Not applicable

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 \$3 (from \$167 to \$170). In addition, the Board of Trustees approved a 2.15% cost of living increase for the Local Governmental Employees' system. All of these benefit enhancements, except for Local, reflect legislation enacted by the North Carolina General Assembly effective July 1, 2008.

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. The funding status of each of the State's

NOTES TO THE FINANCIAL STATEMENTS

various plans on the date of the most recent actuarial valuation is presented in section E of this note.

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, 2008, 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, 2005, the Legislative system was valued at December 31, 2006, and the Firemen's and Rescue Squad Worker's Fund was valued at June 30, 2006. 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, 2005, 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, 2008, retirees in the Local Governmental Employees' system received a 2.2% cost of living adjustment. The Teachers' and State Employees' system, Legislative Retirement system and the Consolidated Judicial system provided a 2.2% cost of living increase for retirees. The Firemen's and Rescue Squad Workers' Fund increased retirement benefits from \$165 to \$167. The National Guard system increased basic benefits from \$80 to \$95 and total potential benefits from \$160 to \$190. All of these benefit enhancements reflect legislation enacted by the North Carolina General Assembly effective July 1, 2007. 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.....	\$ 8,158	\$ —	\$ 8,734	\$ 6,232
Interest on net pension obligation.....	18	(1)	41	(8)
Adjustment to annual required contribution.....	(31)	3	(88)	15
Annual pension cost.....	8,145	2	8,687	6,239
Less: Contributions made.....	10,828	209	8,734	7,007
Increase (decrease) in net pension obligation.....	(2,683)	(207)	(47)	(768)
Net pension (asset) obligation beginning of year....	245	(14)	569	(100)
Net pension (asset) obligation end of year.....	<u>\$ (2,438)</u>	<u>\$ (221)</u>	<u>\$ 522</u>	<u>\$ (868)</u>

NOTES TO THE FINANCIAL STATEMENTS

The following table presents the required three year trend of pension costs for the State's single-employer and special funding defined benefit plans and the 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, 2006 through June 30, 2008(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:					
2008 (A)	\$ 143,500	\$ 8,145	\$ 2	\$ 8,687	\$ 6,239
2007	112,551	6,464	3	8,389	7,361
2006	66,873	6,371	4	7,870	5,974
Component units:					
Universities:					
2008	\$ 54,765				
2007	44,089				
2006	35,445				
Community Colleges:					
2008	\$ 22,474				
2007	18,649				
2006	14,990				
Proprietary Funds:					
2008	\$ 651				
2007	570				
2006	481				
Total Primary Government and Component Units:					
2008	\$ 221,390	\$ 8,145	\$ 2	\$ 8,687	\$ 6,239
2007	175,859	6,464	3	8,389	7,361
2006	117,789	6,371	4	7,870	5,974
Percentage of APC Contributed:					
2008		133%	10,450%	100%	112%
2007		112%	0%	101%	95%
2006		106%	0%	101%	101%
Percentage of ARC Contributed:					
2008	100%				
2007	100%				
2006	100%				
Net Pension (Asset) Obligation:					
2008		(2,438)	(221)	522	(868)
2007		245	(14)	569	(100)
2006		1,007	(17)	620	(454)

(A) - The State's contributions/pension cost equals the statutorily required contribution plus \$42.4 million for prior year actuarial deficits. An additional contribution of \$30 million was also made in 2007.

NOTES TO THE FINANCIAL STATEMENTS

E. Funding Status and Funding Progress

The funding status of each of the State's various plans at the most recent actuarial valuation is presented below. These schedules were developed from actuarial methods and assumptions identified in *Section C* of this note. Multiyear trend information on funding progress is presented in the *Required Supplementary Information (RSI)* section of this CAFR. These schedules indicate whether the actuarial values of plan assets are increasing or decreasing over time in relation to the actuarial accrued liabilities. (dollars in thousands)

<i>Retirement System</i>	<i>Valuation Date</i>	<i>Actuarial Value of Assets</i> (a)	<i>Actuarial Accrued Liability (AAL)</i> (b)	<i>Unfunded AAL (UAAL)</i> (b) - (a)	<i>Funded Ratio</i> (a) / (b)	<i>Annual Covered Payroll</i> (c)	<i>UAAL as a Percentage of Covered Payroll</i> ((b-a)/c)
Teachers' and State Employees'	12-31-07	\$ 55,283,120	\$ 52,815,089	\$ (2,468,031)	104.7%	\$ 12,701,017	(19.4)%
Consolidated Judicial	12-31-07	\$ 430,356	\$ 418,137	\$ (12,219)	102.9%	\$ 61,338	(19.9)%
Legislative	12-31-07	\$ 30,698	\$ 22,883	\$ (7,815)	134.2%	\$ 3,680	(212.4)%
Firemen's and Rescue Squad Workers'	6-30-07	\$ 305,869	\$ 322,453	\$ 16,584	94.9%	N/A	N/A
North Carolina National Guard	12-31-07	\$ 74,794	\$ 109,431	\$ 34,637	68.3%	N/A	N/A
Registers of Deeds'	12-31-07	\$ 35,453	\$ 17,830	\$ (17,623)	198.8%	\$ 5,869	(300.3)%
Local Governmental Employees'	12-31-07	\$ 16,791,984	\$ 16,868,147	\$ 76,163	99.5%	\$ 4,750,682	1.6%

F. 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, 2008, the Plan had 12,497 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 Statute 135-5.1. Participants contribute 6% of compensation and the university contributes 6.84%. There is no liability other than the universities' required contributions. The universities contributed \$ 82.43 million for the fiscal year ended June 30, 2008. Annual covered payroll was \$1.2 billion and employer contributions expressed as a percentage of annual covered payroll were the required 6.84% for the period. Employee contributions expressed as a percentage of annual covered payroll were the required 6%, with actual employee contributions of \$72.30 million for the fiscal year ended June 30, 2008.

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.

G. 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 Statute 135-1(11b) or General Statute 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 Statute 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, 2008, the State and its component units paid \$12.78 million for 900 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. Effective July 1, 2008, the Board of Trustees of the North Carolina Public Employee Deferred Compensation Plan was consolidated with Supplemental Retirement Income Plan's Board to form the North Carolina Supplemental Retirement Board of Trustees (the Board). At that time, the Board began administering these independent plans. 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). Effective July 1, 2008, the Board of Trustees of the North Carolina Public Employee Deferred Compensation Plan was consolidated with Supplemental Retirement Income Plan's Board to form the North Carolina Supplemental Retirement Board of Trustees (the Board). At that time, the Board began administering these independent plans. 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 with direct administration delegated to 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, 2007, 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 (a subsidiary of Prudential) administers the Plan. 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, 2007, 51 state agencies and component units along with 464 local governmental units outside our reporting entity contributed the required 5%. In addition, 4 state agencies and 444 local government employers contributed to the Plan on a voluntary basis.

The Plan is also disclosed as a related party transaction in Note 20 of this CAFR. Prudential Retirement Services (a subsidiary of Prudential) administers the Plan and provides investment management and options through an agreement with the Plan. The Plan's investment risks are described in Note 3.

The Plan also reported total member contributions of \$263.7 million. The payrolls for law enforcement officers, on which the required contributions were based for the year ended December 31, 2007, amounted to \$168.7 million for the State, \$16.4 million for universities, and \$2.6 million for community colleges and other miscellaneous component units. The

NOTES TO THE FINANCIAL STATEMENTS

required 5% employer's contribution was made by the State for \$8.4 million, by universities for \$821.2 thousand, and by the remaining component units and community colleges for \$130 thousand. In addition, the State contributed \$562 thousand for required court cost assessments.

IRC Section 403(b) Plans - Employees of the University of North Carolina 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*.

governments that are not part of the financial reporting entity also participate. At June 30, 2008, the number of participating employers was 258 as shown below:

State of North Carolina.....	1
LEAs and miscellaneous units.....	164
Community Colleges.....	58
University of North Carolina System.....	18
Proprietary component units.....	3
Local governments.....	14

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.

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.

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.

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.

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, and certain other component units. In addition, Local Education Agencies (LEAs), miscellaneous educational units, and some select local

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

NOTES TO THE FINANCIAL STATEMENTS

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 of the Teachers' and State Employees' Retirement System and 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. However, Fund assets may be used for reasonable expenses to administer the Fund, including costs to conduct required actuarial valuations of State-supported retired employees' health benefits. 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, the State and the other employers contributed the legislative mandated 4.1% of active employee salaries. The Fund is reported as an employee benefit trust fund. The State's total payments are shown in the following table. Actuarially required contributions and the percentage received from all employers can be found in the *Required Supplementary Information* section of this report.

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 (TSERS) 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 TSERS; 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 TSERS 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 TSERS, 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.

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, 2008, the State and the other employers made a statutory contribution of .52% of covered payroll. This was greater than the actuarially required contribution of .49%. The State's total payments are shown in the following table. Actuarially required contributions and the percentage received from all employers can be found in the *Required Supplementary Information* section of this report.

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. By statute, the DIPNC is administered by the Department of State Treasurer and the Board of Trustees of the Teachers' and State Employees' Retirement System.

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

NOTES TO THE FINANCIAL STATEMENTS

The following table presents the three year trend of the annual required contributions (ARC) the State and its component units made to the plans required by GASB 45. GASB 45 was implemented this fiscal year, 2008. Fiscal years 2006 and 2007 data represent required and contributed amounts to the plans. The ARC equals the State's OPEB cost.

State of North Carolina's Annual Required Contributions (ARC)
and Annual OPEB Cost as an Employer
For the Years Ended June 30, 2006 through June 30, 2008
(dollars in thousands)

	Retiree Health Benefit	Disability Income
Primary Government:		
2008	\$ 135,051	\$ 17,128
2007	117,930	16,138
2006	108,597	14,861
Component units:		
Universities:		
2008	\$ 120,871	\$ 15,330
2007	104,297	14,272
2006	94,523	12,935
Community Colleges:		
2008	\$ 30,015	\$ 3,807
2007	26,642	3,646
2006	24,342	3,331
Proprietary Funds:		
2008	\$ 870	\$ 110
2007	815	112
2006	781	107
Total Primary Government and Component Units:		
2008	\$ 286,807	\$ 36,375
2007	249,684	34,168
2006	228,243	31,234
Percentage of ARC Contributed:		
2008	100%	100%
2007	100%	100%
2006	100%	100%

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

	Retiree Health Benefit	Disability Income
Employee Groups		
Retirees and beneficiaries currently receiving benefits	149,331	n/a
Disabled members receiving long term disability benefits	n/a	5,983
Terminated employees entitled to benefits but not yet receiving them	23,724	-
Active plan members	351,829	352,131
Total	524,884	358,114
Date of valuation	12/31/07	12/31/07

NOTES TO THE FINANCIAL STATEMENTS

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)	12/31/07	\$ 296,500	\$ 28,890,120	\$ 28,593,620	1.0%	\$ 14,810,279	193.1%
Disability Income (2)	12/31/07	\$ 326,674	\$ 474,614	\$ 147,940	68.8%	\$ 13,849,158	1.1%

(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, 2007. The latest actuarial valuation for DIPNC is dated December 31, 2007. The schedules 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 most recent experience study 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.

	<u>Retiree Health Benefit</u>	<u>Disability Income</u>
Valuation Date	12/31/07	12/31/07
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	(1)
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)	9% initial 5% ultimate	N/A
Projected Salary Increases (4)	N/A	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.

(4) Aon Consulting used the projected unit credit method which does not include salaries, thus salary increases are not applicable for FY2008.

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 their buildings and contents on a replacement cost basis, as suggested by the Fund. 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 95 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 insured members. 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):

	<u>Fiscal Year</u>	
	<u>2008</u>	<u>2007</u>
Unpaid claims at beginning of year	\$ 3,730	\$ 796
Incurred claims:		
Provision for insured events		
of the current year	1,915	14,961
Increases (decreases) in provision		
for insured events of prior years	27	(46)
Total incurred claims	<u>1,942</u>	<u>14,915</u>
Payments:		
Claims attributable to insured		
events of the current year	1,426	15,285
Claims attributable to insured		
events of the prior years	3,954	(3,304)
Total payments	<u>5,380</u>	<u>11,981</u>
Total unpaid claims at end		
of the year	<u>\$ 292</u>	<u>\$ 3,730</u>

With the collection of premiums from the insured educational units, payment of valid claims becomes the responsibility of the Fund. All claims greater than \$10 million per occurrence are covered by reinsurance contracts. Maximum recoverable from reinsurance for any one catastrophic event is \$45.5 million per occurrence. Losses in excess of the reinsurance limit would be paid by the Fund from long-term investments, subject to the maximum amount of available funds. Annual aggregate limits of \$15 million apply separately with respect to flood and earthquake. Coverage applies to "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, the Fund is in the process of collecting money from the reinsurer for the loss paid to the East Guilford High School due to fire 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 healthcare 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.

NOTES TO THE FINANCIAL STATEMENTS

Coverage is self-funded by contributions to the Plan, which is reported as a pension and other employee benefit trust fund. Contributions for employee and retiree coverage are made by the State, its participating component units, LEAs, and other qualified employing units. Contributions for dependent coverage are made by employees and retirees. As described in Note 13, coverage is also extended to certain individuals as an other postemployment benefit. The Plan has contracted with third parties to process claims.

The Plan pays most expenses that are medically necessary and eligible for coverage based on usual, customary and reasonable allowances for indemnity plan members and allowed amounts for Preferred Provider Organization (PPO) plan members. 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. Effective July 1, 2008, the Current Operations and Capital Improvements Appropriations Act of 2007, Session Law 2007-323, approved the elimination of the indemnity plan.

Claim liabilities are based on estimates of the ultimate cost of claims that have been incurred (both reported and unreported). Claim liabilities do not include nonincremental claims adjustment expenses. 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
2006-07	\$ 170,465	\$ 1,981,126	\$ (1,961,948)	\$ 189,643
2007-08	189,643	2,222,744	(2,149,145)	263,242

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. Employees of Local Education Agencies (LEAs) and miscellaneous educational units which are not part of the reporting entity are also included. 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, 2007 to June 30, 2008, 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, participating proprietary component units, LEAs and other miscellaneous educational units contributed .16% of active employees' salaries to fund the Death Benefit Plan for the period July 2007 to June 2008.

These benefits are established by General Statute 135-5(1) 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
2006-07	\$ 2,747	\$ 39,593	\$ (38,740)	\$ 3,600
2007-08	3,600	37,188	(36,607)	4,181

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 the University Employees' Optional Retirement Program. Employees of Local Education Agencies (LEAs) and miscellaneous educational units which are not part of the reporting entity are also included. 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, 2008 are disclosed on the balance sheet as claims payable. Current year claims and changes in estimates in the table below reflect \$1.17 million in normal claims processing, while the remaining amounts and actual claims paid, are associated with the unusually large number of claims processed by the private insurer during this fiscal year. Claims payable does not include nonincremental claims adjustment expenses. 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
2006-07	\$ 6,595	\$ 1,133	\$ (1,215)	\$ 6,513
2007-08	6,513	9,952	(8,258)	8,207

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, 2007 through June 30, 2008, 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, 2007 through June 30, 2008, 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, 2008, 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 \$50.678 million and \$60.958 million are the present values of the aggregate actuarially determined claims liabilities of \$53.09 million and \$64.11 million, discounted at 5% at June 30, 2007 and June 30, 2008. 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
2006-07	\$ 52,230	\$ 9,025	\$ (10,577)	\$ 50,678
2007-08	50,678	14,874	(4,594)	60,958

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 billed for claims and an administrative fee which is paid by the fund to the third party administrator. This fund is reported as an internal service fund in this report. 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, 2008, workers' compensation costs were recognized as follows (dollars in thousands):

Primary government	\$ 83,898
University of North Carolina System	7,444
All other component units	1
Total	<u>\$ 91,343</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, 2008 was \$4.5 million. As of June 30, 2008, the Fund consisted of 1,246 eligible units representing approximately 44,480 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. Claim liabilities do not include nonincremental claims adjustment expenses. 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, 2008, 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, 2008, there are claims recoverable from reinsurers in the amount of \$34 thousand.

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
2006-07	\$ 11,173	\$ 5,002	\$ (5,303)	\$ 10,872
2007-08	10,872	9,421	(5,250)	15,043

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, 2008, \$59.38 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 129,646 children as of June 30, 2008, and an average enrollment of 125,145 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). Claim liabilities do not include nonincremental claims adjustment expenses. 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
2006-07	\$ 21,001	\$ 181,611	\$ (180,449)	\$ 22,163
2007-08	22,163	207,237	(202,798)	26,602

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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, 2008 are presented below.

COMBINING STATEMENT OF PLAN NET ASSETS

June 30, 2008

(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.....	\$ 152,601	\$ 3,030	\$ 176	\$ 2,404	\$ 3,049	\$ 140,944	\$ 34,222
Investments:							
U.S government and agency securities....	—	—	—	—	—	—	314,987
Collateralized mortgage obligations.....	—	—	—	—	—	—	404,982
Asset-backed securities.....	—	—	—	—	—	—	13,679
Repurchase agreements.....	—	—	—	—	—	—	—
Commercial mortgage backed securities..	—	—	—	—	—	—	57,715
Annuity contracts.....	—	—	—	—	—	—	—
Corporate bonds.....	—	—	—	—	—	—	246,616
Certificates of deposit.....	—	—	—	—	—	—	—
Mutual funds.....	—	—	—	—	—	—	3,243,297
State Treasurer investment pool.....	54,703,729	428,331	30,844	316,753	72,281	16,752,590	—
Securities lending collateral.....	11,329,799	89,603	6,425	66,386	16,741	3,521,678	—
Receivables:							
Accounts receivable.....	3,190	961	—	—	8	3,335	10,771
Intergovernmental receivable.....	—	—	—	—	—	—	—
Interest receivable.....	1,304	15	1	14	13	661	11,800
Contributions receivable.....	49,925	—	—	—	—	40,148	12,499
Due from other funds.....	57,114	1,039	—	—	—	—	—
Due from component units.....	7,973	—	—	—	—	—	—
Notes receivable.....	—	—	—	—	—	—	177,619
Capital assets-depreciable, net.....	—	—	—	—	—	—	—
Total Assets.....	<u>66,305,635</u>	<u>522,979</u>	<u>37,446</u>	<u>385,557</u>	<u>92,092</u>	<u>20,459,356</u>	<u>4,528,187</u>
Liabilities							
Accounts payable and accrued liabilities:							
Accounts payable.....	—	—	—	—	—	—	40,062
Intergovernmental payable.....	—	—	—	—	—	—	—
Benefits payable.....	3,804	—	—	—	7	1,699	—
Medical claims payable.....	—	—	—	—	—	—	—
Obligations under securities lending.....	11,329,799	89,603	6,425	66,386	16,741	3,521,678	—
Due to other funds.....	—	—	—	—	—	—	—
Notes Payable.....	—	—	—	—	—	—	—
Unearned revenue.....	—	—	—	—	—	—	—
Compensated absences.....	—	—	—	—	—	—	—
Total Liabilities.....	<u>11,333,603</u>	<u>89,603</u>	<u>6,425</u>	<u>66,386</u>	<u>16,748</u>	<u>3,523,377</u>	<u>40,062</u>
Net Assets							
Held in trust for:							
Employees' pension and other benefits.....	54,972,032	433,376	31,021	319,171	75,344	16,935,979	4,488,125
Total Net Assets.....	<u>\$ 54,972,032</u>	<u>\$ 433,376</u>	<u>\$ 31,021</u>	<u>\$ 319,171</u>	<u>\$ 75,344</u>	<u>\$ 16,935,979</u>	<u>\$ 4,488,125</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	Register of Deeds' Supplemental Pension Fund	Totals
\$ 3,187	\$ 5,486	\$ 139,744	\$ 303,360	\$ 21,652	\$ 1,943	\$ 250	\$ 812,048
131,235	—	—	—	—	—	—	446,222
—	—	—	—	—	—	—	404,982
18,875	—	—	—	—	—	—	32,554
2,100	—	—	—	—	—	—	2,100
—	—	—	—	—	—	—	57,715
27,925	—	—	—	—	—	—	27,925
7,577	—	—	—	—	—	—	254,193
619	—	—	—	—	—	—	619
581,618	—	—	—	—	—	—	3,824,915
—	268,797	—	—	286,915	—	34,207	72,894,447
—	144,389	96,593	193,554	164,208	1,240	18,089	15,648,705
6,668	46	34,827	—	6,485	—	—	66,291
—	—	17,923	—	—	—	—	17,923
926	19	648	1,201	92	8	1	16,703
1,841	1,189	2,380	23,924	3,030	—	85	135,021
—	1,010	—	26,744	3,364	—	—	89,271
—	141	—	6,295	798	—	—	15,207
—	—	—	—	—	—	—	177,619
—	—	138	—	—	—	—	138
<u>782,571</u>	<u>421,077</u>	<u>292,253</u>	<u>555,078</u>	<u>486,544</u>	<u>3,191</u>	<u>52,632</u>	<u>94,924,598</u>
1,317	152	28,040	—	—	—	—	69,571
—	—	7,392	—	—	—	—	7,392
—	4,181	—	—	(32)	—	—	9,659
—	—	263,242	—	—	—	—	263,242
—	144,389	96,593	193,554	164,208	1,240	18,089	15,648,705
—	—	7	—	—	—	—	7
—	—	11,870	—	—	—	—	11,870
—	—	25,057	—	—	—	—	25,057
—	—	193	—	—	—	—	193
<u>1,317</u>	<u>148,722</u>	<u>432,394</u>	<u>193,554</u>	<u>164,176</u>	<u>1,240</u>	<u>18,089</u>	<u>16,035,696</u>
781,254	272,355	(140,141)	361,524	322,368	1,951	34,543	78,888,902
<u>\$ 781,254</u>	<u>\$ 272,355</u>	<u>\$ (140,141)</u>	<u>\$ 361,524</u>	<u>\$ 322,368</u>	<u>\$ 1,951</u>	<u>\$ 34,543</u>	<u>\$78,888,902</u>

NOTES TO THE FINANCIAL STATEMENTS

COMBINING STATEMENT OF CHANGES IN PLAN NET ASSETS

For the Fiscal Year Ended June 30, 2008

(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.....	\$ 468,669	\$ 10,844	\$ 209	\$ —	\$ —	\$ 256,612	\$ 149,224
Members.....	821,068	6,027	253	2,482	—	308,255	263,718
Other contributions.....	—	—	—	8,734	7,007	—	—
Total contributions.....	1,289,737	16,871	462	11,216	7,007	564,867	412,942
Investment Income:							
Investment earnings (loss).....	(449,279)	(3,366)	(241)	(2,388)	(457)	(142,818)	245,353
Less investment expenses.....	(671,755)	(5,295)	(383)	(3,980)	(941)	(204,970)	(9,186)
Net investment income (loss).....	(1,121,034)	(8,661)	(624)	(6,368)	(1,398)	(347,788)	236,167
Other additions:							
Fees, licenses and fines.....	—	—	—	—	—	5,147	—
Interest earnings on loans.....	—	—	—	—	—	—	13,026
Miscellaneous.....	3,184	4	—	4	—	31	—
Total other additions.....	3,184	4	—	4	—	5,178	13,026
Total additions.....	171,887	8,214	(162)	4,852	5,609	222,257	662,135
Deductions:							
Claims and benefits.....	2,897,465	26,110	1,878	20,869	5,629	697,314	219,795
Medical insurance premiums.....	—	—	—	—	—	—	—
Refund of contributions.....	73,618	22	12	348	—	42,204	—
Administrative expenses.....	14,658	40	13	1,183	76	5,093	914
Other deductions.....	2	—	—	—	—	—	—
Total deductions.....	2,985,743	26,172	1,903	22,400	5,705	744,611	220,709
Change in net assets.....	(2,813,856)	(17,958)	(2,065)	(17,548)	(96)	(522,354)	441,426
Net assets — July 1, as restated (Note 23)...	57,785,888	451,334	33,086	336,719	75,440	17,458,333	4,046,699
Net assets — June 30.....	\$ 54,972,032	\$ 433,376	\$ 31,021	\$ 319,171	\$ 75,344	\$ 16,935,979	\$ 4,488,125

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
\$ —	\$ 25,885	\$ 1,798,826	\$ 601,032	\$ 75,844	\$ 1,430	\$ 926	\$ 3,389,501
43,569	—	404,491	—	—	—	—	1,849,863
—	12,768	43,420	—	—	—	—	71,929
<u>43,569</u>	<u>38,653</u>	<u>2,246,737</u>	<u>601,032</u>	<u>75,844</u>	<u>1,430</u>	<u>926</u>	<u>5,311,293</u>
63,205	26,867	13,363	21,037	30,423	147	3,430	(194,724)
—	(6,002)	(4,916)	(7,738)	(6,737)	(54)	(758)	(922,715)
<u>63,205</u>	<u>20,865</u>	<u>8,447</u>	<u>13,299</u>	<u>23,686</u>	<u>93</u>	<u>2,672</u>	<u>(1,117,439)</u>
—	—	—	—	—	—	—	5,147
—	—	—	—	—	—	—	13,026
—	—	2	—	—	—	—	3,225
—	—	2	—	—	—	—	21,398
<u>106,774</u>	<u>59,518</u>	<u>2,255,186</u>	<u>614,331</u>	<u>99,530</u>	<u>1,523</u>	<u>3,598</u>	<u>4,215,252</u>
42,039	37,188	2,222,744	—	70,706	1,174	1,340	6,244,251
—	405	—	523,267	—	—	—	523,672
—	—	—	—	—	—	—	116,204
2,563	339	162,347	179	552	142	15	188,114
—	—	7,638	—	—	—	—	7,640
<u>44,602</u>	<u>37,932</u>	<u>2,392,729</u>	<u>523,446</u>	<u>71,258</u>	<u>1,316</u>	<u>1,355</u>	<u>7,079,881</u>
62,172	21,586	(137,543)	90,885	28,272	207	2,243	(2,864,629)
719,082	250,769	(2,598)	270,639	294,096	1,744	32,300	81,753,531
<u>\$ 781,254</u>	<u>\$ 272,355</u>	<u>\$ (140,141)</u>	<u>\$ 361,524</u>	<u>\$ 322,368</u>	<u>\$ 1,951</u>	<u>\$ 34,543</u>	<u>\$ 78,888,902</u>

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 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, 2008 are presented below (dollars in thousands).

	N.C. Housing Finance Agency	
	Home	
	Ownership	Rental
Condensed Statement of Net Assets		
Assets:		
Current assets.....	\$ 85,712	\$ 19,375
Noncurrent assets.....	1,646,207	61,882
Total assets.....	<u>1,731,919</u>	<u>81,257</u>
Liabilities:		
Current liabilities.....	50,676	1,300
Noncurrent liabilities.....	1,485,875	30,052
Total liabilities.....	<u>1,536,551</u>	<u>31,352</u>
Net assets:		
Restricted.....	195,368	49,905
Total net assets.....	<u>\$ 195,368</u>	<u>\$ 49,905</u>
Condensed Statement of Revenues, Expenses, and Changes in Net Assets		
Operating revenues (pledged against bonds).....	\$ 100,304	\$ 5,905
Operating expenses.....	<u>(83,120)</u>	<u>(3,408)</u>
Operating income.....	17,184	2,497
Transfers out.....	<u>(3,162)</u>	<u>(1,552)</u>
Change in net assets.....	14,022	945
Net assets — July 1.....	181,346	48,960
Net assets — June 30.....	<u>\$ 195,368</u>	<u>\$ 49,905</u>
Condensed Statement of Cash Flows		
Net cash provided (used) by:		
Operating activities.....	\$ (150,750)	\$ 9,309
Noncapital financing activities.....	(117,055)	(18,598)
Investing activities.....	<u>359,703</u>	<u>21,183</u>
Net increase (decrease).....	91,898	11,894
Cash and cash equivalents at July 1.....	<u>43,609</u>	<u>6,977</u>
Cash and cash equivalents at June 30.....	<u>\$ 135,507</u>	<u>\$ 18,871</u>

NOTES TO THE FINANCIAL STATEMENTS

NOTE 17: PLEDGED REVENUES

Primary Government**Grant Anticipation Revenue Vehicle Bonds**

The State has pledged future federal transportation revenues to repay \$287.57 million of bonds payable for Grant Anticipation Revenue Vehicle (GARVEE) bonds issued in October 2007. Such federal transportation revenues consist of amounts derived from the National Highway System and other federal surface transportation programs pursuant to Title 23 of the United States Code. Annual principal and interest requirements on the GARVEE bonds are expected to require less than 5% of such federal transportation revenues. The North Carolina General Statute 136-18 limits the amount that can be issued by providing that the maximum debt service on all GARVEE bonds may not exceed 15% of the expected annual federal revenue and that the outstanding principal amount may not exceed the total amount of federal transportation funds authorized to the State in the prior federal fiscal year.

Proceeds from the bonds will be used to accelerate the funding of various transportation projects identified in the current State Transportation Improvement Plan. As required by State law, the projects have been selected on factors including a broad geographical distribution across the State. The total principal and interest remaining to be paid on the bonds is \$355.57 million, payable through 2019. For the current fiscal year, interest paid and total federal transportation revenues were \$5.06 million and \$904.4 million, respectively. The first principal payment is due in 2009.

Component Units**University of North Carolina System**

The University of North Carolina System has pledged future revenues, net of specific operating expenses, to repay revenue bonds and certificates of participation as shown in the table below (dollars in thousands):

Purpose	Revenue Source	Future Revenues Pledged		Current Year		Final Maturity Date	Bonds Payable as of 6/30/2008
		Amount	% of Total Revenue Source	Pledged Revenues, Net of Expenses	Principal and Interest Payments		
Revenue Bonds		(1)					
Housing and Dining	Housing/Dining Revenues	\$ 337,764	4.00% - 74.00%	\$ 103,299	\$ 17,198	2034	\$ 132,845
Utilities	Utilities Revenues	88,889	24.00% - 30.00%	29,241	4,938	2024	57,932
Health Care Facilities	Patient Service Revenues	502,107	7.50% - 59.00%	77,398	26,928	2031	354,385
Other	Various	102,138	0.10% - 82.00%	41,680	9,774	2033	55,664
Total		<u>\$ 1,030,898</u>		<u>\$ 251,618</u>	<u>\$ 58,838</u>		<u>\$ 600,826</u>
Certificates of Participation							
Student Housing System	Housing Revenues	\$ 40,623	32.74% - 80.00%	\$ 1,812	\$ 1,490	2036	\$ 23,015
Banner System	Tuition/Administrative Fees	4,757	66.62%	1,049	794	2014	4,150
Total		<u>\$ 45,380</u>		<u>\$ 2,861</u>	<u>\$ 2,284</u>		<u>\$ 27,165</u>

(1) The Future Revenues Pledged Amount is equivalent to the total principal and interest remaining to be paid on the associated bonds.

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

The North Carolina Housing Finance Agency (The Agency) has collateralized \$1.48 billion in mortgage loans receivable, \$160.94 million in reserves, and \$71.39 million in program funds to repay \$1.57 billion single family and multiple family bonds payable at June 30, 2008. Proceeds from the bonds issued were utilized to finance housing opportunities throughout North Carolina. The bonds are payable through 2039 and are paid down from cash collections on mortgage loans receivable, interest receivable on mortgage loans, unexpended bond proceeds, and sale of investments. The Agency expects 100% of the mortgage loans, both principal and interest to pay the principal and interest debt service on the bonds. The total principal and interest remaining to be paid on bonds is \$2.86 billion. For the current fiscal year, principal and interest paid and total collections on mortgage loans receivable were \$108.72 million and \$100.67 million respectively.

State Education Assistance Authority

The State Education Assistance Authority has collateralized \$3.21 billion in student loans receivable and \$172.22 million in reserves to repay \$3.69 billion bonds payable for tax exempt and tax guaranteed student loan revenue bonds and taxable guaranteed student loan private placement bonds issued between fiscal years 1997- 2008. Proceeds from the bonds issued were utilized to finance student loans. The bonds are payable through 2037 and are paid down from cash collections on student loans receivable, interest earnings on loans and investments, and unexpended bond proceeds. In addition to cash collections on student loans receivable, all net available revenues are expected to be pledged to meet annual principal and interest payments on the bonds. For the current fiscal year, principal and interest paid, cash collections on student loans receivable, and net available revenues were \$319.11 million, \$364.27 million and \$125.13 million respectively. The total principal and interest remaining to be paid on the bonds is \$7.39 billion.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 18: 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, 2008 are presented below (dollars in thousands).

Statement of Net Assets

	University of North Carolina System		Community Colleges	N.C. Housing Finance Agency	State Education Assistance Authority	Other Component Units	Total
	The Golden LEAF, Inc.						
Assets							
Cash and cash equivalents.....	\$ 532	\$ 1,594,862	\$ 141,792	\$ 3,880	\$ 48,896	\$ 24,585	\$ 1,814,547
Investments.....	726,907	2,054,723	51,877	4,772	—	15,653	2,853,932
Receivables, net.....	39	773,505	91,924	23,102	79,741	12,211	980,522
Due from component units.....	—	8,269	5,659	—	1,740	138	15,806
Due from primary government.....	—	1,183	—	49,256	27,484	—	77,923
Inventories.....	—	79,772	16,353	—	18	873	97,016
Prepaid items.....	34	17,238	1,528	—	115	562	19,477
Notes receivable, net.....	—	179,824	418	1,570,125	3,266,467	7,870	5,024,704
Investment in joint venture.....	—	8,319	—	—	—	—	8,319
Deferred charges.....	—	16,528	—	—	16,810	846	34,184
Restricted/designated cash and cash equiv.....	—	1,171,132	73,336	243,684	462,332	39,707	1,990,191
Restricted investments.....	—	2,783,516	118,971	157,795	917,031	2,970	3,980,283
Restricted due from primary government.....	—	81,235	110,053	—	—	—	191,288
Restricted due from component units.....	—	3,200	63	—	—	100,000	103,263
Capital assets-nondepreciable.....	928	1,681,274	288,132	242	—	144,248	2,114,824
Capital assets-depreciable, net.....	3,274	6,704,476	1,567,711	3,075	7,043	344,064	8,629,643
Total Assets.....	731,714	17,159,056	2,467,817	2,055,931	4,827,677	693,727	27,935,922
Liabilities							
Accounts payable and accrued liabilities.....	39,935	540,730	52,175	2,219	1,503	9,212	645,774
Interest payable.....	—	17,914	2	15,976	50,412	219	84,523
Short-term debt.....	—	176,657	—	—	—	—	176,657
Due to component units.....	119,069	—	—	—	—	—	119,069
Due to primary government.....	1,277	1,021	65	—	—	13,330	15,693
Unearned revenue.....	—	142,965	17,494	8,674	—	650	169,783
Advance from primary government.....	—	—	—	—	—	32,922	32,922
Deposits payable.....	—	6,339	—	3,316	—	71	9,726
Funds held for others.....	—	797,253	2,252	—	419,114	70	1,218,689
Long-term liabilities:							
Due within one year.....	—	288,258	9,365	35,675	506,308	20,837	860,443
Due in more than one year.....	—	3,151,125	75,208	1,516,762	3,194,671	83,550	8,021,316
Total Liabilities.....	160,281	5,122,262	156,561	1,582,622	4,172,008	160,861	11,354,595
Net Assets							
Invested in capital assets, net of related debt...	4,202	5,435,798	1,840,965	3,317	7,043	365,661	7,656,986
Restricted for:							
Nonexpendable:							
Higher education.....	—	1,478,553	115,486	—	—	—	1,594,039
Expendable:							
Higher education.....	—	2,561,523	252,504	—	595,106	—	3,409,133
Health and human services.....	—	—	—	—	—	4,597	4,597
Economic development.....	—	—	—	459,323	—	138,033	597,356
Unrestricted.....	567,231	2,560,920	102,301	10,669	53,520	24,575	3,319,216
Total Net Assets.....	\$ 571,433	\$ 12,036,794	\$ 2,311,256	\$ 473,309	\$ 655,669	\$ 532,866	\$ 16,581,327

NOTES TO THE FINANCIAL STATEMENTS

Statement of Activities

	University		N.C.		State		Total
	of North		Housing		Education		
	The Golden LEAF, Inc.	Carolina System	Community Colleges	Finance Agency	Assistance Authority	Other Component Units	
Total expenses.....	\$ 140,822	\$ 7,891,720	\$ 1,706,114	\$ 297,975	\$ 406,585	\$ 203,708	\$ 10,646,924
Program revenues:							
Charges for services.....	54	4,536,193	263,017	280,084	203,100	56,832	5,339,280
Operating grants and contributions.....	(16,676)	812,665	488,865	40,256	86,892	5,929	1,417,931
Capital grants and contributions:							
State capital aid.....	—	398,368	77,561	—	—	28,075	504,004
Other capital grants and contributions.....	—	48,533	140,966	—	—	109,382	298,881
Net program (expense) revenue.....	(157,444)	(2,095,961)	(735,705)	22,365	(116,593)	(3,490)	(3,086,828)
Non-tax general revenues:							
State aid.....	79,977	2,713,732	857,604	18,608	142,984	137,294	3,950,199
Miscellaneous.....	—	1,177	6	—	—	1,280	2,463
Total non-tax general revenues.....	79,977	2,714,909	857,610	18,608	142,984	138,574	3,952,662
Contributions to endowments.....	—	111,471	8,914	—	—	—	120,385
Change in net assets.....	(77,467)	730,419	130,819	40,973	26,391	135,084	986,219
Net assets — July 1, as restated (Note 23).....	648,900	11,306,375	2,180,437	432,336	629,278	397,782	15,595,108
Net assets — June 30.....	\$ 571,433	\$ 12,036,794	\$ 2,311,256	\$ 473,309	\$ 655,669	\$ 532,866	\$ 16,581,327

Significant Balances and Transactions Between Component Units

	University		N.C.		State		Total
	of North		Housing		Education		
	The Golden LEAF, Inc.	Carolina System	Community Colleges	Finance Agency	Assistance Authority	Other Component Units	
The Golden LEAF, Inc.:							
Due from (due to) component units.....	\$ (119,069)	\$ 11,469	\$ 5,722	\$ —	\$ 1,740	\$ 100,138	\$ —
Grant revenue (expense).....	(108,569)	2,746	4,083	—	1,740	100,000	—
UNC System operating aid.....	—	(38,317)	—	—	38,317	—	—

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 \$11.180 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/Restricted Due From Component Units				Due From / Restricted Due From Primary Government				
	Other		Other	Total	University		NC		State
	General Fund	Governmental Funds			of North Carolina System	Community Colleges	Housing Finance Agency	Education Assistance Authority	
Due To Component Units:									
General Fund.....	\$ —	\$ —	\$ —	\$ —	\$ 1,183	\$ —	\$ 49,256	\$ —	\$ 50,439
Other Governmental Funds.....	—	—	—	—	81,235	110,053	—	27,484	218,772
Due To Primary Government:									
The Golden LEAF, Inc.....	368	909	—	1,277	—	—	—	—	—
University of North Carolina System.....	—	1	1,020	1,021	—	—	—	—	—
Community Colleges.....	—	1	64	65	—	—	—	—	—
Other Component Units.....	1,110	12,193	27	13,330	—	—	—	—	—
Total.....	\$ 1,478	\$ 13,104	\$ 1,111	\$ 15,693	\$ 82,418	\$ 110,053	\$ 49,256	\$ 27,484	\$ 269,211

NOTES TO THE FINANCIAL STATEMENTS

NOTE 19: 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 six members serve ex officio as follows: four are chancellors of universities in the University of North Carolina System, a component unit of the State; one is the president of MCNC; and one is designated by the Board of Trustees of Duke University. These Governor-appointed members and ex officio members may elect up to eight 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 North Carolina State University (NCSU) of a facility 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. In fiscal year 2008, the University entered a capital improvement plan agreement with

the Authority to pay \$6 million in quarterly installments over the next 15 years.

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 21). 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 20: RELATED PARTY TRANSACTIONS

Primary Government

June 30, 2008, this support approximated \$81.67 million for the UNC System and \$1.68 million for community colleges.

Supplemental Retirement Income Plan of North Carolina

The Plan has a third party administration contract with Prudential Retirement Services, which is a subsidiary of Prudential. The Plan also has an investment management agreement and synthetic GIC contract (Guaranteed Investment Contract) with Prudential. Prudential also provides the Prudential Stable Value Fund as an investment option for participants. The Plan recognized \$7.28 million in expenses related to Prudential for the year ended December 31, 2007. The expenses relate to loan initiation fees and investment management fees. Substantially all other administrative expenses of the Plan are paid by the Plan sponsor or Prudential Retirement Services.

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 \$2.41 million in expenses related to Great-West for the year ended December 31, 2007. The portion of annuity payout contract assets attributable to contracts with Great-West at December 31, 2007 was \$20.6 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

NOTES TO THE FINANCIAL STATEMENTS

NOTE 21: 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, 2008, 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. The Agency's 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, 2008, was \$2.6 billion with fixed interest rates varying from 2.5% 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. On August 8, 2008 the trial court entered judgment in favor of the plaintiffs in the amount of \$749.886 million, which is included in the long-term liabilities footnote (Note 7). The General Assembly is aware of the judgment and will determine how to respond.

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. On August 5, 2008 the North Carolina Court of Appeals affirmed the order of the trial court. The State will appeal this decision to the North Carolina Supreme Court.

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 was heard on 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 on remand to Wake County Superior Court. The trial court, on March 7, 2008, again granted Summary Judgment in favor of the State and plaintiffs have appealed.

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

NOTES TO THE FINANCIAL STATEMENTS

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. The United States Supreme Court, however, has now rejected plaintiff's argument in *Kentucky v. Davis* and this case has been dismissed on the merits.

***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 October 31, 2006, Defendant's Motion to Dismiss was denied by Judge Horton who has been assigned to hear the actions as exceptional cases. Judge Horton granted summary judgment in favor of the State and Wal-Mart has appealed.

***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 Court of Appeals has affirmed Judge Tennille's order and the State has petitioned the Supreme Court to review the case.

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. On appeal, the Court of Appeals reversed the trial court and ordered that the State's motion to dismiss be allowed in its entirety.

***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 North Carolina Constitution and the United States 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. 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. Plaintiffs filed Notice of Appeal, and the Court of Appeals upheld the trial court's ruling on February 19, 2008. Plaintiffs Petition for Discretionary Review was subsequently denied by the North Carolina Supreme Court.

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. On April 17, 2008, the IV-E disallowance was settled. A revised disallowance was issued for \$22.6 million. Of the \$22.6 million, the State did not drawdown \$8 million leaving a balance of \$14.6 million. The State paid the \$14.6 million on June 29, 2008.

Any disallowance as a result of questioned costs could become a liability of the State. As of June 30, 2008, the State is unable to estimate what liabilities may result from such audits except for the \$35.3 million settlement balance with the U.S.

NOTES TO THE FINANCIAL STATEMENTS

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 \$66.84 million to contractors for highway construction claims that the State has contested. The State may also be liable for an additional \$47.45 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 \$94.58 million.

E. USDA-Donated Commodities

The State has custodial responsibility for \$2.29 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, 2008, the State had commitments of \$1.22 billion for construction of highway facilities. Of this amount, \$1.01 billion relates to the Highway Fund, and \$207.62 million relates to the Highway Trust Fund. The other commitments for construction and improvements of state government facilities totaled \$618.83 million (including \$511.69 million for the Department of Environment and Natural Resources and \$57.32 million for the Department of Correction).

At June 30, 2008, the University of North Carolina System (component unit) had outstanding construction commitments of \$402.88 million (including \$80.55 million for North Carolina State University, \$79.57 million for University of North Carolina – Chapel Hill, \$63.3 million for UNC Health Care System, \$58.82 million for University of North Carolina – Charlotte, and \$38.43 million for Appalachian State University).

At June 30, 2008, community colleges (component units) had outstanding construction commitments of \$129.53 million (including \$29.64 million for Central Piedmont Community College, \$10.73 million for Wake Technical Community College, \$10.27 million for Sandhills Community College, \$9.27 million for Guilford Technical Community College, \$9.04 million for Brunswick Community College and \$7.92 million for Gaston College).

At June 30, 2008, The Golden LEAF (Long-term Economic Advancement Foundation), Inc. (component unit) had outstanding commitments of \$83.09 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.

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. (Foundation), 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 Foundation 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

NOTES TO THE FINANCIAL STATEMENTS

Wellness Trust Fund and Tobacco Trust Fund are reported as special revenue funds.

H. Other Contingencies

As of June 30, 2008, the North Carolina Global TransPark Authority (Authority), a component unit of the State, had a loan outstanding including accrued interest payable totaling \$33.933 million to the Escheat Fund (special revenue fund). The loan is due on October 1, 2009. As of October 15, 2008, the investment balance and 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, 2008, the Authority has an amortized commitment of approximately \$17.6 million from the FAA.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 22: CHANGES IN FINANCIAL ACCOUNTING AND REPORTING

CHANGES RESULTING FROM ADOPTION OF NEW ACCOUNTING PRINCIPLES

For the fiscal year ended June 30, 2008, the State implemented the following pronouncements issued by the Governmental Accounting Standards Board (GASB):

- GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*.
- GASB Statement No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues*.
- GASB Statement No. 50, *Pension Disclosures - an amendment of GASB Statements No 25 and 27*.

GASB Statement No. 45 establishes standards for the measurement, recognition, and display of other postemployment benefits (OPEB) expense/expenditures and related liabilities, note disclosures, and required supplementary information in the financial reports of state and local governments. The approach followed in this Statement generally is consistent with the approach adopted in GASB Statement No. 27, *Accounting for Pensions by State and Local Government Employers*, with modifications to reflect differences between pension benefits and OPEB.

GASB Statement No. 48 requires enhanced disclosures pertaining to future revenues that have been pledged or sold. These disclosures are intended to provide financial statement users with information about which revenues will be unavailable for other purposes and how long they will continue to be so. In addition, this Statement also includes a provision that stipulates that governments should not revalue assets that are transferred between financial reporting entity components.

GASB Statement No. 50 more closely aligns the financial reporting requirements for pensions with those for other postemployment benefits (OPEB). It amends GASB Statements No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, and No. 27, *Accounting for Pensions by State and Local Governmental Employers* by requiring 1) disclosure in the notes to the financial statements of the funded status of defined benefit pension plans as of the most recent actuarial valuation and 2) disclosure by governments participating in multi-employer cost-sharing pension plans of how the contractually required contribution rate is determined.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 23: FUND EQUITY RECLASSIFICATIONS AND RESTATEMENTS

The following table reconciles the beginning fund equity as previously reported to the beginning fund equity as restated (dollars in thousands). The adjustments in the *Fund Reclassifications* column result primarily from reclassification of the North Carolina School of Science and Math from the primary government to the University of North Carolina System, a component unit (*statutory change*). 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.

	July 1, 2007 Fund Equity as Previously Reported	Change in Capital Assets Valuation	Fund Reclassifications	Other Adjustments	July 1, 2007 Fund Equity as Restated
Primary Government					
Major Governmental Funds:					
General Fund	\$ 2,576,911	\$ —	\$ (708)	\$ 30,515	\$ 2,606,718
Highway Fund	593,969	—	—	84,933	678,902
Highway Trust Fund	17,121	—	—	(84,933)	(67,812)
Other Governmental Funds:					
Special Revenue Funds	2,757,588	—	(27)	(4,144)	2,753,417
Capital Projects Funds	337,605	—	(2,367)	—	335,238
Permanent Funds	66,244	—	—	—	66,244
Total Governmental Funds	<u>6,349,438</u>	<u>—</u>	<u>(3,102)</u>	<u>26,371</u>	<u>6,372,707</u>
Internal Service Funds	190,022	—	—	(64)	189,958
Government-wide adjustments:					
Capital assets	30,792,249	9,698	(42,166)	58,611	30,818,392
Unavailable deferred revenues	189,393	—	—	—	189,393
Long-term liabilities	(7,595,106)	—	1,383	(79,011)	(7,672,734)
Accrued interest payable	(81,788)	—	—	—	(81,788)
Pension assets	114	—	—	—	114
Total Government-wide adjustments	<u>23,304,862</u>	<u>9,698</u>	<u>(40,783)</u>	<u>(20,400)</u>	<u>23,253,377</u>
Total Governmental Activities	<u>\$ 29,844,322</u>	<u>\$ 9,698</u>	<u>\$ (43,885)</u>	<u>\$ 5,907</u>	<u>\$ 29,816,042</u>
Business-type Activities - Enterprise Funds:					
Unemployment Compensation Fund	\$ 746,108	\$ —	\$ —	\$ —	\$ 746,108
EPA Revolving Loan Fund	863,183	—	—	—	863,183
Other enterprise funds	102,453	—	—	2,732	105,185
Total Business-type Activities - Enterprise Funds	<u>\$ 1,711,744</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 2,732</u>	<u>\$ 1,714,476</u>
Fiduciary Funds					
Pension and Other Employee Benefit Trust Funds ..	<u>\$ 81,793,252</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ (39,721)</u>	<u>\$ 81,753,531</u>
Component Units					
The Golden LEAF, Inc.	\$ 648,900	\$ —	\$ —	\$ —	\$ 648,900
University of North Carolina System	11,205,829	42,652	43,885	14,009	11,306,375
Community Colleges	2,151,698	29,454	—	(715)	2,180,437
NC Housing Finance Agency	432,336	—	—	—	432,336
State Education Assistance Authority	629,278	—	—	—	629,278
Other component units	357,144	40,654	—	(16)	397,782
Total Component Units	<u>\$ 15,425,185</u>	<u>\$ 112,760</u>	<u>\$ 43,885</u>	<u>\$ 13,278</u>	<u>\$ 15,595,108</u>

NOTES TO THE FINANCIAL STATEMENTS

NOTE 24: SUBSEQUENT EVENTS

Primary Government
Capital Improvement Limited Obligation Bonds

On August 27, 2008, the State sold \$200 million of Capital Improvement Limited Obligation Bonds, Series 2008A. The Series 2008A Bonds are dated August 27, 2008 and will bear interest from that date. Interest will be payable semiannually on each May 1 and Nov 1, commencing May 1, 2009. The Series 2008A Bonds will mature, subject to the redemption provisions, from May 1, 2010 to 2029 inclusive, and were issued at coupon rates ranging from 4% to 5.25%. The bonds were issued 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, 2006-231 and 2007-323 (collectively the "Project Acts") which authorized a total of \$1.97 billion of varying state projects and related infrastructure. The bonds 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 bonds.

Component Units
University of North Carolina at Chapel Hill – Remarketed Debt

Effective September 23, 2008, the University of North Carolina at Chapel Hill replaced Lehman Brothers, Inc. with J.P. Morgan Chase as the remarketing agent for the \$54.97 million General Revenue Series 2001B variable rate demand bonds. Also, any commercial paper outstanding that had been originally placed by Lehman Brothers will be remarketed by Banc of America Securities LLC when the maturities are due. The University is currently evaluating options for its floating-to-fixed swap with Lehman Brothers

North Carolina State University - Revenue Bonds and Other debt

On July 10, 2008, North Carolina State University (the University) issued \$66.61 million of Variable Rate General Revenue Bonds, Series 2008A (2008A Bonds). Interest will be payable on the first business day of each calendar month, commencing August 1, 2008. The 2008A Bonds will bear interest at weekly interest rates, not to exceed the lesser of 12% per annum and the maximum rate of interest on the relevant obligation permitted by applicable law. The bonds will mature on October 1, 2028. The 2008A Bonds provides funds to pay a portion of the costs of construction, renovation and/or improvement of athletic, housing and theatre facilities, and construction of infrastructure at the University. Proceeds will also be used to refund certain debt previously issued and to pay

the costs incurred in connection with the issuance of the 2008A Bonds.

On July 10, 2008, North Carolina State University issued \$26.96 million of General Revenue Bonds, Series 2008B (2008B Bonds). Interest will be payable semiannually on each April 1 and October 1, commencing October 1, 2008. The bonds will mature, subject to the redemption provisions, from October 1, 2009 to 2020, and were issued at interest rates ranging from 3% to 5%. The 2008B Bonds were issued to pay a portion of the costs of certain construction, renovations and improvements at the University, to refund debt previously incurred including certain maturities of the University of North Carolina System Pool Revenue Bonds, Series 1998B and Series 2000, and to pay the costs incurred in connection with the issuance of the 2008B Bonds.

North Carolina State University borrowed \$20 million on October 15, 2008 and \$10 million on November 12, 2008, through the commercial paper financial program. These borrowings provide funds to redeem the 1999A demand bonds for \$11.20 million and the remaining to provide financing for current construction projects.

State Education Assistance Authority – Revenue and Refunding Bonds.

On October 30, 2008, the State Education Assistance Authority (the Authority) issued \$309.86 million in Tax Exempt Student Loan Revenue and Refunding Bonds. On November 21, 2008, the Authority issued \$105.95 million Tax Exempt Student Loan Revenue and Refunding Bonds. The bonds will mature, subject to redemptions provisions, from September 1, 2035 to July 1, 2036 and were issued at interest rates ranging from 1.35% to 1.85%. Proceeds will be used to refund certain outstanding bonds of the Authority and to finance student loans.

Golden LEAF, Inc. – Loan for Global TransPark Project

On October 15, 2008, the Golden LEAF (Long-Term Economic Advancement Foundation), Inc. (Foundation) borrowed \$100 million through a short-term unsecured, non-revolving credit facility. The proceeds of the loan were placed in escrow to support the construction of new aerospace facilities at the Global TransPark in Lenoir County, North Carolina, in accordance with a grant awarded to the North Carolina Global TransPark Authority in May 2008. Interest on the outstanding balance is payable monthly at a rate of prime minus .75%. The principal amount of \$100 million plus any accrued interest is due April 30, 2009.

NOTES TO THE FINANCIAL STATEMENTS**Primary Government and Component Units*****Decline in Investment Values***

In the months subsequent to the fiscal year-end, there has been a significant decline in the world's financial markets. These and other economic events have had a significant adverse effect on the value of investments held by the primary government and component units of the State. Interim valuation information is not available for all investments. However for the primary government, investment declines subsequent to year-end include the following:

- Department of the State Treasurer's Investment Pool – approximately \$12.89 billion as of October 31, 2008.
- Supplemental Retirement Income Plan of North Carolina (401(k)) - approximately \$747.5 million as of October 31, 2008.
- The North Carolina Public Employee Deferred Compensation Plan - approximately \$131.3 million as of October 31, 2008.

For the State's component units, investment declines subsequent to year-end include the following:

- University of North Carolina at Chapel Hill – approximately \$249.4 million as of September 30, 2008.
- University of North Carolina Health Care System – University of North Carolina Hospitals – approximately \$98 million as of October 31, 2008
- University of North Carolina at Greensboro – approximately \$26.6 million as of September 30, 2008.
- North Carolina State University – approximately \$25.2 million as of October 31, 2008
- State Education Assistance Authority – approximately \$215.3 million as of October 31, 2008.

At June 30, 2008, the Golden LEAF, Inc. (Foundation) had an investment in The Bank of New York Mellon Trust Company Common Trust Cash Investment Fund (the Fund) with a fair value of \$27.9 million. The balance was unrestricted at year-end. Due to the liquidity crisis, in September 2008, Bank of New York Mellon began reviewing all requests for redemptions from the Fund and limited full redemptions to in-kind redemptions. These actions were taken to prevent forced sales of the Fund's investment holdings and to prevent the net asset value of the Fund from dropping below \$1. The Foundation has not incurred losses on the Fund to date and business activity has not been negatively affected. At October 14, 2008, the Foundation had an investment in the Fund with a fair value of \$20.44 million.

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REQUIRED
SUPPLEMENTARY
INFORMATION

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

June 30, 2008

(Expressed in Thousands)

<i>Retirement System</i>	<i>Valuation Date</i>	<i>Actuarial Value of Assets</i> (a)	<i>Actuarial Accrued Liability (AAL)</i> (b)	<i>Unfunded AAL (UAAL) (b) - (a)</i> NOTE 1	<i>Funded Ratio (a) / (b)</i>	<i>Annual Covered Payroll</i> (c)	<i>UAAL as a Percentage of Covered Payroll ((b-a)/c)</i>
Teachers' and State Employees'	12-31-07	\$ 55,283,120	\$ 52,815,089	\$ (2,468,031)	104.7%	\$ 12,701,017	(19.4)%
	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)%
Consolidated Judicial	12-31-07	\$ 430,356	\$ 418,137	\$ (12,219)	102.9%	\$ 61,338	(19.9)%
	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)%
Legislative	12-31-07	\$ 30,698	\$ 22,883	\$ (7,815)	134.2%	\$ 3,680	(212.4)%
	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)%
Firemen's and Rescue Squad Workers'	6-30-07	\$ 305,869	\$ 322,453	\$ 16,584	94.9%	N/A	N/A
	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
North Carolina National Guard	12-31-07	\$ 74,794	\$ 109,431	\$ 34,637	68.3%	N/A	N/A
	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
Registers of Deeds'	12-31-07	\$ 35,453	\$ 17,830	\$ (17,623)	198.8%	\$ 5,869	(300.3)%
	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)%
Local Governmental Employees'	12-31-07	\$ 16,791,984	\$ 16,868,147	\$ 76,163	99.5%	\$ 4,750,682	1.6%
	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%

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

For the Six-Year Period 2003 to 2008 (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'	2008	\$ 406,576	99%	Note 1
	2007	332,149	100%	Note 2
	2006	269,587	100%	
	2005	237,170	100%	
	2004	23,135	100%	Note 2
	2003	—	NR	
Consolidated Judicial	2008	\$ 8,158	104%	Note 1
	2007	6,520	100%	Note 2
	2006	6,448	100%	Note 2
	2005	6,513	100%	
	2004	5,583	100%	Note 2
	2003	5,993	100%	
Legislative	2008	\$ —	NR	Note 1
	2007	—	NR	
	2006	—	NR	
	2005	—	NR	
	2004	—	NR	
	2003	—	NR	
Firemen's and Rescue Squad Workers'	2008	\$ 8,734	100%	
	2007	8,440	100%	
	2006	7,926	100%	
	2005	7,521	100%	
	2004	6,801	100%	Note 2
	2003	6,856	100%	
North Carolina National Guard	2008	\$ 6,232	112%	
	2007	7,327	96%	
	2006	5,944	102%	
	2005	1,412	111%	
	2004	1,176	100%	Note 2
	2003	1,132	—	
Registers of Deeds' NOTE 3	2008	\$ —	NR	
	2007	—	NR	
	2006	—	NR	
	2005	29	10,458%	
	2004	286	1,158%	
	2003	1,722	197%	
Local Governmental Employees'	2008	\$ 246,004	100%	
	2007	233,003	100%	
	2006	226,665	100%	
	2005	216,097	100%	
	2004	208,092	100%	
	2003	233,753	100%	

NR- No contribution was required or made.

Note 1- The State made additional contributions not related to the ARC of \$42.4 million for Teachers', \$2.3 million for Judicial and \$209 thousand for Legislative.

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

Note 3 For Registers, significant fees and collections are contributed. 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, 2008

(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)	12-31-07	\$ 296,500	\$ 28,890,120	\$ 28,593,620	1.0%	\$ 14,810,279	193.1%
	12-31-05	139,175	23,925,139	23,785,964	0.6%	12,359,975	192.4%
Disability Income	12-31-07	\$ 326,674	\$ 474,614	\$ 147,940	68.8%	\$ 13,849,158	1.1%
	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). The most current valuation dated December 31, 2007 includes the impact of this legislation. A valuation was not done for December 31, 2006.

(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 Fiscal Years Ended June 30, 2007-2008

(Expressed in Thousands)

	<u>State Fiscal Year</u>	<u>Annual Required Contribution</u>	<u>Percentage Contributed</u>
Retiree Health Benefit	2008	\$ 2,714,184	22%
	2007	2,389,583	22%
Disability Income	2008	\$ 73,470	102%
	2007	70,116	102%

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

For the Fiscal Year Ended June 30, 2008

(Dollars in Thousands)

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
Revenues:				
Taxes:				
Individual income.....	\$ 10,895,121	\$ 10,895,121	\$ 10,902,299	\$ 7,178
Corporate income.....	1,095,140	1,095,140	1,111,669	16,529
Sales and use.....	5,049,400	5,049,400	4,981,673	(67,727)
Franchise.....	549,035	549,035	574,461	25,426
Insurance.....	481,900	481,900	492,699	10,799
Beverage.....	219,700	219,700	225,125	5,425
Inheritance.....	171,800	171,800	158,765	(13,035)
Tobacco products.....	238,900	238,900	237,378	(1,522)
Other.....	138,504	138,504	148,170	9,666
Non-Tax:				
Fees, licenses and fines.....	208,086	208,086	198,400	(9,686)
Investment income.....	212,111	212,111	239,680	27,569
Disproportionate share receipts.....	100,000	100,000	100,000	—
Other.....	223,545	205,355	263,032	57,677
Transfers in.....	172,500	190,690	190,733	43
Tobacco settlement.....	—	79,977	79,977	—
Departmental:				
Federal funds.....	10,108,406	11,007,401	9,831,130	(1,176,271)
Local funds.....	1,001,683	1,092,356	1,068,223	(24,133)
Inter-agency grants and allocations.....	21,277	11,903	8,839	(3,064)
Intra-governmental transactions.....	2,760,220	3,680,707	3,907,213	226,506
Sales and services.....	84,198	82,818	99,794	16,976
Rental and lease of property.....	8,853	9,284	8,888	(396)
Fees, licenses and fines.....	333,157	352,185	353,868	1,683
Contributions, gifts and grants.....	946,577	1,119,418	1,114,781	(4,637)
Miscellaneous.....	566,169	464,407	140,960	(323,447)
Total Revenues.....	35,586,282	37,656,198	36,437,757	(1,218,441)
Expenditures:				
Current:				
General government.....	1,391,670	811,282	744,470	66,812
Primary and secondary education.....	9,617,352	10,519,223	9,738,676	780,547
Higher education.....	3,842,669	4,111,930	4,010,500	101,430
Health and human services.....	16,891,922	18,051,846	17,543,045	508,801
Environment and natural resources.....	437,536	452,432	427,170	25,262
Economic development.....	341,088	379,248	371,392	7,856
Public safety, corrections, and regulation.....	2,271,434	2,504,712	2,292,886	211,826
Agriculture.....	97,555	152,498	144,637	7,861
Capital outlay.....	230,741	375,741	375,741	—
Debt service.....	1,446,116	1,489,831	1,431,211	58,620
Total Expenditures.....	36,568,083	38,848,743	37,079,728	1,769,015
Excess revenues over (under) expenditures.....	(981,801)	(1,192,545)	(641,971)	550,574
Total fund balance at July 1, 2007, as restated.....	2,632,828	2,632,828	2,632,828	—
Total fund balance at June 30, 2008.....	\$ 1,651,027	\$ 1,440,283	\$ 1,990,857	\$ 550,574
Fund balance reserved:				
Statutory.....			\$ 985,794	
Non-reverting purposes.....			406,025	
Fund balance unreserved.....			\$ 599,038	

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.

On July 20, 2006, the General Assembly passed House Bill 914 the 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 new legislation provides that agency budgets be classified in accordance with generally accepted accounting principles as interpreted by the State Controller.

The fiscal year 2008 presentation of *The Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual (Budgetary Basis – Non-GAAP) – General Fund* reflects total General Fund fund balance. In prior years, the Schedule represented only activity as it related to unreserved fund balance. With changes resulting from House Bill 914, the fiscal year 2008 presentation is more complete, relates more closely to the presentation of the General Fund on a GAAP basis, and now includes both reverting and non-reverting appropriation activity. Non-reverting fund balance is presented as reserved on the budgetary basis. In prior years, the General Fund budgetary presentation included only reverting funds activity.

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 and the North Carolina School of Science and Mathematics 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 and the North Carolina School of Science and Mathematics 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 Fund Balance – 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.

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.

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

The following table presents a reconciliation of resulting basis and timing differences in the fund balances (budgetary basis) at June 30, 2008 to the fund balances on a modified accrual basis (GAAP). Amounts are expressed in thousands.

	<u>General Fund</u>
Fund balance (budgetary basis), June 30, 2008.....	\$ 1,990,857
Reconciling Adjustments:	
Basis Differences:	
Accrued revenues:	
Taxes receivable.....	1,735,612
Accounts receivable.....	257,113
Federal funds, net.....	658,213
Other receivables.....	262,830
Less:	
Tax refunds payable.....	(1,276,922)
Deferred revenue.....	(560,224)
Total accrued revenues.....	<u>1,076,622</u>
Accrued expenditures:	
Medical claims payable.....	(871,345)
Accounts payable and accrued liabilities.....	(648,720)
Other payables.....	(207,900)
Total accrued expenditures.....	<u>(1,727,965)</u>
Other Adjustments:	
Notes receivable.....	25,427
Inventories.....	55,705
Investments.....	—
Timing Differences:	
Authorized carryforward for specific encumbrances.....	25,041
Authorized carryforward for designated programs.....	<u>233,391</u>
Fund balance (GAAP basis) June 30, 2008.....	<u>\$ 1,679,078</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 143C-4-2). The State Controller shall reserve to the Savings Reserve Account one-fourth of any unreserved fund balance, as determined on a cash basis, remaining in the General Fund at the end of each fiscal year. The Savings Reserve Account is a component of the unappropriated General Fund balance. Funds reserved to the Savings Reserve Account shall be available for expenditure only upon an act of appropriation by the General Assembly. The General Assembly recognizes the need to establish and maintain sufficient reserves to address unanticipated events and circumstances such as natural disasters, economic downturns, threats to public safety, health, and welfare, and other emergencies. It is a goal of the General Assembly and the State to accumulate and maintain a balance in the Savings Reserve Account equal to or greater than eight percent (8%) of the prior year's General Fund operating budget.

However in accordance with Session Law 2008-107, House Bill 2436, Section 2.2.(c1) the State Controller was directed to not transfer funds from the unreserved fund balance to the Savings Reserve on June 30, 2008. At the end of the fiscal year 2007-08, the balance of the Savings Reserve was \$786.65 million.

Repairs and Renovations Reserve Account (General Statute 143C-4-3). The Repairs and Renovations Reserve Account is established as a reserve in the General Fund. The State Controller shall reserve to the Repairs and Renovations Reserve Account one-fourth of any unreserved fund balance, as determined on a cash basis, remaining in the General Fund at the end of each fiscal year. The funds in the Repairs and Renovations Reserve Account shall be used only for the repair and renovation of State facilities and related infrastructure that are supported from the General Fund. Funds reserved to the Repairs and Renovations Reserve Account shall be available for expenditure only upon an act of appropriation by the General Assembly. In accordance with Session Law 2008-107, House Bill 2436, Section 2.2.(b) the State Controller was directed to transfer \$69.8 million from the unreserved credit balance to the Repairs and Renovations Reserve Account on June 30, 2008. At the end of the fiscal year 2007-08, the balance of this reserve was \$69.84 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 2007-08, 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 2007-08, the remaining balance of this reserve was \$97.16 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 2003-04 through 2007-08 the balance has remained at \$1.08 million.

Job Development Investment Grant (JDIG) Program Reserve (General Statute 143-15.3E). In accordance with Session Law 2004-124, House Bill 1414, Section 6.12.(a),

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

Article 1 of Chapter 143 of the General Statutes was amended by adding a new section requiring the establishment of a JDIG Reserve in the General Fund. It is the intent of the General Assembly to annually appropriate funds to this reserve in amounts sufficient to meet anticipated cash requirements for each fiscal year of the Job Development Investment Grant Program established pursuant to General Statute 143B-437.52. Funds in the amount of \$4.5 million were appropriated for

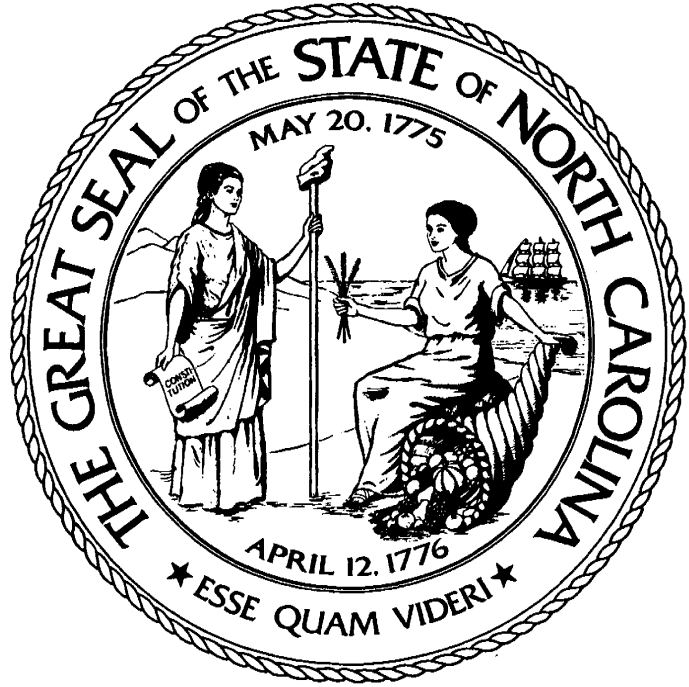
fiscal year 2004-05, \$9 million for fiscal year 2005-06, \$12.4 million for fiscal year 2006-07 and \$12.4 million for fiscal year 2007-08. At the end of fiscal year 2007-08, the balance of JDIG was \$11.76 million.

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*NONMAJOR
GOVERNMENTAL
FUNDS*

**COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS**

June 30, 2008

Exhibit C-1

(Dollars in Thousands)

	Special Revenue Funds	Capital Projects Funds	Permanent Funds	Total Nonmajor Governmental Funds
Assets				
Cash and cash equivalents	\$ 1,701,514	\$ —	\$ —	\$ 1,701,514
Investments	455,148	—	—	455,148
Securities lending collateral	1,026,287	79	38,844	1,065,210
Receivables, net:				
Taxes receivable.....	2,123	—	—	2,123
Accounts receivable.....	29,719	4	7	29,730
Intergovernmental receivable.....	6,182	244	—	6,426
Interest receivable.....	8,597	2	28	8,627
Due from other funds	14,516	7,278	—	21,794
Due from component units	13,104	—	—	13,104
Inventories.....	40,369	—	—	40,369
Advances to component units	21,742	—	—	21,742
Notes receivable, net.....	317,579	—	—	317,579
Securities held in trust.....	42,379	—	—	42,379
Restricted/designated cash and cash equivalents....	29,396	422,667	7,593	459,656
Restricted investments.....	430,916	6,237	65,497	502,650
Total Assets.....	<u>\$ 4,139,571</u>	<u>\$ 436,511</u>	<u>\$ 111,969</u>	<u>\$ 4,688,051</u>
Liabilities and Fund Balances				
Liabilities:				
Accounts payable and accrued liabilities:				
Accounts payable.....	\$ 88,730	\$ 21,280	\$ —	\$ 110,010
Accrued payroll.....	676	—	—	676
Intergovernmental payable.....	13,838	1,032	—	14,870
Claims payable.....	26,218	—	—	26,218
Obligations under securities lending.....	1,026,287	79	38,844	1,065,210
Due to fiduciary funds.....	47	—	—	47
Due to other funds	15,946	234	—	16,180
Due to component units	218,772	—	—	218,772
Deferred revenue.....	21,775	—	—	21,775
Deposits payable.....	85	1	—	86
Funds held for others.....	42,482	—	—	42,482
Total Liabilities.....	<u>1,454,856</u>	<u>22,626</u>	<u>38,844</u>	<u>1,516,326</u>
Fund Balances:				
Reserved.....	737,706	129,349	70,813	937,868
Unreserved.....	1,947,009	284,536	2,312	2,233,857
Total Fund Balances.....	<u>2,684,715</u>	<u>413,885</u>	<u>73,125</u>	<u>3,171,725</u>
Total Liabilities and Fund Balances.....	<u>\$ 4,139,571</u>	<u>\$ 436,511</u>	<u>\$ 111,969</u>	<u>\$ 4,688,051</u>

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

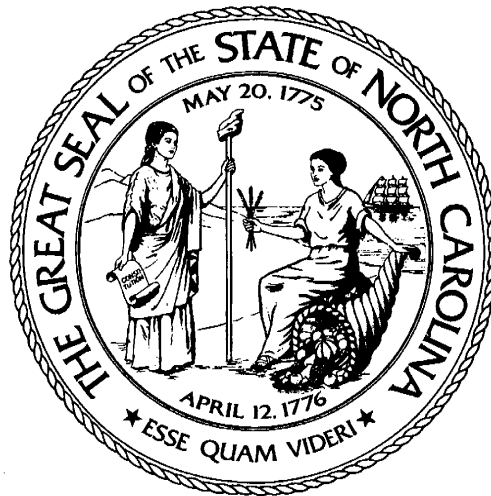
For the Fiscal Year Ended June 30, 2008

Exhibit C-2

(Dollars in Thousands)

	Special Revenue Funds	Capital Projects Funds	Permanent Funds	Total Nonmajor Governmental Funds
Revenues:				
Taxes:				
Individual income tax.....	\$ 3,794	\$ —	\$ —	\$ 3,794
Corporate income tax.....	87,202	—	—	87,202
Sales and use tax.....	31,413	—	—	31,413
Gasoline tax.....	28,437	—	—	28,437
Insurance tax.....	13,237	—	—	13,237
Beverage tax.....	800	—	—	800
Other taxes.....	153,670	—	—	153,670
Federal funds.....	342,348	5,841	—	348,189
Local funds.....	14,348	—	—	14,348
Investment earnings.....	156,793	428	7,278	164,499
Interest earnings on loans.....	5,031	—	—	5,031
Sales and services.....	180,075	2,407	58	182,540
Rental and lease of property.....	4,021	11	—	4,032
Fees, licenses, and fines.....	221,241	—	3,830	225,071
Contributions, gifts, and grants.....	21,813	88,072	108	109,993
Funds escheated.....	74,743	—	—	74,743
Miscellaneous.....	13,049	278	—	13,327
Total revenues.....	<u>1,352,015</u>	<u>97,037</u>	<u>11,274</u>	<u>1,460,326</u>
Expenditures:				
Current:				
General government.....	83,330	—	—	83,330
Primary and secondary education.....	415,608	—	—	415,608
Higher education.....	326,967	—	26	326,993
Health and human services.....	95,729	—	8	95,737
Economic development.....	346,916	—	—	346,916
Environment and natural resources.....	403,026	31	1,818	404,875
Public safety, corrections, and regulation.....	462,083	—	—	462,083
Agriculture.....	24,199	—	—	24,199
Capital outlay.....	—	346,764	—	346,764
Debt service:				
Principal retirement.....	1,659	—	—	1,659
Interest and fees.....	1,282	89	—	1,371
Debt issuance costs.....	1,393	—	—	1,393
Total expenditures.....	<u>2,162,192</u>	<u>346,884</u>	<u>1,852</u>	<u>2,510,928</u>
Excess revenues over (under) expenditures.....	<u>(810,177)</u>	<u>(249,847)</u>	<u>9,422</u>	<u>(1,050,602)</u>
Other Financing Sources (Uses):				
Special indebtedness issued.....	275,000	—	—	275,000
Other debt issued.....	—	2,835	—	2,835
Premium on debt issued.....	9,612	—	—	9,612
Sale of capital assets.....	5,331	25	—	5,356
Insurance recoveries.....	252	—	—	252
Transfers in.....	1,396,320	326,645	960	1,723,925
Transfers out.....	(947,665)	(1,011)	(3,501)	(952,177)
Total other financing sources (uses).....	<u>738,850</u>	<u>328,494</u>	<u>(2,541)</u>	<u>1,064,803</u>
Net change in fund balances.....	<u>(71,327)</u>	<u>78,647</u>	<u>6,881</u>	<u>14,201</u>
Fund balances — July 1, as restated.....	2,753,417	335,238	66,244	3,154,899
Increase (decrease) in reserve for related assets.....	2,625	—	—	2,625
Fund balances — June 30.....	<u>\$ 2,684,715</u>	<u>\$ 413,885</u>	<u>\$ 73,125</u>	<u>\$ 3,171,725</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
- 911 Fund
- Parks and Recreation Trust Fund
- Education Lottery Funds
- Departmental Funds

**COMBINING BALANCE SHEET
NONMAJOR SPECIAL REVENUE FUNDS**

June 30, 2008

(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	\$ 239,174	\$ 77,009	\$ 22,538	\$ 11,184	\$ —	\$ —	\$242,892	\$ 234,523
Investments	452,908	—	—	—	—	—	—	—
Securities lending collateral	279,197	49,129	14,393	17,409	—	—	183,600	149,616
Receivables, net:								
Taxes receivable.....	—	—	—	—	—	—	—	—
Accounts receivable.....	—	—	110	1	—	—	—	—
Intergovernmental receivable.....	—	—	—	—	—	—	—	—
Interest receivable.....	905	296	—	700	4	519	1,164	891
Due from other funds	—	—	—	—	—	6	—	360
Due from component units	12,191	—	—	—	—	—	—	—
Inventories.....	—	—	—	—	—	—	—	—
Advances to component units	21,742	—	—	—	—	—	—	—
Notes receivable, net.....	—	—	—	110,191	—	—	—	—
Securities held in trust.....	—	—	—	—	—	—	—	—
Restricted/designated								
cash and cash equivalents.....	—	—	—	29,354	41	—	—	—
Restricted investments.....	—	—	—	767	2,284	298,194	—	—
Total Assets.....	<u>\$1,006,117</u>	<u>\$ 126,434</u>	<u>\$ 37,041</u>	<u>\$ 169,606</u>	<u>\$ 2,329</u>	<u>\$ 298,719</u>	<u>\$427,656</u>	<u>\$ 385,390</u>
Liabilities and Fund Balances								
Liabilities:								
Accounts payable and accrued liabilities:								
Accounts payable.....	\$ 1	\$ 115	\$ 1	\$ —	\$ —	\$ —	\$ —	\$ 930
Accrued payroll.....	—	2	—	—	—	—	—	—
Intergovernmental payable.....	—	—	—	—	—	—	—	3,273
Claims payable.....	26,218	—	—	—	—	—	—	—
Obligations under securities lending.....	279,197	49,129	14,393	17,409	—	—	183,600	149,616
Due to fiduciary funds	—	—	—	—	—	—	—	—
Due to other funds	—	5	1	—	—	—	—	9
Due to component units	27,484	—	—	—	—	148,224	—	—
Deferred revenue.....	14,409	—	—	—	—	—	—	—
Deposits payable.....	—	—	—	—	—	—	—	—
Funds held for others.....	—	—	—	—	—	—	—	—
Total Liabilities.....	<u>347,309</u>	<u>49,251</u>	<u>14,395</u>	<u>17,409</u>	<u>—</u>	<u>148,224</u>	<u>183,600</u>	<u>153,828</u>
Fund Balances:								
Reserved for:								
Inventories.....	—	—	—	—	—	—	—	—
Notes receivable.....	—	—	—	110,191	—	—	—	—
Loan and grant commitments.....	—	—	—	11,876	—	—	—	176,535
Advance to component unit.....	21,742	—	—	—	—	—	—	—
Unreserved:								
Undesignated.....	637,066	77,183	22,646	30,130	2,329	150,495	244,056	55,027
Total Fund Balances.....	<u>658,808</u>	<u>77,183</u>	<u>22,646</u>	<u>152,197</u>	<u>2,329</u>	<u>150,495</u>	<u>244,056</u>	<u>231,562</u>
Total Liabilities and Fund Balances.....	<u>\$1,006,117</u>	<u>\$ 126,434</u>	<u>\$ 37,041</u>	<u>\$ 169,606</u>	<u>\$ 2,329</u>	<u>\$ 298,719</u>	<u>\$427,656</u>	<u>\$ 385,390</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
\$ —	\$ —	\$ 12,070	\$ 99,848	\$ 16,624	\$ 13,344	\$ 91	\$ 47,657	\$ 45,009
—	—	—	—	—	—	—	—	—
—	—	—	—	—	2,342	—	30,295	31,314
—	—	—	—	—	—	—	1,460	—
—	—	1,521	269	680	1,054	—	421	—
—	—	231	441	743	852	—	—	—
—	—	—	—	—	—	—	175	187
—	—	5,139	—	110	793	—	—	—
—	—	4	—	—	—	—	—	—
—	—	17,171	4,002	277	14,167	—	—	—
—	—	—	—	—	—	—	—	—
—	200,000	—	—	—	—	—	662	—
—	—	—	—	—	—	—	—	—
1	—	—	—	—	—	—	—	—
129,671	—	—	—	—	—	—	—	—
<u>\$ 129,672</u>	<u>\$ 200,000</u>	<u>\$ 36,136</u>	<u>\$ 104,560</u>	<u>\$ 18,434</u>	<u>\$ 32,552</u>	<u>\$ 91</u>	<u>\$ 80,670</u>	<u>\$ 76,510</u>
\$ —	\$ —	\$ 1,565	\$ 52,717	\$ 4,297	\$ 3,870	\$ 29	\$ 8,939	\$ 3,305
—	—	17	—	427	8	—	—	—
—	—	1	15	915	853	—	3	87
—	—	—	—	—	—	—	—	—
—	—	—	—	—	2,342	—	30,295	31,314
—	—	—	—	—	—	—	—	—
7,670	—	236	2	3,305	188	7	—	15
10,371	—	—	—	—	—	—	—	—
—	—	373	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—
<u>18,041</u>	<u>—</u>	<u>2,192</u>	<u>52,734</u>	<u>8,944</u>	<u>7,261</u>	<u>36</u>	<u>39,237</u>	<u>34,721</u>
—	—	17,171	4,002	277	14,167	—	—	—
—	200,000	—	—	—	—	—	662	—
—	—	—	—	—	—	—	—	101,617
—	—	—	—	—	—	—	—	—
111,631	—	16,773	47,824	9,213	11,124	55	40,771	(59,828)
<u>111,631</u>	<u>200,000</u>	<u>33,944</u>	<u>51,826</u>	<u>9,490</u>	<u>25,291</u>	<u>55</u>	<u>41,433</u>	<u>41,789</u>
<u>\$ 129,672</u>	<u>\$ 200,000</u>	<u>\$ 36,136</u>	<u>\$ 104,560</u>	<u>\$ 18,434</u>	<u>\$ 32,552</u>	<u>\$ 91</u>	<u>\$ 80,670</u>	<u>\$ 76,510</u>

Continued

**COMBINING BALANCE SHEET
NONMAJOR SPECIAL REVENUE FUNDS**

June 30, 2008

Exhibit C-3

(Dollars in Thousands)

	Wildlife Resources Commission Fund	Natural Heritage Trust Fund	911 Fund	Parks and Recreation Trust Fund	Education Lottery Funds	Departmental Funds	Total Nonmajor Special Revenue Funds
Assets							
Cash and cash equivalents	\$ 13,426	\$ 26,235	\$ 30,500	\$ 56,821	\$ 50,013	\$ 462,556	\$ 1,701,514
Investments	—	—	—	—	—	2,240	455,148
Securities lending collateral	4,489	16,321	18,708	34,881	48,442	146,151	1,026,287
Receivables, net:							
Taxes receivable.....	—	—	—	—	—	663	2,123
Accounts receivable.....	347	—	10,984	—	—	14,332	29,719
Intergovernmental receivable.....	2,320	—	—	—	—	1,595	6,182
Interest receivable.....	36	88	116	205	225	3,086	8,597
Due from other funds	—	—	—	25	3,501	4,582	14,516
Due from component units	—	—	—	—	—	909	13,104
Inventories.....	1,655	—	—	—	—	3,097	40,369
Advances to component units	—	—	—	—	—	—	21,742
Notes receivable, net.....	—	—	—	—	—	6,726	317,579
Securities held in trust.....	—	—	—	—	—	42,379	42,379
Restricted/designated							
cash and cash equivalents.....	—	—	—	—	—	—	29,396
Restricted investments.....	—	—	—	—	—	—	430,916
Total Assets.....	<u>\$ 22,273</u>	<u>\$ 42,644</u>	<u>\$ 60,308</u>	<u>\$ 91,932</u>	<u>\$ 102,181</u>	<u>\$ 688,316</u>	<u>\$ 4,139,571</u>
Liabilities and Fund Balances							
Liabilities:							
Accounts payable and accrued liabilities:							
Accounts payable.....	\$ 1,218	\$ 29	\$ 999	\$ 25	\$ —	\$ 10,690	\$ 88,730
Accrued payroll.....	55	—	—	—	—	167	676
Intergovernmental payable.....	—	—	5,875	1,696	—	1,120	13,838
Claims payable.....	—	—	—	—	—	—	26,218
Obligations under securities lending.....	4,489	16,321	18,708	34,881	48,442	146,151	1,026,287
Due to fiduciary funds	—	—	—	—	—	47	47
Due to other funds	212	—	1,268	—	—	3,028	15,946
Due to component units	—	—	—	—	—	32,693	218,772
Deferred revenue.....	—	—	—	—	—	6,993	21,775
Deposits payable.....	—	—	—	—	—	85	85
Funds held for others.....	—	—	—	—	—	42,482	42,482
Total Liabilities.....	<u>5,974</u>	<u>16,350</u>	<u>26,850</u>	<u>36,602</u>	<u>48,442</u>	<u>243,456</u>	<u>1,454,856</u>
Fund Balances:							
Reserved for:							
Inventories.....	1,655	—	—	—	—	3,097	40,369
Notes receivable.....	—	—	—	—	—	6,726	317,579
Loan and grant commitments.....	—	15,927	—	49,786	—	2,275	358,016
Advance to component unit.....	—	—	—	—	—	—	21,742
Unreserved:							
Undesignated.....	14,644	10,367	33,458	5,544	53,739	432,762	1,947,009
Total Fund Balances.....	<u>16,299</u>	<u>26,294</u>	<u>33,458</u>	<u>55,330</u>	<u>53,739</u>	<u>444,860</u>	<u>2,684,715</u>
Total Liabilities and Fund Balances.....	<u>\$ 22,273</u>	<u>\$ 42,644</u>	<u>\$ 60,308</u>	<u>\$ 91,932</u>	<u>\$ 102,181</u>	<u>\$ 688,316</u>	<u>\$ 4,139,571</u>

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

For the Fiscal Year Ended June 30, 2008

(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.....	—	—	—	—	—	—	87,202	—
Sales and use tax.....	—	—	—	—	—	—	—	—
Gasoline tax.....	—	—	—	—	—	—	—	—
Insurance tax.....	—	—	—	—	—	—	—	—
Beverage tax.....	—	—	—	—	—	—	—	—
Other taxes.....	—	—	—	—	—	—	—	—
Federal funds.....	—	—	—	—	—	—	—	—
Local funds.....	—	—	—	—	—	—	—	—
Investment earnings.....	42,577	5,053	854	2,669	93	17,125	23,794	17,951
Interest earnings on loans.....	—	—	—	4,096	—	—	—	—
Sales and services.....	—	—	—	143	—	—	—	—
Rental and lease of property.....	—	—	—	—	—	—	—	—
Fees, licenses, and fines.....	—	—	—	—	—	—	—	—
Contributions, gifts, and grants.....	—	—	—	—	—	—	—	—
Funds escheated.....	74,743	—	—	—	—	—	—	—
Miscellaneous.....	—	—	7	—	—	—	—	—
Total revenues.....	117,320	5,053	861	6,908	93	17,125	110,996	17,951
Expenditures:								
Current:								
General government.....	16,578	—	—	—	2	228	—	—
Primary and secondary education.....	—	—	—	—	788	—	196,303	—
Higher education.....	107,984	—	—	—	—	67,280	—	—
Health and human services.....	—	23,337	—	—	—	—	—	—
Economic development.....	—	—	—	29,630	—	—	—	—
Environment and natural resources.....	—	—	—	15,549	—	—	—	88,082
Public safety, corrections, and regulation...	—	—	—	—	—	—	—	—
Agriculture.....	—	—	18,193	—	—	—	—	—
Debt service:								
Principal retirement.....	—	—	—	—	—	—	—	—
Interest and fees.....	—	—	—	—	—	—	—	—
Debt issuance costs.....	—	—	—	—	—	—	—	—
Total expenditures.....	124,562	23,337	18,193	45,179	790	67,508	196,303	88,082
Excess revenues over (under) expenditures..	(7,242)	(18,284)	(17,332)	(38,271)	(697)	(50,383)	(85,307)	(70,131)
Other Financing Sources (Uses):								
Special indebtedness issued.....	—	—	—	—	—	—	—	—
Premium on debt issued.....	—	—	—	—	—	—	—	—
Sale of capital assets.....	—	—	—	—	—	—	—	—
Insurance recoveries.....	—	—	—	—	—	—	—	—
Transfers in.....	—	39,988	39,988	37,025	—	—	140,106	100,474
Transfers out.....	(20,210)	(9,974)	(6,354)	(11,063)	—	(82,033)	(51,949)	(1,657)
Total other financing sources (uses).....	(20,210)	30,014	33,634	25,962	—	(82,033)	88,157	98,817
Net change in fund balances.....	(27,452)	11,730	16,302	(12,309)	(697)	(132,416)	2,850	28,686
Fund balances — July 1, as restated.....	686,260	65,453	6,344	164,506	3,026	282,911	241,206	202,876
Increase (decrease) in reserve for related assets.....	—	—	—	—	—	—	—	—
Fund balances — June 30.....	\$ 658,808	\$ 77,183	\$ 22,646	\$ 152,197	\$ 2,329	\$ 150,495	\$ 244,056	\$ 231,562

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
\$ ---	\$ ---	\$ ---	\$ ---	\$ ---	\$ ---	\$ ---	\$ ---	\$ ---
---	---	---	---	---	---	---	---	---
---	---	---	---	---	---	---	18,175	---
---	---	---	---	---	---	---	---	---
---	---	---	---	189,377	143	75,731	---	---
---	---	---	---	10,148	---	---	---	---
7,406	3	---	---	---	295	---	3,361	4,263
---	---	---	---	---	---	---	1	---
---	---	91,266	2,572	---	1,767	1	---	---
---	---	95	1,818	---	---	---	---	---
---	---	---	---	5,285	1,053	265	7,870	38,272
---	---	---	---	1,484	1,237	---	---	---
---	---	---	---	---	---	---	---	---
---	---	173	19	1,711	967	34	---	---
<u>7,406</u>	<u>3</u>	<u>91,534</u>	<u>4,409</u>	<u>208,005</u>	<u>5,462</u>	<u>76,031</u>	<u>29,407</u>	<u>42,535</u>
35	---	---	---	---	---	---	---	---
---	---	---	126,292	---	---	---	---	---
139,950	---	---	---	---	---	---	---	---
---	4	---	---	218,000	---	75,975	---	---
---	---	---	---	---	---	---	18,844	52,410
---	---	89,567	---	---	228,192	---	---	---
---	---	---	---	---	---	---	---	---
85	---	---	---	---	---	---	---	---
1,393	---	---	---	---	---	---	---	---
<u>141,463</u>	<u>4</u>	<u>89,567</u>	<u>126,292</u>	<u>218,000</u>	<u>228,192</u>	<u>75,975</u>	<u>18,844</u>	<u>52,410</u>
<u>(134,057)</u>	<u>(1)</u>	<u>1,967</u>	<u>(121,883)</u>	<u>(9,995)</u>	<u>(222,730)</u>	<u>56</u>	<u>10,563</u>	<u>(9,875)</u>
275,000	---	---	---	---	---	---	---	---
9,612	---	---	---	---	---	---	---	---
---	---	210	2,026	---	2,737	---	---	---
---	---	20	---	---	232	---	---	---
---	---	202	124,940	13,981	224,780	206	3,877	---
<u>(160,028)</u>	<u>(125)</u>	<u>(6,872)</u>	<u>(778)</u>	<u>(6,112)</u>	<u>(1,786)</u>	<u>(220)</u>	<u>(4,420)</u>	<u>(282)</u>
<u>124,584</u>	<u>(125)</u>	<u>(6,440)</u>	<u>126,188</u>	<u>7,869</u>	<u>225,963</u>	<u>(14)</u>	<u>(543)</u>	<u>(282)</u>
(9,473)	(126)	(4,473)	4,305	(2,126)	3,233	42	10,020	(10,157)
121,104	200,126	37,724	47,607	11,662	20,044	13	31,413	51,946
---	---	693	(86)	(46)	2,014	---	---	---
<u>\$ 111,631</u>	<u>\$ 200,000</u>	<u>\$ 33,944</u>	<u>\$ 51,826</u>	<u>\$ 9,490</u>	<u>\$ 25,291</u>	<u>\$ 55</u>	<u>\$ 41,433</u>	<u>\$ 41,789</u>

Continued

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

For the Fiscal Year Ended June 30, 2008

Exhibit C-4

(Dollars in Thousands)

	Wildlife Resources Commission Fund	Natural Heritage Trust Fund	911 Fund	Parks and Recreation Trust Fund	Education Lottery Funds	Departmental Funds	Total Nonmajor Special Revenue Funds
Revenues:							
Taxes:							
Individual income tax.....	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 3,794	\$ 3,794
Corporate income tax.....	—	—	—	—	—	—	87,202
Sales and use tax.....	23,711	—	—	—	—	7,702	31,413
Gasoline tax.....	2,000	—	—	—	—	8,262	28,437
Insurance tax.....	—	—	—	—	—	13,237	13,237
Beverage tax.....	—	—	—	—	—	800	800
Other taxes.....	—	15,196	74,329	45,587	—	18,558	153,670
Federal funds.....	13,953	—	—	—	—	63,144	342,348
Local funds.....	212	—	—	—	—	3,988	14,348
Investment earnings.....	700	1,973	2,035	4,058	4,230	18,353	156,793
Interest earnings on loans.....	—	—	—	—	—	934	5,031
Sales and services.....	6,232	—	676	—	—	77,418	180,075
Rental and lease of property.....	80	—	—	—	—	2,028	4,021
Fees, licenses, and fines.....	21,975	4,353	—	1,446	—	140,722	221,241
Contributions, gifts, and grants.....	1,198	—	—	—	—	17,894	21,813
Funds escheated.....	—	—	—	—	—	—	74,743
Miscellaneous.....	83	—	—	—	—	10,055	13,049
Total revenues.....	<u>70,144</u>	<u>21,522</u>	<u>77,040</u>	<u>51,091</u>	<u>4,230</u>	<u>386,889</u>	<u>1,352,015</u>
Expenditures:							
Current:							
General government.....	—	—	—	—	—	66,487	83,330
Primary and secondary education.....	—	—	—	—	36,556	55,669	415,608
Higher education.....	—	—	—	—	—	11,753	326,967
Health and human services.....	—	—	—	—	—	72,392	95,729
Economic development.....	—	—	—	—	—	23,307	346,916
Environment and natural resources.....	65,619	29,108	—	66,870	—	66,544	403,026
Public safety, corrections, and regulation.....	—	—	53,921	—	—	90,403	462,083
Agriculture.....	—	—	—	—	—	6,006	24,199
Debt service:							
Principal retirement.....	690	—	—	—	—	969	1,659
Interest and fees.....	743	—	—	—	—	454	1,282
Debt issuance costs.....	—	—	—	—	—	—	1,393
Total expenditures.....	<u>67,052</u>	<u>29,108</u>	<u>53,921</u>	<u>66,870</u>	<u>36,556</u>	<u>393,984</u>	<u>2,162,192</u>
Excess revenues over (under) expenditures.....	<u>3,092</u>	<u>(7,586)</u>	<u>23,119</u>	<u>(15,779)</u>	<u>(32,326)</u>	<u>(7,095)</u>	<u>(810,177)</u>
Other Financing Sources (Uses):							
Special indebtedness issued.....	—	—	—	—	—	—	275,000
Premium on debt issued.....	—	—	—	—	—	—	9,612
Sale of capital assets.....	167	—	—	—	—	191	5,331
Insurance recoveries.....	—	—	—	—	—	—	252
Transfers in.....	3,220	9,487	—	19,189	348,310	290,547	1,396,320
Transfers out.....	(3,265)	(802)	(7,153)	(8,487)	(315,000)	(249,095)	(947,665)
Total other financing sources (uses).....	<u>122</u>	<u>8,685</u>	<u>(7,153)</u>	<u>10,702</u>	<u>33,310</u>	<u>41,643</u>	<u>738,850</u>
Net change in fund balances.....	<u>3,214</u>	<u>1,099</u>	<u>15,966</u>	<u>(5,077)</u>	<u>984</u>	<u>34,548</u>	<u>(71,327)</u>
Fund balances — July 1, as restated.....	13,011	25,195	17,492	60,407	52,755	410,336	2,753,417
Increase (decrease) in reserve for related assets.....	74	—	—	—	—	(24)	2,625
Fund balances — June 30.....	<u>\$ 16,299</u>	<u>\$ 26,294</u>	<u>\$ 33,458</u>	<u>\$ 55,330</u>	<u>\$ 53,739</u>	<u>\$ 444,860</u>	<u>\$ 2,684,715</u>

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

For the Fiscal Year Ended June 30, 2008

(Dollars in Thousands)

	Escheat Fund			Health and Wellness Trust Fund			Tobacco Trust Fund		
	Final		Variance	Final		Variance	Final		Variance
	Budget	Actual	with Final Budget	Budget	Actual	with Final Budget	Budget	Actual	with Final Budget
Revenues:									
Departmental:									
Federal funds.....	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
Local funds.....	—	—	—	—	—	—	—	—	—
Inter-agency grants and allocations.....	—	—	—	—	—	—	—	—	—
Intra-governmental transactions.....	—	—	—	51,712	55,994	4,282	39,989	39,988	(1)
Sales and services.....	—	—	—	—	—	—	—	—	—
Sale, rental, and lease of property.....	—	—	—	—	—	—	—	—	—
Fees, licenses, and fines.....	—	—	—	—	—	—	—	—	—
Contributions, gifts, and grants.....	—	—	—	—	—	—	—	—	—
Miscellaneous	202,107	143,078	(59,029)	2,227	3,176	949	461	469	8
Total revenues.....	<u>202,107</u>	<u>143,078</u>	<u>(59,029)</u>	<u>53,939</u>	<u>59,170</u>	<u>5,231</u>	<u>40,450</u>	<u>40,457</u>	<u>7</u>
Expenditures:									
Current:									
General government.....	104,634	104,570	64	51,110	48,386	2,724	—	—	—
Public safety and corrections.....	—	—	—	—	—	—	—	—	—
Economic development.....	—	—	—	—	—	—	—	—	—
Primary and secondary education.....	—	—	—	—	—	—	—	—	—
Higher education.....	—	—	—	—	—	—	—	—	—
Health and human services.....	—	—	—	—	—	—	—	—	—
Environmental and natural resources..	—	—	—	—	—	—	—	—	—
Agriculture.....	—	—	—	—	—	—	40,450	24,234	16,216
Debt service:									
Principal retirement.....	—	—	—	—	—	—	—	—	—
Interest and fees.....	—	—	—	—	—	—	—	—	—
Debt issuance cost.....	—	—	—	—	—	—	—	—	—
Total expenditures.....	<u>104,634</u>	<u>104,570</u>	<u>64</u>	<u>51,110</u>	<u>48,386</u>	<u>2,724</u>	<u>40,450</u>	<u>24,234</u>	<u>16,216</u>
Excess revenues over (under) expenditures	<u>\$ 97,473</u>	<u>\$ 38,508</u>	<u>\$ (58,965)</u>	<u>\$ 2,829</u>	<u>\$ 10,784</u>	<u>\$ 7,955</u>	<u>\$ —</u>	<u>\$ 16,223</u>	<u>\$ 16,223</u>
Fund balances (budgetary basis)									
at July 1, 2007.....	—	—	—	—	—	—	—	—	—
Restatements.....	—	667,868	—	—	66,226	—	—	6,315	—
Fund balances (budgetary basis) at June 30, 2008.....	—	<u>\$ 706,376</u>	—	—	<u>\$ 77,010</u>	—	—	<u>\$ 22,538</u>	—

Clean Water Funds			Public School Bond Fund			Higher Education and Public Improvement Bond Funds			Public School Building Capital Fund		
Final Budget	Actual	Variance with Final Budget	Final Budget	Actual	Variance with Final Budget	Final Budget	Actual	Variance with Final Budget	Final Budget	Actual	Variance with Final Budget
\$ 120	\$ —	\$ (120)	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
—	—	—	—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—	—	—	—
29,027	19,839	(9,188)	—	—	—	—	—	—	227,309	227,309	—
31	143	112	—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—	—	—	—
23,182	16,236	(6,946)	305	102	(203)	45,420	19,266	(26,154)	14,970	14,970	—
<u>52,360</u>	<u>36,218</u>	<u>(16,142)</u>	<u>305</u>	<u>102</u>	<u>(203)</u>	<u>45,420</u>	<u>19,266</u>	<u>(26,154)</u>	<u>242,279</u>	<u>242,279</u>	<u>—</u>
9,831	9,491	340	7	2	5	295,970	290,179	5,791	—	—	—
—	—	—	—	—	—	—	—	—	—	—	—
13,948	1,534	12,414	—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—	287,145	239,501	47,644
—	—	—	—	—	—	71,241	52,813	18,428	—	—	—
—	—	—	—	—	—	—	—	—	—	—	—
46,446	36,817	9,629	—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—	—	—	—
<u>70,225</u>	<u>47,842</u>	<u>22,383</u>	<u>7</u>	<u>2</u>	<u>5</u>	<u>367,211</u>	<u>342,992</u>	<u>24,219</u>	<u>287,145</u>	<u>239,501</u>	<u>47,644</u>
<u>\$ (17,865)</u>	<u>\$ (11,624)</u>	<u>\$ 6,241</u>	<u>\$ 298</u>	<u>\$ 100</u>	<u>\$ (198)</u>	<u>\$ (321,791)</u>	<u>\$ (323,726)</u>	<u>\$ (1,935)</u>	<u>\$ (44,866)</u>	<u>\$ 2,778</u>	<u>\$ 47,644</u>
	7,428			—			—			—	
	<u>43,437</u>			<u>2,184</u>			<u>621,920</u>			<u>240,114</u>	
	<u>\$ 39,241</u>			<u>\$ 2,284</u>			<u>\$ 298,194</u>			<u>\$ 242,892</u>	

Continued

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

For the Fiscal Year Ended June 30, 2008

(Dollars in Thousands)

	Clean Water			N.C. Infrastructure			Natural Gas Funds		
	Management Trust Fund			Finance Corporation			Natural Gas Funds		
	Final Budget	Actual	Variance with Final Budget	Final Budget	Actual	Variance with Final Budget	Final Budget	Actual	Variance with Final Budget
Revenues:									
Departmental:									
Federal funds.....	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
Local funds.....	—	—	—	—	—	—	—	—	—
Inter-agency grants and allocations.....	—	—	—	—	—	—	—	—	—
Intra-governmental transactions.....	102,475	102,160	(315)	294,968	295,011	43	—	—	—
Sales and services.....	—	—	—	—	—	—	—	—	—
Sale, rental, and lease of property.....	—	—	—	—	—	—	—	—	—
Fees, licenses, and fines.....	—	—	—	—	—	—	—	—	—
Contributions, gifts, and grants.....	—	—	—	—	—	—	—	—	—
Miscellaneous	9,600	11,313	1,713	329,124	291,819	(37,305)	21	3	(18)
Total revenues.....	112,075	113,473	1,398	624,092	586,830	(37,262)	21	3	(18)
Expenditures:									
Current:									
General government.....	—	—	—	733,881	598,322	135,559	488	125	363
Public safety and corrections.....	—	—	—	—	—	—	—	—	—
Economic development.....	—	—	—	—	—	—	3	3	—
Primary and secondary education.....	—	—	—	—	—	—	—	—	—
Higher education.....	—	—	—	—	—	—	—	—	—
Health and human services.....	—	—	—	—	—	—	—	—	—
Environmental and natural resources..	112,075	83,993	28,082	—	—	—	—	—	—
Agriculture.....	—	—	—	—	—	—	—	—	—
Debt service:.....	—	—	—	—	—	—	—	—	—
Principal retirement.....	—	—	—	—	—	—	—	—	—
Interest and fees.....	—	—	—	146	85	61	—	—	—
Debt issuance cost.....	—	—	—	2,179	1,394	785	—	—	—
Total expenditures.....	112,075	83,993	28,082	736,206	599,801	136,405	491	128	363
Excess revenues over (under) expenditures	\$ —	\$ 29,480	\$ 29,480	\$ (112,114)	\$ (12,971)	\$ 99,143	\$ (470)	\$ (125)	\$ 345
Fund balances (budgetary basis)									
at July 1, 2007.....	—	—	—	—	—	—	—	—	—
Restatements.....	—	205,043	—	—	142,443	—	—	125	—
Fund balances (budgetary basis)									
at June 30, 2008.....	—	\$ 234,523	—	—	\$ 129,472	—	—	—	—

Correction Enterprises Fund			Educational Materials and School Buses Fund			Employment Security Commission Funds			Highway Patrol Fund		
Final Budget	Actual	Variance with Final Budget	Final Budget	Actual	Variance with Final Budget	Final Budget	Actual	Variance with Final Budget	Final Budget	Actual	Variance with Final Budget
\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 190,098	\$ 189,791	\$ (307)	\$ 513	\$ 71	\$ (442)
—	—	—	—	—	—	10,695	10,228	(467)	—	—	—
—	—	—	—	—	—	1,588	1,457	(131)	1,493	1,252	(241)
—	203	203	128,899	125,176	(3,723)	42,987	41,730	(1,257)	238,382	225,987	(12,395)
90,677	90,796	119	2,121	2,107	(14)	—	—	—	1,730	1,677	(53)
77	154	77	3,100	3,843	743	—	—	—	3,004	2,529	(475)
—	—	—	—	—	—	5,342	5,286	(56)	2	1,051	1,049
—	—	—	—	—	—	—	—	—	32	—	(32)
592	193	(399)	—	19	19	1,715	1,710	(5)	490	678	188
<u>91,346</u>	<u>91,346</u>	<u>—</u>	<u>134,120</u>	<u>131,145</u>	<u>(2,975)</u>	<u>252,425</u>	<u>250,202</u>	<u>(2,223)</u>	<u>245,646</u>	<u>233,245</u>	<u>(12,401)</u>
—	—	—	—	—	—	—	—	—	—	—	—
97,524	96,495	1,029	—	—	—	—	—	—	254,012	231,309	22,703
—	—	—	—	—	—	252,425	247,479	4,946	—	—	—
—	—	—	165,640	93,792	71,848	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—	—	—	—
<u>97,524</u>	<u>96,495</u>	<u>1,029</u>	<u>165,640</u>	<u>93,792</u>	<u>71,848</u>	<u>252,425</u>	<u>247,479</u>	<u>4,946</u>	<u>254,012</u>	<u>231,309</u>	<u>22,703</u>
<u>\$ (6,178)</u>	<u>\$ (5,149)</u>	<u>\$ 1,029</u>	<u>\$ (31,520)</u>	<u>\$ 37,353</u>	<u>\$ 68,873</u>	<u>\$ —</u>	<u>\$ 2,723</u>	<u>\$ 2,723</u>	<u>\$ (8,366)</u>	<u>\$ 1,936</u>	<u>\$ 10,302</u>
—	—	—	—	—	—	—	1,683	—	—	7,806	—
—	17,218	—	—	62,495	—	—	12,218	—	—	3,532	—
—	<u>\$ 12,069</u>	—	—	<u>\$ 99,848</u>	—	—	<u>\$ 16,624</u>	—	—	<u>\$ 13,274</u>	—

Continued

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

For the Fiscal Year Ended June 30, 2008

(Dollars in Thousands)

	Employment and Training Administration Fund			Leaking Petroleum Underground Storage Tank Cleanup Fund			Ecosystem Enhancement Funds		
	Final		Variance	Final		Variance	Final		Variance
	Budget	Actual	with Final Budget	Budget	Actual	with Final Budget	Budget	Actual	with Final Budget
Revenues:									
Departmental:									
Federal funds.....	\$ 120,049	\$ 75,731	\$ (44,318)	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
Local funds.....	—	—	—	—	—	—	—	—	—
Inter-agency grants and allocations.....	—	—	—	—	—	—	—	—	—
Intra-governmental transactions.....	130	211	81	13,453	23,499	10,046	4,995	11,551	6,556
Sales and services.....	—	1	1	—	—	—	—	—	—
Sale, rental, and lease of property.....	1	—	(1)	—	—	—	—	—	—
Fees, licenses, and fines.....	250	265	15	8,080	7,893	(187)	59,500	38,279	(21,221)
Contributions, gifts, and grants.....	—	—	—	—	—	—	—	—	—
Miscellaneous	4	34	30	360	2,098	1,738	1,345	2,756	1,411
Total revenues.....	120,434	76,242	(44,192)	21,893	33,490	11,597	65,840	52,586	(13,254)
Expenditures:									
Current:									
General government.....	—	—	—	—	—	—	—	—	—
Public safety and corrections.....	—	—	—	—	—	—	—	—	—
Economic development.....	120,446	76,193	44,253	—	—	—	—	—	—
Primary and secondary education.....	—	—	—	—	—	—	—	—	—
Higher education.....	—	—	—	—	—	—	—	—	—
Health and human services.....	—	—	—	—	—	—	—	—	—
Environmental and natural resources..	—	—	—	21,893	21,893	—	69,309	63,300	6,009
Agriculture.....	—	—	—	—	—	—	—	—	—
Debt service:.....	—	—	—	—	—	—	—	—	—
Principal retirement.....	—	—	—	—	—	—	—	—	—
Interest and fees.....	—	—	—	—	—	—	—	—	—
Debt issuance cost.....	—	—	—	—	—	—	—	—	—
Total expenditures.....	120,446	76,193	44,253	21,893	21,893	—	69,309	63,300	6,009
Excess revenues over (under) expenditures	<u>\$ (12)</u>	<u>\$ 49</u>	<u>\$ 61</u>	<u>\$ —</u>	<u>\$ 11,597</u>	<u>\$ 11,597</u>	<u>\$ (3,469)</u>	<u>\$ (10,714)</u>	<u>\$ (7,245)</u>
Fund balances (budgetary basis)									
at July 1, 2007.....	—	—	—	—	—	—	—	—	—
Restatements.....	—	—	—	—	36,060	—	—	55,722	—
Fund balances (budgetary basis) at June 30, 2008.....	<u>\$ 49</u>	<u>\$ 49</u>	<u>\$ 61</u>	<u>\$ —</u>	<u>\$ 47,657</u>	<u>\$ 11,597</u>	<u>\$ 45,008</u>	<u>\$ 45,008</u>	<u>\$ 45,008</u>

Exhibit C-5

Wildlife Resources Commission Fund			Natural Heritage Trust Fund			911 Fund			Parks and Recreation Trust Fund		
Final Budget	Actual	Variance with Final Budget	Final Budget	Actual	Variance with Final Budget	Final Budget	Actual	Variance with Final Budget	Final Budget	Actual	Variance with Final Budget
\$ 14,859	\$ 15,237	\$ 378	\$ ---	\$ ---	\$ ---	\$ ---	\$ ---	\$ ---	\$ ---	\$ ---	\$ ---
222	212	(10)	---	---	---	---	---	---	---	---	---
725	321	(404)	---	---	---	---	---	---	---	---	---
85,020	84,540	(480)	20,813	21,693	880	---	---	---	63,635	56,674	(6,961)
6,021	6,145	124	---	---	---	495	632	137	---	---	---
238	199	(39)	---	---	---	---	---	---	---	---	---
21,742	21,868	126	3,187	3,187	---	78,737	69,768	(8,969)	1,380	1,446	66
527	518	(9)	---	---	---	---	---	---	---	---	---
506	509	3	1,000	1,255	255	1,014	1,251	237	---	2,360	2,360
<u>129,860</u>	<u>129,549</u>	<u>(311)</u>	<u>25,000</u>	<u>26,135</u>	<u>1,135</u>	<u>80,246</u>	<u>71,651</u>	<u>(8,595)</u>	<u>65,015</u>	<u>60,480</u>	<u>(4,535)</u>
---	---	---	---	---	---	---	---	---	---	---	---
---	---	---	---	---	---	78,452	59,831	18,621	---	---	---
---	---	---	---	---	---	---	---	---	---	---	---
---	---	---	---	---	---	---	---	---	---	---	---
---	---	---	---	---	---	---	---	---	---	---	---
127,473	123,818	3,655	25,000	25,000	---	---	---	---	65,015	64,738	277
---	---	---	---	---	---	---	---	---	---	---	---
690	690	---	---	---	---	---	---	---	---	---	---
743	743	---	---	---	---	---	---	---	---	---	---
---	---	---	---	---	---	---	---	---	---	---	---
<u>128,906</u>	<u>125,251</u>	<u>3,655</u>	<u>25,000</u>	<u>25,000</u>	<u>---</u>	<u>78,452</u>	<u>59,831</u>	<u>18,621</u>	<u>65,015</u>	<u>64,738</u>	<u>277</u>
\$ 954	\$ 4,298	\$ 3,344	\$ ---	\$ 1,135	\$ 1,135	\$ 1,794	\$ 11,820	\$ 10,026	\$ ---	\$ (4,258)	\$ (4,258)
---	9,128	---	---	---	---	---	---	---	---	---	---
---	---	---	---	25,099	---	---	18,680	---	---	61,079	---
---	---	---	---	---	---	---	---	---	---	---	---
<u>\$ 13,426</u>	<u>---</u>	<u>---</u>	<u>\$ 26,234</u>	<u>---</u>	<u>---</u>	<u>\$ 30,500</u>	<u>---</u>	<u>---</u>	<u>\$ 56,821</u>	<u>---</u>	<u>---</u>

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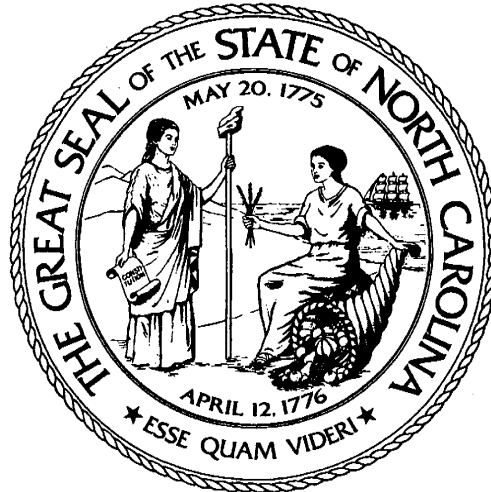
**COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES — BUDGET AND ACTUAL (BUDGETARY BASIS — NON-GAAP)
NONMAJOR SPECIAL REVENUE FUNDS**

For the Fiscal Year Ended June 30, 2008

Exhibit C-5

(Dollars in Thousands)

	Education Lottery Funds			Departmental Funds			Total Nonmajor Special Revenue Funds		
	Final Budget	Actual	Variance with Final Budget	Final Budget	Actual	Variance with Final Budget	Final Budget	Actual	Variance with Final Budget
Revenues:									
Departmental:									
Federal funds.....	\$ —	\$ —	\$ —	\$ 78,666	\$ 63,351	\$ (15,315)	\$ 404,305	\$ 344,181	\$ (60,124)
Local funds.....	—	—	—	12,333	4,288	(8,045)	23,250	14,728	(8,522)
Inter-agency grants and allocations.....	—	—	—	18,337	13,050	(5,287)	22,143	16,080	(6,063)
Intra-governmental transactions.....	349,935	349,946	11	338,373	350,409	12,036	2,032,102	2,031,920	(182)
Sales and services.....	—	—	—	45,580	76,876	31,296	146,655	178,377	31,722
Sale, rental, and lease of property.....	—	—	—	34,878	2,037	(32,841)	41,298	8,762	(32,536)
Fees, licenses, and fines.....	—	—	—	123,393	130,763	7,370	301,613	279,806	(21,807)
Contributions, gifts, and grants.....	—	—	—	5,894	5,180	(714)	6,453	5,698	(755)
Miscellaneous	2,659	2,661	2	49,090	50,991	1,901	686,192	566,947	(119,245)
Total revenues.....	<u>352,594</u>	<u>352,607</u>	<u>13</u>	<u>706,544</u>	<u>696,945</u>	<u>(9,599)</u>	<u>3,664,011</u>	<u>3,446,499</u>	<u>(217,512)</u>
Expenditures:									
Current:									
General government.....	—	—	—	291,234	265,917	25,317	1,487,155	1,316,992	170,163
Public safety and corrections.....	—	—	—	162,383	141,861	20,522	592,371	529,496	62,875
Economic development.....	—	—	—	75,164	29,947	45,217	461,986	355,156	106,830
Primary and secondary education.....	354,579	354,579	—	54,585	53,348	1,237	861,949	741,220	120,729
Higher education.....	—	—	—	877	557	320	72,118	53,370	18,748
Health and human services.....	—	—	—	98,983	81,312	17,671	98,983	81,312	17,671
Environmental and natural resources..	—	—	—	93,381	79,926	13,455	560,592	499,485	61,107
Agriculture.....	—	—	—	16,001	6,756	9,245	56,451	30,990	25,461
Debt service:.....	—	—	—	—	—	—	—	—	—
Principal retirement.....	—	—	—	1,224	969	255	1,914	1,659	255
Interest and fees.....	—	—	—	1,029	454	575	1,918	1,282	636
Debt issuance cost.....	—	—	—	—	—	—	2,179	1,394	785
Total expenditures.....	<u>354,579</u>	<u>354,579</u>	<u>—</u>	<u>794,861</u>	<u>661,047</u>	<u>133,814</u>	<u>4,197,616</u>	<u>3,612,356</u>	<u>585,260</u>
Excess revenues over (under) expenditures	<u>\$ (1,985)</u>	<u>\$ (1,972)</u>	<u>\$ 13</u>	<u>\$ (88,317)</u>	<u>\$ 35,898</u>	<u>\$ 124,215</u>	<u>\$ (533,605)</u>	<u>\$ (165,857)</u>	<u>\$ 367,748</u>
Fund balances (budgetary basis)									
at July 1, 2007.....		51,984			179,634			257,663	
Restatements.....		—			200,618			2,488,396	
Fund balances (budgetary basis) at June 30, 2008.....		<u>\$ 50,012</u>			<u>\$ 416,150</u>			<u>\$ 2,580,202</u>	



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, 2008

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.....	\$ 75	\$ —	\$ 4	\$ 79
Receivables, net:				
Accounts receivable.....	4	—	—	4
Intergovernmental receivable.....	244	—	—	244
Interest receivable.....	2	—	—	2
Due from other funds	—	7,278	—	7,278
Restricted/designated cash and cash equivalents...	422,055	605	7	422,667
Restricted investments.....	—	3,830	2,407	6,237
Total Assets.....	<u>\$ 422,380</u>	<u>\$ 11,713</u>	<u>\$ 2,418</u>	<u>\$ 436,511</u>
Liabilities and Fund Balances				
Liabilities:				
Accounts payable and accrued liabilities:				
Accounts payable.....	\$ 12,929	\$ 7,281	\$ 1,070	\$ 21,280
Intergovernmental payable.....	1,032	—	—	1,032
Obligations under securities lending.....	75	—	4	79
Due to other funds	234	—	—	234
Deposits payable.....	1	—	—	1
Total Liabilities.....	<u>14,271</u>	<u>7,281</u>	<u>1,074</u>	<u>22,626</u>
Fund Balances:				
Reserved for:				
Capital projects commitments.....	75,929	51,300	—	127,229
Specific projects.....	619	416	1,085	2,120
Unreserved:				
Undesignated.....	331,561	(47,284)	259	284,536
Total Fund Balances.....	<u>408,109</u>	<u>4,432</u>	<u>1,344</u>	<u>413,885</u>
Total Liabilities and Fund Balances.....	<u>\$ 422,380</u>	<u>\$ 11,713</u>	<u>\$ 2,418</u>	<u>\$ 436,511</u>

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

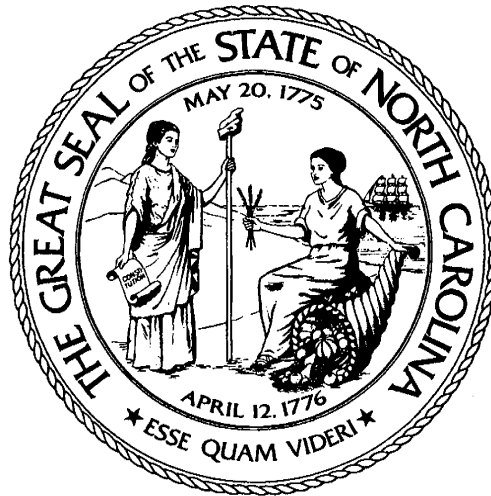
For the Fiscal Year Ended June 30, 2008

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.....	\$ 5,841	\$ —	\$ —	\$ 5,841
Investment earnings.....	83	187	158	428
Sales and services.....	2,407	—	—	2,407
Rental and lease of property.....	11	—	—	11
Contributions, gifts, and grants.....	63,344	24,728	—	88,072
Miscellaneous.....	278	—	—	278
Total revenues.....	<u>71,964</u>	<u>24,915</u>	<u>158</u>	<u>97,037</u>
Expenditures:				
Current:				
Environment & natural resources.....	31	—	—	31
Capital outlay.....	184,713	158,096	3,955	346,764
Debt service:				
Interest and fees.....	—	81	8	89
Total expenditures.....	<u>184,744</u>	<u>158,177</u>	<u>3,963</u>	<u>346,884</u>
Excess revenues over (under) expenditures.....	<u>(112,780)</u>	<u>(133,262)</u>	<u>(3,805)</u>	<u>(249,847)</u>
Other Financing Sources (Uses):				
Other debt issued.....	—	—	2,835	2,835
Sale of capital assets.....	25	—	—	25
Transfers in.....	195,298	131,347	—	326,645
Transfers out.....	(962)	(49)	—	(1,011)
Total other financing sources (uses).....	<u>194,361</u>	<u>131,298</u>	<u>2,835</u>	<u>328,494</u>
Net change in fund balances.....	81,581	(1,964)	(970)	78,647
Fund balances — July 1, as restated	326,528	6,396	2,314	335,238
Fund balances — June 30.....	<u>\$ 408,109</u>	<u>\$ 4,432</u>	<u>\$ 1,344</u>	<u>\$ 413,885</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, 2008

Exhibit C-8

(Dollars in Thousands)

	Wildlife Endowment Fund	Departmental Funds	Total Nonmajor Permanent Funds
Assets			
Receivables, net:			
Accounts receivable.....	\$ 5	\$ 2	\$ 7
Interest receivable.....	1	27	28
Securities lending collateral	34,219	4,625	38,844
Restricted/designated cash and cash equivalents...	332	7,261	7,593
Restricted investments.....	64,922	575	65,497
Total Assets.....	<u>\$ 99,479</u>	<u>\$ 12,490</u>	<u>\$ 111,969</u>
Liabilities and Fund Balances			
Liabilities:			
Obligations under securities lending.....	\$ 34,219	\$ 4,625	\$ 38,844
Total Liabilities.....	<u>34,219</u>	<u>4,625</u>	<u>38,844</u>
Fund Balances:			
Reserved for:			
Permanent investments.....	64,936	5,877	70,813
Unreserved:			
Undesignated.....	324	1,988	2,312
Total Fund Balances.....	<u>65,260</u>	<u>7,865</u>	<u>73,125</u>
Total Liabilities and Fund Balances.....	<u>\$ 99,479</u>	<u>\$ 12,490</u>	<u>\$ 111,969</u>

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

For the Fiscal Year Ended June 30, 2008

Exhibit C-9

(Dollars in Thousands)

	Wildlife Endowment Fund	Departmental Funds	Total Nonmajor Permanent Funds
Revenues:			
Investment earnings.....	\$ 6,735	\$ 543	\$ 7,278
Sales and services.....	58	—	58
Fees, licenses, and fines.....	2,968	862	3,830
Contributions, gifts, and grants.....	7	101	108
Total revenues.....	<u>9,768</u>	<u>1,506</u>	<u>11,274</u>
Expenditures:			
Current:			
Higher education.....	—	26	26
Health and human services.....	—	8	8
Environment and natural resources.....	1,541	277	1,818
Total expenditures.....	<u>1,541</u>	<u>311</u>	<u>1,852</u>
Excess revenues over (under) expenditures.....	<u>8,227</u>	<u>1,195</u>	<u>9,422</u>
Other Financing Sources (Uses):			
Transfers in.....	—	960	960
Transfers out.....	(3,501)	—	(3,501)
Total other financing sources (uses).....	<u>(3,501)</u>	<u>960</u>	<u>(2,541)</u>
Net change in fund balances.....	4,726	2,155	6,881
Fund balances — July 1.....	60,534	5,710	66,244
Fund balances — June 30.....	<u>\$ 65,260</u>	<u>\$ 7,865</u>	<u>\$ 73,125</u>

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

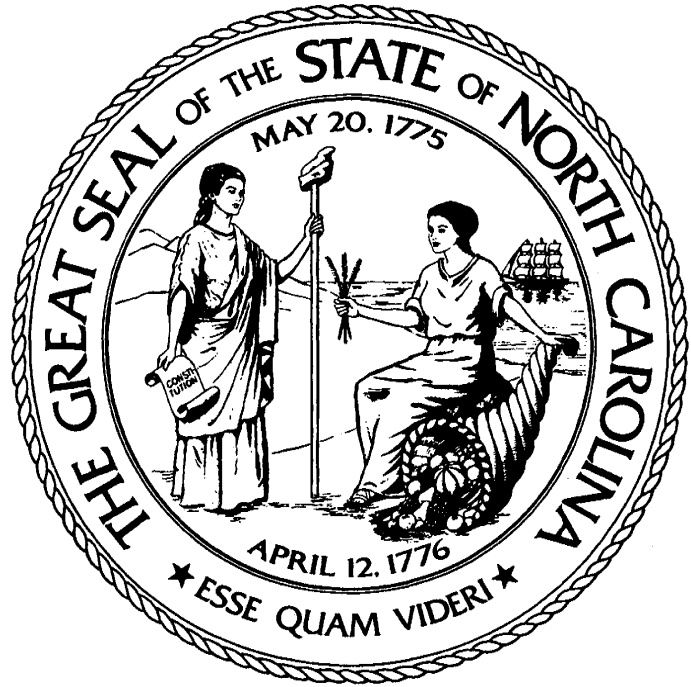
For the Fiscal Year Ended June 30, 2008

(Dollars in Thousands)

	Wildlife Endowment Fund			Departmental Funds		
	<i>Final Budget</i>	<i>Actual</i>	<i>Variance with Final Budget</i>	<i>Final Budget</i>	<i>Actual</i>	<i>Variance with Final Budget</i>
Revenues:						
Departmental:						
Inter-agency grants and allocations.....	\$ —	\$ —	\$ —	\$ —	\$ 92	\$ 92
Intra-governmental transactions.....	1,510	1,510	—	—	986	986
Sales and services.....	58	58	—	—	—	—
Fees, licenses, and fines.....	2,928	2,963	35	58	876	818
Contributions, gifts, and grants.....	7	7	—	—	9	9
Miscellaneous.....	3,873	3,841	(32)	149	330	181
Total revenues.....	<u>8,376</u>	<u>8,379</u>	<u>3</u>	<u>207</u>	<u>2,293</u>	<u>2,086</u>
Expenditures:						
Current:						
Higher education.....	—	—	—	26	26	—
Environmental and natural resources.....	5,120	5,112	8	181	132	49
Total expenditures.....	<u>5,120</u>	<u>5,112</u>	<u>8</u>	<u>207</u>	<u>158</u>	<u>49</u>
Excess revenues over (under) expenditures	<u>\$ 3,256</u>	<u>\$ 3,267</u>	<u>\$ 11</u>	<u>\$ —</u>	<u>\$ 2,135</u>	<u>\$ 2,135</u>
Fund balances (budgetary basis)						
at July 1, 2007.....		—			—	
Restatements.....		<u>60,534</u>			<u>5,676</u>	
Fund balances (budgetary basis)						
at June 30, 2008.....		<u>\$ 63,801</u>			<u>\$ 7,811</u>	

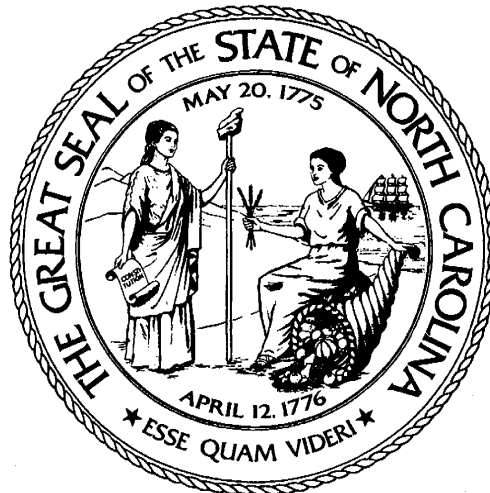
Total Nonmajor Permanent Funds		
<i>Final Budget</i>	<i>Actual</i>	<i>Variance with Final Budget</i>
\$ —	\$ 92	\$ 92
1,510	2,496	986
58	58	—
2,986	3,839	853
7	16	9
4,022	4,171	149
<u>8,583</u>	<u>10,672</u>	<u>2,089</u>
26	26	—
5,301	5,244	57
<u>5,327</u>	<u>5,270</u>	<u>57</u>
<u>\$ 3,256</u>	<u>\$ 5,402</u>	<u>\$ 2,146</u>
	—	
	<u>66,210</u>	
	<u>\$ 71,612</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, 2008

(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.....	\$ 10,417	\$ 4,230	\$ 1,924	\$ 1,561	\$ 8,385	\$ 11,565	\$ 7,668
Investments.....	38,390	—	—	—	15,441	—	—
Securities lending collateral.....	26,696	—	—	—	13,439	7,948	—
Receivables:							
Accounts receivable, net.....	1,000	211	30	—	46	3,193	44
Interest receivable.....	38	—	—	—	27	—	—
Premiums receivable.....	1,274	—	—	—	7	—	—
Inventories.....	—	121	212	11	—	41	—
Prepaid items.....	2,538	—	97	—	27	—	—
Total current assets.....	<u>80,353</u>	<u>4,562</u>	<u>2,263</u>	<u>1,572</u>	<u>37,372</u>	<u>22,747</u>	<u>7,712</u>
Noncurrent Assets:							
Investments.....	—	—	721	—	—	—	—
Restricted investments.....	—	—	3,791	—	—	—	—
Capital assets-nondepreciable.....	—	1,379	629	1,087	—	—	—
Capital assets-depreciable, net.....	—	7,977	1,826	5,884	—	133	95
Total noncurrent assets.....	<u>—</u>	<u>9,356</u>	<u>6,967</u>	<u>6,971</u>	<u>—</u>	<u>133</u>	<u>95</u>
Total Assets.....	<u>80,353</u>	<u>13,918</u>	<u>9,230</u>	<u>8,543</u>	<u>37,372</u>	<u>22,880</u>	<u>7,807</u>
Liabilities							
Current Liabilities:							
Accounts payable and accrued liabilities:							
Accounts payable.....	8	332	85	48	—	29	102
Accrued payroll.....	—	33	—	5	—	1	—
Claims payable.....	292	—	—	—	15,043	—	—
Obligations under securities lending..	26,696	—	—	—	13,439	7,948	—
Due to other funds.....	3	10	—	1	—	9	7
Unearned revenue.....	4,762	786	10	—	1,972	—	—
Deposits payable.....	—	2	—	—	—	—	—
Compensated absences.....	4	16	6	5	—	85	48
Total current liabilities.....	<u>31,765</u>	<u>1,179</u>	<u>101</u>	<u>59</u>	<u>30,454</u>	<u>8,072</u>	<u>157</u>
Noncurrent Liabilities:							
Compensated absences.....	80	291	84	83	—	1,363	770
Total noncurrent liabilities.....	<u>80</u>	<u>291</u>	<u>84</u>	<u>83</u>	<u>—</u>	<u>1,363</u>	<u>770</u>
Total Liabilities.....	<u>31,845</u>	<u>1,470</u>	<u>185</u>	<u>142</u>	<u>30,454</u>	<u>9,435</u>	<u>927</u>
Net Assets							
Invested in capital assets, net of related debt.....	—	9,356	2,455	6,971	—	133	95
Restricted for:							
Capital outlay.....	—	—	2,544	—	—	—	—
Unrestricted.....	48,508	3,092	4,046	1,430	6,918	13,312	6,785
Total Net Assets.....	<u>\$ 48,508</u>	<u>\$ 12,448</u>	<u>\$ 9,045</u>	<u>\$ 8,401</u>	<u>\$ 6,918</u>	<u>\$ 13,445</u>	<u>\$ 6,880</u>

Exhibit D-1

<u>ABC Commission</u>	<u>Departmental Funds</u>	<u>Total Nonmajor Enterprise Funds</u>
\$ 7,014	\$ 2,439	\$ 55,203
—	—	53,831
—	—	48,083
119	—	4,643
—	—	65
—	—	1,281
40	73	498
—	—	2,662
<u>7,173</u>	<u>2,512</u>	<u>166,266</u>
—	—	721
—	—	3,791
550	339	3,984
2,876	8,170	26,961
<u>3,426</u>	<u>8,509</u>	<u>35,457</u>
<u>10,599</u>	<u>11,021</u>	<u>201,723</u>
496	49	1,149
27	9	75
—	—	15,335
—	—	48,083
10	1	41
—	147	7,677
—	—	2
15	3	182
<u>548</u>	<u>209</u>	<u>72,544</u>
238	58	2,967
<u>238</u>	<u>58</u>	<u>2,967</u>
<u>786</u>	<u>267</u>	<u>75,511</u>
3,426	8,509	30,945
—	—	2,544
6,387	2,245	92,723
<u>\$ 9,813</u>	<u>\$ 10,754</u>	<u>\$ 126,212</u>

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

For the Fiscal Year Ended June 30, 2008

(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.....	\$ —	\$ 256	\$ 763	\$ 26	\$ —	\$ 15
Rental and lease earnings.....	—	5,950	—	615	—	—
Fees, licenses, and fines.....	—	8,823	1,968	784	—	14,014
Insurance premiums.....	14,053	—	—	—	2,938	—
Miscellaneous.....	—	—	193	—	—	4
Total operating revenues.....	<u>14,053</u>	<u>15,029</u>	<u>2,924</u>	<u>1,425</u>	<u>2,938</u>	<u>14,033</u>
Operating Expenses:						
Personal services.....	588	5,076	1,163	777	—	12,166
Supplies and materials.....	3	863	49	107	—	37
Services.....	63	4,891	668	314	667	540
Cost of goods sold.....	—	—	281	—	—	—
Depreciation/amortization.....	—	597	120	291	—	6
Claims.....	1,942	71	—	—	9,421	—
Insurance and bonding.....	2,371	158	19	43	933	1
Other.....	10	945	101	74	—	908
Total operating expenses.....	<u>4,977</u>	<u>12,601</u>	<u>2,401</u>	<u>1,606</u>	<u>11,021</u>	<u>13,658</u>
Operating income (loss).....	<u>9,076</u>	<u>2,428</u>	<u>523</u>	<u>(181)</u>	<u>(8,083)</u>	<u>375</u>
Nonoperating Revenues (Expenses):						
Noncapital grants.....	—	—	—	—	—	189
Noncapital gifts.....	—	281	—	—	—	—
Investment earnings (loss).....	4,377	—	509	—	2,101	945
Insurance recoveries.....	—	—	—	2	—	—
Miscellaneous.....	(967)	29	—	7	(574)	(349)
Total nonoperating revenues (expenses).....	<u>3,410</u>	<u>310</u>	<u>509</u>	<u>9</u>	<u>1,527</u>	<u>785</u>
Income (loss) before contributions and transfers.....	12,486	2,738	1,032	(172)	(6,556)	1,160
Capital contributions.....	—	58	29	15	—	—
Transfers in.....	—	—	—	—	4,500	—
Transfers out.....	—	(2,547)	—	(2)	—	(358)
Change in net assets.....	<u>12,486</u>	<u>249</u>	<u>1,061</u>	<u>(159)</u>	<u>(2,056)</u>	<u>802</u>
Net assets — July 1, as restated.....	<u>36,022</u>	<u>12,199</u>	<u>7,984</u>	<u>8,560</u>	<u>8,974</u>	<u>12,643</u>
Net assets — June 30.....	<u>\$ 48,508</u>	<u>\$ 12,448</u>	<u>\$ 9,045</u>	<u>\$ 8,401</u>	<u>\$ 6,918</u>	<u>\$ 13,445</u>

Exhibit D-2

<u>State Banking Commission</u>	<u>ABC Commission</u>	<u>Departmental Funds</u>	<u>Total Nonmajor Enterprise Funds</u>
\$ —	\$ 3	\$ 145	\$ 1,208
—	—	797	7,362
13,746	9,159	1,207	49,701
—	—	—	16,991
206	16	—	419
<u>13,952</u>	<u>9,178</u>	<u>2,149</u>	<u>75,681</u>
7,857	2,388	899	30,914
38	53	182	1,332
2,381	5,720	607	15,851
—	—	93	374
4	117	91	1,226
—	—	—	11,434
1	15	44	3,585
1,997	213	216	4,464
<u>12,278</u>	<u>8,506</u>	<u>2,132</u>	<u>69,180</u>
<u>1,674</u>	<u>672</u>	<u>17</u>	<u>6,501</u>
—	—	—	189
—	—	57	338
—	—	—	7,932
—	—	—	2
—	—	2	(1,852)
—	—	59	6,609
1,674	672	76	13,110
—	—	6,487	6,589
—	—	—	4,500
(144)	(121)	—	(3,172)
1,530	551	6,563	21,027
5,350	9,262	4,191	105,185
<u>\$ 6,880</u>	<u>\$ 9,813</u>	<u>\$ 10,754</u>	<u>\$ 126,212</u>

COMBINING STATEMENT OF CASH FLOWS NONMAJOR ENTERPRISE FUNDS

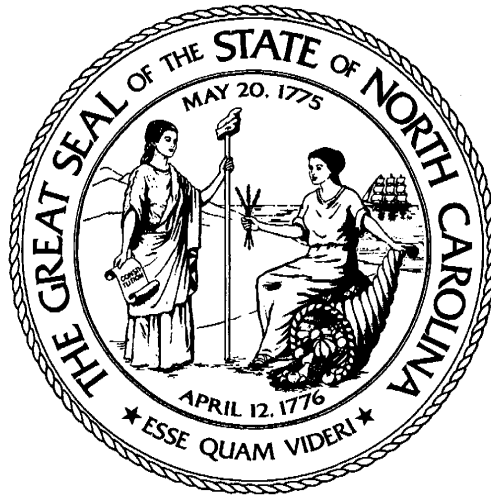
For the Fiscal Year Ended June 30, 2008

(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.....	\$ 13,814	\$ 14,207	\$ 2,898	\$ 1,424	\$ 3,556	\$ 13,999
Payments to suppliers.....	(2,709)	(6,575)	(1,152)	(511)	(1,603)	(908)
Payments to employees.....	(580)	(5,048)	(1,124)	(769)	—	(11,953)
Payments for prizes, benefits, and claims.....	(3,633)	(71)	—	—	(5,251)	—
Other receipts (payments).....	—	29	—	8	—	(576)
Net cash flows provided (used) by operating activities.....	<u>6,892</u>	<u>2,542</u>	<u>622</u>	<u>152</u>	<u>(3,298)</u>	<u>562</u>
Cash Provided From (Used For)						
Noncapital Financing Activities:						
Grant receipts (refunds).....	—	—	—	—	—	189
Transfers from other funds.....	—	—	—	—	4,500	—
Transfers to other funds.....	—	(2,547)	—	(2)	—	(358)
Gifts.....	—	281	29	—	—	—
Total cash provided from (used for) noncapital financing activities.....	<u>—</u>	<u>(2,266)</u>	<u>29</u>	<u>(2)</u>	<u>4,500</u>	<u>(169)</u>
Cash Provided From (Used For)						
Capital and Related Financing Activities:						
Acquisition and construction of capital assets.....	—	(173)	—	(26)	—	(8)
Proceeds from the sale of capital assets.....	—	—	155	—	—	—
Total cash provided from (used for) capital and related financing activities.....	<u>—</u>	<u>(173)</u>	<u>155</u>	<u>(26)</u>	<u>—</u>	<u>(8)</u>
Cash Provided From (Used For)						
Investment Activities:						
Investment earnings (loss).....	428	—	153	—	410	596
Total cash provided from (used for) investment activities.....	<u>428</u>	<u>—</u>	<u>153</u>	<u>—</u>	<u>410</u>	<u>596</u>
Net increase (decrease) in cash and cash equivalents.....	7,320	103	959	124	1,612	981
Cash and cash equivalents at July 1.....	3,097	4,127	965	1,437	6,773	10,584
Cash and cash equivalents at June 30.....	<u>\$ 10,417</u>	<u>\$ 4,230</u>	<u>\$ 1,924</u>	<u>\$ 1,561</u>	<u>\$ 8,385</u>	<u>\$ 11,565</u>
Reconciliation of Operating Income to Net Cash Provided From (Used For) Operating Activities:						
Operating income (loss).....	\$ 9,076	\$ 2,428	\$ 523	\$ (181)	\$ (8,083)	\$ 375
Adjustments to reconcile operating income to net cash flows from operating activities:						
Depreciation/amortization.....	—	597	120	291	—	6
Restatements and adjustments.....	2,746	—	—	—	(14)	—
Nonoperating miscellaneous income (expense).....	—	29	—	7	—	—
(Increases) decreases in assets:						
Receivables.....	(1,172)	(81)	(28)	—	(55)	(30)
Inventories.....	—	(10)	—	(3)	—	2
Prepaid items.....	(155)	—	(33)	—	10	—
Increases (decreases) in liabilities:						
Accounts payable and accrued liabilities.....	(3,545)	268	20	26	4,171	(5)
Due to other funds.....	1	(4)	—	—	—	—
Compensated absences.....	7	53	19	12	—	214
Unearned revenue.....	(66)	(740)	1	—	673	—
Deposits payable.....	—	2	—	—	—	—
Total cash provided from (used for) operations.....	<u>\$ 6,892</u>	<u>\$ 2,542</u>	<u>\$ 622</u>	<u>\$ 152</u>	<u>\$ (3,298)</u>	<u>\$ 562</u>
Noncash Investing, Capital, and Financing Activities:						
Noncash distributions from the State Treasurer						
Long-Term Investment Portfolio and/or other agents.....	\$ 2,225	\$ —	\$ —	\$ —	\$ 902	\$ —
Transferred assets.....	—	58	—	15	—	—
Assets acquired through the assumption of a liability.....	26,696	—	—	—	13,439	7,948
Change in fair value of investments.....	732	—	201	—	215	—

State Banking Commission	ABC Commission	Departmental Funds	Total Nonmajor Enterprise Funds
\$ 11,137	\$ 9,077	\$ 2,155	\$ 72,267
(2,652)	(5,554)	(1,160)	(22,824)
(7,725)	(2,307)	(895)	(30,401)
—	—	—	(8,955)
(1,589)	11	—	(2,117)
(829)	1,227	100	7,970
—	—	—	189
—	—	—	4,500
(144)	(121)	—	(3,172)
—	—	57	367
(144)	(121)	57	1,884
(8)	(22)	(69)	(306)
—	—	2	157
(8)	(22)	(67)	(149)
—	—	—	1,587
—	—	—	1,587
(981)	1,084	90	11,292
8,649	5,930	2,349	43,911
\$ 7,668	\$ 7,014	\$ 2,439	\$ 55,203
\$ 1,674	\$ 672	\$ 17	\$ 6,501
4	117	91	1,226
—	—	—	2,732
—	—	—	36
83	(86)	2	(1,367)
—	(8)	(30)	(49)
—	—	—	(178)
(33)	474	11	1,387
(1)	(1)	1	(4)
137	59	5	506
(2,693)	—	3	(2,822)
—	—	—	2
\$ (829)	\$ 1,227	\$ 100	\$ 7,970
\$ —	\$ —	\$ —	\$ 3,127
—	—	6,487	6,560
—	—	—	48,083
—	—	—	1,148

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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, 2008

(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.....	\$ 1,373	\$ 30,918	\$ 16,278	\$ —	\$ —
Investments.....	—	19,640	—	—	—
Securities lending collateral.....	—	30,014	—	—	—
Receivables:					
Accounts receivable, net.....	2,360	—	1,451	280	2,709
Interest receivable.....	—	111	—	—	—
Premiums receivable.....	—	1,337	—	—	—
Due from fiduciary funds.....	—	—	1	—	—
Due from other funds.....	1,614	—	3,487	—	—
Due from component units.....	—	—	536	—	—
Inventories.....	—	—	177	19	—
Prepaid items.....	—	—	—	—	—
Total current assets.....	<u>5,347</u>	<u>82,020</u>	<u>21,930</u>	<u>299</u>	<u>2,709</u>
Noncurrent Assets:					
Capital assets-nondepreciable.....	—	—	288	—	—
Capital assets-depreciable, net.....	—	—	58,600	364	—
Total noncurrent assets.....	—	—	58,888	364	—
Total Assets.....	<u>5,347</u>	<u>82,020</u>	<u>80,818</u>	<u>663</u>	<u>2,709</u>
Liabilities					
Current Liabilities:					
Accounts payable and accrued liabilities:					
Accounts payable.....	—	—	684	24	1
Accrued payroll.....	—	—	1	18	722
Intergovernmental payable.....	—	—	—	—	—
Claims payable.....	—	8,207	—	—	—
Obligations under securities lending.....	—	30,014	—	—	—
Due to other funds.....	—	—	13	946	98
Unearned revenue.....	—	4,960	—	—	—
Compensated absences.....	—	15	29	31	5
Total current liabilities.....	—	<u>43,196</u>	<u>727</u>	<u>1,019</u>	<u>826</u>
Noncurrent Liabilities:					
Compensated absences.....	—	189	154	162	28
Total noncurrent liabilities.....	—	<u>189</u>	<u>154</u>	<u>162</u>	<u>28</u>
Total Liabilities.....	—	<u>43,385</u>	<u>881</u>	<u>1,181</u>	<u>854</u>
Net Assets					
Invested in capital assets, net of related debt.....	—	—	58,888	364	—
Unrestricted.....	5,347	38,635	21,049	(882)	1,855
Total Net Assets.....	<u>\$ 5,347</u>	<u>\$ 38,635</u>	<u>\$ 79,937</u>	<u>\$ (518)</u>	<u>\$ 1,855</u>

Exhibit E-1

Computing Services	State Telecommu- nications Services	Surplus Property	Totals
\$ 19,006	\$ 9,675	\$ 966	\$ 78,216
—	—	—	19,640
—	—	—	30,014
5,574	1,923	39	14,336
—	—	—	111
—	—	—	1,337
2	4	—	7
6,235	8,393	942	20,671
4	571	—	1,111
19	—	—	215
6,072	101	—	6,173
<u>36,912</u>	<u>20,667</u>	<u>1,947</u>	<u>171,831</u>
3,089	—	19	3,396
48,768	5,173	93	112,998
51,857	5,173	112	116,394
<u>88,769</u>	<u>25,840</u>	<u>2,059</u>	<u>288,225</u>
324	498	1,248	2,779
5	1	—	747
—	—	1	1
—	—	—	8,207
—	—	—	30,014
341	73	142	1,613
—	—	—	4,960
155	64	26	325
<u>825</u>	<u>636</u>	<u>1,417</u>	<u>48,646</u>
2,771	1,155	141	4,600
2,771	1,155	141	4,600
<u>3,596</u>	<u>1,791</u>	<u>1,558</u>	<u>53,246</u>
51,857	5,173	112	116,394
33,316	18,876	389	118,585
<u>\$ 85,173</u>	<u>\$ 24,049</u>	<u>\$ 501</u>	<u>\$ 234,979</u>

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

For the Fiscal Year Ended June 30, 2008

(Dollars in Thousands)

	Workers' Compensation Program	State Property Fire Insurance	Motor Fleet Management	Mail Service Center	Temporary Solutions
Operating Revenues:					
Sales and services.....	\$ 47,596	\$ —	\$ 43,275	\$ 4,032	\$ 12,334
Rental and lease earnings.....	—	—	—	—	—
Fees, licenses, and fines.....	—	—	—	—	—
Insurance premiums.....	—	19,257	—	—	—
Miscellaneous.....	—	—	19	6	—
Total operating revenues.....	<u>47,596</u>	<u>19,257</u>	<u>43,294</u>	<u>4,038</u>	<u>12,334</u>
Operating Expenses:					
Personal services.....	—	1,834	2,118	3,056	12,467
Supplies and materials.....	—	3	15,342	82	6
Services.....	47,614	164	2,391	769	123
Cost of goods sold.....	—	—	384	—	—
Depreciation/amortization.....	—	—	18,686	56	—
Claims.....	—	1,170	—	—	—
Insurance and bonding.....	—	15,717	2,281	1	—
Other.....	—	76	5	79	30
Total operating expenses.....	<u>47,614</u>	<u>18,964</u>	<u>41,207</u>	<u>4,043</u>	<u>12,626</u>
Operating income (loss).....	<u>(18)</u>	<u>293</u>	<u>2,087</u>	<u>(5)</u>	<u>(292)</u>
Nonoperating Revenues (Expenses):					
Investment earnings.....	—	4,850	—	—	—
Insurance recoveries.....	—	—	153	—	—
Gain (loss) on sale of equipment.....	—	—	220	—	—
Miscellaneous.....	—	(1,465)	37	—	—
Total nonoperating revenues (expenses).....	<u>—</u>	<u>3,385</u>	<u>410</u>	<u>—</u>	<u>—</u>
Income (loss) before contributions.....					
and transfers.....	(18)	3,678	2,497	(5)	(292)
Capital contributions.....	—	—	—	—	—
Transfers in.....	—	—	23	18	5
Transfers out.....	—	—	(60)	—	—
Change in net assets.....	<u>(18)</u>	<u>3,678</u>	<u>2,460</u>	<u>13</u>	<u>(287)</u>
Net assets — July 1, as restated.....	5,365	34,957	77,477	(531)	2,142
Net assets — June 30.....	<u>\$ 5,347</u>	<u>\$ 38,635</u>	<u>\$ 79,937</u>	<u>\$ (518)</u>	<u>\$ 1,855</u>

Exhibit E-2

Computing Services	State Telecommu- nications Services	Surplus Property	Totals
\$ 90,249	\$ 83,594	\$ 2,028	\$ 283,108
—	—	20	20
75	—	65	140
—	—	—	19,257
—	124	273	422
<u>90,324</u>	<u>83,718</u>	<u>2,386</u>	<u>302,947</u>
25,746	14,041	1,623	60,885
342	105	56	15,936
9,585	52,273	500	113,419
—	—	233	617
7,607	1,695	14	28,058
—	—	—	1,170
137	46	21	18,203
42,152	14,038	32	56,412
<u>85,569</u>	<u>82,198</u>	<u>2,479</u>	<u>294,700</u>
<u>4,755</u>	<u>1,520</u>	<u>(93)</u>	<u>8,247</u>
—	—	—	4,850
—	—	—	153
—	(52)	—	168
21	—	—	(1,407)
<u>21</u>	<u>(52)</u>	<u>—</u>	<u>3,764</u>
4,776	1,468	(93)	12,011
29,820	45	—	29,865
3,233	—	28	3,307
(15)	(87)	—	(162)
<u>37,814</u>	<u>1,426</u>	<u>(65)</u>	<u>45,021</u>
<u>47,359</u>	<u>22,623</u>	<u>566</u>	<u>189,958</u>
<u>\$ 85,173</u>	<u>\$ 24,049</u>	<u>\$ 501</u>	<u>\$ 234,979</u>

COMBINING STATEMENT OF CASH FLOWS INTERNAL SERVICE FUNDS

For the Fiscal Year Ended June 30, 2008

(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.....	\$ 9,466	\$ 7,930	\$ 5,501	\$ 1,069	\$ —
Receipts from other funds.....	37,864	11,602	39,820	2,804	10,820
Payments to suppliers.....	(47,614)	(9,830)	(17,371)	(520)	(93)
Payments to employees.....	—	(1,842)	(2,107)	(3,050)	(12,182)
Payments for benefits and claims.....	—	(3,668)	—	—	—
Payments to other funds.....	—	(1,939)	(5,790)	(153)	(33)
Other receipts (payments).....	—	—	52	(74)	(30)
Net cash flows provided (used) by operating activities.....	(284)	2,253	20,105	76	(1,518)
Cash Provided From (Used For)					
Noncapital Financing Activities:					
Transfers from other funds.....	—	—	23	18	5
Transfers to other funds.....	—	—	(60)	—	—
Total cash provided from (used for) noncapital financing activities.....	—	—	(37)	18	5
Cash Provided From (Used For)					
Capital and Related Financing Activities:					
Acquisition and construction of capital assets.....	—	—	(10,676)	(94)	—
Proceeds from the sale of capital assets.....	—	—	220	—	—
Insurance recoveries.....	—	—	153	—	—
Total cash provided from (used for) capital and related financing activities.....	—	—	(10,303)	(94)	—
Cash Provided From (Used For)					
Investment Activities:					
Redemptions from State Treasurer investment pool.....	—	—	—	—	—
Investment earnings.....	—	1,800	—	—	—
Total cash provided from (used for) investment activities.....	—	1,800	—	—	—
Net increase (decrease) in cash and cash equivalents.....	(284)	4,053	9,765	—	(1,513)
Cash and cash equivalents at July 1.....	1,657	26,865	6,513	—	1,513
Cash and cash equivalents at June 30.....	\$ 1,373	\$ 30,918	\$ 16,278	\$ —	\$ —
Reconciliation of Operating Income to Net Cash Provided					
From (Used For) Operating Activities:					
Operating income (loss).....	\$ (18)	\$ 293	\$ 2,087	\$ (5)	\$ (292)
Adjustments to reconcile operating income to net cash flows from operating activities:					
Depreciation/amortization.....	—	—	18,686	56	—
Restatements and adjustments.....	—	112	—	—	—
Nonoperating miscellaneous income (expense).....	—	—	37	—	—
(Increases) decreases in assets:					
Receivables.....	81	(58)	574	(158)	(1,619)
Due from other funds.....	(347)	—	1,317	—	11
Due from fiduciary funds.....	—	—	(1)	—	—
Due from component units.....	—	—	158	—	—
Inventories.....	—	—	21	98	—
Prepaid items.....	—	—	—	—	—
Increases (decreases) in liabilities:					
Accounts payable and accrued liabilities.....	—	1,694	(2,803)	—	276
Due to other funds.....	—	—	11	73	97
Compensated absences.....	—	(120)	18	12	9
Unearned revenue.....	—	332	—	—	—
Total cash provided from (used for) operations.....	\$ (284)	\$ 2,253	\$ 20,105	\$ 76	\$ (1,518)
Noncash Investing, Capital, and Financing Activities:					
Donated or transferred assets (fair market value).....	\$ —	\$ —	\$ —	\$ —	\$ —
Assets acquired through the assumption of a liability.....	—	30,014	—	—	—
Change in fair value of investments.....	—	434	—	—	—

Exhibit E-3

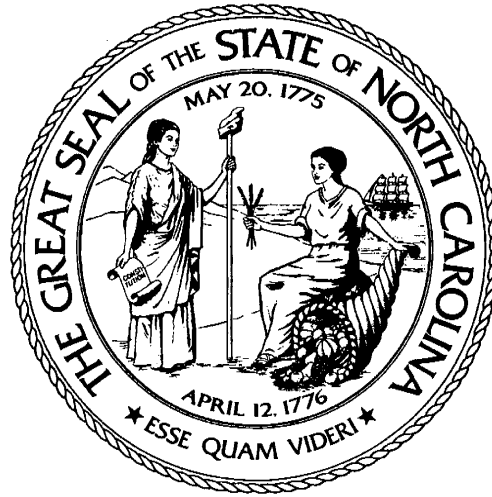
Computing Services	State Telecommunications Services	Surplus Property	Totals
\$ 1,793	\$ 20,007	\$ 744	\$ 46,510
88,107	62,033	1,304	254,354
(46,835)	(62,487)	(552)	(185,302)
(25,287)	(13,789)	(1,554)	(59,811)
—	—	—	(3,668)
(4,837)	(1,628)	(193)	(14,573)
(1,198)	(296)	242	(1,304)
<u>11,743</u>	<u>3,840</u>	<u>(9)</u>	<u>36,206</u>
3,233	—	28	3,307
(15)	(87)	—	(162)
<u>3,218</u>	<u>(87)</u>	<u>28</u>	<u>3,145</u>
(2,920)	(4,073)	(42)	(17,805)
21	—	—	241
—	—	—	153
<u>(2,899)</u>	<u>(4,073)</u>	<u>(42)</u>	<u>(17,411)</u>
—	—	—	—
—	—	—	1,800
—	—	—	1,800
12,062	(320)	(23)	23,740
6,944	9,995	989	54,476
<u>\$ 19,006</u>	<u>\$ 9,675</u>	<u>\$ 966</u>	<u>\$ 78,216</u>
\$ 4,755	\$ 1,520	\$ (93)	\$ 8,247
7,607	1,695	14	28,058
—	—	—	112
—	—	—	37
922	58	(68)	(268)
(1,345)	(1,505)	2	(1,867)
(2)	7	—	4
2	(113)	—	47
—	—	—	119
1,583	1,614	—	3,197
(2,301)	318	100	(2,716)
—	(19)	(32)	130
522	265	68	774
—	—	—	332
<u>\$ 11,743</u>	<u>\$ 3,840</u>	<u>\$ (9)</u>	<u>\$ 36,206</u>
\$ 29,820	\$ 45	\$ —	\$ 29,865
—	—	—	30,014
—	—	—	434

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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, 2008

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.....	\$ 232	\$ 100,346	\$ 414	\$ 100,992
Investments:				
U.S. government securities.....	—	2,073	—	2,073
Certificates of deposit.....	—	63,602	—	63,602
Securities lending collateral.....	148	—	264	412
Receivables:				
Interest receivable.....	1	—	1	2
Sureties.....	905,225	—	—	905,225
Total Assets.....	<u>905,606</u>	<u>166,021</u>	<u>679</u>	<u>1,072,306</u>
Liabilities				
Obligations under securities lending.....	148	—	264	412
Total Liabilities.....	<u>148</u>	<u>—</u>	<u>264</u>	<u>412</u>
Net Assets				
Held in trust for:				
Individuals, organizations, and other governments.....	905,458	166,021	415	1,071,894
Total Net Assets.....	<u>\$ 905,458</u>	<u>\$ 166,021</u>	<u>\$ 415</u>	<u>\$ 1,071,894</u>

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

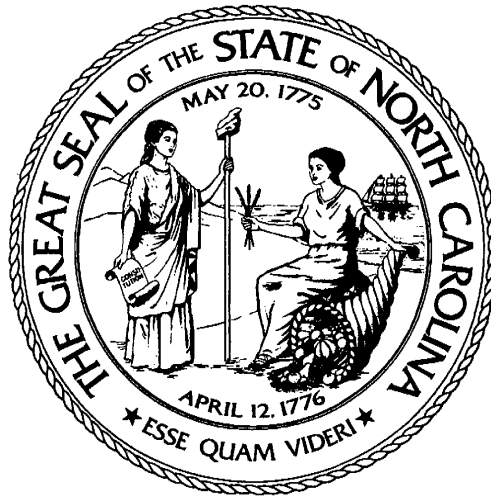
For the Fiscal Year Ended June 30, 2008

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.....	\$ 26,700	\$ 118,786	\$ 1	\$ 145,487
Total contributions.....	<u>26,700</u>	<u>118,786</u>	<u>1</u>	<u>145,487</u>
Investment Income:				
Investment earnings.....	31	3,674	33	3,738
Less investment expenses.....	<u>(18)</u>	<u>—</u>	<u>(13)</u>	<u>(31)</u>
Net investment income.....	<u>13</u>	<u>3,674</u>	<u>20</u>	<u>3,707</u>
Total additions.....	<u>26,713</u>	<u>122,460</u>	<u>21</u>	<u>149,194</u>
Deductions:				
Payments in accordance with trust arrangements.....	9,839	121,570	—	131,409
Administrative expenses.....	<u>9</u>	<u>—</u>	<u>—</u>	<u>9</u>
Total deductions.....	<u>9,848</u>	<u>121,570</u>	<u>—</u>	<u>131,418</u>
Change in net assets.....	16,865	890	21	17,776
Net assets — July 1.....	888,593	165,131	394	1,054,118
Net assets — June 30.....	<u>\$ 905,458</u>	<u>\$ 166,021</u>	<u>\$ 415</u>	<u>\$ 1,071,894</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, 2008

(Dollars in Thousands)

	Balance, July 1, 2007	Additions	Deductions	Balance, June 30, 2008
Local Sales Tax Collections				
Assets				
Cash and cash equivalents.....	\$ 459,064	\$ 2,791,739	\$ (2,777,993)	\$ 472,810
Receivables:				
Taxes receivable.....	165,600	179,400	(208,600)	136,400
Due from other funds.....	12,732	14,474	(12,732)	14,474
Total Assets.....	<u>\$ 637,396</u>	<u>\$ 2,985,613</u>	<u>\$ (2,999,325)</u>	<u>\$ 623,684</u>
Liabilities				
Accounts payable and accrued liabilities:				
Intergovernmental payable.....	\$ 637,396	\$ 2,985,613	\$ (2,999,325)	\$ 623,684
Total Liabilities.....	<u>\$ 637,396</u>	<u>\$ 2,985,613</u>	<u>\$ (2,999,325)</u>	<u>\$ 623,684</u>
Clerks of Court				
Assets				
Cash and cash equivalents.....	\$ 102,196	\$ 1,543,368	\$ (1,559,723)	\$ 85,841
Receivables:				
Accounts receivable.....	417	5,768	(5,575)	610
Sureties.....	96,198	50,812	(53,724)	93,286
Total Assets.....	<u>\$ 198,811</u>	<u>\$ 1,599,948</u>	<u>\$ (1,619,022)</u>	<u>\$ 179,737</u>
Liabilities				
Accounts payable and accrued liabilities:				
Intergovernmental payable.....	\$ 5,280	\$ 124,987	\$ (124,500)	\$ 5,767
Funds held for others.....	193,531	521,034	(540,595)	173,970
Total Liabilities.....	<u>\$ 198,811</u>	<u>\$ 646,021</u>	<u>\$ (665,095)</u>	<u>\$ 179,737</u>
Intra-Entity Investment Fund Deposits				
Assets				
Cash and cash equivalents.....	\$ 2,190,145	\$ 513,396	\$ —	\$ 2,703,541
Investments:				
State Treasurer investment pool.....	40,868	3,295	—	44,163
Securities lending collateral.....	1,832,246	—	(90,951)	1,741,295
Total Assets.....	<u>\$ 4,063,259</u>	<u>\$ 516,691</u>	<u>\$ (90,951)</u>	<u>\$ 4,488,999</u>
Liabilities				
Obligations under securities lending.....	\$ 1,832,246	\$ —	\$ (90,951)	\$ 1,741,295
Funds held for others.....	2,231,013	516,691	—	2,747,704
Total Liabilities.....	<u>\$ 4,063,259</u>	<u>\$ 516,691</u>	<u>\$ (90,951)</u>	<u>\$ 4,488,999</u>
Insurers in Receivership				
Assets				
Cash and cash equivalents.....	\$ 40,885	\$ 19,835	\$ (7,738)	\$ 52,982
Investments:				
Corporate bonds.....	54,801	7,571	(16,479)	45,893
Corporate stocks.....	1,011	—	—	1,011
Receivables:				
Accounts receivable.....	8,182	11,530	(4,883)	14,829
Interest receivable.....	275	—	(275)	—
Total Assets.....	<u>\$ 105,154</u>	<u>\$ 38,936</u>	<u>\$ (29,375)</u>	<u>\$ 114,715</u>
Liabilities				
Funds held for others.....	\$ 105,154	\$ 38,936	\$ (29,375)	\$ 114,715
Total Liabilities.....	<u>\$ 105,154</u>	<u>\$ 38,936</u>	<u>\$ (29,375)</u>	<u>\$ 114,715</u>

COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES AGENCY FUNDS

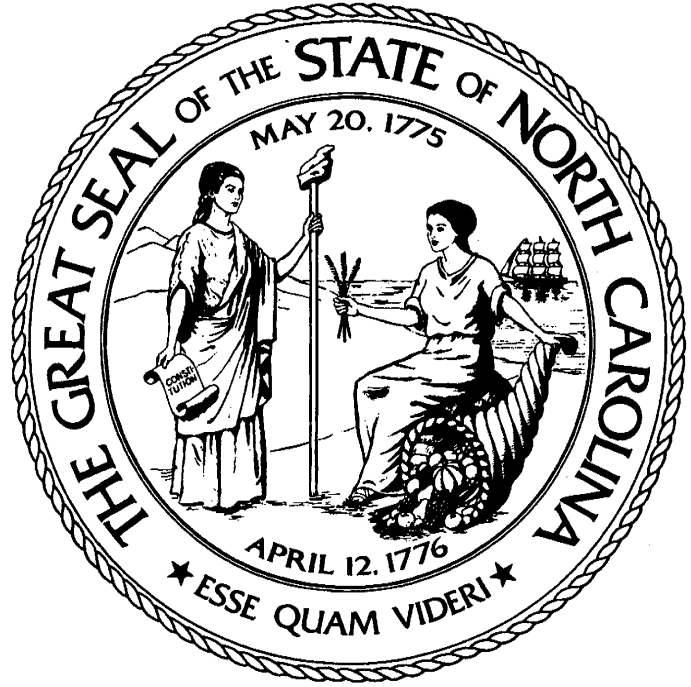
For the Fiscal Year Ended June 30, 2008

Exhibit F-3

(Dollars in Thousands)

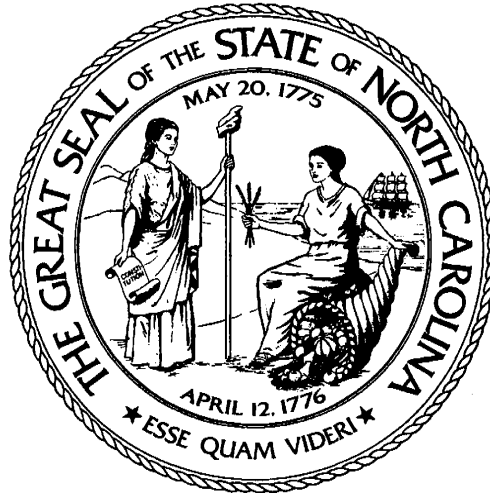
	Balance, July 1, 2007	Additions	Deductions	Balance, June 30, 2008
Departmental Funds				
Assets				
Cash and cash equivalents.....	\$ 26,261	\$ 1,207,902	\$ (1,199,399)	\$ 34,764
Investments:				
Certificates of deposit.....	392	1,968	(1,968)	392
Securities lending collateral.....	15,968	—	(819)	15,149
Receivables:				
Accounts receivable.....	21	—	—	21
Interest receivable.....	1	—	—	1
Due from other funds.....	47	156	—	203
Inventories.....	301	—	(301)	—
Total Assets.....	\$ 42,991	\$ 1,210,026	\$ (1,202,487)	\$ 50,530
Liabilities				
Accounts payable and accrued liabilities:				
Accounts payable.....	\$ 418	\$ 8,592	\$ (8,415)	\$ 595
Intergovernmental payable.....	6,147	202,462	(202,462)	6,147
Obligations under securities lending.....	15,968	—	(819)	15,149
Deposits payable.....	1,640	4,748	(4,567)	1,821
Funds held for others.....	18,818	114,703	(106,703)	26,818
Total Liabilities.....	\$ 42,991	\$ 330,505	\$ (322,966)	\$ 50,530
Total Agency Funds				
Assets				
Cash and cash equivalents.....	\$ 2,818,551	\$ 6,076,240	\$ (5,544,853)	\$ 3,349,938
Investments:				
Corporate bonds.....	54,801	7,571	(16,479)	45,893
Corporate stocks.....	1,011	—	—	1,011
Certificates of deposit.....	392	1,968	(1,968)	392
State Treasurer investment pool.....	40,868	3,295	—	44,163
Securities lending collateral.....	1,848,214	—	(91,770)	1,756,444
Receivables:				
Taxes receivable.....	165,600	179,400	(208,600)	136,400
Accounts receivable.....	8,620	17,298	(10,458)	15,460
Interest receivable.....	276	—	(275)	1
Due from other funds.....	12,779	14,630	(12,732)	14,677
Inventories.....	301	—	(301)	—
Sureties.....	96,198	50,812	(53,724)	93,286
Total Assets.....	\$ 5,047,611	\$ 6,351,214	\$ (5,941,160)	\$ 5,457,665
Liabilities				
Accounts payable and accrued liabilities:				
Accounts payable.....	\$ 418	\$ 8,592	\$ (8,415)	\$ 595
Intergovernmental payable.....	648,823	3,313,062	(3,326,287)	635,598
Obligations under securities lending.....	1,848,214	—	(91,770)	1,756,444
Deposits payable.....	1,640	4,748	(4,567)	1,821
Funds held for others.....	2,548,516	1,191,364	(676,673)	3,063,207
Total Liabilities.....	\$ 5,047,611	\$ 4,517,766	\$ (4,107,712)	\$ 5,457,665

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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, 2008

(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.....	\$ 652	\$ 9,966	\$ 9,148	\$ 259	\$ 2,125	\$ 2,250
Investments.....	10,185	—	—	4,471	997	—
Receivables, net.....	6,645	211	1,097	3,651	193	294
Due from component units.....	—	—	—	—	138	—
Inventories.....	872	1	—	—	—	—
Prepaid items.....	379	—	—	90	11	82
Notes receivable, net.....	—	7,654	—	—	216	—
Deferred charges.....	846	—	—	—	—	—
Restricted/designated cash and cash equiv....	10,413	—	480	—	—	28,814
Restricted investments.....	1,150	—	1,820	—	—	—
Restricted due from component units.....	—	—	100,000	—	—	—
Capital assets-nondepreciable.....	76,451	172	23,513	—	72	16,945
Capital assets-depreciable, net.....	219,230	29	55,632	210	911	68,000
Total Assets.....	<u>326,823</u>	<u>18,033</u>	<u>191,690</u>	<u>8,681</u>	<u>4,663</u>	<u>116,385</u>
Liabilities						
Accounts payable and accrued liabilities.....	2,412	144	256	260	46	3,662
Interest payable.....	6	—	213	—	—	—
Due to primary government.....	24	1	12,195	1,110	—	—
Unearned revenue.....	342	—	—	—	308	—
Advance from primary government.....	—	—	21,742	—	—	—
Deposits payable.....	—	—	3	—	—	68
Funds held for others.....	—	—	—	70	—	—
Long-term liabilities:						
Due within one year.....	20,254	2	448	28	102	—
Due in more than one year.....	78,796	30	4,533	164	—	—
Total Liabilities.....	<u>101,834</u>	<u>177</u>	<u>39,390</u>	<u>1,632</u>	<u>456</u>	<u>3,730</u>
Net Assets						
Invested in capital assets, net of related debt.....	197,838	201	54,337	210	982	84,946
Restricted for:						
Expendable:						
Health and human services.....	—	—	—	4,597	—	—
Economic development.....	7,791	—	101,480	—	—	28,762
Unrestricted.....	19,360	17,655	(3,517)	2,242	3,225	(1,053)
Total Net Assets.....	<u>\$ 224,989</u>	<u>\$ 17,856</u>	<u>\$ 152,300</u>	<u>\$ 7,049</u>	<u>\$ 4,207</u>	<u>\$ 112,655</u>

Exhibit G-1

N.C. Phase II Tobacco Certification Entity, Inc.	N.C. Turnpike Authority	Total
\$ —	\$ 185	\$ 24,585
—	—	15,653
—	120	12,211
—	—	138
—	—	873
—	—	562
—	—	7,870
—	—	846
—	—	39,707
—	—	2,970
—	—	100,000
—	27,095	144,248
—	52	344,064
—	27,452	693,727
—	2,432	9,212
—	—	219
—	—	13,330
—	—	650
—	11,180	32,922
—	—	71
—	—	70
—	3	20,837
—	27	83,550
—	13,642	160,861
—	27,147	365,661
—	—	4,597
—	—	138,033
—	(13,337)	24,575
\$ —	\$ 13,810	\$ 532,866

COMBINING STATEMENT OF ACTIVITIES
NONMAJOR COMPONENT UNITS

For the Fiscal Year Ended June 30, 2008

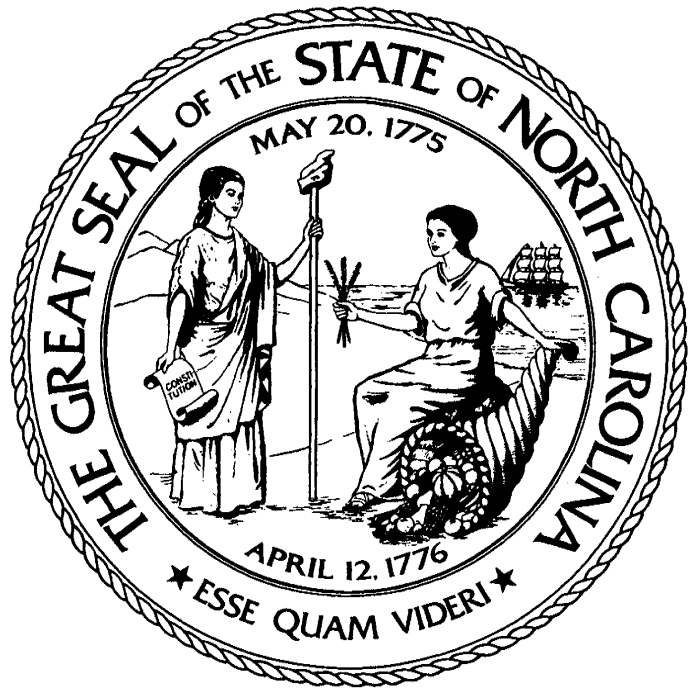
(Dollars in Thousands)

	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	\$ 39,830	\$ 706	\$ 7,286	\$ 133,717	\$ 4,762	\$ 10,064
Program revenues:						
Charges for services	39,731	844	1,398	—	214	14,645
Operating grants and contributions	569	597	742	1,352	904	1,722
Capital grants and contributions:						
State capital aid	10,000	—	—	—	—	8,693
Other capital grants and contributions	574	—	101,517	—	—	—
Net program (expense) revenue	11,044	735	96,371	(132,365)	(3,644)	14,996
Non-tax general revenues:						
State aid	—	—	1,600	131,908	3,786	—
Miscellaneous	—	—	—	382	128	734
Total non-tax general revenues	—	—	1,600	132,290	3,914	734
Change in net assets	11,044	735	97,971	(75)	270	15,730
Net assets — July 1, as restated	213,945	17,121	54,329	7,124	3,937	96,925
Net assets — June 30	<u>\$ 224,989</u>	<u>\$ 17,856</u>	<u>\$ 152,300</u>	<u>\$ 7,049</u>	<u>\$ 4,207</u>	<u>\$ 112,655</u>

Exhibit G-2

N.C. Phase II Tobacco Certification Entity, Inc.	N.C. Turnpike Authority	Total
\$ 1,091	\$ 6,252	\$ 203,708
—	—	56,832
17	26	5,929
—	9,382	28,075
—	7,291	109,382
<u>(1,074)</u>	<u>10,447</u>	<u>(3,490)</u>
—	—	137,294
36	—	1,280
<u>36</u>	<u>—</u>	<u>138,574</u>
(1,038)	10,447	135,084
1,038	3,363	397,782
<u>\$ —</u>	<u>\$ 13,810</u>	<u>\$ 532,866</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.

Contents	Page
<i>Financial Trends</i>	252
These schedules contain trend information to help the reader understand how the State's financial performance has changed over time.	
Net Assets by Component - Fiscal Years 2002-2008	
Changes in Net Assets - Fiscal Years 2002-2008	
Fund Balances of Governmental Funds - Fiscal Years 2002-2008	
Changes in Fund Balances of Governmental Funds - Fiscal Years 1999-2008	
Schedule of Revenues by Source - General Fund GAAP Basis- Fiscal Years 1999-2008	
<i>Revenue Capacity</i>	264
These schedules contain information to help the reader assess the factors affecting the State's ability to generate its individual income and sales taxes.	
Personal Income by Industry - Fiscal Years 1998-2006	
Individual Income Tax Filers and Liability - Calendar Years 1997 and 2006 and Individual Income Tax Rates - Calendar Years 1997-2008	
Taxable Sales by Business Group - Fiscal Years 2006-2008	
Sales Tax Revenue Payers by Business Group - Fiscal Years 1998 and 2008	
<i>Debt Capacity</i>	270
These schedules present information to help the reader assess the affordability of the State's current levels of outstanding debt and the State's ability to issue additional debt in the future.	
Ratios of Outstanding Debt by Type - Fiscal Years 1999-2008	
Ratios of General Bonded and Similar Debt Outstanding - Fiscal Years 1999-2008	
Schedule of General Obligation Bonds Payable - June 30, 2008	
Schedule of Special Indebtedness Debt - June 30, 2008	
Pledged Revenue Coverage - Fiscal Years 2002-2008	
<i>Demographic and Economic Information</i>	286
These schedules offer demographic and economic indicators to help the reader understand the environment within which the State's financial activities take place.	
Schedule of Demographic Data	
Principal Employers - Fiscal Years 2001 and 2008	
Teachers and State Employees by Function - Fiscal Years 2002-2008	
<i>Operating Information</i>	292
These schedules contain service and infrastructure data to help the reader understand how the information in the State's financial report relates to the services the State provides and the activities it performs.	
Operating Indicators by Function - Fiscal Years 2002-2008	
Capital Asset Statistics by Function - Fiscal Years 2002-2008	
Ten Year Claims Development Information - Public School Insurance Fund - Fiscal Years 1998-2008	

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 2002-2008

(Dollars in Thousands)

	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>
Governmental activities:					
Invested in capital assets, net of related debt..	\$ 30,931,799	\$ 29,715,168	\$ 28,052,926	\$ 26,434,617	\$ 24,706,355
Restricted.....	878,856	1,094,352	890,602	1,314,397	1,474,405
Unrestricted.....	(1,839,740)	(993,478)	(1,310,486)	(3,839,972)	(3,199,354)
Total governmental activities net assets [1].....	<u>\$ 29,970,915</u>	<u>\$ 29,816,042</u>	<u>\$ 27,633,042</u>	<u>\$ 23,909,042</u>	<u>\$ 22,981,406</u>
Business-type activities:					
Invested in capital assets, net of related debt..	32,515	\$ 26,673	\$ 26,975	\$ 44,007	\$ 40,277
Restricted.....	1,773,018	1,612,943	1,286,477	970,615	665,547
Unrestricted.....	91,236	74,860	75,108	76,988	48,295
Total business-type activities net assets.....	<u>\$ 1,896,769</u>	<u>\$ 1,714,476</u>	<u>\$ 1,388,560</u>	<u>\$ 1,091,610</u>	<u>\$ 754,119</u>
Primary government:					
Invested in capital assets, net of related debt..	\$ 30,964,314	\$ 29,741,841	\$ 28,079,901	\$ 26,478,624	\$ 24,746,632
Restricted.....	2,651,874	2,707,295	2,177,079	2,285,012	2,139,952
Unrestricted.....	(1,748,504)	(918,618)	(1,235,378)	(3,762,984)	(3,151,059)
Total primary government net assets.....	<u>\$ 31,867,684</u>	<u>\$ 31,530,518</u>	<u>\$ 29,021,602</u>	<u>\$ 25,000,652</u>	<u>\$ 23,735,525</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

<u>2003</u>	<u>2002</u>
\$ 23,449,373	\$ 22,025,039
1,071,626	1,604,772
(2,210,477)	(1,615,102)
<u>\$ 22,310,522</u>	<u>\$ 22,014,709</u>
\$ 38,450	\$ 38,267
863,426	797,437
56,448	50,479
<u>\$ 958,324</u>	<u>\$ 886,183</u>
\$ 23,487,823	\$ 22,063,306
1,935,052	2,402,209
(2,154,029)	(1,564,623)
<u>\$ 23,268,846</u>	<u>\$ 22,900,892</u>

CHANGES IN NET ASSETS

For the Fiscal Years 2002-2008

(Dollars in Thousands)

	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>
Expenses					
Governmental activities:					
General government.....	\$ 1,248,228	\$ 1,264,132	\$ 1,039,513	\$ 917,209	\$ 807,248
Primary and secondary education.....	10,635,026	9,126,169	8,215,445	7,699,208	7,223,766
Higher education.....	4,207,421	4,500,010	3,472,024	3,576,384	3,140,794
Health and human services.....	14,956,584	14,117,426	13,491,119	13,375,794	11,729,904
Economic development.....	746,660	624,106	647,434	625,561	536,055
Environment and natural resources.....	771,783	672,726	676,049	570,241	599,575
Public safety, corrections, and regulation.....	2,623,835	2,465,974	2,304,900	2,125,385	2,093,404
Transportation.....	1,938,394	2,019,942	1,781,865	1,795,490	1,870,578
Agriculture.....	119,395	88,970	112,467	81,628	82,394
Interest on long-term debt.....	304,020	273,123	264,287	249,433	191,228
Total governmental activities expenses.....	<u>37,551,346</u>	<u>35,152,578</u>	<u>32,005,103</u>	<u>31,016,333</u>	<u>28,274,946</u>
Business-type activities:					
Unemployment Compensation Fund.....	1,002,866	864,981	849,945	824,934	1,389,266
N.C. State Lottery..... [2]	712,718	559,373	153,125	-	-
EPA Revolving Loan..... [4]	12,454	14,228	11,414	7,170	5,342
Regulatory commissions..... [3]	34,791	31,144	28,526	25,974	-
Insurance programs.....	17,539	23,892	16,051	13,580	25,237
North Carolina State Fair.....	12,601	11,433	10,497	10,759	8,956
Other business-type activities.....	6,139	5,686	10,255	9,753	8,821
Total business-type activities expenses.....	<u>1,799,108</u>	<u>1,510,737</u>	<u>1,079,813</u>	<u>892,170</u>	<u>1,437,622</u>
Total primary government expenses.....	<u>\$ 39,350,454</u>	<u>\$ 36,663,315</u>	<u>\$ 33,084,916</u>	<u>\$ 31,908,503</u>	<u>\$ 29,712,568</u>
Program Revenues:					
Governmental activities:					
Charges for services:					
Transportation.....	\$ 777,059	\$ 782,405	\$ 725,311	\$ 588,357	\$ 553,229
Public safety, corrections, and regulation.....	501,837	429,824	411,188	378,059	371,625
General government.....	365,920	480,378	339,053	202,514	211,648
Other activities.....	536,419	467,769	512,449	503,552	368,588
Operating grants and contributions.....	12,302,301	12,026,012	11,503,844	11,380,864	10,108,124
Capital grants and contributions.....	826,646	758,910	914,090	1,011,451	884,345
Total governmental activities program revenues.....	<u>15,310,182</u>	<u>14,945,298</u>	<u>14,405,935</u>	<u>14,064,797</u>	<u>12,497,559</u>
Business-type activities:					
Charges for services:					
Unemployment Compensation Fund.....	1,091,856	1,099,959	1,101,357	1,062,549	878,722
N.C. State Lottery..... [2]	1,053,131	866,195	216,906	-	-
EPA Revolving Loan..... [4]	17,297	16,400	15,237	14,078	13,876
Regulatory commissions..... [3]	37,163	29,347	33,550	32,223	-
Insurance programs.....	16,991	13,901	14,860	15,993	13,259
North Carolina State Fair.....	15,029	11,617	12,581	12,227	11,961
Other business-type activities.....	6,498	5,887	7,973	8,906	9,073
Operating grants and contributions.....	83,695	106,000	64,085	54,760	305,053
Capital grants and contributions.....	6,589	142	258	452	892
Total business-type activities program revenues.....	<u>2,328,249</u>	<u>2,149,448</u>	<u>1,466,807</u>	<u>1,201,188</u>	<u>1,232,836</u>
Total primary government program revenues.....	<u>\$ 17,638,431</u>	<u>\$ 17,094,746</u>	<u>\$ 15,872,742</u>	<u>\$ 15,265,985</u>	<u>\$ 13,730,395</u>
Net (expense) revenue					
Governmental activities.....	\$ (22,241,164)	\$ (20,207,280)	\$ (17,599,168)	\$ (16,951,536)	\$ (15,777,387)
Business-type activities.....	529,141	638,711	386,994	309,018	(204,786)
Total primary government net expense.....	<u>\$ (21,712,023)</u>	<u>\$ (19,568,569)</u>	<u>\$ (17,212,174)</u>	<u>\$ (16,642,518)</u>	<u>\$ (15,982,173)</u>

Table 2

<u>2003</u>	<u>2002</u>
\$ 773,835	\$ 874,208
6,865,921	6,802,979
2,814,375	2,519,703
10,614,411	10,376,807
489,062	469,102
537,540	627,369
2,034,225	2,109,487
1,639,866	1,530,870
73,972	121,729
151,258	148,595
<u>25,994,465</u>	<u>25,580,849</u>
1,603,796	1,336,718
-	-
4,266	-
-	-
13,752	-
8,257	-
8,748	25,431
<u>1,638,819</u>	<u>1,362,149</u>
<u>\$ 27,633,284</u>	<u>\$ 26,942,998</u>
\$ 526,609	\$ 524,198
355,793	327,457
162,311	184,982
306,036	276,322
9,043,064	8,787,254
527,498	714,084
<u>10,921,311</u>	<u>10,814,297</u>
646,273	433,364
-	-
12,550	-
-	-
12,076	-
8,343	-
9,275	27,477
504,550	438,760
1,241	1,121
<u>1,194,308</u>	<u>900,722</u>
<u>\$ 12,115,619</u>	<u>\$ 11,715,019</u>
\$ (15,073,154)	\$ (14,766,552)
(444,511)	(461,427)
<u>\$ (15,517,665)</u>	<u>\$ (15,227,979)</u>

Continued

CHANGES IN NET ASSETS

For the Fiscal Years 2002-2008

(Dollars in Thousands)

	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>
General Revenues and Other Changes in Net Assets					
Governmental activities:					
Taxes					
Individual income tax..... [1]	\$ 10,676,156	\$ 10,739,562	\$ 9,336,745	\$ 8,244,275	\$ 7,407,455
Corporate income tax.....	1,357,670	1,466,148	1,306,193	1,143,458	760,180
Sales and use tax.....	5,159,453	5,108,456	5,033,040	4,621,098	4,293,040
Gasoline tax.....	1,579,847	1,601,764	1,514,626	1,354,699	1,276,627
Franchise tax.....	738,741	671,151	628,029	613,033	560,708
Highway use tax.....	566,132	607,511	577,237	580,118	578,346
Insurance tax.....	505,936	487,081	442,297	442,228	432,975
Beverage tax.....	258,193	245,990	233,315	220,782	213,271
Inheritance tax.....	158,178	162,746	133,158	135,107	128,352
Tobacco products tax..... [5]	249,664	241,687	-	-	-
Other tax.....	339,158	330,888	482,552	306,991	313,985
Tobacco settlement.....	168,583	144,075	140,969	148,800	147,224
Federal grants not restricted to specific programs.....	-	-	-	-	136,859
Unrestricted investment earnings.....	238,239	211,663	123,170	78,546	77,225
Miscellaneous.....	49,345	47,015	37,248	53,488	62,601
Contributions to permanent funds.....	3,894	3,928	4,674	2,288	2,068
Transfers.....	346,848	312,810	67,978	(11,620)	(302)
Total governmental activities.....	<u>22,396,037</u>	<u>22,382,475</u>	<u>20,061,231</u>	<u>17,933,291</u>	<u>16,390,614</u>
Business-type activities:					
Miscellaneous.....	-	15	4	79	3
Transfers.....	(346,848)	(312,810)	(67,978)	11,620	302
Total business-type activities.....	<u>(346,848)</u>	<u>(312,795)</u>	<u>(67,974)</u>	<u>11,699</u>	<u>305</u>
Total primary government.....	<u>\$ 22,049,189</u>	<u>\$ 22,069,680</u>	<u>\$ 19,993,257</u>	<u>\$ 17,944,990</u>	<u>\$ 16,390,919</u>
Change in Net Assets					
Governmental activities.....	\$ 154,873	\$ 2,175,195	\$ 2,462,063	\$ 981,755	\$ 613,227
Business-type activities.....	182,293	325,916	319,020	320,717	(204,481)
Total primary government.....	<u>\$ 337,166</u>	<u>\$ 2,501,111</u>	<u>\$ 2,781,083</u>	<u>\$ 1,302,472</u>	<u>\$ 408,746</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

<u>2003</u>	<u>2002</u>
\$ 7,122,099	\$ 7,234,431
921,611	599,382
4,029,403	3,778,873
1,154,986	1,212,788
584,584	590,992
552,759	555,320
417,126	347,893
198,848	200,593
112,150	106,491
-	-
289,261	278,740
173,256	175,836
136,859	139,350
103,987	-
41,137	57,484
1,806	2,019
4,918	47,957
15,844,790	15,328,149
-	-
(4,918)	(47,957)
(4,918)	(47,957)
\$ 15,839,872	\$ 15,280,192
\$ 771,636	\$ 561,597
(449,429)	(509,384)
\$ 322,207	\$ 52,213

FUND BALANCES OF GOVERNMENTAL FUNDS

For the Fiscal Years 2002-2008

(Dollars in Thousands)

	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>
General Fund						
Reserved.....	\$ 173,850	\$ 208,932	\$ 155,948	\$ 172,633	\$ 197,448	\$ 166,172
Unreserved.....	1,505,228	2,397,786	1,810,452	(251,442)	(393,735)	(333,127)
Total General Fund [1].....	<u>\$ 1,679,078</u>	<u>\$ 2,606,718</u>	<u>\$ 1,966,400</u>	<u>\$ (78,809)</u>	<u>\$ (196,287)</u>	<u>\$ (166,955)</u>
All Other Governmental Funds						
Reserved.....	\$ 1,182,723	\$ 1,014,757	\$ 951,701	\$ 911,966	\$ 847,174	\$ 672,653
Unreserved, reported in:						
Special revenue funds.....	2,519,286	2,524,643	2,204,146	2,170,533	2,260,374	2,041,905
Capital projects funds.....	284,536	224,991	115,060	44,237	110,395	84,677
Permanent funds.....	2,312	1,598	1,518	2,645	2,380	6,903
Total all other governmental funds.....	<u>\$ 3,988,857</u>	<u>\$ 3,765,989</u>	<u>\$ 3,272,425</u>	<u>\$ 3,129,381</u>	<u>\$ 3,220,323</u>	<u>\$ 2,806,138</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).

Table 3

<u>2002</u>
\$ 227,767
(576,318)
<u>\$ (348,551)</u>
\$ 1,099,039
2,254,227
73,751
226
<u>\$ 3,427,243</u>

CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS

For the Fiscal Years 1999-2008

(Dollars in Thousands)

		<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>
<u>Revenues</u>						
Taxes.....	[3]	\$ 21,583,521	\$ 21,660,719	\$ 19,848,465	\$ 17,618,730	\$ 15,961,629
Federal funds.....		12,096,354	11,519,927	11,315,722	11,287,454	10,089,075
Local funds.....		527,325	725,542	610,501	767,067	657,954
Investment earnings.....		620,829	669,297	384,014	292,406	160,846
Interest earnings on loans.....		5,156	5,639	5,405	5,664	5,801
Sales and services.....		285,848	264,081	260,538	235,894	210,161
Rental and lease of property.....		27,737	28,722	25,982	38,585	27,848
Fees, licenses and fines.....		1,593,893	1,525,928	1,405,569	1,218,431	1,035,303
Tobacco settlement.....		159,954	142,825	136,453	148,641	146,452
Contributions, gifts, and grants.....		140,575	155,958	118,936	108,450	150,731
Funds escheated.....		74,743	214,500	108,075	49,684	55,330
Federal funds for fiscal relief.....		—	—	—	—	136,859
Miscellaneous.....		167,449	122,161	161,052	146,529	196,937
Total revenues.....	[1]	<u>37,283,384</u>	<u>37,035,299</u>	<u>34,380,712</u>	<u>31,917,535</u>	<u>28,834,926</u>
<u>Expenditures</u>						
Current:						
General government.....		1,167,090	1,102,512	963,899	754,175	711,327
Education.....	[2]	N/A	N/A	N/A	N/A	N/A
Primary and secondary education.....	[2]	9,879,602	9,087,905	8,211,998	7,713,265	7,223,143
Higher education.....	[2]	4,207,164	4,405,767	3,471,604	3,576,766	3,140,698
Health and human services.....		14,918,068	14,203,474	13,318,071	13,376,364	11,722,721
Economic development.....		747,728	623,038	643,510	622,000	532,674
Environment and natural resources.....		689,119	662,296	626,442	579,853	581,726
Public safety, corrections, and regulation.....		2,629,567	2,467,763	2,291,596	2,123,837	2,073,338
Transportation.....		3,473,718	3,296,301	3,219,549	3,511,161	3,389,042
Agriculture.....		117,380	92,062	110,626	82,508	81,488
Retiree tax judgements.....		—	—	—	—	—
Capital outlay.....		346,764	451,716	270,882	313,932	385,506
Debt service:						
Principal retirement.....		427,550	417,807	367,946	303,818	235,792
Interest and fees.....		329,813	306,410	288,088	241,936	185,350
Debt issuance costs.....		2,141	2,456	1,645	7,454	4,830
Total expenditures.....	[1]	<u>38,935,704</u>	<u>37,119,507</u>	<u>33,785,856</u>	<u>33,207,069</u>	<u>30,267,635</u>
Excess revenues over (under) expenditures.....		<u>(1,652,320)</u>	<u>(84,208)</u>	<u>594,856</u>	<u>(1,289,534)</u>	<u>(1,432,709)</u>
<u>Other Financing Sources (Uses)</u>						
Bonds issued.....		—	502,745	370,000	1,075,140	1,377,560
Special Indebtedness issued.....		275,000	300,000	—	188,385	283,955
GARVEE bonds issued.....		287,565	—	—	—	—
Refunding bonds issued.....		—	84,385	—	959,665	326,710
Other debt issued.....		7,425	2,897	30,688	12,686	17,597
Premium on debt issued.....		21,843	40,867	16,338	210,116	137,256
Discount on debt issued.....		—	—	—	—	—
Payments to refunded bond escrow agent.....		—	(85,519)	—	(1,059,663)	(346,915)
Capital leases.....		—	799	26,745	212	—
Sale of capital assets.....		29,570	15,898	20,131	14,674	10,105
Insurance recoveries.....		7,317	5,700	6,537	—	—
Transfers in.....		2,567,141	2,340,937	1,784,222	1,754,448	1,566,520
Transfers out.....		(2,223,438)	(2,030,162)	(1,718,585)	(1,760,801)	(1,557,208)
Total other financing sources (uses).....		<u>972,423</u>	<u>1,178,547</u>	<u>536,076</u>	<u>1,394,862</u>	<u>1,815,580</u>
Net change in fund balances.....		<u>\$ (679,897)</u>	<u>\$ 1,094,339</u>	<u>\$ 1,130,932</u>	<u>\$ 105,328</u>	<u>\$ 382,871</u>
Debt service as a percentage of noncapital expenditures..		2.07%	2.06%	2.08%	1.78%	1.51%

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

2003	2002	2001	2000	1999
\$ 15,394,024	\$ 14,894,796	\$ 15,147,177	\$ 14,569,104	\$ 13,817,577
8,672,065	8,459,344	7,924,893	7,253,282	6,297,196
586,638	702,076	760,607	511,350	469,539
320,023	335,082	487,824	500,854	529,028
7,165	47,421	5,789	5,356	6,665
184,739	194,548	97,686	94,751	92,237
22,175	24,359	43,046	25,059	26,913
915,380	864,912	896,435	1,046,042	895,892
173,256	175,836	140,272	—	N/A
90,486	93,802	122,871	79,554	71,787
41,369	90,181	N/A	N/A	N/A
136,859	N/A	N/A	N/A	N/A
147,777	145,887	165,349	147,816	172,103
<u>26,691,956</u>	<u>26,028,244</u>	<u>25,791,949</u>	<u>24,233,168</u>	<u>22,378,937</u>
691,267	809,398	1,035,440	1,229,513	1,039,855
N/A	N/A	6,964,812	6,674,757	6,253,838
6,863,338	6,802,662	N/A	N/A	N/A
2,813,629	2,519,624	N/A	N/A	N/A
10,583,184	10,398,386	9,617,423	8,411,025	7,665,461
484,298	498,644	453,931	428,819	370,124
534,405	574,871	459,170	371,238	354,025
1,998,576	2,070,166	1,948,423	1,999,894	1,670,703
2,967,551	2,992,187	2,820,290	2,598,605	2,508,886
81,857	122,337	88,623	143,936	72,562
—	—	58,679	440,000	399,000
104,379	126,011	155,228	159,241	182,793
168,009	180,398	151,120	141,934	123,952
152,110	147,580	130,343	122,943	103,678
1,410	734	N/A	N/A	N/A
<u>27,444,013</u>	<u>27,242,998</u>	<u>23,883,482</u>	<u>22,721,905</u>	<u>20,744,877</u>
<u>(752,057)</u>	<u>(1,214,754)</u>	<u>1,908,467</u>	<u>1,511,263</u>	<u>1,634,060</u>
711,600	605,000	680,000	200,000	450,055
17,500	—	—	—	—
—	—	—	—	—
556,350	—	—	—	26,182
—	4,832	—	—	—
25,017	14,733	—	—	—
(254)	—	—	—	—
(558,444)	—	—	—	(26,182)
150	216	—	339	841
8,882	12,570	—	—	—
—	—	—	—	—
1,587,388	1,478,308	1,415,317	1,573,875	1,273,470
<u>(1,583,075)</u>	<u>(1,414,418)</u>	<u>(1,427,607)</u>	<u>(1,576,980)</u>	<u>(1,307,996)</u>
<u>765,114</u>	<u>701,241</u>	<u>667,710</u>	<u>197,234</u>	<u>416,370</u>
<u>\$ 13,057</u>	<u>\$ (513,513)</u>	<u>\$ 2,576,177</u>	<u>\$ 1,708,497</u>	<u>\$ 2,050,430</u>
1.25%	1.30%	1.26%	1.24%	1.17%

[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 1999-2008

(Dollars in Thousands)

	2008	2007	2006	2005	2004
TAX REVENUES					
Individual income tax..... [2]	\$ 10,672,362	\$ 10,737,494	\$ 9,493,714	\$ 8,206,026	\$ 7,404,956
Corporate income tax.....	1,265,654	1,357,454	1,208,356	1,065,374	699,441
Sales and use tax.....	5,125,674	5,078,997	5,007,567	4,587,542	4,268,292
Franchise tax.....	739,947	669,235	628,665	613,093	560,502
Beverage tax.....	257,393	245,430	232,987	220,782	213,271
Insurance tax.....	492,699	475,546	431,729	431,664	423,405
Piped natural gas.....	58,413	61,345	58,397	60,739	64,327
Intangible tax.....	—	—	—	—	—
Inheritance tax.....	158,789	161,604	133,248	134,419	129,579
Soft drink tax.....	—	—	—	—	—
Tobacco products tax.....	249,664	241,687	187,566	43,361	44,126
License tax.....	55,293	48,137	46,035	44,219	42,418
Real estate conveyance tax.....	—	—	—	—	—
Gift tax.....	17,361	15,669	16,251	18,924	16,615
Manufacturing tax.....	37,661	39,132	11,992	—	—
Other taxes.....	16,623	16,640	15,579	14,114	13,571
Total tax revenues.....	19,147,533	19,148,370	17,472,086	15,440,257	13,880,503
NON-TAX REVENUES					
Federal Funds:					
Departmental revenues.....	10,843,765	10,312,318	9,905,879	9,755,067	8,769,925
Federal Funds for Fiscal Relief:					
Federal funds for fiscal relief.....	—	—	—	—	136,859
Local Funds:					
Departmental revenues.....	486,536	665,532	574,300	731,368	636,900
Investment Earnings:					
Income from General Fund investments.....	234,478	208,955	122,405	75,669	76,415
Income from securities lending.....	143,487	216,072	133,098	48,463	21,305
Departmental revenues.....	7,829	8,059	7,357	8,539	2,613
Other investment earnings.....	39	66	44	14	3
	385,833	433,152	262,904	132,685	100,336
Interest Earnings on Loans:					
Departmental revenues.....	113	399	—	—	—
Sales and Services:					
Departmental revenues.....	102,307	94,664	94,994	85,592	76,010
Other non-tax revenues.....	138	171	184	168	182
	102,445	94,835	95,178	85,760	76,192
Rental and Lease of Property:					
Proceeds from rental and lease of property.....	98	41	57	4,304	102
Departmental revenues.....	7,908	8,392	7,885	7,072	6,620
	8,006	8,433	7,942	11,376	6,722
Fees, Licenses and Fines:					
Court fines and fees.....	198,520	159,583	158,646	142,798	138,878
Secretary of State service fees.....	62,035	58,046	55,976	46,975	40,638
Banking and investment fees.....	5,862	5,466	5,386	5,165	4,758
Self insurer fees (Industrial Commission).....	14,791	14,292	14,269	14,128	13,777
Probation supervision fees.....	16,892	16,629	16,471	16,476	16,748
Department of Insurance fees.....	42,872	27,991	25,990	24,526	25,147
DWI service and restoration fees.....	9,441	8,782	8,420	8,398	8,709
Departmental revenues.....	164,813	160,006	157,024	200,452	62,578
Fines from tax collection activity.....	93,181	69,758	53,663	—	—
Other non-tax revenues.....	6,583	4,944	5,173	3,818	4,388
	614,990	525,497	501,018	462,736	315,621
Tobacco settlement					
Tobacco settlement.....	159,954	142,825	136,453	148,641	146,452
Contributions, Gifts and Grants:					
Departmental revenues.....	16,054	17,207	17,632	34,375	50,140
Other non-tax revenues.....	—	—	1	105	234
	16,054	17,207	17,633	34,480	50,374
Miscellaneous:					
Local sales and use tax administration.....	16,982	16,979	14,356	13,932	13,989
Sales tax refunds.....	3,303	4,124	3,014	10,253	14,456
Departmental revenues.....	106,517	56,733	113,171	84,927	123,852
Other non-tax revenue.....	1,566	1,508	1,302	1,253	2,083
	128,368	79,344	131,843	110,365	154,380
Total non-tax revenues.....	12,746,064	12,279,542	11,633,150	11,472,478	10,393,761
Total Revenues..... [1], [2]	\$ 31,893,597	\$ 31,427,912	\$ 29,105,236	\$ 26,912,735	\$ 24,274,264

Table 5

2003	2002	2001	2000	1999
\$ 7,126,655	\$ 7,219,794	\$ 7,605,542	\$ 7,097,514	\$ 6,586,153
922,936	548,046	712,161	989,280	920,583
4,020,923	3,766,285	3,429,532	3,361,189	3,342,157
583,781	592,259	746,687	557,544	567,497
198,848	200,593	198,646	193,003	182,970
408,873	340,785	305,791	273,367	291,202
63,219	64,852	64,854	52,025	—
—	—	4	20	31
112,605	104,799	123,094	162,997	163,608
—	2	48	144	11,463
41,899	41,500	42,137	43,104	44,694
44,565	44,432	43,874	42,595	27,202
—	—	—	—	1,215
19,328	13,392	20,254	25,084	19,243
—	—	—	—	—
12,508	17,479	11,152	10,292	10,973
<u>13,556,140</u>	<u>12,954,218</u>	<u>13,303,776</u>	<u>12,808,158</u>	<u>12,168,991</u>
<u>7,564,627</u>	<u>7,266,016</u>	<u>6,777,503</u>	<u>6,156,189</u>	<u>5,361,839</u>
<u>136,859</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
<u>562,498</u>	<u>682,310</u>	<u>737,063</u>	<u>482,387</u>	<u>436,609</u>
103,786	129,924	163,479	204,083	248,657
30,604	44,659	111,490	112,011	112,531
4,745	4,217	10,022	7,300	4,416
5	9,531	320	251	81
<u>139,140</u>	<u>188,331</u>	<u>285,311</u>	<u>323,645</u>	<u>365,685</u>
<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
61,316	61,031	68,736	69,793	70,036
198	228	405	276	350
<u>61,514</u>	<u>61,259</u>	<u>69,141</u>	<u>70,069</u>	<u>70,386</u>
92	546	573	1,035	786
6,140	6,556	16,989	7,218	5,773
<u>6,232</u>	<u>7,102</u>	<u>17,562</u>	<u>8,253</u>	<u>6,559</u>
126,381	109,575	111,012	97,808	99,986
36,807	31,357	29,584	24,255	20,099
4,485	4,336	10,914	4,029	4,332
13,512	6,795	7,098	6,360	4,128
14,339	10,833	10,453	10,605	11,166
21,198	22,854	20,210	18,433	18,205
7,332	5,822	5,706	5,703	5,936
41,747	41,540	40,422	38,300	110,664
—	—	—	—	—
4,161	4,124	4,065	4,181	2,652
<u>269,962</u>	<u>237,236</u>	<u>239,464</u>	<u>209,674</u>	<u>277,168</u>
<u>173,256</u>	<u>175,836</u>	<u>140,272</u>	<u>—</u>	<u>—</u>
29,702	33,658	53,425	15,452	17,511
1	30	—	2	101
<u>29,703</u>	<u>33,688</u>	<u>53,425</u>	<u>15,454</u>	<u>17,612</u>
12,495	11,774	11,568	10,973	10,293
7,908	11,120	11,494	15,514	10,406
95,753	89,489	123,230	108,555	130,518
315	6,307	914	866	844
<u>116,471</u>	<u>118,690</u>	<u>147,206</u>	<u>135,908</u>	<u>152,061</u>
<u>9,060,262</u>	<u>8,770,468</u>	<u>8,466,947</u>	<u>7,401,579</u>	<u>6,687,919</u>
<u>\$ 22,616,402</u>	<u>\$ 21,724,686</u>	<u>\$ 21,770,723</u>	<u>\$ 20,209,737</u>	<u>\$ 18,856,910</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 1998-2006

(Dollars in thousands)

	2006	2005	2004	2003	2002
Manufacturing.....	\$ 34,584,478	\$ 34,269,266	\$ 33,548,821	\$ 32,744,219	\$ 32,957,483
Retail trade.....	14,693,918	14,177,755	13,429,246	12,967,684	12,770,117
Services.....	65,331,198	60,382,349	56,406,055	52,284,237	50,615,389
Agricultural, forestry, fishing, etc.....	648,337	623,849	601,058	610,273	600,946
Government.....	42,848,561	40,012,420	37,172,280	34,622,175	32,293,906
Construction.....	14,590,274	13,430,344	12,150,555	11,065,474	11,039,949
Wholesale trade.....	11,967,751	11,125,943	10,454,386	9,561,303	9,033,833
Transportation and warehousing.....	6,424,641	5,917,422	5,766,079	5,450,793	5,428,763
Finance and insurance.....	14,101,271	12,400,299	11,317,399	10,768,135	10,132,069
Mining.....	400,783	334,404	282,015	247,892	240,364
Utilities..... [1]	1,462,299	1,347,225	1,353,932	1,316,184	1,275,067
Information..... [1]	5,645,123	5,735,716	5,435,116	5,168,423	5,138,686
Real estate and rental and leasing.....	4,226,666	4,400,850	3,924,984	3,625,524	3,304,984
Total.....	\$ 216,925,300	\$ 204,157,842	\$ 191,841,926	\$ 180,432,316	\$ 174,831,556
Average effective rate [2]:					
Individual income tax.....	4.4%	4.0%	3.9%	3.9%	4.1%

[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 & 2008 is not available.)

Information prior to 1998 was not available.

Table 6

	<u>2001</u>	<u>2000</u>	<u>1999</u>	<u>1998</u>
\$	33,339,686	\$ 35,305,549	\$ 33,669,223	\$ 32,650,010
	12,587,584	14,265,654	13,517,581	12,414,512
	48,236,817	34,278,925	31,337,093	28,119,353
	618,682	907,049	827,266	738,696
	30,616,692	29,435,566	27,538,020	26,140,579
	11,565,880	8,799,938	8,300,149	7,592,861
	8,588,296	9,641,533	9,108,928	8,511,319
	5,324,201	5,073,577	4,808,932	4,542,317
	9,440,396	9,343,795	8,469,976	7,742,498
	278,288	212,489	206,714	201,577
	-	-	-	-
	-	-	-	-
	3,268,078	1,264,710	1,180,757	1,083,707
\$	<u>163,864,600</u>	<u>\$ 148,528,785</u>	<u>\$ 138,964,639</u>	<u>\$ 129,737,429</u>
	4.6%	4.8%	4.7%	4.7%

Individual Income Tax Filers and Liability - Calendar Years 1997 and 2006
Individual Income Tax Rates - Calendar Years 1997-2008

Table 7

North Carolina Taxable Income	Calendar Year 2006				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.....	1,982,461	50.2%	447,671,215	4.8%	1,905,113	55.1%	\$ 488,197,412	8.6%
\$15,001 to \$25,000.....	537,076	13.6%	609,210,957	6.5%	511,583	14.8%	594,444,487	10.5%
\$25,001 to \$50,000.....	724,405	18.3%	1,610,541,801	17.2%	651,213	18.8%	1,439,015,941	25.5%
\$50,001 to \$75,000.....	329,959	8.3%	1,295,682,705	13.8%	216,854	6.3%	841,378,659	14.9%
\$75,001 to \$100,000.....	151,647	3.8%	865,826,688	9.2%	73,427	2.1%	418,097,539	7.4%
\$100,001 to \$200,000.....	159,707	4.0%	1,475,544,276	15.8%	70,304	2.0%	649,278,481	11.5%
\$200,001 and up.....	71,765	1.8%	3,061,247,949	32.7%	32,224	0.9%	1,220,905,346	21.6%
	<u>3,957,020</u>	100.0%	<u>\$ 9,365,725,591</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 2006 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%
2007-2008				
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 2006-2008

Table 8

(Dollars in Thousands)

	<u>2008</u>	<u>2007</u>	<u>2006</u>
General merchandise.....	\$ 27,545,474	\$ 27,814,179	\$ 24,141,458
Food.....	20,427,943	18,856,362	17,333,935
Lumber & building material.....	15,125,717	15,625,168	14,749,083
Automotive.....	5,782,027	6,138,450	5,416,622
1%, 2%, 2.5% and 3% tax group.....	878,522	1,350,932	4,551,097
Furniture.....	4,746,011	4,733,484	4,387,923
Apparel.....	3,901,540	3,753,902	3,481,573
Unclassified.....	29,529,959	28,314,743	27,490,165
Total.....	<u>\$ 107,937,193</u>	<u>\$ 106,587,220</u>	<u>\$ 101,551,856</u>
Direct sales tax rate	4.25%	4.25%	4.50%

1%, 2%, 2.5% and 3% tax group includes manufactured homes, airplanes, boats, modular homes, farm mill, laundry machinery, fuel to farmers, manufacturers and laundries.

Source: North Carolina Department of Revenue

SALES TAX REVENUE PAYERS BY BUSINESS GROUP

For the Fiscal Years 1998 & 2008

Table 9

	2008		1998	
	Tax Liability	Percentage of Total	Tax Liability	Percentage of Total
General merchandise.....	\$ 1,175,496,988	21.30%	\$ 625,352,352	19.33%
Food.....	876,098,237	15.87%	740,721,893	22.90%
Utilities.....	916,293,711	16.60%	351,593,637	10.87%
Lumber & building material.....	644,616,863	11.68%	342,385,447	10.59%
Automotive.....	268,653,868	4.87%	182,729,329	5.65%
Furniture.....	203,240,968	3.68%	142,354,550	4.40%
Apparel.....	166,503,664	3.02%	100,886,318	3.12%
Farming.....	755,963	0.01%	54,697,552	1.69%
Unclassified.....	1,267,588,011	22.97%	693,807,982	21.45%
Total.....	<u>\$ 5,519,248,273</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 1, 2001, the \$1,500 tax limit applicable to short-term leases of noncommercial vehicles was repealed. Effective October 16, 2001, the general sales rate increased from 4% to 4.5%. Effective December 1, 2001, sales of spirituous liquor, other than mixed beverages, became subject to a 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 a 5% State sales tax. Effective January 1, 2002, gross receipts derived from providing telecommunications services became subject to a 6% State sales and use 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 spirituous liquor 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 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%). Effective January 1, 2007, sales of intermodal cranes, intermodal hostler trucks and railroad locomotives to the owner or lessee of an eligible railroad intermodal facility was exempted. Sales to the owner or lessee of an eligible railroad intermodal facility of sales taxes on building supplies, fixtures, and equipment that become a part of the real property of the facility was exempted. Effective June 29, 2007, additional 0.25% Sales general and use tax rate, scheduled to be repealed for sales made on or after July 1, 2007, was extended for one month.
2007-08	Effective July 1, 2007, tax on electricity (2.83%) sold to manufacturers was repealed and the new rate is 2.6%. Effective July 1, 2007, manufacturers and assemblers of aircraft parts, professional motorsports racing teams of 50% of tax on property that comprises any part of a professional motor racing vehicle and taxpayers engaged in analytical services of 50% of tax paid on property consumed or transformed in analytical services would receive refunds. Effective July 31, 2007, additional 0.25% State general sales and use tax rate was made permanent. As a result the combined general rate remains at 6.75%. Effective October 1, 2007, Tax on electricity sold to farmers (2.83%) was repealed and the new rate is 1.8%. Effective October 1, 2007, Tax on electricity sold to manufacturers (2.6%) was repealed and the new rate is 1.8%. Effective October 1, 2007, baler twine sold to farmers and bread sold at a bakery thrift store was exempted.

Source: North Carolina Department of Revenue

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RATIOS OF OUTSTANDING DEBT BY TYPE

For the Fiscal Years 1999-2008

(Dollars in Thousands)

	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>
Governmental activities:					
General obligation bonds.....	\$ 5,533,760	\$ 5,902,330	\$ 5,738,815	\$ 5,698,535	\$ 4,982,860
Lease-purchase revenue bonds.....	235,045	245,045	255,045	265,045	218,405
Revenue bonds.....	—	—	8,800	—	—
Certificates of participation.....	965,880	727,640	454,060	475,170	301,165
GARVEE bonds.....	287,565	—	—	—	—
Tax judgements payable.....	—	—	—	—	—
Notes payable.....	33,187	37,276	62,298	34,007	25,008
Capital leases payable.....	24,659	25,740	26,879	330	304
Total Governmental Activities.....	<u>7,080,096</u>	<u>6,938,031</u>	<u>6,545,897</u>	<u>6,473,087</u>	<u>5,527,742</u>
Business-type activities:					
Revenue bonds..... (a)	—	—	—	9,070	9,325
Notes payable..... (a)	—	—	—	1,569	—
Total Business-type Activities.....	<u>—</u>	<u>—</u>	<u>—</u>	<u>10,639</u>	<u>9,325</u>
Total Primary Government.....	<u>\$ 7,080,096</u>	<u>\$ 6,938,031</u>	<u>\$ 6,545,897</u>	<u>\$ 6,483,726</u>	<u>\$ 5,537,067</u>
Debt as a Percentage of Personal Income.....	2.15%	2.27%	2.29%	2.44%	2.22%
Amount of Debt per Capita.....	\$ 764	\$ 766	\$ 739	\$ 747	\$ 648

Note:

(a) The Town of Butner's Enterprise Funds related to water and sewer was sold.

Table 10

<u>2003</u>	<u>2002</u>	<u>2001</u>	<u>2000</u>	<u>1999</u>
\$ 4,066,990	\$ 3,467,325	\$ 3,038,693	\$ 2,509,986	\$ 2,451,973
—	—	—	—	—
—	—	—	—	—
17,500	—	—	—	—
—	—	—	—	—
—	—	—	58,744	440,000
9,629	11,753	7,870	8,797	3,270
322	216	—	853	904
<u>4,094,441</u>	<u>3,479,294</u>	<u>3,046,563</u>	<u>2,578,380</u>	<u>2,896,147</u>
9,570	9,905	9,905	—	—
—	—	—	—	—
<u>9,570</u>	<u>9,905</u>	<u>9,905</u>	<u>—</u>	<u>—</u>
<u>\$ 4,104,011</u>	<u>\$ 3,489,199</u>	<u>\$ 3,056,468</u>	<u>\$ 2,578,380</u>	<u>\$ 2,896,147</u>
1.73%	1.52%	1.36%	1.18%	1.48%
\$ 488	\$ 419	\$ 373	\$ 320	\$ 379

RATIOS OF GENERAL BONDED AND SIMILAR DEBT OUTSTANDING

For the Fiscal Years 1999-2008

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
2008	\$ 5,533,760	\$ 235,045	\$ 965,880	\$ 6,734,685	\$ 726.48
2007	5,902,330	245,045	727,640	6,875,015	758.75
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

Note: Population data can be found in table 15.

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SCHEDULE OF GENERAL OBLIGATION BONDS PAYABLE

June 30, 2008

(Dollars in Thousands)

Payable from General Fund Revenues

	Total General Obligation Bonds	<i>Total General Fund</i>	Capital	Public	Clean	Public	Public	Public
			Improve- ment Series 1989 5-1-89 6.5 - 6.9% [*]	School Building Series 1999 4-1-99 4.5-5.0%	Water Refunding Series 1999 4-1-99 2.9-5.0%	Improvement Series 1999A 9-1-99 5.0-5.4%	Improvement Series 2000A 9-1-00 5.0-5.1%	Improvement Series 2001A 3-1-01 4.5-5.0%
Bonds Authorized and Issued:								
Ch. 1048, 1987 session law..	\$ 20,499	\$ 20,499	\$ 20,499	\$ —	\$ —	\$ —	\$ —	\$ —
Ch. 631, 1995 session law....	900,000	900,000	—	450,000	—	—	295,000	100,000
General Statute Ch. 142.....	908,965	908,965	—	—	25,905	—	—	—
Ch. 590, 1995 session law....	400,000	—	—	—	—	—	—	—
Ch. 132, 1998 session law....	595,210	595,210	—	—	—	177,400	5,000	30,000
Ch. 3, 2000 session law.....	2,122,800	2,122,800	—	—	—	—	—	250,000
2004 session law.....	2,568,295	2,169,925	—	—	—	—	—	—
Total bonds authorized and issued.....	7,515,769	6,717,399	20,499	450,000	25,905	177,400	300,000	380,000
Accretion.....	16,475	16,475	16,475	—	—	—	—	—
Bonds retired.....	1,362,210	1,211,865	35,185	166,500	9,925	51,500	84,000	112,000
Partial defeasances.....	636,400	636,400	—	228,000	—	116,400	180,000	112,000
Bonds outstanding— 6/30/2008.....	<u>\$ 5,533,634</u>	<u>\$ 4,885,609</u>	<u>\$ 1,789</u>	<u>\$ 55,500</u>	<u>\$ 15,980</u>	<u>\$ 9,500</u>	<u>\$ 36,000</u>	<u>\$ 156,000</u>
Bond Maturity As Follows:								
2008-09.....	364,369	310,279	1,789	18,500	2,080	9,500	12,000	16,000
2009-10.....	364,385	310,320	—	18,500	2,050	—	12,000	16,000
2010-11.....	364,550	310,520	—	18,500	2,025	—	12,000	16,000
2011-12.....	365,575	311,575	—	—	2,000	—	—	16,000
2012-13.....	367,510	313,670	—	—	1,980	—	—	16,000
2013-14.....	367,685	313,085	—	—	1,965	—	—	16,000
2014-15.....	366,940	312,340	—	—	1,950	—	—	16,000
2015-16.....	366,970	312,370	—	—	1,930	—	—	16,000
2016-17.....	364,635	310,035	—	—	—	—	—	28,000
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>\$ 5,533,634</u>	<u>\$ 4,885,609</u>	<u>\$ 1,789</u>	<u>\$ 55,500</u>	<u>\$ 15,980</u>	<u>\$ 9,500</u>	<u>\$ 36,000</u>	<u>\$ 156,000</u>

[*] Capital
Appreciation
Bonds

Table 12

Payable from General Fund Revenues

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%	Clean Water Series 2002A 12-1-02 2.25 - 5.0%	Refunding Series 2002A 12-1-02 2% - 5.25%	Refunding Series 2002B 12-12-02 Variable to 20%	Refunding Series 2002C 12-12-02 Variable to 20%	Refunding Series 2002D 12-12-02 Variable to 20%
\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
—	55,000	—	—	—	—	—	—	—	—
—	—	—	—	—	—	56,480	100,000	100,000	100,000
204,400	—	—	—	—	18,800	—	—	—	—
—	33,750	88,750	88,750	88,750	—	—	—	—	—
—	—	—	—	—	—	—	—	—	—
204,400	88,750	88,750	88,750	88,750	18,800	56,480	100,000	100,000	100,000
—	—	—	—	—	—	—	—	—	—
104,400	—	—	—	—	1,055	29,280	—	—	—
—	—	—	—	—	—	—	—	—	—
<u>\$ 100,000</u>	<u>\$ 88,750</u>	<u>\$ 88,750</u>	<u>\$ 88,750</u>	<u>\$ 88,750</u>	<u>\$ 17,745</u>	<u>\$ 27,200</u>	<u>\$ 100,000</u>	<u>\$ 100,000</u>	<u>\$ 100,000</u>
25,000	—	—	—	—	235	6,795	—	—	—
25,000	—	—	—	—	255	10,030	—	—	—
25,000	—	—	—	—	270	10,375	—	—	—
25,000	—	—	—	—	750	—	4,520	4,520	4,520
—	6,250	6,250	6,250	6,250	1,815	—	10,920	10,920	10,920
—	6,250	6,250	6,250	6,250	1,795	—	10,815	10,815	10,815
—	6,250	6,250	6,250	6,250	1,775	—	10,700	10,700	10,700
—	6,250	6,250	6,250	6,250	2,245	—	13,385	13,385	13,385
—	6,250	6,250	6,250	6,250	510	—	3,520	3,520	3,520
—	10,750	10,750	10,750	10,750	4,915	—	27,975	27,975	27,975
—	23,250	23,250	23,250	23,250	3,180	—	18,165	18,165	18,165
—	18,750	18,750	18,750	18,750	—	—	—	—	—
—	4,750	4,750	4,750	4,750	—	—	—	—	—
—	—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—	—
<u>\$ 100,000</u>	<u>\$ 88,750</u>	<u>\$ 88,750</u>	<u>\$ 88,750</u>	<u>\$ 88,750</u>	<u>\$ 17,745</u>	<u>\$ 27,200</u>	<u>\$ 100,000</u>	<u>\$ 100,000</u>	<u>\$ 100,000</u>

Continued

SCHEDULE OF GENERAL OBLIGATION BONDS PAYABLE

June 30, 2008

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

	Refunding Series 2002E 12-12-02 Variable to 20%	Refunding Series 2002F 12-12-02 Variable to 20%	Public Improvement Series 2003A 3-1-03 2.0% - 5.25%	Public Improvement Series 2003B 4-1-03 2.0-5.0%	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%
Bonds Authorized and Issued:								
Ch. 1048, 1987 session law..	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
Ch. 631, 1995 session law....	—	—	—	—	—	—	—	—
General Statute Ch. 142.....	100,000	99,870	—	—	91,000	235,710	—	—
Ch. 590, 1995 session law....	—	—	—	—	—	—	—	—
Ch. 132, 1998 session law....	—	—	38,355	—	—	—	—	36,000
Ch. 3, 2000 session law.....	—	—	281,645	283,255	—	—	707,900	—
2004 session law.....	—	—	—	—	—	—	—	—
Total bonds authorized and issued.....	100,000	99,870	320,000	283,255	91,000	235,710	707,900	36,000
Accretion.....	—	—	—	—	—	—	—	—
Bonds retired.....	—	—	25,000	22,300	84,130	104,285	56,000	28,800
Partial defeasances.....	—	—	—	—	—	—	—	—
Bonds outstanding— 6/30/2008.....	<u>\$ 100,000</u>	<u>\$ 99,870</u>	<u>\$ 295,000</u>	<u>\$ 260,955</u>	<u>\$ 6,870</u>	<u>\$ 131,425</u>	<u>\$ 651,900</u>	<u>\$ 7,200</u>
Bond Maturity As Follows:								
2008-09.....	—	—	13,000	13,000	6,870	27,650	14,000	7,200
2009-10.....	—	—	13,000	13,000	—	27,715	25,000	—
2010-11.....	—	—	13,000	13,000	—	27,785	25,000	—
2011-12.....	4,520	4,500	13,000	13,000	—	27,855	25,000	—
2012-13.....	10,920	10,915	13,000	13,000	—	20,420	25,000	—
2013-14.....	10,815	10,795	13,000	13,000	—	—	25,000	—
2014-15.....	10,700	10,690	13,000	13,000	—	—	25,000	—
2015-16.....	13,385	13,370	13,000	13,000	—	—	25,000	—
2016-17.....	3,520	3,525	13,000	13,000	—	—	25,000	—
2017-18.....	27,975	27,950	13,000	13,000	—	—	25,000	—
2018-19.....	18,165	18,125	16,500	18,000	—	—	25,000	—
2019-20.....	—	—	16,500	30,000	—	—	65,000	—
2020-21.....	—	—	16,500	30,000	—	—	65,000	—
2021-22.....	—	—	16,500	30,000	—	—	65,000	—
2022-23.....	—	—	16,500	22,955	—	—	65,000	—
2023-24.....	—	—	16,500	—	—	—	65,000	—
2024-25.....	—	—	16,500	—	—	—	62,900	—
2025-26.....	—	—	16,500	—	—	—	—	—
2026-27.....	—	—	16,500	—	—	—	—	—
2027-28.....	—	—	16,500	—	—	—	—	—
Total Bonds Outstanding.....	<u>\$ 100,000</u>	<u>\$ 99,870</u>	<u>\$ 295,000</u>	<u>\$ 260,955</u>	<u>\$ 6,870</u>	<u>\$ 131,425</u>	<u>\$ 651,900</u>	<u>\$ 7,200</u>

Table 12

Payable from General Fund Revenues

Clean Water Series 2004A 3-29-04 2%-3.25%	Clean Water Refunding Series 2004 9-29-04 3%-5.5%	Capital Improvement Refunding Series 2004 9-29-04 4%-5.5%	Public School Refunding Series 2004 9-29-04 5%	Public Improvement Refunding Series 2004 9-29-04 3%-5.5%	Public Improvement Series 2005A 1-12-05 4%-5.5%	Natural Gas 2005 1-12-05 3%-4%	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%
\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
—	—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—	—
15,255	—	—	—	—	—	—	—	—	70,000
—	—	—	—	—	—	—	—	—	—
—	11,900	59,275	155,245	57,470	705,500	16,000	106,895	470,510	—
15,255	11,900	59,275	155,245	57,470	705,500	16,000	106,895	470,510	70,000
—	—	—	—	—	—	—	—	—	—
12,400	9,045	24,740	30,825	365	145,400	9,600	140	3,235	5,900
—	—	—	—	—	—	—	—	—	—
<u>\$ 2,855</u>	<u>\$ 2,855</u>	<u>\$ 34,535</u>	<u>\$ 124,420</u>	<u>\$ 57,105</u>	<u>\$ 560,100</u>	<u>\$ 6,400</u>	<u>\$ 106,755</u>	<u>\$ 467,275</u>	<u>\$ 64,100</u>
2,855	2,855	11,545	31,260	70	21,800	3,200	50	19,650	3,200
—	—	11,515	31,160	9,575	21,800	3,200	50	27,085	3,200
—	—	11,475	31,055	9,555	25,000	—	50	27,040	3,200
—	—	—	30,945	9,535	25,000	—	12,025	45,490	3,200
—	—	—	—	9,510	25,000	—	11,935	53,010	3,200
—	—	—	—	9,490	25,000	—	11,810	73,555	3,200
—	—	—	—	9,370	25,000	—	11,680	73,650	3,200
—	—	—	—	—	25,000	—	11,600	69,255	3,200
—	—	—	—	—	25,000	—	47,555	71,925	3,200
—	—	—	—	—	25,000	—	—	6,615	3,200
—	—	—	—	—	25,000	—	—	—	3,200
—	—	—	—	—	54,000	—	—	—	4,000
—	—	—	—	—	80,000	—	—	—	4,000
—	—	—	—	—	80,000	—	—	—	4,000
—	—	—	—	—	—	—	—	—	4,000
—	—	—	—	—	77,500	—	—	—	4,000
—	—	—	—	—	—	—	—	—	4,000
—	—	—	—	—	—	—	—	—	4,900
—	—	—	—	—	—	—	—	—	—
<u>\$ 2,855</u>	<u>\$ 2,855</u>	<u>\$ 34,535</u>	<u>\$ 124,420</u>	<u>\$ 57,105</u>	<u>\$ 560,100</u>	<u>\$ 6,400</u>	<u>\$ 106,755</u>	<u>\$ 467,275</u>	<u>\$ 64,100</u>

Continued

SCHEDULE OF GENERAL OBLIGATION BONDS PAYABLE

June 30, 2008

Table 12

(Dollars in Thousands)

	Payable from General Fund Revenues			Payable from Highway Trust Fund			
	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%	Total Highway Trust	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%
Bonds Authorized and Issued:							
Ch. 1048, 1987 session law..	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
Ch. 631, 1995 session law....	—	—	—	—	—	—	—
General Statute Ch. 142.....	—	—	—	—	—	—	—
Ch. 590, 1995 session law....	—	—	—	400,000	400,000	—	—
Ch. 132, 1998 session law....	—	—	—	—	—	—	—
Ch. 3, 2000 session law.....	300,000	—	—	—	—	—	—
2004 session law.....	—	502,745	84,385	398,370	—	98,370	300,000
Total bonds authorized and issued.....	300,000	502,745	84,385	798,370	400,000	98,370	300,000
Accretion.....	—	—	—	—	—	—	—
Bonds retired.....	30,000	25,000	855	150,345	72,000	18,345	60,000
Partial defeasances.....	—	—	—	—	—	—	—
Bonds outstanding— 6/30/2008.....	<u>\$ 270,000</u>	<u>\$ 477,745</u>	<u>\$ 83,530</u>	<u>\$ 648,025</u>	<u>\$ 328,000</u>	<u>\$ 80,025</u>	<u>\$ 240,000</u>
Bond Maturity As Follows:							
2008-09.....	15,000	25,000	175	54,090	18,000	16,090	20,000
2009-10.....	15,000	25,000	185	54,065	18,000	16,065	20,000
2010-11.....	15,000	25,000	190	54,030	18,000	16,030	20,000
2011-12.....	15,000	25,000	195	54,000	18,000	16,000	20,000
2012-13.....	15,000	25,000	205	53,840	18,000	15,840	20,000
2013-14.....	15,000	25,000	215	54,600	34,600	—	20,000
2014-15.....	15,000	25,000	225	54,600	34,600	—	20,000
2015-16.....	15,000	25,000	230	54,600	34,600	—	20,000
2016-17.....	15,000	25,000	240	54,600	34,600	—	20,000
2017-18.....	15,000	25,000	250	54,600	34,600	—	20,000
2018-19.....	15,000	25,000	260	54,600	34,600	—	20,000
2019-20.....	15,000	25,000	275	50,400	30,400	—	20,000
2020-21.....	15,000	25,000	285	—	—	—	—
2021-22.....	15,000	25,000	295	—	—	—	—
2022-23.....	15,000	25,000	80,305	—	—	—	—
2023-24.....	15,000	25,000	—	—	—	—	—
2024-25.....	15,000	25,000	—	—	—	—	—
2025-26.....	15,000	25,000	—	—	—	—	—
2026-27.....	—	27,745	—	—	—	—	—
2027-28.....	—	—	—	—	—	—	—
Total Bonds Outstanding.....	<u>\$ 270,000</u>	<u>\$ 477,745</u>	<u>\$ 83,530</u>	<u>\$ 648,025</u>	<u>\$ 328,000</u>	<u>\$ 80,025</u>	<u>\$ 240,000</u>

Source: Compiled by the Department of State Treasurer

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SCHEDULE OF SPECIAL INDEBTEDNESS DEBT

June 30, 2008

(Dollars in Thousands)

	<i>Lease Purchase Revenue Bonds</i>				<i>Certificates of Participation</i>				
	Total Special Indebtedness Debt	<i>Total Lease Purchase Revenue Bonds</i>	NC	NC	<i>Total Certificates of Participation</i>	Wildlife	Correctional	Repair and	Capital
			Correctional	Facilities		Improvements	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	5-6-04	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.....	\$ 1,077,360	\$ 218,405	\$ 218,405	\$ —	\$ 858,955	\$ —	\$ 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	0	—	—	—	—
Ch. 179, 2004 session law.....	188,385	—	—	—	188,385	—	—	—	188,385
Total bonds authorized and issued.....	1,336,885	272,045	218,405	53,640	1,064,840	17,500	158,955	125,000	188,385
Bonds retired.....	135,960	37,000	31,000	6,000	98,960	2,730	31,795	24,000	20,435
Bonds outstanding—									
June 30, 2008.....	<u>\$ 1,200,925</u>	<u>\$ 235,045</u>	<u>\$ 187,405</u>	<u>\$ 47,640</u>	<u>\$ 965,880</u>	<u>\$ 14,770</u>	<u>\$ 127,160</u>	<u>\$ 101,000</u>	<u>\$ 167,950</u>
Bond Maturity As Follows:									
2008-09.....	56,295	10,000	8,000	2,000	46,295	720	7,950	6,000	7,440
2009-10.....	56,985	10,000	8,000	2,000	46,985	740	7,950	6,000	7,780
2010-11.....	57,740	10,000	8,000	2,000	47,740	765	7,950	6,000	8,165
2011-12.....	58,550	10,000	8,000	2,000	48,550	795	7,950	6,000	8,580
2012-13.....	59,395	10,000	8,000	2,000	49,395	825	7,950	6,000	9,005
2013-14.....	60,290	10,000	8,000	2,000	50,290	860	7,950	6,000	9,455
2014-15.....	61,245	10,000	8,000	2,000	51,245	905	7,950	6,000	9,925
2015-16.....	62,250	10,000	8,000	2,000	52,250	950	7,950	6,000	10,425
2016-17.....	61,955	8,650	8,000	650	53,305	1,000	7,945	6,000	10,945
2017-18.....	62,930	8,500	8,000	500	54,430	1,055	7,945	6,000	11,495
2018-19.....	63,605	8,000	8,000	—	55,605	1,110	7,945	6,000	12,065
2019-20.....	86,700	28,850	19,000	9,850	57,850	1,165	7,945	7,000	12,670
2020-21.....	79,865	24,000	19,000	5,000	55,865	1,230	7,945	7,000	10,000
2021-22.....	80,580	24,000	19,000	5,000	56,580	1,290	7,945	7,000	10,000
2022-23.....	81,350	24,000	19,000	5,000	57,350	1,360	7,945	7,000	10,000
2023-24.....	82,950	26,225	23,405	2,820	56,725	—	7,945	7,000	10,000
2024-25.....	45,380	2,820	—	2,820	42,560	—	—	—	10,000
2025-26.....	33,390	—	—	—	33,390	—	—	—	—
2026-27.....	29,270	—	—	—	29,270	—	—	—	—
2027-28.....	20,200	—	—	—	20,200	—	—	—	—
Total Bonds Outstanding.....	<u>\$ 1,200,925</u>	<u>\$ 235,045</u>	<u>\$ 187,405</u>	<u>\$ 47,640</u>	<u>\$ 965,880</u>	<u>\$ 14,770</u>	<u>\$ 127,160</u>	<u>\$ 101,000</u>	<u>\$ 167,950</u>

Source: Compiled by the Department of State Treasurer.

Table 13

Certificates of Participation

Repair and Renovation Projects Series 2006A 8-16-06 4.0% - 5.0%	Capital Improvements Series 2006A 10-18-06 4.0% - 5.0%	Capital Improvements Series 2007A 10-3-07 4.0% - 5.0%	Repair and Renovation Projects Series 2007B 10-24-07 4.0% - 5.0%
\$ 100,000	\$ 200,000	\$ 200,000	\$ 75,000
—	—	—	—
—	—	—	—
—	—	—	—
100,000	200,000	200,000	75,000
10,000	10,000	—	—
<u>\$ 90,000</u>	<u>\$ 190,000</u>	<u>\$ 200,000</u>	<u>\$ 75,000</u>
5,000	10,000	5,435	3,750
5,000	10,000	5,765	3,750
5,000	10,000	6,110	3,750
5,000	10,000	6,475	3,750
5,000	10,000	6,865	3,750
5,000	10,000	7,275	3,750
5,000	10,000	7,715	3,750
5,000	10,000	8,175	3,750
5,000	10,000	8,665	3,750
5,000	10,000	9,185	3,750
5,000	10,000	9,735	3,750
5,000	10,000	10,320	3,750
5,000	10,000	10,940	3,750
5,000	10,000	11,595	3,750
5,000	10,000	12,295	3,750
5,000	10,000	13,030	3,750
5,000	10,000	13,810	3,750
5,000	10,000	14,640	3,750
—	10,000	15,520	3,750
—	—	16,450	3,750
<u>\$ 90,000</u>	<u>\$ 190,000</u>	<u>\$ 200,000</u>	<u>\$ 75,000</u>

PLEDGED REVENUE COVERAGE

For the Fiscal Years 2002-2008

(Dollars in Thousands)

	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>
Town of Butner					
Revenue Bonds					
Pledged Revenue-					
Sales and services.....	(a)	(a)	\$ 2,377	\$ 3,531	\$ 3,673
Rental lease earnings.....	(a)	(a)	5	3	8
Fees, licenses and fines.....	(a)	(a)	8	14	14
Miscellaneous revenue.....	(a)	(a)	147	156	106
Less: Operating expenses.....	(a)	(a)	(2,261)	(2,470)	(2,372)
Net available revenue.....	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 276</u>	<u>\$ 1,234</u>	<u>\$ 1,429</u>
Debt service					
Principal.....	(a)	(a)	\$ 270	\$ 255	\$ 245
Interest.....	(a)	(a)	394	414	419
Coverage.....	(a)	(a)	.42	1.85	2.16
Department of Transportation					
Grant Anticipation Revenue Vehicle Bonds (GARVEE)					
Pledged Revenue-					
Federal transportation revenues.....	\$ 904,400	\$ -	\$ -	\$ -	\$ -
Less: Operating expenses.....	-	-	-	-	-
Net available revenue.....	<u>\$ 904,400</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Debt service					
Principal.....	\$ -	\$ -	\$ -	\$ -	\$ -
Interest.....	5,056	-	-	-	-
Coverage.....	178.87	-	-	-	-
N.C. Housing Finance Agency					
Revenue Bonds					
Pledged Revenue-					
Interest on investments.....	\$ 21,281	\$ 26,088	\$ 23,718	\$ 17,659	\$ 17,357
Interest on mortgage loans.....	82,913	71,892	66,515	69,816	74,650
Net increase/decrease in fair value of investments.....	1,064	1,544	(2,372)	544	-
Other revenue.....	951	65	444	198	147
Less: Operating expenses.....	(5,542)	(4,868)	(4,640)	(4,996)	(4,678)
Net available revenue.....	<u>\$ 100,667</u>	<u>\$ 94,721</u>	<u>\$ 83,665</u>	<u>\$ 83,221</u>	<u>\$ 87,476</u>
Debt service					
Principal.....	\$ 31,050	\$ 178,050	\$ 175,670	\$ 27,967	\$ 24,245
Interest.....	77,665	73,845	70,059	63,242	69,622
Coverage.....	.93	.38	.34	.91	.93
State Education Assistance Authority					
Revenue Bonds					
Pledged Revenue-					
Student loan principal collections.....	\$ 364,274	\$ 618,723	\$ 660,332	\$ 300,827	\$ 277,552
Interest earnings on loans.....	137,512	151,237	115,306	80,912	50,037
Investment earnings.....	18,999	24,551	15,174	4,157	2,686
Less: Operating expenses.....	(31,381)	(30,290)	(24,627)	(19,395)	(17,603)
Net available revenue.....	<u>\$ 489,404</u>	<u>\$ 764,221</u>	<u>\$ 766,185</u>	<u>\$ 366,501</u>	<u>\$ 312,672</u>
Debt service					
Principal.....	\$ 153,589	\$ -	\$ 1,000	\$ 1,000	\$ 1,000
Interest.....	165,517	117,324	60,912	25,212	17,736
Coverage.....	1.53	6.51	12.38	13.98	16.69

Table 14

<u>2003</u>	<u>2002</u>
\$ 3,936	\$ 3,581
-	-
13	17
243	407
(2,341)	(2,276)
<u>\$ 1,851</u>	<u>\$ 1,729</u>
\$ 235	\$ 100
434	431
2.77	3.26
\$ -	\$ -
-	-
<u>\$ -</u>	<u>\$ -</u>
\$ -	\$ -
-	-
-	-
\$ 14,687	\$ 13,315
83,045	82,789
-	3,926
92	710
(4,739)	(5,165)
<u>\$ 93,085</u>	<u>\$ 95,575</u>
\$ 21,465	\$ 15,762
74,408	77,487
.97	1.03
\$ 214,782	\$ 133,041
46,587	55,281
2,450	3,121
(14,781)	(10,692)
<u>\$ 249,038</u>	<u>\$ 180,751</u>
\$ 1,000	\$ 1,000
23,351	36,385
10.23	4.84

PLEGGED REVENUE COVERAGE

For the Fiscal Years 2002-2008

(Dollars in Thousands)

	2008	2007	2006	2005	2004
University of North Carolina System					
Revenue Bonds (b)					
Pledged Revenue-					
Sales and services.....	\$ 674,639	\$ 628,040	\$ 568,560	\$ 531,673	\$ 513,867
Student tuition and fees.....	41,016	47,347	47,924	51,657	54,525
Patient services.....	1,447,635	1,367,363	1,210,356	1,131,038	1,057,614
Contracts and grants.....	123,470	120,662	120,513	113,049	104,373
State appropriations.....	53,010	45,674	44,510	39,334	37,788
Fees, licenses and fines.....	4,938	15,517	14,863	13,056	12,413
Rental lease earnings.....	7,690	29,587	21,182	18,802	17,781
Investment income.....	(31,008)	99,974	31,880	19,121	20,580
Other operating revenues.....	13,407	20,318	30,385	30,133	32,284
Non-operating revenues.....	53,231	50,929	37,274	39,558	35,688
Less: Operating expenses.....	(2,049,786)	(1,924,220)	(1,769,406)	(1,653,952)	(1,604,207)
Net available revenue.....	<u>\$ 338,242</u>	<u>\$ 501,191</u>	<u>\$ 358,041</u>	<u>\$ 333,469</u>	<u>\$ 282,706</u>
Debt service					
Principal.....	\$ 56,632	\$ 56,570	\$ 56,411	\$ 54,917	\$ 54,467
Interest.....	76,288	71,391	71,044	58,146	53,067
Coverage.....	2.54	3.92	2.81	2.95	2.63
Certificates of Participation (COPS)					
Pledged Revenue-					
Sales and services.....	\$ 2,446	\$ -	\$ -	\$ -	\$ -
Student tuition and fees.....	1,147	1,114	1,090	-	-
Rental lease earnings.....	118	-	-	-	-
Investment income.....	45	44	19	-	-
Other operating revenues.....	-	-	-	-	-
Non-operating revenues.....	-	-	-	-	-
Less: Operating expenses.....	(895)	(60)	-	-	-
Net available revenue.....	<u>\$ 2,861</u>	<u>\$ 1,098</u>	<u>\$ 1,109</u>	<u>\$ -</u>	<u>\$ -</u>
Debt service					
Principal.....	\$ 1,075	\$ 905	\$ 575	\$ -	\$ -
Interest.....	1,209	573	222	-	-
Coverage.....	1.25	0.74	1.39	-	-

Notes:

(a) The Town of Butner's Enterprise Funds related to water and sewer was sold

(b) Includes revenue bonds that are secured by specific revenue streams and general revenue bonds that are secured by the overall revenues of an institution.

Information prior to 2002 not available.

Table 14

<u>2003</u>	<u>2002</u>
\$ 479,714	\$ 466,789
54,025	48,773
928,153	949,442
98,371	85,045
37,771	39,092
11,834	9,416
17,470	16,150
53,432	43,196
38,509	41,003
46,521	39,569
(1,487,632)	(1,460,074)
<u>\$ 278,168</u>	<u>\$ 278,401</u>
\$ 48,520	\$ 48,515
53,351	55,104
2.73	2.69
\$ -	\$ -
-	-
-	-
-	-
-	-
-	-
<u>\$ -</u>	<u>\$ -</u>
\$ -	\$ -
-	-
-	-

SCHEDULE OF DEMOGRAPHIC DATA

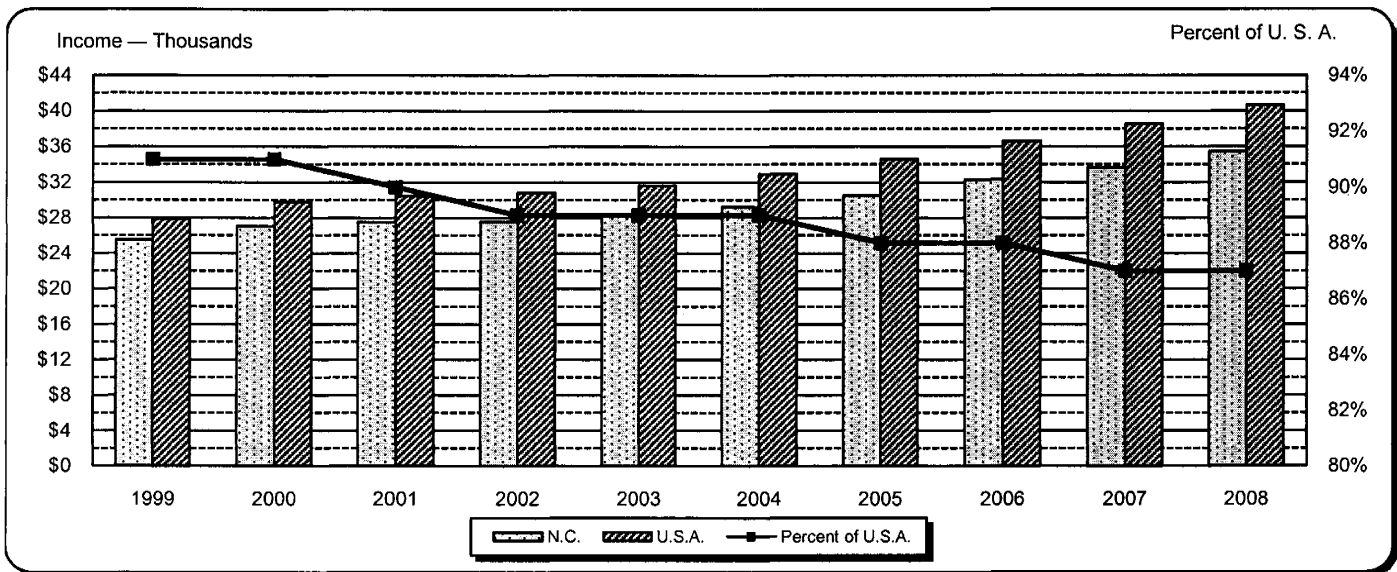
For the Years 1950, 1960, 1970, 1980, 1990, 1999-2008

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
2008	303,853,154 [F]	0.74%	9,270,342 [F]	2.31%	\$ 40,605 [G]	\$ 35,444 [G]	87.29%	\$12,337,957	\$ 328,578
2007	301,621,157 [D]	0.74%	9,061,032 [D]	2.31%	38,564 [E]	33,663 [E]	87.29%	11,631,718	305,022
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
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 2008 population estimates are not available, the Office of State Controller used the growth rate of the previous year to project the 2008 amounts.
 [G] - Since the 2008 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 2008 U.S. Per Capita Income and the previous year "N.C. as a Percentage of U.S." was used to project the "2008 Per Capita Income for North Carolina".

**Per Capita Income
 North Carolina Compared to United States
 1999 to 2008**



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

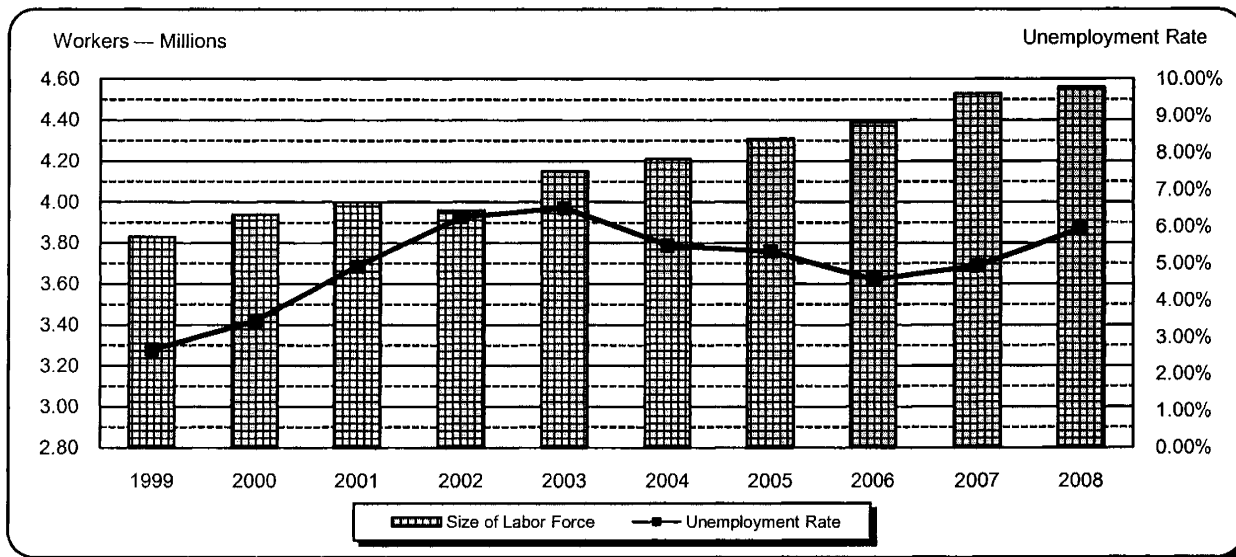
U.S. Department of Commerce, Bureau of the Census
 U.S. Department of Commerce, Bureau of Economic Analysis
 Calculated from sources 1 and 2

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
2008	4,559,713	4,288,621	271,092	5.95%	8,570,893	31,316
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
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
1999 to 2008**



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 & 2008

Table 16

<u>Employer</u>	<u>2008</u>			<u>2001</u>		
	<u>Employees</u>	<u>Rank</u>	<u>Percentage of Total State Employment</u>	<u>Employees</u>	<u>Rank</u>	<u>Percentage of Total State Employment</u>
State of North Carolina	180,000-184,999	1	4.26%	160,000-164,999	1	4.27%
Federal Government	60,000-64,999	2	1.46%	60,000-64,999	2	1.64%
Wal-Mart Stores, Inc.	50,000-54,999	3	1.22%	30,000-34,999	3	0.86%
Duke University	25,000-29,999	4	0.64%	20,000-24,999	5	0.59%
Food Lion LLC	25,000-29,999	5	0.64%	25,000-29,999	4	0.72%
Charlotte Board of Ed.	20,000-24,999	6	0.52%	15,000-19,999	7	0.46%
Wachovia Bank, NA	20,000-24,999	7	0.52%	10,000-14,999	9	0.33%
Wake Public Schools	15,000-19,999	8	0.41%	10,000-14,999	8	0.33%
Charlotte Hospital Authority	15,000-19,999	9	0.41%	10,000-14,999	10	0.33%
Lowe's Home Centers, Inc	15,000-19,999	10	0.41%	-	-	-
IBM Corporation	-	-	-	15,000-19,999	6	0.46%
Total	<u>425,000-474,990</u>		<u>10.49%</u>	<u>355,000-404,990</u>		<u>9.99%</u>

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

Source: North Carolina Employment Security Commission

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TEACHERS AND STATE EMPLOYEES BY FUNCTION

For the Fiscal Years 2002-2008

Functions	2008	2007	2006	2005	2004
General government.....	6,188	6,045	5,680	5,435	5,301
Primary and secondary education.....	163,113	160,086	156,463	152,746	147,798
Higher education:					
Universities.....	59,084	56,964	55,800	53,560	51,902
Community colleges.....	16,480	15,935	15,610	15,764	15,277
Health and human services.....	21,276	21,128	20,766	20,665	20,366
Economic development.....	2,558	2,623	2,567	2,366	2,469
Environment and natural resources.....	4,709	4,653	4,616	4,493	4,341
Public safety, corrections and regulations.....	32,600	31,971	31,448	30,429	30,125
Transportation.....	14,752	14,664	14,007	14,379	14,218
Agriculture.....	1,385	1,405	1,377	1,339	1,343
Totals.....	322,145	315,474	308,334	301,176	293,140

Source: North Carolina Office of State Budget and Management
Counts for fiscal year end 2008 are projected from prior year data.
Information prior to 2002 not available.

Table 17

<u>2003</u>	<u>2002</u>
5,635	5,635
143,428	140,103
50,787	49,625
14,582	13,959
18,545	18,816
2,466	2,591
4,337	4,750
30,810	30,982
14,438	14,378
1,275	1,295
<u>286,303</u>	<u>282,134</u>

OPERATING INDICATORS BY FUNCTION

For the Fiscal Years 2002-2008

	2008	2007	2006	2005	2004
General Government					
Department of Revenue					
Number of tax returns filed electronically.....	3,246,333	2,799,979	2,487,716	1,922,459	1,666,765
Number of tax returns processed.....	11,258,489	10,386,112	10,437,669	9,947,817	9,725,620
Number of individual refunds direct deposited.....	1,119,403	925,321	809,473	673,976	564,200
Number of individual refunds processed.....	3,005,539	2,832,152	2,834,960	2,732,523	2,658,709
Number of pieces of incoming mail.....	8,636,219	8,092,899	7,986,688	8,334,624	8,122,589
Number of pieces of outgoing mail.....	9,194,775	7,844,614	9,206,342	8,687,346	8,922,981
Department of Administration					
Construction projects administered.....	117	61	71	226	181
Construction value excluding design fee (thousands).....	\$ 52,660	\$ 60,028	\$ 73,006	\$ 873,713	\$ 486,287
Cultural Resources					
Visitation to historical sites and museums.....	2,627,987	2,748,455	2,068,910	2,356,046	2,465,484
Primary and Secondary Education					
Public School(K-12)					
Public school enrollment.....	1,462,374	1,435,275	1,368,607	1,346,681	1,325,344
Total high school graduates.....	80,606	88,691	72,580	74,691	71,853
Graduate intention to pursue further education.....	84.86%	84.63%	87.09%	84.64%	83.26%
Higher Education					
Community Colleges					
Number of students (annualized FTE).....	200,000	193,410	190,644	194,235	192,693
Number of certificates and degrees awarded.....	28,173	27,117	28,983	29,600	27,050
Universities					
Number of regular term students (FTE).....	187,791	181,886	176,619	158,398	152,224
Number of certificates and degrees awarded.....	39,592	38,260	37,348	37,569	36,689
Health and Human Services					
Department of Health and Human Services					
Medicaid recipients (a).....	1,721,488	1,667,354	1,673,510	1,545,366	1,541,450
Food stamp recipients.....	924,265	874,426	838,064	818,141	791,241
Clients served by mental health facilities.....	14,706	18,501	18,678	18,894	16,353
Clients served by developmental disabilities facilities.....	1,344	1,312	2,114	2,172	2,189
Clients served by substance abuse facilities.....	4,307	144	3,854	3,633	3,572
Children served through subsidized child care.....	159,457	167,568	149,946	155,339	156,534
Participation in Special Supplemental Nutrition Program.....	254,120	239,441	230,140	224,670	218,345
Clients served through Work First.....	53,082	59,340	69,885	39,426	42,177
NC Health Choice annual enrollment.....	181,685	171,580	199,160	169,491	N/A
Economic Development					
Department of Commerce					
Jobs generated company recruitment/expansion.....	11,636	19,259	20,293	18,246	15,393
Capital investment (thousands).....	\$ 3,600,000	\$ 3,336,864	\$ 3,024,914	\$ 2,982,292	\$ 1,863,213
Employment Security Commission					
Total employed.....	4,288,946	4,309,833	4,193,971	4,087,359	3,977,421
Percentage of unemployment.....	6.00%	4.90%	4.56%	5.38%	5.49%

Table 18

2003	2002
1,436,218	1,239,844
9,778,591	9,658,531
446,217	N/A
2,654,339	2,595,070
8,222,560	9,061,094
10,098,087	9,332,605
213	205
\$ 522,060	\$ 359,381
2,234,241	1,326,603
1,303,777	1,285,729
69,568	65,681
83.63%	83.13%
185,490	176,743
23,645	22,853
171,409	141,272
34,580	32,644
N/A	N/A
N/A	N/A
N/A	N/A
N/A	N/A
N/A	N/A
N/A	N/A
N/A	N/A
N/A	N/A
N/A	N/A
9,531	13,459
\$ 1,127,466	\$ 2,690,123
3,882,026	3,715,400
6.51%	6.27%

Continued

OPERATING INDICATORS BY FUNCTION

For the Fiscal Years 2002-2008

	2008	2007	2006	2005	2004
Environment and Natural Resources					
Department of Environment and Natural Resources					
Public drinking water systems in compliance.....	95%	95%	94%	93%	94%
Visitation to Museum of Natural Sciences.....	727,000	667,014	622,915	556,422	913,751
Visitation to NC Zoo.....	729,500	746,650	682,977	705,030	676,956
Wildlife Resources Commission					
Hunting licenses sold.....	211,780	204,425	204,451	107,242	107,572
Fishing licenses sold.....	538,800	511,974	451,412	331,688	329,314
Vessels registered.....	140,573	142,808	363,641	354,096	361,134
Public Safety and Correction					
Department of Correction					
Incarcerated offenders.....	39,112	38,218	37,121	36,481	34,990
Supervised offenders.....	116,927	117,164	116,513	117,611	117,196
Administrative Office of the Courts					
Cases disposed as a % of cases filed-Superior Court.....	98.50%	98.50%	93.80%	95.52%	96.27%
Cases disposed as a % of cases filed-District Court.....	98.28%	98.70%	98.10%	97.56%	95.92%
Agriculture					
Department of Agriculture and Consumer Services					
Motor fuel dispensers tested (b).....	98,736	100,928	109,699	95,735	103,026
Rejection rate.....	12.73%	13.80%	10.77%	8.87%	7.22%
Retail scales tested (c).....	24,640	20,051	24,896	27,678	23,335
Rejection rate.....	10.51%	10.70%	8.28%	9.09%	8.70%

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

<u>2003</u>	<u>2002</u>
93%	95%
518,132	517,058
576,093	671,619
109,511	114,304
302,581	343,045
354,863	358,007
33,378	32,856
118,285	117,374
93.40%	94.28%
97.46%	96.76%
80,390	85,353
9.25%	9.99%
29,021	24,021
7.54%	7.07%

CAPITAL ASSET STATISTICS BY FUNCTION

For the Fiscal Years 2002-2008

	2008	2007	2006	2005	2004	2003	2002
Primary Government							
General Government							
Department of Administration							
Buildings.....	129	135	136	134	132	132	132
Parking lots.....	49	49	49	17	18	20	N/A
Parking spaces.....	8,477	8,215	8,156	7,879	7,961	8,249	N/A
Motor Fleet vehicles	9,090	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	12
Number of certified beds.....	4,932	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.....	34	33	32	32	30	30	30
Acres of state park lands.....	140,254	119,664	222,251	182,251	176,146	173,833	172,763
Number of state recreation areas.....	4	4	4	4	4	4	4
Acres of state recreation areas.....	12,240	12,240	12,240	12,240	12,240	12,240	12,238
Number of state natural areas.....	17	18	14	17	17	16	14
Acres of state natural areas.....	20,281	34,288	32,930	30,513	30,323	28,999	27,643
Number of state lakes.....	7	7	7	7	7	7	7
Acres of state lakes.....	29,135	29,135	29,135	29,135	29,135	29,135	29,135
Zoo animals (a).....	1,723	1,786	1,942	2,024	2,643	2,411	2,059
Vehicles	1,862	1,789	1,723	1,618	1,574	1,471	1,403
Boats/Trailers.....	1,325	1,295	366	327	308	278	254
Aircraft.....	48	45	30	40	40	39	39
Scientific equipment.....	4,702	4,666	4,454	3,979	3,572	3,366	3,155
Wildlife Resources Commission							
Number of Game Lands.....	58	54	38	37	35	34	33
Acres of Game Lands.....	471,248	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	13	16	13	13
Medium security prisons.....	26	26	26	26	24	24	24
Minimum security prisons.....	39	39	39	37	36	36	39
Vehicles:							
Passenger/Cargo vans.....	129	170	99	85	69	67	61
Inmate transfer vans/buses.....	497	448	481	418	398	391	386
Inmate workcrew vans/buses.....	306	274	301	380	394	349	351
Pickup trucks.....	309	305	287	275	325	248	277
Roving patrol pickups.....	100	80	84	78	77	64	55
One ton maintenance trucks.....	103	105	105	92	98	99	112
Specialty/Other trucks (b).....	125	109	103	113	108	103	94
Enterprise Vehicles:							
Passenger/Cargo vans.....	23	22	23	24	31	29	30
Inmate workcrew buses.....	28	24	21	22	21	25	28
Pickup trucks.....	52	51	47	51	41	45	41
One ton maintenance trucks.....	20	18	18	16	21	18	21
Other/Specialty trucks.....	104	98	93	95	86	91	88

Table 19

	2008	2007	2006	2005	2004	2003	2002
Department of Crime Control and Public Safety							
Vehicles:							
<i>Alcohol Law Enforcement</i>							
Cars/SUV's.....	150	151	156	134	154	124	127
<i>State Highway Patrol</i>							
Cars.....	2,722	2,530	2,417	2,283	2,312	1,799	1,846
Trucks/Vans.....	111	115	114	59	63	65	99
Motorcycles.....	16	16	9	(c)	(c)	(c)	(c)
Air craft:							
<i>State Highway Patrol</i>							
Helicopters.....	8	8	13	14	11	11	11
Transportation							
Department of Transportation							
Pavement in lane-miles:							
Primary subsystem.....	(d)	14,871	14,833	14,805	14,760	14,705	14,670
Secondary subsystem.....	(d)	64,390	64,209	64,204	64,085	63,910	63,820
Bridges:							
Number of bridges.....	13,152	13,053	13,007	12,961	12,916	12,839	12,806
Number of culverts.....	5,004	4,979	4,912	4,879	4,761	4,683	4,620
Vehicles.....	8,850	8,850	5,823	6,347	7,466	7,015	6,182
Heavy Equipment.....	12,116	8,920	3,119	3,359	3,788	3,741	3,448
Component Units							
Higher Education							
Community Colleges							
Buildings.....	1,046	1,024	1,014	1,025	1,064	1,054	1,043
Universities							
Academic/Administrative buildings.....	911	971	930	918	893	873	866
Dormitories/Auxiliary buildings.....	523	613	583	565	537	524	510
Medical (e).....	58	58	51	51	51	51	51
University System Hospitals							
Administration.....	4	4	4	4	4	4	3
Clinical.....	11	11	10	10	10	10	10
Facility services.....	6	6	6	6	6	6	6
Hospital.....	4	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, 1999-2008

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 most current reestimated amount of losses assumed by reinsurers for each accident year. The amount can and will be changed as claims and expenses are reevaluated.
- (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, 1999-2008

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.

	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
1) Required contribution and investment revenue:										
Earned.....	\$ 6,343	\$ 6,687	\$ 8,136	\$ 9,599	\$ 12,255	\$ 10,826	\$ 16,219	\$ 12,538	\$ 14,509	\$ 18,430
Ceded.....	1,683	1,727	2,453	2,839	3,396	3,121	2,380	2,489	3,077	2,371
Net earned.....	4,660	4,960	5,683	6,760	8,859	7,705	13,839	10,049	11,432	16,059
2) Unallocated expenses	2,398	2,541	3,214	3,597	3,953	3,689	2,951	3,092	3,672	664
3) Estimated claims and expenses, end of policy year:										
Incurred.....	8,615	21,141	6,449	4,846	2,690	12,586	2,093	3,096	14,915	1,718
Ceded.....	357	—	—	—	—	—	—	—	—	—
Net incurred.....	8,258	21,141	6,449	4,846	2,690	12,586	2,093	3,096	14,915	1,718
4) Paid (cumulative) as of:										
End of policy year.....	4,077	13,158	422	392	1,921	10,381	3,129	3,130	15,174	1,426
One year later.....	5,931	15,818	2,475	640	2,765	12,788	3,536	4,005	19,270	
Two years later.....	6,108	17,368	2,475	640	3,219	13,120	3,536	4,005		
Three years later.....	6,388	17,368	2,475	640	3,681	13,120	3,536			
Four years later.....	6,388	17,368	2,475	640	3,681	13,120				
Five years later.....	6,388	17,368	2,475	640	3,681					
Six years later.....	6,388	17,638	2,475	640						
Seven years later.....	6,388	17,638	2,475							
Eight years later.....	6,388	17,638								
Nine years later.....	6,388									
5) Reestimated ceded claims and expenses.....	—	—	—	—	—	—	—	—	3,746	—
6) Reestimated net incurred claims and expenses:										
End of policy year.....	8,258	21,141	6,449	4,846	2,690	12,586	2,093	3,096	14,915	1,718
One year later.....	6,740	17,240	2,475	4,846	3,543	12,911	2,093	3,096	11,348	
Two years later.....	6,161	17,368	2,475	4,846	3,947	12,911	2,093	3,096		
Three years later.....	6,031	17,368	2,475	4,846	3,947	12,911	2,093			
Four years later.....	6,031	17,368	2,475	4,846	3,947	12,911				
Five years later.....	6,031	17,368	2,475	4,846	3,947					
Six years later.....	6,031	17,368	2,475	4,846						
Seven years later.....	6,031	17,368	2,475							
Eight years later.....	6,031	17,368								
Nine years later.....	6,031									
7) Increase (decrease) in estimated net incurred claims and expenses from end of policy year.....	(2,227)	(3,773)	(3,974)	—	1,257	325	—	—	(3,567)	—

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