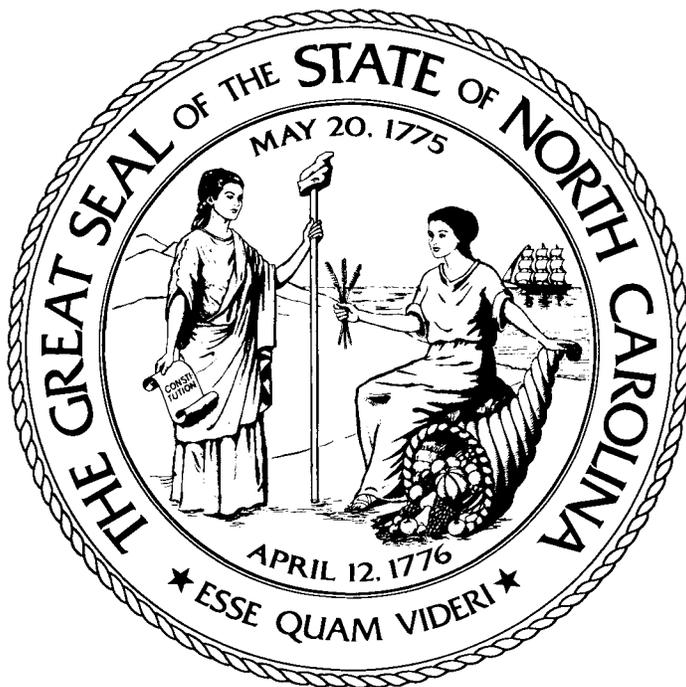


NORTH CAROLINA

COMPREHENSIVE ANNUAL FINANCIAL REPORT

FOR THE FISCAL YEAR
ENDED JUNE 30, 1997



JAMES B. HUNT, JR.
GOVERNOR

EDWARD RENFROW
STATE CONTROLLER

Prepared by Statewide Accounting Division
Office of the State Controller

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

JAMES B. HUNT, JR.
Governor



JAMES B. HUNT, JR.
Governor of North Carolina

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INTRODUCTORY SECTION



State of North Carolina

Office of the State Controller

James B. Hunt, Jr.
Governor

Edward Renfrow
State Controller

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

Members of the North Carolina General Assembly

It is our pleasure to furnish you with the 1997 Comprehensive Annual Financial Report (CAFR) of the State of North Carolina in compliance with G.S. 143B-426.39. This report has been prepared by the Office of the State Controller. Responsibility for both the accuracy of the data and the completeness and fairness of the presentation, including all disclosures, rests with the State government and this office. To the best of our knowledge and belief, the enclosed data are accurate in all material respects and are reported in a manner designed to present fairly the financial position and results of operations of the various funds and account groups of the State of North Carolina. We believe all disclosures necessary to enable you to gain an understanding of the State's financial activities have been included.

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

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

State Reporting Entity and Its Services

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

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

Major Initiatives

In 1997, the General Assembly again made a priority of the key issues facing the citizens of North Carolina: education, the environment, tax relief, social programs, crime, and economic development.

Education

By approving the largest bond issue in the state's history - \$1.8 billion earmarked for school construction - the voters of North Carolina made it clear that they want a system of schools of which they can be proud. The first installment of \$450 million was issued in March 1997. The next step is to make sure that the quality of instruction occurring inside North Carolina's school buildings is equal to the new facilities. A foundation must be built to advance the priorities established by the State Board of Education. Four initiatives provide the cornerstones of this foundation. Foremost among them is the State Board of Education's ABCs Plan that provides the framework for all of its recommendations.

The ABCs Plan reflects simple, but powerful, beliefs - that schools should be held accountable to high standards; that all children graduating from North Carolina's schools should have a solid grasp of reading, mathematics, writing and technology skills; that local communities and educators should be empowered to make vital decisions about schools. The ABCs accountability measures went into effect in schools with grades K-8 in the 1996-97 school year. High schools will follow in 1997-98. The work of three other groups, when brought together inside the framework of the ABCs Plan, completes the cornerstones upon which excellence can be built:

North Carolina Education Standards and Accountability Commission

The Standards and Accountability Commission's proposed system of high standards and performance assessment directly builds and strengthens the accountability component of the ABCs Plan by adding student accountability to a model of school accountability.

Commission on Workforce Preparedness

The Commission on Workforce Preparedness' goal of better preparing all young people for the world of work through its "JobReady" initiative is aligned with the educational basics philosophy of the ABCs Plan.

School-Based Management Task Force

The local control component of the ABCs Plan is based on the School-Based Management Task Force's belief that the people closest to the children and the schools are in the best position to make educational decisions.

Environment

The General Assembly also put forth legislation pertaining to environmental issues during the 1997 session. A two year moratorium on new hog operations across the state was approved, as well as new zoning powers for regulating hog farming. Efforts are being made to clean up the State's waterways by imposing stricter pollution controls on municipal wastewater plants. The State's fishing regulations are also facing an overhaul, with a new law calling for stricter enforcement of fisheries laws and higher penalties for illegal fishing.

The law also requires that detailed plans be prepared for improving fisheries habitats and managing fish stocks.

Tax Relief

Effective July 1, 1998, the food tax will decrease from 3 percent to 2 percent. In addition, a temporary 9 percent reduction in the state inheritance tax, applicable to the estates of people dying after July 1, 1998, has been approved. This reduction will be repealed on October 1, 2000.

Social Programs

More than \$25 million in federal funds was awarded for welfare reform initiatives in North Carolina, and will be used to help fund the *Work First* program. These Welfare-to-Work grants will be used to create and promote jobs for those on welfare, for on-the-job training and job placement, for support services to keep people in their jobs and for additional child care and transportation. Since the *Work First* program was initiated in North Carolina last year, 42,000 families have been removed from the state's welfare rolls, representing a 26 percent decline. The program focus is on personal responsibility and finding a job for every able-bodied welfare recipient. Under program guidelines, participants have 12 weeks to find a job or begin job training.

Other welfare reform initiatives include a provision in the budget to allow counties that collectively include no more than 15.5% of the state's overall welfare caseload to experiment with setting their own rules on eligibility and level of benefits. For child welfare, \$4.4 million in state money has been included for the 1997 and 1998 budget. This money will be used to hire more workers for child protective services, foster care, and adoption.

A bill to establish a rating system for day care centers was approved during 1997. This rating system, which will distinguish centers meeting minimum standards from those at the top of those standards, will be phased in over the next 18 months at the state's 3,500 day care centers.

The State is also continuing its expansion of the Smart Start program, which provides day care assistance to families in participating counties, and a variety of other services, such as screening for vision and hearing. During 1997 the number of Smart Start counties will increase from 43 to 55. The remaining 45 counties will receive money to start planning services.

Crime

During 1997, the State continued its efforts of addressing crime in North Carolina. Punishments were increased for habitually drunken driving and a number of other crimes. The budget included \$740,000 for additional juvenile court workers. The budget also included a \$5.3 million fund to expand automated information systems for courts and magistrates.

Economic Development

The State's continuing construction and maintenance of its excellent system of roads and highways is paramount to our continued economic development. The issuance of \$950 million of State general obligation bonds was authorized by the General Assembly and approved by the voters on November 5, 1996. Of the \$950 million bond issue, \$500 million will go toward loop projects in seven urban areas, \$300 million will be earmarked for the intrastate system of multi-lane highways, and the remaining \$150 million will be used to accelerate the paving of unpaved secondary roads. On November 5, 1997, \$250 million of Highway Bonds, Series 1997A were sold.

Economic Condition and Outlook

Economic Outlook

The North Carolina economy grew for the sixth straight year in 1997. The broadest measure of the state economy, Gross State Product, grew at an estimated 4.9% rate in 1997, faster than 1996's rate of 3.7%. The growth pushed the State's seasonally adjusted unemployment rate to under 4% by mid-year. The inflation and interest rate environment was also favorable in 1997. Inflation at the retail level hovered near 2% for the year. The benchmark 30-year Treasury bond rate ranged between 6% and 6.5% in 1997, and was at the lower end of this range at year's end.

When the numbers are all in, between 35,000 and 50,000 net new jobs will have been created in the North Carolina economy during 1997. The leading job creating sectors were services, durable goods manufacturing, wholesale trade, and financial services. Within durable goods manufacturing, lumber and wood products, fabricated metal products, and electronic equipment led in new jobs.

Textile and apparel firms in the State continued to downsize employment during the year. However, the good news was that jobs were cut at a slower rate in 1997 than in 1996.

Regionally, areas in the western part of the State were the fastest growing. Much of this growth was led by tourism and retirement relocations.

The outlook for the North Carolina economy in 1998 is upbeat, although including some caution. The North Carolina Gross State Product will increase, but at a slower inflation-adjusted rate of 2.5%. This is about half of 1997's rate. The State will add between 60,000 and 80,000 jobs in 1998. Jobs will increase the most in the service, retail trade, durable goods manufacturing, and government sectors. The North Carolina unemployment rate should remain below 4% during the year. Most regions of the State should share in the growth. The fastest growing regions will be a combination of western and eastern areas, including counties in the mountains and counties in the "downeast" section of the State.

The two biggest threats to the economy are inflation and consumer debt loads. Although not a problem now, the length of the current expansion and tight labor markets suggest that inflation is on the verge of increasing. Any solid signals that the inflation rate is rising will likely prompt the Federal Reserve to raise interest rates. Of course, higher interest rates will slow the economy and threaten continued growth.

The other threat is the high debt loads currently carried by consumers. Consumer debt service as a percentage of disposable income is near a historic high. The danger is that any negative shock to the economy, such as a steep stock market drop or an international crisis, could cause consumers to re-trench and significantly cut their spending. Since two-thirds of the economy is consumer spending, any slowdown by consumers can lead to a general economic downturn.

All in all, the outlook for 1998 is one of cautious optimism. Currently, the economic fundamentals are good. But the economic expansion is becoming quite old, and this always raises questions about its sustainability.

Financial Information

Internal Control

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

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

Budgetary Control

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

GAAP Accounting

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

Results of Operations

General Governmental Funds

Revenues and Other Financing Sources

Revenues and other financing sources for general governmental functions (General Fund, special revenue funds, and capital projects funds) amounted to \$21.9 billion for the fiscal year ended June 30, 1997, using the modified accrual basis of accounting. The major categories of revenues and other financing sources are shown in the following table. Amounts are expressed in millions.

	Amount	Percent of Total
Revenues:		
Taxes.....	\$ 12,178	55.5%
Federal funds.....	5,858	26.7%
Local funds.....	427	1.9%
Investment earnings.....	455	2.1%
Fees, licenses and fines.....	815	3.7%
Other.....	318	1.4%
Total revenues.....	<u>20,051</u>	91.3%
Other Financing Sources:		
Operating transfers in and other sources.....	1,241	5.7%
Proceeds from bond sale.....	645	3.0%
Total other financing sources.....	<u>1,886</u>	8.7%
Total Revenues and Other Financing Sources.....	<u>\$ 21,937</u>	100.0%

Analysis of Revenue Changes

Tax Revenues. Tax revenues increased by \$788 million in 1997, reflecting a continuing favorable economic climate in North Carolina. Income tax collections increased by \$471 million in 1997 to \$6.32 billion, an 8% increase over 1996. Sales tax collections grew by \$187 million in 1997, a 6.4% increase over 1996. Highway taxes were \$1.4 billion in 1997, \$62.6 million more than in 1996.

Federal Funds. Federal funds revenues grew by \$665 million in 1997, up by 12.8% over 1996. This increase in Federal funding is due in large part to the increased expenditures for Medicaid, Highway Planning and Construction, the recording of food stamps, and other social programs.

Investment Earnings. Revenues from investment earnings increased by \$26 million (exclusive of \$138 million in securities lending activity recorded for 1997, under GASB Statement 28) in 1997. The growth in 1997 can be directly attributed to a growing fund balance available for investment, a favorable investment climate, and the investment management strategies of the State Treasurer.

Expenditures and Other Financing Uses

Expenditures and other financing uses for general governmental purposes totaled \$21.1 billion in 1997, using the modified accrual basis of accounting. The major categories of expenditures and other financing uses, by function, are shown in the following table. Amounts are expressed in millions.

	<u>Amount</u>	<u>Percent of Total</u>
Expenditures:		
Current:		
General government.....	\$ 921	4.4%
Education.....	4,777	22.7%
Human resources.....	6,824	32.4%
Economic development.....	295	1.4%
EHNR.....	668	3.2%
Public safety, corrections, and regulation.....	1,614	7.7%
Transportation.....	2,205	10.5%
Agriculture.....	65	0.3%
Capital outlay.....	147	0.7%
Debt service.....	<u>131</u>	0.6%
Total expenditures.....	<u>17,647</u>	83.9%
Other Financing Uses:		
Operating transfers out.....	1,190	5.5%
Operating transfers to component units.....	<u>2,232</u>	10.6%
Total other financing uses.....	<u>3,422</u>	16.1%
Total Expenditures and Other Financing Uses.....	<u>\$ 21,069</u>	100.0%

Significant changes in expenditures (exclusive of GASB Statement 28 activity). The trend of increases in expenditures for human resources, an increase of \$577 million for 1997, was directly related to the continued growth, although at a slower rate than the prior year, of the Medicaid, Aid to Families with Dependent Children programs, and food stamps. Educational expenditures increased by \$273 million largely because of growth in dollars spent on State administered programs and the increasing costs associated with providing public education. There were major increases in spending for public safety, corrections, and regulation of \$282 million. This increase can be traced largely to increased personnel costs at the Department of Correction (\$63 million) and public assistance payments to municipalities for damages sustained from Hurricane Fran at the

Department of Crime Control and Public Safety (\$92 million). Transportation expenditures increased in fiscal year 1997 by \$275 million.

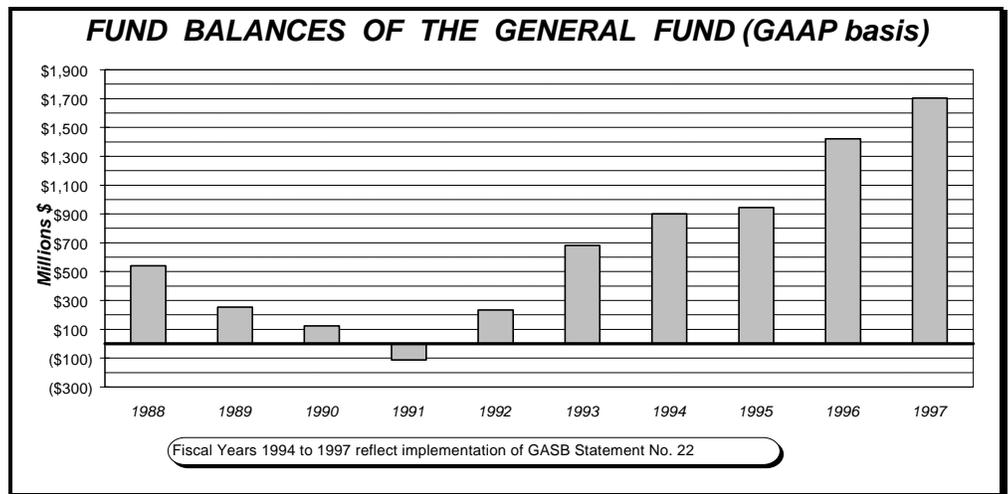
Additional information, in greater detail and for the past ten years, may be examined in the statistical section.

General Fund

GAAP Fund Balance

The fund balance of the General Fund grew by \$280 million in 1997. The growth in tax and other revenues once again exceeded expectations this year, which directly contributed to the strong condition of the General Fund at year end. At June 30, 1997 the fund balance of the General Fund on the modified accrual basis was \$1.7 billion, in comparison to a \$1.42 billion balance at the end of 1996.

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



Savings Reserve

During the 1991 session, the General Assembly established a Savings Reserve Account as a restricted reserved portion of fund balance in the General Fund, becoming effective for the year ended June 30, 1992. Under this legislation, one-fourth of any unreserved credit balance (*defined by the General Statutes as "...the credit balance, as determined on a cash basis, not already reserved to the Savings Reserve Account."*) remaining in the General Fund at the end of each fiscal year will be transferred to the Savings Reserve until the account contains funds equal to 5% of the amount appropriated to the General Fund operating budget for the preceding year. On June 30, 1996, \$77.3 million was transferred into the Savings Reserve Account, bringing the total reserve to the 5% cap of \$500.9 million. On June 30, 1997, the balance in the savings reserve account was \$500.9 million with no additional contributions for fiscal year 1996-97.

Summary of Savings Reserve Account (in millions) :

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

***Repairs and
Renovations
Reserve***

The 1993 General Assembly, in an effort to provide for the State's capital needs, established the Repairs and Renovations Reserve Account (G.S. 143-15.3A). Repairs and Renovations Reserve Account is defined to consist of 3.0% of the replacement value of all State buildings supported from the General Fund, at the end of each fiscal year. The funds in the Repairs and Renovations Reserve Account are to be used only for the repair and renovation of State buildings and related infrastructure that are supported from the General Fund. For fiscal year 1996-97, the General Assembly placed \$135 million into this reserve to meet the statutory requirement and an additional amount of \$39.3 million to bring the balance in the Repairs and Renovations Reserve at June 30, 1997 to \$221.3 million.

***Clean Water
Management
Trust Fund***

For fiscal year 1995-96, the General Assembly established the Clean Water Management Trust Fund to finance projects to clean up or prevent surface water pollution (G.S. 113-145.3). The amount reserved in the General Fund each year is defined as 6.5% of any unreserved credit balance remaining in the General Fund at the end of the fiscal year or \$30 million, whichever is greater. For the 1996-97 fiscal year, \$49.4 million was placed in this reserve.

***Intangibles
Tax
Reserve***

For fiscal year 1996-97, the General Assembly established the reserve for intangibles tax refunds in the amount of \$156 million for the costs of intangibles tax refunds required by G.S. 105-267 and other intangibles tax refunds, including interest, and the Department of Revenue's additional costs of administering the refunds.

***North
Carolina
Railroad
Acquisition***

For fiscal year 1996-97, the General Assembly established the Railroad Reserve Account. In order to help promote trade, industry, and transportation within the State of North Carolina and to advance the economic interests of the State and its citizens, the General Assembly finds it advantageous for the State to acquire the outstanding shares of the North Carolina Railroad Company not held by the State. At June 30, 1997, the amount of \$61 million of the unreserved General Fund balance was placed in the Railroad Reserve Account.

***Other
Reserves***

In addition to the reserves referenced above, non-recurring one-time reserves were established in fiscal year 1995-96 by the General Assembly for a library grant for \$284 thousand. The balance in the Chemical Alcohol Testing Reserve is \$353 thousand.

Other Funds***Proprietary
Funds***

Operating revenues and operating expenses for the State's enterprise funds were \$19.8 million and \$26.5 million, respectively, in 1997. Operating loss was \$6.7 million. Included in this operating loss is \$3.8 million loss attributable to the Public School Insurance Fund and its claims expenses arising from the aftermath of Hurricane Fran (Note 12 A.1.), and a \$2.5 million operating loss related to claims expense in the Workers' Compensation Fund (Note 12 A.2.). The State's significant enterprise funds include Public School Insurance Fund, N. C. State Fair, USS North Carolina Battleship Commission, Agricultural Farmers Market, Indian Cultural Tourist Center, and Workers' Compensation.

Combined operating results for the State's internal service funds exhibited continued strength in 1997. Operating revenues and expenses for these cost-reimbursement funds totaled \$955 million and \$926 million, respectively, in 1997. Principal internal service

fund operations include the State Health Plan, the Disability Income Plan, the Death Benefit Plan, Prison Enterprises, the State Property Fire Insurance, Motor Fleet Management, the Centralized Computing Services, and State Telecommunications.

Pension Trust Funds

The operations of the Teachers' and State Employees' Retirement System continued its steady growth in 1997. The system's contributions increased by 5.9%. The system experienced 10.3% increase in benefit payments to participants. For the fiscal year ended 1997, the State continued to fund the actuarial required contribution. The State also participates in the Consolidated Judicial Retirement System, the Legislative Retirement System, the Firemen's and Rescue Squad Workers' Pension Fund and the North Carolina National Guard Pension Fund. The Local Governmental Employees' Retirement System is administered by the State but the State is not a participant. Each of these systems continued to show a positive trend in funding.

Debt Administration

At June 30, 1997, the State had a number of debt issues outstanding. These issues included \$1.514 billion in general obligation bonds, \$1.14 billion in revenue bonds in the component unit proprietary funds and \$804 million in revenue bonds in the university funds. North Carolina continues to have "Triple-A" bond ratings issued by Standard and Poor's Corporation and Moody's Investors Service, the highest ratings attainable. These favorable ratings have enabled the State to sell its bonds at interest rates considerably below the Bond Buyer's Index, thereby providing substantial savings to North Carolina taxpayers. North Carolina is one of only a very small number of states currently having the Triple-A ratings. In addition, approximately 25 percent of all Triple-A ratings for state and local governments nationwide are located in North Carolina.

Cash Management

It is the policy of the State that all agencies, institutions, departments, bureaus, boards, commissions and officers of the State shall devise techniques and procedures for the receipt, deposit and disbursement of monies coming into their control and custody which are designed to maximize interest-bearing investment of cash, and to minimize idle and nonproductive cash balances. The State Controller, with the advice and assistance of the State Treasurer, the State Budget Officer, and the State Auditor, develops, implements, and amends the *Statewide Cash Management Policy*. All cash deposited with the State Treasurer by State entities is managed in pooled investment accounts to maximize interest earnings. During fiscal year 1997, uncommitted State funds were invested in short-term and medium-term U.S. Government notes and bonds, as well as other deposits, which had a composite average yield of 6.484%.

Risk Management

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

Other Information

Independent Audit

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

Certificate of Achievement

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the State of North Carolina for its comprehensive annual financial report (CAFR) for the fiscal year ended June 30, 1996. The Certificate of Achievement is a prestigious national award recognizing conformance with the highest standards for preparation of state and local government financial reports.

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

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

Acknowledgments

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

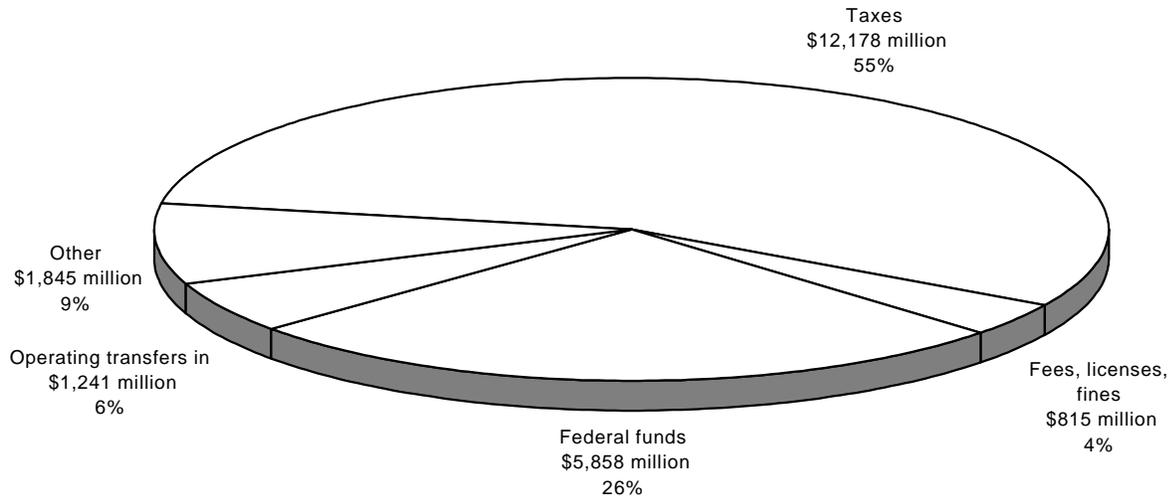
Respectfully submitted,


Edward Renfrow
State Controller

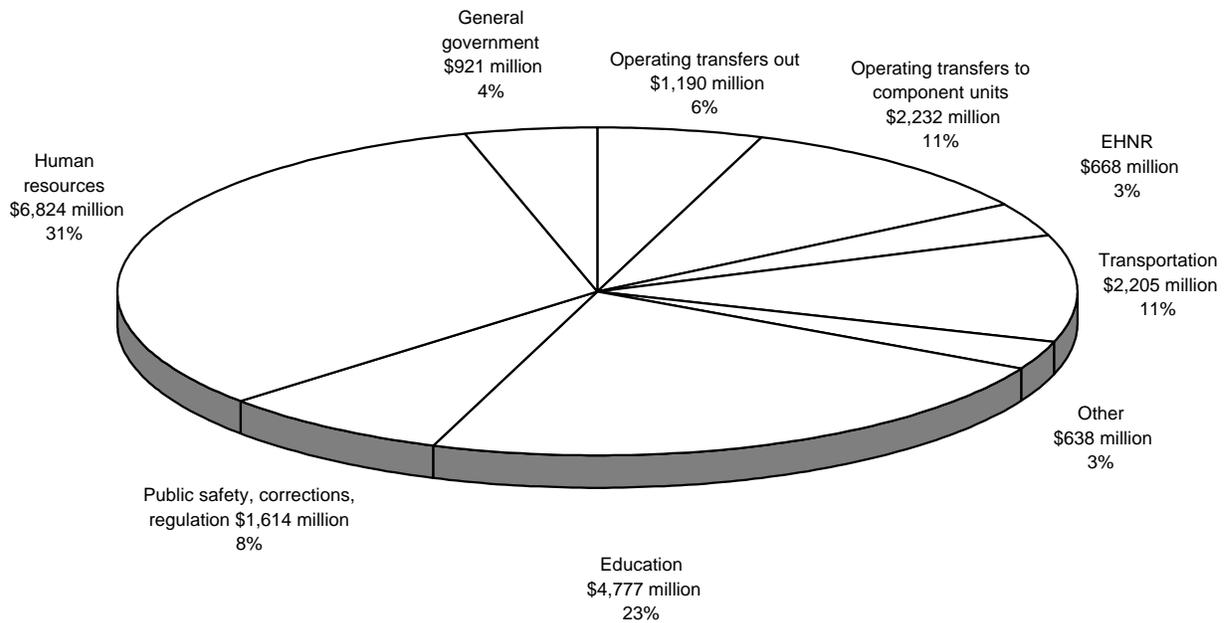
December 4, 1997

General Governmental
General, Special Revenue, and Capital Projects Funds
For the Year Ended June 30, 1997

Revenues and Other Financing Sources



Expenditures and Other Financing Uses



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, 1996

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.



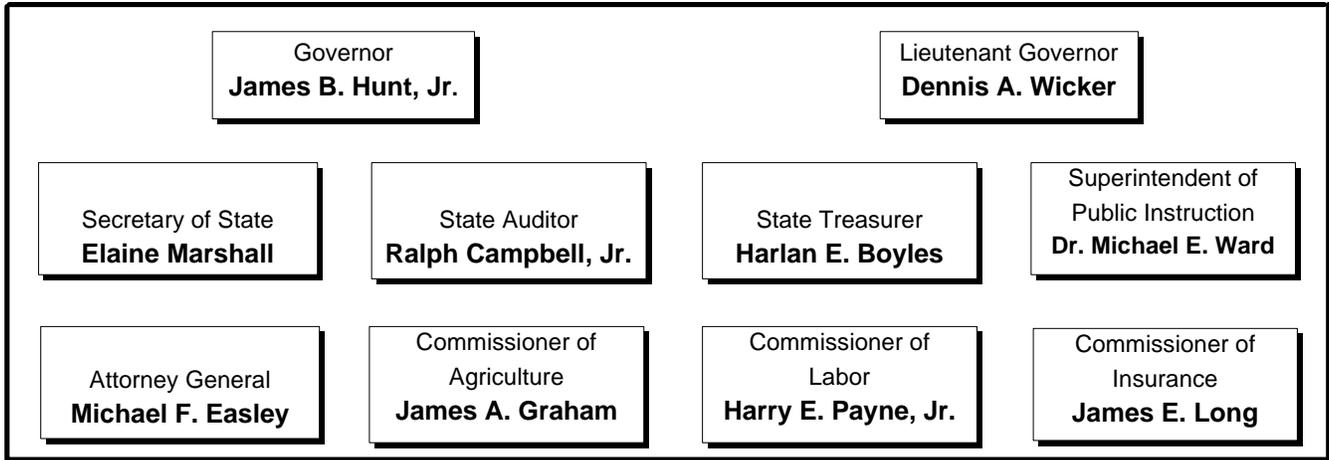
Arthur R. Lynch
President

Jeffrey L. Esser
Executive Director

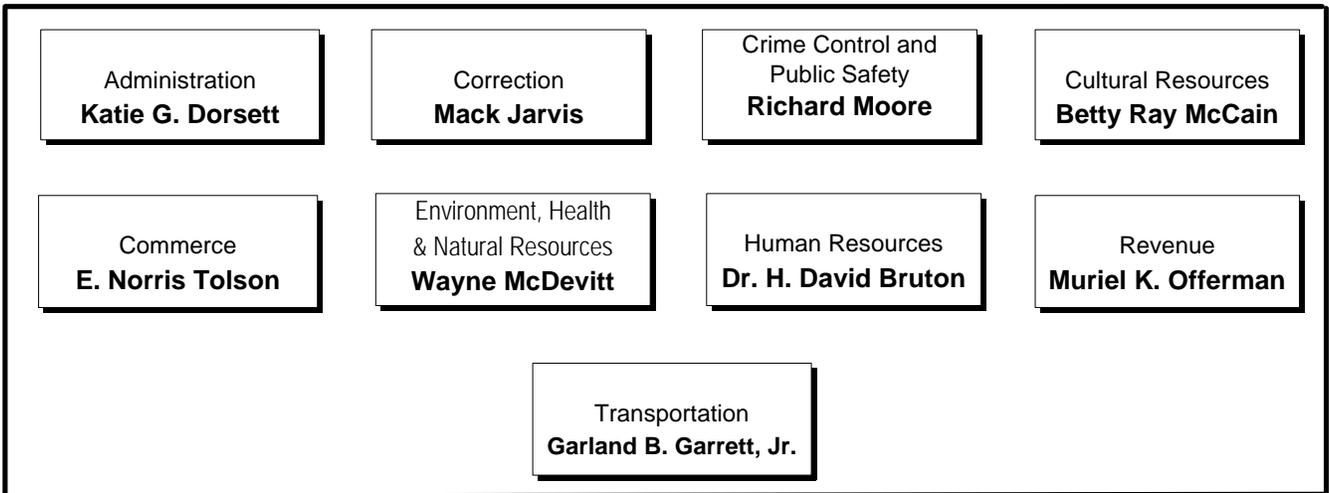
**ORGANIZATION OF NORTH CAROLINA STATE GOVERNMENT
INCLUDING PRINCIPAL STATE OFFICIALS**

EXECUTIVE BRANCH

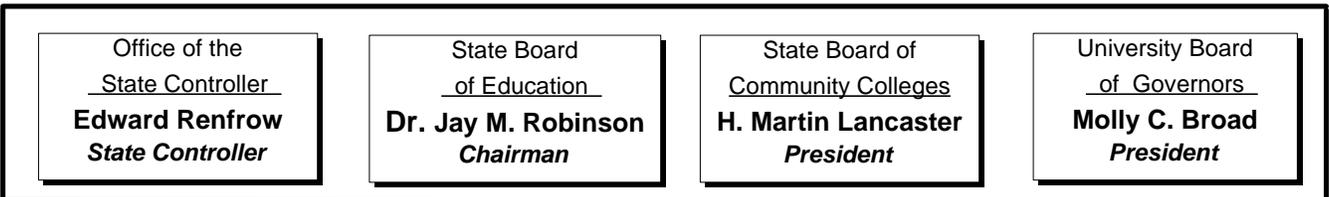
Council of State



Cabinet Secretaries—Appointed by the Governor



Appointed by Governor and Legislative Leadership



LEGISLATIVE BRANCH

JUDICIAL BRANCH

General Assembly

<p>Senate</p> <p>President Lieutenant Governor</p> <p>President Pro Tempore Marc Basnight</p> <p>Deputy Pres. Pro Tempore R. C. Soles, Jr.</p> <p>Majority Leader J. Richard Conder</p> <p>Minority Leader Betsy L. Cochrane</p>	<p>House of Representatives</p> <p>Speaker Harold J. Brubaker</p> <p>Speaker Pro Tempore Carolyn B. Russell</p> <p>Majority Leader N. Leo Daughtry</p> <p>Minority Leader James B. Black</p>
--	---

North Carolina Supreme Court

Chief Justice
Burley B. Mitchell, Jr.

Associate Justices
Henry E. Frye
I. Beverly Lake
Robert F. Orr
Sarah Parker
John Webb
Willis P. Whichard

Administrative
Office of the Courts
James C. Drennan

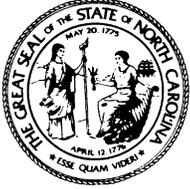
Component Units

University of North Carolina System	Community Colleges	Proprietary Funds
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FINANCIAL SECTION



RALPH CAMPBELL, JR.
STATE AUDITOR

STATE OF NORTH CAROLINA
Office of the State Auditor

300 N. SALISBURY STREET
RALEIGH, N. C. 27603-5903
TELEPHONE: (919) 733-3217
FAX: (919) 733-8443

Independent Auditor's Report

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

We have audited the accompanying general purpose financial statements of the State of North Carolina as of and for the year ended June 30, 1997. These general purpose financial statements are the responsibility of the State's management. Our responsibility is to express an opinion on these general purpose financial statements based on our audit. We did not audit the financial statements of the 401-K Supplemental Retirement Income Plan, which represent 36 percent and 40 percent, respectively, of the assets and revenues of the expendable trust funds; the financial statements of the North Carolina Housing Finance Agency, which represent 48 percent and 37 percent, respectively, of the assets and revenues of the proprietary component units; the financial statements of the State Education Assistance Authority, which represent 34 percent and 23 percent, respectively, of the assets and revenues of the proprietary component units; nor the financial statements of MCNC, which represent 2 percent and 16 percent, respectively, of the assets and revenues of the proprietary component units. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for those entities, is based on the reports of the other auditors.

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

In our opinion, based on our audit and the reports of other auditors, the general purpose financial statements referred to above present fairly, in all material respects, the financial position of the State of North Carolina as of June 30, 1997, and the results of its operations and the cash flows of its proprietary fund types and nonexpendable trust funds for the year then ended in conformity with generally accepted accounting principles.



As disclosed in Note 1U to the financial statements, the State of North Carolina implemented Governmental Accounting Standards Board Statement 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*; Statement 27, *Accounting for Pensions by State and Local Governmental Employers*; and Statement 28, *Accounting and Financial Reporting for Securities Lending Transactions* during the year ended June 30, 1997.

In accordance with *Government Auditing Standards*, we will also issue our report dated December 4, 1997 on our consideration of the State of North Carolina's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. This report will be published at a later date in the State of North Carolina's Single Audit Report.

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

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



Ralph Campbell, Jr.
State Auditor

December 4, 1997

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*GENERAL
PURPOSE
FINANCIAL
STATEMENTS*

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

June 30, 1997

(Dollars in Thousands)

	Governmental Fund Types			Proprietary Fund Types	
	General	Special Revenue	Capital Projects	Enterprise	Internal Service
ASSETS AND OTHER DEBITS					
Cash and cash equivalents (Note 4).....	\$ 2,288,782	\$ 1,916,242	\$ 299,305	\$ 29,780	\$ 473,232
Investments (Note 4).....	1,815,570	899,548	155,464	31,592	627,091
Deposit with Federal government (Note 4).....	—	—	—	—	—
Receivables, net:					
Taxes receivable.....	553,169	97,070	—	—	—
Accounts receivable.....	90,145	5,112	—	7,265	15,155
Intergovernmental receivables.....	482,651	67,801	249	—	370
Interest receivable.....	17,500	9,477	—	69	2,160
Premiums receivable.....	—	—	—	637	1,119
Contributions receivable.....	14,098	—	—	—	4,968
Other receivables.....	—	4,871	—	—	—
Due from other funds (Note 8).....	16,741	59,642	375	—	19,102
Due from component units (Note 8).....	16,376	—	—	—	1,234
Due from primary government (Note 8).....	—	—	—	—	—
Advances to component units (Note 8).....	30,627	—	—	—	—
Notes receivable.....	497	99,726	—	—	—
Inventories.....	48,642	72,884	—	401	12,037
Food stamps.....	107,350	—	—	—	—
Prepaid items.....	11	863	—	1,640	203
Fixed assets (Note 5).....	—	—	—	22,766	158,961
Goodwill.....	—	—	—	—	—
Sureties.....	—	32,147	—	—	—
Amount available in other funds.....	—	—	—	—	—
Amount to be provided for retirement of general long-term obligations.....	—	—	—	—	—
Total Assets and Other Debits.....	\$ 5,482,159	\$ 3,265,383	\$ 455,393	\$ 94,150	\$1,315,632
LIABILITIES, FUND EQUITY AND OTHER CREDITS					
Liabilities:					
Accounts payable and accrued liabilities.....	\$ 453,527	\$ 213,287	\$ 15,300	\$ 219	\$ 10,766
Tax refunds payable.....	643,224	—	—	—	—
Obligations under securities lending.....	1,760,112	879,314	155,464	19,606	328,666
Premium tax credit payable.....	104	—	—	—	—
Due to other funds (Note 8).....	39,137	44,150	229	10	2,746
Due to component units (Note 8).....	4,457	88,099	—	—	2,197
Due to primary government (Note 8).....	—	—	—	—	—
Advance from primary government (Note 8).....	—	—	—	—	—
Obligations under reverse repurchase agreements.....	—	—	—	—	—
Contracts payable.....	—	—	—	—	—
Notes payable (Note 7).....	—	—	—	170	—
Claims and benefits payable.....	462,336	44	—	7,866	325,604
Capital leases payable (Note 6).....	—	—	—	—	—
Bonds payable (Note 7).....	—	—	—	—	—
Interest payable.....	1,159	—	—	—	—
Deposits payable.....	273	88,426	3,956	—	61
Accrued vacation leave.....	—	—	—	265	2,679
Deferred revenue.....	413,929	14,689	—	2,044	3,064
Total Liabilities.....	3,778,258	1,328,009	174,949	30,180	675,783
Fund Equity and Other Credits:					
Contributed capital.....	—	—	—	30,016	58,806
Retained earnings.....	—	—	—	33,954	581,043
Investment In fixed assets.....	—	—	—	—	—
Fund balances:					
Reserved/restricted (Note 15).....	1,286,654	603,447	125,100	—	—
Unreserved/unrestricted (Note 15).....	417,247	1,333,927	155,344	—	—
Total Fund Equity and Other Credits.....	1,703,901	1,937,374	280,444	63,970	639,849
Total Liabilities, Fund Equity and Other Credits.....	\$ 5,482,159	\$ 3,265,383	\$ 455,393	\$ 94,150	\$1,315,632

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

Exhibit A-1

Fiduciary Fund Types	Account Groups		TOTAL PRIMARY GOVERNMENT (Memorandum only)	Component Units		TOTAL REPORTING ENTITY (Memorandum only)
	General Fixed Assets	General Long-Term Obligations		Proprietary	College and University	
\$ 1,345,447	\$ —	\$ —	\$ 6,352,788	\$ 189,792	\$ 1,501,528	\$ 8,044,108
46,235,588	—	—	49,764,853	608,192	2,344,897	52,717,942
1,296,122	—	—	1,296,122	—	—	1,296,122
175,404	—	—	825,643	—	—	825,643
22,501	—	—	140,178	13,791	177,064	331,033
8,109	—	—	559,180	6,455	107,027	672,662
4,725	—	—	33,931	17,569	10,606	62,106
—	—	—	1,756	—	—	1,756
125,806	—	—	144,872	—	—	144,872
—	—	—	4,871	—	—	4,871
4,166	—	—	100,026	—	53,647	153,673
—	—	—	17,610	—	1,548	19,158
—	—	—	—	13,602	92,914	106,516
25,000	—	—	55,627	—	—	55,627
305,145	—	—	405,368	1,108,054	82,031	1,595,453
1,333	—	—	135,297	753	51,177	187,227
—	—	—	107,350	—	—	107,350
—	—	—	2,717	16,333	6,279	25,329
—	2,929,597	—	3,111,324	154,122	5,295,461	8,560,907
—	—	—	—	9	—	9
487,810	—	—	519,957	—	—	519,957
—	—	1,001	1,001	—	—	1,001
—	—	1,692,240	1,692,240	—	—	1,692,240
\$ 50,037,156	\$ 2,929,597	\$ 1,693,241	\$ 65,272,711	\$ 2,128,672	\$ 9,724,179	\$ 77,125,562
\$ 1,187,537	\$ —	\$ —	\$ 1,880,636	\$ 15,860	\$ 183,532	\$ 2,080,028
—	—	—	643,224	—	—	643,224
3,115,647	—	—	6,258,809	157,657	859,053	7,275,519
—	—	—	104	—	—	104
13,754	—	—	100,026	—	53,647	153,673
11,763	—	—	106,516	171	1,377	108,064
—	—	—	—	13,940	3,670	17,610
—	—	—	—	55,627	—	55,627
—	—	—	—	—	204,986	204,986
—	—	—	—	6,858	—	6,858
—	—	6,083	6,253	10,089	27,856	44,198
41,161	—	6,543	843,554	16	40,770	884,340
—	—	318	318	7,007	1,037	8,362
—	—	1,514,477	1,514,477	1,140,906	803,939	3,459,322
—	—	—	1,159	19,028	12,079	32,266
698,335	—	—	791,051	321	264,332	1,055,704
—	—	165,820	168,764	1,331	121,330	291,425
53,023	—	—	486,749	8,241	25,546	520,536
5,121,220	—	1,693,241	12,801,640	1,437,052	2,603,154	16,841,846
—	—	—	88,822	175,841	—	264,663
—	—	—	614,997	515,779	—	1,130,776
—	2,929,597	—	2,929,597	—	4,570,367	7,499,964
43,299,384	—	—	45,314,585	—	1,430,829	46,745,414
1,616,552	—	—	3,523,070	—	1,119,829	4,642,899
44,915,936	2,929,597	—	52,471,071	691,620	7,121,025	60,283,716
\$ 50,037,156	\$ 2,929,597	\$ 1,693,241	\$ 65,272,711	\$ 2,128,672	\$ 9,724,179	\$ 77,125,562

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

For the Fiscal Year Ended June 30, 1997

Exhibit A-2

(Dollars in Thousands)

	Governmental Fund Types			Fiduciary Fund Type	TOTALS (Memorandum only)
	General	Special Revenue	Capital Projects	Expendable Trust	
Revenues:					
Taxes.....	\$ 10,670,535	\$ 1,507,070	\$ —	\$ 180,501	\$ 12,358,106
Federal funds.....	5,169,286	684,656	3,738	10,859	5,868,539
Local funds.....	403,145	24,161	—	104	427,410
Investment earnings.....	340,480	114,198	—	227,288	681,966
Interest earnings on loans.....	—	4,280	—	5,825	10,105
Sales and services.....	58,744	17,127	259	28,050	104,180
Sale, rental, and lease of property.....	5,993	18,195	550	448	25,186
Fees, licenses, and fines.....	254,846	559,844	—	8,865	823,555
Contributions, gifts, and grants.....	14,145	16,554	1,106	146,463	178,268
Funds escheated.....	—	—	—	19,322	19,322
Miscellaneous.....	174,840	7,374	33	526	182,773
Total revenues.....	<u>17,092,014</u>	<u>2,953,459</u>	<u>5,686</u>	<u>628,251</u>	<u>20,679,410</u>
Expenditures:					
Current:					
General government.....	890,428	30,978	—	9,060	930,466
Education.....	4,593,250	182,491	—	15,391	4,791,132
Human resources.....	6,781,885	40,739	—	1,254	6,823,878
Economic development.....	104,896	189,891	—	—	294,787
Environment, health and natural resources.....	548,069	120,333	—	436	668,838
Public safety, corrections, and regulation..	1,455,662	158,095	—	26,783	1,640,540
Transportation.....	—	2,205,494	—	—	2,205,494
Agriculture.....	65,274	147	—	4,853	70,274
Claims and benefits.....	—	—	—	442,804	442,804
Capital outlay.....	—	—	147,194	—	147,194
Debt service:					
Bond principal retirement.....	77,815	4,895	—	—	82,710
Bond interest.....	48,456	83	—	—	48,539
Total expenditures.....	<u>14,565,735</u>	<u>2,933,146</u>	<u>147,194</u>	<u>500,581</u>	<u>18,146,656</u>
Excess revenues over (under) expenditures.....	<u>2,526,279</u>	<u>20,313</u>	<u>(141,508)</u>	<u>127,670</u>	<u>2,532,754</u>
Other Financing Sources (Uses):					
Operating transfers in.....	268,424	781,225	155,428	16,947	1,222,024
Operating transfers from component units.....	35,096	713	—	—	35,809
Operating transfers out.....	(402,174)	(782,030)	(5,881)	(18,363)	(1,208,448)
Operating transfers to component units.....	(2,140,765)	(91,012)	—	(11,763)	(2,243,540)
Proceeds from capital leases.....	—	247	—	—	247
Proceeds from bond sale.....	—	645,000	—	—	645,000
Total other financing sources (uses).....	<u>(2,239,419)</u>	<u>554,143</u>	<u>149,547</u>	<u>(13,179)</u>	<u>(1,548,908)</u>
Excess revenues and other sources over (under) expenditures and other uses.....	286,860	574,456	8,039	114,491	983,846
Fund balances — July 1 (Note 16).....	1,422,975	1,375,570	272,428	2,795,503	5,866,476
Restatements (Note 16).....	513	(266)	—	1,864	2,111
Residual equity transfers in (Note 17).....	252	6	—	—	258
Residual equity transfers out (Note 17).....	(10,500)	(229)	(23)	—	(10,752)
Increase (decrease) in reserve for related assets.....	3,801	(12,163)	—	(13)	(8,375)
Fund balances — June 30.....	<u>\$ 1,703,901</u>	<u>\$ 1,937,374</u>	<u>\$ 280,444</u>	<u>\$ 2,911,845</u>	<u>\$ 6,833,564</u>

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

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

For the Fiscal Year Ended June 30, 1997

Exhibit A-3

(Dollars in Thousands)

	General Fund			Special Revenue Funds		
	<i>Final Budget</i>	<i>Actual</i>	<i>Variance- Favorable (Unfavorable)</i>	<i>Final Budget</i>	<i>Actual</i>	<i>Variance- Favorable (Unfavorable)</i>
Revenues:						
Taxes:						
Individual income.....	\$ 4,965,200	\$ 5,329,990	\$ 364,790	\$ —	\$ —	\$ —
Corporate income.....	663,600	717,751	54,151	—	—	—
Sales and use.....	3,090,000	3,127,673	37,673	—	—	—
Franchise.....	366,200	387,812	21,612	—	—	—
Insurance.....	248,000	258,504	10,504	—	—	—
Beverage.....	148,600	150,208	1,608	—	—	—
Intangibles.....	600	—	(600)	—	—	—
Other.....	246,800	267,209	20,409	—	—	—
Non-Tax:						
Fees, licenses and fines.....	97,800	99,063	1,263	—	—	—
Investment income.....	195,000	224,113	29,113	—	—	—
Disproportionate share receipts.....	102,000	100,843	(1,157)	—	—	—
Other.....	90,100	88,840	(1,260)	—	—	—
Transfers in.....	181,900	181,853	(47)	—	—	—
Departmental:						
Federal funds.....	5,085,471	4,663,038	(422,433)	285,741	206,188	(79,553)
Local funds.....	621,989	557,377	(64,612)	10,931	9,483	(1,448)
Inter-agency grants and allocations.....	32,802	3,493	(29,309)	14,845	5,369	(9,476)
Intra-governmental transactions.....	2,064,548	1,787,702	(276,846)	286,856	283,825	(3,031)
Sales and services.....	69,625	63,517	(6,108)	15,936	14,838	(1,098)
Sale, rental and lease of property.....	4,702	4,540	(162)	3,840	3,996	156
Fees, licenses and fines.....	103,008	103,619	611	86,958	84,788	(2,170)
Contributions, gifts and grants.....	64,844	58,992	(5,852)	2,353	1,801	(552)
Miscellaneous.....	30,296	47,442	17,146	11,972	10,863	(1,109)
Universities.....	457,239	437,484	(19,755)	80,888	80,781	(107)
Total Revenues.....	<u>18,930,324</u>	<u>18,661,063</u>	<u>(269,261)</u>	<u>800,320</u>	<u>701,932</u>	<u>(98,388)</u>
Expenditures:						
Current:						
General government.....	525,355	506,178	19,177	77,821	65,215	12,606
Education.....	5,802,802	5,654,700	148,102	—	—	—
Human resources.....	7,933,072	7,530,619	402,453	49,569	41,419	8,150
Environment, health, and natural resources.....	670,984	606,058	64,926	126,320	97,923	28,397
Economic development.....	175,176	137,013	38,163	255,378	202,687	52,691
Public safety, corrections, and regulation...	1,835,053	1,586,700	248,353	244,937	205,874	39,063
Transportation.....	10,147	10,147	—	—	—	—
Agriculture.....	72,075	67,702	4,373	—	—	—
Capital outlay.....	157,267	157,267	—	—	—	—
Debt service.....	126,883	126,271	612	—	—	—
Universities.....	1,833,388	1,811,323	22,065	107,928	75,553	32,375
Total Expenditures.....	<u>19,142,202</u>	<u>18,193,978</u>	<u>948,224</u>	<u>861,953</u>	<u>688,671</u>	<u>173,282</u>
Excess revenues over (under) expenditures.....	(211,878)	467,085	678,963	(61,633)	13,261	74,894
(Increase) in reserves (Note 2 D).....	(115,510)	(556,126)	(440,616)	—	—	—
Decrease in reserves (Note 2 D).....	1,595	1,595	—	—	—	—
Unreserved fund balances (budgetary basis) at July 1, 1996.....	406,136	406,136	—	177,343	177,343	—
Restatements (Note 2 B).....	—	—	—	1,894	1,894	—
Unreserved fund balances (budgetary basis) at June 30, 1997.....	<u>\$ 80,343</u>	<u>\$ 318,690</u>	<u>\$ 238,347</u>	<u>\$ 117,604</u>	<u>\$ 192,498</u>	<u>\$ 74,894</u>

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

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

For the Fiscal Year Ended June 30, 1997

(Dollars in Thousands)

	Proprietary Fund Types			TOTAL PRIMARY GOVERNMENT
	Enterprise	Internal Service	Nonexpendable Trust	(Memorandum only)
Operating Revenues:				
Sales and services.....	\$ 1,267	\$ 241,297	\$ 972	\$ 243,536
Federal funds.....	—	—	29,307	29,307
Investment earnings.....	3,522	63,102	8,482	75,106
Interest earnings on loans.....	—	—	6,989	6,989
Rental and lease earnings.....	2,929	30	—	2,959
Fees, licenses and fines.....	6,295	1,059	1,307	8,661
Contributions.....	—	62,018	4	62,022
Insurance premiums.....	5,750	585,480	—	591,230
Miscellaneous.....	86	1,826	219	2,131
Total operating revenues.....	<u>19,849</u>	<u>954,812</u>	<u>47,280</u>	<u>1,021,941</u>
Operating Expenses:				
Personal services.....	4,919	45,499	—	50,418
Supplies and materials.....	466	13,288	—	13,754
Services.....	3,913	72,497	7	76,417
Interest.....	423	13,195	1,723	15,341
Cost of goods sold.....	440	36,260	—	36,700
Depreciation/amortization.....	1,420	27,807	—	29,227
Grants to local governments.....	—	—	5,228	5,228
Claims and benefits.....	11,312	683,739	—	695,051
Insurance and bonding.....	2,822	11,158	—	13,980
Other.....	824	22,560	392	23,776
Total operating expenses.....	<u>26,539</u>	<u>926,003</u>	<u>7,350</u>	<u>959,892</u>
Operating income (loss).....	(6,690)	28,809	39,930	62,049
Net Nonoperating Revenues (Expenses).....	<u>208</u>	<u>497</u>	<u>—</u>	<u>705</u>
Income (loss) before operating transfers.....	<u>(6,482)</u>	<u>29,306</u>	<u>39,930</u>	<u>62,754</u>
Operating Transfers:				
Transfers in.....	120	1,100	—	1,220
Transfers from component units.....	—	—	—	—
Transfers from primary government.....	—	—	—	—
Transfers out.....	<u>(1,063)</u>	<u>(11,150)</u>	<u>(2,583)</u>	<u>(14,796)</u>
Total operating transfers in (out).....	<u>(943)</u>	<u>(10,050)</u>	<u>(2,583)</u>	<u>(13,576)</u>
Net income (loss).....	(7,425)	19,256	37,347	49,178
Excess of revenues over (under) expenditures from governmental operations.....	—	—	—	—
Fund equity — July 1 (Note 16).....	66,686	793,662	317,455	1,177,803
Restatements (Note 16).....	209	(172,866)	—	(172,657)
Increase (decrease) in contributed capital.....	4,500	(203)	—	4,297
Fund equity — June 30.....	<u>\$ 63,970</u>	<u>\$ 639,849</u>	<u>\$ 354,802</u>	<u>\$ 1,058,621</u>

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

Exhibit A-4

Component Units	TOTAL REPORTING ENTITY
Proprietary Fund Types	(Memorandum only)
\$ 58,174	\$ 301,710
—	29,307
36,902	112,008
84,513	91,502
2,725	5,684
137	8,798
—	62,022
—	591,230
5,380	7,511
<u>187,831</u>	<u>1,209,772</u>
39,589	90,007
11,533	25,287
31,088	107,505
70,576	85,917
—	36,700
15,389	44,616
—	5,228
97	695,148
982	14,962
10,571	34,347
<u>179,825</u>	<u>1,139,717</u>
8,006	70,055
<u>(12,906)</u>	<u>(12,201)</u>
<u>(4,900)</u>	<u>57,854</u>
—	1,220
11,107	11,107
44,789	44,789
—	(14,796)
<u>55,896</u>	<u>42,320</u>
50,996	100,174
(2,186)	(2,186)
599,599	1,777,402
5,224	(167,433)
37,987	42,284
<u>\$ 691,620</u>	<u>\$ 1,750,241</u>

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

For the Fiscal Year Ended June 30, 1997

(Dollars in Thousands)

	<i>Proprietary Fund Types</i>		<i>Fiduciary</i>	<i>TOTAL</i>
	<i>Enterprise</i>	<i>Internal Service</i>	<i>Fund Types</i> <i>Nonexpendable</i> <i>Trust Funds</i>	<i>PRIMARY</i> <i>GOVERNMENT</i> <i>(Memorandum</i> <i>only)</i>
Cash Provided From (Used For)				
Operations:				
Operating income (loss).....	\$ (6,690)	\$ 28,809	\$ 39,930	\$ 62,049
Adjustments to reconcile operating income to net cash flows from operating activities:				
Depreciation/amortization.....	1,420	27,807	—	29,227
Investment earnings.....	(3,522)	(63,102)	(8,482)	(75,106)
Securities lending fees.....	423	13,195	1,723	15,341
Construction projects expensed.....	—	—	—	—
Mortgage/loan/note principal repayments.....	—	—	13,368	13,368
Loan sales.....	—	—	—	—
Mortgages/loans/notes issued.....	—	—	(40,692)	(40,692)
Mortgage/loan/note cancellation and writeoffs.....	—	—	—	—
Allowances and uncollectible accounts.....	—	—	—	—
Restatements and adjustments to cash.....	—	5	—	5
Development stage expense.....	—	—	—	—
Nonoperating miscellaneous income/expense.....	23	20	—	43
Capitalized interest.....	—	—	—	—
Interest expense.....	—	—	—	—
(Increases) decreases in assets:				
Receivables.....	(7,173)	(1,572)	(219)	(8,964)
Due from other funds.....	—	(2,024)	—	(2,024)
Due from component units.....	—	(451)	—	(451)
Due from primary government.....	—	—	—	—
Inventories.....	(105)	2,878	—	2,773
Prepaid items.....	59	768	—	827
Increases (decreases) in liabilities:				
Accounts payable and accrued liabilities.....	(59)	(29)	(1,881)	(1,969)
Due to other funds.....	3	(1,574)	—	(1,571)
Due to component units.....	—	1,634	—	1,634
Due to primary government.....	—	—	—	—
Claims and benefits payable.....	6,430	32,697	—	39,127
Contracts payable.....	—	—	—	—
Deposits payable.....	—	—	—	—
Accrued vacation leave.....	26	348	—	374
Deferred revenue.....	24	511	—	535
Total cash provided from (used for) operations.....	<u>(9,141)</u>	<u>39,920</u>	<u>3,747</u>	<u>34,526</u>
Cash Provided From (Used For)				
Noncapital Financing Activities:				
Proceeds from sale of bonds/notes.....	—	—	—	—
Repayment of bond/note principal.....	—	—	—	—
Interest payments on bonds and notes.....	—	—	—	—
Bond issuance cost.....	—	—	—	—
Federal grants.....	—	—	—	—
Grants, aid and subsidies.....	—	—	—	—
Operating transfers in.....	120	1,100	—	1,220
Operating transfers from component units.....	—	—	—	—
Operating transfers from primary government.....	—	—	—	—
Operating transfers out.....	(1,063)	(10,632)	(2,583)	(14,278)
Advance from primary government.....	—	—	—	—
Nonoperating cash donations.....	120	—	—	120
Increase in contributed capital.....	4,500	—	—	4,500
Long term contract payments.....	—	—	—	—
Total cash provided from (used for) noncapital financing activities.....	<u>3,677</u>	<u>(9,532)</u>	<u>(2,583)</u>	<u>(8,438)</u>

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

Exhibit A-5

Component Units	TOTAL REPORTING ENTITY
Proprietary Fund Types	(Memorandum only)
\$ 8,006	\$ 70,055
15,389	44,616
(36,902)	(112,008)
4,251	19,592
407	407
84,280	97,648
1,988	1,988
(307,595)	(348,287)
4,401	4,401
3,655	3,655
833	838
(2,220)	(2,220)
1,694	1,737
(3,176)	(3,176)
57,896	57,896
(3,268)	(12,232)
—	(2,024)
219	(232)
(2,466)	(2,466)
30	2,803
(227)	600
2,865	896
—	(1,571)
171	1,805
(669)	(669)
—	39,127
1,353	1,353
320	320
77	451
(2,123)	(1,588)
<u>(170,811)</u>	<u>(136,285)</u>
296,495	296,495
(82,660)	(82,660)
(59,033)	(59,033)
(4,285)	(4,285)
3,329	3,329
(19,251)	(19,251)
—	1,220
11,107	11,107
41,512	41,512
—	(14,278)
1,734	1,734
4,079	4,199
—	4,500
(1,514)	(1,514)
<u>191,513</u>	<u>183,075</u>

Continued

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

For the Fiscal Year Ended June 30, 1997

(Dollars in Thousands)

	<i>Proprietary Fund Types</i>		<i>Fiduciary</i>	<i>TOTAL</i>
	<i>Enterprise</i>	<i>Internal Service</i>	<i>Nonexpendable Trust Funds</i>	<i>PRIMARY GOVERNMENT (Memorandum only)</i>
Cash Provided From (Used For)				
Capital Financing Activities:				
Acquisition of fixed assets.....	(266)	(33,019)	—	(33,285)
Proceeds from the sale of fixed assets.....	4	3,881	—	3,885
Proceeds from sale of bonds/notes.....	—	—	—	—
Repayment of bond/note principal.....	(30)	—	—	(30)
Interest payments on bonds, notes and capital leases.....	(14)	—	—	(14)
Bond issuance cost.....	—	—	—	—
Operating transfers out.....	—	(518)	—	(518)
Capital grants.....	—	—	—	—
Decrease in contributed capital.....	—	(24)	—	(24)
Principal payment on capital leases.....	—	—	—	—
Transfer from primary government.....	—	—	—	—
Dredging costs.....	—	—	—	—
Total cash provided from (used for).....				
capital financing activities.....	<u>(306)</u>	<u>(29,680)</u>	<u>—</u>	<u>(29,986)</u>
Cash Provided From (Used For)				
Investment Activities:				
Proceeds from the sale/maturities of non-State				
Treasurer investments.....	569	3	409	981
Redemptions from the State Treasurer				
Long-Term Investment Pool.....	26,000	4,000	2,609	32,609
Purchase of non-State Treasurer investments.....	(439)	—	(413)	(852)
Purchase into State Treasurer				
Long-Term Investment Pool.....	—	(1,000)	(1,300)	(2,300)
Investment earnings.....	709	26,601	3,505	30,815
Total cash provided from (used for)				
investment activities.....	<u>26,839</u>	<u>29,604</u>	<u>4,810</u>	<u>61,253</u>
Net increase (decrease) in cash				
and cash equivalents.....	21,069	30,312	5,974	57,355
Net (source) use of cash				
Deficit from governmental operations.....	—	—	—	—
Cash and cash equivalents at July 1.....	8,711	442,920	75,534	527,165
Cash and cash equivalents at June 30.....	<u>\$ 29,780</u>	<u>\$ 473,232</u>	<u>\$ 81,508</u>	<u>\$ 584,520</u>
Noncash Investing, Capital, and Financing Activities:				
Noncash distributions from the State Treasurer				
Long-Term Investment Pool.....	\$ 2,395	\$ 1,163	\$ 3,180	\$ 6,738
Increase in contributed capital.....	—	—	—	720
Decrease in contributed capital.....	—	(179)	—	551
Residual transfer out.....	—	—	—	731
Assets acquired through the assumption of a liability.....	6,086	328,701	47,972	382,759
Interest expense on advance from primary government.....	—	—	—	—
Change in construction in progress as a result of accrual accounts payable.....	—	—	—	—
Prior period adjustment.....	12	—	—	12
Transfer of fixed assets.....	221	—	—	221
Cash and cash equivalents in the Fiduciary Fund Types on the Combined Balance Sheet include:				
Expendable Trust Funds.....	\$ 389,663			
Nonexpendable Trust Funds.....	81,508			
Pension Trust Funds.....	47,927			
Agency Funds.....	826,349			
Total.....	<u>\$ 1,345,447</u>			

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

Exhibit A-5

Component Units	TOTAL REPORTING ENTITY
Proprietary Fund Types	(Memorandum only)
(18,924)	(52,209)
801	4,686
3,822	3,822
(907)	(937)
(1,130)	(1,144)
(109)	(109)
—	(518)
38,753	38,753
—	(24)
(3,428)	(3,428)
3,277	3,277
(668)	(668)
21,487	(8,499)
461,377	462,358
—	32,609
(504,951)	(505,803)
—	(2,300)
30,493	61,308
(13,081)	48,172
29,108	86,463
2,186	—
158,498	685,663
\$ 189,792	\$ 772,126
\$ 6,650	\$ 13,388
—	720
—	551
—	731
157,657	540,416
4,795	4,795
238	238
—	12
—	221

**PENSION TRUST FUNDS
COMBINING STATEMENT OF PLAN NET ASSETS
DEFINED BENEFIT PENSION PLANS**

June 30, 1997

Exhibit A-6

(Dollars in Thousands)

	Teachers' and State Employees' Retirement System	Consolidated Judicial Retirement System	Legislative Retirement System	Firemen's and Rescue Squad Workers' Pension Fund	North Carolina National Guard Pension Fund	Local Governmental Employees' Retirement System	Totals
ASSETS							
Cash and cash equivalents.....	\$ 37,809	\$ 223	\$ 201	\$ 621	\$ 206	\$ 8,867	\$ 47,927
Receivables:							
Accounts receivable.....	213	—	—	—	—	145	358
Interest receivable.....	427	4	1	9	1	274	716
Contributions receivable.....	92,384	870	88	—	—	24,017	117,359
Investments, at fair value:							
State Treasurer investment pool.	35,011,823	258,679	19,915	189,429	34,252	8,618,676	44,132,774
Total Assets.....	<u>35,142,656</u>	<u>259,776</u>	<u>20,205</u>	<u>190,059</u>	<u>34,459</u>	<u>8,651,979</u>	<u>44,299,134</u>
LIABILITIES							
Obligations under securities lending.....	2,097,568	15,527	1,346	11,676	2,227	521,167	2,649,511
Benefits payable.....	195	5	—	5	3	126	334
Total Liabilities.....	<u>2,097,763</u>	<u>15,532</u>	<u>1,346</u>	<u>11,681</u>	<u>2,230</u>	<u>521,293</u>	<u>2,649,845</u>
Fund Balance							
Reserved for employees' pension benefits (Note 15).....	<u>\$ 33,044,893</u>	<u>\$ 244,244</u>	<u>\$ 18,859</u>	<u>\$ 178,378</u>	<u>\$ 32,229</u>	<u>\$ 8,130,686</u>	<u>\$ 41,649,289</u>

A schedule of funding progress for each plan is presented on page 102 .

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

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

For the Fiscal Year Ended June 30, 1997

Exhibit A-7

(Dollars in Thousands)

	Teachers' and State Employees' Retirement System	Consolidated Judicial Retirement System	Legislative Retirement System	Firemen's and Rescue Squad Workers' Pension Fund	North Carolina National Guard Pension Fund	Local Governmental Employees' Retirement System	Totals
Additions:							
Contributions:							
Employer.....	\$ 597,385	\$ 7,976	\$ 802	\$ —	\$ 2,303	\$ 145,865	\$ 754,331
Plan members.....	449,804	2,318	318	2,702	—	170,118	625,260
Other contributions.....	—	—	—	11,735	—	—	11,735
Total contributions.....	<u>1,047,189</u>	<u>10,294</u>	<u>1,120</u>	<u>14,437</u>	<u>2,303</u>	<u>315,983</u>	<u>1,391,326</u>
Investment Income:							
Net appreciation (depreciation) in fair value of investments....	3,085,169	22,605	1,617	15,910	2,863	748,236	3,876,400
Allocation of interest income...	<u>1,937,531</u>	<u>14,327</u>	<u>1,123</u>	<u>10,471</u>	<u>1,895</u>	<u>479,328</u>	<u>2,444,675</u>
Total investment income.....	5,022,700	36,932	2,740	26,381	4,758	1,227,564	6,321,075
Less investment expenses.....	<u>(80,378)</u>	<u>(599)</u>	<u>(52)</u>	<u>(431)</u>	<u>(82)</u>	<u>(20,849)</u>	<u>(102,391)</u>
Net investment income.....	<u>4,942,322</u>	<u>36,333</u>	<u>2,688</u>	<u>25,950</u>	<u>4,676</u>	<u>1,206,715</u>	<u>6,218,684</u>
Fees, licenses and fines.....	—	—	—	—	—	4,638	4,638
Miscellaneous additions.....	<u>743</u>	<u>—</u>	<u>—</u>	<u>1</u>	<u>—</u>	<u>4</u>	<u>748</u>
Total additions.....	<u>5,990,254</u>	<u>46,627</u>	<u>3,808</u>	<u>40,388</u>	<u>6,979</u>	<u>1,527,340</u>	<u>7,615,396</u>
Deductions:							
Administrative expense.....	4,262	23	4	313	20	1,551	6,173
Benefits.....	1,097,091	10,349	818	11,296	1,607	229,802	1,350,963
Refund of contributions.....	<u>68,955</u>	<u>110</u>	<u>13</u>	<u>507</u>	<u>—</u>	<u>44,975</u>	<u>114,560</u>
Total deductions.....	<u>1,170,308</u>	<u>10,482</u>	<u>835</u>	<u>12,116</u>	<u>1,627</u>	<u>276,328</u>	<u>1,471,696</u>
Net increase (decrease)	4,819,946	36,145	2,973	28,272	5,352	1,251,012	6,143,700
Fund balance reserved for employees' pension benefits							
Beginning of the year (Note 16).	<u>28,224,947</u>	<u>208,099</u>	<u>15,886</u>	<u>150,106</u>	<u>26,877</u>	<u>6,879,674</u>	<u>35,505,589</u>
End of year.....	<u>\$33,044,893</u>	<u>\$ 244,244</u>	<u>\$ 18,859</u>	<u>\$ 178,378</u>	<u>\$ 32,229</u>	<u>\$ 8,130,686</u>	<u>\$41,649,289</u>

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

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

For the Fiscal Year Ended June 30, 1997

Exhibit A-8

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

Tuition and fees.....	\$ 391,029
Federal appropriations.....	20,836
County appropriations.....	100,956
Federal contracts and grants.....	559,270
State contracts and grants.....	64,198
Local contracts and grants.....	11,531
Private gifts, contracts and grants.....	261,976
Endowment income.....	18,405
Sales and services.....	776,806
Investment earnings.....	83,536
Realized gain on sale of investments.....	78,379
Unrealized gain on investments.....	7,685
Expended for plant facilities.....	440,874
Retirement of indebtedness.....	29,113
Proceeds of refunding debt.....	38,467
Income from hospital operations.....	422,751
Other revenues and additions.....	50,151
Total Revenues and Other Additions.....	<u>3,355,963</u>

Expenditures and Other Deductions:

Educational and general.....	3,166,319
Auxiliary enterprises.....	434,984
Internal service.....	32,184
Independent operations.....	12,225
Professional clinical services.....	181,621
Indirect cost recovered.....	79,089
Refunded to grantors.....	921
Administrative and collection costs, loan cancellation and bad debts.....	2,426
Realized loss on sale of investments.....	6,278
Expended for plant facilities.....	339,647
Retirement of indebtedness.....	31,985
Payment to escrow agent.....	38,479
Interest on indebtedness.....	34,709
Disposal of plant facilities.....	87,230
Hospital operations.....	380,244
Other expenditures and deductions.....	845
Total Expenditures and Other Deductions.....	<u>4,829,186</u>

Transfers-Additions (Deductions):

Operating transfers from primary government.....	2,198,751
Operating transfers to primary government.....	(35,809)
Operating transfers to component units.....	(11,107)
Net transfers.....	<u>2,151,835</u>
Net decrease in fund equity.....	678,612
Fund equity — July 1 (Note 16).....	6,491,692
Restatements (Note 16).....	(19,785)
Residual equity transfers out (Note 17).....	(29,494)
Fund equity — June 30.....	<u>\$ 7,121,025</u>

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

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

For the Fiscal Year Ended June 30, 1997

Exhibit A-9

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

Tuition and fees.....	\$ 389,164
Federal appropriations.....	20,836
County appropriations.....	84,759
Federal contracts and grants.....	483,648
State contracts and grants.....	56,716
Local contracts and grants.....	6,405
Private gifts, contracts and grants.....	178,450
Endowment income.....	21,416
Sales and services.....	773,307
Investment earnings.....	64,389
Realized gain on sale of investments.....	224
Other revenues.....	<u>29,463</u>
Total Current Revenues.....	<u>2,108,777</u>

Expenditures:

Educational and general:

Instruction.....	1,420,953
Organized research.....	345,506
Public service.....	213,539
Academic support.....	221,751
Student services.....	117,746
Institutional support.....	345,693
Physical plant operations.....	251,954
Student financial aid.....	<u>249,177</u>
Total educational and general.....	3,166,319
Auxiliary enterprises.....	434,984
Internal service.....	32,184
Independent operations.....	12,225
Professional clinical services.....	181,621
Realized loss on sale of investments.....	<u>907</u>
Total Expenditures.....	<u>3,828,240</u>

Transfers and Additions (Deductions):

Excess of restricted receipts over transfers to revenues.....	30,911
Refund to grantors.....	(908)
Mandatory transfers.....	(62,215)
Non-mandatory transfers.....	(29,536)
Interinstitutional transfers.....	(5,067)
Operating transfers from primary government.....	1,886,828
Operating transfers to primary government.....	(18,776)
Operating transfers to component units.....	<u>(11,107)</u>
Net Increase in Fund Equity.....	<u>\$ 70,667</u>

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

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NOTES TO THE FINANCIAL STATEMENTS

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Basis of Presentation

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

The financial statements are presented as of and for the fiscal year ended June 30, 1997, except for the USS North Carolina Battleship Commission whose statements are as of and for the fiscal year ended September 30, 1996, and the North Carolina Deferred Compensation Plan and the 401(k) Supplemental Retirement Income Plan whose statements are as of and for the calendar year ended December 31, 1996. Occupational licensing boards have financial statements with various fiscal year ending dates.

B. Financial Reporting Entity

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

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

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

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

Blended Component Units**Comprehensive Major Medical Plan**

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

NOTES TO THE FINANCIAL STATEMENTS

Disability Income Plan of North Carolina

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

Discretely Presented Component Units

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

College and University Funds

University of North Carolina System

The Board of Governors of the consolidated University of North Carolina (UNC) system is a legally separate body, composed of thirty-two members elected by the General Assembly. The Board of Governors establishes system-wide administrative policies while budgetary decisions are exercised at the State level. Within the consolidated system there is UNC-General Administration, which is the administrative arm of the Board of Governors, the sixteen constituent universities, and UNC Hospitals. Each of the sixteen universities, in turn, is governed by its own separate board of trustees that is responsible for the operations of that campus only. UNC Hospitals are governed by a separate board of directors. Funding for each of the institutions of the UNC system is accomplished by State appropriations, tuition and fees, sales and services, federal grants, and private donations and grants. Each institution was audited by the State Auditor for the year ended June 30, 1996.

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

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

Community Colleges

There are currently fifty-eight community colleges located throughout the State of North Carolina. Each is a separate component unit of the reporting entity and is legally separate. The State does not appoint a voting majority of each community college board of trustees. The State Board of Community Colleges (the Board) approves the budgeting of state and federal funds, the associated budget revisions, and the selection of the chief administrative officer of each individual community college. The Board is comprised of state officials or their appointees. Each community college is similar in nature and function to all of the others, and the operations of no community college is considered major in relation to the operations of all community colleges in the system. Therefore, aggregated financial information is presented in this CAFR for all community colleges. Each community college was audited by the State Auditor for the year ended June 30, 1996. The following are the State's fifty-eight community colleges:

Alamance Comm. College	Anson Comm. College
Asheville-Buncombe Technical Comm. College	Beaufort County Comm. College
Bladen Community College	Blue Ridge Comm. College
Brunswick Comm. College	Caldwell Comm. College and Technical Institute
Cape Fear Comm. College	Carteret Comm. College
Catawba Valley Comm. College	Central Piedmont Comm. College
Central Carolina Comm. College	Cleveland Comm. College
Coastal Carolina Comm. College	College of The Albemarle
Craven Comm. College	Durham Technical Comm. College
Davidson County Comm. College	Fayetteville Technical Comm. College
Edgecombe Comm. College	Forsyth Technical Comm. College
Gaston College	Guilford Technical Comm. College

NOTES TO THE FINANCIAL STATEMENTS**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

Halifax Comm. College	Haywood Comm. College
Isothermal Comm. College	James Sprunt Comm. College
Johnston Comm. College	Lenoir Comm. College
Martin Comm. College	Mayland Comm. College
McDowell Technical Comm. College	Mitchell Comm. College
Montgomery Comm. College	Nash Comm. College
Pamlico Comm. College	Piedmont Comm. College
Pitt Comm. College	Randolph Comm. College
Richmond Comm. College	Roanoke-Chowan Comm. College
Robeson Comm. College	Rockingham Comm. College
Rowan-Cabarrus Comm. College	Sampson Comm. College
Sandhills Comm. College	Southeastern Comm. College
Southwestern Comm. College	Stanly Comm. College
Surry Comm. College	Tri-County Comm. College
Vance-Granville Comm. College	Wake Technical Comm. College
Wayne Comm. College	Western Piedmont Comm. College
Wilkes Comm. College	Wilson Technical Comm. College

Proprietary Funds**North Carolina Housing Finance Agency**

The North Carolina Housing Finance Agency is a legally separate organization established to administer programs to finance construction of low and moderate income housing. The Agency has a thirteen-member board of directors, with twelve appointed by either the Governor or the General Assembly. The thirteenth member is elected by the other twelve. The State can significantly influence the programs, projects, activities, and level of services of the Agency. The Agency was audited by independent auditors for the year ended June 30, 1997.

North Carolina State Ports Authority

The North Carolina State Ports Authority is a legally separate authority established to operate the State's port facilities in Wilmington and Morehead City. It is governed by an eleven-member board, all of whom are appointed by either the Governor or the General Assembly. A financial benefit/burden relationship exists between the State and the Authority. The Authority was audited by the State Auditor for the year ended June 30, 1997.

North Carolina Ports Railway Commission

The North Carolina Ports Railway Commission is a legally separate organization established to operate, maintain and control all railway equipment and railway operations transferred to it by the North Carolina State Ports Authority in January 1981. The Commission is governed by a five-member board, all of whom are appointed by the Governor. A financial benefit/burden relationship exists between the State and the Commission. The Commission was audited by the State Auditor for the year ended June 30, 1997.

North Carolina Agricultural Finance Authority

The North Carolina Agricultural Finance Authority is a legally separate authority created to administer the financing of low-interest loans to farmers. The Authority is governed by a ten-member board, one of whom is a state official and nine of whom are appointed by either the Governor or the General Assembly. A financial benefit/burden relationship exists between the State and the Authority. The Authority was not audited for the year ended June 30, 1997.

Centennial Authority

The Centennial Authority is a legally separate authority created to study, design, plan, construct, own, promote, finance and operate a regional facility in Wake County, North Carolina. The regional facility, will consist of an arena, coliseum or other buildings or both, where sports, fitness, health, recreational, entertainment or cultural activities can be conducted. The Authority is governed by a thirteen-member board comprised of eight members appointed by the General Assembly; two members appointed by the Wake County Board of Commissioners; two members appointed by the Raleigh City Council; and one member appointed jointly by the mayors of all the cities of Wake County. A financial benefit/burden relationship exists between the State and the Authority. The Authority was audited by independent auditors for the year ended June 30, 1997.

North Carolina Global TransPark Authority

The North Carolina Global TransPark Authority (formerly North Carolina Air Cargo Airport Authority) is a legally separate authority created to administer the development of the North Carolina Global TransPark. Of the twenty-member governing board, nineteen are voting members. Seven of the voting members are appointed by the Governor and six are appointed by the General Assembly. The State has obligated itself to provide significant funding to the Authority for years to come; therefore, a financial benefit/ burden relationship exists between the State and the Authority. The Authority was audited by independent auditors for the year ended June 30, 1996.

North Carolina Low Level Radioactive Waste Management Authority

The North Carolina Low Level Radioactive Waste Management Authority is a legally separate authority created to locate, construct and operate a regional site for the disposal of low level radioactive waste. The Authority is governed by a fifteen-member board, all of whom are appointed by either the Governor or the General Assembly. The State has the ability to influence the budget, programs, and activities of the Authority. The Authority was audited by the State Auditor for the year ended June 30, 1997.

NOTES TO THE FINANCIAL STATEMENTS**MCNC**

MCNC (formerly the Microelectronics Center of North Carolina) is a legally separate nonprofit corporation created to foster advanced programs in microelectronics and super-computing, in support of economic development and of North Carolina universities and research institutes. Of the sixteen-member governing board, eleven are voting members. Seven of the voting board members are appointed by the Governor and four serve as a result of their positions with the UNC system, a component unit of the State. The State has provided significant funding to the organization since its inception; therefore, a financial benefit/burden relationship exists between the State and the organization. The organization was audited by independent auditors for the year ended June 30, 1997.

North Carolina Biotechnology Center

The North Carolina Biotechnology Center is a legally separate nonprofit corporation created to further economic development through the support of biotechnology research. The Center is governed by a thirty-five-member board. Fifteen of the board members are appointed by the Governor or General Assembly and four serve as a result of their positions with the UNC system, a component unit of the State. The State has provided significant funding to the Center since its inception; therefore, a financial benefit/burden relationship exists between the State and the Center. The Center was audited by independent auditors for the year ended June 30, 1997.

North Carolina Rural Rehabilitation Corporation

The North Carolina Rural Rehabilitation Corporation is a legally separate nonprofit corporation created to assist individuals and families in rural areas of the state. The Corporation is governed by a nine-member board, all of whom are appointed by the Governor or serve by virtue of their positions as state officials. The State has the ability to influence the budget, programs, and activities of the Corporation. The Corporation was not audited for the year ended June 30, 1997.

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. The

Authority was audited by independent auditors for the year ended June 30, 1997.

North Carolina Partnership for Children, Inc.

The North Carolina Partnership for Children, Inc., is a legally separate organization established to develop a comprehensive long-range strategic plan for early childhood development. A thirty-three-member board governs the Partnership. Certain elected state officials appoint twenty-nine of the members, while four members serve ex officio by virtue of their state positions. The State provides significant operating subsidies to the Partnership creating a benefit/burden relationship. The Partnership was audited by the State Auditor for the year ended June 30, 1996.

North Carolina Rural Economic Development Center, Inc.

The North Carolina Rural Economic Development Center is a legally separate organization established to build economic strength in the State's 85 rural counties, with a special focus on creation of economic opportunities for citizens with low to moderate incomes. The Center has a 48 member board of directors, with three appointed by the Governor, three by the Lieutenant Governor, and three by the Speaker of the House. The other members are elected by the appointed members of the board of directors. The State provides significant program and operating support to the Center creating a benefit/burden relationship. The Center was audited by independent auditors for the year ended June 30, 1997.

Northeastern North Carolina Regional Economic Development Commission

The Northeastern North Carolina Regional Economic Development Commission is a legally separate organization created to facilitate economic development and tourism in northeastern North Carolina. The Commission consists of 17 members, including the Secretary of Commerce and the Secretary of the Department of Environment, Health, and Natural Resources (or their designees), five members appointed by the Governor, five by the Speaker of the House, and five by the President Pro Tempore of the Senate. The State provides significant program and operating support to the Commission, creating a benefit/burden relationship. The Commission was audited by independent auditors for the year ended June 30, 1997.

Southeastern North Carolina Regional Economic Development Commission

The Southeastern North Carolina Regional Economic Development Commission is a legally separate organization created to build economic strength in southeastern North Carolina. The Commission consists of 15 members, with three

NOTES TO THE FINANCIAL STATEMENTS**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

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. The Commission was audited by independent auditors for the year ended June 30, 1997.

Western North Carolina Regional Economic Development Commission

The Western North Carolina Regional Economic Development Commission is a legally separate organization created to improve economic opportunity in western North Carolina with sensitivity to the resources of that region. The Commission consists of 15 members, with five appointed by the N.C. House of Representatives, five by the N.C. Senate, three by the Governor, and two by the Lieutenant Governor. The State provides significant program and operating support to the Commission, creating a benefit/burden relationship. The Commission was audited by independent auditors for the year ended June 30, 1997.

Complete financial statements of those individual component units identified above as having been examined by the State Auditor can be obtained from the Office of the State Auditor, 300 N. Salisbury Street, Raleigh, N.C. 27603-5903. Complete financial statements of the remaining component units, examined by independent auditors, can be obtained from the respective administrative offices of those units, listed below:

N.C. Housing Finance Agency P.O. Box 28066 Raleigh, NC 27611-8066	Centennial Authority 1520 Blue Ridge Road, Suite 201 Raleigh, North Carolina 27607
N.C. Global TransPark Authority P.O. Box 27406 Raleigh, NC 27611-7406	MCNC P.O. Box 12889 Research Triangle Park, NC 27709-2889
N.C. Biotechnology Center P.O. Box 13547 Research Triangle Park, NC 27709-3547	State Education Assistance Authority P.O. Box 2688 Chapel Hill, NC 27515-2688
N.C. Rural Economic Development Center, Inc. 1300 St. Mary's St., Suite 500 Raleigh, NC 27605	Northeastern N.C. Regional Economic Development Commission P.O. Box 278 Hertford, NC 27944
Southeastern N.C. Regional Economic Development Commission P.O. Box 2556 Elizabethtown, NC 28337	Western N.C. Regional Economic Development Commission P.O. Box 1258 Arden, NC 28704

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

C. Fund Accounting

The financial activities of the State and its component units are organized on a basis of individual funds and account

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

1. Primary Government (the State)*Governmental Funds*

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

General Fund.

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

Special Revenue Funds.

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

Capital Projects Funds.

Transactions related to resources obtained and used for the acquisition, construction, or improvement of major governmental general fixed assets are accounted for in the capital projects funds. Such resources are derived principally from operating transfers from the General Fund and from bond funds. Highway infrastructure construction projects are accounted for in the State Highway Fund and the Highway

NOTES TO THE FINANCIAL STATEMENTS

Trust Fund. These projects are not included in the capital projects funds.

Proprietary Funds

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

Enterprise Funds.

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

Internal Service Funds.

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

Fiduciary Funds

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

Trust Funds.

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

Agency Funds.

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

Account Groups

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

General Fixed Assets Account Group.

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

General Long-Term Obligations Account Group.

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

2. Component Units

Proprietary Funds

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

College and University Funds

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

NOTES TO THE FINANCIAL STATEMENTS**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)****D. Basis of Accounting**

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

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

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

1. Governmental Funds, Expendable Trust Funds and Agency Funds

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

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

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

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

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

3. College and University Funds

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

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

E. Cash and Cash Equivalents

This classification consists primarily of pooled funds maintained by the State Treasurer in a short-term portfolio more fully discussed in Note 4. These funds are available to the participants on demand. It also includes undeposited receipts, petty cash, checking accounts and time deposits (excluding certificates of deposit, which are considered investments) managed by agencies and institutions of the State and its component units. This classification also appears on the accompanying statements of cash flows.

F. Investments

This classification consists of pooled investments managed by the State Treasurer in various portfolios that are long-term in nature and long-term non-pooled investments managed by agencies and institutions of the State, its component units or third party fiscal agents. In addition, the investment balance of each fund type and participating component unit includes its share of collateral held by the State Treasurer under securities lending agreements. Except for the funds noted below, these investments are stated at cost or amortized cost. Note 4 discusses the State's investments and provides a detailed listing of the types of investments allowed by law.

Investments of the State's Deferred Compensation Plan (an agency fund), the 401(k) Supplemental Retirement Income Plan (an expendable trust fund), the State's pension trust funds, and certain universities are reported at fair value. Note 9 discusses the significant accounting policies for the pension trust funds' investments.

The classification does not include any of the reporting entity's accounts that would be defined as cash equivalents based on GASB Statement No. 9, *Reporting Cash Flows of*

NOTES TO THE FINANCIAL STATEMENTS

Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting.

G. Deposit with Federal Government

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

H. Receivables and Due from Other Funds

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

I. Advances to Other Funds

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

J. Inventories

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

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

K. Food Stamps

In accordance with GASB Statement No. 24, *Accounting and Financial Reporting for Certain Grants and Other Financial Assistance*, the State recognizes distributions of food stamp benefits as revenue and expenditures in the general fund, whether the benefits are distributed directly or through agents

and whether the benefits are in paper or electronic form. Expenditures are recognized when the benefits are distributed to the individual recipients by the State or its agents; revenue is recognized at the same time. The State reports food stamp balances held by the State or by its agents at the balance sheet date as an asset offset by deferred revenue. Revenue, expenditures, and balances of food stamps are measured based on face value.

L. Fixed Assets

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

Fixed assets are stated at historical cost, or in some instances, estimated historical cost. Donated fixed assets are stated at fair market value at the time of donation. The State (except for the USS N.C. Battleship Commission), some proprietary component units, and the college and university component units capitalize all fixed assets that have a value or cost greater than or equal to \$5,000 at the date of acquisition and have an expected useful life of two or more years. Certain proprietary component units (N.C. Housing Finance Agency, N.C. State Ports Authority, N.C. Ports Railway Commission, N.C. Global TransPark Authority, N.C. Biotechnology Center, N.C. Partnership for Children, Northeastern N.C. Regional Economic Development Commission, Southeastern N.C. Regional Economic Development Commission, Western N.C. Regional Economic Development Commission) and the USS N.C. Battleship Commission (an enterprise fund) maintain a minimum threshold of \$500. Of the remaining proprietary component units, MCNC capitalizes assets greater than \$1,000 and the N.C. Rural Economic Development Center capitalizes assets greater than \$250. Occupational licensing boards use various thresholds to capitalize fixed assets.

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

NOTES TO THE FINANCIAL STATEMENTS**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

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

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

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

M. Tax Refund Liabilities

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

N. Lease Obligations

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

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

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

O. Compensated Absences

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

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

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

The State's policy on compensated absences is generally adhered to by its agencies, departments, and most of its component units. Full-time permanent, probationary and trainee employees earn vacation leave ranging from 0.98 to 2.15 days per month, depending upon years of service. Part-time employees earn the same range of leave on a pro-rata amount based on the number of hours a week they work. There is no requirement that vacation leave be taken, but the maximum permissible accumulation is 30 days. Any vacation accumulated beyond 30 days is converted to sick leave at year end. At termination, employees are paid for any accumulated vacation leave. Full-time permanent, probationary and trainee employees earn sick leave at the rate of one day per month with an unlimited accumulation. Part-time employees earn a percentage of the total of 8 hours per month based on the number of hours a week they work. Employees are not paid for accumulated sick leave upon termination; however, additional service credit for retirement pension benefits is given for accumulated sick leave upon retirement.

P. Long-Term Liabilities

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

NOTES TO THE FINANCIAL STATEMENTS

the proprietary funds and the college and university funds, as well as the related interest payments, are accounted for in those funds.

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

Q. Sureties

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

R. Fund Equity

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

S. Revenues

Taxes.

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

Federal Grant Revenues.

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

T. Interfund Transactions

During the course of normal operations there are numerous transactions between and within fund types of the State and its component units, including expenditures and transfers of resources to provide services, construct assets, and service debt. The accompanying financial statements generally reflect

such transactions as operating transfers, except for retirement contributions made by the State and its component units, which are accounted for as revenues in the pension trust funds and expenditures/expenses in the contributing funds. In addition, proprietary funds (primarily internal service funds) record charges for services to all other funds as operating revenue. All funds record their payments to proprietary funds as expenditures/operating expenses. The balances at year-end resulting from these transactions are interfund receivables or payables and are classified as "Due to," "Due from," "Advance to," or "Advance from" on the Combined Balance Sheet. The composition of the State and its component units' interfund receivables and payables is presented in Note 8.

U. Implementation of GASB Pronouncements

During the fiscal year ended June 30, 1997, the State implemented GASB Statement No. 25 *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, GASB Statement No. 27 *Accounting for Pensions by State and Local Governmental Employers*, GASB Statement No. 28 *Accounting and Financial Reporting for Securities Lending Transactions*, and GASB Statement No. 30 *Risk Financing Omnibus*. The implementation of GASB Statement No. 25 resulted in reporting pensions trust fund investments at fair value rather than at cost, changed the presentation of the pension trust funds in the general purpose financial statements, and changed the presentation of actuarial information in the notes to the financial statements and required supplementary information. Application of GASB Statement No. 27 primarily affected the presentation of employer cost data in the notes to the financial statements and required supplementary information.

The implementation of GASB Statement No. 28 resulted in reporting certain collateral received under securities lending agreements as an investment offset by a liability. The statement also required that gross income and expenditures/expenses from securities lending transactions be reported by the participating funds rather than net income only.

GASB Statement No. 30 did not have a material impact on the financial statements.

V. Totals - Memorandum Only

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

NOTES TO THE FINANCIAL STATEMENTS

NOTE 2: BUDGETARY ACCOUNTING AND REPORTING

A. Budgetary Process

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

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

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

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

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

B. Fund Balance Restatement

The July 1, 1996 fund balance for budgeted special revenue funds has been restated. One fund which was unbudgeted in the prior year has been reclassified as a budgeted fund during the fiscal year. The following table summarizes this restatement (expressed in thousands).

Fund balance as previously reported	
at June 30, 1996.....	\$177,343
Funds added:	
Unbudgeted funds from prior year.....	<u>1,894</u>
Fund balance as restated at July 1, 1996.....	<u>\$179,237</u>

C. Reconciliation of Budget/GAAP Reporting Differences

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

Entity differences. The State Highway Fund and the Highway Trust Fund, as discussed in section A, have multi-

NOTES TO THE FINANCIAL STATEMENTS

year budgets and therefore are not included in the budgetary statements. They are presented in the special revenue funds for GAAP purposes. Certain funds not included in the annual budgetary statements but which have the characteristics of governmental funds are presented in either the General Fund or the special revenue funds for GAAP purposes.

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

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

The following table presents a reconciliation of resulting entity, basis, and timing differences in the fund balances (budgetary basis) at June 30, 1997 to the fund balances on a modified accrual basis (GAAP). Amounts are expressed in thousands.

	<u>General Fund</u>	<u>Special Revenue Funds</u>
Unreserved fund balance (budgetary basis), June 30, 1997.....	\$ 318,690	\$ 192,498
<i>Reconciling Adjustments:</i>		
Entity Differences:		
Primary government:		
State Highway Fund.....	—	220,617
Highway Trust Fund.....	—	654,721
Other.....	197,966	917,046
Component unit.....	—	(47,899)
Basis Differences:		
Accrued revenues.....	230,432	5,048
Accrued expenditures.....	(630,151)	(15,768)
Timing Differences:		
Authorized carryforward of appropriated funds.....	306,986	—
Other Adjustments:		
Reserves:		
Advances to component units.....	30,627	—
Retirees' health premium.....	205,738	—
Notes receivable.....	497	5,504
Inventories.....	48,642	5,565
Investments.....	5,256	—
Prepaid items.....	—	42
Budgetary reserves:		
Savings.....	500,952	—
Intangibles tax refunds.....	156,000	—
NC Railroad acquisition.....	61,000	—
Repairs and renovation.....	221,274	—
Clean Water Management Trust Fund.....	49,355	—
Chemical alcohol testing.....	353	—
Library Grant.....	284	—
Fund balance (GAAP basis), June 30, 1997.....	<u>\$1,703,901</u>	<u>\$1,937,374</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 are not available for appropriation, except for the Savings Reserve Account which is not legally restricted for a specific future use.

Savings Reserve Account (G.S. 143-15.2 through 143-15.3B). One-fourth of any unreserved credit balance (budgetary basis) remaining in the General Fund at the end of each fiscal year will be transferred to the Savings Reserve account until the account contains funds equal to 5% of the amount appropriated the preceding year for the General Fund operating budget. The current balance of \$500.9 million meets the statutory reserve requirements. Since this account is not legally restricted for a specific future use, it is reported as a designated portion of unreserved fund balance for GAAP purposes.

Repairs and Renovations Reserve Account (G.S. 143-15.2 through 143-15.3B). This reserve account provides for a portion of the State's continuing capital needs. The reserve balance is based on 3% of the estimated replacement value of all State buildings supported from the General Fund. The funds in this account shall be used only for the repair and renovation of State facilities and related infrastructure that are supported from the General Fund. The Repairs and Renovations Reserve balance at June 30, 1997 was \$221.2 million, which includes the statutory reserve requirement of \$135.0 million, additional reserves directed by the General Assembly of \$39.3 million, and the prior year residual balance.

Clean Water Management Trust Fund (G.S. 143-15.2 through 143-15.3B). This reserve account provides for the Clean Water Management Trust Fund to finance projects to clean up or prevent surface water pollution as approved by the Clean Water Management Commission. The amount reserved in the General Fund each year is defined as 6.5% of any unreserved credit balance remaining in the General Fund at the end of the fiscal year, or \$30.0 million dollars, whichever is greater. For the 1996-97 fiscal year, \$49.4 million was placed in this reserve.

Intangibles Tax Refund Reserve (G.S. 105-267). For fiscal year 1996-97, the General Assembly established the reserve for intangibles tax refunds in the amount of \$156 million for the costs of intangible taxes refunds, including interest, and the Department of Revenue's additional costs of administering the refunds.

North Carolina Railroad Acquisition Reserve (1997 General Assembly, Senate Bill 352, Section 32.30). For fiscal year 1996-97, the General Assembly established the

NOTES TO THE FINANCIAL STATEMENTS**NOTE 2: BUDGETARY ACCOUNTING AND REPORTING (continued)**

Railroad Reserve Account. In order to help promote trade, industry, and transportation within the State of North Carolina and to advance the economic interests of the State and its citizens, the General Assembly finds it advantageous for the State to acquire the outstanding shares of the North Carolina Railroad Company not held by the State. At June 30, 1997, the amount of \$61.0 million of the unreserved General Fund balance was placed in the Railroad Purchase Reserve.

Disproportionate Share Reserve Account (1993 General Assembly, Chapter 321, Senate Bill 27, Section 21.3). Disproportionate share payments are Medicaid payments made to hospitals which serve a disproportionate share of indigent patients. This account was established to reserve for future appropriation any excess collection of disproportionate share revenues above those budgeted as departmental receipts for the fiscal year 1997-98 and as non-tax revenue in succeeding fiscal years. There is no balance in this account.

Other Reserves. The balance in the Chemical Alcohol Testing Reserve is \$353 thousand. The reserve for library grants has a balance of \$284 thousand.

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

Reserve	Balance-	Non-		Operating		Balance-
	June 30,	Operating	Operating	Decreases	Increases	June 30,
	1996	Decreases	Decreases	Increases		1997
Savings.....	\$ 500,952	\$ —	\$ —	\$ —	\$ —	\$ 500,952
Repairs and renovations.....	151,306	(104,293)	—	—	174,261	221,274
Railroad acquisition.....	—	—	—	—	61,000	61,000
Intangibles tax refunds.....	—	—	—	—	156,000	156,000
Disaster relief.....	—	(115,510)	—	—	115,510	—
Disproportionate share.....	1,595	—	(1,595)	—	—	—
Clean Water Management Trust.....	47,100	(47,100)	—	—	49,355	49,355
Capital improvements.....	39,519	(39,519)	—	—	—	—
Library grant.....	284	—	—	—	—	284
Federal retiree accounts.....	26,200	(26,200)	—	—	—	—
Chemical alcohol testing.....	353	—	—	—	—	353
Total Reserves.....	<u>\$ 767,309</u>	<u>\$ (332,622)</u>	<u>\$ (1,595)</u>	<u>\$ 556,126</u>	<u>\$ 989,218</u>	

NOTE 3: STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY**Retained Earnings / Fund Balance Deficit**

At June 30, 1997, the North Carolina Low Level Radioactive Waste Management Authority (component unit proprietary fund) had a \$45.578 million retained earnings deficit. The financial statements of the Authority have been prepared following the accounting principles which apply to developmental stage enterprises. The retained earnings deficit reflects losses sustained in the developmental stage, with recovery of these to occur from future operating revenues. Funds to finance developmental stage costs of the Authority have been advanced from the General Fund, which will be repaid in the future.

At June 30, 1997, the following enterprise funds reported retained earnings deficits: Agricultural Farmers Market, \$2.649 million; Indian Cultural Tourist Center, \$86 thousand; and Workers' Compensation, \$2.083 million.

At June 30, 1997, the following internal service funds reported retained earnings deficits: Cherry Hospital Auxiliary Services, \$1.584 million, John Umstead Hospital Auxiliary Services, \$1.514 million and the Disability Income Plan of N.C., \$57.122 million. The Disability Income Plan of N.C.'s deficit is the result of a determination that the Plan is subject to the scope of GASB Statement 10, which requires the reporting of the present value of future claims the fund might owe. The application of GASB 10 resulted in the recording of a \$211 million claims payable liability at June 30, 1997. The application of GASB 10 at June 30, 1996, would have resulted in a claims payable of \$173 million and a deficit retained earnings of \$25.367 million.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 4: DEPOSITS AND INVESTMENTS

The State maintains a cash and investment pool, under the management of the State Treasurer, that is used by the primary government and its component units. Some primary government agencies and component units may not be required to deposit with the State Treasurer.

Unless specifically exempt, every officer, agency of the State, and component units are required by N.C. General Statute 147-77 to deposit daily, monies received, either with the State Treasurer or in an account with a depository institution in the name of the State Treasurer with a daily report to the State Treasurer. Funds deposited with the State Treasurer for safekeeping and separate investment are included in an investment pool in one or more of seven separate investment portfolios. Each participant of each portfolio owns a pro-rata undivided interest in all deposits and/or investments and realized earnings of the portfolio.

The amounts shown on the combined balance sheet as Cash and Cash Equivalents include the balances in three of the State Treasurer's seven investment portfolios as well as the balances in bank accounts of those state agencies and certain component units which are authorized to maintain separate bank accounts. The three portfolios of the State Treasurer are short-term and transactional in nature. The amounts shown on the combined balance sheet as Investments include the remaining four portfolios of the State Treasurer's Investment Pool, as well as investment accounts of those state agencies and certain component units which are authorized to invest certain monies directly. The four portfolios of the State Treasurer are long-term in nature and are intended solely for investment purposes.

The allocation of the State Treasurer's investment portfolios among the cash and cash equivalents and the investments as shown on the combined balance sheet are (dollars in thousands):

	<u>Primary Government</u>	<u>Component Units</u>
Cash and cash equivalents.....	\$ 7,215,747	\$ 1,194,597
Investments.....	42,031,584	419,857
Total	<u>\$ 49,247,331</u>	<u>\$ 1,614,454</u>

Demand and Time Deposits

The State Treasurer maintains numerous deposit accounts for collecting and disbursing funds. Expenditures for the primary government and certain component units are made by warrants drawn on the State Treasurer, which are issued by the agency receiving the goods and services. The State Treasurer processes these warrants each day when presented by the Federal Reserve Bank or the local clearing banks. The deposits in the short term investment portfolio are immediately available to the depositor, subject only to compliance with the State's budgetary laws. These deposits are recorded in the North Carolina Accounting System as Pooled Cash and are considered to be a special form of cash and cash equivalents. The State Treasurer's pool is larger than the Pooled Cash by the amount of warrants issued by the agencies but not yet presented for payment through the banking system.

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

At June 30, 1997, the deposits maintained by the State Treasurer consisted of (dollars in thousands):

NOTES TO THE FINANCIAL STATEMENTS**NOTE 4: DEPOSITS AND INVESTMENTS (continued)**

	<u>Carrying Value</u>	<u>Bank Balance</u>
Demand.....	\$ 58,968	\$ 89,442
Time.....	81,896	81,896
Total Cash Pool.....	<u>\$ 140,864</u>	<u>\$ 171,338</u>

At June 30, 1997, eighty-three percent of the balances in financial institutions were deposited under the pooling method. Because the institutions complied with the collateralization policies and procedures described above, the State Treasurer considers all of its deposits to be either insured or covered by collateral held by the escrow agent.

In addition to the pooled deposits maintained by the State Treasurer, other deposits are maintained 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.

At June 30, 1997, the deposits maintained by the primary government (separate from those maintained by the State Treasurer) consisted of (dollars in thousands):

	<u>Carrying Value</u>	<u>Bank Balance</u>
Demand.....	\$ 11,812	\$ 16,035
Time.....	649,928	661,336
Total Deposits.....	<u>\$ 661,740</u>	<u>\$ 677,371</u>

Of these bank balances, \$288.050 million was covered by federal depository insurance, \$355.528 million by collateral held by the escrow agent in the depositor's name, and \$33.793 million was uninsured and uncollateralized. In addition, the North Carolina Employment Security Commission had \$1.296 billion on deposit with the U.S. Treasurer at June 30, 1997.

At June 30, 1997, the deposits maintained by the component units (separate from those maintained by the State Treasurer) consisted of (dollars in thousands):

	<u>Carrying Value</u>	<u>Bank Balance</u>
Demand.....	\$ 55,386	\$ 20,557
Time.....	90,821	103,121
Total Deposits.....	<u>\$ 146,207</u>	<u>\$ 123,678</u>

Of these bank balances, \$14.927 million was covered by federal depository insurance, \$28.035 million by collateral held by the escrow agent in the depositor's name, \$27.862 million was covered under the State Treasurer's collateral pool, \$7.043 million was covered by collateral held in the pledging bank's trust department in the depositor's name and \$45.811 million was uninsured and uncollateralized.

Investments

Investments with the State Treasurer. All monies in the custody of the State Treasurer, regardless of source, are fully invested at all times. All investments are segregated in appropriate investment portfolios based on the purpose of the portfolio.

General Statutes 147-69.1(c) and 147-69.2 authorize the State Treasurer to invest in the following:

- Obligations of or fully guaranteed by the United States and the obligations of certain federal agencies;
- Repurchase agreements;
- Obligations of the State of North Carolina;
- Savings certificates issued by specified savings and loan associations;
- Certificates of deposit issued by specified banks;
- Shares of or deposits in specified savings and loan associations;
- Prime quality commercial paper bearing specified ratings;
- Bills of exchange or time drafts drawn on and accepted by specified commercial banks and eligible for use as collateral by member banks in borrowing from a Federal Reserve Bank;
- General obligations of other states in the United States;
- General obligations of cities, counties and special districts in North Carolina;
- Asset-backed securities (whether considered debt or equity) bearing specific ratings;
- Obligations of any company, other organization or legal entity bearing specified ratings;
- Notes secured by mortgages insured by the Federal Housing Administration or guaranteed by the Veterans Administration on real estate located within the State of North Carolina;
- Limited partnership interest in partnerships which are managed primarily for the purpose of investment in venture capital or corporate buyout transactions, not to exceed \$30 million;
- Obligations or securities of the North Carolina Enterprise Corporation, or of a limited partnership in which the North Carolina Enterprise Corporation is the only general partner, not to exceed \$20 million;
- With respect to the Retirement Systems' assets, in addition to all of the above, (a) certain insurance contracts, (b) group trusts, (c) individual, common or collective trust funds of banks and trust companies, (d) certain real estate investment funds, (e) certain specified preferred or common stocks and (f) certain mutual funds.

The State Treasurer accounts for each investment portfolio on the full accrual basis. The State Treasurer recognizes income, including the amortization of premiums and the accretion of discounts, as earned. Premiums and discounts are amortized or accreted daily using the scientific method which approximates the effective interest rate method.

NOTES TO THE FINANCIAL STATEMENTS

The State Treasurer recognizes dividends as earned on the ex-dividend date. Realized gains and losses are computed based on average cost and recognized on trade date. Investment income from trusts and limited partnerships is recognized, generally net of manager fees, when reported by the managers. The income generated by the State Treasurer's pooled investments is distributed, generally monthly, to the participants.

Fixed income securities are carried on the State Treasurer's books at amortized cost. Investments in trust funds and limited partnerships are carried on the State Treasurer's books at cost. When a security is considered permanently impaired, recorded values are marked to market as of the date of the impairment.

The following schedule discloses the carrying amount and market value of the State Treasurer's investments by type as of

the balance sheet date. The carrying amount of these investments are categorized to give an indication of the level of credit risk assumed by the entity at year-end. Category 1 includes investments that are insured or registered or for which the securities are held by the owner or its agent in the owner's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the financial institution's trust department or agent in the owner's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the broker or dealer, or by a financial institution's trust department or agent, but not in the owner's name.

Pooled investments as maintained on the books of the State Treasurer at June 30, 1997, are (dollars in thousands):

	Carrying Amount			Market Value
	Category		Carrying Amount	
	1	3		
Investments Categorized:				
U.S. Government securities				
Not on loan.....	\$ 12,033,599	\$ 912,735	\$ 12,946,334	\$ 13,891,686
On loan for securities collateral.....	763,280	—	763,280	833,579
Corporate bonds and notes.....	8,553,071	1,412,080	9,965,151	10,255,800
Repurchase agreements.....	638,335	5,144,780	5,783,115	5,783,116
Commercial paper.....	24,973	—	24,973	24,973
International bonds.....	431,036	—	431,036	474,141
Total Investments Categorized.....	<u>\$ 22,444,294</u>	<u>\$ 7,469,595</u>	<u>29,913,889</u>	<u>31,263,295</u>
Investments Not Categorized:				
Certificates of deposit.....			81,896	81,896
Equity common trusts.....			10,487,230	18,904,061
Venture capital investments.....			35,220	33,595
Real estate trust funds.....			423,866	408,267
Investments held by broker/dealers under securities loans with cash collateral:				
U.S. government securities.....			6,857,496	7,095,986
Corporate bonds and notes.....			141,516	146,326
Total Pooled Investments.....			<u>\$ 47,941,113</u>	<u>\$ 57,933,426</u>

NOTES TO THE FINANCIAL STATEMENTS
NOTE 4: DEPOSITS AND INVESTMENTS (continued)

The above certificates of deposit are a component of the deposit totals reported in the State Treasurer's deposit section of this note. In addition to the above listed securities, the State Treasurer invested in corporate common stocks and mutual funds during the year.

Special Investments - The State Treasurer, or a trust fund in which the State Treasurer invests, occasionally sells call options against common stock owned to enhance total earnings of the Equity Investment Fund. The premiums received are maintained in investment inventory accounts until the option is repurchased in the market, exercised or expired. When the option is repurchased in the market, the position is closed and any resulting gain or loss is shown in the income accounts as supplemental income or loss on stock options written. When the option is exercised, the position is closed and the net premium received is used to increase the gain or reduce the loss realized on the sale of the underlying stock. When the option expires, the position is closed and the net premium on the option is shown in the income accounts as supplemental income from stock options written. Certain trust funds in which the State Treasurer invests have the authority to invest in warrants for the purchase of common and preferred stock. These warrants are usually owned by venture capital funds and do not imply any requirement for future action and have minimal value. Certain trust funds in which the State Treasurer invests have the authority to invest in collateralized mortgage obligations, financial futures, forwards, options and swaps. For the most part, this authority is not used and when used is in real estate or global/international funds. None of these special investments are widely used and are immaterial to the Investment Pool.

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

the collateral securities received unless the borrower defaults.

The cash collateral received is invested by the custodian agent and held in a separate account in the name of the State Treasurer. The average maturities of the cash collateral investments do not differ materially from the average maturities of the securities lent. While cash can be invested in securities ranging from overnight up to two years, the custodian agent is not permitted to make investments where the weighted average maturity of all investments exceeds 90 days. At June 30, 1997, the weighted average maturity of unmatched investments was approximately one week.

At year-end, the State Treasurer has no credit risk exposure to borrowers because the amounts the Treasurer owes the borrowers exceed the amounts the borrowers owe 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.

Primary Government Investments (Outside the State Treasurer). All organizations within the primary government are required to follow certain investment guidelines as outlined by the General Statutes. Of these organizations, the various clerks of superior court, the N.C. Deferred Compensation Plan (457), and the 401(k) Supplemental Retirement Income Plan comprise 98% of the total investments maintained by primary government at June 30, 1997. The investments by these funds adhere to the following General Statutes guidelines.

General Statute 7A-112(a) authorizes the Clerk of the Superior Court to invest in the following: (a) Obligations of or fully guaranteed by the United States as to both principal and interest; (b) Obligations of the State of North Carolina; (c) General obligations of cities, counties, and special districts in North Carolina; (d) Shares of or deposits in specified savings and loan associations; (e) Savings certificates issued by specified savings and loan associations; (f) Certificates of deposit issued by specified banks.

NOTES TO THE FINANCIAL STATEMENTS

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

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

Investments maintained by the primary government at June 30, 1997, (separate from those maintained by the State Treasurer, listed above) include (dollars in thousands):

	Carrying Amount			Carrying Amount	Market Value
	Category				
	1	2	3		
Investments Categorized:					
U.S. Government securities.....	\$ 5,622	\$ 622	\$ 358	\$ 6,602	\$ 6,677
Corporate bonds.....	—	—	24	24	25
Corporate common stock.....	5,256	—	349	5,605	192,186
Repurchase agreements.....	—	—	1,800	1,800	1,800
<i>Total Investments Categorized.....</i>	<u>\$ 10,878</u>	<u>\$ 622</u>	<u>\$ 2,531</u>	14,031	200,688
Investments Not Categorized:					
Certificates of deposits.....				78,911	80,530
Bank investment contracts.....				284,469	284,469
Money market funds.....				4,194	4,185
Mutual funds.....				855,881	855,883
Annuity contracts.....				231,693	231,691
Other investments.....				51	51
Total Investments.....				<u>\$ 1,469,230</u>	<u>\$ 1,657,497</u>

The above certificates of deposit and bank investment contracts are a component of the deposit totals reported in the deposits maintained by the state agencies and institutions section of this note.

Component Unit Investments (Outside the State Treasurer). Component Units are required to follow certain investment guidelines as outlined by the General Statutes. The component units include the University of North Carolina system, the community colleges and proprietary component units, such as the North Carolina Biotechnology Center, the North Carolina State Ports Authority, the Rural Economic Development Center, the Centennial Authority, and the North Carolina Housing Finance Agency. The investments by these units comprise 98% of the total investments maintained by the component units at June 30, 1997. The investments by the component units adhere to the following General Statutes guidelines.

General Statute 115D-58.6 authorizes the community colleges to invest in the following: (a) Obligations of or fully guaranteed by the United States; (b) Obligations of the State of North Carolina; (c) Bonds and notes of any North Carolina local government or public authority; (d) Obligations of certain non-guaranteed federal agencies; (e) Prime quality commercial paper bearing specified ratings and bankers' acceptances; (f) The North Carolina Cash

Management Trust, an SEC registered mutual fund; (g) Commingled investment pool established and administered by the State Treasurer; (h) Repurchase agreements; (i) Evidences of ownership of, or fractional undivided interests in, future interest and principal payments on either direct obligations of or fully guaranteed by the United States government, which are held by a specified bank or trust company or any state in the capacity. General Statute 159-30 authorizes the Centennial Authority to invest in these same types of investments.

General Statute 122A-11 authorizes the North Carolina Housing Finance Agency to invest in the following: (a) Shares of or deposits in banks or trust companies outside as well as in this State, provided any such moneys on deposit outside this State are collateralized to the same extent and manner as if deposited in this State; (b) Evidences of ownership of, or fractional undivided interests in, future interest and principal payments on either direct obligations of or fully guaranteed by the United States government, which are held by a specified bank or trust company or any state in the capacity of custodian; (c) Obligations which are collateralized by mortgage pass-through securities guaranteed by the Government National Mortgage Association, the Federal Home Loan Mortgage Corporation, or the Federal National Mortgage Association; (d) Trust certificate or similar instrument evidencing an equity

NOTES TO THE FINANCIAL STATEMENTS**NOTE 4: DEPOSITS AND INVESTMENTS (continued)**

investment in a trust or similar arrangement, which is formed for the purpose of issuing obligations which are collateralized by mortgage pass-through or participation certificates guaranteed by the Government National Mortgage Association, the Federal Home Loan Mortgage Corporation, or the Federal National Mortgage Association; (e) Repurchase agreements.

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

Biotechnology Center, or the North Carolina State Ports Authority. However, in the absence of specific legislation, the form of governance over these investments would be the prudent-person or prudent-expert rule. These rules are broad statements of intent, generally requiring investment selection and management to be made with prudent, discreet, and intelligent judgment and care.

Investments maintained by the component units at June 30, 1997, (separate from those maintained by the State Treasurer, listed above) include (dollars in thousands):

	Carrying Amount			Carrying Amount	Market Value
	Category				
	1	2	3		
Investments Categorized:					
U.S. Government securities.....	\$ 143,530	\$ 51,662	\$ 17,522	\$ 212,714	\$ 217,645
Collateralized mortgage obligations.....	6,147	408	—	6,555	6,446
State and municipal securities.....	18,136	60	—	18,196	18,813
Corporate bonds.....	23,908	13,873	1,236	39,017	39,089
Corporate common stock.....	166,479	103,119	5,042	274,640	337,182
Repurchase agreements.....	118,275	1,625	5,169	125,069	125,458
Commercial paper.....	—	8,090	—	8,090	8,090
International corporate bonds.....	—	200	—	200	207
International government bonds.....	—	376	—	376	376
International equity securities.....	59,399	4,604	—	64,003	85,520
<i>Total Investments Categorized.....</i>	<u>\$ 535,874</u>	<u>\$ 184,017</u>	<u>\$ 28,969</u>	748,860	838,826
Investments Not Categorized:					
Certificates of deposits.....				25,131	25,131
Investment agreements.....				27,518	27,518
Bank investment contracts.....				108	108
Money market funds.....				123,621	123,715
Mutual funds.....				203,689	219,772
Real estate.....				40,483	41,083
Real estate investment trust.....				14,757	15,322
Limited partnerships.....				54,755	84,749
Investments held by broker-dealers under reverse repurchase agreements:					
U.S. Government securities.....				212,541	212,991
N.C. Cash Management Trust.....				1,979	1,979
Other investments.....				8,435	8,484
Total Investments.....				<u>\$ 1,461,877</u>	<u>\$ 1,599,678</u>

The above certificates of deposit, investment agreements and bank investment contracts are a component of the deposit totals reported in the deposits maintained by the component units section of this note.

NOTES TO THE FINANCIAL STATEMENTS

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

Collateralized Mortgage Obligations - The CMOs represent mortgage backed securities issued by an agency of the United States government, the Government National Mortgage Association (GNMA), government sponsored enterprises such as Federal Home Loan Mortgage Corporation (FHLMC), Federal National Mortgage Association (FNMA), private trusts, and private corporations. The CMOs are used to increase the yield and return on the investment portfolio given the available alternative investment opportunities.

CMOs are subject to credit related losses in the event of nonperformance by the issuers of these instruments. The securities issued by GNMA are backed by the full faith and credit of the U.S. government. FHLMC and FNMA have guaranteed full and timely payment of principal and interest from the underlying pools of mortgages. We do not expect any issuers, including the private trusts and corporations, to fail to meet their obligations given their high credit ratings. As of June 30, 1997, CMOs held a AAA rating by Standard & Poor's and Moody's Investors Service.

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

Reverse Repurchase Agreements - The University of North Carolina at Chapel Hill enters into reverse repurchase agreements, that is, the sale of securities with a simultaneous agreement to repurchase them in the future at the same price plus a contract rate of interest. The market value of the securities underlying reverse repurchase agreements normally exceeds the cash received, providing dealers a margin against a decline in market value of the securities. If the dealers default on their obligations to resell these securities to the university or provide securities or cash of equal value, the university would suffer an economic loss equal to the difference between the market value plus accrued interest of the underlying securities and the agreement obligation, including accrued interest. This credit exposure at year-end was \$5.2 million. The university invests the proceeds of reverse repurchase agreements in the investment pool managed by the State Treasurer. These deposits are available on demand.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 5: FIXED ASSETS

Primary Government:

A summary of changes in general fixed assets for the year ended June 30, 1997 is presented below (dollars in thousands).

	Balance July 1, 1996	Prior Year Adjustments	Transfers		Additions	Deletions	Balance June 30, 1997
			Between Assets	Between Funds			
Land.....	\$ 224,898	\$ 472	\$ 200	\$ —	\$ 13,477	\$ 2,286	\$ 236,761
Buildings.....	1,295,723	(1,737)	55,146	—	8,334	2,631	1,354,835
Other structures and improvements.....	118,622	2,295	15,635	—	1,864	176	138,240
Machinery and equipment.....	827,674	1,305	(636)	13	87,163	37,966	877,553
Art, literature and artifacts.....	31,325	564	728	—	6,999	937	38,679
Construction in progress.....	247,038	(9,443)	(71,073)	—	117,121	114	283,529
Total — General Fixed Assets...	<u>\$ 2,745,280</u>	<u>\$ (6,544)</u>	<u>\$ —</u>	<u>\$ 13</u>	<u>\$ 234,958</u>	<u>\$ 44,110</u>	<u>\$ 2,929,597</u>

A summary of proprietary funds' fixed assets by classification for the primary government, at June 30, 1997, is presented below (dollars in thousands).

	Internal	
	Enterprise	Service
Land.....	\$ 2,855	\$ 3,536
Buildings.....	23,766	36,600
Other structures and improvements...	7,068	12,208
Machinery and equipment.....	2,341	219,388
Construction in progress.....	856	3,260
	36,886	274,992
Less: Accumulated depreciation.....	(14,120)	(116,031)
Total Fixed Assets.....	<u>\$ 22,766</u>	<u>\$ 158,961</u>

Component Units:

A summary of fixed assets by classification for the component units, at June 30, 1997, is presented below (dollars in thousands).

	Proprietary Funds				
	N.C. State Ports Authority	MCNC	N.C. Biotechnology Center	Other Component Units	Total
Land.....	\$ 11,778	\$ —	\$ —	\$ 2,920	\$ 14,698
Buildings.....	100,634	19,149	7,271	2,002	129,056
Other structures and improvements...	28,394	—	—	159	28,553
Machinery and equipment.....	47,355	78,532	1,610	4,813	132,310
Construction in progress.....	1,920	—	—	6,940	8,860
	190,081	97,681	8,881	16,834	313,477
Less:					
Accumulated depreciation.....	(82,042)	(72,180)	(2,612)	(2,521)	(159,355)
Total Fixed Assets.....	<u>\$ 108,039</u>	<u>\$ 25,501</u>	<u>\$ 6,269</u>	<u>\$ 14,313</u>	<u>\$ 154,122</u>

	College and University Funds		
	University	Community Colleges	Total
Land.....	\$ 60,895	\$ 49,722	\$ 110,617
Buildings.....	2,429,304	615,052	3,044,356
Other structures and improvements...	175,203	28,211	203,414
Machinery and equipment.....	624,028	108,280	732,308
Art, literature and artifacts.....	572,494	63,220	635,714
Construction in progress.....	420,653	148,399	569,052
Total Fixed Assets.....	<u>\$ 4,282,577</u>	<u>\$ 1,012,884</u>	<u>\$ 5,295,461</u>

NOTES TO THE FINANCIAL STATEMENTS

NOTE 6: LEASE OBLIGATIONS—OPERATING AND CAPITAL

The State and its component units have entered into various operating and capital leases for office space and for office, communications, computer and other equipment. Any operating leases with scheduled rent increases are considered immaterial to the future minimum lease payments and current rental expenditures. Operating lease payments are recorded as expenditures or expenses of the related funds when paid or incurred. For the year ended June 30, 1997, total operating

lease expenditures were \$25,785,144 for Primary Government, \$12,995,781 for Universities, \$1,901,868 for Community Colleges, and \$492,143 for Component Units. Future minimum lease commitments for noncancelable operating leases and capital leases as of June 30, 1997 are (dollars in thousands):

Fiscal Year	Operating Leases		Capital Leases				
	Primary Government	Component Units	Primary Government	Component Units			
			General Long-Term Obligations	University Funds	Community Colleges Funds	Total Colleges and University Funds	Proprietary MCNC
1998.....	\$ 25,119	\$ 10,271	\$ 144	\$ 17	\$ 473	\$ 490	\$ 5,000
1999.....	19,864	7,496	136	17	390	407	4,063
2000.....	14,003	4,848	68	13	156	169	—
2001.....	9,579	3,616	—	13	78	91	—
2002.....	5,529	2,004	—	—	8	8	—
Thereafter.....	2,109	4,216	—	—	—	—	—
Total Future Minimum Lease Payments.....	\$ 76,203	\$ 32,451	348	60	1,105	1,165	9,063
Less Amounts Representing Interest			30	18	110	128	2,056
Present Value of Future Minimum Lease Payments			\$ 318	\$ 42	\$ 995	\$ 1,037	\$ 7,007

Falls Lake Operating Lease. The State has leased from the federal government approximately 40,000 acres of land and water areas at Falls Lake, located in Wake and Durham counties. The agreement allows the State to operate the areas for recreational purposes, and in return the State agreed to pay for one half of the development costs. Payments, which have not yet begun, are to take place over 50 years with an option to prepay. Current cost estimates indicate that the State has a total obligation of \$57.8 million, including \$31.4 million in interest and \$26.4 million in principal. Annual payments are estimated to be \$1.156 million beginning in fiscal 1998-99. Since the costs and payment period are yet to be finalized, this commitment has not been included in the above table.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 7: LONG-TERM OBLIGATIONS

A. Changes in Long-Term Liabilities

During the year ended June 30, 1997, the following changes occurred in liabilities reported in the general long-term obligations account group (dollars in thousands):

	<i>Rates</i>	<i>Balance June 30, 1996</i>	<i>Accretion</i>	<i>Increases</i>	<i>Decreases</i>	<i>Balance June 30, 1997</i>
General Obligation Bonds :						
Public School Facility, Series A, 12-1-74.....	4.0-5.7	\$ 2,000	\$ —	\$ —	\$ 2,000	\$ —
Public School Facility, Series C, 6-1-76.....	4.0-6.0	6,000	—	—	2,000	4,000
Clean Water, Series C, 6-1-76.....	4.0-6.0	3,000	—	—	1,000	2,000
Public Improvement, 12-1-76.....	4.0-6.0	3,000	—	—	3,000	—
Public Improvement, 11-1-78.....	4.8-5.0	7,000	—	—	4,000	3,000
Public Improvement, 1979, 11-1-79.....	5.5-7.5	14,000	—	—	4,000	10,000
Public Improvement Refunding, Series 1986, 7-1-86.....	6.4-6.6	20,790	—	—	20,790	—
Clean Water, Series 1987, 6-1-87.....	6.25-6.9	4,000	—	—	4,000	—
Capital Improvement, Series 1989, 5-1-89.....	6.5-6.9	16,012	1,105	—	1,910	15,207
Capital Improvement, Series A, 3-1-91.....	5.75-6.0	48,800	—	—	7,400	41,400
Capital Improvement, Series 1991, 10-1-91.....	5.3-5.6	34,600	—	—	3,500	31,100
Prison and Youth Services Facilities, Series A, 3-1-92.....	5.9-6.2	44,100	—	—	2,200	41,900
Prison and Youth Services Facilities, Series B, 10-1-93.....	2.5-4.5	80,900	—	—	2,200	78,700
Public Improvement Refunding, Series 1993, 10-1-93.....	2.4-5.5	59,090	—	—	1,030	58,060
Clean Water Refunding, Series 1993, 10-1-93.....	3.0-5.0	15,100	—	—	240	14,860
Prison & Youth Services Facilities Refunding, Series C, 10-15-93.....	4.2-4.8	65,795	—	—	545	65,250
Capital Improvement Bonds, Series 1994A, 2-1-94.....	4.6-4.75	386,000	—	—	7,000	379,000
Clean Water, Series 1994A, 10-1-94.....	5.7-5.8	40,000	—	—	2,000	38,000
Clean Water, Series 1994B, 11-1-94.....	4.7-5.0	16,000	—	—	4,000	12,000
Clean Water, Series 1995A, 6-1-95.....	5.0-5.25	60,000	—	—	—	60,000
Highway Refunding Series 1993, 10-1-93.....	3.3-3.4	4,895	—	—	4,895	—
Clean Water, Series 1995B, 7/1/95.....	4.25-4.3	20,000	—	—	5,000	15,000
Capital Improvement Bonds, Series 1997, 1-1-97.....	4.8-5.1	—	—	195,000	—	195,000
Public School Building, Series 1997A, 3-1-97.....	5.1-5.2	—	—	450,000	—	450,000
Total Bonds Payable.....		<u>951,082</u>	<u>1,105</u>	<u>645,000</u>	<u>82,710</u>	<u>1,514,477</u>
Other Long-Term Obligations :						
Claims payable.....		20	—	—	—	20
Notes payable.....	5.7-8.5	7,880	—	13	1,810	6,083
Deferred death benefit payable.....		120	—	—	20	100
Obligations for workers compensation.....		7,372	—	370	1,319	6,423
Capital leases payable.....		397	—	247	326	318
Accrued vacation leave.....		<u>160,477</u>	<u>—</u>	<u>10,105</u>	<u>4,762</u>	<u>165,820</u>
Total General Long-Term Obligations.....		<u>\$ 1,127,348</u>	<u>\$ 1,105</u>	<u>\$ 655,735</u>	<u>\$ 90,947</u>	<u>\$ 1,693,241</u>

NOTES TO THE FINANCIAL STATEMENTS**B. Bonds and Notes Payable**

Bonds and notes payable at June 30, 1997 are (dollars in thousands):

	<u>Interest Rates</u>	<u>Final Maturity</u>	<u>Total</u>
Primary Government:			
General long-term obligations:			
Bonds payable.....	2.4 - 7.5	6/1/17	\$ 1,514,477
General long-term obligations:			
Notes payable.....	5.7-8.5	8/15/99	6,083
Enterprise Funds			
Notes payable.....	Variable	12/31/01	170
Component Units:			
University Funds:			
Bonds payable.....	2.75 - 9.05	2/14/29	803,939
Other Component Units:			
Housing Finance:			
Bonds payable...	3.7 - 8.25	9/1/32	856,601
Other:			
Bonds payable...	3.75 - 6.35	11/1/17	284,305
College and University Funds:			
Notes payable.....	0.00-7.4	5/1/22	27,856
Other Component Units:			
Notes payable.....	.13 - 8.88	4/20/08	10,089

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

C. Bonds Authorized But Unissued

In November 1996, the voters of North Carolina approved bonds in the amount of \$1.8 billion for school construction and \$950 million for highway construction. On March 1, 1997, \$450 million of Public School Building Bonds, Series 1997A, with a settlement date of March 1, 2016, were sold. The amount of authorized, but unissued bonds was \$2.3 billion as of June 30, 1997

D. Capital Appreciation Bonds**General Obligation Bonds**

Capital Improvement Bonds, Series 1989, 5-1-89, 5-24-89, include capital appreciation bonds recorded in the amount of \$15.207 million, which represents the accreted value of these bonds. The accumulated accretion for the capital appreciation bonds is \$8.878 million since May 24, 1989.

University Bonds

The *University of North Carolina at Chapel Hill, Series 1992 Utility System* and the *Series 1991 U. S. Environmental Protection Agency Project* bond issues include capital appreciation bonds with an ultimate maturity value of \$97.5 million and \$25.3 million, respectively. These bonds are recorded in the amounts of \$27.1 million and \$6.5 million, respectively, which is the accreted value at the year ended June 30, 1997. These bonds mature in the years from 2010 to 2021.

E. Demand Bonds**University Revenue Bonds****Parking System, Series 1997C**

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

The University has arranged for a standby bond purchase agreement with NationsBank, N. A., whereby the bank agrees to purchase 1997C bonds when remarketing proceeds are not available. This liquidity facility provided moneys only with respect to the purchase price of the bonds and does not otherwise secure payment of the bonds.

The University is required to pay an annual commitment fee for the liquidity facility of .10% of the stated amount of the line of credit then in effect. The liquidity facility terminates 364 days following notice of non-extension from the credit provider. As of June 30, 1997, the earliest such termination date is June 29, 1998.

Kenan Stadium, Series 1996

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

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

NOTES TO THE FINANCIAL STATEMENTS**NOTE 7: LONG-TERM OBLIGATIONS (continued)**

and the remarketing agent is entitled to draw amounts sufficient to pay the purchase price and the accrued interest on the bonds delivered to it for purchase. In the event that the bonds cannot be remarketed, the letter of credit will provide necessary financing. The letter of credit terminates on November 5, 1997, subject to automatic extension of successive calendar months until the fifth day of the thirteenth month following notice of non-extension from the credit provider.

The University has entered into reimbursement agreements with Wachovia Bank in which it agreed to repay all amounts that are drawn under the letter of credit, which carries a variable interest rate. The University is required to pay an annual commitment fee for the letter of credit on the Kenan Stadium letter of credit of .30% of the stated amount of the line of credit in effect.

Ambulatory Care Clinic, Series 1990

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

The University has arranged a standby bond purchase agreement with NationsBank of North Carolina, N.A., whereby the bank will loan money to purchase bonds on a purchase date at the purchase price when remarketing proceeds or other funds are not available. This liquidity facility pays only the principal portion of the purchase price and does not secure payment of the principal or interest on the bonds.

The University is required to pay an annual commitment fee for the liquidity facility of .10% of the stated amount of the line of credit then in effect. The liquidity facility terminates on March 27, 2007.

Ambulatory Care Clinic, Series 1992

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

and delivery to the University's remarketing agent, Wachovia Bank of North Carolina, N. A.

The University has arranged a standby note purchase agreement with Wachovia Bank of North Carolina, N. A., whereby Wachovia will purchase notes tendered or deemed tendered for purchase on any purchase date at the purchase price when remarketing proceeds or other funds are not available. The liquidity facility terminates not earlier than 180 days following delivery of a termination notice by Wachovia. As of June 30, 1997, the earliest such termination date is December 27, 1997. The University is entitled to terminate the liquidity facility with 45 days notice to Wachovia.

Notes held by Wachovia under this liquidity facility are subject to mandatory redemption 180 days after the date of purchase by Wachovia at an amount equal to the principal plus accrued interest. The University is required to pay an annual commitment fee for the liquidity facility of .30% of the stated amount of the line of credit then in effect.

Carolina Inn, Series 1994

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

The University has arranged a standby bond purchase agreement with NationsBank of North Carolina, N. A., whereby NationsBank will purchase bonds on a purchase date at the stated amount of principal plus accrued interest when remarketing proceeds or other funds are not available. The term of this agreement is automatically extended for successive 364 day periods from the closing date, unless a notice of non-extension is received 365 days prior to the expiration date. NationsBank may determine to extend the term of this agreement in its sole discretion and no course of dealing or other circumstance shall require any extension by NationsBank.

The University is required to pay an annual standby fee for the liquidity facility of .10% of the stated amount of the line of credit then in effect. The University has agreed to pay interest on each liquidity bond at an annual variable rate equal to the liquidity rate.

School of Dentistry, Series 1995

On June 28, 1995, the University of North Carolina at Chapel Hill issued tax-exempt adjustable mode demand bonds

NOTES TO THE FINANCIAL STATEMENTS

in the amount of \$4,000,000 that have a final maturity date of September 1, 2010. The bonds are subject to mandatory sinking fund redemption that begins on September 1, 1999. The proceeds of this issuance are for the construction of a building called Tarrson Hall to house the majority of the School of Dentistry's patient care and clinical teaching facilities. Tarrson Hall will house clinical programs that are currently housed in Brauer Hall which opened in 1952. The bonds are subject to purchase on demand with seven days notice and delivery to the University's remarketing agent, Wachovia Bank of North Carolina, N. A.

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

interest on bonds delivered for purchase. In the event that the bonds cannot be remarketed, the letter of credit will provide the necessary financing. As of June 30, 1997, the letter of credit terminates on July 5, 1997. However, the letter of credit automatically extends each month so that termination will not occur until 13 months after notice is received from Wachovia that the letter of credit will not be extended.

The University has entered into a reimbursement agreement with Wachovia Bank in which it agreed to repay all amounts that are drawn under the letter of credit at the prime rate for the first 90 days and prime plus 1.5% thereafter. The University is required to pay an annual commitment fee for the School of Dentistry letter of credit of .35% of the stated amount of the line of credit then in effect.

F. Debt Service Requirements

Bonds Payable and Notes Payable

The following schedule shows the annual debt service requirements to pay principal and interest on general obligation bonds and revenue bonds, as well as on notes payable, outstanding at June 30, 1997 (dollars in thousands). Current and long-term principal requirements are disclosed for the enterprise and proprietary component unit funds.

Fiscal Year	Bonds Payable				Notes Payable			
	Primary Government	Component Units			Primary Government	Component Units		
	General Long-Term Obligations	Proprietary			General Long-Term Obligations	College and University		
	Account Group	N. C. Housing Finance	Other Proprietary Funds	University Funds	Account Group	Enterprise Funds	Proprietary Funds	University Funds
1998	\$ 165,974	\$ 67,657	\$ 17,140	\$ 66,931	\$ 2,276	\$ 40	\$ 3,373	\$ 16,223
1999	161,843	69,129	17,070	69,014	2,257	40	1,370	2,761
2000	157,199	71,555	17,050	69,444	2,257	40	4,227	2,602
2001	153,070	70,092	17,029	71,313	—	40	1,066	2,505
2002	148,551	69,797	17,957	71,215	—	10	703	1,496
2003-2007	676,575	336,343	175,041	343,353	—	—	492	4,636
2008-2012	518,493	325,583	53,864	298,982	—	—	82	1,974
2013-2017	218,984	346,844	184,697	242,309	—	—	—	528
2018-2022	—	325,197	—	162,390	—	—	—	528
2023-2027	—	224,030	—	67,691	—	—	—	—
2028-2032	—	50,208	—	18,017	—	—	—	—
2033-2037	—	1,984	—	—	—	—	—	—
Total requirements	2,200,689	1,958,419	499,848	1,480,659	6,790	170	11,313	33,253
Less:								
Interest requirements	(678,489)	(1,096,124)	(215,543)	(653,678)	(707)	—	(1,224)	(5,397)
Unamortized discount	(7,723)	—	—	(12,807)	—	—	—	—
Deferred charges	—	(5,694)	—	(10,055)	—	—	—	—
Underwriters fees	—	—	—	(180)	—	—	—	—
Total principal requirements	<u>\$ 1,514,477</u>	<u>\$ 856,601</u>	<u>\$ 284,305</u>	<u>\$ 803,939</u>	<u>\$ 6,083</u>	<u>\$ 170</u>	<u>\$ 10,089</u>	<u>\$ 27,856</u>
Current portion		\$ 67,657	\$ 1,090			\$ 40	\$ 3,143	
Long-term portion		\$ 788,944	\$ 283,215			\$ 130	\$ 6,946	

NOTES TO THE FINANCIAL STATEMENTS**NOTE 7: LONG-TERM OBLIGATIONS (continued)****G. Arbitrage Rebate Payable**

The State and universities have incurred an arbitrage rebate liability in connection with general obligation and university revenue bonds sold in previous years. Arbitrage rebates payable at June 30, 1997, have been recorded (dollars in thousands) in the following funds:

Capital projects funds.....	\$ 30
University funds.....	<u>1,825</u>
Total	<u>\$1,855</u>

The State has eleven general obligation bond issues currently outstanding that are subject to the arbitrage rebate provisions, ten of which may require future rebate payments. All bond proceeds and investment earnings for the \$75,000,000 Capital Improvement Bonds, Series A, have been expended. Therefore, no future rebate payments must be made for that bond.

H. Bond Defeasances**University of North Carolina at Chapel Hill**

On November 7, 1996, the University of North Carolina at Chapel Hill issued \$13,800,000 in *Kenan Memorial Stadium Variable Rate Demand Revenue Bonds, Series 1996*. The refunding component of this bond issue was used to advance refund (defease) \$3,650,000 of outstanding *Kenan Memorial Stadium Variable Rate Demand Revenue Bonds, Series 1988*. Net proceeds of \$13,689,000 resulted from the bond sale. Of the net proceeds amount, \$3,692,000, combined with \$68,000 of Series 1988 reserve assets, were used to purchase U.S. government securities. The purchased securities were placed in an irrevocable trust with an escrow agent to provide for the refunding of the defeased bonds, which were refunded on February 4, 1997. For financial reporting purposes, the refunding of the defeased bonds is not included in the statement of changes in fund equity. As both bond series are variable interest rate issues with essentially the same future interest rates, the cumulative effect on the University's future debt service requirements is not material with respect to the defeased and refunded bonds, and no economic gain was obtained.

On June 19, 1997, the University of North Carolina at Chapel Hill issued \$8,245,000 in *Parking System Refunding Revenue Bonds, Series 1997B* with an average interest rate of 4.97%. The refunding component of this bond issue was used to advance refund (defease) \$9,100,000 of outstanding *Parking System Revenue Bonds, Series B (1989)*, with a combined average interest rate of 6.48%. Net proceeds of \$8,167,000 resulted from the bond sale. Of the net proceeds amount, \$8,164,000 combined with \$1,285,000 of Series B reserve assets, were used to purchase U.S. Government securities. The purchased securities were placed in an irrevocable trust with an escrow agent to provide for all future debt service payments on

the defeased bonds. For financial reporting purposes, the trust account assets and the liability for the defeased bonds are not included in the balance sheet. The University reduced its debt service requirements by \$2,311,000 over the next 12 years and obtained an economic gain of \$381,000. At June 30, 1997, the outstanding balance was \$9,100,000 for the defeased *Parking System Revenue Bonds, Series B*.

North Carolina State University

On August 29, 1996, North Carolina State University issued \$2,345,000 in *Dining Hall System Revenue Refunding Bonds, Series 1996*, with an average interest rate of 4.65%, \$2,210,000 in *Student Center Refunding Revenue Bonds, Series 1996*, with an average interest rate of 4.65%, and \$6,530,000 in *Parking System Revenue Refunding Bonds, Series 1996*, with an average interest rate of 4.51%. The refunding component of these issues was used to advance refund (defease) \$2,130,000 of outstanding *Dining Hall System Revenue Bonds, Series 1990*, with a combined average interest rate of 6.746%, \$1,985,000 of outstanding *Student Center Revenue Bonds, Series 1989*, with a combined average interest rate of 6.695%, \$5,930,000 of outstanding *Parking System Revenue Bonds, Series 1989*, with a combined average interest rate of 6.645%. Net proceeds of \$10,813,820 from the respective bond sales were used to purchase U.S. Government securities. The purchased securities were placed in an irrevocable trust with an escrow agent to provide for all future debt service payments on the defeased bonds. For financial reporting purposes, the trust account assets and the liability for the defeased bonds are not included in the balance sheet. The University reduced its debt service requirements by \$595,407 over the next 15 years, and obtained an economic gain of \$469,785. At June 30, 1997, the outstanding balance of the defeased bonds was \$2,130,000 of *Dining Hall System Revenue Bonds, Series 1990*, \$1,985,000 of *Student Center Revenue Bonds, Series 1989*, \$5,930,000 of *Parking System Revenue Bonds, Series 1989*.

University of North Carolina at Wilmington

On June 4, 1997, the University of North Carolina at Wilmington issued \$4,300,000 in *Union System Revenue Refunding Bonds, Series 1997*, with an average interest rate of 4.8% to 5.0%. The refunding component of this bond issue was used to advance refund (defease) \$3,850,000 of outstanding *Union System Revenue Bonds, Series 1990*, with a combined average interest rate of 6.9%. Net proceeds of \$4,205,000 resulted from the bond sale. Of the net proceeds amount, \$4,205,000 was used to purchase U.S. Government securities. The purchased securities were placed in an irrevocable trust with an escrow agent to provide for all future debt service payments on the defeased bonds. For financial reporting purposes, the trust account assets and the liability for the defeased bonds are not included in the balance sheet. The University reduced its debt service requirements by

NOTES TO THE FINANCIAL STATEMENTS

\$288,924 over the next 14 years, and obtained an economic gain of \$216,490. The outstanding balance of the defeased bonds at June 30, 1997, was \$4,205,000.

University of North Carolina at Greensboro

On June 27, 1997, the University of North Carolina at Greensboro issued \$7,290,000 in *Housing and Dining System Revenue Refunding Bonds, Series E*, with an average interest rate of 4.464%. The refunding component of this bond issue was used to advance refund (defease) \$6,945,000 of outstanding *Housing and Dining System Revenue Bonds, Series A (1987)*, with a combined average interest rate of 6.141%. Net proceeds were delivered to the paying agent to pay the principal of and premium and interest on the 1987 Series A bonds on June 27, 1997, the redemption date of these bonds. The University reduced its debt service requirements by \$359,048, and obtained an economic gain of \$298,643.

Also on June 27, 1997, the University of North Carolina at Greensboro issued \$8,750,000 in *Housing and Dining System Revenue Refunding Bonds, Series F*, with an average interest rate of 4.955%. The refunding component of this bond issue was used to advance refund (defease) \$8,045,000 of outstanding *Housing and Dining System Revenue Bonds, Series B (1991)*, with a combined average interest rate of 6.303%. Net proceeds of \$8,612,800 were used to purchase

U.S. Government securities which were placed in an irrevocable trust with an escrow agent to provide for all future debt service payments on the defeased bonds. Trust account assets and the liability for the defeased bonds are not included in the balance sheet. The University reduced its debt service requirements by \$531,188, and obtained an economic gain of \$350,579. The outstanding balance of the defeased bonds at June 30, 1997 was \$8,045,000.

During prior years, the State and certain component units defeased certain general obligation and other bonds. For those defeasances involving advance refundings, the proceeds, and any securities purchased with the proceeds, were placed in an irrevocable trust with an escrow agent in an amount sufficient to provide for all future debt service payments on the refunded bonds. Since adequate funds have been placed with a trustee to pay fully the principal and interest of these bonds, the liabilities are not recorded in these financial statements.

NOTES TO THE FINANCIAL STATEMENTS**NOTE 7: LONG-TERM OBLIGATIONS (continued)**

At June 30, 1997, the following outstanding bonds (dollars in thousands) are considered defeased:

<u>Defeased Bonds</u>	<u>Balance</u> <u>June 30, 1996</u>	<u>Obligations</u> <u>Refunded</u>	<u>Obligations</u> <u>Matured/Called</u>	<u>Balance</u> <u>June 30, 1997</u>
Primary Government				
Public School Facility, Series B,12-1-75.....	\$ 6,000	\$ —	\$ 6,000	\$ —
Clean Water, Series B, 12-1-75.....	1,000	—	1,000	—
Public Improvement Refunding Bonds, Series 1986.....	57,045	—	57,045	—
Clean Water Refunding Bonds, Series 1987.....	14,500	—	14,500	—
Prison and Youth Services Facilities Bonds, Series A.....	59,600	—	—	59,600
Total - Primary Government.....	<u>138,145</u>	<u>—</u>	<u>78,545</u>	<u>59,600</u>
Component Units				
University of North Carolina System				
<i>North Carolina Central University</i>				
Dormitory System Revenue Bonds of 1964, Series A.....	54	—	19	35
Dormitory System Revenue Bonds of 1964, Series B.....	654	—	61	593
Dormitory System Revenue Bonds of 1967, Series C.....	170	—	70	100
<i>University of North Carolina at Chapel Hill</i>				
University Enterprises (Carolina Inn) Revenue Bonds, Series 1968, 6-13-90.....	195	—	95	100
Utilities Systems Revenue Bonds, Series 1986.....	89,055	—	89,055	—
Kenan Stadium Revenue Bonds, Series 1988.....	—	3,650	3,650	—
Parking System Revenue Bonds, Series 1989.....	—	9,100	—	9,100
<i>University of North Carolina at Charlotte</i>				
Housing and Dining Revenue Bonds, Series K.....	3,925	—	380	3,545
Housing and Dining Revenue Bonds, Series L.....	7,000	—	180	6,820
<i>North Carolina State University</i>				
Housing System Revenue Refunding Bonds Series, H, J, and K.....	3,429	—	202	3,227
Student Center Refunding Revenue Bonds, Series 1996.....	—	1,985	—	1,985
Parking System Refunding Revenue Bonds, Series 1996.....	—	5,930	—	5,930
Dining Hall System Refunding Revenue Bonds, Series 1996.....	—	2,130	—	2,130
<i>University of North Carolina at Wilmington</i>				
Dormitory and Dining Hall System Bonds, Series F and Series G.....	8,451	—	—	8,451
Student Union System Revenue Bonds, Series 1990.....	—	3,850	—	3,850
<i>University of North Carolina at Greensboro</i>				
Housing and Dining System Revenue Bonds, Series E.....	—	6,945	6,945	—
Dining System Revenue Bonds, Series B.....	—	8,045	—	8,045
Total - University of North Carolina System.....	<u>112,933</u>	<u>41,635</u>	<u>100,657</u>	<u>53,911</u>
North Carolina Housing Finance Agency				
Multifamily Mortgage Revenue Bonds (1984 Resolution), Series C and D.....	6,180	—	—	6,180
Total - North Carolina Housing Finance Agency.....	<u>6,180</u>	<u>—</u>	<u>—</u>	<u>6,180</u>
Total - All Defeased Bonds.....	<u>\$ 257,258</u>	<u>\$ 41,635</u>	<u>\$ 179,202</u>	<u>\$ 119,691</u>

I. Bond Redemptions

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

from 10 to 16 years after the date of issuance. Under GASB Statement No. 23, *Accounting and Financial Reporting for Refundings of Debt Reported by Proprietary Activities*, differences between the reacquisition price and the net carrying amount of old debt due to refundings are deferred and amortized to interest expense over the shorter of the life of the old debt or the new debt.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 8: INTERFUND RECEIVABLES AND PAYABLES

Interfund receivables and payables as of June 30, 1997 are as follows (dollars in thousands):

	<u><i>Interfund Receivables</i></u>	<u><i>Interfund Payables</i></u>
Primary Government		
General:		
General Fund.....	\$ 63,744	\$ 43,594
Special Revenue:		
State Highway Fund.....	56,440	10,040
Highway Trust Fund.....	—	33,057
Employment Security		
Commission Funds.....	508	74
Employment and Training		
Administration Fund.....	—	394
Highway Patrol Fund.....	205	89
Community Colleges		
Special Programs Fund.....	—	87,701
Wildlife Resources Commission Fund.....	238	197
Other Funds.....	2,251	697
Total Special Revenue Funds.....	<u>59,642</u>	<u>132,249</u>
Capital Projects:		
Capital Projects Fund.....	375	170
State Prison and Youth Services		
Facilities Bond Fund.....	—	58
State Parks Bond Fund.....	—	1
Total Capital Projects Funds.....	<u>375</u>	<u>229</u>
Enterprise:		
Public School Insurance.....	—	3
N.C. State Fair.....	—	7
Total Enterprise Funds.....	<u>—</u>	<u>10</u>
Internal Service:		
State Health Plan.....	—	1
State Property Fire Insurance.....	—	2,695
Prison Enterprises.....	5,997	12
Motor Fleet Management.....	2,685	519
Courier Service.....	—	43
Temporary Solutions.....	27	1
N.C. Information Highway.....	6	2
Centralized Computing Services.....	6,629	1,325
State Telecommunications		
Services.....	4,053	65
Application Development Services.....	504	6
Decentralized Computing Services.....	435	57
Surplus Property.....	—	217
Total Internal Service.....	<u>20,336</u>	<u>4,943</u>
Expendable Trust:		
Unemployment Compensation		
Funds.....	73	—
Escheat Fund.....	25,000	11,763
Recreation and Natural Heritage		
Trust Fund.....	196	—
Other Funds.....	420	26
Total Expendable Trust.....	<u>25,689</u>	<u>11,789</u>

NOTES TO THE FINANCIAL STATEMENTS**NOTE 8: INTERFUND RECEIVABLES AND PAYABLES (continued)**

	<u>Interfund Receivables</u>	<u>Interfund Payables</u>
Primary Government (continued)		
Agency:		
Local Sales Tax Collections.....	3,071	—
Clerks of Court.....	406	2,821
Departmental.....	—	10,907
Total Agency.....	<u>3,477</u>	<u>13,728</u>
Component Units		
Proprietary:		
N.C. Housing Finance Agency.....	—	11
N.C. State Ports Authority.....	1,455	13
N.C. Global TransPark Authority.....	—	25,001
N.C. Low Level Radioactive Waste Management Authority.....	—	44,541
MCNC.....	259	—
N.C. Biotechnology Center.....	—	171
State Education Assistance Authority.....	11,763	—
N.C. Partnership for Children, Inc.....	125	—
Rural Economic Development Center.....	—	1
Total Proprietary Funds.....	<u>13,602</u>	<u>69,738</u>
College and University:		
University Funds.....	59,283	55,166
Community Colleges Funds.....	<u>88,826</u>	<u>3,528</u>
Total University and Community College.....	<u>148,109</u>	<u>58,694</u>
Total.....	<u>\$ 334,974</u>	<u>\$ 334,974</u>

Included in the category of interfund receivables are "Due from other funds," "Due from component units," "Due from primary government," and "Advance to component units." Included in the category of interfund payables are "Due to other funds," "Due to component units," "Due to primary government," and "Advance from primary government."

NOTES TO THE FINANCIAL STATEMENTS

NOTE 9: RETIREMENT PLANS

The State administers six defined benefit public employee retirement plans which are included in the State's financial statements as pension trust funds. Although the assets of the plans are commingled for investment purposes, each plan's assets may be used only for payment of benefits to the members of that plan and for administrative costs, in accordance with the terms of the plan. Separate reports are not issued for the plans described below. The State also provides an optional retirement plan for certain university employees and a special separation allowance for eligible sworn law enforcement officers. As described in Note 1, during the year ended June 30, 1997, the State implemented GASB Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, and except for the Legislative Retirement System, GASB Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*.

A. Plan Descriptions and Contribution Information

1. TEACHERS' AND STATE EMPLOYEES' RETIREMENT SYSTEM

This plan is a cost-sharing multiple-employer defined benefit plan established by the State of North Carolina to provide pension benefits for employees of the State, its component units, and local boards of education not in the reporting entity. Membership is comprised of employees of state agencies and institutions, local boards of education, universities and community colleges and certain proprietary component units. At June 30, 1997, the number of participating local boards of education and component unit employers was 196 as shown below:

Local boards of education.....	117
Community colleges	58
Universities.....	17
Proprietary component units.....	4

Benefits and administrative expenses are funded by member contributions of 6% of compensation and by employer contributions of 8.15% of covered payroll for the period July 1, 1996 through June 30, 1997, in addition to investment income. Benefit and actuarially based contribution provisions are established by G.S. 135-5 and 135-8 and may be amended only by the North Carolina General Assembly.

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

2. CONSOLIDATED JUDICIAL RETIREMENT SYSTEM

This plan is a single-employer defined benefit plan established by the State of North Carolina to provide pension benefits for employees of the State Judicial System. Membership is comprised of judges, district attorneys and clerks of court. The plan provides retirement, disability and death benefits. Benefits and administrative expenses are funded by member contributions of 6% of compensation and employer contributions of 20.65% of covered payroll, for the period July 1, 1996 through June 30, 1997, in addition to investment income. Benefit and the actuarially based contribution provisions are established by G.S. 135-57, 135-58, 135-68 and 135-69 and may be amended only by the North Carolina General Assembly.

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

3. LEGISLATIVE RETIREMENT SYSTEM

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

The benefit will not be payable while the member is employed in a position making him eligible to participate in either the Teachers' and State Employees' Retirement System, Consolidated Judicial Retirement System or the Local Governmental Employees' Retirement System. The plan's benefits and administrative expenses are funded by member contributions of 7% of compensation and employer contributions of 22.58% of covered payroll for the period July 1, 1996 to June 30, 1997, in addition to investment income. Benefit and actuarially based contribution provisions are established by G.S. 120-4.21, 120-4.19 and 120-4.20 and may be amended only by the North Carolina General Assembly.

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

NOTES TO THE FINANCIAL STATEMENTS**NOTE 9: RETIREMENT PLANS (continued)***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, 1997, there were 1,415 participating fire and rescue units. This is a special funding situation in that the State is not the employer but is legally obligated to contribute to the plan.

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

5. NATIONAL GUARD PENSION FUND

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

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

6. LOCAL GOVERNMENTAL EMPLOYEES' RETIREMENT SYSTEM

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

At June 30, 1997, the number of participating local governments was 833, as shown below:

Cities	384
Counties	100
Special districts	349

The plan provides retirement benefits nearly identical to the benefits that accrue to members of the Teachers' and State Employees' Retirement System. This plan also provides disability benefits for members who become totally and permanently disabled from performing their usual job. Benefits and administrative expenses are funded by employee contributions of 6% and actuarially based employer contributions. Employers contribute 5.10% of covered payroll for law enforcement officers and 4.63% for general employees and firemen for normal costs and an unfunded liability rate, which is established when the government initially enters the system. The State's responsibility is administrative only. Benefit and contribution provisions are established by G.S. 128-27 and 128-30 and may be amended only by the North Carolina General Assembly.

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

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

Employee Groups	<i>Teachers' and State Employees'</i>	<i>Judicial</i>	<i>Legislative</i>	<i>Firemen's, Rescue</i>	<i>National Guard</i>	<i>Local Governmental</i>
Retirees and beneficiaries currently receiving benefits	88,605	332	160	6,949	1,593	24,028
Terminated employees entitled to benefits but not yet receiving them	34,483	43	102	—	4,266	7,582
Active plan members	<u>263,920</u>	<u>454</u>	<u>164</u>	<u>26,071</u>	<u>7,903</u>	<u>104,454</u>
Total	<u>387,008</u>	<u>829</u>	<u>426</u>	<u>33,020</u>	<u>13,762</u>	<u>136,064</u>
Date of Valuation	12-31-96	12-31-96	12-31-96	6-30-96	12-31-96	12-31-96

NOTES TO THE FINANCIAL STATEMENTS

B. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND PLAN ASSET MATTERS

BASIS OF ACCOUNTING

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

INVESTMENTS

Pursuant to North Carolina General Statutes, the State Treasurer is the custodian and administrator of the retirement systems. The State Treasurer maintains the plans' cash and investments in a pool composed of various portfolios more fully discussed in Note 4. Amounts held in the short-term portfolio are available to the plans on demand. These amounts are reported as cash and cash equivalents in the financial statements. Amounts held in the other portfolios are reported as investments. The investment balance is adjusted to reflect each plan's share of the difference between the book and the fair value of the of the net assets held by the pool.

Fixed income securities are valued on the basis of future principal and interest payments, discounted using current yields for similar instruments. Investments in real estate funds, venture capital limited partnerships and equity investment funds are valued according to market prices provided by the investment managers. The retirement systems have no investments in any single commercial or industrial organization whose market value would amount to more than five percent of net assets available for benefits.

C. Actuarial Methods and Assumptions

The latest actuarial valuations are dated December 31, 1996, (June 30, 1996, for Firemen's and Rescue Squad Workers' Fund). The actuarial accrued liability and the schedule of funding progress are presented by system in the required supplementary section of this report. The actuarial value of assets, for all systems except the Firemen's and Rescue Squad Workers' Fund, is based on a five-year smoothed market value. Under this method, realized and unrealized gains and losses on investments are smoothed over five years. Below are listed the various actuarial methods and significant assumptions for these valuations that will be used to determine future annual required contributions.

<i>Retirement System</i>	<i>Valuation Date</i>	<i>Actuarial Cost Method</i>	<i>Amortization Method</i>	<i>Remaining Amortization Period</i>	<i>Period Open/Closed</i>	<i>Asset Valuation Method</i>	<i>Actuarial Assumptions</i>	
							<i>Investment Rate of Return</i>	<i>Projected Salary Increase</i>
Teachers' and State Employees'	12/31/96	Entry age	Level dollar	2 years	Open	5 year smoothed	7.50%	5.7-12.33%
Consolidated Judicial	12/31/96	Projected unit credit	Level percentage	40 years	Open	5 year smoothed	7.50%	5.88-12.83%
Legislative	12/31/96	Projected unit credit	N/A	None	N/A	5 year smoothed	7.50%	7.50%
Firemen's, Rescue Squad Workers'	6/30/96	Entry age	Level dollar	6 years	Closed	Historical cost	7.50%	N/A
National Guard	12/31/96	Entry age	Level dollar	8 years	Closed	5 year smoothed	7.50%	N/A
Local Governmental Employees'	12/31/96	Frozen entry age	Level dollar	13 years	Closed	5 year smoothed	7.50%	5.72-12.15%

N/A-Not applicable

NOTES TO THE FINANCIAL STATEMENTS**NOTE 9: RETIREMENT PLANS (continued)**

The valuations for Teachers' and State Employees' and Local Governmental Employees' systems include a .05% and .04% increase, respectively, in the retirement formula enacted by the General Assembly effective July 1, 1997. Those two systems along with the Consolidated Judicial and Legislative systems also include a 4.0% cost of living increase within that same legislation. The projected salary increases for all systems, except the Legislative, includes a 4.0% inflationary factor within the actuarial assumption. For the Legislative system, the entire salary increase is assumed to be inflationary. The balance of the projected salary increase for the remaining systems is based on projected merit and seniority.

The actuarial accrued liability for the Teachers' and State Employees' system was increased by \$450 million based on a preliminary settlement of the *Faulkenbury* lawsuit. More details about this litigation can be found in Note 18.

CURRENT FISCAL YEAR ASSUMPTIONS

The annual required contributions for the fiscal year ended June 30, 1997, were developed from prior year valuations of the various systems. The Teachers' and State Employees', Local Governmental Employees', Consolidated Judicial, and National Guard systems' valuations were as of

December 31, 1994, the Legislative system was valued at December 31, 1995, and the Firemen's and Rescue Squad Worker's Fund was valued at June 30, 1995. These prior actuarial valuations used actual cost to value investment assets and had remaining amortization periods of 9 years for Teachers' and State Employees', 10 years for Consolidated Judicial, 10 years for National Guard and 7 years for the Firemen's and Rescue Squad Worker's Fund. Prior valuations of the Local Governmental Employees' system used the aggregate actuarial cost method and consequently had various amortization periods. Except for investment valuation and other differences noted in this footnote and in the required supplementary schedules, the actuarial values, methods and significant assumptions presented in the above table are the same as those in the prior valuations. The Teachers' and State Employees', Local Governmental Employees', and Consolidated Judicial systems were amended effective July 1, 1996, to provide a 4.4% post-retirement benefit increase. The liability for this benefit was reflected in the December 31, 1995, valuation of these systems.

D. Annual Pension Cost and Net Pension Obligation

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

	Consolidated Judicial Retirement System	Legislative Retirement System	Firemen's and Rescue Squad Workers' Pension Fund	North Carolina National Guard Pension Fund
Annual required contribution.....	\$ 7,976,211	\$ 742,489	\$ 11,735,187	\$ 2,303,268
Interest on net pension obligation.....	—	n/a	—	—
Adjustment to annual required contribution.....	—	n/a	—	—
Annual pension cost.....	7,976,211	742,489	11,735,187	2,303,268
Contributions made.....	7,976,211	802,173	11,735,187	2,303,268
Increase (decrease) in net pension obligation...	—	(59,684)	—	—
Net pension obligation beginning of year.....	—	n/a	—	—
Net pension obligation end of year.....	\$ —	n/a	\$ —	\$ —

n/a--Net pension obligation information for the year ended June 30, 1997 was not available for the Legislative Retirement System. This data is presented for information only.

NOTES TO THE FINANCIAL STATEMENTS

The following table presents the required three year trend of pension costs for the State's single-employer and special funding defined benefit plans and the required contributions the State made to the Teachers' and State Employees' Retirement System, a cost-sharing, multiple-employer plan. The State does not make any contributions to the Local Governmental Employees' System; therefore, it does not have any related pension cost. The dollar amounts are expressed in thousands.

**State of North Carolina's Annual Pension Cost (APC)
and Annual Required Contributions (ARC) as an Employer**
For the Years Ended June 30, 1995 through June 30, 1997 (in thousands)

	<u>Teachers' and State Employees'</u>	<u>Judicial</u>	<u>Legislative</u>	<u>Firemen's, Rescue</u>	<u>National Guard</u>
Primary Government:					
1997	\$ 170,342	\$ 7,976	\$ 742	\$ 11,735	\$ 2,303
1996	161,225	7,536	725	11,735	2,283
1995	161,499	7,371	739	7,447	2,189
Component units:					
Universities:					
1997	\$ 79,168				
1996	75,883				
1995	77,251				
Community Colleges:					
1997	\$ 28,432				
1996	27,055				
1995	27,373				
Proprietary Funds:					
1997	\$ 1,141				
1996	1,087				
1995	1,072				
Total Primary Government and Component Units:					
1997	\$ 279,083	\$ 7,976	\$ 742	\$ 11,735	\$ 2,303
1996	265,250	7,536	725	11,735	2,283
1995	267,195	7,371	739	7,447	2,189
Percentage of APC Contributed:					
1997		100%	N/A	100%	100%
1996		100%	N/A	100%	100%
1995		100%	N/A	100%	100%
Percentage of ARC Contributed:					
1997	100%				
1996	100%				
1995	100%				
Net Pension Obligation:					
1997		\$ —	N/A	\$ —	\$ —
1996		—	N/A	—	—
1995		—	N/A	—	—

N/A - Net pension obligation information is not available for the Legislative Retirement System. The amounts provided above are the required contributions. These amounts are the APC if no adjustment is needed for the net pension obligation. The State contributed more than the required amount in each of the three years.

The pension liabilities for the transition year (1997) were determined in accordance with GASB 27. The prior year pension liability and current pension liability for all systems, except Legislative, is zero.

NOTES TO THE FINANCIAL STATEMENTS
NOTE 9: RETIREMENT PLANS (continued)
E. Optional Retirement Plan

The Optional Retirement Program (Program) is a defined contribution retirement plan which provides retirement benefits with options for payments to beneficiaries in the event of the participant's death. Faculty and administrators with faculty rank in universities of the UNC system may join the Program instead of the Teachers' and State Employees' Retirement System. At June 30, 1997, the Plan had 7,060 participants.

Benefits are provided by means of contracts issued and administered by the privately-operated Teachers' Insurance and Annuity Association and the College Retirement Equities Fund (TIAA/CREF), Valic, and Lincoln National Life Insurance Company. Participants' eligibility and contributory requirements are established in G.S. 135-5.1. Participants contribute 6% of compensation and the university contributes 6.66%. There is no liability other than the universities' required contributions. The universities contributed \$32,716,180 for the 1996-97 fiscal year. Annual covered payroll was \$491,233,940 and employer contributions expressed as a percentage of annual covered payroll was 6.66% for the fiscal year ended June 30, 1997. Employee contributions expressed as a percentage of annual covered payroll were 6%, with an actual employee contribution of \$29,474,036 for the 1996-97 fiscal year.

Participants are vested after five years of service, but the company must return the value of the universities' contributions to the State if termination occurs prior to five years of service.

The participant chooses his/her own investment products with the company of choice.

F. Special Separation Allowance

The State provides a special separation allowance, a multiple employer defined benefit pension plan, for sworn law enforcement officers as defined by G.S. 135-1(11b) or G.S. 143-166.30(a)(4) that were employed by State agencies and component units and have retired on a basic service retirement under the provisions of G.S. 135-5(a). To qualify for the allowance, each retired officer must: (1) have completed 30 or more years of creditable service or have attained 55 years of age and completed five or more years of creditable service; and (2) not have attained 62 years of age; and (3) have completed at least five years of continuous service as a law enforcement officer immediately preceding a service retirement. Each eligible officer is paid an annual separation allowance equal to .85% of the officer's most recent base rate of compensation for each year of creditable service. For the fiscal year ended June 30, 1997, the State and its component units paid \$5,675,177 to 528 retired law enforcement officers. These benefits are funded on a pay-as-you-go basis. Funds for this allowance are appropriated annually in the budget of each agency that has eligible, retired law enforcement officers. These benefits are established in G.S. 143-166.41 and may be amended only by the General Assembly.

NOTE 10: DEFERRED COMPENSATION PLANS

IRC Section 457 Plan - The State of North Carolina offers its permanent employees, university employees, and employees of certain other component units, a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan permits each participating employee to defer a portion of his or her salary until future years. The deferred compensation is available to employees upon separation from service, death, disability, retirement or due to financial hardships if approved by the Board of Trustees of the plan. The benefits distributed to employees were exempt from all state income taxes in North Carolina through December 31, 1988. Benefits distributed to employees on or after January 1, 1989 are subject to state income taxes in North Carolina. Employee contributions totaled \$26,645,811 and 13,552 employees contributed to the plan during the calendar year ended December 31, 1996. All costs of administering and funding the plan are the responsibility of the plan participants. Under Section 457, all amounts (\$425.5 million at December 31, 1996 - audited), property and rights derived from deferred compensation and income earned on the deferred compensation are, until paid or made available to the employee or other beneficiary, solely the property and rights of the State of North Carolina, subject only to the claims of the State's general creditors. The State maintains a fiduciary responsibility for due diligence in the handling of plan assets and

believes that it is very unlikely that it will use these assets to satisfy the claims of general creditors in the future.

IRC Section 401(k) Plan - Effective January 1, 1985, Chapter 135, Article 5 of the North Carolina General Statutes authorized the creation of the Supplemental Retirement Income Plan of North Carolina (the Plan) in accordance with Internal Revenue Code Section 401(k). All members of the Teachers' and State Employees' Retirement System, Consolidated Judicial Retirement System, Legislative Retirement System, Local Governmental Employees' Retirement System and University Optional Retirement Program are eligible to enroll in this plan and may contribute up to 14% (limited to \$9,500 in 1996) of their compensation during the plan fiscal year. Members of the Plan may receive their benefits upon retirement, disability, termination, hardship, or death. All contributions and costs of administering the Plan are the responsibility of the participants.

The Plan is a defined contribution pension plan that is administered by a third party. As described in Note 1, during the year ended June 30, 1997, the State implemented GASB Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*. This note reflects the implementation.

NOTES TO THE FINANCIAL STATEMENTS

The administrator prepares financial statements based on the plan fiscal year. The audited statements for the year ended December 31, 1996, are presented in this financial report as an expendable 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. The plan is administered by the Branch Banking and Trust Company (BB&T) and the Plan's financial statements are available by contacting the N.C. 401(k) Plan, P.O. Box 29451, Raleigh, NC 27626.

In addition to the voluntary contribution criteria above, G.S. 143-166.30 requires state contributions to the Plan to provide benefits for all law enforcement officers employed by the State and its component units. G.S. 143-166.50 requires local governmental units with law enforcement officers to also contribute at least as much as the State. Participation begins at the date of employment. State agencies and component units are required to contribute monthly to the individual accounts of participants an amount equal to 5% of each officer's monthly salary. The State is also required to contribute to the individual accounts of all officers on a per capita basis in equal shares, \$.50 for each court cost assessed and collected under G.S. 7A-304 goes to state law enforcement officers, while \$1.25 of each assessment goes to local law enforcement officers. General Statutes allow law enforcement officers to voluntarily contribute up to 10% of their compensation within any calendar year, but current Internal Revenue Code restrictions limit the actual voluntary contribution to 9% of the officers' compensation. All contributions are immediately vested in the name of each participant. At December 31, 1996, 132 state agencies and component units along with 707 local governmental units were contributing to the Plan.

At December 31, 1996, the Plan disclosed the following investments (at fair value) exceeding five percent of the Plan net assets:

BB&T Money Rate Savings Accounts.....	\$ 124,197,000
BB&T Bank Investment Contracts.....	284,469,000
Fidelity Equity-Income Fund.....	160,006,000
Fidelity Magellan Fund.....	437,552,000

The Plan also reported total member contributions of \$90,203,000. The payrolls for law enforcement officers, on which the required contributions were based for the year ended December 31, 1996, amounted to \$107,009,093 for the State, \$9,800,235 for universities, and \$704,754 for the other miscellaneous component units. The required 5% employer's contribution was made by the State for \$5,350,455, by universities for \$490,012, and by the remaining component units for \$35,238. In addition, the State contributed \$503,176 for the required court cost assessments.

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

NOTES TO THE FINANCIAL STATEMENTS

NOTE 11: OTHER POSTEMPLOYMENT BENEFITS

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

The State Health Plan provides postemployment health insurance to former employees of the State, the University of North Carolina system, community colleges, certain participating proprietary component units, and Local Education Agencies (LEAs) which are not part of the reporting entity. Those former employees who are eligible to receive health care as an other postemployment benefit are long-term disability beneficiaries of the Disability Income Plan of North Carolina (DIPNC) and retirees of the Teachers' and State Employees' Retirement System (TSERS), the Consolidated Judicial Retirement System (CJRS), the Legislative Retirement System (LRS), and the University Employees' Optional Retirement Program (UEORP) with five or more years of contributory membership service in the Retirement System prior to disability or retirement. For the fiscal year ended June 30, 1997, the number of participants currently eligible to receive health care as an other postemployment benefit are 37,140 TSERS and DIPNC members, 221 CJRS members, 124 LRS members, and 326 UEORP members. The health insurance plan is the same as for active employees as described in Note 12, except that the coverage becomes secondary when former employees become eligible for Medicare. These former employees are eligible to participate in either the self-funded Comprehensive Major Medical Plan (Plan) or one of the health maintenance organization (HMO) plans.

The funding for the health care benefit for long-term disability beneficiaries and retirees is financed on a pay-as-you-go basis. These health care benefits are funded by employer contributions that are established in the Appropriation Bill by the General Assembly. The State, participating component units, and LEAs contributed a monthly amount equal to 2.0% of active employees' salaries to the General Fund's Reserve for Retirees' Health Premium Account (Reserve). The Reserve pays the full cost of coverage for long-term disability beneficiaries and retirees enrolled in the Plan and makes similar contributions for long-term disability beneficiaries and retirees enrolled in the HMO plans. Long-term disability beneficiaries and retirees pay for the additional cost of HMO coverage in excess of the Reserve's contribution and for the entire cost of coverage for their spouses and dependents. For the fiscal year ended June 30, 1997, the Reserve paid \$1,320.96 for each Medicare-eligible long-term disability beneficiary and retiree and \$1,735.20 for each non-Medicare-eligible long-term disability beneficiary and retiree. At June 30, 1997, the Reserve had net assets at cost of \$205,738,355. The net assets are available for future

benefit payments. For the fiscal year ended June 30, 1997, contributions were made to the Reserve as follows:

Primary government.....	\$42,645,092
University of North Carolina system.....	28,978,371
Community colleges.....	6,977,063
Certain participating proprietary component units.....	280,183
Total contributions.....	<u>\$78,880,709</u>

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

B. Disability Income

As discussed on Note 12, short-term and long-term disability benefits are provided to the eligible members of the Teachers' and State Employees' Retirement System and the University Employees' Optional Retirement Program through the Disability Income Plan of North Carolina (DIPNC) an internal service fund. Long-term disability benefits are payable as an other postemployment benefit from DIPNC after the conclusion of the short-term disability period or after salary continuation payments cease, whichever is later, for as long as an employee is disabled. An employee is eligible to receive long-term disability benefits provided the following requirements are met: (1) the employee has five or more years of contributing membership service in the Teachers' and State Employees' Retirement System of North Carolina (Retirement System) or the University Employees' Optional Retirement Program earned within ninety-six months prior to the end of the short-term disability period or cessation of salary continuation payments, whichever is later; (2) the employee must make application to receive long-term benefits within 180 days after the conclusion of the short-term disability period or after salary continuation payments cease or after monthly payments for Workers' Compensation cease (excluding monthly payments for permanent partial benefits), whichever is later; (3) the employee must be certified by the Medical Board to be mentally or physically disabled for the further performance of his/her usual occupation; (4) the disability must have been continuous, likely to be permanent, and incurred at the time of active employment; (5) the employee must not be eligible to receive an unreduced retirement benefit from the Retirement System; and (6) the employee must terminate employment as a permanent, full-time employee. An employee is eligible to receive an unreduced retirement benefit from the Retirement System after (1) reaching the age of 65 and completing five years of creditable service, or (2) reaching the age of 60 and completing 25 years of creditable service, or (3) completing 30 years of creditable service, at any age.

NOTES TO THE FINANCIAL STATEMENTS

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

Long-term disability income benefits are advance-funded on an actuarially determined basis using the one-year term cost method. Disability income benefits are funded by employer contributions that are established in the Appropriations Bill by the General Assembly. For the calendar year ended December 31, 1996, the State, the University of North Carolina system, community colleges, and certain participating proprietary component units, and LEAs contributed .52% of active employees' salaries to fund the disability benefits for the calendar year ended December 31, 1996. The contributions cannot be separated between the amounts that relate to other postemployment benefits and employment benefits for active employees.

At December 31, 1996, DIPNC had 2,400 members who were currently eligible to receive disability benefits as an other postemployment benefit out of a total of 231,842 active plan participants. Those individuals who are receiving extended short-term disability benefit payments cannot be separated from the number of members currently eligible to receive disability benefits as an other postemployment benefit.

The basis for estimating the liabilities for unpaid claims is discussed in Note 12. The assets of DIPNC at December 31, 1996, were valued at cost (book) for \$148,744,612, creating a deficit of \$62,509,510. The fair value of the assets for DIPNC at December 31, 1996 was \$159,768,240. The assets are available for future other postemployment benefits and benefits for eligible active employees.

Actuarial Assumptions for the calendar year ended December 31, 1996:

Discount rate	7.5%
Rate of return on investments assumption	7.5%
Projected salary increase assumption.....	6.0%
Projected social security benefits increase assumption.....	4.0%
Social security assumption	75%
Actuarially required contribution	\$19,671,176
Actual contribution made by:	
Primary Government.....	\$10,552,971
University of North Carolina system	7,280,444
Community Colleges.....	1,767,071
Certain participating proprietary component units	70,690
Total actual contribution made.....	<u>\$19,671,176</u>

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

NOTES TO THE FINANCIAL STATEMENTS

NOTE 12: RISK MANAGEMENT AND INSURANCE

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

The Public School Insurance Fund (the Fund) is a public entity risk pool reported within the enterprise funds. In accordance with Chapter 115C, Article 38, of the General Statutes, the purpose of the Fund is to insure the Local Education Agencies (LEAs), which are not a part of the reporting entity. The community colleges, which are component units, can also acquire insurance through the Fund as stated in G.S. 115D-58.11(c). The board of each Local Education Agency and the board of trustees of each community college are required to carry extended coverage against fire and lightning damage to the extent of not less than seventy-five percent (75%) of the current insurable value for each insurable building. The boards also are to insure adequately the equipment and contents of said building. The Fund is financed by premiums collected from the LEAs and the community colleges and interest earned on the Fund's cash balance. Each board has to give notice of its election to insure in the Fund at least 30 days prior to such insurance becoming effective and shall furnish to the State Board of Education a full and complete list of all outstanding fire insurance policies. While the said insurance policies remain in effect, the Fund shall act as coinsurer of the properties covered by such insurance. The Fund currently insures 106 out of 117 Local Education Agencies and 20 out of 58 community colleges.

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

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

During the fiscal year ended June 30, 1997, the State suffered significant damage from two hurricanes, Bertha and Fran, which greatly increased the claims submitted to the Public School Insurance Fund for the year.

The following schedule shows the changes in the reported liability for the past two years:

	<u>Fiscal Year 1997</u>	<u>Fiscal Year 1996</u>
Unpaid claims at beginning of year	\$1,435,662	\$ 1,550,181
Incurred claims:		
Provision for insured events		
of the current year	15,060,422	3,245,654
Increases (decreases) in provision		
for insured events of prior years	<u>(192,362)</u>	<u>98,236</u>
Total incurred claims	<u>14,868,060</u>	<u>3,343,890</u>
Payments:		
Claims attributable to insured		
events of the current year	9,594,666	2,060,737
Claims attributable to insured		
events of the prior years	<u>1,805,378</u>	<u>1,397,672</u>
Total payments	<u>11,400,044</u>	<u>3,458,409</u>
Total unpaid claims at end		
of the year	<u>\$ 4,903,678</u>	<u>\$1,435,662</u>

With the collection of premiums from the insured educational units, payment of valid claims becomes the responsibility of the Fund. All claims greater than \$10 million per occurrence (up to \$30 million per location) are covered by reinsurance policies. Total payments by the Fund over \$20 million a year (March 20, 1996 - March 20, 1997) are also paid by the reinsurers. Maximum recoverable from the reinsurers for any one catastrophe is \$650 million per occurrence, or a \$300 million maximum on a flood or earthquake. Incurred losses are reduced by estimated amounts recoverable under the Fund's reinsurance policies. Currently there are claims recoverable from the reinsurers for an estimated \$6.9 million due to Hurricane Fran.

2. Workers' Compensation Fund

The Workers' Compensation Fund (the Fund) is a public entity risk pool 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 Fund is to provide workers' compensation benefits to members of "eligible units," which consist of volunteer fire departments or volunteer rescue/EMS units that are not part of a unit of local government and are exempt from State income tax under G.S. 105-130.11. These eligible units are not part of the reporting

NOTES TO THE FINANCIAL STATEMENTS

entity. Benefits are payable for compensable injuries or deaths which occur 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, 1997 was \$4,500,000. As of June 30, 1997, the Fund consisted of 1,093 eligible units representing approximately 35,387 members.

The liability for unpaid claims is based on an actuarial determination and represents a reasonable estimate of the ultimate cost of open claims and claim settlement expenses that are unpaid as of the fiscal year end, including incurred but not reported losses. The liability for unpaid claims is continually reviewed, and as adjustments become necessary such adjustments are included in current operations. The Fund considers anticipated investment income in determining if a premium deficiency exists. The Fund recognizes subrogation from third parties as a reduction to claim and claim settlement expenses incurred. As of June 30, 1997, 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 following schedule shows the change in the reported liability for the Fund's initial fiscal year of operation (July 1, 1996-June 30, 1997).

	<u>Fiscal Year</u> <u>1997</u>
Unpaid claims at beginning of year	\$ —
Incurred claims:	
Provision for insured events	
of the current year	3,658,673
Increases (decreases) in provision	
for insured events of prior years	—
Total incurred claims	<u>3,658,673</u>
Payments:	
Claims attributable to insured	
events of the current year	696,407
Claims attributable to insured	
events of the prior years	—
Total payments	<u>696,407</u>
Total unpaid claims at end	
of the year	<u>\$ 2,962,266</u>

The Fund maintains both specific excess of loss and aggregate reinsurance coverage. The specific excess of loss coverage provides for statutory limits above the Fund's retention of \$500,000 per occurrence and a \$1,000,000 limit for employer's liability above the Fund's retention of \$500,000 per occurrence. The aggregate reinsurance provides for \$3,000,000 of coverage above aggregate Fund losses of \$5,012,375 for any one accident year. Incurred losses are reduced by estimated amounts recoverable under the Fund's excess of loss and aggregate reinsurance policies. As of June 30, 1997, there are two claims recoverable from reinsurers in the amount of \$354,787.

B. Employee Benefit Plans

1. State Health Plan

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

The Plan pays most expenses that are medically necessary and eligible for coverage based on usual, customary and reasonable (UCR) allowances. Claims are subject to specified annual deductible and copayment requirements. The Plan disallows claims in excess of a lifetime maximum of \$2,000,000.

Claim liabilities are based on estimates of the ultimate cost of claims that have been incurred (both reported and

NOTES TO THE FINANCIAL STATEMENTS**NOTE 12: RISK MANAGEMENT AND INSURANCE (continued)**

unreported). Changes in the State Health Plan's aggregate liabilities for claims for the past two fiscal years are as follows:

	<i>Beginning of Fiscal Year Liability</i>	<i>Current-Year Claims and Changes in Estimates</i>	<i>Claim Payments</i>	<i>Balance at Fiscal Year-End</i>
1995-96	\$110,704,433	\$588,535,996	\$(582,103,638)	\$117,136,791
1996-97	\$117,136,791	\$573,514,286	\$(579,317,254)	\$111,333,823

2. Death Benefit Plan of North Carolina

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

Death benefits are funded by actuarially based employer contributions that are established in the Appropriation Bill by the General Assembly. The State, the University of North Carolina system, community colleges, and certain participating proprietary component units and LEAs contributed .16% of active employees' salaries to fund the Benefit Plan for the calendar year ended December 31, 1996.

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

	<i>Beginning of Fiscal Year Liability</i>	<i>Current-Year Claims and Changes in Estimates</i>	<i>Claim Payments</i>	<i>Balance at Fiscal Year-End</i>
1995-96	\$2,488	\$21,251	\$21,317	\$2,422
1996-97	\$2,422	\$21,230	\$21,232	\$2,420

3. Disability Income Plan of North Carolina

Short-term and long-term disability benefits are provided to the eligible members of the Teachers' and State Employees' Retirement System, which includes employees of the State, 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 through the Disability Income Plan of North Carolina (DIPNC), an internal service fund. Short-term benefits are payable after a waiting period of 60 continuous calendar days from the onset of disability, which is determined as the last actual day of service or the day succeeding at least 365 calendar days after the commencement of service, whichever is later. Short-term benefits are provided to currently active employees and the related liability is not measurable. As discussed in Note 11, long-term disability benefits are payable as an other postemployment benefit from DIPNC after the conclusion of the short-term disability period or after salary continuation payments cease, whichever is later, for as long as an employee is disabled. These benefits are established by Chapter 135, Article 6, of the General Statutes and may be amended only by the North Carolina General Assembly.

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

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

	<i>Beginning of Fiscal Year Liability</i>	<i>Current-Year Claims and Changes in Estimates</i>	<i>Claim Payments</i>	<i>Balance at Fiscal Year-End</i>
1995-96	\$160,280	\$44,874	\$32,183	\$172,971
1996-97	\$172,971	\$83,509	\$45,098	\$211,382

C. Other Risks**1. Fire and Other Property Losses**

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

NOTES TO THE FINANCIAL STATEMENTS

\$500,000 per occurrence, except for wind losses by named storms in designated coastal counties which are covered up to 1% of the value for each building and its contents up to a maximum of \$2 million per occurrence. All losses covered by the Fund are subject to a \$500 per occurrence deductible except for theft, which carries a \$1,000 per occurrence deductible.

The Fund purchases excess insurance from a private insurer to cover losses over the amounts insured by the Fund. If aggregate uninsured extended coverage losses sustained by the Fund, other than wind losses by named storms, reach \$2 million in any one annual period, the Fund is responsible for subsequent losses as follows: a \$50,000 per occurrence deductible for wind losses other than by named storms, and a \$10,000 per occurrence deductible for other extended coverage losses. If aggregate uninsured fire and other property losses sustained by the Fund reach \$5 million in any one annual period, the Fund is responsible for a \$50,000 per occurrence deductible for subsequent losses.

Claims are paid when the Council of State approves the request for payment. Claims costs are recognized when they are approved by the Council of State and are outstanding for payment; when known estimates of losses are waiting to be submitted to the Council of State for approval; or when a loss occurs and can be reasonably estimated. Claims payable at June 30, 1997 are disclosed on the balance sheet as a combination of claims payable of \$468,431, due to other funds of \$494,001, and due to component units of \$2,197,178. Changes in the balances of claims liabilities during the current and prior fiscal years are as follows:

	<i>Beginning of Fiscal Year</i>	<i>Current-Year Claims and Changes in Estimates</i>	<i>Claim Payments</i>	<i>Balance at Fiscal Year-End</i>
	<u>Liability</u>	<u>Estimates</u>	<u>Payments</u>	<u>Year-End</u>
1995-96	\$1,434,845	\$1,615,112	\$ (920,962)	\$2,128,995
1996-97	\$2,128,995	\$4,925,061	\$(3,894,446)	\$3,159,610

2. Medical Malpractice Protection

a. Professional Liability Insurance for State Medical Personnel

All agencies of the State and participating component units are insured for tort claims up to \$150,000 under the authority of the State Tort Claims Act, Chapter 143, Article 31, of the General Statutes. Organizations within the reporting entity carry excess commercial liability insurance to supplement the coverage provided by the State Torts Act; however, claims involving medical malpractice are generally excluded from this coverage. All universities except for the University of North Carolina at Chapel Hill Medical School (UNC-CH Medical School) and UNC Hospitals purchase commercial liability insurance. The UNC-CH Medical School

and UNC Hospitals are self-insured through the Liability Insurance Trust Fund, which is described in detail below. Chapter 324, Section 23.2, of the 1995 Session Laws of North Carolina authorized the Department of Human Resources, the Department of Environment, Health, and Natural Resources, and the Department of Correction to provide medical liability coverage on behalf of employees licensed to practice medicine or dentistry and medical residents from the University of North Carolina who are in training at institutions operated by the Department of Human Resources. 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 Human Resources provides professional liability coverage through a self-administered program. The Department of Environment, Health, and Natural Resources and the Department of Correction purchase commercial liability insurance for their medical staff.

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

b. Self-Insurance through the Liability Insurance Trust Fund

The Liability Insurance Trust Fund (Trust Fund) was created by Chapter 116, Article 26, of the General Statutes and the University of North Carolina Board of Governors Resolution of June 9, 1978 to provide medical malpractice protection for program participants and individual health care practitioners working as employees, agents, or officers of the program participants. The program participants are University of North Carolina Hospitals at Chapel Hill and the University of North Carolina at Chapel Hill Physicians and Associates, both of whom are a part of the University of North Carolina system which is a component unit of the reporting entity. Coverage is self-funded by contributions from participants and investment income. Contributions are based on the actuarially determined funding level for a given plan year.

Coverage is provided on an occurrence basis. The Trust Fund limits the coverage per occurrence to \$5 million with no limitation in the aggregate. 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.

NOTES TO THE FINANCIAL STATEMENTS**NOTE 12: RISK MANAGEMENT AND INSURANCE (continued)**

The Trust Fund establishes claim liabilities based on estimates of the ultimate cost of all losses and loss adjustment expenses, including losses and loss adjustment expenses incurred but not yet reported, which are unpaid at the balance sheet date. The claims liability of \$28,964,483 and \$30,868,020 is the present value of the aggregate actuarially determined claims liability of \$30,607,867 and \$33,099,157, discounted at rates ranging from 6% to 7%, at June 30, 1996 and 1997, respectively. These estimates are reviewed annually, and as adjustments become necessary, such adjustments are reflected in current operations. Claims against participants are paid from the corpus of the Trust Fund. Changes in the Trust Fund's aggregate liabilities for claims for the past two fiscal years are as follows:

	<i>Beginning of Fiscal Year Liability</i>	<i>Current-Year Claims and Changes in Estimates</i>	<i>Claim Payments</i>	<i>Balance at Fiscal Year-End</i>
1995-96	\$25,176,003	\$8,342,035	\$(4,553,555)	\$28,964,483
1996-97	\$28,964,483	\$7,037,954	\$(5,134,417)	\$30,868,020

3. Automobile Liability Insurance

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

Agencies of the State and participating component units using state cars are charged premiums to cover the cost of the excess insurance and to pay for those losses falling under the self-insured retention. Premiums charged are also based on the projected losses to be incurred. The private insurer processes all claims and sets up a reserve for amounts expected to be paid for claims. Claims are paid by the private insurer after they are approved by the Attorney General's Office.

4. Public Officers' and Employees' Liability Insurance

In accordance with Chapter 58, Article 32, Part 15, of the General Statutes, public officers' and employees' liability insurance is provided by private insurers for all employees of the State and participating component units except for doctors and dentists. The policy provides \$11 million excess insurance

over the \$150,000 statutory limit payable for any one claim under the Tort Claims Act. Since each state agency or component unit is responsible for funding any tort claims of \$150,000 or less from their budget, total claims liabilities are not measurable. Employers are charged a premium for the excess insurance based on a composite rate. The employers pay the premiums directly to the private insurer.

5. Workers' Compensation Program

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

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

On April 1, 1996, the Workers' Compensation Cost Containment Pilot Project was developed by the Office of State Budget and Management and the Office of State Personnel by authority of Chapter 507, Section 11.1 of the 1995 Session Laws. Seventeen state agencies and universities volunteered to participate in the Project. A third-party administrator was selected in a bidding process, and will administer workers' compensation claims for these seventeen agencies and universities. The seventeen agencies and universities contribute to a fund set up in the Office of the State Controller, which is administered by the Office of State Personnel, to cover their workers' compensation claims. The administrator

NOTES TO THE FINANCIAL STATEMENTS

draws from this fund on a daily basis to make medical and indemnity payments on behalf of the State. An administrative fee based on a percentage of cost savings will also be drawn from the fund by the administrator. The workers' compensation cost of the seventeen project agencies is included in the schedule below. Before April 1, 1996, and for the other non-participating agencies and universities, each

employer accepts or denies liability for the reporting entity and is responsible for monitoring and processing the claims. The employer is responsible for paying medical benefits and compensation in accordance with the North Carolina Workers' Compensation Act.

The State and its component units are self-insured for workers' compensation. Each state agency and participating component unit is responsible for paying claims out of its individual budget. Budgets for workers' compensation for most state agencies and participating component units are based on the prior year's loss experience. Since the related liability is not measurable, claim costs are recognized when paid. The Department of Transportation is the only state agency or component unit that sets up a reserve for claims. For the year ended June 30, 1997, workers' compensation costs were recognized as follows.

Primary government.....	\$30,856,472
University of North Carolina system.....	2,311,640
All other component units	623
Total	<u>\$ 33,168,735</u>

NOTE 13: SEGMENT INFORMATION FOR ENTERPRISE FUNDS

Segment information for the State's enterprise funds for the year ended June 30, 1997 is presented below (dollars in thousands).

	<i>Public School Insurance</i>	<i>N.C. State Fair</i>	<i>USS North Carolina Battleship Commission</i>	<i>Agricultural Farmers Market</i>	<i>Workers' Comp.</i>	<i>Indian Cultural Tourist Center</i>	<i>Other Funds</i>	<i>Total</i>
	[1]	[2]	[3]	[4]	[5]	[6]	[7]	
Operating revenues.....	\$ 7,389	\$ 7,778	\$ 1,757	\$ 867	\$ 1,883	\$ 3	\$ 172	\$ 19,849
Depreciation/amortization.....	—	632	162	617	—	9	—	1,420
Operating income (loss).....	(3,848)	454	(119)	(626)	(2,560)	(6)	15	(6,690)
Operating transfers in.....	—	—	—	120	—	—	—	120
Operating transfers (out).....	—	(1,061)	—	(2)	—	—	—	(1,063)
Net income (loss).....	(3,848)	(513)	(13)	(500)	(2,560)	(6)	15	(7,425)
Current capital contribution..	—	—	—	—	4,500	—	—	4,500
Fixed assets:								
Additions.....	—	45	193	249	—	—	—	487
Deletions.....	—	—	(150)	(8)	—	—	—	(158)
Current assets.....	53,063	6,736	1,270	1,043	8,542	40	149	70,843
Current liabilities.....	20,201	3,059	132	476	6,125	15	42	30,050
Net working capital.....	32,862	3,677	1,138	567	2,417	25	107	40,793
Total assets.....	53,063	16,086	4,056	11,726	8,542	528	149	94,150
Total equity (deficit).....	32,862	13,027	3,794	11,250	2,417	513	107	63,970

Principal enterprise fund activities:

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

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

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

NOTE 14: COMPONENT UNITS — CONDENSED FINANCIAL INFORMATION

Condensed financial statements for the component unit funds for the fiscal year ended June 30, 1997 are presented below (dollars in thousands).

Condensed Balance Sheet
Component Units - Proprietary Funds

	N.C.		State		N.C.		N.C. Low		Total Proprietary Component Units
	Housing Finance Agency	Education Assistance Authority	State Ports Authority	MCNC	Centennial Authority	Global TransPark Authority	Level Radio- Active Waste Management Authority	Other Component Units	
Current assets									
Due from primary government....	\$ —	\$ 11,763	\$ 1,455	\$ 259	\$ —	\$ —	\$ —	\$ 125	\$ 13,602
Other.....	43,433	396,626	31,727	11,435	97,387	35,937	1,406	46,865	664,816
Non-current assets.....	974,086	313,206	309	—	—	—	—	8,531	1,296,132
Fixed assets.....	355	707	108,039	25,501	6,604	2,682	—	10,234	154,122
Total Assets.....	\$ 1,017,874	\$ 722,302	\$ 141,530	\$ 37,195	\$ 103,991	\$ 38,619	\$ 1,406	\$ 65,755	\$ 2,128,672
Current liabilities									
Due to primary government.....	\$ 11	\$ —	\$ 13	\$ —	\$ —	\$ 1	\$ —	\$ 1	\$ 26
Other.....	104,071	96,004	6,321	7,152	37,998	11,417	2,443	14,192	279,598
Long-term liabilities									
Due to primary government.....	—	—	—	—	—	—	13,914	—	13,914
Advance from primary government.....	—	—	—	—	—	25,000	30,627	—	55,627
Bonds payable.....	788,944	269,250	13,965	—	—	—	—	—	1,072,159
Other.....	—	—	729	4,320	50	—	—	10,629	15,728
Fund equity.....	124,848	357,048	120,502	25,723	65,943	2,201	(45,578)	40,933	691,620
Total liabilities and fund equity.....	\$ 1,017,874	\$ 722,302	\$ 141,530	\$ 37,195	\$ 103,991	\$ 38,619	\$ 1,406	\$ 65,755	\$ 2,128,672

Condensed Statement of Revenues, Expenses and Changes in Retained Earnings
Component Units - Proprietary Funds

	N.C.		State		N.C.		N.C. Low		Total Proprietary Component Units
	Housing Finance Agency	Education Assistance Authority	State Ports Authority	MCNC	Centennial Authority	Global TransPark Authority	Level Radio- Active Waste Management Authority	Other Component Units	
Operating revenues.....	\$ 77,743	\$ 45,366	\$ 29,033	\$ 32,181	\$ —	\$ —	\$ —	\$ 3,508	\$ 187,831
Operating expenses									
Depreciation/amortization.....	593	207	6,679	6,910	—	96	—	904	15,389
All other.....	67,412	31,899	22,041	30,046	832	1,816	—	10,390	164,436
Operating income.....	9,738	13,260	313	(4,775)	(832)	(1,912)	—	(7,786)	8,006
Operating transfers from component units.....	—	11,107	—	—	—	—	—	—	11,107
Operating transfers from primary government.....	3,512	11,763	—	5,765	—	4,349	—	19,400	44,789
Other nonoperating revenues (expenses).....	—	(277)	538	(874)	3,713	199	(6,438)	(9,767)	(12,906)
Net income (loss).....	13,250	35,853	851	116	2,881	2,636	(6,438)	1,847	50,996
Excess of revenues over (under) expenditures from governmental operations.....	(2,186)	—	—	—	—	—	—	—	(2,186)
Fund equity - July 1.....	109,775	321,195	113,651	24,174	31,075	(435)	(39,140)	39,304	599,599
Other changes in equity.....	4,009	—	6,000	1,433	31,987	—	—	(218)	43,211
Fund equity - June 30.....	\$ 124,848	\$ 357,048	\$ 120,502	\$ 25,723	\$ 65,943	\$ 2,201	\$ (45,578)	\$ 40,933	\$ 691,620

NOTES TO THE FINANCIAL STATEMENTS

Condensed Balance Sheet
Component Units - College and University Funds

	University Funds	Community Colleges Funds	Total College and University Funds
Assets			
Due from other funds.....	\$ 52,650	\$ 997	\$ 53,647
Due from component units.....	1,548	—	1,548
Due from primary government.....	5,085	87,829	92,914
Fixed assets.....	4,282,577	1,012,884	5,295,461
Other.....	4,059,373	221,236	4,280,609
Total assets.....	<u>\$ 8,401,233</u>	<u>\$ 1,322,946</u>	<u>\$ 9,724,179</u>
Liabilities			
Due to other funds.....	\$ 52,650	\$ 997	\$ 53,647
Due to component units.....	1,377	—	1,377
Due to primary government.....	1,139	2,531	3,670
Bonds payable.....	803,939	—	803,939
Notes payable.....	27,338	518	27,856
Other.....	1,624,619	88,046	1,712,665
Total liabilities.....	<u>2,511,062</u>	<u>92,092</u>	<u>2,603,154</u>
Fund equity			
Total fund equity.....	<u>5,890,171</u>	<u>1,230,854</u>	<u>7,121,025</u>
Total liabilities and fund equity.....	<u>\$ 8,401,233</u>	<u>\$ 1,322,946</u>	<u>\$ 9,724,179</u>

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

	University Funds	Community Colleges Funds	Total College and University Funds
Revenues.....	\$ 2,964,164	\$ 391,799	\$ 3,355,963
Expenditures.....	3,909,298	919,888	4,829,186
Operating transfers from primary government.....	1,611,465	587,286	2,198,751
Operating transfers to primary government.....	(35,809)	—	(35,809)
Operating transfers to component units.....	(11,107)	—	(11,107)
Net increase (decrease) in equity.....	619,415	59,197	678,612
Fund equity - July 1.....	5,315,387	1,176,305	6,491,692
Other changes in equity.....	(44,631)	(4,648)	(49,279)
Fund equity - June 30.....	<u>\$ 5,890,171</u>	<u>\$ 1,230,854</u>	<u>\$ 7,121,025</u>

NOTES TO THE FINANCIAL STATEMENTS

NOTE 15: RESERVED AND UNRESERVED DESIGNATED FUND BALANCES

The State and its component units' reserved fund balances represent those portions of fund balance that are (1) not available for appropriation or expenditure, which includes loans receivable and long-term portion of advances to other funds, or (2) fund balances that are legally segregated for a specific use. Additionally, in the General Fund, a portion of

unreserved fund balance has been designated by general statute for Savings (rainy day) in the amount of \$500.952 million. Since the general statutes do not restrict the Savings Reserve Account (*budgetary reservation*) for a specific future use, it is considered preferable to report the amount as a designation of unreserved fund balance, rather than as a reserve.

The primary government's reserved fund balances at June 30, 1997, are (dollars in thousands):

	Governmental Fund Types			Fiduciary Funds			
	General	Special Revenue	Capital Projects	Expendable Trust	Non-expendable Trust	Pension Trust	Fiduciary Totals
Inventories.....	\$ 48,642	\$ 21,250	\$ —	\$ 1,031	\$ —	\$ —	\$ 1,031
Reserved for specific encumbrances.....	306,986	4,031	—	—	—	—	—
Retirees' health premiums.....	205,738	—	—	—	—	—	—
Energy conservation.....	31,250	—	—	1,897	—	—	1,897
Investments.....	5,256	—	—	—	—	—	—
Other reserves.....	1,046	9,991	—	559	—	—	559
Medicaid programs.....	148,153	—	—	—	—	—	—
Advances to component unit.....	30,627	—	—	25,000	—	—	25,000
Repairs and renovations.....	221,274	—	—	—	—	—	—
Clean Water Management Trust Fund.....	49,355	—	—	—	—	—	—
Chemical alcohol testing.....	353	—	—	—	—	—	—
Intangibles tax refunds.....	156,000	—	—	—	—	—	—
North Carolina Railroad acquisition.....	61,000	—	—	—	—	—	—
Federal retirees' refund account.....	20,193	—	—	—	—	—	—
Library grants.....	284	—	—	—	—	—	—
Vacation, sick leave.....	—	40,773	—	—	—	—	—
Notes receivable.....	497	99,726	—	—	231,691	—	231,691
Public School Building Capital Needs.....	—	30,918	—	—	—	—	—
Critical School Facility Needs.....	—	13,058	—	—	—	—	—
Prepaid items.....	—	863	—	—	—	—	—
Capital projects.....	—	—	125,100	—	—	—	—
Claims and benefits.....	—	—	—	1,159,864	—	—	1,159,864
Loan and grant commitments.....	—	382,837	—	—	54,434	—	54,434
Abandoned property.....	—	—	—	140,530	—	—	140,530
Political parties.....	—	—	—	125	—	—	125
Wildlife endowment.....	—	—	—	—	34,964	—	34,964
Employment pension benefits.....	—	—	—	—	—	41,649,289	41,649,289
Total Fund Balances							
Reserved.....	<u>\$ 1,286,654</u>	<u>\$ 603,447</u>	<u>\$ 125,100</u>	<u>\$ 1,329,006</u>	<u>\$ 321,089</u>	<u>\$ 41,649,289</u>	<u>\$ 43,299,384</u>

The component units' reserved fund balances at June 30, 1997, are (dollars in thousands):

Restricted Funds	Total College and University Funds	
	University	Community Colleges
Loans.....	\$ 91,824	\$ 838
Endowments.....	568,097	11,969
Revenue bonds.....	67,694	—
Restricted funds.....	<u>525,770</u>	<u>164,637</u>
Total Fund Balances Reserved.....	<u>\$ 1,253,385</u>	<u>\$ 177,444</u>

NOTES TO THE FINANCIAL STATEMENTS

NOTE 16: FUND EQUITY RECLASSIFICATIONS AND RESTATEMENTS

As a result of review during the current reporting period, certain funds were reclassified from their June 30, 1996 presentation to more appropriate fund types. The effects of these reclassifications appear in the "Fund Reclassification" column. Some fund equity balances as of July 1, 1996, are restated for certain accounting changes or adjusted for the correction of errors in the reported balances of the fiscal year ended June 30, 1996. These changes are shown in the "Prior Year Adjustments and Restatements" column. The following table summarizes the above changes as they appear in the accompanying financial statements (dollars in thousands).

	June 30, 1996 Fund Equity as Previously Reported	GASB 25 Implemen- tation	Fund Reclass- ification	July 1, 1996 Fund Equity as Reported	Prior Year Adjustments/ Restatements	July 1, 1996 Fund Equity as Restated
Primary Government						
General Fund.....	\$ 1,422,052	\$ —	\$ 923	\$ 1,422,975	\$ 513	\$ 1,423,488
Special Revenue.....	1,376,493	—	(923)	1,375,570	(266)	1,375,304
Capital Projects.....	272,428	—	—	272,428	—	272,428
Enterprise.....	66,686	—	—	66,686	209	66,895
Internal Service.....	519,286	—	274,376	793,662	(172,866)	620,796
Expendable Trust Funds.....	3,069,879	—	(274,376)	2,795,503	1,864	2,797,367
Nonexpendable Trust Funds.....	317,455	—	—	317,455	—	317,455
Pension Trust Funds.....	29,240,963	6,264,626	—	35,505,589	—	35,505,589
Total Primary Government.....	36,285,242	6,264,626	—	42,549,868	(170,546)	42,379,322
Component Units						
Proprietary Funds.....	599,599	—	—	599,599	5,224	604,823
College and University:						
University funds.....	5,315,387	—	—	5,315,387	(15,137)	5,300,250
Community colleges funds.....	1,176,305	—	—	1,176,305	(4,648)	1,171,657
Total Component Units.....	7,091,291	—	—	7,091,291	(14,561)	7,076,730
Total Reporting Entity.....	\$ 43,376,533	\$ 6,264,626	\$ —	\$ 49,641,159	\$ (185,107)	\$ 49,456,052

NOTE 17: RESIDUAL EQUITY TRANSFERS

Residual equity transfers out exceed residual equity transfers in by \$39.988 million. This out of balance condition is comprised of three transfers. The University of North Carolina System transferred \$29.488 million to the Centennial Authority (component unit). The Centennial Authority recognized the residual equity transfer as an increase in contributed capital. The General Fund transferred \$4.5 million to the Workers' Compensation Fund (*Enterprise Fund*). The Workers' Compensation Fund recognized the \$4.5 million residual equity transfer as an increase in contributed capital. The General Fund transferred to the State Ports Authority (*Proprietary Component Unit*). The State Ports Authority recognized the \$6 million residual equity transfer as an increase in contributed capital.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 18: COMMITMENTS AND CONTINGENCIES

A. No Commitment Debt

The State, by action of the General Assembly, created the North Carolina Medical Care Commission which is authorized to issue tax-exempt bonds and notes to finance construction and equipment projects for nonprofit and public hospitals, nursing homes, continuing care facilities for the elderly and related facilities. The bonds are not an indebtedness of the State and, accordingly, are not reflected in the accompanying financial statements. Each issue is payable solely from the revenues of the facility financed by that issue and any other credit support provided. Therefore, each issue is separately secured and is separate and independent from all other issues as to source of payment and security. The indebtedness of each entity is serviced and administered by a trustee independent of the State. Maturing serially to calendar year 2027, the outstanding principal of such bonds and notes as of June 30, 1997, was \$2,194,712,549 with interest rates varying from 2.30 % to 10.375 %.

The State, by action of the General Assembly, created the North Carolina Educational Facilities Finance Agency which is authorized to issue tax-exempt bonds and notes to finance facilities and structures at private institutions of higher learning. 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 2027, the outstanding principal of such bonds and notes as of June 30, 1997, was \$458,996,501 with variable interest rates.

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

principal of such bonds and notes as of June 30, 1997, was \$9,590,550 with variable interest rates.

B. Litigation

Patton Case — State Tax Refunds - Federal Retirees. On May 23, 1995, retired federal employees sued for refund of income taxes paid upon pension income for tax years 1989 through 1993. They allege the incremental pension increases granted state retirees since 1989 unconstitutionally discriminate against them. Potential refunds and interest are estimated to be \$585.09 million for the period through fiscal year 1997. Until this matter is resolved, any additional potential refunds and interest will continue to accrue. This case has been suspended pending final judgment in *Bailey*, and no court date has been set.

Bailey Case — State Tax Refunds - State Retirees. State and local government retirees filed a class action suit in 1990 as a result of the repeal of the income tax exemption for state and local government retirement benefits. The original suit was dismissed after the North Carolina Supreme Court ruled in 1991 that the plaintiffs had failed to comply with state law requirements for challenging unconstitutional taxes and the United States Supreme Court denied review. In 1992, many of the same plaintiffs filed a new lawsuit alleging essentially the same claims, including breach of contract, unconstitutional impairment of contract rights by the State in taxing benefits that were allegedly promised to be tax exempt and violation of several state constitutional provisions. The case was tried and decided in plaintiffs favor in Superior Court in the summer of 1995. The State appealed and arguments were heard in the Supreme Court of North Carolina in September, 1996. We expect a decision from this Court will be issued soon. Potential refunds and interest are estimated to be \$287.56 million for the period through fiscal year 1997. Until this matter is resolved, any additional potential refunds and interest will continue to accrue. The North Carolina Attorney General's Office believes that sound legal arguments support the State's position on the merits.

Faulkenbury v. Teachers' and State Employees' Retirement System, Peele v. Teachers and State Employees' Retirement System and Woodard v. Local Government Employees' Retirement System. Plaintiffs are disability retirees who brought class actions in state court challenging changes in the formula for payment of disability retirement benefits and claiming impairment of contract rights, breach of fiduciary duty, violation of other federal constitutional rights, and the violation of state constitutional and statutory rights. Upon review in *Faulkenbury* and *Woodard*, the North Carolina Court of Appeals and the Supreme Court have held that their claims for breach of fiduciary duty do not state a cause of

NOTES TO THE FINANCIAL STATEMENTS

action. Their claims for violation of federal constitutional rights brought under the federal Civil Rights Act were held to be barred by the statute of limitations. In 1994, plaintiffs took voluntary dismissals of their claims for impairment of contract rights in violation of the United States Constitution and filed new actions in federal court, along with other plaintiffs, asserting their impairment of contract rights claims along with claims for violation of constitutional rights in the taxation of retirement benefits. The voluntary dismissals in state court were declared void in October, 1994. The State court claims were heard in the Superior Court of Wake County in May, 1995. The trial court ruled in plaintiffs favor, and the State appealed to the North Carolina Supreme Court, which heard arguments in the case in September, 1996. The Supreme Court of North Carolina affirmed the judgment of the trial court in favor of the plaintiffs on April 11, 1997. The Court concluded that at the time plaintiffs' rights to pensions became vested, the law provided that they would have disability retirement benefits calculated in a certain way; and that these were contractual rights that plaintiffs earned and that could not be taken away by the Legislature. The matter is now back in the hands of the trial court to determine with more certainty the benefits to be provided members of the plaintiffs' class. The plaintiffs have submitted documentation to the court asserting that the cost in damages and higher prospective benefit payments to the plaintiffs and class member would amount to \$407 million. These amounts would be payable from the funds of the Retirement systems.

Leandro et al v. State of North Carolina and State Board of Education. — On May 25, 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 and denying due process of law and violates various statutes relating to public education. The suit requests the Court for such other equitable relief, including injunction or mandamus, as the court deems proper.

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 defendants in such suit have filed a motion to dismiss, but no answer to the complaint, and no pretrial discovery has taken place. The State's motion to dismiss was denied by the trial court in February, 1995. The Attorney General's Office filed notice of appeal from the trial court's decision, and the North Carolina Court of Appeals reversed the trial court and dismissed the suit. The Supreme Court of North Carolina has agreed to review the Court of Appeals decision. On July 24, 1997, the North Carolina Supreme Court issued an opinion reversing the Court of Appeals' dismissal of the complaint. The Court concluded that the North Carolina Constitution guarantees "every child of this

state an opportunity to receive a sound basic education," and remanded it for trial to determine whether plaintiffs could prove that they were denied any of their rights. Five other counties intervened and now allege claims for relief on behalf of their students' rights to a sound basic education on the basis of the high proportion of at-risk students in their counties' systems. The North Carolina Attorney General's Office believes that there are sound legal arguments to support the State's position that plaintiffs have not been denied any of their constitutional rights.

Francisco Case. — On August 10, 1994, a class action lawsuit was filed in Wake County Superior Court against the Superintendent of Public Instruction and the State Board of Education on behalf of a class of parents and their children who are characterized as limited English proficient. The complaint alleges that the State has failed to provide funding for the education of these students and has failed to supervise local school systems in administering programs for them. The complaint does not allege an amount in controversy, but asks the court to order the defendants to fund a comprehensive program to insure equal educational opportunities for limited English proficient children. The State filed an answer to the complaint on October 11, 1994. The matter is now in discovery. The North Carolina Attorney General's Office believes that sound legal arguments support the State's position.

Fulton Case. — The State's intangible personal property tax levied on certain shares of stock has been challenged by the plaintiff on grounds that it violates the United States Constitution Commerce Clause by discriminating against stock issued by corporations that do all or part of their business outside of the State. The plaintiff seeks to invalidate the tax in its entirety and to recover tax paid on the value of its shares in other corporations. The North Carolina Court of Appeals invalidated the taxable percentage deduction and excised it from the statute beginning with the 1994 tax year. The effect of this ruling is to increase collections by rendering all stock taxable on 100% of its value. The State and the plaintiff sought further appellate review. On December 9, 1994, the North Carolina Supreme Court ruled in favor of the State, reversing the decision of the Court of Appeals and upholding the tax on intangible personal property. The Supreme Court of the United States heard oral arguments on October 31, 1995, and in February 1996 reversed, holding the taxing scheme unconstitutional, and remanded the case to the North Carolina Supreme Court to fashion an appropriate remedy. The North Carolina Supreme Court heard oral arguments in September, 1996. On February 10, 1997, the North Carolina Supreme Court concluded that the taxable percentage deduction which the U.S. Supreme Court had earlier declared unconstitutional, should be severed from the rest of the taxing statute, thereby allowing the General Assembly to retroactively tax individuals who owned stock but who had not paid any intangibles tax because of the unconstitutional percentage deduction provision.

NOTES TO THE FINANCIAL STATEMENTS**NOTE 18: COMMITMENTS AND CONTINGENCIES (continued)**

The General Assembly's reaction to this decision was to enact legislation forbidding the Secretary of Revenue to retroactively tax anyone, and mandating that refunds be paid to all intangible taxpayers who had filed timely protest to the payment of the tax as required by N.C.G.S. § 105-267. Refunds are being paid to taxpayers who paid the tax, but took appropriate steps to claim that a refund was due. These refunds, with interest, will total approximately \$156 million. As of September 24, 1997, the Department of Revenue has refunded in excess of \$100 million and expects to make total refunds and payment of interest before the end of 1997.

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

C. Federal Grants

Under the terms of federal grants, periodic audits are required and certain costs may be questioned as not being appropriate expenditures under the terms of the grants. Such audits could lead to reimbursement to the grantor agencies, although it is believed that disallowances, if any, will be immaterial.

D. Highway Construction

The State may be liable for approximately \$39.8 million to contractors for highway construction claims that the State has contested. The State may also be liable for an additional \$24.3 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 \$6.9 million.

NOTES TO THE FINANCIAL STATEMENTS
E. USDA-Donated Commodities

The State has custodial responsibility for \$2.197 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, 1997, the State had commitments of \$1,061.1 million for construction of highway facilities. The other commitments for construction and improvements of state government facilities totaled \$189.0 million (including \$85.5 million for the Department of Administration and \$46.1 million for the Department of Environment, Health and Natural Resources).

At June 30, 1997, the University of North Carolina system (component unit) had outstanding construction commitments of \$297.5 million (including \$80.4 million for UNC Hospitals, \$60.4 million for University of North Carolina - Chapel Hill, and \$41.1 million for North Carolina Central University).

At June 30, 1997, community colleges (component units) had outstanding construction commitments of \$72.8 million (including \$7.3 million for Caldwell Community College and Technical Institute, \$6.7 million for Forsyth Technical Community College, and \$5.2 million for Isothermal Community College).

At June 30, 1997, proprietary component units had outstanding commitments of \$17.5 million (including \$16.5 million for North Carolina State Ports Authority).

NOTE 19: SUBSEQUENT EVENTS

North Carolina Housing Finance Agency. During July 1997, the Agency issued tax-exempt Single Family Revenue Bonds (1985 Resolution) Series QQ and RR in the amount of \$65,000,000 at an interest rate of 5.59%.

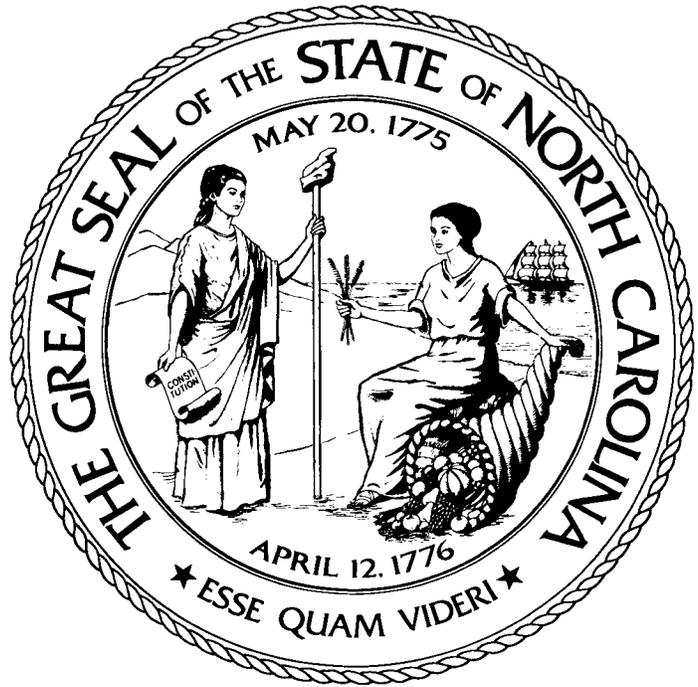
State Education Assistance Authority. The Authority expects to issue approximately \$156 million (\$30 million tax-exempt and \$126 million taxable) Guaranteed Student Loan Revenue Bonds in late November 1997.

Centennial Authority. On July 1, 1997, the Authority entered into several construction contracts to build the regional facility. The total estimated costs associated with the construction contracts approximate \$90.5 million.

State Highway Bond Act of 1996. The issuance of \$950 million of general obligation bonds of the State was authorized by the General Assembly and approved by the voters on November 5, 1996, of which the proceeds will be used to

expedite the completion of highway construction and provide sufficient funds to pay debt service on the bonds from the monies that would otherwise be deposited in the Highway Trust Fund to fund highway construction. Of the \$950 million bond issue, \$500 million will go toward loop projects in seven urban areas, \$300 million will be earmarked for the intrastate system of multi-lane highways, and the remaining \$150 million will be used to accelerate the paving of unpaved secondary roads. On November 5, 1997, \$250 million of Highway Bonds, Series 1997A, were issued at interest rates of 4.5% to 5.0%.

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REQUIRED SUPPLEMENTARY INFORMATION

REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULES OF FUNDING PROGRESS
ALL PENSION TRUST FUNDS

June 30, 1997

(Expressed in Thousands)

<i>Retirement System</i>	<i>Valuation Date</i>	<i>Actuarial Value of Assets</i>	<i>Actuarial Liability (AAL)</i>	<i>Unfunded AAL (UAAL) (b) - (a)</i>	<i>Funded Ratio (a) / (b)</i>	<i>Annual Covered Payroll (c)</i>	<i>UAAL as a Percentage of Covered Payroll ((b-a)/c)</i>
		(a)	(b)	(note 1)		(c)	
Teachers' and State Employees'	12-31-96 ^A	\$ 25,357,460	\$ 25,478,193	\$ 120,733	99.5%	\$ 6,845,185	1.8%
	12-31-95	22,178,592	22,663,750	485,158	97.9%	6,595,618	7.4%
	12-31-94	20,394,957	20,908,734	513,777	97.5%	6,323,410	8.1%
	12-31-93	18,695,663	19,274,394	578,731	97.0%	5,975,648	9.7%
	12-31-92	17,039,908	17,608,007	568,099	96.8%	5,695,451	10.0%
	12-31-91	15,556,258	16,514,419	958,161	94.2%	5,551,573	17.3%
Consolidated Judicial	12-31-96 ^A	\$ 188,722	\$ 183,442	\$ (5,280)	102.9%	\$ 36,608	(14.4)%
	12-31-95	164,358	175,126	10,768	93.9%	35,665	30.2%
	12-31-94	151,366	161,732	10,366	93.6%	34,114	30.4%
	12-31-93	138,419	148,495	10,076	93.2%	29,832	33.8%
	12-31-92	125,804	138,835	13,031	90.6%	29,335	44.4%
	12-31-91	113,683	133,598	19,915	85.1%	28,754	69.2%
Legislative	12-31-96 ^A	\$ 14,563	\$ 13,715	\$ (848)	106.2%	\$ 3,573	(23.7)%
	12-31-95	12,883	12,685	(198)	101.6%	3,616	(5.5)%
	12-31-94	11,281	11,137	(144)	101.3%	3,309	(4.4)%
	12-31-93	9,611	8,854	(757)	108.5%	2,264	(33.4)%
	12-31-92	8,476	8,005	(471)	105.9%	2,171	(21.7)%
	12-31-91	7,337	7,613	276	96.4%	2,242	12.3%
Firemen's, Rescue Squad Workers'	6-30-96	\$ 123,265	\$ 160,233	\$ 36,968	76.9%	N/A	N/A
	6-30-95	110,196	157,644	47,448	69.9%	N/A	N/A
	6-30-94	101,563	123,691	22,128	82.1%	N/A	N/A
	6-30-93	94,542	110,204	15,662	85.8%	N/A	N/A
	6-30-92	87,265	106,055	18,790	82.3%	N/A	N/A
	6-30-91	80,453	100,989	20,536	79.7%	N/A	N/A
National Guard	12-31-96 ^A	\$ 26,648	\$ 39,421	\$ 12,773	67.6%	N/A	N/A
	12-31-95	22,643	37,559	14,916	60.3%	N/A	N/A
	12-31-94	20,159	34,817	14,658	57.9%	N/A	N/A
	12-31-93	17,874	33,037	15,163	54.1%	N/A	N/A
	12-31-92	15,636	30,301	14,665	51.6%	N/A	N/A
	12-31-91	13,561	29,513	15,952	45.9%	N/A	N/A
Local Governmental	12-31-96 ^A	\$ 6,258,674	\$ 6,321,622	\$ 62,948	99.0%	\$ 2,593,671	2.4%
	12-31-95	5,411,167	5,472,970	61,803	98.9%	2,429,402	2.5%
	12-31-94	4,911,161	4,971,957	60,796	98.8%	2,280,714	2.7%
	12-31-93	4,436,587	4,517,945	81,358	98.2%	2,142,313	3.8%
	12-31-92	3,986,769	4,071,883	85,114	97.5%	2,030,472	4.2%
	12-31-91	3,576,973	3,667,142	90,169	97.5%	1,902,136	4.7%

(note 1) A negative unfunded AAL denotes excess assets over the AAL.**N/A** Not applicable**A** Revised actuarial value of assets from cost to 5-year smoothed market

The information presented in these required supplementary schedules was determined as part of the actuarial valuations at the dates indicated. Additional information as of the latest actuarial valuation is presented on page 79.

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

For the Six-Year Period 1992 to 1997 (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'	1997	\$ 593,481	100%
	1996	559,980	100%
	1995	564,336	100%
	1994	526,332	100%
	1993	499,525	100%
	1992	403,634	100%
Consolidated Judicial	1997	\$ 7,976	100%
	1996	7,536	100%
	1995	7,371	100%
	1994	6,991	100%
	1993	7,035	100%
	1992	7,335	100%
Legislative	1997	\$ 742	108%
	1996	725	104%
	1995	739	156%
	1994	586	142%
	1993	598	109%
	1992	647	100%
Firemen's, Rescue Squad Workers'	1997	\$ 11,735	100%
	1996	11,735	100%
	1995	7,449	100%
	1994	5,247	100%
	1993	5,199	100%
	1992	5,318	100%
National Guard	1997	\$ 2,303	100%
	1996	2,283	100%
	1995	2,189	100%
	1994	2,189	100%
	1993	2,123	100%
	1992	2,106	100%
Local Governmental Employees'	1997	\$ 142,952	100%
	1996	136,390	100%
	1995	129,915	100%
	1994	123,260	100%
	1993	116,387	100%
	1992	111,513	100%

The information presented in these required supplementary schedules was determined as part of the actuarial valuations at the dates indicated. Additional information as of the latest actuarial valuation is presented on page 79.

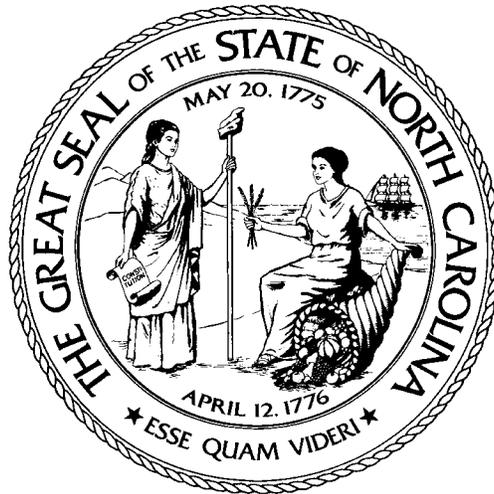
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*COMBINING,
INDIVIDUAL FUND
AND
ACCOUNT GROUP*

*STATEMENTS
AND
SCHEDULES*

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SPECIAL REVENUE FUNDS

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

The following are included in special revenue funds:

- State Highway Fund
- Highway Trust Fund
- Public School Building Capital Fund
- Public School Bond Fund
- Educational Materials and School Buses Fund
- Employment Security Commission Funds
- Employment and Training Administration Fund
- Highway Patrol Fund
- Clean Water Bonds Loan Fund
- Leaking Petroleum Underground Storage Tank Cleanup Fund
- 1994 Unallocated Bond Fund
- Community Colleges Special Programs Fund
- Wildlife Resources Commission Fund
- Other Funds

**SPECIAL REVENUE FUNDS
COMBINING BALANCE SHEET**

June 30, 1997

(Dollars in Thousands)

	State Highway Fund	Highway Trust Fund	Public School Bond Fund	Public School Building Capital Fund	Educational Materials, School Buses Fund	Employment Security Commission Funds	Highway Patrol Fund
ASSETS							
Cash and cash equivalents.....	\$ 165,041	\$ 701,621	\$ 433,504	\$ 104,888	\$ 12,965	\$ 9,281	\$ 6,099
Investments.....	130,742	454,961	—	64,676	9,264	5,723	808
Receivables:							
Taxes receivable.....	70,119	24,999	—	—	—	—	—
Accounts receivable.....	1,418	39	—	—	6	123	366
Intergovernmental receivables.....	64,619	27	—	—	29	1,619	—
Interest receivable.....	1,066	3,614	—	550	—	—	—
Other receivables.....	4,871	—	—	—	—	—	—
Due from other funds.....	56,440	—	—	—	—	508	205
Notes receivable.....	—	—	—	—	—	—	—
Inventories.....	54,638	—	—	—	12,557	477	3,478
Prepaid items.....	738	—	—	—	1	41	—
Sureties.....	8,402	—	—	—	—	—	—
Total Assets.....	<u>\$ 558,094</u>	<u>\$ 1,185,261</u>	<u>\$ 433,504</u>	<u>\$ 170,114</u>	<u>\$ 34,822</u>	<u>\$ 17,772</u>	<u>\$ 10,956</u>
LIABILITIES AND FUND BALANCES							
Liabilities:							
Accounts payable and accrued liabilities:							
Accounts payable.....	\$ 27,051	\$ 4,611	\$ —	\$ 4	\$ 18,226	\$ 2,355	\$ 3,184
Accrued payroll.....	17,478	—	—	—	—	328	846
Intergovernmental payables.....	83,565	37,817	—	—	—	—	12
Obligations under securities lending..	130,742	454,961	—	64,676	9,264	5,723	808
Due to other funds.....	9,770	33,057	—	—	—	74	89
Due to component units.....	270	—	—	—	—	—	—
Claims payable.....	—	—	—	—	—	38	—
Deposits payable.....	64,510	94	—	—	—	—	—
Deferred revenue.....	4,091	—	—	—	—	—	136
Total Liabilities.....	<u>337,477</u>	<u>530,540</u>	<u>—</u>	<u>64,680</u>	<u>27,490</u>	<u>8,518</u>	<u>5,075</u>
Fund Balances:							
Reserved for:							
Reserved for specific							
encumbrances.....	4,031	—	—	—	—	—	—
Inventories.....	3,004	—	—	—	12,557	477	3,478
Vacation, sick leave.....	40,773	—	—	—	—	—	—
Notes receivable.....	—	—	—	—	—	—	—
Public school building							
capital needs.....	—	—	—	30,918	—	—	—
Critical school facility needs.....	—	—	—	—	—	—	—
Prepaid items.....	738	—	—	—	1	41	—
Loan and grant commitments.....	—	—	371,586	—	—	—	—
Other purposes.....	9,411	—	—	—	—	—	—
Unreserved:							
Undesignated.....	162,660	654,721	61,918	74,516	(5,226)	8,736	2,403
Total Fund Balances.....	<u>220,617</u>	<u>654,721</u>	<u>433,504</u>	<u>105,434</u>	<u>7,332</u>	<u>9,254</u>	<u>5,881</u>
Total Liabilities and Fund Balances...	<u>\$ 558,094</u>	<u>\$ 1,185,261</u>	<u>\$ 433,504</u>	<u>\$ 170,114</u>	<u>\$ 34,822</u>	<u>\$ 17,772</u>	<u>\$ 10,956</u>

Exhibit B-1

Employment and Training Administration Fund	Clean Water Bonds Loan Fund	Leaking Petroleum Underground Storage Tank Cleanup Fund	1994 Unallocated Bond Fund	Community Colleges Special Programs Fund	Wildlife Resources Commission Fund	Other Funds	Totals
\$ 1,476	\$ 21,143	\$ 20,194	\$ —	\$ 107,521	\$ 10,110	\$ 322,399	\$ 1,916,242
1,037	—	11,728	—	—	6,095	214,514	899,548
—	—	1,342	—	—	—	610	97,070
—	—	225	—	—	240	2,695	5,112
470	—	—	—	—	170	867	67,801
—	550	98	—	—	30	3,569	9,477
—	—	—	—	—	—	—	4,871
—	—	—	—	—	238	2,251	59,642
—	76,816	1,538	—	—	—	21,372	99,726
—	—	—	—	—	1,302	432	72,884
—	—	—	—	—	—	83	863
—	—	—	—	—	—	23,745	32,147
<u>\$ 2,983</u>	<u>\$ 98,509</u>	<u>\$ 35,125</u>	<u>\$ —</u>	<u>\$ 107,521</u>	<u>\$ 18,185</u>	<u>\$ 592,537</u>	<u>\$ 3,265,383</u>
\$ 21	\$ —	\$ 5,507	\$ —	\$ —	\$ 789	\$ 5,809	\$ 67,557
—	—	—	—	—	203	363	19,218
—	—	224	—	—	—	4,894	126,512
1,037	—	11,728	—	—	6,095	194,280	879,314
394	—	—	—	—	197	569	44,150
—	—	—	—	87,701	—	128	88,099
—	—	—	—	—	—	6	44
—	—	—	—	—	—	23,822	88,426
3	—	—	—	—	—	10,459	14,689
<u>1,455</u>	<u>—</u>	<u>17,459</u>	<u>—</u>	<u>87,701</u>	<u>7,284</u>	<u>240,330</u>	<u>1,328,009</u>
—	—	—	—	—	—	—	4,031
—	—	—	—	—	1,302	432	21,250
—	—	—	—	—	—	—	40,773
—	76,816	1,538	—	—	—	21,372	99,726
—	—	—	—	—	—	—	30,918
—	—	—	—	—	—	13,058	13,058
—	—	—	—	—	—	83	863
—	11,251	—	—	—	—	—	382,837
—	—	—	—	—	—	580	9,991
<u>1,528</u>	<u>10,442</u>	<u>16,128</u>	<u>—</u>	<u>19,820</u>	<u>9,599</u>	<u>316,682</u>	<u>1,333,927</u>
<u>1,528</u>	<u>98,509</u>	<u>17,666</u>	<u>—</u>	<u>19,820</u>	<u>10,901</u>	<u>352,207</u>	<u>1,937,374</u>
<u>\$ 2,983</u>	<u>\$ 98,509</u>	<u>\$ 35,125</u>	<u>\$ —</u>	<u>\$ 107,521</u>	<u>\$ 18,185</u>	<u>\$ 592,537</u>	<u>\$ 3,265,383</u>

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

For the Fiscal Year Ended June 30, 1997

(Dollars in Thousands)

	State Highway Fund	Highway Trust Fund	Public School Bond Fund	Public School Building Capital Fund	Educational Materials, School Buses Fund	Employment Security Commission Funds	Highway Patrol Fund
Revenues:							
Taxes.....	\$ 734,256	\$ 653,148	\$ —	\$ 48,850	\$ —	\$ —	\$ —
Federal funds.....	506,500	—	—	—	—	79,885	—
Local funds.....	12,963	404	—	—	991	7,086	—
Investment earnings.....	28,932	51,932	—	9,664	—	—	38
Interest earnings on loans.....	—	—	—	—	—	—	—
Sales and services.....	6,213	—	—	—	2,606	—	1,554
Sale, rental and lease of property.....	12,181	935	—	—	45	—	3,403
Fees, licenses and fines.....	341,689	86,039	—	—	—	1,293	438
Contributions, gifts and grants.....	—	—	—	—	—	5,417	693
Miscellaneous.....	5,058	111	—	—	—	948	140
Total revenues.....	<u>1,647,792</u>	<u>792,569</u>	<u>—</u>	<u>58,514</u>	<u>3,642</u>	<u>94,629</u>	<u>6,266</u>
Expenditures:							
Current:							
General government.....	—	—	—	—	—	—	—
Education.....	—	—	16,496	44,728	75,484	—	—
Human resources.....	—	—	—	—	—	—	—
Economic development.....	—	—	—	—	—	103,851	—
Environment, health and natural resources.....	—	—	—	—	—	—	—
Public safety, corrections, and regulation.....	—	—	—	—	—	—	112,793
Transportation.....	1,852,266	353,228	—	—	—	—	—
Agriculture.....	—	—	—	—	—	—	—
Debt service:							
Bond principal retirement.....	4,895	—	—	—	—	—	—
Bond interest.....	83	—	—	—	—	—	—
Total expenditures.....	<u>1,857,244</u>	<u>353,228</u>	<u>16,496</u>	<u>44,728</u>	<u>75,484</u>	<u>103,851</u>	<u>112,793</u>
Excess revenues over (under) expenditures.....	<u>(209,452)</u>	<u>439,341</u>	<u>(16,496)</u>	<u>13,786</u>	<u>(71,842)</u>	<u>(9,222)</u>	<u>(106,527)</u>
Other Financing Sources (Uses):							
Operating transfers in.....	309,497	32,300	—	—	85,315	7,594	108,902
Operating transfers from component units...	—	—	—	—	—	—	—
Operating transfers out.....	(190,189)	(398,192)	—	(393)	(668)	(22)	(599)
Operating transfers to component units.....	(4,086)	—	—	—	—	—	—
Proceeds from capital leases.....	—	—	—	—	—	—	—
Proceeds from bond sale.....	—	—	450,000	—	—	—	—
Total other financing sources (uses).....	<u>115,222</u>	<u>(365,892)</u>	<u>450,000</u>	<u>(393)</u>	<u>84,647</u>	<u>7,572</u>	<u>108,303</u>
Excess revenues and other sources over (under) expenditures and other uses.....	<u>(94,230)</u>	<u>73,449</u>	<u>433,504</u>	<u>13,393</u>	<u>12,805</u>	<u>(1,650)</u>	<u>1,776</u>
Fund balances — July 1.....	316,039	581,272	—	92,041	5,844	10,850	3,820
Restatements.....	—	—	—	—	—	—	—
Residual equity transfers in.....	—	—	—	—	—	—	—
Residual equity transfers out.....	—	—	—	—	—	—	—
Increase (decrease) in reserve for related assets.....	<u>(1,192)</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>(11,317)</u>	<u>54</u>	<u>285</u>
Fund balances — June 30.....	<u>\$ 220,617</u>	<u>\$ 654,721</u>	<u>\$ 433,504</u>	<u>\$ 105,434</u>	<u>\$ 7,332</u>	<u>\$ 9,254</u>	<u>\$ 5,881</u>

Exhibit B-2

Employment and Training Administration Fund	Clean Water Bonds Loan Fund	Leaking Petroleum Underground Storage Tank Cleanup Fund	1994 Unallocated Bond Fund	Community Colleges Special Programs Fund	Wildlife Resources Commission Fund	Other Funds	Totals
\$ —	\$ —	\$ 15,536	\$ —	\$ —	\$ 8,887	\$ 46,393	\$ 1,507,070
44,958	—	—	—	—	6,249	47,064	684,656
200	—	—	—	—	130	2,387	24,161
—	332	2,529	—	—	754	20,017	114,198
—	3,712	54	—	—	—	514	4,280
—	—	—	—	—	1,109	5,645	17,127
6	—	—	—	—	241	1,384	18,195
—	—	11,031	—	—	17,290	102,064	559,844
—	—	—	—	—	417	10,027	16,554
—	—	—	—	—	59	1,058	7,374
<u>45,164</u>	<u>4,044</u>	<u>29,150</u>	<u>—</u>	<u>—</u>	<u>35,136</u>	<u>236,553</u>	<u>2,953,459</u>
—	—	—	—	—	—	30,978	30,978
—	—	—	—	14	—	45,769	182,491
—	—	—	—	—	—	40,739	40,739
47,820	—	—	—	—	—	38,220	189,891
—	66	55,131	—	—	40,951	24,185	120,333
—	—	—	—	—	—	45,302	158,095
—	—	—	—	—	—	—	2,205,494
—	—	—	—	—	—	147	147
—	—	—	—	—	—	—	4,895
—	—	—	—	—	—	—	83
<u>47,820</u>	<u>66</u>	<u>55,131</u>	<u>—</u>	<u>14</u>	<u>40,951</u>	<u>225,340</u>	<u>2,933,146</u>
<u>(2,656)</u>	<u>3,978</u>	<u>(25,981)</u>	<u>—</u>	<u>(14)</u>	<u>(5,815)</u>	<u>11,213</u>	<u>20,313</u>
2,621	—	5,831	—	98,066	4,700	126,399	781,225
—	—	—	—	—	—	713	713
(156)	(6,181)	(3,424)	(125,077)	—	(1,286)	(55,843)	(782,030)
—	—	—	(69,923)	(16,497)	—	(506)	(91,012)
—	—	—	—	—	—	247	247
—	—	—	195,000	—	—	—	645,000
<u>2,465</u>	<u>(6,181)</u>	<u>2,407</u>	<u>—</u>	<u>81,569</u>	<u>3,414</u>	<u>71,010</u>	<u>554,143</u>
(191)	(2,203)	(23,574)	—	81,555	(2,401)	82,223	574,456
1,719	100,712	41,843	—	(61,735)	13,220	269,945	1,375,570
—	—	(603)	—	—	—	337	(266)
—	—	—	—	—	6	—	6
—	—	—	—	—	—	(229)	(229)
—	—	—	—	—	76	(69)	(12,163)
<u>\$ 1,528</u>	<u>\$ 98,509</u>	<u>\$ 17,666</u>	<u>\$ —</u>	<u>\$ 19,820</u>	<u>\$ 10,901</u>	<u>\$ 352,207</u>	<u>\$ 1,937,374</u>

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

For the Fiscal Year Ended June 30, 1997

(Dollars in Thousands)

	Employment and Training Administration Fund			Employment Security Commission Funds		
	<i>Budget</i>	<i>Actual</i>	<i>Variance Favorable (Unfavorable)</i>	<i>Budget</i>	<i>Actual</i>	<i>Variance Favorable (Unfavorable)</i>
Revenues:						
Departmental:						
Federal funds.....	\$ 74,651	\$ 45,143	\$ (29,508)	\$ 83,987	\$ 79,586	\$ (4,401)
Local funds.....	—	—	—	7,002	7,001	(1)
Inter-agency grants and allocations.....	—	—	—	—	—	—
Intra-governmental transactions.....	2,751	2,821	70	31,048	31,048	—
Sales and services.....	—	—	—	—	—	—
Sale, rental and lease of property.....	—	6	6	—	—	—
Fees, licenses and fines.....	—	—	—	—	—	—
Contributions, gifts and grants.....	—	—	—	—	—	—
Miscellaneous.....	—	1	1	1,539	1,538	(1)
Universities.....	—	—	—	—	—	—
Total revenues.....	<u>77,402</u>	<u>47,971</u>	<u>(29,431)</u>	<u>123,576</u>	<u>119,173</u>	<u>(4,403)</u>
Expenditures:						
Current:						
General government.....	—	—	—	—	—	—
Human resources.....	—	—	—	—	—	—
Environment, health, and natural resources.....	—	—	—	—	—	—
Economic development.....	77,402	48,188	29,214	123,576	120,041	3,535
Public safety and corrections.....	—	—	—	—	—	—
Universities.....	—	—	—	—	—	—
Total expenditures.....	<u>77,402</u>	<u>48,188</u>	<u>29,214</u>	<u>123,576</u>	<u>120,041</u>	<u>3,535</u>
Excess revenues over (under) expenditures.....	—	(217)	(217)	—	(868)	(868)
Unreserved fund balances (budgetary basis) at July 1, 1996.....						
	1,690	1,690	—	—	—	—
Restatements (Note 2 B).....						
	—	—	—	1,894	1,894	—
Unreserved fund balances (budgetary basis) at June 30, 1997.....						
	<u>\$ 1,690</u>	<u>\$ 1,473</u>	<u>\$ (217)</u>	<u>\$ 1,894</u>	<u>\$ 1,026</u>	<u>\$ (868)</u>

Exhibit B-3

Highway Patrol Fund			Wildlife Resources Commission Fund			Other Funds		
<i>Budget</i>	<i>Actual</i>	<i>Variance Favorable (Unfavorable)</i>	<i>Budget</i>	<i>Actual</i>	<i>Variance Favorable (Unfavorable)</i>	<i>Budget</i>	<i>Actual</i>	<i>Variance Favorable (Unfavorable)</i>
\$ 1,131	\$ 836	\$ (295)	\$ 7,057	\$ 6,736	\$ (321)	\$ 118,915	\$ 73,887	\$ (45,028)
—	—	—	130	130	—	3,799	2,352	(1,447)
—	—	—	—	—	—	14,845	5,369	(9,476)
116,221	108,680	(7,541)	33,384	37,164	3,780	103,452	104,112	660
1,700	1,477	(223)	1,237	1,107	(130)	12,999	12,254	(745)
3,625	3,633	8	142	241	99	73	116	43
123	123	—	17,152	17,284	132	69,683	67,381	(2,302)
21	21	—	62	65	3	2,270	1,715	(555)
1	131	130	284	641	357	10,148	8,552	(1,596)
—	—	—	—	—	—	80,888	80,781	(107)
<u>122,822</u>	<u>114,901</u>	<u>(7,921)</u>	<u>59,448</u>	<u>63,368</u>	<u>3,920</u>	<u>417,072</u>	<u>356,519</u>	<u>(60,553)</u>
—	—	—	—	—	—	77,821	65,215	12,606
—	—	—	—	—	—	49,569	41,419	8,150
—	—	—	71,111	64,952	6,159	55,209	32,971	22,238
—	—	—	—	—	—	54,400	34,458	19,942
122,822	110,321	12,501	—	—	—	122,115	95,553	26,562
—	—	—	—	—	—	107,928	75,553	32,375
<u>122,822</u>	<u>110,321</u>	<u>12,501</u>	<u>71,111</u>	<u>64,952</u>	<u>6,159</u>	<u>467,042</u>	<u>345,169</u>	<u>121,873</u>
—	4,580	4,580	(11,663)	(1,584)	10,079	(49,970)	11,350	61,320
845	845	—	11,694	11,694	—	163,114	163,114	—
—	—	—	—	—	—	—	—	—
<u>\$ 845</u>	<u>\$ 5,425</u>	<u>\$ 4,580</u>	<u>\$ 31</u>	<u>\$ 10,110</u>	<u>\$ 10,079</u>	<u>\$ 113,144</u>	<u>\$ 174,464</u>	<u>\$ 61,320</u>

Continued

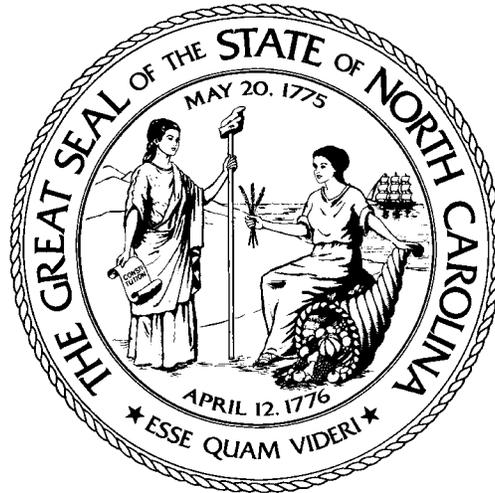
SPECIAL REVENUE FUNDS
COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES — BUDGET AND ACTUAL (BUDGETARY BASIS)

For the Fiscal Year Ended June 30, 1997

Exhibit B-3

(Dollars in Thousands)

	<i>Totals -</i>		
	<u>Budgeted Special Revenue Funds</u>		
	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
			<u>Favorable</u>
			<u>(Unfavorable)</u>
Revenues:			
Departmental:			
Federal funds.....	\$ 285,741	\$ 206,188	\$ (79,553)
Local funds.....	10,931	9,483	(1,448)
Inter-agency grants and allocations.....	14,845	5,369	(9,476)
Intra-governmental transactions.....	286,856	283,825	(3,031)
Sales and services.....	15,936	14,838	(1,098)
Sale, rental and lease of property.....	3,840	3,996	156
Fees, licenses and fines.....	86,958	84,788	(2,170)
Contributions, gifts and grants.....	2,353	1,801	(552)
Miscellaneous.....	11,972	10,863	(1,109)
Universities.....	80,888	80,781	(107)
Total revenues.....	<u>800,320</u>	<u>701,932</u>	<u>(98,388)</u>
Expenditures:			
Current:			
General government.....	77,821	65,215	12,606
Human resources.....	49,569	41,419	8,150
Environment, health, and natural resources.....	126,320	97,923	28,397
Economic development.....	255,378	202,687	52,691
Public safety and corrections.....	244,937	205,874	39,063
Universities.....	107,928	75,553	32,375
Total expenditures.....	<u>861,953</u>	<u>688,671</u>	<u>173,282</u>
Excess revenues over (under) expenditures.....	(61,633)	13,261	74,894
Unreserved fund balances (budgetary basis) at July 1, 1996.....	177,343	177,343	—
Restatements (Note 2 B).....	1,894	1,894	—
Unreserved fund balances (budgetary basis) at June 30, 1997.....	<u>\$ 117,604</u>	<u>\$ 192,498</u>	<u>\$ 74,894</u>



CAPITAL PROJECTS FUNDS

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

The following activities are included in the capital projects funds:

- Capital Projects Fund
- Prison Facilities Legislative Bond Act of 1990
- State Capital Facilities Legislative Bond Fund of 1991
- State Prison and Youth Services Facilities Bond Fund
- State Parks Bond Fund

**CAPITAL PROJECTS FUNDS
COMBINING BALANCE SHEET**

June 30, 1997

Exhibit C-1

(Dollars in Thousands)

	Capital Projects Fund	Prison Facilities Legislative Bond Act of 1990	State Capital Facilities Legislative Bond Fund of 1991	State Prison and Youth Services Facilities Bond Fund	State Parks Bond Fund	Totals
ASSETS						
Cash and cash equivalents.....	\$ 269,100	\$ —	\$ 455	\$ 5,073	\$ 24,677	\$ 299,305
Investments.....	155,464	—	—	—	—	155,464
Receivables:						
Intergovernmental receivables.....	249	—	—	—	—	249
Due from other funds.....	375	—	—	—	—	375
Total Assets.....	<u>\$ 425,188</u>	<u>\$ —</u>	<u>\$ 455</u>	<u>\$ 5,073</u>	<u>\$ 24,677</u>	<u>\$ 455,393</u>
LIABILITIES AND FUND BALANCES						
Liabilities:						
Accounts payable and accrued liabilities:						
Accounts payable.....	\$ 13,024	\$ —	\$ —	\$ 6	\$ 1,690	\$ 14,720
Intergovernmental payables.....	550	—	—	—	—	550
Arbitrage rebate payable.....	—	—	30	—	—	30
Obligations under securities lending.....	155,464	—	—	—	—	155,464
Due to other funds.....	170	—	—	58	1	229
Deposits payable.....	3,942	—	—	14	—	3,956
Total Liabilities.....	<u>173,150</u>	<u>—</u>	<u>30</u>	<u>78</u>	<u>1,691</u>	<u>174,949</u>
Fund Balances:						
Reserved for capital projects.....	117,973	—	93	72	6,962	125,100
Unreserved:						
Undesignated.....	134,065	—	332	4,923	16,024	155,344
Total Fund Balances.....	<u>252,038</u>	<u>—</u>	<u>425</u>	<u>4,995</u>	<u>22,986</u>	<u>280,444</u>
Total Liabilities and Fund Balances.....	<u>\$ 425,188</u>	<u>\$ —</u>	<u>\$ 455</u>	<u>\$ 5,073</u>	<u>\$ 24,677</u>	<u>\$ 455,393</u>

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

For the Fiscal Year Ended June 30, 1997

Exhibit C-2

(Dollars in Thousands)

	Capital Projects Fund	Prison Facilities Legislative Bond Act of 1990	State Capital Facilities Legislative Bond Fund of 1991	State Prison and Youth Services Facilities Bond Fund	State Parks Bond Fund	Totals
Revenues:						
Federal funds.....	\$ 3,738	\$ —	\$ —	\$ —	\$ —	\$ 3,738
Sales and services.....	259	—	—	—	—	259
Sale, rental and lease of property.....	550	—	—	—	—	550
Contributions, gifts and grants.....	1,105	—	—	—	1	1,106
Miscellaneous.....	33	—	—	—	—	33
Total revenues.....	<u>5,685</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>1</u>	<u>5,686</u>
Expenditures:						
Capital outlay.....	<u>135,969</u>	<u>3</u>	<u>46</u>	<u>4,187</u>	<u>6,989</u>	<u>147,194</u>
Total expenditures.....	<u>135,969</u>	<u>3</u>	<u>46</u>	<u>4,187</u>	<u>6,989</u>	<u>147,194</u>
Excess revenues (under) expenditures.....	<u>(130,284)</u>	<u>(3)</u>	<u>(46)</u>	<u>(4,187)</u>	<u>(6,988)</u>	<u>(141,508)</u>
Other Financing Sources (Uses):						
Operating transfers in.....	126,508	443	—	—	28,477	155,428
Operating transfers out.....	<u>(790)</u>	<u>—</u>	<u>(8)</u>	<u>(727)</u>	<u>(4,356)</u>	<u>(5,881)</u>
Total other financing sources (uses).....	<u>125,718</u>	<u>443</u>	<u>(8)</u>	<u>(727)</u>	<u>24,121</u>	<u>149,547</u>
Excess revenues and other sources over (under) expenditures and other uses.....	(4,566)	440	(54)	(4,914)	17,133	8,039
Fund balances—July 1.....	256,625	(440)	481	9,909	5,853	272,428
Residual equity transfers out.....	<u>(21)</u>	<u>—</u>	<u>(2)</u>	<u>—</u>	<u>—</u>	<u>(23)</u>
Fund balances—June 30.....	<u>\$ 252,038</u>	<u>\$ —</u>	<u>\$ 425</u>	<u>\$ 4,995</u>	<u>\$ 22,986</u>	<u>\$ 280,444</u>

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ENTERPRISE FUNDS

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

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

Governmental Enterprise Funds

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

**ENTERPRISE FUNDS
COMBINING BALANCE SHEET**

June 30, 1997

Exhibit D-1

(Dollars in Thousands)

	Public School Insurance	N.C. State Fair	USS North Carolina Battleship Commission	Agricultural Farmers Market	Indian Cultural Tourist Center	Workers' Compensation	Other Funds	Totals
ASSETS								
Current Assets:								
Cash and cash equivalents.....	\$19,808	\$ 4,098	\$ 97	\$ 637	\$ 25	\$ 5,049	\$ 66	\$29,780
Investments.....	24,143	2,527	822	391	15	3,113	40	31,051
Receivables:								
Accounts receivable.....	6,862	45	1	—	—	355	2	7,265
Interest receivable.....	44	—	—	—	—	25	—	69
Premiums receivable.....	637	—	—	—	—	—	—	637
Inventories.....	—	66	279	15	—	—	41	401
Prepaid items.....	1,569	—	71	—	—	—	—	1,640
Total current assets.....	<u>53,063</u>	<u>6,736</u>	<u>1,270</u>	<u>1,043</u>	<u>40</u>	<u>8,542</u>	<u>149</u>	<u>70,843</u>
Noncurrent Assets:								
Investments.....	—	—	541	—	—	—	—	541
Total noncurrent assets.....	<u>—</u>	<u>—</u>	<u>541</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>541</u>
Fixed Assets:								
Land.....	—	1,379	97	1,087	292	—	—	2,855
Buildings.....	—	13,154	1,115	9,217	280	—	—	23,766
Other structures and improvements.....	—	3,148	412	3,508	—	—	—	7,068
Machinery and equipment.....	—	827	1,216	264	27	—	7	2,341
Construction in progress.....	—	—	856	—	—	—	—	856
Accumulated depreciation.....	—	(9,158)	(1,451)	(3,393)	(111)	—	(7)	(14,120)
Total fixed assets.....	<u>—</u>	<u>9,350</u>	<u>2,245</u>	<u>10,683</u>	<u>488</u>	<u>—</u>	<u>—</u>	<u>22,766</u>
Total Assets.....	<u>\$53,063</u>	<u>\$16,086</u>	<u>\$ 4,056</u>	<u>\$11,726</u>	<u>\$ 528</u>	<u>\$ 8,542</u>	<u>\$149</u>	<u>\$94,150</u>
LIABILITIES AND FUND EQUITY								
Current Liabilities:								
Accounts payable and accrued liabilities:								
Accounts payable.....	\$ 3	\$ 71	\$ 34	\$ 24	\$ —	\$ 50	\$ 1	\$ 183
Accrued payroll.....	2	14	17	3	—	—	—	36
Obligations under securities lending.....	13,520	2,527	—	391	15	3,113	40	19,606
Due to other funds.....	3	7	—	—	—	—	—	10
Notes payable.....	—	—	40	—	—	—	—	40
Claims payable.....	4,904	—	—	—	—	2,962	—	7,866
Accrued vacation leave.....	47	118	41	58	—	—	1	265
Deferred revenue.....	1,722	322	—	—	—	—	—	2,044
Total current liabilities.....	<u>20,201</u>	<u>3,059</u>	<u>132</u>	<u>476</u>	<u>15</u>	<u>6,125</u>	<u>42</u>	<u>30,050</u>
Noncurrent Liabilities:								
Notes payable.....	—	—	130	—	—	—	—	130
Total noncurrent liabilities.....	<u>—</u>	<u>—</u>	<u>130</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>130</u>
Total Liabilities.....	<u>20,201</u>	<u>3,059</u>	<u>262</u>	<u>476</u>	<u>15</u>	<u>6,125</u>	<u>42</u>	<u>30,180</u>
Fund Equity:								
Contributed capital.....	—	10,705	313	13,899	599	4,500	—	30,016
Retained earnings.....	32,862	2,322	3,481	(2,649)	(86)	(2,083)	107	33,954
Total Fund Equity.....	<u>32,862</u>	<u>13,027</u>	<u>3,794</u>	<u>11,250</u>	<u>513</u>	<u>2,417</u>	<u>107</u>	<u>63,970</u>
Total Liabilities and Fund Equity.....	<u>\$53,063</u>	<u>\$16,086</u>	<u>\$ 4,056</u>	<u>\$11,726</u>	<u>\$ 528</u>	<u>\$ 8,542</u>	<u>\$149</u>	<u>\$94,150</u>

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

For the Fiscal Year Ended June 30, 1997

Exhibit D-2

(Dollars in Thousands)

	Public School Insurance	N.C. State Fair	USS North Carolina Battleship Commission	Agricultural Farmers Market	Indian Cultural Tourist Center	Workers' Compensation	Other Funds	Totals
Operating Revenues:								
Sales and services.....	\$ —	\$ 400	\$ 634	\$ 61	\$ —	\$ —	\$ 172	\$ 1,267
Investment earnings.....	3,095	—	—	—	—	427	—	3,522
Rental and lease earnings.....	—	2,516	—	410	3	—	—	2,929
Fees, licenses and fines.....	—	4,827	1,082	386	—	—	—	6,295
Insurance premiums.....	4,294	—	—	—	—	1,456	—	5,750
Miscellaneous.....	—	35	41	10	—	—	—	86
Total operating revenues.....	<u>7,389</u>	<u>7,778</u>	<u>1,757</u>	<u>867</u>	<u>3</u>	<u>1,883</u>	<u>172</u>	<u>19,849</u>
Operating Expenses:								
Personal services.....	500	3,049	724	622	—	—	24	4,919
Supplies and materials.....	5	409	16	36	—	—	—	466
Services.....	105	2,372	583	178	—	675	—	3,913
Interest.....	290	—	—	—	—	133	—	423
Cost of goods sold.....	—	—	307	—	—	—	133	440
Depreciation/amortization.....	—	632	162	617	9	—	—	1,420
Claims.....	8,006	2	—	—	—	3,304	—	11,312
Insurance and bonding.....	2,298	105	57	31	—	331	—	2,822
Other.....	33	755	27	9	—	—	—	824
Total operating expenses.....	<u>11,237</u>	<u>7,324</u>	<u>1,876</u>	<u>1,493</u>	<u>9</u>	<u>4,443</u>	<u>157</u>	<u>26,539</u>
Operating income (loss).....	<u>(3,848)</u>	<u>454</u>	<u>(119)</u>	<u>(626)</u>	<u>(6)</u>	<u>(2,560)</u>	<u>15</u>	<u>(6,690)</u>
Nonoperating Revenues (Expenses):								
Gain (loss) on sale of equipment.....	—	—	(28)	2	—	—	—	(26)
Investment earnings.....	—	—	56	—	—	—	—	56
Donations.....	—	71	43	6	—	—	—	120
Interest expense.....	—	—	(14)	—	—	—	—	(14)
Gain (loss) on sale of investments.....	—	—	49	—	—	—	—	49
Miscellaneous.....	—	23	—	—	—	—	—	23
Total nonoperating revenues (expenses).....	<u>—</u>	<u>94</u>	<u>106</u>	<u>8</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>208</u>
Income (loss) before operating transfers.....	<u>(3,848)</u>	<u>548</u>	<u>(13)</u>	<u>(618)</u>	<u>(6)</u>	<u>(2,560)</u>	<u>15</u>	<u>(6,482)</u>
Operating Transfers:								
Transfers in.....	—	—	—	120	—	—	—	120
Transfers out.....	—	(1,061)	—	(2)	—	—	—	(1,063)
Total operating transfers in (out).....	<u>—</u>	<u>(1,061)</u>	<u>—</u>	<u>118</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>(943)</u>
Net income (loss).....	<u>(3,848)</u>	<u>(513)</u>	<u>(13)</u>	<u>(500)</u>	<u>(6)</u>	<u>(2,560)</u>	<u>15</u>	<u>(7,425)</u>
Fund equity — July 1.....	36,710	13,552	3,807	11,529	519	477	92	66,686
Restatements.....	—	(12)	—	221	—	—	—	209
Increase (decrease) in contributed capital.....	—	—	—	—	—	4,500	—	4,500
Fund equity — June 30.....	<u>\$ 32,862</u>	<u>\$ 13,027</u>	<u>\$ 3,794</u>	<u>\$ 11,250</u>	<u>\$ 513</u>	<u>\$ 2,417</u>	<u>\$ 107</u>	<u>\$ 63,970</u>

**ENTERPRISE FUNDS
COMBINING STATEMENT OF CASH FLOWS**

For the Fiscal Year Ended June 30, 1997

(Dollars in Thousands)

	Public School Insurance	N.C. State Fair	USS North Carolina Battleship Commission	Agricultural Farmers Market	Indian Cultural Tourist Center	Workers' Compensation	Other Funds	Totals
Cash Provided From (Used For)								
Operations:								
Operating income (loss).....	\$ (3,848)	\$ 454	\$ (119)	\$ (626)	\$ (6)	\$ (2,560)	\$ 15	\$ (6,690)
Adjustments to reconcile operating income to net cash flows from operating activities:								
Depreciation/amortization.....	—	632	162	617	9	—	—	1,420
Investment earnings.....	(3,095)	—	—	—	—	(427)	—	(3,522)
Securities lending fees.....	290	—	—	—	—	133	—	423
Nonoperating miscellaneous income/expense.....	—	23	—	—	—	—	—	23
(Increases) decreases in assets:								
Receivables.....	(6,845)	18	11	—	—	(355)	(2)	(7,173)
Inventories.....	—	(7)	(92)	(4)	—	—	(2)	(105)
Prepaid items.....	64	—	(5)	—	—	—	—	59
Increases (decreases) in liabilities:								
Accounts payable and accrued liabilities.....	(38)	(39)	(37)	18	—	50	(13)	(59)
Due to other funds.....	3	1	—	(1)	—	—	—	3
Claims payable.....	3,468	—	—	—	—	2,962	—	6,430
Accrued vacation leave.....	2	9	6	8	—	—	1	26
Deferred revenue.....	(31)	55	—	—	—	—	—	24
Total cash provided from (used for) operations.....	<u>(10,030)</u>	<u>1,146</u>	<u>(74)</u>	<u>12</u>	<u>3</u>	<u>(197)</u>	<u>(1)</u>	<u>(9,141)</u>
Cash Provided From (Used For)								
Noncapital Financing Activities:								
Operating transfers in.....	—	—	—	120	—	—	—	120
Operating transfers out.....	—	(1,061)	—	(2)	—	—	—	(1,063)
Increase in contributed capital.....	—	—	—	—	—	4,500	—	4,500
Nonoperating cash donations.....	—	71	43	6	—	—	—	120
Total cash provided from (used for) noncapital financing activities.....	<u>—</u>	<u>(990)</u>	<u>43</u>	<u>124</u>	<u>—</u>	<u>4,500</u>	<u>—</u>	<u>3,677</u>

**ENTERPRISE FUNDS
COMBINING STATEMENT OF CASH FLOWS**

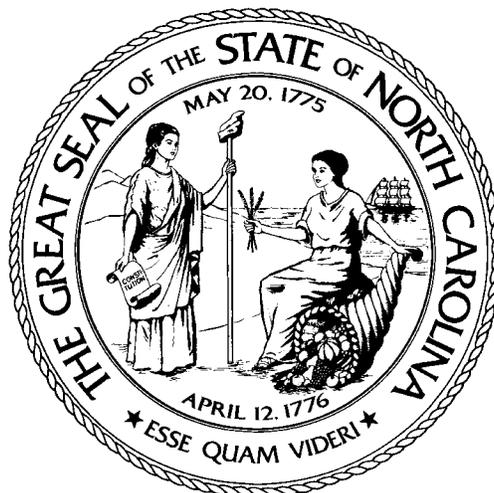
For the Fiscal Year Ended June 30, 1997

Exhibit D-3

(Dollars in Thousands)

	Public School Insurance	N.C. State Fair	USS North Carolina Battleship Commission	Agricultural Farmers Market	Indian Cultural Tourist Center	Workers' Compensation	Other Funds	Totals
Cash Provided From (Used For)								
Capital Financing Activities:								
Acquisition of fixed assets.....	—	(45)	(193)	(28)	—	—	—	(266)
Proceeds from the sale of fixed assets.....	—	—	1	3	—	—	—	4
Repayment of bond/note principal.....	—	—	(30)	—	—	—	—	(30)
Interest payments on bonds and notes.....	—	—	(14)	—	—	—	—	(14)
Total cash provided from (used for) capital financing activities.....	—	(45)	(236)	(25)	—	—	—	(306)
Cash Provided From (Used For)								
Investment Activities:								
Proceeds from the sale/maturities of non-State Treasurer investments.....	—	—	569	—	—	—	—	569
Redemptions from the State Treasurer Long-Term Investment Pool.....	26,000	—	—	—	—	—	—	26,000
Purchase of non-State Treasurer investments.....	—	—	(439)	—	—	—	—	(439)
Investment earnings.....	383	—	56	—	—	270	—	709
Total cash provided from (used for) investment activities.....	26,383	—	186	—	—	270	—	26,839
Net increase (decrease) in cash and cash equivalents.....	16,353	111	(81)	111	3	4,573	(1)	21,069
Cash and cash equivalents at July 1.....	3,455	3,987	178	526	22	476	67	8,711
Cash and cash equivalents at June 30.....	<u>\$ 19,808</u>	<u>\$ 4,098</u>	<u>\$ 97</u>	<u>\$ 637</u>	<u>\$ 25</u>	<u>\$ 5,049</u>	<u>\$ 66</u>	<u>\$ 29,780</u>
Noncash Investing, Capital, and Financing Activities:								
Noncash distributions from the State Treasurer Long-Term Investment Pool.....	\$ 2,395	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 2,395
Transfer of fixed asset.....	—	—	—	221	—	—	—	221
Prior period adjustment.....	—	12	—	—	—	—	—	12
Assets acquired through the assumption of a liability.....	13,520	2,527	—	391	15	3,113	40	6,086

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INTERNAL SERVICE FUNDS

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

The following activities are included in the internal service funds:

State Health Plan

State Telecommunications
Applications Development Services
Decentralized Computing Services

Disability Income Plan of North Carolina

Death Benefit Plan of North Carolina

Other Funds:

State Property Fire Insurance Fund

Self-insurance fund for State agencies and certain component units

Clerk of Supreme Court:
Printing Department

Central Governmental Services:

Department of Correction:
Prison Enterprises

Cherry Hospital:
Auxiliary Services (laundry)

Department of Administration:

Motor Fleet Management
Courier Service
Temporary Solutions

John Umstead Hospital:
Auxiliary Services

Department of Administration:

Administration of State and Federal Surplus Property

Office of the State Controller:

North Carolina Information Highway
Centralized Computing Services

INTERNAL SERVICE FUNDS COMBINING BALANCE SHEET

June 30, 1997

(Dollars in Thousands)

	State Health Plan	Disability Income Plan of N.C.	Death Benefit Plan of N.C.	State Property Fire Insurance	Prison Enterprises	Motor Fleet Management	Courier Service	Temporary Solutions
ASSETS								
Current Assets:								
Cash and cash equivalents.....	\$384,924	\$ 1,808	\$ 4,213	\$ 8,196	\$ 15,606	\$ 4,298	\$ 120	\$ 1,042
Investments.....	242,965	166,167	156,167	21,885	6,657	2,226	62	489
Receivables:								
Accounts receivable.....	2,261	2,078	46	—	2,905	2,426	155	601
Intergovernmental receivables.....	—	—	—	—	370	—	—	—
Interest receivable.....	2,086	15	17	42	—	—	—	—
Premiums receivable.....	1,067	—	—	52	—	—	—	—
Contributions.....	—	3,646	1,322	—	—	—	—	—
Due from other funds.....	—	—	—	—	5,945	2,411	—	27
Due from component units.....	—	—	—	—	52	274	—	—
Inventories.....	—	—	—	—	11,462	95	—	—
Prepaid items.....	—	—	—	—	—	—	—	—
Total current assets.....	<u>633,303</u>	<u>173,714</u>	<u>161,765</u>	<u>30,175</u>	<u>42,997</u>	<u>11,730</u>	<u>337</u>	<u>2,159</u>
Noncurrent Assets:								
Accounts receivable.....	—	—	—	—	—	—	—	—
Total noncurrent assets.....	—	—	—	—	—	—	—	—
Fixed Assets:								
Land.....	—	—	—	—	250	406	—	—
Buildings.....	—	—	—	—	21,375	1,261	—	—
Other structures and improvements....	—	—	—	—	1,631	377	—	—
Machinery and equipment.....	19	—	—	—	19,227	109,118	47	—
Construction in progress.....	—	—	—	—	3,260	—	—	—
Accumulated depreciation.....	(11)	—	—	—	(17,755)	(34,358)	(19)	—
Total fixed assets.....	<u>8</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>27,988</u>	<u>76,804</u>	<u>28</u>	<u>—</u>
Total Assets.....	<u>\$633,311</u>	<u>\$173,714</u>	<u>\$161,765</u>	<u>\$ 30,175</u>	<u>\$ 70,985</u>	<u>\$ 88,534</u>	<u>\$ 365</u>	<u>\$ 2,159</u>
LIABILITIES AND FUND EQUITY								
Liabilities:								
Current Liabilities:								
Accounts payable and accrued liabilities:								
Accounts payable.....	\$ 4,671	\$ —	\$ —	\$ —	\$ 2,201	\$ 791	\$ 4	\$ —
Accrued payroll.....	—	—	—	—	52	—	39	399
Obligations under securities lending...	242,965	19,454	19,661	6,979	6,657	2,226	62	489
Due to other funds.....	1	—	—	498	12	519	43	1
Due to component units.....	—	—	—	2,197	—	—	—	—
Claims and benefits payable.....	111,334	211,382	2,420	468	—	—	—	—
Deposits payable.....	—	—	—	—	—	—	—	—
Accrued vacation leave.....	41	—	—	—	1,034	79	68	9
Deferred revenue.....	431	—	—	2,571	51	—	—	—
Total current liabilities.....	<u>359,443</u>	<u>230,836</u>	<u>22,081</u>	<u>12,713</u>	<u>10,007</u>	<u>3,615</u>	<u>216</u>	<u>898</u>
Total Liabilities.....	<u>359,443</u>	<u>230,836</u>	<u>22,081</u>	<u>12,713</u>	<u>10,007</u>	<u>3,615</u>	<u>216</u>	<u>898</u>
Fund Equity:								
Contributed capital.....	—	—	—	—	19,288	16,402	—	—
Retained earnings.....	273,868	(57,122)	139,684	17,462	41,690	68,517	149	1,261
Total Fund Equity.....	<u>273,868</u>	<u>(57,122)</u>	<u>139,684</u>	<u>17,462</u>	<u>60,978</u>	<u>84,919</u>	<u>149</u>	<u>1,261</u>
Total Liabilities and Fund Equity.....	<u>\$633,311</u>	<u>\$173,714</u>	<u>\$161,765</u>	<u>\$ 30,175</u>	<u>\$ 70,985</u>	<u>\$ 88,534</u>	<u>\$ 365</u>	<u>\$ 2,159</u>

Exhibit E-1

N. C. Information Highway	Centralized Computing Services	State Telecommu- nications Services	Applications Development Services	Decen- tralized Computing Services	Clerk of Supreme Court Printing Department	Cherry Hospital Auxiliary Services	John Umstead Hospital Auxiliary Services	Surplus Property	Totals
\$ 913	\$ 22,120	\$ 20,821	\$ 854	\$ 1,735	\$ 156	\$ 347	\$ 2,257	\$ 3,822	\$ 473,232
559	13,016	11,413	501	1,051	300	216	1,403	2,014	627,091
420	665	2,795	287	123	73	30	233	56	15,154
—	—	—	—	—	—	—	—	—	370
—	—	—	—	—	—	—	—	—	2,160
—	—	—	—	—	—	—	—	—	1,119
—	—	—	—	—	—	—	—	—	4,968
6	6,606	3,168	504	435	—	—	—	—	19,102
—	23	885	—	—	—	—	—	—	1,234
—	81	—	—	—	57	54	288	—	12,037
—	160	1	4	38	—	—	—	—	203
<u>1,898</u>	<u>42,671</u>	<u>39,083</u>	<u>2,150</u>	<u>3,382</u>	<u>586</u>	<u>647</u>	<u>4,181</u>	<u>5,892</u>	<u>1,156,670</u>
—	1	—	—	—	—	—	—	—	1
—	1	—	—	—	—	—	—	—	1
—	2,861	—	—	—	—	—	—	19	3,536
—	9,013	—	—	—	—	2,349	2,377	225	36,600
—	19	—	—	—	—	—	10,145	36	12,208
161	70,882	15,412	458	746	47	1,465	1,363	443	219,388
—	—	—	—	—	—	—	—	—	3,260
(125)	(42,378)	(12,011)	(455)	(317)	(33)	(2,442)	(5,570)	(557)	(116,031)
<u>36</u>	<u>40,397</u>	<u>3,401</u>	<u>3</u>	<u>429</u>	<u>14</u>	<u>1,372</u>	<u>8,315</u>	<u>166</u>	<u>158,961</u>
<u>\$ 1,934</u>	<u>\$ 83,069</u>	<u>\$ 42,484</u>	<u>\$ 2,153</u>	<u>\$ 3,811</u>	<u>\$ 600</u>	<u>\$ 2,019</u>	<u>\$ 12,496</u>	<u>\$ 6,058</u>	<u>\$ 1,315,632</u>
\$ —	\$ 425	\$ 469	\$ 141	\$ 27	\$ 9	\$ —	\$ 70	\$ 1,393	\$ 10,201
1	34	25	2	7	—	—	5	1	565
559	13,016	11,413	501	1,051	—	216	1,403	2,014	328,666
2	1,325	65	6	57	—	—	—	217	2,746
—	—	—	—	—	—	—	—	—	2,197
—	—	—	—	—	—	—	—	—	325,604
—	—	—	—	—	—	—	61	—	61
43	500	275	224	117	4	92	133	60	2,679
—	—	—	—	—	—	11	—	—	3,064
<u>605</u>	<u>15,300</u>	<u>12,247</u>	<u>874</u>	<u>1,259</u>	<u>13</u>	<u>319</u>	<u>1,672</u>	<u>3,685</u>	<u>675,783</u>
<u>605</u>	<u>15,300</u>	<u>12,247</u>	<u>874</u>	<u>1,259</u>	<u>13</u>	<u>319</u>	<u>1,672</u>	<u>3,685</u>	<u>675,783</u>
—	5,935	1,223	15	6	—	3,284	12,338	315	58,806
1,329	61,834	29,014	1,264	2,546	587	(1,584)	(1,514)	2,058	581,043
<u>1,329</u>	<u>67,769</u>	<u>30,237</u>	<u>1,279</u>	<u>2,552</u>	<u>587</u>	<u>1,700</u>	<u>10,824</u>	<u>2,373</u>	<u>639,849</u>
<u>\$ 1,934</u>	<u>\$ 83,069</u>	<u>\$ 42,484</u>	<u>\$ 2,153</u>	<u>\$ 3,811</u>	<u>\$ 600</u>	<u>\$ 2,019</u>	<u>\$ 12,496</u>	<u>\$ 6,058</u>	<u>\$ 1,315,632</u>

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

For the Fiscal Year Ended June 30, 1997

(Dollars in Thousands)

	State Health Plan	Disability Income Plan of N.C.	Death Benefit Plan of N.C.	State Property Fire Insurance	Prison Enterprises	Motor Fleet Management	Courier Service	Temporary Solutions
Operating Revenues:								
Sales and services.....	\$ 13,978	\$ —	\$ —	\$ —	\$ 71,718	\$ 30,540	\$1,534	\$ 6,616
Investment earnings.....	37,046	12,378	11,423	2,255	—	—	—	—
Rental and lease earnings.....	—	—	—	—	—	7	—	—
Fees, licenses and fines.....	—	—	1,030	—	—	—	—	—
Contributions.....	—	40,310	21,708	—	—	—	—	—
Insurance premiums.....	574,298	—	—	11,182	—	—	—	—
Miscellaneous:								
Other.....	3	—	—	522	620	414	2	—
Total operating revenues.....	<u>625,325</u>	<u>52,688</u>	<u>34,161</u>	<u>13,959</u>	<u>72,338</u>	<u>30,961</u>	<u>1,536</u>	<u>6,616</u>
Operating Expenses:								
Personal services.....	562	—	—	1,059	15,703	1,383	1,448	5,961
Supplies and materials.....	37	—	—	6	4,195	7,500	78	1
Services.....	16,090	302	119	92	3,299	525	551	12
Interest.....	11,565	632	606	392	—	—	—	—
Cost of goods sold.....	—	—	—	—	35,327	933	—	—
Depreciation.....	4	—	—	—	1,988	11,213	9	—
Claims and benefits.....	574,678	83,509	20,624	4,925	3	—	—	—
Insurance and bonding.....	—	—	—	8,896	277	1,854	—	—
Other.....	123	—	—	105	1,908	44	20	8
Total operating expenses.....	<u>603,059</u>	<u>84,443</u>	<u>21,349</u>	<u>15,475</u>	<u>62,700</u>	<u>23,452</u>	<u>2,106</u>	<u>5,982</u>
Operating income (loss).....	<u>22,266</u>	<u>(31,755)</u>	<u>12,812</u>	<u>(1,516)</u>	<u>9,638</u>	<u>7,509</u>	<u>(570)</u>	<u>634</u>
Nonoperating Revenues (Expenses):								
Gain (loss) on sale of property and equipment.....	(2)	—	—	—	3	472	—	—
Investment earnings.....	—	—	—	—	—	—	—	—
Miscellaneous.....	—	—	—	—	11	—	—	—
Total nonoperating revenues (expenses)....	<u>(2)</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>14</u>	<u>472</u>	<u>—</u>	<u>—</u>
Income (loss) before operating transfers....	<u>22,264</u>	<u>(31,755)</u>	<u>12,812</u>	<u>(1,516)</u>	<u>9,652</u>	<u>7,981</u>	<u>(570)</u>	<u>634</u>
Operating Transfers:								
Transfers in.....	—	—	—	—	—	—	—	—
Transfers out.....	—	—	—	—	(1,632)	—	(12)	—
Total operating transfers in (out).....	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>(1,632)</u>	<u>—</u>	<u>(12)</u>	<u>—</u>
Net income (loss).....	22,264	(31,755)	12,812	(1,516)	8,020	7,981	(582)	634
Fund equity — July 1.....	251,604	147,504	126,872	18,978	52,958	76,938	726	627
Restatements.....	—	(172,871)	—	—	—	—	5	—
Increases (decreases) in contributed capital.....	—	—	—	—	—	—	—	—
Fund equity — June 30.....	<u>\$273,868</u>	<u>\$ (57,122)</u>	<u>\$139,684</u>	<u>\$ 17,462</u>	<u>\$ 60,978</u>	<u>\$ 84,919</u>	<u>\$ 149</u>	<u>\$ 1,261</u>

Exhibit E-2

N. C. Information Highway	Centralized Computing Services	State Telecommunications Services	Applications Development Services	Decentralized Computing Services	Clerk of Supreme Court Printing Department	Cherry Hospital Auxiliary Services	John Umstead Hospital Auxiliary Services	Surplus Property	Totals
\$ 5,919	\$42,974	\$53,684	\$ 5,154	\$ 2,745	\$ 458	\$ 1,398	\$ 3,070	\$ 1,509	\$ 241,297
—	—	—	—	—	—	—	—	—	63,102
—	—	—	—	—	—	—	—	23	30
—	3	1	—	—	—	—	25	—	1,059
—	—	—	—	—	—	—	—	—	62,018
—	—	—	—	—	—	—	—	—	585,480
—	—	196	—	—	32	—	—	37	1,826
<u>5,919</u>	<u>42,977</u>	<u>53,881</u>	<u>5,154</u>	<u>2,745</u>	<u>490</u>	<u>1,398</u>	<u>3,095</u>	<u>1,569</u>	<u>954,812</u>
406	5,842	4,628	3,169	1,773	160	1,183	1,375	847	45,499
2	570	66	13	16	52	101	599	52	13,288
5,295	6,139	36,465	1,711	935	46	180	403	333	72,497
—	—	—	—	—	—	—	—	—	13,195
—	—	—	—	—	—	—	—	—	36,260
52	11,905	1,686	18	180	—	86	631	35	27,807
—	—	—	—	—	—	—	—	—	683,739
1	88	20	2	2	2	3	—	13	11,158
23	13,344	5,707	153	533	337	3	229	23	22,560
<u>5,779</u>	<u>37,888</u>	<u>48,572</u>	<u>5,066</u>	<u>3,439</u>	<u>597</u>	<u>1,556</u>	<u>3,237</u>	<u>1,303</u>	<u>926,003</u>
<u>140</u>	<u>5,089</u>	<u>5,309</u>	<u>88</u>	<u>(694)</u>	<u>(107)</u>	<u>(158)</u>	<u>(142)</u>	<u>266</u>	<u>28,809</u>
—	(275)	(69)	—	—	—	—	—	321	450
—	—	—	—	—	27	—	—	—	27
—	5	4	—	—	—	—	—	—	20
—	(270)	(65)	—	—	27	—	—	321	497
<u>140</u>	<u>4,819</u>	<u>5,244</u>	<u>88</u>	<u>(694)</u>	<u>(80)</u>	<u>(158)</u>	<u>(142)</u>	<u>587</u>	<u>29,306</u>
1,082	—	—	—	—	—	—	18	—	1,100
—	(9,263)	(2)	(1)	(1)	—	—	(239)	—	(11,150)
<u>1,082</u>	<u>(9,263)</u>	<u>(2)</u>	<u>(1)</u>	<u>(1)</u>	<u>—</u>	<u>—</u>	<u>(221)</u>	<u>—</u>	<u>(10,050)</u>
1,222	(4,444)	5,242	87	(695)	(80)	(158)	(363)	587	19,256
107	72,213	24,995	1,934	2,505	667	1,858	11,390	1,786	793,662
—	—	—	(742)	742	—	—	—	—	(172,866)
—	—	—	—	—	—	—	(203)	—	(203)
<u>\$ 1,329</u>	<u>\$67,769</u>	<u>\$30,237</u>	<u>\$ 1,279</u>	<u>\$ 2,552</u>	<u>\$ 587</u>	<u>\$ 1,700</u>	<u>\$10,824</u>	<u>\$ 2,373</u>	<u>\$ 639,849</u>

INTERNAL SERVICE FUNDS COMBINING STATEMENT OF CASH FLOWS

For the Fiscal Year Ended June 30, 1997

(Dollars in Thousands)

	State Health Plan	Disability Income Plan of N.C.	Death Benefit Plan of N.C.	State Property Fire Insurance	Prison Enterprises	Motor Fleet Management	Courier Service	Temporary Solutions
Cash Provided From (Used For)								
Operations:								
Operating income (loss).....	\$ 22,266	\$ (31,755)	\$ 12,812	\$ (1,516)	\$ 9,638	\$ 7,509	\$ (570)	\$ 634
Adjustments to reconcile operating income to net cash flows from operating activities:								
Depreciation.....	4	—	—	—	1,988	11,213	9	—
Investment earnings.....	(37,046)	(12,378)	(11,423)	(2,255)	—	—	—	—
Securities lending transaction fees...	11,565	632	606	392	—	—	—	—
Restatements and and adjustments to cash.....	—	—	—	—	—	—	5	—
Depreciation allocated to other funds purchased in cash.....	—	—	—	—	—	—	—	—
Nonoperating miscellaneous income.....	—	—	—	—	11	—	—	—
(Increases) decreases in assets:								
Receivables.....	513	(390)	(62)	(27)	(1,927)	(624)	11	(466)
Due from other funds.....	—	—	—	—	898	(243)	—	96
Due from component units.....	—	—	—	—	(29)	88	—	—
Inventories.....	—	—	—	—	2,859	21	—	—
Prepaid items.....	—	—	—	—	—	—	—	—
Increases (decreases) in liabilities:								
Accounts payable and accrued liabilities.....	(130)	—	—	—	155	313	(44)	40
Due to other funds.....	1	—	—	(696)	(327)	(158)	43	1
Due to component units.....	—	—	—	1,634	—	—	—	—
Claims and benefits payable.....	(5,803)	38,411	(2)	91	—	—	—	—
Accrued vacation leave.....	—	—	—	—	88	5	13	—
Deferred revenue.....	(163)	—	—	643	21	—	—	—
Total cash provided from (used for) operations.....	<u>(8,793)</u>	<u>(5,480)</u>	<u>1,931</u>	<u>(1,734)</u>	<u>13,375</u>	<u>18,124</u>	<u>(533)</u>	<u>305</u>
Cash Provided From (Used For)								
Noncapital Financing Activities:								
Operating transfers in.....	—	—	—	—	—	—	—	—
Operating transfers out.....	—	—	—	—	(1,353)	—	(12)	—
Total cash provided from (used for) noncapital financing activities.....	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>(1,353)</u>	<u>—</u>	<u>(12)</u>	<u>—</u>
Cash Provided From (Used For)								
Capital Financing Activities:								
Acquisition of fixed assets.....	(11)	—	—	—	(3,341)	(21,113)	—	—
Proceeds from the sale of fixed assets...	—	—	—	—	6	3,432	—	—
Operating transfers out.....	—	—	—	—	(279)	—	—	—
Decrease in contributed capital.....	—	—	—	—	—	—	—	—
Total cash provided from (used for) capital financing activities.....	<u>(11)</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>(3,614)</u>	<u>(17,681)</u>	<u>—</u>	<u>—</u>

Exhibit E-3

N. C. Information Highway	Centralized Computing Services	State Telecommu- nications Services	Applications Development Services	Decen- tralized Computing Services	Clerk of Supreme Court Printing Department	Cherry Hospital Auxiliary Services	John Umstead Hospital Auxiliary Services	Surplus Property	Totals
\$ 140	\$ 5,089	\$ 5,309	\$ 88	\$ (694)	\$ (107)	\$ (158)	\$ (142)	\$ 266	\$ 28,809
52	11,905	1,686	18	180	—	86	631	35	27,807
—	—	—	—	—	—	—	—	—	(63,102)
—	—	—	—	—	—	—	—	—	13,195
—	—	—	(742)	742	—	—	—	—	5
(2)	48	(27)	(9)	(10)	—	—	—	—	—
—	5	4	—	—	—	—	—	—	20
112	3,301	(2,165)	84	(16)	(20)	49	30	25	(1,572)
45	(4,686)	1,968	(24)	(78)	—	—	—	—	(2,024)
—	(18)	(492)	—	—	—	—	—	—	(451)
—	(18)	—	—	—	(16)	(11)	43	—	2,878
—	680	(1)	(2)	91	—	—	—	—	768
—	(308)	(90)	40	(7)	3	(27)	(21)	47	(29)
(592)	(64)	17	(50)	41	—	—	—	210	(1,574)
—	—	—	—	—	—	—	—	—	1,634
—	—	—	—	—	—	—	—	—	32,697
9	71	57	71	31	(1)	15	(10)	(1)	348
—	—	—	—	—	—	10	—	—	511
(236)	16,005	6,266	(526)	280	(141)	(36)	531	582	39,920
1,082	—	—	—	—	—	—	18	—	1,100
—	(9,263)	(2)	(1)	(1)	—	—	—	—	(10,632)
1,082	(9,263)	(2)	(1)	(1)	—	—	18	—	(9,532)
—	(7,170)	(964)	—	(350)	(14)	—	(7)	(49)	(33,019)
—	1	40	—	—	—	—	—	402	3,881
—	—	—	—	—	—	—	(239)	—	(518)
—	—	—	—	—	—	—	(24)	—	(24)
—	(7,169)	(924)	—	(350)	(14)	—	(270)	353	(29,680)

Continued

INTERNAL SERVICE FUNDS
COMBINING STATEMENT OF CASH FLOWS (continued)

For the Fiscal Year Ended June 30, 1997

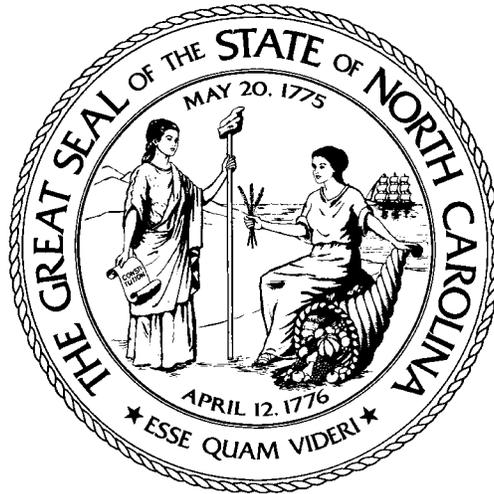
(Dollars in Thousands)

	State Health Plan	Disability Income Plan of N.C.	Death Benefit Plan of N.C.	State Property Fire Insurance	Prison Enterprises	Motor Fleet Management	Courier Service	Temporary Solutions
Cash Provided From (Used For)								
Investment Activities:								
Proceeds from the sale/maturities of non-State Treasurer investments.....	—	—	—	—	—	—	—	—
Redemptions from the State Treasurer Long-Term Investment Pool.....	—	4,000	—	—	—	—	—	—
Purchase into State Treasurer Long-Term Investment Pool.....	—	—	(1,000)	—	—	—	—	—
Investment earnings.....	25,472	193	207	702	—	—	—	—
Total cash provided from (used for) investment activities.....	25,472	4,193	(793)	702	—	—	—	—
Net increase (decrease) in cash and cash equivalents.....	16,668	(1,287)	1,138	(1,032)	8,408	443	(545)	305
Cash and cash equivalents at July 1.....	368,256	3,095	3,075	9,228	7,198	3,855	665	737
Cash and cash equivalents at June 30...	\$ 384,924	\$ 1,808	\$ 4,213	\$ 8,196	\$ 15,606	\$ 4,298	\$ 120	\$ 1,042
Noncash Investing, Capital, and Financing Activities:								
Noncash distributions from the State Treasurer Long-Term Investment Pool.....								
	\$ —	\$ —	\$ —	\$ 1,163	\$ —	\$ —	\$ —	\$ —
Decrease in contributed capital.....	—	—	—	—	—	—	—	—
Assets acquired through the assumption of a liability.....	242,965	19,454	19,661	6,979	6,657	2,226	62	489

Exhibit E-3

N. C. Information Highway	Centralized Computing Services	State Telecommu- nications Services	Applications Development Services	Decen- tralized Computing Services	Supreme Court Printing Department	Cherry Hospital Auxiliary Services	Umstead Hospital Auxiliary Services	Surplus Property	Totals
—	—	—	—	—	3	—	—	—	3
—	—	—	—	—	—	—	—	—	4,000
—	—	—	—	—	—	—	—	—	(1,000)
—	—	—	—	—	27	—	—	—	26,601
—	—	—	—	—	30	—	—	—	29,604
846	(427)	5,340	(527)	(71)	(125)	(36)	279	935	30,312
67	22,547	15,481	1,381	1,806	281	383	1,978	2,887	442,920
<u>\$ 913</u>	<u>\$ 22,120</u>	<u>\$ 20,821</u>	<u>\$ 854</u>	<u>\$ 1,735</u>	<u>\$ 156</u>	<u>\$ 347</u>	<u>\$ 2,257</u>	<u>\$ 3,822</u>	<u>\$ 473,232</u>

\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 1,163
—	—	—	—	—	—	—	(179)	—	(179)
559	13,044	11,420	501	1,051	—	216	1,403	2,014	328,701



TRUST AND AGENCY FUNDS

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

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

Expendable Trusts

Expendable trust funds consist of various trust funds administered by the State, including significant funds for unemployment compensation, the Escheat Fund, the 401(k) Supplemental Retirement Income Fund, the Recreation and Natural Heritage Trust Fund, and numerous departmental trusts. These funds are accounted for using the modified accrual basis of accounting.

Nonexpendable Trusts

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

Pension Trusts

The pension trust funds reflect the activities of the six retirement systems administered by the State. These funds are accounted for using the accrual basis of accounting.

Agency Funds

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

**TRUST AND AGENCY FUNDS
COMBINING BALANCE SHEET**

June 30, 1997

Exhibit F-1

(Dollars in Thousands)

	Expendable Trust Funds	Nonexpendable Trust Funds	Pension Trust Funds	Agency Funds	Totals
ASSETS					
Cash and cash equivalents.....	\$ 389,663	\$ 81,508	\$ 47,927	\$ 826,349	\$ 1,345,447
Investments.....	1,284,958	87,599	44,132,774	730,257	46,235,588
Deposit with Federal government.....	1,296,122	—	—	—	1,296,122
Receivables:					
Taxes receivable.....	90,163	—	—	85,241	175,404
Accounts receivable.....	12,707	3	358	9,433	22,501
Intergovernmental receivables.....	1,819	—	—	6,290	8,109
Interest receivable.....	1,305	1,408	716	1,296	4,725
Contributions receivable.....	7,767	—	117,359	680	125,806
Due from other funds.....	689	—	—	3,477	4,166
Advance to component units.....	25,000	—	—	—	25,000
Notes receivable.....	72,560	232,585	—	—	305,145
Inventories.....	1,032	—	—	301	1,333
Sureties.....	—	—	—	487,810	487,810
Total Assets.....	<u>\$ 3,183,785</u>	<u>\$ 403,103</u>	<u>\$ 44,299,134</u>	<u>\$ 2,151,134</u>	<u>\$ 50,037,156</u>
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts payable and accrued liabilities:					
Accounts payable.....	\$ 3,525	\$ 1	\$ —	\$ 661	\$ 4,187
Accrued payroll.....	43	—	—	—	43
Intergovernmental payables.....	1,031	328	—	756,434	757,793
Due to plan participants.....	—	—	—	425,514	425,514
Obligations under securities lending.....	181,215	47,972	2,649,511	236,949	3,115,647
Due to other funds.....	26	—	—	13,728	13,754
Due to component units.....	11,763	—	—	—	11,763
Claims and benefits payable.....	21,307	—	334	19,520	41,161
Deposits payable.....	7	—	—	698,328	698,335
Deferred revenue.....	53,023	—	—	—	53,023
Total Liabilities.....	<u>271,940</u>	<u>48,301</u>	<u>2,649,845</u>	<u>2,151,134</u>	<u>5,121,220</u>
Fund Balances:					
Reserved for:					
Inventories.....	1,031	—	—	—	1,031
Advances to component units.....	25,000	—	—	—	25,000
Claims and benefits.....	1,159,864	—	—	—	1,159,864
Notes receivable.....	—	231,691	—	—	231,691
Loan and grant commitments.....	—	54,434	—	—	54,434
Abandoned property.....	140,530	—	—	—	140,530
Political parties.....	125	—	—	—	125
Wildlife endowment.....	—	34,964	—	—	34,964
Retirement programs.....	—	—	41,649,289	—	41,649,289
Energy conservation.....	1,897	—	—	—	1,897
Other purposes.....	559	—	—	—	559
Unreserved:					
Undesignated.....	1,582,839	33,713	—	—	1,616,552
Total Fund Balances.....	<u>2,911,845</u>	<u>354,802</u>	<u>41,649,289</u>	<u>—</u>	<u>44,915,936</u>
Total Liabilities and Fund Balances.....	<u>\$ 3,183,785</u>	<u>\$ 403,103</u>	<u>\$ 44,299,134</u>	<u>\$ 2,151,134</u>	<u>\$ 50,037,156</u>

**EXPENDABLE TRUST FUNDS
COMBINING BALANCE SHEET**

June 30, 1997

Exhibit F-2

(Dollars in Thousands)

	Unemployment Compensation Funds	Escheat Fund	401(k) Supplemental Retirement Income Plan	Recreation and Natural Heritage Trust Fund	Other Funds	Totals
ASSETS						
Cash and cash equivalents.....	\$ 214,368	\$ 12,213	\$ 127,018	\$ 10,016	\$ 26,048	\$ 389,663
Investments.....	132,180	175,285	947,054	6,189	24,250	1,284,958
Deposit with Federal government.....	1,296,122	—	—	—	—	1,296,122
Receivables:						
Taxes receivable.....	90,163	—	—	—	—	90,163
Accounts receivable.....	12,323	—	—	—	384	12,707
Intergovernmental receivables.....	1,819	—	—	—	—	1,819
Interest receivable.....	1,105	69	—	69	62	1,305
Contributions receivable.....	—	—	7,647	—	120	7,767
Due from other funds.....	73	—	—	196	420	689
Advance to component units.....	—	25,000	—	—	—	25,000
Notes receivable.....	—	—	72,560	—	—	72,560
Inventories.....	—	—	—	—	1,032	1,032
Total Assets.....	<u>\$ 1,748,153</u>	<u>\$ 212,567</u>	<u>\$ 1,154,279</u>	<u>\$ 16,470</u>	<u>\$ 52,316</u>	<u>\$ 3,183,785</u>
LIABILITIES AND FUND BALANCES						
Liabilities:						
Accounts payable and accrued liabilities:						
Accounts payable.....	\$ 1,905	\$ —	\$ 1,165	\$ —	\$ 455	\$ 3,525
Accrued payroll.....	—	—	—	—	43	43
Intergovernmental payables.....	688	—	—	—	343	1,031
Obligations under securities lending.	132,180	26,170	—	6,189	16,676	181,215
Due to other funds.....	—	—	—	—	26	26
Due to component units.....	—	11,763	—	—	—	11,763
Claims and benefits payable.....	12,740	8,567	—	—	—	21,307
Deposits payable.....	—	—	—	—	7	7
Deferred revenue.....	52,333	537	—	—	153	53,023
Total Liabilities.....	<u>199,846</u>	<u>47,037</u>	<u>1,165</u>	<u>6,189</u>	<u>17,703</u>	<u>271,940</u>
Fund Balances:						
Reserved for:						
Inventories.....	—	—	—	—	1,031	1,031
Advances to component units.....	—	25,000	—	—	—	25,000
Claims and benefits.....	—	—	1,153,114	—	6,750	1,159,864
Abandoned property.....	—	140,530	—	—	—	140,530
Political parties.....	—	—	—	—	125	125
Energy conservation.....	—	—	—	—	1,897	1,897
Other purposes.....	—	—	—	—	559	559
Unreserved:						
Undesignated.....	1,548,307	—	—	10,281	24,251	1,582,839
Total Fund Balances.....	<u>1,548,307</u>	<u>165,530</u>	<u>1,153,114</u>	<u>10,281</u>	<u>34,613</u>	<u>2,911,845</u>
Total Liabilities and Fund Balances..	<u>\$ 1,748,153</u>	<u>\$ 212,567</u>	<u>\$ 1,154,279</u>	<u>\$ 16,470</u>	<u>\$ 52,316</u>	<u>\$ 3,183,785</u>

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

For the Fiscal Year Ended June 30, 1997

Exhibit F-3

(Dollars in Thousands)

	Unemployment Compensation Funds	Escheat Fund	401(k) Supplemental Retirement Income Plan	Recreation and Natural Heritage Trust Fund	Other Funds	Totals
Revenues:						
Taxes.....	\$ 174,284	\$ —	\$ —	\$ 6,019	\$ 198	\$ 180,501
Federal funds.....	10,859	—	—	—	—	10,859
Local funds.....	—	—	—	—	104	104
Investment earnings.....	109,758	14,366	100,183	969	2,012	227,288
Interest earnings on loans.....	—	—	5,825	—	—	5,825
Sales and services.....	—	—	—	—	28,050	28,050
Sale, rental and lease of property.....	—	—	—	—	448	448
Fees, licenses and fines.....	—	—	1,769	1,930	5,166	8,865
Contributions.....	1,154	—	143,289	—	2,020	146,463
Funds escheated.....	—	19,322	—	—	—	19,322
Miscellaneous.....	—	—	—	—	526	526
Total revenues.....	<u>296,055</u>	<u>33,688</u>	<u>251,066</u>	<u>8,918</u>	<u>38,524</u>	<u>628,251</u>
Expenditures:						
Current:						
General government.....	—	2,603	5,714	—	743	9,060
Education.....	—	—	—	—	15,391	15,391
Human resources.....	—	—	—	—	1,254	1,254
Environment, health and natural resources.....	—	—	—	326	110	436
Public safety and corrections.....	—	—	—	—	26,783	26,783
Agriculture.....	—	—	—	—	4,853	4,853
Claims and benefits.....	394,340	—	47,084	—	1,380	442,804
Total expenditures.....	<u>394,340</u>	<u>2,603</u>	<u>52,798</u>	<u>326</u>	<u>50,514</u>	<u>500,581</u>
Excess revenues over expenditures.....	<u>(98,285)</u>	<u>31,085</u>	<u>198,268</u>	<u>8,592</u>	<u>(11,990)</u>	<u>127,670</u>
Other Financing Sources (Uses):						
Operating transfers in.....	280	—	—	—	16,667	16,947
Operating transfers out.....	(13,516)	—	—	(2,668)	(2,179)	(18,363)
Operating transfers to component units.....	—	(11,763)	—	—	—	(11,763)
Total other financing sources (uses).....	<u>(13,236)</u>	<u>(11,763)</u>	<u>—</u>	<u>(2,668)</u>	<u>14,488</u>	<u>(13,179)</u>
Excess of revenues and other expenditures and other uses.....						
	(111,521)	19,322	198,268	5,924	2,498	114,491
Fund balances—July 1.....	1,659,828	146,208	954,846	4,357	30,264	2,795,503
Restatements.....	—	—	—	—	1,864	1,864
Increase (decrease) in reserve for inventories.....	—	—	—	—	(13)	(13)
Fund balances—June 30.....	<u>\$ 1,548,307</u>	<u>\$ 165,530</u>	<u>\$ 1,153,114</u>	<u>\$ 10,281</u>	<u>\$ 34,613</u>	<u>\$ 2,911,845</u>

**NONEXPENDABLE TRUST FUNDS
COMBINING BALANCE SHEET**

June 30, 1997

Exhibit F-4

(Dollars in Thousands)

	Public Education Loan Funds	Community Colleges Loans and Scholarships	Wildlife Endowment Program	Clean Water Revolving Loan and Grant Fund	Other Funds	<i>Totals</i>
ASSETS						
Cash and cash equivalents.....	\$ 2,586	\$ 21	\$ 102	\$ 78,061	\$ 738	\$ 81,508
Investments.....	1,589	5,311	39,273	40,956	470	87,599
Receivables:						
Accounts receivable.....	—	—	3	—	—	3
Interest receivable.....	30	28	3	1,344	3	1,408
Notes receivable.....	746	14	—	231,691	134	232,585
Total Assets.....	<u>\$ 4,951</u>	<u>\$ 5,374</u>	<u>\$ 39,381</u>	<u>\$ 352,052</u>	<u>\$ 1,345</u>	<u>\$ 403,103</u>
LIABILITIES AND FUND BALANCES						
Liabilities:						
Accounts payable and accrued liabilities:						
Accounts payable.....	\$ —	\$ —	\$ 1	\$ —	\$ —	\$ 1
Intergovernmental payables.....	—	—	—	328	—	328
Obligations under securities lending.....	1,589	541	4,416	40,956	470	47,972
Total Liabilities.....	<u>1,589</u>	<u>541</u>	<u>4,417</u>	<u>41,284</u>	<u>470</u>	<u>48,301</u>
Fund Balances:						
Reserved for:						
Notes receivable.....	—	—	—	231,691	—	231,691
Loan and grant commitments.....	3,362	4,833	—	46,094	145	54,434
Wildlife endowment.....	—	—	34,964	—	—	34,964
Unreserved:						
Undesignated.....	—	—	—	32,983	730	33,713
Total Fund Balances.....	<u>3,362</u>	<u>4,833</u>	<u>34,964</u>	<u>310,768</u>	<u>875</u>	<u>354,802</u>
Total Liabilities and Fund Balances.....	<u>\$ 4,951</u>	<u>\$ 5,374</u>	<u>\$ 39,381</u>	<u>\$ 352,052</u>	<u>\$ 1,345</u>	<u>\$ 403,103</u>

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

For the Fiscal Year Ended June 30, 1997

Exhibit F-5

(Dollars in Thousands)

	Public Education Loan Funds	Community Colleges Loans and Scholarships	Wildlife Endowment Program	Clean Water Revolving Loan and Grant Fund	Other Funds	Totals
Operating Revenues:						
Sales and services.....	\$ —	\$ —	\$ 67	\$ 905	\$ —	\$ 972
Federal funds.....	—	—	—	29,307	—	29,307
Investment earnings.....	127	424	2,972	4,917	42	8,482
Interest earnings on loans.....	51	6	—	6,932	—	6,989
Fees, licenses and fines.....	—	—	1,292	—	15	1,307
Contributions.....	—	—	4	—	—	4
Miscellaneous.....	199	—	—	—	20	219
Total operating revenues.....	<u>377</u>	<u>430</u>	<u>4,335</u>	<u>42,061</u>	<u>77</u>	<u>47,280</u>
Operating Expenses:						
Services.....	—	7	—	—	—	7
Interest.....	40	21	128	1,521	13	1,723
Grants to local governments.....	—	—	—	5,222	6	5,228
Other expenses:						
Scholarships.....	—	380	—	—	—	380
Other.....	—	—	—	12	—	12
Total operating expenses.....	<u>40</u>	<u>408</u>	<u>128</u>	<u>6,755</u>	<u>19</u>	<u>7,350</u>
Operating income (loss).....	<u>337</u>	<u>22</u>	<u>4,207</u>	<u>35,306</u>	<u>58</u>	<u>39,930</u>
Operating Transfers:						
Transfers out.....	—	—	(2,279)	(304)	—	(2,583)
Total operating transfers in (out).....	<u>—</u>	<u>—</u>	<u>(2,279)</u>	<u>(304)</u>	<u>—</u>	<u>(2,583)</u>
Net income (loss).....	337	22	1,928	35,002	58	37,347
Fund balances — July 1.....	3,025	4,811	33,036	275,766	817	317,455
Fund balances — June 30.....	<u>\$ 3,362</u>	<u>\$ 4,833</u>	<u>\$ 34,964</u>	<u>\$ 310,768</u>	<u>\$ 875</u>	<u>\$ 354,802</u>

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

For the Fiscal Year Ended June 30, 1997

Exhibit F-6

(Dollars in Thousands)

	Public Education Loan Funds	Community Colleges Loans and Scholarships	Wildlife Endowment Program	Clean Water Revolving Loan and Grant Fund	Other Funds	Totals
Cash Provided From (Used For)						
Operations:						
Operating income (loss).....	\$ 337	\$ 22	\$ 4,207	\$ 35,306	\$ 58	\$ 39,930
Adjustments to reconcile operating income to net cash flows from operating activities:						
Investment earnings.....	(127)	(424)	(2,972)	(4,917)	(42)	(8,482)
Securities lending fees.....	40	21	128	1,521	13	1,723
Mortgage/loan/note principal repayments.....	1,192	—	—	12,176	—	13,368
Mortgages/loans/notes issued.....	(178)	—	—	(40,505)	(9)	(40,692)
(Increases) decreases in assets:						
Receivables.....	(3)	—	(2)	(214)	—	(219)
Increases (decreases) in liabilities:						
Accounts payable and accrued liabilities...	—	(1)	1	(1,881)	—	(1,881)
Total cash provided from (used for) operations.....	<u>1,261</u>	<u>(382)</u>	<u>1,362</u>	<u>1,486</u>	<u>20</u>	<u>3,747</u>
Cash Provided From (Used For)						
Noncapital Financing Activities:						
Operating transfers out.....	—	—	(2,279)	(304)	—	(2,583)
Total cash provided from (used for) noncapital financing activities.....	<u>—</u>	<u>—</u>	<u>(2,279)</u>	<u>(304)</u>	<u>—</u>	<u>(2,583)</u>
Cash Provided From (Used For)						
Investment Activities:						
Proceeds from the sale/maturities of non-State Treasurer investments.....	—	409	—	—	—	409
Redemptions from the State Treasurer Long-Term Investment Pool.....	—	330	2,279	—	—	2,609
Purchase of non-State Treasurer investments.....	—	(413)	—	—	—	(413)
Purchase into State Treasurer Long-Term Investment Pool.....	—	—	(1,300)	—	—	(1,300)
Investment earnings.....	<u>88</u>	<u>61</u>	<u>11</u>	<u>3,317</u>	<u>28</u>	<u>3,505</u>
Total cash provided from (used for) investment activities.....	<u>88</u>	<u>387</u>	<u>990</u>	<u>3,317</u>	<u>28</u>	<u>4,810</u>
Net increase (decrease) in cash and cash equivalents.....	1,349	5	73	4,499	48	5,974
Cash and cash equivalents at July 1.....	<u>1,237</u>	<u>16</u>	<u>29</u>	<u>73,562</u>	<u>690</u>	<u>75,534</u>
Cash and cash equivalents at June 30.....	<u>\$ 2,586</u>	<u>\$ 21</u>	<u>\$ 102</u>	<u>\$ 78,061</u>	<u>\$ 738</u>	<u>\$ 81,508</u>
Noncash Investing, Capital, and						
Financing Activities:						
Noncash distributions from the State Treasurer Long-Term Investment Pool.....	\$ —	\$ 344	\$ 2,836	\$ —	\$ —	\$ 3,180
Assets acquired through the assumption of a liability.....	1,589	541	4,416	40,956	470	47,972

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AGENCY FUNDS COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES

For the Fiscal Year Ended June 30, 1997

(Dollars in Thousands)

	<u>Balance, July 1, 1996</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance, June 30, 1997</u>
Deferred Compensation Plan				
ASSETS				
Cash and cash equivalents.....	\$ 158	\$ 235	\$ 393	\$ —
Investments.....	378,741	68,750	22,657	424,834
Receivables:				
Contributions receivable.....	324	680	324	680
Total Assets.....	<u>\$ 379,223</u>	<u>\$ 69,665</u>	<u>\$ 23,374</u>	<u>\$ 425,514</u>
LIABILITIES				
Accounts payable and accrued liabilities:				
Due to plan participants.....	\$ 379,223	\$ 69,665	\$ 23,374	\$ 425,514
Total Liabilities.....	<u>\$ 379,223</u>	<u>\$ 69,665</u>	<u>\$ 23,374</u>	<u>\$ 425,514</u>
Local Sales Tax Collections				
ASSETS				
Cash and cash equivalents.....	\$ 330,876	\$ 1,437,096	\$ 1,422,380	\$ 345,592
Investments.....	—	213,098	—	213,098
Receivables:				
Taxes receivable.....	83,522	85,241	83,522	85,241
Due from other funds.....	7,984	3,071	7,984	3,071
Total Assets.....	<u>\$ 422,382</u>	<u>\$ 1,738,506</u>	<u>\$ 1,513,886</u>	<u>\$ 647,002</u>
LIABILITIES				
Accounts payable and accrued liabilities:				
Intergovernmental payables.....	\$ 422,382	\$ 1,135,948	\$ 1,124,426	\$ 433,904
Obligations under securities lending.....	—	213,098	—	213,098
Total Liabilities.....	<u>\$ 422,382</u>	<u>\$ 1,349,046</u>	<u>\$ 1,124,426</u>	<u>\$ 647,002</u>
Deposits of Insurance Carriers Fund				
ASSETS				
Cash and cash equivalents.....	\$ 200	\$ 1,512	\$ 1,555	\$ 157
Investments.....	—	98	—	98
Receivables:				
Interest receivable.....	1	1	1	1
Sureties.....	443,277	296,109	275,713	463,673
Total Assets.....	<u>\$ 443,478</u>	<u>\$ 297,720</u>	<u>\$ 277,269</u>	<u>\$ 463,929</u>
LIABILITIES				
Accounts payable and accrued liabilities:				
Obligations under securities lending.....	\$ —	\$ 98	\$ —	\$ 98
Deposits payable.....	443,478	296,412	276,059	463,831
Total Liabilities.....	<u>\$ 443,478</u>	<u>\$ 296,510</u>	<u>\$ 276,059</u>	<u>\$ 463,929</u>
Non-State Investment Fund Deposits				
ASSETS				
Cash and cash equivalents.....	\$ 258,308	\$ 3,110,095	\$ 3,105,182	\$ 263,221
Receivables:				
Interest receivable.....	1,201	1,268	1,201	1,268
Total Assets.....	<u>\$ 259,509</u>	<u>\$ 3,111,363</u>	<u>\$ 3,106,383</u>	<u>\$ 264,489</u>
LIABILITIES				
Accounts payable and accrued liabilities:				
Intergovernmental payables.....	\$ 259,509	\$ 3,111,363	\$ 3,106,383	\$ 264,489
Total Liabilities.....	<u>\$ 259,509</u>	<u>\$ 3,111,363</u>	<u>\$ 3,106,383</u>	<u>\$ 264,489</u>
Clerks of Court				
ASSETS				
Cash and cash equivalents.....	\$ 119,418	\$ 1,233,585	\$ 1,218,308	\$ 134,695
Investments.....	69,921	20,124	22,109	67,936
Receivables:				
Accounts receivable.....	345	1,122	1,249	218
Due from other funds.....	307	5,256	5,157	406
Sureties.....	20,464	22,210	19,844	22,830
Total Assets.....	<u>\$ 210,455</u>	<u>\$ 1,282,297</u>	<u>\$ 1,266,667</u>	<u>\$ 226,085</u>
LIABILITIES				
Accounts payable and accrued liabilities:				
Intergovernmental payables.....	\$ 3,765	\$ 79,160	\$ 79,014	\$ 3,911
Due to other funds.....	1,136	141,645	139,960	2,821
Deposits payable.....	205,554	864,913	851,114	219,353
Total Liabilities.....	<u>\$ 210,455</u>	<u>\$ 1,085,718</u>	<u>\$ 1,070,088</u>	<u>\$ 226,085</u>

Exhibit F-7

	Balance, July 1, 1996	Additions	Deductions	Balance, June 30, 1997
Departmental Agency Funds				
ASSETS				
Cash and cash equivalents.....	\$ 73,316	\$ 3,905,023	\$ 3,895,655	\$ 82,684
Investments.....	557	23,764	30	24,291
Receivables:				
Accounts receivable.....	1,921	93,468	86,174	9,215
Intergovernmental receivables.....	5,718	6,290	5,718	6,290
Interest receivable.....	27	27	27	27
Due from other funds.....	2,622	455	3,077	—
Inventories.....	296	8	3	301
Sureties.....	1,449	1,307	1,449	1,307
Total Assets.....	<u>\$ 85,906</u>	<u>\$ 4,030,342</u>	<u>\$ 3,992,133</u>	<u>\$ 124,115</u>
LIABILITIES				
Accounts payable and accrued liabilities:				
Accounts payable.....	\$ 3,097	\$ 48,706	\$ 51,142	\$ 661
Intergovernmental payables.....	42,852	641,797	630,519	54,130
Obligations under securities lending.....	—	23,753	—	23,753
Due to other funds.....	9,090	639,373	637,556	10,907
Claims and benefits payable.....	16,323	19,566	16,369	19,520
Deposits payable.....	14,544	27,377	26,777	15,144
Total Liabilities.....	<u>\$ 85,906</u>	<u>\$ 1,400,572</u>	<u>\$ 1,362,363</u>	<u>\$ 124,115</u>
Total Agency Funds				
ASSETS				
Cash and cash equivalents.....	\$ 782,276	\$ 9,687,546	\$ 9,643,473	\$ 826,349
Investments.....	449,219	325,834	44,796	730,257
Receivables:				
Taxes receivable.....	83,522	85,241	83,522	85,241
Accounts receivable.....	2,266	94,590	87,423	9,433
Intergovernmental receivables.....	5,718	6,290	5,718	6,290
Interest receivable.....	1,229	1,296	1,229	1,296
Contributions receivable.....	324	680	324	680
Due from other funds.....	10,913	8,782	16,218	3,477
Inventories.....	296	8	3	301
Sureties.....	465,190	319,626	297,006	487,810
Total Assets.....	<u>\$ 1,800,953</u>	<u>\$ 10,529,893</u>	<u>\$ 10,179,712</u>	<u>\$ 2,151,134</u>
LIABILITIES				
Accounts payable and accrued liabilities:				
Accounts payable.....	\$ 3,097	\$ 48,706	\$ 51,142	\$ 661
Intergovernmental payables.....	728,508	4,968,268	4,940,342	756,434
Due to plan participants.....	379,223	69,665	23,374	425,514
Obligations under securities lending.....	—	236,949	—	236,949
Due to other funds.....	10,226	781,018	777,516	13,728
Claims and benefits payable.....	16,323	19,566	16,369	19,520
Deposits payable.....	663,576	1,188,702	1,153,950	698,328
Total Liabilities.....	<u>\$ 1,800,953</u>	<u>\$ 7,312,874</u>	<u>\$ 6,962,693</u>	<u>\$ 2,151,134</u>

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GENERAL FIXED ASSETS ACCOUNT GROUP

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

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

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

**SCHEDULE OF GENERAL FIXED ASSETS
BY FUNCTION**

June 30, 1997

Exhibit G-1

(Dollars in Thousands)

BY FUNCTION	Land	Buildings	Other Structures and Improvements	Machinery and Equipment	Art, Literature and Artifacts	Construction in Progress	Totals
General government.....	\$ 27,710	\$ 142,493	\$ 28,903	\$ 29,947	\$ 34,923	\$ 156,818	\$ 420,794
Education.....	1,348	53,000	70	8,624	1,003	5,142	69,187
Human resources.....	3,087	258,531	41,031	67,634	725	48,773	419,781
Economic development....	705	15,063	50	8,642	—	—	24,460
Environment, health and natural resources.....	134,683	93,126	14,509	82,892	869	11,348	337,427
Public safety, corrections, and regulation.....	22,118	624,761	53,033	174,011	1,026	30,561	905,510
Transportation.....	24,865	116,286	—	483,829	—	18,521	643,501
Agriculture.....	22,245	51,575	644	21,974	133	12,366	108,937
Total general fixed assets.	<u>\$236,761</u>	<u>\$ 1,354,835</u>	<u>\$ 138,240</u>	<u>\$ 877,553</u>	<u>\$ 38,679</u>	<u>\$ 283,529</u>	<u>\$ 2,929,597</u>

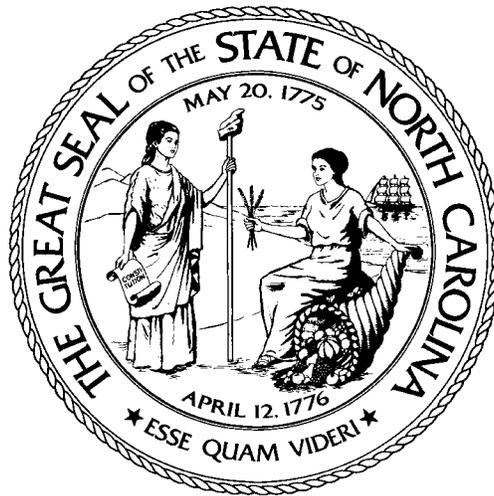
SCHEDULE OF CHANGES IN GENERAL FIXED ASSETS BY FUNCTION

For the Fiscal Year Ended June 30, 1997

Exhibit G-2

(Dollars in Thousands)

	Balance July 1, 1996	Prior Year Adjustments	Transfers (To) From Other Funds	Additions	Deletions	Balance June 30, 1997
BY FUNCTION						
General government.....	\$ 401,262	\$ 3,349	\$ (50,318)	\$ 69,302	\$ 2,801	\$ 420,794
Education.....	65,937	70	(8)	4,156	968	69,187
Human resources.....	405,602	(6,011)	476	22,218	2,504	419,781
Economic development.....	22,919	354	18	1,237	68	24,460
Environment, health and natural resources.....	317,997	(778)	(576)	24,586	3,802	337,427
Public safety, corrections, and regulation.....	817,213	(87)	50,409	50,439	12,464	905,510
Transportation.....	611,630	(3,439)	—	55,926	20,616	643,501
Agriculture.....	102,720	(2)	12	7,094	887	108,937
Total general fixed assets...	<u>\$2,745,280</u>	<u>\$ (6,544)</u>	<u>\$ 13</u>	<u>\$ 234,958</u>	<u>\$ 44,110</u>	<u>\$2,929,597</u>



GENERAL LONG-TERM OBLIGATIONS ACCOUNT GROUP

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

STATEMENT OF GENERAL LONG-TERM OBLIGATIONS

June 30, 1997

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

In General Fund.....	\$	100
In Special Revenue Funds.....		901

**Amount to be Provided for Retirement
of General Long-Term Obligations:**

By General Fund.....	1,653,931
By Special Revenue Funds.....	38,067
By Expendable Trust Funds.....	242
Total available and to be provided.....	<u>\$ 1,693,241</u>

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

General obligation bonds payable.....	\$ 1,514,477
---------------------------------------	--------------

Other Payables:

Claims payable.....	20
Notes payable.....	6,083
Deferred death benefit payable.....	100
Obligations for workers' compensation.....	6,423
Capital leases payable.....	318
Accrued vacation leave.....	165,820
Total general long-term obligations.....	<u>\$ 1,693,241</u>

SCHEDULE OF GENERAL OBLIGATION BONDS PAYABLE

June 30, 1997

(Dollars in Thousands)

	<i>Payable from General Fund Revenues</i>							
	Total General Obligation Bonds	<i>Total General Fund</i>	Public School Facility Series C 6-1-76 4.0 - 6.0%	Clean Water Series C 6-1-76 4.0 - 6.0%	Public Improve- ment Bonds 1978 11-1-78 4.8 - 5.0%	Public Improve- ment Bonds 1979 11-1-79 5.5 - 7.5%	Capital Improve- ment Bonds Series 1989 5-1-89 6.5 - 6.9%	Capital Improve- ment Bonds Series A 3-1-91 5.75 - 6.0%
			[*]					
Bonds Authorized and Issued:								
Ch. 909, 1971 session law.....	\$ 57,000	\$ 57,000	\$ —	\$ 25,000	\$ 4,000	\$ 28,000	\$ —	\$ —
Ch. 657, 1973 session law.....	85,000	85,000	50,000	—	16,250	18,750	—	—
Ch. 854, 1975 session law.....	18,250	18,250	—	—	18,250	—	—	—
Ch. 677, 1977 session law.....	32,000	32,000	—	—	11,500	20,500	—	—
Ch. 1048, 1987 session law....	20,499	20,499	—	—	—	—	20,499	—
Ch. 933, 1989 session law.....	75,000	75,000	—	—	—	—	—	75,000
Ch. 935, 1989 session law.....	200,000	200,000	—	—	—	—	—	—
Ch. 760, 1991 session law.....	45,000	45,000	—	—	—	—	—	—
Ch. 542, 1993 session law.....	740,000	740,000	—	—	—	—	—	—
Ch. 631, 1995 session law.....	450,000	450,000	—	—	—	—	—	—
General Statute Ch. 142.....	144,545	144,545	—	—	—	—	—	—
Total bonds authorized and issued.....	1,867,294	1,867,294	50,000	25,000	50,000	67,250	20,499	75,000
Accretion.....	8,878	8,878	—	—	—	—	8,878	—
Bonds retired.....	302,095	302,095	46,000	23,000	47,000	57,250	14,170	33,600
Partial defeasances.....	59,600	59,600	—	—	—	—	—	—
Bonds outstanding— June 30, 1997.....	<u>\$ 1,514,477</u>	<u>\$ 1,514,477</u>	<u>\$ 4,000</u>	<u>\$ 2,000</u>	<u>\$ 3,000</u>	<u>\$ 10,000</u>	<u>\$ 15,207</u>	<u>\$ 41,400</u>
Bond Maturity As Follows:								
1997-98.....	\$ 91,463	\$ 91,463	\$ 2,000	\$ 1,000	\$ 3,000	\$ 5,000	\$ 1,788	\$ 8,300
1998-99.....	91,459	91,459	2,000	1,000	—	5,000	1,674	8,300
1999-00.....	91,245	91,245	—	—	—	—	1,565	8,300
2000-01.....	91,155	91,155	—	—	—	—	1,465	8,300
2001-02.....	91,137	91,137	—	—	—	—	1,367	8,200
2002-03.....	91,079	91,079	—	—	—	—	1,279	—
2003-04.....	90,882	90,882	—	—	—	—	1,192	—
2004-05.....	91,199	91,199	—	—	—	—	1,114	—
2005-06.....	91,012	91,012	—	—	—	—	1,037	—
2006-07.....	90,829	90,829	—	—	—	—	969	—
2007-08.....	90,848	90,848	—	—	—	—	908	—
2008-09.....	84,669	84,669	—	—	—	—	849	—
2009-10.....	77,000	77,000	—	—	—	—	—	—
2010-11.....	77,000	77,000	—	—	—	—	—	—
2011-12.....	77,000	77,000	—	—	—	—	—	—
2012-13.....	69,500	69,500	—	—	—	—	—	—
2013-14.....	49,000	49,000	—	—	—	—	—	—
2014-15.....	49,000	49,000	—	—	—	—	—	—
2015-16.....	26,000	26,000	—	—	—	—	—	—
2016-17.....	3,000	3,000	—	—	—	—	—	—
Total Bonds Outstanding.....	<u>\$ 1,514,477</u>	<u>\$ 1,514,477</u>	<u>\$ 4,000</u>	<u>\$ 2,000</u>	<u>\$ 3,000</u>	<u>\$ 10,000</u>	<u>\$ 15,207</u>	<u>\$ 41,400</u>

[*] Capital
Appreciation
Bonds

Payable from General Fund Revenues

Capital Improve- ment Bonds Series 1991 10-1-91 5.3 - 5.6%	Prison and Youth Services Facilities Series A 3-1-92 5.9 - 6.2%	Prison and Youth Services Facilities Series B 10-1-93 2.5 - 4.5%	Public Improve- ment Refunding Series 1993 10-1-93 2.4 - 5.5%	Clean Water Refunding Series 1993 10-1-93 3.0 - 5.0%	Prison and Youth Services Facilities Refunding Series C 10-15-93 4.2 - 4.8%	Capital Improve- ment Bonds Series 1994A 2-1-94 4.6 - 4.75%	Clean Water Series 1994A 10-1-94 5.7 - 5.8%	Clean Water Series 1994B 11-1-94 4.7 - 5.0%	Clean Water Series 1995A 6-1-95 5.0 - 5.25%
\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
—	—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—	—
—	112,500	87,500	—	—	—	—	—	—	—
45,000	—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	400,000	40,000	20,000	60,000
—	—	—	—	—	—	—	—	—	—
—	—	—	61,025	16,045	67,475	—	—	—	—
45,000	112,500	87,500	61,025	16,045	67,475	400,000	40,000	20,000	60,000
—	—	—	—	—	—	—	—	—	—
13,900	11,000	8,800	2,965	1,185	2,225	21,000	2,000	8,000	—
—	59,600	—	—	—	—	—	—	—	—
<u>\$ 31,100</u>	<u>\$ 41,900</u>	<u>\$ 78,700</u>	<u>\$ 58,060</u>	<u>\$ 14,860</u>	<u>\$ 65,250</u>	<u>\$ 379,000</u>	<u>\$ 38,000</u>	<u>\$ 12,000</u>	<u>\$ 60,000</u>
\$ 6,200	\$ 6,700	\$ 2,200	\$ 18,475	\$ 4,235	\$ 565	\$ 7,000	\$ 2,000	\$ 4,000	\$ 3,000
6,200	8,800	3,600	17,665	4,130	590	7,500	2,000	4,000	3,000
6,200	8,800	6,800	21,920	4,045	615	8,000	2,000	4,000	3,000
6,200	8,800	8,800	—	2,450	640	28,000	2,000	—	3,000
6,300	8,800	8,800	—	—	670	28,000	2,000	—	3,000
—	—	8,800	—	—	9,500	28,000	2,000	—	3,000
—	—	8,800	—	—	9,390	28,000	2,000	—	3,000
—	—	8,800	—	—	9,285	28,000	2,000	—	3,000
—	—	8,800	—	—	9,175	28,000	2,000	—	3,000
—	—	8,800	—	—	9,060	28,000	2,000	—	3,000
—	—	4,500	—	—	8,940	28,000	2,000	—	3,000
—	—	—	—	—	6,820	28,000	2,000	—	3,000
—	—	—	—	—	—	28,000	2,000	—	3,000
—	—	—	—	—	—	28,000	2,000	—	3,000
—	—	—	—	—	—	28,000	2,000	—	3,000
—	—	—	—	—	—	28,000	2,000	—	3,000
—	—	—	—	—	—	20,500	2,000	—	3,000
—	—	—	—	—	—	—	2,000	—	3,000
—	—	—	—	—	—	—	2,000	—	3,000
—	—	—	—	—	—	—	2,000	—	3,000
—	—	—	—	—	—	—	—	—	3,000
<u>\$ 31,100</u>	<u>\$ 41,900</u>	<u>\$ 78,700</u>	<u>\$ 58,060</u>	<u>\$ 14,860</u>	<u>\$ 65,250</u>	<u>\$ 379,000</u>	<u>\$ 38,000</u>	<u>\$ 12,000</u>	<u>\$ 60,000</u>

Continued

SCHEDULE OF GENERAL OBLIGATION BONDS PAYABLE (continued)

June 30, 1997

Exhibit H-2

(Dollars in Thousands)

Payable from General Fund Revenues

	Clean Water Series 1995B 7-1-95 <u>4.25-4.3%</u>	Capital Improve- ment Bonds Series 1997 1-1-97 <u>4.8-5.1%</u>	Public School Building Series 1997A 3-1-97 <u>5.1-5.2%</u>
Bonds Authorized and Issued:			
Ch. 909, 1971 session law.....	\$ —	\$ —	\$ —
Ch. 657, 1973 session law.....	—	—	—
Ch. 854, 1975 session law.....	—	—	—
Ch. 677, 1977 session law.....	—	—	—
Ch. 1048, 1987 session law.....	—	—	—
Ch. 933, 1989 session law.....	—	—	—
Ch. 935, 1989 session law.....	—	—	—
Ch. 760, 1991 session law.....	—	—	—
Ch. 542, 1993 session law.....	25,000	195,000	—
Ch. 631, 1995 session law.....	—	—	450,000
General Statute Ch. 142.....	—	—	—
Total bonds authorized and issued.....	<u>25,000</u>	<u>195,000</u>	<u>450,000</u>
Accretion.....	—	—	—
Bonds retired.....	10,000	—	—
Partial defeasances.....	—	—	—
Bonds outstanding— June 30, 1997.....	<u>\$ 15,000</u>	<u>\$ 195,000</u>	<u>\$ 450,000</u>
Bond Maturity As Follows:			
1997-98.....	\$ 5,000	\$ 3,000	\$ 8,000
1998-99.....	5,000	3,000	8,000
1999-00.....	5,000	3,000	8,000
2000-01.....	—	12,000	9,500
2001-02.....	—	12,000	12,000
2002-03.....	—	12,000	26,500
2003-04.....	—	12,000	26,500
2004-05.....	—	12,000	27,000
2005-06.....	—	12,000	27,000
2006-07.....	—	12,000	27,000
2007-08.....	—	12,000	31,500
2008-09.....	—	12,000	32,000
2009-10.....	—	12,000	32,000
2010-11.....	—	12,000	32,000
2011-12.....	—	12,000	32,000
2012-13.....	—	12,000	32,000
2013-14.....	—	12,000	32,000
2014-15.....	—	12,000	32,000
2015-16.....	—	6,000	15,000
2016-17.....	—	—	—
Total Bonds Outstanding.....	<u>\$ 15,000</u>	<u>\$ 195,000</u>	<u>\$ 450,000</u>

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COMPONENT UNITS:

PROPRIETARY FUNDS

COLLEGE AND UNIVERSITY FUNDS

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

Component units are comprised of the following entities:

University of North Carolina System

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

Proprietary Funds

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

Community Colleges

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

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

June 30, 1997

(Dollars in Thousands)

	N.C. Housing Finance Agency	State Education Assistance Authority	N.C. State Ports Authority	N.C. Ports Railway Commission	N.C. Agricultural Finance Authority	N.C. Global TransPark Authority	Centennial Authority
ASSETS							
Current Assets:							
Cash and cash equivalents.....	\$ 20,411	\$ 144,399	\$ 6,980	\$ 586	\$ 2,887	\$ 2,708	\$ 151
Investments.....	11,935	210,721	19,810	330	1,780	33,097	96,877
Receivables:							
Accounts receivable.....	275	37	3,582	41	—	112	—
Intergovernmental receivables.....	631	5,457	—	—	—	—	—
Interest receivable.....	10,181	6,476	257	—	60	20	250
Due from primary government.....	—	11,763	1,455	—	—	—	—
Notes receivable.....	—	29,297	—	—	1,173	—	—
Inventories.....	—	3	746	—	1	—	—
Prepaid items.....	—	236	352	9	—	—	109
Total current assets.....	<u>43,433</u>	<u>408,389</u>	<u>33,182</u>	<u>966</u>	<u>5,901</u>	<u>35,937</u>	<u>97,387</u>
Noncurrent Assets:							
Investments.....	203,523	—	—	—	—	—	—
Accounts receivable.....	—	—	—	—	—	—	—
Notes receivable.....	757,760	310,816	—	—	—	—	—
Prepaid items.....	12,803	2,390	309	—	—	—	—
Goodwill.....	—	—	—	9	—	—	—
Total noncurrent assets.....	<u>974,086</u>	<u>313,206</u>	<u>309</u>	<u>9</u>	<u>—</u>	<u>—</u>	<u>—</u>
Fixed Assets:							
Land.....	—	—	11,778	750	—	2,170	—
Buildings.....	—	—	100,634	127	—	122	—
Other structures and improvements.....	—	—	28,394	—	—	—	—
Machinery and equipment.....	958	992	47,355	1,131	—	551	—
Construction in progress.....	—	—	1,920	—	—	336	6,604
Accumulated depreciation.....	(603)	(285)	(82,042)	(665)	—	(497)	—
Total fixed assets.....	<u>355</u>	<u>707</u>	<u>108,039</u>	<u>1,343</u>	<u>—</u>	<u>2,682</u>	<u>6,604</u>
Total Assets.....	<u>\$ 1,017,874</u>	<u>\$ 722,302</u>	<u>\$ 141,530</u>	<u>\$ 2,318</u>	<u>\$ 5,901</u>	<u>\$ 38,619</u>	<u>\$ 103,991</u>

Exhibit I-1

N.C. Low Level Radioactive Waste Management Authority	MCNC	N.C. Biotechnology Center	N.C. Rural Rehabilitation Corporation	N.C. Partnership for Children Inc.	Rural Economic Development Center	N.C. Regional Economic Development Commissions	<i>Totals</i>
\$ 831	\$ 6,182	\$ 676	\$ 2,231	\$ 73	\$ 1,014	\$ 663	\$ 189,792
570	655	12,716	1,369	1,775	10,277	2,757	404,669
—	3,961	118	—	1,115	111	19	9,371
—	—	—	—	—	342	25	6,455
5	—	206	93	—	15	6	17,569
—	259	—	—	125	—	—	13,602
—	550	—	3,719	—	637	—	35,376
—	—	—	—	3	—	—	753
—	87	—	—	26	5	7	831
<u>1,406</u>	<u>11,694</u>	<u>13,716</u>	<u>7,412</u>	<u>3,117</u>	<u>12,401</u>	<u>3,477</u>	<u>678,418</u>
—	—	—	—	—	—	—	203,523
—	—	—	—	4,420	—	—	4,420
—	—	4,102	—	—	—	—	1,072,678
—	—	—	—	—	—	—	15,502
—	—	—	—	—	—	—	9
—	—	<u>4,102</u>	—	<u>4,420</u>	—	—	<u>1,296,132</u>
—	—	—	—	—	—	—	14,698
—	19,149	7,271	125	—	1,628	—	129,056
—	—	—	—	8	—	151	28,553
15	78,532	1,610	—	195	261	710	132,310
—	—	—	—	—	—	—	8,860
<u>(15)</u>	<u>(72,180)</u>	<u>(2,612)</u>	<u>(6)</u>	<u>(55)</u>	<u>(208)</u>	<u>(187)</u>	<u>(159,355)</u>
—	25,501	6,269	119	148	1,681	674	154,122
<u>\$ 1,406</u>	<u>\$ 37,195</u>	<u>\$ 24,087</u>	<u>\$ 7,531</u>	<u>\$ 7,685</u>	<u>\$ 14,082</u>	<u>\$ 4,151</u>	<u>\$ 2,128,672</u>

Continued

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

June 30, 1997

(Dollars in Thousands)

	N.C. Housing Finance Agency	State Education Assistance Authority	N.C. State Ports Authority	N.C. Ports Railway Commission	N.C. Agricultural Finance Authority	N.C. Global TransPark Authority	Centennial Authority
LIABILITIES AND FUND EQUITY:							
Liabilities:							
Current Liabilities:							
Accounts payable and accrued liabilities:							
Accounts payable.....	\$ 7,406	\$ 104	\$ 967	\$ —	\$ 5	\$ 366	\$ 726
Accrued payroll.....	—	64	167	—	—	—	—
Intergovernmental payable.....	47	—	—	—	—	—	—
Obligations under securities lending.....	11,935	93,855	—	330	1,780	10,867	36,951
Due to component units.....	—	—	—	—	—	—	—
Due to primary government.....	11	—	13	—	—	1	—
Contracts payable.....	—	—	—	—	—	—	—
Notes payable.....	—	—	2,501	71	—	—	—
Claims payable.....	—	—	—	—	—	—	—
Capital leases payable.....	—	—	—	—	—	—	—
Bonds payable.....	67,657	—	1,090	—	—	—	—
Interest payable.....	16,850	1,914	110	—	—	142	—
Deposits payable.....	—	—	—	—	—	—	321
Accrued vacation leave.....	176	67	865	11	19	42	—
Deferred revenue.....	—	—	621	—	—	—	—
Total current liabilities.....	<u>104,082</u>	<u>96,004</u>	<u>6,334</u>	<u>412</u>	<u>1,804</u>	<u>11,418</u>	<u>37,998</u>
Noncurrent Liabilities:							
Accounts payable and accrued liabilities:							
Due to primary government.....	—	—	—	—	—	—	—
Advance from primary government.....	—	—	—	—	—	25,000	—
Contracts payable.....	—	—	—	—	—	—	—
Notes payable.....	—	—	729	167	—	—	50
Capital leases payable.....	—	—	—	—	—	—	—
Bonds payable.....	788,944	269,250	13,965	—	—	—	—
Total noncurrent liabilities.....	<u>788,944</u>	<u>269,250</u>	<u>14,694</u>	<u>167</u>	<u>—</u>	<u>25,000</u>	<u>50</u>
Total Liabilities.....	<u>893,026</u>	<u>365,254</u>	<u>21,028</u>	<u>579</u>	<u>1,804</u>	<u>36,418</u>	<u>38,048</u>
Fund Equity:							
Contributed capital.....	11,000	—	101,528	50	—	—	62,143
Retained earnings.....	113,848	357,048	18,974	1,689	4,097	2,201	3,800
Total Fund Equity.....	<u>124,848</u>	<u>357,048</u>	<u>120,502</u>	<u>1,739</u>	<u>4,097</u>	<u>2,201</u>	<u>65,943</u>
Total Liabilities and Fund Equity.....	<u>\$ 1,017,874</u>	<u>\$ 722,302</u>	<u>\$ 141,530</u>	<u>\$ 2,318</u>	<u>\$ 5,901</u>	<u>\$ 38,619</u>	<u>\$ 103,991</u>

Exhibit I-1

N.C. Low Level Radioactive Waste Management Authority	MCNC	N.C. Biotechnology Center	N.C. Rural Rehabilitation Corporation	N.C. Partnership for Children Inc.	Rural Economic Development Center	N.C. Regional Economic Development Commissions	Totals
\$ 1,844	\$ 3,091	\$ 133	\$ —	\$ 15	\$ 297	\$ 138	\$ 15,092
1	—	—	—	56	—	7	295
1	—	—	425	—	—	—	473
570	—	—	1,369	—	—	—	157,657
—	—	171	—	—	—	—	171
—	—	—	—	—	1	—	26
—	—	1,353	—	—	—	—	1,353
—	331	240	—	—	—	—	3,143
—	—	—	16	—	—	—	16
—	3,730	—	—	—	—	—	3,730
—	—	—	—	—	—	—	68,747
—	—	—	—	—	12	—	19,028
—	—	—	—	—	—	—	321
27	—	—	—	32	58	34	1,331
—	—	1,295	32	6,293	—	—	8,241
<u>2,443</u>	<u>7,152</u>	<u>3,192</u>	<u>1,842</u>	<u>6,396</u>	<u>368</u>	<u>179</u>	<u>279,624</u>
13,914	—	—	—	—	—	—	13,914
30,627	—	—	—	—	—	—	55,627
—	—	5,505	—	—	—	—	5,505
—	1,043	2,760	—	—	2,197	—	6,946
—	3,277	—	—	—	—	—	3,277
—	—	—	—	—	—	—	1,072,159
<u>44,541</u>	<u>4,320</u>	<u>8,265</u>	<u>—</u>	<u>—</u>	<u>2,197</u>	<u>—</u>	<u>1,157,428</u>
<u>46,984</u>	<u>11,472</u>	<u>11,457</u>	<u>1,842</u>	<u>6,396</u>	<u>2,565</u>	<u>179</u>	<u>1,437,052</u>
—	—	—	1,120	—	—	—	175,841
<u>(45,578)</u>	<u>25,723</u>	<u>12,630</u>	<u>4,569</u>	<u>1,289</u>	<u>11,517</u>	<u>3,972</u>	<u>515,779</u>
<u>(45,578)</u>	<u>25,723</u>	<u>12,630</u>	<u>5,689</u>	<u>1,289</u>	<u>11,517</u>	<u>3,972</u>	<u>691,620</u>
<u>\$ 1,406</u>	<u>\$ 37,195</u>	<u>\$ 24,087</u>	<u>\$ 7,531</u>	<u>\$ 7,685</u>	<u>\$ 14,082</u>	<u>\$ 4,151</u>	<u>\$ 2,128,672</u>

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

For the Fiscal Year Ended June 30, 1997

(Dollars in Thousands)

	N.C. Housing Finance Agency	State Education Assistance Authority	N.C. State Ports Authority	N.C. Ports Railway Commission	N.C. Agricultural Finance Authority	N.C. Global TransPark Authority	Centennial Authority
Operating Revenues:							
Sales and services.....	\$ —	\$ —	\$ 27,347	\$ —	\$ 34	\$ —	\$ —
Investment earnings.....	16,637	19,943	—	—	191	—	—
Interest earnings on loans.....	58,988	24,248	—	—	303	—	—
Rental and lease earnings.....	—	—	1,686	1,022	—	—	—
Fees, licenses and fines.....	—	—	—	—	1	—	—
Insurance premiums.....	—	—	—	—	—	—	—
Miscellaneous.....	2,118	1,175	—	—	—	—	—
Total operating revenues.....	<u>77,743</u>	<u>45,366</u>	<u>29,033</u>	<u>1,022</u>	<u>529</u>	<u>—</u>	<u>—</u>
Operating Expenses:							
Personal services.....	3,169	2,272	13,771	365	265	467	288
Supplies and materials.....	212	24	1,769	169	1	10	—
Services.....	5,745	8,940	5,299	285	23	1,265	500
Interest.....	57,896	12,571	—	—	60	—	—
Depreciation/amortization.....	593	207	6,679	205	—	96	—
Claims and benefits.....	—	97	—	—	—	—	—
Insurance and bonding.....	104	—	778	23	—	—	19
Other.....	286	7,995	424	32	26	74	25
Total Operating Expenses.....	<u>68,005</u>	<u>32,106</u>	<u>28,720</u>	<u>1,079</u>	<u>375</u>	<u>1,912</u>	<u>832</u>
Operating income (loss).....	<u>9,738</u>	<u>13,260</u>	<u>313</u>	<u>(57)</u>	<u>154</u>	<u>(1,912)</u>	<u>(832)</u>
Nonoperating Revenues							
(Expenses):							
Gain (loss) on sale of equipment.....	—	—	39	—	—	—	—
Investment earnings.....	—	—	966	40	—	2,733	3,260
Compact fees.....	—	—	—	—	—	—	—
Donations.....	—	—	—	—	—	—	—
Interest expense.....	—	—	(467)	(26)	—	(2,682)	(984)
Grants.....	—	1,975	—	—	—	107	—
Grants, aid and subsidies.....	—	(2,252)	—	—	—	—	—
Development stage expense.....	—	—	—	—	—	—	—
Miscellaneous.....	—	—	—	27	—	41	1,437
Total nonoperating revenues							
(expenses).....	<u>—</u>	<u>(277)</u>	<u>538</u>	<u>41</u>	<u>—</u>	<u>199</u>	<u>3,713</u>
Income (loss) before operating transfers.....	<u>9,738</u>	<u>12,983</u>	<u>851</u>	<u>(16)</u>	<u>154</u>	<u>(1,713)</u>	<u>2,881</u>
Operating Transfers:							
Transfers from component units.....	—	11,107	—	—	—	—	—
Transfers from primary government.....	3,512	11,763	—	—	172	4,349	—
Total operating transfers in (out).....	<u>3,512</u>	<u>22,870</u>	<u>—</u>	<u>—</u>	<u>172</u>	<u>4,349</u>	<u>—</u>
Net income (loss).....	13,250	35,853	851	(16)	326	2,636	2,881
Excess of revenues over (under) expenditures from governmental operations.....	(2,186)	—	—	—	—	—	—
Fund equity — July 1.....	109,775	321,195	113,651	1,755	3,771	(435)	31,075
Restatements.....	4,009	—	—	—	—	—	—
Increase (decrease) in contributed capital.....	—	—	6,000	—	—	—	31,987
Fund equity— June 30.....	<u>\$ 124,848</u>	<u>\$ 357,048</u>	<u>\$ 120,502</u>	<u>\$ 1,739</u>	<u>\$ 4,097</u>	<u>\$ 2,201</u>	<u>\$ 65,943</u>

Exhibit I-2

J.C. Low Level Radioactive Waste Management Authority	MCNC	N.C. Biotechnology Center	N.C. Rural Rehabilitation Corporation	N.C. Partnership for Children, Inc.	Rural Economic Development Center	N.C. Regional Economic Development Commissions	Totals
\$ —	\$ 30,141	\$ 652	\$ —	\$ —	\$ —	\$ —	\$ 58,174
—	—	—	131	—	—	—	36,902
—	—	80	289	—	605	—	84,513
—	—	—	17	—	—	—	2,725
—	136	—	—	—	—	—	137
—	—	—	—	—	—	—	—
—	1,904	183	—	—	—	—	5,380
—	32,181	915	437	—	605	—	187,831
—	15,260	1,899	47	764	390	632	39,589
—	9,029	178	—	44	5	92	11,533
—	4,896	479	2	2,156	93	1,405	31,088
—	—	—	49	—	—	—	70,576
—	6,910	478	4	29	59	129	15,389
—	—	—	—	—	—	—	97
—	—	30	2	5	7	14	982
—	861	510	5	100	80	153	10,571
—	36,956	3,574	109	3,098	634	2,425	179,825
—	(4,775)	(2,659)	328	(3,098)	(29)	(2,425)	8,006
—	—	—	—	—	—	—	39
90	360	750	—	71	53	257	8,580
2,801	—	—	—	—	—	—	2,801
—	—	—	—	3,198	616	265	4,079
(2,692)	(689)	—	—	—	—	—	(7,540)
—	—	255	—	—	967	25	3,329
—	(545)	(5,823)	(25)	(2,016)	(7,301)	(1,289)	(19,251)
(6,680)	—	—	—	—	—	—	(6,680)
43	—	—	—	—	116	73	1,737
(6,438)	(874)	(4,818)	(25)	1,253	(5,549)	(669)	(12,906)
(6,438)	(5,649)	(7,477)	303	(1,845)	(5,578)	(3,094)	(4,900)
—	—	—	—	—	—	—	11,107
—	5,765	8,664	—	1,700	5,983	2,881	44,789
—	5,765	8,664	—	1,700	5,983	2,881	55,896
(6,438)	116	1,187	303	(145)	405	(213)	50,996
—	—	—	—	—	—	—	(2,186)
(39,140)	24,174	11,443	5,386	1,652	11,112	4,185	599,599
—	1,433	—	—	(218)	—	—	5,224
—	—	—	—	—	—	—	37,987
\$ (45,578)	\$ 25,723	\$ 12,630	\$ 5,689	\$ 1,289	\$ 11,517	\$ 3,972	\$ 691,620

**COMPONENT UNITS — PROPRIETARY FUNDS
COMBINING STATEMENT OF CASH FLOWS**

For the Fiscal Year Ended June 30, 1997

(Dollars in Thousands)

	N.C. Housing Finance Agency	State Education Assistance Authority	N.C. State Ports Authority	N.C. Ports Railway Commission	N.C. Agricultural Finance Authority	N.C. Global TransPark Authority	Centennial Authority
Cash Provided From (Used For)							
Operations:							
Operating income (loss).....	\$ 9,738	\$ 13,260	\$ 313	\$ (57)	\$ 154	\$ (1,912)	\$ (832)
Adjustments to reconcile operating income to net cash flows from operating activities:							
Depreciation/amortization.....	593	207	6,679	205	—	96	—
Investment earnings.....	(16,637)	(19,943)	—	—	(191)	—	—
Securities lending fees.....	445	3,697	—	—	60	—	—
Construction projects expensed.....	—	—	407	—	—	—	—
Mortgage/loan/note principal repayments.....	60,593	22,534	—	—	192	—	—
Loan sales.....	—	—	—	—	1,988	—	—
Mortgages/loans/notes issued.....	(160,892)	(143,924)	—	—	(1,309)	—	—
Mortgages/loans/note cancellation and writeoff.....	—	3,972	—	—	—	—	—
Allowances and uncollectible accounts.....	—	3,642	—	—	—	—	—
Capitalized Interest	—	(3,176)	—	—	—	—	—
Restatements and adjustments to cash.....	—	—	—	—	—	—	—
Interest expense.....	57,896	—	—	—	—	—	—
Development stage expense.....	—	—	—	—	—	—	—
Nonoperating miscellaneous income (expense).....	—	—	—	27	—	41	1,437
(Increases) decreases in assets:							
Receivables.....	(2,383)	(4,749)	1,315	13	(9)	(112)	—
Due from component units.....	—	—	—	—	—	—	—
Due from primary government.....	—	(860)	(1,455)	—	—	—	—
Inventories.....	—	(1)	33	—	(1)	—	—
Prepaid items.....	—	—	(121)	(6)	—	—	—
Increases (decreases) in liabilities:							
Accounts payable and accrued liabilities.....	2,156	819	(194)	(35)	5	(119)	437
Due to component units.....	—	—	—	—	—	—	—
Due to primary government.....	(670)	—	1	—	—	(1)	—
Contracts payable.....	—	—	—	—	—	—	—
Deposits payable.....	—	—	—	—	—	—	321
Accrued vacation leave.....	10	(1)	26	1	6	—	—
Deferred revenue.....	—	—	—	—	—	—	—
Total cash provided from (used for) operations.....	<u>(49,151)</u>	<u>(124,523)</u>	<u>7,004</u>	<u>148</u>	<u>895</u>	<u>(2,007)</u>	<u>1,363</u>
Cash Provided From (Used For)							
Noncapital Financing Activities:							
Proceeds from sale of bonds/notes.....	166,495	130,000	—	—	—	—	—
Repayment of bond/note principal.....	(82,660)	—	—	—	—	—	—
Interest payments on bonds and notes.....	(59,033)	—	—	—	—	—	—
Bond issuance cost.....	(2,902)	(1,383)	—	—	—	—	—
Grants.....	—	1,975	—	—	—	107	—
Grants, aid and subsidies.....	—	(2,252)	—	—	—	—	—
Operating transfers from component units.....	—	11,107	—	—	—	—	—
Operating transfers from primary government.....	3,512	11,763	—	—	172	1,072	—
Advance from primary government.....	—	—	—	—	—	—	—
Long term contract payments.....	—	—	—	—	—	—	—
Nonoperating cash donations.....	—	—	—	—	—	—	—
Total cash provided from (used for) noncapital financing activities.....	<u>25,412</u>	<u>151,210</u>	<u>—</u>	<u>—</u>	<u>172</u>	<u>1,179</u>	<u>—</u>

Exhibit I-3

N.C. Low Level Radioactive Waste Management Authority	MCNC	N.C. Biotechnology Center	N.C. Rural Rehabilitation Corporation	N.C. Partnership for Children, Inc.	Rural Economic Development Center	N.C. Regional Economic Development Commissions	Totals
\$ —	\$ (4,775)	\$ (2,659)	\$ 328	\$ (3,098)	\$ (29)	\$ (2,425)	\$ 8,006
—	6,910	478	4	29	59	129	15,389
—	—	—	(131)	—	—	—	(36,902)
—	—	—	49	—	—	—	4,251
—	—	—	—	—	—	—	407
—	—	100	519	—	342	—	84,280
—	—	—	—	—	—	—	1,988
—	(550)	(446)	(37)	—	(437)	—	(307,595)
—	—	313	—	—	116	—	4,401
—	—	13	—	—	—	—	3,655
—	—	—	—	—	—	—	(3,176)
—	1,002	—	—	(169)	—	—	833
—	—	—	—	—	—	—	57,896
(2,220)	—	—	—	—	—	—	(2,220)
—	—	—	—	—	116	73	1,694
—	902	38	(11)	1,737	(1)	(8)	(3,268)
—	219	—	—	—	—	—	219
—	(26)	—	—	(125)	—	—	(2,466)
—	—	—	—	(1)	—	—	30
—	(76)	—	—	(20)	—	(4)	(227)
—	(28)	(79)	(35)	(29)	(93)	60	2,865
—	—	171	—	—	—	—	171
—	—	—	—	—	1	—	(669)
—	—	1,353	—	—	—	—	1,353
—	—	—	—	(1)	—	—	320
—	—	—	—	9	8	18	77
—	(1,325)	120	(4)	(914)	—	—	(2,123)
(2,220)	2,253	(598)	682	(2,582)	82	(2,157)	(170,811)
—	—	—	—	—	—	—	296,495
—	—	—	—	—	—	—	(82,660)
—	—	—	—	—	—	—	(59,033)
—	—	—	—	—	—	—	(4,285)
—	—	255	—	—	967	25	3,329
—	(545)	(5,823)	(25)	(2,016)	(7,301)	(1,289)	(19,251)
—	—	—	—	—	—	—	11,107
—	5,765	8,664	—	1,700	5,983	2,881	41,512
1,734	—	—	—	—	—	—	1,734
—	—	(1,514)	—	—	—	—	(1,514)
—	—	—	—	3,198	616	265	4,079
1,734	5,220	1,582	(25)	2,882	265	1,882	191,513

Continued

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

For the Fiscal Year Ended June 30, 1997

(Dollars in Thousands)

	N.C. Housing Finance Agency	State Education Assistance Authority	N.C. State Ports Authority	N.C. Ports Railway Commission	N.C. Agricultural Finance Authority	N.C. Global TransPark Authority	Centennial Authority
Cash Provided From (Used For)							
Capital Financing Activities:							
Acquisition of fixed assets.....	(90)	(613)	(7,389)	(109)	—	(2,252)	(1,638)
Proceeds from the sale of fixed assets.....	—	—	56	—	—	—	—
Proceeds from the sale of notes.....	—	—	2,448	—	—	—	—
Repayment of bond/note principal.....	—	—	(836)	(68)	—	—	—
Principal payment on capital leases.....	—	—	—	—	—	—	—
Transfer from primary government.....	—	—	—	—	—	3,277	—
Interest payments on bonds, notes and capital leases...	—	—	(473)	(14)	—	(4)	50
Bond issuance cost.....	—	—	—	—	—	—	(109)
Capital grants.....	—	—	6,766	—	—	—	31,987
Dredging costs.....	—	—	(668)	—	—	—	—
Total cash provided from (used for) capital financing activities.....	<u>(90)</u>	<u>(613)</u>	<u>(96)</u>	<u>(191)</u>	<u>—</u>	<u>1,021</u>	<u>30,290</u>
Cash Provided From (Used For)							
Investment Activities:							
Proceeds from the sale/maturities of non-State Treasurer investments.....	375,322	—	22,260	—	—	2,151	26,104
Purchase of non-State Treasurer investments.....	(373,316)	(10,764)	(23,355)	—	—	—	(59,926)
Investment earnings.....	16,213	9,219	852	28	126	159	2,298
Total cash provided from (used for) investment activities.....	<u>18,219</u>	<u>(1,545)</u>	<u>(243)</u>	<u>28</u>	<u>126</u>	<u>2,310</u>	<u>(31,524)</u>
Net increase (decrease) in cash and cash equivalents.....	(5,610)	24,529	6,665	(15)	1,193	2,503	129
Deficit from governmental operations.....	2,186	—	—	—	—	—	—
Cash and cash equivalents at July 1.....	23,835	119,870	315	601	1,694	205	22
Cash and cash equivalents at June 30.....	<u>\$ 20,411</u>	<u>\$ 144,399</u>	<u>\$ 6,980</u>	<u>\$ 586</u>	<u>\$ 2,887</u>	<u>\$ 2,708</u>	<u>\$ 151</u>
Noncash Investing, Capital, and Financing Activities:							
Interest expense on advance from primary government.....	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 2,103	\$ —
Change in construction in progress as a result of accrued accounts payable.....	—	—	238	—	—	—	—
Noncash distributions from the State Treasurer Long-Term Investment Pool.....	—	6,650	—	—	—	—	—
Assets acquired through the assumption of a liability.....	11,935	93,855	—	330	1,780	10,867	36,951

Exhibit I-3

N.C. Low Level Radioactive Waste Management Authority	MCNC	N.C. Biotechnology Center	N.C. Rural Rehabilitation Corporation	N.C. Partnership for Children, Inc.	Rural Economic Development Center	N.C. Regional Economic Development Commissions	Totals
—	(5,880)	(85)	—	(138)	(561)	(169)	(18,924)
—	545	—	—	—	200	—	801
—	1,374	—	—	—	—	—	3,822
—	—	—	—	—	(3)	—	(907)
—	(3,428)	—	—	—	—	—	(3,428)
—	—	—	—	—	—	—	3,277
—	(689)	—	—	—	—	—	(1,130)
—	—	—	—	—	—	—	(109)
—	—	—	—	—	—	—	38,753
—	—	—	—	—	—	—	(668)
—	(8,078)	(85)	—	(138)	(364)	(169)	21,487
—	250	27,013	—	2,369	504	5,404	461,377
—	(511)	(28,351)	—	(3,944)	—	(4,784)	(504,951)
64	360	712	82	71	53	256	30,493
64	99	(626)	82	(1,504)	557	876	(13,081)
(422)	(506)	273	739	(1,342)	540	432	29,108
—	—	—	—	—	—	—	2,186
1,253	6,688	403	1,492	1,415	474	231	158,498
\$ 831	\$ 6,182	\$ 676	\$ 2,231	\$ 73	\$ 1,014	\$ 663	\$ 189,792
\$ 2,692	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 4,795
—	—	—	—	—	—	—	238
—	—	—	—	—	—	—	6,650
570	—	—	1,369	—	—	—	157,657

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

June 30, 1997

Exhibit I-4

(Dollars in Thousands)

	<u>University Funds</u>	<u>Community Colleges Funds</u>	<u>Totals</u>
ASSETS			
Cash and cash equivalents.....	\$ 1,422,664	\$ 78,864	\$ 1,501,528
Investments.....	2,288,818	56,079	2,344,897
Receivables:			
Accounts receivable.....	166,602	10,462	177,064
Intergovernmental receivables.....	43,580	63,447	107,027
Interest receivable.....	10,389	217	10,606
Due from other funds.....	52,650	997	53,647
Due from component units.....	1,548	—	1,548
Due from primary government.....	5,085	87,829	92,914
Notes receivable.....	81,264	767	82,031
Inventories.....	40,176	11,001	51,177
Prepaid items.....	5,880	399	6,279
Fixed assets.....	4,282,577	1,012,884	5,295,461
Total Assets.....	<u>\$ 8,401,233</u>	<u>\$ 1,322,946</u>	<u>\$ 9,724,179</u>
LIABILITIES AND FUND EQUITY			
Liabilities:			
Accounts payable and accrued liabilities:			
Accounts payable.....	\$ 85,932	\$ 15,393	\$ 101,325
Accrued payroll.....	68,618	4,499	73,117
Intergovernmental payables.....	6,805	460	7,265
Arbitrage rebate payable.....	1,825	—	1,825
Obligations under securities lending.....	819,188	39,865	859,053
Due to other funds.....	52,650	997	53,647
Due to component units.....	1,377	—	1,377
Due to primary government.....	1,139	2,531	3,670
Obligations under reverse repurchase agreements.....	204,986	—	204,986
Notes payable.....	27,338	518	27,856
Claims and benefits payable.....	40,770	—	40,770
Capital leases payable.....	42	995	1,037
Bonds payable.....	803,939	—	803,939
Interest payable.....	12,076	3	12,079
Deposits payable.....	259,273	5,059	264,332
Accrued vacation leave.....	99,572	21,758	121,330
Deferred revenue.....	25,532	14	25,546
Total Liabilities.....	<u>2,511,062</u>	<u>92,092</u>	<u>2,603,154</u>
Fund Equity:			
Investment in fixed assets.....	3,558,978	1,011,389	4,570,367
Fund balances:			
Restricted for:			
Loans.....	91,824	838	92,662
Endowments.....	568,097	11,969	580,066
Revenue bonds.....	67,694	—	67,694
Restricted funds.....	525,770	164,637	690,407
Total restricted fund balances.....	<u>1,253,385</u>	<u>177,444</u>	<u>1,430,829</u>
Unrestricted:			
Quasi-endowment.....	69,880	1,101	70,981
Undesignated.....	1,007,928	40,920	1,048,848
Total Fund Equity.....	<u>5,890,171</u>	<u>1,230,854</u>	<u>7,121,025</u>
Total Liabilities and Fund Equity.....	<u>\$ 8,401,233</u>	<u>\$ 1,322,946</u>	<u>\$ 9,724,179</u>

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

For the fiscal year ended June 30, 1997

Exhibit I-5

(Dollars in Thousands)

	University Funds	Community Colleges Funds	Totals
Revenues and Other Additions:			
Tuition and fees.....	\$ 378,753	\$ 12,276	\$ 391,029
Federal appropriations.....	20,836	—	20,836
County appropriations.....	—	100,956	100,956
Federal contracts and grants.....	491,507	67,763	559,270
State contracts and grants.....	62,058	2,140	64,198
Local contracts and grants.....	5,955	5,576	11,531
Private gifts, contracts and grants.....	249,042	12,934	261,976
Endowment income.....	17,855	550	18,405
Sales and services.....	729,943	46,863	776,806
Investment earnings.....	77,811	5,725	83,536
Realized gain on sale of investments.....	78,154	225	78,379
Unrealized gain on investments.....	7,685	—	7,685
Expended for plant facilities.....	307,620	133,254	440,874
Retirement of indebtedness.....	28,714	399	29,113
Proceeds of refunding debt.....	38,467	—	38,467
Income from hospital operations.....	422,751	—	422,751
Other revenues and additions.....	47,013	3,138	50,151
Total revenues and other additions.....	<u>2,964,164</u>	<u>391,799</u>	<u>3,355,963</u>
Expenditures and Other Deductions:			
Educational and general.....	2,453,175	713,144	3,166,319
Auxiliary enterprises.....	393,152	41,832	434,984
Internal service.....	30,049	2,135	32,184
Independent operations.....	12,225	—	12,225
Professional clinical services.....	181,621	—	181,621
Indirect cost recovered.....	78,458	631	79,089
Refunded to grantors.....	908	13	921
Administrative and collection costs, loan cancellation and bad debts.....	2,426	—	2,426
Realized loss on sale of investments.....	5,832	446	6,278
Expended for plant facilities.....	207,191	132,456	339,647
Retirement of indebtedness.....	31,931	54	31,985
Payment to escrow agent.....	38,479	—	38,479
Interest on indebtedness.....	34,709	—	34,709
Disposal of plant facilities.....	58,568	28,662	87,230
Hospital operations.....	380,244	—	380,244
Other expenditures and deductions.....	330	515	845
Total expenditures and other deductions.....	<u>3,909,298</u>	<u>919,888</u>	<u>4,829,186</u>
Transfers - Additions (Deductions):			
Operating transfers from primary government.....	1,611,465	587,286	2,198,751
Operating transfers to primary government.....	(35,809)	—	(35,809)
Operating transfers to component units.....	(11,107)	—	(11,107)
Net transfers.....	<u>1,564,549</u>	<u>587,286</u>	<u>2,151,835</u>
Net increase (decrease) in fund equity.....	619,415	59,197	678,612
Fund equity — July 1.....	5,315,387	1,176,305	6,491,692
Restatements.....	(15,137)	(4,648)	(19,785)
Residual equity transfers out.....	(29,494)	—	(29,494)
Fund equity — June 30.....	<u>\$ 5,890,171</u>	<u>\$ 1,230,854</u>	<u>\$ 7,121,025</u>

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

For the Fiscal Year Ended June 30, 1997

Exhibit I-6

(Dollars in Thousands)

	University Funds	Community Colleges Funds	Totals
Revenues:			
Tuition and fees.....	\$ 376,892	\$ 12,272	\$ 389,164
Federal appropriations.....	20,836	—	20,836
County appropriations.....	—	84,759	84,759
Federal contracts and grants.....	419,650	63,998	483,648
State contracts and grants.....	56,570	146	56,716
Local contracts and grants.....	5,701	704	6,405
Private gifts, contracts and grants.....	169,811	8,639	178,450
Endowment income.....	21,044	372	21,416
Sales and services.....	726,447	46,860	773,307
Investment earnings.....	59,575	4,814	64,389
Realized gain on sale of investments.....	191	33	224
Other revenues.....	27,369	2,094	29,463
Total current revenues.....	<u>1,884,086</u>	<u>224,691</u>	<u>2,108,777</u>
Expenditures:			
Educational and general:			
Instruction.....	1,009,096	411,857	1,420,953
Organized research.....	345,506	—	345,506
Public service.....	210,472	3,067	213,539
Academic support.....	204,271	17,480	221,751
Student services.....	65,230	52,516	117,746
Institutional support.....	237,172	108,521	345,693
Physical plant operations.....	187,602	64,352	251,954
Student financial aid.....	193,826	55,351	249,177
Total educational and general.....	<u>2,453,175</u>	<u>713,144</u>	<u>3,166,319</u>
Auxiliary enterprises.....	393,152	41,832	434,984
Internal service.....	30,049	2,135	32,184
Independent operations.....	12,225	—	12,225
Professional clinical services.....	181,621	—	181,621
Realized loss on sale of investments.....	462	445	907
Total expenditures.....	<u>3,070,684</u>	<u>757,556</u>	<u>3,828,240</u>
Transfers and Additions (Deductions):			
Excess of restricted receipts over (under)			
transfers to revenues.....	30,208	703	30,911
Refunded to grantors.....	(908)	—	(908)
Mandatory transfers.....	(62,195)	(20)	(62,215)
Non-mandatory transfers.....	(26,381)	(3,155)	(29,536)
Interinstitutional transfers.....	(5,067)	—	(5,067)
Operating transfers from primary government.....	1,348,579	538,249	1,886,828
Operating transfers to primary government.....	(18,776)	—	(18,776)
Operating transfers to component units.....	(11,107)	—	(11,107)
Net Increase in Fund Equity.....	<u>\$ 67,755</u>	<u>\$ 2,912</u>	<u>\$ 70,667</u>



STATISTICAL SECTION

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

(Dollars in Thousands)

		<u>1997</u>	<u>1996</u>	<u>1995</u>	<u>1994</u>	<u>1993</u>
Revenues — By Source						
Taxes.....	[2]	\$ 12,177,605	\$ 11,390,198	\$ 10,773,352	\$ 10,084,671	\$ 9,347,575
Federal funds.....		5,857,680	5,192,921	4,458,959	4,243,091	3,757,961
Local funds.....		427,306	469,023	325,613	299,297	269,545
Investment earnings.....	[1]	454,678	290,536	245,388	183,574	145,771
Interest earnings on loans.....		4,280	1,361	121	38	—
Sales and services.....		76,130	82,511	46,686	74,210	32,195
Sale, rental and lease of property.....		24,738	23,641	13,888	9,396	7,467
Fees, licenses and fines.....		814,690	793,622	749,277	713,941	662,007
Contributions, gifts and grants.....		31,805	21,512	38,012	28,135	155,488
Miscellaneous.....		182,247	141,647	169,276	141,421	118,755
Total revenues.....		\$ 20,051,159	\$ 18,406,972	\$ 16,820,572	\$ 15,777,774	\$ 14,496,764
Expenditures — By Function						
Current:						
General government.....	[1]	\$ 921,406	\$ 769,518	\$ 787,164	\$ 735,973	\$ 825,507
Education.....	[1]	4,775,741	4,499,257	4,441,966	4,144,633	4,429,381
Human resources.....	[1]	6,822,624	6,244,976	5,211,388	4,519,194	4,090,775
Economic development.....	[1]	294,787	261,340	273,101	261,623	261,142
Environment, health and natural resources.....	[1]	668,402	576,272	591,007	538,574	458,041
Public safety, corrections, and regulation.....	[1]	1,613,757	1,331,964	1,209,576	1,099,081	973,708
Transportation.....	[1]	2,205,494	1,908,076	1,871,233	1,724,551	1,569,932
Agriculture.....	[1]	65,421	63,174	62,257	59,552	59,997
Capital outlay.....		147,194	173,118	167,249	127,275	77,528
Debt service.....		131,249	150,471	141,031	123,376	124,314
Total expenditures.....		\$ 17,646,075	\$ 15,978,166	\$ 14,755,972	\$ 13,333,832	\$ 12,870,325

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

**Major Revenues by Source
1988 - 1997**

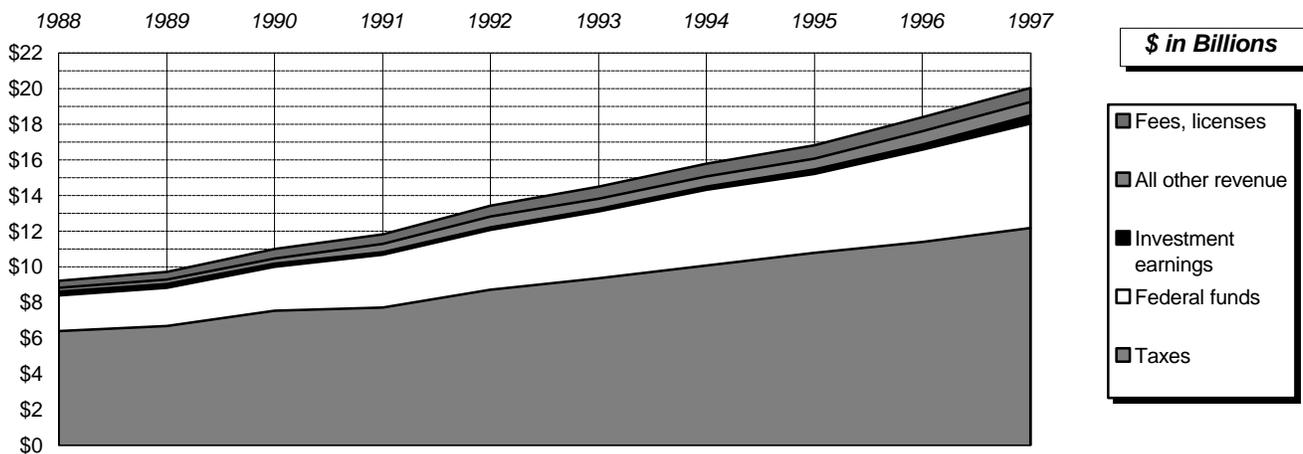


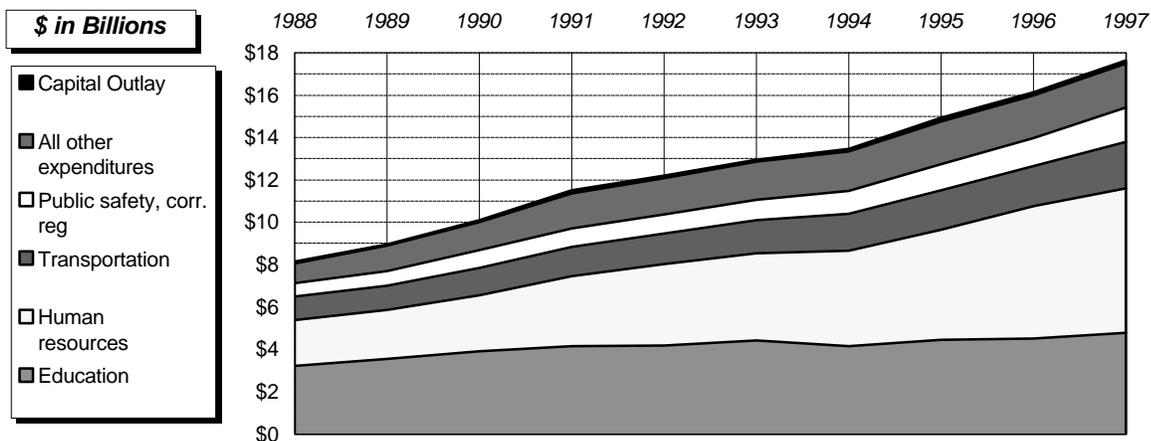
Table 1

1992	1991	1990	1989	1988
\$ 8,703,484	\$ 7,730,054	\$ 7,543,587	\$ 6,691,258	\$ 6,381,706
3,382,683	2,940,213	2,463,686	2,141,659	1,995,659
234,428	203,171	167,093	138,713	113,035
120,891	144,823	179,575	198,774	212,731
—	—	—	—	—
33,263	54,197	63,785	52,758	69,953
6,787	6,817	5,473	5,057	5,896
621,241	529,746	518,000	425,963	404,925
266,435	143,434	10,421	8,458	9,192
69,389	52,808	44,033	44,132	35,648
<u>\$ 13,438,601</u>	<u>\$ 11,805,263</u>	<u>\$ 10,995,653</u>	<u>\$ 9,706,772</u>	<u>\$ 9,228,745</u>
\$ 786,729	\$ 755,810	\$ 472,543	\$ 372,266	\$ 274,736
4,188,854	4,135,288	3,920,038	3,547,507	3,213,663
3,824,635	3,311,811	2,631,963	2,311,578	2,169,229
242,870	244,198	242,541	73,554	66,168
391,342	355,282	333,151	502,093	327,798
903,543	868,227	834,110	715,462	636,941
1,449,123	1,401,607	1,290,250	1,128,706	1,116,397
57,316	56,472	55,272	52,503	49,091
119,343	131,565	108,867	77,080	89,815
114,928	106,692	110,396	110,980	113,182
<u>\$ 12,078,683</u>	<u>\$ 11,366,952</u>	<u>\$ 9,999,131</u>	<u>\$ 8,891,729</u>	<u>\$ 8,057,020</u>

[1] Fiscal years prior to 1997 do not reflect the implementation of GASB Statement 28, *Accounting and Financial Reporting for Securities Lending Transactions*. The impact of GASB Statement 28 is to gross-up investment earnings by the amount of fees charged for securities lending and to increase current expenditures in the amount of fees charged. Prior to 1997, securities lending fees are netted against securities lending income. For 1997, these fees totaled \$138 million.

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

Major Expenditures by Function 1988 - 1997



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

(Dollars in Thousands)

	1997	1996	1995	1994
TAX REVENUES				
Individual income tax..... [2]	\$ 5,454,571	\$ 4,975,387	\$ 4,617,197	\$ 4,289,162
Corporate income tax..... [2]	869,717	878,028	833,135	737,125
Individual and corporate income taxes.....	<u>6,324,288</u>	<u>5,853,415</u>	<u>5,450,332</u>	<u>5,026,287</u>
Sales and use tax..... [2]	3,134,877	2,947,537	2,701,114	2,585,642
Franchise tax.....	534,622	495,008	457,952	438,779
Beverage tax.....	151,064	138,653	170,033	161,578
Insurance tax.....	259,286	242,188	235,455	219,847
Intangible tax.....	—	11,509	128,608	127,088
Inheritance tax.....	132,195	113,416	109,883	106,530
Soft drink tax.....	30,980	39,619	36,176	38,124
Tobacco products tax.....	46,797	46,394	44,936	39,700
License tax.....	41,280	44,962	53,431	50,975
Real estate conveyance tax.....	1,064	19,510	16,349	18,046
Gift tax.....	12,566	11,043	8,592	13,150
Other taxes.....	1,516	1,388	1,421	955
Total tax revenues.....	<u>10,670,535</u>	<u>9,964,642</u>	<u>9,414,282</u>	<u>8,826,701</u>
NON-TAX REVENUES				
Federal Funds:				
Departmental revenues.....	5,169,286	4,613,915	3,780,032	3,595,033
Local Funds:				
Departmental revenues.....	403,145	445,443	299,156	270,873
Investment Earnings:				
Income from General Fund investments.....	224,260	202,277	163,783	121,776
Railroad dividends.....	—	—	96	96
Departmental revenues..... [1]	115,979	11,070	7,923	7,214
Other investment earnings.....	241	249	221	70
	<u>340,480</u>	<u>213,596</u>	<u>172,023</u>	<u>129,156</u>
Sales and Services:				
Departmental revenues.....	58,744	63,345	24,414	44,503
Sale, Rental and Lease of Property:				
Proceeds from sale, rental and lease of property.....	1,342	1,265	499	7
Departmental revenues.....	4,651	4,404	7,288	6,880
	<u>5,993</u>	<u>5,669</u>	<u>7,787</u>	<u>6,887</u>
Fees, Licenses and Fines:				
Court fines and fees.....	99,819	90,456	88,023	81,529
Securities registration fees.....	17,344	14,838	12,911	5,748
Banking and investment fees.....	3,337	3,432	3,760	3,513
Self insurer fees (Industrial Commission).....	3,460	3,038	2,768	2,785
Corporations licenses and fees.....	—	—	—	3,864
Gasoline and oil inspection fees.....	—	—	—	1,251
Uniform Commercial Code fees.....	—	—	—	914
Environment, Health and Natural Resources - use fees.....	—	—	—	—
Notary licenses and fees.....	—	—	—	683
Probation supervision fees.....	10,859	10,002	9,690	8,604
Elections filing fees.....	19	287	17	252
Department of Insurance fees.....	6,001	961	936	14,834
DWI service and restoration fees.....	5,949	5,426	5,342	4,818
Departmental revenues.....	104,002	101,364	106,360	99,502
Other non-tax revenues.....	4,056	5,005	5,415	7,265
	<u>254,846</u>	<u>234,809</u>	<u>235,222</u>	<u>235,562</u>
Contributions, Gifts and Grants:				
Departmental revenues.....	14,145	8,574	4,065	3,319
Miscellaneous:				
Local sales and use tax administration.....	9,178	8,661	6,669	5,623
Sales tax refunds.....	13,301	11,585	14,217	12,166
Departmental revenues.....	151,906	112,430	129,224	104,072
Other non-tax revenue.....	455	471	1,534	598
	<u>174,840</u>	<u>133,147</u>	<u>151,644</u>	<u>122,459</u>
Total non-tax revenues.....	<u>6,421,479</u>	<u>5,718,498</u>	<u>4,674,343</u>	<u>4,407,792</u>
Total Revenues.....	<u>\$ 17,092,014</u>	<u>\$ 15,683,140</u>	<u>\$ 14,088,625</u>	<u>\$ 13,234,493</u>

Table 2

1993	1992	1991	1990	1989	1988
\$ 3,992,538	\$ 3,650,313	\$ 3,508,173	N/A	N/A	N/A
710,665	643,901	493,448	N/A	N/A	N/A
<u>4,703,203</u>	<u>4,294,214</u>	<u>4,001,621</u>	\$ 3,957,643	\$ 3,685,617	\$ 3,485,210
2,363,745	2,215,318	1,680,758	1,767,692	1,689,572	1,600,746
423,623	407,362	374,017	262,822	236,306	234,686
159,049	159,116	152,938	145,761	127,632	122,530
211,110	191,531	193,241	176,715	187,072	186,461
120,599	112,168	92,500	97,258	84,864	—
89,626	87,674	76,781	72,875	67,151	60,417
35,087	32,289	30,099	28,987	27,912	27,365
43,373	41,392	15,238	15,315	7,949	16,161
27,641	29,932	31,131	28,225	24,929	27,276
15,742	10,952	8,247	9,307	—	—
13,555	7,248	7,675	10,122	4,593	5,003
856	1,288	1,141	765	14,053	9,648
<u>8,207,209</u>	<u>7,590,484</u>	<u>6,665,387</u>	<u>6,573,487</u>	<u>6,157,650</u>	<u>5,775,503</u>
3,206,169	2,902,873	2,511,804	2,022,667	1,778,720	1,602,253
<u>237,329</u>	<u>204,414</u>	<u>179,887</u>	<u>143,991</u>	<u>121,324</u>	<u>86,703</u>
77,911	56,900	75,171	116,304	140,709	166,490
96	96	128	96	166	217
11,080	9,676	6,008	6,739	5,619	5,857
61	94	221	—	—	—
<u>89,148</u>	<u>66,766</u>	<u>81,528</u>	<u>123,139</u>	<u>146,494</u>	<u>172,564</u>
2,276	48,771	48,361	59,675	49,034	67,813
190	38	214	100	313	302
6,671	6,209	6,019	5,154	4,482	3,995
<u>6,861</u>	<u>6,247</u>	<u>6,233</u>	<u>5,254</u>	<u>4,795</u>	<u>4,297</u>
76,601	71,430	63,149	59,689	48,814	42,289
4,709	3,783	3,498	3,803	3,897	3,771
3,234	2,960	2,821	2,389	2,431	2,233
2,894	2,398	2,538	2,547	2,379	2,425
3,441	3,102	2,430	2,051	2,238	2,167
1,176	1,357	1,427	1,021	1,239	1,198
913	879	910	952	980	951
—	1,521	656	—	—	—
657	574	455	430	385	373
8,770	8,412	7,524	6,331	5,904	4,580
13	218	14	221	10	168
11,173	6,987	5,336	3,502	—	—
4,597	4,582	4,588	3,668	—	—
109,902	98,896	72,572	66,043	53,607	54,053
4,002	2,297	1,592	1,223	7,116	6,281
<u>232,082</u>	<u>209,396</u>	<u>169,510</u>	<u>153,870</u>	<u>129,000</u>	<u>120,489</u>
129,430	238,350	50,550	1,479	1,303	1,159
5,920	6,243	5,819	5,425	5,342	5,152
10,811	11,193	—	—	—	—
75,074	22,359	24,241	18,445	16,504	12,383
1,313	2,445	387	741	3,170	2,924
<u>93,118</u>	<u>42,240</u>	<u>30,447</u>	<u>24,611</u>	<u>25,016</u>	<u>20,459</u>
<u>3,996,413</u>	<u>3,719,057</u>	<u>3,078,320</u>	<u>2,534,686</u>	<u>2,255,686</u>	<u>2,075,737</u>
<u>\$ 12,203,622</u>	<u>\$ 11,309,541</u>	<u>\$ 9,743,707</u>	<u>\$ 9,108,173</u>	<u>\$ 8,413,336</u>	<u>\$ 7,851,240</u>

[1] Fiscal years prior to 1997 do not reflect the implementation of GASB Statement 28, Accounting and Financial Reporting for Securities Lending Transactions. The impact of GASB Statement 28 is to gross-up investment earnings by the amount of fees charged for securities lending and to increase current expenditures in the amount of fees charged. Prior to 1997, securities lending fees are netted against securities lending income. For 1997, these fees totaled \$105 million for the General Fund.

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

COMPUTATION OF LEGAL DEBT LIMIT

June 30, 1997

Table 3

(Dollars in Thousands)

General obligation bonds authorized.....	\$ 4,167,294
Allowable increase in general obligation bonds by General Assembly for lawful purposes:	
1995-97 biennium.....	—
Legal debt limit.....	4,167,294
Less bonds issued.....	(1,867,294)
Unused allowable debt.....	<u>\$ 2,300,000</u>

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

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

Below is a calculation of the allowable increase in General Obligation Bonds by the General Assembly for lawful purposes without voter approval.

Biennium	General Obligation Bonds						Allowable Increase	
	Beginning Balance	Issues	Refunded	Repayment (Net of Accretion)	Ending Balance	Decrease (Increase)	(2/3 of Debt Decrease) Amount	Biennium
1995-97	\$ 1,025,167	\$ 670,000	\$ —	\$ (180,690)	\$ 1,514,477	\$ (489,310)	N/A	1997-99
1993-95	\$ 584,905	\$ 782,240	\$ (160,125)	\$ (181,853)	\$ 1,025,167			

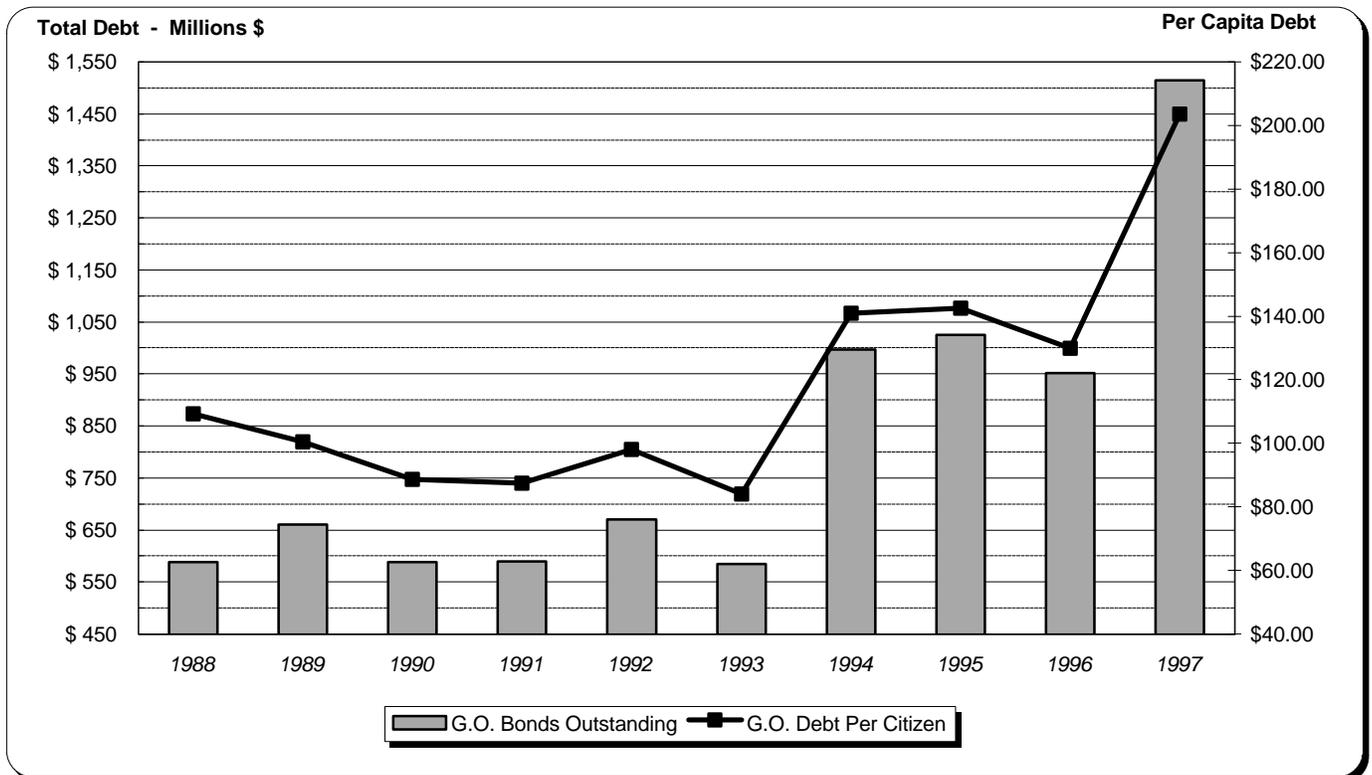
GENERAL OBLIGATION BONDS DEBT RATIOS

For the Fiscal Years 1988-1997

Table 4

Fiscal Year Ended June 30	General Obligation Debt Per Capita			Ratio of Annual Debt Service To General Expenditures		
	N.C. Population	General Obligation Bonds Outstanding	G.O. Debt per Citizen	Debt Service (Principal and Interest)	Total General Expenditures	Ratio
1997	7,436,690	\$1,514,477,000	\$ 203.65	\$131,249,000	\$17,646,075,000	0.74%
1996	7,322,318	\$ 951,082,000	\$ 129.89	\$150,741,000	\$15,978,166,000	0.94%
1995	7,194,238	\$1,025,167,000	\$ 142.50	\$141,031,000	\$14,755,972,000	0.96%
1994	7,070,034	\$ 996,365,000	\$ 140.93	\$123,376,000	\$13,333,832,000	0.93%
1993	6,953,547	\$ 584,905,000	\$ 84.12	\$124,314,000	\$12,870,325,000	0.97%
1992	6,837,325	\$ 670,380,000	\$ 98.05	\$114,928,000	\$12,078,683,000	0.95%
1991	6,751,715	\$ 590,014,000	\$ 87.39	\$106,692,000	\$11,366,952,000	0.94%
1990	6,632,448	\$ 588,004,000	\$ 88.66	\$110,396,000	\$ 9,999,131,000	1.10%
1989	6,568,810	\$ 660,429,000	\$ 100.54	\$110,980,000	\$ 8,891,729,000	1.25%
1988	6,483,344	\$ 708,160,000	\$ 109.23	\$112,067,000	\$ 8,057,020,000	1.39%

Total General Obligation Debt, and Long-Term Debt Per Capita



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

REVENUE BOND COVERAGE

For the Fiscal Years 1988-1997

(Dollars in Thousands)

Fiscal Year Ended June 30	Gross Revenues [1]	Direct Operating Expenses [1]	Net Revenue Available for Debt Service	Debt Service Requirements			Coverage [2]
				Principal	Interest	Total	
<u>PRIMARY GOVERNMENT:</u>							
<u>General Long-Term Obligations Account Group</u>							
1997	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	—
1996	—	—	—	—	—	—	—
1995	—	—	—	—	—	—	—
1994 [3]	—	—	—	—	—	—	—
1993	371	—	371	750	72	822	.45
1992	380	—	380	750	143	893	.43
1991	365	—	365	650	203	853	.43
1990	755	—	755	650	261	911	.83
1989	379	—	379	550	311	861	.44
1988	1,842	301	1,541	683	430	1,113	1.38
<u>Enterprise Funds</u>							
1997	—	—	—	—	—	—	—
1996 [4]	—	—	—	—	—	—	—
1995	1,963	1,981	(18)	111	—	111	(.16)
1994	1,947	1,845	102	104	14	118	.86
1993	1,856	1,759	97	96	21	117	.83
1992	1,923	1,799	124	88	34	122	1.02
1991	1,884	1,611	273	81	44	125	2.18
1990	1,718	1,637	81	69	52	121	.67
1989	1,709	1,506	203	64	47	111	1.83
1988	1,572	1,328	244	58	42	100	2.44
<u>Internal Service Funds</u>							
1997	—	—	—	—	—	—	—
1996	—	—	—	—	—	—	—
1995	—	—	—	—	—	—	—
1994	—	—	—	—	—	—	—
1993	—	—	—	—	—	—	—
1992	—	—	—	—	—	—	—
1991	—	—	—	—	—	—	—
1990	—	—	—	—	—	—	—
1989 [5]	—	—	—	—	—	—	—
1988	842	408	434	60	99	159	2.73

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

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

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

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

[5] - These bonds were paid in full in 1989.

Table 5

Fiscal Year Ended June 30	Gross Revenues [1]	Direct Operating Expenses [1]	Net Revenue Available for Debt Service	Debt Service Requirements			Coverage [2]
				Principal	Interest	Total	
<u>COMPONENT UNITS:</u>							
<u>Proprietary Funds</u>							
1997	\$ 105,826	\$ 10,624	95,202	\$ 10,696	\$ 69,182	\$ 79,878	1.19
1996	79,683	3,293	76,390	20,520	52,347	72,867	1.05
1995	78,248	3,972	74,276	12,487	53,662	66,149	1.12
1994	94,369	4,355	90,014	17,692	61,772	79,464	1.13
1993	103,150	7,979	95,171	19,967	66,133	86,100	1.11
1992	110,774	8,416	102,358	18,010	68,499	86,509	1.18
1991	115,880	6,542	109,338	18,481	70,796	89,277	1.22
1990	103,093	8,692	94,401	19,078	70,502	89,580	1.05
1989	107,764	8,889	98,875	17,874	79,762	97,636	1.01
1988	91,838	5,804	86,034	16,644	61,873	78,517	1.10
<u>University Funds</u>							
1997	832,060	646,514	185,546	23,521	40,515	64,036	2.90
1996	810,405	614,180	196,225	21,148	33,071	54,219	3.62
1995	771,291	583,295	187,996	17,414	34,453	51,867	3.62
1994	690,984	555,903	135,081	14,029	28,075	42,104	3.21
1993	625,097	514,644	110,453	13,314	29,503	42,817	2.58
1992	263,866	210,126	53,740	8,361	22,205	30,566	1.76
1991	244,610	201,762	42,848	6,905	19,797	26,702	1.60
1990	226,101	183,334	42,767	6,076	18,972	25,048	1.71
1989	155,692	117,700	37,992	5,115	15,968	21,083	1.80
1988	143,636	104,908	38,728	5,211	15,614	20,825	1.86

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

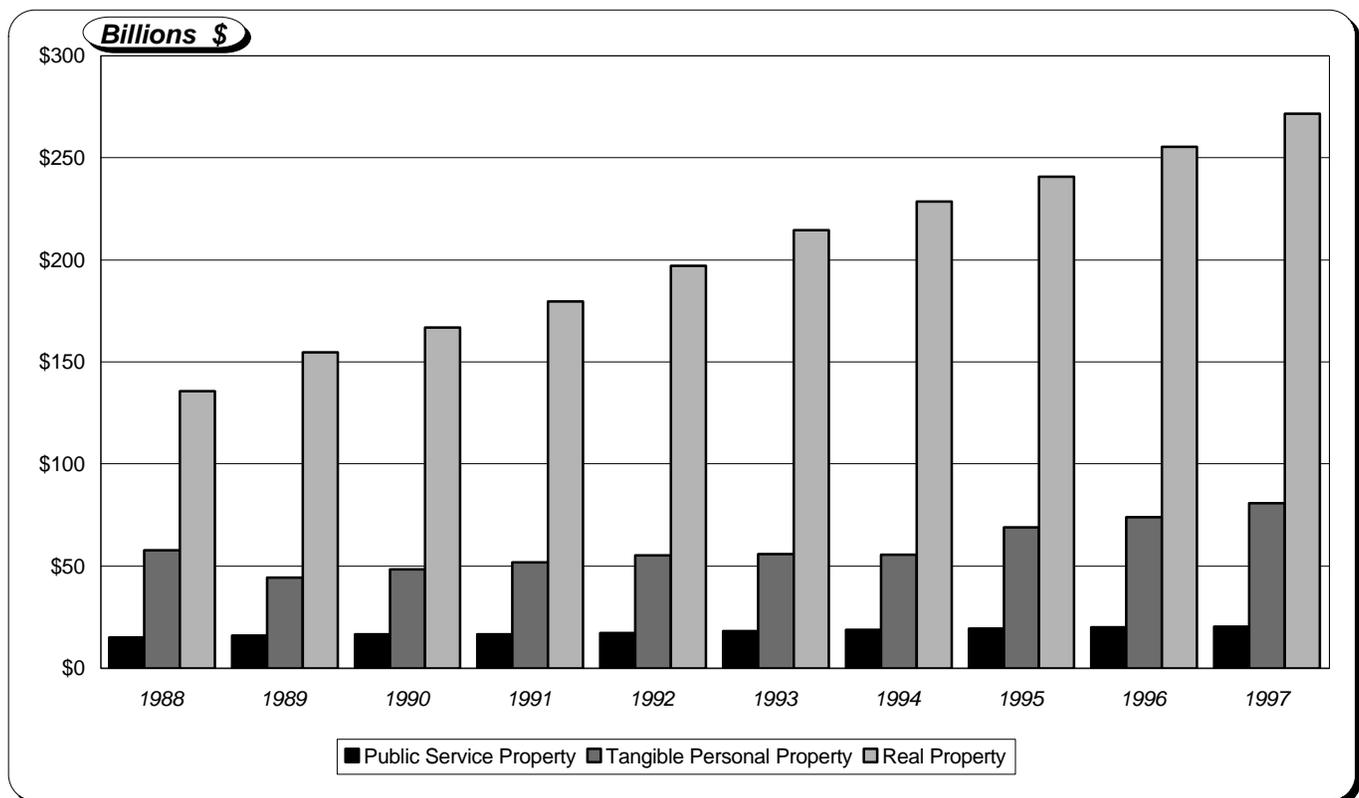
For the Fiscal Years 1988-1997

Table 6

For the Years	Assessed Value at January 1			
	Real Property	Personal Property	Public Service Companies	Total
1997	\$271,764,063,900	\$80,698,570,134	\$20,194,521,863	\$372,657,155,897
1996	255,260,809,402	74,021,864,531	19,847,155,764	349,129,829,697
1995	240,636,714,460	68,881,737,558	19,193,111,331	328,711,563,349
1994	228,535,500,422	55,446,883,320	18,847,015,529	302,829,399,271
1993	214,688,830,054	55,808,723,703	18,210,749,564	288,708,303,321
1992	197,102,056,813	55,347,001,285	17,272,796,848	269,721,854,946
1991	179,691,593,712	51,895,857,703	16,651,387,521	248,238,838,936
1990	166,750,735,800	48,368,087,887	16,472,361,742	231,591,185,429
1989	154,815,470,266	44,173,378,142	15,923,293,458	214,912,141,866
1988	135,671,300,372	57,705,370,847	15,004,816,111	208,381,487,330

The State does not levy an ad valorem tax on real property and tangible personal property. After January 1, 1988, inventories were exempt from property taxes. Counties are required by statute to assess property at 100% of appraised value.

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



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

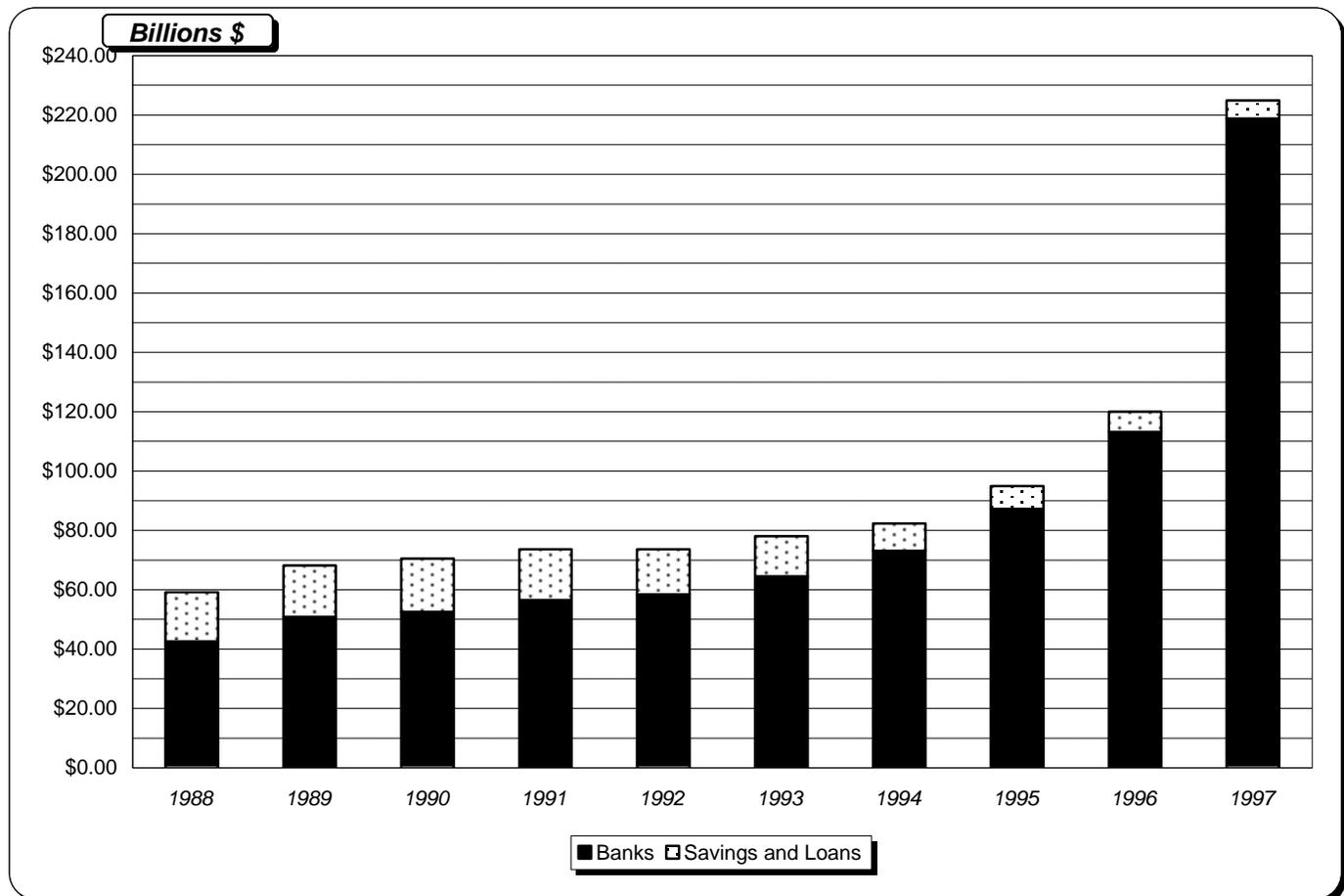
**SCHEDULE OF BANK AND SAVINGS AND LOAN DEPOSITS
OF FINANCIAL INSTITUTIONS LOCATED IN NORTH CAROLINA**

For the Years 1988-1997
(Dollars in Thousands)

Table 7

As of June 30	Banks			As of Dec. 31	Savings and Loan Associations		
	Chartered		Total Deposits		Chartered		Total Deposits
	State	National			State	Federal	
1997	\$ 40,258,721	\$178,556,322 (1)	\$ 218,815,043	1996	\$ 3,459,159	\$ 2,636,338	\$ 6,095,497
1996	37,637,624	75,499,983	113,137,607	1995	3,949,870	2,898,852	6,848,722
1995	34,336,993	52,883,449	87,220,442	1994	4,910,234	2,827,642	7,737,876
1994	26,087,820	47,009,485	73,097,305	1993	5,633,380	3,584,274	9,217,654
1993	23,310,981	41,231,385	64,542,366	1992	5,670,725	7,788,016	13,458,741
1992	21,213,128	37,261,674	58,474,802	1991	4,878,921	10,253,169	15,132,090
1991	19,561,303	36,969,025	56,530,328	1990	5,327,335	11,822,779	17,150,114
1990	16,496,940	36,025,376	52,522,316	1989	5,884,060	12,042,337	17,926,397
1989	13,741,263	36,977,970	50,719,233	1988	5,720,556	11,793,232	17,513,788
1988	12,177,522	30,330,695	42,508,217	1987	5,649,780	11,020,472	16,670,252

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



(1) The large increase in 1996-97 is due to the consolidation of separate out-of-state charters of North Carolina banks into one charter in North Carolina due to a change in Federal law.

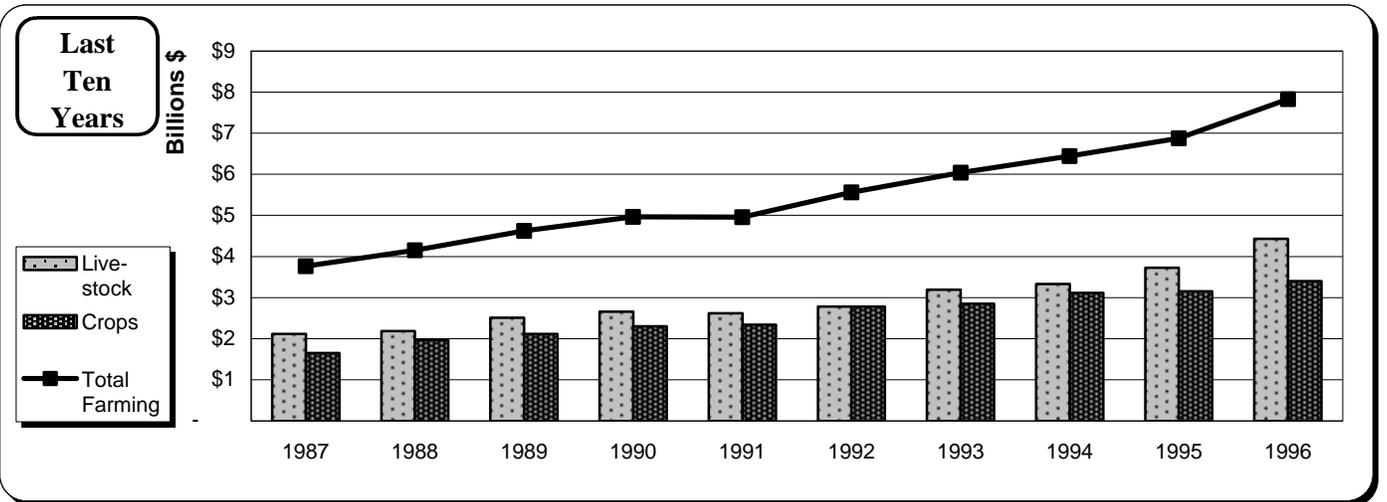
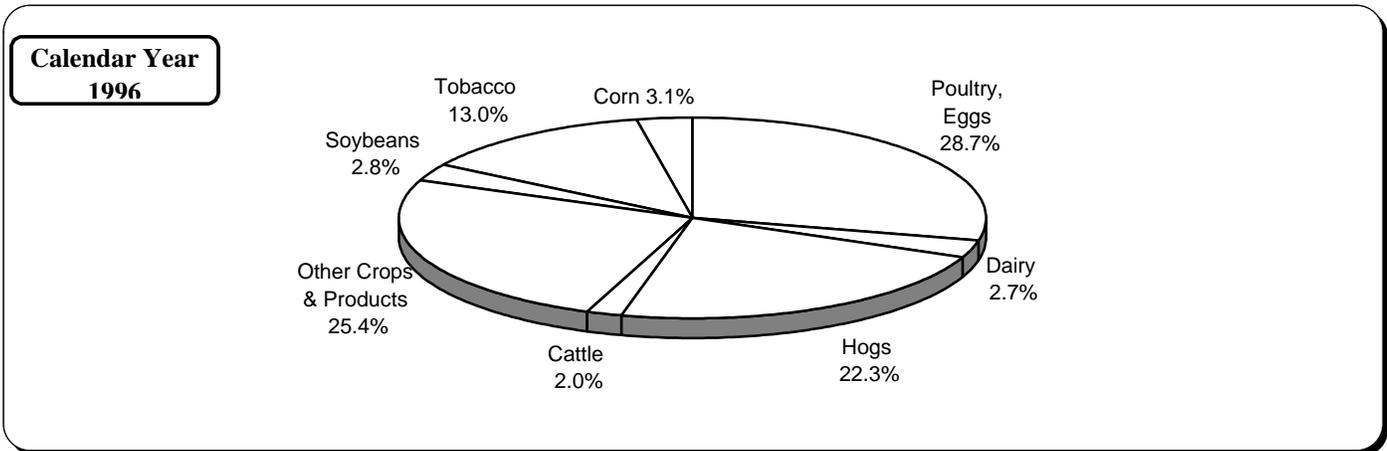
CASH RECEIPTS FROM FARMING BY COMMODITIES

For the Calendar Years 1987-1996
(Dollars in Millions)

Table 8

Year	Livestock and Related Products						Crops					Total All Livestock and Crops
	Poultry and Eggs	Dairy Products	Hogs	Cattle	Other Livestock and Products	Total Livestock and Products	Tobacco	Soybeans	Corn	Other Crops	Total Crops	
1996	\$2,249.9	\$211.8	\$1,748.7	\$153.6	\$63.3	\$4,427.3	\$1,021.5	\$217.0	\$241.8	\$1,923.7	\$3,404.0	\$7,831.3
1995	2,053.9	189.8	1,274.4	146.9	61.1	3,726.1	1,048.5	157.4	161.6	1,787.0	3,154.5	6,880.6
1994	1,911.5	210.5	982.8	166.7	57.7	3,329.2	942.9	217.3	149.0	1,804.6	3,113.8	6,443.0
1993	1,822.1	211.2	930.0	172.0	54.6	3,189.9	1,029.9	195.5	139.2	1,486.6	2,851.2	6,041.1
1992	1,612.3	218.8	730.8	168.6	53.7	2,784.2	1,049.5	203.5	178.0	1,346.3	2,777.3	5,561.5
1991	1,516.9	204.2	665.3	177.7	53.1	2,617.2	1,054.7	193.4	166.3	924.2	2,338.6	4,955.8
1990	1,577.3	234.8	615.1	178.7	52.9	2,658.8	1,051.6	205.0	193.2	853.9	2,303.7	4,962.5
1989	1,574.5	223.8	508.8	148.4	54.7	2,510.2	946.1	231.2	189.2	744.6	2,111.1	4,621.3
1988	1,316.5	219.7	447.9	152.9	50.6	2,187.6	859.0	235.7	170.7	699.3	1,964.7	4,152.3
1987	1,152.0	222.6	497.9	190.7	52.0	2,115.2	730.1	196.3	116.9	608.9	1,652.2	3,767.4

CASH RECEIPTS FROM FARMING



Source: North Carolina Crop and Livestock Reporting Service (Data for 1997 is not available.)

MAJOR PRIVATE EMPLOYERS IN NORTH CAROLINA*Table 9*

The State's largest major private employers, ranked in order according to first quarter 1996 preliminary employment averages, are listed:

1997 Rank	Employer	Type of Business
1	Food Lion, Inc.	Supermarket chain
2	Wal-Mart Stores, Inc.	Discount store chain
3	IBM Corporation	Computers, telecommunications
4	Duke University	Private university, medical center
5	Sara Lee Corporation	Hosiery, baked goods, apparel
6	K-Mart Corporation	Discount store chain
7	Harris Teeter, Inc.	Supermarket chain
8	US Air, Inc.	Airline
9	Winn-Dixie Stores, Inc.	Supermarket chain
10	Duke Power Co., Inc.	Electric Utility
11	Burlington Industries, Inc.	Textiles
12	First Union National Bank	Banking and financial services
13	Lowe's Companies Inc.	Hardware chain
14	Fieldcrest Cannon, Inc.	Textiles
15	United Parcel Service, Inc.	Delivery services
16	RJR Nabisco, Inc.	Tobacco, food products
17	Perdue Farms Inc.	Food Production
18	Sears, Roebuck and Company	Department store chain
19	Glaxo Wellcome Inc.	Pharmaceuticals
20	Broyhill Furniture Industries	Furniture manufacturing
21	Carolina Power & Light Company	Electric utility
22	Collins and Aikman Group, Inc.	Textiles
23	NationsBank of North Carolina	Banking and financial services
24	Cone Mills Corporation	Textiles
25	Northern Telecom Inc.	Telecommunications

Source: North Carolina Employment Security Commission

SCHEDULE OF DEMOGRAPHIC DATA

For the Years 1950, 1960, 1970, 1980, 1988-1997

Year	Population ^[1]				Per Capita Income ^[2]		
	United States Population	U.S. Increase from Prior Period	North Carolina Population	N.C. Increase from Prior Period	United States	North Carolina	N.C. as a Percentage of U.S.
1997	267,575,000 [B]	0.90%	7,436,690 [C]	1.56%	\$25,560 [E]	\$23,000 [F]	89.98%
1996	265,185,000 [B]	0.92%	7,322,318 [C]	1.78%	24,459 [E]	22,010 [F]	89.99%
1995	262,755,000 [B]	0.92%	7,194,238 [C]	1.76%	23,372	21,082	90.20%
1994	260,350,000 [B]	0.99%	7,070,034 [D]	1.68%	22,218	19,922	89.67%
1993	257,800,000 [B]	1.08%	6,953,547 [D]	1.70%	21,381	19,135	89.50%
1992	255,039,000 [B]	1.15%	6,837,325 [D]	1.27%	20,663	18,269	88.41%
1991	252,138,000 [B]	1.38%	6,751,715 [D]	1.80%	19,720	17,140	86.92%
1990	248,718,000 [A]	0.77%	6,632,448 [A]	0.97%	19,224	16,725	87.00%
1989	246,819,000 [B]	0.95%	6,568,810	1.32%	18,127	15,827	87.31%
1988	244,499,000 [B]	3.68%	6,483,344	5.17%	17,015	14,792	86.94%
1980	226,546,000 [A]	11.13%	5,880,095 [A]	15.65%	10,029	8,067	80.44%
1970	203,849,000 [A]	13.26%	5,084,411 [A]	11.59%	4,072	3,255	79.94%
1960	179,979,000 [A]	18.51%	4,556,155 [A]	12.17%	2,254	1,615	71.65%
1950	151,868,000 [A]		4,061,929 [A]		1,496	1,037	69.32%

[A] - U.S. Census count - April 1 (1950 - 1990)

[B] - U.S. Census estimates - July 1 (1987 - 1996)

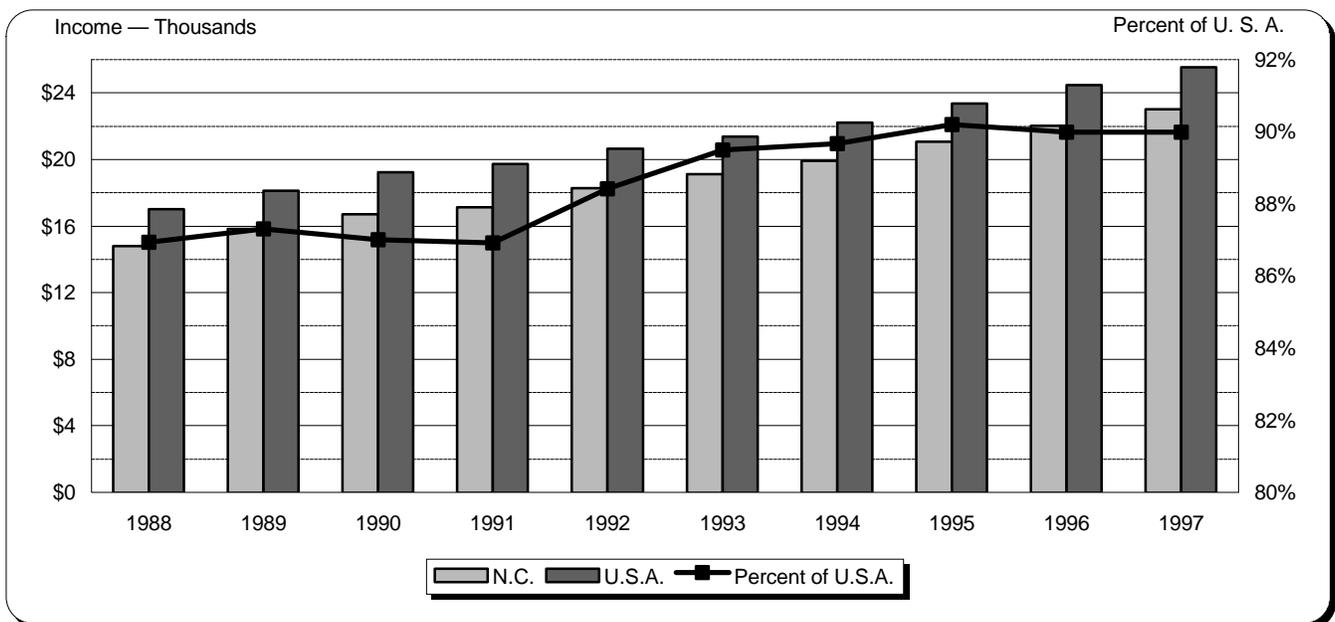
[C] - N.C. Office of State Planning projection - July 1, 1996, based on April, 1990, census population of 6,632,448

[D] - N.C. Office of State Planning estimate - July 1, 1991-1994, based on April, 1990 census population of 6,632,448

[E] - U.S. Department of Commerce estimate

[F] - N.C. OSBM estimate

**Per Capita Income
North Carolina Compared to United States
1988 to 1997**



Sources: [1] Population

[2] Per Capita Income

[3] Labor Force Data - As of June 30

U.S. Department of Commerce, Bureau of the Census
N.C. Office of State Planning

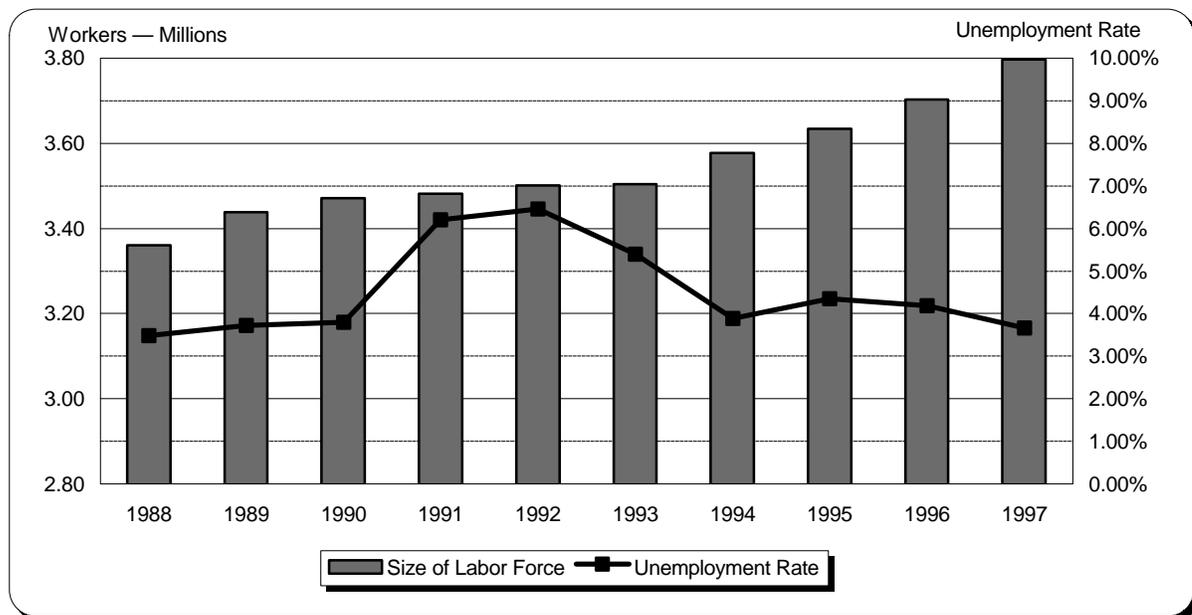
U.S. Department of Commerce, Bureau of Economic Analysis
N.C. Office of State Budget and Management

N.C. Employment Security Commission

Table 10

North Carolina Civilian Labor Force Data [3]					North Carolina - Other Data		
Year	Total	Employed	Unemployed	Unemployed	[4]	[5]	[6]
				Percentage	Public	Motor	Residential
				Rate	School	Vehicles	Construction
					Enrollment	Registered	Authorized
1997	3,796,900	3,657,800	139,100	3.66%	1,183,335	6,392,269	47,852
1996	3,703,000	3,548,000	155,000	4.19%	1,156,885	6,303,969	89,485
1995	3,634,000	3,476,000	158,000	4.35%	1,131,090	6,167,660	85,215
1994	3,578,000	3,439,000	139,000	3.88%	1,108,625	5,889,588	114,468
1993	3,504,000	3,315,000	189,000	5.39%	1,093,683	5,870,252	54,788
1992	3,501,000	3,275,000	226,000	6.46%	1,080,223	5,695,022	49,482
1991	3,482,000	3,266,000	216,000	6.20%	1,070,297	5,681,199	38,743
1990	3,471,000	3,339,000	132,000	3.80%	1,065,399	5,600,050	30,471
1989	3,439,000	3,311,000	128,000	3.72%	1,068,800	5,549,129	33,032
1988	3,361,000	3,244,000	117,000	3.48%	1,072,934	5,437,290	35,739
1980	2,759,197	2,607,925	151,272	5.48%	1,191,342	5,094,814	6,730
1970	2,054,838	1,984,402	70,436	3.43%	1,217,024	3,218,292	(Data
1960	1,680,442	1,605,478	74,964	4.46%	1,105,412	1,907,988	not
1950	1,512,924	1,463,352	49,572	3.28%	893,745	1,171,228	available)

**Civilian Labor Force Trends
With Unemployment Percentages
1988 to 1997**



Sources: [4] Public School Enrollment - Final Average Daily Membership N.C. Department of Public Instruction
for the School Year September 1 to June 30
[5] Motor Vehicle Registrations - For the Fiscal Year Ending June 30 N.C. Division of Motor Vehicles
[6] Residential Housing Permits - Current Year for the Six Months Ended June 30, 1996; Prior Years for the Calendar Years Ended December 31 N.C. Department of Labor

TEN LARGEST NON-AGRICULTURAL INDUSTRIES BY NUMBER OF EMPLOYEES

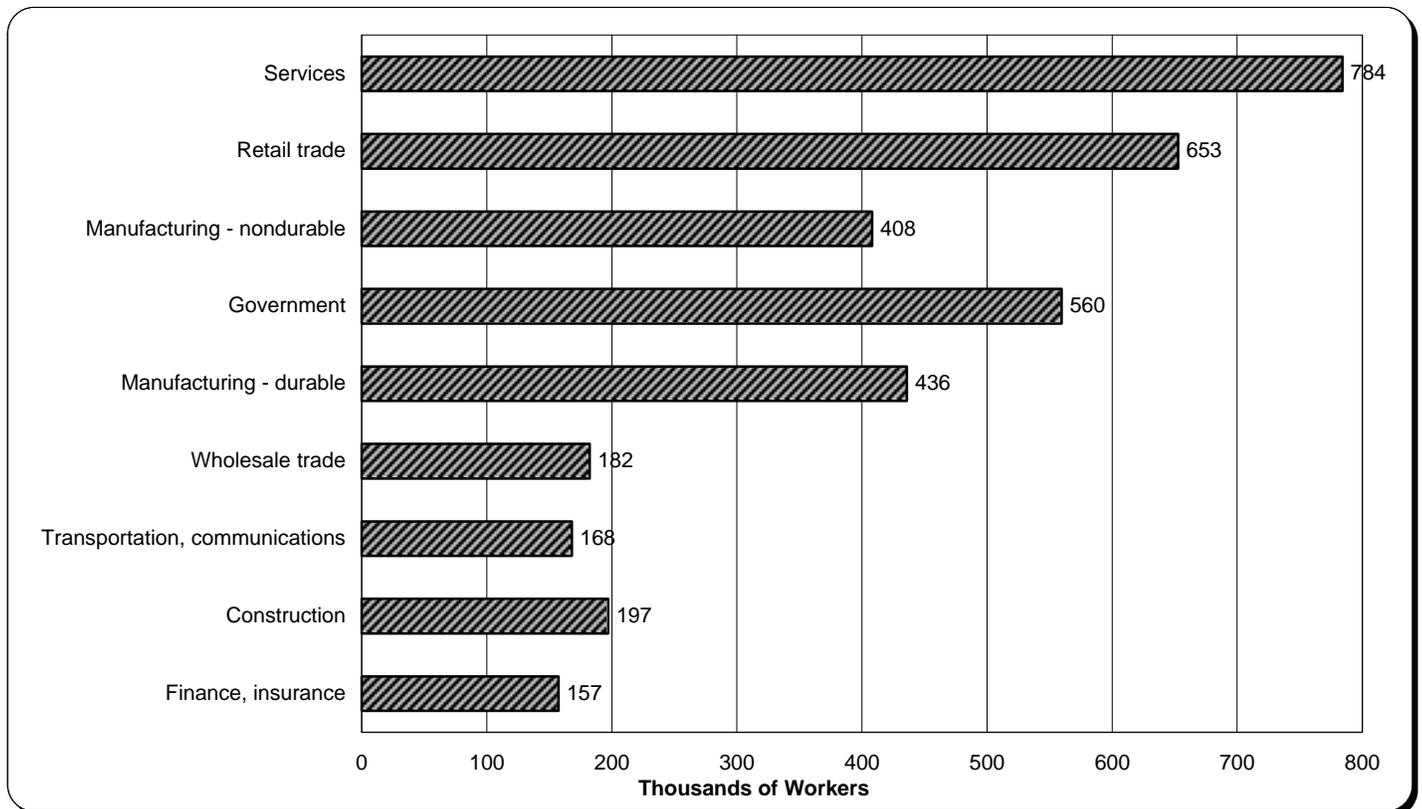
For the Calendar Years 1986-1995

Table 11

(Expressed in Thousands of Workers)

	1996	1995	1994	1993	1992	1991	1990	1989	1988	1987
Manufacturing:										
Nondurable goods.....	407.9	478.4	496.1	496.8	497.7	494.9	501.2	519.8	513.3	509.7
Durable goods.....	435.6	379.0	372.0	357.5	341.4	337.5	343.9	350.4	353.6	346.3
Retail trade.....	652.6	643.5	610.4	585.8	564.9	549.7	554.6	557.4	519.0	491.1
Services.....	784.0	729.0	687.6	655.4	612.7	566.6	555.5	526.0	522.3	488.8
Government.....	559.5	547.8	538.5	524.1	513.8	494.4	486.9	475.6	453.5	442.3
Contract construction.....	196.8	178.5	170.5	159.0	148.5	146.0	159.0	163.6	164.7	159.9
Wholesale trade.....	182.0	185.1	177.9	168.8	168.8	166.5	167.2	168.0	159.3	152.4
Transportation, communi- cations and public utilities.....	167.8	165.1	162.1	157.5	153.5	151.5	150.3	149.2	146.9	141.0
Finance, insurance and real estate.....	157.1	146.9	143.2	137.8	133.3	132.4	132.1	130.1	130.3	126.2
Mining.....	3.8	3.7	3.6	3.4	3.4	4.9	5.1	4.8	4.8	4.9
Total Non-Agricultural Employment.....	<u>3,547.1</u>	<u>3,457.0</u>	<u>3,361.9</u>	<u>3,246.1</u>	<u>3,138.0</u>	<u>3,044.4</u>	<u>3,055.8</u>	<u>3,044.9</u>	<u>2,967.7</u>	<u>2,862.6</u>
Manufacturing.....	843.5	857.4	868.1	854.3	839.1	832.4	845.1	870.2	866.9	856.0
Non-Manufacturing.....	2,703.6	2,599.6	2,493.8	2,391.8	2,298.9	2,212.0	2,210.7	2,174.7	2,100.8	2,006.6

Number of Employees by Industry - 1996 (Non-Agricultural)



Source: North Carolina Employment Security Commission (Data for 1996 is not available.)

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REQUIRED SUPPLEMENTARY INFORMATION
SIX-YEAR CLAIMS DEVELOPMENT INFORMATION
PUBLIC SCHOOL INSURANCE FUND
For the Fiscal Years Ended June 30, 1991 - 1997

The table below illustrates how earned revenues (net of reinsurance) and investment income of the Public School Insurance Fund (Fund) compare to related costs of loss (net of loss assumed by reinsurers) and other expenses assumed by the Fund for the last seven fiscal years ended June 30. The rows of the table are defined as follows:

- (1) Total of each fiscal year's earned contribution revenues, investment revenues, contribution revenues ceded to excess insurers or reinsurers, and amount of reported revenues net of excess insurance or reinsurance.
- (2) Each fiscal year's other operating costs of the Fund, including overhead and claims expense not allocable to individual claims.
- (3) The Fund's incurred claims (both paid and accrued) as originally reported at the end of the first year in which the event that triggered coverage under the contract occurred (before the effect of loss assumed by excess insurers or reinsurers), the loss assumed by excess insurers or reinsurers, and total net amount of incurred claims and allocated claim adjustment expenses.
- (4) Cumulative amounts paid as of the end of successive years for each policy year.
- (5) The reestimated amount for loss assumed by excess insurers or reinsurers as of the end of the current year.
- (6) The reestimated net incurred claims and expenses based on the information available as of the end of the year. This annual reestimation results from new information received or known claims, reevaluation of existing information on known claims, as well as emergence of new claims not previously known.
- (7) Comparison of the latest re-estimated 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.

As data for individual policy years mature, the correlation between original estimated and re-estimated 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.

REQUIRED SUPPLEMENTARY INFORMATION
SIX-YEAR CLAIMS DEVELOPMENT INFORMATION
PUBLIC SCHOOL INSURANCE FUND
For the Fiscal Years Ended June 30, 1991 - 1997

Table 12

	Fiscal Year						
	1991	1992	1993	1994	1995	1996	1997
1) Required contribution and investment revenue:							
Earned.....	6,513	6,386	6,805	6,573	6,749	7,180	7,099
Ceded.....	n/a	n/a	441	1,834	2,134	2,264	2,298
Net earned.....	6,513	6,386	6,364	4,739	4,615	4,916	4,801
2) Unallocated expenses	1,124	1,489	1,109	2,511	2,843	2,909	2,941
3) Estimated claims and expenses, end of policy year							
Incurred.....	4,879	1,230	3,128	4,426	5,078	3,246	14,351
Ceded.....	0	0	0	0	359	0	6,862
Net incurred.....	4,879	1,230	3,128	4,426	4,719	3,246	7,489
4) Paid (cumulative) as of:							
End of policy year.....	3,499	781	1,468	2,741	3,790	2,061	9,595
One year later.....	4,937	1,092	3,221	4,348	5,107	3,723	
Two years later.....	4,970	1,141	3,295	4,429	5,242		
Three years later.....	4,975	1,151	3,295	4,437			
Four years later.....	4,975	1,151	3,295				
Five years later.....	4,975	1,151					
Six years later.....	4,975						
5) Reestimated ceded claims and expenses.....	0	0	0	0	359	0	6,862
6) Reestimated net incurred claims and expenses							
End of policy year.....	4,879	1,230	3,128	4,426	4,719	3,246	7,489
One year later.....	4,997	1,219	3,524	4,445	4,943	3,814	
Two years later.....	5,000	1,152	3,460	4,445	4,927		
Three years later.....	4,998	1,151	3,334	4,445			
Four years later.....	4,975	1,151	3,299				
Five years later.....	4,975	1,151					
Six years later.....	4,975						
7) Increase (decrease) in estimated net incurred claims and expense from end of policy year.....	96	(79)	171	19	208	568	0

n/a = not available

REQUIRED SUPPLEMENTARY INFORMATION
CLAIMS DEVELOPMENT INFORMATION
WORKERS' COMPENSATION FUND
For the Fiscal Year Ended June 30, 1997

Table 13

The table below illustrates how earned revenues and investment income of the Workers' Compensation Fund (Fund) compare to related costs of loss and other expenses assumed by the Fund for the fiscal year ended June 30, 1997. 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 the policy year.
- (5) The reestimated amount for loss assumed by excess insurers or reinsurers as of the end of the current year.
- (6) The reestimated net incurred claims and expenses based on the information available as of the end of the year. This annual re-estimation results from new information received or known claims, reevaluation of existing information on known claims, as well as emergence of new claims not previously known.
- (7) Comparison of the latest re-estimated 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.

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

	Fiscal Year
	<u>1997</u>
1) Required contribution and investment revenue:	
Earned.....	\$ 1,749,850
Ceded.....	<u>331,100</u>
Net earned.....	1,418,750
2) Unallocated expenses	1,006,416
3) Estimated claims and expenses, end of policy year	
Incurred.....	3,658,673
Ceded.....	<u>354,787</u>
Net incurred.....	3,303,886
4) Paid (cumulative) as of:	
End of policy year.....	696,407
5) Reestimated ceded claims and expenses.....	354,787
6) Reestimated net incurred claims and expenses	
End of policy year.....	3,303,886
7) Increase (decrease) in estimated net incurred claims and expense from end of policy year.....	—

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

For the Fiscal Years 1988-1997

Table 14

State Agency	Fiscal Years Ended June 30									
	1997	1996	1995	1994	1993	1992	1991	1990	1989	1988
Education:										
Public education [1] ..	126,453	116,235	113,123	108,649	108,539	106,847	107,077	105,244	103,223	98,333
Higher education.....	31,012	31,012	30,094	29,611	31,621	28,702	28,225	30,478	29,866	29,435
Community colleges.....	10,135	10,555	10,814	10,892	10,660	10,076	10,005	9,626	9,251	9,945
Total Education.....	167,600	157,802	154,031	149,152	150,820	145,625	145,307	145,348	142,340	137,713
% Annual growth.....	6.21%	2.45%	3.27%	(1.11)%	3.57%	0.22%	(0.03)%	2.11%	3.36%	
% Cumulative growth.....	21.70%	14.59%	11.85%	8.31%	9.52%	5.75%	5.51%	5.54%	3.36%	
All Other:										
Human Resources.....	18,373	18,373	18,191	17,753	17,159	17,008	17,155	16,823	18,028	17,951
% Annual growth.....	0.00%	1.00%	2.47%	3.46%	0.89%	(0.86)%	1.97%	(6.68)%	0.43%	
% Cumulative growth.....	2.35%	2.35%	1.34%	(1.10)%	(4.41)%	(5.25)%	(4.43)%	(6.28)%	0.43%	
Correction.....	19,099	18,879	17,890	13,592	13,336	13,176	12,426	11,209	10,044	8,777
% Annual growth.....	1.17%	5.53%	31.62%	1.92%	1.21%	6.04%	10.86%	11.60%	14.44%	
% Cumulative growth.....	117.60%	115.10%	103.83%	54.86%	51.94%	50.12%	41.57%	27.71%	14.44%	
Transportation.....	16,536	16,411	16,593	15,451	15,556	15,096	15,127	14,560	14,189	14,760
% Annual growth.....	0.76%	(1.10)%	7.39%	(0.67)%	3.05%	(0.20)%	3.89%	2.61%	(3.87)%	
% Cumulative growth.....	12.03%	11.19%	12.42%	4.68%	5.39%	2.28%	2.49%	(1.36)%	(3.87)%	
Judicial.....	5,124	4,978	5,002	4,915	4,628	4,471	4,474	4,271	4,093	4,004
% Annual growth.....	2.93%	(0.48)%	1.77%	6.20%	3.51%	(0.07)%	4.75%	4.35%	2.22%	
% Cumulative growth.....	27.97%	24.33%	24.93%	22.75%	15.58%	11.66%	11.74%	6.67%	2.22%	
Other.....	17,138	16,904	16,921	16,186	15,425	15,267	15,574	15,468	14,023	13,912
% Annual growth.....	1.38%	(0.10)%	4.54%	4.93%	1.03%	(1.97)%	0.69%	10.30%	0.80%	
% Cumulative growth.....	23.19%	21.51%	21.63%	16.35%	10.88%	9.74%	11.95%	11.18%	0.80%	
Total Positions.....	243,870	233,347	228,628	217,049	216,924	210,643	210,063	207,679	202,717	197,117

[1] This figure includes local educational agencies receiving funding by State appropriation for elementary and secondary school teachers.

Source: North Carolina Office of State Budget and Management

N.C. population (1000's)	7,437	7,322	7,194	7,070	6,954	6,837	6,752	6,632	6,569	6,483
Annual growth	1.57%	1.78%	1.75%	1.67%	1.71%	1.26%	1.81%	0.96%	1.33%	
Cumulative growth	14.72%	12.94%	10.97%	9.05%	7.27%	5.46%	4.15%	2.30%	1.33%	

SCHEDULE OF MISCELLANEOUS STATISTICS

As of June 30, 1997

Table 15

Adoption of State Constitution.....	1776, 1868, 1971
Form of government.....	Executive, Legislative, Judicial
Land area:	
Square miles.....	50,000
Acres.....	31,999,760
Miles of highway.....	77,758
State police protection:	
Number of stations.....	64
Number of state police.....	1,380
Higher Education:	
<i>Community colleges</i>	
Number of campuses.....	58
Number of students [average annual full time equivalent (FTE)].	137,868
Number of curriculum instructors (budgeted).....	6,204
<i>State universities</i>	
Number of campuses.....	16
Number of regular term students (FTE).....	130,345
Number of regular term teaching positions (FTE).....	9,294
Recreation:	
Number of State parks and other recreational areas.....	50
Area of State parks (acres).....	143,957
Area of State forests (acres).....	279,154

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

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