

**NORTH CAROLINA
OFFICE OF THE STATE AUDITOR**

**Financial Statements
and
Supplementary Information**

For the Fiscal Year Ended June 30, 2002

**NORTH CAROLINA
OFFICE OF THE STATE AUDITOR
Financial Statements and Supplemental Information
For the Fiscal Year Ended June 30, 2002**

TABLE OF CONTENTS

	<u>Page</u>
Independent Auditor's Report	3
Financial Statements:	
Exhibits:	
A Balance Sheet - Governmental Fund	5
B Statement of Revenues, Expenditures and Changes in Fund Balance - Governmental Fund	6
Notes to the Financial Statements	8
Supplementary Information:	14
Required Supplementary Information:	15
Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual - Governmental Fund	16
Notes to Required Supplementary Information Budgetary Reporting	17
Other Supplementary Information:	18
Schedules:	
1 Schedule of Expenditures by Purpose - Governmental Fund	19
2 Comparative Schedule of Actual Revenues, Expenditures and Changes in Fund Balance - Cash Basis	20



**A.T. ALLEN
& COMPANY**

CERTIFIED PUBLIC ACCOUNTANTS

A Registered Limited Liability Partnership

INDEPENDENT AUDITOR'S REPORT

A.T. ALLEN, III
RONALD G. PITTMAN
ERNEST W. WARNER, JR.
ROBERT A. ALEXANDER

A.T. ALLEN, JR.
Consultant

JAMES E. CARTER, JR.
EDITH R. MOGLE

TO NORTH CAROLINA
OFFICE OF THE STATE AUDITOR

We have audited the accompanying financial statements of the NORTH CAROLINA OFFICE OF THE STATE AUDITOR as of and for the year ended June 30, 2002, as listed in the table of contents. These financial statements are the responsibility of the NORTH CAROLINA OFFICE OF THE STATE AUDITOR'S management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. 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 provides a reasonable basis for our opinion.

As discussed in Note 1, the financial statements of the NORTH CAROLINA OFFICE OF THE STATE AUDITOR are intended to present the financial position, and the changes in financial position and cash flows, where applicable, of only that portion of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the State of North Carolina that is attributable to the transactions of the NORTH CAROLINA OFFICE OF THE STATE AUDITOR. They do not purport to, and do not, present fairly the financial position of the State of North Carolina as of June 30, 2002, and the changes in its financial position and its cash flows, where applicable, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the NORTH CAROLINA OFFICE OF THE STATE AUDITOR as of June 30, 2002, and the changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 1, the NORTH CAROLINA OFFICE OF THE STATE AUDITOR has implemented a new financial reporting model, as required by the provisions of Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements - and Management's Discussion and Analysis - For State and Local Governments as of June 30, 2002.

3733 NATIONAL DRIVE
SUITE 100
RALEIGH, N.C. 27612
(919) 781-7550
FAX (919) 781-7525

Members:
American Institute of
Certified Public Accountants
N.C. Association of
Certified Public Accountants

Tax Division of the American Institute of
Certified Public Accountants

Private Companies Practice Section
of the American Institute of
Certified Public Accountants

The required supplementary information on pages 16 and 17 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The other supplementary information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements of the NORTH CAROLINA OFFICE OF THE STATE AUDITOR. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

A. J. Allen & Company, L.L.P.

Raleigh, North Carolina
September 19, 2002

North Carolina Office of the State Auditor		
Balance Sheet		
Governmental Fund		
June 30, 2002		Exhibit A
		General
ASSETS		
Accounts Receivable		\$ 620,839.76
Inventory of Supplies		33,915.22
Total Assets		\$ 654,754.98
LIABILITIES AND FUND BALANCE		
Liabilities:		
Accounts Payable		\$ 17,615.10
Accrued Salaries and Wages		25,507.62
Accrued Payroll Taxes		2,504.44
Due to Employees		4,102.31
Due to Internal Service Funds		15,928.53
Deferred Revenue		577,740.00
Total Liabilities		\$ 643,398.00
Fund balance:		
Reserved for Inventories		\$ 33,915.22
Unreserved and Undesignated		(22,558.24)
Total Fund balance		\$ 11,356.98
Total Liabilities and Fund balance		\$ 654,754.98

**North Carolina Office of the State Auditor
Statement of Revenues, Expenditures and
Changes in Fund Balance
Governmental Fund
For the Fiscal Year Ended June 30, 2002**

Exhibit B

	General	Prior Year (Information Only)
Revenues:		
Sale of Equipment	\$ 0.00	\$ 50.00
Rental of Space for Teller Machine	600.00	1,200.00
Total Revenues	\$ 600.00	\$ 1,250.00
Expenditures:		
Personal Services	\$ 9,624,694.13	\$ 9,357,730.76
Employee Benefits	1,881,305.37	1,938,337.01
Contracted Audits and Services	848,282.46	995,262.87
Supplies and Materials	62,983.80	75,347.33
Travel	286,961.12	295,591.18
Communications	63,975.01	99,564.95
Utilities	2,576.80	3,050.71
Data Processing Service	104,369.35	93,408.87
Employee Education	127,020.39	121,033.69
Other Services	11,199.43	34,858.03
Rent of Property and Equipment	32,966.58	32,617.80
Service and Maintenance	82,820.29	90,888.27
Other Fixed Charges	24,638.79	39,616.80
Insurance and Bonding	16,051.36	15,606.36
Capital Outlay	357,418.93	325,363.33
Total Expenditures	\$ 13,527,263.81	\$ 13,518,277.96
Deficiency of Revenues Under Expenditures	\$ (13,526,663.81)	\$ (13,517,027.96)
Other Financing Sources (Uses):		
State Appropriations	\$ 10,045,677.23	\$ 10,723,441.77
Transfers In:		
Office of the Governor	55,080.00	120,465.50
Office of State Budget and Management	16,320.00	0.00
ITS-Wireless	0.00	14,500.00
Department of Administration	35,880.00	25,037.50
Department of Agriculture	62,490.00	89,897.50
Department of Community Colleges	390.00	13,830.00
Department of Commerce	14,670.00	146,605.00
Department of Correction	9,810.00	25,010.00
Department of Crime Control and Public Safety	141,300.00	186,792.50
Employment Security Commission	157,080.00	98,875.00
Wildlife Resources Commission	30,090.00	47,215.00
Department of Human Resources (all Divisions)	1,029,210.00	769,867.50
Department of Environment and Natural Resources	186,150.00	83,912.00

**North Carolina Office of the State Auditor
Statement of Revenues, Expenditures and
Changes in Fund Balance
Governmental Fund
For the Fiscal Year Ended June 30, 2002**

Exhibit B

Page 2

	General	Prior Year (Information Only)
Other Financing Sources (Uses) (continued):		
Transfers In (continued):		
Department of Public Instruction	\$ 175,380.00	\$ 156,140.00
Department of Transportation	244,170.00	168,995.00
Town of Butner	91,080.00	0.00
State Health Plan	52,530.00	0.00
Global TransPark	42,720.00	29,735.00
School of Science and Math	2,400.00	3,300.00
N. C. School of the Arts	7,800.00	9,237.50
N. C. A & T State University	8,970.00	21,735.00
Appalachian State University	13,650.00	39,012.50
East Carolina University	15,270.00	29,675.00
Elizabeth City State University	11,460.00	15,362.50
Fayetteville State University	8,460.00	9,652.50
N. C. State University	37,260.00	68,702.50
North Carolina Central University	19,020.00	36,032.50
Pembroke State University	9,090.00	8,722.50
Western Carolina University	8,700.00	22,467.50
Winston Salem State University	12,540.00	28,140.00
UNC - Asheville	10,560.00	9,247.50
UNC - Chapel Hill	38,250.00	53,930.00
UNC - Charlotte	11,670.00	22,440.00
UNC - Greensboro	10,350.00	22,827.50
UNC - Wilmington	7,920.00	8,460.00
Various Community Colleges & Technical Institutes	179,520.00	131,460.00
Various University & Community College Grants & Foundations	1,500.00	45,308.50
Commerce-Terrorism Funds	359,300.00	0.00
State Reserve for State Health Plan	20,970.00	0.00
Transfers Out:		
Office of the State Controller-DCAP	(10,167.00)	(6,992.00)
Total Other Financing Sources (Uses)	\$ 13,174,520.23	\$ 13,279,040.77
Net Change in Fund Balance	\$ (352,143.58)	\$ (237,987.19)
Fund Balance July 1, 2001	359,412.45	597,743.69
Increase(Decrease) in Reserve for Inventory	4,088.11	(344.05)
Fund Balance June 30, 2002	\$ 11,356.98	\$ 359,412.45
The accompanying notes to the financial statements are an integral part of this statement.		

NORTH CAROLINA OFFICE OF THE STATE AUDITOR
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2002

Note 1 - Summary of Significant Accounting Policies

- A. Reporting Entity** - The North Carolina Office of the State Auditor is a part of the State of North Carolina and is not a separate legal or reporting entity. The department's accounts and transactions are included in the State of North Carolina's Comprehensive Annual Financial Report (CAFR) as a part of the State's General Fund.
- B. Basis of Presentation** - The department's records are maintained on a cash basis throughout the year, but adjustments are made at fiscal year-end to convert to generally accepted accounting principles (GAAP) for government entities. The financial statements are prepared according to GAAP as follows:

Governmental Fund Types

For the year ended June 30, 2002 the State of North Carolina implemented GASB Statement No. 34, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments. That Statement requires the presentation of both government-wide and fund level financial statements. The financial statements presented are governmental fund financial statements of the department. Because the department is not a separate legal entity, government-wide financial statements are not prepared.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 31 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred.

Since capital asset and long-term liability accounts relating to governmental funds are reported only in the governmental activities column of the government-wide financial statements these amounts are not included in the financial statements of the department. However, amounts are reported in the Notes to the Financial Statements.

- C. Accounts Receivable** - These are composed of amounts due from other departments and organizations outside the department.
- D. Inventories** - Inventory for the general fund consists of expendable supplies and postage held for consumption. The amount thereof has been recorded, at cost, for information purposes only, as an asset, offset by a reserve in an equal amount. The cost value of such inventory has been recorded as an expenditure at the time the individual inventory items were purchased.
- E. Prior Year Totals** - Comparative totals for the prior year have been presented in the accompanying financial statements for information only and are not intended to be a complete presentation.

Note 2 - Pension Plans

A. Teachers' and State Employees' Retirement System

Each permanent full-time employee, as a condition of employment, is a member of the Teachers' and State Employees' Retirement System of North Carolina (System), a multiple-employer, cost-sharing, defined benefit pension plan which is administered by the North Carolina State Treasurer. Additional detailed information about the System can be located in the State of North Carolina's Comprehensive Annual Financial Report. Employees contributed 6% of gross wages for the year ended June 30, 2002. The department contributed, for pension benefits, 1.97% of covered wages. The department has no pension plan obligations beyond the matching already paid into the system.

For the year ended June 30, 2002, the department had a total payroll of \$9,878,203.38 of which \$9,729,337.01 was covered under the Teachers' and State Employees' Retirement System. Employee contributions totaled \$583,760.22.

The following presents the three-year trend of annual required contributions (ARC) made by the department to the Plan:

<u>Year</u>	<u>ARC by Department</u>	<u>% of ARC Contributed</u>
2002	191,667.94	100%
2001	506,935.21	100%
2000	756,283.87	100%

In the year ended June 30, 2001 \$209,046 of the annual required contributions were placed in a special reserve account established by the Office of State Budget and Management. These funds were released to cover the shortfall in the State's General Fund during 2001.

B. Deferred Compensation and Supplemental Retirement Income Plans - IRC Section 457

Plan - All permanent employees are eligible to participate in the deferred compensation plan offered by the State of North Carolina in accordance with Internal Revenue Code Section 457. The plan permits each participant to defer a portion of his or her salary until future years. The deferred compensation is available to employees upon separation of service, death, disability, retirement or due to financial hardships if approved by the Board of Trustees of the plan. All administration and funding costs are the responsibility of the plan. Voluntary contributions by employees amounted to \$44,389.98 during the year ended June 30, 2002.

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 in accordance with Internal Revenue Code Section 401(k). All employees who are members of the Teachers' and State Employees' Retirement System of North Carolina are eligible for enrollment in this plan. Members of the plan may receive their benefits upon retirement, disability, termination, hardship, or death. All costs of administering the plan are the responsibility of the plan's participants. Voluntary contributions by employees amounted to \$191,314.00 during the year ended June 30, 2002.

Note 3 - Other Postemployment Benefits

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

The department participates in State administered programs which provide postemployment health insurance to eligible former employees. Eligible former employees include long-term disability beneficiaries of the Disability Income Plan of North Carolina and participants of the Teachers' and State Employees' Retirement System of North Carolina. These benefits were established by Chapter 135, Article 3 Part 3, of the General Statutes, and may be amended only by the North Carolina General Assembly. Funding for the health care benefit for long-term disability beneficiaries and retirees is financed on a pay as you go basis. The department contributes 2.35% of covered payroll under the Teachers' and State Employees' Retirement System to the Plan. For the fiscal year ended June 30, 2002, the department's total contribution to the Plan was \$228,639.42. The department assumes no liability for retiree health care benefits provided by the programs other than its contribution. Additional detailed information about these programs can be located in the State of North Carolina's Comprehensive Annual Financial Report.

B. Long-Term Disability

The department participates in the Disability Income Plan of North Carolina (the Plan). The Plan provides disability income to eligible participants in accordance with Chapter 135, Article 6, of the General Statutes. Eligible participants are employees that are members of the Teachers' and State Employees' Retirement System. Additional detailed information about the Plan can be located in the State of North Carolina's Comprehensive Annual Financial Report. The department contributes .52% of covered payroll under the Teachers' and State Employees' Retirement System to the Plan. For the fiscal year ended June 30, 2002, the department's total contribution to the Plan was \$50,592.55. The department assumes no liability for long-term disability benefits under the Plan other than its contribution.

Note 4 - Lease Obligations

Operating Leases –The department leases office space in Asheville, Elizabeth City, Greenville, Wilmington, Winston-Salem and Greensboro. The Greensboro lease is currently \$250 per month and is leased on a month-to-month basis. Future minimum lease commitments for noncancelable operating leases as of June 30, 2002 are as follows:

	Fiscal Year Ending June 30		
	2003	2004	2005
Asheville	\$ 3,600.00	\$ 0.00	\$ 0.00
Elizabeth City	5,304.36	2,652.18	0.00
Greenville	5,980.92	6,135.96	6,319.92
Wilmington	6,861.96	7,136.40	3,638.16
Winston-Salem	4,980.00	1,660.00	0.00
Total	\$ 26,727.24	\$ 17,584.54	\$ 9,958.08

Note 5 - Transfers-In/Transfers-Out

Transfers-In

The department performs federal compliance audits as specified in Federal Circular A-133. State agencies, Universities and Community Colleges are billed for the audit work performed on a cost reimbursement basis. Also, the department, upon request, performs audits of specific grants and foundations on a cost reimbursement basis. The amount received during the fiscal year was \$2,758,740.00.

The department was awarded \$500,000.00 of the special allocation of funds for terrorism defense from the Committee on Terrorism for a project involving agency information system assessments. During the current fiscal period the department received transfers in the amount of \$359,300.00 of these funds from the Department of Crime Control and Public Safety.

Note 6 - Risk Management

A. Insurance and Other Risk Management Activities

This Agency is exposed to various risks of loss related to torts; theft of, damage to, and the destruction of assets; errors and omissions; injuries to employees; and natural disasters. These exposures to loss are handled via a combination of methods, including participation in various state-administered risk pools, purchase of commercial insurance and self-retention of certain risks.

Tort claims of up to \$500,000 are self-insured under the authority of the State Tort Claims Act. In addition, the State provides an additional \$11,000,000 public officers' and employees' liability insurance via contract with a private insurance company. The premium, based on a composite rate, is paid by the Agency directly to the insurer.

The State Property Fire Insurance Fund insures all State owned buildings and contents for fire, extended coverage, and other property losses. Coverage for fire losses for all operations supported by the State's General Fund is provided at no cost to this Agency. The Agency also purchased through the Fund "all risk" coverage for contents. The Fund purchases this excess insurance from a private insurer to cover losses over the amounts insured by the Fund.

All State-owned vehicles are covered by liability insurance handled by the State Department of Insurance. The State is self-insured for the first \$500,000 of any loss through a retrospective rated plan. Excess insurance coverage is purchased through a private insurer to cover losses greater than \$500,000. The liability limits for losses incurring in state are \$500,000 per claimant and \$5,000,000 per occurrence. The liability limits for losses incurring out of state are \$1,000,000 per claimant and \$5,000,000 per occurrence.

Note 6 - Risk Management (concluded)

A. Insurance and Other Risk Management Activities (concluded)

The Agency is protected for losses from employee dishonesty and computer fraud for employees paid in whole or in part from State funds. The blanket honesty bond is handled by the State Department of Insurance with coverage of \$5,000,000 per occurrence with a \$50,000 deductible and a 10% participation in each loss above the deductible.

Other coverage not handled by the State Department of Insurance is purchased through the State's insurance agent of record

B. Employee Benefits Plan

Employees and retirees are provided health care coverage by the State's Comprehensive Major Medical Plan. The Plan is funded by employer and employee contributions and is administered by a third party contractor. Health care coverage is optionally available through contractual agreements with several HMO plans.

The North Carolina Workers' Compensation Program provides benefits to workers injured on the job. All employees of the State are included in the program. When an employee is injured, the Agency's primary responsibility is to arrange for and provide the necessary treatment for work related injuries. The Agency is responsible to pay medical benefits and compensation in accordance with the North Carolina Workers' Compensation Act.

Term life insurance of \$25,000 to \$50,000 is provided to eligible workers. This self-insured death benefit program is administered by the State Treasurer's Office and funded via employer contributions.

Short-term and long-term disability benefits are provided to eligible members of the Teachers' and State Employees' Retirement System. Short-term benefits are payable after a waiting period of 60 continuous calendar days from the onset of disability. Long-term disability benefits are payable as an other post employment benefit from the Disability Income Plan of North Carolina 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. The NC Department of State Treasurer administers the plan.

There have been no significant reductions in insurance coverage from the previous year and settled claims have not exceeded coverage in any of the past three fiscal years.

Additional details on the state-administered risk management programs are disclosed in the State's Comprehensive Annual Financial Report, issued by the State Controller's Office.

Note 7 - Capital Assets:

Purchases of capital assets are reported as expenditures in governmental funds. Consequently, capital asset balances are not reported on the face of the financial statements. In accordance with Office of the State Controller policy, assets that have a value of \$5,000 or more when acquired are recorded in the accounting system for statewide reporting purposes. Depreciation is recorded at the statewide level. A summary of changes in the department's capital asset balances is presented as follows:

	Balance July 1, 2001	Additions	Deletions/ Transfers	Balance June 30, 2002
Furniture	\$ 374,375.20	\$ 0.00	\$ 0.00	\$ 374,375.20
Data Processing Systems	985,820.76	42,362.67	69,827.19	958,356.24
Total Fixed Assets	\$ 1,360,195.96	\$ 42,362.67	\$ 69,827.19	\$ 1,332,731.44

Note 8 - General Long-Term Liabilities

Vacation and Sick Leave

General long-term liabilities are not recognized in governmental funds until they become due. Consequently, general long-term liabilities not yet due are not reported on the face of the financial statements. In accordance with Office of the State Controller policy, these amounts are recorded in the accounting system for statewide reporting purposes. A summary of changes in the department's general long-term liability for unused vacation leave and matching benefits for retirement and social security is as follows:

	Balance July 1, 2001	Additions	Deletions	Balance June 30, 2002
Compensated Absences	\$ 808,439.00	\$ 786,416.00	\$ (775,047.00)	\$ 819,808.00

Employees earn vacation leave ranging from 0.98 to 2.15 days per month depending upon years of service. There is no requirement that vacation leave be taken; however, the maximum permissible accumulation of unused vacation leave which can be carried forward each January 1st or for which an employee can be paid upon termination of employment with the State is 30 days. Under this policy, the accumulated vacation leave for each employee at each June 30th would equal the leave carried forward at the previous December 31 plus the leave earned and less the leave taken between January 1 and June 30.

Employees earn sick leave at the rate of one day per month with an unlimited accumulation. 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. The State has no obligation to pay sick leave upon termination or retirement.

SUPPLEMENTARY INFORMATION

REQUIRED SUPPLEMENTARY INFORMATION

**North Carolina Office of the State Auditor
Schedule of Revenues, Expenditures and
Changes in Fund Balance
Budget and Actual - Governmental Fund
For the Fiscal Year Ended June 30, 2002**

General Fund				
	Budgeted Amounts		Actual (Cash Basis)	Under (Over) Final Budget
	Original	Final		
Revenues:				
Reimbursement from Primary Government	\$ 1,683,708.00	\$ 1,683,708.00	\$ 2,476,140.00	\$ (792,432.00)
Reimbursement from Component Units	563,285.00	563,285.00	462,630.00	100,655.00
Reimbursement from Terrorism Funds	500,000.00	500,000.00	359,300.00	140,700.00
Rental of Space for Teller Machine	0.00	0.00	600.00	(600.00)
Sale of Equipment	50.00	50.00	0.00	50.00
Total Revenues	\$ 2,747,043.00	\$ 2,747,043.00	\$ 3,298,670.00	\$ (551,627.00)
Expenditures:				
Personal Services	\$ 10,034,843.00	\$ 10,063,506.00	\$ 9,601,776.50	\$ 461,729.50
Employee Benefits	1,977,582.00	1,991,066.00	1,878,185.79	112,880.21
Contracted Audits and Services	1,535,022.00	1,367,059.00	880,109.63	486,949.37
Utility/Energy Service	1,750.00	3,150.00	2,657.11	492.89
Repair Service	10,126.00	2,351.00	1,701.39	649.61
Maintenance Agreements	74,281.00	85,425.00	83,246.31	2,178.69
Rental/Leases	31,278.00	30,528.00	30,221.80	306.20
Travel /Other Employee Expense	296,321.00	302,407.00	288,516.02	13,890.98
Communication/Data Processing	189,199.00	210,525.00	179,926.32	30,598.68
Other Services	132,947.00	143,771.00	142,301.83	1,469.17
General Administrative Supplies	63,128.00	64,839.00	62,983.80	1,855.20
Equipment and Intangible Assets	331,768.00	408,282.00	359,251.57	49,030.43
Other Expenditures	31,745.00	27,820.00	24,982.16	2,837.84
Total Expenditures	\$ 14,709,990.00	\$ 14,700,729.00	\$ 13,535,860.23	\$ 1,164,868.77
Deficiency of Revenues Under Expenditures	\$ (11,962,947.00)	(11,953,686.00)	\$ (10,237,190.23)	\$ (1,716,495.77)
Other Financing Sources (Uses):				
State Appropriations	\$ 11,762,901.00	\$ 11,762,901.00	\$ 10,045,677.23	\$ 1,717,223.77
Intra-Departmental Transfers :				
Cash Carry Forward from Prior Year	180,710.00	180,710.00	180,710.00	0.00
Operating Transfers In:				
State Health Plan Reserve	20,970.00	20,970.00	20,970.00	0.00
Operating Transfers Out:				
Office of the State Controller-DCAP	(1,634.00)	(10,895.00)	(10,167.00)	(728.00)
Total Other Financing Sources (Uses)	\$ 11,962,947.00	\$ 11,953,686.00	\$ 10,237,190.23	\$ 1,716,495.77
Net Change in Fund Balance	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00
Fund Balance July 1, 2001	0.00	0.00	0.00	0.00
Fund Balance June 30, 2002	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00

NORTH CAROLINA OFFICE OF THE STATE AUDITOR
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION BUDGETARY REPORTING
FOR THE FISCAL YEAR ENDED JUNE 30, 2002

The State's annual budget is prepared principally on the cash basis. The 1985 General Assembly enacted certain special provisions which state that the budget as certified in the appropriations act is the legal budget for all agencies. These special provisions also state that agencies may spend more than was certified in various line items provided the over-expenditure meets certain criteria and is authorized by the Director of the Budget. The process of approving these over-expenditures results in the authorized budget amounts.

Budgetary (Cash) Basis vs. GAAP (Modified Accrual)

Because of the difference in the basis of accounting, the budgetary fund balance reported in the Required Supplementary Information for the General Fund differs from the GAAP fund balance reported on Exhibits A and B. A reconciliation is presented below.

	<u>General Fund</u>
Fund Balance (Budgetary Basis), June 30, 2002	\$ 0.00
Add (Deduct):	
Accrued Revenues	43,099.76
Inventories	33,915.22
Accrued Expenditures	<u>(65,658.00)</u>
Fund Balance (GAAP Basis), June 30, 2002	<u>\$ 11,356.98</u>

OTHER SUPPLEMENTARY INFORMATION

**North Carolina Office of the State Auditor
Comparative Schedule of Actual Revenues, Expenditures and
Changes in Fund Balance - Cash Basis
For the Fiscal Years Ended June 30, 2002 and June 30, 2001**

Schedule 2

	Actual Fiscal Year Ended 6-30-02	Actual Fiscal Year Ended 6-30-01	June 30, 2002 Over (Under) June 30, 2001
Revenues:			
Auditing Fees	\$ 2,938,770.00	\$ 2,357,208.50	\$ 581,561.50
Other Income	600.00	1,200.00	(600.00)
Terrorism Funds	359,300.00	0.00	359,300.00
Sale of Equipment	0.00	50.00	(50.00)
Total Revenues	\$ 3,298,670.00	\$ 2,358,458.50	\$ 940,211.50
Expenditures:			
Personal Services	\$ 9,601,776.50	\$ 9,357,730.76	\$ 244,045.74
Employee Benefits	1,878,185.79	1,936,362.16	(58,176.37)
Contracted Audits and Services	880,109.63	1,023,658.96	(143,549.33)
Utility/Energy Service	2,657.11	3,176.06	(518.95)
Repair Service	1,701.39	895.46	805.93
Maintenance Agreements	83,246.31	89,746.72	(6,500.41)
Rental/Leases	30,221.80	35,362.58	(5,140.78)
Travel /Other Employee Expense	288,516.02	301,343.07	(12,827.05)
Communication/Data Processing	179,926.32	221,486.98	(41,560.66)
Other Services	142,301.83	141,809.38	492.45
General Administrative Supplies	62,983.80	75,411.66	(12,427.86)
Equipment and Intangible Assets	359,251.57	324,126.42	35,125.15
Other Expenditures	24,982.16	39,376.06	(14,393.90)
Total Expenditures	\$ 13,535,860.23	\$ 13,550,486.27	\$ (14,626.04)
Deficiency of Revenues Under Expenditures	\$ (10,237,190.23)	\$ (11,192,027.77)	\$ 954,837.54
Other Financing Sources (Uses):			
State Appropriations	\$ 10,045,677.23	\$ 10,723,441.77	\$ (677,764.54)
Intra-Departmental Transfers:			
Cash Carry Forward from Prior Year	180,710.00	656,288.00	(475,578.00)
Cash Carry Forward to Subsequent Year	0.00	(180,710.00)	180,710.00
Operating Transfers In:			
State Health Plan Reserve	20,970.00	0.00	20,970.00
Operating Transfers Out:			
Office of the State Controller - DCAP	(10,167.00)	(6,992.00)	(3,175.00)
Total Other Financing Sources (Uses)	\$ 10,237,190.23	\$ 11,192,027.77	\$ (954,837.54)
Net Change in Fund Balance	\$ 0.00	\$ 0.00	\$ 0.00
Fund Balance July 1, 2001	0.00	0.00	0.00
Fund Balance June 30, 2002	\$ 0.00	\$ 0.00	\$ 0.00