

**NORTH CAROLINA  
OFFICE OF THE STATE AUDITOR**

**Financial Statements  
and  
Supplementary Information**

**For the Fiscal Year Ended June 30, 2003**

**NORTH CAROLINA  
OFFICE OF THE STATE AUDITOR  
Financial Statements and Supplementary Information  
For the Fiscal Year Ended June 30, 2003**

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**A.T. ALLEN  
& COMPANY**

CERTIFIED PUBLIC ACCOUNTANTS

A Registered Limited Liability Partnership

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

JAMES E. CARTER, JR.  
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INDEPENDENT AUDITOR'S REPORT

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, 2003, 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, 2003, 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, 2003, and the changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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Certified Public Accountants

The required supplementary information on pages 21 and 22 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. 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  
October 30, 2003

**North Carolina Office of the State Auditor**  
**Balance Sheet**  
**Governmental Fund**  
**June 30, 2003**

*Exhibit A*

**General**

**ASSETS**

Cash and Cash Equivalents	\$	25,000.00
Due from General Fund		347,762.62
Due from Pension and Employee Benefit Funds		4,680.00
Due from Enterprise Fund		17,400.00
Due from Highway Fund		34,530.00
Due from Internal Service Fund		9,810.00
Due from Component Units		82,680.00
Accounts Receivable		2.90
Inventories		39,836.83
<b>Total Assets</b>	<b>\$</b>	<b>561,702.35</b>

**LIABILITIES AND FUND BALANCE**

**Liabilities:**

Accounts Payable	\$	17,683.04
Accrued Payroll		4,973.43
Due to Employees		6,344.19
Due to Internal Service Funds		27,169.43
Due to Special Revenue Funds		656.62
Deferred Revenue		486,630.00
<b>Total Liabilities</b>	<b>\$</b>	<b>543,456.71</b>

**Fund Balance:**

Reserved for Inventories	\$	39,836.83
Designated for Subsequent Year Expenditures		25,000.00
Unreserved and Undesignated		(46,591.19)
<b>Total Fund Balance</b>	<b>\$</b>	<b>18,245.64</b>

<b>Total Liabilities and Fund Balance</b>	<b>\$</b>	<b>561,702.35</b>
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The accompanying notes to the financial statements are an integral part of this statement.

**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, 2003**

*Exhibit B*

	<b>General</b>
Revenues:	
Audit Fees	\$ 2,663,230.00
Sale of Equipment	50.00
<b>Total Revenues</b>	<b>\$ 2,663,280.00</b>
Expenditures:	
Personal Services and Employee Benefits	\$ 11,101,189.27
Contracted Audits and Services	653,075.37
Supplies and Materials	52,550.62
Travel	296,886.72
Communications	67,298.74
Utilities	3,040.59
Data Processing Service	70,603.50
Employee Education	107,226.89
Other Services	8,819.97
Rent of Property and Equipment	37,656.73
Service and Maintenance	69,412.62
Other Fixed Charges	33,166.62
Insurance and Bonding	17,661.25
Capital Outlay	276,772.29
Debt Service Expenditure-Principal	12,847.99
Debt Service Expenditure-Interest	903.17
<b>Total Expenditures</b>	<b>\$ 12,809,112.34</b>
Deficiency of Revenues Under Expenditures	\$ (10,145,832.34)
Other Financing Sources (Uses):	
State Appropriations	\$ 9,875,991.34
Proceeds from Capital Lease	42,281.05
Transfers In:	
Crime Control and Public Safety-Terrorism Funds	140,000.00
Juvenile Justice	100,000.00
Transfers Out:	
Office of the State Controller-DCAP	(11,473.00)
<b>Total Other Financing Sources (Uses)</b>	<b>\$ 10,146,799.39</b>
Net Change in Fund Balance	\$ 967.05
Fund Balance July 1, 2002	11,356.98
Increase in Reserve for Inventory	5,921.61
<b>Fund Balance June 30, 2003</b>	<b>\$ 18,245.64</b>

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, 2003**

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**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:

The accompanying financial statements are presented in accordance with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Boards (GASB). GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments* 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.

NORTH CAROLINA OFFICE OF THE STATE AUDITOR  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2003

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**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (concluded)**

- C. Cash and Cash Equivalents** - This classification includes all cash on deposit with the State Treasurer, undeposited receipts, and authorized cash carryforward.
- D. Due From Other Funds and Component Units** - These are composed of amounts due from other funds or component units of the State of North Carolina for audit fees. All amounts are considered collectible and therefore, no allowance for doubtful accounts is recorded.
- E. Inventories** - Inventory for the general fund consists of expendable supplies and postage held for consumption. The amount thereof has been recorded, at last invoice cost 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.
- F. Deferred Revenue** - Receivable amounts that are not collected within the 31 day availability period are reported as deferred revenue rather than revenue.

**NOTE 2- DEPOSITS**

Deposits in State Treasurer's Short-Term Investment Fund – Unless specifically exempt, state agencies are required by General Statute 147-77 to deposit moneys received with the State Treasurer or with a depository institution in the name of the State Treasurer. These moneys are invested in accordance with G.S. 147-69.1(c) and 147-69.2, and as required by law are “readily convertible into cash.” All investments of the fund are held either by the Department of State Treasurer or its agent in the State's name. The fund's uninvested cash is either covered by federal depository insurance or, pursuant to 20 NCAC 7, is collateralized under either the dedicated or pooling method, each depository establishes an escrow account in the name of the State Treasurer to secure all of its public deposits. The financial statements and disclosures for the State Treasurer's Cash and Investment Pool (which includes the State Treasurer's Short-Term Investment Fund) are included in the State of North Carolina's Comprehensive Annual Financial Report. An electronic version of this report is available by accessing the North Carolina Office of the State Controller's Internet home page <http://www.osc.state.nc.us/OSC/financial/> and clicking on “Financial Reports”, or by calling the State Controller's Financial Reporting Section at (919) 981-5454.

At June 30, 2003 the department's deposit in the State Treasurer's Short-Term Investment Fund had a book balance of \$25,000.00 and a bank balance of \$96,632.50.



**NORTH CAROLINA OFFICE OF THE STATE AUDITOR**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2003**

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**NOTE 3 - 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, 2003. In the year ended June 30, 2003, there were no funds contributed to the plan by the State of North Carolina. The department has no pension plan obligations beyond the matching already paid into the system.

For the year ended June 30, 2003, the department had a total payroll of \$9,624,536.64 of which \$9,535,405.85 was covered under the Teachers' and State Employees' Retirement System. Employee contributions totaled \$572,124.35.

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

<u>Fiscal Year</u>	<u>ARC by Department</u>	<u>% of ARC Contributed</u>
2003	0.00	100%
2002	191,667.94	100%
2001	506,935.21	100%

**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 costs of administering the plan are the responsibility of the plan's participants. Voluntary contributions by employees amounted to \$54,370.61 during the year ended June 30, 2003.

**NORTH CAROLINA OFFICE OF THE STATE AUDITOR**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2003**

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**NOTE 3 - PENSION PLANS (concluded)**

**B. Deferred Compensation and Supplemental Retirement Income Plans (concluded)**

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 \$203,190.00 during the year ended June 30, 2003.

**NOTE 4 - 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, 2003, the department's total contribution to the Plan was \$224,082.04. 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.

**NORTH CAROLINA OFFICE OF THE STATE AUDITOR**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2003**

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**NOTE 4 - OTHER POSTEMPLOYMENT BENEFITS (concluded)**

**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, 2003, the department's total contribution to the Plan was \$49,584.11. The department assumes no liability for long-term disability benefits under the Plan other than its contribution.

**NOTE 5 - LEASE OBLIGATIONS**

**Capital Lease Obligations** – Capital lease obligations relating to printing equipment are recorded at the present value of the minimum lease payments. Future minimum lease payments under capital lease obligations consist of the following at June 30, 2003:

<u>Fiscal Year</u>	<u>Amount</u>
2004	\$ 9,167.44
2005	13,751.16
2006	<u>4,583.72</u>
Total Minimum Lease Payments	27,502.32
Amount Representing Interest	<u>835.31</u>
Present Value of Future Lease Payments	<u>\$26,667.01</u>

Equipment acquired under capital lease amounted to \$42,281.05 at June 30, 2003.

**Operating Leases** – The department leases office space in Asheville, Elizabeth City, Greenville, Wilmington, Winston-Salem and Greensboro. Future minimum lease commitments for non-cancelable operating leases as of June 30, 2003 are as follows:

<u>Fiscal Year</u>	<u>Amount</u>
2004	\$38,950.68
2005	33,038.04
2006	13,346.65
2007	<u>1,660.00</u>
Total Minimum Lease Payments	<u>\$86,995.37</u>

Rental expense for all operating leases during the year was \$37,656.73.

**NORTH CAROLINA OFFICE OF THE STATE AUDITOR**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2003**

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**NOTE 6 - AUDIT FEES/TRANSFERS IN**

**Audit Fees**

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 \$2,663,230.00. The following lists audit fees collected during the fiscal year ended June 30, 2003.

<b>Audit Fees:</b>	
Office of the Governor	\$ 14,650.00
Office of State Budget and Management	9,060.00
Department of Agriculture	2,850.00
Department of Commerce	49,140.00
Department of Correction	38,970.00
Department of Crime Control and Public Safety	82,800.00
Employment Security Commission	232,800.00
Department of Human Resources (all Divisions)	1,020,480.00
Department of Environment & Natural Resources	133,470.00
Department of Public Instruction	134,340.00
Department of Transportation	228,480.00
Town of Butner	55,530.00
State Health Plan	78,930.00
Explornet	2,280.00
Global TransPark	40,200.00
N. C. School of the Arts	9,240.00
N. C. A & T State University	16,770.00
Appalachian State University	14,010.00
East Carolina University	16,140.00
Elizabeth City State University	13,500.00
Fayetteville State University	7,650.00
N. C. State University	65,070.00
North Carolina Central University	24,360.00
Pembroke State University	10,020.00
Western Carolina University	11,220.00
Winston Salem State University	13,320.00
UNC – Asheville	8,880.00
UNC - Chapel Hill	101,610.00
UNC – Charlotte	12,510.00
UNC – Greensboro	11,610.00
UNC – Wilmington	8,370.00
Various Community Colleges & Tech. Institutes	194,970.00
<b>Total</b>	<b>\$ 2,663,230.00</b>

**NORTH CAROLINA OFFICE OF THE STATE AUDITOR**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2003**

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**NOTE 6 - AUDIT FEES/TRANSFERS IN (concluded)**

**Transfers-In**

The department was awarded \$500,000.00 of the special allocation of funds for terrorism defense from the Committee on Terrorism during the fiscal year ending June 30, 2002 for a project involving agency information system assessments. During the current fiscal period the department received transfers in the amount of \$140,000.00 of these funds from the Department of Crime Control and Public Safety.

The department also received a transfer of \$100,000.00 from the Department of Juvenile Justice and Delinquency Prevention. These funds were used for the performance audit of the Youth Development Centers and Detention Centers within the Department of Juvenile Justice and Delinquency Prevention. The Office of State Auditor also contributed \$100,000.00 towards this audit.

**NOTE 7 - RISK MANAGEMENT**

This department 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 department 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 department. The department 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.

**NORTH CAROLINA OFFICE OF THE STATE AUDITOR**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2003**

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**NOTE 7 - RISK MANAGEMENT (concluded)**

The department 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.

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.

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 department's primary responsibility is to arrange for and provide the necessary treatment for work related injuries. The department 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.

**NORTH CAROLINA OFFICE OF THE STATE AUDITOR**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2003**

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**NOTE 8 - 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 and a useful life of more than one year 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:

	<u>Balance</u> <u>July 1, 2002</u>	<u>Additions</u>	<u>Deletions/ Transfers</u>	<u>Balance</u> <u>June 30, 2003</u>
Furniture	\$ 374,375.20	\$ 0.00	\$ 0.00	\$ 374,375.20
Data Processing Systems	<u>958,356.24</u>	<u>54,721.96</u>	<u>143,356.11</u>	<u>869,722.09</u>
 Total Capital Assets	 \$1,332,731.	 \$54,721.9	 \$143,356.1	 \$1,244,097.2
	<u>44</u>	<u>6</u>	<u>1</u>	<u>9</u>

**NOTE 9 – 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:

	<u>Balance</u> <u>July 1, 2002</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30,</u> <u>2003</u>
Compensated	<u>\$819,808.00</u>	<u>\$1,122,752.</u>	<u>\$897,190.0</u>	<u>\$1,045,370.</u>

**NORTH CAROLINA OFFICE OF THE STATE AUDITOR**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2003**

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**NOTE 9 - GENERAL LONG-TERM LIABILITIES (concluded)**

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. In addition the General Assembly awarded employees 80 hours of bonus leave during the year ended June 30, 2003. This bonus leave can be carried forward each year until the employee retires or terminates employment. Accordingly, the remaining bonus leave available at June 30, 2003 is included as a part of the unused vacation leave at June 30, 2003.

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**  
**Required Supplementary Information**  
**Schedule of Revenues, Expenditures and Changes in**  
**Unreserved Fund Balance-Budget and Actual (Budgetary Basis-Non-GAAP)**  
**Governmental Fund**  
**For the Fiscal Year Ended June 30, 2003**

	General Fund			
	Budgeted Amounts		Actual (Cash Basis)	Under (Over) Final Budget
	Original	Final		
Revenues:				
Reimbursement from Primary Government	\$ 1,654,452.00	\$ 1,654,452.00	\$ 2,096,890.00	\$ (442,438.00)
Reimbursement from Component Units	578,179.00	578,179.00	597,330.00	(19,151.00)
Reimbursement from Terrorism Funds	140,700.00	140,700.00	140,000.00	700.00
Transfer from Juvenile Justice	0.00	100,000.00	100,000.00	0.00
Sale of Equipment	50.00	50.00	50.00	0.00
<b>Total Revenues</b>	<b>\$ 2,373,381.00</b>	<b>\$ 2,473,381.00</b>	<b>\$ 2,934,270.00</b>	<b>\$ (460,889.00)</b>
Expenditures:				
Personal Services	\$ 9,824,601.00	\$ 9,785,016.00	\$ 9,442,651.96	\$ 342,364.04
Employee Benefits	1,765,200.00	1,809,574.00	1,686,195.94	123,378.06
Contracted Audits and Services	606,436.00	648,411.00	648,410.04	0.96
Utility/Energy Service	1,686.00	3,032.00	3,031.08	0.92
Repair Service	10,100.00	736.00	734.21	1.79
Maintenance Agreements	69,695.00	37,755.00	37,754.84	0.16
Rental/Leases	31,278.00	80,620.00	80,619.37	0.63
Travel /Other Employee Expense	293,437.00	285,068.00	285,061.42	6.58
Communication/Data Processing	140,819.00	143,501.00	143,497.36	3.64
Other Services	111,049.00	126,830.00	126,827.98	2.02
General Administrative Supplies	58,941.00	51,227.00	51,226.35	0.65
Equipment and Intangible Assets	204,406.00	234,496.00	234,491.24	4.76
Other Expenditures	31,744.00	33,287.00	33,286.55	0.45
<b>Total Expenditures</b>	<b>\$ 13,149,392.00</b>	<b>\$ 13,239,553.00</b>	<b>\$ 12,773,788.34</b>	<b>\$ 465,764.66</b>
Deficiency of Revenues Under Expenditures	\$ (10,776,011.00)	\$ (10,766,172.00)	\$ (9,839,518.34)	\$ (926,653.66)
Other Financing Sources (Uses):				
State Appropriations	\$ 10,802,645.00	\$ 10,802,645.00	\$ 9,875,991.34	\$ 926,653.66
Intra-Departmental Transfers :				
Cash Carryforward To Subsequent Year	(25,000.00)	(25,000.00)	(25,000.00)	0.00
Operating Transfers Out:				
Office of the State Controller-DCAP	(1,634.00)	(11,473.00)	(11,473.00)	0.00
<b>Total Other Financing Sources (Uses)</b>	<b>\$ 10,776,011.00</b>	<b>\$ 10,766,172.00</b>	<b>\$ 9,839,518.34</b>	<b>\$ 926,653.66</b>
<b>Net Change in Fund Balance</b>	<b>\$ 0.00</b>	<b>\$ 0.00</b>	<b>\$ 0.00</b>	<b>\$ 0.00</b>
Fund Balance July 1, 2002	0.00	0.00	0.00	0.00
<b>Fund Balance June 30, 2003</b>	<b>\$ 0.00</b>	<b>\$ 0.00</b>	<b>\$ 0.00</b>	<b>\$ 0.00</b>

**NORTH CAROLINA OFFICE OF THE STATE AUDITOR  
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION  
BUDGETARY REPORTING  
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

**BUDGETARY PROCESS**

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.

	General Fund
Fund Balance (Budgetary Basis), June 30, 2003	\$ 0.00
Add (Deduct):	
Cash Carryforward:	25,000.00
Accrued Revenues	10,235.52
Inventories	39,836.83
Accrued Expenditures	(56,826.71)
<b>Fund Balance (GAAP Basis), June 30, 2003</b>	<b>\$18,245.64</b>

**OTHER SUPPLEMENTARY INFORMATION**





**North Carolina Office of the State Auditor**

**Other Supplementary Information**

**Schedule of Expenditures by Purpose**

**Governmental Fund**

**For the Fiscal Year Ended June 30, 2003**

*Schedule 1*

Administration and Budget Division	\$	665,102.87
General Services Division		317,346.35
Field Audit Division		11,784,382.07
Total Expenditures	\$	12,766,831.29

**North Carolina Office of the State Auditor**

**Other Supplementary Information**

**Comparative Schedule of Actual Revenues, Expenditures and  
Changes in Fund Balance - Cash Basis**

**For the Fiscal Years Ended June 30, 2003 and June 30, 2002**

*Schedule 2*

	<b>Actual Fiscal Year Ended 6-30-03</b>	<b>Actual Fiscal Year Ended 6-30-02</b>	<b>June 30, 2003 Over (Under) June 30, 2002</b>
<b>Revenues:</b>			
Reimbursement from Primary Government	\$ 2,096,890.00	\$ 2,476,140.00	\$ (379,250.00)
Reimbursement from Component Units	597,330.00	462,630.00	134,700.00
Reimbursement from Terrorism Funds	140,000.00	359,300.00	(219,300.00)
Transfer from Juvenile Justice	100,000.00	0.00	100,000.00
Rental of Space for Teller Machine	0.00	600.00	(600.00)
Sale of Equipment	50.00	0.00	50.00
<b>Total Revenues</b>	<b>\$ 2,934,270.00</b>	<b>\$ 3,298,670.00</b>	<b>\$ (364,400.00)</b>
<b>Expenditures:</b>			
Personal Services	\$ 9,442,651.96	\$ 9,601,776.50	\$ (159,124.54)
Employee Benefits	1,686,195.94	1,878,185.79	(191,989.85)
Contracted Audits and Services	648,410.04	880,109.63	(231,699.59)
Utility/Energy Service	3,031.08	2,657.11	373.97
Repair Service	734.21	1,701.39	(967.18)
Maintenance Agreements	37,754.84	83,246.31	(45,491.47)
Rental/Leases	80,619.37	30,221.80	50,397.57
Travel /Other Employee Expense	285,061.42	288,516.02	(3,454.60)
Communication/Data Processing	143,497.36	179,926.32	(36,428.96)
Other Services	126,827.98	142,301.83	(15,473.85)
General Administrative Supplies	51,226.35	62,983.80	(11,757.45)
Equipment and Intangible Assets	234,491.24	359,251.57	(124,760.33)
Other Expenditures	33,286.55	24,982.16	8,304.39
<b>Total Expenditures</b>	<b>\$ 12,773,788.34</b>	<b>\$ 13,535,860.23</b>	<b>\$ (762,071.89)</b>
<b>Deficiency of Revenues Under Expenditures</b>	<b>\$ (9,839,518.34)</b>	<b>\$ (10,237,190.23)</b>	<b>\$ 397,671.89</b>
<b>Other Financing Sources (Uses):</b>			
State Appropriations	\$ 9,875,991.34	\$ 10,045,677.23	\$ (169,685.89)
<b>Intra-Departmental Transfers:</b>			
Cash Carryforward from Prior Year	0.00	180,710.00	(180,710.00)
Cash Carryforward to Subsequent Year	(25,000.00)	0.00	(25,000.00)
<b>Operating Transfers In:</b>			
State Health Plan Reserve	0.00	20,970.00	(20,970.00)
<b>Operating Transfers Out:</b>			
Office of the State Controller - DCAP	(11,473.00)	(10,167.00)	(1,306.00)
<b>Total Other Financing Sources (Uses)</b>	<b>\$ 9,839,518.34</b>	<b>\$ 10,237,190.23</b>	<b>\$ (397,671.89)</b>
<b>Net Change in Fund Balance</b>	<b>\$ 0.00</b>	<b>\$ 0.00</b>	<b>\$ 0.00</b>
<b>Fund Balance beginning of year</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>
<b>Fund Balance end of year</b>	<b>\$ 0.00</b>	<b>\$ 0.00</b>	<b>\$ 0.00</b>