2. Summary of Significant Accounting Policies:

A. All Funds:

Investments:

Effective July 1, 1996, the State adopted GASB Statement No. 31 "Accounting and Financial Reporting for Certain Investments and for External Investment Pools." The adoption of this statement required the State to report investments at fair value in the combined balance sheet and to recognize changes in fair value as revenue in the combined statement of revenues, expenditures, other sources and uses of financial resources and changes in fund balances. (See Note 4.)

Under the State's Finance and Procurement Article, the State lends securities to broker-dealers and other entities. The collateral will be returned for the same securities in the future. The state's custodial bank manages the securities lending program and receives securities as collateral. The collateral securities cannot be pledged and can only be sold if the borrower defaults. Collateral securities are initially pledged at 102 percent of the market value of the securities lent. Securities on loan at year-end are classified for custodial credit risk according to the category for the collateral received on the securities lent.

Retirement Costs:

Substantially all State employees participate in one of several State retirement systems. (See Note 15.) The State also provides retirement benefits to teachers and certain other employees of its political subdivisions. Retirement expenditures for governmental fund types represent amounts contributed by the State for the fiscal year. Retirement costs have been provided on the accrual basis, based upon actuarial valuations.

Accrued Self-Insurance Costs:

The accrued self-insurance costs represent the State's liability for its various self-insurance programs. The State is self-insured for general liability, property and casualty, workers' compensation, environmental and anti-trust liabilities and certain employee health benefits. The State records self-insurance expenses in the proprietary and discretely presented component unit fund types on an accrual basis and the modified accrual basis for the governmental fund types. The long-term accrued self-insurance costs of the governmental fund types which are not expected to be funded with current resources are reported in the general long-term debt account group.

Annual Leave Costs:

Principally all full-time employees accrue annual leave based on the number of years employed up to a maximum of 25 days per calendar year. Earned annual leave may be accumulated up to a maximum of 50 days as of the end of each calendar year. Accumulated earned but unused annual leave for general government employees is accounted for in the general long-term debt account group. Liabilities for accumulated earned but unused annual leave applicable to enterprise funds and the proprietary and higher education component units are reported in the respective funds.

"Total Memorandum Only" Columns:

The "Total Memorandum Only" columns represent an aggregation of the individual combined financial statements for the primary government and the reporting entity, and do not represent consolidated financial information.

Use of Estimates:

The preparation of financial statements in accordance with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues, expenditures and expenses in the financial statements and in the disclosures of contingent assets and liabilities. While actual results could differ from those estimates, management believes that actual results will not be materially different from amounts provided in the accompanying general purpose financial statements.

B. Governmental Fund Types, Expendable Trust and Agency Funds:

Basis of Accounting:

The accounts of the general, special revenue, debt service, capital projects, expendable trust and agency funds are maintained and reported using the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues susceptible to accrual are recognized in the financial statements when they are both measurable and available to finance operations during the fiscal year or liquidate liabilities existing at the end of