

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

For the Fiscal Year Ended June 30, 2006

*(Dollars in Thousands)*

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues:</b>				
Taxes:				
Individual income.....	\$ 8,839,760	\$ 8,839,760	\$ 9,400,168	\$ 560,408
Corporate income.....	905,940	905,940	1,204,103	298,163
Sales and use.....	4,692,700	4,692,700	4,893,911	201,211
Franchise.....	493,800	493,800	477,055	(16,745)
Insurance.....	441,700	441,700	431,729	(9,971)
Beverage.....	195,950	195,950	200,845	4,895
Inheritance.....	137,900	137,900	133,379	(4,521)
Other.....	280,774	280,774	279,325	(1,449)
Non-Tax:				
Fees, licenses and fines.....	161,726	161,726	159,102	(2,624)
Investment income.....	74,800	74,800	119,144	44,344
Disproportionate share receipts.....	100,000	100,000	100,000	—
Other.....	238,691	238,691	223,029	(15,662)
Transfers in.....	252,558	252,558	252,558	—
Departmental:				
Federal funds.....	8,741,557	10,105,989	8,788,034	(1,317,955)
Local funds.....	977,982	1,048,968	1,004,847	(44,121)
Inter-agency grants and allocations.....	22,007	58,081	53,955	(4,126)
Intra-governmental transactions.....	1,446,246	1,825,350	1,747,322	(78,028)
Sales and services.....	78,785	88,348	91,408	3,060
Rental and lease of property.....	7,319	8,122	8,497	375
Fees, licenses and fines.....	472,023	327,985	326,703	(1,282)
Contributions, gifts and grants.....	92,092	590,372	595,910	5,538
Miscellaneous.....	83,706	96,061	51,343	(44,718)
Universities.....	780,830	1,018,064	986,452	(31,612)
Total Revenues.....	<u>29,518,846</u>	<u>31,983,639</u>	<u>31,528,819</u>	<u>(454,820)</u>
<b>Expenditures:</b>				
Current:				
General government.....	1,011,356	622,842	599,490	23,352
Primary and secondary education.....	7,657,836	9,036,931	8,177,233	859,698
Community Colleges.....	1,012,194	1,111,392	1,072,056	39,336
Health and human services.....	14,221,530	15,016,023	14,553,291	462,732
Environment and natural resources.....	389,209	426,101	374,202	51,899
Economic development.....	165,232	173,733	169,210	4,523
Public safety, corrections, and regulation.....	1,719,009	2,091,679	1,953,958	137,721
Transportation.....	200	200	200	—
Agriculture.....	75,179	87,501	81,832	5,669
Capital outlay.....	54,960	54,960	54,960	—
Debt service.....	581,838	587,469	565,461	22,008
Universities.....	2,995,426	3,154,928	3,117,668	37,260
Total Expenditures.....	<u>29,883,969</u>	<u>32,363,759</u>	<u>30,719,561</u>	<u>1,644,198</u>
Excess revenues over (under) expenditures.....	(365,123)	(380,120)	809,258	1,189,378
Transfers to reserves.....	—	—	(538,381)	(538,381)
Unreserved fund balances (budgetary basis) at July 1, 2005.....	<u>478,509</u>	<u>478,509</u>	<u>478,509</u>	<u>—</u>
Unreserved fund balances (budgetary basis) at June 30, 2006.....	<u>\$ 113,386</u>	<u>\$ 98,389</u>	<u>\$ 749,386</u>	<u>\$ 650,997</u>

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**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION**

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**BUDGETARY REPORTING**

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**A. General Fund Budgetary Process**

The State of North Carolina operates on a biennial budget cycle with separate annual departmental certified budgets adopted by the General Assembly on the cash basis of accounting for the General Fund.

The accompanying budgetary comparison schedule discloses the annual original budget and final budget for the General Fund. Actual amounts in the schedule are presented on the budgetary basis. Since the budgetary basis differs from generally accepted accounting principles (GAAP), a reconciliation between the budgetary basis and the GAAP basis is presented in section C below.

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.

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

**B. Special Fund Budgetary Process**

The major special revenue funds, which are the Highway Fund and Highway Trust Fund, do not have annual appropriated budgets.

**C. Reconciliation of Budget/GAAP Reporting Differences**

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

**Entity differences.** Certain funds not included in the annual budgetary statements but which have the characteristics of governmental funds are presented in the General Fund 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, 2006 to the fund balances on a modified accrual basis (GAAP). Amounts are expressed in thousands.

## NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

	<u>General Fund</u>
Unreserved fund balance (budgetary basis), June 30, 2006.....	\$ 749,386
Reserved fund balance (budgetary basis),	
Savings.....	628,793
Repairs and renovation.....	222,229
Disproportionate share.....	19,304
Disaster relief.....	141,712
One North Carolina Fund.....	1,083
Job Development Investment Grant.....	7,798
Fund balance (budgetary basis).....	<u>\$ 1,770,305</u>
<b>Reconciling Adjustments:</b>	
<b>Entity Differences:</b>	
Primary government:	
Other.....	232,759
<b>Basis Differences:</b>	
<b>Accrued revenues:</b>	
Taxes receivable.....	1,790,815
Accounts receivable.....	256,676
Federal funds, net.....	774,608
Other receivables.....	210,775
Less:	
Tax refunds payable.....	(1,183,801)
Deferred revenue.....	(674,748)
Total accrued revenues.....	<u>1,174,325</u>
<b>Accrued expenditures:</b>	
Medical claims payable.....	(962,144)
Accounts payable and accrued liabilities.....	(480,337)
Other payables.....	(63,711)
Total accrued expenditures.....	<u>(1,506,192)</u>
<b>Other Adjustments:</b>	
Notes receivable.....	6,578
Inventories.....	73,343
Investments.....	52
<b>Timing Differences:</b>	
Authorized carryforward for specific encumbrances.....	31,858
Authorized carryforward for designated programs.....	142,170
Fund balance (GAAP basis) June 30, 2006.....	<u>\$1,925,198</u>

**D. Budgetary Reserves**

The North Carolina General Assembly has established several accounts in the General Fund as reserved fund balances for budgetary purposes. Funds that are transferred to these accounts from the unreserved credit balance of the General Fund can be used only for their intended purposes and on a budgetary basis are not available for appropriation.

**Savings Reserve Account (General Statute 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. Therefore, at the end of the fiscal year, \$316.15 million was transferred to the Savings Reserve bringing the balance of this reserve to \$628.79 million at June 30, 2006.

**Repairs and Renovations Reserve Account (General Statute 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. In accordance with Session Law 2006-66, Senate Bill 1741, Section 2.2(b) the State Controller was directed to transfer \$222.23 million from the unreserved credit balance to the Repairs and Renovations Reserve Account on June 30, 2006. At the end of the fiscal year 2005-2006, the balance of this reserve was \$222.23 million.

**Disproportionate Share Reserve Account (1997 General Assembly, Senate Bill 352, Section 11).** 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 or non-tax revenues. At the end of the fiscal year 2005-2006, the remaining balance of this reserve was \$19.3 million.

**Disaster Relief Reserve.** The 1996 Second Extra Session, Section 7.9, Chapter 18 of House Bill 53 authorized the Director of Budget to create the Disaster Relief Reserve. During fiscal year 2004-2005 \$248.17 million was transferred to the Disaster Relief Reserve to fund recovery from the effects of the 2004 Hurricane Season. This \$248.17 million was funded from required agency, university, and community college transfers, a Savings Reserve transfer, and transfers of funds from the unreserved credit balance. At the end of the fiscal year 2005-2006, the remaining balance of this reserve was \$141.71 million.

**One North Carolina Reserve.** The Office of State Budget and Management, after consultation with Joint Legislative Commission on Governmental Operations on November 4, 2003, established the One North Carolina Reserve. This reserve was funded by a transfer from the unexpended legislative increase appropriation of \$1.5 million. During the fiscal year an establishment of \$0.4 million was expended. However, since that time no further One North Carolina funds have been disbursed. Therefore, for fiscal years 2003-2004 through 2005-2006 the balance has remained at \$1.08 million.

**Job Development Investment Grant Program Reserve (JDIG).** In accordance with Session Law 2004-124, House Bill 1414, Section 6.12.(a), Article 1 of Chapter 143 of the General Statutes was amended by adding a new section requiring the establishment of a JDIG Reserve in the General Fund. It is the intent of the General Assembly to annually appropriate funds to this reserve in amounts sufficient to meet anticipated cash requirements for each fiscal year of the Job Development Investment Grant Program established pursuant to General Statute 143B-437.52. Funds in the amount of \$4.5 million were

**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION**

appropriated for fiscal year 2004-2005, \$9 million for fiscal year 2005-2006, and \$12.4 million for fiscal year 2006-2007.

At the end of fiscal year 2005-2006, the balance of this reserver was \$7.8 million.

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

General Fund Reserved Fund Balance	Balance June 30, 2005	Transfers from General Fund Unreserved Fund Balance	Transfers to General Fund Unreserved Fund Balance	Balance June 30, 2006
Savings[1].....	\$ 312,641	\$ 316,152	\$ —	\$ 628,793
Repairs and renovations.....	125,000	222,229	(125,000)	222,229
Disproportionate share.....	19,304	—	—	19,304
Disaster relief.....	211,679	—	(69,967)	141,712
One North Carolina.....	1,083	—	—	1,083
Job Development Investment Grant.....	2,542	9,000	(3,744)	7,798
<b>Total.....</b>	<b>\$ 672,249</b>	<b>\$ 547,381</b>	<b>\$ (198,711)</b>	<b>\$ 1,020,919</b>

[1] Note: An additional \$5.79 million was transferred by the State Controller on December 5, 2006, to the Savings Reserve account from the General Fund unreserved fund balance. This additional transfer will satisfy the 2006 fiscal year end Savings Reserve account requirements of General Statute 143-15.2 through 143-15.3B.