

**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, 2007

*(Dollars in Thousands)*

	<i>Budgeted Amounts</i>		<i>Actual</i>	<i>Variance with Final Budget</i>
	<i>Original</i>	<i>Final</i>		
<b>Revenues:</b>				
<b>Taxes:</b>				
Individual income.....	\$ 9,635,400	\$ 9,635,400	\$ 10,507,967	\$ 872,567
Corporate income.....	1,052,500	1,052,500	1,451,399	398,899
Sales and use.....	5,032,500	5,032,500	4,995,571	(36,929)
Franchise.....	504,900	504,900	531,412	26,512
Insurance.....	491,900	491,900	475,545	(16,355)
Beverage.....	209,100	209,100	212,608	3,508
Inheritance.....	139,200	139,200	161,587	22,387
Tobacco products tax.....	238,200	238,200	241,175	2,975
Other.....	128,400	128,400	134,862	6,462
<b>Non-Tax:</b>				
Fees, licenses and fines.....	164,000	164,000	167,640	3,640
Investment income.....	124,400	124,400	202,543	78,143
Disproportionate share receipts.....	100,000	100,000	100,000	—
Other.....	238,574	238,574	220,235	(18,339)
Transfers in.....	57,500	57,500	57,487	(13)
<b>Departmental:</b>				
Federal funds.....	9,266,485	10,704,913	9,386,599	(1,318,314)
Local funds.....	989,626	1,073,594	1,063,588	(10,006)
Inter-agency grants and allocations.....	21,938	25,342	22,403	(2,939)
Intra-governmental transactions.....	1,630,511	2,253,554	2,168,717	(84,837)
Sales and services.....	91,251	81,828	89,477	7,649
Rental and lease of property.....	5,907	8,911	8,960	49
Fees, licenses and fines.....	711,212	310,929	325,652	14,723
Contributions, gifts and grants.....	87,995	1,202,925	1,217,740	14,815
Miscellaneous.....	83,938	95,359	94,230	(1,129)
Universities.....	509,471	1,119,224	1,087,600	(31,624)
<b>Total Revenues.....</b>	<b>31,514,908</b>	<b>34,993,153</b>	<b>34,924,997</b>	<b>(68,156)</b>
<b>Expenditures:</b>				
<b>Current:</b>				
General government.....	1,820,719	710,545	670,657	39,888
Primary and secondary education.....	7,991,049	9,886,038	8,944,690	941,348
Community colleges.....	1,047,340	1,204,480	1,176,727	27,753
Health and human services.....	14,937,005	16,664,074	16,273,859	390,215
Environment and natural resources.....	395,720	445,263	390,667	54,596
Economic development.....	181,204	204,109	200,339	3,770
Public safety, corrections, and regulation.....	1,819,464	2,158,780	2,057,200	101,580
Agriculture.....	77,623	93,614	86,474	7,140
Capital outlay.....	206,343	206,343	206,343	—
Debt service.....	615,382	621,675	611,089	10,586
Universities.....	3,172,445	3,547,618	3,508,999	38,619
<b>Total Expenditures.....</b>	<b>32,264,294</b>	<b>35,742,539</b>	<b>34,127,044</b>	<b>1,615,495</b>
Excess revenues over (under) expenditures.....	(749,386)	(749,386)	797,953	1,547,339
Transfers to reserves.....	—	—	(326,157)	(326,157)
Unreserved fund balances (budgetary basis) at July 1, 2006.....	749,386	749,386	749,386	—
Unreserved fund balances (budgetary basis) at June 30, 2007.....	\$ —	\$ —	\$ 1,221,182	\$ 1,221,182

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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, 2007 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, 2007.....	\$ 1,221,182
Reserved fund balance (budgetary basis),	
Savings.....	786,650
Repairs and renovations.....	145,000
Disproportionate share.....	19,304
Disaster relief.....	114,041
One North Carolina Fund.....	1,083
Job Development Investment Grant.....	16,061
Fund balance (budgetary basis).....	<u>2,303,321</u>
<b>Reconciling Adjustments:</b>	
<b>Entity Differences:</b>	
Primary government:	
Other.....	<u>272,860</u>
<b>Basis Differences:</b>	
<b>Accrued revenues:</b>	
Taxes receivable.....	1,932,799
Accounts receivable.....	231,447
Federal funds, net.....	680,492
Other receivables.....	118,620
Less:	
Tax refunds payable.....	(1,183,264)
Deferred revenue.....	(655,450)
Total accrued revenues.....	<u>1,124,644</u>
<b>Accrued expenditures:</b>	
Medical claims payable.....	(936,822)
Accounts payable and accrued liabilities.....	(524,773)
Other payables.....	(59,256)
Total accrued expenditures.....	<u>(1,520,851)</u>
<b>Other Adjustments:</b>	
Notes receivable.....	14,319
Inventories.....	86,016
Investments.....	58
<b>Timing Differences:</b>	
Authorized carryforward for specific encumbrances.....	46,779
Authorized carryforward for designated programs.....	<u>249,765</u>
Fund balance (GAAP basis) June 30, 2007.....	<u>\$ 2,576,911</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 143-15.3).** 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. However in accordance with Session Law, Senate Bill 1473, Section 2.2(c1) the State Controller was directed to transfer \$175 million from the unreserved fund balance to the Savings Reserve on June 30, 2007. At the end of the fiscal year 2006-2007, the balance of the Savings Reserve was \$786.65 million.

**Repairs and Renovations Reserve Account (General Statute 143-15.3A).** 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 2007-323, House Bill 1473, Section 2.2(b) the State Controller was directed to transfer \$145 million from the unreserved credit balance to the Repairs and Renovations Reserve Account on June 30, 2007. At the end of the fiscal year 2006-2007, the balance of this reserve was \$145 million.

**Disproportionate Share Reserve Account (Session Law 2005-276, Senate Bill 622, Section 10.12).** 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 non-tax revenues. At the end of the fiscal year 2006-2007, the remaining balance of this reserve was \$19.3 million.

**Disaster Relief Reserve (Session Law 2005-1, Senate Bill 7).** During fiscal year 2004-2005 \$248.17 million was transferred to the Disaster Relief Reserve. 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 2006-2007, the remaining balance of this reserve was \$114.04 million.

**One North Carolina Fund 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 Fund 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 funds have been disbursed. Therefore, for fiscal years 2003-2004 through 2006-2007 the balance has remained at \$1.08 million.

**Job Development Investment Grant Program Reserve (General Statute 143-15.3E).** 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

**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION**

Job Development Investment Grant Program established pursuant to General Statute 143B-437.52. Funds in the amount of \$4.5 million were 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 2006-2007, the balance of JDIG was \$16.06 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, 2006	Transfers from General Fund Unreserved Fund Balance	Transfers to General Fund Unreserved Fund Balance	Balance June 30, 2007
Savings.....	\$ 628,793	\$ 180,790	\$ (22,933)	\$ 786,650
Repairs and renovations.....	222,229	145,000	(222,229)	145,000
Disproportionate share.....	19,304	—	—	19,304
Disaster relief.....	141,712	8,948	(36,619)	114,041
One North Carolina Fund.....	1,083	—	—	1,083
Job Development Investment Grant.....	7,798	12,400	(4,137)	16,061
<b>Total.....</b>	<b>\$ 1,020,919</b>	<b>\$ 347,138</b>	<b>\$ (285,918)</b>	<b>\$ 1,082,139</b>