

**BALANCE SHEET
GOVERNMENTAL FUNDS**

June 30, 2008

Exhibit B-1

(Dollars in Thousands)

	General Fund	Highway Fund	Highway Trust Fund	Other Governmental Funds	Total Governmental Funds
Assets					
Cash and cash equivalents (Note 3).....	\$ 2,401,698	\$ 864,744	\$ 6,811	\$ 1,701,514	\$ 4,974,767
Investments (Note 3).....	2,233	—	—	455,148	457,381
Securities lending collateral (Note 3).....	3,147,335	548,297	24,258	1,065,210	4,785,100
Receivables, net: (Note 4)					
Taxes receivable.....	1,735,612	103,214	36,770	2,123	1,877,719
Accounts receivable.....	257,113	10,076	107	29,730	297,026
Intergovernmental receivable.....	744,395	35,850	3,999	6,426	790,670
Interest receivable.....	14,324	3,349	108	8,627	26,408
Other receivables.....	—	3,170	—	—	3,170
Due from other funds (Note 9).....	2,599	17,398	47	21,794	41,838
Due from component units (Note 18).....	1,478	—	—	13,104	14,582
Inventories.....	55,705	87,604	—	40,369	183,678
Advances to component units (Note 18).....	—	—	11,180	21,742	32,922
Notes receivable, net (Note 4).....	25,427	1,025	96	317,579	344,127
Securities held in trust.....	423	17,933	—	42,379	60,735
Restricted/designated cash and cash equivalents.....	69,839	—	—	459,656	529,495
Restricted investments (Note 3).....	—	187,793	—	502,650	690,443
Total Assets.....	<u>\$ 8,458,181</u>	<u>\$ 1,880,453</u>	<u>\$ 83,376</u>	<u>\$ 4,688,051</u>	<u>\$ 15,110,061</u>
Liabilities and Fund Balances					
Liabilities:					
Accounts payable and accrued liabilities:					
Accounts payable.....	\$ 122,103	\$ 240,402	\$ 61,029	\$ 110,010	\$ 533,544
Accrued payroll.....	4,134	35,244	—	676	40,054
Intergovernmental payable.....	586,582	102,772	52,746	14,870	756,970
Claims payable.....	—	—	—	26,218	26,218
Medical claims payable.....	871,345	—	—	—	871,345
Tax refunds payable.....	1,276,922	6,833	2,278	—	1,286,033
Obligations under securities lending.....	3,147,335	548,297	24,258	1,065,210	4,785,100
Due to fiduciary funds (Note 9).....	103,901	—	—	47	103,948
Due to other funds (Note 9).....	18,617	7,982	17,398	16,180	60,177
Due to component units (Note 18).....	50,439	—	—	218,772	269,211
Deferred revenue.....	562,357	15,201	282	21,775	599,615
Deposits payable.....	—	—	—	86	86
Funds held for others.....	35,368	31,975	—	42,482	109,825
Total Liabilities.....	<u>6,779,103</u>	<u>988,706</u>	<u>157,991</u>	<u>1,516,326</u>	<u>9,442,126</u>
Fund Balances:					
Reserved (Note 10).....	173,850	233,579	11,276	937,868	1,356,573
Unreserved/Designated (Note 10).....	685,965	—	—	—	685,965
Unreserved/Undesignated, reported in:					
General Fund.....	819,263	—	—	—	819,263
Special Revenue Funds.....	—	658,168	(85,891)	1,947,009	2,519,286
Capital Projects Funds.....	—	—	—	284,536	284,536
Permanent Funds.....	—	—	—	2,312	2,312
Total Fund Balance.....	<u>1,679,078</u>	<u>891,747</u>	<u>(74,615)</u>	<u>3,171,725</u>	<u>5,667,935</u>
Total Liabilities and Fund Balances.....	<u>\$ 8,458,181</u>	<u>\$ 1,880,453</u>	<u>\$ 83,376</u>	<u>\$ 4,688,051</u>	<u>\$ 15,110,061</u>

The accompanying Notes to the Financial Statements are an integral part of this statement.

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE STATEMENT OF NET ASSETS

June 30, 2008

Exhibit B-1a

(Dollars in Thousands)

Total fund balances - governmental funds (see Exhibit B-1) \$ 5,667,935

Amounts reported for governmental activities in the Statement of Net Assets are different because:

- Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds (see Note 5). These consist of:		
Cost of capital assets (excluding internal service funds).....	\$ 32,978,140	
Less: Accumulated depreciation (excluding internal service funds).....	(471,813)	
Net capital assets.....		32,506,327
- Some assets , such as receivables, are not available soon enough to pay for current period expenditures and thus, are offset by deferred revenue in the governmental funds.		209,085
- Pension assets , resulting from contributions in excess of the annual required contribution are not financial resources and, therefore, are not reported in the funds (see Note 11).		3,527
- Long-term debt instruments , such as bonds and notes payable, are not due and payable in the current period and, therefore, the outstanding balances are not reported in the funds (see Note 7). Also, unamortized debt premiums, discounts, and losses on refundings are reported in the Statement of Net Assets but are not reported in the funds. These balances consist of:		
General obligation bonds payable.....	(5,533,760)	
Lease-purchase revenue bonds payable.....	(235,045)	
Certificates of participation payable.....	(965,880)	
GARVEE bonds payable.....	(287,565)	
Unamortized debt premiums (to be amortized as interest expense).....	(287,272)	
Less: Unamortized debt discounts (to be amortized as interest expense).....	126	
Less: Unamortized loss on refunding (to be amortized as interest expense).....	76,923	
Notes payable.....	(33,187)	
Capital leases payable.....	(24,659)	
Net long-term debt.....		(7,290,319)
- Other liabilities not due and payable in the current period and, therefore, not reported in the funds (see Note 7 as applicable) consist of:		
Accrued interest payable.....	(84,248)	
Compensated absences (excluding internal service funds).....	(398,324)	
Obligations for workers' compensation.....	(88,749)	
Arbitrage rebate payable.....	(3,025)	
Deferred death benefit payable.....	(565)	
Court judgment payable.....	(749,886)	
Cost settlement payable.....	(35,300)	
Net pension obligation.....	(522)	
Total other liabilities.....		(1,360,619)
- Internal service funds are used by management to charge the costs of certain activities to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the Statement of Net Assets (see Exhibit B-3).		234,979
Total net assets - governmental activities (see Exhibit A-1)		<u>\$ 29,970,915</u>

The accompanying Notes to the Financial Statements are an integral part of this statement.

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS**

For the Fiscal Year Ended June 30, 2008

Exhibit B-2

(Dollars in Thousands)

	General Fund	Highway Fund	Highway Trust Fund	Other Governmental Funds	Total Governmental Funds
Revenues:					
Taxes:					
Individual income tax.....	\$ 10,672,362	\$ —	\$ —	\$ 3,794	\$ 10,676,156
Corporate income tax.....	1,265,654	—	—	87,202	1,352,856
Sales and use tax.....	5,125,674	—	—	31,413	5,157,087
Gasoline tax.....	—	1,163,527	387,776	28,437	1,579,740
Franchise tax.....	739,947	—	—	—	739,947
Highway use tax.....	—	—	566,132	—	566,132
Insurance tax.....	492,699	—	—	13,237	505,936
Beverage tax.....	257,393	—	—	800	258,193
Inheritance tax.....	158,789	—	—	—	158,789
Tobacco products tax.....	249,664	—	—	—	249,664
Other taxes.....	185,351	—	—	153,670	339,021
Federal funds.....	10,843,765	904,400	—	348,189	12,096,354
Local funds.....	486,536	20,989	5,452	14,348	527,325
Investment earnings.....	385,833	67,905	2,592	164,499	620,829
Interest earnings on loans.....	113	12	—	5,031	5,156
Sales and services.....	102,445	863	—	182,540	285,848
Rental and lease of property.....	8,006	13,700	1,999	4,032	27,737
Fees, licenses, and fines.....	614,990	649,948	103,884	225,071	1,593,893
Tobacco settlement.....	159,954	—	—	—	159,954
Contributions, gifts, and grants.....	16,054	13,329	1,199	109,993	140,575
Funds escheated.....	—	—	—	74,743	74,743
Miscellaneous.....	128,368	24,387	1,367	13,327	167,449
Total revenues.....	<u>31,893,597</u>	<u>2,859,060</u>	<u>1,070,401</u>	<u>1,460,326</u>	<u>37,283,384</u>
Expenditures:					
Current:					
General government.....	1,083,760	—	—	83,330	1,167,090
Primary and secondary education.....	9,463,994	—	—	415,608	9,879,602
Higher education.....	3,880,171	—	—	326,993	4,207,164
Health and human services.....	14,822,331	—	—	95,737	14,918,068
Economic development.....	400,812	—	—	346,916	747,728
Environment and natural resources.....	284,244	—	—	404,875	689,119
Public safety, corrections, and regulation.....	2,167,484	—	—	462,083	2,629,567
Transportation.....	—	2,709,713	764,005	—	3,473,718
Agriculture.....	93,181	—	—	24,199	117,380
Capital outlay.....	—	—	—	346,764	346,764
Debt service:					
Principal retirement.....	368,736	3,100	54,055	1,659	427,550
Interest and fees.....	287,047	6,607	34,788	1,371	329,813
Debt issuance costs.....	3	667	78	1,393	2,141
Total expenditures.....	<u>32,851,763</u>	<u>2,720,087</u>	<u>852,926</u>	<u>2,510,928</u>	<u>38,935,704</u>
Excess revenues over (under) expenditures.....	<u>(958,166)</u>	<u>138,973</u>	<u>217,475</u>	<u>(1,050,602)</u>	<u>(1,652,320)</u>
Other Financing Sources (Uses):					
Special indebtedness issued.....	—	—	—	275,000	275,000
GARVEE bonds issued.....	—	287,565	—	—	287,565
Other debt issued.....	4,590	—	—	2,835	7,425
Premium on debt issued.....	—	12,231	—	9,612	21,843
Sale of capital assets.....	11,592	11,549	1,073	5,356	29,570
Insurance recoveries.....	540	6,525	—	252	7,317
Transfers in (Note 9).....	789,758	53,458	—	1,723,925	2,567,141
Transfers out (Note 9).....	(745,653)	(300,257)	(225,351)	(952,177)	(2,223,438)
Total other financing sources (uses).....	<u>60,827</u>	<u>71,071</u>	<u>(224,278)</u>	<u>1,064,803</u>	<u>972,423</u>
Net change in fund balances.....	<u>(897,339)</u>	<u>210,044</u>	<u>(6,803)</u>	<u>14,201</u>	<u>(679,897)</u>
Fund balances — July 1, as restated (Note 23).....	2,606,718	678,902	(67,812)	3,154,899	6,372,707
Increase (decrease) in reserve for related assets.....	(30,301)	2,801	—	2,625	(24,875)
Fund balances — June 30.....	<u>\$ 1,679,078</u>	<u>\$ 891,747</u>	<u>\$ (74,615)</u>	<u>\$ 3,171,725</u>	<u>\$ 5,667,935</u>

The accompanying Notes to the Financial Statements are an integral part of this statement.

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES**

For the Fiscal Year Ended June 30, 2008
(Dollars in Thousands)

Exhibit B-2a

Net change in fund balances - total governmental funds (see Exhibit B-2) \$ (679,897)

Amounts reported for governmental activities in the Statement of Activities are different because:

- Capital outlays are reported as expenditures in governmental funds. However, in the Statement of Activities, the cost of capital assets is allocated over their estimated useful lives as depreciation expense. In the current period, these amounts are:		
Capital outlays (including construction-in-progress)	\$ 2,401,659	
Less: Depreciation expense (excluding internal service funds)	(611,162)	
Net capital outlay adjustment		1,790,497
- Proceeds from the sale of capital assets increase financial resources in the funds, whereas in the Statement of Activities only the gain or loss on the sale is reported. This adjustment reduces the proceeds by the book value of the capital assets sold.		(102,677)
- Donations of capital assets do not appear in the governmental funds because they are not financial resources, but increase net assets in the Statement of Activities.		115
- Long-term debt proceeds provide current financial resources to governmental funds, while the repayment of the related debt principal consumes those financial resources. These transactions, however, have no effect on net assets. Also, governmental funds report the effect of premiums and similar items when debt is first issued, whereas these amounts are deferred and amortized in the Statement of Activities. In the current period, these amounts consist of:		
Debt issued or incurred:		
Bonds and similar debt issued	(569,990)	
Premiums on debt issued	(21,843)	
Principal repayments:		
Bonds, notes, and similar debt	426,469	
Capital leases	1,081	
Net debt adjustments		(164,283)
- Some revenues in the Statement of Activities do not provide current financial resources and, therefore, are deferred in the funds. Also, revenues related to prior periods that became available during the current period are reported in the funds but are eliminated in the Statement of Activities. This amount is the net adjustment.		19,692
- Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not recognized in the funds. Also, some payments related to prior periods are recognized in the funds but are eliminated in the Statement of Activities. In the current period, the net adjustments consist of:		
Accrued interest	(2,460)	
Compensated absences (excluding internal service funds)	(21,542)	
Workers' compensation	(4,327)	
Arbitrage rebate	2,692	
Deferred death benefit	(155)	
Court judgment	(749,886)	
Cost settlement	15,000	
Net pension obligation	3,705	
Amortization of deferred amounts	28,253	
Net expense accruals		(728,720)
- Inventories of governmental funds are recorded as expenditures when purchased but in the Statement of Activities are recorded as expenses when consumed.		(24,875)
- Internal service funds are used by management to charge the costs of certain activities to individual funds. The net revenues of internal service funds are included with governmental activities in the Statement of Activities (see Exhibit B-4).		45,021
Change in net assets - governmental activities (see Exhibit A-2)		<u>\$ 154,873</u>

The accompanying Notes to the Financial Statements are an integral part of this statement.