

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

For the Fiscal Year Ended June 30, 2008

(Dollars in Thousands)

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
Revenues:				
Taxes:				
Individual income.....	\$ 10,895,121	\$ 10,895,121	\$ 10,902,299	\$ 7,178
Corporate income.....	1,095,140	1,095,140	1,111,669	16,529
Sales and use.....	5,049,400	5,049,400	4,981,673	(67,727)
Franchise.....	549,035	549,035	574,461	25,426
Insurance.....	481,900	481,900	492,699	10,799
Beverage.....	219,700	219,700	225,125	5,425
Inheritance.....	171,800	171,800	158,765	(13,035)
Tobacco products.....	238,900	238,900	237,378	(1,522)
Other.....	138,504	138,504	148,170	9,666
Non-Tax:				
Fees, licenses and fines.....	208,086	208,086	198,400	(9,686)
Investment income.....	212,111	212,111	239,680	27,569
Disproportionate share receipts.....	100,000	100,000	100,000	—
Other.....	223,545	205,355	263,032	57,677
Transfers in.....	172,500	190,690	190,733	43
Tobacco settlement.....	—	79,977	79,977	—
Departmental:				
Federal funds.....	10,108,406	11,007,401	9,831,130	(1,176,271)
Local funds.....	1,001,683	1,092,356	1,068,223	(24,133)
Inter-agency grants and allocations.....	21,277	11,903	8,839	(3,064)
Intra-governmental transactions.....	2,760,220	3,680,707	3,907,213	226,506
Sales and services.....	84,198	82,818	99,794	16,976
Rental and lease of property.....	8,853	9,284	8,888	(396)
Fees, licenses and fines.....	333,157	352,185	353,868	1,683
Contributions, gifts and grants.....	946,577	1,119,418	1,114,781	(4,637)
Miscellaneous.....	566,169	464,407	140,960	(323,447)
Total Revenues.....	35,586,282	37,656,198	36,437,757	(1,218,441)
Expenditures:				
Current:				
General government.....	1,391,670	811,282	744,470	66,812
Primary and secondary education.....	9,617,352	10,519,223	9,738,676	780,547
Higher education.....	3,842,669	4,111,930	4,010,500	101,430
Health and human services.....	16,891,922	18,051,846	17,543,045	508,801
Environment and natural resources.....	437,536	452,432	427,170	25,262
Economic development.....	341,088	379,248	371,392	7,856
Public safety, corrections, and regulation.....	2,271,434	2,504,712	2,292,886	211,826
Agriculture.....	97,555	152,498	144,637	7,861
Capital outlay.....	230,741	375,741	375,741	—
Debt service.....	1,446,116	1,489,831	1,431,211	58,620
Total Expenditures.....	36,568,083	38,848,743	37,079,728	1,769,015
Excess revenues over (under) expenditures.....	(981,801)	(1,192,545)	(641,971)	550,574
Total fund balance at July 1, 2007, as restated.....	2,632,828	2,632,828	2,632,828	—
Total fund balance at June 30, 2008.....	\$ 1,651,027	\$ 1,440,283	\$ 1,990,857	\$ 550,574
Fund balance reserved:				
Statutory.....			\$ 985,794	
Non-reverting purposes.....			406,025	
Fund balance unreserved.....			\$ 599,038	

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

BUDGETARY REPORTING

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.

On July 20, 2006, the General Assembly passed House Bill 914 the State Budget Act to replace the Executive Budget Act. This new legislation was effective July 1, 2007 and affects budget development and management by simplifying, reorganizing, updating the current budget statutes, and making changes to conform the statutes to the state constitutional provisions governing appropriations. The new legislation provides that agency budgets be classified in accordance with generally accepted accounting principles as interpreted by the State Controller.

The fiscal year 2008 presentation of *The Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual (Budgetary Basis – Non-GAAP) – General Fund* reflects total General Fund fund balance. In prior years, the Schedule represented only activity as it related to unreserved fund balance. With changes resulting from House Bill 914, the fiscal year 2008 presentation is more complete, relates more closely to the presentation of the General Fund on a GAAP basis, and now includes both reverting and non-reverting appropriation activity. Non-reverting fund balance is presented as reserved on the budgetary basis. In prior years, the General Fund budgetary presentation included only reverting funds activity.

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 and the North Carolina School of Science and Mathematics 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 and the North Carolina School of Science and Mathematics 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 Fund Balance – 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.

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.

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

The following table presents a reconciliation of resulting basis and timing differences in the fund balances (budgetary basis) at June 30, 2008 to the fund balances on a modified accrual basis (GAAP). Amounts are expressed in thousands.

	<u>General Fund</u>
Fund balance (budgetary basis), June 30, 2008.....	\$ 1,990,857
Reconciling Adjustments:	
Basis Differences:	
Accrued revenues:	
Taxes receivable.....	1,735,612
Accounts receivable.....	257,113
Federal funds, net.....	658,213
Other receivables.....	262,830
Less:	
Tax refunds payable.....	(1,276,922)
Deferred revenue.....	(560,224)
Total accrued revenues.....	<u>1,076,622</u>
Accrued expenditures:	
Medical claims payable.....	(871,345)
Accounts payable and accrued liabilities.....	(648,720)
Other payables.....	(207,900)
Total accrued expenditures.....	<u>(1,727,965)</u>
Other Adjustments:	
Notes receivable.....	25,427
Inventories.....	55,705
Investments.....	—
Timing Differences:	
Authorized carryforward for specific encumbrances.....	25,041
Authorized carryforward for designated programs.....	<u>233,391</u>
Fund balance (GAAP basis) June 30, 2008.....	<u>\$ 1,679,078</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 143C-4-2). The State Controller shall reserve to the Savings Reserve Account one-fourth of any unreserved fund balance, as determined on a cash basis, remaining in the General Fund at the end of each fiscal year. The Savings Reserve Account is a component of the unappropriated General Fund balance. Funds reserved to the Savings Reserve Account shall be available for expenditure only upon an act of appropriation by the General Assembly. The General Assembly recognizes the need to establish and maintain sufficient reserves to address unanticipated events and circumstances such as natural disasters, economic downturns, threats to public safety, health, and welfare, and other emergencies. It is a goal of the General Assembly and the State to accumulate and maintain a balance in the Savings Reserve Account equal to or greater than eight percent (8%) of the prior year's General Fund operating budget.

However in accordance with Session Law 2008-107, House Bill 2436, Section 2.2.(c1) the State Controller was directed to not transfer funds from the unreserved fund balance to the Savings Reserve on June 30, 2008. At the end of the fiscal year 2007-08, the balance of the Savings Reserve was \$786.65 million.

Repairs and Renovations Reserve Account (General Statute 143C-4-3). The Repairs and Renovations Reserve Account is established as a reserve in the General Fund. The State Controller shall reserve to the Repairs and Renovations Reserve Account one-fourth of any unreserved fund balance, as determined on a cash basis, remaining in the General Fund at the end of each fiscal year. The funds in the Repairs and Renovations Reserve Account shall be used only for the repair and renovation of State facilities and related infrastructure that are supported from the General Fund. Funds reserved to the Repairs and Renovations Reserve Account shall be available for expenditure only upon an act of appropriation by the General Assembly. In accordance with Session Law 2008-107, House Bill 2436, Section 2.2.(b) the State Controller was directed to transfer \$69.8 million from the unreserved credit balance to the Repairs and Renovations Reserve Account on June 30, 2008. At the end of the fiscal year 2007-08, the balance of this reserve was \$69.84 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 2007-08, 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 2007-08, the remaining balance of this reserve was \$97.16 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 2003-04 through 2007-08 the balance has remained at \$1.08 million.

Job Development Investment Grant (JDIG) Program Reserve (General Statute 143-15.3E). In accordance with Session Law 2004-124, House Bill 1414, Section 6.12.(a),

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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 appropriated for

fiscal year 2004-05, \$9 million for fiscal year 2005-06, \$12.4 million for fiscal year 2006-07 and \$12.4 million for fiscal year 2007-08. At the end of fiscal year 2007-08, the balance of JDIG was \$11.76 million.