

**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, 2009

(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>				
<b>Taxes:</b>				
Individual income.....	\$ 11,386,200	\$ 11,386,200	\$ 9,470,173	\$ (1,916,027)
Corporate income.....	1,191,500	1,191,500	835,545	(355,955)
Sales and use.....	5,374,300	5,374,300	4,677,947	(696,353)
Franchise.....	587,000	587,000	651,939	64,939
Insurance.....	522,200	522,200	466,602	(55,598)
Beverage.....	233,800	233,800	228,459	(5,341)
Inheritance.....	161,700	161,700	104,256	(57,444)
Tobacco products.....	236,200	236,200	227,057	(9,143)
Other.....	146,500	146,500	117,102	(29,398)
<b>Non-Tax:</b>				
Fees, licenses and fines.....	204,800	204,800	194,759	(10,041)
Investment income.....	248,064	248,064	113,334	(134,730)
Disproportionate share receipts.....	100,000	100,000	100,000	—
Other.....	309,971	309,971	265,089	(44,882)
Transfers in.....	147,500	147,500	165,141	17,641
Tobacco settlement.....	—	87,593	87,593	—
<b>Departmental:</b>				
Federal funds.....	10,411,541	11,871,115	10,606,593	(1,264,522)
Local funds.....	843,107	978,738	900,721	(78,017)
Inter-agency grants and allocations.....	21,029	9,617	7,100	(2,517)
Intra-governmental transactions.....	3,091,766	3,600,482	3,777,378	176,896
Sales and services.....	76,438	95,927	103,987	8,060
Rental and lease of property.....	8,826	9,456	9,399	(57)
Fees, licenses and fines.....	343,528	362,948	384,890	21,942
Contributions, gifts and grants.....	952,202	1,162,989	1,197,262	34,273
Federal recovery funds.....	—	985,246	1,115,409	130,163
Miscellaneous.....	725,178	481,299	150,192	(331,107)
<b>Total Revenues.....</b>	<b>37,323,350</b>	<b>40,495,145</b>	<b>35,957,927</b>	<b>(4,537,218)</b>
<b>Expenditures:</b>				
<b>Current:</b>				
General government.....	1,851,242	962,281	648,207	314,074
Primary and secondary education.....	9,768,796	11,344,555	10,009,228	1,335,327
Higher education.....	3,903,978	4,171,360	3,818,340	353,020
Health and human services.....	17,355,501	18,909,231	18,281,733	627,498
Environment and natural resources.....	466,410	499,443	417,180	82,263
Economic development.....	274,286	351,227	272,626	78,601
Public safety, corrections, and regulation.....	2,326,849	2,660,921	2,324,688	336,233
Agriculture.....	89,685	149,342	135,893	13,449
Capital outlay.....	129,082	129,082	23,071	106,011
Debt service.....	1,821,502	1,527,432	1,397,357	130,075
<b>Total Expenditures.....</b>	<b>37,987,331</b>	<b>40,704,874</b>	<b>37,328,323</b>	<b>3,376,551</b>
Excess revenues over (under) expenditures.....	(663,981)	(209,729)	(1,370,396)	(1,160,667)
Total fund balance at July 1, 2008, as restated.....	1,998,288	1,998,288	1,998,288	—
<b>Total fund balance at June 30, 2009.....</b>	<b>\$ 1,334,307</b>	<b>\$ 1,788,559</b>	<b>\$ 627,892</b>	<b>\$ (1,160,667)</b>
<b>Fund balance reserved:</b>				
Statutory.....			\$ 199,136	
Non-reverting purposes.....			336,519	
Fund balance unreserved.....			92,237	
<b>Total fund balance at June 30, 2009.....</b>			<b>\$ 627,892</b>	

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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.

On July 20, 2006, the General Assembly passed House Bill 914, the State Budget Act, to replace the Executive Budget Act. This legislation was effective July 1, 2007 and affected 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 legislation provided that agency budgets be classified in accordance with generally accepted accounting principles as interpreted by the State Controller.

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 16 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 16 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.

**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, 2009 to the fund balances on a modified accrual basis (GAAP). Amounts are expressed in thousands.

## NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

	<u>General Fund</u>
Fund balance (budgetary basis), June 30, 2009.....	\$ 627,892
<b><u>Reconciling Adjustments:</u></b>	
<b>Entity Difference:</b>	
Primary government:	
Other.....	1,951
<b>Basis Differences:</b>	
<b>Accrued revenues:</b>	
Taxes receivable.....	1,046,243
Accounts receivable.....	313,446
Federal funds, net.....	633,492
Other receivables.....	152,495
<b>Less:</b>	
Tax refunds payable.....	(1,426,309)
Deferred revenue.....	(523,895)
Total accrued revenues.....	<u>195,472</u>
<b>Accrued expenditures:</b>	
Medical claims payable.....	(972,070)
Accounts payable and accrued liabilities.....	(618,011)
Other payables.....	(204,681)
Total accrued expenditures.....	<u>(1,794,762)</u>
<b>Other Adjustments:</b>	
Notes receivable.....	22,828
Inventories.....	69,596
<b>Timing Differences:</b>	
Authorized carryforward for specific encumbrances .....	<u>101,159</u>
Fund balance (GAAP basis) June 30, 2009.....	<u>\$ (775,864)</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.

At the beginning of fiscal year 2008-09 the balance of the Savings Reserve Account was \$786.65 million. However, due to insufficient funds in the State Health Plan, \$250 million was transferred from the Savings Reserve Account to supplement their cash needs. Furthermore, as revenue collections were significantly less than the budgeted revenues, \$386.65 million was transferred to General Fund availability as directed by the Governor to help ensure the State not incur a deficit. The General Assembly did not authorize any transfer of unreserved fund balance to the Savings Reserve Account under Session Law 2009-451 and 2009-575. At the end of the fiscal year 2008-09, the balance of this reserve was \$150 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 \$69.84 million from the unreserved credit balance to the Repairs and Renovations Reserve Account on June 30, 2008. This \$69.84 million was appropriated by the General Assembly for fiscal year 2008-09, but was not expended and was reverted to the General Fund as directed by the Governor to help ensure the State not incur a deficit at year end. In addition, the General Assembly did not authorize any transfer of remaining unreserved fund balance to the Repair and Renovation Reserve Account under Session Law 2009-451 and 2009-575. At the end of the fiscal year 2008-09, the balance of this reserve was \$0.

**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. The Session Law 2008-107 directed the transfer of \$19.3 million to the General Fund availability. The Governor also directed \$3 thousand to be transferred to General Fund availability to help ensure the State not incur a deficit at year end. At the end of the fiscal year 2008-09, the remaining balance of this reserve was \$0.

**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 Account transfer, and transfers of funds from the unreserved credit balance. During

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**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION**

the fiscal year 2008-09 \$44.2 million was disbursed for disaster related expenditures and \$9 million was transferred to General Fund availability as directed by the Governor to help ensure that the State not incur a deficit. At the end of the fiscal year 2008-09, the remaining balance of this reserve was \$43.95 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 fiscal year 2003-04 no further funds have been disbursed. During fiscal year 2008-09, the remaining balance of \$1.08 million was transferred to General Fund availability to help ensure that the State not incur a deficit. At the end of fiscal year 2008-09, the remaining balance of this reserve was \$0.

**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), 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 JDIG 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. While \$27.4 million was appropriated for JDIG for fiscal year 2008-09, this entire amount was directed by the Governor to revert at year end to help ensure that the State not incur a deficit. At the end of fiscal year 2008-09, the balance of this reserve was \$5.18 million.