

**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, 2011

*(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.....	\$ 9,543,300	\$ 9,543,300	\$ 9,734,868	\$ 191,568
Corporate income.....	1,017,450	1,017,450	1,013,547	(3,903)
Sales and use.....	5,690,800	5,690,800	5,871,669	180,869
Franchise.....	697,900	697,900	607,500	(90,400)
Insurance.....	494,500	494,500	480,135	(14,365)
Beverage.....	277,200	277,200	275,194	(2,006)
Inheritance.....	10,100	10,100	23,755	13,655
Tobacco products.....	251,400	251,400	265,270	13,870
Other.....	109,500	109,500	108,179	(1,321)
<b>Non-Tax:</b>				
Fees, licenses and fines.....	253,030	253,030	311,582	58,552
Investment income.....	57,500	57,500	26,306	(31,194)
Disproportionate share receipts.....	135,000	135,000	135,000	—
Other.....	367,370	367,370	360,776	(6,594)
Transfers in.....	72,800	72,800	89,899	17,099
Tobacco settlement.....	—	69,128	69,128	—
<b>Departmental:</b>				
Federal funds.....	12,709,989	12,126,819	10,579,345	(1,547,474)
Local funds.....	678,113	722,510	708,611	(13,899)
Inter-agency grants and allocations.....	22,901	489,243	16,012	(473,231)
Intra-governmental transactions.....	3,579,489	6,816,930	6,180,751	(636,179)
Sales and services.....	106,546	130,666	126,020	(4,646)
Rental and lease of property.....	9,568	14,486	16,690	2,204
Fees, licenses and fines.....	532,162	551,456	539,736	(11,720)
Contributions, gifts and grants.....	957,538	1,421,861	1,265,454	(156,407)
Federal recovery funds.....	206,774	2,025,674	1,873,195	(152,479)
Miscellaneous.....	380,328	416,106	205,958	(210,148)
<b>Total Revenues.....</b>	<b>38,161,258</b>	<b>43,762,729</b>	<b>40,884,580</b>	<b>(2,878,149)</b>
<b>Expenditures:</b>				
<b>Current:</b>				
General government.....	1,111,407	1,141,515	959,486	182,029
Primary and secondary education.....	10,863,988	13,478,057	11,239,866	2,238,191
Higher education.....	4,146,591	4,191,451	4,053,567	137,884
Health and human services.....	17,895,601	20,781,573	19,831,445	950,128
Environment and natural resources.....	591,071	484,738	435,673	49,065
Economic development.....	218,867	411,261	320,739	90,522
Public safety, corrections, and regulation.....	2,594,826	2,933,212	2,636,910	296,302
Agriculture.....	123,696	181,015	174,419	6,596
Capital outlay.....	11,173	11,173	11,173	—
Debt service.....	696,181	719,712	692,460	27,252
<b>Total Expenditures.....</b>	<b>38,253,401</b>	<b>44,333,707</b>	<b>40,355,738</b>	<b>3,977,969</b>
Excess revenues over (under) expenditures.....	(92,143)	(570,978)	528,842	1,099,820
Total fund balance at July 1, 2010, as restated.....	1,456,285	1,456,285	1,456,285	—
<b>Total fund balance at June 30, 2011.....</b>	<b>\$ 1,364,142</b>	<b>\$ 885,307</b>	<b>\$ 1,985,127</b>	<b>\$ 1,099,820</b>
<b>Fund balance reserved:</b>				
Statutory.....			\$ 434,324	
Non-reverting purposes.....			968,353	
Fund balance unreserved.....			582,450	
<b>Total fund balance at June 30, 2011.....</b>			<b>\$ 1,985,127</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, 2011 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, 2011.....	\$ 1,985,127
<b><u>Reconciling Adjustments:</u></b>	
<b>Entity Difference:</b>	
Primary government:	
Other.....	1,253
<b>Basis Differences:</b>	
<b>Accrued revenues:</b>	
Taxes receivable.....	1,616,815
Accounts receivable.....	259,895
Federal funds, net.....	673,814
Other receivables.....	156,123
<b>Less:</b>	
Tax refunds payable.....	(1,382,700)
Deferred revenue.....	(516,660)
Total accrued revenues.....	<u>807,287</u>
<b>Accrued expenditures:</b>	
Medical claims payable.....	(984,844)
Accounts payable and accrued liabilities.....	(682,197)
Other payables.....	(163,156)
Total accrued expenditures.....	<u>(1,830,197)</u>
<b>Other Adjustments:</b>	
Notes receivable.....	70,857
Inventories.....	93,259
Investment Market Value .....	(12,574)
<b>Timing Differences:</b>	
Authorized carryforward for specific encumbrances .....	<u>68,693</u>
Fund balance (GAAP basis) June 30, 2011.....	<u>\$ 1,183,705</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 2010-11 the balance of the Savings Reserve Account was \$150 million. During fiscal year 2010-11, \$38 million was transferred to the Department of Health and Human Services for the loss of the enhanced Federal Medical Assistance Percentage (FMAP), as initially authorized under the American Recovery and Reinvestment Act of 2009 (Public Law 111-5). This transfer was authorized by Session Law 2010-31 as amended by Session Law 2010-123. In accordance with Session Law 2011-145 as amended by Session Law 2011-395, the State Controller was directed to transfer \$183.6 million from the unreserved fund balance to the Savings Reserve on June 30, 2011. At the end of the fiscal year 2010-2011, the balance of this reserve was \$295.6 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 2011-145 as amended by Session Law 2011-391, the State Controller was directed to transfer \$124.5 million from the unreserved fund balance to the Repairs and Renovations Reserve on June 30, 2011. At the end of the fiscal year 2010-2011, the balance of this reserve was \$124.5 million.

**Disproportionate Share Reserve Account (Session Law 2009-451, Senate Bill 202, Section 10.64(a)).** 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 2010-11, there was no remaining balance.

**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 fiscal year 2010-11, \$4.3 million was disbursed from this reserve for disaster related expenditures and \$30 million was transferred to the Department of Health and Human Services for the loss of the enhanced Federal Medical Assistance Percentage (FMAP), as initially authorized under the American Recovery and Reinvestment Act of 2009 (Public Law 111-5). This

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**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION**

transfer was authorized by Session Law 2010-31 as amended by Session Law 2010-123. At the end of the fiscal year 2010-11, the balance of this reserve was \$7 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), 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, \$12.4 million for fiscal year 2007-08, \$27.4 million for fiscal year 2008-09 and \$19 million for fiscal year 2009-10. 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. The JDIG Reserve was appropriated \$20.8 million for fiscal year 2010-11 and \$16.7 million was disbursed from this reserve. At the end of fiscal year 2010-11, the balance of this reserve was \$7.2 million.