

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, 2003

(Dollars in Thousands)

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
Revenues:				
Taxes:				
Individual income.....	\$ 7,270,200	\$ 7,270,200	\$ 7,088,527	\$ (181,673)
Corporate income.....	822,870	822,870	840,500	17,630
Sales and use.....	4,016,800	4,016,800	3,922,822	(93,978)
Franchise.....	405,930	405,930	429,128	23,198
Insurance.....	379,900	379,900	408,873	28,973
Beverage.....	172,300	172,300	170,897	(1,403)
Inheritance.....	104,000	104,000	112,504	8,504
Other.....	142,920	142,920	143,980	1,060
Non-Tax:				
Fees, licenses and fines.....	136,180	136,180	124,734	(11,446)
Investment income.....	115,972	115,972	105,079	(10,893)
Disproportionate share receipts.....	107,000	107,000	107,000	—
Federal funds for fiscal relief.....	—	—	136,859	136,859
Other.....	263,428	263,428	262,403	(1,025)
Transfers in.....	392,700	392,700	392,760	60
Departmental:				
Federal funds.....	6,632,554	8,258,591	7,009,745	(1,248,846)
Local funds.....	860,281	907,258	834,851	(72,407)
Inter-agency grants and allocations.....	7,168	64,383	34,948	(29,435)
Intra-governmental transactions.....	757,908	2,106,612	1,746,178	(360,434)
Sales and services.....	62,616	64,062	60,532	(3,530)
Rental and lease of property.....	4,322	9,737	8,825	(912)
Fees, licenses and fines.....	181,887	186,587	184,661	(1,926)
Contributions, gifts and grants.....	22,401	39,395	24,526	(14,869)
Miscellaneous.....	21,507	88,710	27,678	(61,032)
Universities.....	595,552	756,134	741,032	(15,102)
Total Revenues.....	<u>23,476,396</u>	<u>26,811,669</u>	<u>24,919,042</u>	<u>(1,892,627)</u>
Expenditures:				
Current:				
General government.....	334,017	513,746	500,066	13,680
Primary and secondary education.....	6,602,594	7,147,036	6,848,489	298,547
Higher education.....	839,834	896,765	816,870	79,895
Health and human services.....	11,046,087	12,610,163	11,383,439	1,226,724
Environment and natural resources.....	309,447	334,976	287,224	47,752
Economic development.....	105,052	126,881	96,866	30,015
Public safety, corrections, and regulation.....	1,499,676	2,273,475	1,768,669	504,806
Transportation.....	10,903	10,885	10,522	363
Agriculture.....	70,814	81,598	74,902	6,696
Capital outlay.....	31,158	31,158	31,158	—
Debt service.....	300,017	300,867	294,552	6,315
Universities.....	2,351,693	2,509,015	2,415,741	93,274
Total Expenditures.....	<u>23,501,292</u>	<u>26,836,565</u>	<u>24,528,498</u>	<u>2,308,067</u>
Excess revenues over (under) expenditures.....	(24,896)	(24,896)	390,544	415,440
Transfers from reserves.....	21,214	21,214	21,214	—
Transfers to reserves.....	—	—	(165,000)	(165,000)
Unreserved fund balances (budgetary basis) at July 1, 2002.....	3,786	3,786	3,786	—
Unreserved fund balances (budgetary basis) at June 30, 2003.....	<u>\$ 104</u>	<u>\$ 104</u>	<u>\$ 250,544</u>	<u>\$ 250,440</u>

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.

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, 2003 to the fund balances on a modified accrual basis (GAAP). Amounts are expressed in thousands.

NOTES TO REQUIRED SUPPLEMENTAL INFORMATION

	<i>General Fund</i>
Unreserved fund balance (budgetary basis), June 30, 2003.....	\$ 250,544
Reserved fund balance (budgetary basis),	
Savings.....	150,000
Repairs and renovation.....	15,000
Budgetary shortfall.....	160,529
Disproportionate share.....	1,511
Retirees' health premium.....	26,314
Fund balance (budgetary basis).....	<u>\$ 603,898</u>
Reconciling Adjustments:	
Entity Differences:	
Primary government:	
Other.....	<u>221,894</u>
Basis Differences:	
Accrued revenues:	
Taxes receivable.....	827,616
Accounts receivable.....	138,837
Federal funds, net.....	557,684
Other receivables.....	122,797
Less:	
Tax refunds payable.....	(960,104)
Deferred revenue.....	(463,241)
Total accrued revenues.....	<u>223,589</u>
Accrued expenditures:	
Medical claims payable.....	(718,686)
Accounts payable and accrued liabilities.....	(470,496)
Other payables.....	(142,101)
Total accrued expenditures.....	<u>(1,331,283)</u>
Other Adjustments:	
Notes receivable.....	4,369
Inventories.....	55,396
Investments.....	45
Timing Differences:	
Authorized carryforward for specific encumbrances.....	5,724
Authorized carryforward for designated programs.....	<u>49,413</u>
Fund balance (GAAP basis) June 30, 2003.....	<u>(\$166,955)</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 (G.S. 143-15.2 through 143-15.3B). 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. Funds in the amount of \$150 million were transferred to the Savings Reserve Account from the unreserved credit balance on June 30, 2003 in accordance with Session Law 2003-284, House Bill 397, Section 2.2(e).

Retirees' Health Premiums Reserve. This reserve account was established to receive and temporarily retain employer contributions for retirees' health insurance premiums made by all State agencies and universities and by local governments that

have employees who are members of the State Health Plan. Since a significant portion of the funding for this account is from sources outside the reporting entity and legally restricted for a specific future use, it is reported as reserved fund balance for GAAP purposes.

Repairs and Renovations Reserve Account (G.S. 143-15.2 through 143-15.3B). 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. Funds in the amount of \$15 million were transferred to the Repair and Renovations Reserve Account from the unreserved credit balance on June 30, 2003 in accordance with Session Law 2003-284, House Bill 397, Section 2.2(f).

Clean Water Management Trust Fund (G.S. 143-15.2 through 143-15.3B). Effective July 1, 2001, in accordance with Session Law 1999, House Bill 1840, Section 7.7(b), the reservation of 6.5% of any unreserved credit balance remaining in the General Fund, was repealed.

North Carolina Railroad Acquisition Reserve and North Carolina Railroad Dividends Reserve (1997 General Assembly, Senate Bill 352, Section 32.30). For fiscal year 1996-97, the General Assembly established the Railroad Reserve Account. In order to help promote trade, industry, and transportation within the State of North Carolina and to advance the economic interests of the State and its citizens, the General Assembly found it advantageous for the State to acquire the outstanding shares of the North Carolina Railroad Company not held by the State. On April 1, 1998 the General Fund loaned the North Carolina Railroad Company \$61 million for the retirement of non-State owned common stock shares of the Railroad. The 1999 General Assembly's House Bill 168, (*signed June 30, 1999*) required \$19 million of Railroad dividends paid to the State during fiscal year 1999-2000, be used for specific purposes related to the Railroad and that they directly reduce the Railroad's obligation to the State. The 1999 General Assembly's House Bill 1840, (*signed June 30, 2000*) amended G.S. 124-5.1, *State use of North Carolina Railroad dividends*, and stated that any dividends paid to the State shall be used for the improvement of the property of the Railroad and therefore reduce the Railroad's loan obligation to the State. During the fiscal year 2001-02 and 2002-03 the State received dividends from the North Carolina Railroad Company of \$9.5 million and \$22.1 million, respectively, thus reducing the outstanding obligation to zero.

Disproportionate Share Reserve Account (1997 General Assembly, Senate Bill 352, Section 11). 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 departmental receipts or non-tax revenues.

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

Funds in the amount of \$1.5 million in excess of the budget of \$107 million were transferred to this reserve on June 30, 2003.

Disaster Relief Reserve. The 1996 Second Extra Session, Section 7.9, Chapter 18 of House Bill 53 authorized the Director of Budget to create the Disaster Relief Reserve. At the beginning of fiscal year 2002-03, this reserve had a balance of \$296 million. During the fiscal year, under direction from the Governor’s Office, the reserve balance was transferred to the Easley Executive Order Number 22 Reserve. Therefore, the Disaster Relief Reserve ended FY 2002-03 with a balance of zero.

Easley Executive Order No. 22 Reserve. On June 27, 2002, Governor Easley signed Executive Order Number 22. This executive order became effective July 1, 2002 and ordered that the Office of State Budget and Management (OSBM), as directed by the Governor, take any steps necessary to insure that

a deficit not be incurred for the fiscal year 2002-03. Therefore, in anticipation of total expenditures exceeding total receipts for fiscal year 2003-03, the Governor directed the transfer of the Disaster Relief Reserve balance to the Easley Executive Order No. 22 Reserve. The June 30, 2003 balance in this reserve was \$160.5 million, after transfers of \$135.5 million to fund disaster relief programs.

The following schedule summarizes current year changes in the budgetary reserve accounts. Amounts are expressed in thousands.

	Balance June 30, 2002	<u>Increases</u>	<u>(Decreases)</u>	Balance June 30, 2003
		Transfers from General Fund Unreserved Fund Balance	Transfers to General Fund Unreserved Fund Balance	
General Fund Reserved Fund Balance				
Savings.....	\$ —	\$ 150,000	\$ —	\$ 150,000
Retirees' health premium...	50,810	—	(24,496)	26,314
Repairs and renovations....	—	15,000	—	15,000
N.C. Railroad acquisition...	22,081	—	(22,081)	—
Disproportionate share.....	—	1,511	—	1,511
Disaster relief.....	45,450	—	(45,450)	—
Exec. Order #22.....	250,571	—	(90,042)	160,529
Total.....	<u>\$ 368,912</u>	<u>\$ 166,511</u>	<u>\$ (182,069)</u>	<u>\$ 353,354</u>