

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, 2004

(Dollars in Thousands)

	<i>Budgeted Amounts</i>		<i>Actual</i>	<i>Variance with Final Budget</i>
	<i>Original</i>	<i>Final</i>		
Revenues:				
Taxes:				
Individual income.....	\$ 7,427,043	\$ 7,427,043	\$ 7,509,898	\$ 82,855
Corporate income.....	711,584	711,584	776,965	65,381
Sales and use.....	4,056,912	4,056,912	4,222,202	165,290
Franchise.....	448,637	448,637	445,294	(3,343)
Insurance.....	439,100	439,100	423,405	(15,695)
Beverage.....	177,637	177,637	182,393	4,756
Inheritance.....	107,700	107,700	128,479	20,779
Other.....	143,352	143,352	142,091	(1,261)
Non-Tax:				
Fees, licenses and fines.....	138,270	138,270	139,034	764
Investment income.....	113,900	113,900	78,345	(35,555)
Disproportionate share receipts.....	100,000	100,000	97,144	(2,856)
Federal funds for fiscal relief.....	136,859	136,859	136,859	—
Other.....	315,653	315,653	261,775	(53,878)
Transfers in.....	268,801	268,801	268,801	—
Departmental:				
Federal funds.....	7,334,712	8,814,136	8,072,257	(741,879)
Local funds.....	812,822	870,281	846,602	(23,679)
Inter-agency grants and allocations.....	7,558	35,459	29,797	(5,662)
Intra-governmental transactions.....	699,706	1,715,458	1,620,637	(94,821)
Sales and services.....	59,126	79,224	74,815	(4,409)
Rental and lease of property.....	6,918	7,146	6,906	(240)
Fees, licenses and fines.....	200,535	219,518	215,826	(3,692)
Contributions, gifts and grants.....	23,623	161,422	154,756	(6,666)
Miscellaneous.....	76,702	98,591	88,908	(9,683)
Universities.....	742,562	818,115	785,667	(32,448)
Total Revenues.....	<u>24,549,712</u>	<u>27,404,798</u>	<u>26,708,856</u>	<u>(695,942)</u>
Expenditures:				
Current:				
General government.....	639,974	467,894	454,517	13,377
Primary and secondary education.....	7,010,488	7,563,598	7,184,184	379,414
Higher education.....	862,141	929,360	885,600	43,760
Health and human services.....	11,211,034	12,990,297	12,670,230	320,067
Environment and natural resources.....	305,567	363,137	327,834	35,303
Economic development.....	130,677	199,244	193,035	6,209
Public safety, corrections, and regulation.....	1,552,054	2,031,323	1,822,305	209,018
Transportation.....	11,430	11,430	11,165	265
Agriculture.....	70,261	81,660	75,894	5,766
Capital outlay.....	27,601	27,601	27,601	—
Debt service.....	403,286	390,179	385,385	4,794
Universities.....	2,522,757	2,626,852	2,566,517	60,335
Total Expenditures.....	<u>24,747,270</u>	<u>27,682,575</u>	<u>26,604,267</u>	<u>1,078,308</u>
Excess revenues over (under)				
expenditures.....	(197,558)	(277,777)	104,589	382,366
Transfers from reserves.....	108,797	108,797	188,184	79,387
Transfers to reserves.....	—	—	(253,938)	(253,938)
Unreserved fund balances (budgetary				
basis) at July 1, 2003.....	<u>250,544</u>	<u>250,544</u>	<u>250,544</u>	<u>—</u>
Unreserved fund balances (budgetary				
basis) at June 30, 2004.....	<u>\$ 161,783</u>	<u>\$ 81,564</u>	<u>\$ 289,379</u>	<u>\$ 207,815</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, 2004 to the fund balances on a modified accrual basis (GAAP). Amounts are expressed in thousands.

NOTES TO REQUIRED SUPPLEMENTAL INFORMATION

	<u>General Fund</u>
Unreserved fund balance (budgetary basis), June 30, 2004.....	\$ 289,379
Reserved fund balance (budgetary basis),	
Savings.....	267,057
Repairs and renovation.....	76,797
Budgetary shortfall.....	11,732
Disproportionate share.....	1,511
Disaster relief.....	8,143
One North Carolina fund.....	1,083
Retirees' health premium.....	52,785
Fund balance (budgetary basis).....	<u>\$ 708,487</u>
<u>Reconciling Adjustments:</u>	
Entity Differences:	
Primary government:	
Other.....	<u>190,456</u>
Basis Differences:	
Accrued revenues:	
Taxes receivable.....	759,276
Accounts receivable.....	298,643
Federal funds, net.....	522,919
Other receivables.....	124,875
<u>Less:</u>	
Tax refunds payable.....	(1,056,880)
Deferred revenue.....	(586,920)
Total accrued revenues.....	<u>61,913</u>
Accrued expenditures:	
Medical claims payable.....	(740,093)
Accounts payable and accrued liabilities.....	(493,091)
Other payables.....	(163,430)
Total accrued expenditures.....	<u>(1,396,614)</u>
Other Adjustments:	
Notes receivable.....	1,240
Inventories.....	54,689
Investments.....	57
Timing Differences:	
Authorized carryforward for specific encumbrances.....	31,987
Authorized carryforward for designated programs.....	<u>151,498</u>
Fund balance (GAAP basis) June 30, 2004.....	<u><u>(\$196,287)</u></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. Session Law 2004-88, House Bill 1352, Section 8(a) directs the

State Controller for the 2003-2004 fiscal year, not to transfer funds from the unreserved credit balance to the Savings Reserve. However, in accordance with Session Law 2004-124, House Bill 1414, Section 2.2(a), \$116.7 million was transferred to the Savings Reserve Account from the unreserved credit balance on June 30, 2004. At the end of the fiscal year 2003-2004 the remaining balance of this reserve was \$267.1 million.

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. At the end of the fiscal year 2003-2004 the remaining balance of this reserve was \$52.8 million.

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. Session Law 2004-88, House Bill 1352, Section 8(b) directs the State Controller for the 2003-2004 fiscal year, not to transfer funds from the unreserved credit balance to the Repair and Renovations Reserve Account. However, in accordance with Session Law 2004-184, Senate Bill 3, Section 1 and 2.2(f) the State Controller was directed to transfer \$76.8 million from the unreserved credit balance to the Repairs and Renovations Reserve Account on June 30, 2004. At the end of the fiscal year 2003-2004 the remaining balance of this reserve was \$76.8 million.

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. As the fiscal year 2003-2004 actual collection of disproportionate share revenue of \$97.1 million was less than the budgeted amount of \$100 million, no funds were transferred to this reserve in fiscal year 2003-2004. At the end of the fiscal year 2003-2004 the remaining balance of this reserve was \$1.5 million.

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. During fiscal year 2003-2004 \$31.8 million was transferred to the Disaster Relief Reserve to fund recovery from the effects of Hurricane Isabel. This \$31.8 million was funded from required agency, university, and community college transfers. At the end of the fiscal year 2003-2004 the remaining balance of this reserve was \$8.1 million.

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

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. During the fiscal year 2003-2004 transfers in the amount of \$108.8 million to General Fund availability and \$40 million to fund disaster relief programs were made from this reserve. At the end of the fiscal year 2003-2004 the remaining balance of this reserve was \$11.7 million.

One North Carolina Fund Reserve. Section 12.4(d) of Session Law 2003-284 states that funds appropriated to the One North Carolina Industrial Recruitment Competitive Fund for fiscal year 2002-2003 that are unexpended and unencumbered as of June 30, 2003 shall not revert to the General Fund and

shall remain available for future use. However, funds in the One North Carolina Industrial Recruitment Competitive Fund for fiscal year 2002-2003 were not carried forward to fiscal year 2003-2004 due to credit balance funds that were budgeted by the General Assembly for fiscal year 2003-2004. 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 Reserve. This reserve was funded by a transfer from the unexpended legislative increase appropriation of \$1.5 million. During the fiscal year 2003-2004 \$400 thousand was expended to satisfy contractual obligations of the One North Carolina Reserve. At the end of the fiscal year 2003-2004 the remaining balance of this reserve was \$1.1 million.

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

General Fund Reserved Fund Balance	Balance June 30, 2003	Transfers from General Fund Unreserved Fund Balance	Transfers to General Fund Unreserved Fund Balance	Balance June 30, 2004
Savings.....	\$ 150,000	\$ 117,057	\$ —	\$ 267,057
Retirees' health premium...	26,314	26,471	—	52,785
Repairs and renovations....	15,000	76,797	(15,000)	76,797
Disproportionate share.....	1,511	—	—	1,511
Disaster relief.....	—	31,809	(23,666)	8,143
Executive order #22.....	160,529	—	(148,797)	11,732
One North Carolina fund....	—	1,804	(721)	1,083
Total.....	\$ 353,354	\$ 253,938	\$ (188,184)	\$ 419,108