

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, 2005

(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.....	\$ 8,105,900	\$ 8,105,900	\$ 8,409,289	\$ 303,389
Corporate income.....	881,400	881,400	1,193,529	312,129
Sales and use.....	4,358,500	4,358,500	4,477,159	118,659
Franchise.....	478,300	478,300	498,681	20,381
Insurance.....	448,200	448,200	431,664	(16,536)
Beverage.....	185,800	185,800	189,309	3,509
Inheritance.....	136,200	136,200	135,211	(989)
Other.....	146,141	146,141	142,715	(3,426)
Non-Tax:				
Fees, licenses and fines.....	136,730	136,730	141,632	4,902
Investment income.....	86,020	86,020	71,445	(14,575)
Disproportionate share receipts.....	100,000	100,000	111,110	11,110
Federal funds for fiscal relief.....	—	—	—	—
Other.....	323,215	323,215	266,050	(57,165)
Transfers in.....	258,753	258,753	258,687	(66)
Departmental:				
Federal funds.....	7,812,271	9,913,998	8,807,280	(1,106,718)
Local funds.....	892,085	1,012,201	955,492	(56,709)
Inter-agency grants and allocations.....	8,276	53,474	48,800	(4,674)
Intra-governmental transactions.....	563,075	2,050,696	1,910,241	(140,455)
Sales and services.....	63,627	86,777	83,427	(3,350)
Rental and lease of property.....	6,905	7,577	8,184	607
Fees, licenses and fines.....	222,597	376,320	365,384	(10,936)
Contributions, gifts and grants.....	23,623	163,656	153,593	(10,063)
Miscellaneous.....	341,470	96,142	87,908	(8,234)
Universities.....	771,723	945,372	913,876	(31,496)
Total Revenues.....	26,350,811	30,351,372	29,660,666	(690,706)
Expenditures:				
Current:				
General government.....	1,052,659	483,823	469,107	14,716
Primary and secondary education.....	7,132,794	8,145,885	7,652,382	493,503
Higher education.....	909,085	1,027,317	983,629	43,688
Health and human services.....	12,261,190	14,764,339	14,210,248	554,091
Environment and natural resources.....	312,061	376,066	332,879	43,207
Economic development.....	116,371	186,126	180,526	5,600
Public safety, corrections, and regulation.....	1,584,612	2,117,156	1,840,936	276,220
Transportation.....	11,175	11,175	11,175	—
Agriculture.....	70,400	83,113	78,137	4,976
Capital outlay.....	45,192	45,192	45,192	—
Debt service.....	489,914	493,521	474,327	19,194
Universities.....	2,638,559	2,890,840	2,854,006	36,834
Total Expenditures.....	26,624,012	30,624,573	29,132,544	1,492,029
Excess revenues over (under) expenditures.....	(273,201)	(273,201)	528,122	801,323
Transfers from reserves.....	—	—	—	—
Transfers to reserves.....	(14,867)	(14,867)	(333,008)	(318,141)
Nonrecurring transfers from other funds.....	—	—	(5,984)	(5,984)
Unreserved fund balances (budgetary basis) at July 1, 2004.....	289,379	289,379	289,379	—
Unreserved fund balances (budgetary basis) at June 30, 2005.....	\$ 1,311	\$ 1,311	\$ 478,509	\$ 477,198

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, 2005 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, 2005.....	\$ 478,509
Reserved fund balance (budgetary basis),	
Savings.....	312,641
Repairs and renovation.....	125,000
Disproportionate share.....	19,304
Disaster relief.....	211,679
Job Development Investment Grant.....	2,542
One North Carolina fund.....	1,083
Fund balance (budgetary basis).....	<u>\$ 1,150,758</u>
<u>Reconciling Adjustments:</u>	
Entity Differences:	
Primary government:	
Other.....	232,351
Basis Differences:	
Accrued revenues:	
Taxes receivable.....	849,478
Accounts receivable.....	286,997
Federal funds, net.....	582,430
Other receivables.....	108,615
<u>Less:</u>	
Tax refunds payable.....	(1,279,117)
Deferred revenue.....	(732,044)
Total accrued revenues.....	<u>(183,641)</u>
Accrued expenditures:	
Medical claims payable.....	(896,148)
Accounts payable and accrued liabilities.....	(526,031)
Other payables.....	(67,544)
Total accrued expenditures.....	<u>(1,489,723)</u>
Other Adjustments:	
Notes receivable.....	5,024
Inventories.....	59,987
Investments.....	47
Timing Differences:	
Authorized carryforward for specific encumbrances.....	46,975
Authorized carryforward for designated programs.....	99,413
Fund balance (GAAP basis) June 30, 2005.....	<u>(\$78,809)</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. In accordance with Session Law 2005-276, Senate Bill 622, Section 2.2(a), \$199.1 million was transferred to the Savings Reserve Account from the unreserved credit balance on June

30, 2005. At the end of the fiscal year 2004-2005, the balance of this reserve was \$312.6 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 was reported as reserved fund balance for GAAP purposes as of June 30, 2004. However at July 1, 2004, Session Law 2004-124 created the Retirement Health Benefit Fund to administer the premiums. Since the Retirement Health Benefit Fund was created, the remaining balance was transferred from the General Fund. At the end of the fiscal year 2004-2005, the balance of this reserve was zero.

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. In accordance with Session Law 2005-276, Senate Bill 622, Section 2.2(d) the State Controller was directed to transfer \$125 million from the unreserved credit balance to the Repairs and Renovations Reserve Account on June 30, 2005. At the end of the fiscal year 2004-2005, the balance of this reserve was \$125 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. Fiscal year 2004-2005 actual collection of disproportionate share revenue was \$128.9 million. However, in accordance with Session Law 2005-201, House Bill 1631, Section 4, the State Controller was directed to transfer the sum of \$11.1 million of disproportionate share receipts back to the non-tax revenue code where such receipts are deposited. At the end of the fiscal year 2004-2005, the remaining balance of this reserve was \$19.3 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 2004-2005 \$248 million was transferred to the Disaster Relief Reserve to fund recovery from the effects of the 2004 Hurricane Season. This \$248 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 2004-2005, the remaining balance of this reserve was \$211.7 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 2003-04, 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 leaving a balance of \$11.7 million. During fiscal year 2004-2005 this \$11.7 million was transferred out to fund disaster recovery resulting from the 2004 Hurricane Season and continued funding for Hurricane Floyd recovery. At the end of the fiscal year 2004-2005, the remaining balance of this reserve was zero.

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. At the end of fiscal year 2004-2005, the remaining balance of this reserve was \$1.1 million.

Job Development Investment Grant Program Reserve (JDIG). 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 Job Development Investment Grant Program established pursuant to G.S. 143B-437.52. Funds in the amount of \$4.5 million were appropriated for fiscal year 2004-2005. At the end of fiscal year 2004-2005, the remaining balance of this reserve was \$2.5 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, 2004	Transfers from General Fund Unreserved Fund Balance	Transfers to General Fund Unreserved Fund Balance	Balance June 30, 2005
Savings.....	\$ 267,057	\$ 199,125	\$ (153,541)	\$ 312,641
Retirees' health premium.....	52,785	—	(52,785)	—
Repairs and renovations.....	76,797	125,000	(76,797)	125,000
Disproportionate share.....	1,511	28,903	(11,110)	19,304
Disaster relief.....	8,143	248,171	(44,635)	211,679
Executive order #22.....	11,732	—	(11,732)	—
One North Carolina fund.....	1,083	—	—	1,083
Job Development Investment Grant.	—	4,500	(1,958)	2,542
Total.....	\$ 419,108	\$ 605,699	\$ (352,558)	\$ 672,249