



REQUIRED SUPPLEMENTARY INFORMATION BUDGET

Required supplementary information for budget provides information on budget versus actual revenues, expenditures and changes in fund balance and related note disclosures for budgetary reporting.

The following schedules are included in the Required Supplementary Information for Budget:

Schedule of Revenues, Expenditures and Changes in Fund Balance: Budget and Actual (Budgetary Basis—Non-GAAP):
General Fund

Notes to Required Supplementary Information: Budgetary Reporting

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, 2015

(Dollars in Thousands)

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes:				
Individual income.....	\$ 10,885,400	\$ 10,885,400	\$ 11,078,522	\$ 193,122
Corporate income.....	1,095,200	1,095,200	1,327,688	232,488
Sales and use.....	6,244,360	6,244,360	6,252,023	7,663
Franchise.....	543,100	543,100	544,122	1,022
Insurance.....	508,700	508,700	510,676	1,976
Beverage.....	310,900	310,900	318,730	7,830
Tobacco products.....	248,700	248,700	248,534	(166)
Other.....	136,200	136,200	150,833	14,633
Non-Tax:				
Fees, licenses and fines.....	244,500	244,500	241,971	(2,529)
Investment income.....	11,300	11,300	18,324	7,024
Disproportionate share receipts.....	109,000	109,000	109,000	—
Other.....	310,353	310,353	280,949	(29,404)
Transfers in.....	215,900	215,900	215,872	(28)
Tobacco settlement.....	137,500	137,500	138,622	1,122
Departmental:				
Federal funds.....	14,290,942	13,810,497	12,901,702	(908,795)
Local funds.....	744,552	709,549	713,752	4,203
Inter-agency grants and allocations.....	26,031	41,147	22,445	(18,702)
Intra-governmental transactions.....	3,177,825	3,990,545	3,733,699	(256,846)
Sales and services.....	150,869	251,391	163,676	(87,715)
Rental and lease of property.....	14,879	15,709	14,151	(1,558)
Fees, licenses and fines.....	1,149,996	679,086	687,365	8,279
Contributions, gifts and grants.....	360,003	998,942	995,769	(3,173)
Federal recovery funds.....	293,627	141,065	67,295	(73,770)
Miscellaneous.....	379,290	184,821	143,202	(41,619)
Total Revenues.....	<u>41,589,127</u>	<u>41,823,865</u>	<u>40,878,922</u>	<u>(944,943)</u>
Expenditures				
Current:				
General government.....	1,037,499	1,071,569	825,788	245,781
Primary and secondary education.....	11,936,417	11,292,882	10,632,679	660,203
Higher education.....	4,584,329	4,786,030	4,725,513	60,517
Health and human services.....	19,386,742	19,940,801	19,268,416	672,385
Environment and natural resources.....	399,832	534,185	431,768	102,417
Economic development.....	616,675	705,573	556,511	149,062
Public safety, corrections, and regulation.....	2,860,662	2,906,297	2,799,825	106,472
Agriculture.....	188,808	198,836	179,277	19,559
Capital outlay.....	13,560	13,560	13,560	—
Debt service.....	778,878	827,553	721,057	106,496
Total Expenditures.....	<u>41,803,402</u>	<u>42,277,286</u>	<u>40,154,394</u>	<u>2,122,892</u>
Excess (deficiency) of revenues over expenditures.....	(214,275)	(453,421)	724,528	1,177,949
Total Fund Balance at July 1, as restated.....	<u>1,807,543</u>	<u>1,807,543</u>	<u>1,807,543</u>	<u>—</u>
Total Fund Balance at June 30.....	<u>\$ 1,593,268</u>	<u>\$ 1,354,122</u>	<u>\$ 2,532,071</u>	<u>\$ 1,177,949</u>
Fund balance reserved:				
Statutory.....			\$ 1,478,688	
Non-reverting purposes.....			788,872	
Fund balance unreserved.....			<u>264,511</u>	
Total Fund Balance at June 30.....			<u>\$ 2,532,071</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.

On July 20, 2006, the General Assembly passed Session Law 2006-203, 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.

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 carry forward of appropriated funds and any time-restricted appropriations. Session Law 2013-360 restricted the use of funds appropriated to the UNC-Need Based Financial Aid Forward Funding Reserve in the current fiscal year to the subsequent academic year. This time-restriction prevented the revenue/expense from being recognized on GAAP basis, which resulted in the recognition of a deferred inflow of resources (deferred state aid) by the recipient and a deferred outflow of resources (forward funded state aid) by the provider. So while the cash is paid to the recipient in the current fiscal year, it will not be recognized as an expense (by the provider) or revenue (by the recipient) until the subsequent fiscal year.

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

The following table presents a reconciliation of resulting basis and timing differences in the fund balances (budgetary basis) at June 30, 2015 to the fund balances on a modified accrual basis (GAAP). Amounts are expressed in thousands.

	<i>General Fund</i>
Fund balance (budgetary basis)	
June 30, 2015.....	\$ 2,532,071
<u>Reconciling Adjustments</u>	
Basis Differences	
Accrued revenues	
Taxes receivable.....	1,823,330
Less tax refunds payable.....	(965,642)
Accounts receivable and other receivables.....	397,748
Federal funds, net.....	648,136
Unearned revenue.....	(387,884)
Total accrued revenues.....	<u>1,515,688</u>
Accrued expenditures	
Medical claims payable.....	(885,588)
Accounts payable, accrued liabilities, and other payables.....	(1,064,493)
Total accrued expenditures.....	<u>(1,950,081)</u>
Other Adjustments	
Notes receivable.....	34,336
Inventories.....	76,938
Timing Differences	
Authorized carryforward for specific encumbrances	260,130
Forward funded state aid.....	<u>39,461</u>
Fund balance (GAAP basis)	
June 30, 2015.....	<u>\$ 2,508,543</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 2014-15, the balance of the Savings Reserve Account was \$651.6 million. In accordance with Session Law 2015-241, the State Controller was authorized by the General Assembly to transfer \$200 million from unreserved fund balance to the Savings Reserve. At the end of the fiscal year 2014-15, the balance of this reserve was \$851.6 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

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

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 2015-241, the State Controller was authorized by the General Assembly to transfer \$400 million from unreserved fund balance to the Repairs and Renovations Reserve. At the end of the fiscal year 2014-15, the balance of this reserve was \$411.59 million.

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. At the end of the fiscal year 2014-15, the balance of this reserve was \$7.36 million.

Job Development Investment Grant (JDIG) Program Reserve (General Statute 143C-9-6). 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. The JDIG Reserve was appropriated \$47.47 million for fiscal year 2014-15. At the end of the fiscal year 2014-15, the balance of this reserve was \$6.67 million.

One North Carolina Fund Reserve (General Statute 143C-9-8). 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. The One North Carolina fund was appropriated \$1.86 million for fiscal year 2014-15 by Session Law 2014-100. At the end of the fiscal year 2014-15, the balance of this reserve was \$7.68 million.

Medicaid Contingency Reserve (Session Law 2014-100, Senate Bill 744). In accordance with Session Law 2014-100, Senate Bill 744, Section 12H.38.(a) established in the General Fund the Medicaid Contingency Reserve. Funds in the Medicaid Contingency Reserve shall be used only for budget shortfalls in the Medicaid Program. In accordance with Session Law 2014-100, the State Controller was authorized by the General Assembly to transfer \$186.37 million from funds available in the General Fund to this reserve. At the end of the fiscal year 2014-15, the balance of this reserve was \$186.37 million.

WCU & DOA Carryforward Pilot Reserve (Session Law 2014-100, Senate Bill 744). In accordance with Session Law 2014-100, Senate Bill 744, Section 6.7, the General Assembly required the Office of State Budget and Management and the Office of the State Controller, in consultation with the Fiscal Research Division to review current budgeting practices in the General Fund. After review, the Office of State Budget and Management and the Office of the State Controller, in consultation with the Fiscal Research Division, may establish and operate a pilot program to test measures for improving the extent to which funds that are to be spent in a given fiscal year are properly budgeted in that fiscal year. Western Carolina University and the Department of Administration were selected to participate in this pilot program. Carryforward funds were transferred from their General Fund and placed in the Carryforward Pilot Reserve. At the end of the fiscal year 2014-15, the balance of this reserve was \$7.42 million.