



## 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, 2019

*(Dollars in Thousands)*

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues</b>				
Taxes:				
Individual income.....	\$ 12,704,700	\$ 12,704,700	\$ 13,165,953	\$ 461,253
Corporate income.....	709,600	709,600	830,454	120,854
Sales and use.....	7,624,900	7,624,900	7,751,296	126,396
Franchise.....	684,100	684,100	749,624	65,524
Insurance.....	542,600	542,600	553,679	11,079
Beverage.....	373,700	373,700	395,861	22,161
Tobacco products.....	258,200	258,200	257,164	(1,036)
Other.....	120,100	120,100	132,720	12,620
Non-Tax:				
Fees, licenses and fines.....	232,700	232,700	807,503	574,803
Investment income.....	99,400	99,400	145,795	46,395
Disproportionate share receipts.....	163,300	163,300	163,300	—
Other.....	277,358	194,658	287,953	93,295
Tobacco settlement.....	139,400	139,400	155,926	16,526
Departmental:				
Federal funds.....	13,925,121	15,474,242	14,289,632	(1,184,610)
Local funds.....	769,550	836,161	822,830	(13,331)
Inter-agency grants and allocations.....	23,942	55,443	39,606	(15,837)
Intra-governmental transactions.....	5,025,587	6,470,805	5,658,345	(812,460)
Sales and services.....	263,949	214,802	171,425	(43,377)
Rental and lease of property.....	15,752	18,273	17,821	(452)
Fees, licenses and fines.....	1,526,127	672,946	756,382	83,436
Contributions, gifts and grants.....	277,439	963,389	1,024,000	60,611
Miscellaneous.....	591,807	198,687	264,526	65,839
Total Revenues.....	<u>46,349,332</u>	<u>48,752,106</u>	<u>48,441,795</u>	<u>(310,311)</u>
<b>Expenditures</b>				
Current:				
General government.....	1,078,133	1,505,167	1,446,794	58,373
Primary and secondary education.....	11,969,524	12,797,375	12,373,706	423,669
Higher education.....	5,312,852	5,716,292	5,711,131	5,161
Health and human services.....	20,737,143	21,912,078	21,224,631	687,447
Environment and natural resources.....	671,024	851,316	671,075	180,241
Economic development.....	628,287	990,409	654,863	335,546
Public safety, corrections, and regulation.....	4,058,124	4,648,906	4,625,558	23,348
Agriculture.....	211,805	879,305	444,473	434,832
Capital outlay.....	2,168	2,168	2,168	—
Debt service.....	734,545	756,360	743,666	12,694
Total Expenditures.....	<u>45,403,605</u>	<u>50,059,376</u>	<u>47,898,065</u>	<u>2,161,311</u>
Excess (deficiency) of revenues over expenditures.....	945,727	(1,307,270)	543,730	1,851,000
Total Fund Balance at July 1.....	<u>5,316,686</u>	<u>5,316,686</u>	<u>5,316,686</u>	<u>—</u>
Total Fund Balance at June 30.....	<u>\$ 6,262,413</u>	<u>\$ 4,009,416</u>	<u>\$ 5,860,416</u>	<u>\$ 1,851,000</u>
Fund balance reserved:				
Statutory.....			\$ 2,767,910	
Non-reverting purposes.....			1,383,221	
Fund balance unreserved.....			<u>1,709,285</u>	
Total Fund Balance at June 30.....			<u>\$ 5,860,416</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, 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 requesting the carryforward amount through OSBM and making required entries to the North Carolina Accounting System (NCAS) in the current year expensing the funds from the agency budget codes. The Office of State Controller (OSC) then transfers the funds to the Carryforward Reserve Fund. The funds are held by OSC pending approval from OSBM to return the funds to the agencies. Upon OSBM approval, the funds are transferred back to the agency budget codes. The agency then makes an entry to NCAS recording the revenue in the subsequent fiscal year.

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, 430 North Salisbury Street, Raleigh, NC 27603.

**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 any time-restricted appropriations. Section 11.26 of Session Law 2014-100 restricts the use of funds appropriated to the UNC-Need Based Financial Aid Forward Funding Reserve in the current fiscal year to the subsequent fiscal year. Section 11A.3.(f) of Session Law 2016-94 restricts the use of funds appropriated to the Opportunity Scholarship Grant Fund Reserve in the current fiscal year to the subsequent fiscal year. This time-restriction prevented the

**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION**

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.

The following table presents a reconciliation of resulting basis and timing differences in the fund balances (budgetary basis) at June 30, 2019 to the fund balances on a modified accrual basis (GAAP). Amounts are expressed in thousands.

	<u>General Fund</u>
Fund balance (budgetary basis)	
June 30, 2019.....	\$ 5,860,416
<b><u>Reconciling Adjustments</u></b>	
<b>Basis Differences</b>	
<b>Accrued revenues</b>	
Taxes receivable.....	2,017,081
Less tax refunds payable.....	(1,036,317)
Accounts receivable and other receivables.....	429,355
Federal funds, net.....	850,405
Unearned revenue.....	<u>(376,091)</u>
Total accrued revenues.....	<u>1,884,433</u>
<b>Accrued expenditures</b>	
Medical claims payable.....	(1,035,996)
Accounts payable, accrued liabilities, and other payables.....	<u>(1,060,527)</u>
Total accrued expenditures.....	<u>(2,096,523)</u>
<b>Other Adjustments</b>	
Notes receivable.....	15,198
Inventories.....	70,427
Advances to other funds.....	90,000
<b>Timing Differences</b>	
Forward funded state aid.....	<u>151,749</u>
Fund balance (GAAP basis)	
June 30, 2019.....	<u>\$ 5,975,700</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 (General Statute 143C-4-2).** The Savings Reserve is established as a reserve in the General Fund and is a component of the unappropriated General Fund balance. In accordance with Session Law 2017-5, in each fiscal year, funds reserved to the Savings Reserve shall be available for expenditure in an aggregate amount that does not exceed seven and one-half percent (7.5%) of the prior fiscal year's General Fund operating budget appropriations. Funds reserved to the Savings Reserve shall be available for expenditure only upon an act of appropriation by the General Assembly. Each Current Operations Appropriations Act enacted by the General Assembly shall include a transfer to the Savings Reserve of fifteen percent (15%) of each fiscal year's estimated growth in State tax revenues that are deposited in the General Fund. At the beginning of fiscal year 2018-19, the balance of the Savings Reserve was \$1.849 billion. In accordance with Session Law 2018-5, the Office of State Controller (OSC) was authorized by the General Assembly to transfer \$221.5 million from the Unreserved Fund Balance to the Savings Reserve. Session Law 2018-5 also authorized OSC to transfer \$59.8 million to the State Emergency Response/Disaster Relief Reserve. Session Law 2018-136 authorized OSC to transfer \$700 million from the Savings Reserve to the Hurricane Florence Disaster Recovery Reserve. Session Law 2018-134 authorized OSC to transfer \$56.5 million to the North Carolina Department of Public safety. At the end of the fiscal year 2018-19, the balance of this reserve was \$1.254 billion.

**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION**

**Repairs and Renovations Reserve Account (General Statute 143C-4-3).** The Repairs and Renovations Reserve Account was 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. At the end of the fiscal year 2018-19, the balance of this reserve was \$11.585 million.

**Disaster Relief Reserve (Session Law 2005-1).** During fiscal year 2004-05, \$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. The balance on July 1, 2018 was \$55.471 million. In accordance with Session Law 2018-5, the Office of State Controller was authorized to transfer \$59.8 million from the Savings Reserve to the Disaster Relief Reserve for fiscal year. During the fiscal year \$61.4 million was transferred out of the Reserve. At the end of the fiscal year 2018-19, the balance of this reserve was \$54.101 million.

**Medicaid Contingency Reserve (Session Law 2014-100).** The Medicaid Contingency Reserve was established in accordance with Session Law 2014-100, Section 12H.38.(a) as a reserve in the General Fund. The Medicaid Contingency Reserve shall be used only for budget shortfalls in the Medicaid Program. At the end of the fiscal year 2018-19, the balance of this reserve was \$186.373 million.

**Medicaid Transformation Reserve Fund (Session Law 2015-241).** The Medicaid Transformation Reserve Fund was established in the Office of State Budget and Management as a non-reverting reserve in the General Fund. It was established in accordance with Session Law 2015-241, Section 12H.29. The purpose of the Medicaid Transformation Fund is to provide funds for converting from a fee-for-services payment system to a capitated payment system. The sum of \$135 million in nonrecurring funds was reserved for fiscal year 2018-19. During the fiscal year \$9.7 million was transferred out of the reserve. At the end of the fiscal year 2018-19, the balance of this reserve was \$425.301 million.

**Carryforward Reserve (Session Law 2014-100).** In accordance with Session Law 2014-100, 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, established stronger internal controls over the carryforward process. In fiscal year 2018-19 this process included all State agencies with the exception of higher education. Carryforward funds were transferred from the agencies' General Fund appropriations and placed in the Carryforward Reserve. At the end of the fiscal year 2018-19, the balance of this reserve was \$508.257 million.

**Project Reserve (General Statute 143C-8-10).** The Project Reserve was established per General Statute 143C-8-10 as a reserve in the General Fund. These funds may be used for an emergency repair and renovation project at a State facility, the award of a project contract when bids for the contract exceed the amount appropriated, or a reversion to the principal fund from which revenue was appropriated for a project when the amount encumbered for the project is less than the amount appropriated. Funds in the amount of \$155.201 million were transferred out of the Reserve in fiscal year 2018-19. At the end of the fiscal year 2018-19, the balance of this reserve was \$0.

**Hurricane Florence Disaster Recovery Reserve (Session Law 2018-136)** – The Hurricane Florence Disaster Recovery Reserve was established in accordance with Session Law 2018-136 as a reserve in the General Fund. The purpose is to maintain funds reserved for disaster recovery in relation to Hurricane Florence. Session Law 2018-136 authorized OSC to transfer \$700 million from the Savings Reserve to the Hurricane Florence Disaster Recovery Reserve. Session Law 2018-136 also authorized the transfer of \$65 million to the Reserve from the Highway Fund, \$2 million from the Department of Natural and Cultural Resources and \$930.5 thousand from the Department of Insurance. An additional \$239.1 thousand was transferred to the Reserve from the Department of Commerce from unused Hurricane Floyd Funds. Funds in the amount of \$440.2 million were transferred out of the Reserve during the fiscal year. At the end of the fiscal year 2018-19, the balance of this reserve was \$327.994 million.