



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, 2021

(Dollars in Thousands)

	Budgeted Amounts			Variance with
	Original	Final	Actual	Final Budget
Revenues				
Taxes:				
Individual income	\$ 14,821,600	\$ 14,821,600	\$ 15,822,561	\$ 1,000,961
Corporate income	1,037,200	1,037,200	1,511,456	474,256
Sales and use	8,623,700	8,623,700	9,023,591	399,891
Franchise	808,200	808,200	869,826	61,626
Insurance	640,000	640,000	692,648	52,648
Beverage	498,200	498,200	492,592	(5,608)
Inheritance	-	-	32	32
Tobacco products	255,700	255,700	265,174	9,474
Other	145,700	145,700	169,271	23,571
Non-Tax:				
Fees, licenses and fines	150,600	225,300	936,673	711,373
Investment income	24,300	24,300	23,278	(1,022)
Disproportionate share receipts	177,600	177,600	177,606	6
Other	290,300	207,200	320,860	113,660
Tobacco settlement	129,500	129,500	167,234	37,734
Departmental:				
Federal funds	20,807,558	18,988,579	16,174,295	(2,814,284)
Federal COVID-19 funds	-	6,163,183	5,684,435	(478,748)
Local funds	783,101	887,276	831,985	(55,291)
Inter-agency grants and allocations	23,901	137,145	77,259	(59,886)
Intra-governmental transactions	5,406,782	11,024,160	8,805,343	(2,218,817)
Sales and services	206,954	226,176	184,001	(42,175)
Rental and lease of property	17,141	22,499	19,634	(2,865)
Fees, licenses and fines	1,501,512	703,632	635,711	(67,921)
Contributions, gifts and grants	278,949	896,113	907,184	11,071
Miscellaneous	563,481	212,495	300,669	88,174
Total Revenues	57,191,979	66,855,458	64,093,318	(2,762,140)
Expenditures				
Current:				
General government	3,378,786	8,723,593	5,084,866	3,638,727
Primary and secondary education	12,880,976	17,573,530	13,388,716	4,184,814
Higher education	5,636,061	5,866,155	5,776,948	89,207
Health and human services	24,981,096	26,966,367	26,048,943	917,424
Environment and natural resources	662,467	889,558	706,815	182,743
Economic development	1,059,932	1,401,175	1,209,323	191,852
Public safety, corrections, and regulation	3,694,065	6,313,085	4,699,789	1,613,296
Agriculture	238,487	323,249	308,147	15,102
Debt service	739,594	740,592	712,173	28,419
Total Expenditures	53,271,464	68,797,304	57,935,720	10,861,584
Excess (deficiency) of revenues over expenditures	3,920,515	(1,941,846)	6,157,598	8,099,444
Total Fund Balance at July 1	8,741,737	8,741,737	8,741,737	-
Total Fund Balance at June 30	\$ 12,662,252	\$ 6,799,891	\$ 14,899,335	\$ 8,099,444
Fund balance reserved:				
Statutory			\$ 5,897,642	
Non-reverting purposes			2,688,640	
Fund balance unreserved			6,313,053	
Total Fund Balance at June 30			\$ 14,899,335	

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, 116 W. Jones 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

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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, 2021 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, 2021.....	\$ 14,899,335
<u>Reconciling Adjustments</u>	
Basis Differences	
Accrued revenues	
Taxes receivable.....	2,481,369
Less tax refunds payable.....	(1,170,642)
Accounts receivable and other receivables.....	371,814
Federal funds, net.....	398,762
Unearned revenue.....	(3,533,850)
Total accrued revenues.....	(1,452,547)
Accrued expenditures	
Medical claims payable.....	(1,044,109)
Accounts payable, accrued liabilities, and other payables.....	(1,227,478)
Total accrued expenditures.....	(2,271,587)
Other Adjustments	
Notes receivable.....	14,424
Inventories.....	118,676
Advances to outside entities.....	54,817
Local government ARPA funds.....	352,692
Timing Differences	
Forward funded state aid.....	163,483
Fund balance (GAAP basis)	
June 30, 2021.....	<u>\$ 11,879,293</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 2020-21, the balance of the Savings Reserve was \$1.169 billion. Session Law 2020-97 authorized the transfer of \$877.717 million from the Unreserved Fund Balance to the Savings Reserve. It also authorized OSC to transfer \$13.203 million to the State Emergency Response/Disaster Relief Reserve, \$27.797 million to the Hurricane Florence Disaster Recovery Reserve and \$24.0 million to the Earthquake Disaster Recovery Reserve. At the end of fiscal year 2020-21, the balance of this reserve was \$1.982 billion.

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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. Session Law 2020-33 authorized the transfer of \$11.585 million from the Repairs and Renovations Reserve to Western Carolina University. At the end of fiscal year 2020-21, the balance of this reserve was zero.

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. At the beginning of fiscal year 2020-21, the balance was \$64.742 million. In accordance with Session Law 2020-97, the Office of State Controller was authorized to transfer \$13.203 million from the Savings Reserve to the Disaster Relief Reserve for the fiscal year. During the fiscal year, \$17.333 million was transferred out of the reserve. At the end of the fiscal year 2020-21, the balance of this reserve was \$60.612 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 beginning of fiscal year 2020-21, the balance was \$186.373 million. Session Law 2020-88 authorized the transfer of \$136.0 million from the Medicaid Contingency Reserve to the Department of Health and Human Services, Division of Health Benefits. At the end of fiscal year 2020-21, the balance of this reserve was \$50.373 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. At the beginning of fiscal year 2020-21, the balance was \$425.301 million. Session Law 2020-88 authorized the transfer of \$155.339 million from the reserve to the Department of Health and Human Services during the fiscal year. In addition, \$8.899 million was transferred from the Department of Health and Human Services to the Medicaid Transformation Reserve for the unexpended NC FAST operations and maintenance dollars. At the end of fiscal year 2020-21, the balance of this reserve was \$278.861 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 2020-21 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 fiscal year 2020-21, the balance of this reserve was \$698.798 million.

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. At the beginning of fiscal year 2020-21, the balance was \$127.373 million. In accordance with Session Law 2020-97, the Office of State Controller was authorized to transfer \$27.797 million from the Savings Reserve to the Hurricane Florence Disaster Recovery Reserve for the fiscal year. Funds in the amount of \$63.158 million were transferred out of the reserve during the fiscal year. In addition, \$9.575 thousand was transferred from the Department of Commerce to the Hurricane Florence Disaster Recovery Reserve during the fiscal year. At the end of fiscal year 2020-21, the balance of this reserve was \$92.022 million.

Coronavirus Relief Reserve (Session Law 2020-4). The Coronavirus Relief Reserve was established in accordance with Session Law 2020-4 as a reserve in the General Fund. The purpose is to maintain federal funds received from the Coronavirus Relief Fund created under the CARES Act, P.L. 116-136, to mitigate the impact of the COVID-19 outbreak in North Carolina. At the beginning of fiscal year 2020-21, the balance was \$1.492 billion. Funds in the amount of \$1.487 billion were transferred to OSBM during the fiscal year per several mini-bills passed during the 2020 Session of the General Assembly. Interest in the amount of \$4.8 million was earned on the principal during the fiscal year. The interest funds earned during fiscal year 2020-21 along with the interest funds remaining in the reserve at the end of fiscal year 2019-20 were also transferred to OSBM per several mini-bills passed during the 2020 Session of the General Assembly. At the end of fiscal year 2020-21, the balance of this reserve was zero.

Local Government Coronavirus Relief Reserve (Session Law 2020-4). The Local Government Coronavirus Relief Reserve was established in accordance with Session Law 2020-4 as a reserve in the General Fund. The purpose is to maintain federal funds received from the Coronavirus Relief Fund created under the CARES Act, P.L. 116-136, to mitigate the impact of the COVID-19 outbreak on local governments in North Carolina. At the beginning of fiscal year 2020-21, the balance was \$133.160 thousand. Interest in the amount of \$178.619 thousand was earned on the principal during the fiscal year. The balance of \$311.779 thousand was transferred to OSBM per

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several mini-bills passed during the 2020 Session of the General Assembly. At the end of fiscal year 2020-21, the balance of this reserve was zero.

Earthquake Disaster Recovery Reserve (Session Law 2020-97). The Earthquake Disaster Recovery Reserve was established in accordance with Session Law 2020-97 as a reserve in the General Fund. The purpose is to maintain funds reserved for disaster recovery in relation to the M5.1 earthquake that occurred on August 9, 2020 in Alleghany County, North Carolina. In accordance with Session Law 2020-97, the Office of State Controller was authorized to transfer \$24.0 million from the Savings Reserve to the Earthquake Disaster Recovery Reserve for the fiscal year. Funds in the amount of \$8.665 million were transferred from the Earthquake Disaster Recovery Reserve to the OSBM Earthquake Disaster Recovery Fund during the fiscal year. At the end of fiscal year 2020-21, the balance of this reserve was \$15.335 million.

State Fiscal Recovery Reserve (Session Law 2021-25). The State Fiscal Recovery Reserve or American Recovery Plan Act Reserve was established in accordance with Session Law 2021-25 as a reserve in the General Fund. The purpose is to maintain federal funds received from the American Rescue Plan Act of 2021, P.L. 117-2, which provides additional relief to address the continued impact of COVID-19. Federal funds in the amount of \$2.720 billion were received to establish the reserve. No funds were transferred out of the reserve during the fiscal year. At the end of fiscal year 2020-21, the balance of this reserve was \$2.720 billion.