



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, 2022

(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	\$ 14,312,300	\$ 14,308,800	\$ 17,567,613	\$ 3,258,813
Corporate income	1,119,900	1,119,900	1,625,839	505,939
Sales and use	9,611,300	9,611,300	10,200,703	589,403
Franchise	840,000	840,000	888,283	48,283
Insurance	809,400	809,400	972,343	162,943
Beverage	453,300	453,300	521,200	67,900
Inheritance	-	-	173	173
Tobacco products	258,300	258,300	251,570	(6,730)
Other	155,800	155,800	207,323	51,523
Non-Tax:				
Fees, licenses and fines	216,600	216,600	207,649	(8,951)
Investment income	29,600	29,600	59,932	30,332
Disproportionate share receipts	146,706	146,706	167,364	20,658
Other	320,782	320,782	335,124	14,342
Tobacco settlement	139,400	139,400	194,400	55,000
Departmental:				
Federal funds	26,206,814	21,627,811	16,978,833	(4,648,978)
Federal COVID-19 funds	-	8,668,352	9,952,394	1,284,042
Local funds	821,626	937,406	860,077	(77,329)
Inter-agency grants and allocations	35,039	278,026	266,656	(11,370)
Intra-governmental transactions	9,868,627	24,054,149	16,051,013	(8,003,136)
Sales and services	170,484	245,453	184,955	(60,498)
Rental and lease of property	10,259	22,555	22,042	(513)
Fees, licenses and fines	1,227,244	727,852	968,528	240,676
Contributions, gifts and grants	101,563	1,320,610	1,225,725	(94,885)
Miscellaneous	421,368	230,958	211,278	(19,680)
Total Revenues	<u>67,276,412</u>	<u>86,523,060</u>	<u>79,921,017</u>	<u>(6,602,043)</u>
Expenditures				
Current:				
General government	6,790,312	18,003,613	9,632,653	8,370,960
Primary and secondary education	13,118,873	19,995,978	16,107,067	3,888,911
Higher education	6,202,820	6,842,319	6,464,907	377,412
Health and human services	27,928,938	33,709,837	31,800,032	1,909,805
Environment and natural resources	2,679,644	3,050,333	781,995	2,268,338
Economic development	1,183,757	1,517,676	1,099,170	418,506
Public safety, corrections, and regulation	4,803,656	7,280,314	5,939,419	1,340,895
Agriculture	467,326	529,616	329,718	199,898
Capital outlay	50,000	50,000	-	50,000
Debt Service	673,629	1,161,711	668,598	493,113
Total Expenditures	<u>63,898,955</u>	<u>92,141,397</u>	<u>72,823,559</u>	<u>19,317,838</u>
Excess (deficiency) of revenues over expenditures	3,377,457	(5,618,337)	7,097,458	12,715,795
Total Fund Balance at July 1	14,899,335	14,899,335	14,899,335	-
Total Fund Balance at June 30	<u>\$ 18,276,792</u>	<u>\$ 9,280,998</u>	<u>\$ 21,996,793</u>	<u>\$ 12,715,795</u>
Fund balance reserved:				
Statutory			\$ 5,024,308	
Non-reverting purposes			9,806,762	
Fund balance unreserved			7,165,723	
Total Fund Balance at June 30			<u>\$ 21,996,793</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, 3514 Bush Street, Raleigh, NC 27609 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

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, 2022 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, 2022.....	\$ 21,996,793
<u>Reconciling Adjustments</u>	
Basis Differences	
Accrued revenues	
Taxes receivable.....	2,702,638
Less tax refunds payable.....	(1,158,266)
Accounts receivable and other receivables.....	659,327
Federal funds, net.....	865,157
Unearned revenue.....	(4,715,405)
Total accrued revenues.....	<u>(1,646,549)</u>
Accrued expenditures	
Medical claims payable.....	(1,066,454)
Accounts payable, accrued liabilities, and other payables.....	(1,179,762)
Total accrued expenditures.....	<u>(2,246,216)</u>
Other Adjustments	
Notes receivable.....	13,482
Inventories.....	106,823
Advances to outside entities.....	2,131
Lease receivable.....	2,351
Timing Differences	
Forward funded state aid.....	<u>198,780</u>
Fund balance (GAAP basis)	
June 30, 2022.....	<u>\$ 18,427,595</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. The Office of State Budget and Management and the Fiscal Research Division of the General Assembly shall jointly develop and annually produce an evaluation of the adequacy of the Savings Reserve based on the volatility of North Carolina's General Fund tax structure, which shall take into consideration relevant statistical and economic literature. After completing the evaluation, these entities may revise the methodology as needed to estimate the target for the Savings Reserve balance, which shall be calculated so as to be sufficient to cover two years of need for nine out of 10 scenarios involving a decline in General Fund revenue from one fiscal year to the next fiscal year. The recommended balance shall be expressed as a percentage of the prior year General Fund operating budget

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

appropriations, excluding departmental receipts. At the beginning of fiscal year 2021-22, the balance of the Savings Reserve was \$1.982 billion. Session Law 2021-180 authorized the transfer of \$1.134 billion from the Unreserved Fund Balance to the Savings Reserve. At the end of fiscal year 2021-22, the balance of this reserve was \$3.116 billion.

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 2021-22, the balance was \$60.612 million. In accordance with Session Law 2021-180, the Office of State Controller was authorized to transfer \$425.0 million from the Unreserved Fund Balance to the Disaster Relief Reserve for the fiscal year. During the fiscal year, \$465.360 million was transferred out of the reserve. In addition, \$390.0 thousand was transferred from the Office of State Budget and Management to the Disaster Relief Reserve to return unused Hurricane Dorian funds. At the end of the fiscal year 2021-22, the balance of this reserve was \$20.642 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 2021-22, the balance was \$50.373 million. In accordance with Session Law 2021-180, the Office of State Controller was authorized to transfer \$125.0 million from the Unreserved Fund Balance to the Medicaid Contingency Reserve. At the end of fiscal year 2021-22, the balance of this reserve was \$175.373 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 2021-22, the balance was \$278.861 million. In accordance with Session Law 2021-180, the Office of State Controller was authorized to transfer \$215.820 million from the Unreserved Fund Balance to the Medicaid Transformation Reserve. Session Law 2021-180 authorized the transfer of \$473.183 million from the reserve to the Department of Health and Human Services during the fiscal year. At the end of fiscal year 2021-22, the balance of this reserve was \$21.498 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 2021-22 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 2021-22, the balance of this reserve was \$935.109 million.

Unfunded Liability Solvency Reserve (Session Law 2018-30). The Unfunded Liability Solvency Reserve was established in accordance with Session Law 2018-30 as a reserve in the General Fund. The funds in the Reserve shall be used only for transfers to the Health Benefit Fund or the Retirement System for the purpose of reducing the unfunded liabilities of those two funds. In accordance with General Statute 143C-4-10(c)(3)c, funds in the amount of \$3.349 million were transferred to the reserve from the Department of State Treasurer. In accordance with Session Law 2021-180, the Office of State Controller was authorized to transfer \$40.0 million from the Unreserved Fund Balance to the Unfunded Liability Solvency Reserve. In addition, funds in the amount of \$7.086 million were transferred to the reserve from the Office of State Budget and Management State Capital and Infrastructure Fund per General Statute 142-96(d)(2). Funds in the amount of \$10.435 million were transferred out of the reserve to the Health Benefit Fund and Retirement System during the fiscal year. At the end of fiscal year 2021-22, the balance of this reserve was \$40.0 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 2021-22, the balance was \$92.022 million. Funds in the amount of \$19.019 million were transferred out of the reserve during the fiscal year. At the end of fiscal year 2021-22, the balance of this reserve was \$73.003 million.

NC G.R.E.A.T. Reserve (Session Law 2019-230). The Growing Rural Economies with Access to Technology (G.R.E.A.T) program was established in accordance with Session Law 2019-230 to fund the terrestrial deployment of broadband within unserved areas of economically distressed counties. The NC G.R.E.A.T. Reserve was established as a reserve in the General Fund to provide funding for the program. In accordance with Session Law 2021-180, the Office of State Controller was authorized to transfer \$15.0 million from the Unreserved Fund Balance to the NC G.R.E.A.T. Reserve for the fiscal year. Funds in the amount of \$15.0 million were transferred out of the reserve to the Office of State Budget and Management State Capital and Infrastructure Fund. At the end of fiscal year 2021-22, 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

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

relation to the M5.1 earthquake that occurred on August 9, 2020 in Alleghany County, North Carolina. At the beginning of fiscal year 2021-22, the balance was \$15.335 million. Funds in the amount of \$15.335 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 2021-22, the balance of this reserve was zero.

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. At the beginning of fiscal year 2021-22, the balance was \$2.720 billion. Federal funds in the amount of \$2.719 billion were received during the fiscal year. Funds in the amount of \$5.439 billion were transferred out of the reserve during the fiscal year. At the end of fiscal year 2021-22, the balance of this reserve was zero.

Information Technology Reserve (Session Law 2021-180). The Information Technology Reserve was established in accordance with Session Law 2021-180 as a reserve in the General Fund. The purpose is to make funds available for information technology project expenditures. In accordance with Session Law 2021-180, the Office of State Controller was authorized to transfer \$109.661 million from the Unreserved Fund Balance to the Information Technology Reserve for the fiscal year. Funds in the amount of \$109.661 million were transferred out of the reserve during the fiscal year to various agencies per Session Law 2021-180. At the end of fiscal year 2021-22, the balance of this reserve was zero.

State Capital and Infrastructure Fund (SCIF) Reserve (General Statute 143C-4-3.1). The State Capital and Infrastructure Fund (SCIF) Reserve was established in accordance with General Statute 143C-4-3.1 as a reserve in the General Fund. The purpose is to reserve an unappropriated balance to transfer funds to the State Capital and Infrastructure Fund upon appropriation by the General Assembly. The Fund was established to address the ongoing capital and infrastructure needs of the State. In accordance with Session Law 2021-180, the Office of State Controller was authorized to transfer \$3.649 billion from the Unreserved Fund Balance to the SCIF Reserve for the fiscal year. Funds in the amount of \$3.649 billion were transferred out of the reserve to the Office of State Budget and Management State Capital and Infrastructure Fund during the fiscal year. At the end of fiscal year 2021-22, the balance of this reserve was zero.

Wilmington Harbor Enhancements Reserve (Session Law 2021-180). The Wilmington Harbor Enhancements Reserve was established in accordance with Session Law 2021-180 as a reserve in the General Fund. The purpose is to make funds available for expenditures associated with the Wilmington Harbor Enhancement project. In accordance with Session Law 2021-180, the Office of State Controller was authorized to transfer \$283.800 million from the Unreserved Fund Balance to the Wilmington Harbor Enhancements Reserve for the fiscal year. No funds were transferred out of the reserve during the fiscal year. At the end of fiscal year 2021-22, the balance of this reserve was \$283.800 million.

Economic Development Project Reserve (Session Law 2021-180). The Economic Development Project Reserve was established in accordance with Session Law 2021-180 as a reserve in the General Fund. The purpose is to make funds available for expenditures associated with economic development projects meeting or exceeding high-yield project metrics. In accordance with Session Law 2021-180, the Office of State Controller was authorized to transfer \$338.0 million from the Unreserved Fund Balance to the Economic Development Project Reserve for the fiscal year. Funds in the amount of \$135.0 million were transferred out of the reserve to the Department of Commerce during the fiscal year. At the end of fiscal year 2021-22, the balance of this reserve was \$203.0 million.

Opioid Abatement Reserve (Session Law 2021-180). The Opioid Abatement Reserve was established in accordance with Session Law 2021-180 as a reserve in the General Fund. The purpose is to maintain funds received by the State as a beneficiary of the final consent judgment resolving the case, *State of North Carolina, ex. rel. Joshua H. Stein, Plaintiff v. McKinsey and Company, Inc.*, and any other funds received by the State as a result of the settlement. In accordance with Session Law 2021-180, funds in the amount of \$20.101 million were transferred to or deposited into the reserve as a result of the settlement during the fiscal year. Funds in the amount of \$15.735 million were transferred out of the reserve to the Opioid Abatement Fund at the Department of Health and Human Services during the fiscal year. At the end of fiscal year 2021-22, the balance of this reserve was \$4.366 million.

Public School Contingency Reserve (Session Law 2022-74). The Public School Contingency Reserve was established in accordance with Session Law 2022-74 as a reserve in the General Fund. The purpose of the reserve is to make funds available to the Department of Public Instruction to provide sufficient State net General Fund appropriations and necessary budget authority to close out the 2021-2022 fiscal year. In accordance with Session Law 2022-74, the Office of State Controller was authorized to transfer \$227.0 million from the Unreserved Fund Balance to the Public School Contingency Reserve for the fiscal year. Funds in the amount of \$75.476 million were transferred out of the reserve to the Department of Public Instruction during the fiscal year. At the end of fiscal year 2021-22, the balance of this reserve was \$151.524 million.