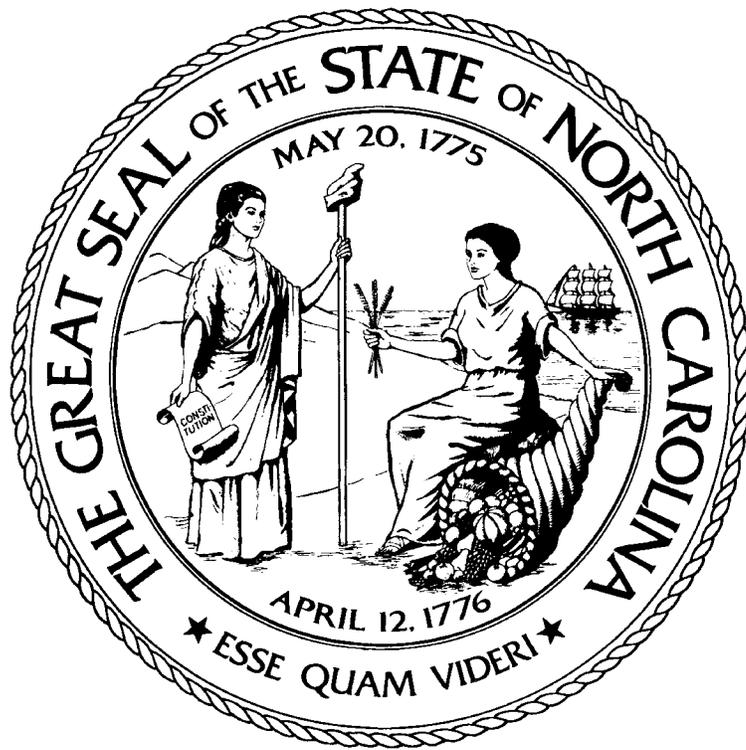

NORTH CAROLINA



*STATEWIDE
ACCOUNTS
RECEIVABLE
REPORT*

*For the Year
Ended
June 30, 1998*

North Carolina Office of the State Controller

Edward Renfrow, State Controller

State of North Carolina
Office of the State Controller
Statewide Accounts Receivable Report
December 1998

The Office of the State Controller is responsible for the *Statewide Accounts Receivable Program*. The authority originates from North Carolina General Statute 147-86.20-.27. In fulfilling the reporting requirements, the Office of the State Controller provides you with the Statewide Accounts Receivable Report for fiscal year end June 30, 1998, displayed in a three-year analysis of receivables format.

The *Statewide Accounts Receivable Report* includes all receivables reflected in the State's Comprehensive Annual Financial Report (CAFR). These receivables are recorded in the financial statements based on generally accepted accounting principles (GAAP) for governments. Included in this report are notes receivable, taxes receivable, intergovernmental receivables (due from federal, local or other state governments), accounts receivable, interfund receivables (due from other entities within the State's financial reporting entity), contributions receivable, premiums receivable, interest receivable and other miscellaneous receivables.

Total receivables increased \$467 million or 11.75% to \$4.44 billion which equates to 12.05% of total revenues as compared to 12.09% in 1997. Total revenues increased 12.14% to \$36.8 billion. In summary, for every \$8.30 of revenues the State earns we carry \$1.00 in receivables.

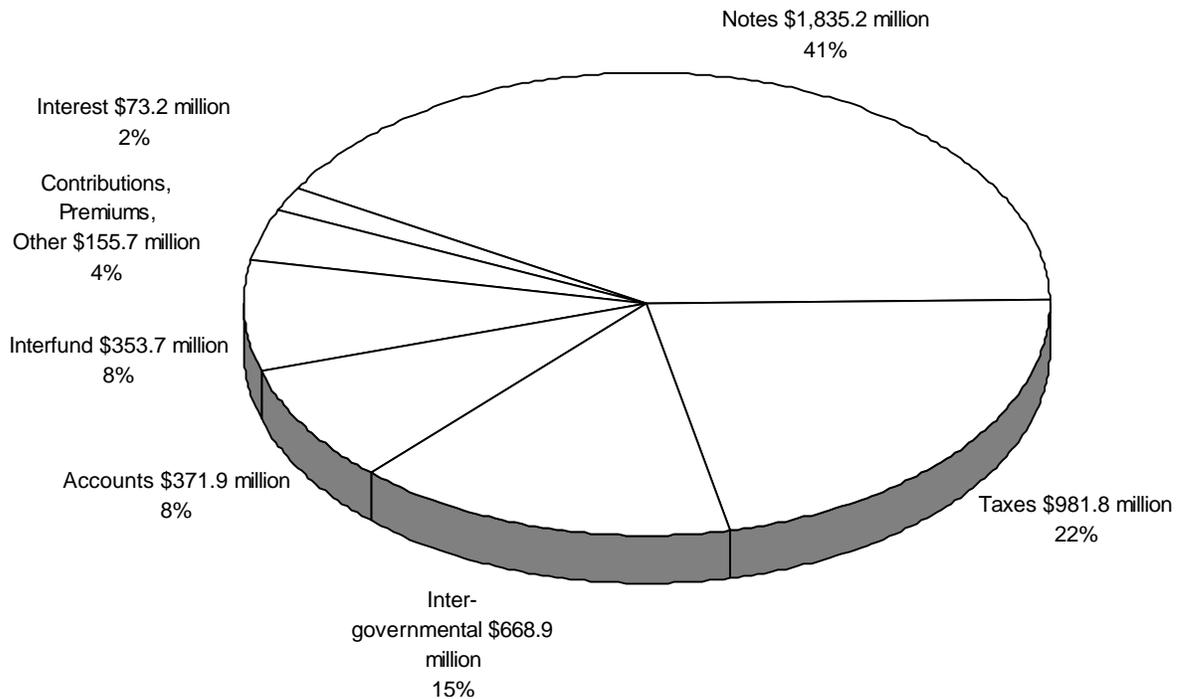
To explain the \$467 million increase in total receivables for 1998 we need to look at several areas. The first involves notes receivable where there was a total increase of \$239 million, most of which occurred in the component unit proprietary funds. The bulk of it lies in the State Education Assistance Authority, \$119 million, the majority of which pertains to the non-current or long term portion of the notes, and the North Carolina Housing Finance Agency, \$72 million. There were also increases of \$24 million in the Clean Water Revolving Loan and Grant Fund notes, which fall under nonexpendable trust funds, as well as \$12 million in the Clean Water Bonds Loan Fund notes, from special revenue funds.

The second area of major changes occurred in taxes receivable, an increase of \$156 million. Corporate income taxes receivable increased \$47 million, individual income taxes receivable increased \$43 million, sales and use taxes receivable increased \$22 million, and unemployment compensation taxes receivable increased \$16 million. These increases are the result of general increases in revenue collections and the shifting of collections from the end of June into the month of July. Collections received in early July are accrued as receivables at June 30. This difference in timing of collections has no impact on the State's receivables policy.

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The following chart on page two summarizes the State of North Carolina's receivable components:

State of North Carolina Total Receivables for the Year Ended June 30, 1998
\$4.44 billion

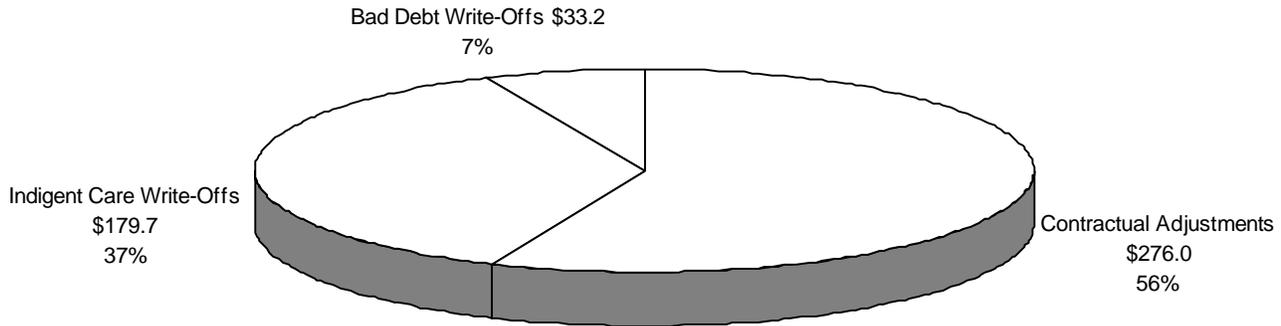


A greater effort was undertaken this year to make improvements in agency reporting of write-off information. Definite progress has been made in this area and we will continue to educate and inform the state's entities on the significant importance of reporting accurate and complete write-off information. The major area for state write-offs relates to healthcare business. This involves basically four agencies/institutions. These are UNC Hospitals, UNC Physicians & Associates of UNC-Chapel Hill, ECU's medical program and affiliation with Pitt County Hospital, and the Department of Human Resources via their hospital and patient treatment centers. The second major area for write-offs relates to taxes. These relate specifically to the Department of Revenue and the Employment Security Commission.

The following charts on page three summarize the State of North Carolina's major write-off components:

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State of North Carolina Total Write-offs for FY 1998
\$488.9 million



Contractual Adjustments. The differences between revenue at established rates and the amounts realizable from third-party payors under contractual agreements. These adjustments are made to customer, patient, business, or taxpayer accounts as the result of a contractual agreement to provide certain services or products at a previously negotiated price. The contractual adjustment is the difference between the value assigned by the State provider/supplier of the product or service, and the predetermined price as negotiated with a third-party payor (*example: insurance company*).

Indigent Care Write-Offs. The differences between revenue at established rates and the amounts realizable from the financially responsible party for those receiving the State product or service. In this instance, the write-off is the result of the financially responsible party being **unable** to meet the financial obligations due to poverty or a lack of subsistence.

Bad Debt Write-Offs. All write-offs of bad debts other than those for contractual or indigent care reasons.

The Office of the State Controller will provide further information on write-offs and contractual adjustments for health care institutions to the General Assembly in response to a legislative special provision entitled "PILOT PROGRAM ON REPORTING ON COLLECTION OF BAD DEBTS BY STATE AGENCIES". This provision requires the OSC to establish a procedure by which health care institutions under or affiliated with the Department of Health and Human Services or The University of North Carolina shall report on collection of bad debts. The pilot program is intended to concentrate on agencies that have a large amount of bad debts, in order to determine the extent to which those debts may be better collected both in those agencies and in the whole of State government. The OSC shall report the results of the pilot study to the General Assembly no later than April 1, 1999, along with recommendations for change in law or procedure to better collect the bad debts.

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Additionally, the Office of the State Controller continues to evaluate alternative business practices in order to improve the Statewide Accounts Receivable Program. In spring 1998 Coopers and Lybrand L.L.P. (C&L), partnered with the Office of the State Controller, conducted a study to examine opportunities for improvement for the State of North Carolina's accounts receivable (A/R) function. The objective included developing a series of issues and recommendations for implementation of a statewide A/R system and addressing the feasibility of creating a clearinghouse for bad debt collection information. The results of this study were published in a report (Analysis of the Accounts Receivable Function Within the State of North Carolina) dated May 8, 1998 and subsequently presented to various legislative committees during the 1998 session.

The report findings and observations led to several recommendations. These recommendations provide four phases in order for the State of North Carolina to fulfill the minimum requirements toward achieving Best Practice standards. The phases and steps are as follows:

Phase 1: - Standardize

- Develop an integrated and standardized agency level technology plan for A/R, including agency billing requirements.
- Redesign A/R and debt set off processes and systems to standardize bad debt collections, maximize automation, and minimize manual processes.
- Continue the Requirements Analysis phase to determine the best way to implement new technologies related to A/R.

Phase 2: - Infuse

- Implement an integrated A/R system that utilizes imaging and workflow technologies.
- Implement an integrated A/R system that utilizes EC/EDI technology.

Phase 3: - Implement

- Establish and administer a highly automated data warehouse for accounts receivable information for state government agencies.
- Continue to explore and analyze the possibilities of expanding wage garnishment to further increase bad debt collections.
- Implement statewide the ability to assess interest and penalties on accounts receivable.
- Establish and administer a highly automated and centralized clearinghouse for bad debt collection.

Phase 4: - Outsource

- Outsource, but administer under the control of DOR, the bad debt collection process.

The Office of the State Controller requested expansion funds to move forward with the recommendations related to continuation of the accounts receivable requirements analysis and the centralized bad debt collection clearinghouse; however, no additional funds were authorized. As a result, the OSC has focused limited resources on the redesign of A/R and debt set off processes and

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systems to standardize bad debt collections and attempt to minimize manual processes. In addition, the Department of Revenue and the State Controller jointly issued a Request for Information (RFI) in October 1998 for the operations and joint management of a debt collection clearinghouse. The purpose of this RFI was to gather initial information from vendors with systems that meet North Carolina's debt collection clearinghouse requirements. Information gathered from the RFI has provided further input to determining the clearinghouse feasibility and can be used at some later date to further refine a formal Request for Proposal. During the next legislative session the State Controller and the Department of Revenue plan to propose additional legislation to both authorize and clarify the use of a bad debt collection clearinghouse as well as request minimum funding to accommodate basic A/R requirements.

The State Controller believes that by continuing to stress more consistent accounts receivable policies and procedures, monitoring agency activity closely, coordinating best business practices among agencies, and establishing and enforcing procedures for write-offs and setoff debt collection, the State can maximize the collection of past due accounts receivable.

Please contact the Office of the State Controller if additional information is required.

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Statewide Accounts Receivable Program
Three-Year Analysis of Receivables
(Expressed in Thousands)

	June 30		
	1998	1997	1996
Total Receivables			
Governmental Funds:			
General Fund.....	\$ 1,380,985	\$ 1,221,804	\$ 1,226,342
Special Revenue Funds.....	371,282	343,699	293,957
Capital Projects Funds.....	3,629	624	1,071
Total Governmental Funds.....	<u>1,755,896</u>	<u>1,566,127</u>	<u>1,521,370</u>
Proprietary Funds:			
Enterprise Funds.....	2,550	7,971	748
Internal Service Funds.....	52,403	36,984	33,381
Total Proprietary Funds.....	<u>54,953</u>	<u>44,955</u>	<u>34,129</u>
Fiduciary Funds:			
Expendable Trust Funds.....	239,210	219,134	164,726
Non-expendable Trust Funds.....	257,746	233,996	206,379
Pension Trust Funds.....	119,160	118,433	114,001
Investment Trust Fund.....	4,063	-	-
Agency Funds.....	109,667	106,417	103,972
Total Fiduciary Funds.....	<u>729,846</u>	<u>677,980</u>	<u>589,078</u>
Component Units:			
College and University.....	538,286	524,837	557,995
Proprietary.....	1,361,431	1,159,471	935,627
Total Component Units.....	<u>1,899,717</u>	<u>1,684,308</u>	<u>1,493,622</u>
Total Receivables [1].....	<u>\$ 4,440,412</u>	<u>\$ 3,973,370</u>	<u>\$ 3,638,199</u>
Percent Increase from Prior Year.....	11.75%	9.21%	
Receivables as % of Total Revenues.....	12.05%	12.09%	13.40%
Total State Revenues.....	<u>\$ 36,848,957</u>	<u>\$ 32,860,541</u>	<u>\$ 27,141,591</u>
Percent Increase from Prior Year.....	12.14%	21.07%	

[1] Total Receivables consist of the following:

	1998	% of Total	1997	% of Total
Notes Receivable.....	\$ 1,835,168	41.33%	\$ 1,595,453	40.15%
Taxes Receivable.....	981,821	22.11%	825,643	20.78%
Intergovernmental Receivables.....	668,903	15.06%	672,662	16.93%
Accounts Receivable.....	371,948	8.38%	331,033	8.33%
Interfund Receivables (CAFR-Note 8).....	353,736	7.97%	334,974	8.43%
Contributions, Premiums, Other Receivables.....	155,681	3.51%	151,499	3.81%
Interest Receivable.....	73,155	1.64%	62,106	1.57%
Total Receivables	<u>\$ 4,440,412</u>	<u>100.00%</u>	<u>\$ 3,973,370</u>	<u>100.00%</u>

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Statewide Accounts Receivable Program
Three-Year Analysis of Receivables
(Expressed in Thousands)

	June 30		
	1998	1997	1996
Notes Receivable			
Governmental Funds:			
General Fund.....	\$ 497	\$ 497	\$ 497
Special Revenue Funds.....	112,371	99,726	72,346
Total Governmental Funds.....	112,868	100,223	72,843
Fiduciary Funds:			
Expendable Trust Funds.....	81,154	72,560	63,515
Non-expendable Trust Funds.....	256,142	232,585	205,261
Total Fiduciary Funds.....	337,296	305,145	268,776
Component Units:			
College and University.....	84,127	82,031	80,433
Proprietary.....	1,300,877	1,108,054	890,674
Total Component Units	1,385,004	1,190,085	971,107
Total Notes Receivable [1].....	\$ 1,835,168	\$ 1,595,453	\$ 1,312,726
Percent Increase from Prior Year.....	15.02%	21.54%	

[1] Major components of Notes Receivables:

	1998	% of Total	1997	% of Total
NC Housing Finance Agency.....	\$ 830,169	45.24%	\$ 757,760	47.49%
State Education Assistance Authority.....	459,165	25.02%	340,113	21.32%
Clean Water Revolving Loan & Grant Fund.....	255,487	13.92%	231,691	14.52%
University Funds.....	83,461	4.55%	81,264	5.09%
Clean Water Bonds Loan Fund.....	88,577	4.83%	76,816	4.81%
401(k) Supplemental Retirement Income Plan.....	81,154	4.42%	72,560	4.55%
Other.....	37,155	2.02%	35,249	2.22%
Net Amount.....	\$ 1,835,168	100.00%	\$ 1,595,453	100.00%

State of North Carolina
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Statewide Accounts Receivable Program
Three-Year Analysis of Receivables
(Expressed in Thousands)

	June 30		
	1998	1997	1996
<u>Taxes Receivable</u>			
Governmental Funds:			
General Fund.....	\$ 675,428	\$ 553,169	\$ 555,409
Special Revenue Funds.....	103,133	97,070	93,254
Total Governmental Funds.....	<u>778,561</u>	<u>650,239</u>	<u>648,663</u>
Fiduciary Funds:			
Expendable Trust Funds.....	106,293	90,163	42,353
Agency Funds.....	96,967	85,241	83,522
Total Fiduciary Funds.....	<u>203,260</u>	<u>175,404</u>	<u>125,875</u>
Total Taxes Receivable [1].....	<u>\$ 981,821</u>	<u>\$ 825,643</u>	<u>\$ 774,538</u>
Percent Increase from Prior Year.....	18.92%	6.60%	

[1] Major components of Taxes Receivables:

	1998	% of Total	1997	% of Total
Individual Income Tax.....	\$ 296,232	30.17%	\$ 253,172	30.66%
Sales and Use Tax.....	231,372	23.57%	209,211	25.34%
Unemployment Compensation Funds.....	106,293	10.83%	90,163	10.92%
Local Sales Tax Collections.....	96,967	9.88%	85,241	10.32%
State Highway Fund.....	73,735	7.51%	70,119	8.49%
Corporate Income Tax.....	76,679	7.81%	29,116	3.53%
Franchise Tax.....	34,711	3.54%	26,999	3.27%
Highway Trust Fund.....	27,279	2.78%	24,999	3.03%
Beverage Tax.....	15,349	1.56%	14,202	1.72%
Other.....	23,204	2.35%	22,421	2.72%
Net Amount.....	<u>\$ 981,821</u>	<u>100.00%</u>	<u>\$ 825,643</u>	<u>100.00%</u>

State of North Carolina
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Statewide Accounts Receivable Program
Three-Year Analysis of Receivables
(Expressed in Thousands)

	June 30		
	1998	1997	1996
<u>Intergovernmental Receivables</u>			
Governmental Funds:			
General Fund.....	\$ 440,646	\$ 482,651	\$ 520,504
Special Revenue Funds.....	92,766	67,801	37,903
Capital Projects Funds.....	176	249	279
Total Governmental Funds.....	<u>533,588</u>	<u>550,701</u>	<u>558,686</u>
Proprietary Funds:			
Internal Service Funds.....	547	370	505
Total Proprietary Funds.....	<u>547</u>	<u>370</u>	<u>505</u>
Fiduciary Funds:			
Expendable Trust Funds.....	1,552	1,819	2,680
Non-expendable Trust Funds.....	2	-	-
Agency Funds.....	6,238	6,290	5,718
Total Fiduciary Funds.....	<u>7,792</u>	<u>8,109</u>	<u>8,398</u>
Component Units:			
College and University.....	118,841	107,027	106,340
Proprietary.....	8,135	6,455	4,122
Total Component Units.....	<u>126,976</u>	<u>113,482</u>	<u>110,462</u>
Total Intergovernmental Receivables [1].....	<u>\$ 668,903</u>	<u>\$ 672,662</u>	<u>\$ 678,051</u>
Percent Increase from Prior Year.....	-0.56%	-0.79%	

[1] Major components of Intergovernmental Receivables:				
	1998	% of Total	1997	% of Total
Due From Federal Agencies.....	\$ 392,459	58.67%	\$ 428,809	65.54%
State Highway Fund.....	87,082	13.02%	64,619	9.88%
Community College Funds.....	74,573	11.15%	63,447	9.70%
Due From Local Governments.....	70,521	10.54%	53,842	8.23%
University Funds.....	44,268	6.62%	43,580	6.65%
Net Amount.....	<u>\$ 668,903</u>	<u>100.00%</u>	<u>\$ 654,297</u>	<u>100.00%</u>

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(Expressed in Thousands)

	June 30		
	1998	1997	1996
Accounts Receivable			
Governmental Funds:			
General Fund.....	\$ 101,960	\$ 90,145	\$ 61,927
Special Revenue Funds.....	11,385	5,112	6,416
Capital Projects Funds.....	203	-	-
Total Governmental Funds.....	<u>113,548</u>	<u>95,257</u>	<u>68,343</u>
Proprietary Funds:			
Enterprise Funds.....	1,622	7,265	75
Internal Service Funds.....	19,551	13,031	11,840
Total Proprietary Funds.....	<u>21,173</u>	<u>20,296</u>	<u>11,915</u>
Fiduciary Funds:			
Expendable Trust Funds.....	12,896	14,831	17,604
Non-expendable Trust Funds.....	24	3	1
Pension Trust Funds.....	414	358	326
Agency Funds.....	1,821	9,433	2,266
Total Fiduciary Funds.....	<u>15,155</u>	<u>24,625</u>	<u>20,197</u>
Component Units:			
College and University.....	204,093	177,064	170,291
Proprietary.....	17,979	13,791	17,410
Total Component Units	<u>222,072</u>	<u>190,855</u>	<u>187,701</u>
Total Accounts Receivable [1].....	<u>\$ 371,948</u>	<u>\$ 331,033</u>	<u>\$ 288,156</u>
Percent Increase from Prior Year.....	12.36%	14.88%	

[1] Major components of Accounts Receivables:				
	1998	% of Total	1997	% of Total
University Funds.....	\$ 192,205	61.55%	\$ 166,602	62.95%
DHR-Div'n of Medical Assistance.....	36,399	11.66%	43,334	16.37%
DHR-Div'n of Mental Health.....	59,352	19.01%	31,943	12.07%
Unemployment Compensation Funds.....	12,424	3.98%	12,323	4.66%
Community College Funds.....	11,888	3.80%	10,462	3.95%
Net Amount.....	<u>\$ 312,268</u>	<u>100.00%</u>	<u>\$ 264,664</u>	<u>100.00%</u>

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Three-Year Analysis of Receivables
(Expressed in Thousands)

	June 30		
	1998	1997	1996
<u>Interfund Receivables*</u>			
Governmental Funds:			
General Fund.....	\$ 126,278	\$ 63,744	\$ 57,199
Special Revenue Funds.....	35,865	59,642	73,585
Capital Projects Funds.....	3,250	375	792
Total Governmental Funds.....	<u>165,393</u>	<u>123,761</u>	<u>131,576</u>
Proprietary Funds:			
Internal Service Funds.....	24,822	20,336	17,861
Total Proprietary Funds.....	<u>24,822</u>	<u>20,336</u>	<u>17,861</u>
Fiduciary Funds:			
Expendable Trust Funds.....	25,711	25,689	25,405
Agency Funds.....	4,638	3,477	10,913
Total Fiduciary Funds.....	<u>30,349</u>	<u>29,166</u>	<u>36,318</u>
Component Units:			
College and University.....	119,678	148,109	191,434
Proprietary.....	13,494	13,602	11,355
Total Component Units	<u>133,172</u>	<u>161,711</u>	<u>202,789</u>
Total Interfund Receivables.....	<u>\$ 353,736</u>	<u>\$ 334,974</u>	<u>\$ 388,544</u>
Percent Increase from Prior Year.....	5.60%	-13.79%	

<p>* Interfund Receivables are comprised of:</p> <ul style="list-style-type: none"> Due From Other Funds Due From Component Units Due From Primary Government Advances to Component Units <p>(For detail see Comprehensive Annual Financial Report - Note 8)</p>
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State of North Carolina
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Three-Year Analysis of Receivables
(Expressed in Thousands)

	June 30		
	1998	1997	1996
<u>Contributions, Premiums, Other Receivables</u>			
Governmental Funds:			
General Fund.....	\$ 14,519	\$ 14,098	\$ 13,471
Special Revenue Funds.....	6,962	4,871	3,456
Total Governmental Funds.....	<u>21,481</u>	<u>18,969</u>	<u>16,927</u>
Proprietary Funds:			
Enterprise Funds.....	812	637	654
Internal Service Funds.....	5,541	1,119	1,055
Total Proprietary Funds.....	<u>6,353</u>	<u>1,756</u>	<u>1,709</u>
Fiduciary Funds:			
Expendable Trust Funds.....	9,882	12,735	11,853
Pension Trust Funds.....	117,965	117,359	113,072
Agency Funds.....	-	680	324
Total Fiduciary Funds.....	<u>127,847</u>	<u>130,774</u>	<u>125,249</u>
Total Contributions, Premiums, Other Receivables.....	<u>\$ 155,681</u>	<u>\$ 151,499</u>	<u>\$ 143,885</u>
Percent Increase from Prior Year.....	2.76%	5.29%	

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Statewide Accounts Receivable Program
Three-Year Analysis of Receivables
(Expressed in Thousands)

	June 30		
	1998	1997	1996
Interest Receivable			
Governmental Funds:			
General Fund.....	\$ 21,657	\$ 17,500	\$ 17,335
Special Revenue Funds.....	8,800	9,477	6,997
Total Governmental Funds.....	<u>30,457</u>	<u>26,977</u>	<u>24,332</u>
Proprietary Funds:			
Enterprise Funds.....	116	69	19
Internal Service Funds.....	1,942	2,128	2,120
Total Proprietary Funds.....	<u>2,058</u>	<u>2,197</u>	<u>2,139</u>
Fiduciary Funds:			
Expendable Trust Funds.....	1,722	1,337	1,316
Non-expendable Trust Funds.....	1,578	1,408	1,117
Pension Trust Funds.....	781	716	603
Investment Trust Fund.....	4,063	-	-
Agency Funds.....	3	1,296	1,229
Total Fiduciary Funds.....	<u>8,147</u>	<u>4,757</u>	<u>4,265</u>
Component Units:			
College and University.....	11,547	10,606	9,497
Proprietary.....	20,946	17,569	12,066
Total Component Units	<u>32,493</u>	<u>28,175</u>	<u>21,563</u>
Total Interest Receivable.....	<u>\$ 73,155</u>	<u>\$ 62,106</u>	<u>\$ 52,299</u>
Percent Increase from Prior Year.....	17.79%	18.75%	