



OFFICE OF THE
STATE CONTROLLER

STATE OF NORTH CAROLINA

Financial Highlights

FISCAL YEAR ENDING JUNE 30, 2018

Waterfalls of North Carolina

There is something majestic about waterfalls. The power of the continuous flow of water creates a beauty that is combination of strength and grace. Good financial practices in government are also a combination of the same elements. Powerful enough to serve the entire state with integrity and enough grace to remember that our duty of service is accountability to each individual citizen. It is our hope as you review this document you will see those very things demonstrated in the data provided. We consider it a privilege to serve those who call North Carolina home.

North Carolina has more than 250 beautiful waterfalls and many are featured throughout this report. The cover features the breathtaking Upper Catawba Falls. This 50-foot scenic attraction is located near Old Fort, NC in the Pisgah National Forest. Catawba Falls is divided into two main sections (some say three) where the Catawba River drops around 600 feet in about a half mile.

The lower section, which is called Catawba Falls, is over 100 feet high across multiple sections with numerous free-falls and cascades.

On the trail leading to and around the falls, you will pass by stone foundations and a dam used for power generation for the town of Old Fort in the early 1900s. The trailhead can be accessed from the Catawba River in Old Fort.

We invite you to learn more about each of the waterfalls featured here by visiting our website at <https://osc.nc.gov/2018popular>. All photos are used by permission.

Financial Highlights



I am pleased to present you with the **North Carolina Financial Highlights** for the fiscal year ended June 30, 2018. This popular report represents our continuing commitment to providing the highest standards of financial management and reporting, as well as fiscal accountability of the resources of the State of North Carolina. We hope you find this report both informative and beneficial. If you need additional copies or have questions about this report, please contact either me or our Statewide Accounting staff at (919) 707-0500.

Thank you for your interest in the State of North Carolina.

Sincerely,

A handwritten signature in black ink that reads "Linda Combs". The signature is written in a cursive, flowing style.

Linda Combs
State Controller
December 5, 2018

Introduction

This popular report, **North Carolina Financial Highlights**, is intended to summarize basic financial information about our State. This information is supported in more detail in the State's Comprehensive Annual Financial Report (CAFR). The CAFR is prepared in accordance with generally accepted accounting principles (GAAP) and is independently audited by the North Carolina Office of the State Auditor. Much of the information in the CAFR is necessarily technical and complex. As a result, the full financial statements and note disclosures may not be as useful to the citizens of the State of North Carolina wishing to gain a more general understanding of the State's finances. Our report provides information at the government-wide level in addition to the major fund level, and certain selected statistical information cited in our CAFR. Coverage of legally separate but related organizations is limited to universities and community colleges and is at a very high level.

North Carolina's Financial Highlights is a report for the people and the product of a coordinated effort on the part of state and local governments to issue simplified financial reports. It is our intent to provide you with information about the State's financial condition without overwhelming detail and technical accounting terminology. This report contains financial information for the State's fiscal year ended June 30, 2018. The State's fiscal year starts July 1 and ends the following June 30. Information is presented in this report on the basis of GAAP. This popular report and the State's complete financial statements, known as the CAFR, can be obtained on the internet at <https://www.osc.nc.gov>, by telephone at (919) 707-0500, or by writing to the N.C. Office of the State Controller, 1410 Mail Service Center, Raleigh, N.C. 27699-1410.

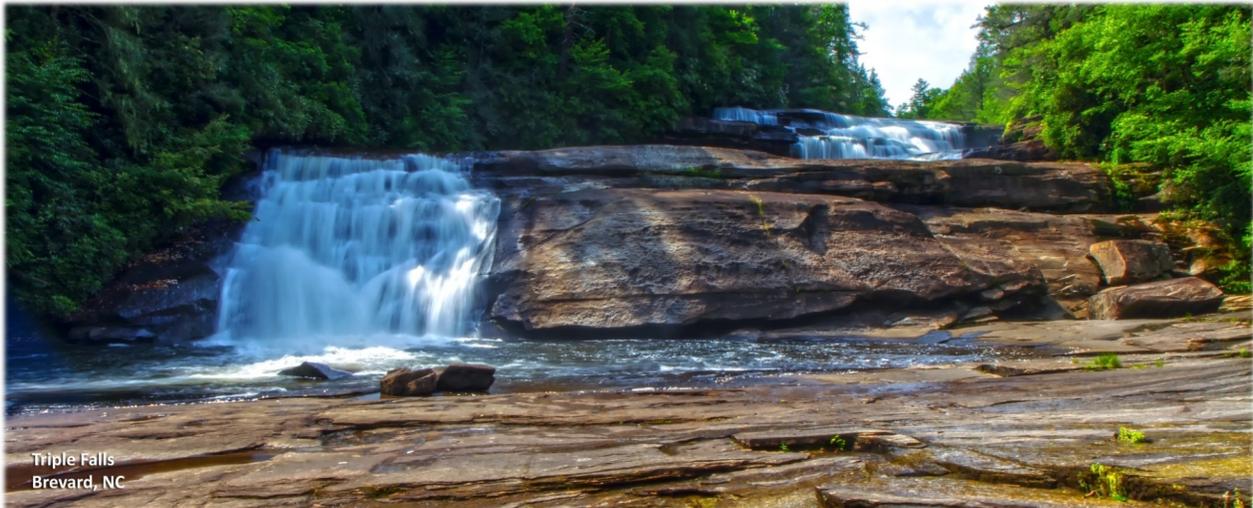
Financial Highlights

State Reporting Entity and Services

The State of North Carolina entity as reported in the CAFR includes all fund types of the departments, agencies, boards, commissions and authorities governed and legally controlled by the State's executive, legislative and judicial branches. In addition, the reporting entity includes legally separate organizations known as component units for which the State is financially accountable. The component units are discretely presented in the government-wide financial statements. The State's discretely presented major component units are the University of North Carolina System, the State's community colleges and the State Health Plan.

The State and its component units provide a broad range of services to its citizens, including:

- ◆ K-12 Public Education
- ◆ Higher Education
- ◆ Health and Human Services
- ◆ Economic Development
- ◆ Environment and Natural Resources
- ◆ Public Safety, Corrections, and Regulation
- ◆ Transportation
- ◆ Agriculture
- ◆ General Government Services



The Economy

During fiscal year 2017-18, the US economy continued to grow at a steady pace and North Carolina's economic conditions reflected the same steady improvements. Total industry employment in the State increased by 103,400 jobs (2.3%). A few key State industries experienced strong growth, especially the Professional and Business Services sector (3.5% growth), followed by Trade, Transportation, and Utilities (2.4%), and Education and Health Services (2.4%). Labor market improvements lowered the unemployment rate and increased individual wage growth. The State's unemployment rate fell from 4.4% at the start of the fiscal year to 4.2% in June 2018. Wage and salary income grew by 4.9%, which built upon the growth of last fiscal year's 4.1% growth. For the second half of 2018, economic conditions should continue to support steady employment growth with wages forecast to grow at a faster pace than last year.

Financial Highlights

North Carolina Economic Indicators

	FY 2016-17 Actual	FY 2017-18 Projected	FY 2018-19 Projected	FY 2019-20 Projected
State Gross Product Growth*	2.3%	3.0%	3.6%	2.8%
Personal Income Growth	3.8%	3.8%	5.3%	4.1%
Wages & Salaries Growth	4.1%	4.9%	6.5%	5.3%
Retail Sales Growth	5.1%	5.6%	6.2%	5.1%
Unemployment Rate	4.9%	4.5%	4.0%	4.0%
Nonfarm Employment Growth	1.8%	2.3%	1.8%	1.3%
Population Growth	1.0%	1.0%	1.0%	1.0%

*Adjusted for Inflation

For North Carolina, as with the nation, the economy has strengthened, and the pace of growth closely tracked with the economic expectations at the start of the fiscal year and the stronger pace of growth established in the previous fiscal year. The State added another 103,400 payroll jobs (2.3% growth) on top of the 72,200 (1.8% growth) added the previous fiscal year. All industries experienced gains, but employment in Professional & Business Services posted the largest gain.

Projections of the State's key economic indicators reflect how the economy is expected to unfold. Gross State Product, a broad measure of the State's economic activity, is expected to show solid growth in the next two fiscal years. Total personal income growth should remain steady, increasing to 5.0% growth in fiscal year 2018-19. For the fiscal year, total personal income rose by 4.5%, still trailing the strong growth of 6% to 7% experienced in the pre-recession years. Wage and salary income, a component of total personal income, grew at 4.9% for the fiscal year.

As noted, the recovery in North Carolina moved into a stronger expansionary phase during fiscal year 2017-18, and the State continued solid progress in employment, further lowering the unemployment rate from 4.4% at the start of the fiscal year to 4.2% at the end. With a brighter economic outlook and a stronger labor market, retail sales advanced at a rate of 5.6%. Going forward, retail sales are expected to recover from years of slow growth by growing faster than the long-term 5.0% average and are forecast to grow by a robust 6.2% in fiscal year 2018-19. A steady increase in wage-income is expected to spur growth in retail consumption the next two years.

As the State's economy continued to progress, employment and personal income stabilized. Total industry employment over the next two fiscal years is projected to grow by 1.8% and 1.3%, respectively. That would be below this year's growth but would continue to add 65,000 to 75,000 jobs per year. Key industries in the State experienced strong growth during the fiscal year, especially the Professional and Business Services sector (21,500 jobs; 3.5% growth), followed by Trade, Transportation & Utilities (19,600; 2.4%), and Education and Health Services (14,600; 2.4%). The Construction industry has struggled to regain some of the jobs lost during the recession. In fiscal year 2017-18, employment grew in this industry by 4.5% (9,400 jobs). Despite employment gains the past several years, there are still 33,100 fewer construction jobs than when the recession began in December 2007.

The State is estimated to have added 116,000 people to its population during the fiscal year and by 2019, the State's population is projected to grow to just over 10.5 million, an increase of nearly 350,000 people since 2016. Continued population growth will assist with economic growth by adding demand for housing, durable and non-durable goods, and services. In turn, growth in personal income and retail sales will help bolster the State's economic conditions.

To summarize, the State's economy experienced steady improvement during the fiscal year. During most of 2017 and into 2018, the State's economy tracked closely, and at times outpaced, the national economy's expansion. Economic conditions in the State are projected to spur growth that will outpace the national average throughout the next fiscal year. The anticipated economic strengthening should support solid consumer demand and help maintain steady employment growth. A steady employment market combined with individual wage gains will continue to reinforce the overall health of the State's economy.

— Economic analysis prepared by Barry Boardman, Ph.D., Chief Economist
Fiscal Research Division, North Carolina General Assembly
October 1, 2018

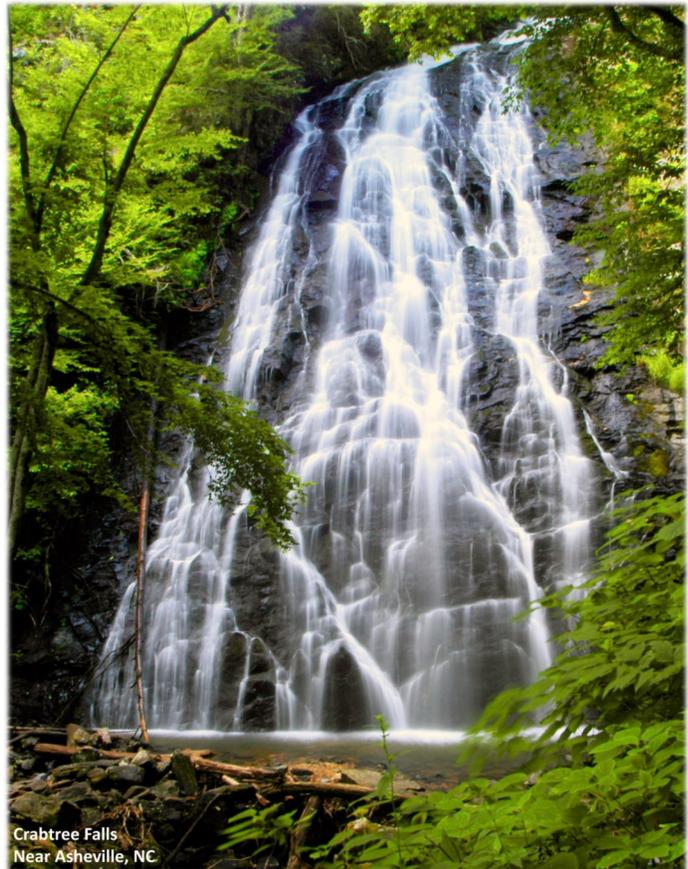
Financial Highlights

Government-wide Financials

- ◆ The State reported total net position of \$50.87 billion, an increase of \$3.85 billion or 8.18% from the previous year. Net position of governmental activities was \$45.15 billion, an increase of \$3.27 billion or 7.81%. Net position of business-type activities was \$5.72 billion, an increase of \$578.97 million or 11.26%.
- ◆ Component units reported net position of \$13.19 billion, an increase of \$1.75 billion or 15.27% from the previous year. The majority of the net position is attributable to the University of North Carolina System, a major component unit.

Fund Financials

- ◆ The General Fund reported fund balance of \$5.39 billion at June 30, 2018, an increase of 22.44% from the previous year. The fund balance increase is due, in part, to growth in individual income taxes. Significant increases in withholding and estimated tax payments account for the majority of this increase.
- ◆ The fund balance of the Highway Fund decreased from \$246.6 million at June 30, 2017 to a negative \$390.03 million at June 30, 2018, a decrease of 258.17% from the previous year. The decrease is primarily due to expenditures outpacing revenue growth because of new processes that were implemented, increasing the speed and number of delivered highway projects.
- ◆ The Highway Trust Fund reported fund balance of \$1.66 billion, a decrease of 6.28% from the previous year. The fund balance decrease is primarily due to increased construction expenditures within the Strategic Prioritization Program.
- ◆ The Unemployment Compensation Fund reported net position of \$3.46 billion at June 30, 2018 compared to \$3 billion at June 30, 2017, an increase of 15.43%. The improvement in net position is explained by the improving economy as evidenced by the low rate of unemployment in the State with a rate of 4.2% at both June 2017 and June 2018; as well as a significant increase in the amount of quarterly interest earned on the balance.
- ◆ The N.C. State Lottery Fund reported net ticket sales of \$2.61 billion, an increase of 7.31% from the previous year. As required by law, the Lottery transferred \$675.47 million to the General Fund to support educational programs.
- ◆ The N.C. Turnpike Authority reported net position of \$350.06 million, an increase of 10.42% from the previous year. Toll revenues increased \$4.74 million or 12.09%, contributing to an increase in operating income of \$5.51 million for the current year; and received a transfer in from the Highway Trust Fund of \$49 million for gap funding on turnpike bonds.
- ◆ The EPA Revolving Loan Fund reported net position of \$1.72 billion, an increase of 3.87% from the previous year. Operating income was \$14.04 million. Net nonoperating revenues of \$42.66 million consisted primarily of federal capitalization grants.



Financial Highlights

Government-wide Financials

The Statement of Net Position and the Statement of Activities are two financial statements that report information about the State, as a whole, and about its activities that should help answer this question: Is the State, as a whole, better off or worse off as a result of this year's activities?

- ◆ Governmental activities cover most of the State's basic services such as health and human services, transportation and education. Taxes and intergovernmental revenues generally fund these services.
- ◆ Business-type activities are services provided to the State or outside customers that are similar in function to private businesses and are primarily financed by fees charged to the customers. These fees cover all or most of the cost of the services being provided. The State's Unemployment Compensation Fund, the EPA Revolving Loan Fund, the N.C. State Lottery Fund, and the N.C. Turnpike Authority are the predominant business-type activities of the State.

Statement of Net Position

The Statement of Net Position presents all of the State's assets, deferred outflows of resources, liabilities, and deferred inflows of resources, with the sum of these components reported as "net position." The State of North Carolina's assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$50.87 billion at the close of the most recent fiscal year (see total primary government column). Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the State is improving or deteriorating. The State's overall net position increased \$3.85 billion or 8.18% (total primary government) from the prior fiscal year. The following table was derived from the government-wide Statement of Net Position:

Net Position as of June 30, 2018 and 2017
(dollars in thousands)

	Governmental Activities		Business-type Activities		Total Primary Government		Total Percentage Change 2017-18
	2018	2017 (as restated)	2018	2017 (as restated)	2018	2017 (as restated)	
Current and other non-current assets.....	\$ 13,772,185	\$ 13,158,104	\$ 5,881,061	\$ 5,446,515	\$ 19,653,246	\$ 18,604,619	5.64%
Capital assets, net.....	51,809,854	49,415,114	1,851,561	1,749,454	53,661,415	51,164,568	4.88%
Total assets.....	65,582,039	62,573,218	7,732,622	7,195,969	73,314,661	69,769,187	5.08%
Total deferred outflows of resources.....	1,926,300	1,993,114	52,713	45,010	1,979,013	2,038,124	(2.90%)
Long-term liabilities.....	15,584,795	18,298,060	1,716,667	1,755,489	17,301,462	20,053,549	(13.72%)
Other liabilities.....	4,437,141	4,247,558	312,563	341,761	4,749,704	4,589,319	3.49%
Total liabilities.....	20,021,936	22,545,618	2,029,230	2,097,250	22,051,166	24,642,868	(10.52%)
Total deferred inflows of resources.....	2,337,786	141,553	36,074	2,666	2,373,860	144,219	1546.01%
Net position:							
Net investment in capital assets.....	49,846,542	47,274,373	603,486	532,834	50,450,028	47,807,207	5.53%
Restricted.....	1,186,859	1,122,895	15,663	15,785	1,202,522	1,138,680	5.61%
Unrestricted.....	(5,884,784)	(6,518,107)	5,100,882	4,592,444	(783,902)	(1,925,663)	59.29%
Total net position.....	\$ 45,148,617	\$ 41,879,161	\$ 5,720,031	\$ 5,141,063	\$ 50,868,648	\$ 47,020,224	8.18%

The largest component of the State's net position (\$50.45 billion) reflects its investment in capital assets (land, buildings, machinery and equipment, state highway system, toll road system, and other capital assets), less related debt still outstanding that was used to acquire or construct those assets. An additional portion of net position represents restricted net position (\$1.2 billion). These resources are subject to constraints that are externally imposed (e.g., by creditors or grantors) or are imposed by law through constitutional provisions. The remaining portion, unrestricted net position, consists of net position that does not meet the definition of "net investment in capital assets" or "restricted."

Financial Highlights

Statement of Activities

The Statement of Activities presents information showing how the State's net position changed during the most recent fiscal year. The following financial information was derived from the government-wide Statement of Activities:

Condensed Statement of Activities - Primary Government For the Fiscal Year Ended June 30, 2018 (dollars in thousands)

	Primary Government		
	Governmental Activities	Business-type Activities	Total
Changes in Net Position			
Net (expense) revenue.....	\$ (24,072,509)	\$ 1,186,860	\$ (22,885,649)
General Revenues:			
Taxes:			
Individual income tax.....	12,607,563	—	12,607,563
Corporate income tax.....	750,381	—	750,381
Sales and use tax.....	7,951,984	—	7,951,984
Gasoline tax.....	2,013,961	—	2,013,961
Franchise tax.....	676,309	—	676,309
Highway use tax.....	798,314	—	798,314
Insurance tax.....	588,042	—	588,042
Beverage tax.....	411,071	—	411,071
Tobacco products tax.....	296,064	—	296,064
Other taxes.....	315,429	—	315,429
Tobacco settlement.....	162,108	—	162,108
Unrestricted investment earnings.....	97,346	—	97,346
State aid.....	—	—	—
Miscellaneous.....	60,656	—	60,656
Contributions to permanent funds.....	4,845	—	4,845
Contributions to endowments.....	—	—	—
Transfers.....	607,892	(607,892)	—
Total general revenues, contributions, and transfers.....	27,341,965	(607,892)	26,734,073
Change in net position.....	3,269,456	578,968	3,848,424
Net position — July 1, as restated (Note 23).....	41,879,161	5,141,063	47,020,224
Net position — June 30.....	\$ 45,148,617	\$ 5,720,031	\$ 50,868,648

Governmental Activities

- ◆ Revenues outpaced expenses and when combined with contributions to permanent funds and transfers from the State's business-type activities, an increase in net position of \$3.27 billion (or 7.81%) resulted for governmental activities.
- ◆ Total revenues increased by \$1.15 billion (or 2.54%).
- ◆ Total expenses increased by \$1.29 billion (or 3.01%).

Business-type Activities

- ◆ Business-type activities reflect an overall increase in net position of \$578.97 million (or 11.26%) primarily because of the financial results of the Unemployment Compensation Fund.
- ◆ The net position increase of \$462.35 million (or 15.43%) for the Unemployment Compensation Fund is explained by the improving economy, as evidenced by the low unemployment rate in the State, which was 4.2% in both June 2017 and June 2018.
- ◆ The net position increase of \$33.04 million (or 10.42%) for the N.C. Turnpike Authority is due primarily to an increase in toll revenues and a reduction in interest expense on outstanding debt.
- ◆ The net position increase of \$64.21 million (or 3.87%) for the EPA Revolving Loan Fund is due to increased earnings on outstanding loans as well as recognition of federal capitalization grants.
- ◆ The N.C. State Lottery Fund's net position decreased by \$5.21 million due to legislative changes in the methodology used to calculate net revenues to be distributed to the State's governmental activities, as required by statute.

Financial Highlights

Statement of Activities (cont'd)

For fiscal year 2018, the increase in total revenues is attributable to an improved economy and tax changes enacted by the General Assembly to broaden the sales and use tax base. Operating grants and contributions increased because of more spending in federally-supported programs, such as Medicaid and disaster relief. Spending increased in almost all of the State's functional areas, with the only exception being interest on long-term debt. Expenses for primary and secondary education increased \$305 million (or 2.85%) and higher education increased \$253 million (or 6.11%), due to increases in state aid, enrollment increases, and for salary and bonus increases for personnel. The increase in health and human services expenses of \$205 million (or 1.09%) is due primarily to increased spending for Medicaid as a result of growth in both enrollment and utilization for the program. The increase in expenses for public safety, corrections and regulation of \$209 million (or 6.22%) is due to increased pension expense and salary increases for personnel. Transportation expenses increased \$201 million (or 6.79%) to pay for improvement projects and new programs Roadside Environment and Bridge Preservation.

Condensed Schedule of Expenses & Program Revenue Primary Government For the Fiscal Year Ended June 30, 2018 (dollars in thousands)

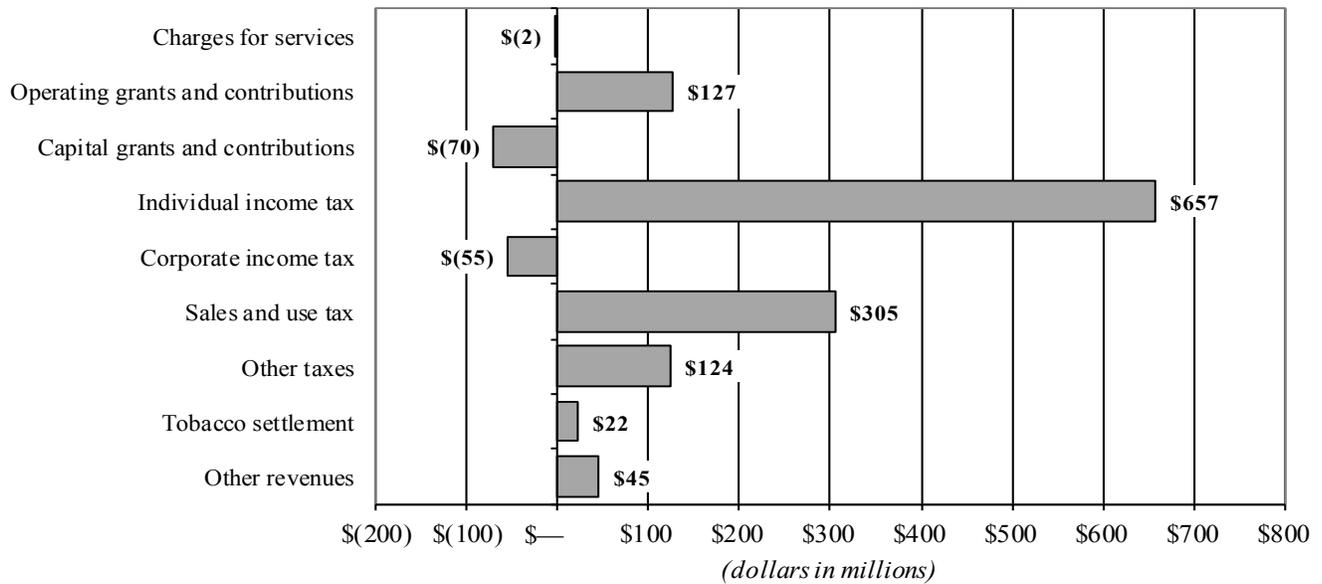
Functions/Programs	Expenses	Program Revenues	Net (Expense) Revenue
Primary Government			
Governmental Activities			
General government.....	\$ 1,284,612	\$ 288,075	\$ (996,537)
Primary and secondary education.....	11,026,473	1,548,036	(9,478,437)
Higher education.....	4,390,955	137,969	(4,252,986)
Health and human services.....	19,076,459	14,117,013	(4,959,446)
Economic development.....	518,717	247,123	(271,594)
Environment and natural resources.....	603,594	296,876	(306,718)
Public safety, corrections, and regulation.....	3,564,262	877,937	(2,686,325)
Transportation.....	3,154,210	2,311,510	(842,700)
Agriculture.....	204,253	65,000	(139,253)
Interest on long-term debt.....	138,513	—	(138,513)
Total Governmental Activities.....	43,962,048	19,889,539	(24,072,509)
Business-type Activities			
Unemployment Compensation.....	196,572	658,923	462,351
N.C. State Lottery.....	1,938,395	2,611,757	673,362
EPA Revolving Loan.....	13,974	70,677	56,703
N.C. Turnpike Authority.....	88,703	66,201	(22,502)
Regulatory programs.....	118,917	132,595	13,678
Insurance programs.....	14,656	19,801	5,145
North Carolina State Fair.....	19,006	17,354	(1,652)
Other business-type activities.....	16,065	15,840	(225)
Total Business-type Activities.....	2,406,288	3,593,148	1,186,860
Total Primary Government.....	\$ 46,368,336	\$ 23,482,687	\$ (22,885,649)

Financial Highlights

Statement of Activities (cont'd)

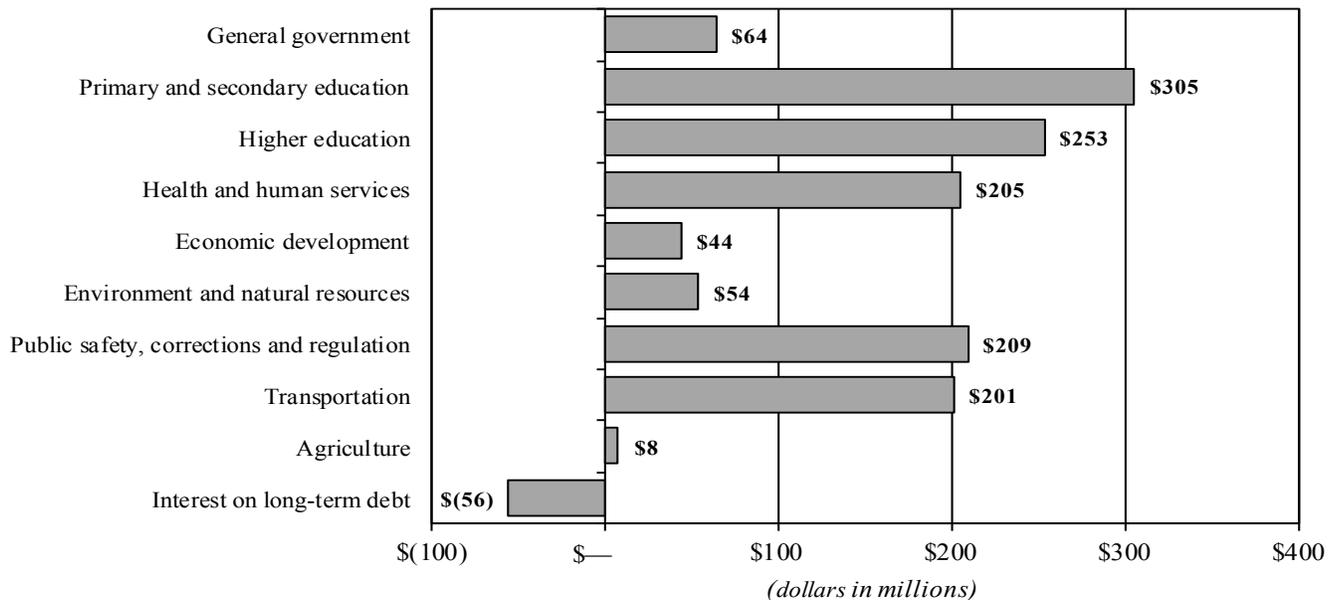
The following chart reflects the dollar change in the revenues by source of governmental activities between fiscal years 2017 and 2018:

**Dollar Change in Governmental Activities Revenues by Source
Between Fiscal Years 2017 and 2018**



The following chart reflects the dollar change in the functional expenses of governmental activities between fiscal years 2017 and 2018:

**Dollar Change in Governmental Activities Functional Expenses
Between Fiscal Years 2017 and 2018**



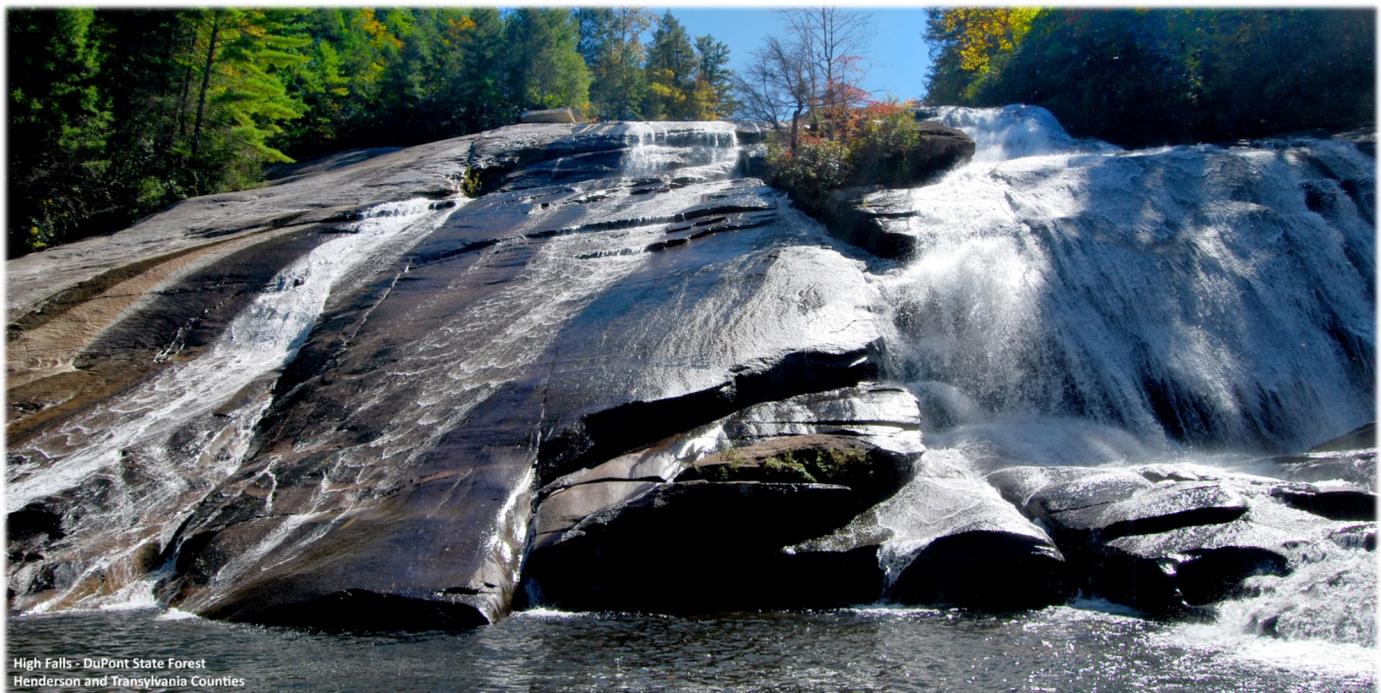
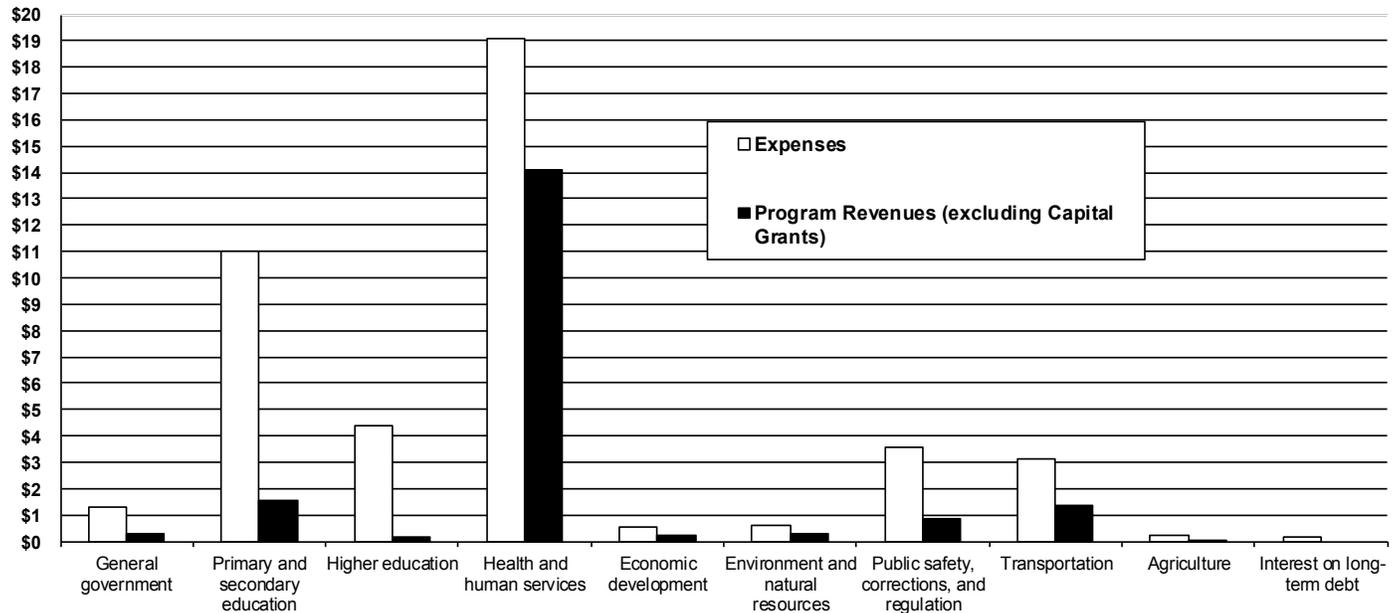
Financial Highlights

Statement of Activities (cont'd)

The following chart depicts the total expenses and total program revenues of the State's governmental functions. This format identifies the extent to which each governmental function is self-financing through fees and intergovernmental aid or draws from the general revenues of the State.

**Expenses - Governmental Activities
For the Fiscal Year Ended June 30, 2018**

Billions



High Falls - DuPont State Forest
Henderson and Transylvania Counties

Financial Highlights

Statement of Activities (cont'd)

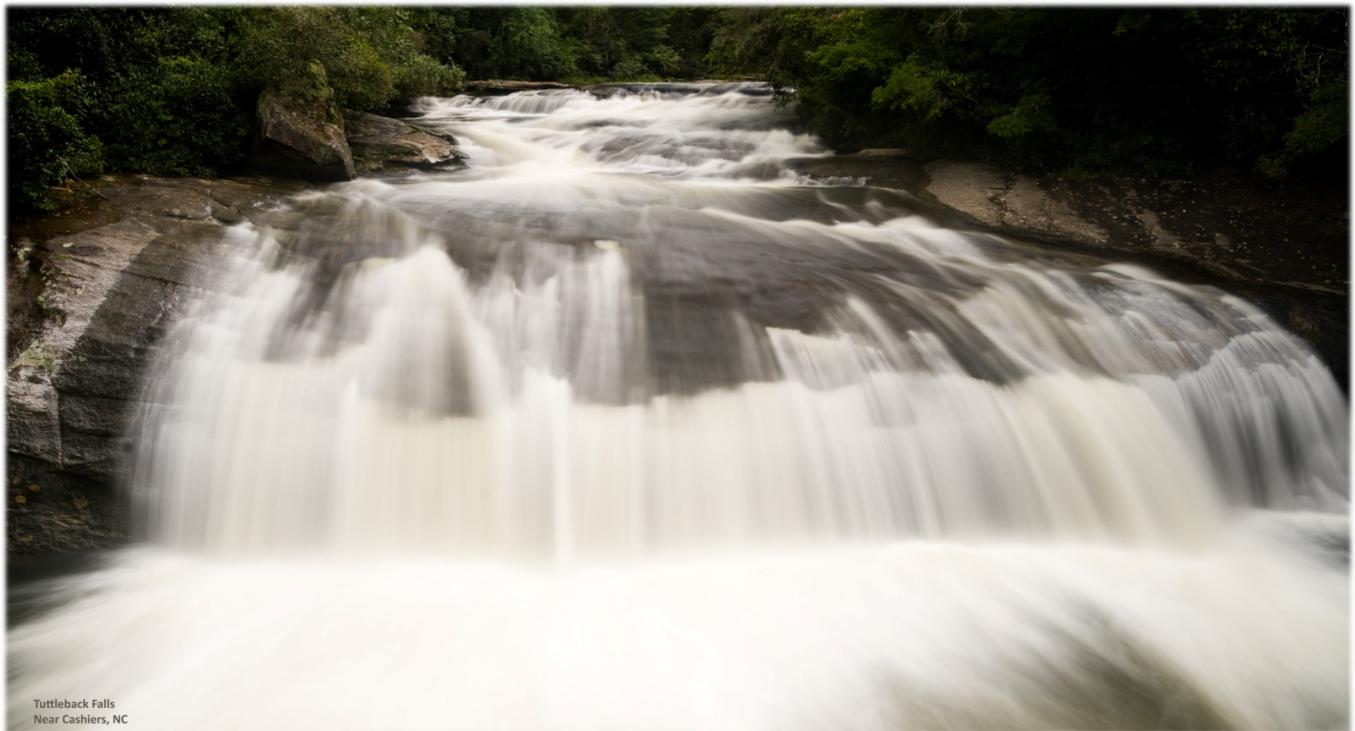
The following schedule reflects the changes in the State's net position over the last five years:

CHANGES IN NET POSITION

For the Fiscal Years 2014-2018

(dollars in millions)

	2018	2017	2016	2015	2014
Governmental Activities					
Total Expenses.....	\$ (43,962)	\$ (42,676)	\$ (40,919)	\$ (40,799)	\$ (39,400)
Total Tax Revenues.....	26,409	25,377	24,947	24,049	22,569
Total Other Revenues and Contributions.....	20,214	20,092	19,505	19,602	19,078
Total Transfers.....	608	665	518	416	430
Change in Net Position.....	<u>3,269</u>	<u>3,458</u>	<u>4,051</u>	<u>3,268</u>	<u>2,677</u>
Net Position - June 30.....	\$45,149	\$41,879	\$46,730	\$42,822	\$39,603
Business-type Activities					
Total Expenses.....	(2,406)	(2,349)	(2,260)	(2,055)	(2,289)
Total Revenues.....	3,593	3,761	4,090	4,157	4,029
Total Transfers.....	(608)	(665)	(518)	(416)	(430)
Change in Net Position.....	<u>579</u>	<u>747</u>	<u>1,312</u>	<u>1,686</u>	<u>1,310</u>
Net Position - June 30.....	\$5,720	\$5,141	\$4,492	\$3,175	\$1,477
Total Primary Government					
Total Expenses.....	(46,368)	(45,025)	(43,179)	(42,854)	(41,689)
Total Revenues and Contributions.....	50,216	49,230	48,542	47,808	45,676
Change in Net Position.....	<u>3,848</u>	<u>4,205</u>	<u>5,363</u>	<u>4,954</u>	<u>3,987</u>
Net Position - June 30.....	\$50,869	\$47,020	\$51,221	\$45,998	\$41,079



Tuttleback Falls
Near Cashiers, NC

Financial Highlights

Capital Assets

As of June 30, 2018, the State's investment in capital assets was \$53.66 billion, an increase of 4.88% from the previous fiscal year-end (see table below):

Capital Assets as of June 30
(net of depreciation, dollars in thousands)

	Governmental Activities		Business-type Activities		Total	
	2018	2017 (as restated)	2018	2017 (as restated)	2018	2017 (as restated)
Land and permanent easements.....	\$18,422,739	\$17,764,451	\$ 284,596	\$ 270,827	\$18,707,335	\$18,035,278
Buildings.....	2,776,527	2,777,863	60,310	62,460	2,836,837	2,840,323
Machinery and equipment.....	810,449	793,713	7,981	7,754	818,430	801,467
Infrastructure:						
State highway system.....	25,901,185	24,667,312	—	—	25,901,185	24,667,312
NC toll road system.....	—	—	714,056	730,186	714,056	730,186
Other infrastructure.....	167,501	165,927	3,568	3,887	171,069	169,814
Computer software.....	290,926	257,645	1,076	1,141	292,002	258,786
Art, literature, and other artifacts.....	142,665	137,133	401	393	143,066	137,526
Construction in progress.....	2,746,741	2,362,152	779,573	672,806	3,526,314	3,034,958
Computer software in development.....	551,121	488,918	—	—	551,121	488,918
Total.....	\$51,809,854	\$49,415,114	\$1,851,561	\$ 1,749,454	\$53,661,415	\$51,164,568

Total percent change between fiscal years 2017 and 2018	4.85 %	5.84 %	4.88 %
--	---------------	---------------	---------------

The largest component of capital assets is the state highway system. North Carolina has an 80,955 mile highway system, making it the second largest state-maintained highway system in the nation. The major capital asset activity during the current fiscal year included the following:

- ◆ The N.C. Department of Transportation reported year-end construction in progress of \$2.38 billion for state highway projects. Additionally, the N.C. Turnpike Authority (business-type activity) reported year-end construction in progress of \$677.69 million for the Monroe Expressway, a toll project in eastern Mecklenburg County. The Monroe Expressway project is expected to improve mobility and capacity within the project study area by providing a highway for the U.S. 74 corridor that allows for high-speed regional travel.
- ◆ The Department of Health and Human Services (DHHS) is constructing a psychiatric hospital as part of the effort to replace aging state-operated psychiatric hospitals. DHHS began construction of a new Broughton Hospital in 2012 and it is being financed by special indebtedness bonds approved by the General Assembly. At year-end, construction in progress for Broughton Hospital totaled \$153.3 million.
- ◆ DHHS is also replacing major legacy IT systems. NC FAST, the new system for managing and administering social services benefits, will improve the way DHHS and the 100 county departments of social services conduct business. At year-end, computer software in development for NC FAST totaled \$518.46 million.

Financial Highlights

Debt Administration

At year-end, the State had total long-term debt outstanding (bonds, special indebtedness, and notes payable) of \$6.26 billion, a decrease of 10.06% from the previous fiscal year-end (see table below):

Outstanding Debt as of June 30 Bonds, Special Indebtedness, and Notes Payable (dollars in thousands)

	Governmental Activities		Business-type Activities		Total	
	2018	2017	2018	2017 (as restated)	2018	2017 (as restated)
	General obligation bonds.....	\$ 2,441,685	\$ 2,851,695	\$ —	\$ —	\$ 2,441,685
Special Indebtedness:						
Certificates of participation.....	—	102,405	—	—	—	102,405
Limited obligation bonds.....	1,783,975	1,888,370	—	—	1,783,975	1,888,370
GARVEE bonds.....	516,820	607,685	—	—	516,820	607,685
Revenue bonds.....	—	—	1,077,275	1,096,395	1,077,275	1,096,395
Notes payable.....	50,623	22,089	385,960	387,146	436,583	409,235
Total	<u>\$ 4,793,103</u>	<u>\$ 5,472,244</u>	<u>\$ 1,463,235</u>	<u>\$ 1,483,541</u>	<u>\$ 6,256,338</u>	<u>\$ 6,955,785</u>

Total percent change between
fiscal years 2017 and 2018

(12.41)%

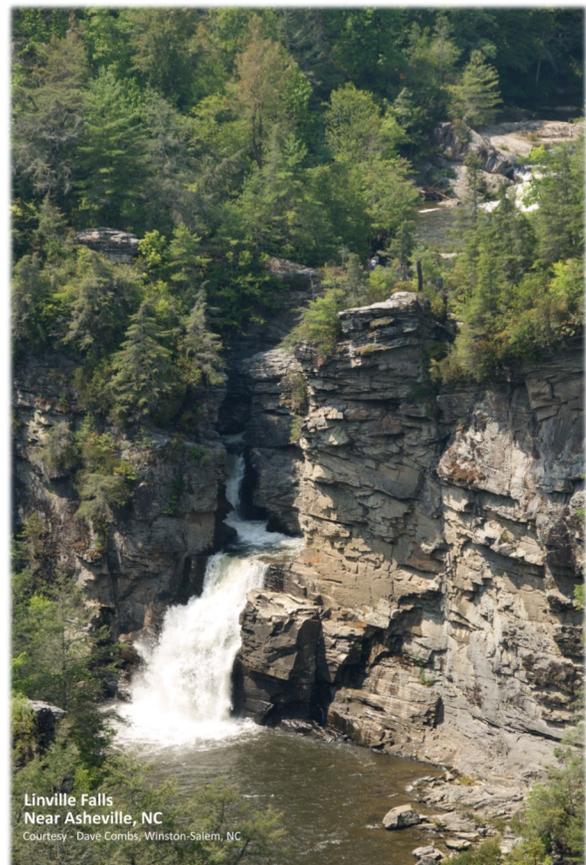
(1.37)%

(10.06)%

During the 2018 fiscal year, the State issued \$949.2 million in refunding bonds to refinance previously outstanding general obligation bonds, special indebtedness, and Grant Anticipation Revenue Vehicle (GARVEE) bonds reported in governmental activities. The refinancing was done to take advantage of lower interest rates and will save the State approximately \$135.26 million in debt service costs. Also, the N.C. Turnpike Authority (NCTA), a business-type activity, issued \$150.13 million in refunding bonds to refinance previously outstanding revenue bonds. The refinancing was done to take advantage of lower interest rates and will save the State approximately \$15.03 million in debt service costs.

In connection with the refunding bonds, Standard & Poor's Rating Services, Moody's Investors Service, and Fitch Ratings, the top three rating agencies, all affirmed the triple-A bond rating for the State. A triple-A credit rating means that North Carolina has followed well-defined financial management policies and has demonstrated strong debt management practices. The rating agencies recognized the State's historically conservative budgeting, financial management, and debt issuance practices. North Carolina remains one of only twelve states with a triple-A rating from all three rating agencies.

The State's total long-term debt (bonds, special indebtedness, and notes payable) reported in governmental activities has increased from \$3.48 billion in 2002 to \$4.79 billion in 2018, in part due to large issuances of non-general obligation debt (special indebtedness) for higher education capital projects. Prior to 2003, the State only issued general obligation debt. The NCTA, a business-type activity, had its first debt issuance in 2010. NCTA's long-term debt has increased from \$691.56 million in 2010 to \$1.45 billion in 2018.



Financial Highlights

Demographic and Economic Indicators

The following tables illustrate comparative information for the State:

SCHEDULE OF DEMOGRAPHIC DATA

For the Years 2014-2018

Year	Population		Per Capita Income (whole dollars)		North Carolina Civilian Labor Force Data		North Carolina-Other Data (units)	
	North Carolina Population	N.C. Increase from Prior Period	North Carolina	N.C. as a Percentage of U.S.	Employed	Unemployed Percentage Rate	Motor Vehicles Registered	Residential Construction Authorized
2018	10,391,461 est.	1.15%	\$ 45,828 est.	85.64%	4,787,584	4.20%	9,403,076	36,166
2017	10,273,419	1.15%	44,222	85.64%	4,700,760	4.20%	9,513,210	30,055
2016	10,156,689	1.14%	42,707	85.70%	4,614,694	4.90%	9,328,899	27,230
2015	10,041,769	1.01%	41,814	85.44%	4,493,898	5.80%	9,076,874	26,293
2014	9,941,160	0.93%	39,976	85.01%	4,389,480	6.40%	8,843,938	23,528

TAXABLE SALES BY BUSINESS GROUP

For the Fiscal Years 2014-2018

(Dollars in Thousands)

	2018	2017	2016	2015	2014
General merchandise (includes discount and department stores, industrial supply dealers).....	\$ 38,965,273	\$ 38,193,321	\$ 35,258,344	\$ 33,018,301	\$ 30,122,560
Food (includes restaurants, taverns, grocery, vending).....	28,318,061	27,164,722	26,204,343	24,663,183	22,892,242
Lumber & building material (includes material, electrical, plumbing supply, sheet metal fabrication).....	16,500,032	15,426,794	13,635,227	12,711,938	11,754,511
Automotive (includes dealers, garages, automotive supply).....	9,098,884	9,058,317	7,667,914	6,920,644	6,272,460
3% and 4.75% tax group (includes manufacture and modular homes, boats).....	588,128	541,143	479,938	448,267	456,127
Furniture (includes stores, appliance dealers, upholstery and floor covering).....	4,914,916	4,778,592	4,372,666	4,160,558	3,887,077
Apparel (includes clothing, boot, and shoe stores, shoe repair).....	5,700,497	5,648,766	5,414,102	5,140,968	4,707,181
Unclassified (includes lodging, medical supply, office equipment, book and school supply).....	41,113,549	38,358,149	35,124,312	33,241,081	30,258,424
Total.....	<u>\$ 145,199,340</u>	<u>\$ 139,169,804</u>	<u>\$ 128,156,846</u>	<u>\$ 120,304,940</u>	<u>\$ 110,350,582</u>
General State Sales Tax Rate	4.75%	4.75%	4.75%	4.75%	4.75%

Financial Highlights

Demographic and Economic Indicators (cont'd)

PRINCIPAL EMPLOYERS

For the Fiscal Years 2009 & 2018

	2018			2009		
	Employees	Rank	Percentage of Total State Employment	Employees	Rank	Percentage of Total State Employment
State of North Carolina.....	175,000-179,999	1	3.71%	180,000-184,999	1	4.50%
Federal Government.....	70,000-74,999	2	1.51%	65,000-69,999	2	1.67%
Wal-Mart Associates, Inc.....	45,000-59,999	3	1.10%	50,000-54,999	3	1.30%
Duke University.....	35,000-39,999	4	0.78%	25,000-29,999	4	0.68%
Charlotte-Mecklenburg Hospital Auth....	35,000-39,999	5	0.78%	20,000-24,999	6	0.56%
Food Lion LLC.....	30,000-34,999	6	0.68%	25,000-29,999	5	0.68%
Wells Fargo Bank NA.....	30,000-34,999	7	0.68%	—	—	—
Lowes Home Centers, Inc.....	20,000-24,999	8	0.47%	15,000-19,999	10	0.43%
Wake County Public Schools.....	20,000-24,999	9	0.47%	20,000-24,999	8	0.56%
Charlotte-Mecklenburg Bd Education....	20,000-24,999	10	0.47%	20,000-24,999	7	0.56%
Wachovia Bank NA.....	—	—	—	15,000-19,999	9	0.43%
Total.....	<u>480,000-539,990</u>		<u>10.65%</u>	<u>435,000-484,990</u>		<u>11.37%</u>

TEACHERS AND STATE EMPLOYEES BY FUNCTION

For the Fiscal Years 2014-2018

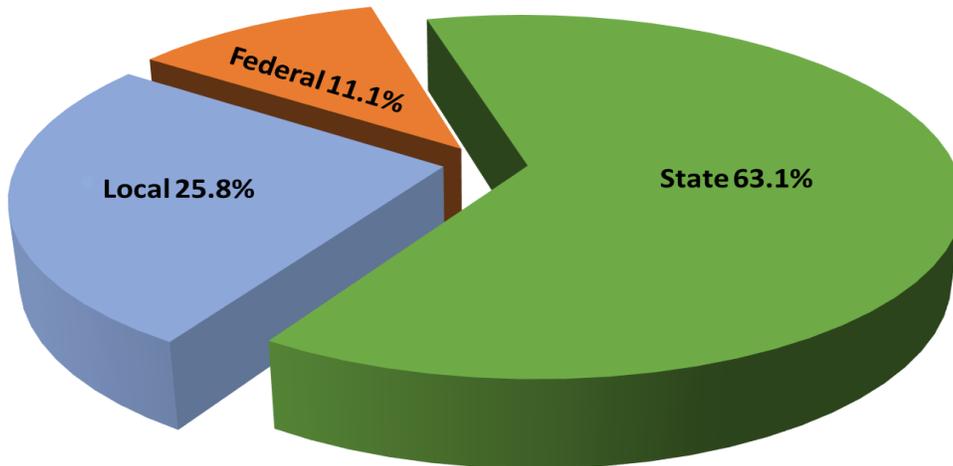
	2018	2017	2016	2015	2014
General government.....	4,983	5,160	4,857	5,270	5,357
Primary and secondary education.....	151,263	153,236	154,079	153,165	157,205
Higher education:					
Universities.....	64,028	63,345	62,194	62,152	61,720
Community colleges.....	18,028	18,021	18,129	18,471	18,588
Health and human services.....	18,038	17,970	17,552	17,620	17,801
Economic development.....	2,136	2,340	3,365	2,893	3,003
Environment and natural resources.....	4,128	4,112	4,148	3,471	3,566
Public safety, corrections and regulation.....	34,089	34,009	33,966	33,558	33,635
Transportation.....	12,141	12,578	12,591	12,758	13,309
Agriculture.....	<u>2,082</u>	<u>2,077</u>	<u>2,066</u>	<u>2,080</u>	<u>2,081</u>
Total.....	<u>310,916</u>	<u>312,848</u>	<u>312,947</u>	<u>311,438</u>	<u>316,265</u>

Education Highlights (Primary and Secondary)

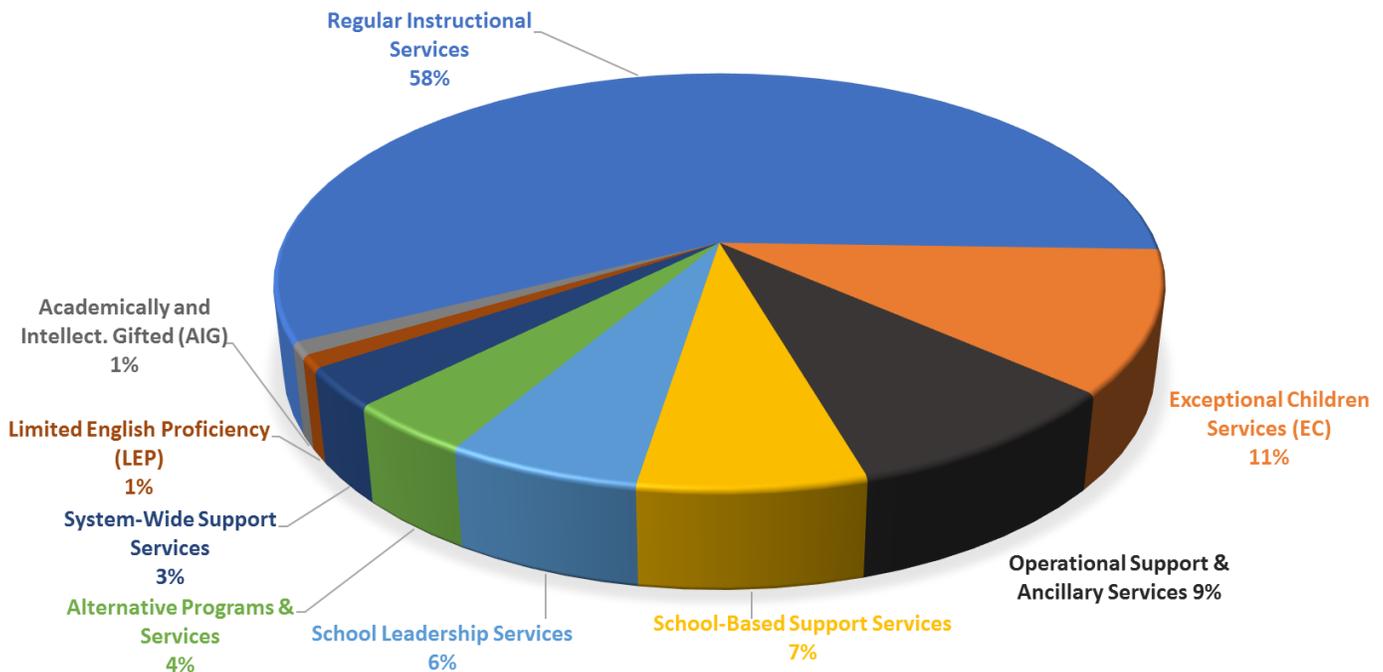
North Carolina ranks 10th in the Nation for the highest percentage of funds from state revenue. The national average is 45.8%. Most other state school systems are primarily funded by locally driven initiatives such as property taxes and local bond issues.

SOURCE OF EXPENDITURES FY 2016 - 17

Of the \$8.6 billion State Public School Fund for fiscal year 2016-2017, all but 5.8% was used for salaries and benefits.



HOW STATE FUNDS WERE EXPENDED FY 2016 - 17



Information provided by N.C. DPI at www.ncpublicschools.org.

North Carolina Education Lottery

For the 12th year in a row, the N.C. Education Lottery (Lottery) finished the 2018 fiscal year by setting a new record for lottery ticket sales, recording \$2.6 billion in sales. From those sales, the Lottery raised \$670.3 million for education programs in North Carolina.

Instant tickets, or scratch-offs, continued to be the Lottery's most popular product, generating \$1.78 billion in sales, or 68.3% of revenue. The Lottery launched 58 new instant games during the year, as well as a new draw game called Carolina Keno that offers chances to win prizes in drawings every five minutes. During the year, Lottery players received \$1.65 billion in prize money including 71 prizes of \$1 million or more, the most ever. The biggest wins were four \$10 million top prizes in scratch-off games.



To get a sense of the Lottery's popularity, consider what happens every day across the state. Last year, the Lottery averaged \$7.1 million a day in ticket sales, \$4.5 million in prizes, and \$1.8 million a day raised for education. The Lottery ended the 2018 fiscal year with 7,021 retail locations across North Carolina, and retailers earned \$182.8 million in sales commissions and incentives. Total sales since the inception of the Lottery in 2006 stood at \$20.8 billion, and the amount of money raised for education at \$5.8 billion.

In March 2018, the Lottery's executive director, Alice Garland, retired and the N.C. Education Lottery Commission named Mark Michalko, a 30-year gaming industry veteran with both U.S. lottery and international gaming experience, as the new executive director. Michalko became the Lottery's third executive director.

The Lottery continued to be a leader in the U.S. lottery industry on responsible gaming, and received a "clean opinion" from independent auditors in its most recent, (and all prior) financial audit(s). The Lottery's commitment to build the best practices in responsible gaming into all of its operations won it the highest level of responsible gaming certification recognized internationally. The Level 4 accreditation, awarded by the World Lottery Association in December, attests that the Lottery has implemented responsible gaming practices into its day-to-day operations and is committed to continuous improvement of them. The principles govern the protection of lottery players, cooperation with stakeholders, advertising practices and the monitoring of game activities.

The State Lottery Act directs the Lottery to increase and maximize the available revenues for education purposes. In the 2018 fiscal year, a breakdown of revenues showed 63.1% went to prizes, 25.7% for education programs, 7% in retailer commissions, and the remaining 4.2% to administrative expenses. The Lottery transferred its net profits monthly to the Office of State Budget and Management and into the North Carolina State Lottery Fund. Funds then were distributed as outlined in the state budget. The General Assembly reports the following use of money raised by the Lottery in fiscal year 2018:

- ◆ \$383.8 million, or 57% to noninstructional support personnel;
- ◆ \$100 million, or 14.8% for the Public School Building Capital Fund which provides monies to North Carolina counties to build and repair schools;
- ◆ \$30 million, or 4.5% to the new Needs-Based Public School Capital Fund
- ◆ \$78.2 million, or 11.6% to the N.C. Pre-K program to fund seats in the prekindergarten program for at-risk four-year-olds;
- ◆ \$27.9 million, or 4.1% for N.C. Education Lottery Scholarships which are awarded based on financial need to students attending a state university or community college;
- ◆ \$10.7 million, or 1.6% to the UNC Need-Based Grant program, which provides financial aid based on need to students attending one of the 16 UNC system institutions.
- ◆ \$43.3 million, or 6.4% for LEA Transportation for the State's school systems.

Lottery revenues that exceed projections and unallocated funds are placed in reserve funds. The General Assembly used the fiscal year 2018 earnings and some of those additional revenues in its budget allocations. The General Assembly also directed transfers of \$2.1 million in profits to the N.C. Alcohol Law Enforcement and \$1 million to the N.C. Problem Gambling Program.

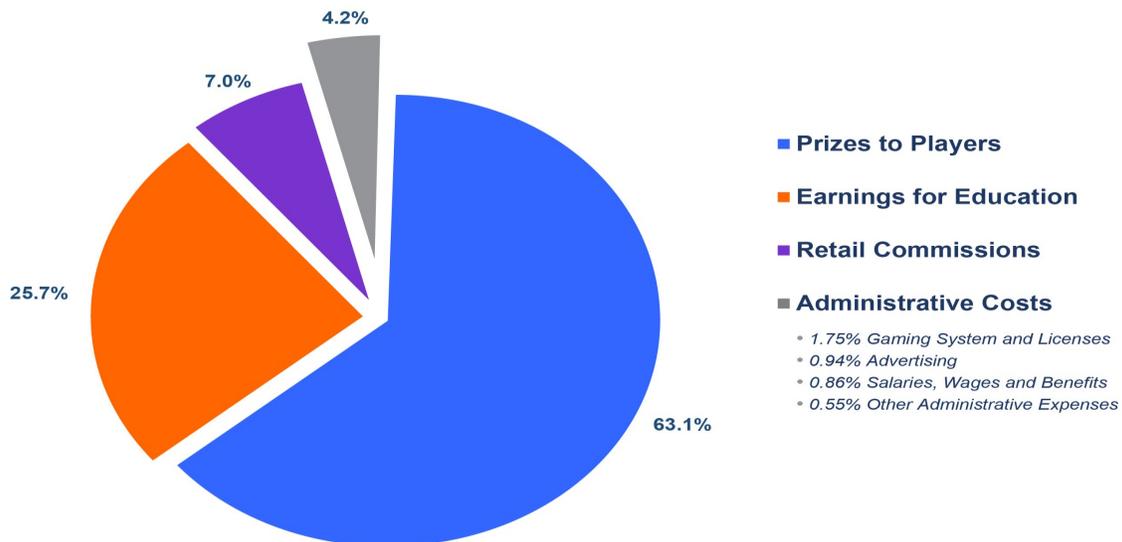
North Carolina Education Lottery (cont'd)

The following tables illustrate how lottery funds were distributed for education in fiscal year 2018:

Lottery Sales



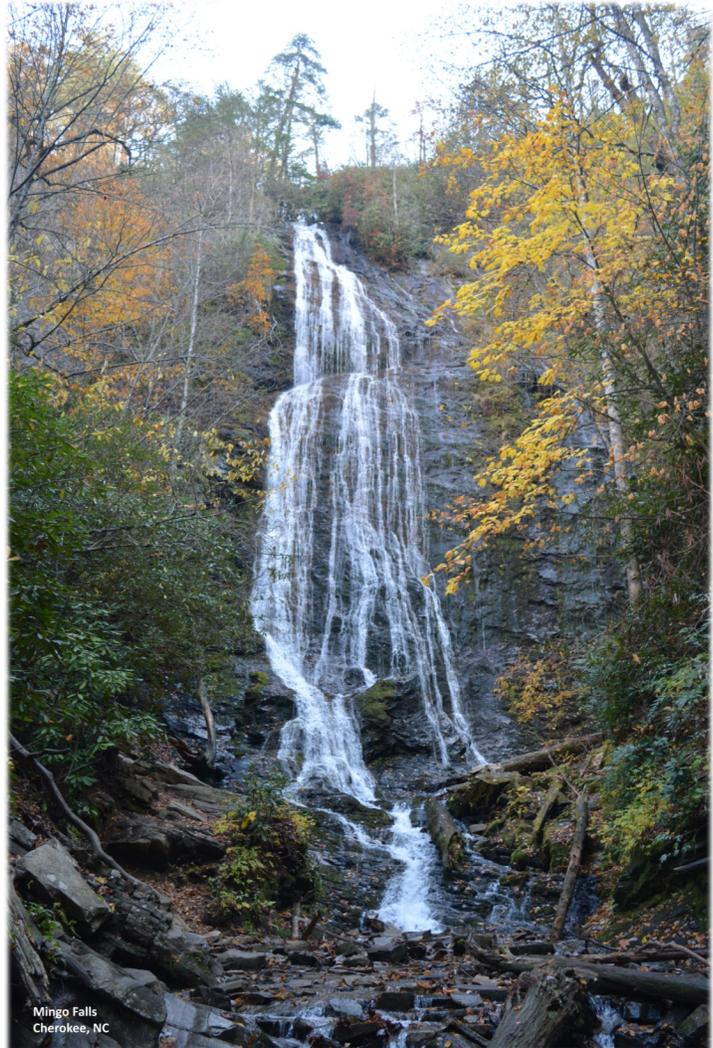
FY 2018 Distribution of Revenue



Transportation Highlights

Related to the fiscal year 2018, the North Carolina Department of Transportation (NCDOT) listed the following as some of its key accomplishments:

- ◆ Hurricanes Florence and Michael delivered back-to-back blows to North Carolina in September and October 2018, leaving behind catastrophic damage. At the height of Hurricane Florence, the state had more than 1,500 road closures, including long sections of Interstates 95 and 40. Hurricane Michael caused more than 650 road closures. As of the end of October 2018, 30 road closures remained due to Hurricane Florence, and 10 road closures remained due to Hurricane Michael. Less than one month after Hurricane Michael washed away the roadway, NCDOT restored travel on U.S. 421 into Wilmington by constructing a temporary bridge. Two permanent, two-lane bridges will be constructed on U.S. 421 starting in early 2019.
- ◆ NCDOT worked with the General Assembly to create a new financing tool, Build NC, to maintain a higher level of delivery for the people. Build NC will allow up to \$300 million in bonds to be sold each year if the department maintains its current strong rate of delivery. NCDOT anticipates the first Build NC bond sale at the end of the first quarter of 2019. Build NC bonds will be paid back from the state Highway Trust Fund.
- ◆ NCDOT's cash balance peaked in April 2017 at \$2.4 billion. This meant that projects were not being delivered in a timely manner and communities were waiting too long for highway improvements. The department implemented new strategies that allowed for the completion of projects more quickly. This means that communities will realize the benefits of transportation improvements sooner. A clear sign that this effort is working is the reduced cash balance, which, as of November 2018, was under \$800 million. NCDOT has accelerated the delivery of projects statewide, including the Hampstead Bypass, a long-anticipated freeway that is part of the effort to improve the U.S. 17 corridor; Complete 540, connecting Interstates 540 and 40; and the widening of Interstate 26 in Buncombe and Henderson counties.
- ◆ North Carolina Ports moved a record number of containers through the Port of Wilmington during fiscal year 2018. Wilmington recorded 38 percent year-over-year container growth, and year-over-year general cargo growth is up 18 percent. The Port of Morehead City also experienced growth in fiscal year 2018 with a 20 percent year-over-year increase in general cargo.
- ◆ NCDOT and CSX reached an agreement to build a new intermodal facility near Rocky Mount. Known as the Carolina Connector and operated by CSX, the terminal will be built on the company's mainline. Trucks will bring cargo containers to a rail yard where they will be transferred to trains for transport to customers. The project is estimated to have an indirect job impact of up to 1,300 jobs. Work on the site is estimated to be complete by late 2020.



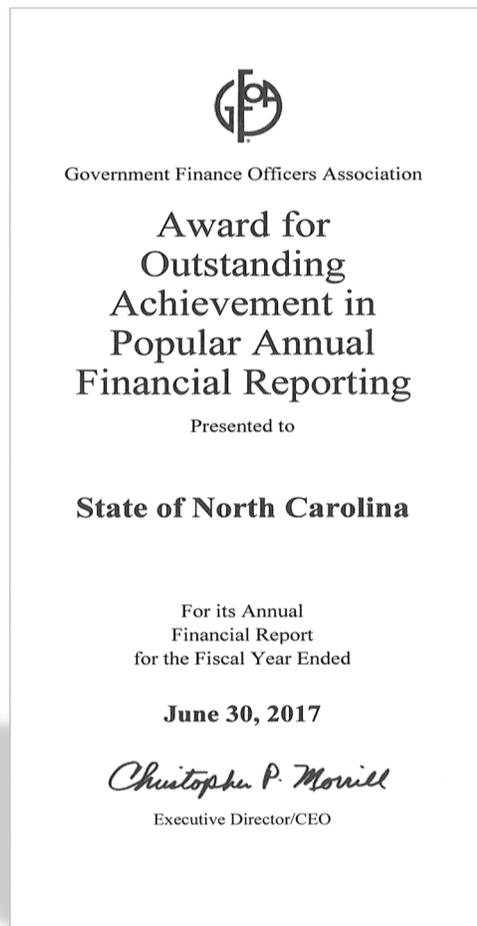
Financial Highlights

Award for Outstanding Achievement

The Government Finance Officers Association of the United States and Canada (GFOA) has given an Award for Outstanding Achievement in Popular Annual Financial Reporting to the State of North Carolina for its Popular Annual Financial Report for the fiscal year ended June 30, 2017. The Award for Outstanding Achievement in Popular Annual Financial Reporting is a prestigious national award recognizing conformance with the highest standards for preparation of state and local government popular reports.

To receive an Award for Outstanding Achievement in Popular Annual Financial Reporting, a government unit must publish a Popular Annual Financial Report whose contents conform to program standards of creativity, presentation, understandability and reader appeal.

An Award for Outstanding Achievement in Popular Annual Financial Reporting is valid for a period of one year only. The State of North Carolina has received a Popular Award for the last 20 consecutive years (fiscal years ended 1998-2017). We believe our current report continues to conform to the Popular Annual Financial Reporting requirements, and we are submitting it to the GFOA.



25 copies of this public document were printed at a cost of \$167.50 or \$6.70 per copy.