

North Carolina



Financial Highlights
Fiscal Year End June 30, 2007

Robert L. Powell, Controller
North Carolina Office of the State Controller
<http://www.ncosc.net>

Cover Photo:

CHIMNEY ROCK PARK

PO Box 39

Chimney Rock, North Carolina 28720

Chimney Rock Park has been a tourist attraction in western North Carolina since a stairway was built to the rock's summit in 1885. In 1902, Lucius B. Morse of Missouri bought the site and began developing the park. Its facilities include a tunnel and elevator to the rock summit, a visitor center, nature center and a network of hiking trails to geologic points of interest and the 404-foot Hickory Nut Falls. In early 2007, the State purchased this landmark which will become the centerpiece of a new state park under development in Hickory Nut Gorge. The state park is slated to open in early 2008.

Phone:

(800) 277-9611

Internet information:

<http://www.chimneyrockpark.com>

Financial Highlights — Fiscal Year 2007



I am pleased to present you with the *North Carolina Financial Highlights* for the fiscal year ended June 30, 2007. This *popular report* represents our continuing commitment in providing the highest standards of financial management and reporting, as well as fiscal accountability of the resources of the State of North Carolina reporting entity. We hope that you find this report both informative and beneficial and we welcome any questions or comments. If you need additional copies, or have questions about this report, please contact either me or our Statewide Accounting Division staff at (919) 981-5454.

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

Sincerely,

Robert L. Powell
State Controller
December 21, 2007

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 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 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.

The *popular report* is a report for the people. *North Carolina Financial Highlights* is 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, 2007. The State's fiscal year starts July 1, and ends the following June 30. Information is presented in this report on the basis of generally accepted accounting principles (GAAP). This popular report and the State's complete financial statements, known as the CAFR, can be obtained on the internet at <http://www.ncosc.net>, by telephone at (919) 981-5454, or by writing to the N.C. Office of the State Controller, 1410 MAIL SERVICE CENTER, Raleigh, N.C. 27699-1410.



State Reporting Entity and Its 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 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; Golden LEAF, Inc., North Carolina Housing Finance Agency, and North Carolina State Education Assistance Authority.

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



Fall Color in North Carolina Mountains

*Photo Courtesy of NC Division of Tourism, Film, and Sports Development.
Bill Russ, Photographer*

The Economy

In general, the economy will remain in choppy waters for the next couple of years as the nation's businesses and consumers work through the housing market slump and the economic slowdown. A large part of the economy's projected sluggish growth is being attributed to the loss in household wealth caused by the housing market decline. Fewer home sales coupled with stagnant or even declining prices has led to a decline in retail activity related to the housing market. For example, sales related to home purchases and home construction such as furniture and appliances have started to decline. Despite the slowing economy and housing woes, consumer confidence, though weakened, remains steady even in the face of higher gasoline prices, which reached record highs (in constant dollars) during the second quarter of 2007.

The housing market slump began to show significant signs of affecting the national economy in the second quarter of 2007 as economic growth slowed to 2.7 percent, which is below average economic growth over the last 30 years of 3.1 percent. Some slowdown was expected in the middle of a business cycle, but the impact of the sub-prime lending market meltdown further exacerbated the housing market slump and contributed to weakness in the financial sector.

There are several risks that will need to be monitored as we move into 2008. One of the stronger facets of the nation's economy in the past year has been the increase in export demand. A growing global market coupled with falling exchange rates for the dollar have fueled growth in exports. Thus, exports have bolstered parts of the economy and helped soften the blow caused by housing and financial sector declines. Economic stagnation in global markets, however, could raise recession fears

Likewise, as we experience the normal mid-cycle slowdown any disruptions to oil supplies raising energy prices significantly could further dampen prospects for economic growth and a quick rebound from the housing slump. Finally, if the sub-prime market failure spreads into other financial markets, including global financial markets, then both consumers and businesses could be hurt resulting in a possible deepening of the slowdown. While these risks exist, their occurrence is not anticipated. So while the economy is projected to slow, it is expected to be relatively mild for both the nation and North Carolina.

Financial Highlights – Fiscal Year 2007



North Carolina Economic Indicators

	FY2005-06	FY2006-07	FY2007-08	FY2008-09
	<u>Actual</u>	<u>Actual</u>	<u>Projected</u>	<u>Projected</u>
Personal Income	6.1%	6.4%	5.6%	4.6%
Wages and Salaries	6.2%	6.6%	5.8%	4.7%
Retail Sales	7.6%	5.8%	3.6%	3.9%
Unemployment Rate	5.0%	4.8%	5.2%	5.2%
Employment: (Nonagricultural)	2.3%	2.5%	1.4%	1.1%
Existing Single-family Home Sales	17.2%	-0.6%	-14.8%	6.8%
Average Hourly Earnings: Manufacturing	0.7%	2.9%	3.8%	3.8%

The impact from the economic slowdown in North Carolina was still unrealized by the end of 2006. The state is typically more volatile with respect to economic cycles than the nation as a whole. However, by early 2007, it was evident the slowdown had begun nationally, yet the state's economy showed less of an effect than the national economy. The mild slowdown experienced by the state in FY2006-07, may be due in part to North Carolina's relatively mild housing problems. For example, real estate conveyance tax receipts in North Carolina have been essentially flat compared to double-digit declines in many other states. It is projected that the biggest impact to the state's economy from the mid-cycle slowdown, plus the housing and financial sector slump, will occur in 2008. By the end of 2009, the economic and fiscal impacts are expected to dissipate with a return to near normal growth in the state.

North Carolina's impact from the housing slump has been different than many other states. There was negative year-over-year sales growth statewide in existing, single-family homes for the fourth quarter of 2006 and the second quarter of 2007, and only 1.2 percent growth in the first quarter of 2007. The state's housing bubble was limited to a few resort areas, therefore the statewide impact from the housing slowdown has been far less severe than in many states. In addition, the state continued to experience strong population growth as well as employment growth, which may have dampened the impact from the national housing slump.

The state's population is expected to continue growing at a rate above two percent through 2009. Comparatively, the nation's population is only expected to grow at slightly less than one percent. Likewise, non-farm employment grew in the state from August 2006 to August 2007, by 1.7 percent while national employment grew at only 1.2 percent. Another part of the employment story is the state's continued strong growth in the service-providing sectors with annual growth above 2.2 percent. This has more than offset the loss in manufacturing jobs, which continued to decline at a rate of 1.7 percent (an estimated 9,300 jobs) over this same period.

North Carolina's economy has held up well under the strain of the housing slump and the economic slowdown. Therefore, income growth is projected to continue at a moderate pace and grow only slightly below the long-term average of 5.8 percent. As with the nation, the majority of the housing slump's effects will have worked themselves out by 2009, but residual effects will continue to be a drain on the state's economy. These impacts show up in slower than normal growth in retail sales and employment.

The long-term negative growth trends in manufacturing continue as the state transitions from a manufacturing and agricultural based economy to a service and technological economy. The past year also saw a slowing of growth in the housing related industries including financial services, residential construction, and transportation.

In general, North Carolina's economy is expected to expand at a faster pace than the nation. This should bode well for overall employment and help bolster income growth. Employment losses in the manufacturing industries will continue, but growth in the service and tech industries should continue to be a major stimulus to economic growth. There is little doubt that the state will experience an economic slowdown in the next couple of years, but it is in a position to perform better than the nation as a whole.

— Economic analysis prepared by Barry Boardman, Ph.D., Staff Economist
North Carolina General Assembly, Fiscal Research Division
October 31, 2007



Legislative Building

Photo Courtesy of NC Division of Tourism, Film, and Sports Development.
Bill Russ, Photographer



Financial Highlights

Government-Wide

- ◆ The State's total net assets increased by \$2.534 billion or 8.7% as a result of this year's operations. Net assets of governmental activities increased by \$2.211 billion, or 8% due, in part, to higher than expected growth in tax revenues. Net assets of business-type activities increased by \$323.184 million, or 23.3% due to the strong financial results of the Unemployment Compensation Fund. At year-end, net assets of governmental activities and business-type activities totaled \$29.844 billion and \$1.712 billion, respectively.
- ◆ Component units reported net assets of \$15.425 billion, an increase of \$2.107 billion or 15.8% from the previous year. About a quarter of the increase (\$562.2 million) is due to the net increase in capital assets, net of related debt for the University of North Carolina System and community colleges. The capital asset additions were financed in part by state debt proceeds.

Fund Financials

- ◆ The fund balance of the General Fund increased from \$1.966 billion at June 30, 2006 (as restated) to \$2.577 billion at June 30, 2007. The increase is explained primarily by higher than expected growth in individual income and corporate income taxes.
- ◆ The fund balance of the Highway Fund increased from \$568.785 million at June 30, 2006 to \$593.969 million at June 30, 2007, an increase of 4.4%. The fund balance growth was attributable to higher gasoline taxes and to legislative increases in motor vehicle license and registration fees, effective October 1, 2006.
- ◆ The fund balance of the Highway Trust Fund increased substantially from negative \$134.998 million at June 30, 2006 to a positive \$17.121 million at June 30, 2007. Key factors in eliminating the 2006 deficit were the substantial reduction in transfers to the General Fund and the growth in gasoline tax and highway use tax revenues.
- ◆ The net assets of the Unemployment Compensation Fund grew from \$507.477 million at June 30, 2006 to \$746.108 million at June 30, 2007. The net asset growth is explained by the State's lower unemployment rate and by a 20% statutory surcharge on unemployment contributions.
- ◆ The N.C. Education Lottery (NCEL) began selling instant game tickets in March 2006 and Powerball tickets in May 2006. In the first fifteen months of operation, the NCEL earned more than \$377 million to support educational programs for the State, meeting its goal of transferring 35% of total revenues.

Capital Assets

- ◆ The State's investment in capital assets (net of accumulated depreciation) was \$30.916 billion, an increase of 5.2% from the previous fiscal year-end.
- ◆ This year's major capital asset additions were for highway construction (\$1.2 billion), highway land improvements (\$477 million), construction of correctional facilities (\$70 million), and construction of a new psychiatric hospital (\$47 million).

Long-Term Debt

- ◆ The State had long-term debt (bonds and similar debt payable) outstanding of \$6.912 billion, an increase of 6% from the previous fiscal year-end. The long-term debt balance includes \$972.685 million of special obligation (non-voted) debt issued for governmental activities.
- ◆ The State regained Moody's Rating Service Aaa rating status in January 2007 after having been downgraded to Aa1 in August 2002. In support of the upgrade, Moody's cited strong financial performance, replenishment of depleted reserves, recent economic gains that surpass national averages, and the State's effective fiscal management and healthy financial outlook.
- ◆ The State maintained its AAA bond rating with Standard and Poor's and Fitch Ratings.



Cape Fear River at Dawn

*Photo Courtesy of NC Division of Tourism, Film, and Sports Development.
Bill Russ, Photographer*

Financial Highlights – Fiscal Year 2007



Government-wide Financials

The Statement of Net Assets 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?



Ft. Macon

Photo Courtesy of NC Division of Tourism, Film, and Sports Development.
Bill Russ, Photographer

Both statements report three activities:

◆ *Governmental Activities* – Most of the State's basic services are reported under this category. Taxes and intergovernmental revenues generally fund these services.

◆ *Business-type Activities* – The State charges fees to customers to help it cover all or most of the cost of certain services it provides. The State's Unemployment Compensation Fund, the N.C. State Lottery Fund, and the EPA Revolving Loan Fund are the predominant business-type activities.

◆ *Discretely Presented Component Units* – Component units are legally separate organizations for which the elected officials of the primary government are financially accountable. All component units are combined and displayed in a separate discrete column in the government-wide financial statements to emphasize their legal separateness from the State.

Statement of Net Assets

The Statement of Net Assets presents all of the State's assets and liabilities, with the difference between the two reported as "net assets". Over time, increases and decreases in net assets measure whether the State's financial position is improving or deteriorating. The State's combined net assets increased \$2.534 billion or 8.73% over the course of this fiscal year's operations. The net assets of the governmental activities increased \$2.211 billion or 8% and business-type activities increased \$323.184 million or 23.3%. The following table was derived from the government-wide Statement of Net Assets:

Net Assets June 30, 2007 and 2006 (dollars in thousands)

	Governmental Activities		Business-type Activities		Total Primary Government	
	2007	2006	2007	2006	2007	2006
Current and other non-current assets.....	\$ 17,519,604	\$ 15,182,356	\$ 2,115,414	\$ 1,706,801	\$ 19,635,018	\$ 16,889,157
Capital assets, net.....	30,889,259	29,363,786	26,673	26,975	30,915,932	29,390,761
Total assets.....	48,408,863	44,546,142	2,142,087	1,733,776	50,550,950	46,279,918
Long-term liabilities.....	7,599,257	7,285,532	3,885	3,779	7,603,142	7,289,311
Other liabilities.....	10,965,284	9,627,568	426,458	341,437	11,391,742	9,969,005
Total liabilities.....	18,564,541	16,913,100	430,343	345,216	18,994,884	17,258,316
Net assets:						
Invested in capital assets, net of related debt.....	29,689,201	28,052,926	26,673	26,975	29,715,874	28,079,901
Restricted.....	1,076,470	890,602	1,612,943	1,286,477	2,689,413	2,177,079
Unrestricted.....	(921,349)	(1,310,486)	72,128	75,108	(849,221)	(1,235,378)
Total net assets.....	\$ 29,844,322	\$ 27,633,042	\$ 1,711,744	\$ 1,388,560	\$ 31,556,066	\$ 29,021,602

The largest component of the State's net assets (\$29.716 billion) reflects its investment in capital assets (land, buildings, machinery and equipment, state highway system, and other capital assets), less related debt still outstanding that was used to acquire or construct those assets. Restricted net assets are the next largest component (\$2.689 billion). Net assets are restricted when constraints placed on their use are 1) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments or 2) legally imposed through constitutional provisions. The remaining portion, unrestricted net assets, consists of net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."

Financial Highlights – Fiscal Year 2007



Statement of Activities

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

Condensed Statement of Activities Primary Government For the Fiscal Year Ended June 30, 2007 (dollars in thousands)

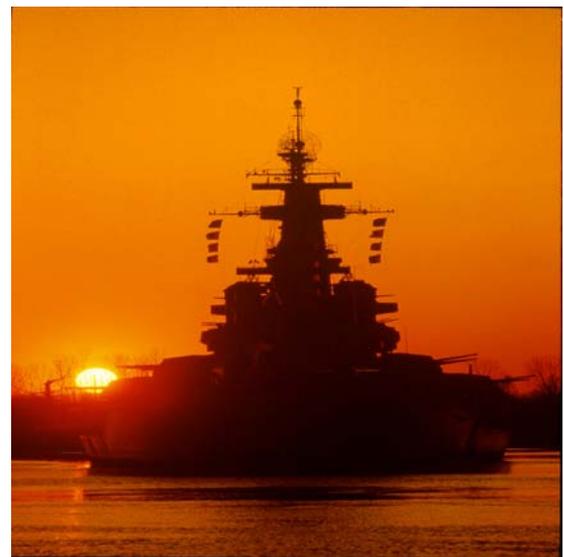
	Primary Government		
	Governmental Activities	Business-type Activities	Total
Changes in Net Assets:			
Net (expense) revenue	\$ (20,171,761)	\$ 635,979	\$ (19,535,782)
General revenues:			
Taxes			
Individual income tax.....	10,739,562	—	10,739,562
Corporate income tax.....	1,466,148	—	1,466,148
Sales and use tax.....	5,108,456	—	5,108,456
Gasoline tax.....	1,601,764	—	1,601,764
Franchise tax.....	671,151	—	671,151
Highway use tax.....	607,511	—	607,511
Insurance tax.....	487,081	—	487,081
Beverage tax.....	245,990	—	245,990
Inheritance tax.....	162,746	—	162,746
Tobacco products tax.....	241,687	—	241,687
Other taxes.....	330,888	—	330,888
Tobacco settlement.....	144,075	—	144,075
Unrestricted investment earnings.....	212,074	—	212,074
Miscellaneous.....	47,170	15	47,185
Contributions to permanent funds.....	3,928	—	3,928
Transfers.....	312,810	(312,810)	—
Total general revenues, contributions and transfers..	22,383,041	(312,795)	22,070,246
Change in net assets.....	2,211,280	323,184	2,534,464
Net assets - July 1, as restated (Note 22).....	27,633,042	1,388,560	29,021,602
Net assets - June 30.....	\$ 29,844,322	\$ 1,711,744	\$ 31,556,066

Governmental Activities:

- ◆ For fiscal year 2007, revenues outpaced expenses and when combined with transfers from the State's business-type activities, an increase of \$2.211 billion in net assets resulted for governmental activities.
- ◆ Total revenues increased 8.3% in fiscal year 2007 to \$37.237 billion.
- ◆ Net transfers-in were much higher in fiscal year 2007 due to the new State lottery, which only had 3 months of sales in the prior year.

Business-type Activities:

- ◆ Business-type activities reflect an increase in net assets of \$323.184 million or 23.3%, primarily because of the strong financial results of the Unemployment Compensation Fund.
- ◆ For fiscal year 2007, the Unemployment Compensation Fund had an operating income (excess of operating revenues over operating expenses) of \$236.448 million.
- ◆ The Unemployment Compensation Fund and the EPA Revolving Loan Fund comprise 94% of the total net assets of business-type activities.
- ◆ The N.C. State Lottery Fund has no net assets since its net profits are distributed to the State's governmental activities, as required by statute.



USSNC

Photo Courtesy of NC Division of Tourism, Film, and Sports Development.
Bill Russ, Photographer

Financial Highlights – Fiscal Year 2007



Statement of Activities (cont'd)

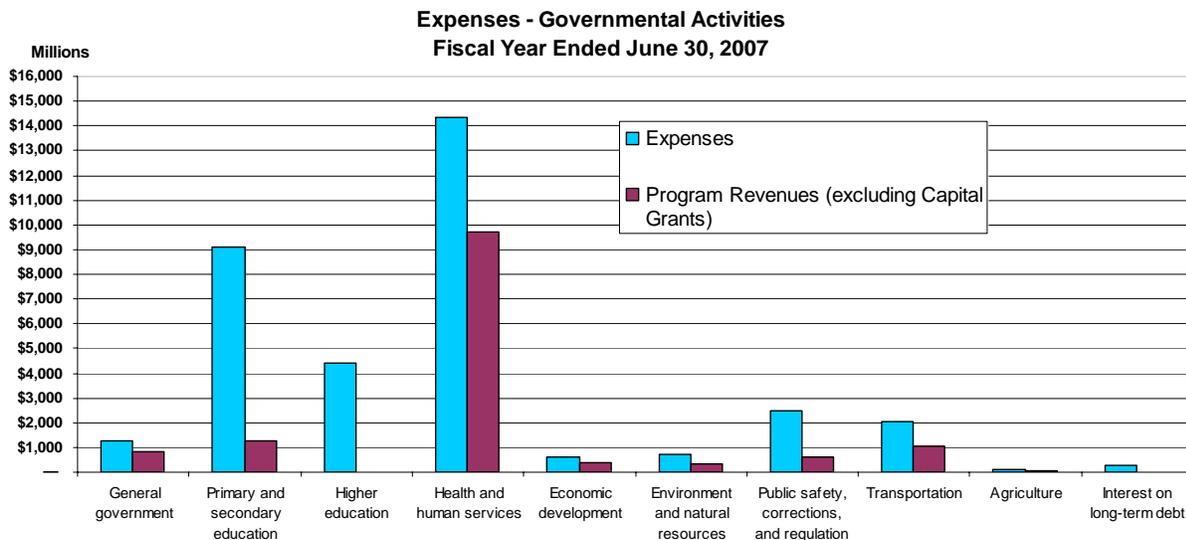
Total expenses increased by 11% to \$35.342 billion, primarily because of funding increases in the State's three largest functional areas, primary and secondary education, higher education, and health and human services. In 2007, primary and secondary education increased 10.8% and higher education increased 26.9%. The growth in education funding is related to enrollment increases at the State's universities, community colleges, and public schools and to salary increases for teachers and faculty. The significant growth in higher education is also due to larger distributions of higher education bond proceeds in 2007.

Total health and human services (HHS) spending increased 6.9% in 2007. For comparison, HHS spending increased by less than 1% in 2006 and increased by 14.1% in 2005 and 10.5% in 2004. The growth in health and human services is the result of increased spending for Medicaid, which is the State's largest public assistance program.

Condensed Schedule of Expenses & Program Revenues
Primary Government
For the Fiscal Year Ended June 30, 2007
(dollars in thousands)

Functions/Programs	Expenses	Program Revenues	Net Expense/Revenue
Governmental Activities:			
General government.....	\$ 1,265,450	\$ 818,725	\$ (446,725)
Primary and secondary education.....	9,096,758	1,245,171	(7,851,587)
Higher education.....	4,405,930	22,371	(4,383,559)
Health and human services.....	14,360,634	9,957,386	(4,403,248)
Economic development.....	624,306	385,493	(238,813)
Environment and natural resources.....	723,504	403,595	(319,909)
Public safety, corrections, and regulation.....	2,483,398	627,332	(1,856,066)
Transportation.....	2,019,917	1,675,986	(343,931)
Agriculture.....	89,257	34,457	(54,800)
Interest on long-term debt.....	273,123	—	(273,123)
Total Governmental Activities.....	<u>35,342,277</u>	<u>15,170,516</u>	<u>(20,171,761)</u>
Business-type Activities:			
Unemployment Compensation.....	864,981	1,114,912	249,931
N.C. State Lottery.....	559,373	874,740	315,367
EPA Revolving Loan.....	14,228	91,847	77,619
Regulatory commissions.....	31,144	30,510	(634)
Insurance programs.....	26,624	19,210	(7,414)
North Carolina State Fair.....	11,433	11,939	506
Other business-type activities.....	5,686	6,290	604
Total Business-type Activities.....	<u>1,513,469</u>	<u>2,149,448</u>	<u>635,979</u>
Total Primary Government.....	\$ 36,855,746	\$ 17,319,964	\$ (19,535,782)

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.



Financial Highlights — Fiscal Year 2007



Capital Assets

As of June 30, 2007, the State's investment in capital assets was \$30.916 billion, an increase of 5.19% from the previous fiscal year-end.

Capital Assets as of June 30, 2007
(net of depreciation, dollars in thousands)

	Governmental Activities		Business-type Activities		Total	
	2007	2006	2007	2006	2007	2006
Land.....	\$ 10,064,383	\$ 9,481,462	\$ 3,114	\$ 3,114	\$ 10,067,497	\$ 9,484,576
Buildings.....	1,823,159	1,860,631	12,830	13,529	1,835,989	1,874,160
Machinery and equipment.....	661,101	662,585	3,256	2,321	664,357	664,906
Infrastructure:						
State highway system.....	16,314,633	15,368,301	—	—	16,314,633	15,368,301
Other infrastructure.....	88,126	112,560	6,941	7,479	95,067	120,039
Intangible assets.....	105,734	106,943	—	—	105,734	106,943
Art, literature, and other artifacts...	64,833	60,485	—	—	64,833	60,485
Construction in progress.....	1,767,290	1,710,819	532	532	1,767,822	1,711,351
Total.....	\$ 30,889,259	\$ 29,363,786	\$ 26,673	\$ 26,975	\$ 30,915,932	\$ 29,390,761
Total percent change between fiscal years 2006 and 2007	5.20 %		(1.12)%		5.19 %	

◆ This year's major capital asset additions were for highway construction (\$1.2 billion), highway land improvements (\$477 million), construction of correctional facilities (\$70 million), and construction of a new psychiatric hospital (\$47 million).

◆ The largest component of capital assets is the State highway system. North Carolina has a 79 thousand mile highway system, making it the second largest state-maintained highway system in the nation. The most recent report on the condition of the State highway system (December 2006) noted that while the system continues to grow, the traditional highway maintenance funds necessary to maintain it have not changed significantly when adjusted for inflation.

◆ A 1,000 bed close custody prison is currently under construction in Columbus County, with an estimated completion date of April 2008 and inmate occupancy estimated for September 2008. The total estimated cost of this facility is \$104.3 million. The primary funding source for this facility was certificates of participation (COPs).

◆ COPs have been authorized for the planning and construction of a new regional 120 bed medical center and 200 bed mental health center to be located at Central Prison in Raleigh. The estimated cost for the construction of the medical and mental health centers is \$151.86 million, of which \$132.2 million will be financed by COPs. The remaining balance will be financed by capital appropriations and federal grants.

◆ The Department of Correction is undertaking construction initiatives to address a prison cell shortfall and to allow for the implementation of sentencing reform. The State's correctional facility population has more than doubled since 1980 to approximately 39 thousand inmates as of November 2007. The rapid growth in inmates is attributable to increases in the State's population, increases in length of stay in correctional facilities, and changes in criminal laws.



Jockey's Ridge State Park
Photo Courtesy of NC Division of Tourism, Film, and Sports Development.
Bill Russ, Photographer.

Financial Highlights – Fiscal Year 2007



Debt Administration

At year-end, the State had total long-term debt (bonds and similar debt payable) outstanding of \$6.912 billion, an increase of 6.03% from the previous fiscal year-end.

Outstanding Debt as of June 30

(dollars in thousands)

	Governmental Activities	
	2007	2006
General obligation bonds.....	\$5,902,330	\$5,738,815
Lease-purchase revenue bonds.....	245,045	263,845
Certificates of participation.....	727,640	454,060
Notes payable.....	37,276	62,298
Total.....	<u>\$6,912,291</u>	<u>\$6,519,018</u>

Total percent change between
fiscal years 2006 and 2007

6.03 %

During the 2006-07 fiscal year, the State issued \$502.745 million in general obligation bonds (excluding refunding bonds) and \$300 million in certificates of participation (COPs). The new general obligation debt represents a consolidation of clean water bonds and higher education bonds and constitutes the remaining authorized amounts of such bonds. The proceeds of the COPs will be used to finance the repair and renovation of State facilities and related infrastructure (\$100 million) and various State and university capital projects authorized for special indebtedness financing by previous sessions of the General Assembly (\$200 million). The repair and renovation projects were prioritized based on those projects related to life safety code requirements and water intrusion remediation.

The State refinanced \$80 million of its existing debt in fiscal year 2007 to improve cash flow and to take advantage of lower interest rates. By refinancing the debt, the State will reduce its future debt service payments by approximately \$4.48 million over the next fifteen years.

The State's long-term debt (bonds and similar debt payable) has increased significantly in recent years, rising from \$1.521 billion in 1997 to \$6.912 billion in 2007, in part due to large issuances for higher education capital projects.



Nags Head Golf

*Photo Courtesy of NC Division of Tourism, Film, and Sports Development.
Bill Russ, Photographer.*

Financial Highlights – Fiscal Year 2007



Higher Education Highlights

The 1999-2000 Session of the General Assembly authorized the issuance of \$3.1 billion of higher education improvement bonds, which were subsequently approved by the voters of the State. The \$3.1 billion bond authorization represents the largest debt authorization in the State's history. The proceeds of these general obligation bonds are being used solely to construct new buildings and to renovate and modernize existing buildings on the State's 58 community college and 16 University of North Carolina campuses. These improvements are needed to meet enrollment demands and to ensure that the State's college and university buildings meet modern code requirements and are equipped to prepare graduates for twenty-first century jobs. The bond legislation passed by the General Assembly specifies the amount of bond funding that will flow to each community college and university campus. The State has issued all of the authorized higher education bonds.



Nursing Allied Health and Developmental Evaluation Clinic

Photo Courtesy of East Carolina University, www.ecu.edu

Completed Bond Projects FY 2007

University	Project Name	Completion Date	Total Project Amount
ASU-Appalachian State University			
	Central Library Complex	2/5/07	\$48,186,270
	Rankin Science Building	8/10/06	\$18,716,935
	Water System Improvements	8/3/06	\$3,375,768
ECU-East Carolina University			
	Nursing Allied Health and Developmental Eval. Clinic	7/24/06	\$57,044,950
	Academic Space Requirements - Teaching Laboratories	1/5/07	\$5,680,422
	Old Cafeteria Office Building Renovation	12/11/06	\$8,950,005
ECSU-Elizabeth City State University			
	Electrical Distribution System Upgrade	5/7/07	\$442,750
NC A&T-North Carolina Agricultural and Technical State University			
	Harrison Auditorium Renovation	9/20/06	\$4,977,700
NCCU-North Carolina Central University			
	Shepard Library	5/4/07	\$6,660,228
NCSA-North Carolina School of the Arts			
	Renovation of DeMille Theatre	4/5/07	\$6,788,867
NCSU-North Carolina State University			
	Withers Hall - Comprehensive Renovation	11/8/06	\$10,562,544
	College of Engineering Complex - Phase II CM@Risk	8/3/06	\$42,523,709
	Library Space - Phase I	3/30/07	\$9,729,293
	Support Services Center - to Relocate Various Campus Services	4/17/07	\$18,016,945
	Animal and Food Science Facilities	11/8/06	\$6,312,008
UNCA-University of North Carolina-Asheville			
	Zageir Hall Renovation	5/29/07	\$1,440,645
	Relocate Physical Plant Facilities	6/29/07	\$6,588,068

(continued on next page)

Financial Highlights – Fiscal Year 2007



NC Arboretum

*Photo Courtesy of NC Division of Tourism, Film, and Sports Development.
Bill Russ, Photographer.*

Completed Bond Projects FY 2007

University	Project Name	Completion Date	Total Project Amount
UNC-CH-University of North Carolina-Chapel Hill			
	Brauer Hall	1/4/07	\$14,405,205
	Woolen & Fetzer Classroom Renovations	8/15/06	\$1,306,481
	Global Education Center	2/28/07	\$35,546,895
	Storm Drainage Improvements	12/29/06	\$18,030,343
	Upgrade Campus Energy Management (EMCS)	12/29/06	\$3,682,600
	ITS Building-Technology Infrastructure Expansion	1/26/07	\$34,655,581
	Wilson Hall Laboratory Renovation	12/21/06	\$8,741,600
UNCC-University of North Carolina-Charlotte			
	College of Education Building	10/17/06	\$30,833,358
	College of Nursing and Health Professions Building	11/15/06	\$31,210,807
	Physical Plant and Campus Public Safety Facilities	2/19/07	\$6,994,538
UNCP-University of North Carolina-Pembroke			
	Renovation of Former Physical Plant Facility	11/30/06	\$4,758,363
	General Purpose Classroom Building	5/24/07	\$6,967,865
	Belk and North Fire Suppression	8/31/06	\$1,468,100
UNCW-University of North Carolina-Wilmington			
	Academic and Classroom Facilities	8/23/06	\$33,003,550
	General Classroom Building	12/15/06	\$13,163,427
	James Hall Administration Building-Comprehensive Renovation	11/14/06	\$3,175,983
	Kenan Auditorium-Comprehensive Renovation	9/13/06	\$1,830,412
WSSU-Winston Salem State University			
	Health Center Bldg and Old Nursing Bldg - Compr. Renovation for Student Health	8/15/06	\$2,405,400
NCARB-North Carolina Arboretum			
	Arboretum Bond Improvements	5/29/07	\$9,310,085
Total			\$517,487,700

Information provided by the University of North Carolina System.



BEACON Update



BEACON—Building Enterprise Access for NC's Core Operation Needs

North Carolina will begin an historic upgrade of its business systems in late December 2007 when approximately 14,000 employees at the Department of Transportation (DOT) will begin using the new BEACON Personnel/Payroll system.

The \$76 million project, which has been in the planning and development phases for five years, replaces the State's personnel system and two payroll systems that have operated for more than 25 years. These systems went into service before the invention of the personal computer, the mouse or Windows software.

"This is a day we have long been waiting for," said State Controller Robert Powell, who chaired the steering committee that oversaw development of the new system. "The BEACON HR/Payroll System moves North Carolina into the 21st Century, not only in technology but in updating and standardizing its business processes to conform with best practices used in the private sector."

Another 4,500 state employees from smaller agencies will be brought onto the new system January 1, 2008. After three months of fine tuning, another 66,000 state employees in both large and small agencies will be brought into the system.

The project combines payroll functions and personnel information in a centralized system that will be operated by the Office of the State Controller. The new system replaces outdated technology that had become increasingly difficult to maintain, and provides basic payroll and personnel functions that previously had to be duplicated across state agencies.

The new system also allows state employees, for the first time, to update their personal and benefits information, check previous payroll data and record their working time from any computer with an Internet connection.

The system uses a technology framework from SAP that ties agency information together in a single network. The SAP software also allows for future business operations to be added to the central system. The General Assembly already has approved funding to add electronic recruiting, which will keep track of state job applicants; and electronic training, which will handle a number of training-related functions, to the new system. Both upgrades are expected to be added next year.

Planning has started on the next phase of the BEACON project, which will add budgeting, accounting and cash management functions if the Legislature approves additional funding. When completed, the BEACON system will provide centralized, coordinated business operations that can improve efficiency and provide timely, accurate information for decision-makers and the public.

In addition to planning, designing and building the new business network, the BEACON project also involves training for nearly 3,000 core users in agency business offices, more than 3,100 employees who will use reports and information generated by the new system and nearly 8,000 managers who will use the system for reports to track the work of their agencies.

"This has been the most massive effort I have seen undertaken by state government in my 35 years as a North Carolina employee," Powell said. "The level of cooperation by agencies and employees is unprecedented. Our partners in this project – Information Technology Services, the Office of State Personnel, the Office of State Budget and Management, and DOT – have spent countless hours developing a system that will provide the next generation of business operations for the State."



Mount Mitchell

*Photo Courtesy of NC Division of Tourism, Film, and Sports Development.
Bill Russ, Photographer.*

The State's existing personnel and payroll systems will continue to operate for a limited time with the new system before being disconnected.

Full details on the BEACON program are available on the Office of the State Controller website at: <http://www.beacon.nc.gov/>.

Financial Highlights – Fiscal Year 2007



North Carolina Education Lottery

Fiscal year 2007 was the first full year of operation for the North Carolina Education Lottery (NCEL). During fiscal year 2007, the NCEL launched two North Carolina online games, Carolina Pick 3 and Carolina Cash 5. Both games added nicely to total revenues with steady sales. The Carolina Cash 5 top prizes rolled as high as \$731,836 during the year. The number of retailers increased to close to 5,800. The lottery introduced new instant scratch-off games every two to three weeks. The lottery also moved into its permanent offices.

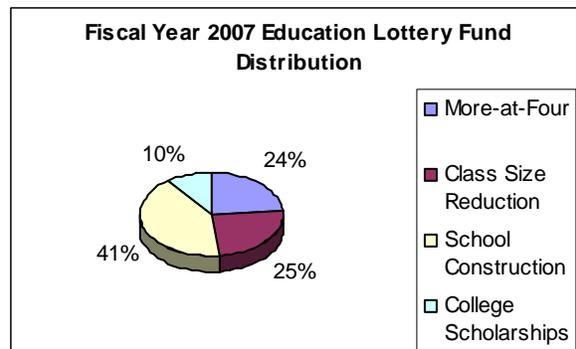


The State Lottery Act prescribes the following guidelines as to how each lottery dollar will be spent. Retailers receive a 7% commission for selling tickets. Up to 8% may be spent on administration. At least 50% will be paid out in prizes and as nearly as practicable, 35% will be transferred to the Education Lottery fund at the Office of State Budget and Management. 100% of the net proceeds of the NCEL go to education programs.

Education in North Carolina received more than \$313 million in fiscal year 2007 transfers from the NCEL. Coupled with the \$12 million carryover from fiscal year 2006, education programs received over \$325 million from lottery revenues, thus ensuring the lottery met its goal of transferring 35% of total revenues. With these dollars, over 18,000 at-risk four year olds received training through the More-at-Four program, classrooms received 2,525 teachers in grades K-3 to reduce class size, schools initiated over 70 construction projects, and approximately 30,000 students received college scholarships.

For fiscal year 2007, the breakdown of education dollars was as follows:

More-at-Four	\$74,827,365
Class Size Reduction	\$78,063,786
School Construction	\$130,159,590
College Scholarships	\$32,543,855



For School Construction, county specific information may be found at: <http://www.schoolclearinghouse.org>.

For Class Size Reduction, county specific information may be found at: <http://www.ncpublicschools.org>.

Information provided by the North Carolina Education Lottery at www.nc-educationlottery.org.



Apple Orchard

Photo Courtesy of NC Division of Tourism,
Film, and Sports Development.
Bill Russ, Photographer.



N.C. Tourism Highlights

- ◆ Tourism is one of North Carolina's largest industries. In 2006, domestic travelers spent \$15.4 billion across the State, an 8.3% increase over 2005 and the largest single-year increase in tourism dollars since 1990.
- ◆ More than 45 million people visited North Carolina in 2006 and paid more than \$1.3 billion in state and local taxes.
- ◆ Domestic tourism expenditures directly supported 187,200 jobs for North Carolina residents.
- ◆ North Carolina ranks sixth in person-trip volume by state behind California, Texas, Florida, New York, and Pennsylvania (up from eighth place in 2005).

Annual NC Visitor Expenditures



Sources: TNS TravelsAmerica, 2007

The 2006 Economic Impact of Travel on North Carolina Counties, Travel Industry Association of America, 2007

Information provided by the NC Department of Commerce website, www.nccommerce.com.

Ocracoke Beach



Ocracoke Lighthouse

*Photo Courtesy of NC Division of Tourism, Film, and Sports Development.
Bill Russ, Photographer.*

In June, Governor Mike Easley announced that Ocracoke Beach on Ocracoke Island was named the No. 1 beach on "Dr. Beach's Annual America's Best Beaches" list of 2007. This announcement marks the first time a beach outside Florida or Hawaii has been named the top beach on this celebrated annual top 10 list.

Stephen P. Leatherman, "Dr. Beach", directs Florida International University's Laboratory for Coastal Research in Miami. He has international attention for his annual list of Top 10 Beaches in America, released each year since 1991. More than 650 beaches throughout the United States are judged on 50 criteria that include factors such as sand softness, the number and size of waves, water color and condition, presence of wildlife, lifeguard protection, far-reaching views and traffic.

Ocracoke Island, part of Hyde County and the Cape Hatteras National Seashore on North Carolina's Outer Banks, is known for its clean water and unspoiled natural beauty. It sits 26 miles from the North Carolina mainland and is accessible only by boat, ferry or plane. The natural, untouched beauty of Ocracoke Island's unspoiled vistas, good waves and clean water caught the attention of Dr. Beach, but the Ocracoke Lighthouse, famous Banker pony herd and Teaches Hole, site of the pirate Blackbeard's demise, have attracted tourists for years. In 2005, travel expenditures in Hyde County were more than \$27 million.

Information provided by NC Office of the Governor News Releases at www.governor.state.nc.us.



Ocracoke Beach

*Photo Courtesy of NC Division of Tourism, Film, and Sports Development.
Bill Russ, Photographer.*



Transportation Highlights

For the calendar year 2006, the North Carolina Department of Transportation (NCDOT) listed the following as its top accomplishments:

- ◆ Completed 141 *N.C. Moving Ahead!* projects, improving safety and mobility.
- ◆ Completed 26 projects specifically aimed at economic development across the State.
- ◆ Completed \$10 million in bicycle and pedestrian enhancements through seven projects in six counties throughout the state, including new greenways, shoulder improvements, and bridge construction.
- ◆ Developed 300 miles of bicycle routes in Orange and Rowan counties.
- ◆ Improved North Carolina's ferry facilities by building additional traffic queue lanes at the Southport Ferry Terminal; commissioning the Motorvessel Hatteras, a new sound class vessel capable of carrying 40 motor vehicles; and completed the first phase of improvements to the Marine Maintenance Facility in Manns Harbor.
- ◆ Helped save an estimated \$8.5 million in commuting costs and 3,691 parking spaces through sharetheridenc.org, which helps match commuters with alternative transportation options such as carpools and vanpools.
- ◆ Increased seatbelt use to 88.5%, the highest ever in North Carolina, through ongoing "Click It or Ticket" public awareness campaign.
- ◆ Provided approximately \$500,000 for booster/car seats for needy families.
- ◆ Improved 4,700 miles of highways, including contract resurfacing and sealing.
- ◆ Replaced 107 bridges.



N.C. Ferry

*Photo Courtesy of NC Division of Tourism, Film, and Sports Development.
Bill Russ, Photographer.*

Statistics for money spent on construction projects from 1996 through August 2007 are as follows:
(Includes resurfacing, design build, roadway, and structure contracts)



Source: Awards Summary 090107.

Information provided by the NCDOT website, www.ncdot.org.



Chimney Rock Park

In May 2007 the State of North Carolina closed on its purchase of the 996-acre Chimney Rock Park in Rutherford County. The \$24 million acquisition was funded with a \$15 million appropriation from the General Assembly, \$4.85 million from three state conservation trust funds and \$2.35 million from a private donor.

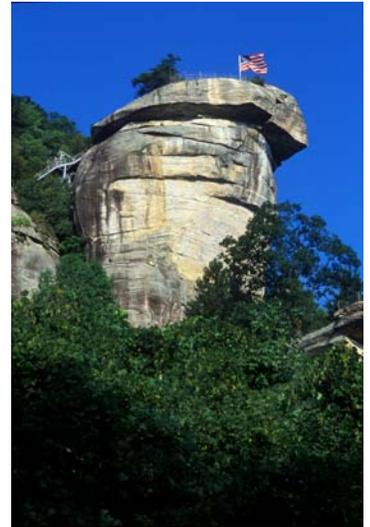
The transfer of the park is accompanied by an agreement in which the Morse family, descendants of the founder, Lucius B. Morse, through its Chimney Rock Company Management LLC, will continue to operate the park through 2009. During that period the Division of Parks and Recreation will continue land acquisition efforts and development for a new state park surrounding Chimney Rock in the Hickory Nut Gorge, which is more than 3,200 acres spanning both sides of the gorge.



The Chimney

Photo Courtesy of Chimney Rock Park.

The park has been a tourist attraction in western North Carolina since a stairway was built to the rock's summit in 1885. In 1902, Lucius B. Morse of Missouri bought the site and began developing the park. The Morse family, descendants of the founder, have maintained and operated the park until the State's purchase. The park's facilities include a tunnel and elevator to the rock summit, a visitor center, nature center and a network of hiking trails leading to unusual geologic features and the 404 foot Hickory Nut Falls. The dominant feature of the park is its 315 foot tall rock spire overlooking Lake Lure and providing 75 mile views.



Chimney Rock

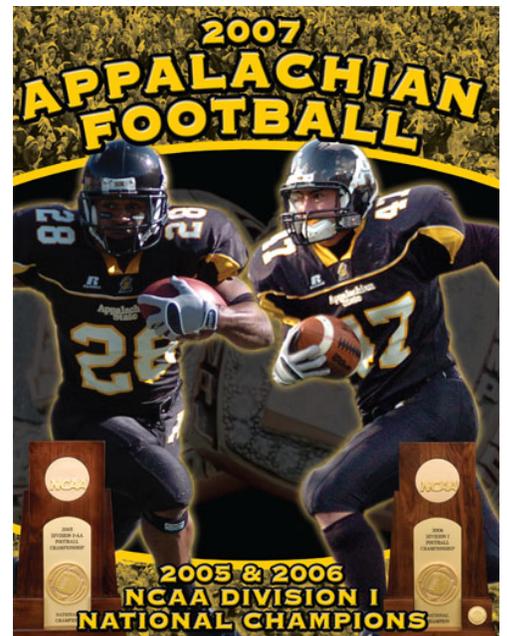
Photo Courtesy of NC Division of Tourism, Film, and Sports Development.

Bill Russ, Photographer.

Information provided by the NC Division of Parks and Recreation at www.ncparks.gov.

North Carolina Accolades

- ◆ Governor Mike Easley announced in February that Forbes.com named the Raleigh-Cary metropolitan area as the nation's No. 1 city for jobs. The area moved up from last year's No. 7 spot to take the top honors. Raleigh's top ranking indicated that the area has the lowest unemployment rate, high incomes and strong job growth, while residents enjoy a relatively low cost of living. The area is home to the Research Triangle Park and three major universities—the University of North Carolina at Chapel Hill, North Carolina State University, and Duke University. *Information provided by www.governor.state.nc.us/News.*
- ◆ Barton College's men's basketball team won the 2007 NCAA Division II National Championship in March 2007. The Bulldogs defeated Winona State, the defending national champions, to claim the school's first NCAA championship in any sport. Barton was ranked 15th nationally and finished the season with a school-best 31-5 record, winning its last 21 games (another school record). *Information provided by www2.barton.edu/athletics/news.*
- ◆ The Appalachian State Mountaineers won its second straight NCAA Division I Football National Championship in December 2006. Appalachian finished the season with a 14-1 overall record, setting school records for wins in a season and consecutive victories. *Information provided by www.appstate.edu/athletics/.*



Appalachian Mountaineers

Photo Courtesy of www.goasu.com

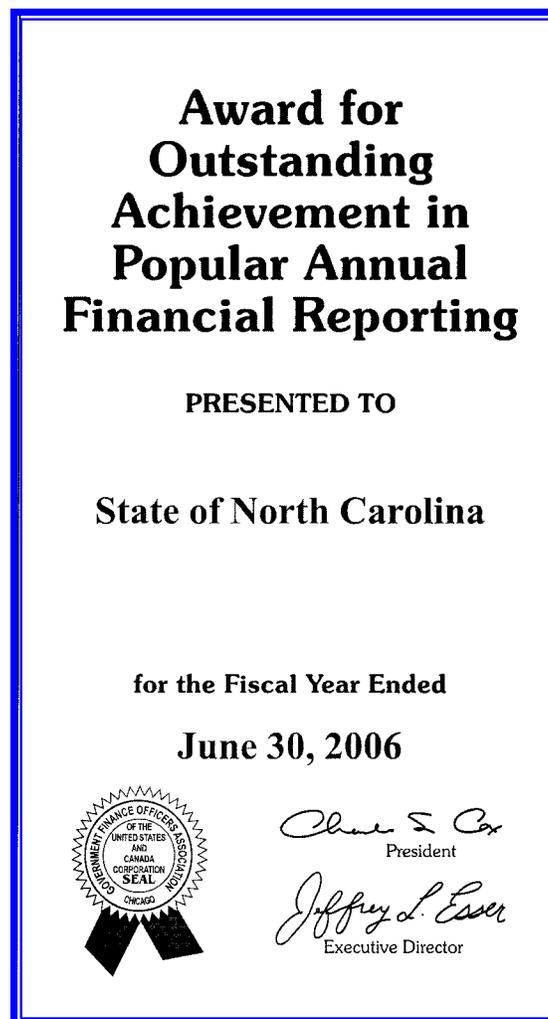


Award for Outstanding Achievement

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, 2006. 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.

In order 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 nine consecutive years (fiscal years ended 1998-2006). We believe our current report continues to conform to the Popular Annual Financial Reporting requirements, and we are submitting it to GFOA.



350 copies of this public document were printed at a cost of \$1,803.00 or \$5.15 per copy.