

# North Carolina



## *Financial Highlights Fiscal Year End June 30, 2011*

*David T. McCoy, State Controller  
North Carolina Office of the State Controller  
<http://www.osc.nc.gov>*

## Cover Photos:

*Featured on the cover are scenes from the 2011 North Carolina State Fair. Photos courtesy of the North Carolina Department of Agriculture.*

### Facts About the North Carolina State Fair

- ◆ The North Carolina State Fair is the largest 11-day event in North Carolina.
- ◆ The 2011 State Fair reached one million in attendance for the second straight year.
- ◆ The 2011 State Fair had a gross revenue of \$10.3 million from all sources.
- ◆ The State Fair each year creates several thousand jobs for its 11-day run.
- ◆ The Fair is managed and produced by the N.C. Department of Agriculture & Consumer Services and is consistently ranked among the top 25 fairs in North America.
- ◆ The first N.C. State Fair took place 158 years ago in 1853.
- ◆ More than 234,000 pounds of canned food was donated by 2011 fair patrons for the Food Lion Hunger Relief Day on Thursday, Oct. 20. The food benefits the Food Bank of Central and Eastern North Carolina.
- ◆ The 2011 State Fair played host to a variety of musical acts, including country music legend George Jones, Christian rockers Skillet, R&B icon Dionne Warwick and North Carolina's own Kellie Pickler.
- ◆ The Village of Yesteryear, which features crafters and artisans from across the state, marked its 60th anniversary at the 2011 State Fair.
- ◆

"It was another wonderful fair," said Agriculture Commissioner Steve Troxler. "Attendance was 1,009,173, our second-highest total ever. For the most part we had fantastic weather, and the final weekend was absolutely beautiful. Having good weather led to above-average attendance on all but one day of the fair."

"I cannot thank fairgoers enough for their continued support," Troxler said. "I hope they're already marking their calendars for Oct. 11-21, 2012. I know we're eager to start planning for it."

For more information about the North Carolina State Fair, please refer to the About Us section on [www.ncstatefair.org](http://www.ncstatefair.org).



I am pleased to present you with the ***North Carolina Financial Highlights*** for the fiscal year ended June 30, 2011. 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 Division staff at (919) 981-5454.

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

Sincerely,

David T. McCoy  
State Controller  
December 8, 2011

## ***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 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.

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, 2011. 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.osc.nc.gov>, 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, North Carolina State Education Assistance Authority, 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

### ***Sims Creek***

*Photo Courtesy of NC Division of Tourism*

## **The Economy**

During FY 2010-11, the economic recovery struggled to gain traction. The weak recovery occurred despite the fact it had been a year since the Great Recession ended. The National Bureau of Economic Research officially dated the end of the recession as June 2009. Nevertheless, economic conditions in the State, as well as the nation, did not reflect a recovering economy. Employment losses were still occurring in some industry sectors, while other sectors were experiencing very little job growth. Additionally, the end of the economic recession did not mark the end of the housing recession, which was a precursor to the economic downturn.

Both employer and consumer sentiment showed little signs of an economic recovery. The structural problems in the housing and financial markets that sent us into a recession historically have taken much longer to correct and are followed by much slower, prolonged recovery phases. This recovery was proving to be no different. At best, a very modest economic expansion began during the fiscal year. In fact, at no time during the fiscal year did the annualized growth rate of the nation's Gross Domestic Product (a broad measure of economic activity) equal or exceed the long-run average of 3.1 percent. Given the severe contraction the economy went through, a more robust recovery that exceeded the long-run average might have been expected.

During the fiscal year, the State's economy added 39,200 private sector jobs and total wage and salary income increased by an estimated 2.9 percent. By the end of the fiscal year, there were still 270,000 fewer people employed than at the start of the recession. Annual growth in total wage and salary income increased by 2.3 percent the first quarter of the fiscal year and continued to improve with an estimated 2.7 percent rate of growth in the last quarter. It is anticipated that both employment and income will continue to improve for the rest of 2011, but at a slow pace. Moderate job growth is not expected until the second half of 2012. The result will be high unemployment rates for the rest of 2011 and most, if not all, of 2012.

# Financial Highlights — Fiscal Year 2011



<b>North Carolina Economic Indicators</b>	<b>FY2009-10</b>	<b>FY2010-11</b>	<b>FY2011-12</b>	<b>FY2012-13</b>
	<b>Actual</b>	<b>Actual</b>	<b>Projected</b>	<b>Projected</b>
State Gross Product	3.40%	3.70%	3.60%	6.00%
Personal Income	1.60%	4.00%	4.20%	7.20%
Wages & Salaries	-0.90%	2.70%	5.30%	6.90%
Retail Sales	0.80%	7.70%	5.00%	4.60%
Unemployment Rate	11.10%	9.90%	10.10%	9.40%
Employment (Nonagricultural)	-4.00%	0.10%	0.30%	1.20%
Existing Single-family Home Sales	16.40%	-17.30%	16.20%	24.40%

For North Carolina, as with the nation, the end of the recession did not begin a period of strong employment gains. While the recession ended twelve months prior to the start of the fiscal year, many key economic indicators suggested recession-like conditions were enduring across the State. The State's economy only added 39,200 private sector jobs to a workforce of nearly four million and total wage and salary income increased by a modest 2.7 percent. By the end of the fiscal year, there were still 270,000 fewer people employed than at the start of the recession. Some sectors experienced modest growth, but employment in sectors tied to the housing market such as construction and home furnishings continued to decline. The employment picture in the State weakened during the fiscal year in concert with the global and national slowdown.

Projections for the State's economic indicators reflect how the recovery in the State is expected to unfold. Gross State Product, a broad measure of the State's economic activity does not return to the long-run average growth rate until FY 2012-13. This is indicative of the anticipated slow, prolonged recovery in the State. Personal income is improving. For FY 2010-11, it rose 4.0 percent, but the increase lags behind the growth of 6 to 7 percent experienced several years prior to the onset of the Great Recession. Wage and salary income rebounded from a decline the previous year and grew at 2.7 percent for the fiscal year. The modest rise in wage and salary income was consistent with the losses in total employment coming to an end. Going forward, improved growth in total income is projected. This growth will result from gradually improving employment, wage increases, and increase in the number of hours worked. A return in wage and salary income to long-term growth levels is forecast for 2012.

As with the nation, the recovery was tediously slow during FY 2010-11. The slow recovery meant few jobs were being created, and the unemployment rate at the end of the fiscal year was at 9.9 percent. Despite a weak economy and high unemployment, retail sales rebounded with 7.7 percent growth. The growth, while impressive, follows a 7.8 percent drop two years earlier and almost no growth in FY 2009-10. Retail sales are expected to mirror the slow, gradual improvement of the economy, but will rise to the long-term average growth rate of 5 percent at the start of 2012. The increased projection in sales reflects the anticipated improvement in employment and household incomes.

As the State's economy begins to turn the corner in the recovery, employment prospects are gradually expected to improve, but a robust employment climate is not projected until 2013. Even with the improving employment picture, growth will be slow and the unemployment rate will remain elevated in the 9 to 10 percent range. By the end of calendar year 2011, only a few industries are expected to experience growth over the previous year with net growth well below 1 percent. For 2012, modest improvement is expected with total employment increasing at a rate of 1 percent by the end of year. This level of growth will not be sufficient to lower the unemployment rate significantly, and the rate is projected to average 10.1 percent for FY 2011-12, and 9.4 percent for FY 2012-13.

In the last recession, manufacturing, particularly in the furniture and textile industries, shed jobs at a rate of 10 percent per quarter. The State's manufacturing sector again was vulnerable to the recession and job losses in this industry sector reached double-digit levels. By the end of the fiscal year, the manufacturing sector had added only 2,000 jobs and employed 98,000 fewer people than at the start of the recession. Another hard hit industry has been the financial sector. The financial market upheaval had a detrimental impact on this sector's employment, but it began to rebound the first half of 2010 and is now near pre-recession levels.



The housing recession and the subsequent adjustments in the real estate market have taken a very long time to unwind. The housing recession that began in 2006, appeared to be ending at the start of 2010. Existing home sales in the State saw double-digit growth the first-half of that year. The second half of the year erased those gains and since then existing home sales have been losing ground. Tough credit conditions, exacerbated by mounting foreclosures, continue to prolong the return to a solid housing market. There has been some anticipation that low mortgage interest rates may help with the recovery, but thus far, have had little noticeable impact despite being at record lows. A turnaround in residential markets is projected by the spring of 2012 as market corrections finally start to take hold.

The slow economic recovery that persisted throughout FY 2010-11, was largely due to structural imbalances in the housing and financial sectors. These imbalances have had a profound affect on the State's economy and are taking a long time to correct. Ongoing weaknesses in the global economy have exacerbated the pace of the economic recovery both in the US and the State. A return to a full expansionary economy is not projected until the end of 2012, five years after the onset of the recession. Until then, the housing market should begin to gradually improve and steady improvements in household income and consumer spending are anticipated.

*— Economic analysis prepared by Barry Boardman, Ph.D., Staff Economist  
North Carolina General Assembly, Fiscal Research Division  
October 14, 2011*



***Farmers Market Pumpkins***

*Photo Courtesy of Visit NC.com*



## Financial Highlights

### **Government-wide**

- ◆ The State's total net assets increased by \$2.064 billion or 6.48% as a result of this year's operations. Net assets of governmental activities increased by \$2.162 billion, or 6.71%, due in part to spending reductions and the slow economic and revenue recovery. Net assets of business-type activities decreased by \$98.189 million, or 26.39%, due to a substantial operating loss in the Unemployment Compensation Fund. At year-end, net assets of governmental activities and business-type activities totaled \$34.365 billion and negative \$470.257 million, respectively.
- ◆ Component units reported net assets of \$19.122 billion, an increase of \$1.741 billion, or 10.02% from the previous year. The majority of the net asset increase is attributable to the University of North Carolina System, a major component unit.

### **Fund Financials**

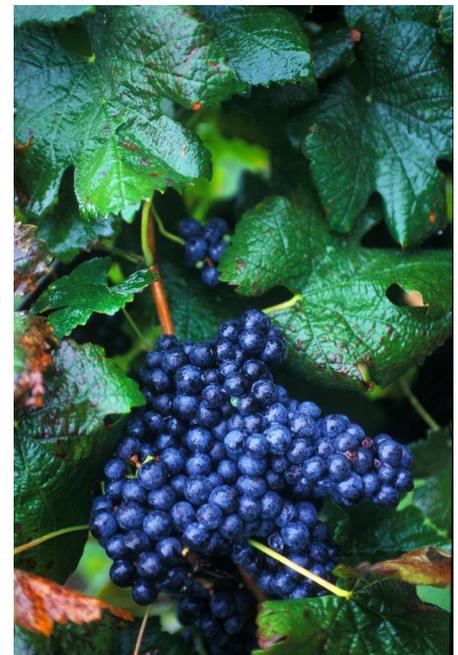
- ◆ The fund balance of the General Fund nearly doubled from \$594.653 million at June 30, 2010 (as restated) to \$1.184 billion at June 30, 2011. This improvement is attributable primarily to agency allotment reductions, and receipt of federal recovery funds.
- ◆ The fund balance of the Highway Fund decreased from \$780.964 million at June 30, 2010 (as restated) to \$647.962 million at June 30, 2011, a decrease of 17.03%. A focus on completing projects funded from the latest GARVEE bond issuance contributed to the decrease.
- ◆ The fund balance of the Highway Trust Fund increased from \$47.498 million at June 30, 2010 (as restated) to \$186.866 million at June 30, 2011.
- ◆ The net assets of the Unemployment Compensation Fund decreased from negative \$1.701 billion at June 30, 2010 to negative \$1.969 billion at June 30, 2011. The decrease is directly related to the decline in the state and national economies. The state unemployment rate was 9.9% in June 2011.
- ◆ Net ticket sales of the N.C. State Lottery Fund (Lottery) increased 2.82% from the previous fiscal year to \$1.46 billion. As required by law, the Lottery's net profit of \$436.241 million was transferred to the General Fund to support educational programs.
- ◆ The net assets of the N.C. Turnpike Authority increased from \$99.285 million at June 30, 2010 to \$190.34 million at June 30, 2011. The Triangle Expressway System, the first toll facility in North Carolina, is under construction and will include electronic tolling systems. The project is currently on schedule and estimated to be completed as planned.

### **Capital Assets**

- ◆ The State's investment in capital assets (net of accumulated depreciation) was \$40.208 billion, an increase of 5.76% from the previous fiscal year-end.
- ◆ This year's major capital asset additions were for State highway system construction (\$2 billion), toll road construction (\$383 million), construction of correctional facilities (\$89.8 million), and construction of the Green Square Complex (\$56.5 million).

### **Long-term Debt**

- ◆ The State had total long-term debt outstanding (bonds, special indebtedness, and notes payable) of \$8.461 billion, an increase of 4.43% from the previous fiscal year-end. The State issued \$500 million in limited obligation bonds for its governmental activities. Additionally, the N.C. Turnpike Authority, a business-type activity, issued \$233.92 million in revenue bonds and had additional borrowing of \$195.8 million from a federal transportation loan.
- ◆ In February 2011, all three rating agencies affirmed the triple-A credit rating for the State. The rating agencies recognized the State's proactive responses and history of taking early action to mitigate the impact of revenue declines. North Carolina remains one of only eight states with a triple-A rating from all three rating agencies.



**NC Wine Grapes**

*Photo Courtesy of VisitNC.com*



## 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?

- ◆ Governmental activities cover most of the State's basic services such as health and human services, transportation and education. These services are generally funded by taxes and intergovernmental revenues.
- ◆ 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 service 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 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 or decreases in net assets measure whether the State's financial position is improving or deteriorating. The State's combined net assets increased \$2.064 billion or 6.48% over the course of this fiscal year's operations. The net assets of the governmental activities increased \$2.162 billion or 6.71% and business-type activities decreased \$98.189 million or 26.39%. The following table was derived from the government-wide Statement of Net Assets:

Net Assets						
June 30, 2011 and 2010						
(dollars in thousands)						
	Governmental Activities		Business-type Activities		Total Primary Government	
	2011	2010 (as restated)	2011	2010 (as restated)	2011	2010 (as restated)
Current and other non-current assets.....	\$ 8,911,769	\$ 9,222,316	\$ 2,900,808	\$ 2,726,646	\$ 11,812,577	\$ 11,948,962
Capital assets, net.....	39,469,307	37,659,938	738,504	357,282	40,207,811	38,017,220
<b>Total assets.....</b>	<b>48,381,076</b>	<b>46,882,254</b>	<b>3,639,312</b>	<b>3,083,928</b>	<b>52,020,388</b>	<b>49,966,182</b>
Long-term liabilities.....	8,940,440	8,933,583	3,704,985	2,878,252	12,645,425	11,811,835
Other liabilities.....	5,075,325	5,745,701	404,584	577,744	5,479,909	6,323,445
<b>Total liabilities.....</b>	<b>14,015,765</b>	<b>14,679,284</b>	<b>4,109,569</b>	<b>3,455,996</b>	<b>18,125,334</b>	<b>18,135,280</b>
<b>Net assets:</b>						
Invested in capital assets, net of related debt.....	37,419,430	35,658,528	294,158	173,375	37,713,588	35,831,903
Restricted.....	729,100	704,715	3,131	1,081,220	732,231	1,785,935
Unrestricted.....	(3,783,219)	(4,160,273)	(767,546)	(1,626,663)	(4,550,765)	(5,786,936)
<b>Total net assets.....</b>	<b>\$ 34,365,311</b>	<b>\$ 32,202,970</b>	<b>\$ (470,257)</b>	<b>\$ (372,068)</b>	<b>\$ 33,895,054</b>	<b>\$ 31,830,902</b>

The largest component of the State's net assets (\$37.714 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 (\$732.231 million). 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 2011



## 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:

<b>Condensed Statement of Activities</b>			
<b>Primary Government</b>			
<b>For the Fiscal Year Ended June 30, 2011</b>			
<b>(dollars in thousands)</b>			
	<b>Primary Government</b>		
	<b>Governmental Activities</b>	<b>Business-type Activities</b>	<b>Total</b>
<b>Changes in Net Assets:</b>			
Net (expense) revenue	\$ (20,116,743)	\$ 273,230	\$ (19,843,513)
<b>General Revenues:</b>			
<b>Taxes:</b>			
Individual income tax.....	10,020,535	—	10,020,535
Corporate income tax.....	1,132,931	—	1,132,931
Sales and use tax.....	6,172,377	—	6,172,377
Gasoline tax.....	1,675,476	—	1,675,476
Franchise tax.....	794,091	—	794,091
Highway use tax.....	469,811	—	469,811
Insurance tax.....	501,032	—	501,032
Beverage tax.....	311,809	—	311,809
Inheritance tax.....	24,184	—	24,184
Tobacco products tax.....	291,699	—	291,699
Other taxes.....	301,217	—	301,217
Tobacco settlement.....	131,318	—	131,318
Unrestricted investment earnings.....	32,980	—	32,980
State aid.....	—	—	—
Miscellaneous.....	45,014	3	45,017
Contributions to permanent funds.....	3,188	—	3,188
Contributions to endowments.....	—	—	—
Transfers.....	371,422	(371,422)	—
<b>Total general revenues, contributions, and transfers.....</b>	<b>22,279,084</b>	<b>(371,419)</b>	<b>21,907,665</b>
Change in net assets.....	2,162,341	(98,189)	2,064,152
Net assets — beginning, restated .....	32,202,970	(372,068)	31,830,902
<b>Net assets — ending.....</b>	<b>\$ 34,365,311</b>	<b>\$ (470,257)</b>	<b>\$ 33,895,054</b>

### Governmental Activities:

- ◆ The State's total revenues for governmental activities grew more rapidly than total expenses during fiscal year 2011.
- ◆ Revenues increased by 2.74% (\$1.09 billion).
- ◆ Total expenses increased by 2.3% (\$877.3 million).

### Business-type Activities:

- ◆ Business-type activities reflect an overall decrease in net assets of \$98.189 million or 26.39%, primarily because of the financial results of the Unemployment Compensation Fund.
- ◆ For fiscal year 2011, the Unemployment Compensation Fund had an operating loss (excess of operating expenses over operating revenues) of \$3.074 billion.
- ◆ Nonoperating revenues of the Unemployment Compensation Fund included noncapital grants of \$2.271 billion and federal recovery funds of \$599.562 million, which were used to provide extended benefits to unemployed workers.
- ◆ The Unemployment Compensation Fund and the EPA Revolving Loan Fund comprise most 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.

# Financial Highlights — Fiscal Year 2011



## Statement of Activities (cont'd)

For fiscal year 2011, spending increased in almost all of the State's functional areas, with the only exception being agriculture. The growth in health and human services is related to increased spending for Medicaid (the State's largest public assistance program). The State experienced higher enrollment in the Medicaid program due to increased unemployment and additional consumption of Medicaid services. Also, as of July 1, 2009, the State assumed 100% of the county share of Medicaid, completing the phase-out of the county share. Because the State receives federal matching funds for the Medicaid Program, there was also a corresponding increase in operating grants and contributions (i.e., program revenues).

The growth in primary and secondary education is due, in part, to the spending of ARRA funds for fiscal stabilization and the "Race to the Top" program. The growth in higher education is related to unanticipated enrollment increases, particularly in the Community College System. Community college enrollment increased by 34,000 students (15%), the result of greater demand for worker training programs. Also, the increase can be attributed to operating costs of new buildings and increased financial aid. Nonetheless, the higher education growth rate was restrained by reductions in State funding. Higher education expenses are financed primarily by State appropriations. The North Carolina State Constitution provides that "the benefits of the University of North Carolina and other public institutions of higher education, as far as practicable, be extended to the people of the State free of expense."

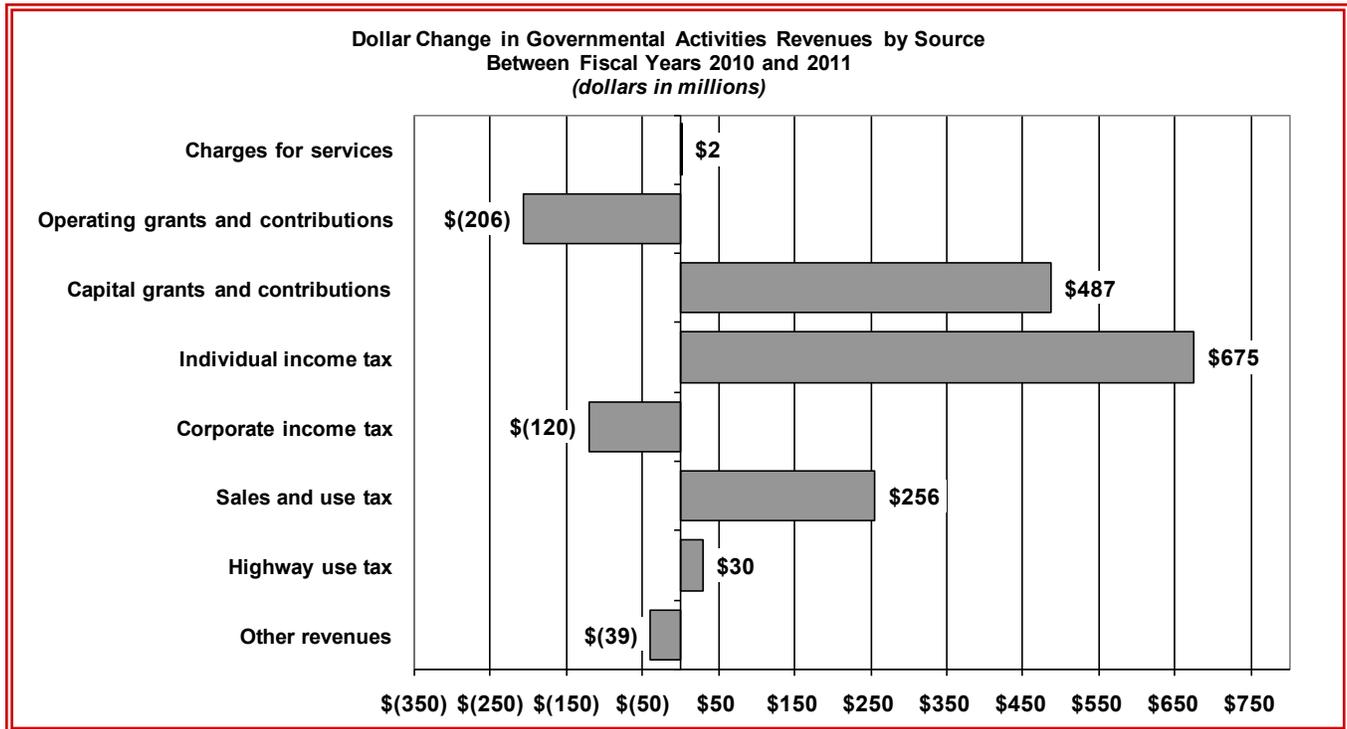
<b>Condensed Schedule of Expenses &amp; Program Revenues</b>			
<b>Primary Government</b>			
<b>For the Fiscal Year Ended June 30, 2011</b>			
<i>(dollars in thousands)</i>			
Functions/Programs	Expenses	Program Revenues	Net Expense/Revenue
<b>Governmental Activities:</b>			
General government.....	\$ 1,123,257	\$ 253,435	\$ (869,822)
Primary and secondary education.....	10,006,402	2,048,651	(7,957,751)
Higher education.....	4,308,475	276,852	(4,031,623)
Health and human services.....	16,837,927	12,643,913	(4,194,014)
Economic development.....	744,796	511,987	(232,809)
Environment and natural resources.....	608,903	280,529	(328,374)
Public safety, corrections, and regulation.....	2,796,375	731,646	(2,064,729)
Transportation.....	2,177,142	2,118,123	(59,019)
Agriculture.....	114,474	43,789	(70,685)
Interest on long-term debt.....	307,917	—	(307,917)
Total Governmental Activities.....	39,025,668	18,908,925	(20,116,743)
<b>Business-type Activities:</b>			
Unemployment Compensation.....	4,420,762	4,164,951	(255,811)
N.C. State Lottery.....	1,028,536	1,465,831	437,295
EPA Revolving Loan.....	42,897	124,844	81,947
N. C. Turnpike Authority.....	4,940	26,842	21,902
Regulatory commissions.....	78,653	81,173	2,520
Insurance programs.....	36,885	20,560	(16,325)
North Carolina State Fair.....	13,595	15,258	1,663
Other business-type activities.....	9,148	9,187	39
Total Business-type Activities.....	5,635,416	5,908,646	273,230
<b>Total Primary Government.....</b>	<b>\$ 44,661,084</b>	<b>\$ 24,817,571</b>	<b>\$ (19,843,513)</b>

# Financial Highlights — Fiscal Year 2011

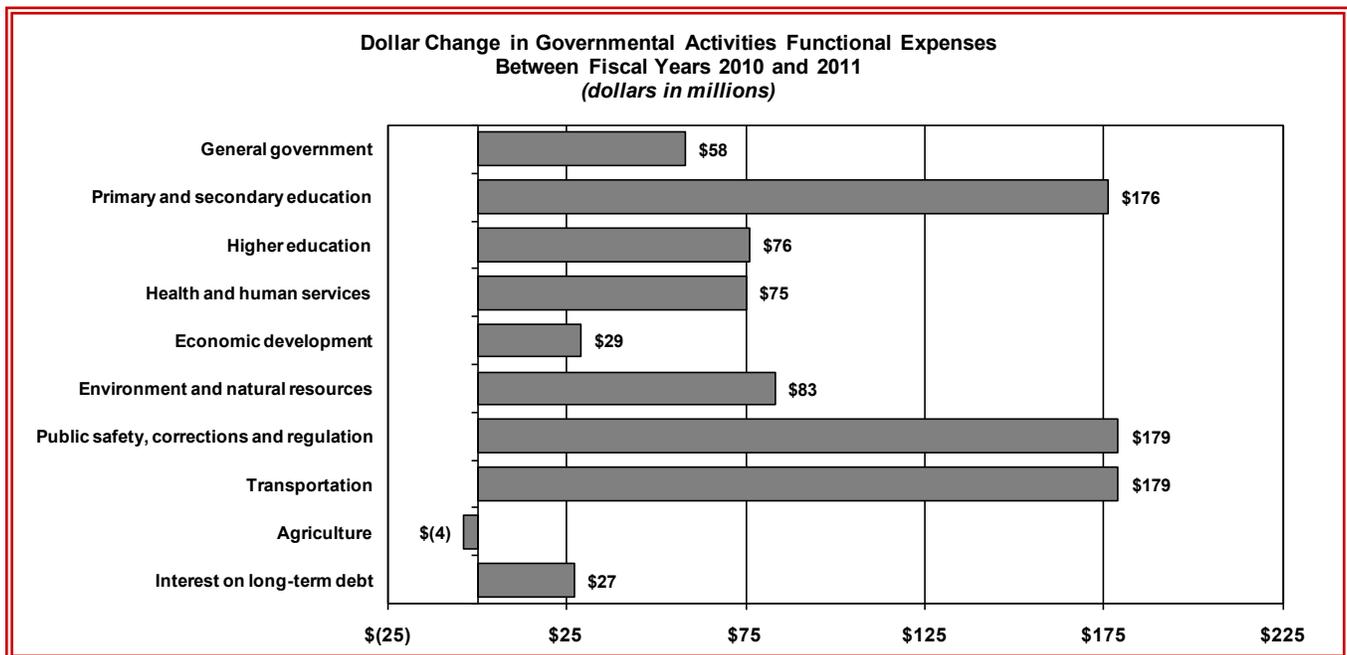


## Statement of Activities (cont'd)

The following chart reflects the dollar change in the revenues by source of governmental activities between fiscal years 2010 and 2011.



The following chart reflects the dollar change in the functional expenses of governmental activities between fiscal years 2010 and 2011.

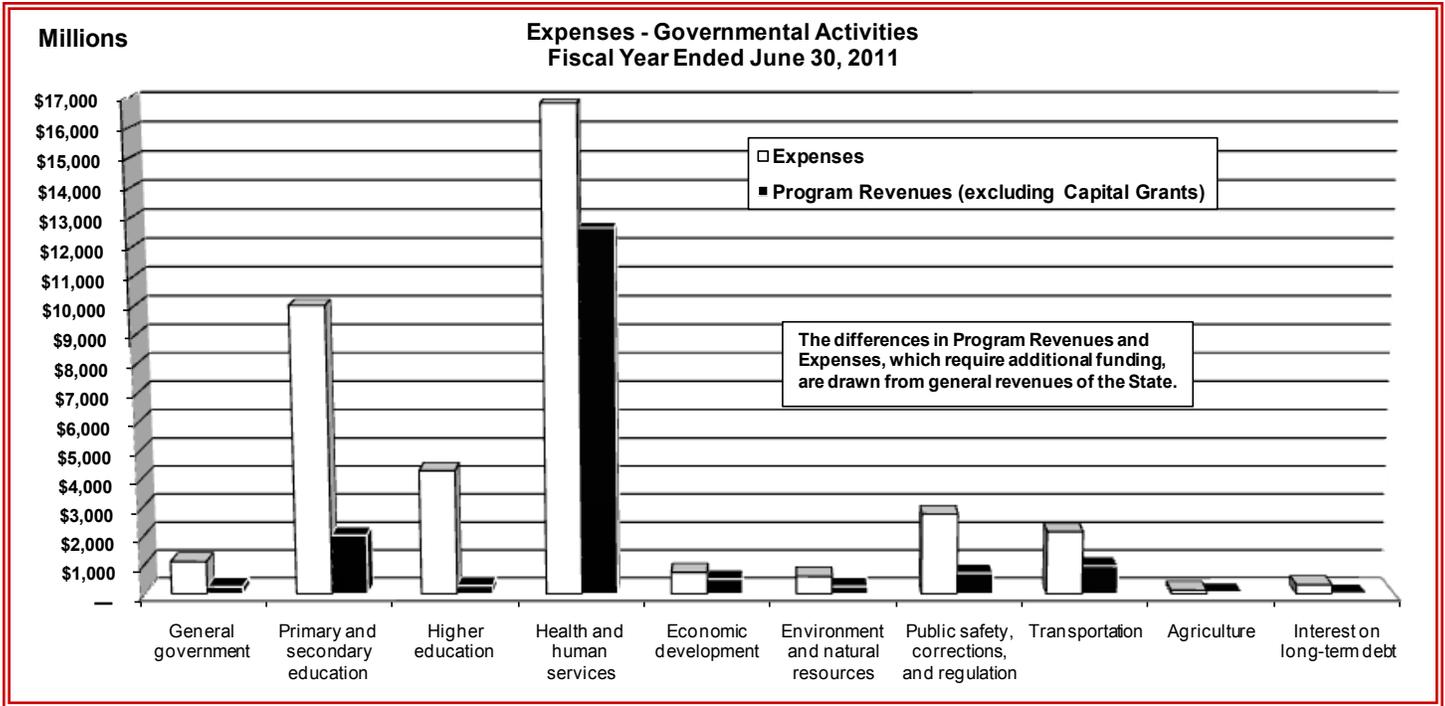


# Financial Highlights — Fiscal Year 2011



## 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.



**NC Beaches, Hamocks Beach State Park**

*Photo Courtesy of VisitNC.com*

# Financial Highlights — Fiscal Year 2011



## Statement of Activities (cont'd)

The following schedule reflects the changes in the State's net assets over the last 5 years.

<b>CHANGES IN NET ASSETS</b>					
For the Fiscal Years 2007-2011					
(Dollars in Millions)					
	2011	2010	2009	2008	2007
<b>Expenses</b>					
Governmental activities:					
General government.....	\$ 1,123	\$ 1,066	\$ 1,429	\$ 1,232	\$ 1,264
Primary and secondary education.....	10,006	9,830	10,080	10,632	9,126
Higher education.....	4,308	4,232	3,952	4,207	4,500
Health and human services.....	16,838	16,763	16,172	14,952	14,117
Economic development.....	745	916	636	746	624
Environment and natural resources.....	609	526	718	754	673
Public safety, corrections, and regulation.....	2,796	2,617	2,741	2,627	2,466
Transportation.....	2,177	1,998	138	1,941	2,020
Agriculture.....	114	119	110	119	89
Interest on long-term debt.....	308	281	289	304	273
Total governmental activities expenses.....	<u>39,026</u>	<u>38,348</u>	<u>36,266</u>	<u>37,515</u>	<u>35,153</u>
Business-type activities:					
Unemployment Compensation.....	4,421	5,569	3,255	1,003	865
N.C. State Lottery.....	1,029	994	877	713	559
EPA Revolving Loan.....	43	31	8	12	14
N.C. Turnpike Authority..... [2]	5	5	4	—	—
Regulatory programs.....	79	67	38	35	31
Insurance programs.....	37	13	15	18	24
North Carolina State Fair.....	14	13	14	13	11
Other business-type activities.....	9	10	7	6	6
Total business-type activities expenses.....	<u>5,635</u>	<u>6,701</u>	<u>4,218</u>	<u>1,800</u>	<u>1,511</u>
Total primary government expenses.....	<u>\$ 44,661</u>	<u>\$ 45,050</u>	<u>\$ 40,484</u>	<u>\$ 39,314</u>	<u>\$ 36,663</u>
<b>Program Revenues:</b>					
Governmental activities:					
Charges for services:					
Transportation.....	\$ 709	\$ 705	\$ 740	\$ 777	\$ 782
Public safety, corrections, and regulation.....	542	512	510	502	430
General government.....	195	357	330	366	480
Other activities.....	631	502	535	536	468
Operating grants and contributions.....	15,632	15,838	14,006	12,301	12,026
Capital grants and contributions.....	1,199	711	1,036	827	759
Total governmental activities program revenues.....	<u>18,909</u>	<u>18,625</u>	<u>17,156</u>	<u>15,309</u>	<u>14,945</u>
Business-type activities:					
Charges for services:					
Unemployment Compensation.....	1,294	1,045	1,076	1,092	1,100
N.C. State Lottery.....	1,465	1,424	1,288	1,053	866
EPA Revolving Loan.....	20	20	17	17	16
N.C. Turnpike Authority.....	—	—	—	—	—
Regulatory programs.....	80	71	34	37	29
Insurance programs.....	16	16	17	17	14
North Carolina State Fair.....	15	13	13	15	12
Other business-type activities.....	9	9	8	6	6
Operating grants and contributions.....	2,998	3,251	1,111	84	106
Capital grants and contributions.....	12	8	41	7	—
Total business-type activities program revenues.....	<u>5,909</u>	<u>5,857</u>	<u>3,606</u>	<u>2,328</u>	<u>2,149</u>
Total primary government program revenues.....	<u>\$ 24,818</u>	<u>\$ 24,482</u>	<u>\$ 20,762</u>	<u>\$ 17,637</u>	<u>\$ 17,095</u>
<b>Net (expense) revenue</b>					
Governmental activities.....	\$ (20,117)	\$ (19,723)	\$ (19,110)	\$ (22,206)	\$ (20,207)
Business-type activities.....	273	(844)	(612)	529	639
Total primary government net expense.....	<u>\$ (19,844)</u>	<u>\$ (20,567)</u>	<u>\$ (19,722)</u>	<u>\$ (21,677)</u>	<u>\$ (19,569)</u>
<b>General Revenues and Other Changes in Net Assets</b>					
Governmental activities:					
Taxes					
Individual income tax.....	\$ 10,021	\$ 9,345	\$ 8,662	\$ 10,676	\$ 10,740
Corporate income tax.....	1,133	1,253	997	1,358	1,466
Sales and use tax.....	6,172	5,916	4,912	5,159	5,108
Gasoline tax.....	1,675	1,557	1,523	1,580	1,602
Franchise tax.....	794	905	799	739	671
Highway use tax.....	470	440	441	566	608
Insurance tax.....	501	507	500	506	487
Beverage tax.....	312	295	264	258	246
Inheritance tax.....	24	72	104	158	163
Tobacco products tax..... [1]	292	278	242	250	242
Other tax.....	301	322	317	339	331
Tobacco settlement.....	131	146	176	169	144
Federal grants not restricted to specific programs.....	—	—	—	—	—
Unrestricted investment earnings.....	33	29	67	238	212
Miscellaneous.....	45	37	63	49	47
Contributions to permanent funds.....	3	3	3	4	4
Transfers.....	371	434	422	347	313
Total governmental activities.....	<u>22,279</u>	<u>21,539</u>	<u>19,492</u>	<u>22,396</u>	<u>22,382</u>
Business-type activities:					
Miscellaneous.....	—	—	—	—	—
Transfers.....	(371)	(434)	(422)	(347)	(313)
Total business-type activities.....	<u>(371)</u>	<u>(434)</u>	<u>(422)</u>	<u>(347)</u>	<u>(313)</u>
Total primary government.....	<u>\$ 21,908</u>	<u>\$ 21,105</u>	<u>\$ 19,069</u>	<u>\$ 22,049</u>	<u>\$ 22,070</u>
<b>Change in Net Assets</b>					
Governmental activities.....	\$ 2,162	\$ 1,816	\$ 382	\$ 190	\$ 2,175
Business-type activities.....	(98)	(1,278)	(1,035)	182	326
Total primary government.....	<u>\$ 2,064</u>	<u>\$ 538</u>	<u>\$ (653)</u>	<u>\$ 372</u>	<u>\$ 2,501</u>

[1] Prior to 2007 tobacco products tax was included in other tax. A significant increase in the tobacco products tax rate determined the need to present tobacco products tax separately beginning 2007.

[2] For fiscal year 2010, N.C. Turnpike Authority is a major enterprise fund. Prior to 2010, it was included with other component units.

# Financial Highlights — Fiscal Year 2011



## Capital Assets

As of June 30, 2011, the State's investment in capital assets was \$40.208 billion, an increase of 5.76% from the previous fiscal year-end.

Capital Assets as of June 30, 2011 (net of depreciation, dollars in thousands)						
	Governmental Activities		Business-type Activities		Total	
	2011	2010 (as restated)	2011	2010 (as restated)	2011	2010 (as restated)
Land and permanent easements.....	\$ 14,387,050	\$ 13,728,792	\$ 118,255	\$ 53,227	\$ 14,505,305	\$ 13,782,019
Buildings.....	2,250,828	2,117,904	29,575	30,787	2,280,403	2,148,691
Machinery and equipment.....	575,296	605,619	6,321	6,742	581,617	612,361
Infrastructure:						
State highway system.....	19,532,260	18,804,143	—	—	19,532,260	18,804,143
Other infrastructure.....	138,697	117,470	5,409	5,911	144,106	123,381
Computer software.....	16,020	16,956	45	69	16,065	17,025
Art, literature, and other artifacts.....	86,827	85,506	—	—	86,827	85,506
Construction in progress.....	2,353,424	2,127,760	578,899	260,546	2,932,323	2,388,306
Computer software in development.....	128,905	55,788	—	—	128,905	55,788
Total.....	<u>\$ 39,469,307</u>	<u>\$ 37,659,938</u>	<u>\$ 738,504</u>	<u>\$ 357,282</u>	<u>\$ 40,207,811</u>	<u>\$ 38,017,220</u>
Total percent change between fiscal years 2011 and 2010	4.80 %		106.70 %		5.76 %	

The largest component of capital assets is the State highway system. North Carolina has a 79,330 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 2010) noted that while the system continues to grow, the traditional highway maintenance funds have increased, but not enough to keep up with inflation and system growth.



**Anchor at Queen Anne's Revenge Wreck Site**

*Photo Courtesy of Dale Hansen*

The Department of Transportation (DOT) had construction outlays of \$2 billion for the State highway system. Additionally, the N.C. Turnpike Authority (Authority), a separate business unit of DOT, had construction outlays of \$383 million for toll road projects. The Authority's largest project was for the Triangle Expressway, the State's first modern toll road now under construction.

The Department of Correction (DOC) had construction outlays of \$89.8 million for new prison facilities. The largest project was for the construction of a regional 120 bed medical center and a 216 bed mental health center at Central Prison in Raleigh. At year-end, construction in progress for this project totaled \$104.8 million. The medical and mental health facilities are expected to be completed in the fall of 2011. The DOC is undertaking construction initiatives to address a prison cell shortfall and to allow for the implementation of sentencing reform.

The Green Square Complex is being constructed for the Department of Environment and Natural Resources (DENR), which will include office space for DENR employees, the Nature Research Center, and an underground parking deck. This project utilizes principles of green building and sustainable design. At year-end, additions to construction in progress for this project totaled \$56.5 million. This complex is scheduled to be completed in 2012.

# Financial Highlights — Fiscal Year 2011



## Debt Administration

At year-end, the State had total long-term debt outstanding of \$8.096 billion, an increase of 12.73% from the previous fiscal year-end.

<b>Outstanding Debt as of June 30, 2011</b>						
<b>Bonds, Special Indebtedness, and Notes Payable</b>						
<i>(dollars in thousands)</i>						
	<b>Governmental</b>		<b>Business-type</b>		<b>Total</b>	
	<b>Activities</b>		<b>Activities</b>			
	2011	2010 (as restated)	2011	2010 (as restated)	2011	2010 (as restated)
General obligation bonds.....	\$ 4,846,205	\$ 5,270,660	\$ —	\$ —	\$ 4,846,205	\$ 5,270,660
Special Indebtedness:						
Lease-purchase revenue bonds.....	205,045	215,045	—	—	205,045	215,045
Certificates of participation.....	824,860	872,600	—	—	824,860	872,600
Limited obligation bonds.....	1,060,745	580,705	—	—	1,060,745	580,705
GARVEE bonds.....	373,080	434,825	—	—	373,080	434,825
Revenue bonds.....	—	—	856,678	622,758	856,678	622,758
Notes payable.....	25,038	30,538	269,030	74,565	294,068	105,103
<b>Total .....</b>	<b>\$ 7,334,973</b>	<b>\$ 7,404,373</b>	<b>\$ 1,125,708</b>	<b>\$ 697,323</b>	<b>\$ 8,460,681</b>	<b>\$ 8,101,696</b>
Total percent change between fiscal years 2011 and 2010	<b>(0.94)%</b>		<b>61.43 %</b>		<b>4.43 %</b>	

During the 2010-11 fiscal year, the State issued \$500 million in limited obligation bonds for its governmental activities. The proceeds of the bonds will be used to finance various State and university capital improvement projects, which were authorized for special indebtedness financing by previous sessions of the General Assembly. Additionally, the N.C. Turnpike Authority, a business-type activity, issued \$233.92 million in revenue bonds and had additional borrowings of \$195.8 million from a federal transportation loan. The revenue bond proceeds will be used to finance the construction of the Monroe Connector System, a 20 mile toll road in Mecklenburg and Union counties. The federal loan proceeds will be used to finance construction of the Triangle Expressway, a 19 mile toll road in Durham and Wake counties.

The State refinanced \$818.92 million of its existing debt in fiscal year 2011 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 \$30.3 million over the next 12 years.

The State's total long-term debt (bonds, special indebtedness, and notes payable) has increased significantly in recent years, rising from \$3.478 billion in 2002 to \$8.461 billion in 2011, in part due to large issuances for higher education capital projects. Prior to 2004, the State only issued general obligation debt.



*Snow on Trees, Roan Mountain*

*Photo Courtesy of VisitNC.com*

# Financial Highlights — Fiscal Year 2011



## Demographic and Economic Indicators

The following tables illustrate comparative employment information for the State.

### **PRINCIPAL EMPLOYERS**

For the Fiscal Years 2002 & 2011

<u>Employer</u>	<u>2011</u>			<u>2002</u>		
	<u>Employees</u>	<u>Rank</u>	<u>Percentage of Total State Employment</u>	<u>Employees</u>	<u>Rank</u>	<u>Percentage of Total State Employment</u>
State of North Carolina	180,000-184,999	1	4.51%	160,000-164,999	1	4.37%
Federal Government	65,000-69,999	2	1.67%	60,000-64,999	2	1.68%
Wal-Mart Associates, Inc	50,000-54,999	3	1.30%	35,000-39,999	3	1.01%
Duke University	25,000-29,999	4	0.68%	20,000-24,999	5	0.61%
Charlotte Mecklenburg Hospital	25,000-29,999	5	0.68%	10,000-14,999	9	0.34%
Food Lion LLC	20,000-24,999	6	0.56%	25,000-29,999	4	0.74%
Wells Fargo Bank NA	20,000-24,999	7	0.56%	10,000-14,999	8	0.34%
Charlotte-Mecklenburg Board of Education	15,000-19,999	8	0.43%	15,000-19,999	7	0.47%
Wake County Public schools	15,000-19,999	9	0.43%	10,000-14,999	10	0.34%
Lowes Home Centers, Inc	15,000-19,999	10	0.43%	—	—	—
IBM Corporation	—	—	—	15,000-19,999	6	0.47%
<b>Total</b>	<b>430,000-479,990</b>		<b>11.25%</b>	<b>360,000-409,990</b>		<b>10.37%</b>

### **TEACHERS AND STATE EMPLOYEES BY FUNCTION**

For the Fiscal Years 2007-2011

<u>Functions</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>
General government.....	6,325	6,424	6,362	6,188	6,045
Primary and secondary education.....	157,380	154,107	163,322	163,113	160,086
Higher education:					
Universities.....	62,928	61,723	61,299	59,084	56,964
Community colleges.....	19,746	18,730	17,027	16,480	15,935
Health and human services.....	20,382	20,919	22,094	21,276	21,128
Economic development.....	2,767	2,524	2,474	2,558	2,623
Environment and natural resources.....	4,582	4,607	4,740	4,709	4,653
Public safety, corrections and regulations.....	33,555	32,657	33,431	32,600	31,971
Transportation.....	13,550	13,902	14,767	14,752	14,664
Agriculture.....	1,349	1,366	1,393	1,385	1,405
<b>Totals.....</b>	<b>322,564</b>	<b>316,959</b>	<b>326,909</b>	<b>322,145</b>	<b>315,474</b>

# Financial Highlights — Fiscal Year 2011



## CJLEADS



Session Law 2008-107, House Bill 2436 recognized the urgent need for state-of-the-art integrated criminal justice information and authorized the OSC to begin work on the CJLEADS (Criminal Justice Law Enforcement Automated Data Services) project.

CJLEADS integrates data found within the state's various criminal justice applications and provides up-to-date criminal information in a centralized location via a secure connection for use by state and local government criminal justice professionals. CJLEADS has two primary objectives: to provide a comprehensive view of an offender through a single application, allowing for positive identification of an offender through a photographic image; and to provide an "offender watch" capability to alert criminal justice professionals when an offender has a change in status. CJLEADS replaces the manual process of looking up historical criminal data from multiple systems, reduces the risk of overlooking critical data and improves the information needs of law enforcement agencies.

OSC involved more than 100 state employees and numerous law enforcement personnel including the FBI, DEA, Secret Service, and state and local law enforcement, judges, district attorneys, magistrates, clerks of court, and CIO's in the development of the business rules and the testing of the application.

In addition, OSC incorporated data from Administrative Office of the Courts, the Department of Correction, local jail data, sex offender registry and DMV images into CJLEADS. Currently, OSC has incorporated more than 42 million files, and when completed, CJLEADS will have access to more than 80 million files belonging to more than 13.6 million North Carolina offenders. Total spent to date on CJLEADS is about \$17.6 million. Including estimated FY 2011-2012 costs of \$7.7 million, the total cost of statewide deployment to 30,000 users is \$25.3 million-- or approximately 7% under budget.



*CJLEADS Sample Search Results Screen (demonstration data only – images blurred)*

OSC initially deployed CJLEADS to Wake County as a pilot in July, 2010. State Controller David McCoy began expanding CJLEADS statewide in November, 2010 and all kick-off meetings were completed in September 2011, approximately three months ahead of schedule. Training of courts, correction and law enforcement personnel will continue through June 2012.

CJLEADS, with its focus on innovation and ability to improve the safety of North Carolina citizens and criminal justice professionals, received significant national recognition. During this year, CJLEADS has received the following awards:

- ♦ 2011 Computerworld Honors Laureate
- ♦ 2011 SAS Enterprise Excellence Award (Government Sector)
- ♦ 2011 Council of State Government Innovations Award for the Southern Region
- ♦ 2011 *Information Week* Government Innovators Award

Additional information about CJLEADS can be found on our website <http://www.cjleads.nc.gov>. For an online demonstration of CJLEADS go to: [http://www.osc.nc.gov/cjleads/NCCJLeads\\_Demo\\_rev02.swf](http://www.osc.nc.gov/cjleads/NCCJLeads_Demo_rev02.swf).



## North Carolina Education Lottery



During fiscal year 2011, the North Carolina Education Lottery (NCEL) celebrated its fifth year of operation on March 30, 2011 and marked the anniversary by surpassing \$6 billion in overall sales and \$2 billion in overall contributions to the State and education.

Several records were set during the anniversary year. The NCEL achieved its fifth consecutive year of record sales with ticket sales totaling \$1.461 billion, up 2.8% from the year before. It also recorded its best week of sales ever the week of March 20-26, 2011, and its best quarter of sales, January through March of 2011.

During the year, the NCEL launched afternoon Carolina Pick 4 drawings and Sunday afternoon Carolina Pick 3 drawings to provide drawings in both games, twice a day, seven days a week. It also offered a \$200,000 a Year for Life instant ticket game, awarding the highest top instant prize in NCEL history. Other instant games included Harley-Davidson motorcycles as prizes and a trip to Las Vegas to compete in the World Series of Poker.

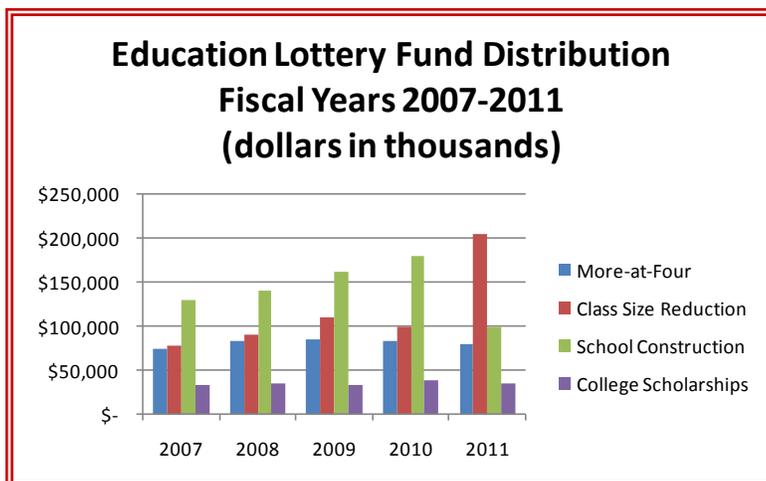
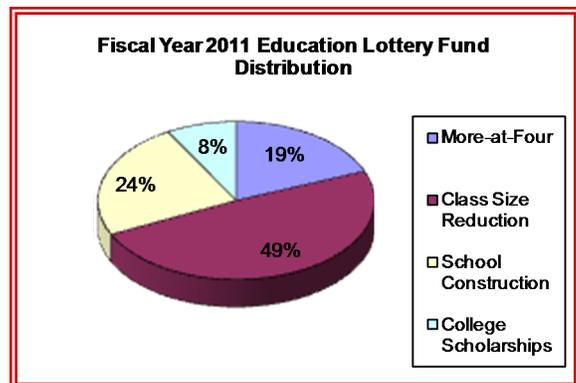
The number of retailers increased to 6,611, up 6% from the year before. The increase included the addition of the Harris-Teeter grocery store chain and Rite-Aid drug stores as lottery retailers. Overall, retailers earned \$102 million in sales commissions.

Education programs in North Carolina received \$419.5 million in fiscal year 2011 from the NCEL. As directed by the General Assembly, the NCEL also provided \$27.4 million to cover a shortfall in federal Medicaid monies. The fiscal year 2011 budget required that any excess revenues from fiscal year 2010 and half of any unclaimed prize money help cover that shortfall. Overall, the lottery provided \$5 million more to the State and education than projected in the lottery's original 2011 budget. At the end of the fiscal year, the NCEL's total contribution to the State and education exceeded \$2 billion.

With these dollars, 30,767 at-risk four year olds were able to attend preschool programs in high quality academic settings through the More-at-Four program, 3,731 salaries were provided for teachers in grades K-3, and 32,570 students received scholarships to state universities and community colleges.

For fiscal year 2011 the breakdown was as follows:

More-at-Four	\$ 79,325,837
Class Size Reduction	\$ 205,399,321
School Construction	\$ 99,997,623
College Scholarships	\$ 34,449,071

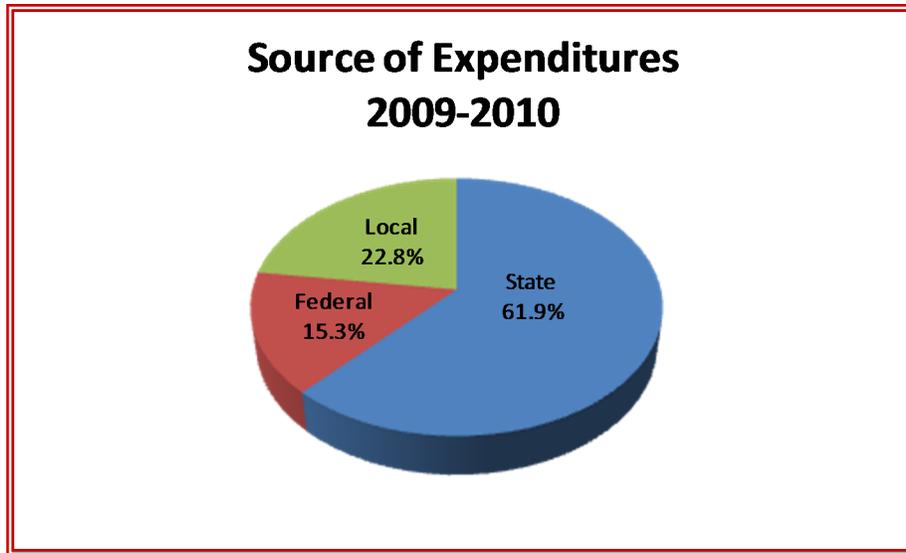


For School Construction, county specific information can be found at: <http://www.schoolclearinghouse.org>. Information provided by the North Carolina Education Lottery at [www.nc-educationlottery.org](http://www.nc-educationlottery.org).

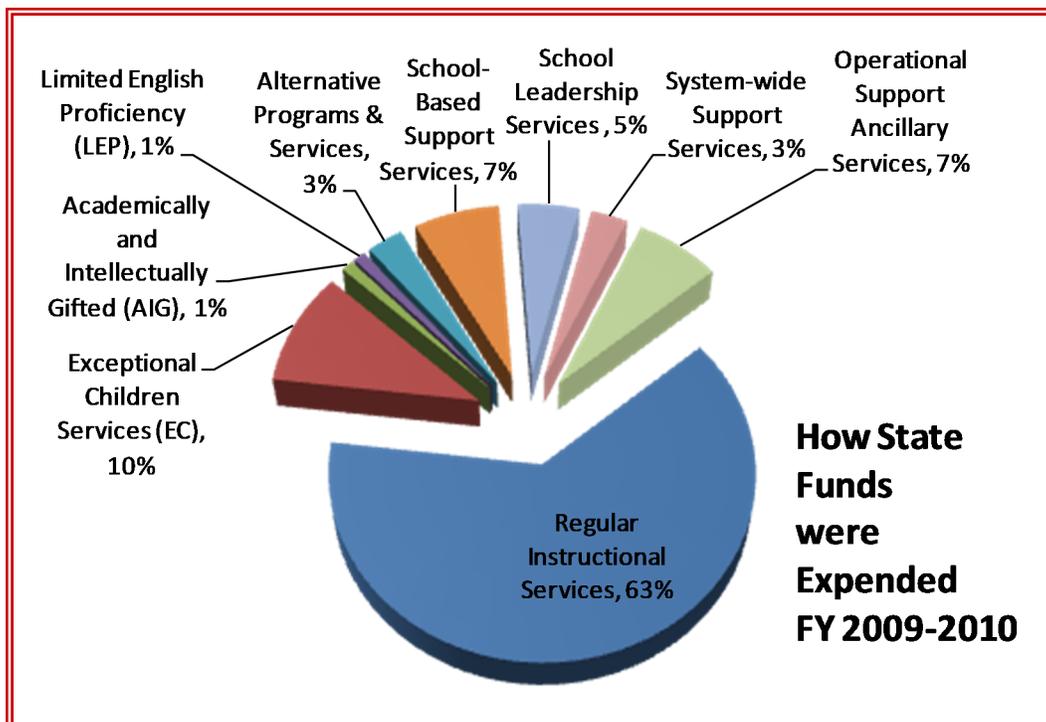


## Education Highlights

North Carolina ranks 10th in the Nation and 2nd in the Southeast for the highest percentage of funds from State revenue. The national average is 45.3%. Most other state school systems are primarily funded by locally driven initiatives such as property taxes and local bond issues.



Of the \$7.4 billion State Public School fund for FY 2009-2010, all but 10.2% was used for salaries and benefits. Funds for Transportation and Staff Development may also be used for salaries. Only 6.6% of the entire budget, therefore, could not be used for salaries and benefits.





## **Transportation Highlights**

For the fiscal year 2011, the North Carolina Department of Transportation (NCDOT) listed the following as some of its key Accomplishments:

- ◆ The N.C. Board of Transportation approved the department's first 10-Year Resource Plan, which is part of the larger Policy-to-Projects Work Program designed to take politics out of the transportation decision-making.
- ◆ Awarded 57 American Recovery and Reinvestment Act (ARRA) contracts for highway and bridge improvements.
- ◆ Completed 55 recovery contracts for highway and bridge improvements.
- ◆ Spent \$10.6 million in ARRA funds (along with \$1.1 million in matching funds) for public transit improvements.
- ◆ Began service of the Queen City Connector and Mountaineer North/South intercity bus routes.



***Blue Ridge Mountains, Autumn Leaf Train***

*Photo Courtesy of North Carolina Transportation Museum*

- ◆ 69% (\$2.8 billion) of NCDOT's total \$4.03 billion budget was distributed or expended externally from the agency on construction and maintenance contracts, grants to other entities, materials, equipment and supply purchases, PEF costs, right of way purchases, and all other costs. Of the \$240 million available for preliminary engineering work, almost 40% was paid to PEFs to complete preliminary engineering work.
- ◆ Awarded the second of two design-build-finance projects that will complete I-485 and improve an interchange between I-485 and I-85 in Charlotte. Used for the first time in North Carolina on these projects, this method adds a financing component to design-build, allowing the contractor to accept an extended payment schedule and secure funds, if necessary, to finance a portion of the project. The contract was \$8.6 million less than anticipated and the project will be completed years ahead of schedule.
- ◆ Awarded contract for Phase 2 of the I-85 Corridor Improvement Project in Davidson and Rowan counties, which includes widening nearly four miles of the interstate. It is the first project to receive money through the Mobility fund, created by Governor Beverly Perdue to fund projects of regional and statewide significance.
- ◆ Developed project selection criteria for the Mobility Fund based on input from stakeholders and the public. The N.C. Board of Transportation approved the criteria in December.
- ◆ Improved the condition of nearly 4,231 miles of highway across the State through contract resurfacing and chip seal surface treatments.
- ◆ Closed or improved more than 97 rail-highway at-grade crossings with lights, bells and gates to eliminate crossing safety hazards.

*Information provided by the NCDOT Communications Office. Additional information may be found on the NCDOT website [www.ncdot.gov](http://www.ncdot.gov).*



## **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, 2010. 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 13 consecutive years (fiscal years ended 1998-2010). We believe our current report continues to conform to the Popular Annual Financial Reporting requirements, and we are submitting it to the GFOA.

### **Award for Outstanding Achievement in Popular Annual Financial Reporting**

**PRESENTED TO**

**State of North Carolina**

**for the Fiscal Year Ended**

**June 30, 2010**



*Linda C. Sandson*  
President

*Jeffrey L. Esser*  
Executive Director