

North Carolina



Financial Highlights

Fiscal Year Ended June 30, 2014

Linda Combs, State Controller

North Carolina Office of the State Controller

<http://www.osc.nc.gov>

Cover Photo:

Pinehurst hosted the 2014 U.S. Open and U.S. Women's Open Championships in back-to-back weeks June 12-22, 2014, marking the first time in history that both tournaments were played in the same year, on the same course.

Information courtesy of www.pinehurst.com. Photo courtesy of www.visitNC.com.



I am pleased to present you with the ***North Carolina Financial Highlights*** for the fiscal year ended June 30, 2014. This ***popular report*** represents our continuing commitment to providing the highest standards of financial management and reporting, as well as fiscal accountability of the resources of the State of North Carolina. We hope you find this report both informative and beneficial. If you need additional copies or have questions about this report, please contact either me or our Statewide Accounting staff at (919) 707-0500.

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

Sincerely,

A handwritten signature in cursive script that reads "Linda Combs".

Linda Combs
State Controller
December 2 , 2014

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, 2014. 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) 707-0500, 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 organizations known as component units for which the State is financially accountable. The component units are discretely presented in the government-wide financial statements. The State's discretely presented major component units are the University of North Carolina System, the State's community colleges and the State Health Plan.

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

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



Dogwood Tree with Mountain View

Photo Courtesy of Bill Russ—VisitNC.com

The Economy

During fiscal year 2013-14, the economy continued to grow at a moderate pace. Economic conditions in the State, as well as the nation, reflected the ongoing improvements in the economy. For many industries, growth was strong enough to improve their economic output to levels last experienced in 2007, prior to the Great Recession. Despite the general improvement, employment and wage gains remained mixed. The unemployment rate dropped nearly two percentage points during the year. The rate fell from 8.3% to 6.3%. Unfortunately, much of the decline in the unemployment rate was from a shrinking labor force and not from increased employment. The State added 73,600 payroll jobs, which was slightly better than the gain of 70,800 the previous year. Likewise, the State's improvement in the overall economy did not lead to comparable improvement in wage and salary income. Wage and salary income grew by only 3%. The growth was much weaker than had been expected at the start of the year. For the second-half of 2014, improving economic conditions are expected to boost both employment and income growth. In 2015, wages are forecast to approach growth rates closer to the long-range average of 5.1%.



North Carolina Economic Indicators

	FY2012-13	FY2013-14	FY2014-15	FY2015-16
	Actual	Actual	Projected	Projected
State Gross Product*	3.00%	2.10%	3.40%	3.70%
Personal Income	3.50%	2.90%	4.70%	5.70%
Wages & Salaries	4.40%	3.00%	4.20%	5.60%
Retail Sales	5.50%	4.00%	5.90%	6.20%
Unemployment Rate	8.80%	7.00%	6.30%	6.10%
Employment (Nonagricultural)	1.70%	1.90%	2.10%	2.10%
Population	1.00%	1.10%	1.30%	1.50%
Existing Single-family Home Sales	23.20%	0.70%	2.90%	3.30%

*Adjusted for inflation

For North Carolina, as with the nation, the economy has strengthened, but not enough to eliminate the employment losses from the economic downturn. Economic indicators for the fiscal year point to growing improvements across the State. Despite adding 73,600 jobs during the fiscal year, industry employment was still down by 65,000 jobs compared to employment at the end of the 2007-08 fiscal year. Most private sector industries experienced modest growth, but employment in the construction industry continued to report declines. The modest gains in employment did not translate to similar gains in wage and salary income, which increased by only 3%.

Projections for the State's key 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, is expected to show solid growth in the next two fiscal years. Total personal income growth slowed in fiscal year 2013-14, but is expected to progress over the next two years. For the fiscal year, income rose 2.9%, well behind the strong growth of six to seven percent experienced in the years prior to the recession. Wage and salary income, a component of total personal income, grew at a weak 3% for the fiscal year. The weakness in wage and salary income growth was consistent with the mixed employment results. Going forward, stronger growth in total income is projected. This growth will result from a continually improving employment situation creating upward pressure on individual wages. A return to long-term growth levels in wage and salary income is forecast for 2015.

The recovery in North Carolina gained strength, and while the recovery gained traction it never accelerated during fiscal year 2013-14. The slow growing economy meant that the State would experience only modest job growth. Nevertheless, the unemployment rate at the end of the fiscal year fell to 6.4%. That compares to the 8.9% at the start of the fiscal year. Unfortunately, much of the decline in the rate was the result of a shrinking workforce. With a slow-growth economy and a soft employment picture, retail sales weakened, growing at a rate of 4%. The retail sales growth slowed from the previous year, falling below the average growth rate. Going forward, retail sales are expected to increase, growing at a pace one to two percentage points above the long-term average growth rate of 5%.

As the State's economy continues to progress, employment prospects are expected to improve, but a robust employment climate is not projected until 2015. All industry sectors experienced growth over the previous year with net employment growth of 1.9%. With the rebound in residential construction, the construction industry had employment gains during the fiscal year of 3.2%. This was the first time construction jobs had year-over-year gains since the recession ended. For 2015, modest improvement in all industries is expected to continue, increasing non-agricultural employment by 2.1%. This pace of growth will help reduce the unemployment rate even as more people come back into the workforce. The rate is projected to average 6.3% in fiscal year 2014-15 and 6.1% in fiscal year 2015-16.

Financial Highlights — Fiscal Year 2014



Manufacturing reached double-digit percentage losses in the last recession. During this fiscal year, the manufacturing sector saw little improvement adding only 2,000 jobs (0.1% growth). Manufacturing employment is now above 445,000. This is still 90,000 fewer jobs than at the start of the recession. Another hard-hit industry in the State was the financial sector. The financial market began to rebound in 2010, but employment is not expected to reach pre-recession numbers until 2016 at the earliest.

The housing recession and the subsequent adjustments in the real estate market have taken a very long time to unwind. A strong rebound in home sales was underway in 2012 mostly from pent-up demand from the long economic downturn. In fiscal year 2012-13, sales of existing homes increased by 23.2%. The growth, while impressive, hasn't been sustained. In 2014, annual existing home sales are projected to grow by less than one percent.

To summarize, economic conditions during most of the fiscal year experienced gradual improvement. The slowdown in the first quarter of 2014 highlighted how fragile the economy remains as bad weather and Middle East unrest momentarily derailed the economy's progress. By the next quarter, the economy was back on track and forecasts call for steady improvements into 2015 and 2016. The State's economy should track closely with the national economy. The anticipated strengthening of the economy should increase consumer demand and boost employment growth. These projected gains in employment will help to reduce the slack in the labor market and should place upward pressure on wages. Rising employment and wage gains will greatly improve the health of the economy as we move into 2015.

*— Economic analysis prepared by Barry Boardman, Ph.D., Chief Economist
North Carolina General Assembly, Fiscal Research Division
September 29, 2014*



Fraser Fir Tree Growing on an Ashe County Farm

Photo Courtesy of Bill Russ—VisitNC.com



Financial Highlights

Government-wide

- ◆ The State's total net position increased by \$3.98 billion or 10.39% as a result of this year's operations. Net position of governmental activities and business-type activities increased by \$2.68 billion (or 7%) and \$1.31 billion (or 814.71%), respectively. At year-end, the net position of governmental activities and business-type activities totaled \$40.88 billion and \$1.47 billion, respectively.
- ◆ Component units reported net position of \$23.11 billion, an increase of \$1.28 billion or 5.86% from the previous year. The majority of the net position increase is attributable to the University of North Carolina System, a major component unit.

Fund Financials

- ◆ The fund balance of the General Fund increased from \$1.3 billion at June 30, 2013 (as restated) to \$1.54 billion at June 30, 2014, an increase of 18.93%. The General Fund is the State's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.
- ◆ The fund balance of the Highway Fund decreased 37.53% to \$214.87 million at June 30, 2014. An increase in highway maintenance and preservation expenditures contributed to the fund balance decrease.
- ◆ The fund balance of the Highway Trust Fund increased 44.14% to \$878.12 million at June 30, 2014. The fund balance increase is primarily due to the continued growth in new car sales, which led to an increase in the highway use tax.
- ◆ The Unemployment Compensation Fund reported net position of negative \$370.52 million at June 30, 2014 compared to negative \$1.56 billion at June 30, 2013. The improvement in net position is attributable to the drop in the State's unemployment rate and the implementation of Session Law 2013-2. The amount owed to the federal government (that was advanced to finance State unemployment benefit payments) decreased 54.47% to \$980.99 million.
- ◆ Net ticket sales of the N.C. State Lottery Fund (Lottery) increased 8.85% from the previous fiscal year to \$1.84 billion. As required by law, the Lottery's net profit of \$503.14 million was transferred to the General Fund to support educational programs.
- ◆ The net position of the N.C. Turnpike Authority (Authority) increased 3.11% to \$276.77 million at June 30, 2014. Total operating revenues increased 83.16% to \$24.73 million primarily due to the increase in toll revenues. The Authority receives gap funding of debt service from the Highway Trust Fund.
- ◆ The net position of the EPA Revolving Loan Fund increased 7.63% to \$1.4 billion.



School of Fish in Outer Banks Water

Photo Courtesy of Bill Russ—VisitNC.com



Government-wide Financials

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

- ◆ Governmental activities cover most of the State's basic services such as health and human services, transportation and education. 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 Position

The Statement of Net Position presents all of the State's assets, deferred outflows of resources, liabilities, and deferred inflows of resources, with the sum of these components reported as "net position." The State's overall assets and deferred outflows of resources exceeded liabilities by \$42.35 billion (total primary government) at the close of the most recent fiscal year. Over time, increases and decreases in net position measure whether the State's financial position is improving or deteriorating. The State's overall net position increased \$3.98 billion or 10.39% (primary government) from the prior fiscal year. The following table was derived from the government-wide Statement of Net Position:

Net Position							
June 30, 2014 and 2013							
<i>(dollars in thousands)</i>							
	Governmental Activities		Business-type Activities		Total Primary Government		Total Percentage Change
	2013		2013		2013		
	2014	(as restated)	2014	(as restated)	2014	(as restated)	
Current and other non-current assets.....	\$ 9,597,064	\$ 9,930,173	\$ 3,376,535	\$ 3,217,875	\$ 12,973,599	\$ 13,148,048	(1.33%)
Capital assets, net.....	44,445,982	42,748,557	1,189,232	1,160,746	45,635,214	43,909,303	3.93%
Total assets.....	54,043,046	52,678,730	4,565,767	4,378,621	58,608,813	57,057,351	2.72%
Total deferred outflows of resources.....	216,489	133,808	—	—	216,489	133,808	61.79%
Long-term liabilities.....	8,351,377	8,984,911	2,632,779	3,824,232	10,984,156	12,809,143	(14.25%)
Other liabilities.....	5,028,412	5,622,920	462,752	393,657	5,491,164	6,016,577	(8.73%)
Total liabilities.....	13,379,789	14,607,831	3,095,531	4,217,889	16,475,320	18,825,720	(12.49%)
Net position:							
Net investment in capital assets.....	42,197,283	40,394,260	433,740	410,031	42,631,023	40,804,291	4.48%
Restricted.....	863,707	852,901	894	995	864,601	853,896	1.25%
Unrestricted.....	(2,181,244)	(3,042,454)	1,035,602	(250,294)	(1,145,642)	(3,292,748)	65.21%
Total net position.....	\$ 40,879,746	\$ 38,204,707	\$ 1,470,236	\$ 160,732	\$ 42,349,982	\$ 38,365,439	10.39%

The largest component of the State's net position (\$42.63 billion) reflects its investment in capital assets (land, buildings, machinery and equipment, state highway system, toll road system, and other capital assets), less related debt still outstanding that was used to acquire or construct those assets. Restricted net position is the next largest component (\$864.6 million). Net position is 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 position, consists of net position that does not meet the definition of "restricted" or "net investment in capital assets."

Financial Highlights — Fiscal Year 2014



Statement of Activities

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

Condensed Statement of Activities			
Primary Government			
For the Fiscal Year Ended June 30, 2014			
(Dollars in Thousands)			
	Primary Government		
	Governmental	Business-type	Total
	Activities	Activities	Total
Changes in Net Position			
Net (expense) revenue	\$ (20,670,752)	\$ 1,739,311	\$ (18,931,441)
General Revenues:			
Taxes:			
Individual income tax.....	10,576,575	—	10,576,575
Corporate income tax.....	1,318,091	—	1,318,091
Sales and use tax.....	5,839,362	—	5,839,362
Gasoline tax.....	1,907,803	—	1,907,803
Franchise tax.....	888,815	—	888,815
Highway use tax.....	596,801	—	596,801
Insurance tax.....	476,402	—	476,402
Beverage tax.....	342,784	—	342,784
Tobacco products tax.....	273,426	—	273,426
Other taxes.....	348,938	—	348,938
Tobacco settlement.....	139,169	—	139,169
Unrestricted investment earnings.....	19,452	—	19,452
Miscellaneous.....	184,502	3	184,505
Contributions to permanent funds.....	3,861	—	3,861
Transfers.....	429,810	(429,810)	—
Total general revenues, contributions, and transfers....	<u>23,345,791</u>	<u>(429,807)</u>	<u>22,915,984</u>
Change in net position.....	2,675,039	1,309,504	3,984,543
Net position — July 1, as restated	38,204,707	160,732	38,365,439
Net position — June 30.....	<u>\$ 40,879,746</u>	<u>\$ 1,470,236</u>	<u>\$ 42,349,982</u>

Governmental Activities:

- ◆ Revenues outpaced expenses and when combined with transfers from the State's business-type activities, an increase in net position of \$2.68 billion (or 7%) resulted for governmental activities.
- ◆ Total revenues decreased by 0.83% (\$347.11 million).
- ◆ Total expenses decreased by 1.74% (\$699.39 million).

Business-type Activities:

- ◆ Business-type activities reflect an overall increase in net position of \$1.31 billion or 814.71%, primarily because of the financial results of the Unemployment Compensation Fund.
- ◆ The net position increase of \$1.19 billion in the Unemployment Compensation Fund is explained by the drop in the State's unemployment rate and the implementation of Session Law 2013-2.
- ◆ The net position increase of \$8.35 million for the N.C. Turnpike Authority is due to transfers in from the Highway Trust Fund.
- ◆ The net position increase of \$99.53 million in the EPA Revolving Loan Fund is due to the recognition of federal capitalization grants.
- ◆ The N.C. State Lottery Fund has no net position since its net profits are distributed to the State's governmental activities, as required by statute.

Financial Highlights — Fiscal Year 2014



Statement of Activities (cont'd)

For fiscal year 2014, spending increases in the functional areas of transportation and general government were more than offset by spending decreases in health and human services, economic development, and the State's other functional areas. The decrease in health and human services is primarily due to decreased spending for Medicaid (the State's largest public assistance program). A new Medicaid management information system (NC Tracks), which maximizes paperless processing and improves administrative efficiency, became operational July 1, 2013. The decrease in economic development is due to State funding reductions to grantees and the transfer of the infrastructure portion of the Community Development Block Grant program from the Department of Commerce to the Department of Environment and Natural Resources. Higher education spending decreased during the current period due reductions in State appropriations and also to larger distributions of higher education bond proceeds in fiscal year 2013.

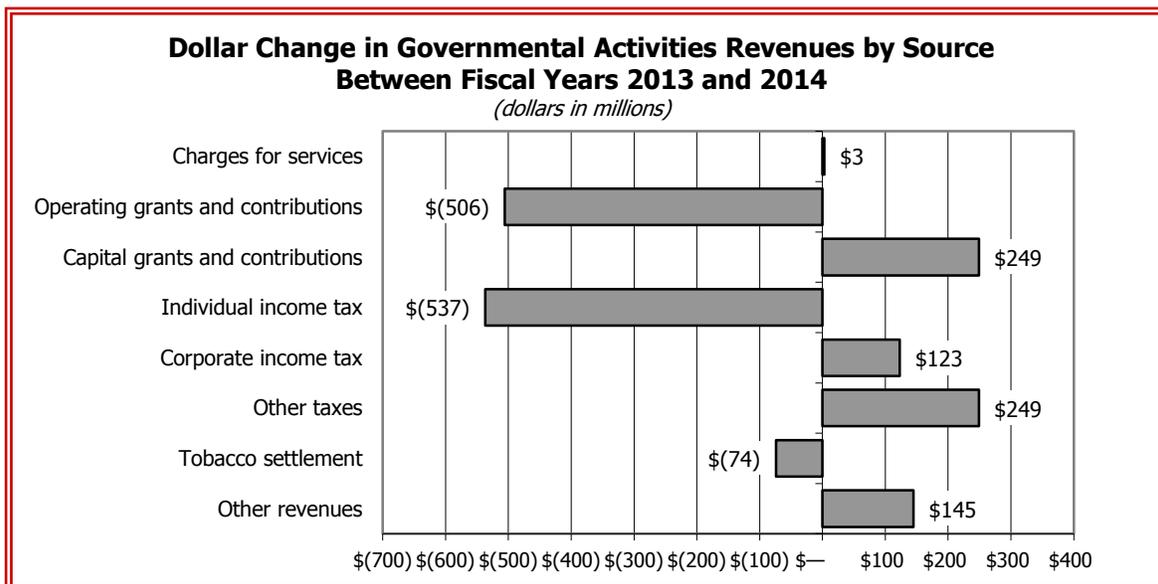
Condensed Schedule of Expenses & Program Revenues			
Primary Government			
For the Fiscal Year Ended June 30, 2014			
<i>(dollars in thousands)</i>			
Functions/Activities	Expenses	Program Revenues	Net (Expense) Revenue
Governmental Activities:			
General government.....	\$ 1,076,898	\$ 268,452	\$ (808,446)
Primary and secondary education.....	9,772,994	1,525,956	(8,247,038)
Higher education.....	3,901,543	142,392	(3,759,151)
Health and human services.....	17,812,888	13,202,069	(4,610,819)
Economic development.....	420,464	272,498	(147,966)
Environment and natural resources.....	484,718	270,143	(214,575)
Public safety, corrections, and regulation.....	2,911,146	743,651	(2,167,495)
Transportation.....	2,607,663	2,227,971	(379,692)
Agriculture.....	191,242	72,193	(119,049)
Interest on long-term debt.....	216,521	—	(216,521)
Total Governmental Activities.....	<u>39,396,077</u>	<u>18,725,325</u>	<u>(20,670,752)</u>
Business-type Activities:			
Unemployment Compensation.....	700,190	1,885,527	1,185,337
N.C. State Lottery.....	1,341,219	1,845,354	504,135
EPA Revolving Loan.....	27,789	113,539	85,750
N. C. Turnpike Authority.....	88,278	50,068	(38,210)
Regulatory commissions.....	75,734	80,558	4,824
Insurance programs.....	18,427	15,345	(3,082)
North Carolina State Fair.....	13,957	15,445	1,488
Other business-type activities.....	12,823	11,892	(931)
Total Business-type Activities.....	<u>2,278,417</u>	<u>4,017,728</u>	<u>1,739,311</u>
Total Primary Government.....	<u>\$ 41,674,494</u>	<u>\$ 22,743,053</u>	<u>\$(18,931,441)</u>

Financial Highlights — Fiscal Year 2014

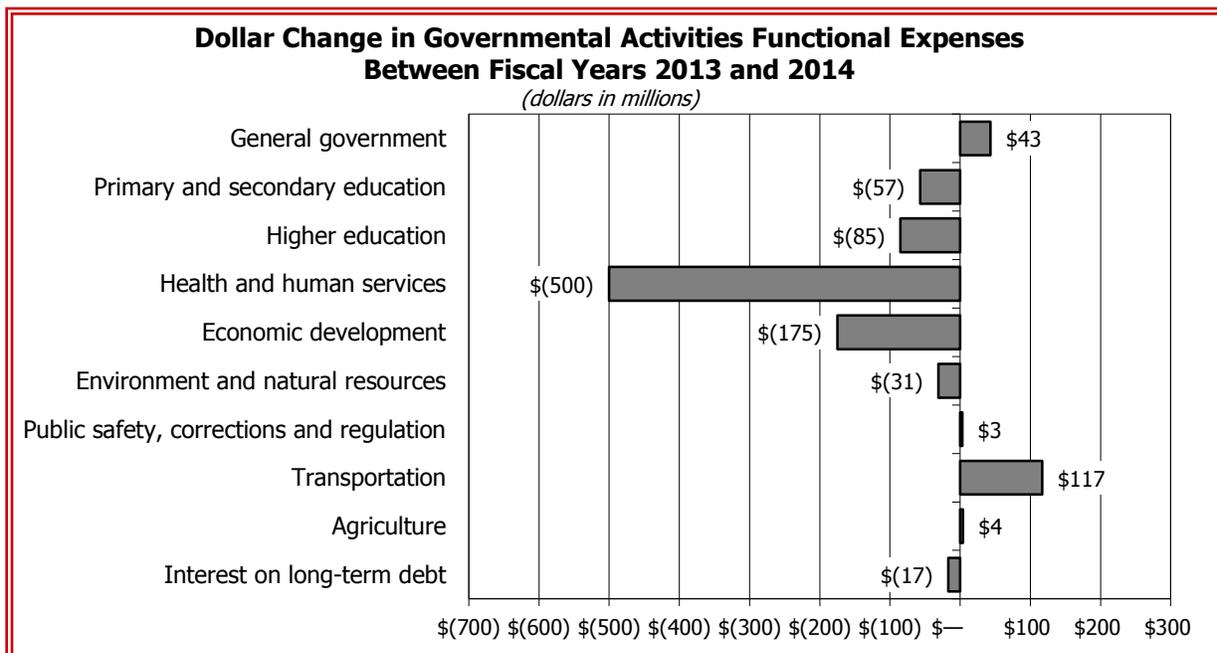


Statement of Activities (cont'd)

The following chart reflects the dollar change in the revenues by source of governmental activities between fiscal years 2013 and 2014.



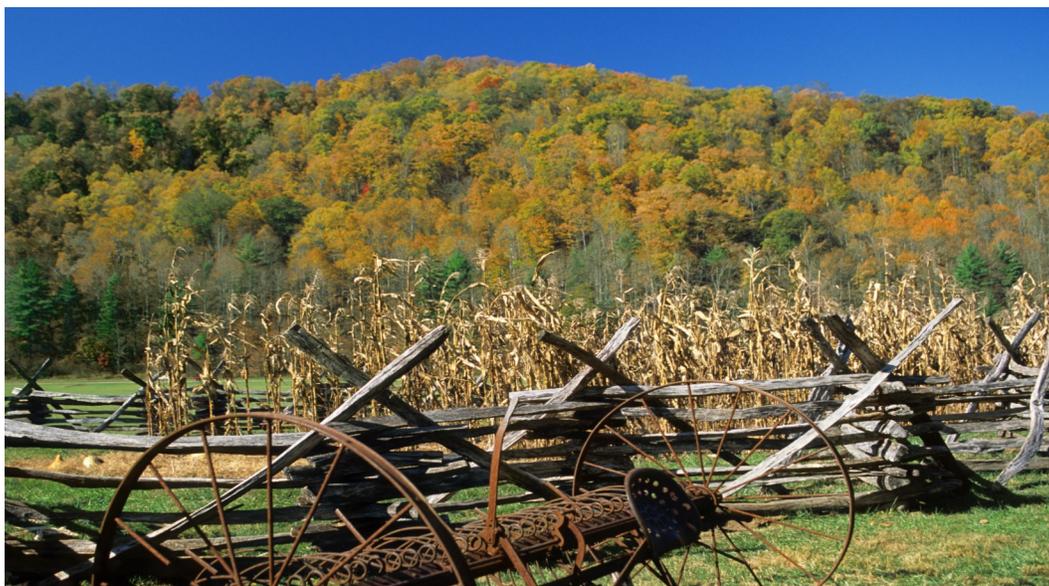
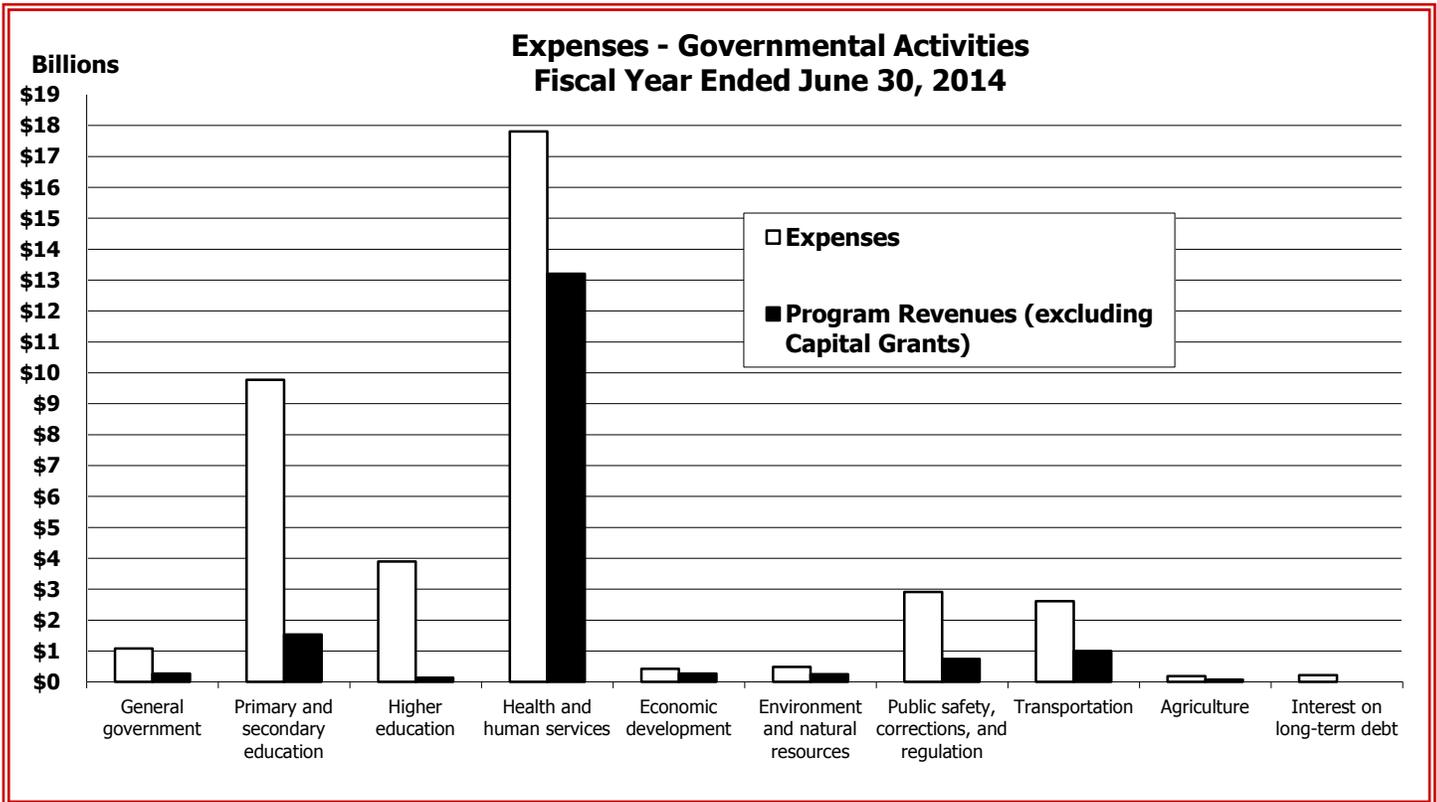
The following chart reflects the dollar change in the functional expenses of governmental activities between fiscal years 2013 and 2014.





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.



Cherokee Mountains with Corn and Fall Color

Photo Courtesy of Bill Russ—VisitNC.com

Financial Highlights — Fiscal Year 2014



Statement of Activities (cont'd)

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

CHANGES IN NET POSITION

For the Fiscal Years 2010-2014

(Dollars in Millions)

	2014	2013	2012	2011	2010
Governmental Activities					
Total Expenses.....	\$ 39,396	\$ 40,095	\$ 39,676	\$ 39,113	\$ 38,348
Total Tax Revenues.....	22,569	22,733	21,874	21,695	20,890
Total Other Revenues and Contributions.....	19,072	19,254	18,815	19,119	18,840
Total Transfers.....	430	449	402	372	434
Change in Net Position.....	<u>\$ 2,675</u>	<u>\$ 2,341</u>	<u>\$ 1,415</u>	<u>\$ 2,073</u>	<u>\$ 1,816</u>
Net Position - June 30.....	\$ 40,880	\$ 38,204	\$ 35,815	\$ 34,276	\$ 32,203
Business-type Activities					
Total Expenses.....	\$ 2,278	\$ 3,953	\$ 4,591	\$ 5,637	\$ 6,701
Total Revenues.....	4,018	4,831	5,194	5,911	5,857
Total Transfers.....	(430)	(449)	(402)	(372)	(434)
Change in Net Position.....	<u>\$ 1,310</u>	<u>\$ 429</u>	<u>\$ 201</u>	<u>\$ (98)</u>	<u>\$ (1,278)</u>
Net Position - June 30.....	\$ 1,470	\$ 161	\$ (268)	\$ (469)	\$ (372)
Total Primary Government					
Total Expenses.....	\$ 41,674	\$ 44,048	\$ 44,267	\$ 44,750	\$ 45,049
Total Revenues and Contributions.....	45,659	46,818	45,883	46,725	45,587
Change in Net Position.....	<u>\$ 3,985</u>	<u>\$ 2,770</u>	<u>\$ 1,616</u>	<u>\$ 1,975</u>	<u>\$ 538</u>
Net Position - June 30.....	\$ 42,350	\$ 38,365	\$ 35,547	\$ 33,807	\$ 31,831



Wilmington Boats and View of Waterfront

Photo Courtesy of VisitNC.com

Financial Highlights — Fiscal Year 2014



Capital Assets

As of June 30, 2014, the State's investment in capital assets was \$45.64 billion, an increase of 3.93% from the previous fiscal year-end.

Capital Assets as of June 30, 2014 <i>(net of depreciation, dollars in thousands)</i>						
	Governmental Activities		Business-type Activities		Total	
	2014	2013 (as restated)	2014	2013 (as restated)	2014	2013 (as restated)
Land and permanent easements.....	\$16,216,176	\$15,662,140	\$ 159,493	\$ 154,884	\$16,375,669	\$15,817,024
Buildings.....	2,774,775	2,770,566	32,765	31,821	2,807,540	2,802,387
Machinery and equipment.....	608,327	586,042	6,738	6,663	615,065	592,705
Infrastructure:						
State highway system.....	21,896,274	21,062,977	—	—	21,896,274	21,062,977
NC toll road system.....	—	—	778,576	794,705	778,576	794,705
Other infrastructure.....	167,716	161,260	4,645	4,976	172,361	166,236
Computer software.....	260,710	29,310	12	26	260,722	29,336
Art, literature, and other artifacts....	104,296	99,179	—	—	104,296	99,179
Construction in progress.....	2,072,576	1,923,523	207,003	167,671	2,279,579	2,091,194
Computer software in development...	345,132	453,560	—	—	345,132	453,560
Total.....	\$44,445,982	\$42,748,557	\$ 1,189,232	\$ 1,160,746	\$45,635,214	\$43,909,303
Total percent change between fiscal years 2013 and 2014	3.97 %		2.45 %		3.93 %	

The largest component of capital assets is the state highway system. North Carolina has a 79,578 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 2012) 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.

The major capital asset activity during the current fiscal year included the following:

- ◆ The N.C. Department of Transportation (DOT) reported year-end construction in progress of \$1.61 billion (including land improvements) for state highway projects.
- ◆ The N.C. Turnpike Authority (business-type activity) reported year-end construction in progress of \$135 million for the Monroe Connector System, a toll project in eastern Mecklenburg County.
- ◆ The Department of Health and Human Services (DHHS) is constructing new psychiatric hospitals to replace its aging state-operated psychiatric hospitals. DHHS began construction of a new Cherry Hospital in 2010 and a new Broughton Hospital in 2012. At year-end, construction-in-progress for Cherry Hospital and Broughton Hospital totaled \$203 million. The new hospitals are being financed by special indebtedness bonds.
- ◆ DHHS is replacing major legacy IT systems. NC Tracks, the new multi-payer Medicaid Management Information System, became operational on July 1, 2013 (total development cost of \$237 million). This system facilitates provider enrollment, consolidates claims processing activities, and supports healthcare administration. NC FAST, the new system for managing and administering social services benefits, will improve the way DHHS and the 100 county departments of social services conduct business. At year-end, computer software-in-development for NC FAST totaled \$248 million.



State Capital in Raleigh at Night

Photo Courtesy of Blackhorse Studio — VisitNC.com

Financial Highlights — Fiscal Year 2014



Debt Administration

At year-end, the State had total long-term debt outstanding (bonds, special indebtedness, and notes payable) of \$7.99 billion, a decrease of 7.1% from the previous fiscal year-end.

	Governmental Activities		Business-type Activities		Total	
	2014	2013	2014	2013	2014	2013
	General obligation bonds.....	\$ 3,607,100	\$ 3,999,580	\$ —	\$ —	\$ 3,607,100
Special Indebtedness:						
Lease-purchase revenue bonds....	4,125	20,915	—	—	4,125	20,915
Certificates of participation.....	247,615	508,500	—	—	247,615	508,500
Limited obligation bonds.....	2,132,085	1,993,740	—	—	2,132,085	1,993,740
GARVEE bonds.....	395,275	454,820	145,535	145,535	540,810	600,355
Revenue bonds.....	—	—	1,039,308	1,058,458	1,039,308	1,058,458
Notes payable.....	39,738	39,312	376,869	377,466	416,607	416,778
Total	<u>\$ 6,425,938</u>	<u>\$ 7,016,867</u>	<u>\$ 1,561,712</u>	<u>\$ 1,581,459</u>	<u>\$ 7,987,650</u>	<u>\$ 8,598,326</u>
Total percent change between fiscal years 2013 and 2014	(8.42)%		(1.25)%		(7.1)%	

During the 2013-14 fiscal year, the State issued \$506.26 million in refunding bonds to refinance previously outstanding general obligation bonds reported in governmental activities. This refinancing was done to take advantage of favorable interest rates. The result is expected to be a decrease in future debt service payments of \$53.3 million. The general obligation bonds are bonds secured by the full faith, credit, and taxing power of the State.

In connection with the refundings, all three rating agencies affirmed the triple-A credit rating for the State. The rating agencies recognized the State's historically conservative budgeting, financial management, and debt issuance practices. North Carolina remains one of only 10 states with a triple-A rating from all three rating agencies.



Sunrise on the Beach at Duck

Photo Courtesy of Bill Russ — VisitNC.com

The State's total long-term debt (bonds, special indebtedness, and notes payable) reported in governmental activities has increased significantly in recent years, rising from \$3.48 billion in 2002 to \$6.43 billion in 2014, in part due to large issuances for higher education capital projects. Prior to 2003, the State only issued general obligation debt.

The N.C. Turnpike Authority (Authority), a business-type activity, had its first debt issuance in 2010. The Authority's long-term debt has increased from \$691.56 million in 2010 to \$1.56 billion in 2014.



Demographic and Economic Indicators

The following tables illustrate comparative information for the State.

PRINCIPAL EMPLOYERS

For the Fiscal Years 2005 & 2014

<u>Employer</u>	<u>2014</u>			<u>2005</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	4.16%	165,000-170,000	1	4.11%
Federal Government.....	65,000-69,999	2	1.54%	60,000-64,999	2	1.53%
Wal-Mart Associates, Inc.....	45,000-59,999	3	1.20%	45,000-49,999	3	1.16%
Charlotte Mecklenburg Hospital.....	30,000-34,999	4	0.74%	15,000-19,999	9	0.43%
Duke University.....	30,000-34,999	5	0.74%	25,000-29,999	4	0.67%
Food Lion LLC.....	25,000-29,999	6	0.63%	20,000-24,999	5	0.55%
Wells Fargo Bank NA.....	25,000-29,999	7	0.63%	20,000-24,999	6	0.55%
Charlotte-Mecklenburg Board of Education..	20,000-24,999	8	0.51%	15,000-19,999	7	0.43%
Bank of America NA.....	20,000-24,999	9	0.51%	—	—	—
Wake County Public schools.....	20,000-24,999	10	0.51%	15,000-19,999	8	0.43%
IBM Corporation.....	—	—	—	15,000-19,999	10	0.43%
Total.....	460,000-519,990		11.17%	395,000-444,991		10.29%

TEACHERS AND STATE EMPLOYEES BY FUNCTION

For the Fiscal Years 2010-2014

<u>Functions</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>
General government.....	5,357	5,450	5,425	5,835	5,941
Primary and secondary education.....	157,205	165,167	162,124	157,380	154,107
Higher education:					
Universities.....	61,720	60,665	61,317	62,716	61,505
Community colleges.....	18,588	19,518	19,702	19,958	18,948
Health and human services (1).....	17,801	17,786	17,958	20,382	20,919
Economic development.....	3,003	2,722	2,415	2,767	2,524
Environment and natural resources (2).....	3,566	3,549	3,561	4,582	4,607
Public safety, corrections and regulation (1)..	33,635	34,668	34,650	34,045	33,140
Transportation.....	13,309	13,170	13,175	13,550	13,902
Agriculture (2).....	2,081	2,110	2,064	1,349	1,366
Totals.....	316,265	324,805	322,391	322,564	316,959

(1) Starting in fiscal year 2012, Juvenile Justice and Delinquency Prevention is included in the public safety, corrections and regulation function; whereas in prior years it was included with the health and human services function.

(2) Starting in fiscal year 2012, the Division of North Carolina Forest Service and Division of Soil and Water Conservation are included in the agriculture function; whereas in prior years the divisions were included with the environment and natural resources function.

SCHEDULE OF POPULATION GROWTH

For the Fiscal Years 2010-2014

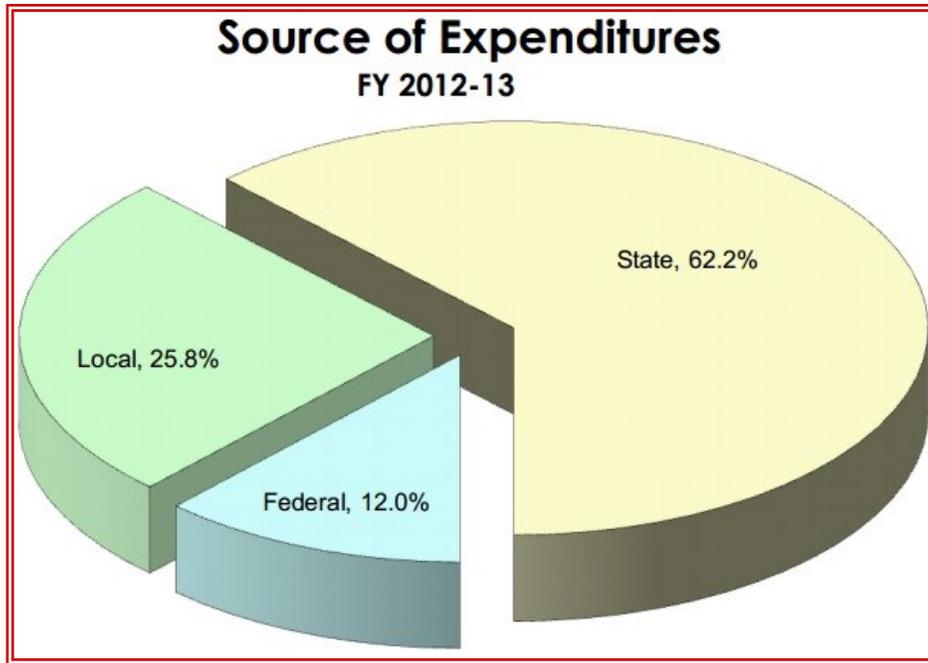
(population in millions)

<u>Year</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>% Change From 2010-2014</u>
United States	318.37	316.13	313.87	311.58	308.75	3.12%
North Carolina	9.94	9.85	9.75	9.65	9.54	4.19%

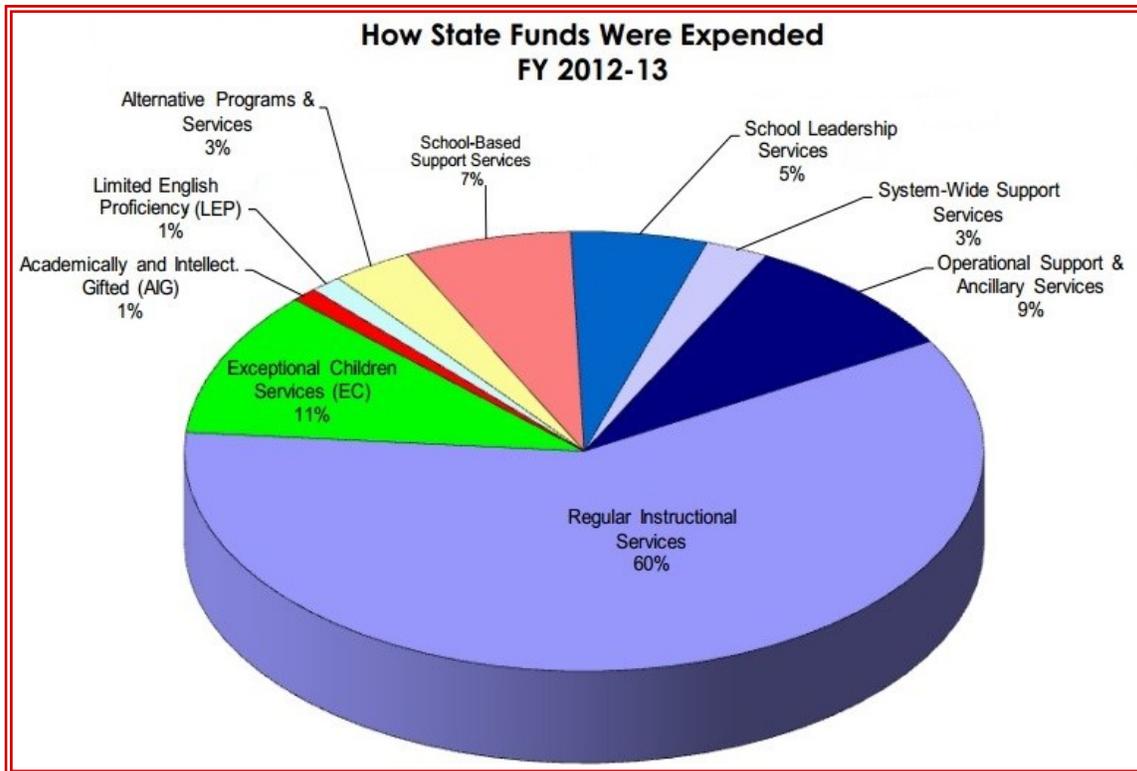


Education Highlights (Primary and Secondary)

North Carolina ranks 13th in the Nation and third in the Southeast for the highest percentage of funds from state revenue. The national average is 45.8%. Most other state school systems are primarily funded by locally driven initiatives such as property taxes and local bond issues.



Of the \$7.7 billion State Public School fund for FY 2012-2013, all but 10.4% was used for salaries and benefits.



Information provided by NC DPI at www.ncpublicschools.org.

Financial Highlights — Fiscal Year 2014



North Carolina Education Lottery

For the eighth year in a row, the N.C. Education Lottery completed its fiscal year by setting a record not only for lottery ticket sales but also for its contribution to education programs in North Carolina.

The Education Lottery ended the fiscal year on June 30, 2014 with \$1.84 billion in sales and \$503.1 million in earnings to the state to support education. Since inception on March 30, 2006 through the end of fiscal year 2014, the lottery surpassed \$11.49 billion in sales and exceeded \$3.4 billion in overall transfers to the state and education.

The instant product continued to be the largest revenue source, generating \$1.17 billion in sales. The lottery launched 47 new instant games during the year, including: A pair of \$20 games, \$120 Million Cash and \$4,000,000 Multiplier Spectacular; the Green & Gold game, which offered players for the first time a "Back Scratch" feature that allowed them to scratch both sides of the ticket; and a Caesars-branded game that, in addition to more than \$16.8 million in cash prizes, featured 20 trips to the Caesars casino in Las Vegas.



The lottery's Lucke-Rewards program allows lottery players to enter non-winning instant tickets and all draw tickets to receive points to use in weekly and monthly drawings. Membership had grown to more than 485,270 members as of the end of the fiscal year.

Recruitment and retention of retail locations continued to support ticket sales. In FY14, retailers earned \$128.5 million in sales commissions and the number of retailers stood at 6,802 to finish the year.

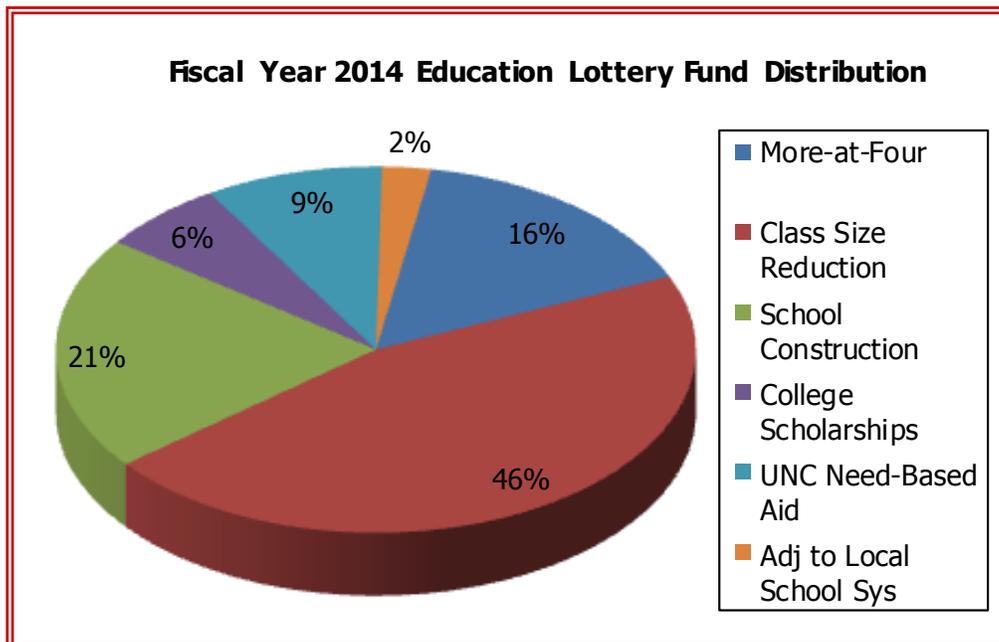
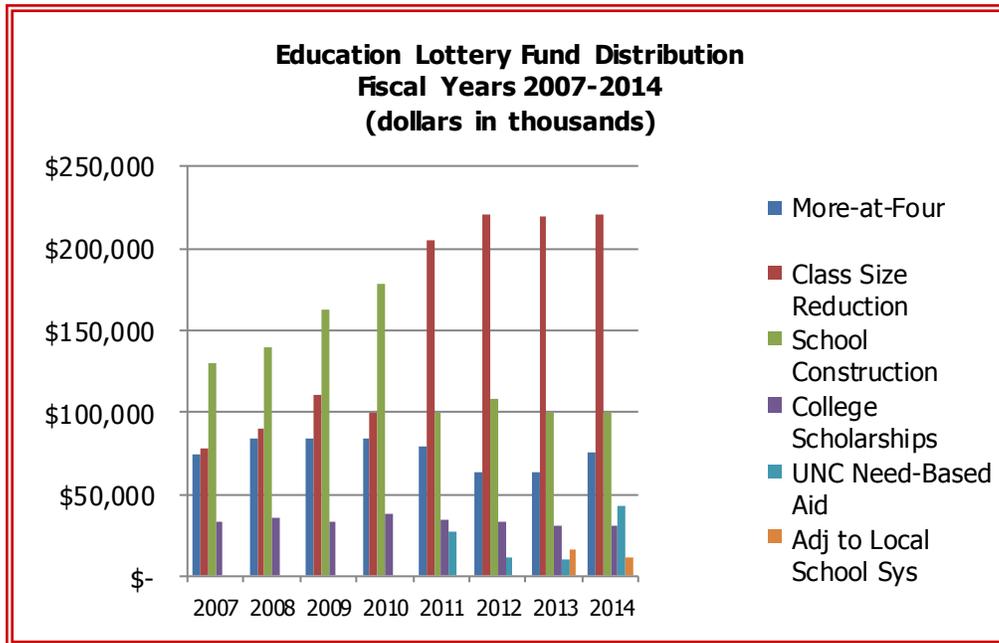
The State Lottery Act directs the lottery to increase and maximize the available revenues for education purposes. In FY14, a breakdown of lottery revenues showed 61.5 percent went to prizes, 27.3 percent for education programs that the lottery serves, 7 percent in retailer commissions and 4.2% for other purposes (1.7% for gaming vendors, 0.8% for advertising and 1.7% for other administrative expenses).

The Education Lottery transfers its net assets on a quarterly basis to the Office of State Budget and Management to the North Carolina State Lottery Fund. The monies are then distributed as outlined in the fiscal year 2014 budget approved by the General Assembly.



North Carolina Education Lottery (cont'd)

The following tables illustrate how lottery funds were distributed for education for fiscal year 2014:





Transportation Highlights

For the fiscal year 2014, the North Carolina Department of Transportation (NCDOT) listed the following as some of its key accomplishments:

- ◆ With the implementation of the Strategic Transportation Investments (STI) law, STI allows the State to prioritize its investments based on quantifiable needs and community input. Through STI, NCDOT will be able to schedule 475 projects compared to 175 under the old funding system. This will enable NCDOT to better address congestion issues, improve connectivity across all transportation modes and improve quality of life.
- ◆ The General Assembly passed legislation in 2014 to allow NCDOT to pursue sponsors for the roadside motorist assistance program called IMAP, as well as the rest areas and welcome centers, ferry system, highway beautification, Smartphone applications, weigh stations, print and electronic publications, and traveler information phone line (511).
- ◆ Through the State-Funded Bridge Improvement Program, the largest of its kind in state history, NCDOT is investing about \$800 million over four years to not only replace but also strategically preserve or rehabilitate existing bridges to help extend their lifespan and stretch existing resources further. For FY 2014, the N.C. General Assembly approved about \$180 million for NCDOT to improve bridges. This investment will result in: 100 fewer structurally deficient bridges, 146 fewer bridges in "poor" condition and 150 fewer posted bridges.
- ◆ The Triangle Expressway, North Carolina's first modern toll road, continued to exceed traffic and revenue projections. Receipts totaling \$19.7 million for FY 2014 exceeded the 2009 certified revenue forecast by 12 percent. Additionally, NC Quick Pass®, which allows drivers to use the Expressway at a discounted rate, is now interoperable with both E-ZPass® and Florida's SunPass®. The two agreements have expanded the versatility of the NC Quick Pass® system and allowed NC Quick Pass® to be the premiere transponder program along the east coast. The interoperable transaction totals for FY 14 total nearly 1.7 million.

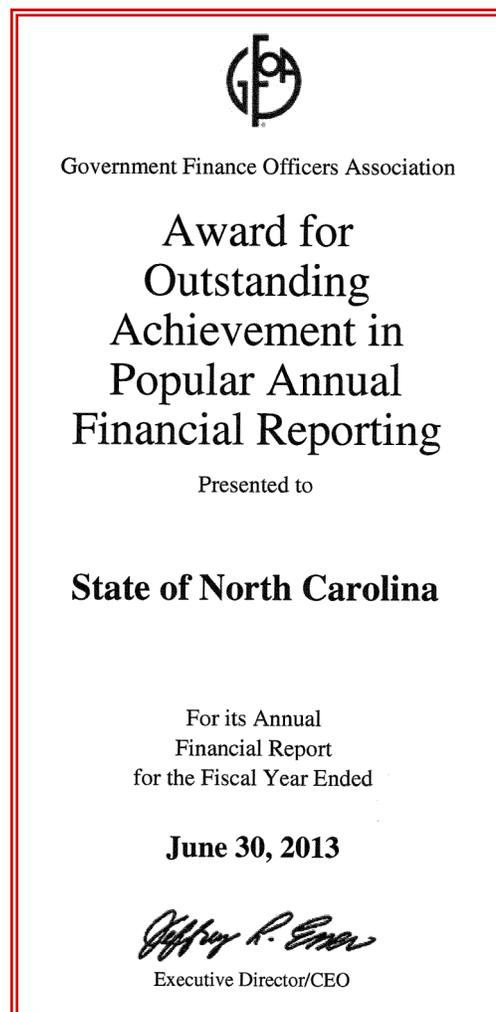


Award for Outstanding Achievement

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, 2013. 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 16 consecutive years (fiscal years ended 1998-2013). We believe our current report continues to conform to the Popular Annual Financial Reporting requirements, and we are submitting it to the GFOA.



25 copies of this public document were printed at a cost of \$51.60 or \$2.06 per copy.