

# North Carolina



## *Financial Highlights* *Fiscal Year 2004*

**Robert L. Powell, State Controller**

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**North Carolina Office of the State Controller**

**<http://www.ncosc.net>**

# North Carolina — *Financial Highlights* — Fiscal Year 2004

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I am pleased to present you with the *North Carolina Financial Highlights* for the fiscal year ended June 30, 2004. This *popular report* represents our continuing commitment in providing the highest standards of financial management and reporting, as well as fiscal accountability of the resources of the State of North Carolina reporting entity. We hope that you find this report both informative and beneficial and we welcome any questions or comments. If you need additional copies, or have questions about this report, please contact either me or our Statewide Accounting Division staff at (919) 981-5454.

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

Sincerely,

A handwritten signature in black ink that reads "Robert L. Powell". The signature is written in a cursive, flowing style.

Robert L. Powell  
State Controller  
December 17, 2004

## *Introduction*

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

The *popular report* is a report for the people. *North Carolina Financial Highlights* is the product of a coordinated effort on the part of state and local governments to issue simplified financial reports. It is our intent to provide you with information about the State's financial condition, without overwhelming detail and technical accounting terminology. This report contains financial information for the State's fiscal year ended June 30, 2004. The State's fiscal year starts July 1, and ends the following June 30. Information is presented in this report on the basis of generally accepted accounting principles (GAAP). This popular report and the State's complete financial statements, known as the CAFR, can be obtained on the internet at <http://www.ncosc.net>, by telephone at (919) 981-5454, or by writing to the N.C. Office of the State Controller, 1410 MAIL SERVICE CENTER, Raleigh, N.C. 27699-1410.

## ***State Reporting Entity and Its Services***

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The State of North Carolina reporting entity includes all of the departments, agencies, boards, commissions and authorities governed and legally controlled by the State's executive, legislative and judicial branches of government.

In addition, the popular report includes financial information for legally separate component units for which the State is financially accountable.

The State's component units are the University of North Carolina system, the State's community colleges, and various other organizations providing specific services to the public and private sector.

The State and its component units provide a broad range of services to its citizens, including  
public education;  
higher education;  
health and human services;  
economic development;  
environment and natural resources;  
public safety, corrections, and regulation;  
transportation;  
agriculture; and  
general government services.



Wildflowers in NC

## ***The Economy***

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A continuing problem for the economy is the subpar recovery in jobs. This is due to a combination of the movement of jobs overseas and the reticence of employers to ramp up staffing levels in an atmosphere of uncertainty. North Carolina is on the front line of this shift, due in part to NAFTA. This impact had begun well before the 2001 recession, as shown by the job growth data below:

### **N.C. Employment Growth In Selected Major Sectors**

<b>Year</b>	<b>Manufacturing</b>	<b>Finance</b>	<b>Services</b>
1994	0.5%	1.2%	7.6%
1995	0.5%	1.9%	4.5%
1996	-1.7%	8.2%	4.5%
1997	-1.0%	7.4%	5.7%
1998	-0.5%	5.3%	6.0%
1999	-2.5%	-0.4%	6.0%
2000	-2.4%	0.7%	3.3%
2001	-7.1%	4.6%	1.4%
2002	-8.6%	.7%	1.1%
2003	-6.1%	1.5%	.7%



# North Carolina — *Financial Highlights* — *Fiscal Year 2004*

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A second issue has to do with the impact of higher energy prices on consumer spending. From late winter 1998-99 to early summer 1999, gas prices in North Carolina rose from around 80 cents per gallon to \$1.00, and to \$1.25 by early 2000. Once motorists realized that the increase might be more than a temporary spike, they cut back on purchases of other items (except for vehicles).

One way to measure this impact is to look at gross state and local sales tax collections. After rising 8.6% for the second quarter of 1999, the rate of increase fell to 6.3% for the third quarter, 5.4% for the fourth quarter, and to 4.5% by the first quarter of 2000. This problem was compounded by the fact that heavy promotional activity by auto dealers propped up car sales. The net result of these factors meant that the additional dollars going to vehicle purchases and energy costs “crowded out” spending on other items.

So far the impact of higher energy prices in 2004 on the overall economy and retail sales has been muted. For one thing, the recovery in equity prices has enhanced the “paper wealth” of many investors. In addition, the substitution of natural gas and other energy sources for fuel oil has minimized the impact of higher fuel prices on manufacturing production costs and family budgets. A third factor is the cash received by homeowners who have refinanced their mortgages.

A concern is that financing for retail activity may be coming from additional credit card usage and such levels cannot be sustained indefinitely. A measure of this issue is the fact that unlike the 1992-94 recovery, sales tax collections are growing much faster than withholding tax receipts.

Due to this concern and the phase out of the impact of the 2001-03 federal tax cuts, the underlying national economic assumptions used in the budget reflect the expectation that growth will slow during the 2004-05 fiscal year.



**Executive Mansion, Raleigh**

For the 2004-05 fiscal year, we are budgeting on the basis of a continued subpar economic recovery in North Carolina, both in terms of the absolute level and the normal growth premium relative to the U.S. This experience would be very different from the explosive growth in the State’s economy during the last two recoveries.

# North Carolina — *Financial Highlights* — Fiscal Year 2004

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<b>NORTH CAROLINA INDICATORS</b>	<b>2001-02 <u>Actual</u></b>	<b>2002-03 <u>Actual</u></b>	<b>2003-04 <u>Actual</u></b>	<b>2004-05 <u>Projected</u></b>
Personal Income	2.2%	2.3%	5.2%	5.5%
Nonfarm Employment	-2.1%	-1.1%	0.1%	2.1%
Unemployment Rate (Actual Rate)	6.5%	6.5%	6.0%	5.4%
Average Hourly Earnings (Manufacturing)	2.6%	2.6%	4.4%	3.2%
Retail Sales	2.5%	1.1%	6.7%	3.9%
Housing Activity	7.3%	6.1%	17.0%	-14.3%
Auto Sales	-5.5%	-1.4%	8.5%	-10.9%

— *Economic analysis prepared by David Crotts*  
*Fiscal Research Division*  
*North Carolina General Assembly*  
*October 29, 2004*



Shackleford Banks on NC Coast

## *Financial Highlights*

**Government-wide.** The State's total net assets increased slightly as a result of this year's operations. While net assets of governmental activities increased by \$613.2 million, or nearly 2.7%, net assets of business-type activities decreased by \$204.5 million, or about 21.3% (decline related to the Unemployment Compensation Fund). At year-end, net assets of governmental activities and business-type activities totaled \$22.98 billion and \$754.1 million, respectively.

Component units reported net assets of \$10.66 billion, an increase of \$1.08 billion or 11.3% from the previous year. The majority of the increase (\$762 million) is due to the net increase in capital assets for the University of North Carolina System and community colleges (component units). The capital asset additions were financed in part by State debt proceeds.

GASB Statement No. 39, Determining Whether Certain Organizations are Component Units – an amendment of GASB Statement No. 14, became effective during the fiscal year. The beginning net assets of the University of North Carolina System and community colleges were increased by \$713 million to include nongovernmental component unit foundations.



Capitol Square, Raleigh

**Capital Assets.** The State's investment in capital assets (net of accumulated depreciation) was \$25.61 billion, which represents an increase of 7.7% from the previous fiscal year.

The largest component of capital assets, the State highway system, includes roadway surfaces, bridges, signage, railings, markings, traffic signals, and other structures related to the State's motor vehicle transportation system. The system includes 78,615 miles of roadway, constituting the second largest highway system in the nation. The system also includes 17,250 bridges spanning 380 miles. At year-end, the State reflected \$13.28 billion (net of accumulated depreciation) of highway system infrastructure.

Major capital asset activity included additions to the State highway system (\$1.2 billion), right-of-way acquisitions (\$510 million) and the acquisition/construction of correctional facilities (\$239 million).

**Long-term Debt.** The State had long-term debt outstanding of \$5.54 billion, an increase of 34.9% from the previous fiscal year-end. The long-term debt balance includes \$519.6 million of special obligation (non-voted) debt issued for governmental activities.

The State maintained its AAA bond rating with Standard and Poor's and Fitch. In August 2002, Moody's downgraded the State's credit rating for general obligation debt from "AAA" to "Aa1", representing the first time since 1960 that North Carolina had less than a "AAA" rating. In September 2004, Moody's revised the State's outlook to positive from stable.



# North Carolina — Financial Highlights — Fiscal Year 2004

**Statement of Net Assets.** The State's combined net assets increased \$408.7 million, or 1.8% over the course of this fiscal year's operations. The net assets of the governmental activities increased \$613.2 million or 2.7% and business-type activities had a decrease of \$204.5 million or 21.3%.

**Net Assets**  
**June 30, 2004 and 2003**  
(dollars in thousands)

	Governmental Activities		Business-type Activities		Total Primary Government	
	2004	2003	2004	2003	2004	2003
Current and other non-current assets.....	\$ 10,668,632	\$ 9,882,858	\$ 1,217,551	\$ 1,161,973	\$ 11,886,183	\$ 11,044,831
Capital assets, net.....	25,556,896	23,719,972	49,507	46,272	25,606,403	23,766,244
<b>Total assets.....</b>	<b>36,225,528</b>	<b>33,602,830</b>	<b>1,267,058</b>	<b>1,208,245</b>	<b>37,492,586</b>	<b>34,811,075</b>
Long-term liabilities.....	5,970,092	4,376,222	10,242	10,270	5,980,334	4,386,492
Other liabilities.....	7,274,030	6,858,429	502,697	239,375	7,776,727	7,097,804
<b>Total liabilities.....</b>	<b>13,244,122</b>	<b>11,234,651</b>	<b>512,939</b>	<b>249,645</b>	<b>13,757,061</b>	<b>11,484,296</b>
Net assets:						
Invested in capital assets, net of related debt.....	24,706,355	23,449,373	40,277	38,450	24,746,632	23,487,823
Restricted.....	1,454,729	1,068,233	665,547	863,426	2,120,276	1,931,659
Unrestricted.....	(3,179,678)	(2,149,427)	48,295	56,724	(3,131,383)	(2,092,703)
<b>Total net assets.....</b>	<b>\$ 22,981,406</b>	<b>\$ 22,368,179</b>	<b>\$ 754,119</b>	<b>\$ 958,600</b>	<b>\$ 23,735,525</b>	<b>\$ 23,326,779</b>

The largest component of the State's net assets (\$24.75 billion) reflects its investment in capital assets (land, buildings, machinery and equipment, State highway system, and other capital assets), less related debt still outstanding that was used to acquire or construct those assets. Restricted net assets are the next largest component (\$2.12 billion). Net assets are restricted when constraints placed on their use are either externally imposed or are imposed by law through constitutional provisions or enabling legislation. The remaining portion, unrestricted net assets, consist of net assets that do not meet the definition of *restricted* or *invested in capital assets, net of related debt*.

The government-wide statement of net assets for governmental activities reflects a negative \$3.18 billion unrestricted net asset balance. The State of North Carolina, like many other state and local governments, issues general obligation debt and distributes the proceeds to local governments and component units. The proceeds are used to construct new buildings and renovate and modernize existing buildings on the State's community college and university campuses, assist county governments in meeting their public school building capital needs, and to provide grants and loans



**Cape Hatteras Lighthouse, NC**

# North Carolina — *Financial Highlights* — *Fiscal Year 2004*

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to local governments for clean water and natural gas projects. Of the \$5.54 billion of total long-term debt outstanding at June 30, 2004, \$4.57 billion is attributable to debt issued as State aid to component units (universities and community colleges) and local governments.

The balance sheets of component unit and local government recipients reflect ownership of the related constructed capital assets without the burden of recording the debt obligation. The policy of selling general obligation bonds and funneling the cash proceeds to non-primary government (non-State) entities has been in place for decades. However, by issuing such debt, the State is left to reflect significant liabilities on its statement of net assets (reflected in the unrestricted net asset component) without the benefit of recording the capital assets constructed or acquired with the proceeds from the debt issuances. Additionally, as of June 30, 2004, the State's governmental activities have significant unfunded liabilities for compensated absences in the amount of \$327 million and a \$7.5 million cost settlement payable to the federal government. These unfunded liabilities also contribute to the negative unrestricted net asset balance for governmental activities.



**Madison County**



# North Carolina — Financial Highlights — Fiscal Year 2004

**Statement of Activities.** 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 ended June 30, 2004:

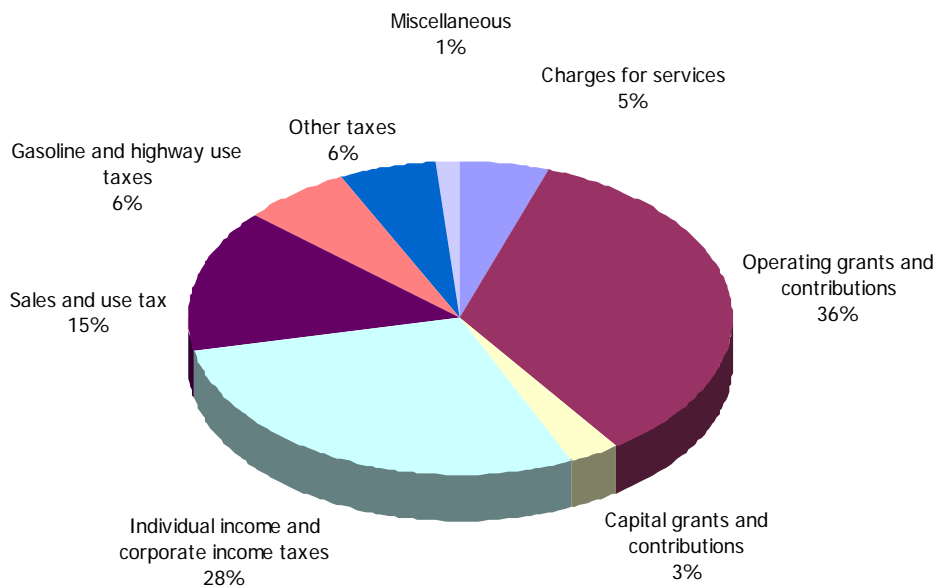
## Changes in Net Assets For the Fiscal Years Ended June 30, 2004 and 2003 (dollars in thousands)

	Governmental Activities		Business-type Activities		Total Primary Government	
	2004	2003	2004	2003	2004	2003
<b>Revenues:</b>						
<b>Program revenues:</b>						
Charges for services.....	\$ 1,505,090	\$ 1,339,016	\$ 926,891	\$ 688,786	\$ 2,431,981	\$ 2,027,802
Operating grants and contributions.....	10,108,124	9,042,843	305,053	504,550	10,413,177	9,547,393
Capital grants and contributions.....	884,345	527,498	892	1,241	885,237	528,739
<b>General revenues:</b>						
<b>Taxes</b>						
Individual income tax.....	7,407,455	7,122,099	—	—	7,407,455	7,122,099
Corporate income tax.....	760,180	921,611	—	—	760,180	921,611
Sales and use tax.....	4,293,040	4,029,403	—	—	4,293,040	4,029,403
Gasoline tax.....	1,276,627	1,154,986	—	—	1,276,627	1,154,986
Franchise tax.....	560,708	584,584	—	—	560,708	584,584
Highway use tax.....	578,346	552,759	—	—	578,346	552,759
Insurance tax.....	432,975	417,126	—	—	432,975	417,126
Beverage tax.....	213,271	198,848	—	—	213,271	198,848
Inheritance tax.....	128,352	112,150	—	—	128,352	112,150
Other taxes.....	313,985	289,261	—	—	313,985	289,261
Tobacco settlement.....	147,224	173,256	—	—	147,224	173,256
Federal grants not restricted to specific programs.....	136,859	136,859	—	—	136,859	136,859
Unrestricted investment earnings.....	77,225	103,987	—	—	77,225	103,987
Miscellaneous.....	62,601	41,137	3	—	62,604	41,137
<b>Total revenues</b> .....	<b>28,886,407</b>	<b>26,747,423</b>	<b>1,232,839</b>	<b>1,194,577</b>	<b>30,119,246</b>	<b>27,942,000</b>
<b>Expenses:</b>						
General government.....	807,248	773,807	—	—	807,248	773,807
Primary and secondary education.....	7,223,766	6,865,921	—	—	7,223,766	6,865,921
Higher education.....	3,140,794	2,814,375	—	—	3,140,794	2,814,375
Health and human services.....	11,729,904	10,611,537	—	—	11,729,904	10,611,537
Economic development.....	536,055	489,111	—	—	536,055	489,111
Environment and natural resources.....	599,575	538,032	—	—	599,575	538,032
Public safety, corrections and regulation.....	2,093,404	2,029,233	—	—	2,093,404	2,029,233
Transportation.....	1,870,578	1,640,007	—	—	1,870,578	1,640,007
Agriculture.....	82,394	73,974	—	—	82,394	73,974
Interest on long-term debt.....	191,228	151,258	—	—	191,228	151,258
Unemployment compensation.....	—	—	1,389,266	1,603,796	1,389,266	1,603,796
EPA Revolving Loan.....	—	—	5,342	4,266	5,342	4,266
Other business-type activities.....	—	—	43,014	30,750	43,014	30,750
<b>Total expenses</b> .....	<b>28,274,946</b>	<b>25,987,255</b>	<b>1,437,622</b>	<b>1,638,812</b>	<b>29,712,568</b>	<b>27,626,067</b>
Increase (decrease) in net assets before contributions and transfers.....	611,461	760,168	(204,783)	(444,235)	406,678	315,933
Contributions to permanent funds.....	2,068	1,806	—	—	2,068	1,806
Transfers.....	(302)	4,918	302	(4,918)	—	—
<b>Increase (decrease) in net assets</b> .....	<b>613,227</b>	<b>766,892</b>	<b>(204,481)</b>	<b>(449,153)</b>	<b>408,746</b>	<b>317,739</b>
Net assets - beginning - restated.....	22,368,179	21,601,287	958,600	1,407,753	23,326,779	23,009,040
Net assets - ending.....	<b>\$ 22,981,406</b>	<b>\$ 22,368,179</b>	<b>\$ 754,119</b>	<b>\$ 958,600</b>	<b>\$ 23,735,525</b>	<b>\$ 23,326,779</b>

# North Carolina — Financial Highlights — Fiscal Year 2004

As a result of this year's operations, the net assets of governmental activities increased by \$613.2 million or 2.7%. The net asset increase is primarily related to the overall growth in tax revenues (e.g., individual income, sales and use, and gasoline taxes) and spending reversions realized during the current fiscal year. The major exception to the growth in taxes was corporate taxes, which declined 17.5% from the previous fiscal year-end. Key factors in the decline in corporate taxes were reduced collections, an overall increase in the estimated refund rate, and the legislative suspension in the prior year of required distributions to special revenue funds. Although corporate profits were up, corporate tax collections were down because of tax code changes that allowed businesses to write-off expenses more quickly and the utilization of tax breaks and other incentives designed to attract new jobs to the State. Also, in the prior year, a portion of corporate income taxes, required to be distributed to special revenue funds, were retained by the General Fund to manage a budget shortfall.

The following chart depicts revenues of the governmental activities for the fiscal year June 30, 2004:

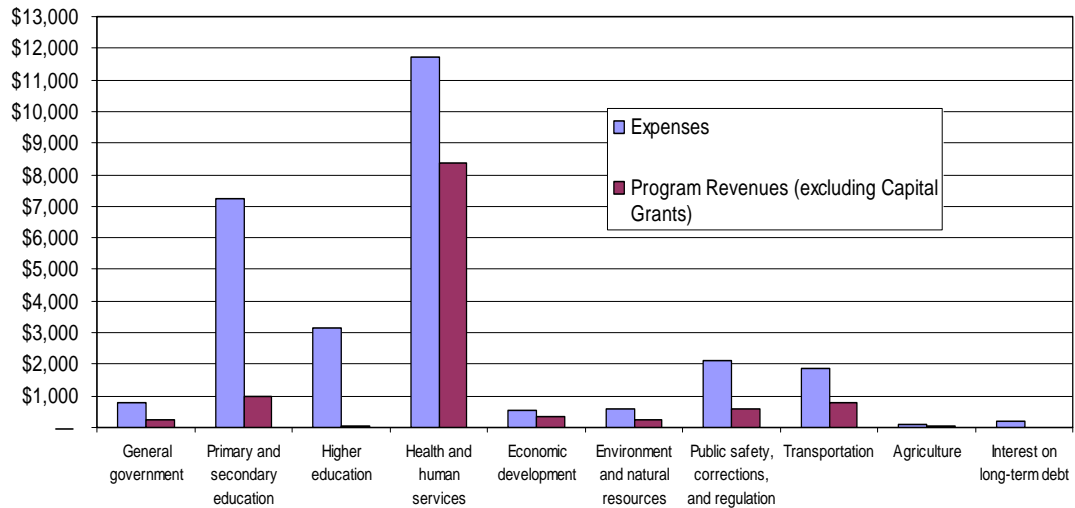


Total expenses of governmental activities grew by 8.8% during the current period (compared to total revenues growth of 8.0%). The majority of the spending growth was the result of funding increases in the State's two largest functional areas, education and health and human services. The increase in education spending is related to enrollment increases at the State's universities and community colleges and funding increases for the State's public schools. The growth in health and human services is the result of increased spending for Medicaid, which is the State's largest public assistance program. The growth in Medicaid is explained by an increase in individuals eligible for Medicaid services, a large increase in payments for dental services due to a lawsuit settlement that raised dental rates, and a significant increase in prescription drug payments and Disproportionate Share Hospital payments. There were also significant increases in the Electronic Benefits program due to higher client participation as a result of the recent economic downturn.

# North Carolina — *Financial Highlights* — Fiscal Year 2004

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

## Expenses - Governmental Activities Fiscal Year Ended June 30, 2004



**Tryon Palace**



# North Carolina — Financial Highlights — Fiscal Year 2004

**CAPITAL ASSETS.** As of June 30, 2004, the State's investment in capital assets was \$25.61 billion, which represents an increase of 7.7% from the previous fiscal year-end.

**Capital Assets as of June 30, 2004**  
(net of depreciation, dollars in thousands)

	<b>Governmental Activities</b>		<b>Business-type Activities</b>		<b>Total</b>	
	2004	2003	2004	2003	2004	2003
Land.....	\$ 8,300,655	\$ 7,713,505	\$ 2,563	\$ 2,563	\$ 8,303,218	\$ 7,716,068
Buildings.....	1,578,963	1,369,455	13,231	13,975	1,592,194	1,383,430
Machinery and equipment.....	562,864	551,155	1,314	1,047	564,178	552,202
Infrastructure:						
State highway system.....	13,284,267	12,444,212	—	—	13,284,267	12,444,212
Other infrastructure.....	76,859	80,489	7,866	8,669	84,725	89,158
Intangible assets.....	106,506	108,927	—	—	106,506	108,927
Art, literature, and other artifacts...	1,126	7	—	—	1,126	7
Construction in progress.....	1,645,656	1,452,222	24,533	20,018	1,670,189	1,472,240
<b>Total.....</b>	<b>\$ 25,556,896</b>	<b>\$ 23,719,972</b>	<b>\$ 49,507</b>	<b>\$ 46,272</b>	<b>\$ 25,606,403</b>	<b>\$ 23,766,244</b>
Total percent change between fiscal years 2003 and 2004	<b>7.7 %</b>		<b>7.0 %</b>		<b>7.7 %</b>	

The largest component of capital assets is the State highway system. The State has approximately a 78,615-mile highway system, making it the second largest State-maintained highway system in the nation. The system continues to increase as roads are widened and new roads and bridges are constructed.

The 2002-2003 Session of the General Assembly authorized the issuance of up to \$300 million of special indebtedness to finance the repair and renovation of State facilities and related infrastructure that are supported by the State's General Fund. Of the \$300 million, approximately \$157 million will be allocated to the University of North Carolina System (component unit). Each of the sixteen constituent institutions of the UNC System will receive a portion of the proceeds for repairs and renovations. The remaining \$143 million of the proceeds will be used to make repairs and renovations to various State facilities located throughout North Carolina. The State issued \$125 million in certificates of participation during the 2004 fiscal year to finance repair and renovation projects. At year-end, the remaining authorization was \$175 million. In addition, the most recent session of the General Assembly (2003-2004) directed the transfer on June 30, 2004, of \$76.8 million from the unrestricted credit balance of the General Fund in fiscal year 2004 to the Repairs and Renovations Reserve Account, to be applied to the repair and renovation of State and university facilities.

In July 2003, the N.C. Infrastructure Finance Corporation (Corporation), a blended component unit of the State, acquired three close security correctional facilities by issuing \$218.4 million in lease-purchase revenue bonds. Also, during the fiscal year, the Corporation issued \$158.96 million in certificates of participation to construct and equip two close security correctional facilities and to begin designing a third facility. The Department of Correction is undertaking construction initiatives to address a cell shortfall and to allow for the implementation of sentencing reform. The State's correctional facility population has more than doubled since 1980. The rapid growth in inmates is attributable to increases in the State's population, increases in length of stay in correctional facilities, and changes in criminal laws.

# North Carolina — Financial Highlights — Fiscal Year 2004

**DEBT ADMINISTRATION.** At year-end, the State had total long-term debt outstanding of \$5.54 billion, an increase of 34.9% from the previous fiscal year-end.

**Outstanding Debt as of June 30, 2004**  
(dollars in thousands)

	<b>Governmental Activities</b>		<b>Business-type Activities</b>		<b>Total</b>	
	2004	2003	2004	2003	2004	2003
General obligation bonds.....	\$ 4,982,860	\$ 4,066,990	\$ —	\$ —	\$ 4,982,860	\$ 4,066,990
Revenue bonds.....	218,405	—	9,325	9,570	227,730	9,570
Certificates of participation.....	301,165	17,500	—	—	301,165	17,500
Notes payable.....	25,008	9,629	—	—	25,008	9,629
<b>Total.....</b>	<b>\$ 5,527,438</b>	<b>\$ 4,094,119</b>	<b>\$ 9,325</b>	<b>\$ 9,570</b>	<b>\$ 5,536,763</b>	<b>\$ 4,103,689</b>
Total percent change between fiscal years 2003 and 2004	<b>35.0 %</b>		<b>(2.6)%</b>		<b>34.9 %</b>	

During the 2004 fiscal year, the State issued \$1.159 billion in general obligations bonds (excluding refunding issues), \$218.41 million in lease-purchase revenue bonds, and \$283.96 million in certificates of participation (COPs). The new general obligation debt consisted of \$708 million in public improvement bonds (consolidation of clean water bonds and higher education bonds), \$400 million in highway bonds, \$36 million in natural gas bonds, and \$15 million in clean water bonds. The proceeds of the lease-purchase revenue bonds were used to acquire three close security



Duke Gardens, Durham, NC

correctional facilities in Alexander, Anson, and Scotland counties. The proceeds of the COPs will be used to construct and equip two close security correctional facilities in Greene and Bertie counties and to finance the cost of design and certain additional costs of a third close security correctional facility in Columbus County. The State also issued COPs for the repair and renovation of State facilities and related infrastructure that are supported by the General Fund.

The 2003-2004 Session of the General Assembly authorized the issuance of up to \$468 million of special indebtedness to finance vital State facilities for health care and biotechnology. No more than \$310 million of the special indebtedness may be issued during the 2004-05 fiscal year. The State is authorized to use special indebtedness to provide:

- \$338 million for constructing 5 new projects in the University of North Carolina (UNC) System, to include a cancer center at UNC-Chapel Hill (\$180 million), a cardiovascular institute at East Carolina University (\$60 million), a bioinformatics center at UNC-Charlotte (\$35 million) a pharmacy program facility at Elizabeth City University (\$28 million), and a health center at UNC-Asheville (\$35 million);

- \$50 million for land acquisition and planning for 5 other projects in the UNC System;
- \$35 million for constructing up to 5 youth development centers;
- \$45 million for capital projects within the State Parks System, to include repairs and renovations of park facilities and land acquisition.

The fiscal impact of the \$468 million of special indebtedness on the General Fund is expected to be zero because of the annual transfer of revenue from other sources to the General Fund in an amount to cover the estimated debt service. The debt service for the UNC System facilities and the youth development centers will be reimbursed from the Health and Wellness Trust Fund and the Tobacco Trust Fund (special revenue funds). The debt service for the parks projects is fully funded by the streams of revenue available to the Parks and Recreation Trust Fund, the Natural Heritage Trust Fund, and the Clean Water Management Trust Fund (special revenue funds). The maximum annual debt service is estimated to be \$47.4 million in fiscal year 2010-11. The total interest on the \$468 million of debt is estimated to be \$310 million.



**Winter Waterfall**



# North Carolina — Financial Highlights — Fiscal Year 2004

**Project Collect Tax initiative.** In August 2001, Governor Mike Easley launched a new effort by the Department of Revenue to collect \$150 million in back taxes during the following two years. The Department sent notices to every taxpayer who had an account with the Department that was at least 90 days past due. The Department estimated at least 490,000 such accounts. The delinquent account holder has 30 days to pay in full or set up a payment plan. If the debt is not paid within the allotted time, a 20% fee will be added to the total tax debt. As of June 30, 2004, a total of \$377 million has been generated in new revenue from the collection of back taxes. The following is a breakdown by fiscal year of the revenue collected:

- Fiscal Year 2001-02 \$76.3 million
- Fiscal Year 2002-03 \$111.2 million
- Fiscal Year 2003-04 \$189.5 million

## Agricultural Highlights

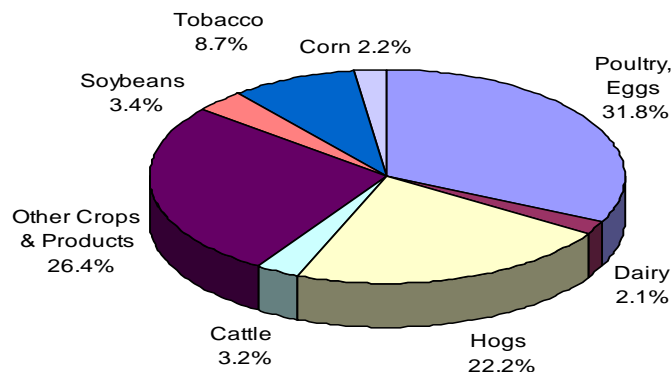
North Carolina's agriculture industry, including food, fiber and forestry, contributes \$62.6 billion annually to the State's economy, and accounts for 22% of the State's income, and employs over 20% of the work force. The following charts illustrate the cash receipts from agriculture by farming commodities.

**Cash Receipts from Farming by Commodities  
(dollars in millions)**

Year	Livestock and Related Products						Crops					Total
	Poultry and Eggs	Dairy Products	Hogs	Cattle	Other Livestock and Products	Total Livestock and Products	Tobacco	Soybeans	Corn	Other Crops	Total Crops	All Livestock and Crops
2003	2,198.7	143.3	1,533.3	220.0	62.5	4,157.8	598.3	238.0	150.8	1,761.4	2,748.5	6,906.3
2002	2,093.3	154.7	1,407.1	223.8	60.8	3,939.7	694.4	162.0	131.5	1,672.0	2,659.9	6,599.6 [1]
2001	2,458.2	194.4	1,721.5	227.7	52.6	4,654.4	685.8	183.2	151.6	1,909.9	2,930.5	7,584.9
2000	2,171.3	174.5	1,671.6	231.7	50.8	4,299.9	854.1	169.4	116.8	1,869.4	3,009.7	7,309.6
1999	2,212.3	207.1	1,160.3	208.7	50.8	3,839.2	784.3	174.7	101.5	1,795.4	2,855.9	6,695.1
1998	2,225.0	208.0	1,323.1	154.0	46.2	3,956.3	976.7	173.8	111.7	1,966.5	3,228.7	7,185.0
1997	2,210.3	193.6	2,058.8	213.1	47.5	4,723.3	1,193.2	270.9	196.6	1,843.0	3,503.7	8,227.0
1996	2,250.6	214.3	1,766.5	153.2	56.9	4,441.5	1,021.5	229.3	298.0	1,879.0	3,427.8	7,869.3
1995	2,053.9	189.9	1,279.3	146.9	61.0	3,731.0	1,048.5	157.4	165.7	1,795.4	3,167.0	6,898.0
1994	1,911.5	210.5	982.8	166.7	57.5	3,329.0	942.9	217.3	149.0	1,804.6	3,113.8	6,442.8

[1] Numbers restated by Agricultural Department

**Cash Receipts from Farming**



## Public School Highlights

Public schools have federal, state and local funding sources. The State of North Carolina provides 69 percent of the funding for schools through appropriations from the General Assembly. Local funds, primarily from property taxes and designated sales taxes in most counties, provide about 23 percent of the money used to operate schools. The federal government provides about 8 percent of the funding for public schools. Data as of 2003-04 school year unless otherwise indicated. Source documents for public school financial information were gathered from [www.ncpublicschools.org](http://www.ncpublicschools.org).

Number of School Systems:	117
Number of Public Schools, including Charter Schools:	2,357
Actual Membership, including Charter Schools:	1,327,247
Per pupil expenditure in average daily membership (2002-03):	6,741

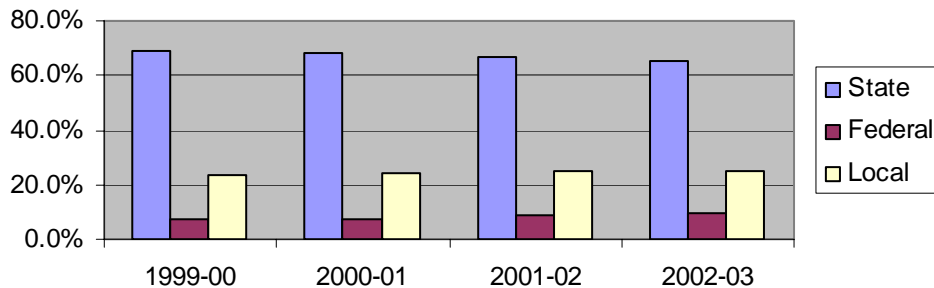
### Education Expenditures

(dollars in thousands)

	<u>1999-00</u>	<u>2000-01</u>	<u>2001-02</u>	<u>2002-03</u>
<b>State</b>	\$5,351,955	\$5,682,128	\$5,688,949	\$5,750,951
<b>Federal</b>	597,007	645,011	735,793	849,589
<b>Local</b>	1,824,749	2,013,594	2,092,603	2,223,115
<b>Total</b>	<u>\$7,773,711</u>	<u>\$8,340,733</u>	<u>\$8,517,345</u>	<u>\$8,823,655</u>

The following graph illustrates the education expenditures by funding source.

### Education Expenditures



## ***School Transportation Highlights***

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**School Transportation (for the 2002-03 school year):**

- 13,416 school buses in operation
- 712,546 pupils transported to and from school by school bus
- 162,760,693 total annual mileage for all buses
- 904,226 miles traveled daily
- 12,132 miles traveled by average bus; 67 miles per day

**Average cost of transportation by school bus, including bus replacements:**

- \$17,639.36 per bus for the school year
- \$98.00 per bus per day
- \$332.12 per pupil for the school year
- \$1.85 per pupil per day
- \$1.45 per bus mile of operation



North Carolina Museum of Natural Sciences, Raleigh, NC

## ***Transportation Highlights***

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In fulfilling the North Carolina Department of Transportation's (NCDOT) core mission to bring quality transportation within reach of every citizen, NCDOT made great progress toward fulfilling its goals and commitments in the fiscal year 2004. The department completed a number of major highway projects across the State, including the State's first High Occupancy Vehicle lanes on I-77 in Charlotte and more than 500 contracts have been awarded for *N.C. Moving Ahead!* projects across the State. Additionally, the department expanded both urban and rural public transportation services and worked with communities to renovate train stations as well as expand bicycle and pedestrian facilities across the State.

The *North Carolina Moving Ahead!* program is the \$700 million transportation and economic stimulus package signed into law by Governor Mike Easley in August 2003 that will bring a new level of safety and mobility to the State's highways. The program provides for much-needed maintenance, modernization and public transportation projects in every county in the State. The highway projects made possible as a result of this innovative program will boost the State's economy with a \$4 billion impact and create nearly 30,000 jobs. This program was hailed by *Site Selection Magazine* as the capstone of economic incentives that allowed North Carolina to retain its number one ranking for business climate in the nation for the third year in a row.



As part of the Governor's Highway Safety Program, the Click it or Ticket program continues to run campaigns each year to increase safety belt and child safety use rates through stepped-up enforcement of the State's safety belt law. Since the start of the program in 1993, law officers across the State have held nearly 30,000 checkpoints and more than 200,000 safety belt and 18,000 child safety seat citations. Fatal and serious highway injuries in North Carolina have been cut by 14% since the inception of this program. As a result, there has been a savings of at least \$135 million in health care-related costs. For those caught without their belts, a safety belt violation costs \$25 plus \$50 court costs. Under North Carolina, this fine goes to local schools. Millions of dollars have been given to local school districts because of *Click it or Ticket*.

## ***Crime Control and Public Safety Highlights***

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2004 marks the 75th anniversary of the North Carolina Highway Patrol. Since 1929, the mission of the Highway Patrol has not changed; to reduce collisions and make the highways of North Carolina as safe as possible. From a handful of Highway Patrolmen in 1929, the Highway Patrol now employs 1,445 troopers and 365 Motor Carrier officers to cover more than 78,000 miles of North Carolina roadways.



In 2003, the State Highway Patrol arrested 50,000 people for driving while impaired, seized \$10 million worth of drugs, and investigated 1,196 fatalities on North Carolina highways. The Motor Carrier unit fined thousands of truck drivers for various violations.

The Highway Patrol continues to promote highway safety through education by providing presentations to schools, civic groups, or any other interested parties. The Highway Patrol has safety programs for bicycles, seat belts and school buses and the popular Buckle-in-Baby-Safely Program.



## ***Interesting Facts***

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- Tourism is one of North Carolina's leading industries. Because of its diverse infrastructure, tourism plays a vital role in the State's economy:
  - \$12.6 billion in expenditures annually
  - \$1.1 billion in state and local tax revenues ( \$683.4 million state, \$417.7 local)
  - directly supported 183,220 jobs for North Carolina residents
  - over 49.2 million visitors traveled to North Carolina in 2003, ranking the State sixth in person-trip volume behind California, Florida, Texas, Pennsylvania and New York.
- North Carolina is home to over 2,300 IT companies employing over 200,000 workers with a \$7.5 billion annual payroll. North Carolina's rankings in IT:
  - Top five telecommunications centers in the world
  - Research Triangle region tied for third in *Wired* magazine's ranking of 46 global high tech hot spots.
- North Carolina is the 9<sup>th</sup> largest plastics manufacturing state in the nation for shipments.
- North Carolina is 9<sup>th</sup> largest in plastics industry employment in the nation.
- North Carolina's plastics, rubber and related chemicals industries employed an average of 41,966 in the first quarter of 2004. These industries employ 7% of North Carolina's manufacturing workforce.
- Over 210 pharmaceutical, biotechnology and contract research organizations are located in North Carolina.
- North Carolina's life science industry generates approximately \$7 billion in annual revenues.
- North Carolina's rankings in biotechnology:
  - No. 1 state in contract research organizations
  - No. 2 state in ag-bio R&D
  - No. 3 state in bioprocess manufacturing
  - No. 4 state in pharmaceutical products
- The biotechnology industry in North Carolina is growing 10 to 15% a year; by 2025 as many as 125,000 North Carolinians are projected to be working in biotechnology, and annual revenues may approach \$24 billion.



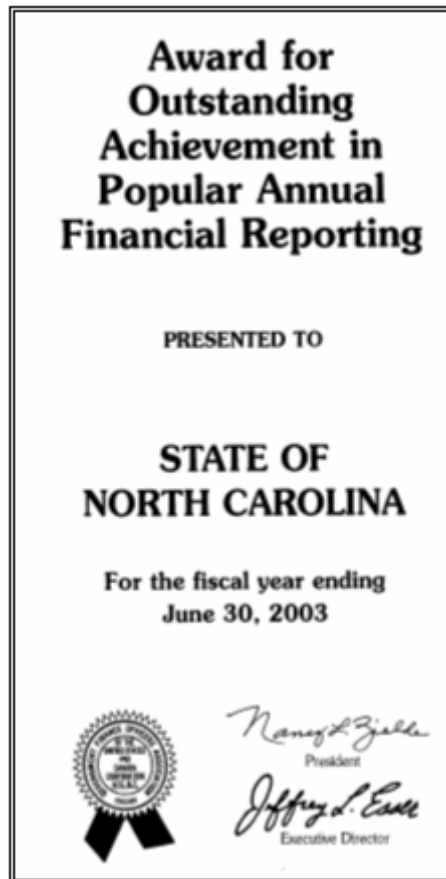
Air War Plant Museum, Asheboro, NC

## ***Award for Outstanding Achievement***

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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, 2003. The Award for Outstanding Achievement in Popular Annual Financial Reporting is a prestigious national award recognizing conformance with the highest standards for preparation of state and local government popular reports.

In order to receive an Award for Outstanding Achievement in Popular Annual Financial Reporting, a government unit must publish a Popular Annual Financial Report, whose contents conform to program standards of creativity, presentation, understandability and reader appeal. An Award for Outstanding Achievement in Popular Annual Financial Reporting is valid for a period of one year only. We believe our current report continues to conform to the Popular Annual Financial Reporting requirements, and we are submitting it to GFOA.



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