



North Carolina



Financial Highlights
Fiscal Year Ended June 30, 2013

David T. McCoy, State Controller

North Carolina Office of the State Controller

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

Cover Photo:

The James B. Hunt Jr. Library
North Carolina State University

The North Carolina Office of the State Controller is proud this year to feature the James B. Hunt Jr. Library on the cover of the 2013 Comprehensive Annual Financial Report (CAFR). The Hunt Library, which opened in January 2013, features over 221,000 gross square feet, including space for the Institute for Emerging Issues and other university centers and institutes. Anchoring Centennial Campus' Academic Oval, the building is longer and wider than a football field, stretching roughly 460 feet in length and 180 feet at its widest point. It is 88 feet high at the tallest point, providing dramatic views of Lake Raleigh and the city skyline.

The Hunt Library has almost 100 group study rooms and technology-equipped spaces to support learning, research, and collaboration. The robot-driven bookBot automated book delivery system holds up to two million volumes in 1/9 the space of conventional shelving, enabling the library to provide more space for learning and collaboration. The bookBot is 50 feet wide by 160 feet long by 50 feet tall and is excavated 20 feet below the first floor. The bookBot delivers books in minutes with a click in the online catalog. Visitors can watch the bookBot in action through a glass wall on the first floor ("Robot Alley"), as four robots dart up and down enormous aisles to pinpoint and retrieve materials.

The James B. Hunt Jr. Library's bold design is a visual statement of its bold purpose: to be a place not of the past but of the future, a place where students, faculty, and partners can gather to research, learn, experiment, collaborate, and strengthen NC State's long tradition of leading transformative change.

Photo courtesy of NC State University/Becky Kirkland.



I am pleased to present you with the ***North Carolina Financial Highlights*** for the fiscal year ended June 30, 2013. 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) 707-0500.

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

Sincerely,

A handwritten signature in black ink that reads "David T. McCoy". The signature is written in a cursive, flowing style.

David T. McCoy
State Controller
November 25, 2013

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, 2013. 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



Swansboro

Photo Courtesy of VisitNC.com

The Economy

During fiscal year 2012-13, the economy gathered momentum. Economic conditions in the State, as well as the nation, reflected a moderately improving economy. The slow-paced recovery of the previous three years began to gather strength in 2012. For many industries, growth was strong enough to improve their economic output to levels experienced prior to the recession. During the fiscal year, overall economic activity in the State improved, surpassing the pace of growth nationally. Despite the overall improvement, employment gains remained weak. Employment growth has been persistently stubborn keeping unemployment rates elevated above where one would expect them to be three plus years after the last economic downturn. The State's economy during the fiscal year added 70,800 payroll jobs. This still left non-agricultural employment in the State with 113,000 fewer people employed than at the end of fiscal year 2007- 08, and the unemployment rate at 8.9%.

During the first-half of the fiscal year, it appeared the economy was gaining momentum. By the second-half of the year much of this momentum had been lost, and the nation's Gross Domestic Product (GDP, a broad measure of economic activity) dropped well-below the average rate of growth. Global economic instability intensified and continued to be a drag on the nation's economy. Moreover, fiscal policy uncertainties on both taxes and spending at the federal level intensified during late summer and into the fall of 2012, further impeding the pace of growth in the economy. Given these mixed signals both employers and consumers continued to be cautious.

Financial Highlights — Fiscal Year 2013



During the fiscal year, the State's improvement in the overall economy led to a 3.4% increase in wage and salary income. Growth in total wage and salary income increased by 4.5% the second quarter of the fiscal year, but slowed to 2.6% growth in the last half of the fiscal year. Despite this slowdown, employment and income are anticipated to improve for the rest of 2013, approaching a normal, average pace of growth. In 2014, wages are forecast to grow faster than the average rate of 5.1%.

North Carolina Economic Indicators	FY2011-12	FY2012-13	FY2013-14	FY2014-15
	Actual	Actual	Projected	Projected
State Gross Product	2.50%	5.10%	4.80%	6.00%
Personal Income	4.10%	3.60%	5.00%	5.70%
Wages & Salaries	2.90%	3.40%	4.70%	5.30%
Retail Sales	7.30%	6.30%	6.30%	6.50%
Unemployment Rate	9.90%	9.30%	8.40%	8.20%
Employment (Nonagricultural)	1.50%	1.80%	1.70%	2.10%
Population	1.00%	1.50%	1.80%	2.50%
Existing Single-family Home Sales	32.70%	30.50%	7.90%	1.10%

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 70,800 jobs during the fiscal year, there were still 113,000 fewer people employed in the State (3% of total nonfarm employment) than at the end of the 2007-08 fiscal year. Most private sector industries experienced modest growth, but employment in the construction industry continued to decline.

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 continue solid growth in FY 2013-14. Total personal income growth moderated in FY 2012-13, but is expected to show steady improvement over the next two fiscal years. For the fiscal year, income rose 3.6%, but the increase lags well behind the strong growth of six to seven percent experienced in the years prior to the onset of the recession. Wage and salary income, a component of total personal income, grew at a modest 3.4% for the fiscal year. The rise in wage and salary income was consistent with the increase in total employment. Going forward, improved growth in total income is projected. This growth will result from a continually improving employment situation, plus upward pressure on individual wages, where growth has been stagnant the past five years. A return to long-term growth levels in wage and salary income is forecast for 2014.

As with the nation, the recovery in North Carolina gained strength, but the pace of the recovery remained sluggish during FY 2012-13. This meant fewer jobs were being created and the unemployment rate at the end of the fiscal year remained elevated at 8.9%. That compares to the 9.6% at the start of the fiscal year. Despite a slow-growth economy and high unemployment, retail sales grew at a rate of 6.3%. The growth in retail sales slowed from the previous year yet remained above average. Going forward, retail sales are expected to stay above 6%, increasing at a pace above with 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. Employment conditions, while improving, will not be great enough to significantly change the unemployment rate. The rate is projected to remain elevated above 8% into 2014. Except for construction and resource mining, all other industry sectors experienced growth over the previous year with net employment growth of 1.9%. With the rebound in residential construction, the construction industry is expected to have employment gains during the upcoming fiscal year. For 2014, modest improvement in all industries is expected, increasing non-agricultural employment by 1.7%. This pace of growth, however, will be too slow to greatly reduce the unemployment rate. The rate is projected to average 8.4% in FY 2013-14 and 8.1% in FY 2014-15.

Financial Highlights — Fiscal Year 2013



The State's manufacturing sector saw a turnaround in employment during the fiscal year. Manufacturing reached double-digit percentage losses in the last recession. During this fiscal year, the manufacturing sector added only 4,700 jobs (1.1% growth). Manufacturing employment is now above 443,000. This is still 91,000 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 surpass pre-recession numbers until 2015.

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. Fiscal year 2012-13 ended with sales of existing homes increasing by 30.5%. The growth, while impressive, reflects how sharp the fall off in home sales had been from 2007-2010. In 2014, annual existing home sales are projected to remain 10% below what they were at the peak in 2006.

Gradually improving economic conditions continued throughout the fiscal year and has the State's economy on a more solid footing. The ongoing weakness in the global economy was a drag on the pace of the economic recovery, both for the nation and the State, and continues to pose a risk for economic growth. The housing market is expected to maintain its gradual improvement and with steady growth in household income and consumer spending anticipated, stronger employment gains are projected in 2014.

*— Economic analysis prepared by Barry Boardman, Ph.D., Chief Economist
North Carolina General Assembly, Fiscal Research Division
September 23, 2013*



Pine Needles Golf Club

Photo Courtesy of VisitNC.com



Financial Highlights

Government-wide

- ◆ The State's total net position increased by \$2.825 billion or 7.95% as a result of this year's operations. Net position of governmental activities and business-type activities increased by \$2.378 billion (or 6.64%) and \$447.088 million (or 166.59%), respectively. At year-end, the net position of governmental activities and business-type activities totaled \$38.193 billion and \$178.718 million, respectively.
- ◆ Component units reported net position of \$22.054 billion, an increase of \$1.426 billion or 6.92% 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 \$1.049 billion at June 30, 2012 (as restated) to \$1.28 billion at June 30, 2013, an increase of 22.02%. The fund balance increase is due, in part, to the higher than expected growth in individual income taxes.
- ◆ The fund balance of the Highway Fund decreased 47.15% to \$332.46 million at June 30, 2013. The significant decrease in federal recovery funds along with no capital inflow from new bond issuances were the main contributors to the fund balance decrease.
- ◆ The fund balance of the Highway Trust Fund increased 62.62% to \$620.753 million at June 30, 2013. 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 \$1.564 billion at June 30, 2013 compared to negative \$1.909 billion at June 30, 2012. The improvement in net position is attributable to the drop in the State's unemployment rate.
- ◆ Net ticket sales of the N.C. State Lottery Fund (Lottery) increased 5.84% from the previous fiscal year to \$1.69 billion. As required by law, the Lottery's net profit of \$478.509 million was transferred to the General Fund to support educational programs.
- ◆ The net position of the N.C. Turnpike Authority (Authority) increased 5.94% to \$286.423 million at June 30, 2013. The Authority completed the final phase of the Triangle Expressway System, the State's first modern toll road.



Appalachian Trail

Photo Courtesy of VisitNC.com

Capital Assets

- ◆ The State's investment in capital assets (net of accumulated depreciation) was \$43.948 billion, an increase of 4.39% from the previous fiscal year-end.
- ◆ This year's major capital asset additions were for state highway system construction (\$2.1 billion), toll road construction (\$101.7 million), computer software development at the Department of Health and Human Services (\$144 million), and construction of psychiatric hospitals (\$39.2 million). Also, the State completed and placed into service a new facility that will house the State Laboratory of Public Health and the Office of the Chief Medical Examiner.

Long-term Debt

- ◆ The State had total long-term debt outstanding (bonds, special indebtedness, and notes payable) of \$8.598 billion, a decrease of 3.56% from the previous fiscal year-end. The State issued \$250 million in limited obligation bonds reported in governmental activities and refinanced \$1.401 billion of its existing general obligation bonds to take advantage of lower interest rates. Additionally, the N.C. Turnpike Authority, a business-type activity, had additional borrowings of \$89.37 million from a federal transportation loan.
- ◆ In January 2013, 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 nine states with a triple-A rating from all three rating agencies.



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 and liabilities, with the difference between the two reported as "net assets." Over time, increases or decreases in net position serve as a useful indicator of whether the State's financial position is improving or deteriorating. The State's combined net position increased \$2.825 billion or 7.95% over the course of this fiscal year's operations. The net position of the governmental activities increased \$2.378 billion or 6.64% and business-type activities increased \$447.088 million or 166.59%. The following table was derived from the government-wide Statement of Net Position:

Net Position						
June 30, 2013 and 2012						
<i>(dollars in thousands)</i>						
	Governmental Activities		Business-type Activities		Total Primary Government	
	2013	2012 (as restated)	2013	2012 (as restated)	2013	2012 (as restated)
Current and other non-						
current assets.....	\$ 9,872,121	\$ 9,090,488	\$ 3,235,850	\$ 3,301,993	\$ 13,107,971	\$ 12,392,481
Capital assets, net.....	42,787,000	41,037,062	1,160,765	1,061,534	43,947,765	42,098,596
Total assets.....	52,659,121	50,127,550	4,396,615	4,363,527	57,055,736	54,491,077
Long-term liabilities.....	8,851,111	9,055,542	3,824,232	4,164,764	12,675,343	13,220,306
Other liabilities.....	5,614,521	5,256,597	393,665	467,133	6,008,186	5,723,730
Total liabilities.....	14,465,632	14,312,139	4,217,897	4,631,897	18,683,529	18,944,036
Net position:						
Net investment in						
capital assets.....	40,432,694	38,705,712	410,050	391,831	40,842,744	39,097,543
Restricted.....	792,966	703,781	995	1,468	793,961	705,249
Unrestricted.....	(3,032,171)	(3,594,082)	(232,327)	(661,669)	(3,264,498)	(4,255,751)
Total net position.....	\$ 38,193,489	\$ 35,815,411	\$ 178,718	\$ (268,370)	\$ 38,372,207	\$ 35,547,041

The largest component of the State's net position (\$40.843 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 position is the next largest component (\$793.961 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 2013



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, 2013			
(dollars in thousands)			
	Primary Government		
	Governmental	Business-type	Total
	Activities	Activities	Total
Changes in Net Position:			
Net (expense) revenue	\$ (21,083,375)	\$ 895,814	\$ (20,187,561)
General Revenues:			
Taxes:			
Individual income tax.....	11,113,597	—	11,113,597
Corporate income tax.....	1,194,850	—	1,194,850
Sales and use tax.....	5,556,484	—	5,556,484
Gasoline tax.....	1,889,439	—	1,889,439
Franchise tax.....	849,850	—	849,850
Highway use tax.....	555,581	—	555,581
Insurance tax.....	540,844	—	540,844
Beverage tax.....	330,918	—	330,918
Inheritance tax.....	113,721	—	113,721
Tobacco products tax.....	287,340	—	287,340
Other taxes.....	305,726	—	305,726
Tobacco settlement.....	213,078	—	213,078
Unrestricted investment earnings.....	13,621	—	13,621
Miscellaneous.....	44,837	7	44,844
Contributions to permanent funds.....	2,834	—	2,834
Transfers.....	448,733	(448,733)	—
Total general revenues, contributions, and transfers.....	<u>23,461,453</u>	<u>(448,726)</u>	<u>23,012,727</u>
Change in net position.....	2,378,078	447,088	2,825,166
Net position — beginning, restated.....	35,815,411	(268,370)	35,547,041
Net position — ending.....	<u>\$ 38,193,489</u>	<u>\$ 178,718</u>	<u>\$ 38,372,207</u>

Governmental Activities:

- ◆ Revenues outpaced expenses and when combined with transfers from the State's business-type activities, an increase in net position of \$2.378 billion (or 6.64%) resulted for governmental activities.
- ◆ Total revenues increase by 3.18% (\$1.3 billion).
- ◆ Total expenses increased by 0.95% (\$378.77 million).

Business-type Activities:

- ◆ Business-type activities reflect an overall increase in net position of \$447.088 million or 166.59%, primarily because of the financial results of the Unemployment Compensation Fund.
- ◆ The net position increase of \$345.302 million in the Unemployment Compensation Fund is explained by the drop in the State's unemployment rate.
- ◆ The net position increase of \$16.066 million for the N.C. Turnpike Authority is due to transfers in from the Highway Trust Fund.
- ◆ The net position increase of \$66.019 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 2013



Statement of Activities (cont'd)

For fiscal year 2013, spending increases in the functional areas of health and human services, transportation, primary and secondary education, environment and natural resources, and general government were mostly offset by spending decreases in the State's other functional areas. The growth in health and human services is primarily due to increased spending for Medicaid (the State's largest public assistance program). Medicaid enrollment and utilization increased during the current period. Higher education spending decreased during the current period due to larger distributions of higher education bond proceeds in fiscal year 2012.

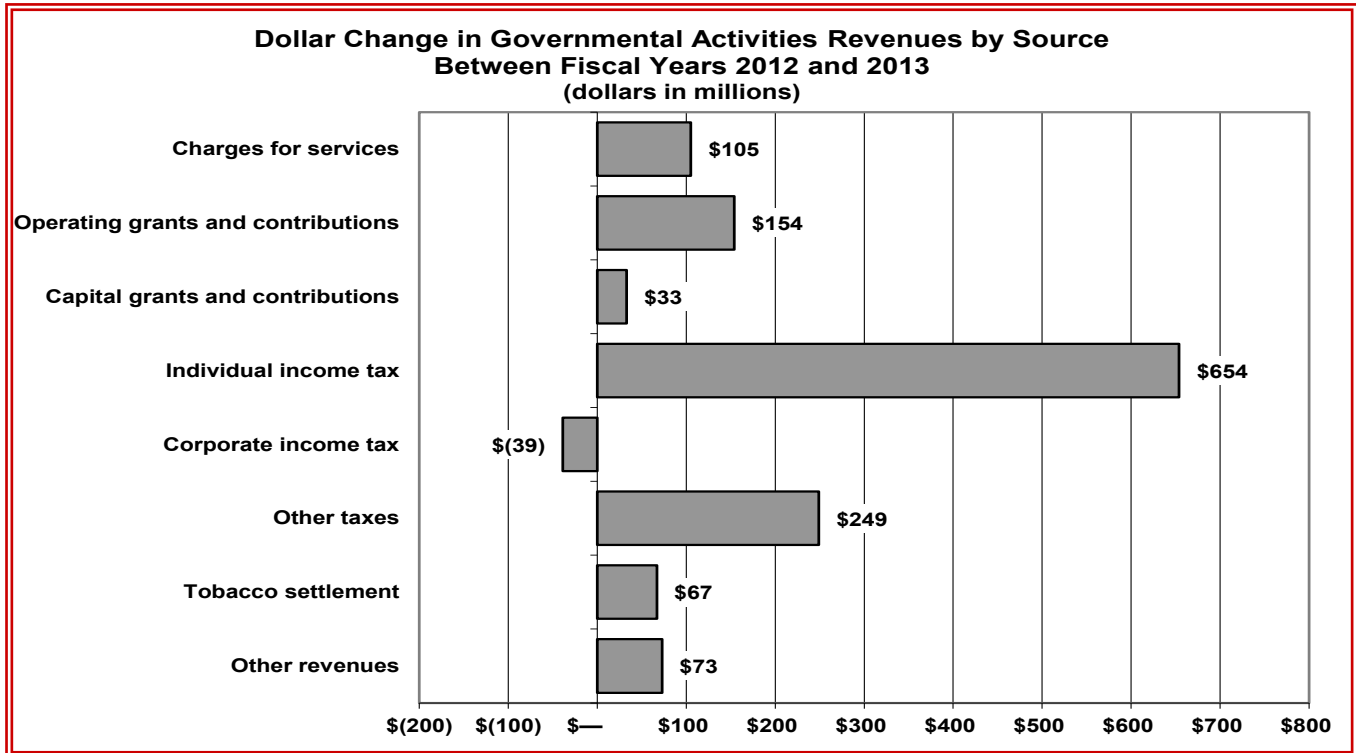
Condensed Schedule of Expenses & Program Revenues			
Primary Government			
For the Fiscal Year Ended June 30, 2013			
<i>(dollars in thousands)</i>			
Functions/Programs	Expenses	Program Revenues	Net Expense/Revenue
Governmental Activities:			
General government.....	\$ 990,505	\$ 270,336	\$ (720,169)
Primary and secondary education.....	9,830,897	1,581,001	(8,249,896)
Higher education.....	4,027,721	141,782	(3,885,939)
Health and human services.....	18,258,538	13,476,400	(4,782,138)
Economic development.....	595,494	394,335	(201,159)
Environment and natural resources.....	493,775	213,674	(280,101)
Public safety, corrections, and regulation.....	2,945,856	821,135	(2,124,721)
Transportation.....	2,491,032	2,002,110	(488,922)
Agriculture.....	187,718	70,713	(117,005)
Interest on long-term debt.....	233,325	—	(233,325)
Total Governmental Activities.....	40,054,861	18,971,486	(21,083,375)
Business-type Activities:			
Unemployment Compensation.....	2,496,445	2,864,345	367,900
N.C. State Lottery.....	1,215,944	1,695,453	479,509
EPA Revolving Loan.....	23,711	91,312	67,601
N. C. Turnpike Authority.....	77,899	41,290	(36,609)
Regulatory commissions.....	76,455	79,887	3,432
Insurance programs.....	17,591	24,410	6,819
North Carolina State Fair.....	13,465	14,906	1,441
Other business-type activities.....	13,400	19,121	5,721
Total Business-type Activities.....	3,934,910	4,830,724	895,814
Total Primary Government.....	\$ 43,989,771	\$ 23,802,210	\$ (20,187,561)

Financial Highlights – Fiscal Year 2013

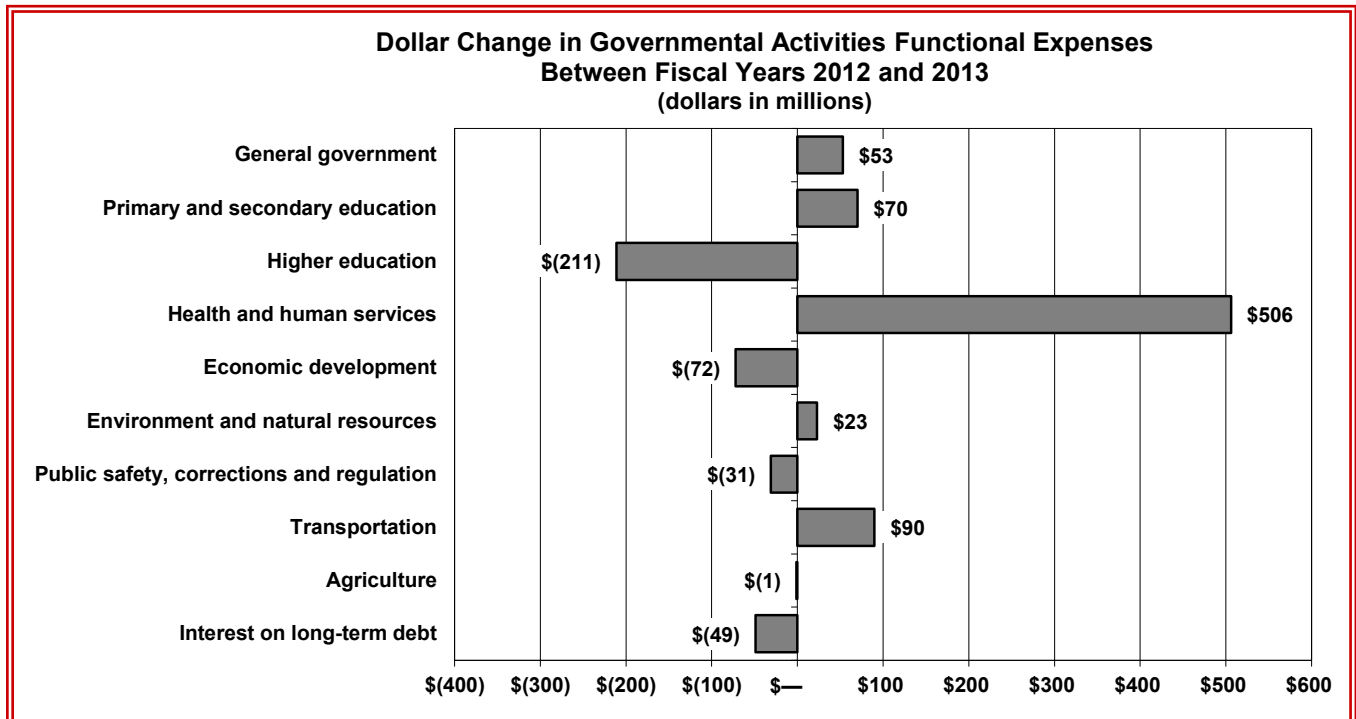


Statement of Activities (cont'd)

The following chart reflects the dollar change in the revenues by source of governmental activities between fiscal years 2012 and 2013.



The following chart reflects the dollar change in the functional expenses of governmental activities between fiscal years 2012 and 2013.

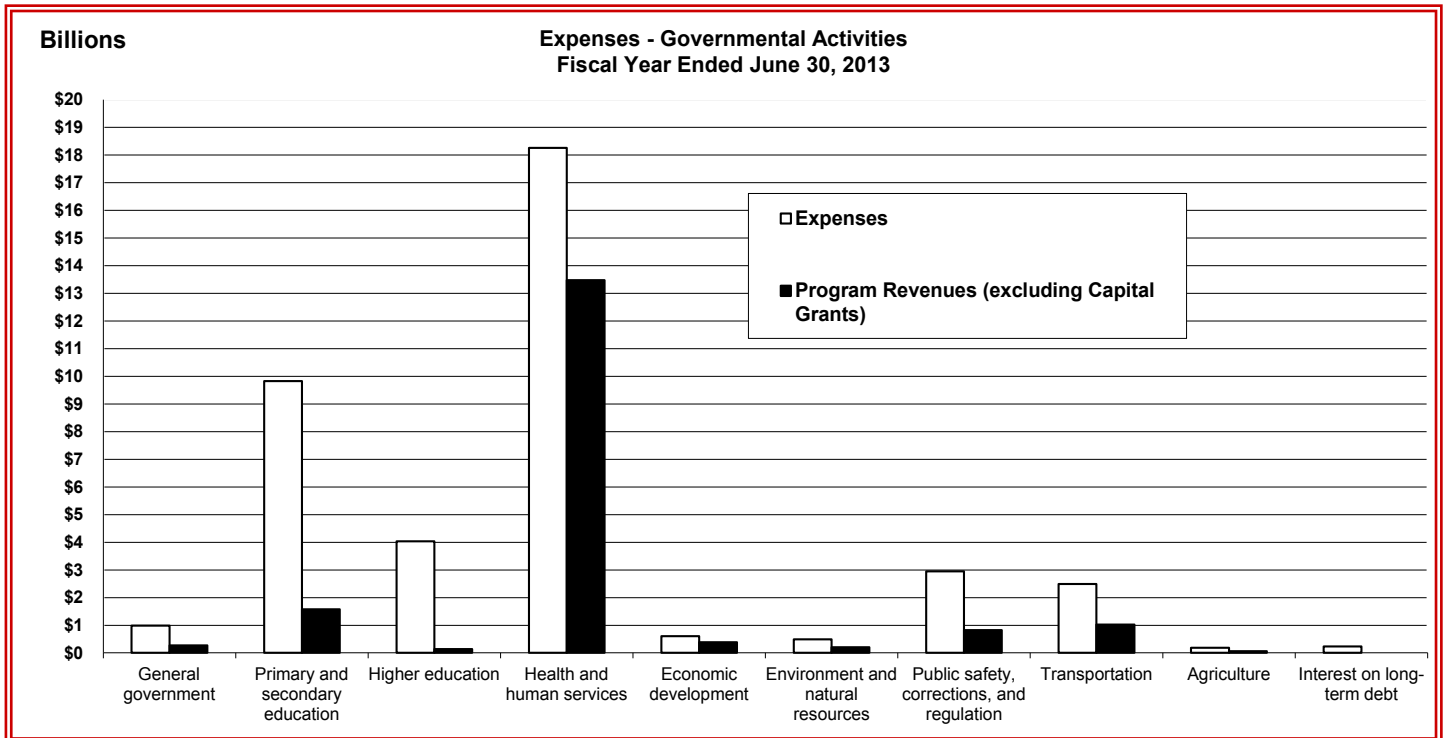


Financial Highlights — Fiscal Year 2013



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.



Historic Yates Mill County Park

Photo Courtesy of VisitNC.com

Financial Highlights — Fiscal Year 2013



Statement of Activities (cont'd)

The following schedule reflects the changes in the State's net position over the last 6 years.

CHANGES IN NET POSITION

For the Fiscal Years 2008-2013

(Dollars in Millions)

	2013	2012	2011	2010	2009	2008	Change From 2008 to 2013
Governmental Activities							
Total Expenses.....	\$ 40,055	\$ 39,676	\$ 39,113	\$ 38,348	\$ 36,266	\$ 37,515	6.77%
Total Tax Revenues.....	22,738	21,875	21,695	20,890	18,760	21,589	5.32%
Total Other Revenues and Contributions.....	19,246	18,815	19,120	18,840	17,466	15,769	22.05%
Total Transfers.....	449	402	371	434	422	347	29.39%
Change in Net Position.....	<u>\$ 2,378</u>	<u>\$ 1,415</u>	<u>\$ 2,073</u>	<u>\$ 1,816</u>	<u>\$ 382</u>	<u>\$ 190</u>	<u>1151.62%</u>
Net Position - June 30.....	\$ 38,193	\$ 35,815	\$ 34,276	\$ 32,203	\$ 30,387	\$ 30,006	27.28%
Business-type Activities							
Total Expenses.....	\$ 3,935	\$ 4,591	\$ 5,637	\$ 6,701	\$ 4,218	\$ 2,146	83.36%
Total Revenues.....	4,831	5,194	5,910	5,857	3,606	2,675	80.60%
Total Transfers.....	(449)	(402)	(371)	(434)	(422)	(347)	29.39%
Change in Net Position.....	<u>\$ 447</u>	<u>\$ 201</u>	<u>\$ (98)</u>	<u>\$ (1,278)</u>	<u>\$ (1,035)</u>	<u>\$ 182</u>	<u>145.65%</u>
Net Position - June 30.....	\$ 179	\$ (268)	\$ (470)	\$ (372)	\$ 876	\$ 1,896	-90.56%
Total Primary Government							
Total Expenses.....	\$ 43,990	\$ 44,267	\$ 44,750	\$ 45,050	\$ 40,484	\$ 39,661	10.91%
Total Revenues and Contributions.....	46,815	45,884	46,725	45,587	39,832	40,033	16.94%
Change in Net Position.....	<u>\$ 2,825</u>	<u>\$ 1,616</u>	<u>\$ 1,975</u>	<u>\$ 538</u>	<u>\$ (653)</u>	<u>\$ 372</u>	<u>659.45%</u>
Net Position - June 30.....	\$ 38,372	\$ 35,547	\$ 33,807	\$ 31,831	\$ 31,263	\$ 31,903	20.28%

Data is provided back to 2008 to provide some perspective on the State's recovery from the Global Financial Crisis.



Lake Lure

Photo Courtesy of VisitNC.com

Financial Highlights — Fiscal Year 2013



Capital Assets

As of June 30, 2013, the State's investment in capital assets was \$43.948 billion, an increase of 4.39% from the previous fiscal year-end.

Capital Assets as of June 30, 2013 (net of depreciation, dollars in thousands)						
	Governmental Activities		Business-type Activities		Total	
	2012		2012		2012	
	2013	(as restated)	2013	(as restated)	2013	(as restated)
Land and permanent easements.....	\$ 15,661,789	\$ 15,040,007	\$ 154,884	\$ 143,664	\$ 15,816,673	\$ 15,183,671
Buildings.....	2,779,042	2,671,438	31,821	28,611	2,810,863	2,700,049
Machinery and equipment.....	591,715	568,438	6,682	6,190	598,397	574,628
Infrastructure:						
State highway system.....	21,062,979	20,330,946	794,705	183,936	21,857,684	20,514,882
Other infrastructure.....	160,735	161,713	4,976	4,907	165,711	166,620
Computer software.....	29,016	17,198	26	45	29,042	17,243
Art, literature, and other artifacts.....	99,179	91,135	—	—	99,179	91,135
Construction in progress.....	1,948,987	1,872,244	167,671	694,181	2,116,658	2,566,425
Computer software in development.....	453,558	283,943	—	—	453,558	283,943
Total.....	\$ 42,787,000	\$ 41,037,062	\$ 1,160,765	\$ 1,061,534	\$ 43,947,765	\$ 42,098,596
Total percent change between fiscal years 2012 and 2013	4.26 %		9.35 %		4.39 %	

The largest component of capital assets is the state highway system. North Carolina has a 79,492 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) had construction outlays of \$2.1 billion (including land improvements) for state highway projects.
- ◆ The N.C. Turnpike Authority (business-type activity), completed the final phase of the Triangle Expressway, the State's first modern toll road. Additionally, year-end construction in progress for the Monroe Connector System, a toll project in Eastern Mecklenburg County, was \$110.4 million.
- ◆ 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 \$149 million. Also, DHHS completed and placed into service a new facility that will house the State Laboratory of Public Health and the Office of the Chief Medical Examiner (construction cost of \$68 million). The DHHS construction projects are being financed by special indebtedness bonds.
- ◆ DHHS is replacing major legacy IT systems. NCTracks, the new multi-payer Medicaid Management Information System, will facilitate provider enrollment, consolidate claims processing activities, and support healthcare administration. NCFAST, 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 NCTracks and NCFAST totaled \$357.7 million.



Historic Stonewall Manor

Photo Courtesy of VisitNC.com

Financial Highlights — Fiscal Year 2013



Debt Administration

At year-end, the State had total long-term debt outstanding (bonds, special indebtedness, and notes payable) of \$8.598 billion, a decrease of 3.56% from the previous fiscal year-end.

Outstanding Debt as of June 30, 2013						
Bonds, Special Indebtedness, and Notes Payable						
<i>(dollars in thousands)</i>						
	Governmental Activities		Business-type Activities		Total	
	2013	2012	2013	2012	2013	2012
General obligation bonds.....	\$ 3,999,580	\$ 4,470,500	\$ —	\$ —	\$ 3,999,580	\$ 4,470,500
Special Indebtedness:						
Lease-purchase revenue bonds.....	20,915	30,915	—	—	20,915	30,915
Certificates of participation.....	508,500	557,895	—	—	508,500	557,895
Limited obligation bonds.....	1,993,740	1,795,090	—	—	1,993,740	1,795,090
GARVEE bonds.....	454,820	512,085	145,535	145,535	600,355	657,620
Revenue bonds.....	—	—	1,058,458	1,081,183	1,058,458	1,081,183
Notes payable.....	39,312	35,691	377,466	286,818	416,778	322,509
Total	\$ 7,016,867	\$ 7,402,176	\$ 1,581,459	\$ 1,513,536	\$ 8,598,326	\$ 8,915,712
Total percent change between fiscal years 2012 and 2013	(5.21)%		4.49 %		(3.56)%	

During the 2012-13 fiscal year, the State issued \$250 million in limited obligation bonds reported in governmental activities. The proceeds of the limited obligation 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 (Authority), a business-type activity, had additional borrowings of \$89.37 million from a federal transportation loan. The federal loan proceeds were used to finance the remaining construction costs of the Triangle Expressway, a toll road in Durham and Wake counties.



Topsail Area Beach

Photo Courtesy of VisitNC.com

The State refinanced \$1.401 billion of its existing general obligation bonds reported in governmental activities to take advantage of lower interest rates. The refinancing is expected to reduce future debt service payments by approximately \$58 million. General obligation bonds are approved by N.C. voters and are secured by the full faith, credit, and taxing power of the State.

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 \$8.598 billion in 2013, in part due to large issuances for higher education capital projects. Prior to 2003, the State only issued general obligation debt.

Financial Highlights — Fiscal Year 2013



Demographic and Economic Indicators

The following tables illustrate comparative information for the State.

PRINCIPAL EMPLOYERS

For the Fiscal Years 2004 & 2013

Employer	2013			2004		
	Employees	Rank	Percentage of Total State Employment	Employees	Rank	Percentage of Total State Employment
State of North Carolina.....	180,000-184,999	1	4.25%	165,000-170,000	1	4.21%
Federal Government.....	65,000-69,999	2	1.57%	60,000-64,999	2	1.57%
Wal-Mart Associates, Inc.....	45,000-59,999	3	1.22%	40,000-44,999	3	1.07%
Charlotte Mecklenburg Hospital.....	30,000-34,999	4	0.76%	10,000-14,999	9	0.31%
Duke University.....	30,000-34,999	5	0.76%	25,000-29,999	5	0.69%
Food Lion LLC.....	25,000-29,999	6	0.64%	25,000-29,999	4	0.69%
Wells Fargo Bank NA.....	20,000-24,999	7	0.52%	15,000-19,999	6	0.44%
Charlotte-Mecklenburg Board of Education..	20,000-24,999	8	0.52%	15,000-19,999	7	0.44%
Bank of America NA.....	20,000-24,999	9	0.52%	—	—	—
Wake County Public schools.....	15,000-19,999	10	0.41%	10,000-14,999	10	0.31%
IBM Corporation.....	—	—	—	15,000-19,999	8	0.44%
Total	450,000-509,990		11.17%	380,000-429,991		10.17%

TEACHERS AND STATE EMPLOYEES BY FUNCTION

For the Fiscal Years 2009-2013

Functions	2013	2012	2011	2010	2009
General government.....	5,450	5,425	5,835	5,941	5,898
Primary and secondary education.....	165,167	162,124	157,380	154,107	163,322
Higher education:					
Universities.....	60,665	61,317	62,716	61,505	61,063
Community colleges.....	19,518	19,702	19,958	18,948	17,263
Health and human services (1).....	17,786	17,958	20,382	20,919	22,094
Economic development.....	2,722	2,415	2,767	2,524	2,474
Environment and natural resources (2).....	3,549	3,561	4,582	4,607	4,740
Public safety, corrections and regulation (1).....	34,668	34,650	34,045	33,140	33,895
Transportation.....	13,170	13,175	13,550	13,902	14,767
Agriculture (2).....	2,110	2,064	1,349	1,366	1,393
Totals.....	324,805	322,391	322,564	316,959	326,909

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

SCHEDULE OF POPULATION GROWTH

For the Fiscal Years 2009-2013

(population in millions)

Year	2013	2012	2011	2010	2009	% Change From 2009 to 2013
United States	316.27	313.91	311.59	308.75	307.01	3.02%
North Carolina	9.85	9.75	9.65	9.54	9.38	5.01%



GDAC

Since 2007, the North Carolina data integration and business intelligence efforts have been managed by the Office of the State Controller (OSC). Session Law 2012-142, HB 950, expanded the State's existing data integration and business intelligence initiatives by creating the OSC Government Business Intelligence Competency Center (GBICC) to manage the State's enterprise data integration and business analytics efforts. Session Law 2013-360, SB402, changed the name of the program to the Government Data Analytics Center (GDAC), and directed the transfer of the GDAC program to the Office of the State Chief Information Officer (SCIO) effectively July 1, 2104.

The GDAC manages enterprise program activities as well as the development and support of analytics projects and systems including the North Carolina Financial Accountability and Compliance Technology System (NC FACTS) fraud, waste and improper payment detection project, the Criminal Justice Law Enforcement Automated Data Services (CJLEADS), and state reporting and analytics efforts. Consistent with OSC's past data integration efforts which have been "scoped to success," the GDAC has had a targeted focus and has been incrementally expanding the scope of applications as expertise and capacity grows.

In fiscal year 2013, NC FACTS continued development of unemployment insurance and workers' compensation fraud and compliance alerts. Fraud and compliance alerts evaluate information from various enterprise data sources to identify areas of suspect payments or compliance issues. The alert generation process incorporates criteria defined by the business organizations to prioritize alerts that represent higher risk, greater financial exposure, or repeat activity. This prioritization allows organizations to most effectively direct their limited resources to focus on the most egregious alerts. The NC FACTS user interface increases staff efficiency by providing access to critical data related to an alert through a single system, minimizing research and investigative legwork. The first production releases of NC FACTS are scheduled for the second quarter of fiscal year 2014.

CJLEADS serves over 26,700 criminal justice users including judges, prosecutors, clerks of court, magistrates, prison officials, probation and parole officers and law enforcement at the State, federal and local levels, saving time, saving money, and saving lives through 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.
- ◆ To provide an "offender watch" capability to alert criminal justice professionals when an offender has a change in status.

CJLEADS protects the State's investment by continuing to enhance existing functionality to meet the changing needs of the criminal justice community. In fiscal year 2013, CJLEADS deployed releases to add real-time access to the NC Statewide Warrants Repository and upgrade the application platform to an industry-standard state-of-the-art database increasing performance by over 60 percent.

Additional information about CJLEADS can be found on our website <http://www.cjleads.nc.gov>.

GDAC reporting and analytics data repository provides access to all integrated data to support agency program analytics, metrics, predictive analysis and executive dashboards. The GDAC reporting and analytics will provide access to a variety of tools that allow the user to run standard, system-generated reports, create ad hoc reports, and view data in tabular as well as visual representations. Fiscal year 2013 efforts focused on the development of procurement card analysis and reporting as well as the migration of the State Health Plan of NC's data analytics repository to the GDAC environment.



NC Pottery Center

Photo Courtesy of ncpotterycenter.org



North Carolina Education Lottery

For the seventh 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, 2013 with \$1.69 billion in sales and \$478 million in earnings to the state to support education. Since inception on March 30, 2006 through the end of fiscal year 2013, the lottery surpassed \$9.6 billion in sales and exceeded \$2.92 billion in overall transfers to the state and education.

Helping to boost sales during the year were two record Powerball jackpots, first a \$587 million jackpot in November 2012 and then a \$590.5 million jackpot in May 2013.

For the first year ever, the lottery surpassed \$1 billion in instant ticket sales. The instant product continued to be the largest revenue source, generating \$1.01 billion in sales. The lottery launched 49 new instant games during the year. New instant games included: a \$20 ticket called \$4,000,000 Gold Bullion that featured three top prizes of \$4 million; a "Week for Life" family of tickets that offered a top prize of \$5,000 a week for life; a holiday-themed ticket, Holiday Millions, that offered a \$3 million second-chance prize; a licensed Star Trek instant game that offered a second chance prize of a VIP trip to Las Vegas for the Star Trek convention; and a suite of licensed Monopoly tickets including a \$10 game with five top prizes of \$1 million.

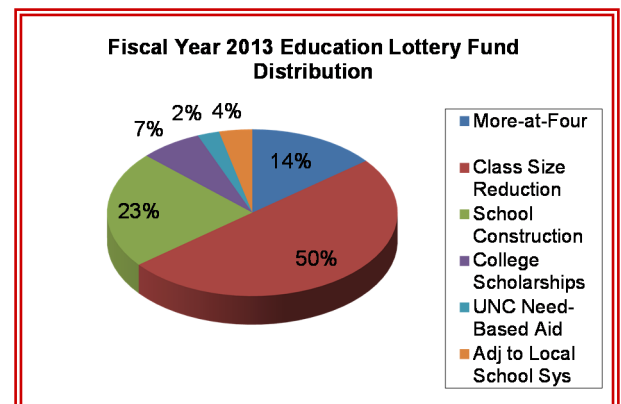
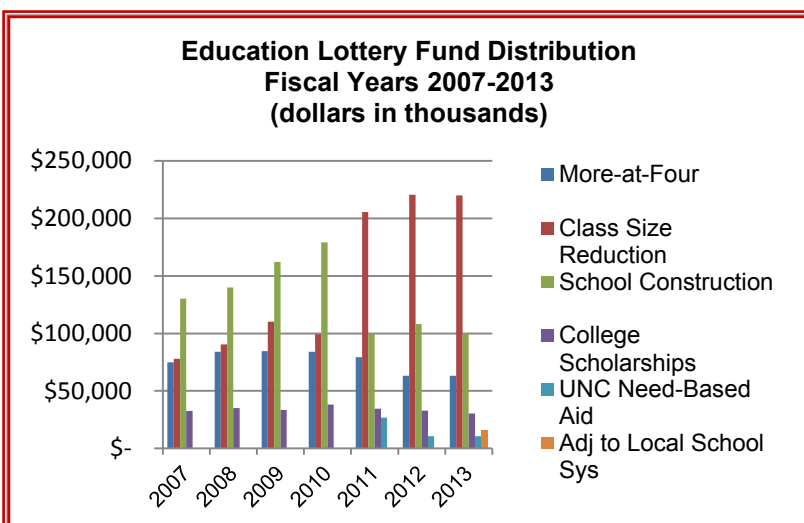
In October 2012, the lottery began a players' rewards program, Lucke-Rewards, that allows lottery players to enter non-winning instant tickets and all draw tickets to receive points to use in weekly and monthly drawings. Membership had grown to more than 350,000 members as of the end of the fiscal year.

The lottery has continued to add new retail locations, another reason behind the sales increase. The number of retailers increased to 6,839, up 1% from the year before. Overall, retailers earned \$118 million in sales commissions.

The State Lottery Act directs the lottery to increase and maximize the available revenues for education purposes. In fiscal year 2013, a breakdown of lottery revenues showed 61% went to prizes, 28% for education programs that the lottery serves and 7% in retailer commissions. The remaining 4% of revenues included 1.65% to gaming vendors, 0.9% to advertising, and the rest 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 2013 budget approved by the General Assembly.

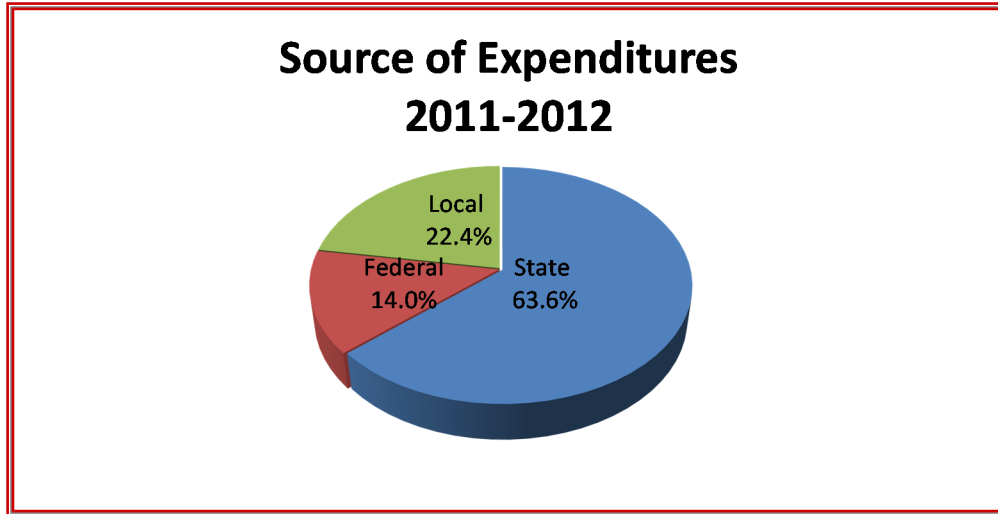
The following tables illustrate how lottery funds were distributed for education for fiscal year 2013:



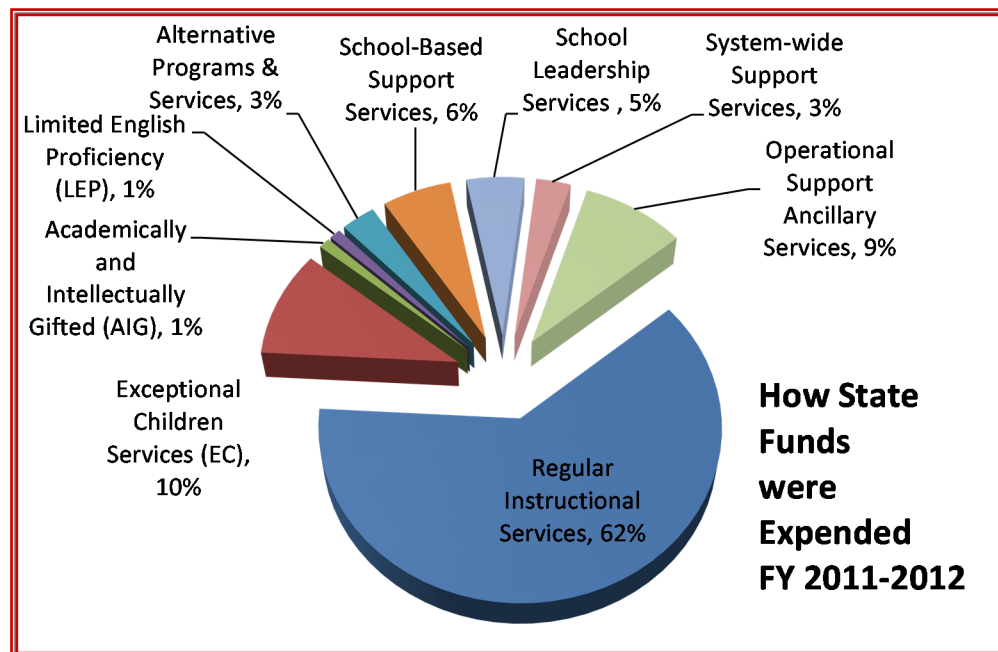


Education Highlights

North Carolina ranks 11th in the Nation and 2nd in the Southeast for the highest percentage of funds from state revenue. The national average is 45.5%. Most other state school systems are primarily funded by locally driven initiatives such as property taxes and local bond issues.



Of the \$7.5 billion State Public School fund for FY 2011-2012, all but 9.6% was used for salaries and benefits.



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



Transportation Highlights

For the fiscal year 2013, the North Carolina Department of Transportation (NCDOT) listed the following as some of its key accomplishments:

- ◆ Developed and worked with the N.C. General Assembly to pass landmark “Strategic Transportation Investments” bill establishing the Strategic Mobility Formula, a data-driven approach that makes better use of existing funds to improve and expand our State’s infrastructure.
- ◆ Began offering extended evening and Saturday hours at Division of Motor Vehicles (DMV) offices across the state to make it easier and more convenient to access services. The goal is to have all North Carolinians within 30 miles of a DMV that offers extended hours.
- ◆ Launched new “Tag and Tax Together” program, which combines payment of vehicle property taxes with vehicle registration renewals.
- ◆ Began issuing licenses and identification cards to applicants qualified under the federal Deferred Action for Childhood Arrivals (DACA) program.
- ◆ NCDMV entered partnership with Ft. Bragg and Johnston Community College to begin providing Commercial Driver License (CDL) courses on post at Ft. Bragg at reduced rates for current service members and their spouses. Additionally, Session Law 2013-201, HB 322, now allows DMV to waive the CDL skills test for veterans who have passed the military skills test.
- ◆ Modified NC’s air fleet to more efficiently meet travel needs, saving about \$500,000 a year. The first phase includes selling two fixed wing aircraft and one helicopter, buying more economic aircraft, and sharing the helicopter with the Highway Patrol.
- ◆ Began construction on projects as part of the Piedmont Improvement Program, which will improve the rail corridor between Raleigh and Charlotte. This half a billion dollar investment will improve safety and mobility on the railroad and highways.
- ◆ Implemented toll transponder interoperability with E-ZPass, which allows drivers with an NC Quick Pass or E-ZPass to use their pre-paid electronic toll collection account in 15 states. North Carolina is the first state in the nation to implement interoperability.



NCDOT Rail Division

Photo Courtesy of NCDOT

- ◆ Leveraged a public-private partnership to create a new Cold Storage Facility to Port of Wilmington. This partnership will provide 100 direct jobs and 200 indirect jobs and bring an initial \$13 million investment.

Information provided by the NCDOT Communications Office. Additional information available at www.ncdot.gov.

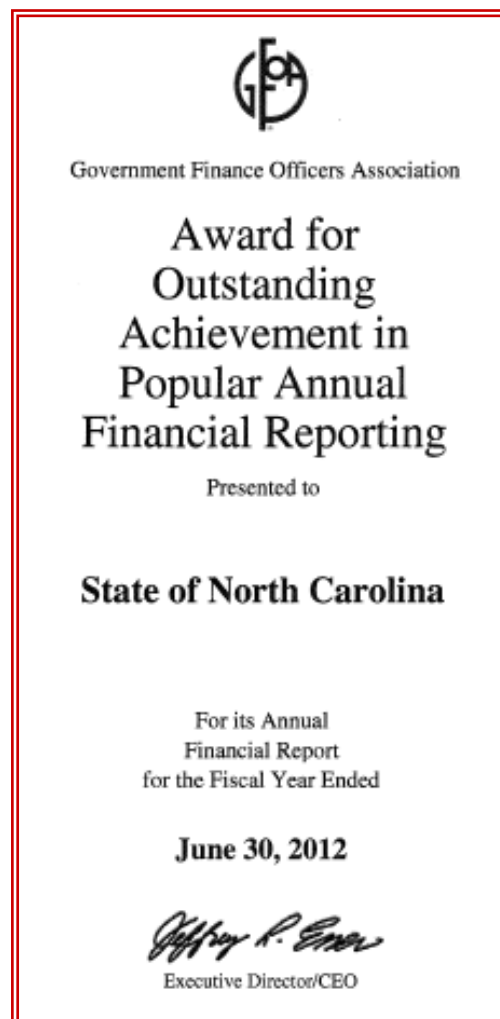


Award for Outstanding Achievement

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, 2012. 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 15 consecutive years (fiscal years ended 1998-2012). We believe our current report continues to conform to the Popular Annual Financial Reporting requirements, and we are submitting it to the GFOA.



50 copies of this public document were printed at a cost of \$112.68 or \$2.25 per copy.