

North Carolina



Financial Highlights

Fiscal Year Ended June 30, 2015

North Carolina Office of the State Controller - Linda Combs, Controller

The **North Carolina Maritime Museum at Southport** (top) tells the story of the Cape Fear region and its people. The Museum shares tales of pirates and pillage, blockade running, riverfront archaeology, and other nautical adventures.

The **North Carolina Maritime Museum in Beaufort** (middle) reflects coastal life and interprets lighthouses and lifesaving stations, the seafood industry, motorboats, and more. The Museum is the repository for artifacts from Blackbeard's wrecked flagship, Queen Anne's Revenge.

The **Graveyard of the Atlantic Museum in Hatteras** (bottom) is named in honor of thousands of shipwrecks that sank off North Carolina's coast. The Museum preserves and interprets the maritime heritage and shipwrecks of the North Carolina Outer Banks.

One historic coast. Three unique museums.

Photos courtesy of NC Department of Natural and Cultural Resources



I am pleased to present you with the ***North Carolina Financial Highlights*** for the fiscal year ended June 30, 2015. 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 3, 2015

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, 2015. 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



Mile-High Swinging Bridge

Photo Courtesy Visit NC Facebook

The Economy

During fiscal year 2014-15, the US economy continued to grow at a steady, moderate pace. North Carolina's economic conditions reflected the same steady improvements experienced by the nation's economy. Key industries in the State experienced strong growth during the fiscal year, especially the Professional and Business Services sector, Construction, and Durable-Goods Manufacturing. Employment improved, although wage growth fell below expectations. The State's unemployment rate dropped 0.4 percentage points during the year, falling from 6.2% to 5.8%. The State added 97,900 payroll jobs, a significant gain over the 73,600 added the previous year. Wage and salary income grew by 4.2%, which was improved over last year's 3% but weaker than long-run expectations of 5% to 6%. For the second half of 2015, economic conditions are expected to contribute to steady employment growth increasing upward pressure on wage growth. In 2016, wages are forecast to approach growth rates closer to the long-range average of 5.1%.



North Carolina Economic Indicators

	FY2013-14 Actual	FY2014-15 Projected	FY2015-16 Projected	FY2016-17 Projected
State Gross Product*	2.10%	2.40%	2.90%	3.20%
Personal Income	3.20%	4.50%	5.20%	5.30%
Wages & Salaries	3.00%	4.20%	5.10%	5.10%
Retail Sales	5.10%	5.60%	6.10%	6.50%
Unemployment Rate	6.20%	5.80%	5.80%	5.50%
Employment (Nonagricultural)	2.20%	2.40%	2.10%	2.20%
Population	1.00%	1.00%	1.20%	1.50%
Existing Single-family Home Sales	-2.30%	12.40%	14.00%	18.00%

* Adjusted for inflation

For North Carolina, as with the nation, the economy has strengthened, but the pace of growth has been somewhat weaker than was expected at the start of the fiscal year. Economic indicators show that the economy did pick up pace during the fiscal year. Stronger economic conditions overall resulted in the State adding 97,900 jobs, a significant increase over the prior year. Most industries experienced solid growth, but employment in non-durable manufacturing and government declined. The solid employment gains did not translate to similar gains in wage and salary income, which increased by 4.2%.

Projections of the State's key economic indicators reflect how the State's recovery 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, total personal income rose 4.5%, well behind the strong growth of 6% to 7% experienced in the years prior to the recession. Wage and salary income, a component of total personal income, grew at 4.2% for the fiscal year. That was an improvement over the dismal 3.2% growth the previous year and wages should continue to improve with advances in the labor market. A return to long-term growth levels in wage and salary income is forecast for 2016.

The recovery in North Carolina gained strength and traction, yet never reached expansionary levels during fiscal year 2014-15. Nonetheless, the increase in economic activity was enough that the State saw solid improvement in employment. The unemployment rate at the end of the fiscal year fell to 5.8%, from 6.2% at the start of the fiscal year. With a brighter economic outlook and a stronger labor market, retail sales advanced at a rate of 5.6%. Going forward, retail sales are expected to make up ground from years of slow growth by growing at a pace one to two percentage points above the long-term average growth rate of 5.0%.

As the State's economy continues to progress, employment prospects are expected to stabilize over the next two fiscal years. Total Non-Agricultural employment growth is projected at 2.1% and 2.2%, respectively. That would be slightly below this year's growth, but would continue to add 90,000 to 95,000 jobs in each of the next two years. The construction industry had struggled to regain some of the jobs lost during and after the recession. During fiscal year 2014-15, employment grew in this industry by 6.8% (12,100 jobs). Despite the gains, there are now 61,000 fewer construction jobs than when the recession began in December 2007, a drop of 24.3%. For fiscal year 2014-15, in addition to Construction, Professional and Business Services, Construction, Durable-Goods Manufacturing; and Leisure and Hospitality Services outpaced the overall growth in the State's employment. Even as the State experiences strong job growth the unemployment rate is expected to remain in the mid-five percent range as discouraged workers who left the workforce re-enter given the better job prospects. The rate is projected to average 5.8% in fiscal year 2015-16, and 5.5% in fiscal year 2016-17.



The housing recession and the subsequent adjustments in the real estate market have taken a long time to unwind. A strong rebound in housing starts (new construction) was underway in 2012, mostly from pent-up demand from the long housing downturn. In fiscal year 2013-14, housing starts stalled and declined by 2.3%. They took off again in 2014 with yearly growth of 12.4%. Housing starts can provide valuable insight into construction jobs and ripple effects in other industries such as household furnishing and appliance manufacturing. Additionally, in a healthy economy contractors will be more likely to take risks starting new housing developments. Housing starts are expected to average just below 60,000 per year during the biennium with growth of 14% and 18%, respectively. This would represent nearly double the number of housing starts during the recession, but still would be 35,000 less annually when compared to the peak year of 2006.

To summarize, the State's economic conditions experienced steady improvement during most of the fiscal year. Employment growth was the strongest since the 2007-2009 recession ended. The State's economy should track closely with the national economy the rest of 2015 and into 2016. By 2017, the State's economy is projected to grow at a pace faster than the national economy. The anticipated strengthening of the economy should increase consumer demand and solidify employment growth. These projected gains in employment will help to reduce the remaining 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 2016.

*— Economic analysis prepared by Barry Boardman, Ph.D., Chief Economist
North Carolina General Assembly, Fiscal Research Division
October 5, 2015*



Bodie Island Lighthouse

Photo Courtesy of Visit NC Facebook



Financial Highlights

Government-wide

- ◆ The State's total net position increased by \$4.95 billion or 12.05% as a result of this year's operations. Net position of governmental activities and business-type activities increased by \$3.26 billion (or 8.23%) and \$1.69 billion (or 114.4%), respectively. At year-end, net position of governmental activities and business-type activities totaled \$42.86 billion and \$3.17 billion, respectively.
- ◆ Component units reported net position of \$22.83 billion, an increase of \$941.7 million or 4.3% from the previous year. The majority of the net position is attributable to the University of North Carolina System, a major component unit.

Fund Financials

- ◆ The fund balance of the General Fund increased from \$1.55 billion at June 30, 2014 (as restated) to \$2.51 billion at June 30, 2015, an increase of 61.44%. A significant decrease in individual income tax refunds, due to tax law changes, is the main contributor to the fund balance increase. Tax refunds were lower due to the elimination of many deductions and tax credits and taxpayers not adjusting their withholding amounts for the 2014 tax year.
- ◆ The fund balance of the Highway Fund increased 65.68% to \$367.09 million at June 30, 2015. The increase is attributable, in part, to the issuance of \$264.93 million in grant anticipation vehicle (GARVEE) bonds in May 2015.
- ◆ The fund balance of the Highway Trust Fund increased 29.45% to \$1.13 billion at June 30, 2015. The increase is due, in part, 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 positive \$1.14 billion at June 30, 2015 compared to negative \$370.52 million at June 30, 2014. 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 State paid off the federal unemployment debt (amount that was advanced to finance State unemployment benefit payments) on April 30, 2015.
- ◆ Net ticket sales of the N.C. State Lottery Fund (Lottery) increased 7.23% from the previous fiscal year to \$1.97 billion. As required by law, the Lottery transferred \$526.43 million to the General Fund to support educational programs.
- ◆ The net position of the N.C. Turnpike Authority (Authority) increased 21.51% to \$335.96 million at June 30, 2015. Total operating revenues increased 24.21% to \$30.71 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 6.94% to \$1.5 billion.



Bechtler Museum of Modern Art

Photo Courtesy of Visit NC Facebook



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 and deferred inflows of resources by \$46.03 billion (total primary government) at the close of the most recent fiscal year. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the State is improving or deteriorating. The State's overall net position increased \$4.95 billion or 12.05% (total primary government) from the prior fiscal year. The following table was derived from the government-wide Statement of Net Position:

Net Position						
June 30, 2015 and 2014						
<i>(dollars in thousands)</i>						
	Governmental Activities		Business-type Activities		Total Primary Government	
	2015	2014 (as restated)	2015	2014 (as restated)	2015	2014 (as restated)
Current and other non-current assets.....	\$ 10,865,267	\$ 9,607,068	\$ 3,962,905	\$ 3,394,803	\$ 14,828,172	\$ 13,001,871
Capital assets, net.....	45,804,367	44,388,041	1,287,441	1,213,315	47,091,808	45,601,356
Total assets.....	56,669,634	53,995,109	5,250,346	4,608,118	61,919,980	58,603,227
Total deferred outflows of resources.....	607,444	532,787	4,599	6,180	612,043	538,967
Long-term liabilities.....	8,666,978	9,887,589	1,654,144	2,679,671	10,321,122	12,567,260
Other liabilities.....	4,717,689	5,037,685	413,186	458,006	5,130,875	5,495,691
Total liabilities.....	13,384,667	14,925,274	2,067,330	3,137,677	15,451,997	18,062,951
Total deferred inflows of resources.....	1,030,957	—	21,666	—	1,052,623	—
Net position:						
Net investment in capital assets.....	43,612,584	42,139,297	534,380	442,100	44,146,964	42,581,397
Restricted.....	1,061,817	861,988	1,256	1,940	1,063,073	863,928
Unrestricted.....	(1,812,947)	(3,398,663)	2,630,313	1,032,581	817,366	(2,366,082)
Total net position.....	\$ 42,861,454	\$ 39,602,622	\$ 3,165,949	\$ 1,476,621	\$ 46,027,403	\$ 41,079,243

The largest component of the State's net position (\$44.15 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 (\$1.06 billion). 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 2015



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, 2015			
(dollars in thousands)			
	Primary Government		
	Governmental Activities	Business-type Activities	Total
Changes in Net Position			
Net (expense) revenue	\$ (21,399,281)	\$ 2,105,807	\$ (19,293,474)
General Revenues:			
Taxes:			
Individual income tax.....	11,288,542	—	11,288,542
Corporate income tax.....	1,272,879	—	1,272,879
Sales and use tax.....	6,869,090	—	6,869,090
Gasoline tax.....	1,945,462	—	1,945,462
Franchise tax.....	556,786	—	556,786
Highway use tax.....	653,931	—	653,931
Insurance tax.....	529,927	—	529,927
Beverage tax.....	360,280	—	360,280
Tobacco products tax.....	279,795	—	279,795
Other taxes.....	288,340	—	288,340
Tobacco settlement.....	137,910	—	137,910
Unrestricted investment earnings.....	20,139	—	20,139
Miscellaneous.....	34,167	4	34,171
Contributions to permanent funds.....	4,382	—	4,382
Transfers.....	416,483	(416,483)	—
Total general revenues, contributions, and transfers.....	<u>24,658,113</u>	<u>(416,479)</u>	<u>24,241,634</u>
Change in net position.....	3,258,832	1,689,328	4,948,160
Net position — July 1, as restated (Note 23).....	39,602,622	1,476,621	41,079,243
Net position — June 30.....	<u>\$ 42,861,454</u>	<u>\$ 3,165,949</u>	<u>\$ 46,027,403</u>

Governmental Activities:

- ◆ Revenues outpaced expenses and when combined with transfers from the State's business-type activities, an increase in net position of \$3.26 billion (or 8.23%) resulted for governmental activities.
- ◆ Total revenues increased by 4.79% (\$1.99 billion).
- ◆ Total expenses increased by 3.55% (\$1.4 billion).

Business-type Activities:

- ◆ Business-type activities reflect an overall increase in net position of \$1.69 billion or 114.4%, primarily because of the financial results of the Unemployment Compensation Fund.
- ◆ The net position increase of \$1.51 billion in the Unemployment Compensation Fund is explained by the drop in the State's unemployment rate.
- ◆ The net position increase of \$59.47 million for the N.C. Turnpike Authority is due primarily to transfers in from the Highway Trust Fund.
- ◆ The net position increase of \$97.29 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 2015



Statement of Activities (cont'd)

For fiscal year 2015, the increase in total revenues is attributable to major tax changes enacted by the General Assembly, which included a reduction in individual income and corporate income tax rates (effective January 1, 2014) and a broadening of the sales and use tax base. A significant decrease in tax refunds is due to the elimination of many deductions and tax credits and taxpayers not adjusting their withholding amounts for the 2014 tax year explains the increase in individual income tax revenues. Operating grants and contributions increased because of more spending in federally supported programs, such as Medicaid. However, capital grants and contributions decreased due to a reduction in federal funding for transportation.

The increase in total expenses of 3.55% is attributable to spending increases in the State's two largest functional areas, health and human services and primary and secondary education. The increase in health and human services is due primarily to increased spending for Medicaid (the State's largest public assistance program). The growth in primary and secondary education is due to salary increases for State-funded local public school district employees, including teachers and instructional support, and other personnel. The pay for all educators was increased to at least \$33 thousand annually. Higher education spending decreased during the current period due, in part, to smaller distributions of higher education bond proceeds in fiscal year 2015 compared to the prior year. Also, escheat funding for grants, loans, and scholarships for students was lower this year.

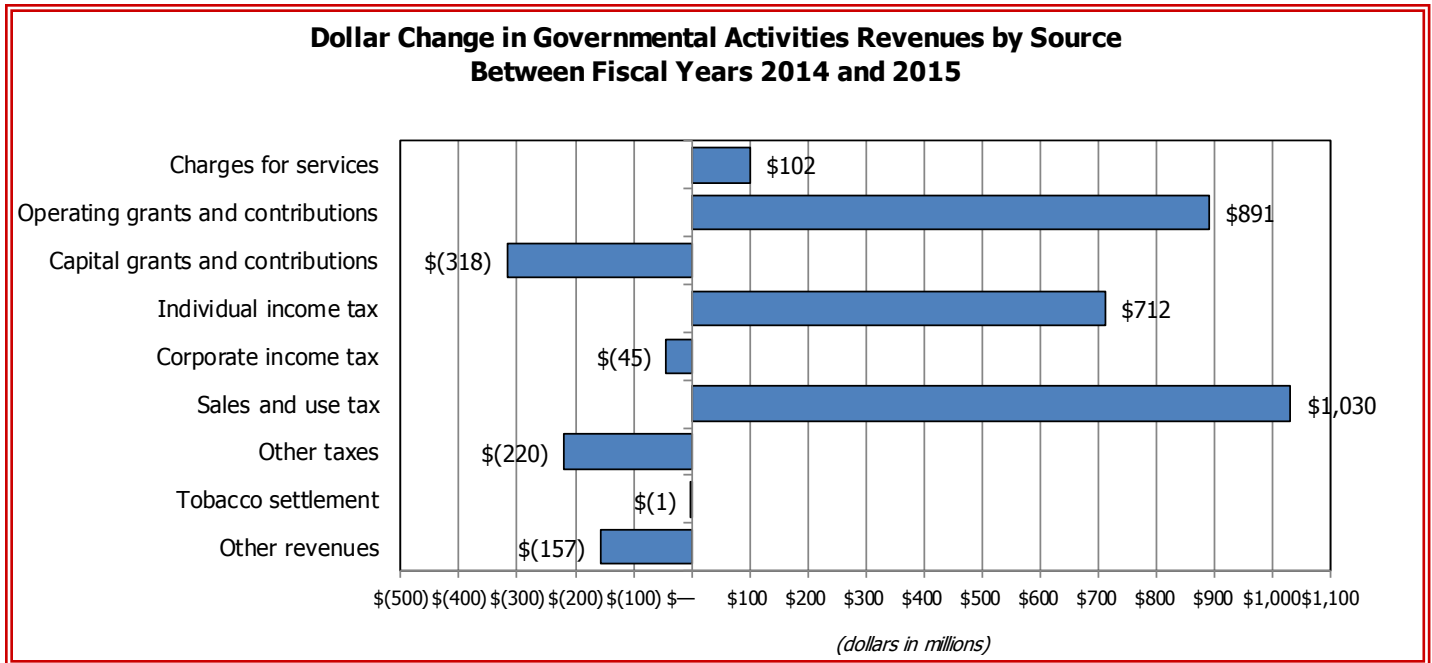
Condensed Schedule of Expenses & Program Revenues			
Primary Government			
For the Fiscal Year Ended June 30, 2015			
<i>(dollars in thousands)</i>			
Functions/Activities	Expenses	Program Revenues	Net (Expense) Revenue
Governmental Activities:			
General government.....	\$ 1,159,012	\$ 282,165	\$ (876,847)
Primary and secondary education.....	10,224,967	1,570,017	(8,654,950)
Higher education.....	3,859,549	191,239	(3,668,310)
Health and human services.....	18,705,192	13,885,489	(4,819,703)
Economic development.....	408,289	267,598	(140,691)
Environment and natural resources.....	490,185	271,663	(218,522)
Public safety, corrections, and regulation.....	2,895,244	794,831	(2,100,413)
Transportation.....	2,673,649	2,067,661	(605,988)
Agriculture.....	165,735	68,397	(97,338)
Interest on long-term debt.....	216,519	—	(216,519)
Total Governmental Activities.....	40,798,341	19,399,060	(21,399,281)
Business-type Activities:			
Unemployment Compensation.....	349,069	1,858,788	1,509,719
N.C. State Lottery.....	1,450,494	1,977,917	527,423
EPA Revolving Loan.....	22,965	107,112	84,147
N. C. Turnpike Authority.....	89,004	54,794	(34,210)
Regulatory commissions.....	90,397	97,229	6,832
Insurance programs.....	21,632	21,020	(612)
North Carolina State Fair.....	14,975	27,373	12,398
Other business-type activities.....	12,364	12,474	110
Total Business-type Activities.....	2,050,900	4,156,707	2,105,807
Total Primary Government.....	\$ 42,849,241	\$ 23,555,767	\$(19,293,474)

Financial Highlights — Fiscal Year 2015

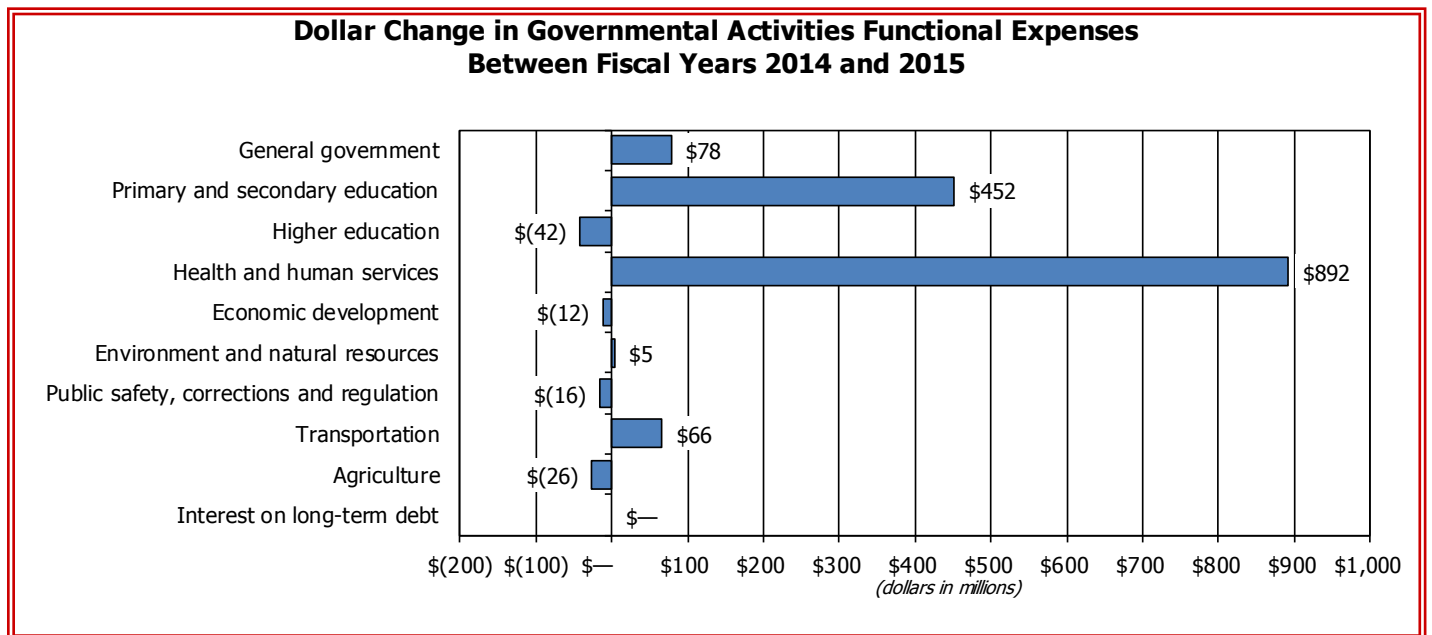


Statement of Activities (cont'd)

The following chart reflects the dollar change in the revenues by source of governmental activities between fiscal years 2014 and 2015.



The following chart reflects the dollar change in the functional expenses of governmental activities between fiscal years 2014 and 2015.

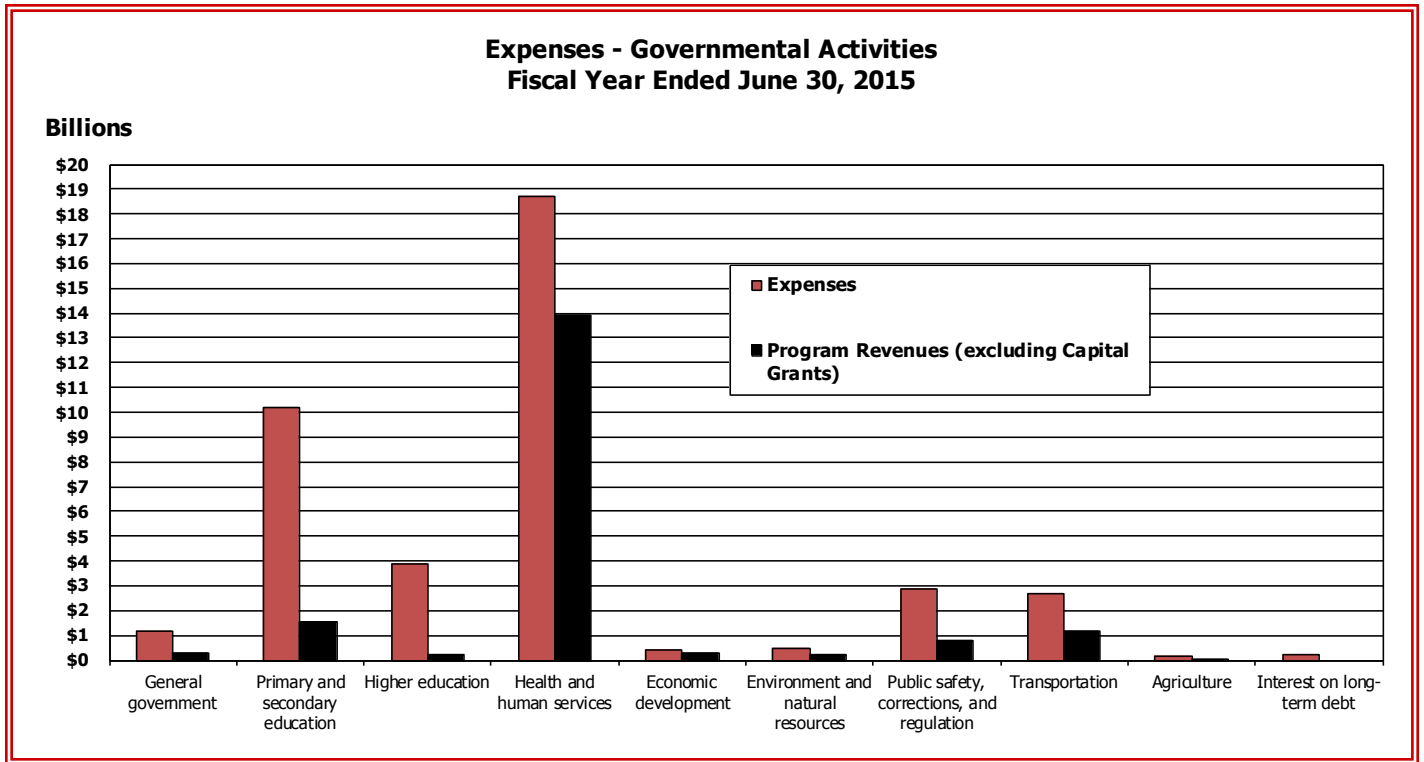


Financial Highlights – Fiscal Year 2015



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.



Wild Horses at Shackleford Banks

Photo Courtesy of Visit NC Facebook

Financial Highlights — Fiscal Year 2015



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 2011-2015					
<i>(Dollars in Millions)</i>					
	2015	2014	2013	2012	2011
Governmental Activities					
Total Expenses.....	\$ (40,798)	\$ (39,400)	\$ (40,095)	\$ (39,676)	\$ (39,113)
Total Tax Revenues.....	24,045	22,569	22,733	21,874	21,695
Total Other Revenues and Contributions.....	19,596	19,078	19,254	18,815	19,119
Total Transfers.....	416	430	449	402	372
Change in Net Position.....	<u>\$ 3,259</u>	<u>\$ 2,677</u>	<u>\$ 2,341</u>	<u>\$ 1,415</u>	<u>\$ 2,073</u>
Net Position - June 30.....	\$ 42,861	\$ 39,602	\$ 38,204	\$ 35,815	\$ 34,276
Business-type Activities					
Total Expenses.....	\$ (2,051)	\$ (2,289)	\$ (3,953)	\$ (4,591)	\$ (5,637)
Total Revenues.....	4,157	4,028	4,831	5,194	5,911
Total Transfers.....	(416)	(430)	(449)	(402)	(372)
Change in Net Position.....	<u>\$ 1,690</u>	<u>\$ 1,309</u>	<u>\$ 429</u>	<u>\$ 201</u>	<u>\$ (98)</u>
Net Position - June 30.....	\$ 3,166	\$ 1,477	\$ 161	\$ (268)	\$ (469)
Total Primary Government					
Total Expenses.....	\$ (42,849)	\$ (41,689)	\$ (44,048)	\$ (44,267)	\$ (44,750)
Total Revenues and Contributions.....	47,797	45,676	46,817	45,883	46,725
Change in Net Position.....	<u>\$ 4,948</u>	<u>\$ 3,987</u>	<u>\$ 2,769</u>	<u>\$ 1,616</u>	<u>\$ 1,975</u>
Net Position - June 30.....	\$ 46,027	\$ 41,079	\$ 38,365	\$ 35,547	\$ 33,807



Carolina Balloon Fest at Statesville

Photo Courtesy of Visit NC Facebook

Financial Highlights — Fiscal Year 2015



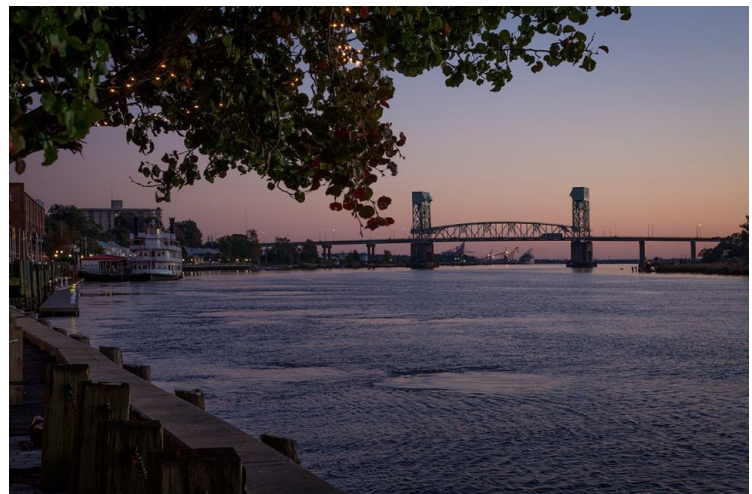
Capital Assets

As of June 30, 2015, the State's investment in capital assets was \$47.09 billion, an increase of 3.27% from the previous fiscal year-end.

Capital Assets as of June 30, 2015 <i>(net of depreciation, dollars in thousands)</i>						
	Governmental Activities		Business-type Activities		Total	
	2014		2014		2014	
	2015	(as restated)	2015	(as restated)	2015	(as restated)
Land and permanent easements.....	\$16,634,469	\$16,221,268	\$ 185,894	\$ 160,571	\$16,820,363	\$16,381,839
Buildings.....	2,757,591	2,792,625	63,288	54,232	2,820,879	2,846,857
Machinery and equipment.....	604,889	589,323	6,833	8,160	611,722	597,483
Infrastructure:						
State highway system.....	22,850,001	21,897,786	—	—	22,850,001	21,897,786
NC toll road system.....	—	—	762,446	778,576	762,446	778,576
Other infrastructure.....	160,093	163,062	4,322	4,645	164,415	167,707
Computer software.....	307,400	288,109	987	12	308,387	288,121
Art, literature, and other artifacts...	116,223	104,296	390	209	116,613	104,505
Construction in progress.....	2,049,311	2,040,771	263,281	206,910	2,312,592	2,247,681
Computer software in development...	324,390	290,801	—	—	324,390	290,801
Total.....	\$45,804,367	\$44,388,041	\$ 1,287,441	\$ 1,213,315	\$47,091,808	\$45,601,356
Total percent change between fiscal years 2014 and 2015	3.19 %		6.11 %		3.27 %	

The largest component of capital assets is the state highway system. North Carolina has a 79,584 mile highway system, making it the second largest state-maintained highway system in the nation. The major capital asset activity during the current fiscal year included the following:

- ◆ The N.C. Department of Transportation reported year-end construction in progress of \$1.58 billion (including land improvements) for state highway projects. Additionally, the N.C. Turnpike Authority (business-type activity) reported year-end construction in progress of \$263 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. It 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 \$226 million. The new hospitals are being financed by special indebtedness bonds.
- ◆ DHHS is also 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 \$301 million.



Cape Fear Memorial Bridge

Photo Courtesy of Visit NC Facebook

Financial Highlights — Fiscal Year 2015



Debt Administration

At year-end, the State had total long-term debt outstanding (bonds, special indebtedness, and notes payable) of \$7.91 billion, a decrease of 1.21% from the previous fiscal year-end.

Long-term Debt

	Governmental Activities		Business-type Activities		Total	
	2014		2014		2014	
	2015	(as restated)	2015	(as restated)	2015	(as restated)
General obligation bonds.....	\$ 3,469,220	\$ 3,607,100	\$ —	\$ —	\$ 3,469,220	\$ 3,607,100
Special Indebtedness:						
Lease-purchase revenue bonds....	2,000	4,125	—	—	2,000	4,125
Certificates of participation.....	151,745	247,615	—	—	151,745	247,615
Limited obligation bonds.....	2,095,550	2,132,085	—	—	2,095,550	2,132,085
GARVEE bonds.....	598,165	395,275	145,535	145,535	743,700	540,810
Revenue bonds.....	—	—	1,019,588	1,039,308	1,019,588	1,039,308
Notes payable.....	34,095	39,738	390,818	392,592	424,913	432,330
Total	<u>\$ 6,350,775</u>	<u>\$ 6,425,938</u>	<u>\$ 1,555,941</u>	<u>\$ 1,577,435</u>	<u>\$ 7,906,716</u>	<u>\$ 8,003,373</u>
Total percent change between fiscal years 2014 and 2015	(1.17)%		(1.36)%		(1.21)%	

During the 2014-15 fiscal year, the State issued \$231.36 million in general obligation bonds and \$264.93 million in grant anticipation revenue vehicle (GARVEE) bonds for its governmental activities. The general obligation bonds were issued pursuant to the Two-Thirds Bonds Act of 2014 and will provide funds for the acquisition, construction, and various capital improvements for the State (governmental activities) and the University of North Carolina System (component unit). The proceeds of the GARVEE bonds (authorized by Session Law 2005-403) will be used to accelerate funding of various transportation projects identified in the current State Transportation Improvement Plan.

Additionally, the State refinanced \$309.2 million of its existing certificates of participation and limited 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 \$21 million.

In connection with the general obligation bonds, Standard & Poor's, Moody's Investors Service, and Fitch Ratings, the top three rating agencies, all affirmed the triple-A bond rating for the State. A triple-A credit rating means that North Carolina has followed well-defined financial management policies and has demonstrated strong debt management practices. The ratings assigned on the limited obligation refunding bonds were one level below triple-A. The rating agencies recognized the State's historically conservative budgeting, financial management, and debt issuance practices. North Carolina remains one of only ten states with a triple-A rating from all three rating agencies.

The State's total long-term debt (bonds, special indebtedness, and notes payable) reported in governmental activities has increased significantly, rising from \$3.48 billion in 2002 to \$6.35 billion in 2015, in part due to large issuances of non-GO debt (special indebtedness) for higher education capital projects. Prior to 2003, the State only issued general obligation debt.



Canals at Emerald Isle

Photo Courtesy of Visit NC Facebook

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 2015.

Financial Highlights — Fiscal Year 2015



Demographic and Economic Indicators

The following tables illustrate comparative information for the State.

PRINCIPAL EMPLOYERS

For the Fiscal Years 2006 & 2015

Employer	2015			2006		
	Employees	Rank	Percentage of Total State Employment	Employees	Rank	Percentage of Total State Employment
State of North Carolina.....	175,000-179,999	1	3.95%	170,000-174,999	1	4.11%
Federal Government.....	65,000-69,999	2	1.50%	60,000-64,999	2	1.49%
Wal-Mart Associates, Inc.....	45,000-59,999	3	1.17%	45,000-49,999	3	1.13%
Charlotte Mecklenburg Hospital.....	30,000-34,999	4	0.72%	15,000-19,999	9	0.42%
Food Lion LLC.....	30,000-34,999	5	0.72%	25,000-29,999	5	0.66%
Duke University.....	30,000-34,999	6	0.72%	25,000-29,999	4	0.66%
Wells Fargo Bank NA.....	25,000-29,999	7	0.61%	—	—	—
Charlotte-Mecklenburg Board of Education....	20,000-24,999	8	0.50%	15,000-19,999	7	0.42%
Wake County Public Schools.....	20,000-24,999	9	0.50%	15,000-19,999	8	0.42%
Bank of America NA.....	15,000-19,999	10	0.39%	10,000-14,999	10	0.30%
Wachovia Bank NA.....	—	—	—	25,000-29,999	6	0.66%
Total.....	455,000-514,990		10.78%	405,000-454,990		10.27%

TEACHERS AND STATE EMPLOYEES BY FUNCTION

For the Fiscal Years 2006-2015

Functions	2015	2014	2013	2012	2011
General government.....	5,270	5,357	5,450	5,425	5,835
Primary and secondary education.....	153,165	157,205	165,167	162,124	157,380
Higher education:					
Universities.....	62,152	61,720	60,665	61,317	62,716
Community colleges.....	18,471	18,588	19,518	19,702	19,958
Health and human services (1).....	17,620	17,801	17,786	17,958	20,382
Economic development.....	2,893	3,003	2,722	2,415	2,767
Environment and natural resources (2).....	3,471	3,566	3,549	3,561	4,582
Public safety, corrections and regulation (1).....	33,558	33,635	34,668	34,650	34,045
Transportation.....	12,758	13,309	13,170	13,175	13,550
Agriculture (2).....	2,080	2,081	2,110	2,064	1,349
Totals.....	311,438	316,265	324,805	322,391	322,564

(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 2011-2015

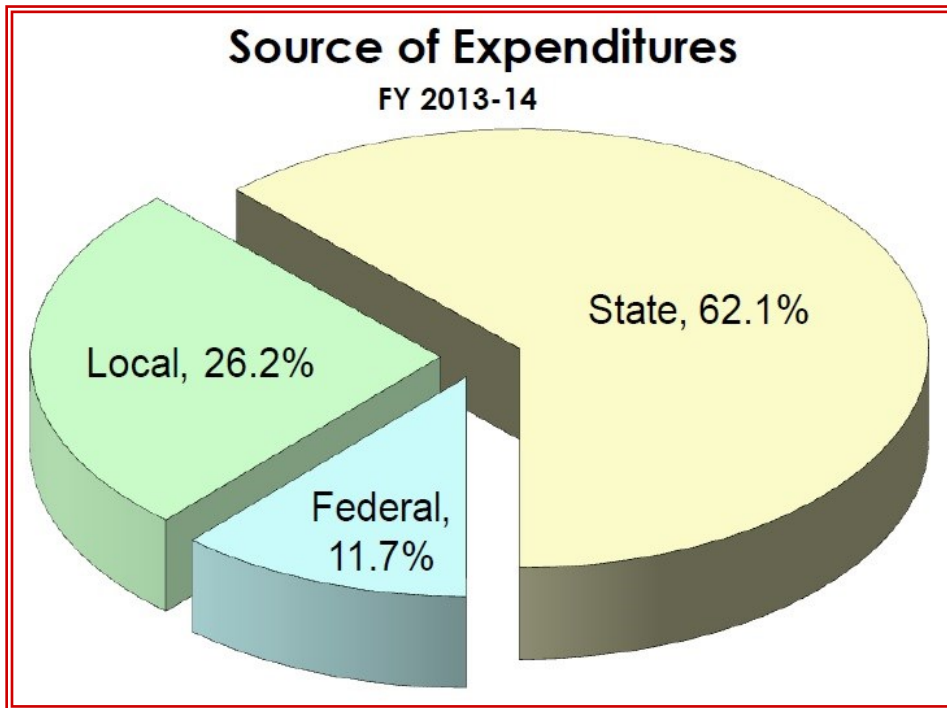
(population in millions)

Year	2015	2014	2013	2012	2011	% Change From 2011-2015
United States	322.01	318.86	316.50	314.11	311.72	3.30%
North Carolina	10.04	9.94	9.85	9.75	9.65	4.04%

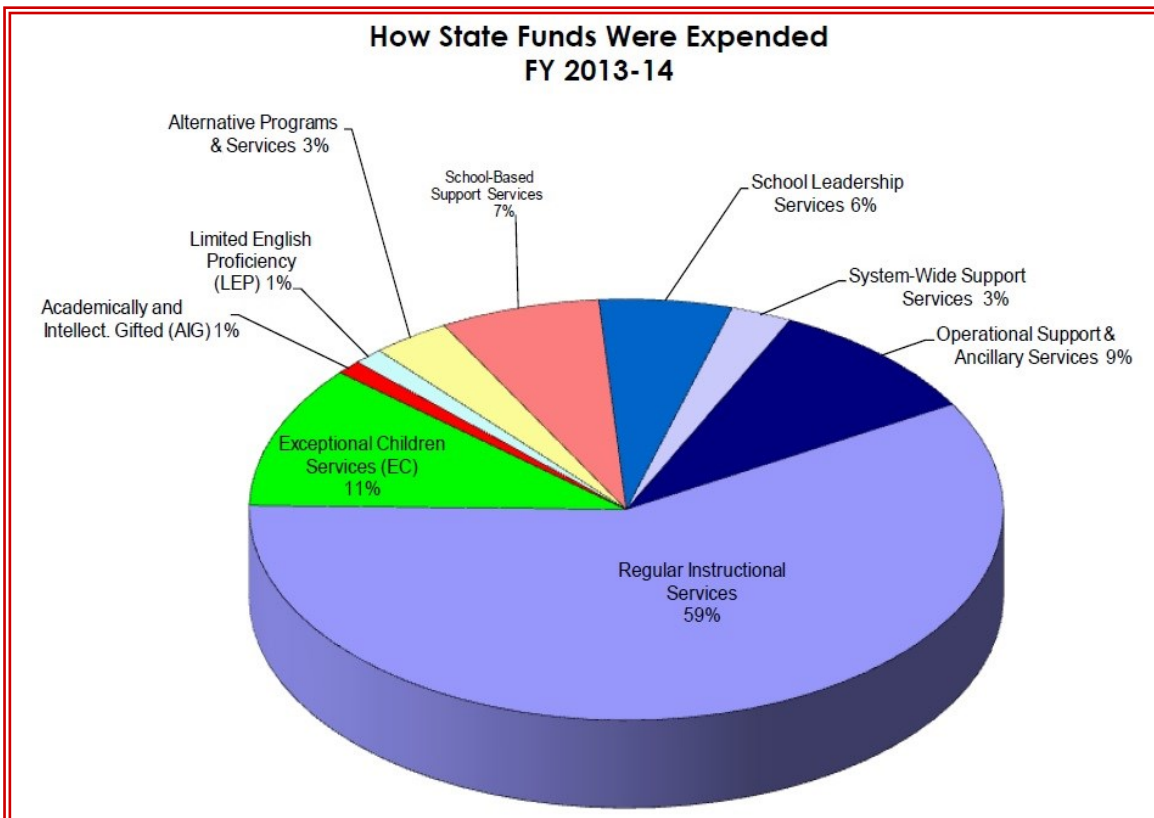


Education Highlights (Primary and Secondary)

North Carolina ranks 9th in the Nation for the highest percentage of funds from state revenue. The national average is 46.2%. Most other state school systems are primarily funded by locally driven initiatives such as property taxes and local bond issues.



Of the \$7.8 billion State Public School fund for fiscal year 2013-2014, all but 6.3% was used for salaries and benefits.



Financial Highlights — Fiscal Year 2015



North Carolina Education Lottery

For the ninth 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, 2015 with \$1.97 billion in sales and \$526 million in earnings. Since inception on March 30, 2006 through the end of fiscal year 2015, the lottery surpassed \$13.4 billion in sales and exceeded \$3.9 billion in overall transfers to the state and education.

The instant product continued to be the largest revenue source, generating \$1.29 billion in sales. The lottery launched 50 new instant games during the year, including a \$20 game, \$200 Million Blowout, which offered 20 prizes from \$1 million to \$4 million plus a new “Win It All” feature for players to win all prizes on a ticket with one match. The lottery also launched its sixth draw game, All or Nothing, a \$2 game with a top prize of \$250,000 when a ticket matches all of the numbers or none of the numbers drawn.



More than 588,000 North Carolinians joined the lottery’s Lucke-Zone, a website where they can get lottery news, ask questions about lottery games, and enter second-chance drawings and other promotions.

Recruitment and retention of retail locations continued to support ticket sales. In fiscal year 2015, retailers earned \$138.7 million in sales commissions and incentives and the number of retailers stood at 6,901 to finish the year.

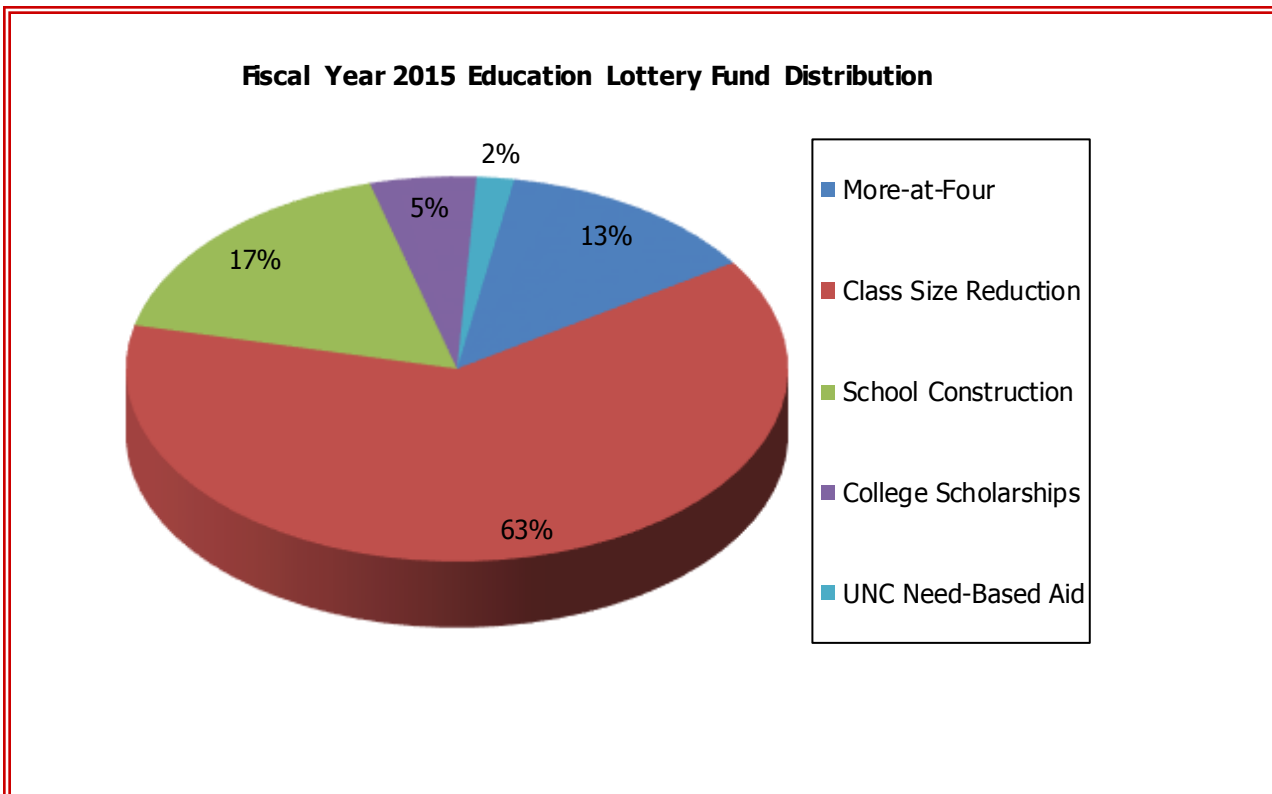
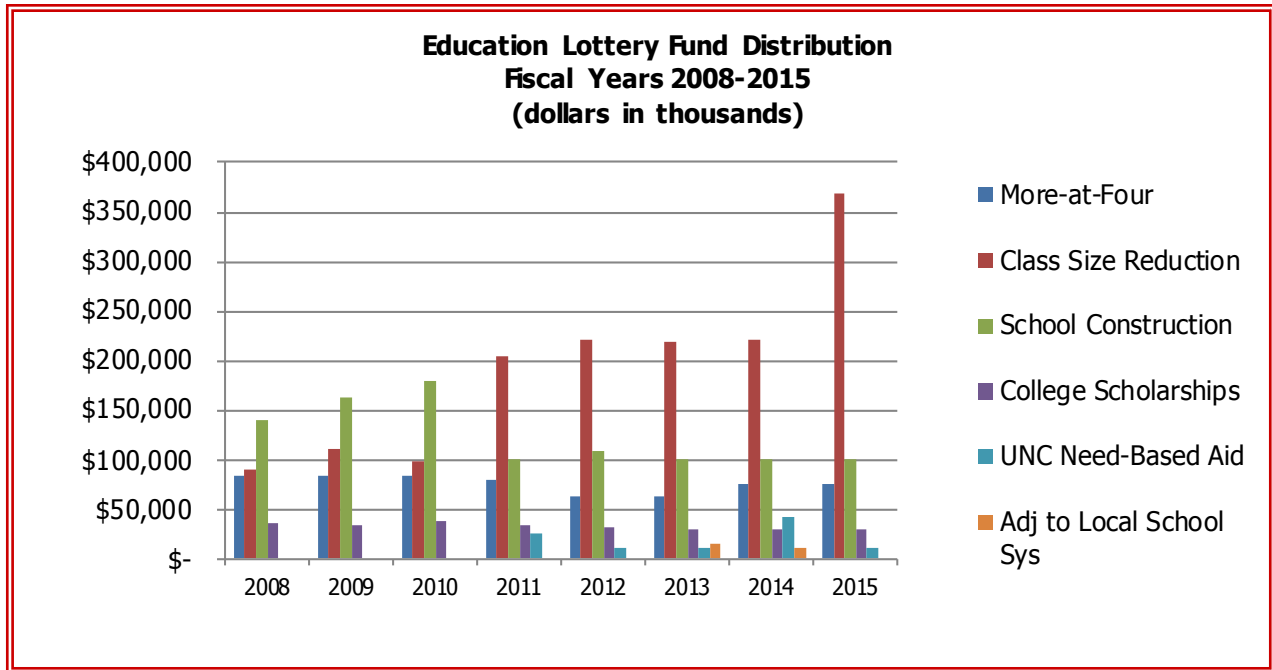
The State Lottery Act directs the lottery to increase and maximize the available revenues for education purposes. In fiscal year 2015, a breakdown of lottery revenues showed 62% went to prizes, 27% for education programs that the lottery serves, 7% in retailer commissions. The remaining 4% of revenues included 1.5% to gaming vendors, 1% 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 2015 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 2015:





Transportation Highlights

For the fiscal year 2015, the North Carolina Department of Transportation (NCDOT) listed the following as some of its key accomplishments:

- ◆ The 2015 legislative session was a landmark year for NCDOT in terms of obtaining additional state budget authority for both construction and maintenance of our transportation infrastructure, and modernizing and stabilizing our major funding sources. The most significant changes include: ending the transfer of more than \$200 million annually from the Highway Fund to the General Fund; stabilizing the motor fuels tax; increasing most DMV fees by 30% and indexing them for inflation (first increase in a decade); and increasing the Highway Use Tax caps on vehicle title transfers for commercial, recreational and out-of-state vehicles.
- ◆ Achieved financial close and secured funding at historically low interest rates on the I-77 express lanes project - the State's first major P3. The express lanes will give drivers the choice to pay a toll that guarantees reliable travel time or remain in the general purpose lanes for free. The department chose the P3 concept for the I-77 Express Lanes to be able to deliver this project in its entirety and begin providing reliable travel times and long-term congestion management in this region much sooner than possible in traditional project methods.
- ◆ Through a contract with Travelers Marketing LLC that guarantees \$2 million in total revenue over four years, State Farm Insurance is sponsoring NCDOT's Incident Management Assistance Patrols, which aid in clearing incidents and offer roadside assistance on major interstate routes throughout the state. The sponsorship will help offset NCDOT's cost to operate the program.
- ◆ The Triangle Expressway continued to exceed traffic and revenue projections. Revenue in fiscal year 2015 was \$5.3 million higher than projected in 2009. In the fourth quarter of 2015, year-over-year daily traffic was up 18-29%, depending on the segment of the facility.
- ◆ In May, NCDOT started construction on the Monroe Expressway, a roughly 20-mile toll freeway that will provide an alternative for high-speed regional travel along the U.S. 74 corridor. The new freeway will extend from U.S. 74 near I-485 in Mecklenburg County to U.S. 74 between the towns of Wingate and Marshville in Union County. The approximately \$840 million project is expected to open to traffic in late 2018. The Monroe Expressway will be managed by the North Carolina Turnpike Authority and use electronic tolling similar to the Triangle Expressway.
- ◆ The N.C. Division of Motor Vehicles began offering online driver license renewal, allowing customers to renew their licenses without coming into a DMV office. By offering online renewals, examiners have more time to serve other customers' needs. As our population is rapidly growing, this will help us continue to meet increased demand while holding down costs and reducing wait times.

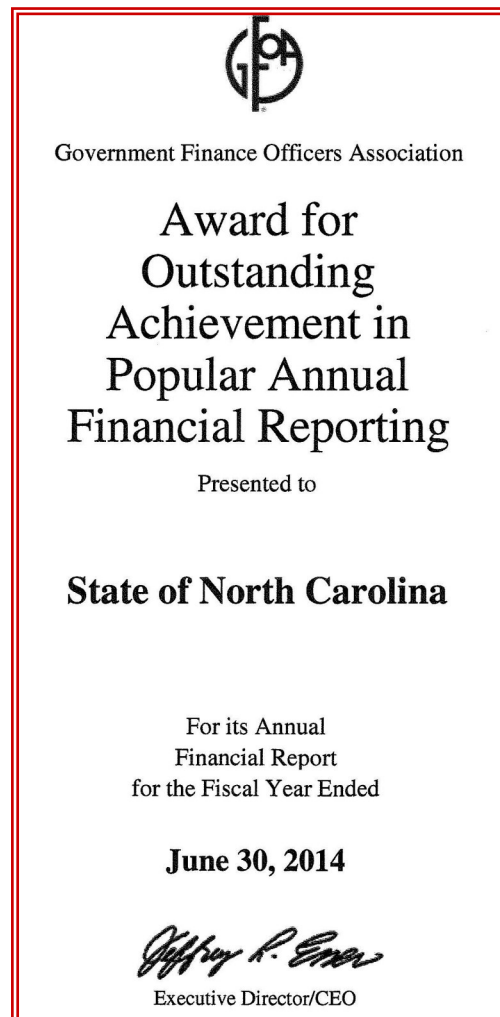


Award for Outstanding Achievement

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, 2014. 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 17 consecutive years (fiscal years ended 1998-2014). 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 \$153.96 or \$6.1584 per copy.