North Carolina

Financial Highlights
Fiscal Year End June 30, 2009

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

Cover Photos:

North Carolina greats Etta Baker and Doc Watson, as well as the North Carolina mountains, are featured on the cover. The Office of the State Controller wishes to thank documentary photographer Cedric N. Chatterley for the photographs of Etta Baker and Doc Watson. The mountain photos were provided courtesy of the N.C. Department of Commerce's Division of Tourism, Film and Sports Development.

Etta Baker was a master of the blues guitar style that became popular in the southern piedmont after the turn of the century. She was raised in the foothills of Caldwell County where music was central in the lives of her family and friends. Both parents played several instruments, and Etta began picking the guitar at the age of three.

Mrs. Baker played the guitar and banjo. She rarely sang, preferring to let the instrument speak for her. Like most traditional artists, she played music for personal satisfaction and for the pleasure of friends and family. However, in 1956, her music was recorded on the influential album *Instrumental Music of the Southern Appalachians.* She was also featured on a 1972 recording *Music From the Hills of Caldwell County.* Her popular CD, *One Dime Blues*, came out in 1991 to great reviews.

In her last 30 years, Mrs. Baker carried her music far beyond the borders of Caldwell County. She performed at the National Folk Festival at Wolf Trap Park in Virginia, the 1984 World's Fair in Knoxville, the Kent State Folk Festival, and the Augusta Heritage Festival. In 1982 she and her sister Cora Phillips were honored jointly with the North Carolina Folklore Society's Brown-Hudson Award. She received the National Heritage Fellowship Award from the National Endowment for the Arts in 1991.

Etta Baker and her husband Lee raised nine children, many of whom carry on the family musical tradition. Mrs. Baker passed away in October, 2006 at the age of 93, having achieved international recognition for her artistry and for North Carolina's finger-picked blues tradition.

(Write-up of Etta Baker courtesy of the N.C. Department of Cultural Resources)

For more than three decades, Doc Watson has been America's most renowned and influential folk guitar stylist – known primarily for his flatpicking and fingerpicking styles. Arthel Lane (Doc) Watson was born March 3, 1923, in Deep Gap, North Carolina. His eyes became infected, and he lost his sight before his first birthday.

Doc's first instrument was the harmonica, which he started playing at the age of 5. When Watson was 19, he was performing on a radio show when someone in the audience shouted "Call him Doc" – a name that has stuck since then.

At the age of 24, Doc married Rosa Lee Carlton, with whom he had two children, Eddy Merle and Nancy Ellen. In 1953, he started playing lead electric guitar in Jack Williams' Country and Western Swing Band. In 1960, he was discovered as a solo artist. In 1964, after returning home from a concert tour, Doc found that Merle had taken up the guitar. Merle started recording and touring with him later that year at the Berkeley Folk Festival. For the next two decades Doc was the front man warming the crowd, singing all the vocals while Merle let his guitar sing harmony. Together they made 20 albums and won four Grammys including "Then and Now" in 1973 and "Two Days in November" in 1974.

A tractor accident took Merle's life in 1985, but Doc and Merle's music still is celebrated each year in Wilkes County through MerleFest which has become one of the most critically acclaimed acoustic music festivals in the world.

All total, Doc Watson has received seven Grammy awards (including the Lifetime Achievement Award) and was inducted into the International Bluegrass Music Hall of Fame in 2000.

(Sources: Wilkes Community College and MerleFest, and About.com: Folk Music)

Financial Highlights — Fiscal Year 2009

I am pleased to present you with the ***North Carolina Financial Highlights*** for the fiscal year ended June 30, 2009. This ***popular report*** represents our continuing commitment in providing the highest standards of financial management and reporting, as well as fiscal accountability of the resources of the State of North Carolina. We hope that you find this report both informative and beneficial. If you need additional copies or have questions about this report, please contact either me or our Statewide Accounting Division staff at (919) 981-5454.

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

Sincerely,

David T. McCoy
State Controller
December 8, 2009

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, 2009. The State's fiscal year starts July 1, and ends the following June 30. Information is presented in this report on the basis of generally accepted accounting principles (GAAP). This popular report and the State's complete financial statements, known as the CAFR, can be obtained on the internet at http://www.osc.nc.gov, by telephone at (919) 981-5454, or by writing to the N.C. Office of the State Controller, 1410 Mail Service Center, Raleigh, N.C. 27699-1410.

Financial Highlights — Fiscal Year 2009

State Reporting Entity and Its Services

The State of North Carolina entity as reported in the CAFR includes all fund types of the departments, agencies, boards, commissions and authorities governed and legally controlled by the State's executive, legislative and judicial branches. In addition, the reporting entity includes legally separate component units for which the State is financially accountable. The component units are discretely presented in the government-wide financial statements. The State's discretely presented major component units are the University of North Carolina System; the State's community colleges; Golden LEAF, Inc., North Carolina Housing Finance Agency, and North Carolina State Education Assistance Authority.

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

NC Maritime Museum
Photo Courtesy of NC Division of Tourism, Film, and Sports Development. Bill Russ, Photographer

The Economy

The State's economy was mired in a recession for all of Fiscal Year 2008-09. The recession, which began in December 2007, did not get underway in North Carolina until well after the start of the national recession. Typically, North Carolina is one of the first states to feel the impact of an economic slowdown. This time things were different, and the State was one of the last to experience recession-like conditions. This occurred primarily because the economic downturn was driven by a housing market contraction, which was relatively mild in North Carolina. The recession intensified and became widespread, both nationally and in the State, with the financial market collapse in October 2008.

The financial market collapse was a global phenomenon creating fears of an economic contraction on parallel with the Great Depression of the 1930s. While this recession is not comparable to the Great Depression in terms of job losses and decline in economic output, it has been the longest post-World War II recession on record, at least 20 months, and arguably the most severe as well with employment losses over five 5% (this compares with the Great Depression's job losses of over 30%). On average, recessions since World War II have lasted 10 months with job losses between 1% and 2%.

Because the housing recession was milder in the State, it was forecast that North Carolina like many other states would only experience a very mild recession. Starting in 2006, the nation began to experience a housing recession marked by significantly falling housing prices. Housing markets were weakened everywhere, and in the State new and existing home sales began to falter. Nonetheless, a widespread economic recession seemed avoidable both in the State and the nation as a whole. While a weak economy was ahead of us, it was not expected to be a full-blown recession.

For North Carolina, it appeared job losses were going to be contained to housing-related job sectors and some of the manufacturing sectors as national and global demand weakened. What was not widely anticipated at the start of 2008, was how the continuation of the housing recession would set-off a major, global financial crisis.

Since October of 2008, the State's economy has suffered significant job losses and a decline in wage and salary income. The State employed 200,000 fewer people at the end of the fiscal year than at the start and nearly 250,000 fewer since the start of the recession. Total wage and salary income fell from 3.6% quarterly growth to a 2% loss in income the second quarter of 2009. Both job losses and incomes are expected to decline for the rest of 2009 and a turnaround is not anticipated until mid-2010. The result of this economic malaise is a weakened economy, and the prospects for only weak economic growth during the second half of 2009 and for much if not all of 2010.

Financial Highlights — Fiscal Year 2009

North Carolina Economic Indicators	FY2007-08 Actual	FY2008-09 Actual	FY2009-10 Projected	FY2010-11 Projected
Personal Income	5.5%	2.2%	1.1%	1.6%
Wages & Salaries	4.6%	0.6%	0.1%	1.6%
Retail Sales	4.5%	-7.2%	-1.8%	3.5%
Unemployment Rate	5.2%	8.9%	11.5%	9.1%
Employment (Nonagricultural)	1.4%	-3.0%	-3.3%	0.6%
Existing Single-family Home Sales	-20.9%	-30.6%	15.4%	9.3%
Average Hourly Earnings: Manufacturing	2.9%	2.8%	2.6%	1.9%

For North Carolina, as with the nation, the recession intensified in the fourth quarter of 2008. Prior to then, it appeared the State might weather the economic turmoil experienced by some states and avoid widespread recession-like conditions. The initial mild slowdown experienced by the State was due in part to North Carolina's relatively mild housing problems. The State's worst housing problems were mostly limited to the resort areas of the State. Through most of 2008, the State experienced only a mild reduction in employment and personal income was still increasing. However, after the financial market crisis, employment losses accelerated and the State was dealing with a double-digit unemployment rate.

Thus, for FY 2008-09, state economic indicators such as employment and income growth reflect the intensifying recession spreading across the State. Personal income dropped to 2.2% growth after several years of 6% to 7% growth. Wage & salary income plummeted to only 0.6% growth for the year. The fall in wage and salary income was consistent with employment losses the State began to experience. Going forward, little or no growth in income is projected well into the next fiscal year as unemployment hovers near the double-digit range. A slight rebound in wage and salary growth is forecast for 2011, but it will remain well below long-term growth levels.

As with the nation, the worst of the recession's effects will be behind us by the end of 2009. Nevertheless, residual employment problems will continue to be a drain on the State's economy as evidenced by weak consumer demand. In FY 2009-10, it is anticipated that a decline in retail sales of 1.8% will occur. This decline will come on top of the significant decline in FY 2008-09, of 7.2%.

As the State's economy begins to turn the corner in the recovery, employment prospects are expected to rebound in 2010, but a robust employment scenario is not projected until 2011. This past year's drop in employment occurred in all major industry sectors except for health and educational services. For 2010, most industries are expected to experience some positive growth; however, most of the growth occurs the second-half of the year. The long-term negative growth trends in manufacturing are expected to continue.

In the last recession, manufacturing, particularly in the furniture and textile industries, shed jobs at a rate of 10% per quarter. The State's manufacturing sector again was vulnerable to the recession, and job losses in this industry sector reached double-digit levels. Another hard hit industry has been the financial sector. The financial market upheaval has had a detrimental impact on this sector's employment. Current estimates indicate job losses in financial activities will continue throughout 2010 and for most of 2011. Thus, the total number of people employed in non-agricultural industries in the State is expected to decline in FY 2009-10 and only grow at a rate of 0.6% the following fiscal year. This compares with 1.4% growth in FY 2007-08.

The housing recession is clearly indicated by the 20.9% decline of existing-home sales in FY 2007-08, and 30.6% decline in FY 2008-09. The housing recession and subsequent adjustments in the real estate market have taken a long time to unwind. A projected turnaround in residential markets is expected in 2010 as market corrections take hold. The anticipated low mortgage interest rates will help with the recovery, and eventually there will be a return to a stable housing sector.

The length and severity of the recession is largely due to the structural imbalances in the housing and financial sectors. These imbalances, which have had a profound affect on the State's economy, have taken a long time to correct. Once the economic recovery is on solid footing, North Carolina's economy is expected to expand at a faster pace than the nation. This should bode well for overall employment in the State and help bolster income growth going into 2011. Until then, the State is expected to experience high unemployment and weak consumer spending. Employment losses in the manufacturing and financial industries are expected until 2011. Growth in other industries, especially service and tech industries, should rebound sooner and will provide a stimulus for future economic growth.

— Economic analysis prepared by Barry Boardman, Ph.D., Staff Economist
North Carolina General Assembly, Fiscal Research Division
October 30, 2009

Financial Highlights

Government-wide

- The State's total net assets decreased by $2.265 billion or 7.1% as a result of this year's operations. Net assets of governmental activities decreased by $1.2 billion, or 4%, due to the unprecedented declines in tax revenues. Net assets of business-type activities decreased by $1.065 billion, or 56.15%, due to a substantial operating loss in the Unemployment Compensation Fund. At year-end, net assets of governmental activities and business-type activities totaled $28.806 billion and $831.605 million, respectively.

- Component units reported net assets of $16.417 billion, a decrease of $412.655 million or 2.45% from the previous year. The majority of the net asset decrease is attributable to the University of North Carolina System, a major component unit.

Fund Financials

- The fund balance of the General Fund decreased from $1.678 billion at June 30, 2008 (as restated) to negative $775.864 million at June 30, 2009. The State appropriated most of the beginning unreserved fund balance, appropriated $1.155 billion of federal recovery funds, reduced expenditures, and transferred amounts from other funds to finance a revenue shortfall of $2.983 billion.

- The fund balance of the State Highway Fund increased from $975.885 million at June 30, 2008 (as restated) to $1.021 billion at June 30, 2009, an increase of 4.65%. The fund balance growth, which was attributable to increases in federal funds, was partly offset by decreases in gasoline taxes and motor vehicle fees.

- The fund balance of the Highway Trust Fund decreased from negative $158.753 million at June 30, 2008 (as restated) to negative $169.629 million at June 30, 2009, a decrease of 6.85%. Decreases in highway use taxes, gasoline taxes, and motor vehicle fees contributed to the larger fund deficit.

- The net assets of the Unemployment Compensation Fund decreased from $847.69 million at June 30, 2008 to negative $298.761 million at June 30, 2009. The decrease is directly related to the rise in North Carolina's seasonally adjusted unemployment rate from 6.1% in June 2008 to 11% in June 2009.

- Net ticket sales of the N.C. State Lottery Fund (Lottery) increased 22.4% from the previous fiscal year, surpassing $1 billion for the second straight year. As required by law, the Lottery's net profit of $413.929 million was transferred to the Education Lottery Fund (nonmajor special revenue fund) to support educational programs.

On the sound at Carolina Beach

Photo Courtesy of NC Division of Tourism, Film, and Sports Development.
Bill Russ, Photographer

Capital Assets

- The State's investment in capital assets (net of accumulated depreciation) was $34.314 billion, an increase of 4.914% from the previous fiscal year-end.

- This year's major capital asset additions were for highway construction ($1.3 billion), highway land improvements ($477 million), construction of correctional facilities ($51 million), and construction of youth development centers ($34 million).

Long-Term Debt

- The State had total long-term debt outstanding (general obligation bonds special indebtedness, and GARVEE bonds, adjusted for deferred amounts) of $7.368 billion, an increase of 1.87% from the previous fiscal year-end. The State issued $600 million of limited obligation bonds to finance various state and university capital projects.

- North Carolina remains one of only seven states to enjoy top-tier rankings (i.e., AAA) from all three credit rating agencies.

Financial Highlights — Fiscal Year 2009

Government-wide Financials

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

Both statements report three activities:

- *Governmental Activities* – Most of the State's basic services are reported under this category. Taxes and intergovernmental revenues generally fund these services.

- *Business-type Activities* – The State charges fees to customers to help it cover all or most of the cost of certain services it provides. The State's Unemployment Compensation Fund, the N.C. State Lottery Fund, and the EPA Revolving Loan Fund are the predominant business-type activities.

- *Discretely Presented Component Units* – Component units are legally separate organizations for which the elected officials of the primary government are financially accountable. All component units are combined and displayed in a separate discrete column in the government-wide financial statements to emphasize their legal separateness from the State.

Statement of Net Assets

The Statement of Net Assets presents all of the State's assets and liabilities, with the difference between the two reported as "net assets". Over time, increases or decreases in net assets measure whether the State's financial position is improving or deteriorating. The State's combined net assets decreased $2.265 billion or 7.1% over the course of this fiscal year's operations. The net assets of the governmental activities decreased $1.2 billion or 4% and business-type activities decreased $1.065 billion or 56.15%. The following table was derived from the government-wide Statement of Net Assets:

Net Assets
June 30, 2009 and 2008
(dollars in thousands)

	Governmental Activities		Business-type Activities		Total Primary Government	
	2009	**2008**	**2009**	**2008**	**2009**	**2008**
Current and other non-current assets	$ 10,048,969	$ 15,223,629	$ 1,829,597	$ 2,252,278	$ 11,878,566	$ 17,475,907
Capital assets, net	34,283,111	32,675,405	30,612	32,063	34,313,723	32,707,468
Total assets	44,332,080	47,899,034	1,860,209	2,284,341	46,192,289	50,183,375
Long-term liabilities	8,691,184	8,578,101	5,441	4,682	8,696,625	8,582,783
Other liabilities	6,835,004	9,314,580	1,023,163	383,359	7,858,167	9,697,939
Total liabilities	15,526,188	17,892,681	1,028,604	388,041	16,554,792	18,280,722
Net assets:						
Invested in capital assets, net of related debt	32,348,957	30,984,578	30,612	32,063	32,379,569	31,016,641
Restricted	715,546	877,915	1,003,613	1,773,018	1,719,159	2,650,933
Unrestricted	(4,258,611)	(1,856,140)	(202,620)	91,219	(4,461,231)	(1,764,921)
Total net assets	$ 28,805,892	$ 30,006,353	$ 831,605	$ 1,896,300	$ 29,637,497	$ 31,902,653

The largest component of the State's net assets ($32.38 billion) reflects its investment in capital assets (land, buildings, machinery and equipment, state highway system, and other capital assets), less related debt still outstanding that was used to acquire or construct those assets. Restricted net assets are the next largest component ($1.719 billion). Net assets are restricted when constraints placed on their use are 1) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments or 2) legally imposed through constitutional provisions. The remaining portion, unrestricted net assets, consists of net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."

Financial Highlights — Fiscal Year 2009

Statement of Activities

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

Condensed Statement of Activities
Primary Government
For the Fiscal Year Ended June 30, 2009
(dollars in thousands)

	Primary Government		
	Governmental Activities	Business-type Activities	Total
Net (expense) revenue	$ (20,736,870)	$ (641,087)	$ (21,377,957)
General revenues:			
Taxes			
Individual income tax	8,661,565	—	8,661,565
Corporate income tax	997,206	—	997,206
Sales and use tax	4,911,656	—	4,911,656
Gasoline tax	1,523,496	—	1,523,496
Franchise tax	799,113	—	799,113
Highway use tax	440,749	—	440,749
Insurance tax	500,438	—	500,438
Beverage tax	263,553	—	263,553
Inheritance tax	103,811	—	103,811
Tobacco products tax	242,071	—	242,071
Other taxes	316,819	—	316,819
Tobacco settlement	175,838	—	175,838
Unrestricted investment earnings	106,738	—	106,738
Miscellaneous	66,500	—	66,500
Contributions to permanent funds	3,248	—	3,248
Transfers	423,608	(423,608)	—
Total general revenues, contributions and transfers	19,536,409	(423,608)	19,112,801
Change in net assets	(1,200,461)	(1,064,695)	(2,265,156)
Net assets - beginning - restated	30,006,353	1,896,300	31,902,653
Net assets - ending	$ 28,805,892	$ 831,605	$ 29,637,497

Governmental Activities:

- The downturn in the State and national economy translated into unprecedented declines in tax revenues for the 2009 fiscal year, resulting in a $1.2 billion decrease in net assets of governmental activities.
- Even after the recognition of federal recovery funds, total revenues decreased by 2.54% to $36.406 billion.
- Total expenditures grew slowly at 1.38% to $38.033 billion. The slow growth in total expenditures is attributable to the significant decline in tax revenues and by the actions taken by the Governor during the fiscal year to reduce spending.
- Transfers–in were higher in fiscal year 2009 due to the larger net profits achieved by the N.C. Education Lottery, a business-type activity.

Business-type Activities:

- Business-type activities reflect an overall decrease in net assets of $1.065 billion or 56.15%, primarily because of the financial results of the Unemployment Compensation Fund.
- For fiscal year 2009, the Unemployment Compensation Fund had an operating loss (excess of operating expenses over operating revenues) of $2.177 billion.
- The Unemployment Compensation Fund and the EPA Revolving Loan Fund comprise over 84% of the total net assets of business-type activities.
- The N.C. State Lottery Fund has no net assets since its net profits are distributed to the State's governmental activities, as required by statute.

Statement of Activities (cont'd)

Spending decreased in the majority of the State's functional areas, with the major exceptions being general government; health and human services; and public safety, corrections, and regulation. Primary and secondary education had the largest decrease in dollars, which was due primarily to a court judgment rendered against the State in the previous fiscal year. In 2008, a Superior Court judge ruled that the State owed $749.886 million for certain civil fines and penalties that should have been remitted to North Carolina public schools and not diverted to other uses. Despite enrollment increases, higher education expenses fell in fiscal year 2009 due to significant budget cuts and to larger distributions of higher education bond proceeds in the previous fiscal year. The increase in general government expenses was due primarily to the General Assembly appropriating $250 million to the State Health Plan to pay claims expenses and to resolve cash flow issues.

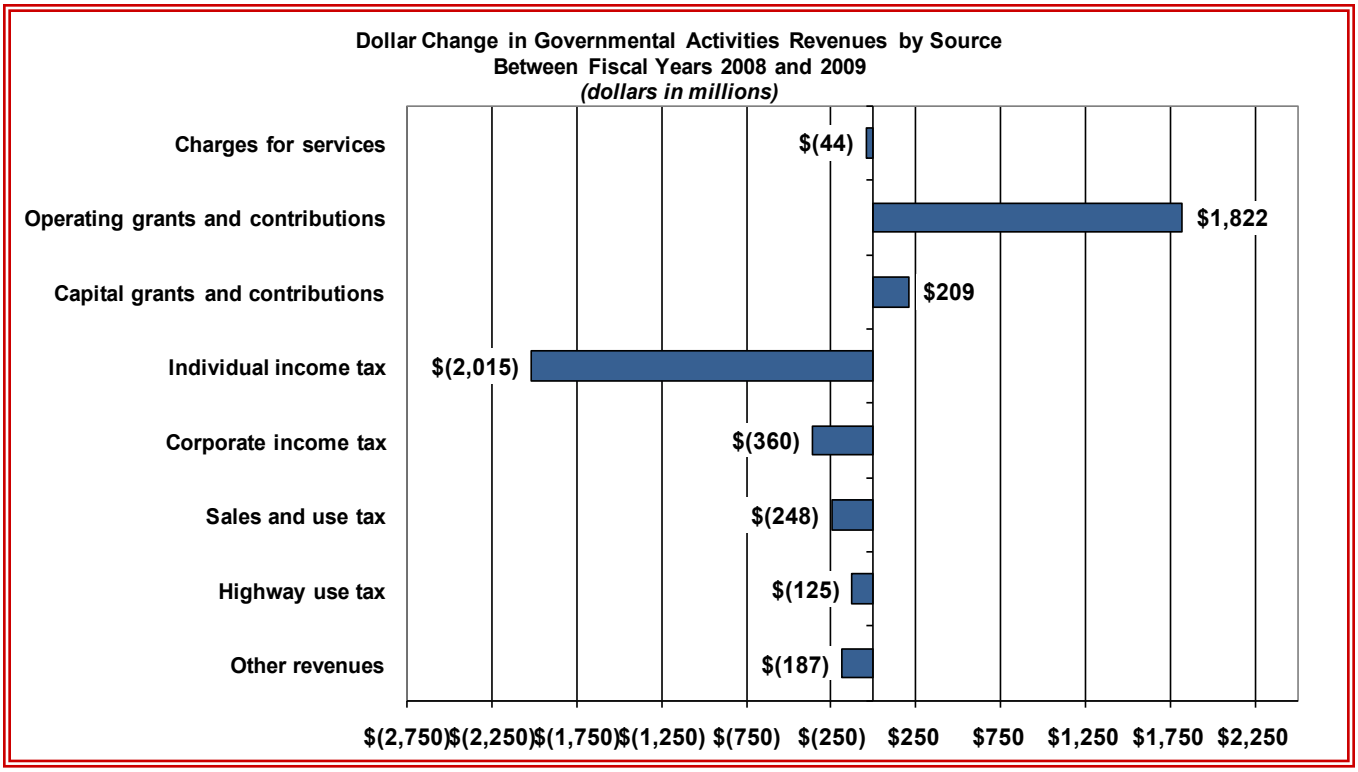
The growth in health and human services is the result of increased spending for Medicaid (the State's largest public assistance program). The State experienced a substantially increased enrollment in the Medicaid program due to the economic downturn in North Carolina. Because the State receives federal matching funds for the Medicaid Program, there was also a corresponding increase in operating grants and contributions (i.e., program revenues).

Condensed Schedule of Expenses & Program Revenues
Primary Government
For the Fiscal Year Ended June 30, 2009
(dollars in thousands)

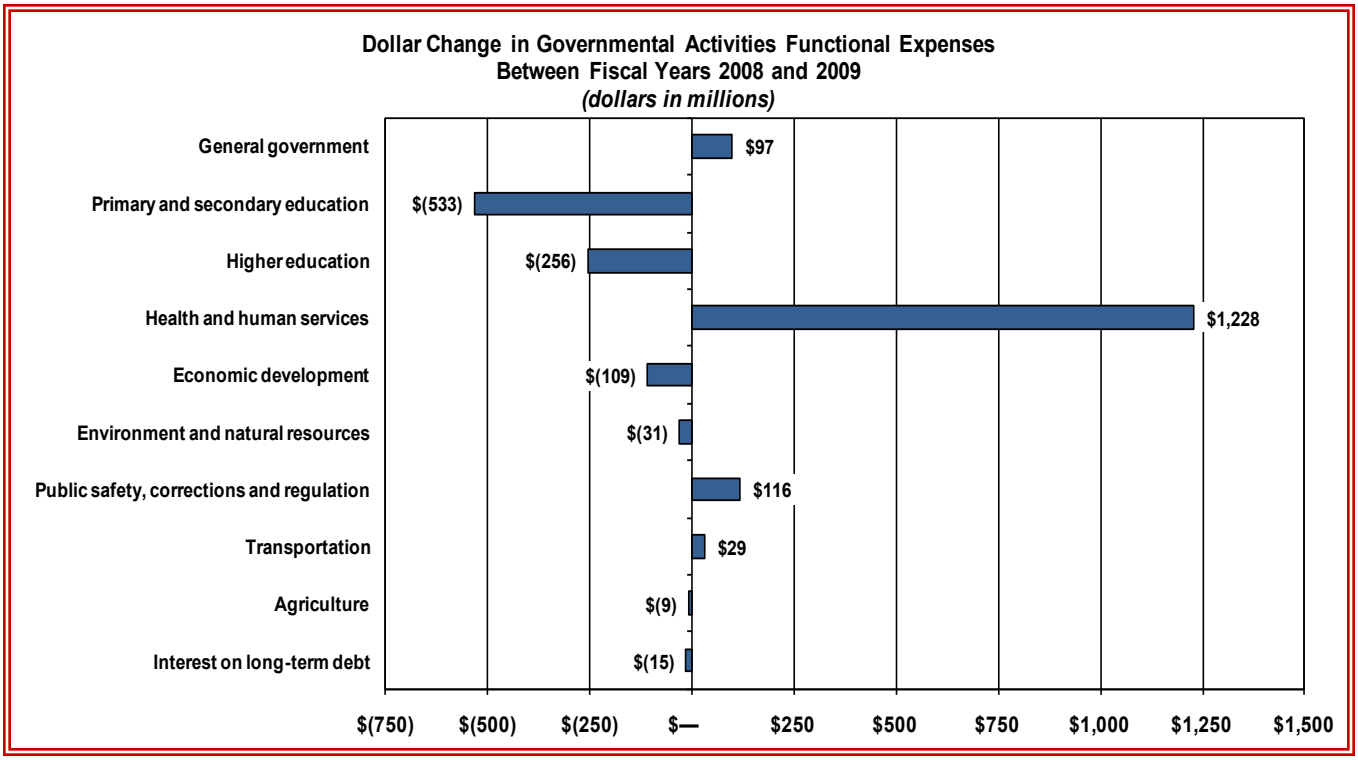
Functions/Programs	Expenses	Program Revenues	Net Expense/Revenue
Governmental Activities:			
General government	$ 1,329,539	$ 383,249	$ (946,290)
Primary and secondary education	10,098,851	1,303,435	(8,795,416)
Higher education	3,951,862	147,351	(3,804,511)
Health and human services	16,179,227	11,932,253	(4,246,974)
Economic development	637,876	305,783	(332,093)
Environment and natural resources	722,722	372,102	(350,620)
Public safety, corrections, and regulation	2,742,952	889,465	(1,853,487)
Transportation	1,970,408	1,929,202	(41,206)
Agriculture	110,314	33,252	(77,062)
Interest on long-term debt	289,211	—	(289,211)
Total Governmental Activities	38,032,962	17,296,092	(20,736,870)
Business-type Activities:			
Unemployment Compensation	3,255,448	2,125,750	(1,129,698)
N.C. State Lottery	877,403	1,292,353	414,950
EPA Revolving Loan	7,868	77,907	70,039
Regulatory commissions	37,644	34,747	(2,897)
Insurance programs	14,970	22,904	7,934
North Carolina State Fair	14,053	13,030	(1,023)
Other business-type activities	6,583	6,191	(392)
Total Business-type Activities	4,213,969	3,572,882	(641,087)
Total Primary Government	$ 42,246,931	$ 20,868,974	$ (21,377,957)

Statement of Activities (cont'd)

The following chart reflects the dollar change in the revenues by source of governmental activities between fiscal years 2008 and 2009.

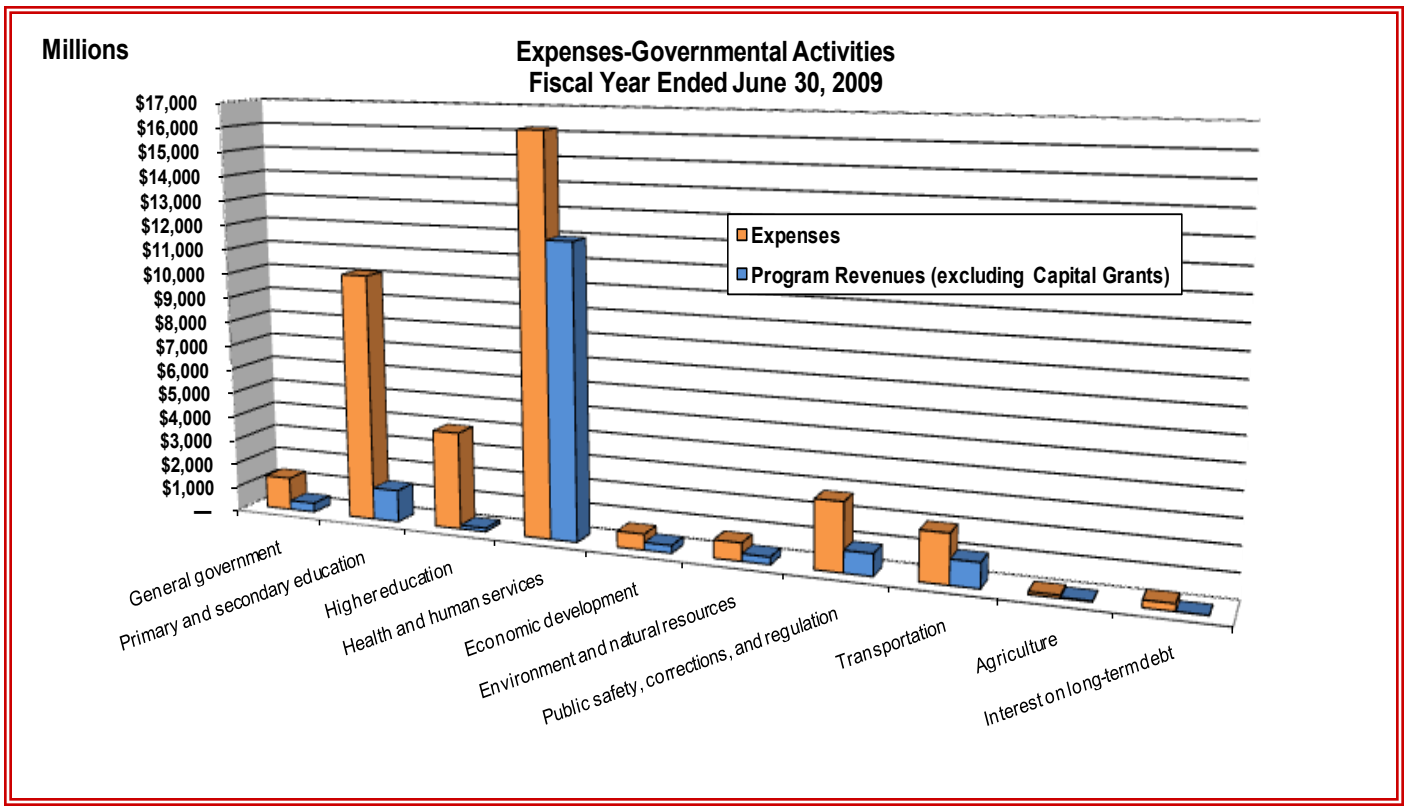


The following chart reflects the dollar change in the functional expenses of governmental activities between fiscal years 2008 and 2009.



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.



New Bern Park

Photo Courtesy of NC Division of Tourism, Film, and Sports Development. Bill Russ, Photographer

Capital Assets

As of June 30, 2009, the State's investment in capital assets was $34.314 billion, an increase of 4.91% from the previous fiscal year-end.

Capital Assets as of June 30, 2009
(net of depreciation, dollars in thousands)

	Governmental Activities		Business-type Activities		Total	
	2009	2008	2009	2008	2009	2008
Land	$ 11,222,414	$ 10,676,804	$ 3,452	$ 3,452	$ 11,225,866	$ 10,680,256
Buildings	2,024,434	1,865,345	16,587	17,277	2,041,021	1,882,622
Machinery and equipment	669,665	683,829	3,795	4,038	673,460	687,867
Infrastructure:						
State highway system	18,032,846	17,081,956	—	—	18,032,846	17,081,956
Other infrastructure	100,075	97,092	6,246	6,764	106,321	103,856
Intangible assets	103,828	103,423	—	—	103,828	103,423
Art, literature, and other artifacts	67,162	66,389	—	—	67,162	66,389
Construction in progress	2,062,687	2,100,567	532	532	2,063,219	2,101,099
Total	$ 34,283,111	$ 32,675,405	$ 30,612	$ 32,063	$ 34,313,723	$ 32,707,468
Total percent change between fiscal years 2009 and 2008	**4.92 %**		**(4.53)%**		**4.91 %**	

- This year's major capital asset additions were for highway construction ($1.3 billion), highway land improvements ($477 million), construction of correctional facilities ($51 million), and construction of youth development centers ($34 million).

- The largest component of capital assets is the State highway system. North Carolina has 79,000 miles of highways, 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 2008) 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.

- During the 2008-2009 fiscal year, the State completed construction of a 1,000 bed close-custody prison in Columbus County. The total cost of this facility was $102.85 million. The primary funding source for this facility was certificates of participation (COPs). In addition, COPs have been authorized for the planning and construction of a new regional 120 bed medical center and 216 bed mental health center to be located at Central Prison in Raleigh. The estimated cost for the construction of the medical and mental health centers is $153.6 million, of which $132.2 million will be financed by COPs. At year end, construction in progress for the Central Prison medical center totaled $42.1 million. The State has scheduled for closure seven correctional facilities, which will all occur in fiscal year 2010. Also, three facilities will be converted from medium to minimum custody.

Albemarle Plantation Golf
Photo Courtesy of NC Division of Tourism, Film, and Sports Development. Bill Russ, Photographer

- The Department of Correction is undertaking construction initiatives to address a prison cell shortfall and to allow for the implementation of sentencing reform. The State's correctional facility population has more than doubled since 1980 to over 40 thousand inmates as of November 2009. The rapid growth in inmates is attributable to increases in the State's population, increases in length of stay in correctional facilities, and changes in criminal laws.

- The State has commitments of $1.38 billion for the construction of highway infrastructure, which are expected to be financed by gasoline tax collections, motor vehicle fees, and federal funds. Other commitments for the construction and improvement of state government facilities totaled $761.66 million, which are expected to be financed primarily by debt proceeds (special indebtedness), state appropriations, and federal funds.

Debt Administration

At year-end, the State had total long-term debt outstanding (general obligation bonds, special indebtedness, and grant anticipation revenue vehicle (GARVEE) bonds, adjusted for deferred amounts) of $7.368 billion, an increase of 1.87% from the previous fiscal year -end.

Outstanding debt as of June 30, 2009

(adjusted for deferred amounts, dollars in thousands)

	Governmental Activities	
	2009	2008
General obligation bonds	$ 5,169,265	$ 5,533,760
Special Indebtedness:		
Lease-purchase revenue bonds	225,045	235,045
Certificates of participation	919,585	965,880
Limited obligation bonds	600,000	—
GARVEE bonds	241,820	287,565
Deferred debt premiums	275,131	287,272
Less: Deferred debt discounts and amounts on refundings	(63,011)	(77,049)
Total bonds and similar debt payable	$ 7,367,835	$ 7,232,473
Total percent change between fiscal years 2009 and 2008	**1.87 %**	

During the 2007-08 fiscal year, the State issued $600 million in limited obligation bonds, representing the State's first use of this type of debt. The proceeds of the bonds will be used to finance various State and university capital improvement projects which were authorized for special indebtedness financing by previous sessions of the General Assembly.

The State issues two types of tax-supported debt: general obligation bonds and various types of "special indebtedness" (i.e., debt not subject to a vote of the people). General obligation bonds are secured by the full faith, credit, and taxing power of the State and required approval by a majority of voters. The payments on special indebtedness are subject to appropriation by the General Assembly and may also be secured by a lien on facilities or equipment.

The General Statutes (Chapter 142, Article 9) prohibit the issuance of special indebtedness except for projects specifically authorized by the General Assembly. Different forms of special indebtedness, also known as appropriation-supported debt, are authorized.

- One form, "financing contract indebtedness" includes lease-purchase revenue bonds and certificates of participation and has been used by the State historically.
- The other form is limited obligation bonds, which may be issued by the State directly rather than through the N.C. Infrastructure Finance Corporation, a conduit issuer.

The use of alternative financing methods provides financing flexibility to the State and permits the State to take advantage of changing financial and economic environments. The GARVEEs are a revenue bond-type debt instrument where the debt service is to be paid solely from federal transportation revenues. The GARVEEs were issued in October 2007 to accelerate the funding of transportation improvement projects across the State.

Venus Fly Trap

Photo Courtesy of NC Division of Tourism, Film, and Sports Development. Bill Russ, Photographer

The State's long-term debt (general obligation bonds, special indebtedness, and GARVEE bonds) has increased significantly in recent years, rising from $3.478 billion in 2002 to $7.368 billion in 2009, in part due to large issuances for higher education capital projects. Prior to 2004, the State only issued general obligation debt.

BEACON Update

BEACON (Building Enterprise Access for NC's Core Operational Needs), North Carolina's human resources and payroll enterprise resource planning (ERP) system supported by the Office of the State Controller, is a statewide collaborative effort aimed at effectively enhancing the way we do business in North Carolina by modernizing and standardizing business processes in human resources, payroll, budget management, taxation, data storage and accounting. In the second half of fiscal year 2007-2008, after five years in planning and development, the State successfully upgraded its antiquated business systems framework by replacing the human resource and payroll system with SAP's industry recognized state-of-the-art ERP software solution. Delivered under budget and on time, the system pays in excess of 90,000 State employees each month applying consistent and standardized Office of State Personnel HR and payroll policies among all State agencies.

The HR/Payroll system uses an industry recognized technology framework that ties copious agency information and data together in a single network. The software also allows for future business operations to be added to the central system framework and provides a uniform tool for the integration of data, whether HR/Payroll or data relating to future modules such as budgeting, accounting, learning management, recruiting or grants management that may be implemented. The ERP system provides a secure, reliable and fully integrated tool and framework to consistently support state agencies in daily operations, business decision-making processes, detailed reporting and future planning needs.

Session Law 2007-323 directed the Office of the State Controller, in cooperation with the State Chief Information Officer, to develop a Strategic Implementation Plan for the integration of databases and the sharing of information among state agencies and programs, under the governance of the BEACON Project Steering Committee, in conjunction with the leadership in the state agencies and with the support of the Office of State Budget and Management. The plan defines data integration as the capability of merging and reconciling dispersed data for analytical purposes through the use of standardized tools to support quick, agile, event-driven analysis for business and recommended the establishment of an environment where agencies and programs partner to develop business solutions which are enabled by technology.

Subsequent to the initial data integration legislation, SL 2008-107 directed the Office of the State Controller, in cooperation with the State Chief Information Officer and under the governance of the BEACON Program Steering Committee, to develop and implement a Criminal Justice Data Integration Pilot Program in Wake County. The objective of the pilot program is to provide law enforcement professionals with enhanced decision-making ability through access to a secure network that offers timely, complete and accurate criminal information. The initial release of the Criminal Justice Law Enforcement Automated Data Services (CJLEADS) pilot application was provided to the project team for a period of Quality Assurance and user testing. Design and development of the pilot is on-going as criminal justice data sources continue to be incorporated in to the application. Senate Bill 202 Session Law 2009-451 (Appendix C) directs the OSC to develop full operational capability of the Criminal Justice Law Enforcement Automated Data Services (CJLEADS) application in Wake County in fiscal year 2009 – 2010.

Roanoke River Lighthouse

Photo Courtesy of NC Division of Tourism, Film, and Sports Development. Bill Russ, Photographer

Full details on the BEACON program are available on the Office of the State Controller website at: http://www.beacon.nc.gov/.

North Carolina Education Lottery

During fiscal year 2009, the North Carolina Education Lottery (NCEL) added the Carolina Pick 4 online game to its game offerings. The drawings are conducted nightly in conjunction with the Carolina Pick 3 and Carolina Cash 5 drawings. The Carolina Cash 5 top prize rolled as high as $587,361. The increase in payout on instant scratch-off tickets was in place for the full fiscal year and had a big impact on instant ticket sales.

The number of retailers increased to 6,009 by the end of the fiscal year. The lottery introduced new instant scratch-off games every three to four weeks. They offered players highly successful second chance drawings where the prizes were vehicles and gave away Ford F150s and Harley-Davidson® Fat Bob® Motorcycles. They also gave away trips to Hollywood and the chance to play a non-televised version of Deal or No Deal.

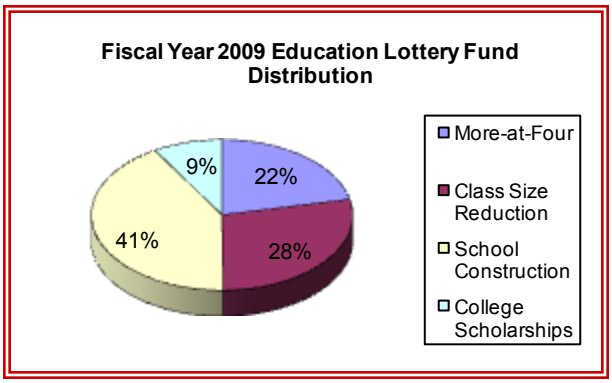
The State Lottery Act prescribes the following guidelines as to how each lottery dollar will be spent, focusing on increasing and maximizing revenues available for education. To the extent practicable, retailers receive a 7% commission for selling tickets; up to 8% may be spent on administration; at least 50% will be paid out in prizes; and 35% will be transferred to the Education Lottery Fund at the Office of State Budget and Management. Education programs receive 100% of the net proceeds of the NCEL.

Education in North Carolina received more than $410 million in fiscal year 2009 transfers from the NCEL. This exceeded the legislative goal as budgeted in the Appropriations Act by over $25 million. In addition, in the third quarter of the year, transfers to education exceeded $1 billion. At the end of the fiscal year, transfers since inception were over $1.136 billion.

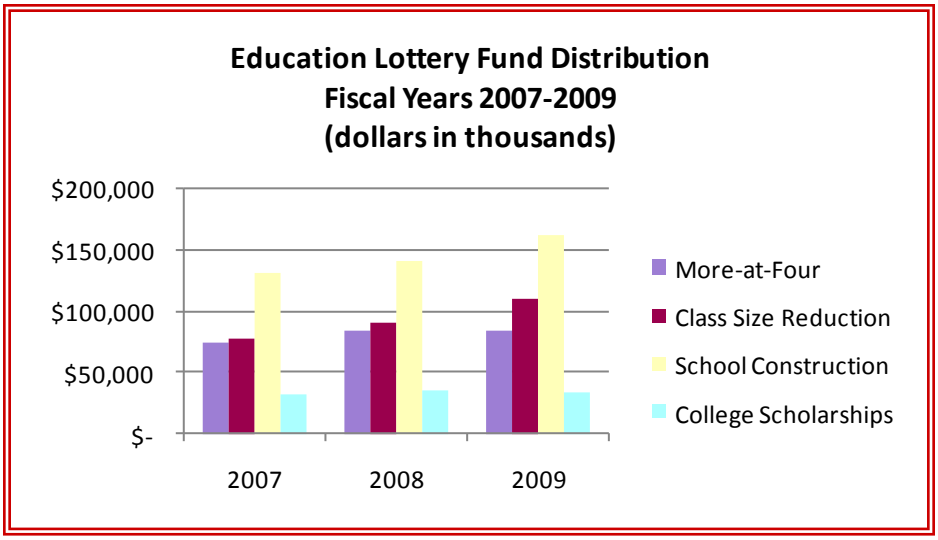
With these dollars, 16,687 at-risk four year olds received training through the More-at-Four program, classrooms received 2,031 teachers in grades K-3 to reduce class size, schools initiated over 223 construction projects, and 30,178 students received college scholarships.

For fiscal year 2009 the breakdown was as follows:

More-at-Four	$ 84,575,121
Class Size Reduction	$110,176,846
School Construction	$162,262,428
College Scholarships	$ 33,557,825



The following chart compares the distribution of education lottery funds over the past three years:



For School Construction, county specific information may be found at: http://www.schoolclearinghouse.org.

Information provided by the North Carolina Education Lottery at www.nc-educationlottery.org.

Education Highlights

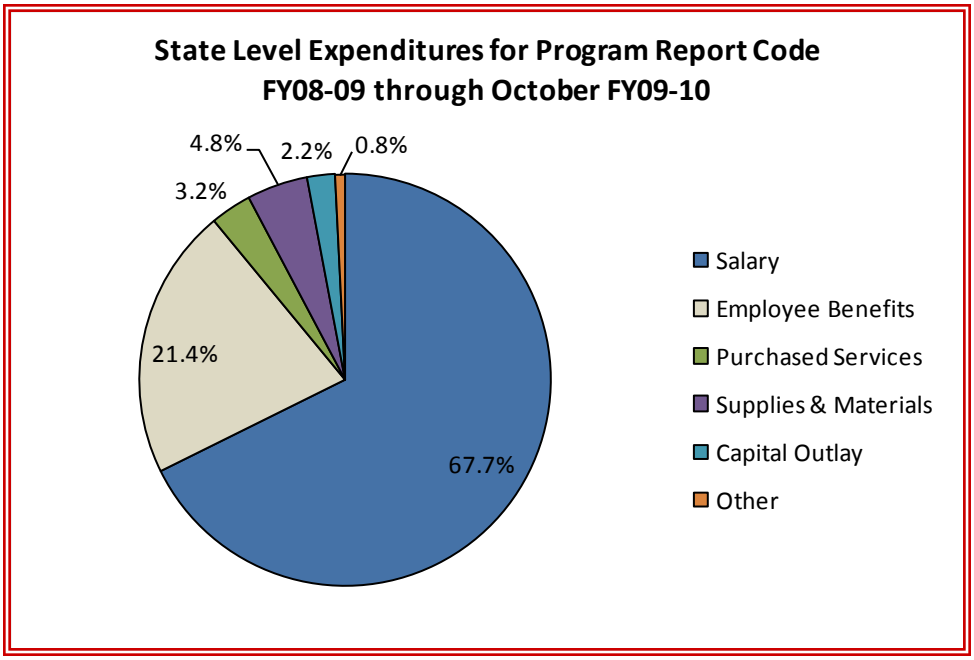
Nearly $100 billion of the American Recovery and Reinvestment Act of 2009 (ARRA) total funds are dedicated to education. The U.S. Department of Education (USED) distributed ARRA funds to states to save and create jobs while advancing reforms and improvements that will create long-lasting results for K-12 students.

ARRA provides funding to North Carolina schools through existing federal formula and competitive grant programs including Title I, the Individuals with Disabilities Education Act (IDEA), and the McKinney-Vento Homeless Assistance program. Funds must be used consistent with statutory and regulatory requirements per each formula grant with some exceptions.

To receive these funds, states must agree to use the funds to:

- Improve teacher effectiveness and the equitable distribution of effective teachers in schools and classrooms.
- Make progress toward college and career-ready standards and rigorous assessments.
- Improve student achievement in low-performing schools.
- Enhance data systems to track student progress.

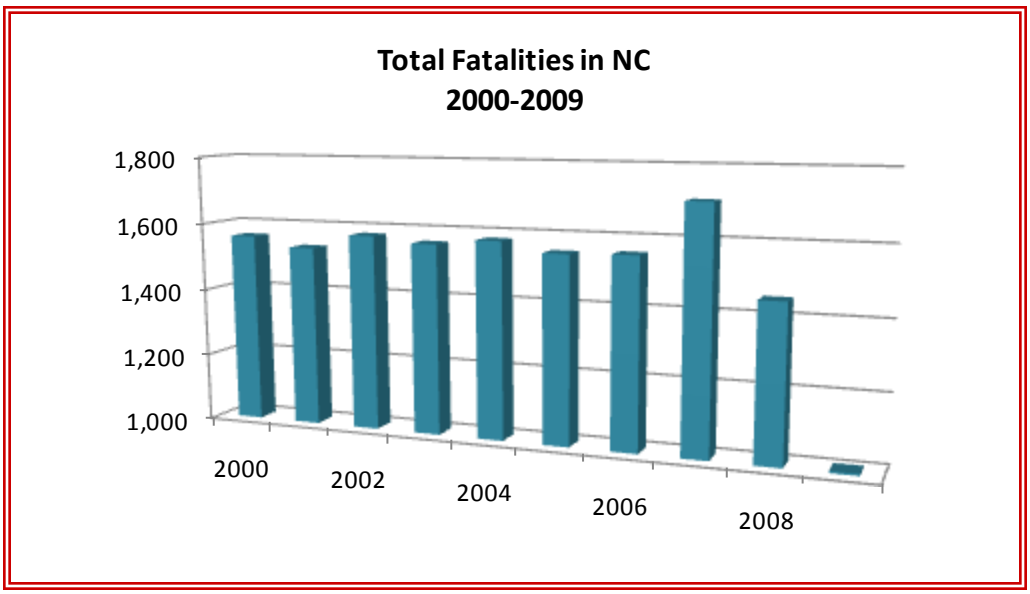
As of the end of October 2009, the NC Department of Public Instruction (DPI) has spent a total of $176.962 million of State Fiscal Stabilization Funds (SFSF) in the following programs: salaries, employee benefits, purchased services, supplies and materials, capital outlay and other. This total excludes charter schools. The chart below shows the percentage of funds spent by program for the fiscal year 2008-2009 through October (fiscal year) 2009-2010.



http://www.ncpublicschools.org/fbs/arra/

Transportation Highlights

During fiscal year 2007-2008, the North Carolina Department of Transportation (NCDOT) began an internal transformation process to become a results-based organization that more effectively measures and reports its organizational and individual performance. This process identified 29 performance measures directly linked to the success of achieving its mission and five goals. A Web-based performance "dashboard" was created to continually exhibit the performance of the Department and may be found at http://ncdot.gov/programs/dashboard/. Two of the measures included in the dashboard are fatality rate and infrastructure health. The tables below represent the most current information reported for these two measures.

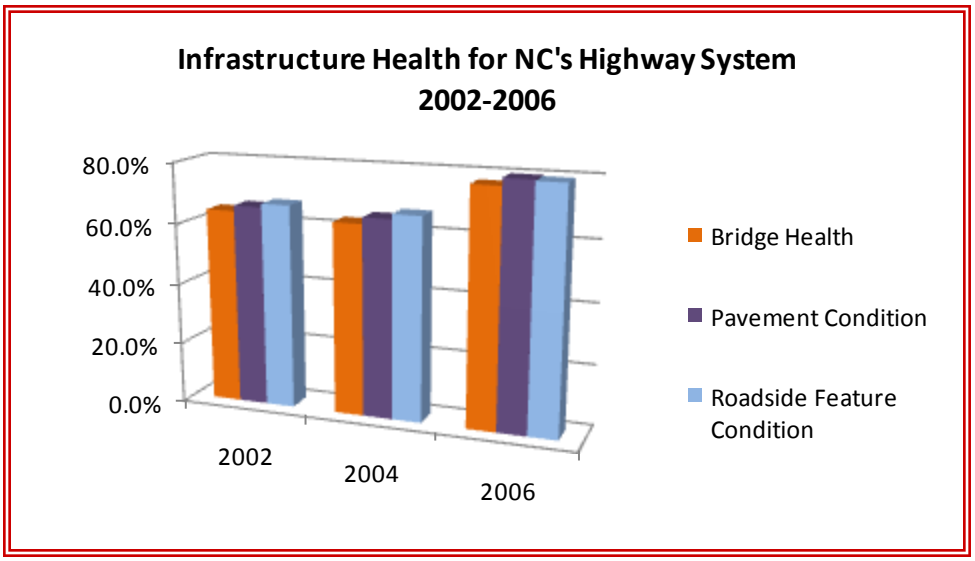


Fatality Rate

Making the transportation network safer: This is defined as the total number of statewide fatalities on NC roads per 100 million vehicle miles traveled for the calendar year to date. As of September 30, 2009, the number of total fatalities in N.C. was 1,006.

Infrastructure Health

Displays the Department's success rate for maintaining and improving the health of the highway system.



For the fiscal year 2008, NCDOT listed the following as some of its key accomplishments:

- Completed 168 major projects and awarded $850 million in new contracts
- Initiated contracts to rehabilitate/replace 133 bridges
- Constructed and/or rehabilitated 1,698 miles of road
- Used 860,699 tons of reclaimed/recycled asphalt pavement in production

Grandfather Mountain State Park

Grandfather Mountain Fall Profile

Photo Courtesy of Hugh Morton, www.grandfather.com

In late 2008, the State acquired 2,456 acres of Grandfather Mountain for $12 million from the Morton family and Grandfather Mountain, Inc. The acquisition was arranged with the help of The Conservation Fund and The Nature Conservancy. The acquisition was financed by the N.C. Parks and Recreation and Natural Heritage trust funds. In early 2009, the General Assembly formally authorized Grandfather Mountain State Park.

The property acquired as a state park lies in Avery, Watauga and Caldwell counties and includes the higher elevation, backcountry area of the popular tourist destination with its network of hiking trails. It has been a wildlife sanctuary and nature preserve for decades, boasting 16 distinct habitats and 73 rare species including the Carolina northern flying squirrel and the Blue Ridge goldenrod. The mountain contains the headwaters of both the Linville and Watauga Rivers and has been the only private park designated by the United Nations as an International Biosphere Reserve.

Hugh Morton inherited the mountain in 1952 and is credited with developing the park as a tourist destination and endowing it with a strong conservation ethic. The Morton family will continue to operate the Grandfather Mountain travel attraction, which includes a nature center, seven wildlife habitats and the signature mile-high swinging bridge, through a nonprofit organization supported by funding from the sale.

Grandfather Mountain Bridge Aerial

Photo Courtesy of Hugh Morton, www.grandfather.com

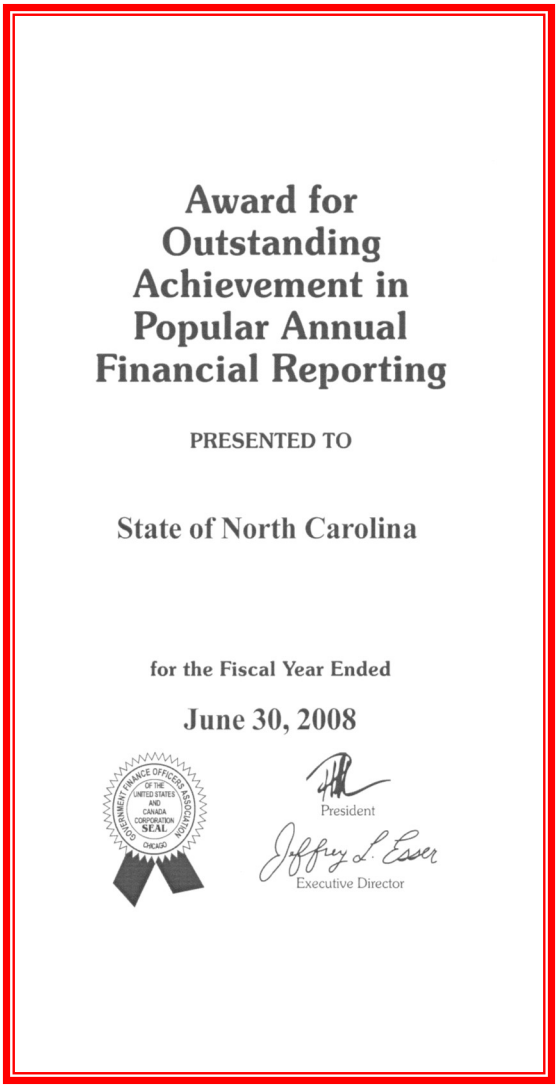
Information provided by the N.C. Division of Parks and Recreation at www.ncparks.gov.

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, 2008. 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 11 consecutive years (fiscal years ended 1998-2008). We believe our current report continues to conform to the Popular Annual Financial Reporting requirements, and we are submitting it to the GFOA.


Award for Outstanding Achievement in Popular Annual Financial Reporting

PRESENTED TO

State of North Carolina

for the Fiscal Year Ended

June 30, 2008

President

Executive Director

200 copies of this public document were printed at a cost of $392.57 or $1.97 per copy.

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North Carolina Mountain Region Facts

- North Carolina's mountains contribute to three primary ranges: the Black, Blue Ridge and Great Smoky Mountains.
- In North Carolina, there are more than 120 species of trees, more than you'll find from Scandinavia to the Mediterranean Sea.
- You can hike from the bottom to the top of one of our 6,000-foot peaks and see almost every kind of flora you could encounter in driving from Georgia to Canada.
- Three hundred miles of the Appalachian Trail wind through North Carolina's mountains.
- North Carolina has more than 300 waterfalls, including Whitewater Falls, a 411-foot, two-tiered cascade that is the highest on the East Coast. There are more than 250 waterfalls and 200 miles of mountain streams in Transylvania County alone.
- Mt. Mitchell, at 6,684 feet, is the highest mountain in the eastern United States.
- Sliding Rock, in Transylvania County, is a popular natural water slide. Eleven thousand gallons of water per minute rush visitors down 67 feet of smooth stone, depositing them into a 7-foot-deep pool at the end of the ride.
- The New River is the oldest river in the nation and the second oldest in the world.
- The Blue Ridge Parkway, our nation's most scenic byway, stretches 250 miles in North Carolina, from Cherokee and the entrance to the Great Smoky Mountains National Park to the Virginia-North Carolina border and beyond.
- The oldest stand of virgin timber in the eastern United States is in North Carolina's mountains at Joyce Kilmer National Forest, where some trees are more than 400 years old and are among the tallest living organisms in the Eastern United States.
- The Uwharrie Mountains in Montgomery County are thought to be the oldest mountains in North America and are among the oldest in the world at more than 600 million years old.
- The Biltmore House, a 250-room French chateau, was completed in 1895 as the summer home of George Vanderbilt. Located in Asheville, it is the largest privately owned residence in America.

More information on North Carolina mountains can be found at www.visitnc.com