



State of North Carolina
Office of the State Controller

STATE OF NORTH CAROLINA FINANCIAL HIGHLIGHTS

FISCAL YEAR ENDING JUNE 30, 2016

Cover Photo: Old Salem, North Carolina

Salem, North Carolina is an integral part of our state's history. Salem was settled by members of the Moravian Church. The Moravians are a Protestant denomination founded in 1457 by the followers of John Huss (Jan Hus, 1369–1415) in the Kingdoms of Bohemia and Moravia, now part of the Czech Republic. In 1722, exiled from their homelands, the Moravians found protection on the estate of Count Zinzendorf, a Saxon nobleman, where he helped create the village of Herrnhut as their home. First settling in North America in Savannah, Georgia in 1735, they moved to Pennsylvania in 1740, where they founded several communities (Bethlehem, Nazareth, and Lititz). Because of development pressures, they looked for more space to create their church communities. Purchasing just over 98,985 acres from John Carteret, 2nd Earl of Granville, one of the eight English Lords Proprietors, in the piedmont of North Carolina in 1753, they sent groups from Bethlehem, Pennsylvania to begin construction.

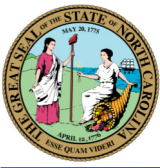
Salem was to be the central town of a tract called **Wachovia**. Construction began in 1766 to build the economic, religious, and administrative center. The outlying communities of Bethabara, Bethania, Friedberg, Friedland, and Hope, were more rural and agriculture focused.

In 1849, Forsyth County, NC was created, but Salem was unwilling to be the county seat. The town sold property directly to the north as a site for the new courthouse town. This town became Winston, which quickly grew into a thriving industrial center.

Salem merged with adjacent Winston in 1913, becoming known as Winston-Salem. This was the only community ever to be officially designated using a hyphenated name for a Post Office by the US Postal Service. In 1783, Salem held the first recorded celebration of Independence Day.

The cover photo titled *Dogwoods at Old Salem* is courtesy of Dave Combs who resides in Winston-Salem, NC.

In the pages that follow you will find photos that highlight the rich history of the Old North State. Unless otherwise referenced, all photos are courtesy of the North Carolina Archives.



FINANCIAL HIGHLIGHTS FISCAL YEAR 2016



I am pleased to present you with the ***North Carolina Financial Highlights*** for the fiscal year ended June 30, 2016. 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,

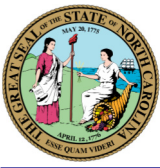
A handwritten signature in black ink that reads 'Linda Combs'.

Linda Combs
State Controller
December 2, 2016

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, 2016. 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.



FINANCIAL HIGHLIGHTS FISCAL YEAR 2016

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

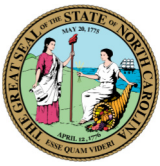


North Carolina State Capitol - 1946

The Capitol Building in Raleigh, NC was built in 1840

The Economy

During fiscal year 2015-16, the US economy continued to grow at a steady, moderate pace, and North Carolina's economic conditions reflected the same steady improvements. A few key State industries experienced strong growth, especially the Professional and Business Services sector (4.5% growth), followed by Trade, Transportation & Utilities (3.0%), and Leisure & Hospitality (2.7%). Labor market improvements lowered the unemployment rate and increased wage growth: The State's unemployment rate fell from 5.8% to 4.9%, and the State added 93,200 payroll jobs, only slightly less than the 99,700 added the previous fiscal year. Encouragingly, wage and salary income grew by 5.3% compared to last year's 4.2% growth. For the second half of 2016, economic conditions should continue to support steady employment growth. In 2017, wages are forecast to grow at, or slightly below, 5%.



FINANCIAL HIGHLIGHTS FISCAL YEAR 2016

North Carolina Economic Indicators

	FY2014-15	FY2015-16	FY2016-17	FY2017-18
	Actual	Projected	Projected	Projected
State Gross Product Growth*	2.6%	2.4%	3.1%	3.2%
Personal Income Growth	4.7%	5.2%	4.9%	5.3%
Wages & Salaries Growth	4.4%	4.8%	5.0%	5.3%
Retail Sales Growth	2.5%	3.4%	5.1%	6.5%
Unemployment Rate	5.9%	5.5%	4.8%	4.4%
Nonagricultural Employment Growth	2.5%	2.2%	1.8%	1.7%
Population	1.0%	1.0%	1.1%	1.1%
Housing Starts	10.8%	6.8%	12.3%	17.4%

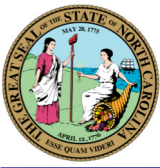
*Adjusted for Inflation

For North Carolina, as with the nation, the economy has strengthened, and the pace of growth closely tracked both the expectations at the start of the fiscal year and the solid growth pace established in the previous fiscal year. Most industries experienced solid growth, but employment in Manufacturing and Financial Activities grew by less than 1%. The solid employment gains translated into stronger gains in total wage and salary income, which increased by 4.8%.

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 should remain steady, increasing to 5.3% growth by fiscal year 2017-18. For the fiscal year, total personal income rose by 5.2%, still trailing the strong growth of 6% to 7% experienced in the pre-recession years. Wage and salary income, a component of total personal income, grew at 4.8% for the fiscal year. That was an improvement over the sluggish 4.4% growth the previous year.

The recovery in North Carolina gained traction, moving into a post-recession expansionary phase during fiscal year 2015-16. The increase in economic activity was enough that the State saw solid progress in employment. The unemployment rate fell from 5.8% at the start of the fiscal year to 4.9% at the end. With a brighter economic outlook and a stronger labor market, retail sales advanced at a rate of 3.4%. Going forward, retail sales are expected to recover from years of slow growth by growing closer to the long-term average of 5% and are forecast to grow by 6.5% in fiscal year 2017-18. Increasing wage income is expected to spur growth in retail consumption the next two years.

As the State's economy continues to progress, employment and income prospects are expected to stabilize over the next two fiscal years. Total payroll employment is projected to grow by 1.8% and 1.7%, respectively. That would be below this year's growth, but would continue to add 85,000 to 95,000 jobs in each of the next two years. Key industries in the State experienced strong growth during the fiscal year, especially the Professional and Business Services sector (4.5% growth), followed by Trade, Transportation & Utilities (3.0%), and Leisure & Hospitality (2.7%). 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). This past year, Construction added 7,300 jobs (3.9%). Despite the gains the past two years, there are still 54,000 fewer construction jobs than when the recession began in December 2007.



FINANCIAL HIGHLIGHTS FISCAL YEAR 2016

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 then 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 next biennium with growth of 12.3% and 17.4%, respectively. This would represent nearly double the number of housing starts during the recession, but still would be 30,000 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. During most of 2015 and into 2016, the State's economy tracked closely, and at times outpaced, the national economy's expansion. By 2017, the State's economy is projected to maintain growth at a pace faster than the national average. The anticipated economic strengthening should increase consumer demand, which will help maintain solid employment growth. Rising employment and wage gains continue to improve the health of the State's overall economy.

— Economic analysis prepared by Barry Boardman, Ph.D., Chief Economist
Fiscal Research Division, North Carolina General Assembly
September 15, 2016



**Wright Brothers First Flight - December 17, 1903
Kill Devil Hills, NC**

Photo Courtesy of Library of Congress



FINANCIAL HIGHLIGHTS FISCAL YEAR 2016

Financial Highlights

Government-wide

- ◆ The State reported total net position of \$51.374 billion, an increase of \$5.38 billion or 11.69% from the previous year. Net position of governmental activities was \$46.888 billion, an increase of \$4.07 billion or 9.5%. Net position of business-type activities was \$4.486 billion, an increase of \$1.31 billion or 41.29%.
- ◆ Component units reported net position of \$23.33 billion, an increase of \$553.18 million or 2.43% from the previous year. The majority of the net position is attributable to the University of North Carolina System, a major component unit.

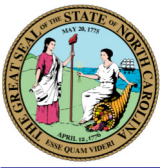
Fund Financials

- ◆ The General Fund reported fund balance of \$3.76 billion, an increase of 50.06% from the previous year. The increase is due, in part, to greater than anticipated growth in individual income taxes. Individual income tax collections exceeded the final budget amount by 5.33%. Significant increases in withholding and estimated tax payments account for the majority of this increase.
- ◆ The Highway Fund reported fund balance of \$287.65 million, a decrease of 23.04% from the previous year. The decrease is attributable to an increase in construction expenditures that were financed by bonds issued in May 2015.
- ◆ The Highway Trust Fund reported fund balance of \$1.46 billion, an increase of 29.8% from the previous year. The increase is due primarily to the growth in highway use tax and gasoline tax revenues. The rise in vehicle sales and gasoline consumption explains this growth.
- ◆ The Unemployment Compensation Fund (Trust Fund) reported net position of \$2.24 billion at June 30, 2016 compared to \$1.14 billion at June 30, 2015. The improvement in net position is explained by the improving economy, as evidenced by the continuing decline in the State's unemployment rate from 5.8% in June 2015 to 4.9% in June 2016, and an increase in the amount of quarterly interest earned on the balance in the Trust Fund.
- ◆ The N.C. State Lottery Fund (Lottery) reported net ticket sales of \$2.38 billion, an increase of 20.86% from the previous year. As required by law, the Lottery transferred \$634.27 million to the General Fund to support educational programs.
- ◆ The N.C. Turnpike Authority (NCTA) reported net position of \$417.74 million, an increase of 24.34% from the previous year. The NCTA moved from an operating loss in the prior year of \$3.1 million to operating income of \$4.16 million for the current year. The most significant contributing factor to this turnaround was an increase in toll revenues of 29.45% over the prior year. The NCTA received a transfer in from the Highway Trust Fund of \$49 million for gap funding on turnpike bonds.
- ◆ The EPA Revolving Loan Fund reported net position of \$1.6 billion, an increase of 6.82% from the previous year. Operating income was \$14.05 million. Net nonoperating revenues of \$75.87 million consisted primarily of federal capitalization grants.

A Balanced Statement of the Condition of the General Fund for the Fiscal years 1945-46 and 1946-47, ended June 30, 1946 and 1947

	1945-46	1946-47
<i>Availability</i>		
Credit Balance July 1	\$	\$
1. 2021 Unappropriated Credit Balance	5,074,435	27,438,000
2. 2021 1945-46 Balance Forward	20,330,577	20,597,700
3. Reserve for Permanent Appropriation Liquidated	327,758	2,123,000
Total Credit Balance July 1	25,732,770	50,158,700
<i>Debit</i>		
Schedule A - Interest on Bonds	1,702,176	9,016,000
Schedule B - Licenses	2,626,110	3,460,000
Schedule C - Franchise Taxes	8,471,074	9,000,000
Schedule D - Income Taxes	37,902,123	51,100,000
Schedule E - Sales Taxes	26,564,843	35,100,000
Schedule F - Highway Taxes	6,834,704	7,200,000
Schedule G - 2 1/2% Bond	106,991	0
Schedule H - 3% Bond	609,522	0
Schedule I - 4% Bond	45,421	0
Schedule J - 5% Bond	2,591,101	0
Miscellaneous	3,630	0
Total Under Rental Act	87,989,345	117,176,000

North Carolina Balanced Statement
Fiscal Years 1945-46 and 1946-47



FINANCIAL HIGHLIGHTS FISCAL YEAR 2016

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. Taxes and intergovernmental revenues generally fund these services.
- ◆ 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.

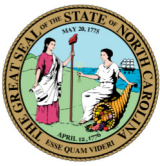
Statement of Net Position

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 of North Carolina's assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$51.37 billion at the close of the most recent fiscal year (see total primary government column). 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 \$5.38 billion or 11.69% (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, 2016 and 2015
(dollars in thousands)

	Governmental Activities		Business-type Activities		Total Primary Government		Total Percentage Change 2015-16
	2016	2015 (as restated)	2016	2015 (as restated)	2016	2015 (as restated)	
Current and other non-current assets.....	\$ 12,356,642	\$ 10,883,154	\$ 5,042,313	\$ 3,967,962	\$ 17,398,955	\$ 14,851,116	17.16%
Capital assets, net.....	47,393,247	45,784,657	1,500,478	1,288,405	48,893,725	47,073,062	3.87%
Total assets.....	59,749,889	56,667,811	6,542,791	5,256,367	66,292,680	61,924,178	7.05%
Total deferred outflows of resources.....	594,766	593,636	4,597	4,666	599,363	598,302	0.18%
Long-term liabilities.....	8,568,369	8,672,045	1,649,968	1,652,052	10,218,337	10,324,097	(1.02%)
Other liabilities.....	4,664,109	4,728,030	407,841	419,895	5,071,950	5,147,925	(1.48%)
Total liabilities.....	13,232,478	13,400,075	2,057,809	2,071,947	15,290,287	15,472,022	(1.17%)
Total deferred inflows of resources.....	223,791	1,039,275	3,103	13,609	226,894	1,052,884	(78.45%)
Net position:							
Net investment in capital assets.....	45,300,168	43,589,998	652,725	535,344	45,952,893	44,125,342	4.14%
Restricted.....	1,039,066	1,061,817	7,043	1,256	1,046,109	1,063,073	(1.60%)
Unrestricted.....	549,152	(1,829,718)	3,826,708	2,638,877	4,375,860	809,159	440.79%
Total net position.....	\$ 46,888,386	\$ 42,822,097	\$ 4,486,476	\$ 3,175,477	\$ 51,374,862	\$ 45,997,574	11.69%

The largest component of the State's net position (89.4%) 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. An additional portion of net position represents restricted net position. These resources are subject to constraints that are externally imposed (e.g., by creditors or grantors) or are imposed by law through constitutional provisions. The remaining balance of \$4.38 billion is unrestricted net position.



FINANCIAL HIGHLIGHTS FISCAL YEAR 2016

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, 2016
(dollars in thousands)

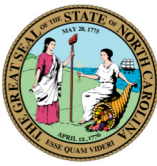
	Primary Government		
	Governmental Activities	Business-type Activities	Total
Changes in Net Position			
Net (expense) revenue	\$ (21,619,409)	\$ 1,829,460	\$ (19,789,949)
General Revenues:			
Taxes:			
Individual income tax.....	11,980,791	—	11,980,791
Corporate income tax.....	1,120,553	—	1,120,553
Sales and use tax.....	7,184,788	—	7,184,788
Gasoline tax.....	1,938,849	—	1,938,849
Franchise tax.....	521,628	—	521,628
Highway use tax.....	728,580	—	728,580
Insurance tax.....	503,621	—	503,621
Beverage tax.....	380,065	—	380,065
Tobacco products tax.....	291,841	—	291,841
Other taxes.....	296,595	—	296,595
Tobacco settlement.....	136,561	—	136,561
Unrestricted investment earnings.....	43,551	—	43,551
Miscellaneous.....	35,096	—	35,096
Contributions to permanent funds.....	4,718	—	4,718
Transfers.....	518,461	(518,461)	—
Total general revenues, contributions, and transfers.....	25,685,698	(518,461)	25,167,237
Change in net position.....	4,066,289	1,310,999	5,377,288
Net position — July 1, as restated.....	42,822,097	3,175,477	45,997,574
Net position — June 30.....	\$ 46,888,386	\$ 4,486,476	\$ 51,374,862

Governmental Activities:

- ◆ Revenues outpaced expenses and when combined with contributions to permanent funds and transfers from the State's business-type activities, an increase in net position of \$4.07 billion (or 9.5%) resulted for governmental activities.
- ◆ Total revenues increased by 1.84% (\$801 million).
- ◆ Total expenses were virtually unchanged (increasing by \$106 million, or less than 1%).

Business-type Activities:

- ◆ Business-type activities reflect an overall increase in net position of \$1.31 billion or 41.29%, primarily because of the financial results of the Unemployment Compensation Fund.
- ◆ The net position increase of \$1.1 billion in the Unemployment Compensation Fund is explained by the improving economy, as evidenced by the continuing decline in the State's unemployment rate from 5.8% in June 2015 to 4.9% in June 2016.
- ◆ The net position increase of \$81.78 million for the N.C. Turnpike Authority is due primarily to transfers in from the Highway and Highway Trust Funds and the improvement in results of operations.
- ◆ The net position increase of \$102.38 million in the EPA Revolving Loan Fund is due primarily 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 2016

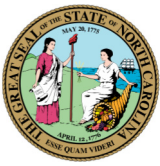
Statement of Activities (cont'd)

For fiscal year 2016, the increase in total revenues is attributable to stronger than expected growth in individual income taxes, the improved economy, and tax changes enacted by the General Assembly to broaden the sales and use tax base. Operating grants and contributions decreased because of less spending in federally supported programs.

While total expenses were virtually unchanged from last year, health and human services decreased by 1.51% (\$282 million) primarily due to lower expenses for Medicaid (the State's largest public assistance program). The reduction in Medicaid is due to higher drug rebates from manufacturers. The drug rebate rate climbed from 50% to 59% this year. Since pharmacy costs increased this year, the related drug rebates also increased. The drug rebates are reported as a reduction of Medicaid expenses. The decrease in health and human services were more than offset by spending increases in other functional areas.

Condensed Schedule of Expenses & Program Revenues Primary Government For the Fiscal Year Ended June 30, 2016 (dollars in thousands)

Functions/Activities	Expenses	Program Revenues	Net (Expense) Revenue
Governmental Activities:			
General government.....	\$ 1,064,299	\$ 285,802	\$ (778,497)
Primary and secondary education.....	10,372,787	\$ 1,553,136	(8,819,651)
Higher education.....	4,003,154	107,549	(3,895,605)
Health and human services.....	18,422,804	13,788,074	(4,634,730)
Economic development.....	402,773	236,205	(166,568)
Environment and natural resources.....	547,540	304,339	(243,201)
Public safety, corrections, and regulation.....	2,946,206	765,929	(2,180,277)
Transportation.....	2,767,006	2,174,399	(592,607)
Agriculture.....	179,152	70,395	(108,757)
Interest on long-term debt.....	199,516	—	(199,516)
Total Governmental Activities.....	<u>40,905,237</u>	<u>19,285,828</u>	<u>(21,619,409)</u>
Business-type Activities:			
Unemployment Compensation.....	255,851	1,353,234	1,097,383
N.C. State Lottery.....	1,752,837	2,390,205	637,368
EPA Revolving Loan.....	19,047	108,957	89,910
N. C. Turnpike Authority.....	87,467	68,188	(19,279)
Regulatory commissions.....	94,857	104,664	9,807
Insurance programs.....	12,502	26,183	13,681
North Carolina State Fair.....	16,183	16,307	124
Other business-type activities.....	12,828	13,294	466
Total Business-type Activities.....	<u>2,251,572</u>	<u>4,081,032</u>	<u>1,829,460</u>
Total Primary Government.....	<u>\$ 43,156,809</u>	<u>\$ 23,366,860</u>	<u>\$(19,789,949)</u>

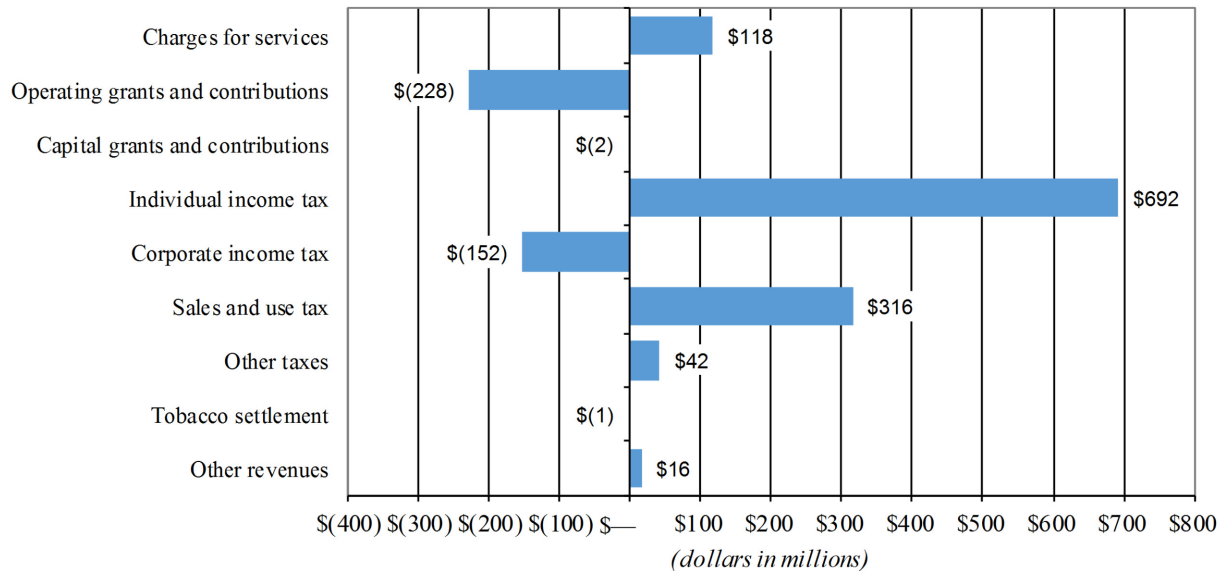


FINANCIAL HIGHLIGHTS FISCAL YEAR 2016

Statement of Activities (cont'd)

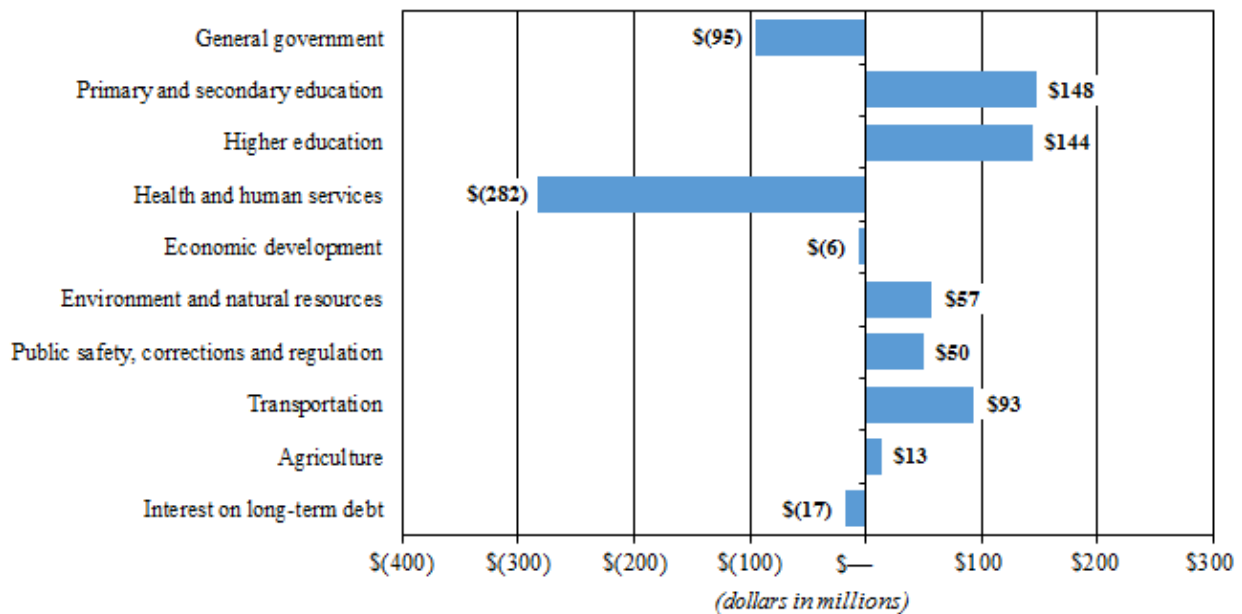
The following chart reflects the dollar change in the revenues by source of governmental activities between fiscal years 2015 and 2016.

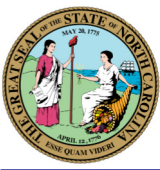
**Dollar Change in Governmental Activities Revenues by Source
Between Fiscal Years 2015 and 2016**



The following chart reflects the dollar change in the functional expenses of governmental activities between fiscal years 2015 and 2016.

**Dollar Change in Governmental Activities Functional Expenses
Between Fiscal Years 2015 and 2016**



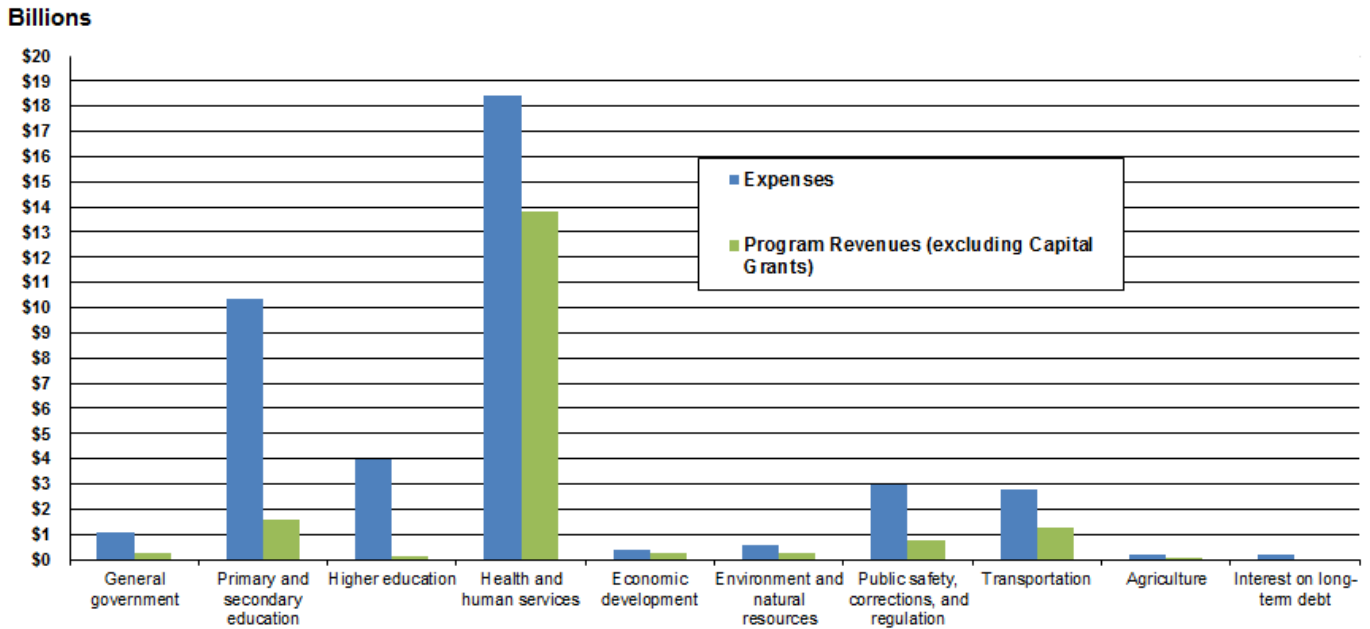


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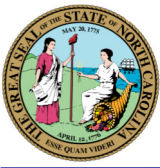
Statement of Activities (cont'd)

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.

Expenses - Governmental Activities Fiscal Year Ended June 30, 2016



North Carolina Executive Mansion
Raleigh, NC - Completed in 1891 - Photo from 1952



FINANCIAL HIGHLIGHTS FISCAL YEAR 2016

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 2012-2016

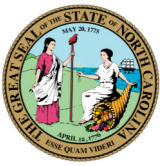
(Dollars in Millions)

	2016	2015	2014	2013	2012
Governmental Activities					
Total Expenses.....	\$ (40,905)	\$ (40,799)	\$ (39,400)	\$ (40,095)	\$ (39,676)
Total Tax Revenues.....	24,947	24,049	22,569	22,733	21,874
Total Other Revenues and Contributions.....	19,506	19,602	19,078	19,254	18,815
Total Transfers.....	518	416	430	449	402
Change in Net Position.....	<u>\$ 4,066</u>	<u>\$ 3,268</u>	<u>\$ 2,677</u>	<u>\$ 2,341</u>	<u>\$ 1,415</u>
Net Position - June 30.....	\$ 46,888	\$ 42,822	\$ 39,603	\$ 38,204	\$ 35,815
Business-type Activities					
Total Expenses.....	\$ (2,252)	\$ (2,055)	\$ (2,289)	\$ (3,953)	\$ (4,591)
Total Revenues.....	4,081	4,157	4,028	4,831	5,194
Total Transfers.....	(518)	(416)	(430)	(449)	(402)
Change in Net Position.....	<u>\$ 1,311</u>	<u>\$ 1,686</u>	<u>\$ 1,309</u>	<u>\$ 429</u>	<u>\$ 201</u>
Net Position - June 30.....	\$ 4,487	\$ 3,176	\$ 1,476	\$ 161	\$ (268)
Total Primary Government					
Total Expenses.....	\$ (43,157)	\$ (42,854)	\$ (41,689)	\$ (44,048)	\$ (44,267)
Total Revenues and Contributions.....	48,534	47,808	45,675	46,818	45,883
Change in Net Position.....	<u>\$ 5,377</u>	<u>\$ 4,954</u>	<u>\$ 3,986</u>	<u>\$ 2,770</u>	<u>\$ 1,616</u>
Net Position - June 30.....	\$ 51,375	\$ 45,998	\$ 41,079	\$ 38,365	\$ 35,547



USS North Carolina

Maneuvered into permanent berth - Wilmington, NC - October 2, 1961



FINANCIAL HIGHLIGHTS FISCAL YEAR 2016

Capital Assets

As of June 30, 2016, the State's investment in capital assets was \$48.89 billion, an increase of 3.87% from the previous fiscal year-end (see table below).

Capital Assets as of June 30, 2016
(net of depreciation, dollars in thousands)

	Governmental Activities		Business-type Activities		Total	
	2016	2015 (as restated)	2016	2015 (as restated)	2016	2015 (as restated)
Land and permanent easements.....	\$ 17,186,610	\$ 16,644,701	\$ 236,488	\$ 185,894	\$ 17,423,098	\$ 16,830,595
Buildings.....	2,647,740	2,729,185	61,219	63,665	2,708,959	2,792,850
Machinery and equipment.....	684,576	655,151	6,656	7,420	691,232	662,571
Infrastructure:						
State highway system.....	23,748,156	22,850,000	—	—	23,748,156	22,850,000
NC toll road system.....	—	—	746,316	762,446	746,316	762,446
Other infrastructure.....	153,873	160,503	4,000	4,322	157,873	164,825
Computer software.....	306,404	252,917	894	987	307,298	253,904
Art, literature, and other artifacts.....	135,669	116,319	393	390	136,062	116,709
Construction in progress.....	2,152,875	2,051,490	444,512	263,281	2,597,387	2,314,771
Computer software in development.....	377,344	324,391	—	—	377,344	324,391
Total.....	\$47,393,247	\$45,784,657	\$1,500,478	\$1,288,405	\$48,893,725	\$47,073,062

Total percent change between
fiscal years 2015 and 2016

3.51 %

16.46 %

3.87 %

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 \$1.64 billion for state highway projects. Additionally, the N.C. Turnpike Authority (business-type activity) reported year-end construction in progress of \$332 million for the Monroe Expressway, a toll project in eastern Mecklenburg County. The Monroe Expressway project is expected to improve mobility and capacity within the project study area by providing a highway for the U.S. 74 corridor that allows for high-speed regional travel.
- ◆ 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. The new hospitals are being financed by special indebtedness bonds approved by the N.C. General Assembly. At year-end, construction in progress for Cherry Hospital and Broughton Hospital totaled \$243 million. Cherry Hospital was expected to open in 2013, but construction delays pushed back completion to this year. The state-operated Cherry Hospital began accepting patients in September 2016.
- ◆ DHHS is also replacing major legacy IT systems. 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 \$356 million. NC Tracks, the new multi-payer Medicaid Management Information System, became operational on July 1, 2013.



Guilford Battleground

Site of Battle of Guilford Courthouse - March 15, 1781
Photo courtesy of the National Park Service



FINANCIAL HIGHLIGHTS FISCAL YEAR 2016

Debt Administration

At year-end, the State had total long-term debt outstanding (bonds, special indebtedness, and notes payable) of \$7.26 billion, a decrease of 8.14% from the previous fiscal year-end (see table below).

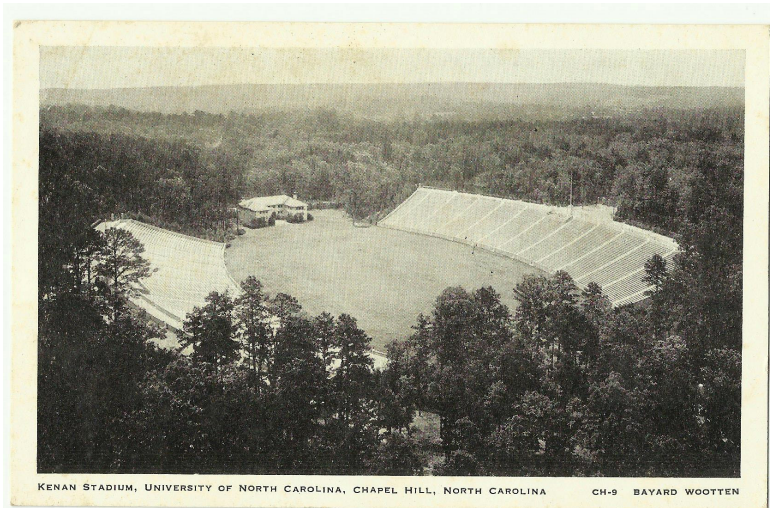
Outstanding Debt as of June 30 Bonds, Special Indebtedness, and Notes Payable (dollars in thousands)

	Governmental Activities		Business-type Activities		Total	
	2015		2015		2015	
	2016	(as restated)	2016	(as restated)	2016	(as restated)
General obligation bonds.....	\$ 3,038,665	\$ 3,469,220	\$ —	\$ —	\$ 3,038,665	\$ 3,469,220
Special Indebtedness:						
Lease-purchase revenue bonds.....	—	2,000	—	—	—	2,000
Certificates of participation.....	124,820	151,745	—	—	124,820	151,745
Limited obligation bonds.....	1,997,070	2,095,550	—	—	1,997,070	2,095,550
GARVEE bonds.....	529,755	598,165	145,535	145,535	675,290	743,700
Revenue bonds.....	—	—	1,011,388	1,019,588	1,011,388	1,019,588
Notes payable.....	27,198	34,095	388,827	390,818	416,025	424,913
Total	<u>\$ 5,717,508</u>	<u>\$ 6,350,775</u>	<u>\$ 1,545,750</u>	<u>\$ 1,555,941</u>	<u>\$ 7,263,258</u>	<u>\$ 7,906,716</u>
Total percent change between fiscal years 2015 and 2016		(9.97)%		(0.65)%		(8.14)%

During the 2015-16 fiscal year, the State issued \$329.36 million in refunding bonds to refinance previously outstanding general obligation bonds reported in governmental activities. The refinancing was done to take advantage of lower interest rates and will save the State approximately \$55 million in debt service costs.

In connection with these 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 rating agencies recognized the State's historically conservative budgeting, financial management, and debt issuance practices. North Carolina remains one of only twelve 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 \$5.72 billion in 2016, in part due to large issuances of non-GO (general obligation) debt (special indebtedness) for higher education capital projects. Prior to 2003, the State only issued general obligation debt. The N.C. Turnpike Authority (Authority), a business-type activity, had its first debt issuance in 2010. The Authority's long-term debt has increased from \$691.56 million in 2010 to \$1.53 billion in 2016.



Kenan Stadium - University of North Carolina at Chapel Hill
UNC is the first public university in the US to open its doors to students
(Chartered in 1789 | Doors opened in 1795)
Kenan Stadium was built in 1927



FINANCIAL HIGHLIGHTS FISCAL YEAR 2016

Demographic and Economic Indicators

The following tables illustrate comparative information for the State.

SCHEDULE OF POPULATION GROWTH

For the Fiscal Years 2012-2016

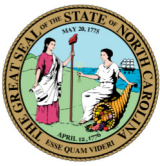
(population in millions)

Year	2016	2015	2014	2013	2012	% Change From 2012-2016
United States	323.96	321.42	318.91	316.43	314.10	3.14%
North Carolina	10.15	10.04	9.94	9.85	9.75	4.10%

PRINCIPAL EMPLOYERS

For the Fiscal Years 2007 & 2016

Employer	2016			2007		
	Employees	Rank	Percentage of Total State Employment	Employees	Rank	Percentage of Total State Employment
State of North Carolina.....	185,000-189,999	1	4.06%	175,000-179,999	1	4.12%
Federal Government.....	70,000-74,999	2	1.57%	60,000-64,999	2	1.45%
Wal-Mart Associates, Inc.....	45,000-59,999	3	1.14%	50,000-54,999	3	1.22%
Food Lion LLC.....	30,000-34,999	4	0.70%	25,000-29,999	5	0.64%
Duke University.....	30,000-34,999	5	0.70%	25,000-29,999	4	0.64%
Wells Fargo Bank NA.....	25,000-29,999	6	0.60%	—	—	—
Lowe's Home Centers, Inc.....	20,000-24,999	7	0.49%	15,000-19,999	10	0.41%
Bank of America NA.....	15,000-19,999	8	0.38%	—	—	—
Harris Teeter LLC.....	15,000-19,999	9	0.38%	—	—	—
Branch Banking & Trust Company.....	10,000-14,999	10	0.27%	—	—	—
Charlotte Board of Ed.....	—	—	—	20,000-24,999	6	0.52%
Wachovia Bank NA.....	—	—	—	20,000-24,999	7	0.52%
Wake Public Schools.....	—	—	—	15,000-19,999	8	0.41%
Charlotte Hospital Authority.....	—	—	—	15,000-19,999	9	0.41%
Total.....	<u>445,000-504,990</u>		<u>10.29%</u>	<u>420,000-469,990</u>		<u>10.34%</u>



FINANCIAL HIGHLIGHTS FISCAL YEAR 2016

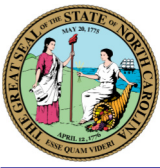
Demographic and Economic Indicators (cont'd)

TEACHERS AND STATE EMPLOYEES BY FUNCTION

For the Fiscal Years 2012-2016

Functions	2016	2015	2014	2013	2012
General government (3).....	4,857	5,270	5,357	5,450	5,425
Primary and secondary education.....	154,079	153,165	157,205	165,167	162,124
Higher education:					
Universities.....	62,194	62,152	61,720	60,665	61,317
Community colleges.....	18,129	18,471	18,588	19,518	19,702
Health and human services (1).....	17,552	17,620	17,801	17,786	17,958
Economic development.....	3,365	2,893	3,003	2,722	2,415
Environment and natural resources (2) (3).....	4,148	3,471	3,566	3,549	3,561
Public safety, corrections and regulation (1).....	33,966	33,558	33,635	34,668	34,650
Transportation.....	12,591	12,758	13,309	13,170	13,175
Agriculture (2).....	2,066	2,080	2,081	2,110	2,064
Totals.....	312,947	311,438	316,265	324,805	322,391

- (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.
- (3) Starting in fiscal year 2016, the Department of Natural and Cultural Resources is included in the environment and natural resources function; whereas in prior years it was included with the general government function.



FINANCIAL HIGHLIGHTS FISCAL YEAR 2016

North Carolina Education Lottery

For the 10th year in a row, the N.C. Education Lottery completed its fiscal year by setting a new record not only for lottery ticket sales, but also for its contribution to education programs in North Carolina. The Education Lottery recorded \$2.38 billion in sales in fiscal year 2016 and \$636 million in earnings.

The instant product continued to be the largest revenue source, generating \$1.6 billion in sales. The lottery launched 51 new instant games during the year, including its first \$30 game, Ultimate Millions, which offered four \$10 million prizes, 18 \$1 million prizes, and three additional \$1 million prizes that could be won in second-chance drawings.

The lottery also began a new draw game, Lucky For Life, a \$2 game with a top prize of \$1,000 a Day for Life that winners receive every year for the rest of their lives. Draw games sales also benefited from a record Powerball jackpot of \$1.5 billion in February 2016, boosting Powerball ticket sales to \$208 million, up \$78 million from the year before.

Lottery players collected \$1.49 billion in prize money. During the year, prizes of \$1 million or more were won 58 times, including two prizes of \$10 million. Many winners put their money right back to work in the economy, by paying bills, buying new houses or cars, taking vacations, saving and investing the money for retirement or college, or donating to personal good causes.

The lottery ended the year with 6,898 retail locations across North Carolina. Retailers earned \$167 million in sales commissions and incentives.

The N.C. Education Lottery marked its 10th anniversary on March 30th. Over the decade the growing popularity of lottery games has raised more than \$4.6 billion for the good cause it serves. Since inception on March 30, 2006 through the end of fiscal year 2016, the lottery surpassed \$15.8 billion in sales. More than 722,000 North Carolinians have 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.

To get a sense of the lottery's success, consider what happens every day across the state. Last year, the lottery averaged \$6.5 million a day in lottery ticket sales, \$4.1 million in prizes, and \$1.7 million raised for education. The lottery has increased sales and earnings every year of its operations, received "a clean opinion" from independent auditors in each year's audit of its finances, and become a leader in the U.S. lottery industry on responsible gaming.

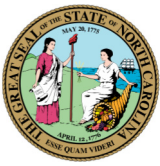
The State Lottery Act directs the lottery to increase and maximize the available revenues for education purposes. In fiscal year 2016, a breakdown of lottery revenues showed 62.4% went to prizes, 26.5% for education programs that the lottery serves, 7% in retailer commissions. The remaining 4.1% of revenues went to administrative expenses, including 1.75% to gaming vendors, advertising and marketing, salaries, wages and benefits and other administrative expenses.

The Education Lottery transfers its net profits on a quarterly basis to the Office of State Budget and Management to the North Carolina State Lottery Fund. The monies were distributed in fiscal year 2016 as outlined in the budget approved by the General Assembly.

The General Assembly made the following allocation of lottery dollars in its fiscal year 2016 budget to education programs:

- ◆ 58% of the net assets, or \$310.5 million, to non-instructional support personnel;
- ◆ 19%, or \$100 million, for the Public School Building Capital Fund which provides monies to North Carolina counties to build and repair schools;
- ◆ 15%, or \$78.3 million, to the N.C. Pre-K program to fund seats in the prekindergarten program for at-risk four-year-olds;
- ◆ 6%, or \$30.4 million, for N.C. Education Lottery Scholarships which are awarded based on financial need;
- ◆ 2%, \$10.7 million, to the UNC Need-Based Grant program, which provides financial aid based on need to students attending one of the 16 UNC system institutions.

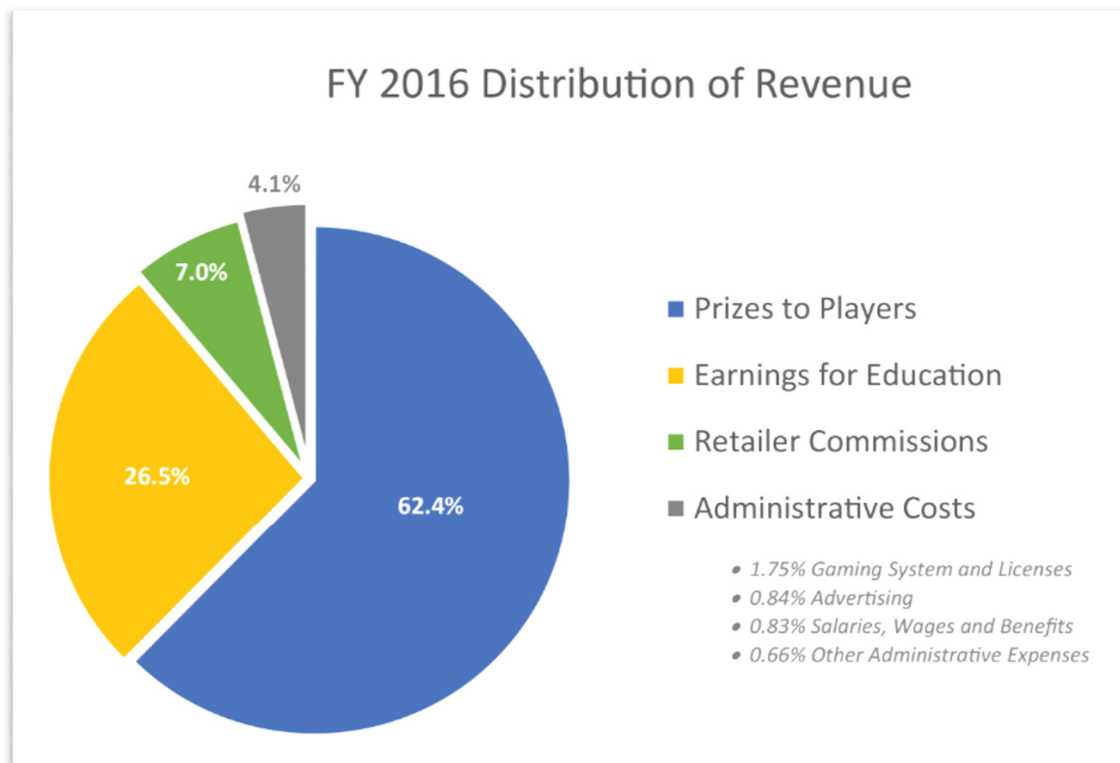
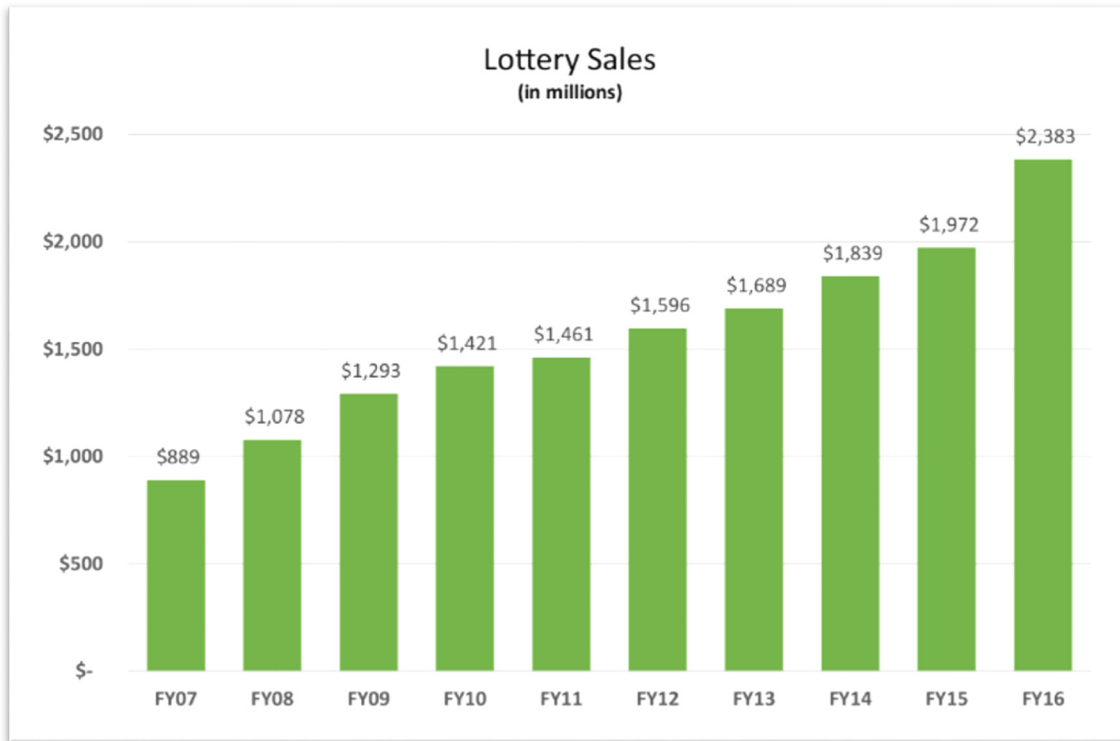
Lottery revenues exceeded projections and unallocated funds were placed in reserve funds. The General Assembly also directed that \$2.1 million in earnings go to the N.C. Alcohol Law Enforcement and \$1 million to the N.C. Problem Gambling Program.



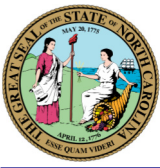
FINANCIAL HIGHLIGHTS FISCAL YEAR 2016

North Carolina Education Lottery (cont'd)

The following tables illustrate how lottery funds were distributed for education for fiscal year 2016:



Information provided by the North Carolina Education Lottery

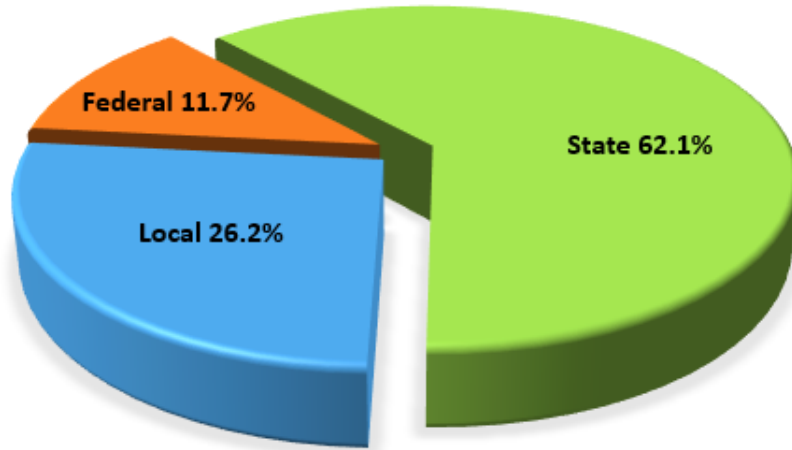


FINANCIAL HIGHLIGHTS FISCAL YEAR 2016

Education Highlights (Primary and Secondary)

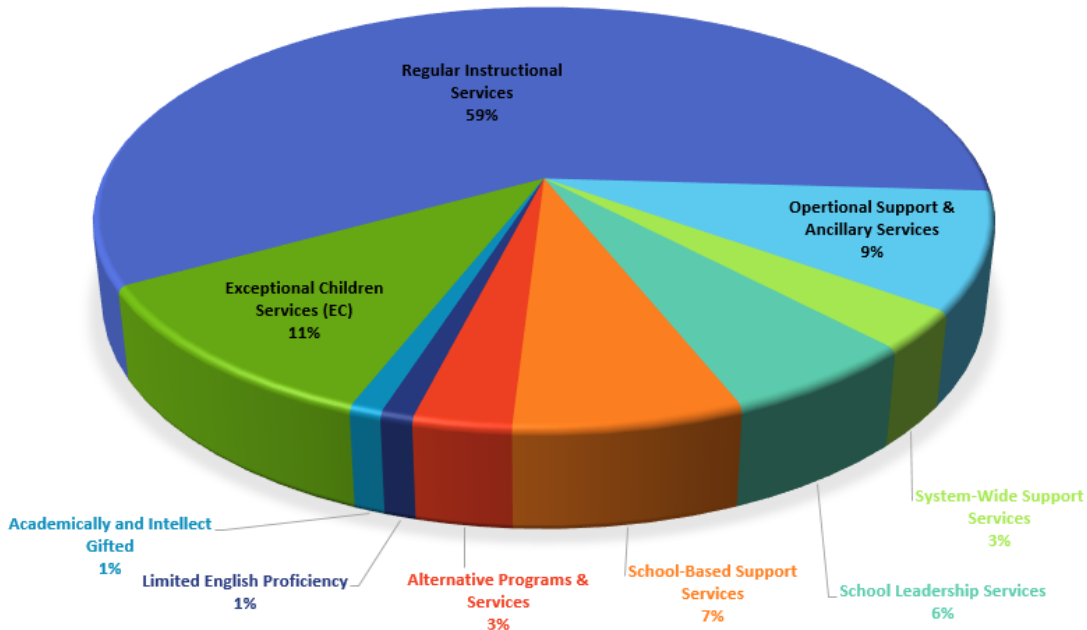
North Carolina ranks 9th in the Nation for the highest percentage of funds from state revenue. The national average is 46.4%. Most other state school systems are primarily funded by locally driven initiatives such as property taxes and local bond issues.

**SOURCE OF EXPENDITURES
FY 2014 - 15**

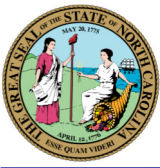


Of the \$8 billion State Public School Fund for fiscal year 2014-2015, all but 6% was used for salaries and benefits.

**HOW STATE FUNDS WERE EXPENDED
FY 2014 - 15**



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



FINANCIAL HIGHLIGHTS FISCAL YEAR 2016

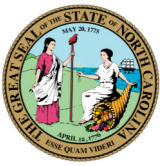
Transportation Highlights

For the fiscal year 2016, the North Carolina Department of Transportation (NCDOT) listed the following as some of its key accomplishments:

- ◆ To help ensure that NCDOT can continue to meet our state's growing transportation needs, the State took steps to stabilize and modernize the agency's major funding streams. As a result of these steps, an additional \$1.6 billion is projected for construction projects over the next 10 years. Thanks to this additional money, nearly 90 new sections of highways and over 40 new non-highway projects were added to our current State Transportation Improvement Program (STIP), allocated according to Strategic Transportation Investments (STI). The department was also able to accelerate the schedules for nearly 180 highway projects and close to 20 non-highway projects already included in the plan.
- ◆ Through contract resurfacing, the department paved 5,685 lane miles of roads. An additional 6,626 lane miles were improved through pavement preservation, which makes minor improvements to good roads regularly in order to delay the need for major road repairs that are more costly, time-consuming and disruptive to motorists.
- ◆ The State announced the statewide launch of online driver license renewal in October, which DMV began testing in June 2015. The goal is to have 30% (about 600,000) of all eligible license renewals in a year completed online.
- ◆ Along with the 21st century technology now being used at the state's driver license offices, portable, state-of-the-art mobile units were deployed across the state, replacing the aging RV-style mobile units that were expensive to operate. The new units are a cost-efficient solution mounted in SUVs, and offer first-of-its-kind service in the nation. Each SUV holds side-by-side driver license desks that can be deployed in almost any location and will increase mobile sites from 24 to more than 70 sites statewide.
- ◆ The state broke ground on the Bonner Bridge Replacement in March 2016. The department had been working for more than 20 years to replace the aging bridge, which requires constant monitoring and maintenance. The new bridge will provide a safe, reliable transportation connection to and from Hatteras Island, and will reduce maintenance costs.
- ◆ In response to Session Law 2015-241 Section 29.14(d), NCDOT developed and began implementation of a strategy to expedite project delivery and better align department staff to improve efficiency in meeting project delivery goals. The plan, called a Reorganization Through Reduction, includes shifting existing vacant positions and eliminating about 250 filled positions.



Wilmington - Wrightsville Beach Causeway
Much has changed in NC transportation since this causeway opened in 1926.



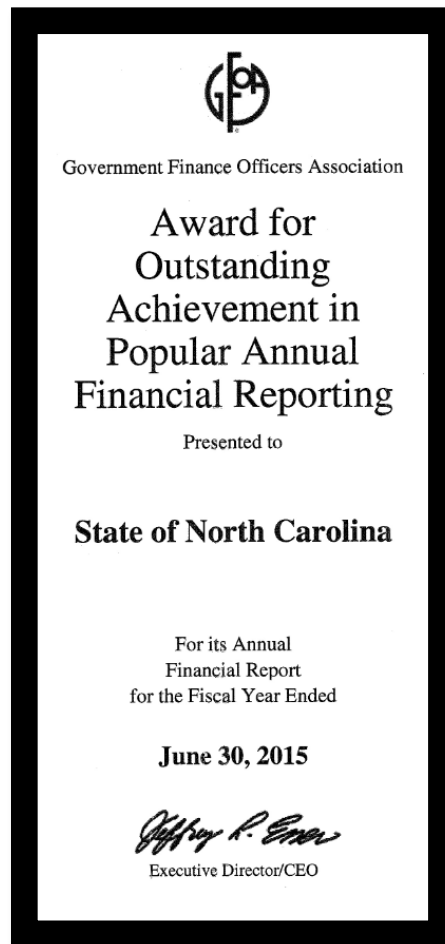
FINANCIAL HIGHLIGHTS FISCAL YEAR 2016

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, 2015. 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 18 consecutive years (fiscal years ended 1998-2015). 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 \$147.92 or \$5.917 per copy.