

North Carolina



Financial Highlights *Fiscal Year End June 30, 2010*

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

Cover Photos:

Photos courtesy of Tryon Palace, North Carolina Department of Cultural Resources

The Office of State Controller is proud to feature Tryon Palace in New Bern, North Carolina on the cover of the 2010 CAFR Popular Report. New Bern celebrated its 300th anniversary in 2010 and the centerpiece of the festivities included the Tryon Palace.

Pictured on the cover is the Governor's Palace, which was also the grandest public building in all the colonies. Royal Governor William Tryon and his family brought architect John Hawks from London to design and build the Georgian style structure. Completed in 1770, Tryon Palace served as the first permanent capitol of North Carolina and home to the Tryon family.

Tryon Palace was the site of the first sessions of the General Assembly for the State of North Carolina following the revolution and housed the state governors until 1794. In 1798, fire destroyed the original Palace building. An extensive 30-year campaign to rebuild the Palace and restore the grounds was launched by the people of New Bern, state leaders, world craftsmen, and generous, dedicated citizens such as Mrs. James Edwin Latham. Their efforts led to the triumphal reopening of the palace in 1959. Today, the Palace lives on as a testament to history, community and rebirth.

Also featured are the gardens. When you stroll down the Tryon Palace garden paths you step back into a bygone era. This historic site features 16 acres of gardens designed by noted landscape architect Morley Jeffers Williams in the 1950s and represents the formal garden style of 18th-century Britain.

In the fall, the formal parterres of the Maude Moore Latham Garden and the Gertrude Carraway Garden will each have elaborate displays of mums. The spring display includes daffodils, tulips and many other spring flowers. The Kellenberger Garden reflects the colonial era with an arrangement of marigolds and celosia, which were popular in the 18th century, and cool-season vegetables will be ready for winter in the Kitchen Garden.

Also included in the site are gardens surrounding three historic houses – one with a formal lawn and camellia collection, town garden and swept yard/working garden. Three additional gardens reveal the splendor of the Victoria era. The Etteinne Mitchell Riverside Garden includes a diversity of native plants which are both beautiful and play an important role in the ecosystem. The plants selected survive both periods of flooding and of dry soil and provide food and shelter for numerous animals.



I am pleased to present you with the ***North Carolina Financial Highlights*** for the fiscal year ended June 30, 2010. This ***popular report*** represents our continuing commitment to providing the highest standards of financial management and reporting, as well as fiscal accountability of the resources of the State of North Carolina. We hope you find this report both informative and beneficial. If you need additional copies or have questions about this report, please contact either me or our Statewide Accounting Division staff at (919) 981-5454.

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

Sincerely,

David T. McCoy
State Controller
December 17, 2010

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, 2010. 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.



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, North Carolina State Education Assistance Authority, 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



The Beach at Ocracoke

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

The Economy

At the start of FY 2009-10, the economy was coming out of the worst recession since the Great Depression. The National Bureau of Economic Research officially dated the end of the recession as June 2009. Nevertheless, economic conditions in the State, as well as the nation, did not reflect a recovering economy as employment losses continued to grow and consumer sentiment remained depressed. Moreover, given the depth of the recession, it was not surprising that the nation would continue to feel the impact of the economic contraction well past its official end.

Both employer and consumer sentiment showed little signs of the economic recovery that was underway. Coming out of a deep recession, a robust recovery similar to what occurred after the 1981-82 recession (6% quarterly growth) might be expected. However, each quarter of this fiscal year exhibited far less than a robust or even modest expansion. The key reason for the sluggish economic recovery was the structural problems in the housing and financial markets that sent us into a recession. These structural problems take much longer to correct and are historically followed by much slower, prolonged recovery phases.

During the fiscal year, the State's economy lost an additional 19,500 private sector jobs and total wage and salary income continued to fall. By the end of the fiscal year, there were 240,000 fewer people employed than at the start of the recession. Annual growth in total wage and salary income fell 4.5 percent the first quarter of the fiscal year and had only a slight rebound to 1.1 percent in the last quarter. It is anticipated that both employment and income will grow for the rest of 2010, but at a very sluggish rate. Moderate job growth is not expected until mid-2011, which will result in high unemployment rates for all of 2010 and most, if not all, of 2011.



North Carolina Economic Indicators

	FY2008-09	FY2009-10	FY2010-11	FY2011-12
	Actual	Actual	Projected	Projected
Personal Income	0.40%	1.10%	3.30%	5.50%
Wages & Salaries	-1.20%	-1.90%	4.00%	5.90%
Retail Sales	-7.40%	1.60%	4.90%	5.30%
Unemployment Rate	8.70%	10.80%	9.70%	9.50%
Employment (Nonagricultural)	-6.20%	0.90%	1.40%	2.40%
Existing Single-family Home Sales	-31.30%	10.50%	15.70%	9.30%
Average Hourly Earnings: Manufacturing	2.80%	1.40%	-2.10%	-1.70%

For North Carolina, as with the nation, the end of the recession did not portend an end to employment and income losses. While the recession had technically ended, many key economic indicators suggested recession-like conditions were still with us. What little rebound there was in employment came mostly from temporary hiring for the decennial 2010 census. Private employment was down 19,500 jobs at the end of the fiscal year.

Employment losses had initially been tied to the housing related markets, but were now widespread affecting all industrial sectors. The majority of the job losses occurred early in the fiscal year with further declines in both employment and income abating as the year progressed.

Thus, for FY 2009-10, state economic indicators reflect the easing of the downturn's intensity across the State. Personal income rose 1.1 percent, but the increase pales in comparison to the robust growth of 6 to 7 percent experienced several years earlier. The small amount of growth was bolstered by federal transfer payments such as unemployment insurance payments. Wage and salary income plummeted with a loss of 1.9 percent for the year. The fall in wage and salary income was consistent with employment losses the State had been experiencing. The second half of the fiscal year saw a rebound in wage and salary income with growth close to 2 percent. Going forward, modest growth in income is projected as employment numbers slowly begin to recover. A return in wage and salary income to long-term growth levels is forecast for 2012.

As with the nation, the worst of the recession's effects were behind us at the start of FY 2009-10. Nevertheless, residual employment problems continued to be a drain on the State's economy as evidenced by weak consumer demand. Retail sales rebounded with 1.6 percent growth after the drop of nearly 7 percent the year before. Retail sales are expected to mirror the slow, gradual improvement of the economy, but will rise above the long-term trend at the start of 2012. The increased projection in sales reflects the anticipated improvement in employment and consumer sentiment.

As the State's economy begins to turn the corner in the recovery, employment prospects are expected to improve, but a stronger employment climate is not projected until 2011. Even with the improved employment picture, growth will be slow and the unemployment rate will remain elevated in the 9 to 10 percent range.

This past fiscal year's employment situation could best be described as flat. Despite a decline in employment of over 6 percent during the recession, no job growth has occurred since its end. At the end of the fiscal year, 21,000 more people were employed in non-agricultural jobs than the year before. Total employment in the State was at 3.9 million. Much of the increase was related to temporary census jobs. The private sector losses continued to pile up with an additional 19,500 jobs lost during the fiscal year. Total employment was down by over 245,000 from the start of the recession at the end of the fiscal year.

By the end of calendar year 2010, only a few industries are expected to experience growth over the previous year with net employment rising at just under 1 percent. For 2011, only modest improvement is expected with employment increasing at well below 2 percent. This level of growth will not be sufficient to lower the unemployment rate significantly, and the rate is projected to average 9.5 percent for FY 2011-12.

Financial Highlights — Fiscal Year 2010



In the last recession, manufacturing, particularly in the furniture and textile industries, shed jobs at a rate of 10 percent per quarter. The State's manufacturing sector again was vulnerable to the recession, and job losses in this industry sector reached double-digit levels. By the end of the fiscal year, there were almost 100,000 fewer manufacturing jobs than at the start of the recession. The fall in hourly wages for this sector is reflective of the weak employment conditions. Another hard hit industry has been the financial sector. The financial market upheaval has had a detrimental impact on this sector's employment, but it began to rebound the first half of 2010.

The severity of the housing recession is clearly indicated by the 31.3 percent decline of existing-home sales in FY 2008-09. The housing recession and the subsequent adjustments in the real estate market continue to take a long time to unwind. A projected turnaround in residential markets is expected in 2011 as market corrections take hold. Tough credit conditions, exacerbated by mounting foreclosures, will prolong the return to a solid housing market. The anticipation that low mortgage interest rates will continue helps with the recovery and the gradual return to a stable housing sector.

The economic recovery got underway at the start of FY 2009-10; however, recession-like conditions remained throughout the year. The recession was largely due to structural imbalances in the housing and financial sectors. These imbalances, which have had a profound affect on the State's economy, will take a long time to correct. A return to a full expansionary economy is not projected to occur until four years after the onset of the recession.

Once the economic recovery is on solid footing, North Carolina's economy is expected to expand at a faster pace than the nation. Until then, the State is expected to experience elevated unemployment, weak consumer spending, and a soft housing market. The employment conditions in manufacturing and construction industries are not expected to turn-around until the later part of 2011. Growth in other industries, especially service and trade industries are projected to rebound a littler sooner providing a stimulus for future economic growth in the State.

*Economic analysis prepared by Barry Boardman, Ph.D., Staff Economist
North Carolina General Assembly, Fiscal Research Division
October 28, 2010*



Hanging Rock State Park

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



Financial Highlights

Government-wide

- ◆ The State's total net assets increased by \$536.491 million or 1.72% as a result of this year's operations. Net assets of governmental activities increased by \$1.817 billion, or 5.98%, due in part to temporary tax increases. Net assets of business-type activities decreased by \$1.28 billion, or 146%, due to a substantial operating loss in the Unemployment Compensation Fund. At year-end, net assets of governmental activities and business-type activities totaled \$32.204 billion and negative \$404.403 million, respectively.
- ◆ Component units reported net assets of \$17.328 billion, an increase of \$1.037 billion, or 6.36% from the previous year. The majority of the net asset increase is attributable to the University of North Carolina System, a major component unit.

Fund Financials

- ◆ The fund deficit of the General Fund improved from negative \$777.573 million at June 30, 2009 (as restated) to negative \$114.168 million at June 30, 2010. This improvement is attributable to temporary tax increases, agency allotment reductions, and receipt of federal recovery funds.
- ◆ The fund balance of the Highway Fund decreased from \$1.025 billion at June 30, 2009 (as restated) to \$848.599 million at June 30, 2010, a decrease of 17.18%.
- ◆ The fund deficit of the Highway Trust Fund improved from negative \$194.005 million at June 30, 2009 (as restated) to negative \$20.137 million at June 30, 2010.
- ◆ The net assets of the Unemployment Compensation Fund decreased from negative \$299.281 million at June 30, 2009 (as restated) to negative \$1.701 billion at June 30, 2010. The decrease is directly related to decline in the state and national economies. The state unemployment rate was 10% in June 2010.
- ◆ Net ticket sales of the N.C. State Lottery Fund (Lottery) increased 10.61% from the previous fiscal year to \$1.42 billion. As required by law, the Lottery's net profit of \$432.205 million was transferred to the Education Lottery Fund (nonmajor special revenue fund) to support educational programs.
- ◆ The N.C. Turnpike Authority issued \$691.558 million in bonds and notes to finance the Triangle Expressway, North Carolina's first modern toll road now under construction.

Capital Assets

- ◆ The State's investment in capital assets (net of accumulated depreciation) was \$37.788 billion, an increase of 4.65% from the previous fiscal year-end.
- ◆ This year's major capital asset additions were for State highway system construction (\$1.8 billion), toll road construction (\$259 million), construction of correctional facilities (\$102.3 million), and construction of the Green Square Complex (\$32 million). Additionally, the N.C. Museum of Art opened a new building to showcase its permanent collection (construction cost of \$72 million).

Long-term Debt

- ◆ The State had total long-term debt outstanding (bonds, special indebtedness, and notes payable) of \$8.096 billion, an increase of 12.73% from the previous fiscal year-end. The State issued \$487.7 million of general obligation public improvement bonds and \$242.52 million in grant anticipation revenue vehicle bonds for its governmental activities. Additionally, the State issued \$691.558 million in bonds and notes for the N.C. Turnpike Authority, a business-type activity.
- ◆ North Carolina remains one of only seven states to enjoy top-tier rankings (i.e., AAA) from all three credit rating agencies.



Blue Ridge Parkway

Photo Courtesy of NC Division of Tourism



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?

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 increased \$536.491 million or 1.72% over the course of this fiscal year's operations. The net assets of the governmental activities increased \$1.817 billion or 5.98% and business-type activities decreased \$1.28 billion or 146%. The following table was derived from the government-wide Statement of Net Assets:

Net Assets June 30, 2010 and 2009 (dollars in thousands)						
	Governmental Activities		Business-type Activities		Total Primary Government	
	2010	2009 (as restated)	2010	2009 (as restated)	2010	2009 (as restated)
Current and other non-current assets.....	\$ 9,429,629	\$ 9,911,105	\$ 2,689,996	\$ 1,861,267	\$ 12,119,625	\$ 11,772,372
Capital assets, net.....	37,452,024	36,035,245	336,122	73,924	37,788,146	36,109,169
Total assets.....	46,881,653	45,946,350	3,026,118	1,935,191	49,907,771	47,881,541
Long-term liabilities.....	8,931,687	8,675,751	2,871,240	748,074	11,802,927	9,423,825
Other liabilities.....	5,745,768	6,883,242	559,281	311,170	6,305,049	7,194,412
Total liabilities.....	14,677,455	15,558,993	3,430,521	1,059,244	18,107,976	16,618,237
Net assets:						
Invested in capital assets, net of related debt.....	35,452,614	34,101,091	158,556	73,924	35,611,170	34,175,015
Restricted.....	704,712	714,014	1,078,689	1,003,613	1,783,401	1,717,627
Unrestricted.....	(3,953,128)	(4,427,748)	(1,641,648)	(201,590)	(5,594,776)	(4,629,338)
Total net assets.....	\$ 32,204,198	\$ 30,387,357	\$ (404,403)	\$ 875,947	\$ 31,799,795	\$ 31,263,304



Fish on the Coast of NC

Photo Courtesy of NC Division of Tourism

The largest component of the State's net assets (\$35.611 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 (\$1.783 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 2010



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, 2010			
(dollars in thousands)			
	Primary Government		
	Governmental Activities	Business-type Activities	Total
Net (expense) revenue.....	\$ (19,729,267)	\$ (846,283)	\$ (20,575,550)
General Revenues:			
Taxes:			
Individual income tax.....	9,345,441	—	9,345,441
Corporate income tax.....	1,252,800	—	1,252,800
Sales and use tax.....	5,916,119	—	5,916,119
Gasoline tax.....	1,557,430	—	1,557,430
Franchise tax.....	904,651	—	904,651
Highway use tax.....	439,506	—	439,506
Insurance tax.....	506,990	—	506,990
Beverage tax.....	295,383	—	295,383
Inheritance tax.....	71,731	—	71,731
Tobacco products tax.....	278,406	—	278,406
Other taxes.....	321,945	—	321,945
Tobacco settlement.....	145,539	—	145,539
Unrestricted investment earnings.....	28,645	—	28,645
State aid.....	—	—	—
Miscellaneous.....	44,354	—	44,354
Contributions to permanent funds.....	3,101	—	3,101
Contributions to endowments.....	—	—	—
Transfers.....	434,067	(434,067)	—
Total general revenues, contributions, and transfers.....	<u>21,546,108</u>	<u>(434,067)</u>	<u>21,112,041</u>
Change in net assets.....	1,816,841	(1,280,350)	536,491
Net assets - beginning - restated.....	30,387,357	875,947	31,263,304
Net assets - ending.....	<u>\$ 32,204,198</u>	<u>\$ (404,403)</u>	<u>\$ 31,799,795</u>

Governmental Activities:

- ◆ The State's total revenues for governmental activities grew more rapidly than total expenses during fiscal year 2010.
- ◆ Revenues increased by 9.7% (\$3.51 billion)
- ◆ Total expenses increased less than one percent (\$33.48 million)

Business-type Activities:

- ◆ Business-type activities reflect an overall decrease in net assets of \$1.28 billion or 146%, primarily because of the financial results of the Unemployment Compensation Fund.
- ◆ For fiscal year 2010, the Unemployment Compensation Fund had an operating loss (excess of operating expenses over operating revenues) of \$4.523 billion.
- ◆ During the 2010 fiscal year, the Unemployment Compensation Fund recognized \$2.65 billion in federal recovery funds to provide extended benefits to unemployed workers.
- ◆ The Unemployment Compensation Fund and the EPA Revolving Loan Fund comprise most 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.

Financial Highlights — Fiscal Year 2010



Statement of Activities (cont'd)

For fiscal year 2010, spending increases in the functional areas of health and human services and higher education were virtually offset by spending decreases in the State's other functional areas. The growth in health and human services is related to increased spending for Medicaid (the State's largest public assistance program). The State experienced higher enrollment in the Medicaid program due to increased unemployment and additional consumption of Medicaid services. Also, as of July 1, 2009, the State assumed 100% of the county share of Medicaid, completing the phase-out of the county share. 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).

The growth in higher education funding is related to unanticipated enrollment increases, particularly in the Community College System and by larger distributions of higher education bond proceeds in fiscal year 2010. Also, the increase can be attributed to operating costs of new buildings and increased financial aid. Higher education expenses are financed primarily by State appropriations. The North Carolina State Constitution provides that "the benefits of the University North Carolina and other public institutions of higher education, as far as practicable, be extended to the people of the State free of expense."

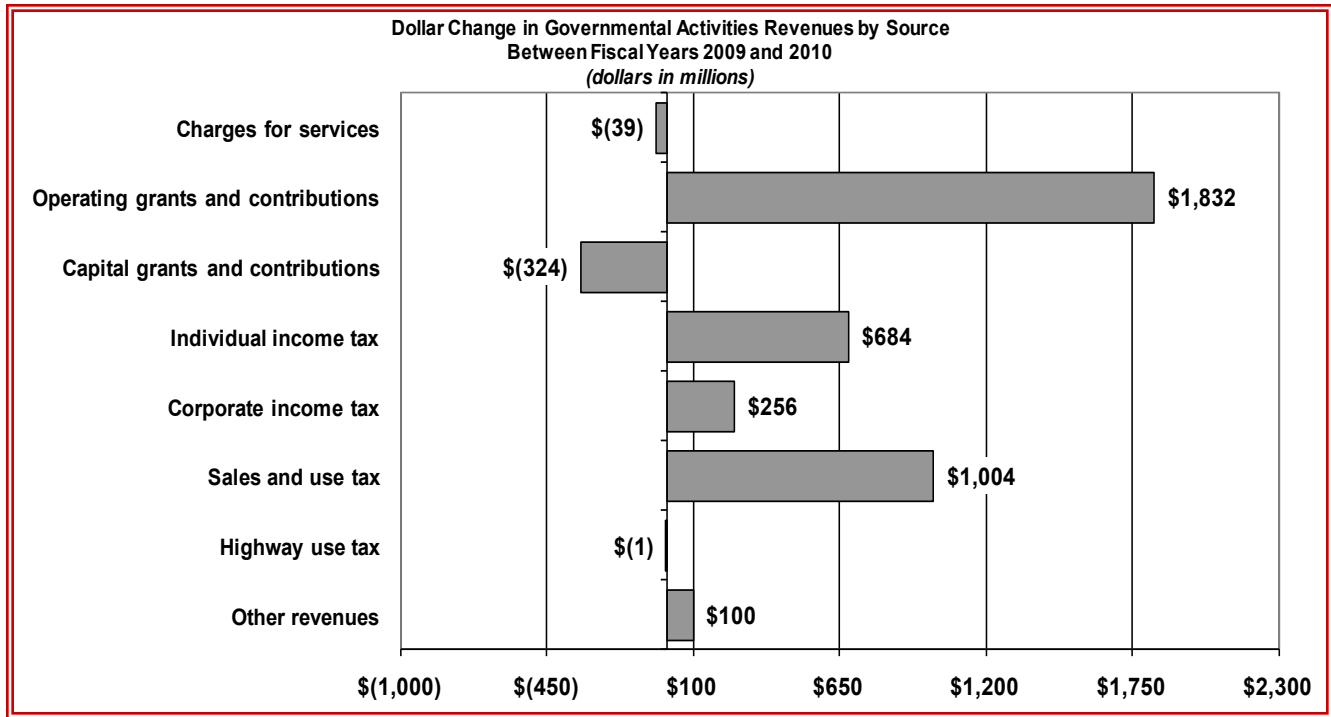
Condensed Schedule of Expenses & Program Revenues			
Primary Government			
For the Fiscal Year Ended June 30, 2010			
<i>(dollars in thousands)</i>			
Functions/Programs	Expenses	Program Revenues	Net Expense/Revenue
Governmental Activities:			
General government.....	\$ 1,109,142	\$ 493,696	\$ (615,446)
Primary and secondary education.....	9,830,182	1,881,222	(7,948,960)
Higher education.....	4,232,267	168,186	(4,064,081)
Health and human services.....	16,809,253	13,016,289	(3,792,964)
Economic development.....	716,205	459,690	(256,515)
Environment and natural resources.....	564,771	267,013	(297,758)
Public safety, corrections, and regulation.....	2,693,212	700,834	(1,992,378)
Transportation.....	1,998,432	1,601,502	(396,930)
Agriculture.....	119,494	36,758	(82,736)
Interest on long-term debt.....	281,499	—	(281,499)
Total Governmental Activities.....	38,354,457	18,625,190	(19,729,267)
Business-type Activities:			
Unemployment Compensation.....	5,568,561	4,184,126	(1,384,435)
N.C. State Lottery.....	994,168	1,427,373	433,205
EPA Revolving Loan.....	30,940	106,496	75,556
N. C. Turnpike Authority.....	4,990	19,134	14,144
Regulatory commissions.....	35,843	38,424	2,581
Insurance programs.....	13,284	26,319	13,035
North Carolina State Fair.....	12,794	12,917	123
Other business-type activities.....	9,374	8,882	(492)
Total Business-type Activities.....	6,669,954	5,823,671	(846,283)
Total Primary Government.....	\$ 45,024,411	\$ 24,448,861	\$ (20,575,550)

Financial Highlights — Fiscal Year 2010

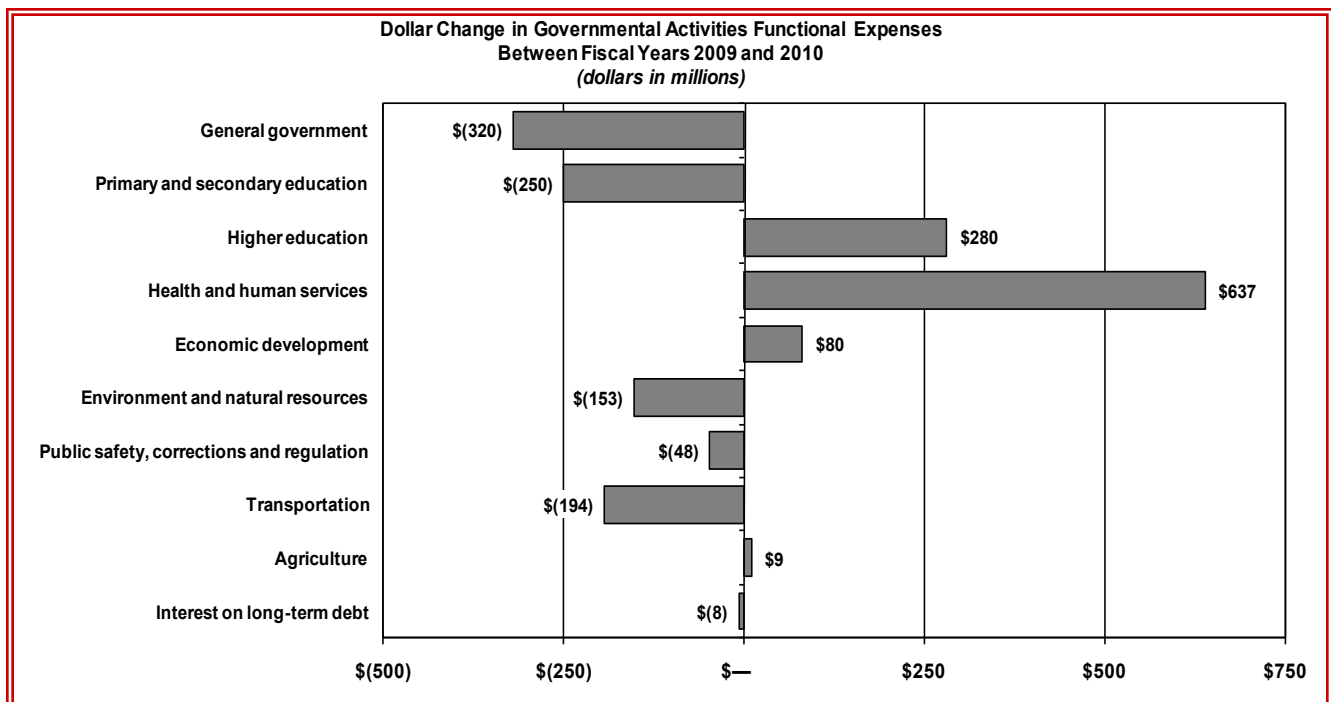


Statement of Activities (cont'd)

The following chart reflects the dollar change in the revenues by source of governmental activities between fiscal years 2009 and 2010.



The following chart reflects the dollar change in the functional expenses of governmental activities between fiscal years 2009 and 2010.

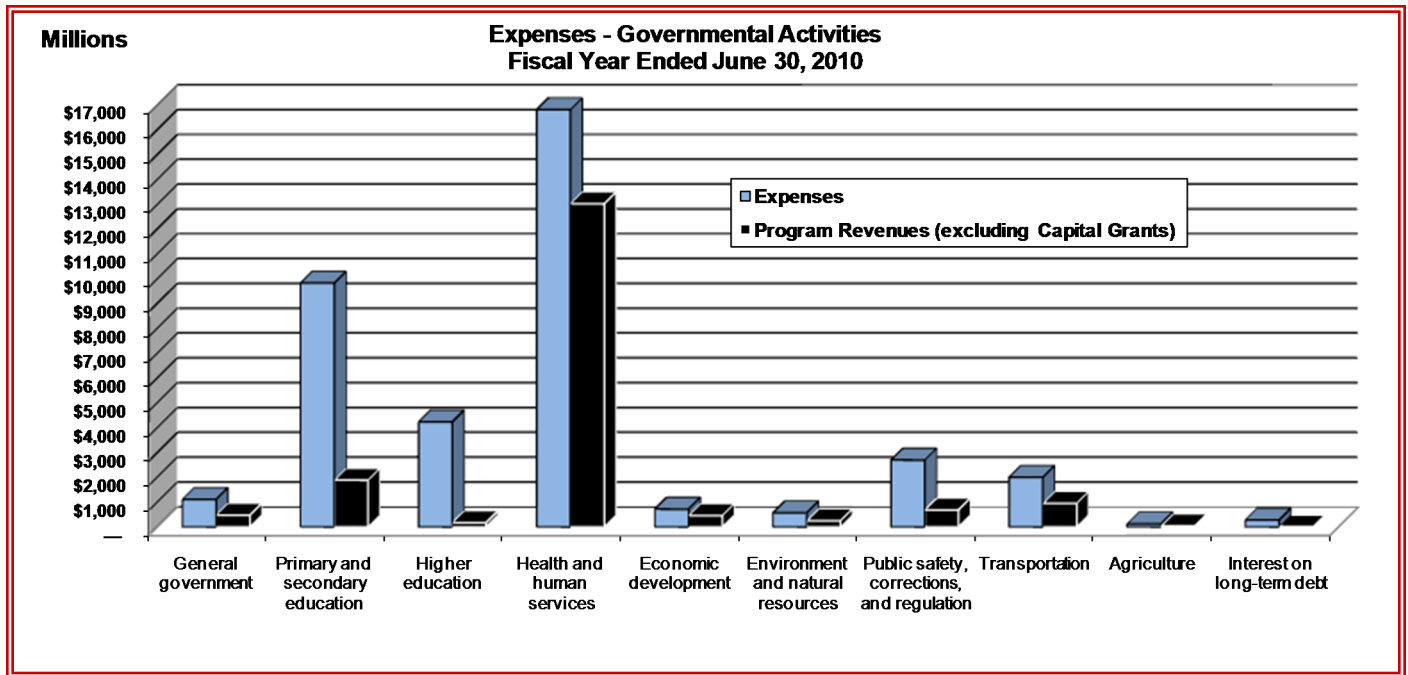


Financial Highlights — Fiscal Year 2010



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.



Ocracoke Pony

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

Financial Highlights — Fiscal Year 2010



Capital Assets

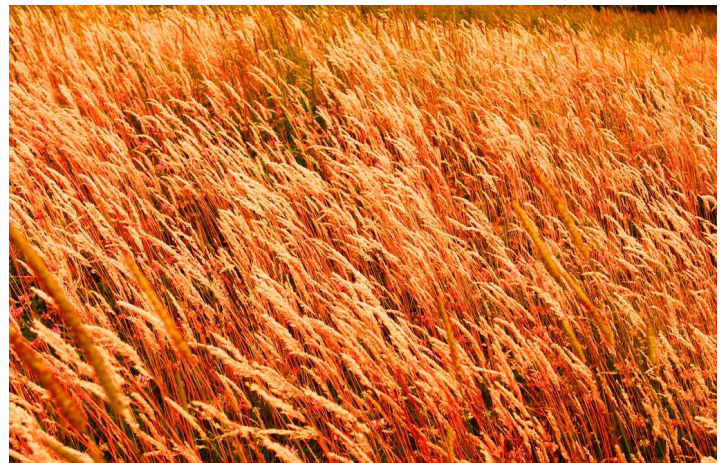
As of June 30, 2010, the State's investment in capital assets was \$37.788 billion, an increase of 4.65% from the previous fiscal year-end.

Capital Assets as of June 30, 2010 (net of depreciation, dollars in thousands)						
	Governmental Activities		Business-type Activities		Total	
	2009		2009		2009	
	2010	(as restated)	2010	(as restated)	2010	(as restated)
Land and permanent easements.....	\$ 13,721,468	\$ 13,186,390	\$ 49,436	\$ 3,453	\$ 13,770,904	\$ 13,189,843
Buildings.....	1,972,692	2,028,733	16,244	17,005	1,988,936	2,045,738
Machinery and equipment.....	603,644	661,096	3,838	3,985	607,482	665,081
Infrastructure:						
State highway system.....	18,804,142	18,032,847	—	—	18,804,142	18,032,847
Other infrastructure.....	97,875	102,847	5,910	6,421	103,785	109,268
Computer software.....	23,242	19,928	—	—	23,242	19,928
Art, literature, and other artifacts.....	85,239	67,184	—	—	85,239	67,184
Construction in progress.....	2,135,400	1,936,220	260,694	43,060	2,396,094	1,979,280
Computer software in development.....	8,322	—	—	—	8,322	—
Total.....	\$ 37,452,024	\$ 36,035,245	\$ 336,122	\$ 73,924	\$ 37,788,146	\$ 36,109,169
Total percent change between fiscal years 2010 and 2009	3.93 %		354.69 %		4.65 %	

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.

The Department of Transportation (DOT) had construction outlays of \$1.8 billion for the State highway system. Additionally, the N.C. Turnpike Authority (Authority), a separate business unit of DOT, had construction outlays of \$259 million. The Authority's largest project was for the Triangle Expressway, the State's first modern toll road now under construction.

The Department of Correction had construction outlays of \$102.3 million. The largest project was for the construction of a regional 120 bed medical center and a 216 bed mental health center at Central Prison in Raleigh. At year-end, additions to construction in progress for this project totaled \$60 million. The expected project completion date is July 2011. The Department of Correction is undertaking construction initiatives to address a prison cell shortfall and to allow for the implementation of sentencing reform.



NC Wheat Field

Photo Courtesy of NC Division of Tourism

The Green Square Complex is being constructed for the Department of Environment and Natural Resources (DENR), which will include office space for DENR employees, the Nature Research Center, and an underground parking deck. This project utilizes principles of green building and sustainable design. At year-end, additions to construction in progress for this project totaled \$32 million. This complex is scheduled to be completed in 2011.

The N.C. Museum of Art opened a new building in April 2010 to showcase its permanent collection. The total construction cost was \$72 million.

Financial Highlights — Fiscal Year 2010



Debt Administration

At year-end, the State had total long-term debt outstanding of \$8.096 billion, an increase of 12.73% from the previous fiscal year-end.

Outstanding Debt as of June 30, 2010						
Bonds, Special Indebtedness, and Notes Payable						
(dollars in thousands)						
	Governmental		Business-type		Total	
	Activities		Activities			
	2010	2009 (as restated)	2010	2009	2010	2009 (as restated)
General obligation bonds.....	\$ 5,270,660	\$ 5,169,265	\$ —	\$ —	\$ 5,270,660	\$ 5,169,265
Special Indebtedness:						
Lease-purchase revenue bonds.....	215,045	225,045	—	—	215,045	225,045
Certificates of participation.....	872,600	919,585	—	—	872,600	919,585
Limited obligation bonds.....	580,705	600,000	—	—	580,705	600,000
GARVEE bonds.....	434,825	241,820	—	—	434,825	241,820
Revenue bonds.....	—	—	622,758	—	622,758	—
Notes payable.....	30,642	26,331	68,800	—	99,442	26,331
Total	<u>\$ 7,404,477</u>	<u>\$ 7,182,046</u>	<u>\$ 691,558</u>	<u>\$ —</u>	<u>\$ 8,096,035</u>	<u>\$ 7,182,046</u>
Total percent change between fiscal years 2010 and 2009	3.10 %		N/A		12.73 %	

During the 2009-10 fiscal year, the State issued \$487.7 million in general obligation public improvement bonds and \$242.52 million in grant anticipation revenue vehicle (GARVEE) bonds for its governmental activities. The proceeds of the public improvement bonds will be used to finance various capital projects for the State primary government and the University of North Carolina System, as specifically authorized by the North Carolina General Assembly. The general obligation bonds were issued pursuant to the State's two-thirds bond authorization provided by the North Carolina State Constitution (Article 5, Section 3).

The proceeds of the GARVEE bonds will be used to accelerate funding of various transportation projects identified in the current State Transportation Improvement Plan. Additionally, the State issued \$622.758 million in revenue bonds and secured a \$68.8 million federal transportation loan for the N.C. Turnpike Authority, a business-type activity. The revenue bond and federal loan proceeds will be used to finance construction of the Triangle Expressway, a 19-mile toll road in Durham and Wake counties.

The State refinanced \$390.96 million of its existing debt in fiscal year 2010 to improve cash flow and to take advantage of lower interest rates. By refinancing the debt, the State will reduce its future debt service payments by approximately \$26.7 million over the next eleven years.

The State's total long-term debt (bonds, special indebtedness, and notes payable) has increased significantly in recent years, rising from \$3.478 billion in 2002 to \$8.096 billion in 2010, in part due to large issuances for higher education capital projects. Prior to 2004, the State only issued general obligation debt. The following is a summary of recent debt authorizations.



Sailing in Wrightsville

Photo Courtesy of NC Division of Tourism



CJLEADS



Session Law 2008-107, House Bill 2436 recognized the urgent need for state-of-the-art integrated criminal justice information and authorized the OSC to begin work on the CJLEADS (Criminal Justice Law Enforcement Automated Data Services) project.

CJLEADS integrates data found within the state's various criminal justice applications and provides up-to-date criminal information in a centralized location via a secure connection for use by state and local government criminal justice professionals. CJLEADS has two primary objectives: to provide a comprehensive view of an offender through a single application, allowing for positive identification of an offender through a photographic image; and to provide an "offender watch" capability to alert criminal justice professionals when an offender has a change in status. CJLEADS replaces the manual process of looking up historical criminal data from multiple systems, reduces the risk of overlooking critical data and improves the information needs of law enforcement agencies.



CJLEADS Sample Search Results Screen (demonstration data only – images blurred)



State Controller David McCoy (far right) listens as Kay Meyer, OSC's CJLEADS Project Manager, talks about CJLEADS with area legislators and criminal justice professionals in Orange, Durham, Alamance and Chatham counties.

OSC involved more than 100 state employees and numerous law enforcement personnel including the FBI, DEA, Secret Service, and state and local law enforcement, judges, district attorneys, magistrates, clerks of court, and CIO's in the development of the business rules and the testing of the application.

In addition, OSC incorporated data from Administrative Office of the Courts, the Department of Correction, local jail data, sex offender registry and DMV images into CJLEADS. Currently, OSC has incorporated more than 40 million files, and when completed, CJLEADS will have access to more than 80 million files belonging to more than 13 million North Carolina offenders. Total spent to date on CJLEADS is about \$9 million. OSC also received \$8 million from the legislature to continue rollout, and OSC has requested about \$2.7 million more to migrate the data to a state data center, and create the disaster recovery system by December 2012.

OSC deployed CJLEADS to Wake County as a pilot in July, 2010. As of today, over 1900 users, comprising criminal justice organizations with an operational presence in Wake County, are established in CJLEADS and are training or currently using the application.

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State Controller David McCoy began expanding CJLEADS statewide Nov. 29, 2010 with a regional kick-off meeting for criminal justice professionals in Orange, Durham, Alamance and Chatham counties. The statewide rollout will continue throughout the next 18 months.

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



North Carolina Education Lottery



During fiscal year 2010, the North Carolina Education Lottery (NCEL) added the multi-state game, Mega Millions, to its game offerings. The drawings are conducted Tuesday and Friday nights. The draws began in February for North Carolina and the State had its first jackpot winner in June. The Carolina Cash 5 top prize rolled as high as \$1.172 million in fiscal year 2010.

The number of retailers increased to 6,212 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 Harley-Davidson® motorcycles and Ford Mustang convertibles. They also gave away trips to Las Vegas and the chance to play a non-televised version of The Price is Right and World Series Poker.

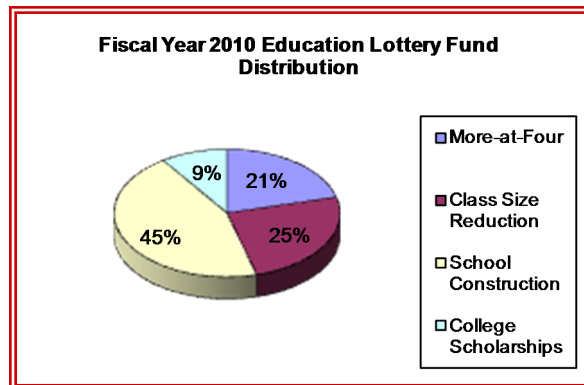
The State Lottery Act directs the lottery to increase and maximize the available revenues for educational purposes and provides the following guidelines on how dollars should be allocated. To the extent practicable, retailers receive a 7% commission for selling tickets; up to 8% may be spent on administration; 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 \$419 million in fiscal year 2010 transfers from the NCEL. This exceeded the legislative goal as budgeted in the Appropriations Act by over \$51 million. At the end of the fiscal year, transfers since inception were over \$1.556 billion.

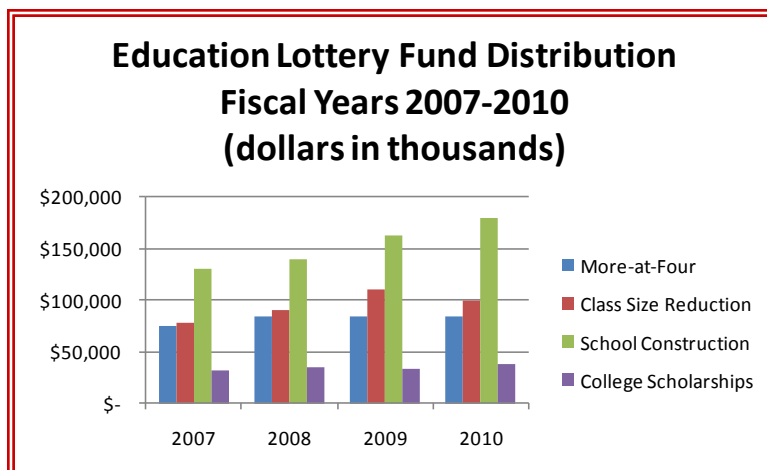
With these dollars, 16,222 at-risk four year olds received training through the More-at-Four program, classrooms received 1,828 teachers in grades K-3, schools initiated over 297 construction projects, and 31,600 students received college scholarships.

For fiscal year 2010 the breakdown was as follows:

More-at-Four	\$ 84,125,097
Class Size Reduction	\$ 99,399,395
School Construction	\$ 179,109,129
College Scholarships	\$ 38,296,362



The following chart compares the distribution of education lottery funds over the past four 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.

As of the end of September 2010, the NC Department of Public Instruction (DPI) has spent a total of \$786.874 million of State Fiscal Stabilization Funds (SFSF) in such programs as education stabilization, Title 1, child nutrition equipment and others. This total includes LEAs, charter schools, and education centers. The chart below shows total expenditure of funds spent by program.

Public Schools of North Carolina The American Recovery and Reinvestment Act (ARRA) Expenditures State Level Expenditures All Programs As of September 30, 2010			
Program Name	Prior Years Total	Current Year to Date	Program Total
Education Stabilization	\$ 351,781,718	\$ 89,555,522	\$ 441,337,240
Title 1	113,609,632	20,910,294	134,519,926
Title 1 School Improvement	4,595,460	628,978	5,224,439
School Improvement 1003 (G)	-	1,984,116	1,984,116
IDEA VI-B	154,038,579	28,247,201	182,285,780
IDEA Pre School	5,433,053	1,177,031	6,610,084
Education Technology - Formula	3,614,949	551,873	4,166,822
Education Technology - Competitive	5,231,004	915,626	6,146,630
McKinney Vento	725,338	90,550	815,888
Child Nutrition Equipment	3,283,141	27,445	3,310,586
EPA Retrofitting Diesel Program	233,681	23,023	256,704
Rural Education Achievement	1,780	1,446	3,226
Education Jobs Fund	-	212,863	212,863
Total	\$ 642,548,335	\$ 144,325,969	\$ 786,874,304

In addition to the ARRA funds, North Carolina has been selected as one of only 12 recipients of the 2010 federal Race to the Top (RttT) grants, bringing nearly \$400 million to the State's public school system for use over the next four years. The RttT competitive grants were awarded to encourage and reward states that are "creating the conditions for education, innovation, and reform; implementing ambitious plans in four education reform areas and achieving significant improvement in student outcomes." The awarded states must use the funds to create comprehensive strategies for addressing four key areas (pillars) of reform that drive school improvement:

- ◆ Adopting international benchmarked standards and assessments that prepare students for success in college and workplace.
- ◆ Recruiting, developing, retaining, and rewarding effective teachers and principals.
- ◆ Building data systems that measure student success and inform teachers and principals how they can improve their practices.
- ◆ Turning around the lowest-performing schools.

These four "pillars" support North Carolina's state public education initiative, Career & College: Ready, Set, Go!. RttT funds will allow North Carolina to move faster and further in delivering on one key promise: All students will graduate and be career and college ready. Approximately 1/2 of the grant is earmarked for distribution to local education agencies for their own initiatives that support the North Carolina RttT plan. Local RttT funds will be distributed in accordance with federal Title 1 eligibility to districts and to charter schools based on work plans submitted by them and approved by the NC DPI.

Information provided by NC DPI at <http://www.dpi.state.nc.us/fbs/arra/rttt/> and <http://www.ncpublicschools.org/rttt/>



Transportation Highlights

The North Carolina Department of Transportation (NCDOT) received nearly \$1.4 billion in American Recovery and Reinvestment Act (ARRA) funding for transportation projects across the state. This money allowed projects to proceed that otherwise had been put on hold because of the recession.

- ◆ \$735 million for highway and bridge improvement projects
- ◆ \$10 million for the I-85 Corridor Improvement Project
- ◆ 996 miles of roads have been improved across North Carolina
- ◆ \$70 million for 17 ARRA projects in urban areas
- ◆ \$33 million for 67 ARRA projects in rural areas
- ◆ \$545 million to develop Southeast High Speed Rail Corridor from Charlotte to Virginia
- ◆ More than 28 miles of greenways and multi-use paths are being built



ARRA funds enabled NCDOT to build this new bridge on N.C. 73 over Long Creek in Albemarle (Stanly County). It replaces a 97 year old bridge that was the fourth oldest in the State still in use.

The ARRA funds have supported projects that have improved the job market in the struggling construction industry as well as generated new business for local vendors.

- ◆ Created or sustained an average of 1,248 full-time, on-project jobs each month in the private sector
- ◆ 2.7 million hours worked, generating \$44.3 million in payroll spent by contractors
- ◆ Disadvantaged Business Enterprises won contracts totaling \$52 million

Photo and information courtesy of N.C. Department of Transportation

For the fiscal year 2009, NCDOT listed the following as some of its key accomplishments:

- ◆ Achieved an 8% reduction in fatalities and an 8.5% reduction in fatal crashes
- ◆ Undertook comprehensive efforts to repair and reopen I-40 in Haywood County after a rockslide closed it in April
- ◆ Awarded contracts to widen more than 1,000 miles of highway shoulders
- ◆ Broke ground on North Carolina's first modern toll road
- ◆ Improved the condition of nearly 4,100 miles of highway



Waterfall Scenic Byway

A grant from the Federal Highway Administration funded improvements to the Waterfall Scenic Byway, including construction of a pedestrian bridge to access Dry Falls. The route provides quaint view of the rural mountain landscape and passes by 200 waterfalls.

Information provided by the 2010 Annual Performance Report from the NCDOT website, www.ncdot.gov.

Photo and information courtesy of N.C. Department of Transportation



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, 2009. 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 12 consecutive years (fiscal years ended 1998-2009). We believe our current report continues to conform to the Popular Annual Financial Reporting requirements, and we are submitting it to the GFOA.

