

# North Carolina



*Financial Highlights*  
*Fiscal Year End June 30, 2012*

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

**Cover Photo:**

Thousands of people, including those seen here, visited downtown Raleigh in April 2012 for the grand opening of the Nature Research Center (NRC) - the new wing of the North Carolina Museum of Natural Sciences. The NRC, with its iconic Daily Planet (the large globe pictured), brings research scientists and their work into the public eye, helps demystify an often intimidating field of study, better prepares science educators and students and inspires a new generation of young scientists. The new wing opened after a successful public/private capital campaign.

The Museum of Natural Sciences, founded in 1879 by the North Carolina General Assembly, is the largest museum of its kind in the Southeast. The museum, which received more than 1 million visitors in 2012, brings science to the people, locally and globally, inspiring creative thinkers and innovators. The main museum opened in 2000. In fiscal 2012, the museum received nearly \$1 million in competitive research grants.

*Photo courtesy of NC Department of Environment and Natural Resources*



I am pleased to present you with the ***North Carolina Financial Highlights*** for the fiscal year ended June 30, 2012. This ***popular report*** represents our continuing commitment to providing the highest standards of financial management and reporting, as well as fiscal accountability of the resources of the State of North Carolina. We hope you find this report both informative and beneficial. If you need additional copies or have questions about this report, please contact either me or our Statewide Accounting Division staff at (919) 707-0500.

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

Sincerely,

A handwritten signature in black ink that reads "David T. McCoy".

David T. McCoy  
State Controller  
December 3, 2012

## ***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, 2012. The State's fiscal year starts July 1, and ends the following June 30. Information is presented in this report on the basis of generally accepted accounting principles (GAAP). This popular report and the State's complete financial statements, known as the CAFR, can be obtained on the internet at <http://www.osc.nc.gov>, by telephone at (919) 707-0500, or by writing to the N.C. Office of the State Controller, 1410 Mail Service Center, Raleigh, N.C. 27699-1410.



## **State Reporting Entity and Its Services**

The State of North Carolina entity as reported in the CAFR includes all fund types of the departments, agencies, boards, commissions and authorities governed and legally controlled by the State's executive, legislative and judicial branches. In addition, the reporting entity includes legally separate 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



***Cape Hatteras Lighthouse***

*Photo Courtesy of VisitNC.com*

## **The Economy**

During FY 2011-12, the economy continued along the path of a steady, yet slow-moving, recovery from the Great Recession. Economic conditions in the State, as well as the nation, reflect a modestly improving economy. The slow-paced recovery has not been sufficient to improve economic conditions to levels experienced prior to the recession. During the fiscal year, growth in overall economic activity in the State improved, but remained below average. Despite the modest improvement in economic activity, employment struggled to gain solid footing. The State's economy did add 59,600 jobs. This still left total employment in the State with 115,000 fewer jobs than the peak prior to the recession.

As we now know, the structural problems in the housing and financial markets that sent us into a recession have taken a long time to correct and have resulted in a much slower, prolonged recovery phase. During the fourth quarter of 2011, it appeared the slow recovery phase was poised to move into a full expansionary economy as the nation's Gross Domestic Product (GDP is a broad measure of economic activity) rose above the long-run average rate of growth. However, at the start of 2012, global and domestic economic problems became too difficult to overcome and the economy fell back to below average growth. Given the mixed signs of a recovery, both employers and consumers remained cautious.

During the fiscal year, the State's improvement in the overall economy led to a 3.4 percent increase in wage and salary income. Growth in total wage and salary income increased by 4.3 percent the first quarter of the fiscal year, but slowed to 2.9 percent growth in the last quarter ending June 2012. Both employment and income are anticipated to continue improving for the rest of 2012, although at a slower than normal pace. Stronger growth in these two key components is not expected until at least the second half of 2013.



| North Carolina Economic Indicators | FY2010-11 | FY2011-12 | FY2012-13 | FY2013-14 |
|------------------------------------|-----------|-----------|-----------|-----------|
|                                    | Actual    | Actual    | Projected | Projected |
| State Gross Product                | 2.7%      | 4.2%      | 5.2%      | 5.9%      |
| Personal Income                    | 4.4%      | 3.2%      | 4.3%      | 6.4%      |
| Wages & Salaries                   | 3.2%      | 3.4%      | 5.5%      | 7.8%      |
| Retail Sales                       | 7.2%      | 8.0%      | 5.6%      | 5.8%      |
| Unemployment Rate                  | 10.6%     | 10.1%     | 9.4%      | 8.8%      |
| Employment (Nonagricultural)       | 0.9%      | 0.9%      | 1.4%      | 2.1%      |
| Existing Single-family Home Sales  | -17.4%    | 33.2%     | 19.5%     | 9.7%      |

For North Carolina, as with the nation, the economy has picked up pace, but not enough to eliminate the employment losses from the economic downturn. Economic indicators for the fiscal year, point to growing improvements across the State. The State's economy continued to add private sector jobs. These employment gains were offset as State and Local governments continued to reduce employment as their revenues remained well below pre-recession peaks. Despite adding 59,600 jobs during the fiscal year, there were still nearly 115,000 fewer people employed in the State than at the start of the recession. Some private sector industries experienced modest growth, but employment in sectors tied to the housing market such as construction and home furnishings showed little improvement. Along with the gains in employment, total salary income continued to improve growing 3.4 percent.

Projections for the State's key economic indicators reflect how the recovery in the State is expected to unfold. Gross State Product, a broad measure of the State's economic activity is expected to return to the long-run average rate of growth in FY 2012-13. Total personal income growth moderated in FY 2011-12, but is expected to show marked improvement over the next two fiscal years. For the fiscal year, income rose 3.2 percent, but the increase lags behind the strong growth of six to seven percent experienced in the years prior to the onset of the recession. Wage and salary income, a component of total personal income, grew at a modest 3.4 percent for the fiscal year. The rise in wage and salary income was consistent with the increase in total employment. Going forward, improved growth in total income is projected. This growth will result from a continually improving employment situation, which includes increased wages, as well as, an increase in the number of hours worked. A return to long-term growth levels in wage and salary income is forecast for 2013.

As with the nation, the recovery only gained a moderate degree of momentum during FY 2011-12. This meant fewer jobs were being created and the unemployment rate at the end of the fiscal year was elevated at 9.4 percent. That compares to the 9.9 percent at the start of the fiscal year. Despite a slow-growth economy and high unemployment, retail sales improved with 8 percent growth. The growth, while impressive, represents consumers catching-up from the significant declines in consumer spending during the recession and the first year of the recovery. Going forward, retail sales are expected to mirror the gradual improvement of the economy, increasing at a pace consistent with the long-term average growth rate of 5 percent.

As the State's economy continues along a path of gradual improvement, employment prospects are expected to improve, but a robust employment climate is not projected until 2013. Even with improving employment conditions, growth will be slow and the unemployment rate will remain elevated in the 9 percent range. By the end of calendar year 2012, most industry sectors are expected to experience growth over the previous year with net employment growth of 1.6 percent. The construction industry is one of the few key industries expected to have employment losses in 2012. For 2013, modest improvement in all industries is expected, increasing non-agricultural employment by 2.1 percent. This level of growth will slowly bring down the unemployment rate. The rate is projected to average 9.4 percent in FY 2012-13, and 8.8 percent in FY 2013-14.



The State's manufacturing sector is always vulnerable to economic downturns and job losses in this industry sector reached double-digit losses in the last recession. During this fiscal year, the manufacturing sector added only 1,700 jobs (0.4 percent growth) and employs 96,000 fewer people than at the start of the recession. Another hard hit industry was the financial sector. The financial market upheaval had a detrimental impact on this sector's employment, but it began to rebound the first half of 2010 and in 2012, growth is expected to reach 3.6 percent.

The housing recession and the subsequent adjustments in the real estate market have taken a very long time to unwind. The housing recession that began in 2006 appeared to be ending at the start of 2010. Existing home sales in the State saw double-digit growth the first-half of that year. The second half of the year erased those gains and in FY 2010-11 sales were off by 17.4 percent. Housing data began to show steady improvements in 2011, and a relatively strong rebound in housing is expected over the next two years. Nonetheless, for 2012, sales of existing homes are projected to remain twenty-five percent below what they were in 2006.

The slow, steady economic recovery that persisted throughout FY 2011-12, has the State's economy on more solid footing. Ongoing weakness in the global economy has been a drag on the pace of the economic recovery, both for the nation and the State, and continues to pose a risk for economic growth. A return to a full expansionary economy fueling stronger employment gains is not projected until 2014, nearly five years after the recession technically ended. Until then, the housing market should maintain its gradual improvement, and steady growth in household income and consumer spending are anticipated.

*— Economic analysis prepared by Barry Boardman, Ph.D., Staff Economist  
North Carolina General Assembly, Fiscal Research Division  
October 19, 2012*



**Grandfather Mountain**

*Photo Courtesy of VisitNC.com*



## Financial Highlights

### **Government-wide**

- ◆ The State's total net assets increased by \$1.604 billion or 4.74% as a result of this year's operations. Net assets of governmental activities and business-type activities increased by \$1.402 billion (or 4.09%) and \$201.301 million (or 42.87%), respectively. At year-end, net assets of governmental activities and business-type activities totaled \$35.679 billion and negative \$268.284 million, respectively.
- ◆ Component units reported net assets of \$20.167 billion, an increase of \$1.043 billion, or 5.45% 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 balance of the General Fund decreased 13.58% to \$1.022 billion at June 30, 2012. The decrease is due to the expiration of temporary taxes and significant growth in Medicaid expenditures.
- ◆ The fund balance of the Highway Fund increased 9.85% to \$629.073 million at June 30, 2012. The fund balance increase is attributable, in part, to the issuance of \$179.54 million in grant anticipation revenue vehicle bonds.
- ◆ The fund balance of the Highway Trust Fund increased from \$262.161 million at June 30, 2011 (as restated) to \$381.729 million at June 30, 2012, an increase of 45.61%.
- ◆ The Unemployment Compensation Fund reported net assets of negative \$1.969 billion at June 30, 2011 compared to negative \$1.909 billion at June 30, 2012. The improvement in net assets is attributable to the drop in the State's unemployment rate.
- ◆ Net ticket sales of the N.C. State Lottery Fund (Lottery) increased 9.38% from the previous fiscal year to \$1.596 billion. As required by law, the Lottery's net profit of \$459.469 million was transferred to the General Fund to support educational programs.
- ◆ The net assets of the N.C. Turnpike Authority increased from \$190.34 million at June 30, 2011 to \$270.357 million at June 30, 2012. The Triangle Expressway System, the State's first modern toll road, is under construction. The project is approximately 80% complete, with a 5.9% estimated savings from the initial financial plan.

### **Capital Assets**

- ◆ The State's investment in capital assets (net of accumulated depreciation) was \$42.092 billion, an increase of 4.9% from the previous fiscal year-end.
- ◆ This year's major capital asset additions were for State highway system construction (\$1.9 billion), toll road construction (\$325.5 million), and construction of a psychiatric hospital (\$50.3 million). Also, the State completed and placed into service a new regional medical and mental health center at Central Prison as well as the Green Square Complex.

### **Long-term Debt**

- ◆ The State had total long-term debt outstanding (bonds, special indebtedness, and notes payable) of \$8.916 billion, an increase of 5.38% from the previous fiscal year-end. The State issued \$400 million in limited obligation bonds and \$179.54 million in GARVEE bonds for its governmental activities. Additionally, the N.C. Turnpike Authority, a business-type activity, issued \$214.51 million in State appropriation revenue bonds and \$145.54 million in GARVEE bonds.
- ◆ In November 2011, all three rating agencies affirmed the triple-A credit rating for the State. The rating agencies recognized the State's historically conservative budgeting, financial management, and debt issuance practices. North Carolina remains one of only eight states with a triple-A rating from all three rating agencies.



**South Brunswick Island**

Photo Courtesy of VisitNC.com



## 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?

- ◆ Governmental activities cover most of the State's basic services such as health and human services, transportation and education. These services are generally funded by taxes and intergovernmental revenues.
- ◆ Business-type activities are services provided to the State or outside customers that are similar in function to private businesses and are primarily financed by fees charged to the customers. These fees cover all or most of the cost of the service being provided. The State's Unemployment Compensation Fund, the EPA Revolving Loan Fund, the N.C. State Lottery Fund, and the N.C. Turnpike Authority are the predominant business-type activities of the State.

### **Statement of Net 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 \$1.604 billion or 4.74% over the course of this fiscal year's operations. The net assets of the governmental activities increased \$1.402 billion or 4.09% and business-type activities increased \$201.301 million or 42.87%. The following table was derived from the government-wide Statement of Net Assets:

| <b>Net Assets</b>                                       |                                    |                               |                                     |                               |                                     |                               |
|---|------------------------------------|-------------------------------|-------------------------------------|-------------------------------|-------------------------------------|-------------------------------|
| <b>June 30, 2012 and 2011</b>                           |                                    |                               |                                     |                               |                                     |                               |
| <i>(dollars in thousands)</i>                           |                                    |                               |                                     |                               |                                     |                               |
|   | <b>Governmental<br/>Activities</b> |                               | <b>Business-type<br/>Activities</b> |                               | <b>Total Primary<br/>Government</b> |                               |
|   | <b>2012</b>                        | <b>2011<br/>(as restated)</b> | <b>2012</b>                         | <b>2011<br/>(as restated)</b> | <b>2012</b>                         | <b>2011<br/>(as restated)</b> |
| Current and other non-current assets.....               | \$ 8,958,890                       | \$ 8,911,882                  | \$ 3,302,000                        | \$ 2,901,625                  | \$ 12,260,890                       | \$ 11,813,507                 |
| Capital assets, net.....                                | 41,030,462                         | 39,388,292                    | 1,061,581                           | 738,518                       | 42,092,043                          | 40,126,810                    |
| <b>Total assets.....</b>                                | <b>49,989,352</b>                  | <b>48,300,174</b>             | <b>4,363,581</b>                    | <b>3,640,143</b>              | <b>54,352,933</b>                   | <b>51,940,317</b>             |
| Long-term liabilities.....                              | 9,055,542                          | 8,939,185                     | 4,164,764                           | 3,705,077                     | 13,220,306                          | 12,644,262                    |
| Other liabilities.....                                  | 5,255,195                          | 5,084,644                     | 467,101                             | 404,651                       | 5,722,296                           | 5,489,295                     |
| <b>Total liabilities.....</b>                           | <b>14,310,737</b>                  | <b>14,023,829</b>             | <b>4,631,865</b>                    | <b>4,109,728</b>              | <b>18,942,602</b>                   | <b>18,133,557</b>             |
| Net assets:   |                                    |                               |                                     |                               |                                     |                               |
| Invested in capital assets,<br>net of related debt..... | 38,699,112                         | 37,338,472                    | 391,878                             | 294,172                       | 39,090,990                          | 37,632,644                    |
| Restricted.....   | 728,971                            | 730,021                       | 1,468                               | 3,131                         | 730,439                             | 733,152                       |
| Unrestricted.....                                       | (3,749,468)                        | (3,792,148)                   | (661,630)                           | (766,888)                     | (4,411,098)                         | (4,559,036)                   |
| <b>Total net assets.....</b>                            | <b>\$ 35,678,615</b>               | <b>\$ 34,276,345</b>          | <b>\$ (268,284)</b>                 | <b>\$ (469,585)</b>           | <b>\$ 35,410,331</b>                | <b>\$ 33,806,760</b>          |

The largest component of the State's net assets (\$39.091 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 (\$730.439 million). 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 2012



## 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:

| <b>Condensed Statement of Activities</b>                  |                                    |                                     |                      |
|---|------------------------------------|-------------------------------------|----------------------|
| <b>Primary Government</b>                                 |                                    |                                     |                      |
| <b>For the Fiscal Year Ended June 30, 2012</b>            |                                    |                                     |                      |
| <b>(dollars in thousands)</b>                             |                                    |                                     |                      |
|   | <b>Primary Government</b>          |                                     |                      |
|   | <b>Governmental<br/>Activities</b> | <b>Business-type<br/>Activities</b> | <b>Total</b>         |
| <b>Changes in Net Assets:</b>                             |                                    |                                     |                      |
| Net (expense) revenue                                     | \$ (21,009,132)                    | \$ 603,041                          | \$ (20,406,091)      |
| General Revenues:   |                                    |                                     |                      |
| Taxes:  |                                    |                                     |                      |
| Individual income tax.....                                | 10,459,307                         | —                                   | 10,459,307           |
| Corporate income tax.....                                 | 1,233,989                          | —                                   | 1,233,989            |
| Sales and use tax.....                                    | 5,530,046                          | —                                   | 5,530,046            |
| Gasoline tax.....   | 1,892,163                          | —                                   | 1,892,163            |
| Franchise tax.....  | 804,973                            | —                                   | 804,973              |
| Highway use tax.....                                      | 506,211                            | —                                   | 506,211              |
| Insurance tax.....  | 479,755                            | —                                   | 479,755              |
| Beverage tax.....   | 322,190                            | —                                   | 322,190              |
| Inheritance tax.....                                      | 57,839                             | —                                   | 57,839               |
| Tobacco products tax.....                                 | 293,597                            | —                                   | 293,597              |
| Other taxes.....  | 294,516                            | —                                   | 294,516              |
| Tobacco settlement.....                                   | 146,135                            | —                                   | 146,135              |
| Unrestricted investment earnings.....                     | (56,055)                           | —                                   | (56,055)             |
| Miscellaneous.....  | 41,699                             | —                                   | 41,699               |
| Contributions to permanent funds.....                     | 3,297                              | —                                   | 3,297                |
| Transfers.....  | 401,740                            | (401,740)                           | —                    |
| Total general revenues, contributions, and transfers..... | <u>22,411,402</u>                  | <u>(401,740)</u>                    | <u>22,009,662</u>    |
| Change in net assets.....                                 | 1,402,270                          | 201,301                             | 1,603,571            |
| Net assets — beginning, restated.....                     | <u>34,276,345</u>                  | <u>(469,585)</u>                    | <u>33,806,760</u>    |
| Net assets — ending.....                                  | <u>\$ 35,678,615</u>               | <u>\$ (268,284)</u>                 | <u>\$ 35,410,331</u> |

### Governmental Activities:

- ◆ Revenues outpaced expenses and when combined with transfers from the State's business-type activities, an increase in net assets of \$1.402 billion (or 4.09%) resulted for governmental activities.
- ◆ Revenues decreased by less than one percent (\$128.78 million).
- ◆ Total expenses increased by 1.46% (\$572.37 million).

### Business-type Activities:

- ◆ Business-type activities reflect an overall increase in net assets of \$201.301 million or 42.87%, primarily because of the financial results of the Unemployment Compensation Fund, the N.C. Turnpike Authority, and the EPA Revolving Loan Fund.
- ◆ The net asset increase of \$59.41 million in the Unemployment Compensation Fund is explained by the drop in the State's unemployment rate.
- ◆ The net asset increase of \$80.017 million for the N.C. Turnpike Authority is due to capital contributions from the Federal Highway Administration and transfers in from the Highway Trust Fund.
- ◆ The net asset increase of \$67.107 million in the EPA Revolving Loan Fund is due to the recognition of federal capitalization grants and federal recovery funds.
- ◆ 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 2012



## Statement of Activities (cont'd)

For fiscal year 2012, spending increases in the functional areas of health and human services; public safety, corrections, and regulation; transportation; and agriculture were partially offset by spending decreases in the State's other functional areas. The growth in health and human services is primarily due to increased spending for Medicaid (the State's largest public assistance program). However, total operating grants and contributions decreased because the primary ARRA funding streams ended in fiscal year 2011.

The growth in public safety, corrections, and regulation is due to the consolidation of the Department of Juvenile Justice and Delinquency Prevention (Juvenile Justice) into the new State Department of Public Safety. In the prior fiscal year, expenses of Juvenile Justice were classified as health and human services. Construction activity on various intrastate and secondary routes accounted for the majority of the spending increase in transportation. The spending decreases in the remaining functional areas are explained by the significant reductions in ARRA funding mentioned previously and by the significant spending reductions enacted by the N.C. General Assembly in the fiscal year 2012 budget.

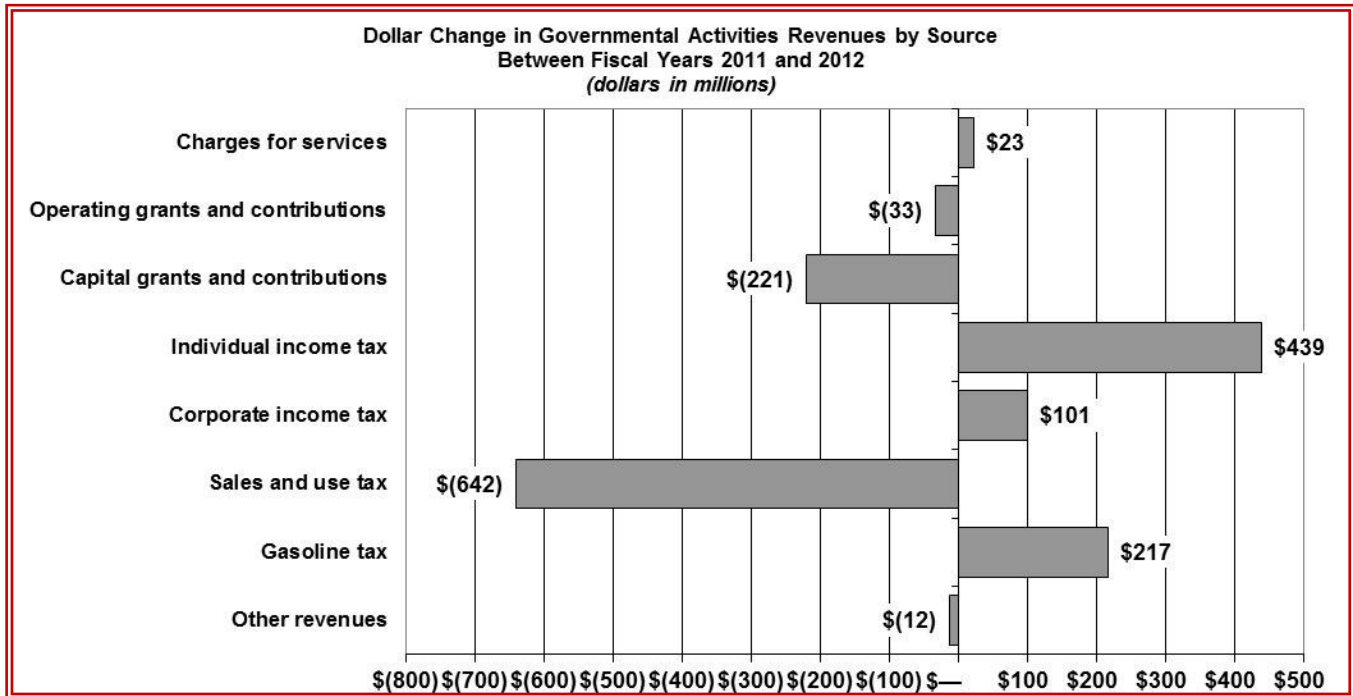
| <b>Condensed Schedule of Expenses &amp; Program Revenues</b> |                      |                      |                        |
|--|----------------------|----------------------|------------------------|
| <b>Primary Government</b>                                    |                      |                      |                        |
| <b>For the Fiscal Year Ended June 30, 2012</b>               |                      |                      |                        |
| <i>(dollars in thousands)</i>                                |                      |                      |                        |
| Functions/Programs   | Expenses             | Program Revenues     | Net Expense/Revenue    |
| <b>Governmental Activities:</b>                              |                      |                      |                        |
| General government.....                                      | \$ 937,353           | \$ 256,871           | \$ (680,482)           |
| Primary and secondary education.....                         | 9,760,909            | 1,788,457            | (7,972,452)            |
| Higher education.....  | 4,238,695            | 105,460              | (4,133,235)            |
| Health and human services.....                               | 17,759,093           | 12,997,865           | (4,761,228)            |
| Economic development.....                                    | 667,106              | 451,911              | (215,195)              |
| Environment and natural resources.....                       | 470,965              | 221,100              | (249,865)              |
| Public safety, corrections, and regulation.....              | 2,976,448            | 852,549              | (2,123,899)            |
| Transportation.....  | 2,403,266            | 1,939,191            | (464,075)              |
| Agriculture.....   | 188,985              | 62,826               | (126,159)              |
| Interest on long-term debt.....                              | 282,542              | —                    | (282,542)              |
| Total Governmental Activities.....                           | 39,685,362           | 18,676,230           | (21,009,132)           |
| <b>Business-type Activities:</b>                             |                      |                      |                        |
| Unemployment Compensation.....                               | 3,283,900            | 3,361,926            | 78,026                 |
| N.C. State Lottery.....                                      | 1,141,941            | 1,602,410            | 460,469                |
| EPA Revolving Loan.....                                      | 14,026               | 74,537               | 60,511                 |
| N. C. Turnpike Authority.....                                | 17,565               | 30,396               | 12,831                 |
| Regulatory commissions.....                                  | 69,980               | 71,688               | 1,708                  |
| Insurance programs.....                                      | 38,701               | 27,297               | (11,404)               |
| North Carolina State Fair.....                               | 13,030               | 15,055               | 2,025                  |
| Other business-type activities.....                          | 12,084               | 10,959               | (1,125)                |
| Total Business-type Activities.....                          | 4,591,227            | 5,194,268            | 603,041                |
| <b>Total Primary Government.....</b>                         | <b>\$ 44,276,589</b> | <b>\$ 23,870,498</b> | <b>\$ (20,406,091)</b> |

# Financial Highlights — Fiscal Year 2012

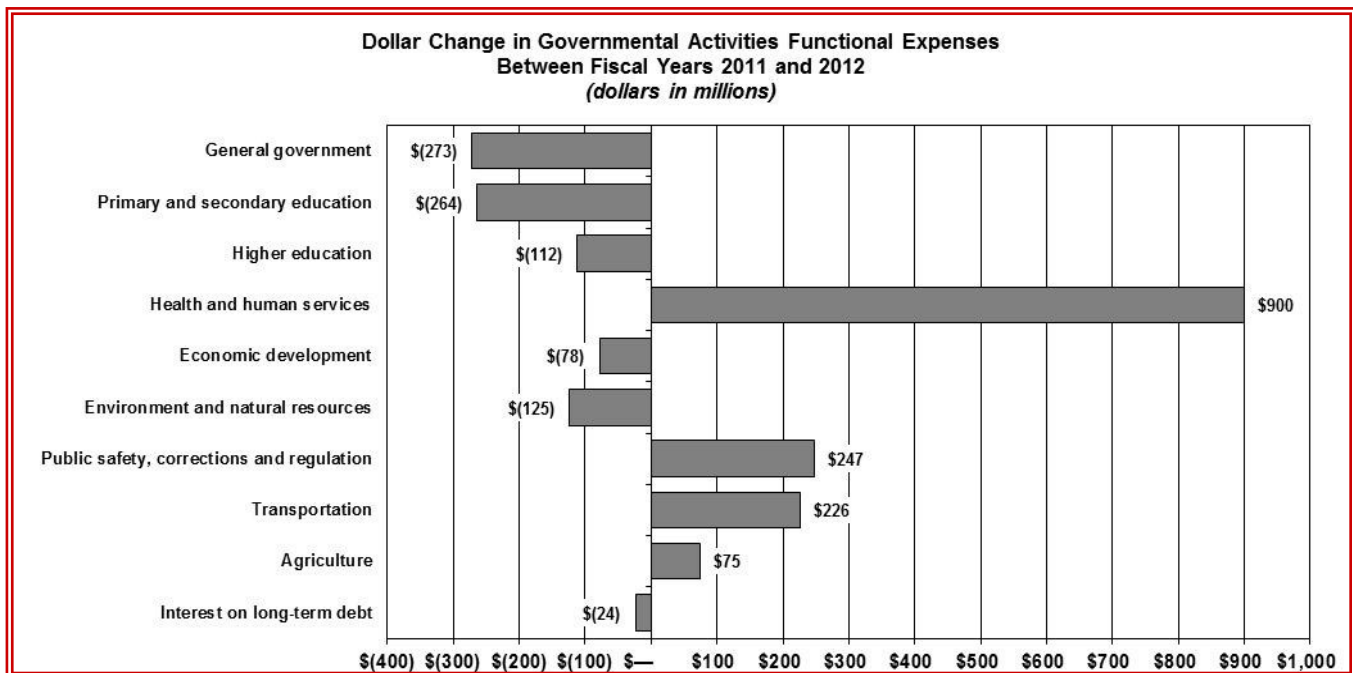


## Statement of Activities (cont'd)

The following chart reflects the dollar change in the revenues by source of governmental activities between fiscal years 2011 and 2012.



The following chart reflects the dollar change in the functional expenses of governmental activities between fiscal years 2011 and 2012.

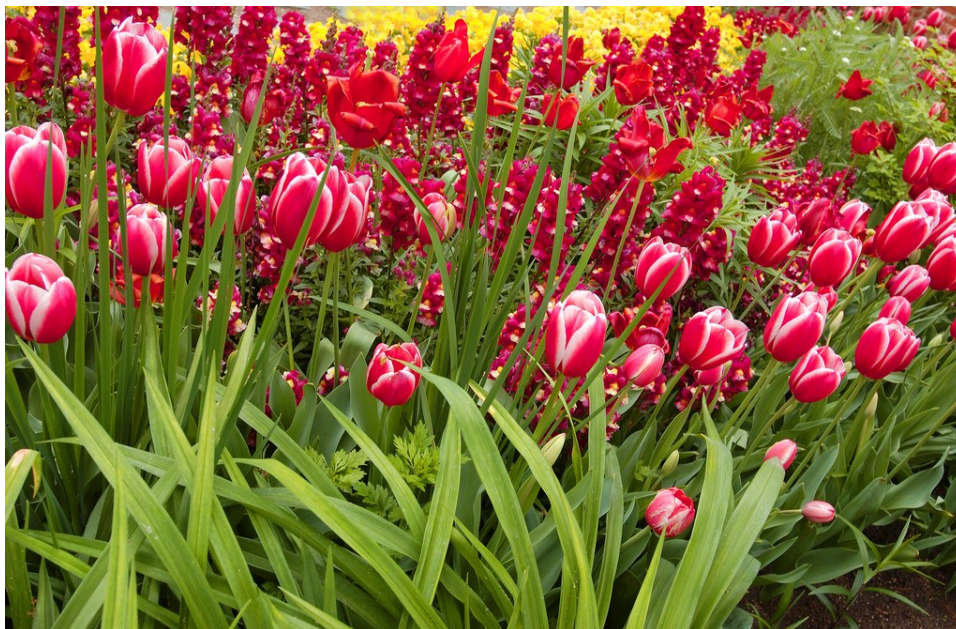
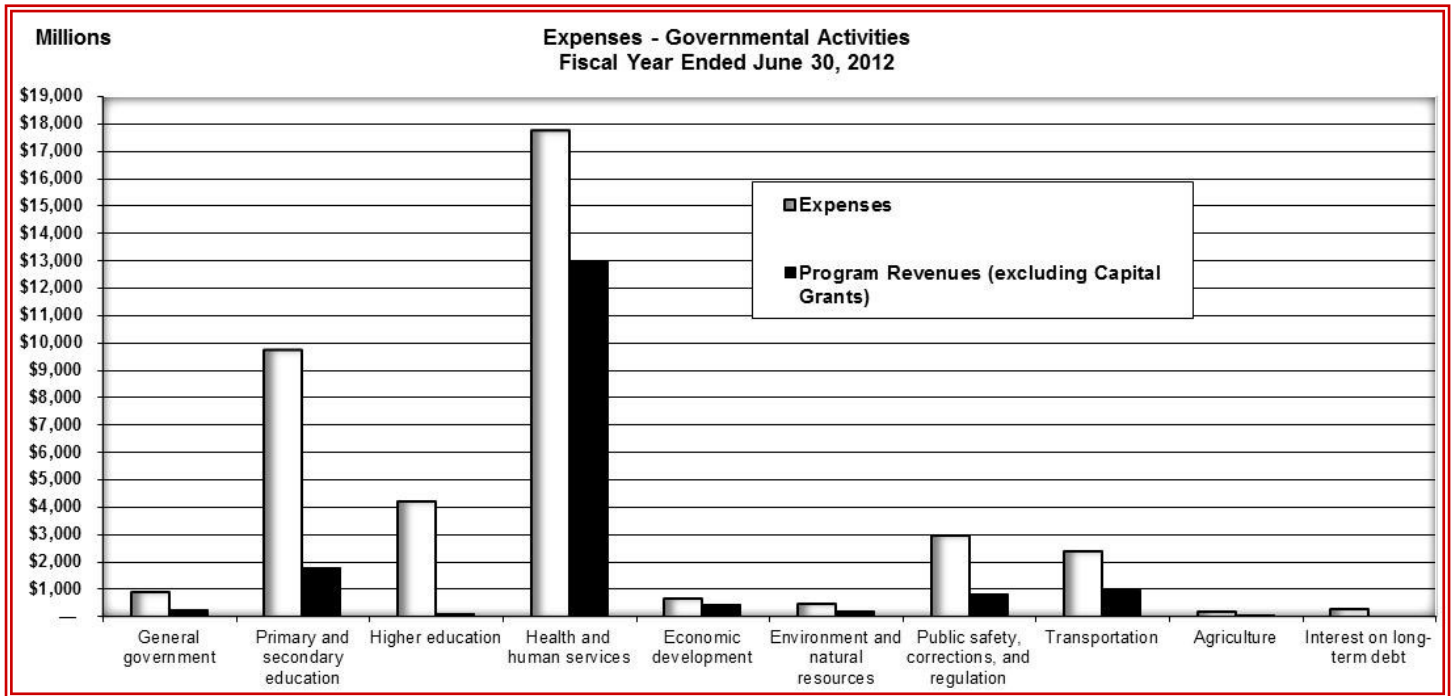


# Financial Highlights — Fiscal Year 2012



## 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.



*Tulips*

*Photo Courtesy of VisitNC.com*

# Financial Highlights — Fiscal Year 2012



## Statement of Activities (cont'd)

The following schedule reflects the changes in the State's net assets over the last 5 years.

| <b>CHANGES IN NET ASSETS</b>                            |                    |                    |                    |                    |                    |
|---|--------------------|--------------------|--------------------|--------------------|--------------------|
| For the Fiscal Years 2008-2012                          |                    |                    |                    |                    |                    |
| <i>(Dollars in Millions)</i>                            |                    |                    |                    |                    |                    |
|   | <u>2012</u>        | <u>2011</u>        | <u>2010</u>        | <u>2009</u>        | <u>2008</u>        |
| <b>Expenses</b>   |                    |                    |                    |                    |                    |
| Governmental Activities:                                |                    |                    |                    |                    |                    |
| General government.....                                 | \$ 937             | \$ 1,210           | \$ 1,066           | \$ 1,429           | \$ 1,232           |
| Primary and secondary education.....                    | 9,761              | 10,025             | 9,830              | 10,080             | 10,632             |
| Higher education.....                                   | 4,239              | 4,350              | 4,232              | 3,952              | 4,207              |
| Health and human services.....                          | 17,759             | 16,859             | 16,763             | 16,172             | 14,952             |
| Public safety, corrections, and regulation.....         | 2,976              | 2,729              | 2,617              | 2,741              | 2,627              |
| Transportation.....                                     | 2,403              | 2,177              | 1,998              | 138                | 1,941              |
| Other governmental activities.....                      | 1,610              | 1,762              | 1,842              | 1,754              | 1,924              |
| Total Governmental Activities Expenses.....             | <u>39,685</u>      | <u>39,113</u>      | <u>38,348</u>      | <u>36,266</u>      | <u>37,515</u>      |
| Business-type Activities:                               |                    |                    |                    |                    |                    |
| Unemployment Compensation.....                          | 3,284              | 4,421              | 5,569              | 3,255              | 1,003              |
| N.C. State Lottery.....                                 | 1,142              | 1,029              | 994                | 877                | 713                |
| Other business-type activities.....                     | 165                | 188                | 139                | 85                 | 84                 |
| Total Business-type Activities Expenses.....            | <u>4,591</u>       | <u>5,637</u>       | <u>6,701</u>       | <u>4,218</u>       | <u>1,800</u>       |
| Total Primary Government Expenses.....                  | <u>\$ 44,277</u>   | <u>\$ 44,750</u>   | <u>\$ 45,050</u>   | <u>\$ 40,484</u>   | <u>\$ 39,314</u>   |
| <b>Program Revenues:</b>                                |                    |                    |                    |                    |                    |
| Governmental Activities:                                |                    |                    |                    |                    |                    |
| Charges for Services:                                   |                    |                    |                    |                    |                    |
| Transportation.....                                     | \$ 686             | \$ 709             | \$ 705             | \$ 740             | \$ 777             |
| Public safety, corrections, and regulation.....         | 594                | 540                | 512                | 510                | 502                |
| General government.....                                 | 218                | 195                | 357                | 330                | 366                |
| Other activities.....                                   | 601                | 631                | 502                | 535                | 536                |
| Operating grants and contributions.....                 | 15,600             | 15,632             | 15,838             | 14,006             | 12,301             |
| Capital grants and contributions.....                   | 978                | 1,199              | 711                | 1,036              | 827                |
| Total Governmental Activities Program Revenues.....     | <u>18,676</u>      | <u>18,907</u>      | <u>18,625</u>      | <u>17,156</u>      | <u>15,309</u>      |
| Business-type Activities:                               |                    |                    |                    |                    |                    |
| Charges for services:                                   |                    |                    |                    |                    |                    |
| Unemployment Compensation.....                          | 1,474              | 1,294              | 1,045              | 1,076              | 1,092              |
| N.C. State Lottery.....                                 | 1,602              | 1,465              | 1,424              | 1,288              | 1,053              |
| Other business-type activities.....                     | 137                | 142                | 129                | 89                 | 93                 |
| Operating grants and contributions.....                 | 1,966              | 2,998              | 3,251              | 1,111              | 84                 |
| Capital grants and contributions.....                   | 15                 | 12                 | 8                  | 41                 | 7                  |
| Total Business-type Activities Program Revenues.....    | <u>5,194</u>       | <u>5,911</u>       | <u>5,857</u>       | <u>3,606</u>       | <u>2,328</u>       |
| Total Primary Government Program Revenues.....          | <u>\$ 23,870</u>   | <u>\$ 24,818</u>   | <u>\$ 24,482</u>   | <u>\$ 20,762</u>   | <u>\$ 17,637</u>   |
| <b>Net (Expense) Revenue</b>                            |                    |                    |                    |                    |                    |
| Governmental Activities.....                            | \$ (21,009)        | \$ (20,206)        | \$ (19,723)        | \$ (19,110)        | \$ (22,206)        |
| Business-type Activities.....                           | 603                | 273                | (844)              | (612)              | 529                |
| Total Primary Government Net Expense.....               | <u>\$ (20,406)</u> | <u>\$ (19,933)</u> | <u>\$ (20,567)</u> | <u>\$ (19,722)</u> | <u>\$ (21,677)</u> |
| <b>General Revenues and Other Changes in Net Assets</b> |                    |                    |                    |                    |                    |
| Governmental Activities:                                |                    |                    |                    |                    |                    |
| Taxes:  |                    |                    |                    |                    |                    |
| Individual income tax.....                              | \$ 10,459          | \$ 10,021          | \$ 9,345           | \$ 8,662           | \$ 10,676          |
| Corporate income tax.....                               | 1,234              | 1,133              | 1,253              | 997                | 1,358              |
| Sales and use tax.....                                  | 5,530              | 6,172              | 5,916              | 4,912              | 5,159              |
| Gasoline tax.....                                       | 1,892              | 1,675              | 1,557              | 1,523              | 1,580              |
| Other taxes.....  | 2,759              | 2,694              | 2,819              | 2,667              | 2,816              |
| Tobacco settlement.....                                 | 146                | 131                | 146                | 176                | 169                |
| Unrestricted investment earnings.....                   | (56)               | 33                 | 29                 | 67                 | 238                |
| Miscellaneous.....                                      | 42                 | 45                 | 37                 | 63                 | 49                 |
| Contributions to permanent funds.....                   | 3                  | 3                  | 3                  | 3                  | 4                  |
| Transfers.....  | 402                | 371                | 434                | 422                | 347                |
| Total Governmental Activities.....                      | <u>22,411</u>      | <u>22,279</u>      | <u>21,539</u>      | <u>19,492</u>      | <u>22,396</u>      |
| Business-type Activities:                               |                    |                    |                    |                    |                    |
| Transfers.....  | (402)              | (371)              | (434)              | (422)              | (347)              |
| Total Business-type Activities.....                     | <u>(402)</u>       | <u>(371)</u>       | <u>(434)</u>       | <u>(422)</u>       | <u>(347)</u>       |
| Total Primary Government.....                           | <u>\$ 22,010</u>   | <u>\$ 21,908</u>   | <u>\$ 21,105</u>   | <u>\$ 19,069</u>   | <u>\$ 22,049</u>   |
| <b>Change in Net Assets</b>                             |                    |                    |                    |                    |                    |
| Governmental Activities.....                            | \$ 1,402           | \$ 2,073           | \$ 1,816           | \$ 382             | \$ 190             |
| Business-type Activities.....                           | 201                | (98)               | (1,278)            | (1,035)            | 182                |
| Total Primary Government.....                           | <u>\$ 1,604</u>    | <u>\$ 1,975</u>    | <u>\$ 538</u>      | <u>\$ (653)</u>    | <u>\$ 372</u>      |

# Financial Highlights — Fiscal Year 2012



## Capital Assets

As of June 30, 2012, the State's investment in capital assets was \$40.092 billion, an increase of 4.9% from the previous fiscal year-end.

| Capital Assets as of June 30, 2012<br>(net of depreciation, dollars in thousands) |                            |                       |                             |                       |                      |                       |
|---|----------------------------|-----------------------|-----------------------------|-----------------------|----------------------|-----------------------|
|   | Governmental<br>Activities |                       | Business-type<br>Activities |                       | Total                |                       |
|   | 2012                       | 2011<br>(as restated) | 2012                        | 2011<br>(as restated) | 2012                 | 2011<br>(as restated) |
| Land and permanent easements.....   | \$ 15,038,175              | \$ 14,397,753         | \$ 143,664                  | \$ 118,255            | \$ 15,181,839        | \$ 14,516,008         |
| Buildings.....  | 2,664,959                  | 2,283,382             | 28,611                      | 29,575                | 2,693,570            | 2,312,957             |
| Machinery and equipment.....  | 569,660                    | 576,835               | 6,237                       | 6,335                 | 575,897              | 583,170               |
| Infrastructure:   |                            |                       |                             |                       |                      |                       |
| State highway system.....   | 20,330,946                 | 19,532,260            | 183,936                     | —                     | 20,514,882           | 19,532,260            |
| Other infrastructure.....   | 158,358                    | 132,507               | 4,907                       | 5,409                 | 163,265              | 137,916               |
| Computer software.....  | 28,751                     | 16,701                | 45                          | 45                    | 28,796               | 16,746                |
| Art, literature, and other artifacts.....   | 87,429                     | 87,402                | —                           | —                     | 87,429               | 87,402                |
| Construction in progress.....   | 1,865,688                  | 2,232,547             | 694,181                     | 578,899               | 2,559,869            | 2,811,446             |
| Computer software in development.....   | 286,496                    | 128,905               | —                           | —                     | 286,496              | 128,905               |
| <b>Total.....</b>   | <b>\$ 41,030,462</b>       | <b>\$ 39,388,292</b>  | <b>\$ 1,061,581</b>         | <b>\$ 738,518</b>     | <b>\$ 42,092,043</b> | <b>\$ 40,126,810</b>  |
| Total percent change between<br>fiscal years 2012 and 2011                        | <b>4.17 %</b>              |                       | <b>43.74 %</b>              |                       | <b>4.9 %</b>         |                       |

The largest component of capital assets is the State highway system. North Carolina has a 79,415 mile highway system, making it the second largest state-maintained highway system in the nation. The most recent report on the condition of the State highway system (December 2010) noted that while the system continues to grow, the traditional highway maintenance funds have increased, but not enough to keep up with inflation and system growth.

The major capital asset activity during the current fiscal year included the following:

- ◆ The N.C. Department of Transportation (DOT) had construction outlays of \$1.9 billion (including land improvements) for State highway projects. Additionally, the N.C. Turnpike Authority (Authority), a separate business unit of DOT, had construction outlays of \$325.5 million for toll road projects. The Authority's largest project is the Triangle Expressway, the State's first modern toll road.
- ◆ The Department of Public Safety completed and placed into service a new regional 120 bed medical center (construction cost of \$61.8 million) and 220 bed mental health center (construction cost of \$55.3 million) at Central Prison in Raleigh.
- ◆ The Department of Environment and Natural Resources (DENR) completed and placed into service the Green Square Complex (construction cost of \$85.5 million), which consists of office space for DENR employees, the Nature Research Center, and an underground parking deck. This project utilized principles of green building and sustainable design.
- ◆ The Department of Health and Human Services (DHHS) is constructing a new psychiatric hospital to replace the existing Cherry Hospital (construction in progress at year-end of \$76.5 million). The new Cherry Hospital is the second of three state-of-the-art facilities that the State has built or will build to replace its aging state-operated psychiatric hospitals. Central Regional Hospital opened in 2008. Construction on a new Broughton Hospital began in 2012. Additionally, DHHS is constructing a new facility that will house the State Laboratory of Public Health and Chief Medical Examiner (construction in progress at year-end of \$66.9 million). The new DHHS construction projects are being financed by special indebtedness bonds approved by the N.C. General Assembly.



**Bull Durham**

*Photo Courtesy of VisitNC.com*

# Financial Highlights — Fiscal Year 2012



## **Debt Administration**

At year-end, the State had total long-term debt outstanding of \$8.916 billion, an increase of 5.38% from the previous fiscal year-end.

| <b>Outstanding Debt as of June 30, 2012</b>                |                     |                     |                      |                     |                     |                     |
|--|---------------------|---------------------|----------------------|---------------------|---------------------|---------------------|
| <b>Bonds, Special Indebtedness, and Notes Payable</b>      |                     |                     |                      |                     |                     |                     |
| <b>(dollars in thousands)</b>                              |                     |                     |                      |                     |                     |                     |
|  | <b>Governmental</b> |                     | <b>Business-type</b> |                     | <b>Total</b>        |                     |
|  | <b>Activities</b>   |                     | <b>Activities</b>    |                     |                     |                     |
|  | 2012                | 2011                | 2012                 | 2011                | 2012                | 2011                |
| General obligation bonds.....                              | \$ 4,470,500        | \$ 4,846,205        | \$ —                 | \$ —                | \$ 4,470,500        | \$ 4,846,205        |
| Special Indebtedness:                                      |                     |                     |                      |                     |                     |                     |
| Lease-purchase revenue bonds.....                          | 30,915              | 205,045             | —                    | —                   | 30,915              | 205,045             |
| Certificates of participation.....                         | 557,895             | 824,860             | —                    | —                   | 557,895             | 824,860             |
| Limited obligation bonds.....                              | 1,795,090           | 1,060,745           | —                    | —                   | 1,795,090           | 1,060,745           |
| GARVEE bonds.....  | 512,085             | 373,080             | 145,535              | —                   | 657,620             | 373,080             |
| Revenue bonds.....   | —                   | —                   | 1,081,183            | 856,678             | 1,081,183           | 856,678             |
| Notes payable.....   | 35,691              | 25,038              | 286,818              | 269,030             | 322,509             | 294,068             |
| Total .....  | <u>\$ 7,402,176</u> | <u>\$ 7,334,973</u> | <u>\$ 1,513,536</u>  | <u>\$ 1,125,708</u> | <u>\$ 8,915,712</u> | <u>\$ 8,460,681</u> |
| Total percent change between<br>fiscal years 2012 and 2011 | <b>0.92 %</b>       |                     | <b>34.45 %</b>       |                     | <b>5.38 %</b>       |                     |

During the 2011-12 fiscal year, the State issued \$400 million in limited obligation bonds and \$179.54 million in GARVEE bonds for its governmental activities. The proceeds of the limited obligation bonds will be used to finance various State and university capital improvement projects, which were authorized for special indebtedness financing by previous sessions of the General Assembly. 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 N.C. Turnpike Authority (Authority), a business-type activity, issued \$214.51 million in State appropriation revenue bonds and \$145.54 million in GARVEE bonds. The revenue and GARVEE bond proceeds will be used to finance the construction of the Monroe Connector System.



**Wright Brothers**

*Photo Courtesy of VisitNC.com*

The State refinanced \$382.5 million of its existing debt in fiscal year 2012 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 \$27.3 million over the next 13 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 \$8.916 billion in 2012, in part due to large issuances for higher education capital projects. Prior to 2003, the State only issued general obligation debt.



## Demographic and Economic Indicators

The following tables illustrate comparative employment information for the State.

### **PRINCIPAL EMPLOYERS**

For the Fiscal Years 2003 & 2012

| <u>Employer</u>                               | <u>2012</u>            |             |   | <u>2003</u>            |             |   |
|---|------------------------|-------------|---|------------------------|-------------|---|
|   | <u>Employees</u>       | <u>Rank</u> | <u>Percentage of Total State Employment</u> | <u>Employees</u>       | <u>Rank</u> | <u>Percentage of Total State Employment</u> |
| State of North Carolina.....                  | 180,000-184,999        | 1           | 4.33%                                       | 160,000-164,999        | 1           | 4.19%                                       |
| Federal Government.....                       | 65,000-69,999          | 2           | 1.60%                                       | 60,000-64,999          | 2           | 1.61%                                       |
| Wal-Mart Associates, Inc.....                 | 50,000-54,999          | 3           | 1.25%                                       | 35,000-39,999          | 3           | 0.97%                                       |
| Duke University.....                          | 25,000-29,999          | 4           | 0.65%                                       | 20,000-24,999          | 5           | 0.58%                                       |
| Charlotte Mecklenburg Hospital.....           | 25,000-29,999          | 5           | 0.65%                                       | 10,000-14,999          | 9           | 0.32%                                       |
| Food Lion LLC.....                            | 25,000-29,999          | 6           | 0.65%                                       | 25,000-29,999          | 4           | 0.71%                                       |
| Wells Fargo Bank NA.....                      | 20,000-24,999          | 7           | 0.53%                                       | 20,000-24,999          | 6           | 0.58%                                       |
| Charlotte-Mecklenburg Board of Education..... | 15,000-19,999          | 8           | 0.42%                                       | 15,000-19,999          | 7           | 0.45%                                       |
| Wake County Public schools.....               | 15,000-19,999          | 9           | 0.42%                                       | 10,000-14,999          | 10          | 0.32%                                       |
| Bank of America NA.....                       | 15,000-19,999          | 10          | 0.42%                                       | —                      | —           | —   |
| IBM Corporation.....                          | —                      | —           | —   | 15,000-19,999          | 8           | 0.45%                                       |
| <b>Total</b>                                  | <b>435,000-484,990</b> |             | <b>10.92%</b>                               | <b>370,000-419,990</b> |             | <b>10.18%</b>                               |

### **TEACHERS AND STATE EMPLOYEES BY FUNCTION**

For the Fiscal Years 2008-2012

| <u>Functions</u>                                   | <u>2012</u>    | <u>2011</u>    | <u>2010</u>    | <u>2009</u>    | <u>2008</u>    |
|--|----------------|----------------|----------------|----------------|----------------|
| General government.....                            | 5,928          | 6,325          | 6,424          | 6,362          | 6,188          |
| Primary and secondary education.....               | 162,124        | 157,380        | 154,107        | 163,322        | 163,113        |
| Higher education:                                  |                |                |                |                |                |
| Universities.....                                  | 61,508         | 62,928         | 61,723         | 61,299         | 59,084         |
| Community colleges.....                            | 19,511         | 19,746         | 18,730         | 17,027         | 16,480         |
| Health and human services (a).....                 | 17,958         | 20,382         | 20,919         | 22,094         | 21,276         |
| Economic development.....                          | 2,415          | 2,767          | 2,524          | 2,474          | 2,558          |
| Environment and natural resources (b).....         | 3,561          | 4,582          | 4,607          | 4,740          | 4,709          |
| Public safety, corrections and regulation (a)..... | 34,147         | 33,555         | 32,657         | 33,431         | 32,600         |
| Transportation.....                                | 13,175         | 13,550         | 13,902         | 14,767         | 14,752         |
| Agriculture (b).....                               | 2,064          | 1,349          | 1,366          | 1,393          | 1,385          |
| <b>Totals.....</b>                                 | <b>322,391</b> | <b>322,564</b> | <b>316,959</b> | <b>326,909</b> | <b>322,145</b> |

(a) Starting in fiscal year 2012, Juvenile Justice and Delinquency Prevention is included in public safety, corrections and regulation function; whereas in prior years it was included with health and human services function.

(b) 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 it was included with environment and natural resources function.



# Financial Highlights — Fiscal Year 2012



## CJLEADS



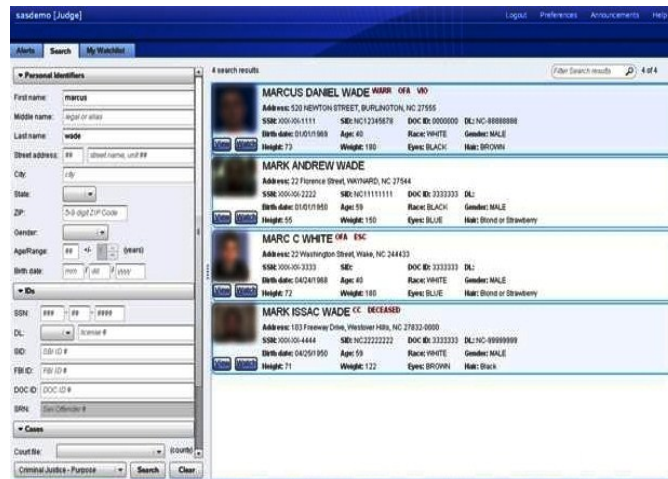
Session Law 2008-107, House Bill 2436 recognized the urgent need for state-of-the-art integrated criminal justice information and authorized the OSC to begin work on the CJLEADS (Criminal Justice Law Enforcement Automated Data Services) project.

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.

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.

OSC has incorporated data from the Administrative Office of the Courts, the Department of Public Safety, local jail data, sex offender registry, concealed handgun permits and DMV images into CJLEADS. Currently, OSC has incorporated more than 44.5 million files belonging to more than 14.3 million North Carolina offenders.

OSC initially deployed CJLEADS to Wake County as a pilot in July, 2010. State Controller David McCoy began expanding CJLEADS statewide in November, 2010. Primary statewide deployment activities were completed on schedule in June 2012. The CJLEADS Business Operations team continues to on-board agencies and train users throughout the state, and provides 24/7 help desk support for all agency users and user administrators. To date, there are more than 24,000 trained CJLEADS users spanning 485 federal, state and local agencies.



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

At the end of fiscal year 2012, CJLEADS total project expenditures since inception were \$24.6 million, approximately 9% under the original budget of approximately \$27 million. Operating with a recurring annual budget of approximately \$6.6 million plus \$2.6 million in one-time funds for fiscal year 2013, CJLEADS protects the State's investment by maintaining the application while continuing to enhance existing functionality to meet the changing needs of the criminal justice community. In July 2012, a mobile version of the CJLEADS application was released providing users with access to vital criminal justice data even if the user is away from his or her computer. This functionality was successfully used by law enforcement personnel providing security at a recent national event in Charlotte, N.C.

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



## North Carolina Education Lottery



For the sixth year in a row, the N.C. Education Lottery completed its fiscal year by setting a record not only for lottery ticket sales, but also for its contribution to education programs in North Carolina. The Education Lottery ended the fiscal year on June 30, 2012 with \$1.596 billion in sales and \$459.469 million in transfers to the state to support education. Since its inception on March 30, 2006 through the end of fiscal year 2012, the lottery surpassed \$7.9 billion in sales and exceeded \$2.45 billion in overall transfers to the state and education.

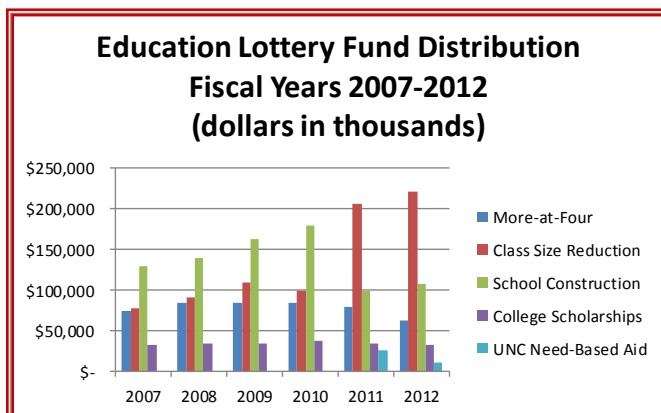
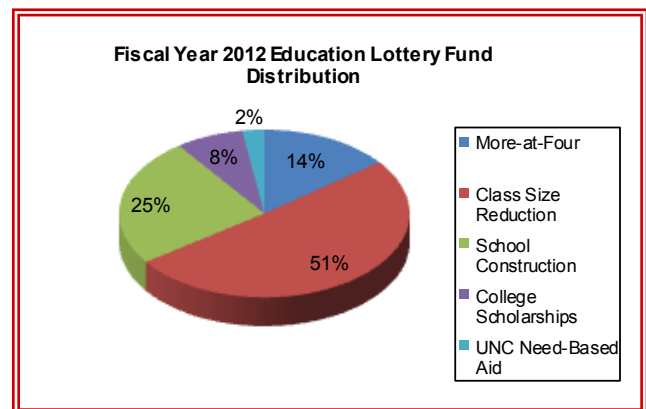
Several sales records occurred during the year. The lottery recorded its best day of sales ever on March 30, 2012 with \$17.6 million in sales; its best sales week ever during the week of March 25-31, 2012 with \$53.5 million in sales; its best sales month ever in March 2012 with \$174.7 million in sales; and its best sales quarter ever in the third quarter of the fiscal year, Jan. 1, 2012 through March 31, 2012, with \$445 million in sales. Boosting sales during March was a record Mega Millions jackpot that eventually grew to \$640 million.

During the year, the lottery launched improvements to its portfolio of games. A new version of the multi-state Powerball game began on Jan. 15, 2012 that offered better odds and bigger prizes, including a larger starting jackpot, funded by an increase in the costs of tickets from \$1 to \$2. The lottery also launched 49 new instant games during the year. The instant product continued to be the largest revenue source, generating \$960 million in sales. New instant games included: a \$20 ticket called \$4,000,000,000 Cash Blowout that featured three top prizes of \$4 million; a \$10 Carolina Gold game that included three top prizes of \$1 million that could be won instantly and a fourth \$1 million prize in a second-chance drawing, the largest second-chance prize the lottery has offered so far; and a licensed NASCAR-themed instant game that had five top prizes of \$100,000 and offered three second-chance drawings where winners picked their Ultimate Fan race experience valued at \$20,000.

The lottery's success at adding new retail locations also helped boost overall sales. The number of retailers increased to 6,787, up 2.7% from the year before. Overall, retailers earned \$111.6 million in sales commissions.

The State Lottery Act directs the lottery to increase and maximize the available revenues for education purposes. In fiscal year 2012, a breakdown of lottery revenues showed 60% went to prizes, 29% for education programs that the lottery serves and 7% in retailer commissions. The remaining revenues included 1.6% to gaming vendor GTECH, 1% to advertising, and the rest for other administrative expenses.

Lottery funds were used to pay the salaries of 3,942 teachers, or about 15 percent of the teachers in grades K-3; to provide opportunities for 12,438 at-risk four-year-olds to attend preschool programs in high quality academic settings; to provide scholarships to 31,427 students to state universities and community colleges; and to supplement grants made based on financial need to 56,934 UNC system students.



In November 2011, The World Lottery Association, an international organization representing 140 lotteries from 90 countries, awarded the Education Lottery the Level 2 certification in its responsible gaming program. The Education Lottery was the fourth U.S. lottery to achieve

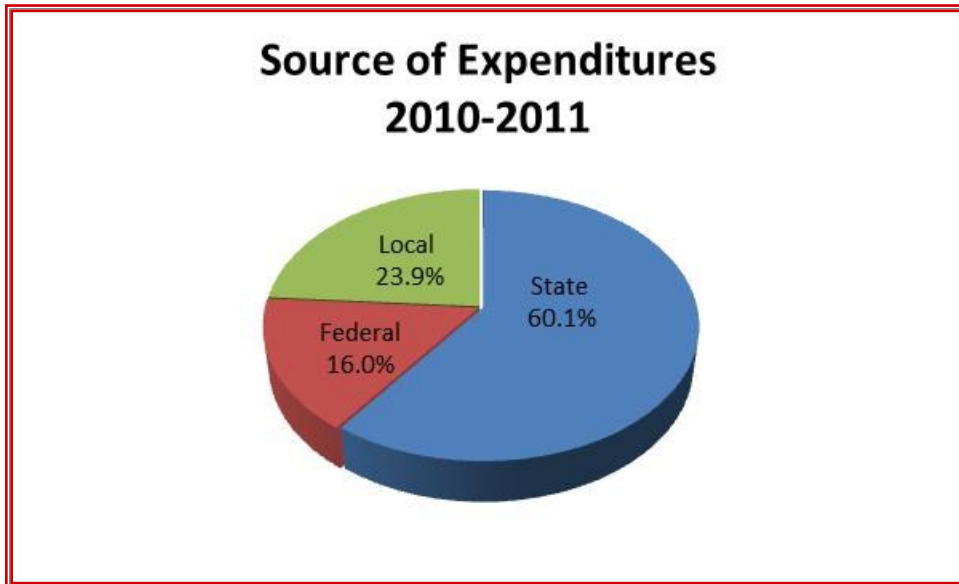
this certification. To meet the criteria for Level 2, the Education Lottery committed itself to the WLA's principles of responsible gaming. The principles govern the protection of lottery players, cooperation with stakeholders, advertising practices and the monitoring of game activities. The Education Lottery received the certification after submitting a self-assessment of its responsible gaming practices to a WLA independent panel of experts in the field of corporate responsibility.

Information provided by the North Carolina Education Lottery at [www.nc-educationlottery.org](http://www.nc-educationlottery.org).

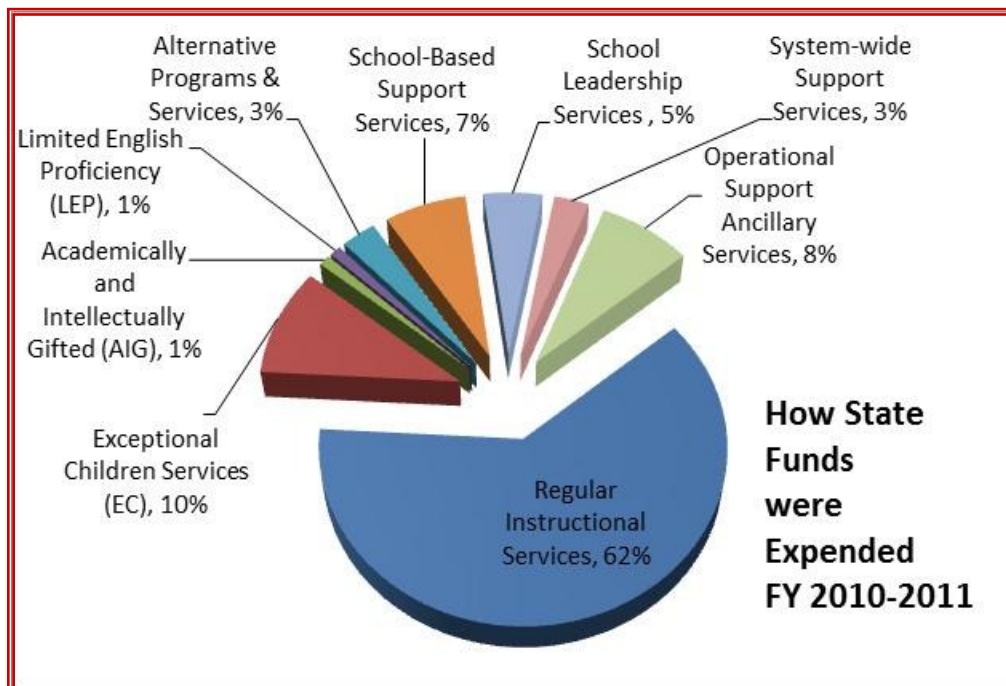


## Education Highlights

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



Of the \$7.2 billion State Public School fund for FY 2010-2011, all but 10.4% was used for salaries and benefits.



Information provided by NC DPI at [www.ncpublicschools.org](http://www.ncpublicschools.org).



## Transportation Highlights

For the fiscal year 2012, the North Carolina Department of Transportation (NCDOT) listed the following as some of its key accomplishments:

- ◆ Delivered 75% of projects as scheduled in the department's State Transportation Improvement Program, a federally mandated document that details transportation projects over a seven year period. Prior to the implementation of a performance-based approach, NCDOT delivered only about 25% of these projects on schedule.
- ◆ Launched the largest bridge program in NCDOT history, investing nearly \$450 million over two years to deliver more than 1,800 bridge improvement projects across the state with a focus on replacing and improving structurally deficient bridges.
- ◆ Established a more logistics-based focus and improved coordination by moving the State Ports Authority and the Global TransPark under NCDOT's purview. Also named a statewide logistics coordinator and a coordinator of strategic initiatives to oversee these operations.
- ◆ Published final report for the North Carolina Maritime Strategy evaluating North Carolina's position, opportunities and challenges as a portal for global maritime commerce in June 2012.
- ◆ Opened the initial section of North Carolina's first modern toll road, the Triangle Expressway in Wake and Durham counties, in December 2011.
- ◆ Began selling the NC Quick Pass transponder used to pay tolls on the Triangle Expressway in fall 2011, as well as opening an NC Quick Pass Customer Service Center in Morrisville, NC. Initial sales of transponders far exceeded projections, with 1,000 sold within the first eight days of availability and 20,000 sold within the first eight months.
- ◆ Made significant progress on the I-85 Corridor Improvement Project in Davidson and Rowan counties, which includes replacing the aging I-85 bridge over the Yadkin River. Phase 2 of this work is the first project to receive money through North Carolina's Mobility Fund, which was created by Gov. Perdue to fund projects critical to regional and statewide mobility.
- ◆ Awarded \$215.8 million contract to the design-build team of PCL Civil Constructors Inc. and HDR Engineering Inc. of the Carolinas to replace the aging 2.7-mile Bonner Bridge over Oregon Inlet in Dare County.
- ◆ Submitted the Southeast High Speed Rail (SEHSR) Tier II Environmental Impact Statement Recommendation Report to the Federal Railroad Administration, which identifies North Carolina's and Virginia's recommendations for the preferred rail alternative for each of the 26 sections of the SEHSR corridor between Richmond, Va. and Raleigh.
- ◆ Executed a state full-funding agreement in April with the City of Charlotte for 25% of the cost of a \$1.16 billion project to extend the existing Charlotte Area Transit System (CATS) LYNX Blue Line Light Rail from Center City to UNC Charlotte.
- ◆ Reopened N.C. 12 on North Carolina's Outer Banks following Hurricane Irene in September 2011 in just seven weeks, including installation of a temporary bridge.
- ◆ Awarded \$18.4 million in State Aid to Airports and \$26.7 million in Federal Block Grants for aviation improvements across the state.
- ◆ Began efforts to develop new statewide comprehensive bicycle and pedestrian plan that will help guide future investments to support biking and walking in North Carolina. Issued a request for proposals in March seeking a consultant to help facilitate the plan's development.
- ◆ In March, issued a Request for Expressions of Interest (RFEI) from developers with experience in urban mixed-use projects to partner on the future Gateway Station district development in uptown Charlotte. The proposed development will serve as a central hub for Amtrak, Greyhound Bus service, CATS bus and streetcar service, the North Corridor Commuter Rail Project and Mecklenburg County's greenway system, as well as aid in the redevelopment of the surrounding area.



**Triangle Expressway**

*Photo Courtesy of N.C. Turnpike Authority*



## 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, 2011. 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 14 consecutive years (fiscal years ended 1998-2011). We believe our current report continues to conform to the Popular Annual Financial Reporting requirements, and we are submitting it to the GFOA.

