State of North Carolina
Office of the State Controller

DAVID T. MCCOY
STATE CONTROLLER

The Honorable Beverly E. Perdue, Governor
Members of the North Carolina General Assembly
Citizens of North Carolina

It is our pleasure to furnish you with the 2009 Comprehensive Annual Financial Report (CAFR) of the State of North Carolina in compliance with G.S. 143B-426.40H. This report has been prepared by the Office of the State Controller. Responsibility for both the accuracy of the data and the completeness and fairness of the presentation, including all disclosures, rests with the state government and this office. To the best of our knowledge and belief, this financial report is complete and reliable in all material respects. We believe all disclosures necessary to enable you to gain an understanding of the State's financial activities have been included.

Although the State budgets and manages its financial affairs on the cash basis of accounting, G.S. 143B-426.40H requires the Office of the State Controller to prepare a Comprehensive Annual Financial Report (CAFR) in accordance with generally accepted accounting principles (GAAP) in the United States of America. Except for schedules clearly labeled otherwise, this CAFR has been prepared in accordance with GAAP.

Management of the government is responsible for establishing and maintaining an internal control structure designed to ensure that the assets of the State are protected from loss, theft or misuse and to ensure that adequate accounting data are compiled to allow for the preparation of financial statements in conformity with generally accepted accounting principles. The internal control structure is designed to provide reasonable, but not absolute, assurance that these objectives are met. The concept of reasonable assurance recognizes that: (1) the cost of a control should not exceed the benefits likely to be derived, and (2) the valuation of costs and benefits requires estimates and judgments by management.

In compliance with State law, an annual financial audit of the State financial reporting entity is completed each year by the North Carolina Office of the State Auditor. The Auditor's examination was conducted in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and the Auditor's opinion has been included in this report. In addition, the State coordinates the *Single Audit* effort of all federal funds through the State Auditor.

This letter of transmittal is intended to complement the management discussion and analysis (MD&A) and should be read in conjunction with it. The MD&A provides an overview of the State's financial activities addressing both governmental and business-type activities reported in the government-wide financial statements. In addition, the MD&A focuses on the State's major funds: the General Fund, the Highway Fund, the Highway Trust Fund, the Unemployment Compensation Fund, the EPA Revolving Loan Fund and the N.C. State Lottery Fund. The MD&A can be found immediately following the Independent Auditor's Report.

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Profile of the State of North Carolina

The Old North State, The Tar Heel State

North Carolina became the 12th state of the union in 1789. North Carolina is located on the Atlantic coast and is bordered by Georgia, South Carolina, Tennessee and Virginia. The State has a land area of approximately 50,000 square miles. The State's estimated population is 9.4 million, making it the 10th most populated state in the nation. Sixty percent of the population is found in urban areas, while forty percent is found in rural areas. The North Carolina coastline is 301 miles, the greatest distance east to west is 543 miles, and the greatest distance north to south is 188 miles. The State's elevation rises from sea level on the eastern coastline to 6,684 feet at Mount Mitchell in the Appalachian mountain range on our western border. There are 79,438 miles of roads, with Interstate 40 crossing North Carolina east to west, and Interstates 85 and 95 crossing the State north to south. North Carolina's capital and central state government administration is located in Raleigh, in the central piedmont. Charlotte, Raleigh, Greensboro, Durham, and Winston-Salem are North Carolina's largest cities and there are 100 counties.

Government

North Carolina's state government consists of an executive branch, a legislative branch, and a judicial branch. The executive branch is headed by the Governor. The Governor, Lieutenant Governor, and eight other statewide elected officers form the Council of State. The State Constitution provides that, "A Secretary of State, an Auditor, a Treasurer, a Superintendent of Public Instruction, an Attorney General, a Commissioner of Agriculture, a Commissioner of Labor, and a Commissioner of Insurance shall be elected by the qualified voters of the State...."

The legislative power of the State is vested in the General Assembly, which consists of a Senate and a House of Representatives. The Senate is composed of 50 Senators, elected on a biennial basis. The House of Representatives is composed of 120 Representatives, elected on a biennial basis.

The Courts of the Judicial Branch are split into three divisions, the Appellate Division, the Superior Court Division, and the District Court Division. Judges are elected on a non-partisan basis.

State Reporting Entity and Its Services

The State of North Carolina entity as reported in the CAFR includes all fund types of the departments, agencies, boards, commissions and authorities governed and legally controlled by the State's executive, legislative and judicial branches. In addition, the reporting entity includes legally separate component units for which the State is financially accountable. The component units are discretely presented in the government-wide financial statements. The State's discretely presented major component units are the University of North Carolina System, the State's community colleges, Golden LEAF, Inc., North Carolina Housing Finance Agency, and North Carolina State Education Assistance Authority. The criteria for inclusion in the reporting entity and its presentation are defined by the Governmental Accounting Standards Board (GASB) in its GASB Codification Section 2100. These criteria are described in Note 1 of the accompanying financial statements.

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; and general government services. The costs of these services are reflected in detail and in summary in this report.

Budgetary Control

In addition to internal controls discussed previously, the State maintains budgetary controls. The objective of these budgetary controls is to ensure compliance with legal provisions embodied in the annual appropriated budget approved by the General Assembly. Activities of the General Fund, departmental special revenue funds, and permanent funds are included in the annual appropriated budget. The State Highway Fund and the Highway Trust Fund, the State's major special revenue funds, are primarily budgeted on a multi-year basis. Capital projects are funded and planned in accordance with the time it will take to complete the project. The level of budgetary control (that is, the level at which expenditures cannot legally exceed the appropriated amount) is exercised at both the departmental and university level, with allotment control exercised by the State Controller, and on the program line-item levels requiring certain approvals by the Director of the Budget. Legislative authorization of departmental expenditures appears in the State Appropriation Bill. The certified budget is the legal expenditure authority; however, the Office of State Budget and Management (OSBM) may approve executive changes to the legal budget as allowed by law. These changes result in the *final budget* presented in the required supplementary information.

Economic Condition

Overview

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

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

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

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

An international financial meltdown signaled by the collapse of the investment firm Lehman Brothers in September 2008 is what set the global economy reeling. The fall of this large investment firm was a clear indication that much of the international financial market was in trouble. The trouble was the result of an ever-growing housing recession that was now occurring worldwide. As mortgage defaults and foreclosures began to rise, many banks and financial institutions began to fail or come close to failure across the globe. In October of 2008, as a result of this financial market upheaval, an already weak economy was sent into a deep and prolonged recession. One of the reasons the recession stretched on for 20 months (or possibly more) is the structural corrections

required from the intertwined housing and financial market debacle. These types of structural corrections can take a long time to fully unwind.

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

National Economic Outlook

United States Economic Indicators

	FY2007-08 Actual	FY 2008-09 Actual	FY2009-10 Projected	FY2010-11 Projected
Economic Growth (GDP)*	2.2%	-2.2%	0.2%	2.6%
Personal Income	4.5%	-0.1%	-0.6%	3.5%
Corporate Pre-Tax Profits	6.3%	-22.7%	4.2%	2.9%
Retail Sales and Food Services	3.1%	-6.6%	-0.3%	4.7%
Consumer Price Index	3.7%	1.4%	0.7%	1.6%
30-yr Fixed Mortgage Interest Rate	6.2%	5.6%	5.6%	6.6%

*Adjusted for inflation

The national economic indicators convey the impact of the widespread recession the nation has had to endure over the last 12 months. Going forward, little growth is expected over the next two years and the projected recovery in the economy is not expected to be in full swing until 2011. The overall economy shrank in FY 2008-09 by 2.2 percent. The last quarter of 2008 and the first quarter of 2009 were the hardest hit by the recession, which has persisted for over 6 quarters (20 months). As noted, little economic growth is expected in the next fiscal year as a very slow recovery unfolds and only 2.6 percent growth is expected the following year. Long-term average growth is 3 percent.

With the economic slowdown and significant loss in employment, total personal income fell by 0.1 percent in FY2008-09. Employment losses are expected to mount until mid-2010 pushing personal income even lower by an additional 0.6 percent in FY 2009-10. The projected lower than average economic growth during the early part of the recovery will mean improvements in income and employment are going to take a longer time to develop.

Additionally, given the projection for a slow recovery, business profitability is not expected to rise significantly over the next couple of years. Many businesses going into this recession were expected to see profits fall, but the impact was not expected to be widespread. With the financial market collapse and the onset of a prolonged global recession, profits tumbled 22.7 percent. Falling demand caused by the global economic downturn set the stage for business profits to fall, and with the prospect of a slow-building recovery, a robust business climate may still be a year or two away.

A good indicator on the health of the economy is retail sales. This key indicator experienced a sizable decline beginning the last quarter of 2008. The fall-off in retail sales persisted throughout the fiscal year and is not expected to rebound until the second-half of 2010. Consumers have been hit hard during this recession as housing wealth declined, credit markets tightened, real wages fell, and the employment picture darkened. The key to a rebound in consumer spending will be stabilized real estate and financial markets, and an improving employment picture.

To summarize, the housing recession that began in 2006 grew much worse in 2007 and set-off a major upheaval in worldwide financial markets. The result was a severe recession that has persisted for at least 20 months (the official word on the end of the recession may be many months away). The anticipated slow recovery means economic conditions marked by high unemployment and lower consumer spending will persist for all of 2009 and into 2010. A robust economy is not anticipated until 2011.

North Carolina Economic Outlook

North Carolina Economic Indicators

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

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

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

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

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

In the last recession, manufacturing, particularly in the furniture and textile industries, shed jobs at a rate of 10 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. Another hard hit industry has been the financial sector. The financial market upheaval has had a detrimental impact on this sector's employment. Current estimates indicate job losses in financial activities will continue throughout 2010 and for most of 2011. Thus, the total number of people employed in non-

agricultural industries in the state is expected to decline in FY 2009-10, and the following fiscal year only grow at a rate of 0.6 percent. This compares with 1.4 percent growth in FY 2007-08.

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

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

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

Issues and Observations

BEACON

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

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

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

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

Other Post-Employment Benefits: Retiree Healthcare

In April 2004, GASB issued Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans* (effective for fiscal year 2006-07), and in June 2004, GASB issued Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions* (effective for fiscal year 2007-08).

The actuarial data for the retiree healthcare benefit plan is disclosed in Note 13, Other Postemployment Benefits, based on the disclosure requirements for a cost-sharing, multiple-employer plan, and is also presented as required supplementary information (RSI). Based on the disclosure requirements of a cost-sharing, multiple-employer plan, the unfunded actuarial liability is not recorded as an accounting liability.

The State retiree healthcare benefit is currently funded on a pay-as-you-go basis, with minimal additional accumulation of funds to pay the retiree health benefit. Based on the current funding method with limited accumulation of funds, the actuarial assumptions reflect a short-term discount rate of 4.25%. The December 31, 2008 actuarial valuation using the projected unit credit cost method indicated an accrued liability of $28.288 billion for the retiree healthcare plan ($27.854 billion unfunded), with an annual required contribution (ARC) of $2.674 billion.

Participating employers in the retiree health care benefit plan include the primary government state employees, local education agencies (LEAs), the University of North Carolina, community colleges, and several local governments. For the fiscal year ended June 30, 2009, retiree healthcare employer contributions were $635.685 million, representing an annual increase of 5.77%. Retiree healthcare premium costs paid to the State Health Plan were $510.622 million, representing an annual decrease of 2.42%. Plan net assets of $500.244 million represent an increase of $138.72 million, or 38.37% from the prior year.

North Carolina Turnpike Authority

The 2002 General Assembly created the North Carolina Turnpike Authority. In doing so, the General Assembly found that the existing State road system was becoming increasingly congested and overburdened with heavy traffic in many areas of the State; that the sharp surge of vehicle miles traveled was overwhelming the State's ability to build and pay for adequate road improvements; and that an adequate answer to this challenge would require the State to be innovative and utilize several new approaches to transportation improvements in North Carolina. They concluded that toll funding of highway and bridge construction was feasible in North Carolina and that such an approach would contribute to addressing critical transportation needs by speeding the implementation of needed transportation improvements.

The Turnpike Authority operates as a separate business unit of the North Carolina Department of Transportation (NCDOT), the North Carolina Turnpike Authority is authorized to study, plan, develop and undertake preliminary design work on up to nine toll roads in the state.

The Turnpike Authority currently is authorized to design, establish, purchase, construct, operate, and maintain the following projects:

Triangle Expressway
Monroe Connector/Bypass
Mid-Currituck Bridge
Garden Parkway
Cape Fear Skyway

Local officials may request that the Turnpike Authority consider any planned road or bridge project for development as a toll road. Potential toll projects would generally involve high traffic areas where new roads or bridges would significantly reduce congestion.

State Governmental Accountability and Internal Control Act

The purpose of the *State Governmental Accountability and Internal Control Act* is to establish internal control standards for State government and to increase fiscal accountability. Recognizing the public interest and the importance of oversight over public institutions, the Governor and General Assembly adopted legislation that provides for the implementation of an effective and efficient system of internal control providing reasonable assurance that the public's objectives are met. Moving forward, the *State Governmental Accountability and Internal Control Act* will ensure that our State system of internal control incorporates applicable statewide standards and clearly defines and assigns specific internal control related responsibilities.

The State Governmental Accountability and Internal Control Act (North Carolina General Statutes, Chapter 143D) passed during the 2007 session of the General Assembly, is intended to meet the public's increasing expectations for effective operations and accountability within state government and to provide an opportunity for North Carolina to leverage on the best practices that have recently been implemented in the private sector.

Currently each agency is required to perform an annual assessment of internal control over financial reporting. By performing these assessments, agencies are able to identify risks and compensating controls that reduce the possibility of material misstatements and misappropriation of assets. Opportunities to increase efficiency and control effectiveness in business processes and operations also result from these assessments.

The State's internal control initiative, also known as EAGLE (*Enhancing Accountability in Government through Leadership and Education*), has generated national interest and should further solidify North Carolina's status as a leader in governmental accountability and fiscal management.

North Carolina Internal Audit Act

The North Carolina General Assembly enacted the Internal Audit Act in Chapter 143 of the North Carolina General Statutes. The purpose of the Act is to promote effective use of internal audit efforts throughout the State. The Act requires State agencies and universities to establish a program of internal auditing; establishes the Council of Internal Auditing; and directs the Office of State Budget and Management (OSBM) to serve as staff and support to the Council. The Act applies to State agencies and universities that have an annual operating budget exceeding $10 million; more than 100 full-time equivalent employees; or receive and process more than $10 million in cash in a fiscal year.

State agencies and universities meeting the Internal Audit Act participation requirements are directed to establish a program of internal auditing that promotes an effective system of internal controls, safeguards public funds and assets, and minimizes incidences of fraud, waste, and abuse. Internal auditing programs review the effectiveness and efficiency of agency and program operations and service delivery.

The Council of Internal Auditing plays a significant role in the implementation of the North Carolina Internal Audit Act. The Council consists of the State Controller, who serves as Chair, the State Budget Officer, the Secretary of Administration, the Attorney General, the Secretary of Revenue, and the State Auditor who serves as a nonvoting member. The Council of Internal Auditing works to:

- Develop guidelines for the uniformity and quality of state agency internal audit activities
- Administer an independent peer review system
- Recommend the number of internal audit employees required by each state agency
- Provide central training sessions, professional development opportunities, and recognition programs for internal auditors
- Administer a program for sharing internal auditors
- Maintain a central database of all internal audit plans and reports
- Issue an annual report including, but not limited to, service efforts and accomplishments of State agency internal auditors
- Propose legislation for consideration by the Governor and General Assembly

To support the Council, OSBM established the Office of Internal Audit (OIA) to assist in carrying out Council's responsibilities. The staff develops yearly objectives based on the legislative mandates and reports the progress of the objectives at each Council meeting.

Please see http://www.osbm.state.nc.us/ncosbm/management/internal_audits.shtm for additional information.

American Recovery and Reinvestment Act of 2009

The American Recovery and Reinvestment Act of 2009 (ARRA), is an economic stimulus package enacted by the 111th United States Congress in February 2009. ARRA was intended to provide a stimulus to the U.S. economy in the wake of the economic downturn. The measures are nominally worth $787 billion. The Act includes federal tax cuts, expansion of unemployment benefits and other social welfare provisions, and domestic spending in education, health care, and infrastructure, including the energy sector. The government action is much larger than the Economic Stimulus Act of 2008, which consisted primarily of tax rebate checks.

The Office of the Treasury estimates that $62.5 billion in tax relief was made available across the nation by the end of the August 2009. This relief comes in various forms including the Making Work Pay tax credit, COBRA Continuation Coverage Assistance, and tax incentives for businesses. Please see http://www.recovery.gov/ for additional information.

North Carolina Office of Economic Recovery and Investment

On February 17, 2009, the Governor announced the creation of the North Carolina Office of Economic Recovery and Investment. To ensure transparency, accountability and efficiency the office will coordinate and track North Carolina's handling of federal stimulus funds as well as state-level economic recovery initiatives.

The Economic Recovery and Investment Office will:

- Track all federal dollars flowing into state and local governments as well as to private businesses and non-profit organizations.
- Maximize the state's use of available federal stimulus funds.
- Identify the most rapid ways to move the stimulus money into the economy and remove regulatory and other impediments.
- Establish open and effective lines of communication with federal and state agencies, local governments and North Carolina's Congressional delegation to assist in efforts to effectively and rapidly use the federal stimulus funds.

- Develop a communications network, using a variety of tools including the Internet, to keep the public informed about the status and progress of the recovery effort, along with funding opportunities.
- Report to the General Assembly and the citizens on a regular basis about the status of the use of the stimulus funds, including federal, state and other non-federal money.
- Measure progress of the recovery effort by tracking the state's economic condition.

Please see http://ncrecovery.gov/ for additional information.

NC OpenBook

NC OpenBook is part of the effort to bring additional transparency and accountability to state government in North Carolina. NC OpenBook is based on the concept that access to information online should be the basic standard, because North Carolina citizens have a right to know how their government is operating.

NC OpenBook currently includes a searchable database of approximately 2,500 state contracts and over 5,000 grant disbursements. The Office of State Budget and Management is working with state agencies and departments to streamline their contract databases and a complete searchable database will be available later this year.

In addition to state contracts and grants, NCOpenBook.gov will feature detailed information about state agency performance measures and is linked to North Carolina's economic recovery efforts. Please see http://www.ncopenbook.gov/ for additional information.

Economic Development

Across the United States and around the world, officials are announcing huge investments to create bioscience clusters. Initiatives are totaling hundreds of millions of dollars, even a billion or more, at a time. North Carolina started building its foundation 25 years ago when it established the North Carolina Biotechnology Center. Our state has devoted more than $1.2 billion to the biosciences in just the past 10 years.

We've invested steadily across the state—in biotechnology education and workforce training, university research and its commercialization, entrepreneurial endeavors and biomanufacturing. And now we're home to 500 bioscience companies employing more than 54,000 people.

During the past decade North Carolina has committed:

- $857 million into research and facilities—from translational research and individualized medicine to nanotechnology, cancer research and biofuels;
- $135 million toward workforce training—building on the North Carolina Community Colleges' statewide biotechnology education programs through BioNetwork and other training at community colleges, and the BTEC and BRITE facilities on the North Carolina State University and North Carolina Central University campuses;
- $115 million via the North Carolina Biotechnology Center—building the partnerships and infrastructure to make North Carolina the envy of the world;
- $102 million in direct company incentives—$95 million in Job Development Investment Grants (JDIGs) and $7 million in One North Carolina funding, primarily in pharmaceutical manufacturing.

Please see http://www.ncbiotech.org/billion/ for additional information.

Debt Affordability

The 2004 General Assembly passed legislation creating the Debt Affordability Advisory Committee. The Committee is charged, on an annual basis, with advising the Governor and the General Assembly of the estimated debt capacity of the State for the upcoming 10 fiscal years.

The Committee produces the *Debt Affordability Study* on an annual basis. The report was created to serve as a tool for sound debt management practices by the State of North Carolina. The report provides the Governor and the General Assembly with a basis for assessing the impact of future debt issuance on the State's fiscal position and enables informed decision-making regarding both financing proposals and capital spending priorities. The report also provides a methodology for measuring, monitoring and managing the State's debt levels. The concept of debt affordability is widely regarded as an essential management tool. The methodology used in the study to analyze the State's debt position incorporates historical and future trends in debt levels, peer group comparisons and provides recommendations within adopted guidelines. The study also provides recommendations regarding other debt management related policies considered desirable and consistent with the sound management of the State's debt. Such recommendations were developed by incorporating management practices consistent with those utilized by the most highly rated states.

Awards and Acknowledgements

Certificate of Achievement

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the State of North Carolina for its Comprehensive Annual Financial Report (CAFR) for the fiscal year ended June 30, 2008. This was the 15th consecutive year (1994 to 2008) the State has received the prestigious national award recognizing conformance with the highest standards for preparation of state and local government financial reports.

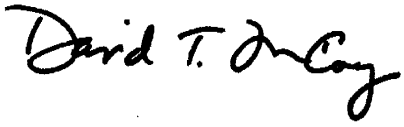
In order to be awarded a Certificate of Achievement, a government unit must publish an easily readable and efficiently organized Comprehensive Annual Financial Report, whose contents conform to program standards. The CAFR must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe our current report continues to conform to the Certificate of Achievement program requirements, and we are submitting it to the GFOA.

Acknowledgments

In conclusion, we believe this report provides useful data to all parties using it in evaluating the financial activity of the State of North Carolina. We in the Office of the State Controller express our appreciation to the financial officers throughout the State and to the Office of the State Auditor for their dedicated efforts in assisting us in the preparation of this report. Any questions concerning the information contained in this report should be directed to the Office of the State Controller at (919) 981-5454.

Respectfully submitted,



David T. McCoy
State Controller

December 8, 2009

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CERTIFICATE OF ACHIEVEMENT

Certificate of Achievement for Excellence in Financial Reporting

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For its Comprehensive Annual
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President

Executive Director