



# State of North Carolina

## Office of the State Controller

**DAVID T. MCCOY**  
**STATE CONTROLLER**

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Contact: Sherri Johnson (919.707.0753)

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### **STATE CONTROLLER RELEASES 2010 COMPREHENSIVE ANNUAL FINANCIAL REPORT**

RALEIGH – The Office of State Controller today released North Carolina’s 2010 Comprehensive Annual Financial Report (CAFR). The CAFR is prepared in accordance with generally accepted accounting principles.

The General Fund is the chief operating fund of the State. The fund deficit of the General Fund improved from negative \$777.573 million at June 30, 2009 (as restated) to negative \$114.168 million at June 30, 2010. For fiscal year 2010, total tax revenues increased by 13% due mostly to temporary tax increases enacted by the General Assembly. An individual income tax surcharge of 2% or 3% was imposed on taxpayers who meet certain income requirements for tax years beginning on or after January 1, 2009. A temporary increase in the general sales tax from 4.5% to 5.5% was imposed effective September 1, 2009. Additionally, the Department of Revenue began an internet resolution program and a restaurant program to bring taxpayers into compliance in reporting and paying sales and use taxes. A corporate income tax surcharge of 3% was imposed on corporations subject to income tax for tax years beginning on or after January 1, 2009. The increase in corporate income tax collections in a down economy is due to efforts by the Department of Revenue to generate additional revenue through its Resolution Initiative Project that was completed in December 2009.

The net assets of the Unemployment Compensation Fund (Trust Fund) decreased from negative \$299.281 million at June 30, 2009 (as restated) to negative \$1.701 billion at June 30, 2010. This decrease is directly related to the decline in the state and national economies. The state’s unemployment rate was 10% in June 2010 compared to 11% in June 2009.

The Trust Fund’s operating margin (operating revenues less operating expenses) was negative \$4.523 billion this year compared to negative \$2.177 billion in 2009. Unemployment benefit expenses increased 71.2% in fiscal year 2010 to \$5.569 billion. Because of depleted cash balances, the Trust Fund borrowed funds from the U.S. Treasury, beginning in February 2009, to ensure uninterrupted payment of unemployment benefits. At June 30, 2010, the repayable advances from the State’s Federal Unemployment Account totaled \$2.15 billion compared to \$728.77 million at the previous fiscal year-end. These advances will be repaid with subsequent employer contributions. It is anticipated that this borrowing will continue through the next fiscal year-end. The advances from the U.S. Treasury are currently interest free through December 31, 2010. Currently, discussions are taking place at the national level regarding a two year extension of the interest free provision. A 20% surcharge on unemployment

contributions, effective January 1, 2005 as required by statute, remained in effect during the current fiscal year. The surcharge is still in effect because the balance in the Trust Fund has not reached the trigger “off” level.

As required by enabling legislation, net revenues of the N.C Education Lottery (NCEL) are transferred four times a year to the N.C. Education Lottery Fund (a nonmajor governmental fund). The NCEL transferred \$432.205 million to the N.C. Education Lottery Fund in 2010 to support educational programs for the State.

At year-end, the State had total long-term debt outstanding of \$8.096 billion, an increase of 12.73% from the previous fiscal year-end. During the 2009-10 fiscal year, the State issued \$487.7 million in general obligation public improvement bonds and \$242.52 million in grant anticipation revenue vehicle (GARVEE) bonds for its governmental activities. The proceeds of the public improvement bonds will be used to finance various capital projects for the State primary government and the University of North Carolina System, as specifically authorized by the North Carolina General Assembly. The general obligation bonds were issued pursuant to the State’s two-thirds bond authorization provided by the North Carolina State Constitution (Article 5, Section 3). The proceeds of the GARVEE bonds will be used to accelerate funding of various transportation projects identified in the current State Transportation Improvement Plan. Additionally, the State issued \$622.758 million in revenue bonds and secured a \$68.8 million federal transportation loan for the N.C. Turnpike Authority, a business-type activity. The revenue bond and federal loan proceeds will be used to finance construction of the Triangle Expressway, a 19-mile toll road in Durham and Wake counties.

North Carolina ranks as one of the top states to finish its CAFR. Only four states (New York, Utah, South Carolina and Michigan) and the District of Columbia submitted their CAFR prior to North Carolina’s submission. In addition, the OSC received the Certificate of Achievement for Excellence in Financial Reporting by the Government Finance Officers Association of the United States and Canada (GFOA) for its 2009 Comprehensive Annual Financial Report. The award is the highest form of recognition in the area of governmental accounting and financial reporting. The 2009 award marked the 16<sup>th</sup> consecutive year that OSC’s CAFR received this recognition.

The CAFR is used by bond agencies and other financial organizations to assess the State’s fiscal health and economic outlook. North Carolina remains one of only seven states to enjoy top-tier rankings (i.e., AAA) from all three credit rating agencies.

The Comprehensive Annual Financial Report, or CAFR, is prepared each year by the Office of the State Controller and audited by the Office of the State Auditor. The report, which outlines North Carolina’s financial condition, has received a “clean” opinion from auditors, indicating that it fairly represents the financial position of the State.

The full 2010 CAFR is available on the Office of the State Controller website at: <http://www.osc.nc.gov/financial/10CAFR/index.html>.

A summary level Financial Highlights report based on the 2010 CAFR is also available on the Office of the State Controller website at: <http://www.osc.nc.gov/financial/10CAFR/popular10.pdf>.

*The State Controller is North Carolina's chief fiscal officer. The Office of the State Controller serves as an independent resource to ensure the financial integrity of the State by providing accounting, disbursing, payroll, internal control and financial reporting systems that serve state agencies, employees and the public and maximizing financial return through its statewide cash management plan. The OSC issues numerous financial reports including: Financial Highlights, General Fund Monthly Financial Report, IT Expenditures Report, Statewide Accounts Receivable Report, the State's Comprehensive Annual Financial Report (CAFR) as well as the short, easy-to-read version of the CAFR known as the "popular" report.*