



State of North Carolina

Office of the State Controller

DAVID T. MCCOY
STATE CONTROLLER

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Contact: Sherri Johnson 919.707.0753/Claire Ennis 919-707-0612

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STATE CONTROLLER RELEASES 2011 COMPREHENSIVE ANNUAL FINANCIAL REPORT

RALEIGH – The Office of State Controller today released North Carolina’s 2011 Comprehensive Annual Financial Report (CAFR). The CAFR is prepared in accordance with generally accepted accounting principles. **Key 2011 financial results are summarized on pages two through four below.**

North Carolina ranks as one of the first states to finish its CAFR. In fiscal year 2010, only six states (New York, Utah, Michigan, Washington, New Jersey, and Idaho) 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 2010 Comprehensive Annual Financial Report. The award is the highest form of recognition in the area of governmental accounting and financial reporting. The 2010 award marked the 17th consecutive year that OSC’s CAFR received this noteworthy recognition. The OSC believes the 2011 CAFR will meet or exceed the Certificate of Achievement Program requirements and have submitted it to the GFOA for review.

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 eight 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 2011 CAFR is available on the Office of the State Controller (OSC) website at:
<http://www.osc.nc.gov/financial/11CAFR/index.html>.

A summary level Financial Highlights report based on the 2011 CAFR is also available on the OSC website at:
http://www.osc.nc.gov/financial/11cafr/2011_NC_Popular_Report.pdf.

Each year, OSC uses the cover of the CAFR to highlight the people, events and history of North Carolina. Featured on the cover of the 2011 CAFR are scenes from the 2011 North Carolina State Fair. The inside cover of the CAFR details facts about the Fair including:

- The North Carolina State Fair is the largest 11-day event in North Carolina.
- The 2011 State Fair reached one million in attendance for the second straight year.
- The 2011 State Fair had a gross revenue of \$10.3 million from all sources.
- The State Fair each year creates several thousand jobs for its 11-day run.

**STATE OF NORTH CAROLINA
KEY FINANCIAL RESULTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

General Fund

The General Fund is the chief operating fund of the State. The fund balance of the General Fund nearly doubled from \$594.653 million at June 30, 2010 (as restated) to \$1.184 billion at June 30, 2011. This improvement is attributable primarily to agency allotment reductions. The General Assembly enacted Session Law 2011-15 (Senate Bill 109), which required the Governor to cut spending for fiscal year 2010-11 and to increase General Fund availability for fiscal year 2011-12 by \$538 million. Special exceptions were made for high-need programs including prisons, Medicaid, and public schools. This legislation was in response to an anticipated budget shortfall for fiscal year 2011-12 of approximately \$2.6 billion. The Office of State Budget and Management (OSBM) reduced agency budgets by 1% in July 2010 and an additional 2.5% in December 2010. Additionally, in March 2011, OSBM identified \$83 million in available cash balances in other funds that were subsequently transferred to the General Fund.

Individual income tax and sales and use tax revenues increased by 7.22% and 4.48% respectively, while corporate income tax revenues decreased by 8.5%. An individual income tax surcharge of 2% or 3% was imposed on taxpayers who met certain income requirements for tax years beginning on or after January 1, 2009. The surtax expired for tax years beginning January 1, 2011. The State's high unemployment rate continued to have a negative impact on collections. The Department of Revenue saw a significant increase in "no-remit" individual income tax returns and "under-remit" individual income tax returns in 2011. A temporary increase in the general sales tax from 4.5% to 5.5% was imposed effective September 1, 2009. The surtax expired on July 1, 2011. The State realized a full 12 months of collections of the additional 1% sales and use tax during fiscal year 2010-11. 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 surtax expired for tax years beginning January 1, 2011.

During fiscal year 2011, the General Fund recognized \$1.791 billion in federal recovery funds, provided under the American Recovery and Reinvestment Act of 2009 (ARRA). ARRA includes two key funding streams for states, the State Fiscal Stabilization Fund (SFSF) and increased federal participation in Medicaid (FMAP). The federal recovery funds were used to avoid deeper reductions in spending. This funding ended in fiscal year 2011.

Highway and Highway Trust Funds

The fund balance of the Highway Fund decreased from \$780.964 million at June 30, 2010 (as restated) to \$647.962 million at June 30, 2011, a decrease of 17.03%. A focus on completing projects funded from the latest GARVEE bond issuance contributed to the decrease.

The fund balance of the Highway Trust Fund increased from \$47.498 million at June 30, 2010 (as restated) to \$186.866 million at June 30, 2011. The enabling legislation specifies that a designated amount will be transferred each year to the General Fund. The amounts transferred to the General Fund for fiscal years 2011 and 2010 were \$72.895 million and \$108.562 million, respectively. The General Fund transfer was reduced as funds were transferred to the N.C. Turnpike Authority for debt service.

Unemployment Compensation Fund

The net assets of the Unemployment Compensation Fund (Trust Fund) decreased from negative \$1.701 billion at June 30, 2010 to negative \$1.969 billion at June 30, 2011. This decrease is directly related to the decline in the state and national economies. The state's unemployment rate was 9.9% in June 2011 compared to 10% in June 2010. The Trust Fund's operating margin (operating revenues less operating expenses) was negative \$3.074 billion this year compared to negative \$4.523 billion in 2010. Unemployment benefit expenses (both

State and Federal) decreased 21.6% in fiscal year 2010-11 to \$4.368 billion, primarily due to claimants exhausting their maximum allowable benefits and a reduction in the number of new initial claims.

In February 2009, because of depleted cash balances, the State began borrowing from the U.S. Treasury to ensure the uninterrupted payment of State unemployment benefits. At June 30, 2011, the repayable advances from the State's Federal Unemployment Account totaled \$2.536 billion compared to \$2.15 billion at the previous fiscal year-end. Interest began accruing January 1, 2011 at an interest rate of 4.09%. Interest is due and payable on September 30 for each year that the loan has an outstanding balance. The required interest payment of \$78.45 million was made on September 30, 2011. A 20% surcharge on unemployment contributions, which has been in effect since January 1, 2005 as required by statute, remained in effect during the current fiscal year. The surcharge is deposited into the State Reserve Fund and one of the allowable uses is to pay the interest on the borrowing. The surcharge is still in effect because the balance in the Trust Fund has not reached the trigger "off" level.

During fiscal year 2011, the federal government continued to provide various types of assistance to the unemployed. The Emergency Unemployment Compensation program provided \$2.271 billion in benefits and two programs continued this year under the American Recovery and Reinvestment Act provided \$600 million in benefits.

N.C. Education Lottery

As required by enabling legislation, net revenues of the N.C. Education Lottery (NCEL) are transferred four times a year to the General Fund. The NCEL transferred \$436.241 million to the General Fund in fiscal year 2010-11 to support educational programs for the State.

N.C. Turnpike Authority

The Triangle Expressway System, the first toll facility in North Carolina, is under construction and will include electronic tolling systems. The project is currently on schedule and estimated to be completed as planned. A portion of the Triangle Expressway opened in December 2011.

The gap between what tolling can pay for and the cost of the road requires additional support from the State, known as gap funding. In 2008, the General Assembly enacted legislation authorizing annual transfers from the Highway Trust Fund to the N.C. Turnpike Authority to pay debt service and fund required reserves on bonds issued to finance turnpike projects. In fiscal year 2010-11, \$49 million was transferred from the Highway Trust Fund to service debt on bonds issued to finance turnpike projects.

Capital Assets and Long-term Debt

The State's investment in capital assets (net of accumulated depreciation) was \$40.208 billion, an increase of 5.76% from the previous fiscal year-end. The largest component of capital assets is the State highway system. North Carolina has a 79,330 mile highway system, making it the second largest state-maintained highway system in the nation. This year's major capital asset additions were for State highway system construction (\$2 billion), toll road construction (\$383 million), construction of correctional facilities (\$89.8 million), and construction of the Green Square Complex (\$56.5 million).

The State had total long-term debt outstanding (bonds, special indebtedness, and notes payable) of \$8.461 billion, an increase of 4.43% from the previous fiscal year-end. The State issued \$500 million in limited obligation bonds for its governmental activities. The proceeds of the 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. Additionally, the N.C. Turnpike Authority, a business-type activity, issued \$233.92 million in revenue bonds and had additional borrowings of \$195.8 million from a federal transportation loan. The State also refinanced \$818.92 million of its existing debt in fiscal year 2010-11 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 \$30.3 million over the next 12 years.

In February 2011, all three rating agencies affirmed the triple-A credit rating for the State. The rating agencies recognized the State's proactive responses and history of taking early action to mitigate the impact of revenue declines. North Carolina remains one of only eight states with a triple-A rating from all three rating agencies.

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.