



# State of North Carolina

## Office of the State Controller

**DAVID T. McCOY**  
**STATE CONTROLLER**

### STATE CONTROLLER RELEASES 2013 COMPREHENSIVE ANNUAL FINANCIAL REPORT

December 3, 2013 – Contact: Sherri Johnson 919-707-0753

**RALEIGH** – The Office of State Controller (OSC) today released North Carolina’s 2013 Comprehensive Annual Financial Report (CAFR). OSC completed the 2013 CAFR eight days earlier than the prior year. The CAFR is prepared in accordance with generally accepted accounting principles.

North Carolina is one of the first states to complete and submit its CAFR. In fiscal year 2012, only four states (Michigan, New York, Utah, and Washington) submitted their CAFR prior to North Carolina’s submission. In addition, 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 2012 Comprehensive Annual Financial Report. The award is the highest form of recognition in the area of governmental accounting and financial reporting. The 2012 award marked the 19th consecutive year that OSC’s CAFR received this noteworthy recognition. The OSC believes the 2013 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. In January 2013, 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 nine states to enjoy top-tier rankings (i.e., AAA) from all three credit rating agencies.

The 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 2013 CAFR is available on the Office of the State Controller (OSC) website at:  
<http://www.osc.nc.gov/financial/13cafr/index.html>

A summary level Financial Highlights report based on the 2013 CAFR is also available on the OSC website at: [http://www.osc.nc.gov/financial/13cafr/2013\\_popularfinal\\_bookmarks.pdf](http://www.osc.nc.gov/financial/13cafr/2013_popularfinal_bookmarks.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 2013 CAFR is the James B. Hunt Jr. Library at N.C. State University (Hunt Library). The Hunt Library, which opened in January 2013, features over 221,000 gross square feet, including space for the Institute for Emerging Issues and other university centers and institutes. The Hunt Library has almost 100 group study rooms and technology-equipped spaces to support learning, research, and collaboration. The robot-driven bookBot automated book delivery system holds up to two million volumes in 1/9 the space of conventional shelving, enabling the library to provide more space for learning and

collaboration. The Hunt Library's bold design is a visual statement of its bold purpose: to be a place not of the past but of the future, a place where students, faculty, and partners can gather to research, learn, experiment, collaborate, and strengthen N.C. State's long tradition of leading transformative change.

**STATE OF NORTH CAROLINA  
KEY FINANCIAL RESULTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

**General Fund**

The General Fund is the chief operating fund of the State. The fund balance of the General Fund increased 22.02% to \$1.28 billion at June 30, 2013. The fund balance increase is due, in part, to the higher than expected growth in individual income taxes. Individual income tax and corporate income tax increased by 6.26% and 2.5%, respectively, while sales and use tax revenues increased by 0.68%. The number of employed persons in North Carolina has steadily increased in 2013, which has led to increased withholdings by companies remitting payroll taxes. North Carolina's unemployment rate fell from 9.6% in June 2012 to 8.8% in June 2013 but remains higher than the national average (7.3% in August 2013). Additionally, the expectation of higher federal income taxes in tax year 2013 provided an incentive for households to shift income into tax year 2012. Federal tax policy was not decided until the end of December 2012. Estimated individual income tax payments for January 2013 and final payments remitted in April 2013 were 42% and 24% higher, respectively, than the same month in 2012.

One of the major budget drivers for the General Fund is the Medicaid Program. On the budget basis, appropriation expenditures for Medicaid increased 16.2% in fiscal year 2012-13 to \$3.52 billion. In March 2013, budget writers were confronted with a significant budget gap in the State's Medicaid budget due to increased enrollment and utilization, a one-time state reimbursement of federal drug rebate payments, and a miscalculation of federal receipts. To ensure adequate funding through July 2013, the General Assembly authorized a total of \$496 million in additional Medicaid funding (Session Law 2013-56 and Session Law 2013-184). Sources of funding to cover the Medicaid shortfall included departmental receipts, funds diverted from other divisions of the Department of Health and Human Services, \$308.1 million in unreserved fund balance (budgetary basis), and fiscal year 2012-13 over collections.

**Highway and Highway Trust Funds**

The fund balance of the Highway Fund decreased from \$629.07 million at June 30, 2012 to \$332.46 million at June 30, 2013, a decrease of 47.15%. A significant decrease in federal recovery funds along with no capital inflow from new bond issuances were the main contributors to this reduction. Total revenues were \$3.292 billion, an increase of 1.63%. While federal highway fund billings and gasoline tax revenue increased, the decrease in federal recovery funds mostly offset the growth of these and other revenue sources. By the end of fiscal year 2012, over 96% of federal recovery funds for highway infrastructure had been exhausted. As a result, federal stimulus billings for 2013 were less than the previous year. Total expenditures were \$3.394 billion, an increase of 7.01%. The reallocation of Powell Bill payments to municipalities to the Highway Fund due to Session Law 2013-183 increased expenditures in the fund by \$47.55 million. Increased expenditures in transportation infrastructure and debt service also contributed to the decrease in fund balance.

The fund balance of the Highway Trust Fund increased from \$381.729 million at June 30, 2012 to \$620.753 million at June 30, 2013, an increase of 62.62%. The fund balance increase was primarily due to continued growth in new car sales which led to an increase in the highway use tax. Gasoline consumption also rose slightly from the previous year contributing to the overall increase. Total revenues were \$1.128 billion, an increase of 5.53%. Total transportation expenditures were \$759.939 million, a decrease of 1.11%. The reallocation of Powell Bill payments to municipalities to the Highway Fund due to Session Law 2013-183 decreased expenditures in the fund by \$47.55 million. This was offset by increased expenditures in capital outlay and bond principle payments resulting in the overall decrease. The enabling legislation for the Highway Trust Fund also specifies that a designated amount will be transferred each year to the General Fund. The amounts transferred to the General Fund for fiscal years 2013 and 2012 were \$27.6 million and

\$76.72 million, respectively. The enabling legislation was amended in 2008 to also require annual transfers to the N.C. Turnpike Authority to pay debt service or financing expenses for specified toll road construction projects. The amount transferred to the N.C. Turnpike Authority for fiscal year 2013 was \$49 million. The same amount was transferred in the prior year.

### **Unemployment Compensation Fund**

The Unemployment Compensation Fund (Trust Fund) reported net position of negative \$1.564 billion at June 30, 2013 compared to negative \$1.909 billion at June 30, 2012. The improvement in net position is explained primarily by the drop in the State's unemployment rate from 9.6% in June 2012 to 8.8% in June 2013. The Trust Fund's operating margin (operating revenues less operating expenses) was negative \$891.32 million this year compared to negative \$1.719 billion in 2012. Unemployment benefit expenses (both state and federal) decreased 23.99% in fiscal year 2012-13 to \$2.426 billion, primarily due to claimants exhausting their maximum allowable benefits and a reduction in the number of new initial claims. In fiscal year 2012-13, nonoperating revenues decreased 29.61% to \$1.329 billion due to a decrease in federal funding. Federal funding is only received for expenses incurred, so the decrease in expenses (resulting from fewer claims incurred) caused the decrease in noncapital grants revenue (reimbursement of those expenses).

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, 2013, the repayable advances from the State's Federal Unemployment Account totaled \$2.155 billion compared to \$2.566 billion at the previous fiscal year-end, a 16.02% decrease. For the tax year 2013, the Federal Unemployment Tax increased by 0.6% because the State had an outstanding loan in January for three consecutive years and did not pay back the borrowing. The funds generated from this federal tax increase go directly toward paying down the loan (i.e., Federal unemployment account advances). The additional federal taxes paid by the State's employers this fiscal year, which were used to reduce the loan balance, was \$142.036 million (classified as gain on extinguishment of debt). The Federal Unemployment Tax will increase by 0.3% for each succeeding year until the loan is repaid.

In calendar year 2013, Session Law 2013-2 will be implemented which will begin to have a significant impact toward decreasing the outstanding balance of the loan. This law is designed to generate revenue (by increasing unemployment taxes on employers) and reduce expenses (by reducing the maximum weekly benefit amount and the maximum duration of unemployment benefits) along with making other changes that impact employers and claimants. The Law will be implemented in segments throughout the calendar year with the full effects not being seen until calendar year 2014.

### **N.C. Education Lottery**

As required by the enabling legislation, net revenues of the N.C. Education Lottery (NCEL) are transferred four times a year to the General Fund. The NCEL transferred \$478.51 million to the General Fund in 2013 to support educational programs for the State. The amount transferred in 2012 was \$459.47 million.

### **N.C. Turnpike Authority**

The Authority completed construction of the Triangle Expressway System, the State's first modern toll road. The project was constructed and opened in three phases. The third and final phase opened to toll traffic on January 2, 2013. The Triangle Expressway project was delivered on schedule and under budget. The NCTA has completed the financing for the Monroe Connector System, a 20-mile toll road in Mecklenburg and Union counties. However, construction has been delayed due to litigation challenging the project's environmental documentation.

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 NCTA to pay debt service and fund required reserves on bonds issued to finance turnpike projects. For fiscal years 2012 through 2014, the N.C. General Assembly appropriated \$49 million annually for the Triangle Expressway and Monroe Connector projects.

**Capital Assets and Long-term Debt**

The State's investment in capital assets (net of accumulated depreciation) was \$43.948 billion, an increase of 4.39% from the previous fiscal year-end. The largest component of capital assets is the state highway system. North Carolina has a 79,492 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 (\$2.1 billion), toll road construction (\$101.7 million), computer software development at the Department of Health and Human Services (\$144 million), and construction of psychiatric hospitals (\$39.2 million). Also, the State completed and placed into service a new facility that will house the State Laboratory of Public Health and the Office of the Chief Medical Examiner.

The State had total long-term debt outstanding (bonds, special indebtedness, and notes payable) of \$8.598 billion, a decrease of 3.56% from the previous fiscal year-end. The State issued \$250 million in limited obligation bonds reported in governmental activities and refinanced \$1.401 billion of its existing general obligation bonds to take advantage of lower interest rates. The proceeds of the limited obligation bonds are being 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, had additional borrowings of \$89.37 million from a federal transportation loan. The federal loan proceeds were used to finance the remaining construction costs of the Triangle Expressway, a toll road in Durham and Wake counties.

***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, data management, eCommerce and financial reporting systems that serve state agencies, employees and the public and by maximizing financial return through its statewide cash management plan. The OSC issues numerous financial reports including: 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.***