



State of North Carolina
Office of the State Controller

STATE OF NORTH CAROLINA FINANCIAL HIGHLIGHTS

FISCAL YEAR ENDING JUNE 30, 2017

Cover photo: Outer Banks of North Carolina

Beauty from the Coast to the Mountains

The “Old North State” has a lot to offer as you travel from east to west. North Carolina, as the 12th state in the union, offers the second-longest coastline on the east coast and the highest mountain east of Pikes Peak (Mount Mitchell at 6,684 feet). It is the birthplace of Virginia Dare, Andy Griffith, Charles Kuralt, Michael Jordan, three presidents, and manned flight. It is also the home of the best in barbecue (eastern and western styles), the best in college basketball, the first musical celebration of Independence Day (Old Salem), and the largest research park in the United States (Research Triangle Park). Traveling from the sea to the mountains will take you a little more than eight hours by car as it is 546 miles from the coastal town of Manteo to the mountain town of Murphy.

Mixed in the pages that follow, you will see photographs representing many of the beautiful sites that you might see if you traveled from North Carolina’s coast to its mountains. These photographs were generously donated by Dave Combs who resides in Winston-Salem, NC.



FINANCIAL HIGHLIGHTS FISCAL YEAR 2017



I am pleased to present you with the ***North Carolina Financial Highlights*** for the fiscal year ended June 30, 2017. 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 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 'Linda Combs'.

Linda Combs
State Controller
December 1, 2017

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, 2017. 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 <https://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.



FINANCIAL HIGHLIGHTS FISCAL YEAR 2017

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 organizations known as 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 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



The Economy

During fiscal year 2016-17, the US economy continued to grow at a steady pace, and North Carolina's economic conditions reflected the same steady improvements. Total industry employment increased by 72,200 jobs (1.7%). A few key State industries experienced strong growth, especially the Professional and Business Services sector (5.0% growth), followed by Education and Health Services (2.4%), and Leisure & Hospitality (2.1%). Labor market improvements lowered the unemployment rate and increased wage growth. The State's unemployment rate fell from 4.9% to 4.2%. Wage and salary income grew by 4.8%, which built upon the solid growth of last fiscal year's 5.6% growth. For the second half of 2017, economic conditions should continue to support steady employment growth with wages forecast to grow at a pace similar to last year.



FINANCIAL HIGHLIGHTS FISCAL YEAR 2017

North Carolina Economic Indicators

	FY 2015-16 Actual	FY 2016-17 Projected	FY 2017-18 Projected	FY 2018-19 Projected
State Gross Product Growth*	2.1%	2.1%	3.3%	3.6%
Personal Income Growth	4.4%	3.9%	4.0%	5.1%
Wages & Salaries Growth	5.6%	4.8%	4.7%	5.8%
Retail Sales Growth	3.2%	4.6%	6.1%	6.5%
Unemployment Rate	5.3%	4.4%	4.2%	4.0%
Nonfarm Employment Growth	2.5%	1.7%	1.5%	1.6%
Population Growth	1.0%	1.0%	1.1%	1.1%

* Adjusted for Inflation

For North Carolina, as with the nation, the economy has strengthened, and the pace of growth closely tracked both the expectations at the start of the fiscal year and the stronger pace of growth established in the previous fiscal year. Most industries experienced decent gains, but employment in Information Services and the Manufacturing industries posted declines.

Projections of the State’s key economic indicators reflect how the State’s recovery is expected to unfold. Gross State Product, a broad measure of the State’s economic activity, is expected to show solid growth in the next two fiscal years. Total personal income growth should remain steady, increasing to 4.0% growth in fiscal year 2017-18. For the fiscal year, total personal income rose by 3.9%, still trailing the strong growth of 6 to 7% experienced in the pre-recession years. Wage and salary income, a component of total personal income, grew at 4.8% for the fiscal year.

The recovery in North Carolina moved into a stronger expansionary phase during fiscal year 2016-17 and the State continued solid progress in employment lowering the unemployment rate from 5.3% at the start of the fiscal year to 4.4% at the end. With a brighter economic outlook and a stronger labor market, retail sales advanced at a rate of 4.6%. Going forward, retail sales are expected to recover from years of slow growth by growing faster than the long-term 5.0% average and are forecast to grow by 6.1% in fiscal year 2017-18. A steady increase in wage-income is expected to spur growth in retail consumption the next two years.

As the State’s economy continues to progress, employment and income prospects are expected to stabilize. Total payroll employment is projected to grow by 1.5% and 1.6%, respectively. That would be below this year’s growth, but would continue to add 65,000 to 75,000 jobs in each of the next two years. Key industries in the State experienced strong growth during the fiscal year, especially the Professional and Business Services sector (5.0% growth), followed by Education and Health Services (2.4%), and Leisure & Hospitality (2.1%). The Construction industry has struggled to regain some of the jobs lost during and after the recession. During fiscal year 2015-16, employment grew in this industry by 3.9% (7,300 jobs). This past year, Construction growth slowed, adding only 1,100 jobs (0.6%). Despite the gains the past several years, there are still 52,900 fewer construction jobs than when the recession began in December 2007.

To summarize, the State’s economic conditions experienced steady improvement during the fiscal year. During most of 2016 and 2017, the State’s economy tracked closely, and at times outpaced, the national economy’s expansion. The State’s economy is projected to maintain growth at a pace faster than the national average throughout the next fiscal year. The anticipated economic strengthening should increase consumer demand, which will help maintain solid employment growth. Rising employment and wage gains continue to improve the overall health of the State’s economy.

— Economic analysis prepared by Barry Boardman, Ph.D., Chief Economist
Fiscal Research Division, North Carolina General Assembly
October 2, 2017



FINANCIAL HIGHLIGHTS FISCAL YEAR 2017

Financial Highlights

Government-wide

- ◆ The State reported total net position of \$55.417 billion, an increase of \$4.2 billion or 8.19% from the previous year. Net position of governmental activities was \$50.178 billion, an increase of \$3.448 billion or 7.38%. Net position of business-type activities was \$5.239 billion, an increase of \$747.67 million or 16.65%.
- ◆ Component units reported net position of \$24.6 billion, an increase of \$1.22 billion or 5.24% from the previous year. The majority of the net position is attributable to the University of North Carolina System, a major component unit.

Fund Financials

- ◆ The fund balance of the General Fund increased from \$3.76 billion at June 30, 2016 (as restated) to \$4.38 billion at June 30, 2017, an increase of 16.51%.
- ◆ The Highway Fund reported fund balance of \$246.6 million, a decrease of 26.60% from the previous year. The decrease is attributable to an increase in construction expenditures that were financed by bonds issued in May 2015.
- ◆ The Highway Trust Fund reported fund balance of \$1.77 billion, an increase of 24.71% from the previous year. The fund balance increase was primarily due to revenue growth outpacing expenditures.
- ◆ The Unemployment Compensation Fund (Trust Fund) reported net position of \$3 billion at June 30, 2017 compared to \$2.24 billion at June 30, 2016, an increase of 34%. The improvement in net position is explained by the improving economy, as evidenced by the continuing decline in the State's unemployment rate from 4.9% in June 2016 to 4.2% in June 2017, and an increase in the amount of quarterly interest earned on the balance in the Trust Fund.
- ◆ The N.C. State Lottery Fund (Lottery) reported net ticket sales of \$2.43 billion, an increase of 1.84% from the previous year. As required by law, the Lottery transferred \$622.51 million to the General Fund to support educational programs.
- ◆ The N.C. Turnpike Authority (NCTA) reported net position of \$319.04 million, a decrease of 23.63% from the previous year. Toll revenues increased \$5.2 million or 15.29%, contributing to an increase in operating income of \$1.39 million for the current year. A one-time transfer out of bonds and bond proceeds to the Highway Fund during the fiscal year was the most significant contributing factor to the overall net position decrease. The NCTA received a transfer in from the Highway Trust Fund of \$49 million for gap funding on turnpike bonds.
- ◆ The EPA Revolving Loan Fund reported net position of \$1.67 billion, an increase of 3.99% from the previous year. Operating income was \$11.17 million. Net nonoperating revenues of \$44.86 million consisted primarily of federal capitalization grants.





FINANCIAL HIGHLIGHTS FISCAL YEAR 2017

Government-wide Financials

The Statement of Net Position 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. Taxes and intergovernmental revenues generally fund these services.
- ◆ 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 services 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 Position

The Statement of Net Position presents all of the State's assets, deferred outflows of resources, liabilities, and deferred inflows of resources, with the sum of these components reported as "net position." The State of North Carolina's assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$55.42 billion at the close of the most recent fiscal year (see total primary government column). Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the State is improving or deteriorating. The State's overall net position increased \$4.2 billion or 8.19% (total primary government) from the prior fiscal year. The following table was derived from the government-wide Statement of Net Position:

Net Position as of June 30, 2017 and 2016
(dollars in thousands)

	Governmental Activities		Business-type Activities		Total Primary Government		Total Percentage Change 2016-17
	2017	2016 (as restated)	2017	2016 (as restated)	2017	2016 (as restated)	
Current and other non-current assets.....	\$ 13,128,701	\$ 12,368,792	\$ 5,429,282	\$ 5,051,129	\$ 18,557,983	\$ 17,419,921	6.53%
Capital assets, net.....	49,405,607	47,410,902	1,747,801	1,501,364	51,153,408	48,912,266	4.58%
Total assets.....	62,534,308	59,779,694	7,177,083	6,552,493	69,711,391	66,332,187	5.09%
Total deferred outflows of resources.....	1,762,619	609,661	41,909	4,597	1,804,528	614,258	193.77%
Long-term liabilities.....	9,729,470	8,769,985	1,638,645	1,650,234	11,368,115	10,420,219	9.10%
Other liabilities.....	4,248,255	4,665,871	338,357	412,060	4,586,612	5,077,931	(9.68%)
Total liabilities.....	13,977,725	13,435,856	1,977,002	2,062,294	15,954,727	15,498,150	2.95%
Total deferred inflows of resources.....	141,553	223,791	2,629	3,103	144,182	226,894	(36.45%)
Net position:							
Net investment in capital assets.....	47,264,866	45,313,618	531,573	653,235	47,796,439	45,966,853	3.98%
Restricted.....	1,089,962	1,039,216	15,040	7,043	1,105,002	1,046,259	5.61%
Unrestricted.....	1,822,821	376,874	4,692,748	3,831,415	6,515,569	4,208,289	54.83%
Total net position.....	\$ 50,177,649	\$ 46,729,708	\$ 5,239,361	\$ 4,491,693	\$ 55,417,010	\$ 51,221,401	8.19%

The largest component of the State's net position (86.2%) reflects its investment in capital assets (land, buildings, machinery and equipment, state highway system, toll road system, and other capital assets), less related debt still outstanding that was used to acquire or construct those assets. An additional portion of net position represents restricted net position. These resources are subject to constraints that are externally imposed (e.g., by creditors or grantors) or are imposed by law through constitutional provisions. The remaining balance of \$6.52 billion is unrestricted net position.



FINANCIAL HIGHLIGHTS FISCAL YEAR 2017

Statement of Activities

The Statement of Activities presents information showing how the State's net position changed during the most recent fiscal year. The following financial information was derived from the government-wide Statement of Activities:

Condensed Statement of Activities Primary Government For the Fiscal Year Ended June 30, 2017 (dollars in thousands)

	Primary Government		Total
	Governmental Activities	Business-type Activities	
Changes in Net Position			
Net (expense) revenue.....	\$ (22,841,358)	\$ 1,412,521	\$ (21,428,837)
General Revenues:			
Taxes:			
Individual income tax.....	11,950,085	—	11,950,085
Corporate income tax.....	805,062	—	805,062
Sales and use tax.....	7,646,658	—	7,646,658
Gasoline tax.....	1,945,769	—	1,945,769
Franchise tax.....	749,408	—	749,408
Highway use tax.....	784,549	—	784,549
Insurance tax.....	517,781	—	517,781
Beverage tax.....	394,883	—	394,883
Tobacco products tax.....	284,531	—	284,531
Other taxes.....	298,367	—	298,367
Tobacco settlement.....	140,569	—	140,569
Unrestricted investment earnings.....	62,683	—	62,683
State aid.....	—	—	—
Miscellaneous.....	39,194	346	39,540
Contributions to permanent funds.....	4,561	—	4,561
Contributions to endowments.....	—	—	—
Transfers.....	665,199	(665,199)	—
Total general revenues, contributions, and transfers.....	26,289,299	(664,853)	25,624,446
Change in net position.....	3,447,941	747,668	4,195,609
Net position — July 1, as restated (Note 23).....	46,729,708	4,491,693	51,221,401
Net position — June 30.....	\$ 50,177,649	\$ 5,239,361	\$ 55,417,010

Governmental Activities:

- ◆ Revenues outpaced expenses and when combined with contributions to permanent funds and transfers from the State's business-type activities, an increase in net position of \$3.45 billion (or 7.38%) resulted for governmental activities.
- ◆ Total revenues increased by \$1.01 billion (or 2.27%).
- ◆ Total expenses increased by \$1.76 billion (or 4.3%).

Business-type Activities:

- ◆ Business-type activities reflect an overall increase in net position of \$747.67 million (or 16.65%) primarily because of the financial results of the Unemployment Compensation Fund.
- ◆ The net position increase of \$760.39 million (or 34%) for the Unemployment Compensation Fund is explained by the improving economy, as evidenced by the continuing decline in the State's unemployment rate from 4.9% in June 2016 to 4.2% in June 2017.
- ◆ The net position decrease of \$98.7 million (or 23.63%) for the N.C. Turnpike Authority is due primarily to a one-time transfer out of bonds and bond proceeds to the Highway Fund.
- ◆ The net position increase of \$63.91 million (or 4%) for the EPA Revolving Loan Fund is due primarily to the recognition of federal capitalization grants.
- ◆ The N.C. State Lottery Fund has no net position since its net profits are distributed to the State's governmental activities, as required by statute.



FINANCIAL HIGHLIGHTS FISCAL YEAR 2017

Statement of Activities (cont'd)

For fiscal year 2017, the increase in total revenues is attributable to an improved economy and major tax changes enacted by the General Assembly, which included a broadening of the sales and use tax base and tax law changes to franchise tax (i.e. other taxes) increasing the minimum tax and repealing deductions and credits. Operating grants and contributions increased because of more spending in federally supported programs, such as Medicaid and disaster relief. The decrease in corporate income taxes is attributable to tax law changes, which has reduced the corporate tax rate from 6.9% to 3% over the past four years.

Total expenses increased by 4.3% to \$42.68 billion, primarily because of spending increases in the health and human services, public safety, corrections and regulation, and primary and secondary education. The increase in health and human services expenses of 2.44% (or \$449 million) are due primarily to increased spending for Medicaid as a result of growth in both enrollment and utilization for the program. The increase in expenses for public safety, corrections and regulation of 13.36% (or \$396 million) are partly due to expenses related to disaster relief. The growth in primary and secondary education expenses of 3.36% (or \$348.59 million) is due to increases in student enrollment and the number of state-funded teachers, as well as salary increases for State-funded local public school district employees.

Condensed Schedule of Expenses & Program Revenue Primary Government For the Fiscal Year Ended June 30, 2017 (dollars in thousands)

Functions/Programs	Expenses	Program Revenues	Net (Expense) Revenue
Primary Government			
Governmental Activities			
General government.....	\$ 1,220,572	\$ 295,912	\$ (924,660)
Primary and secondary education.....	10,721,373	1,545,091	(9,176,282)
Higher education.....	4,137,922	156,330	(3,981,592)
Health and human services.....	18,871,497	14,074,637	(4,796,860)
Economic development.....	475,172	241,726	(233,446)
Environment and natural resources.....	549,838	277,277	(272,561)
Public safety, corrections, and regulation.....	3,355,982	817,149	(2,538,833)
Transportation.....	2,953,576	2,360,578	(592,998)
Agriculture.....	196,538	66,971	(129,567)
Interest on long-term debt.....	194,559	—	(194,559)
Total Governmental Activities.....	42,677,029	19,835,671	(22,841,358)
Business-type Activities			
Unemployment Compensation.....	238,193	998,581	760,388
N.C. State Lottery.....	1,808,537	2,434,142	625,605
EPA Revolving Loan.....	14,648	70,673	56,025
N.C. Turnpike Authority.....	108,845	64,695	(44,150)
Regulatory programs.....	113,780	128,989	15,209
Insurance programs.....	23,828	18,791	(5,037)
North Carolina State Fair.....	17,459	16,897	(562)
Other business-type activities.....	14,162	19,205	5,043
Total Business-type Activities.....	2,339,452	3,751,973	1,412,521
Total Primary Government.....	\$ 45,016,481	\$ 23,587,644	\$ (21,428,837)

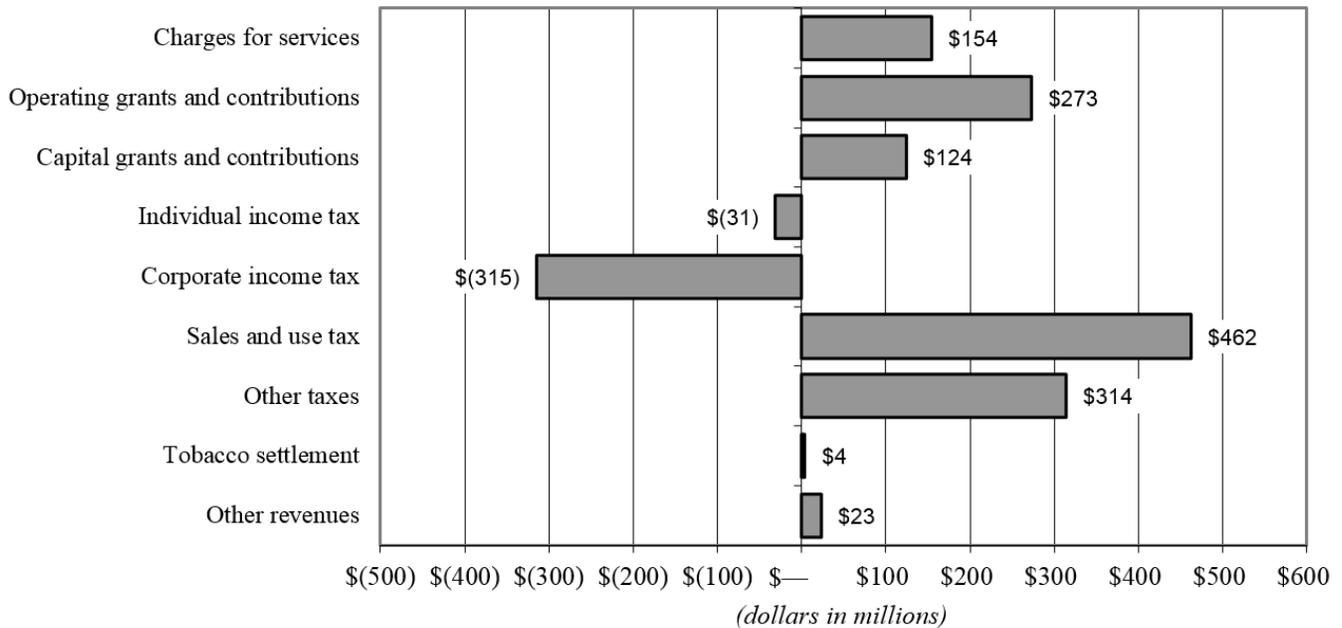


FINANCIAL HIGHLIGHTS FISCAL YEAR 2017

Statement of Activities (cont'd)

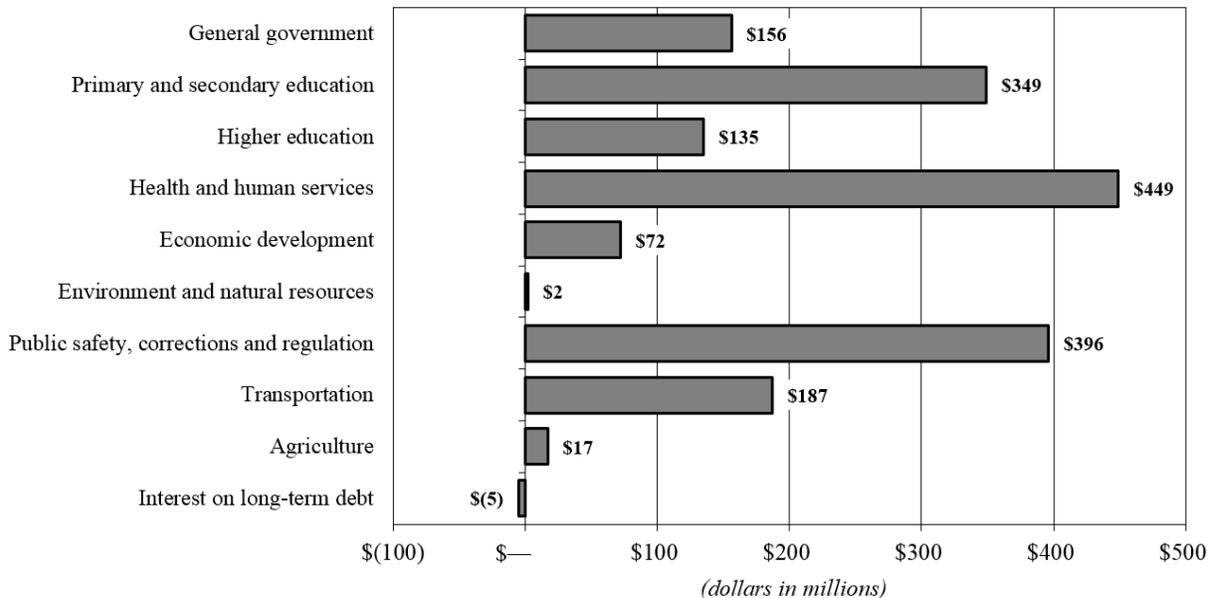
The following chart reflects the dollar change in the revenues by source of governmental activities between fiscal years 2016 and 2017:

**Dollar Change in Governmental Activities Revenues by Source
Between Fiscal Years 2016 and 2017**



The following chart reflects the dollar change in the functional expenses of governmental activities between fiscal years 2016 and 2017:

**Dollar Change in Governmental Activities Functional Expenses
Between Fiscal Years 2016 and 2017**



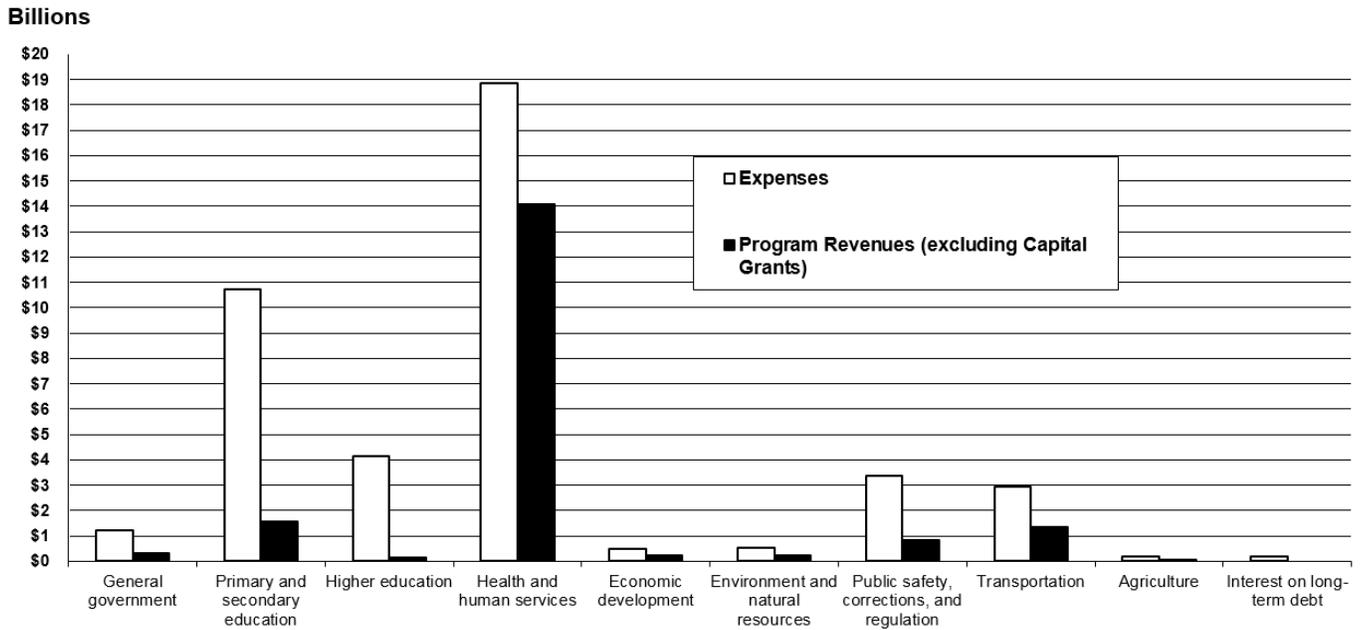


FINANCIAL HIGHLIGHTS FISCAL YEAR 2017

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.

**Expenses - Governmental Activities
For the Fiscal Year Ended June 30, 2017**



Sunset Beach, NC



FINANCIAL HIGHLIGHTS FISCAL YEAR 2017

Statement of Activities (cont'd)

The following schedule reflects the changes in the State's net position over the last five years:

CHANGES IN NET POSITION

For the Fiscal Years 2013-2017

(dollars in millions)

	2017	2016	2015	2014	2013
Governmental Activities					
Total Expenses.....	\$ (42,677)	\$ (40,919)	\$ (40,799)	\$ (39,400)	\$ (40,095)
Total Tax Revenues.....	25,377	24,947	24,049	22,569	22,734
Total Other Revenues and Contributions.....	20,083	19,505	19,602	19,078	19,254
Total Transfers.....	665	518	416	430	449
Change in Net Position.....	3,448	4,051	3,268	2,677	2,342
Net Position - June 30.....	\$50,178	\$46,727	\$42,822	\$39,603	\$38,205
Business-type Activities					
Total Expenses.....	(2,339)	(2,260)	(2,055)	(2,289)	(3,953)
Total Revenues.....	3,752	4,090	4,157	4,029	4,831
Total Transfers.....	(665)	(518)	(416)	(430)	(449)
Change in Net Position.....	748	1,312	1,686	1,310	429
Net Position - June 30.....	\$5,239	\$4,492	\$3,175	\$1,477	\$161
Total Primary Government					
Total Expenses.....	(45,016)	(43,179)	(42,854)	(41,689)	(44,048)
Total Revenues and Contributions.....	49,212	48,542	47,808	45,677	46,818
Change in Net Position.....	4,196	5,363	4,954	3,988	2,770
Net Position - June 30.....	\$55,417	\$51,221	\$45,998	\$41,079	\$38,365



Pilot Mountain NC



FINANCIAL HIGHLIGHTS FISCAL YEAR 2017

Capital Assets

As of June 30, 2017, the State's investment in capital assets was \$51.15 billion, an increase of 4.58% from the previous fiscal year-end (see table below):

Capital Assets as of June 30
(net of depreciation, dollars in thousands)

	Governmental		Business-type		Total	
	Activities		Activities			
	2017	2016 (as restated)	2017	2016 (as restated)	2017	2016 (as restated)
Land and permanent easements.....	\$ 17,761,769	\$ 17,190,456	\$ 269,943	\$ 236,488	\$ 18,031,712	\$ 17,426,944
Buildings.....	2,817,690	2,692,538	62,339	61,661	2,880,029	2,754,199
Machinery and equipment.....	752,715	732,893	7,045	6,935	759,760	739,828
Infrastructure:						
State highway system.....	24,667,312	23,748,157	—	—	24,667,312	23,748,157
NC toll road system.....	—	—	730,186	746,316	730,186	746,316
Other infrastructure.....	165,163	168,572	4,086	4,160	169,249	172,732
Computer software.....	276,429	277,844	1,003	899	277,432	278,743
Art, literature, and other artifacts.....	137,088	135,669	393	393	137,481	136,062
Construction in progress.....	2,354,493	2,087,678	672,806	444,512	3,027,299	2,532,190
Computer software in development.....	472,948	377,095	—	—	472,948	377,095
Total.....	\$ 49,405,607	\$ 47,410,902	\$ 1,747,801	\$ 1,501,364	\$ 51,153,408	\$ 48,912,266

Total percent change between
fiscal years 2016 and 2017

4.21 %

16.41 %

4.58 %

The largest component of capital assets is the state highway system. North Carolina has a 79,669 mile highway system, making it the second largest state-maintained highway system in the nation. The major capital asset activity during the current fiscal year included the following:

- ◆ The N.C. Department of Transportation reported year-end construction in progress of \$1.99 billion for state highway projects. Additionally, the N.C. Turnpike Authority (business-type activity) reported year-end construction in progress of \$578 million for the Monroe Expressway, a toll project in eastern Mecklenburg County. The Monroe Expressway project is expected to improve mobility and capacity within the project study area by providing a highway for the U.S. 74 corridor that allows for high-speed regional travel.
- ◆ The Department of Health and Human Services (DHHS) completed and placed into service Cherry Hospital, a new regional psychiatric facility. The new state-operated hospital began accepting patients in September 2016. The total cost of this facility was \$126.5 million and was financed by special indebtedness bonds approved by the N.C. General Assembly. The DHHS is also constructing another psychiatric hospital as part of the effort to replace aging state-operated psychiatric hospitals. It began construction of a new Broughton Hospital in 2012 and the hospital is being financed by special indebtedness bonds approved by the N.C. General Assembly. At year-end, construction in progress for Broughton Hospital totaled \$142.07 million.
- ◆ DHHS is also replacing major legacy IT systems. NC FAST, the new system for managing and administering social services benefits, will improve the way DHHS and the 100 county departments of social services conduct business. At year-end, computer software in development for NC FAST totaled \$424 million. NC Tracks, the new multi-payer Medicaid Management Information System, became operational on July 1, 2013.



FINANCIAL HIGHLIGHTS FISCAL YEAR 2017

Debt Administration

At year-end, the State had total long-term debt outstanding (bonds, special indebtedness, and notes payable) of \$6.96 billion, a decrease of 4.24% from the previous fiscal year-end (see table below):

Outstanding Debt as of June 30
Bonds, Special Indebtedness, and Notes Payable
(dollars in thousands)

	Governmental Activities		Business-type Activities		Total	
	2016				2016	
	2017	(as restated)	2017	2016	2017	(as restated)
General obligation bonds.....	\$ 2,851,695	\$ 3,038,655	\$ —	\$ —	\$ 2,851,695	\$ 3,038,655
Special Indebtedness:						
Certificates of participation.....	102,405	124,820	—	—	102,405	124,820
Limited obligation bonds.....	1,888,370	1,997,070	—	—	1,888,370	1,997,070
GARVEE bonds.....	607,685	529,755	—	145,535	607,685	675,290
Revenue bonds.....	—	—	1,096,395	1,011,388	1,096,395	1,011,388
Notes payable.....	22,089	27,196	386,900	388,827	408,989	416,023
Total	<u>\$ 5,472,244</u>	<u>\$ 5,717,496</u>	<u>\$ 1,483,295</u>	<u>\$ 1,545,750</u>	<u>\$ 6,955,539</u>	<u>\$ 7,263,246</u>
Total percent change between fiscal years 2016 and 2017	(4.29)%		(4.04)%		(4.24)%	

During the 2016-17 fiscal year, the State issued \$200 million in Connect NC general obligation bonds for its governmental activities for capital improvements. Also, the North Carolina Turnpike Authority (NCTA), a business-type activity, issued \$137.052 million in revenue bonds, with a portion of the bonds being issued for an advance refunding. There was no economic gain or loss from the refunding other than removal of the lien. Additionally, the NCTA issued \$200.515 million in refunding bonds to refinance previously outstanding revenue bonds. The refinancing was done to take advantage of lower interest rates and will save the State approximately \$32 million in debt service costs.

In connection with the general obligation bonds, Standard & Poor's Rating Services, Moody's Investors Service, and Fitch Ratings, the top three rating agencies, all affirmed the triple-A bond rating for the State. A triple-A credit rating means that North Carolina has followed well-defined financial management policies and has demonstrated strong debt management practices. The rating agencies recognized the State's historically conservative budgeting, financial management, and debt issuance practices. North Carolina remains one of only twelve states with a triple-A rating from all three rating agencies.

The State's total long-term debt (bonds, special indebtedness, and notes payable) reported in governmental activities has increased significantly, rising from \$3.48 billion in 2002 to \$5.47 billion in 2017, in part due to large issuances of non-general obligation debt (special indebtedness) for higher education capital projects. Prior to 2003, the State only issued general obligation debt. The NCTA, a business-type activity, had its first debt issuance in 2010. NCTA's long-term debt has increased from \$691.56 million in 2010 to \$1.48 billion in 2017.



FINANCIAL HIGHLIGHTS FISCAL YEAR 2017

Demographic and Economic Indicators

The following tables illustrate comparative information for the State:

SCHEDULE OF POPULATION GROWTH						
For the Fiscal Years 2013-2017						
<i>(population in millions)</i>						
Year	2017	2016	2015	2014	2013	% Change From 2013-2017
United States	325.39	323.13	320.90	318.56	316.20	2.91%
North Carolina	10.26	10.15	10.04	9.93	9.84	4.27%

PRINCIPAL EMPLOYERS						
For the Fiscal Years 2008 & 2017						
Employer	2017			2008		
	Employees	Rank	Percentage of Total State Employment	Employees	Rank	Percentage of Total State Employment
State of North Carolina.....	175,000-179,999	1	3.78%	180,000-184,999	1	4.26%
Federal Government.....	70,000-74,999	2	1.54%	60,000-64,999	2	1.46%
Wal-Mart Associates, Inc.....	45,000-59,999	3	1.12%	50,000-54,999	3	1.22%
Charlotte Mecklenberg Hospital Auth.....	35,000-39,999	4	0.80%	15,000-19,999	9	0.41%
Duke University.....	30,000-34,999	5	0.69%	25,000-29,999	4	0.64%
Food Lion LLC.....	30,000-34,999	6	0.69%	25,000-29,999	5	0.64%
Wells Fargo Bank NA.....	25,000-29,999	7	0.59%	—	—	—
Wake County Public School System.....	20,000-24,999	8	0.48%	15,000-19,999	8	0.41%
Charlotte-Mecklenburg Board of Ed.....	20,000-24,999	9	0.48%	20,000-24,999	6	0.52%
Lowes Home Centers, Inc.....	15,000-19,999	10	0.37%	15,000-19,999	10	0.41%
Wachovia Bank NA.....	—	—	—	20,000-24,999	7	0.52%
Total.....	465,000-524,990		10.54%	425,000-474,990		10.49%



Daffodils—Piedmont Region, NC



FINANCIAL HIGHLIGHTS FISCAL YEAR 2017

Demographic and Economic Indicators (cont'd)

TEACHERS AND STATE EMPLOYEES BY FUNCTION

For the Fiscal Years 2013-2017

Functions	2017	2016	2015	2014	2013
General government (3).....	5,160	4,857	5,270	5,357	5,450
Primary and secondary education.....	153,236	154,079	153,165	157,205	165,167
Higher education:					
Universities.....	63,345	62,194	62,152	61,720	60,665
Community colleges.....	18,021	18,129	18,471	18,588	19,518
Health and human services (1).....	17,970	17,552	17,620	17,801	17,786
Economic development.....	2,340	3,365	2,893	3,003	2,722
Environment and natural resources (2) (3).....	4,112	4,148	3,471	3,566	3,549
Public safety, corrections and regulation (1).....	34,009	33,966	33,558	33,635	34,668
Transportation.....	12,578	12,591	12,758	13,309	13,170
Agriculture (2).....	2,077	2,066	2,080	2,081	2,110
Totals.....	312,848	312,947	311,438	316,265	324,805



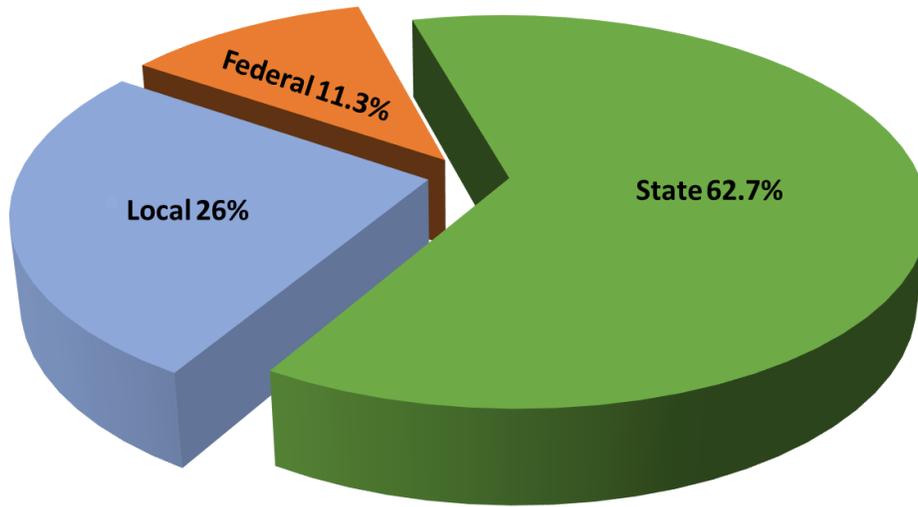


FINANCIAL HIGHLIGHTS FISCAL YEAR 2017

Education Highlights (Primary and Secondary)

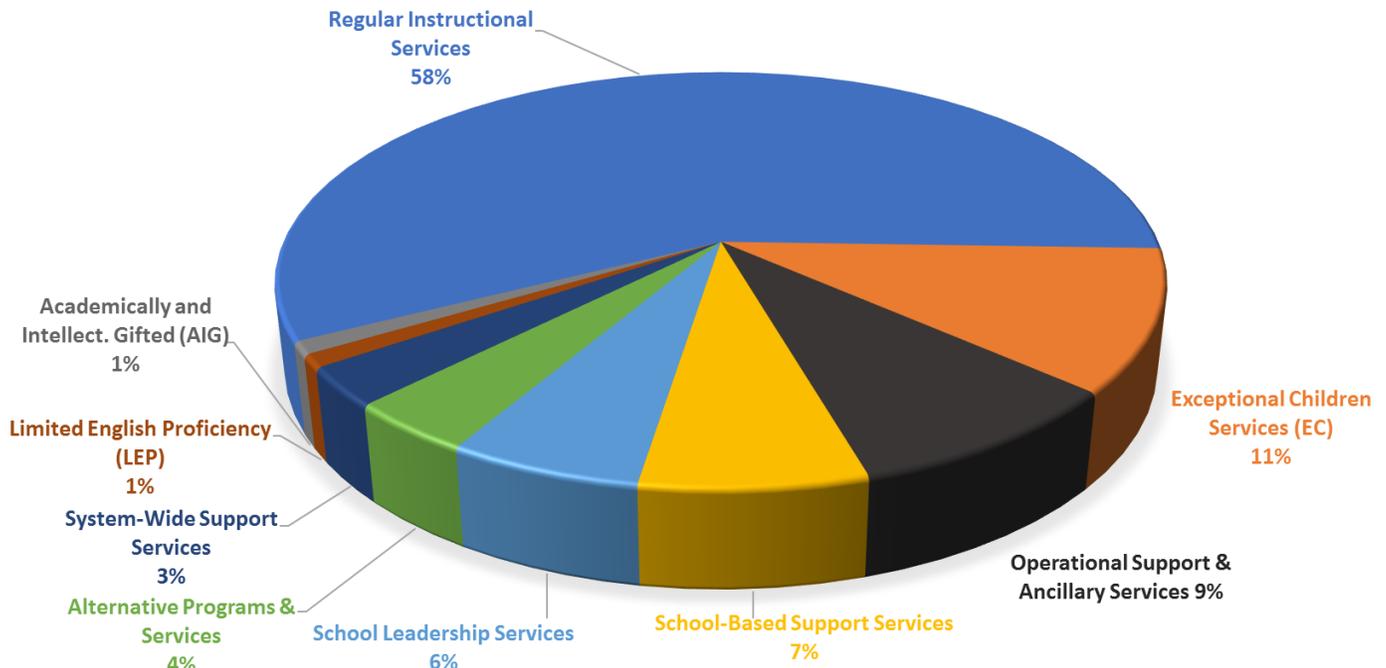
North Carolina ranks 9th in the Nation for the highest percentage of funds from state revenue. The national average is 46.4%. Most other state school systems are primarily funded by locally driven initiatives such as property taxes and local bond issues.

SOURCE OF EXPENDITURES FY 2015 - 16



Of the \$8.1 billion State Public School Fund for fiscal year 2015-2016, all but 6% was used for salaries and benefits.

HOW STATE FUNDS WERE EXPENDED FY 2015 - 16



Information provided by NC DPI at www.ncpublicschools.org.



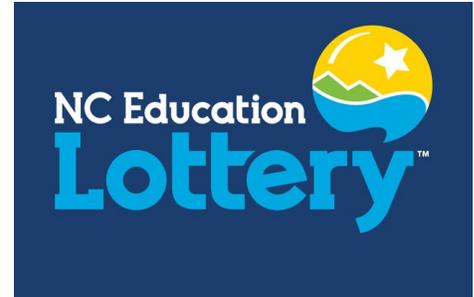
FINANCIAL HIGHLIGHTS FISCAL YEAR 2017

North Carolina Education Lottery

For the 11th year in a row, the N.C. Education Lottery finished the 2016-17 fiscal year by setting a new record for lottery ticket sales, recording \$2.43 billion in sales. From those sales, the Lottery raised \$622.5 million for education programs in North Carolina.

Instant tickets, or scratch-offs, continued to be the Lottery's most popular product, generating \$1.69 billion in sales, or 69.6% of revenue. The Lottery launched 53 new instant games during the year, including its second \$30 game, Extreme Millions, which offered four \$10 million prizes, 22 \$1 million prizes, and four additional \$1 million prizes that could be won in second-chance drawings.

Lottery players were awarded \$1.54 billion in prize money. During the year, prizes of \$1 million or more were won 59 times, including one prize of \$10 million; two \$1,000 a Day for Life top prizes in the Lucky For Life game that were worth at least \$7.2 million; and a record Carolina Cash 5 jackpot of \$1.7 million. Many winners put their money right back to work in the economy, by paying bills, buying new houses or cars, taking vacations, saving and investing the money for retirement or college, or donating to personal good causes.



To get a sense of the Lottery's popularity, consider what happens every day across the state. Last year, the Lottery averaged \$6.6 million a day in ticket sales, \$4.2 million in prizes, and \$1.7 million a day raised for education. The Lottery completed the 2016-17 fiscal year with 6,863 retail locations across North Carolina, and retailers earned \$170.5 million in sales commissions and incentives. Total sales since the inception of the Lottery in 2006 stood at \$18.28 billion, and the amount of money raised for education at \$5.23 billion.

The Lottery continued to be a leader in the U.S. lottery industry on responsible gaming, and received a "clean opinion" from independent auditors in its most recent, (and all prior) financial audit(s). Alice Garland, the executive director of the Lottery, became the first lottery/gaming professional to receive the National Council on Problem Gambling's Don Hulen Award for Advocacy, recognizing Garland's leadership in expanding responsible gaming efforts across the nation.

The State Lottery Act directs the lottery to increase and maximize the available revenues for education purposes. In the 2016-17 fiscal year, a breakdown of revenues showed 63.4% went to prizes, 25.6% for education programs the Lottery serves, 7% in retailer commissions, and the remaining 4% to administrative expenses.

The Lottery transferred its net profits during fiscal year 2016-17 on a monthly basis to the Office of State Budget and Management into the North Carolina State Lottery Fund, from which these funds were then distributed as outlined in the budget approved by the General Assembly.

The General Assembly made the following allocation of lottery dollars in its fiscal year 2017 budget to education programs:

- ◆ \$372.3 million, or 62.9% to noninstructional support personnel;
- ◆ \$100 million, or 16.9% for the Public School Building Capital Fund which provides monies to North Carolina counties to build and repair schools;
- ◆ \$78.3 million, or 13.2% to the N.C. Pre-K program to fund seats in the prekindergarten program for at-risk four-year-olds;
- ◆ \$30.4 million, or 5.1% for N.C. Education Lottery Scholarships which are awarded based on financial need to students attending a state university or community college;
- ◆ \$10.7 million, or 1.8% to the UNC Need-Based Grant program, which provides financial aid based on need to students attending one of the 16 UNC system institutions.

Lottery's revenues exceeded projections and unallocated funds were placed in reserve funds. The General Assembly also directed transfers of \$2.1 million in profits to the N.C. Alcohol Law Enforcement and \$1 million to the N.C. Problem Gambling Program.

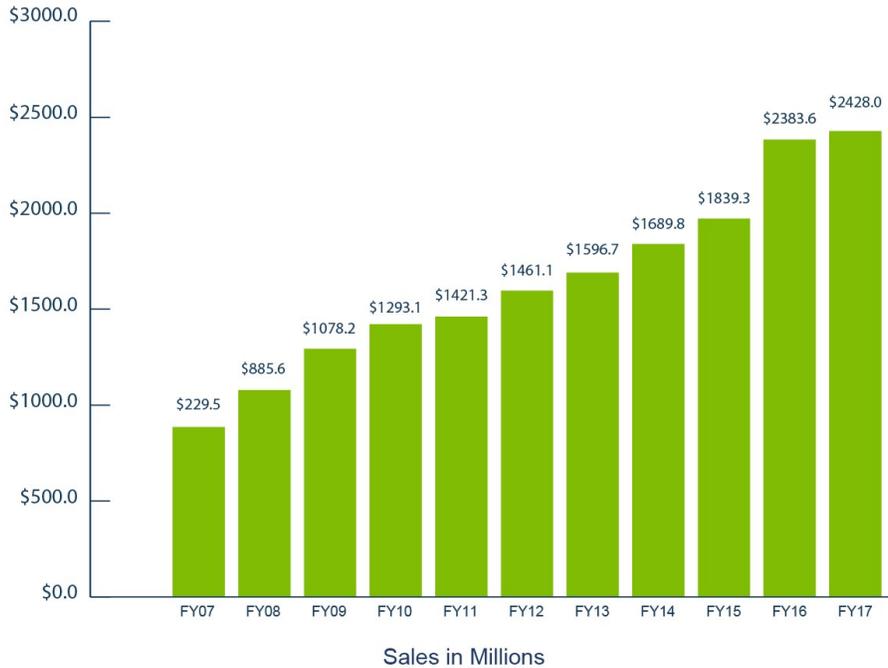


FINANCIAL HIGHLIGHTS FISCAL YEAR 2017

North Carolina Education Lottery (cont'd)

The following tables illustrate how lottery funds were distributed for education in fiscal year 2017:

Lottery Sales



FY 2017 Distribution of Revenue



Information provided by the North Carolina Education Lottery



FINANCIAL HIGHLIGHTS FISCAL YEAR 2017

Transportation Highlights

For the fiscal year 2017, the North Carolina Department of Transportation (NCDOT) listed the following as some of its key accomplishments:

- ◆ NCDOT has made it a top priority to deliver highway projects sooner to allow citizens to realize the benefits of these projects much sooner. NCDOT has implemented new processes and procedures that already are making a real difference. For example, by performing tasks simultaneously rather than sequentially, NCDOT was able to accelerate more than 350 projects and fund an additional 144 in its State Transportation Improvement Program. In addition, the number of deficient bridges replaced over five years will increase from 710 to 860.
- ◆ Another way NCDOT will be able to deliver projects more quickly is through the creation of the Division Mobility Fund. Each of the State's 14 highway divisions will receive about \$2 million per year to fund smaller projects outside of the Strategic Transportation investments process.
- ◆ When Governor Cooper took office in January, eastern North Carolina still had more than 100 roads closed due to damage from Hurricane Matthew. NCDOT Secretary Trogon charged staff to expedite the remaining work and get as many roads open as quickly as possible. By mid-March, all but 28 roads had been opened. The remaining repairs required more complex work.
- ◆ The biennium state budget established the Roadside Environmental Fund and provides \$104 million each year dedicated for vegetation management, mowing, litter prevention and removal and beautification efforts, as well as rest areas. NCDOT's goal is to improve the condition and appearance of the State's roadsides to support growing needs and economic development.
- ◆ NCDOT completed the Piedmont Improvement Program, a seven-year construction program to improve safety, efficiency and reliability for freight and passenger trains on the rail corridor between Charlotte and Raleigh. Additionally, locomotives and railcars for the *Piedmont* train service and improvements at four train stations between Cary and Kannapolis were completed. These will support the start of two new daily round trips on the Piedmont passenger line beginning in May 2018. The Program was largely funded through the American Recovery and Reinvestment Act of 2009. At more than half a billion dollars, it is the largest program of improvements to the State's rail infrastructure in modern times and will benefit both freight and passenger rail.



Bass Lake, NC



FINANCIAL HIGHLIGHTS FISCAL YEAR 2017

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, 2016. 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 19 consecutive years (fiscal years ended 1998-2016). We believe our current report continues to conform to the Popular Annual Financial Reporting requirements, and we are submitting it to the GFOA.



Government Finance Officers Association

Award for Outstanding Achievement in Popular Annual Financial Reporting

Presented to

State of North Carolina

For its Annual
Financial Report
for the Fiscal Year Ended

June 30, 2016

A handwritten signature in black ink, reading 'Jeffrey R. Egan'.

Executive Director/CEO

25 copies of this public document were printed at a cost of \$157.66 or \$6.31 per copy.