



# State of North Carolina

## Office of the State Controller

**LINDA COMBS**  
**STATE CONTROLLER**

December 3, 2015

The Honorable Pat McCrory, Governor  
Members of the North Carolina General Assembly  
Citizens of North Carolina

In compliance with G.S. 143B-426.40H, it is our pleasure to provide you with the State of North Carolina's 2015 Comprehensive Annual Financial Report (CAFR). 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.

North Carolina's State government management 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 North Carolina's General Statutes, 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, the N.C. Turnpike Authority, 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 12<sup>th</sup> 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 10.04 million, making it the 9<sup>th</sup> most populated state in the nation. Ninety-two percent of the State's population lives in metropolitan 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 79,584 miles of roads, with Interstate 40 crossing North Carolina east to west, and Interstates 77, 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.

North Carolina continues to grow and to be an attractive place to live, to work, and to raise a family. The State has been consistently ranked as one of the nation's "Top Business Climates" according to *Site Selection* magazine. It has taken the top honor 11 times in the last 15 years in the annual selection by the magazine. In addition, North Carolina is ranked among the best business climates in the nation by CNBC, *Forbes* and *Chief Executive*.

### *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...." All administrative departments, agencies, and offices of the State and their respective functions, powers, and duties shall be allocated by law among and within not more than 25 principal administrative departments.

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, and the State Health Plan. 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 primary and secondary 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 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 Appropriations Bill. The budget approved by the General Assembly is the legal expenditure authority; however, the Office of State Budget and Management 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*

During fiscal year 2014-15, the US economy continued to grow at a steady, moderate pace. North Carolina's economic conditions reflected the same steady improvements experienced by the nation's economy. Key industries in the State experienced strong growth during the fiscal year, especially the Professional and Business Services sector, Construction, and Durable-Goods Manufacturing. Employment improved, although wage growth fell below expectations. The State's unemployment rate dropped 0.4 percentage points during the year, falling from 6.2% to 5.8%. The State added 97,900 payroll jobs, a significant gain over the 73,600 added the previous year. Wage and salary income grew by 4.2%, which was improved over last year's 3% but weaker than long-run expectations of 5% to 6%. For the second half of 2015, economic conditions are expected to contribute to steady employment growth increasing upward pressure on wage growth. In 2016, wages are forecast to approach growth rates closer to the long-range average of 5.1%.

The very slow-pace of the recovery during the first five years after the Great Recession has finally ended yet strong, expansionary economic growth struggles to gain traction. The national Gross Domestic Product (GDP, a broad measure of economic activity) finished the last quarter of the fiscal year very strong with 3.7% growth offsetting the previous quarter's dismal 0.6% growth. Yet ongoing global economic instability will continue to be a drag on the US's ability to boost economic activity beyond the moderate, mid-two percent annual growth rate.

*National Economic Outlook*

**United States Economic Indicators**

	FY2013-14 Actual	FY2014-15 Projected	FY2015-16 Projected	FY2016-17 Projected
<b>Economic growth (GDP)*</b>	2.2%	2.6%	2.8%	2.7%
<b>Personal Income</b>	4.2%	4.2%	5.2%	6.1%
<b>Corporate Pre-Tax Profits</b>	3.6%	6.4%	6.2%	2.9%
<b>Retails Sales</b>	4.5%	4.9%	5.5%	5.6%
<b>Unemployment Rate</b>	6.8%	5.7%	5.0%	4.7%
<b>Consumer Price Index</b>	2.1%	0.1%	1.5%	2.2%
<b>30-yr Fixed Mortgage Interest Rate</b>	3.5%	4.3%	4.3%	5.7%

\*Adjusted for inflation

The national economy has been hampered by an unequal recovery and an unstable global economy. The aftermath of the global financial crisis continued to affect economies worldwide. This was especially true in the Eurozone where economic growth and financial stability proved difficult for some of its members. Uprisings in the Middle East added to this instability. Further complicating economic conditions was the decline in oil prices, which are the result of both weaker global demand and higher output levels. In the US, capital markets continued to perform well, but those improvements have not translated into widespread improvements in the whole economy. Over the past two years, business investments, hiring, and industrial production have periodically established some momentum offering hope that an expansionary phase in the economy was on the horizon. Unfortunately, the momentum has gained little traction and leaves us with a continuation of weaker overall growth in the economy than one might expect six years after a recession's end. The nation's outlook for the remainder of 2015 and 2016 is for a continuation of this modest, below-average economic growth. This means the pace of economic activity is not expected to either significantly accelerate or decelerate over the next eighteen to twenty-four months.

Economic indicators conveyed the subpar pace of growth during the fiscal year. The national economy grew at a pace of 2.6%. This was slightly ahead of the pace of the previous fiscal year. The economy appeared poised to move into a stronger expansionary phase with 2.9% annualized growth in the third quarter of 2014. By the next quarter, rather than accelerating, growth had slowed to 2.5%. The next two fiscal years' economic activity is expected to maintain the current pace, growing by 2.8% and 2.7%, respectively.

Improving economic activity during the year meant the dismal pace of employment growth would start to improve. The nation's average unemployment rate dropped from 6.8% to 5.7%. Previous drops in the unemployment rate had mostly been attributed to a shrinking labor force rather than growing payrolls. This fiscal year stronger employment growth was the main driver of the lower rate. Nonetheless, slack in the labor market persisted and was reflected by weaker-than-expected wage growth. During the fiscal year, total personal income in the nation rose by only 4.2%. Projected advancements in the economy suggest that personal income growth will increase with 5.2% growth expected in fiscal year 2015-16.

Business profitability saw a major rebound after the recession, but since then profits have plateaued. Many businesses coming out of the recession were bolstered by a global economic recovery spurred primarily by emerging markets such as India and China. In the past year, export demand has weakened considerably as global economic weakness intensified. National demand has not been able to pick up the slack, thus expectations for profit growth were downgraded. Profits grew by 6.4% during the fiscal year. Growth in the following years reflects ongoing weakness in the global economy plus an uptick in domestic wages, thus lowering overall profits. For the upcoming fiscal years, profits are forecast to grow 6.2% and 2.9%, respectively.

Retail sales are a good indicator of an economy's health. This key measure improved in fiscal year 2014-15, although the pace of growth did not meet most forecasters' expectations. As economic conditions continue to stabilize and the employment picture improves, consumers are more willing to increase spending. Household debt has increased the past two years reflecting more confident consumers. The biggest drag has been stagnant wage growth. Continued improvements in employment and a stronger wage growth will help boost retail sales over the next several years.

To summarize, the economy has settled into a subpar growth pattern in the 2.5% range. Gains, while modest, have improved consumer spending. As the labor market tightens, wages are expected to improve and should provide further support for increases in consumer spending. Global weakness, including the decline in China's economy, will keep the national economy from accelerating into a full expansionary mode.

*North Carolina  
Economic  
Outlook*

**North Carolina Economic Indicators**

	FY2013-14 Actual	FY2014-15 Projected	FY2015-16 Projected	FY2016-17 Projected
<b>State Gross Product*</b>	2.1%	2.4%	2.9%	3.2%
<b>Personal Income</b>	3.2%	4.5%	5.2%	5.3%
<b>Wages &amp; Salaries</b>	3.0%	4.2%	5.1%	5.1%
<b>Retail Sales</b>	5.1%	5.6%	6.1%	6.5%
<b>Unemployment Rate</b>	6.2%	5.8%	5.8%	5.5%
<b>Employment (Nonagricultural)</b>	2.2%	2.4%	2.1%	2.2%
<b>Population</b>	1.0%	1.0%	1.2%	1.5%
<b>Housing Starts</b>	-2.3%	12.4%	14.0%	18.0%

\*Adjusted for Inflation

For North Carolina, as with the nation, the economy has strengthened, but the pace of growth has been somewhat weaker than was expected at the start of the fiscal year. Economic indicators show that the economy did pick up pace during the fiscal year. Stronger economic conditions overall resulted in the State adding 97,900 jobs, a significant increase over the prior year. Most industries experienced solid growth, but employment in non-durable manufacturing and government declined. The solid employment gains did not translate to similar gains in wage and salary income, which increased by 4.2%.

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 slowed in fiscal year 2013-14, but is expected to progress over the next two years. For the fiscal year, total personal income rose 4.5%, well behind the strong growth of 6% to 7% experienced in the years prior to the recession. Wage and salary income, a component of total personal income, grew at 4.2% for the fiscal year. That was an improvement over the dismal 3.2% growth the previous year and wages should continue to improve with advances in the labor market. A return to long-term growth levels in wage and salary income is forecast for 2016.

The recovery in North Carolina gained strength and traction, yet never reached expansionary levels during fiscal year 2014-15. Nonetheless, the increase in economic activity was enough that the State saw solid improvement in employment. The unemployment rate at the end of the fiscal year fell to 5.8%, from 6.2% at the start of the fiscal year. With a brighter economic outlook and a stronger labor market, retail sales advanced at a rate of 5.6%. Going forward, retail sales are expected to make up ground from years of slow growth by growing at a pace one to two percentage points above the long-term average growth rate of 5.0%.

As the State's economy continues to progress, employment prospects are expected to stabilize over the next two fiscal years. Total Non-Agricultural employment growth is projected at 2.1% and 2.2%, respectively. That would be slightly below this year's growth, but would continue to add 90,000 to 95,000 jobs in each of the next two years. The construction industry had struggled to regain some of the jobs lost during and after the recession. During fiscal year 2014-15, employment grew in this industry by 6.8% (12,100 jobs). Despite the gains, there are now 61,000 fewer construction jobs than when the recession began in December 2007, a drop of 24.3%. For fiscal year 2014-15, in addition to Construction, Professional and Business Services, Construction, Durable-Goods Manufacturing; and Leisure and Hospitality Services outpaced the overall growth in the State's employment. Even as the State experiences strong job growth the unemployment rate is expected to remain in the mid-five percent range as discouraged workers who left the workforce re-enter given the better job prospects. The rate is projected to average 5.8% in fiscal year 2015-16, and 5.5% in fiscal year 2016-17.

The housing recession and the subsequent adjustments in the real estate market have taken a long time to unwind. A strong rebound in housing starts (new construction) was underway in 2012, mostly from pent-up demand from the long housing downturn. In fiscal year 2013-14, housing starts stalled and declined by 2.3%. They took off again in 2014 with yearly growth of 12.4%. Housing starts can provide valuable

insight into construction jobs and ripple effects in other industries such as household furnishing and appliance manufacturing. Additionally, in a healthy economy contractors will be more likely to take risks starting new housing developments. Housing starts are expected to average just below 60,000 per year during the biennium with growth of 14% and 18%, respectively. This would represent nearly double the number of housing starts during the recession, but still would be 35,000 less annually when compared to the peak year of 2006.

To summarize, the State's economic conditions experienced steady improvement during most of the fiscal year. Employment growth was the strongest since the 2007-2009 recession ended. The State's economy should track closely with the national economy the rest of 2015 and into 2016. By 2017, the State's economy is projected to grow at a pace faster than the national economy. The anticipated strengthening of the economy should increase consumer demand and solidify employment growth. These projected gains in employment will help to reduce the remaining slack in the labor market, and should place upward pressure on wages. Rising employment and wage gains will greatly improve the health of the economy as we move into 2016.

— *Economic analysis prepared by Barry Boardman, Ph.D., Chief Economist  
Fiscal Research Division, North Carolina General Assembly  
October 5, 2015*

## Long-term Financial Planning and Major Initiatives

### *North Carolina Pension Funds*

The North Carolina Retirement Systems administer four major retirement systems and several smaller systems and pension funds. The largest of the major retirement systems is the Teachers' and State Employees' Retirement System (TSERS).

The economic crisis of 2008 has had long-term effects that continue to require increased contributions from the State in order to maintain the strength of TSERS. Funding the Retirement Systems is a shared responsibility among employees, employers, and the Department of State Treasurer through investment earnings. Effective July 1, 2014, the State established an employer contribution rate of 9.15% of compensation for TSERS which remained effective for the fiscal year beginning July 1, 2015. This contribution rate exceeds the calculated Actuarially Required Contribution (ARC) rate of 8.69%. Setting the contribution rate at or above the ARC is a significant action taken by the General Assembly to ensure long-term fiscal health of the pension plan.

The 2014 General Assembly enacted a contribution-based cap on pension benefits for members retiring from TSERS and the Local Government Employers' Retirement System. The benefit cap serves to control the practice of "pension spiking," whereby a member's compensation significantly increases during or immediately preceding the four-year period over which compensation is averaged in order to calculate the member's retirement benefit. The cap approximately corresponds with the annuitized equivalent of the total accumulated balance of employee contributions multiplied by a factor selected every five years by the Boards of Trustees.

The 2015 General Assembly established statutory procedures for agencies entering or exiting TSERS and Local Government Employees' Retirement System (LGERS) to mitigate the financial impact of unanticipated agency closure or legislative removal. Agencies electing to enter the Retirement Systems must undergo a financial review process after the first year of participation. Board of Trustee members were given authority to grant or deny the entering agency permanent admission based on the financial review. The new provisions also provide for an agency to pay a withdrawal liability to offset costs due to unforeseen actuarial effects of an agency's removal.

Additional legislation from the 2015 session also gives authority to the State Treasurer to intercept State appropriations allocated to agencies and public school employers to recover outstanding debts due to the Retirement Systems.

### *Banking Operations*

The Department of State Treasurer (DST) completed a three year project to upgrade the state's banking system in July 2015. The upgraded system provides additional functionality and efficiencies. The Department of State Treasurer and the Office of the State Controller are working jointly on the second phase of the project to include replacement of the state's aged cash management system which will integrate with the new banking system. The second phase is anticipated to be completed in 2016.

### *Economic Development Partnership of North Carolina, Inc.*

Leaders of this state saw the need to establish a nonprofit organization to work with the public and private sector entities of North Carolina to focus on growth in North Carolina. The Economic Development Partnership of North Carolina, Inc. was created in 2013 and began operations in October 2014, after completion of its fundraising requirements. The organization is tasked with marketing the attributes North Carolina has to offer, to recruit new employers to the state, to market North Carolina's exports, and to attract tourists to spend their time and resources in the state.

## Relevant Financial Policies

### *Savings Reserve Account*

General Statute 143C-4-2 established the Savings Reserve Account as a reserve in the General Fund. The State Controller “shall reserve to the Savings Reserve Account one-fourth of any unreserved fund balance, as determined on a cash basis, remaining in the General Fund at the end of each fiscal year.”

The Savings Reserve Account is a component of the unappropriated General Fund balance and serves as the State’s rainy day fund. Funds in the Savings Reserve Account shall be available for expenditure only upon an act of appropriation by the General Assembly. The General Assembly recognizes the need to establish and maintain sufficient reserves to address unanticipated events and circumstances such as natural disasters, economic downturns, threats to public safety, health, and welfare, and other emergencies. It is a goal of the State to accumulate and maintain a balance in the Savings Reserve Account equal to or greater than 8% of the prior year’s General Fund appropriation budget.

At the beginning of fiscal year 2014-15, the balance of the Savings Reserve Account was \$651.6 million. Session Law 2015-241 authorized the State Controller to make a transfer of \$200 million from the General Fund’s unreserved fund balance at June 30, 2015 to the Savings Reserve Account. The balance at the end of the fiscal year 2014-2015 was \$851.6 million. This represents 4.13% of the prior year’s General Fund appropriation budget.

### *Repairs and Renovations Reserve Account*

General Statute 143C-4-3 established the Repairs and Renovations Reserve Account (R&R Account) as a reserve in the General Fund. The State Controller “shall reserve to the Repairs and Renovations Reserve Account one-fourth of any unreserved fund balance, as determined on a cash basis, remaining in the General Fund at the end of each fiscal year.”

The funds in the R&R Account shall be used only for the repair and renovation of State facilities and related infrastructure that are supported from the General Fund. Funds reserved to the R&R Account shall be available for expenditure only upon an act of appropriation by the General Assembly. At the beginning of fiscal year 2014-15, the balance of the R&R Account was \$11.6 million. Session Law 2015-241 authorized the State Controller to make a transfer of \$400 million from the General Fund’s unreserved fund balance to the R&R Account. This created a year-end balance of \$411.6 million.

### *Debt Affordability Guidelines*

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 is also required to recommend other debt management policies consistent with sound management of the State’s debt.

The Committee is responsible for preparing an annual debt affordability study and establishing guidelines for evaluating the State’s debt burden. The Committee is required to report its findings and recommendations to the Governor, the General Assembly, and the Fiscal Research Division of the General Assembly by February 1 of each year.

The Committee has adopted the ratio of debt service as a percentage of revenues as the controlling metric that determines the State’s debt capacity. The 2015 study indicated over the ten year planning horizon and after adjusting revenue for the tax rate changes passed during the last legislative session, the State’s revenue picture is positive overall, reflecting a continued economic recovery. The study found that the State’s General Fund has debt capacity of \$700 million in each of the next 10 years. The ratio of debt service to revenues will peak at 3.66%, notably below the 4% target.

The following target and ceiling guidelines are the basis for calculating the recommended amount of General Fund-supported debt the State could prudently authorize and issue over the next 10 years:

1. Net tax-supported debt service as a percentage of general tax revenues should be targeted at no more than 4% and not exceed 4.75%;
2. Net tax-supported debt as a percentage of personal income should be targeted at no more than 2.5% and not exceed 3.0%; and
3. The amount of debt to be retired over the next ten years should be targeted at no less than 55% and not decline below 50%.

The Committee recommended continuing the State's historically conservative centralized debt management practices. The Committee strongly encouraged the General Assembly to adopt language restricting the ability of State entities to enter into financial arrangements that incur debt or debt-like obligations. The Committee strongly opposed the proposal for the State to provide credit support for debt issues of component unit universities and other State entities whose source of repayment is project revenues.

Lastly, the Committee cautioned that care should be taken as the State enacts laws that permit the procurement and financing of assets through the use of public private partnerships (P3s). While P3s may appear to provide a new source of funds in a time of diminished revenues and debt capacity, such agreements often contain financing arrangements with the private entity that could result in that entity incurring debt or obligations secured, directly or indirectly by governmental payments or charges to the citizens. In the Committee's view, the prioritization of capital projects and issuance of obligations that increase the State's debt burden should remain the prerogative of the General Assembly.

The 2015 General Assembly enacting legislation requiring each constitution institution of the University of North Carolina to conduct an annual debt affordability study. This will require the universities to establish guidelines for maintaining prudent debt levels and a system for prioritizing university capital needs, when the needs exceed the new debt capacity. The Board of Governors shall advise the Governor and General Assembly annually on the estimated debt capacity for the upcoming five fiscal years.

### *Tax Policy*

The 2013 General Assembly passed significant tax reform legislation for the State of North Carolina. The tax reform legislation provided for a corporate income tax rate reduction for the 2016 tax year provided the state reached a target of \$20.2 billion in General Fund tax revenues. General fund tax revenues during the 2014-2015 fiscal year exceeded the target and the corporate income tax rate for the 2016 tax year will be reduced. Subsequent legislation by the 2015 General Assembly further reduces the rate for any subsequent tax years provided that the General Fund revenues collected during the preceding fiscal year exceeds \$20.975 billion.

## **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, 2014. This was the 21<sup>st</sup> consecutive year (1994 to 2014) the State has received the prestigious national award recognizing conformance with the highest standards for preparation of state and local government financial reports.

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.

The North Carolina Teachers' and State Employees' Retirement System was awarded the Public Pension Standards Award for Funding and Administration for the 2014 calendar year in recognition for meeting professional standards for plan funding and administration as set forth in the Public Pension Standards.

*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 gratitude to all 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) 707-0500.

Respectfully submitted,



Linda Combs  
State Controller

# CERTIFICATE OF ACHIEVEMENT

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Government Finance Officers Association

**Certificate of  
Achievement  
for Excellence  
in Financial  
Reporting**

Presented to

**State of North Carolina**

For its Comprehensive Annual  
Financial Report  
for the Fiscal Year Ended

**June 30, 2014**

Executive Director/CEO