



# State of North Carolina

## Office of the State Controller

Michael F. Easley, Governor

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### PRESS RELEASE

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## State's annual financial report shows positive balance

**RALEIGH** – North Carolina increased its positive fund balance by 31.1 percent in the fiscal year that ended June 30, 2007, according to the Comprehensive Annual Financial Report released Tuesday.

The report indicates that the State had a fund balance of \$2.577 billion as of June 30, on an accrual basis, with an unreserved balance of \$2.398 billion. The accrual basis of accounting is a system that recognizes the effect of transactions when they occur rather than when the related cash is paid or received.

The General Fund is the chief operating fund of the State. The fund balance of the General Fund increased from \$1.966 billion at June 30, 2006, (as restated) to \$2.577 billion at June 30, 2007, an increase of 31.1%. The increase is explained primarily by higher than expected growth in individual income and corporate income taxes.

For individual income taxes, withholding tax collections grew by 8% while collections of estimated taxes and final payments grew by 11% and 26%, respectively. The withholding growth rate is similar to that of a pre-recession economy and reflects both job and wage growth. Increases in estimated and final payments also reflect changes in non-wage income.

Corporate income taxes, which are highly volatile over the business cycle, grew by 12.3% because of improved demand for products and services and because of the Department of Revenue's Settlement Initiative Program. This initiative began in February 2006 and allowed taxpayers who had participated in income-shifting or other identified tax strategies to pay 100% of the tax and interest and receive a waiver of some percentage of the penalties. For the 2006-07 fiscal year, corporate income tax collections under this initiative were over \$101 million.

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“We returned to a positive fund balance just last year, after five years of negative balances, so it is encouraging to see the balance grow this year,” said State Controller Robert L. Powell. “Our return to a positive balance was a major factor in restoring our Triple-A bond rating by the three major bond-rating agencies. The results from this year should strengthen our already excellent position with those agencies.”

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

The Government Finance Officers Association of the United States and Canada has awarded a Certificate of Achievement for Excellence in Financial Reporting to the State of North Carolina for its Comprehensive Annual Financial Report for 13 consecutive years.. The Comprehensive Annual Financial Report for the fiscal year ended June 30, 2007, will be submitted to the association for consideration by its achievement program.

The full CAFR is available on the Office of the State Controller website at:

[http://www.ncosc.net/financial/07\\_cafr/index.html](http://www.ncosc.net/financial/07_cafr/index.html).