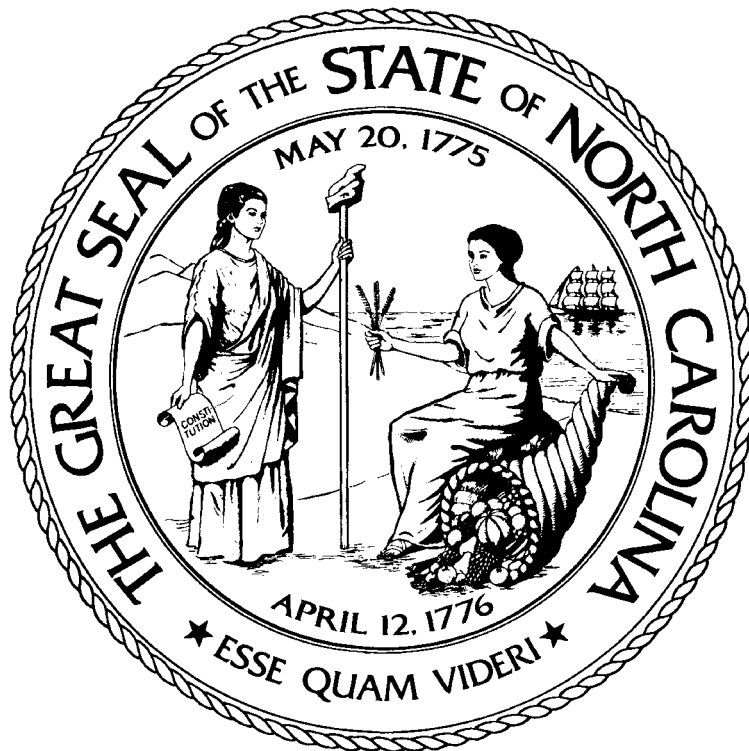


STATE OF
NORTH CAROLINA

SUMMARY OF FINANCIAL CONDITION
JANUARY 31, 1999



OFFICE OF THE STATE CONTROLLER
OFFICE OF STATE BUDGET AND MANAGEMENT
DEPARTMENT OF REVENUE

STATE OF NORTH CAROLINA



The Honorable James B. Hunt, Jr.
Governor of the State of North Carolina

March 3, 1999

We herewith submit the Summary of Financial Condition for the State of North Carolina for the seven months ended January 31, 1999. The financial information within this report is designed to present the results of financial operations under the budgetary basis of accounting at a summary level.

The Summary of Financial Condition is intended to provide specific analysis of revenues and expenditures, and serve to point out particular areas of strength, as well as areas where unusual one-time transactions, changes in accounting, or changes in procedure may result in misleading interpretations by a casual reader.

Please contact us if you have questions or if you would like more detailed information. In this joint effort between the Office of the State Controller, the Office of State Budget and Management, and the Department of Revenue, we are committed to providing you and the State with the most reliable and timely financial and economic information possible.

Sincerely,
Edward Renfrow
State Controller
(919) 981-5454

Marvin K. Dorman, Jr.
State Budget Officer
(919) 733-7061

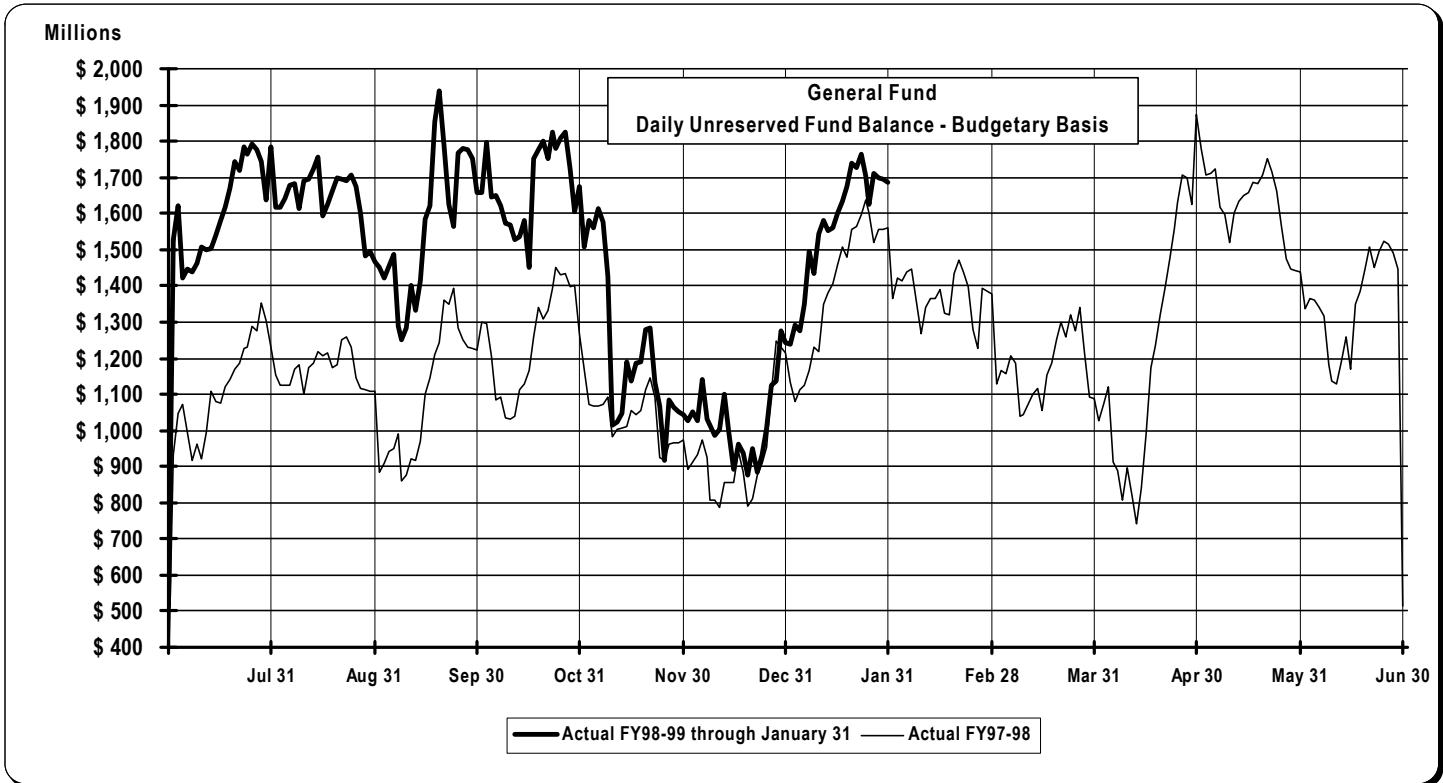
Muriel K. Offerman
Secretary of Revenue
(919) 733-7211

STATE OF NORTH CAROLINA

SUMMARY OF FINANCIAL CONDITION

January 31, 1999

Fund Balance



At January 31, 1999 and 1998, the reserved and unreserved fund balance was composed of the following (in millions):

Fund Balance:	1998-99	1997-98
Reserved:		
Savings account.....	\$ 522.5	\$ 500.9
Retirees health premiums.....	259.2	213.5
Repairs and renovations.....	19.0	37.3
Clean water management.....	—	49.4
North Carolina Railroad acquisition.....	61.0	61.0
Work First.....	17.0	—
Disproportionate share.....	19.6	—
Chemical alcohol testing.....	—	.4
Total Reserved.....	898.3	862.5
Unreserved:		
Fund Balance - July 1.....	515.2	318.7
Transfer from reserves.....	227.8	174.5
Excess of revenue over (under) expenditures..	944.6	1,066.3
Total Unreserved.....	1,687.6	1,559.5
Total Fund Balance.....	\$ 2,585.9	\$ 2,422.0

Bailey Case — State Tax Refunds - State Retirees. State and local government retirees filed a class action suit in 1990 as a result of the repeal of the income tax exemption for state and local government retirement benefits. The original suit was dismissed after the North Carolina Supreme Court ruled in 1991 that the plaintiffs had failed to comply with state law requirements for challenging unconstitutional taxes and the United States Supreme Court denied review. In 1992, many of the same plaintiffs filed a new lawsuit alleging essentially the

same claims, including breach of contract, unconstitutional impairment of contract rights by the State in taxing benefits that were allegedly promised to be tax exempt and violation of several state constitutional provisions. Patton Case — State Tax Refunds - Federal Retirees. On May 23, 1995, retired federal employees sued for refund of income taxes paid upon pension income for tax years 1989 through 1993. They alleged that the incremental pension increases granted state retirees since 1989 unconstitutionally discriminate against them. The North Carolina Supreme Court ruled in the Bailey case on Friday, May 8, 1998. On June 9, 1998 representatives of the State and the various retirees involved in the Bailey and Patton cases announced a settlement in the amount of \$799 million. Of this amount, \$400 million is being paid in refunds in fiscal year 1998-99, and \$399 million will be paid in refunds during fiscal year 1999-2000.

Smith v. State and Patton v. State – Intangibles tax refunds to non-protesting taxpayers. On February 21, 1996, the U.S. Supreme Court declared North Carolina's intangibles tax unconstitutional. Subsequently, the State made refunds of intangible taxes paid by all persons who had complied with the provisions of G.S. 105-267, Taxes to be paid; suits for recovery of taxes, for obtaining refunds of unconstitutional taxes. The Smith and Patton cases are actions aimed principally at recovering intangibles tax refunds for taxpayers who failed to comply with the provisions of G.S. 105-267. On December 4, 1998, the Supreme Court ruled that North Carolina will have to pay refunds to non-protesters who paid intangibles taxes. Refunds to non-protesters will total approximately \$239.3 million plus interest of approximately \$120.8 million.

STATE OF NORTH CAROLINA

SUMMARY OF FINANCIAL CONDITION

January 31, 1999

Revenues - Tax and Non-Tax

State of North Carolina General Fund Actual Net Revenues

Expressed In Millions

	January				Year-To-Date Through January			
	1998-99	1997-98	Change	% Change	1998-99	1997-98	Change	% Change
Tax Revenues:								
Individual Income	\$ 832.5	\$ 726.4	\$ 106.1	14.6%	\$ 3,895.7	\$ 3,521.5	\$ 374.2	10.6%
Corporate Income	53.8	37.1	16.7	45.0%	429.5	344.2	85.3	24.8%
Sales and Use	309.7	291.0	18.7	6.4%	2,013.5	1,924.8	88.7	4.6%
Franchise	19.9	16.8	3.1	18.5%	187.5	183.1	4.4	2.4%
Insurance	5.5	0.5	5.0	1000.0%	87.3	80.5	6.8	8.4%
Beverage	13.2	12.0	1.2	10.0%	91.5	87.6	3.9	4.5%
Inheritance	14.5	8.8	5.7	64.8%	104.3	78.5	25.8	32.9%
Soft Drink	0.8	1.4	(0.6)	(42.9)%	7.8	13.9	(6.1)	(43.9)%
Privilege License	(0.5)	4.5	(5.0)	(111.1)%	16.2	23.3	(7.1)	(30.5)%
Tobacco Products	4.1	4.3	(0.2)	(4.7)%	27.9	28.6	(0.7)	(2.4)%
Real Estate Conveyance Excise	(0.5)	(1.1)	0.6	54.5%	7.9	6.3	1.6	25.4%
Intangibles	—	—	—	—	—	0.1	(0.1)	(100.0)%
Gift	0.2	0.6	(0.4)	(66.7)%	0.9	2.2	(1.3)	(59.1)%
White Goods Disposal	(0.7)	(1.0)	0.3	30.0%	0.3	0.7	(0.4)	(57.1)%
Scrap Tire Disposal	(1.7)	(1.6)	(0.1)	6.3%	0.8	0.8	—	—
Freight Car Lines	—	—	—	—	—	—	—	—
Other	0.1	0.1	—	—	0.2	—	0.2	—
Total Tax Revenue	1,250.9	1,099.8	151.1	13.7%	6,871.3	6,296.1	575.2	9.1%
Non-Tax Revenue:								
Treasurer's Investments	19.0	19.7	(0.7)	(3.6)%	153.6	143.6	10.0	7.0%
Judicial Fees	9.5	9.4	0.1	1.1%	67.6	63.1	4.5	7.1%
Insurance	5.6	0.2	5.4	2700.0%	11.1	10.2	0.9	8.8%
Disproportionate Share	—	—	—	—	85.0	—	85.0	—
Highway Fund Transfer In	—	—	—	—	6.6	6.2	0.4	6.5%
Highway Trust Fund Transfer In	—	—	—	—	170.0	170.0	—	—
Other	29.1	13.8	15.3	110.9%	58.7	43.4	15.3	35.3%
Total Non-Tax Revenue	63.2	43.1	20.1	46.6%	552.6	436.5	116.1	26.6%
Total Tax and Non-Tax Revenue	\$ 1,314.1	\$ 1,142.9	\$ 171.2	15.0%	\$ 7,423.9	\$ 6,732.6	\$ 691.3	10.3%

Note that the table represents net tax and non-tax collections and not gross collections. When compared to the prior year through January 31, actual tax and non-tax revenues increased by \$691.3 million, or 10.3%. The net, or actual, tax and non-tax revenues through January 1999 of \$7,423.9 million were greater than the projected revenues by \$44.4 million, or 0.6%. Through January 1999, \$85.0 million of disproportionate share receipts were collected as non-tax revenue. Disproportionate share receipts were reflected as Department of Health and Human Service departmental receipts for fiscal year 1997-98. Disproportionate share receipts are Medicaid payments received by hospitals which serve a disproportionate share of indigent patients. Major components of tax and non-tax revenues that increased from the prior year through the end of January 1999 included:

- \$374.2 million for Individual Income Tax;
- \$88.7 million for Sales and Use Tax (All references to Sales and Use Tax in schedules, narrative, and graphs, reflect an *estimate for the current month reserve*); and
- \$85.3 million for Corporate Income Tax.

STATE OF NORTH CAROLINA

SUMMARY OF FINANCIAL CONDITION

January 31, 1999

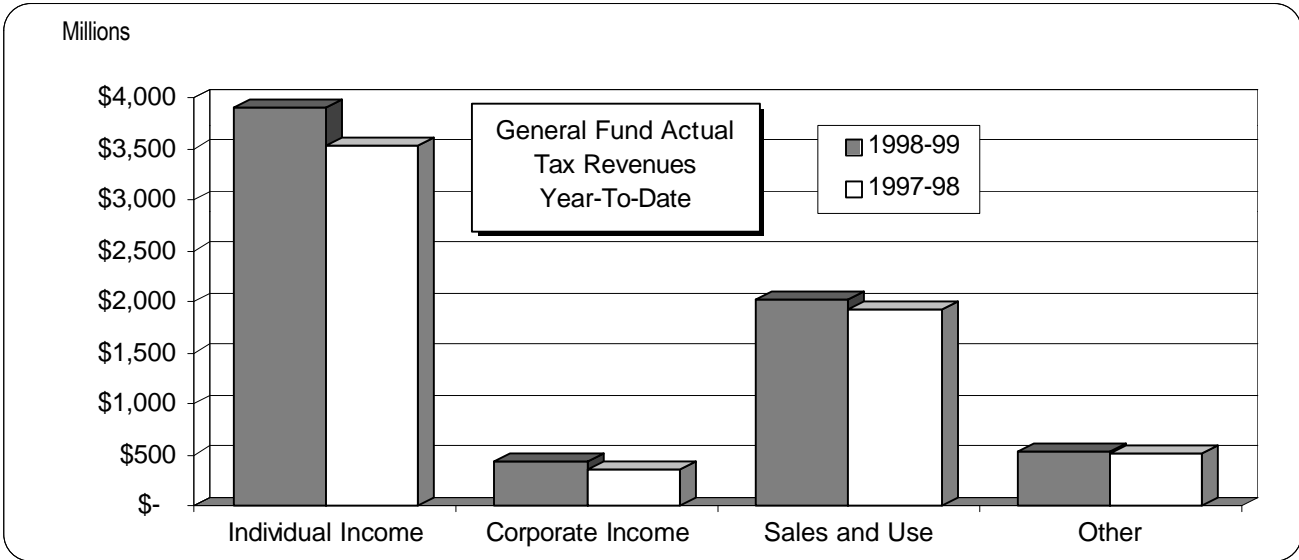
GENERAL FUND NET TAX AND NON-TAX REVENUES AND TRANSFERS IN BUDGET VS. ACTUAL								
<i>(Expressed In Millions)</i>								
	Current Month				Year-To-Date			
	Projected Monthly Budget	Actual	Variance	Percent Realized	Projected Monthly Budget	Actual	Variance	Percent Realized
Tax Revenue								
Individual Income [1]	\$ 732.1	\$ 832.5	\$ 100.4	113.7%	\$ 3,881.7	\$ 3,895.7	\$ 14.0	100.4%
Corporate Income [2]	34.7	53.8	19.1	155.0%	382.5	429.5	47.0	112.3%
Sales and Use	316.7	309.7	(7.0)	97.8%	2,011.5	2,013.5	2.0	100.1%
Franchise	42.8	19.9	(22.9)	46.5%	219.2	187.5	(31.7)	85.5%
Insurance	0.8	5.5	4.7	687.5%	81.8	87.3	5.5	106.7%
Beverage	12.6	13.2	0.6	104.8%	89.2	91.5	2.3	102.6%
Inheritance	12.9	14.5	1.6	112.4%	90.6	104.3	13.7	115.1%
Soft Drink	1.0	0.8	(0.2)	80.0%	8.9	7.8	(1.1)	87.6%
Privilege License	3.4	(0.5)	(3.9)	(14.7%)	16.8	16.2	(0.6)	96.4%
Tobacco Products	3.9	4.1	0.2	105.1%	27.2	27.9	0.7	102.6%
Real Estate Conveyance Excise	(0.5)	(0.5)	—	100.0%	7.9	7.9	—	100.0%
Gift	0.2	0.2	—	100.0%	1.5	0.9	(0.6)	60.0%
White Goods Disposal	(0.7)	(0.7)	—	100.0%	0.3	0.3	—	100.0%
Scrap Tire Disposal	(1.7)	(1.7)	—	100.0%	0.8	0.8	—	100.0%
Freight Car Lines	—	—	—	—	—	—	—	—
Other	—	0.1	0.1	—	—	0.2	0.2	—
Total Tax Revenue	1,158.2	1,250.9	92.7	108.0%	6,819.9	6,871.3	51.4	100.8%
Non-Tax Revenue								
Treasurer's Investments	21.8	19.0	(2.8)	87.2%	152.5	153.6	1.1	100.7%
Judicial Fees	9.9	9.5	(0.4)	96.0%	66.5	67.6	1.1	101.7%
Insurance	0.4	5.6	5.2	1400.0%	17.1	11.1	(6.0)	64.9%
Disproportionate share	—	—	—	—	85.0	85.0	—	100.0%
Highway Fund Transfer In	—	—	—	—	6.6	6.6	—	100.0%
Highway Trust Fund Transfer In	—	—	—	—	170.0	170.0	—	100.0%
Other	6.6	29.1	22.5	440.9%	61.9	58.7	(3.2)	94.8%
Total Non-Tax Revenue	38.7	63.2	24.5	163.3%	559.6	552.6	(7.0)	98.7%
Total Tax and Non-Tax Revenue	\$ 1,196.9	\$ 1,314.1	\$ 117.2	109.8%	\$ 7,379.5	\$ 7,423.9	\$ 44.4	100.6%
[1] Individual Income Tax collections are reported net of the following transfer(s) :								
	1998-99		1997-98					
	Current Month	Year-To-Date	Current Month	Year-To-Date				
Individual Income Tax, Reported Net	\$ 832.5	\$ 3,895.7	\$ 726.4	\$ 3,521.5				
Local Government Tax Reimbursement	—	129.0	—	129.0				
Individual Income Tax, Adjusted for Transfers	<u>\$ 832.5</u>	<u>\$ 4,024.7</u>	<u>\$ 726.4</u>	<u>\$ 3,650.5</u>				
[2] Corporate Income Tax collections are reported net of the following transfer(s) :								
	1998-99		1997-98					
	Current Month	Year-To-Date	Current Month	Year-To-Date				
Corporate Income Tax, Reported Net	\$ 53.8	\$ 429.5	\$ 37.1	\$ 344.2				
Public School Building Capital Fund	—	39.8	—	37.0				
Critical School Facility Needs Fund	—	5.0	—	5.0				
Local Government Tax Reimbursement	—	101.5	—	101.5				
	<u>—</u>	<u>146.3</u>	<u>—</u>	<u>143.5</u>				
Corporate Income Tax, Adjusted for Transfers	<u>\$ 53.8</u>	<u>\$ 575.8</u>	<u>\$ 37.1</u>	<u>\$ 487.7</u>				

SUMMARY OF FINANCIAL CONDITION

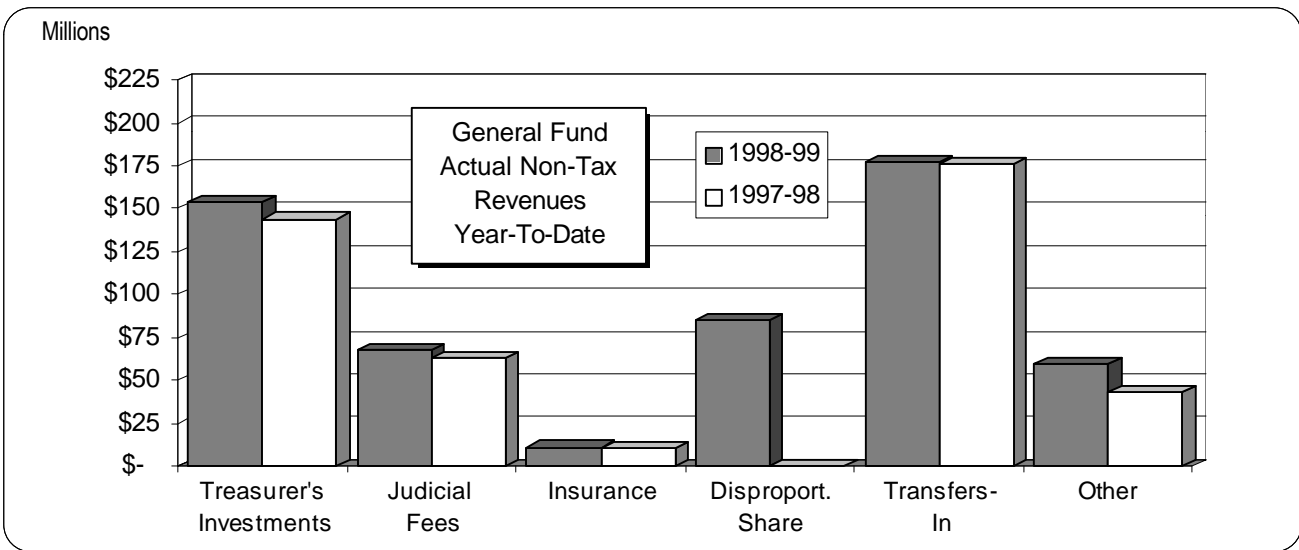
January 31, 1999

Tax revenues through January 1999 were greater than the period through January 1998 tax revenues by \$575.2 million, or 9.1%. Tax revenues are presented net of refunds to taxpayers and various transfers. Comparisons of current and prior year tax revenues are difficult due to legislative changes and netting of various transfer expenditures against the tax revenue sources. Examples of such transfers include:

- reimbursements to local governments;
- reimbursements for costs of administration of sales and use tax for local governments; and
- transfers to the Public School Building Capital Fund and Critical School Facility Needs Fund.



Non-tax revenue through the end of January 1999 was \$116.1 million or 26.6% greater than through the end of January 1998. Investment earnings increased through January over the previous year by \$10.0 million, or a 7.0% increase. As mentioned previously, through January 1999, \$85.0 million of disproportionate share receipts were collected as non-tax revenue. Disproportionate share receipts were reflected as Department of Health and Human Service departmental receipts for fiscal year 1997-98. Disproportionate share receipts are Medicaid payments received by hospitals which serve a disproportionate share of indigent patients.



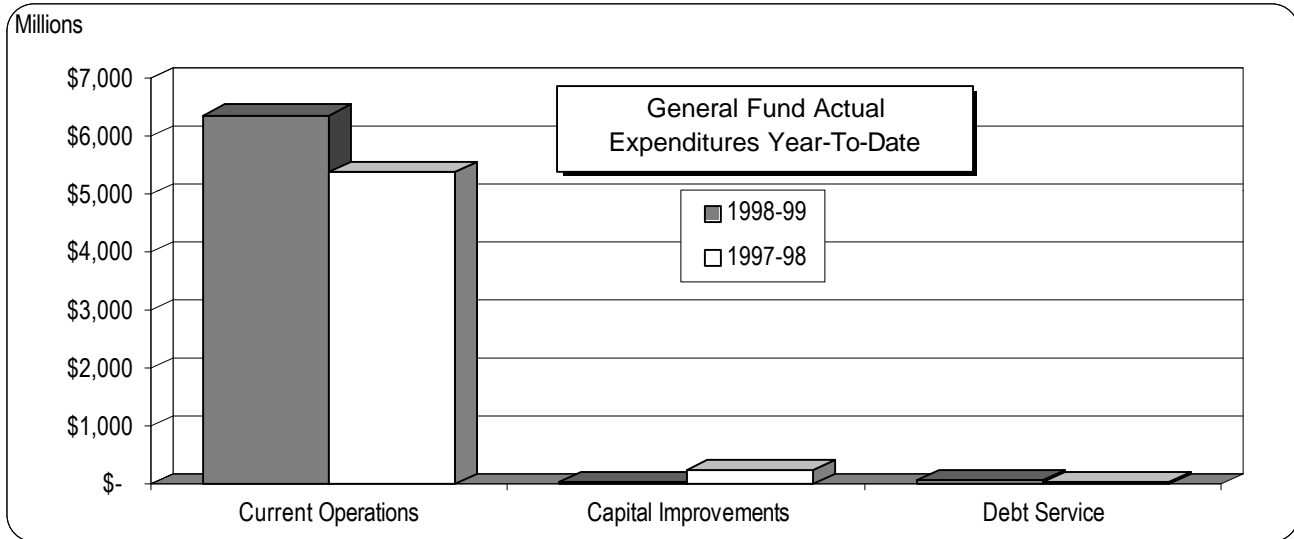
STATE OF NORTH CAROLINA

SUMMARY OF FINANCIAL CONDITION

January 31, 1999

Expenditures

Actual appropriation expenditures through January 31, 1999, exclusive of appropriation expenditures for capital improvements funded by bond proceeds, were greater than actual appropriation expenditures through January 1998 by \$813.0 million, or 14.3%. Of this increase, \$400 million represents fiscal year 1998-99 general government expenditures for payments to State and federal retirees (see page 1).



Expenditures for current operations (exclusive of expenditures for capital improvements and debt service) through January 1999 were greater than such expenditures through January 1998 by \$982.5 million, or 18.3%. As mentioned above, of this increase, \$400 million represents fiscal year 1998-99 general government expenditures for payments to State and federal retirees (see page 1).

General Fund Actual Appropriation Expenditures Year-To-Date Through January

Expressed in Millions

	1998-99	1997-98	Change	Percent Change	Percent of Total Expenditures	
					1998-99	1997-98
Current Operations:						
General Government	\$ 472.7	\$ 45.3	\$ 427.4	943.5%	7.3%	0.8%
Education	3,615.5	3,326.4	289.1	8.7%	55.8%	58.7%
Health and Human Services	1,317.2	1,121.0	196.2	17.5%	20.3%	19.8%
Economic Development	64.1	57.0	7.1	12.5%	1.0%	1.0%
Environment and Natural Resources	82.2	80.9	1.3	1.6%	1.3%	1.4%
Public Safety, Correction, and Regulation	778.4	719.8	58.6	8.1%	12.0%	12.7%
Agriculture	28.7	25.7	3.0	11.7%	0.4%	0.5%
Operating Reserves/Rounding	1.8	2.0	(0.2)	(10.0%)		
<i>Total Current Operations</i>	<u>6,360.6</u>	<u>5,378.1</u>	<u>982.5</u>	<u>18.3%</u>	<u>98.2%</u>	<u>94.9%</u>
Capital Improvements:						
Funded by General Fund	46.4	245.4	(199.0)	(81.1%)	0.7%	4.3%
Debt Service	<u>72.3</u>	<u>42.8</u>	<u>29.5</u>	<u>68.9%</u>	<u>1.1%</u>	<u>0.8%</u>
	<u>6,479.3</u>	<u>5,666.3</u>	<u>813.0</u>	<u>14.3%</u>	<u>100.0%</u>	<u>100.0%</u>
Capital Improvements:						
Funded by Bond Proceeds						
Total Expenditures	<u>\$6,479.3</u>	<u>\$5,666.3</u>	<u>\$ 813.0</u>	<u>14.3%</u>	<u>100.0%</u>	<u>100.0%</u>

STATE OF NORTH CAROLINA

SUMMARY OF FINANCIAL CONDITION

January 31, 1999

General Obligation Debt - General Fund and Highway Fund

The following schedule presents principal payment requirements for the General Fund and the Highway Fund. This schedule is exclusive of defeased debt involving advance refundings where the proceeds were placed in an irrevocable trust with an escrow agent in an amount sufficient to provide for all future debt service payments on the refunded bonds.

In November 1996, the voters of North Carolina approved bonds in the amount of \$1.8 billion for school construction and \$950 million for highway construction. In November 1998, North Carolina voters approved \$800 million of new debt to finance grants and loans to local government units for water supply systems, wastewater collection systems, wastewater treatment works, and water conservation and water reuse projects; and an additional \$200 million of new debt to finance grants, loans, or other financing to public or private entities for construction of natural gas facilities. The amount of authorized, but unissued bonds was \$2.6 billion as of January 31, 1999.

The first bond issue related to the \$1.8 billion of school construction bonds which were approved in November 1996 was issued on March 1, 1997 in the amount of \$450 million. These bonds were issued at rates ranging from 5.1% to 5.2% with a final maturity of March 1, 2016.

The second bond issue related to the \$1.8 billion of school construction bonds which were approved in November 1996 was issued April 1, 1998 in the amount of \$450 million. These bonds were issued at rates ranging from 4.75% to 5.0% with a final maturity of April 1, 2016.

The first bond issue related to highway construction was issued on November 1, 1997 in the amount of \$250 million, with rates ranging from 4.5% to 5.00%. The proceeds of this bond issue will be used to pay the capital costs of urban loops, intrastate system projects, and State secondary road projects.

The schedule below includes only bonds issued through January 31, 1999.

SCHEDULE OF BOND PRINCIPAL PAYMENT REQUIREMENTS			
GENERAL OBLIGATION BONDS			
<i>(Expressed in Thousands)</i>			
	Payable from:		Total Principal Requirements
	General Fund Revenues	Highway Fund Revenues	
1998-99 Requirements:			
August 1998.....	\$ 17,665	\$ —	\$ 17,665
December 1998.....	3,000	—	3,000
February 1999.....	7,500	—	7,500
March 1999.....	25,690	—	25,690
April 1999.....	22,200	—	22,200
May 1999.....	6,910	16,675	23,585
June 1999.....	24,730	—	24,730
Totals—1998-99.....	107,695	16,675	124,370
Future Years' Requirements:			
2000.....	107,590	16,675	124,265
2001.....	107,600	16,675	124,275
2002.....	107,680	16,675	124,355
2003.....	107,710	16,675	124,385
2004.....	107,600	16,675	124,275
2005.....	107,995	16,675	124,670
2006.....	107,885	16,675	124,560
2007.....	107,770	16,675	124,445
2008.....	107,855	16,675	124,530
2009.....	107,735	16,675	124,410
2010.....	106,500	16,675	123,175
2011.....	106,500	16,675	123,175
2012.....	106,500	16,675	123,175
2013.....	106,500	16,550	123,050
2014.....	106,500	—	106,500
2015.....	106,500	—	106,500
2016.....	53,500	—	53,500
2017.....	3,000	—	3,000
2018.....	—	—	—
Totals—All Years.....	\$ 1,880,615	\$ 250,000	\$ 2,130,615
Less			
Unamortized Discount..	(5,677)	—	(5,677)
Total Principal, Net.....	\$ 1,874,938	\$ 250,000	\$ 2,124,938
Outstanding Principal			
June 30, 1999			\$ 2,000,568

Bonds Authorized But Unissued						
January 31, 1999						
<i>(Expressed in Thousands)</i>						
	Date	School Construction	Highway Construction	Clean Water	Natural Gas	Total
Authorized:						
School Construction	11/5/96	\$ 1,800,000	\$ —	\$ —	\$ —	\$ 1,800,000
Highway Construction	11/5/96	—	950,000	—	—	950,000
Clean Water	11/3/98	—	—	800,000	—	800,000
Natural Gas	11/3/98	—	—	—	200,000	200,000
Total Authorized		1,800,000	950,000	800,000	200,000	3,750,000
Issued:						
Public School Building Series 1997A	3/1/97	450,000	—	—	—	450,000
Highway Bonds, Series 1997A	11/1/97	—	250,000	—	—	250,000
Public School Building Series 1998A	4/1/98	450,000	—	—	—	450,000
Total Issued		900,000	250,000	—	—	1,150,000
Unissued — January 31, 1999		\$ 900,000	\$ 700,000	\$ 800,000	\$ 200,000	\$ 2,600,000

STATE OF NORTH CAROLINA

SUMMARY OF FINANCIAL CONDITION

January 31, 1999

Summary Information - Highway Fund and Highway Trust Fund

HIGHWAY FUND AND HIGHWAY TRUST FUND								
COMPARATIVE STATEMENT OF NET COLLECTIONS								
For the Months of January 1999 and 1998, and the Seven Months Ended January 31, 1999 and 1998								
(Expressed in Millions)								
	Month				Year-To-Date			
	1998-99	1997-98	Change	Percent Change	1998-99	1997-98	Change	Percent Change
Highway Fund								
Motor Fuels Tax	\$ 66.5	\$ 67.5	\$ (1.0)	(1.5%)	\$ 459.5	\$ 457.1	\$ 2.4	0.5%
Motor Vehicle License Fees	38.2	35.9	2.3	6.4%	120.4	111.5	8.9	8.0%
Driver License Fees	4.9	7.2	(2.3)	(31.9%)	37.6	40.4	(2.8)	(6.9%)
Motor Fuels and Oil Inspection Fees	1.0	1.0	-	-	7.3	7.0	0.3	4.3%
Title Fee	-	-	-	-	-	-	-	-
Other	2.0	2.1	(0.1)	(4.8%)	15.3	14.3	1.0	7.0%
Subtotal - Highway Fund	112.6	113.7	(1.1)	(1.0%)	640.1	630.3	9.8	1.6%
Highway Trust Fund								
Highway Use Tax	33.1	31.5	1.6	5.1%	244.3	230.8	13.5	5.8%
Motor Fuels Tax	22.2	22.3	(0.1)	(0.4%)	153.1	152.1	1.0	0.7%
Title Fee	5.6	5.4	0.2	3.7%	42.4	41.3	1.1	2.7%
Motor Vehicle Lease	3.9	3.5	0.4	11.4%	24.2	21.8	2.4	11.0%
Registration	0.8	0.7	0.1	14.3%	5.5	5.5	-	-
Lien Recording	0.2	0.2	-	-	1.3	1.4	(0.1)	(7.1%)
Subtotal - Highway Trust Fund	65.8	63.6	2.2	3.5%	470.8	452.9	17.9	4.0%
Payables and Receipts								
Special Registration Plate Fund	0.2	0.2	-	-	1.3	1.2	0.1	8.3%
Safety Inspection and Exhaust Emission	0.2	0.2	-	-	1.4	1.3	0.1	7.7%
Transportation Authority/TransPark	0.7	0.6	0.1	16.7%	4.2	2.4	1.8	75.0%
Recreation and Natural Heritage Trust Fund	0.2	0.1	0.1	100.0%	1.1	1.0	0.1	10.0%
Other Receipts	0.3	0.4	(0.1)	(25.0%)	3.1	3.9	(0.8)	(20.5%)
Subtotal - Payables and Receipts	1.6	1.5	0.1	6.7%	11.1	9.8	1.3	13.3%
	\$ 180.0	\$ 178.8	\$ 1.2	0.7%	\$ 1,122.0	\$ 1,093.0	\$ 29.0	2.7%