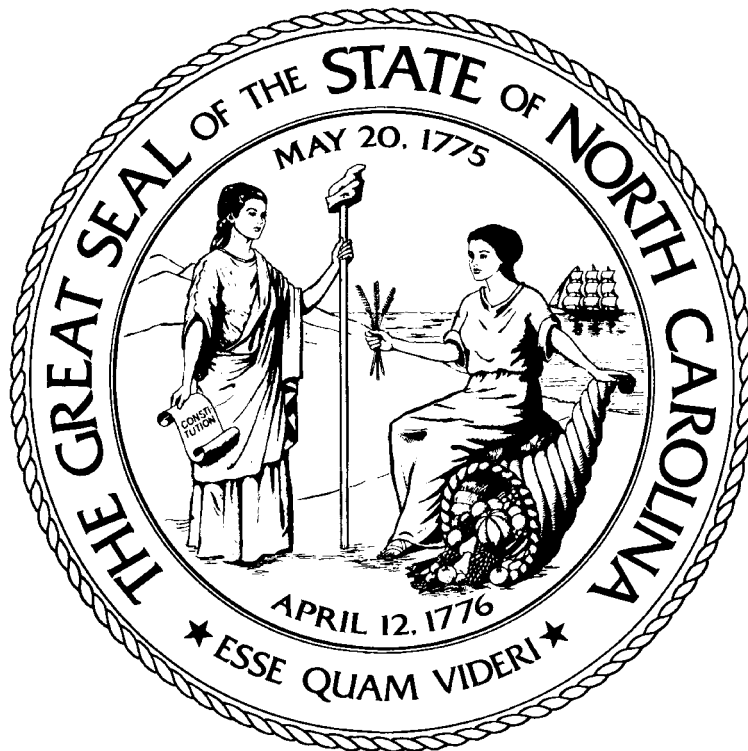


STATE OF  
***NORTH CAROLINA***

*SUMMARY OF FINANCIAL CONDITION*  
*AUGUST 31, 1998*

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*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

December 15, 1998

We herewith submit the Summary of Financial Condition for the State of North Carolina for the two months ended August 31, 1998. 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

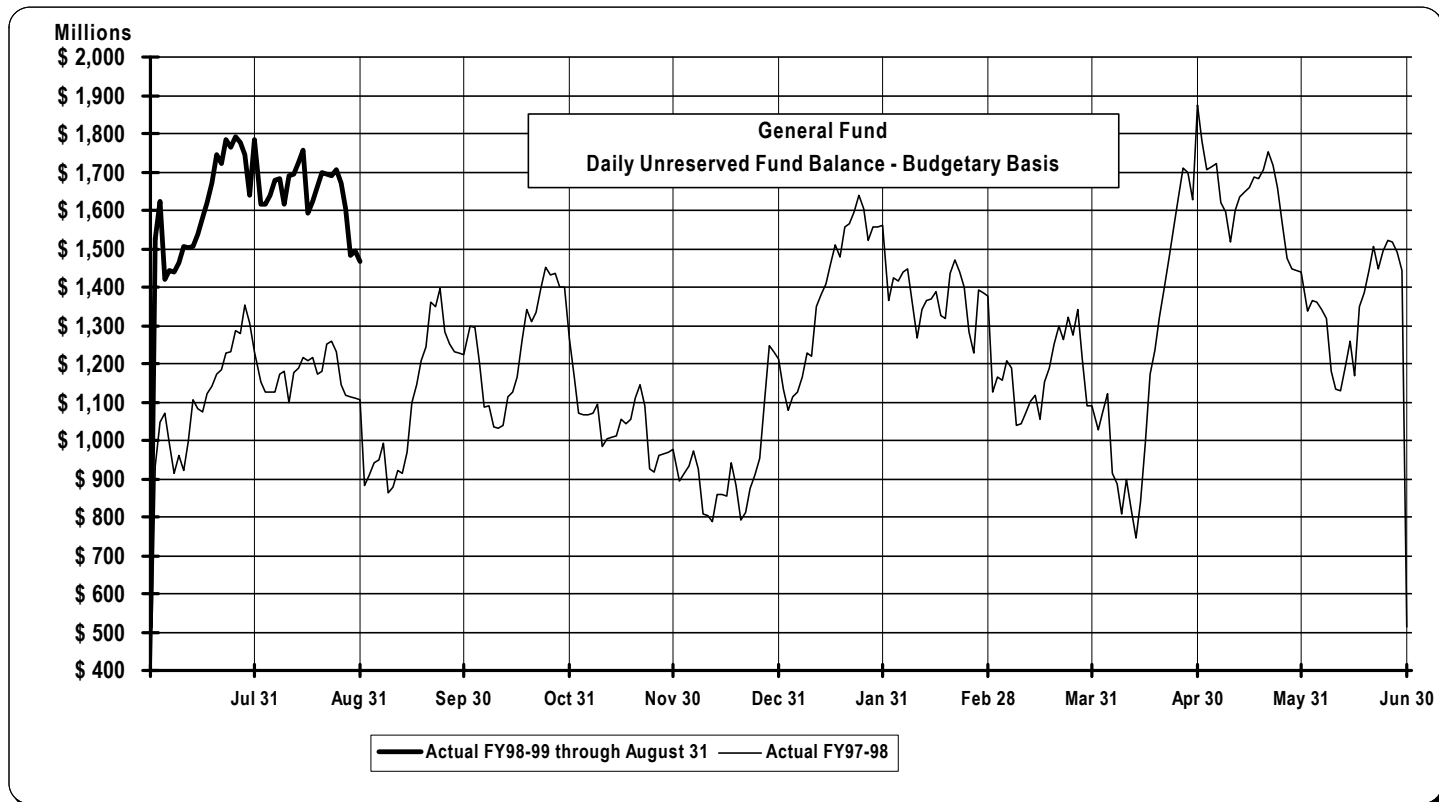
Muriel K. Offerman  
Secretary of Revenue  
(919) 733-7211

# STATE OF NORTH CAROLINA

## SUMMARY OF FINANCIAL CONDITION

August 31, 1998

### Fund Balance



At August 31, 1998 and 1997, the reserved and unreserved fund balance was composed of the following (in millions):

<b>Fund Balance:</b>	<b>1998-99</b>	<b>1997-98</b>
<b>Reserved:</b>		
Savings account.....	\$ 522.5	\$ 500.9
Retirees health premiums.....	237.5	195.2
Repairs and renovations.....	26.6	47.0
Clean water management.....	—	49.4
North Carolina Railroad acquisition.....	61.0	61.0
Intangibles tax refunds.....	—	156.0
Work First.....	19.5	—
Chemical alcohol testing.....	—	.4
<b>Total Reserved.....</b>	<b>867.1</b>	<b>1,009.9</b>
<b>Unreserved:</b>		
Fund Balance - July 1.....	515.2	318.7
Transfer from reserves.....	227.8	174.5
Excess of revenue over (under) expenditures..	725.0	613.5
<b>Total Unreserved.....</b>	<b>1,468.0</b>	<b>1,106.7</b>
<b>Total Fund Balance.....</b>	<b>\$ 2,335.1</b>	<b>\$ 2,116.6</b>

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, pending final court approval. Of this amount, \$400 million will be paid in refunds in fiscal year 1998-99, and \$399 million will be paid in refunds during fiscal year 1999-2000.

**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. The case was tried and decided in plaintiffs favor in Superior Court in the summer of 1995. The State appealed and arguments were heard in the Supreme Court of North Carolina in September, 1996.

**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.

# STATE OF NORTH CAROLINA

## SUMMARY OF FINANCIAL CONDITION

August 31, 1998

### Revenues - Tax and Non-Tax

#### General Fund Actual Net Revenues

Expressed In Millions

	August				Year-To-Date Through August			
	1998-99	1997-98	Change	% Change	1998-99	1997-98	Change	% Change
<b>Tax Revenues:</b>								
Individual Income	\$ 320.1	\$ 291.9	\$ 28.2	9.7%	\$ 802.3	\$ 729.3	\$ 73.0	10.0%
Corporate Income	(34.0)	(20.4)	(13.6)	66.7%	41.9	1.1	40.8	3709.1%
Sales and Use	255.3	244.1	11.2	4.6%	563.7	531.9	31.8	6.0%
Franchise	33.9	15.1	18.8	124.5%	69.3	43.3	26.0	60.0%
Insurance	1.0	0.9	0.1	11.1%	3.2	2.6	0.6	23.1%
Beverage	16.1	15.8	0.3	1.9%	25.5	24.1	1.4	5.8%
Inheritance	12.2	11.2	1.0	8.9%	29.2	22.5	6.7	29.8%
Soft Drink	1.3	2.3	(1.0)	(43.5)%	3.3	5.0	(1.7)	(34.0)%
Privilege License	0.8	0.9	(0.1)	(11.1)%	8.9	9.1	(0.2)	(2.2)%
Tobacco Products	4.0	4.3	(0.3)	(7.0)%	8.2	8.4	(0.2)	(2.4)%
Real Estate Conveyance Excise	0.7	0.2	0.5	250.0%	8.5	7.1	1.4	19.7%
Gift	0.3	0.4	(0.1)	(25.0)%	0.6	0.5	0.1	20.0%
White Goods Disposal	0.4	0.9	(0.5)	(55.6)%	1.3	1.8	(0.5)	(27.8)%
Scrap Tire Disposal	0.8	0.9	(0.1)	(11.1)%	1.7	1.8	(0.1)	(5.6)%
Freight Car Lines	—	—	—	—	—	—	—	—
Other	(0.4)	(0.3)	(0.1)	33.3%	(0.2)	(0.1)	(0.1)	100.0%
<b>Total Tax Revenue</b>	<b>612.5</b>	<b>568.2</b>	<b>44.3</b>	<b>7.8%</b>	<b>1,567.4</b>	<b>1,388.4</b>	<b>179.0</b>	<b>12.9%</b>
<b>Non-Tax Revenue:</b>								
Treasurer's Investments	23.6	22.0	1.6	7.3%	44.9	39.2	5.7	14.5%
Judicial Fees	9.6	8.5	1.1	12.9%	20.0	17.5	2.5	14.3%
Insurance	0.1	0.1	—	—	0.2	0.2	—	—
Disproportionate Share	—	—	—	—	—	—	—	—
Highway Fund Transfer In	—	—	—	—	—	—	—	—
Highway Trust Fund Transfer In	—	—	—	—	170.0	170.0	—	—
Other	5.8	3.9	1.9	48.7%	9.3	11.1	(1.8)	(16.2)%
<b>Total Non-Tax Revenue</b>	<b>39.1</b>	<b>34.5</b>	<b>4.6</b>	<b>13.3%</b>	<b>244.4</b>	<b>238.0</b>	<b>6.4</b>	<b>2.7%</b>
<b>Total Tax and Non-Tax Revenue</b>	<b>\$ 651.6</b>	<b>\$ 602.7</b>	<b>\$ 48.9</b>	<b>8.1%</b>	<b>\$ 1,811.8</b>	<b>\$ 1,626.4</b>	<b>\$ 185.4</b>	<b>11.4%</b>

Note that the table represents net tax and non-tax collections and not gross collections. When compared to the prior year through August 31, actual tax and non-tax revenues increased by \$185.4 million, or 11.4%. The net, or actual, tax and non-tax revenues through August 1998 of \$1,811.8 million were greater than the projected revenues by \$36.4 million, or 2.1%. Major components of tax and non-tax revenues that increased from the prior year through the end of August 1998 included:

- \$73.0 million for Individual Income Tax;
- \$40.8 million for Corporate Income Tax;
- \$31.8 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
- \$26.0 million for Franchise Tax.

# STATE OF NORTH CAROLINA

## SUMMARY OF FINANCIAL CONDITION

August 31, 1998

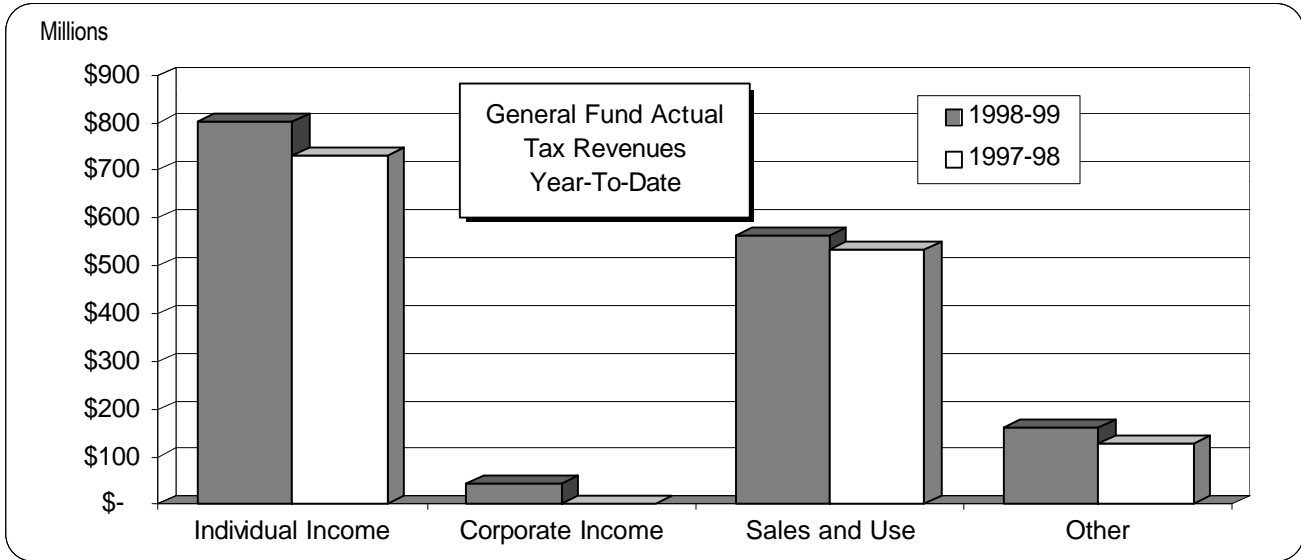
<b>GENERAL FUND NET TAX AND NON-TAX REVENUES AND TRANSFERS IN BUDGET VS. ACTUAL</b>								
<i>(Expressed In Millions)</i>								
	<b>Current Month</b>				<b>Year-To-Date</b>			
	<b>Projected Monthly Budget</b>	<b>Actual</b>	<b>Variance</b>	<b>Percent Realized</b>	<b>Projected Monthly Budget</b>	<b>Actual</b>	<b>Variance</b>	<b>Percent Realized</b>
<b>Tax Revenue</b>								
Individual Income [1]	\$ 307.1	\$ 320.1	\$ 13.0	104.2%	\$ 799.4	\$ 802.3	\$ 2.9	100.4%
Corporate Income [2]	(21.2)	(34.0)	(12.8)	160.4%	38.8	41.9	3.1	108.0%
Sales and Use	247.8	255.3	7.5	103.0%	540.7	563.7	23.0	104.3%
Franchise	36.9	33.9	(3.0)	91.9%	70.8	69.3	(1.5)	97.9%
Insurance	1.6	1.0	(0.6)	62.5%	2.5	3.2	0.7	128.0%
Beverage	15.5	16.1	0.6	103.9%	24.8	25.5	0.7	102.8%
Inheritance	12.9	12.2	(0.7)	94.6%	25.8	29.2	3.4	113.2%
Soft Drink	1.3	1.3	—	100.0%	3.3	3.3	—	100.0%
Privilege License	1.3	0.8	(0.5)	61.5%	6.8	8.9	2.1	130.9%
Tobacco Products	3.9	4.0	0.1	102.6%	7.7	8.2	0.5	106.5%
Real Estate Conveyance Excise	0.7	0.7	—	100.0%	8.5	8.5	—	100.0%
Gift	0.2	0.3	0.1	150.0%	0.4	0.6	0.2	150.0%
White Goods Disposal	0.4	0.4	—	100.0%	1.3	1.3	—	100.0%
Scrap Tire Disposal	0.8	0.8	—	100.0%	1.7	1.7	—	100.0%
Freight Car Lines	—	—	—	—	—	—	—	—
Other	—	(0.4)	(0.4)	—	—	(0.2)	(0.2)	—
<b>Total Tax Revenue</b>	<b>609.2</b>	<b>612.5</b>	<b>3.3</b>	<b>100.5%</b>	<b>1,532.5</b>	<b>1,567.4</b>	<b>34.9</b>	<b>102.3%</b>
<b>Non-Tax Revenue</b>								
Treasurer's Investments	21.8	23.6	1.8	108.3%	43.5	44.9	1.4	103.2%
Judicial Fees	8.5	9.6	1.1	112.9%	17.0	20.0	3.0	117.6%
Insurance	0.1	0.1	—	100.0%	0.2	0.2	—	100.0%
Highway Fund Transfer In	—	—	—	—	—	—	—	—
Highway Trust Fund Transfer In	—	—	—	—	170.0	170.0	—	100.0%
Other	6.1	5.8	(0.3)	95.1%	12.2	9.3	(2.9)	76.2%
<b>Total Non-Tax Revenue</b>	<b>36.5</b>	<b>39.1</b>	<b>2.6</b>	<b>107.1%</b>	<b>242.9</b>	<b>244.4</b>	<b>1.5</b>	<b>100.6%</b>
<b>Total Tax and Non-Tax Revenue</b>	<b>\$ 645.7</b>	<b>\$ 651.6</b>	<b>\$ 5.9</b>	<b>100.9%</b>	<b>\$ 1,775.4</b>	<b>\$ 1,811.8</b>	<b>\$ 36.4</b>	<b>102.1%</b>
<b>[1] Individual Income Tax collections are reported net of the following transfer(s) :</b>								
	1998-99		1997-98					
	Current Month	Year-To-Date	Current Month	Year-To-Date				
Individual Income Tax, Reported Net	\$ 320.1	\$ 802.3	\$ 291.9	\$ 729.3				
Local Government Tax Reimbursement	129.0	129.0	129.0	129.0				
Individual Income Tax, Adjusted for Transfers	<u>\$ 449.1</u>	<u>\$ 931.3</u>	<u>\$ 420.9</u>	<u>\$ 858.3</u>				
<b>[2] Corporate Income Tax collections are reported net of the following transfer(s) :</b>								
	1998-99		1997-98					
	Current Month	Year-To-Date	Current Month	Year-To-Date				
Corporate Income Tax, Reported Net	\$ (34.0)	\$ 41.9	\$ (20.4)	\$ 1.1				
Public School Building Capital Fund	21.2	21.2	23.4	23.4				
Critical School Facility Needs Fund	2.5	2.5	2.5	2.5				
Local Government Tax Reimbursement	6.4	6.4	6.4	6.4				
	<u>30.1</u>	<u>30.1</u>	<u>32.3</u>	<u>32.3</u>				
Corporate Income Tax, Adjusted for Transfers	<u>\$ (3.9)</u>	<u>\$ 72.0</u>	<u>\$ 11.9</u>	<u>\$ 33.4</u>				

SUMMARY OF FINANCIAL CONDITION

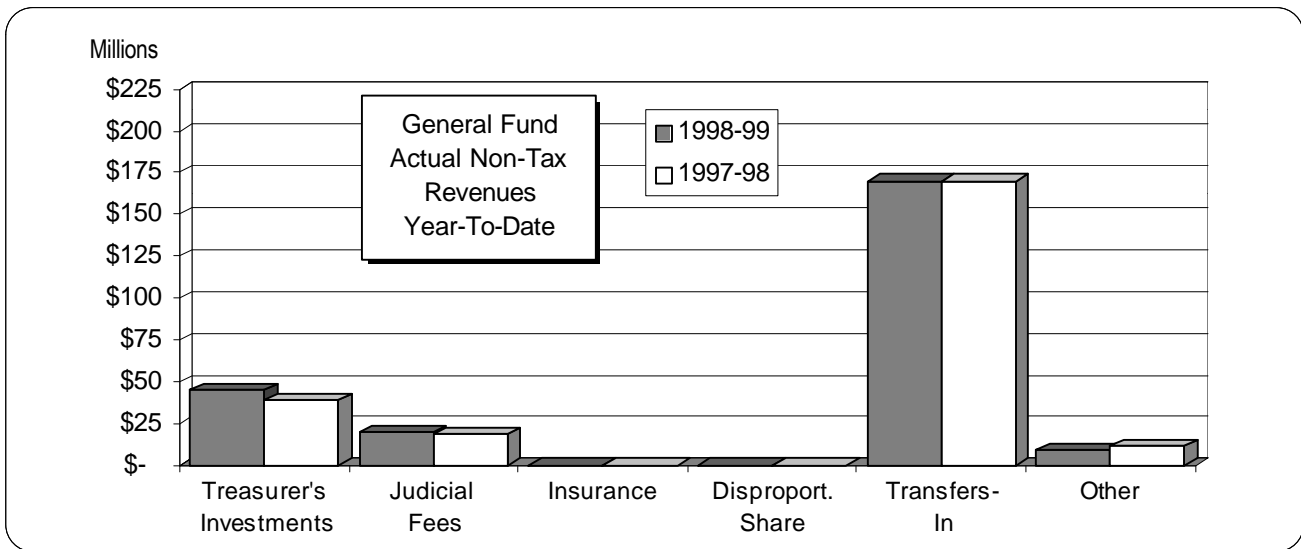
August 31, 1998

Tax revenues through August 1998 were greater than the period through August 1997 tax revenues by \$179.0 million, or 12.9%. 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 August 1998 was \$6.4 million or 2.7% greater than through the end of August 1997. Investment earnings increased through August over the previous year by \$5.7 million, or a 14.5% increase.



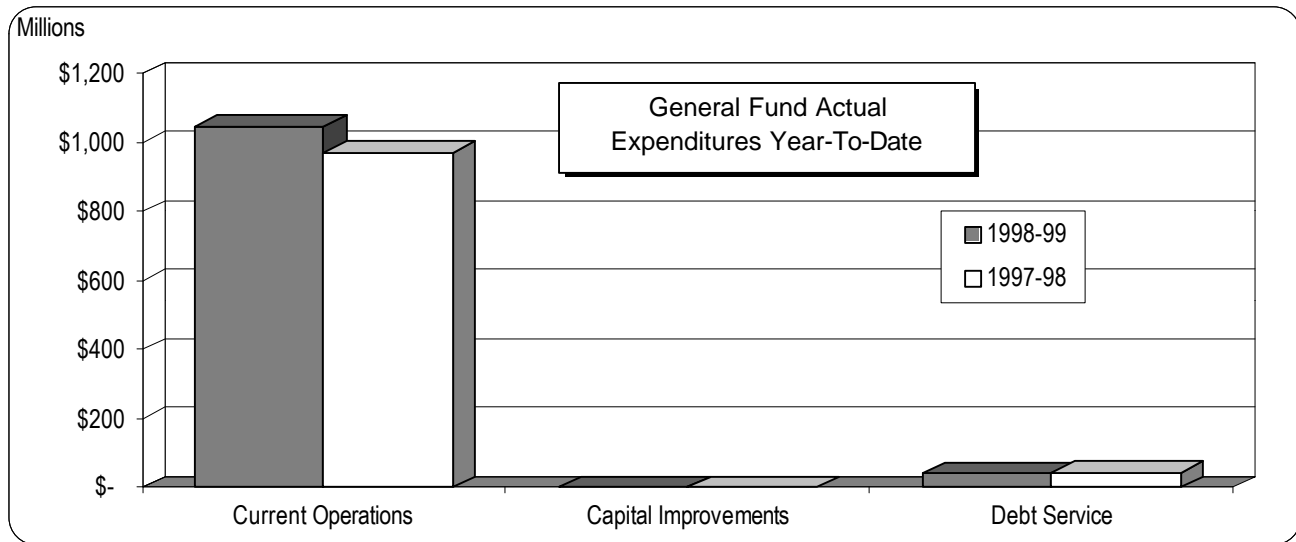
# STATE OF NORTH CAROLINA

## SUMMARY OF FINANCIAL CONDITION

August 31, 1998

### Expenditures

Actual appropriation expenditures through August 31, 1998, exclusive of appropriation expenditures for capital improvements funded by bond proceeds, were greater than actual appropriation expenditures through August 1997 by \$73.9 million, or 7.3%.



Expenditures for current operations (exclusive of expenditures for capital improvements and debt service) through August 1998 were greater than such expenditures through August 1997 by \$75.9 million, or 7.8%.

### General Fund Actual Appropriation Expenditures Year-To-Date Through August

Expressed in Millions

	1998-99	1997-98	Change	Percent Change	Percent of Total Expenditures	
					1998-99	1997-98
<b>Current Operations:</b>						
General Government	\$ (86.0)	\$ (101.6)	\$ 15.6	(15.4%)	(7.9%)	(10.0%)
Education	548.7	453.3	95.4	21.0%	50.5%	44.8%
Health and Human Services	356.7	414.2	(57.5)	(13.9%)	32.8%	40.9%
Economic Development	2.7	4.4	(1.7)	(38.6%)	0.2%	0.4%
Environment and Natural Resources	17.6	22.8	(5.2)	(22.8%)	1.6%	2.3%
Public Safety, Correction, and Regulation	198.2	169.5	28.7	16.9%	18.2%	16.7%
Agriculture	8.4	7.2	1.2	16.7%	0.8%	0.7%
Operating Reserves/Rounding	(0.6)		(0.6)		(0.1%)	
<b>Total Current Operations</b>	<b>1,045.7</b>	<b>969.8</b>	<b>75.9</b>	<b>7.8%</b>	<b>96.2%</b>	<b>95.7%</b>
<b>Capital Improvements:</b>						
Funded by General Fund	41.1	43.1	(2.0)	(4.6%)	3.8%	4.3%
<b>Debt Service</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0%</b>	<b>0.0%</b>	<b>0.0%</b>
<b>Total Expenditures</b>	<b>1,086.8</b>	<b>1,012.9</b>	<b>73.9</b>	<b>7.3%</b>	<b>100.0%</b>	<b>100.0%</b>
<b>Capital Improvements:</b>						
Funded by Bond Proceeds	0.0	0.0	0.0	0.0%	0.0%	0.0%
<b>Total Expenditures</b>	<b>\$1,086.8</b>	<b>\$1,012.9</b>	<b>\$ 73.9</b>	<b>7.3%</b>	<b>100.0%</b>	<b>100.0%</b>

# STATE OF NORTH CAROLINA

## SUMMARY OF FINANCIAL CONDITION

August 31, 1998

### 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. The amount of authorized, but unissued bonds was \$1.6 billion as of August 31, 1998.

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 adjacent schedule includes only bonds issued through August 31, 1998.**

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	
<b>1998-99 Requirements:</b>			
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
<b>Totals—1998-99.....</b>	<b>107,695</b>	<b>16,675</b>	<b>124,370</b>
<b>Future Years' Requirements:</b>			
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.....	—	—	—
<b>Totals—All Years.....</b>	<b>\$ 1,880,615</b>	<b>\$ 250,000</b>	<b>\$ 2,130,615</b>
<b>Less</b>			
Unamortized Discount..	(5,677)	—	(5,677)
<b>Total Principal, Net.....</b>	<b>\$ 1,874,938</b>	<b>\$ 250,000</b>	<b>\$ 2,124,938</b>
<b>Outstanding Principal</b>			
June 30, 1999			<b>\$ 2,000,568</b>



# STATE OF NORTH CAROLINA

## SUMMARY OF FINANCIAL CONDITION

August 31, 1998

### Summary Information - Highway Fund and Highway Trust Fund

<b>HIGHWAY FUND AND HIGHWAY TRUST FUND</b>								
<b>COMPARATIVE STATEMENT OF NET COLLECTIONS</b>								
For the Months of August 1998 and 1997, and the Two Months Ended August 31, 1998 and 1997								
(Expressed in Millions)								
	Month				Year-To-Date			
	1998-99	1997-98	Change	Percent Change	1998-99	1997-98	Change	Percent Change
<b>Highway Fund</b>								
Motor Fuels Tax	\$ 67.4	\$ 67.8	\$ (0.4)	(0.6%)	\$ 136.5	\$ 132.6	\$ 3.9	2.9%
Motor Vehicle License Fees	15.5	13.0	2.5	19.2%	31.4	27.2	4.2	15.4%
Driver License Fees	5.5	5.8	(0.3)	(5.2%)	11.4	11.6	(0.2)	(1.7%)
Motor Fuels and Oil Inspection Fees	1.1	1.0	0.1	10.0%	2.1	2.0	0.1	5.0%
Title Fee	-	-	-	-	-	-	-	-
Other	1.9	1.8	0.1	5.6%	4.5	3.8	0.7	18.4%
<b>Subtotal - Highway Fund</b>	<b>91.4</b>	<b>89.4</b>	<b>2.0</b>	<b>2.2%</b>	<b>185.9</b>	<b>177.2</b>	<b>8.7</b>	<b>4.9%</b>
<b>Highway Trust Fund</b>								
Highway Use Tax	35.1	34.0	1.1	3.2%	73.6	68.6	5.0	7.3%
Motor Fuels Tax	22.6	22.7	(0.1)	(0.4%)	45.5	44.2	1.3	2.9%
Title Fee	6.4	6.3	0.1	1.6%	13.0	12.7	0.3	2.4%
Motor Vehicle Lease	3.3	3.1	0.2	6.5%	6.9	5.8	1.1	19.0%
Registration	0.8	0.8	-	-	1.6	1.6	-	-
Lien Recording	0.1	0.2	(0.1)	(50.0%)	0.3	0.4	(0.1)	(25.0%)
<b>Subtotal - Highway Trust Fund</b>	<b>68.3</b>	<b>67.1</b>	<b>1.2</b>	<b>1.8%</b>	<b>140.9</b>	<b>133.3</b>	<b>7.6</b>	<b>5.7%</b>
<b>Payables and Receipts</b>								
Special Registration Plate Fund	0.2	0.2	-	-	0.4	0.4	-	-
Safety Inspection and Exhaust Emission	0.2	0.2	-	-	0.4	0.4	-	-
Transportation Authority/TransPark	0.6	0.6	-	-	1.3	1.2	0.1	8.3%
Recreation and Natural Heritage Trust Fund	0.1	0.1	-	-	0.3	0.3	-	-
Other Receipts	0.7	0.7	-	-	1.2	1.6	(0.4)	(25.0%)
<b>Subtotal - Payables and Receipts</b>	<b>1.8</b>	<b>1.8</b>	<b>-</b>	<b>-</b>	<b>3.6</b>	<b>3.9</b>	<b>(0.3)</b>	<b>(7.7%)</b>
	<b>\$ 161.5</b>	<b>\$ 158.3</b>	<b>\$ 3.2</b>	<b>2.0%</b>	<b>\$ 330.4</b>	<b>\$ 314.4</b>	<b>\$ 16.0</b>	<b>5.1%</b>