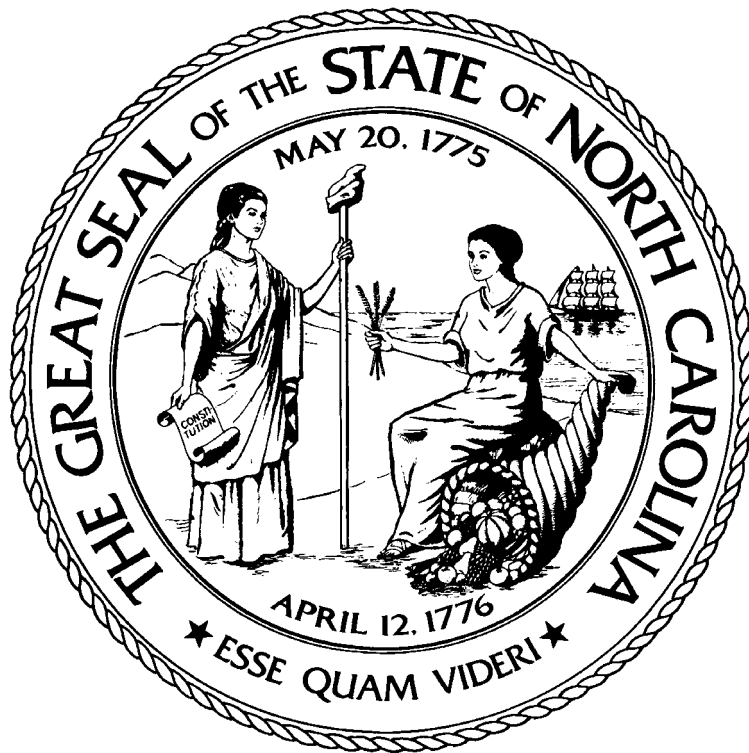


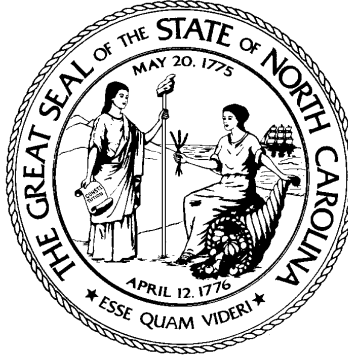
STATE OF
NORTH CAROLINA

SUMMARY OF FINANCIAL CONDITION
DECEMBER 31, 2002



OFFICE OF THE STATE CONTROLLER

STATE OF NORTH CAROLINA



The Honorable Michael F. Easley
Governor of the State of North Carolina

February 20, 2003

We herewith submit the *Summary of Financial Condition* for the State of North Carolina for the six months ended December 31, 2002. The financial information (unaudited) 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. We are committed to providing you and the State with the most reliable and timely financial and economic information possible.

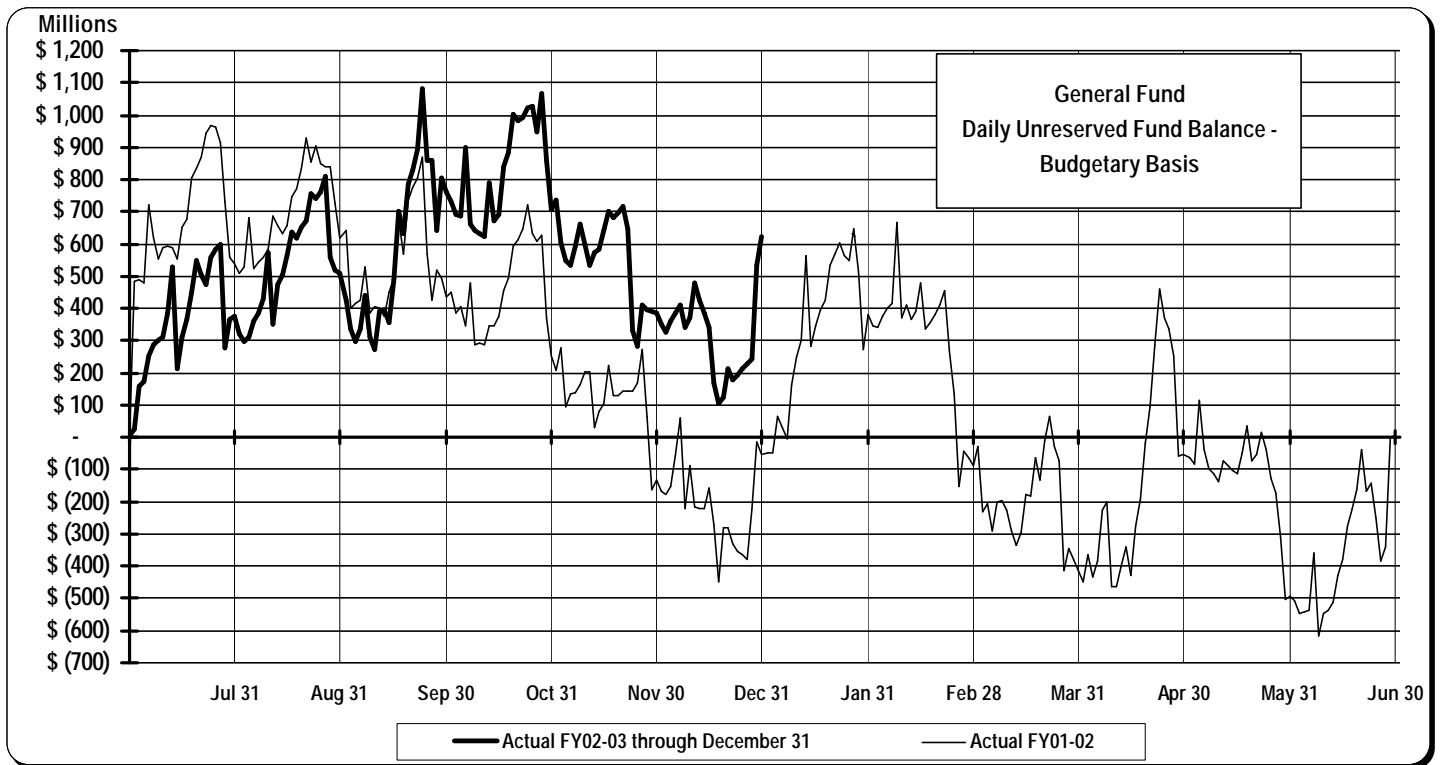
Sincerely,
Robert L. Powell
State Controller
(919) 981-5454

STATE OF NORTH CAROLINA

SUMMARY OF FINANCIAL CONDITION

December 31, 2002

Fund Balance



At December 31, 2002 and 2001, the reserved and unreserved fund balance was composed of the following (in millions):

Fund Balance:	2002-03	2001-02
Reserved:		
Savings account.....	\$ —	\$ 184.2
Retirees health premiums.....	44.8	59.1
North Carolina Railroad acquisition.....	22.1	30.9
Disproportionate Share.....	—	1.2
Disaster Relief.....	—	385.1
Budgetary Shortfall Funds.....	215.6	—
Total Reserved.....	282.5	660.5
Unreserved:		
Fund Balance - July 1.....	3.8	—
Transfer to reserves.....	21.2	(30.0)
Excess of revenue over (under) expenditures....	545.4	(26.2)
Total Unreserved.....	570.4	(56.2)
Total Fund Balance.....	\$ 852.9	\$ 604.3

The Office of State Budget and Management directed the release of disaster relief reserved funds in July 2002 to Governor Easley's Executive Order #22 (shown as Budgetary Shortfall Funds in table above). These funds will be used if necessary to address the budget shortfall.

STATE OF NORTH CAROLINA

SUMMARY OF FINANCIAL CONDITION

December 31, 2002

Revenues - Tax and Non-Tax

General Fund Actual Net Revenues

Expressed In Millions	December				Year-To-Date Through December			
	2002-03	2001-02	Change	% Change	2002-03	2001-02	Change	% Change
Tax Revenues:								
Individual Income	\$ 726.6	\$ 632.0	\$ 94.6	15.0%	\$ 3,696.2	\$ 3,528.0	\$ 168.2	4.8%
Corporate Income	189.6	175.3	14.3	8.2%	431.6	208.9	222.7	106.6%
Sales and Use	323.1	308.1	15.0	4.9%	2,018.5	1,748.7	269.8	15.4%
Franchise	(2.0)	(5.4)	3.4	63.0%	155.0	194.1	(39.1)	(20.1)%
Insurance	0.1	—	0.1	—	111.9	97.1	14.8	15.2%
Piped Natural Gas	0.6	(0.4)	1.0	250.0%	10.5	8.0	2.5	31.3%
Beverage	16.3	17.3	(1.0)	(5.8)%	85.5	88.9	(3.4)	(3.8)%
Inheritance	7.8	8.0	(0.2)	(2.5)%	61.8	48.7	13.1	26.9%
Privilege License	1.3	0.8	0.5	62.5%	22.0	21.0	1.0	4.8%
Tobacco Products	3.1	3.0	0.1	3.3%	21.7	20.5	1.2	5.9%
Real Estate Conveyance Excise	0.3	—	0.3	—	9.7	9.3	0.4	4.3%
Gift	0.1	0.1	—	—	1.8	2.6	(0.8)	(30.8)%
White Goods Disposal	0.4	0.3	0.1	33.3%	1.1	1.6	(0.5)	(31.3)%
Scrap Tire Disposal	0.8	0.7	0.1	14.3%	2.8	3.4	(0.6)	(17.6)%
Freight Car Lines	—	—	—	—	—	—	—	—
Other	—	0.3	(0.3)	(100.0)%	—	0.1	(0.1)	(100.0)%
Total Tax Revenue	1,268.1	1,140.1	128.0	11.2%	6,630.1	5,980.9	649.2	10.9%
Non-Tax Revenue:								
Treasurer's Investments	9.0	11.4	(2.4)	(21.1)%	56.7	76.0	(19.3)	(25.4)%
Judicial Fees	9.0	7.8	1.2	15.4%	57.5	53.9	3.6	6.7%
Insurance	0.2	0.3	(0.1)	(33.3)%	9.3	10.1	(0.8)	(7.9)%
Disproportionate Share	107.3	—	107.3	—	107.3	107.0	0.3	0.3%
Highway Fund Transfer In	—	3.6	(3.6)	(100.0)%	7.7	7.0	0.7	10.0%
Highway Trust Fund Transfer In	—	—	—	—	188.7	171.7	17.0	9.9%
Intra State Transfer	—	—	—	—	—	—	—	—
Other	27.0	4.5	22.5	500.0%	62.5	43.4	19.1	44.0%
Total Non-Tax Revenue	152.5	27.6	124.9	452.5%	489.7	469.1	20.6	4.4%
Total Tax and Non-Tax Revenue	\$ 1,420.6	\$ 1,167.7	\$ 252.9	21.7%	\$ 7,119.8	\$ 6,450.0	\$ 669.8	10.4%

Note that the table represents net tax and non-tax collections and not gross collections. When compared to the prior year through December 31, actual tax and non-tax revenues increased by \$669.8 million, or 10.4%. The net, or actual, tax and non-tax revenues through December 2002 of \$7,119.8 million were greater than the projected revenues by \$55.8 million.

\$95.1 million for inventories reimbursement to local governments, not previously paid in April 2001, was repaid in July 2001 from the Governor Easley escrow fund (Executive Order #3). For fiscal year 2002-03, the local government tax reimbursement has been repealed. In addition, no funds will be transferred from corporate income tax to the Critical School Facility Needs Fund or the Public School Building Capital Fund. Instead these funds will be deposited as a receipt for use in the State Public School Fund (*part of the General Fund*). This receipt indirectly increases available dollars to be appropriated for other uses. In 2001-02, these transfers, which were netted against corporate income tax, totaled \$225.6 million (see table on following page).

Major components of tax and non-tax revenues that increased from the prior year through the end of December 2002 included:

- \$269.8 million for Sales and Use Tax;
- \$222.7 million for Corporate Income Tax; and
- \$168.2 million for Individual Income Tax.

The largest portion of the increase in corporate income tax is due to the fiscal year 2003 repeal of reimbursements to local governments. These reimbursements from corporate income tax were \$101.5 million through December 2001. The largest portion of the increase in individual income tax is also due to the fiscal year 2003 repeal of reimbursements to local governments. These reimbursements from individual income tax were \$129 million through December 2001.

STATE OF NORTH CAROLINA

SUMMARY OF FINANCIAL CONDITION

December 31, 2002

GENERAL FUND NET TAX AND NON-TAX REVENUES AND TRANSFERS IN BUDGET VS. ACTUAL

(Expressed In Millions)	Current Month				Year-To-Date			
	Projected Monthly Budget	Actual	Variance	Percent Realized	Projected Monthly Budget	Actual	Variance	Percent Realized
Tax Revenue								
Individual Income [1]	\$ 689.1	\$ 726.6	\$ 37.5	105.4%	\$ 3,701.8	\$ 3,696.2	\$ (5.6)	99.8%
Corporate Income [2]	160.8	189.6	28.8	117.9%	340.6	431.6	91.0	126.7%
Sales and Use	334.7	323.1	(11.6)	96.5%	2,055.7	2,018.5	(37.2)	98.2%
Franchise	2.5	(2.0)	(4.5)	(80.0%)	142.0	155.0	13.0	109.2%
Insurance	0.2	0.1	(0.1)	50.0%	107.0	111.9	4.9	104.6%
Piped Natural Gas	(0.9)	0.6	1.5	(66.7%)	17.0	10.5	(6.5)	61.8%
Beverage	15.4	16.3	0.9	105.8%	84.7	85.5	0.8	100.9%
Inheritance	8.9	7.8	(1.1)	87.6%	51.9	61.8	9.9	119.1%
Privilege License	1.1	1.3	0.2	118.2%	22.5	22.0	(0.5)	97.8%
Tobacco Products	3.8	3.1	(0.7)	81.6%	22.4	21.7	(0.7)	96.9%
Real Estate Conveyance Excise	0.3	0.3	—	100.0%	9.7	9.7	—	100.0%
Gift	0.3	0.1	(0.2)	33.3%	1.3	1.8	0.5	138.5%
White Goods Disposal	0.4	0.4	—	100.0%	1.1	1.1	—	100.0%
Scrap Tire Disposal	0.8	0.8	—	100.0%	2.8	2.8	—	100.0%
Freight Car Lines	—	—	—	—	—	—	—	—
Other	—	—	—	—	—	—	—	—
Total Tax Revenue	<u>1,217.4</u>	<u>1,268.1</u>	<u>50.7</u>	<u>104.2%</u>	<u>6,560.5</u>	<u>6,630.1</u>	<u>69.6</u>	<u>101.1%</u>
Non-Tax Revenue								
Treasurer's Investments	9.7	9.0	(0.7)	92.8%	57.8	56.7	(1.1)	98.1%
Judicial Fees	12.1	9.0	(3.1)	74.4%	64.6	57.5	(7.1)	89.0%
Insurance	7.1	0.2	(6.9)	2.8%	22.6	9.3	(13.3)	41.2%
Disproportionate share	107.3	107.3	—	100.0%	107.3	107.3	—	100.0%
Highway Fund Transfer In	—	—	—	—	7.7	7.7	—	100.0%
Highway Trust Fund Transfer In	—	—	—	—	188.7	188.7	—	100.0%
Intra State Transfer	—	—	—	—	—	—	—	—
Other	10.1	27.0	16.9	267.3%	54.8	62.5	7.7	114.1%
Total Non-Tax Revenue	<u>146.3</u>	<u>152.5</u>	<u>6.2</u>	<u>104.2%</u>	<u>503.5</u>	<u>489.7</u>	<u>(13.8)</u>	<u>97.3%</u>
Total Tax and Non-Tax Revenue	<u>\$ 1,363.7</u>	<u>\$ 1,420.6</u>	<u>\$ 56.9</u>	<u>104.2%</u>	<u>\$ 7,064.0</u>	<u>\$ 7,119.8</u>	<u>\$ 55.8</u>	<u>100.8%</u>

[1] Individual Income Tax collections are reported net of the following transfer(s) :

	2002-03		2001-02	
	Current Month	Year-To-Date	Current Month	Year-To-Date
Individual Income Tax, Reported Net	\$ 726.6	\$ 3,696.2	\$ 632.0	\$ 3,528.0
Local Government Tax Reimbursement	—	—	—	129.0
Individual Income Tax, Adjusted for Transfers	<u>\$ 726.6</u>	<u>\$ 3,696.2</u>	<u>\$ 632.0</u>	<u>\$ 3,657.0</u>

[2] Corporate Income Tax collections are reported net of the following transfer(s) :

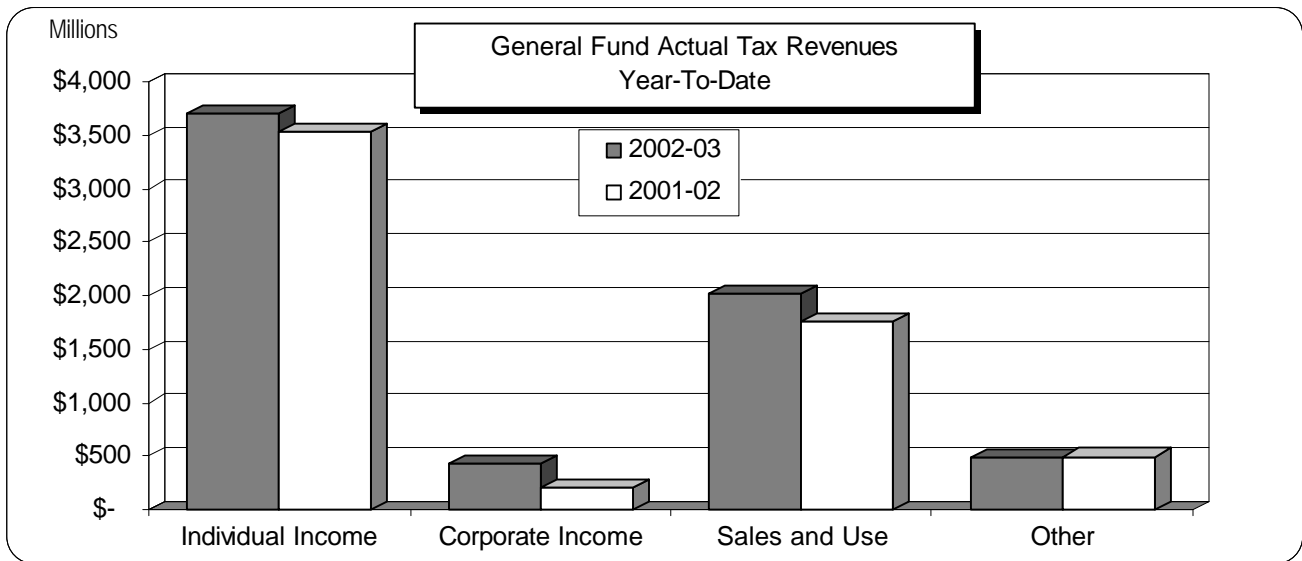
	2002-03		2001-02	
	Current Month	Year-To-Date	Current Month	Year-To-Date
Corporate Income Tax, Reported Net	\$ 189.6	\$ 431.6	\$ 175.3	\$ 208.9
Public School Building Capital Fund	—	—	—	24.0
Critical School Facility Needs Fund	—	—	—	5.0
Public School Fund (General Fund receipt to DPI)	—	29.9	—	—
Local Government Tax Reimbursement	—	—	—	101.5
Executive Order #3	—	—	—	95.1
	<u>—</u>	<u>29.9</u>	<u>—</u>	<u>225.6</u>
Corporate Income Tax, Adjusted for Transfers	<u>\$ 189.6</u>	<u>\$ 461.5</u>	<u>\$ 175.3</u>	<u>\$ 434.5</u>

SUMMARY OF FINANCIAL CONDITION

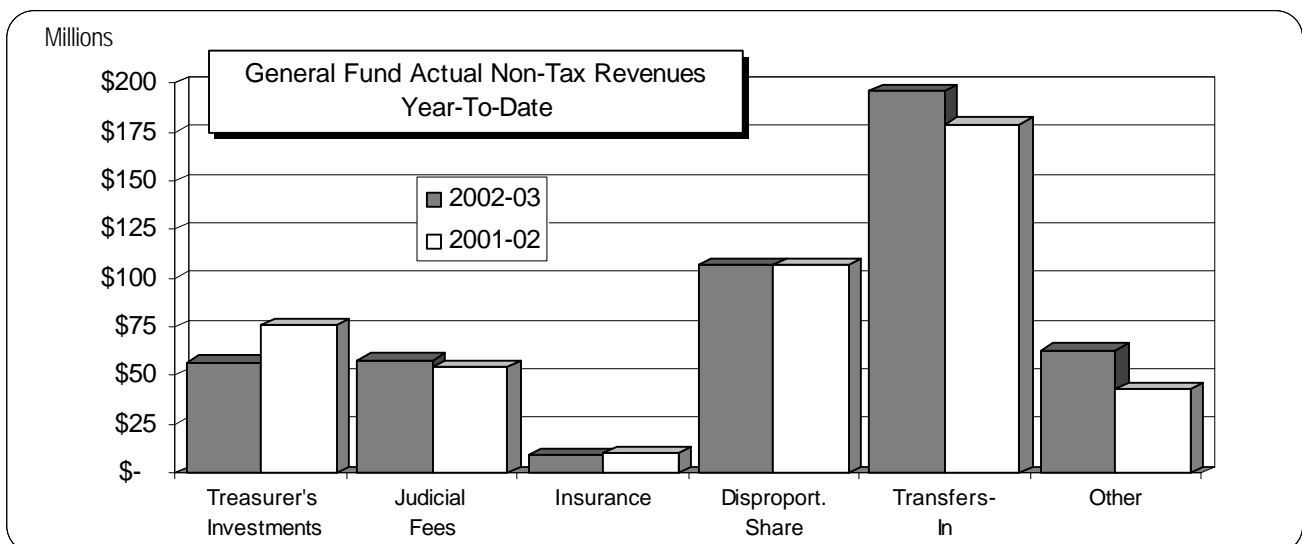
December 31, 2002

Tax revenues through December 2002 were greater than the period through December 2001 by \$649.2 million, or 10.9%. If comparing current and prior year tax revenues without taking into account the \$225.6 million of transfers, which net against corporate income tax for the period through December 2001, tax revenues increased by \$423.6 million, or 7.1%. 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 December 2002 was \$20.6 million, or 4.4%, more than through the end of December 2001. Effective with the 2002-03 fiscal year, the Highway Trust Fund Transfer In will occur on a quarterly rather than annual basis. In 2001-02, the Highway Trust Fund transferred \$171.7 million annually. In 2002-03, \$377.4 million (including a \$125 million loan from the Highway Trust Fund) will be transferred over four quarterly installments of approximately \$94.4 million. Investment revenues decreased by \$19.3 million from the prior year through the end of December 2002.



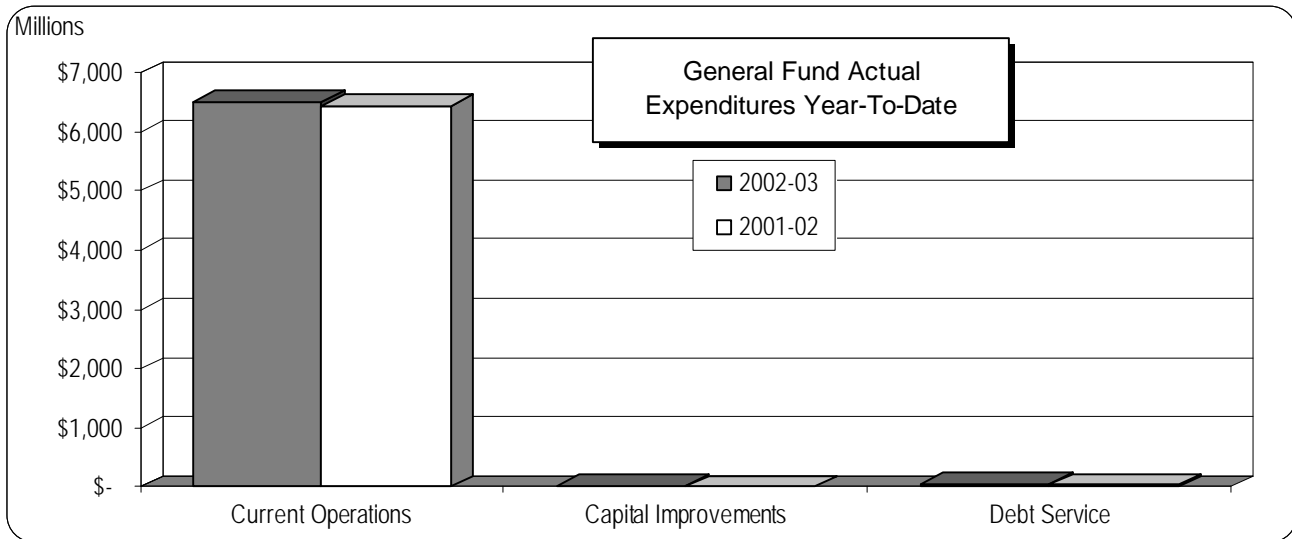
STATE OF NORTH CAROLINA

SUMMARY OF FINANCIAL CONDITION

December 31, 2002

Expenditures

Actual appropriation expenditures through December 31, 2002, exclusive of appropriation expenditures for capital improvements funded by bond proceeds, were greater than actual appropriation expenditures through December 2001 by \$98.2 million, or 1.5%.



Expenditures for current operations (exclusive of expenditures for capital improvements and debt service) through December 2002 were more than such expenditures through December 2001 by \$73.9 million, or 1.1%.

General Fund Actual Appropriation Expenditures — Year-To-Date Through December

Expressed in Millions

	2002-03	2001-02	Change	Percent Change	Percent of Total Expenditures	
					2002-03	2001-02
Current Operations:						
General Government	\$ 129.3	\$ 128.7	\$ 0.6	0.5%	2.0%	2.0%
Education	3,905.3	3,852.6	52.7	1.4%	59.4%	59.5%
Health and Human Services	1,673.4	1,610.6	62.8	3.9%	25.5%	24.9%
Economic Development	4.2	24.2	(20.0)	(82.6%)	0.1%	0.4%
Environment and Natural Resources	102.9	94.8	8.1	8.5%	1.6%	1.5%
Public Safety, Correction, and Regulation	658.2	660.9	(2.7)	(0.4%)	10.0%	10.2%
Agriculture	21.9	24.0	(2.1)	(8.8%)	0.3%	0.4%
Operating Reserves/Rounding	7.9	33.4	(25.5)	(76.3%)	0.1%	0.5%
<i>Total Current Operations</i>	<u>6,503.1</u>	<u>6,429.2</u>	<u>73.9</u>	1.1%	98.9%	99.3%
Capital Improvements:						
Funded by General Fund	15.6	—	15.6	—	0.2%	—
Debt Service	<u>55.7</u>	<u>47.0</u>	<u>8.7</u>	18.5%	0.8%	0.7%
	<u>6,574.4</u>	<u>6,476.2</u>	<u>98.2</u>	1.5%	100.0%	100.0%
Capital Improvements:						
Funded by Bond Proceeds	—	—	—	—	—	—
Total Expenditures	<u>\$ 6,574.4</u>	<u>\$ 6,476.2</u>	<u>\$ 98.2</u>	1.5%	100.0%	100.0%

A negative appropriation expenditure indicates that a budget code has non-appropriated authorized receipts that exceed authorized expenditures.

STATE OF NORTH CAROLINA

SUMMARY OF FINANCIAL CONDITION

December 31, 2002

Summary Information - Highway Fund and Highway Trust Fund

HIGHWAY FUND AND HIGHWAY TRUST FUND								
COMPARATIVE STATEMENT OF NET COLLECTIONS								
For the Months of December 2002 and 2001, and the Six Months Ended December 31, 2002 and 2001								
(Expressed in Millions)								
	Month				Year-To-Date			
	2002-03	2001-02	Change	Percent Change	2002-03	2001-02	Change	Percent Change
Highway Fund								
Motor Fuels Tax	\$ 68.3	\$ 74.5	\$ (6.2)	(8.3%)	\$ 429.5	\$ 448.9	\$ (19.4)	(4.3%)
Motor Vehicle License Fees	11.7	11.3	0.4	3.5%	82.5	81.6	0.9	1.1%
Driver License Fees	5.5	5.5	-	-	34.4	32.9	1.5	4.6%
Motor Fuels and Oil Inspection Fees	1.1	1.1	-	-	6.8	6.5	0.3	4.6%
Other	3.2	3.1	0.1	3.2%	21.5	20.1	1.4	7.0%
Subtotal - Highway Fund	89.8	95.5	(5.7)	(6.0%)	574.7	590.0	(15.3)	(2.6%)
Highway Trust Fund								
Highway Use Tax	36.4	36.6	(0.2)	(0.5%)	256.3	250.0	6.3	2.5%
Motor Fuels Tax	22.7	24.8	(2.1)	(8.5%)	143.3	149.6	(6.3)	(4.2%)
Title Fee	5.2	5.3	(0.1)	(1.9%)	37.9	37.4	0.5	1.3%
Motor Vehicle Lease	3.7	3.2	0.5	15.6%	17.9	22.9	(5.0)	(21.8%)
Registration	0.7	0.7	-	-	4.8	4.8	-	-
Lien Recording	0.2	0.2	-	-	1.1	1.0	0.1	10.0%
Subtotal - Highway Trust Fund	68.9	70.8	(1.9)	(2.7%)	461.3	465.7	(4.4)	(0.9%)
Payables and Receipts								
Special Registration Plate Fund	0.2	0.2	-	-	1.6	1.4	0.2	14.3%
Safety Inspection and Exhaust Emission	0.3	0.3	-	-	1.7	1.3	0.4	30.8%
Transportation Authority/TransPark	0.3	0.3	-	-	2.1	2.1	-	-
Recreation and Natural Heritage Trust Fund	0.2	0.1	0.1	100.0%	1.2	1.0	0.2	20.0%
Other Receipts	1.4	0.7	0.7	100.0%	7.1	3.3	3.8	115.2%
Subtotal - Payables and Receipts	2.4	1.6	0.8	50.0%	13.7	9.1	4.6	50.5%
	\$ 161.1	\$ 167.9	\$ (6.8)	(4.1%)	\$ 1,049.7	\$ 1,064.8	\$ (15.1)	(1.4%)