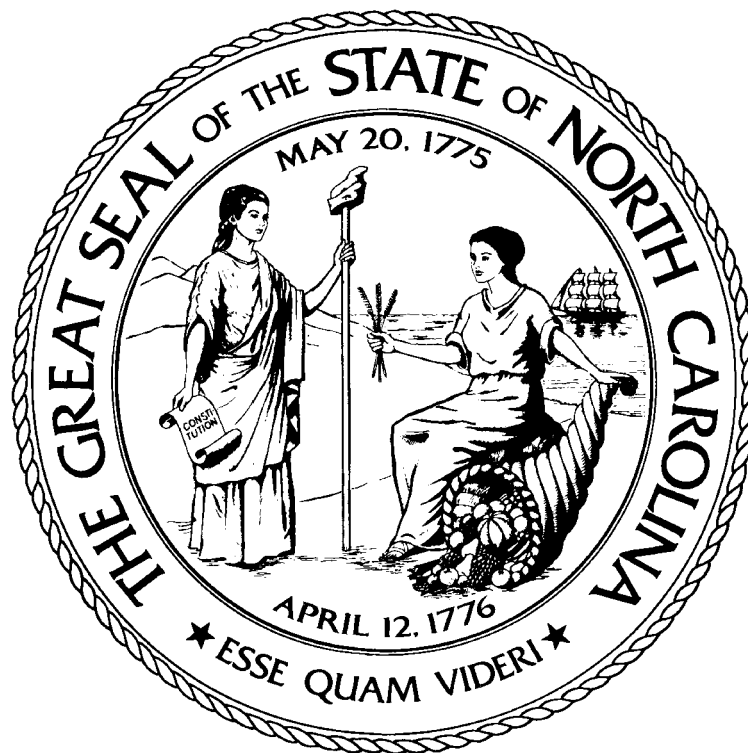


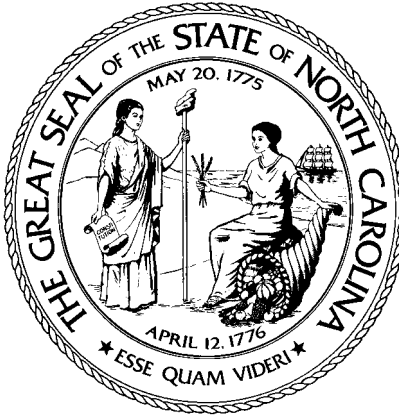
STATE OF
NORTH CAROLINA

SUMMARY OF FINANCIAL CONDITION
MAY 31, 1998



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

June 24, 1998

We herewith submit the Summary of Financial Condition for the State of North Carolina for the eleven months ended May 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

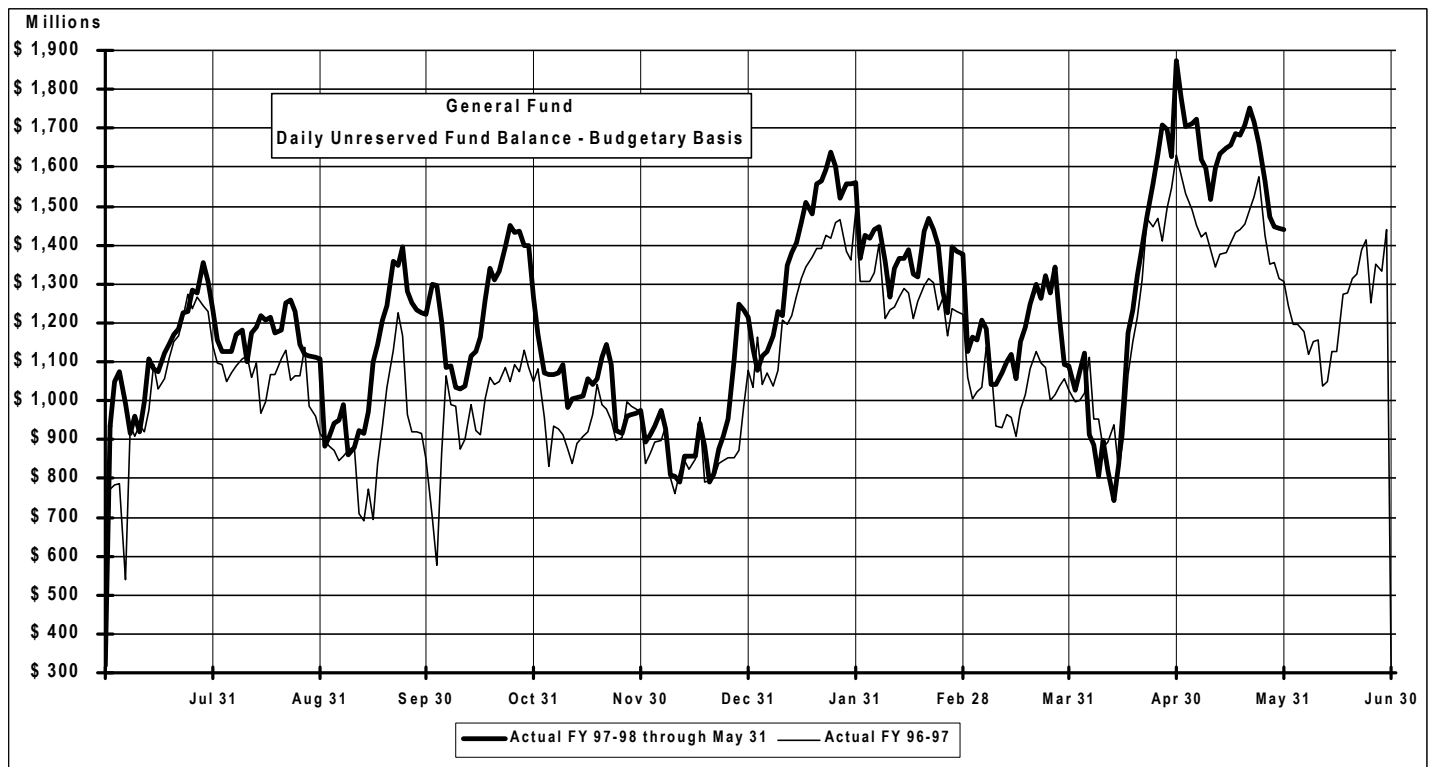
Muriel K. Offerman
Secretary of Revenue
(919) 733-7211

STATE OF NORTH CAROLINA

SUMMARY OF FINANCIAL CONDITION

May 31, 1998

Fund Balance



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

Fund Balance:	1997-98	1996-97
Reserved:		
Savings account.....	\$ 500.9	\$ 500.9
Retirees health premiums.....	226.6	187.1
Repairs and renovations		
Available from prior years.....	29.6	47.8
1996-97 additions.....	—	—
Clean water management.....	—	—
North Carolina Railroad acquisition.....	61.0	—
Disproportionate share.....	14.1	—
Chemical alcohol testing.....	.4	.4
Library grant.....	—	.3
Total Reserved.....	832.6	736.5
Unreserved:		
Fund Balance - July 1.....	318.7	406.1
Transfer from reserves.....	174.5	1.6
Transfer to reserves.....	—	(115.5)
Excess of revenue over (under) expenditures..	933.0	1,014.7
Total Unreserved.....	1,426.2	1,306.9
Total Fund Balance.....	\$ 2,258.8	\$ 2,043.4

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

May 31, 1998

Revenues - Tax and Non-Tax

General Fund Actual Net Revenues								
Expressed In Millions	May				Year-To-Date Through May			
	1997-98	1996-97	Change	% Change	1997-98	1996-97	Change	% Change
Tax Revenues:								
Individual Income	\$ 295.5	\$ 239.8	\$ 55.7	23.2%	\$ 5,570.9	\$ 4,918.3	\$ 652.6	13.3%
Corporate Income	(4.2)	(0.3)	(3.9)	1300.0%	544.8	511.1	33.7	6.6%
Sales and Use	260.1	260.0	0.1	—	2,960.4	2,849.7	110.7	3.9%
Franchise	10.0	18.5	(8.5)	(45.9)%	401.9	391.3	10.6	2.7%
Insurance	1.9	5.6	(3.7)	(66.1)%	211.4	189.9	21.5	11.3%
Beverage	11.6	9.6	2.0	20.8%	138.3	134.4	3.9	2.9%
Inheritance	15.8	11.0	4.8	43.6%	126.8	119.5	7.3	6.1%
Soft Drink	1.8	3.3	(1.5)	(45.5)%	21.0	28.6	(7.6)	(26.6)%
Privilege License	0.9	1.9	(1.0)	(52.6)%	30.8	37.8	(7.0)	(18.5)%
Tobacco Products	3.8	3.9	(0.1)	(2.6)%	43.5	42.7	0.8	1.9%
Real Estate Conveyance Excise	0.7	0.3	0.4	133.3%	6.6	5.3	1.3	24.5%
Intangibles	—	—	—	—	0.3	0.5	(0.2)	(40.0)%
Gift	0.3	0.3	—	—	20.4	12.3	8.1	65.9%
White Goods Disposal	0.6	0.5	0.1	20.0%	1.2	1.1	0.1	9.1%
Scrap Tire Disposal	0.8	0.7	0.1	14.3%	1.6	1.5	0.1	6.7%
Freight Car Lines	0.2	0.2	—	—	0.5	0.5	—	—
Other	0.2	(0.1)	0.3	300.0%	—	—	—	—
Total Tax Revenue	600.0	555.2	44.8	8.1%	10,080.4	9,244.5	835.9	9.0%
Non-Tax Revenue:								
Treasurer's Investments	20.9	19.5	1.4	7.2%	225.0	202.9	22.1	10.9%
Judicial Fees	9.5	8.5	1.0	11.8%	103.2	90.8	12.4	13.7%
Insurance	0.1	0.1	—	—	15.4	15.0	0.4	2.7%
Disproportionate Share	—	—	—	—	—	83.6	(83.6)	(100.0)%
Highway Fund Transfer In	—	—	—	—	9.3	8.7	0.6	6.9%
Highway Trust Fund Transfer In	—	—	—	—	170.0	170.0	—	—
Other	5.4	3.9	1.5	38.5%	63.5	60.2	3.3	5.5%
Total Non-Tax Revenue	35.9	32.0	3.9	12.2%	586.4	631.2	(44.8)	(7.1)%
Total Tax and Non-Tax Revenue	\$ 635.9	\$ 587.2	\$ 48.7	8.3%	\$ 10,666.8	\$ 9,875.7	\$ 791.1	8.0%

Note that the table represents net tax and non-tax collections and not gross collections. When compared to the prior year through May 31, actual tax and non-tax revenues increased by \$791.1 million, or 8.0%. The net, or actual, tax and non-tax revenues through May 1998 of \$10,666.8 million were greater than the projected revenues by \$583.5 million, or 5.8%. The 1996-97 non-tax revenue included \$83.6 million of receipts from Disproportionate Share funds; these receipts are reflected as Department of Health and Human Service departmental receipts for 1997-98. Major components of tax and non-tax revenues that increased from the prior year through the end of May 1998 included:

- \$652.6 million for Individual Income Tax;
- \$110.7 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*);
- \$33.7 million for Corporate Income Tax;
- \$22.1 million for Treasurer's Investments; and
- \$21.5 million for Insurance Tax.

STATE OF NORTH CAROLINA

SUMMARY OF FINANCIAL CONDITION

May 31, 1998

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]	\$ 313.0	\$ 295.5	\$ (17.5)	94.4%	\$ 5,079.3	\$ 5,570.9	\$ 491.6	109.7%
Corporate Income [2]	(0.4)	(4.2)	(3.8)	1050.0%	472.9	544.8	71.9	115.2%
Sales and Use	282.3	260.1	(22.2)	92.1%	2,956.7	2,960.4	3.7	100.1%
Franchise	30.6	10.0	(20.6)	32.7%	417.9	401.9	(16.0)	96.2%
Insurance	4.9	1.9	(3.0)	38.8%	198.2	211.4	13.2	106.7%
Beverage	10.8	11.6	0.8	107.4%	136.7	138.3	1.6	101.2%
Inheritance	11.5	15.8	4.3	137.4%	126.3	126.8	0.5	100.4%
Soft Drink	1.7	1.8	0.1	105.9%	20.6	21.0	0.4	101.9%
Privilege License	1.3	0.9	(0.4)	69.2%	23.4	30.8	7.4	131.6%
Tobacco Products	3.9	3.8	(0.1)	97.4%	42.8	43.5	0.7	101.6%
Real Estate Conveyance Excise	0.7	0.7	—	100.0%	6.6	6.6	—	100.0%
Intangibles	—	—	—	—	—	0.3	0.3	—
Gift	0.5	0.3	(0.2)	60.0%	12.5	20.4	7.9	163.2%
White Goods Disposal	0.6	0.6	—	100.0%	1.2	1.2	—	100.0%
Scrap Tire Disposal	0.8	0.8	—	100.0%	1.6	1.6	—	100.0%
Freight Car Lines	—	0.2	0.2	—	—	0.5	0.5	—
Other	0.2	0.2	—	100.0%	0.5	—	(0.5)	—
Total Tax Revenue	662.4	600.0	(62.4)	90.6%	9,497.2	10,080.4	583.2	106.1%
Non-Tax Revenue								
Treasurer's Investments	20.7	20.9	0.2	101.0%	214.9	225.0	10.1	104.7%
Judicial Fees	10.0	9.5	(0.5)	95.0%	106.8	103.2	(3.6)	96.6%
Insurance	0.1	0.1	—	100.0%	16.6	15.4	(1.2)	92.8%
Highway Fund Transfer In	—	—	—	—	9.2	9.3	0.1	101.1%
Highway Trust Fund Transfer In	—	—	—	—	170.0	170.0	—	100.0%
Other	6.3	5.4	(0.9)	85.7%	68.6	63.5	(5.1)	92.6%
Total Non-Tax Revenue	37.1	35.9	(1.2)	96.8%	586.1	586.4	0.3	100.1%
Total Tax and Non-Tax Revenue	\$ 699.5	\$ 635.9	\$ (63.6)	90.9%	\$ 10,083.3	\$ 10,666.8	\$ 583.5	105.8%

[1] Individual Income Tax collections are reported net of the following transfer(s) :				
	1997-98		1996-97	
	Current Month	Year-To-Date	Current Month	Year-To-Date
Individual Income Tax, Reported Net	\$ 295.5	\$ 5,570.9	\$ 239.8	\$ 4,918.3
Local Government Tax Reimbursement	—	129.0	—	129.0
Individual Income Tax, Adjusted for Transfers	\$ 295.5	\$ 5,699.9	\$ 239.8	\$ 5,047.3

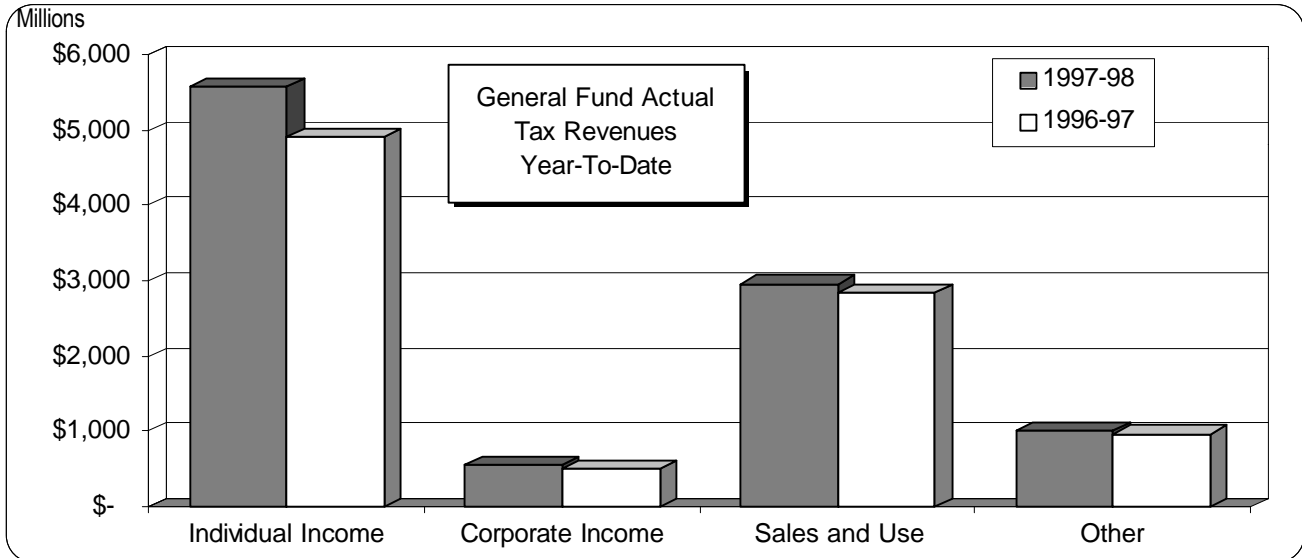
[2] Corporate Income Tax collections are reported net of the following transfer(s) :				
	1997-98		1996-97	
	Current Month	Year-To-Date	Current Month	Year-To-Date
Corporate Income Tax, Reported Net	\$ (4.2)	\$ 544.8	\$ (0.3)	\$ 511.1
Public School Building Capital Fund	8.2	56.6	8.1	48.9
Critical School Facility Needs Fund	2.5	10.0	2.5	10.0
Local Government Tax Reimbursement	10.6	207.2	7.9	204.5
	21.3	273.8	18.5	263.4
Corporate Income Tax, Adjusted for Transfers	\$ 17.1	\$ 818.6	\$ 18.2	\$ 774.5

SUMMARY OF FINANCIAL CONDITION

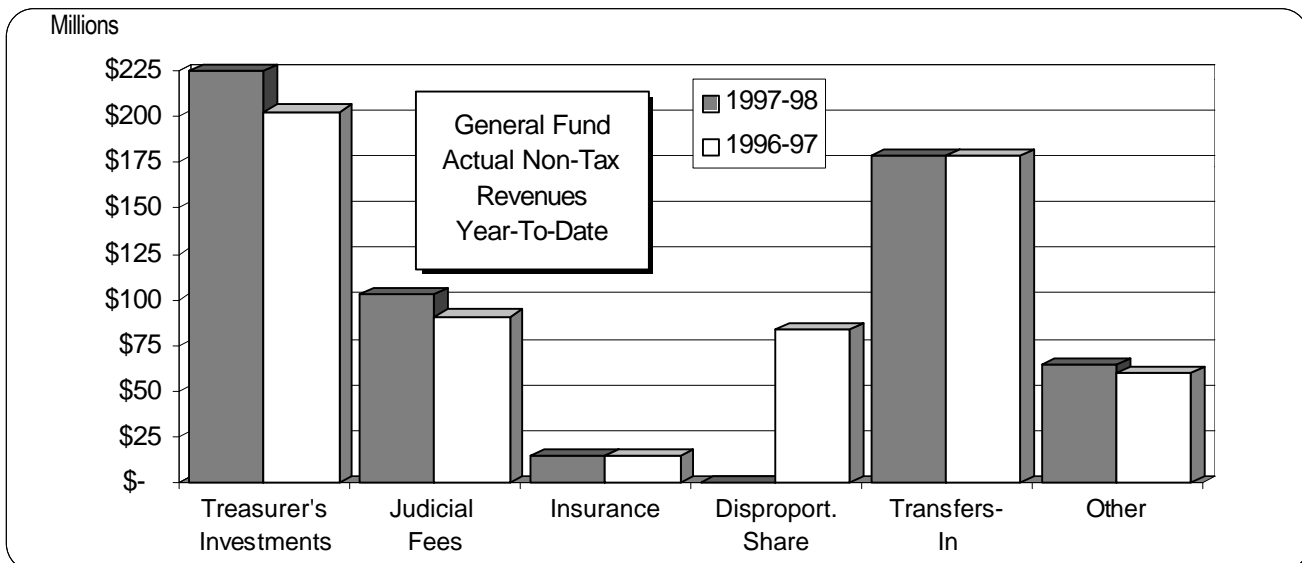
May 31, 1998

Tax revenues through May 1998 were greater than the period through May 1997 tax revenues by \$835.9 million, or 9.0%. 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 May 1998 was \$44.8 million or 7.1% less than through the end of May 1997. Investment earnings increased through May over the previous year by \$22.1 million, or a 10.9% increase.



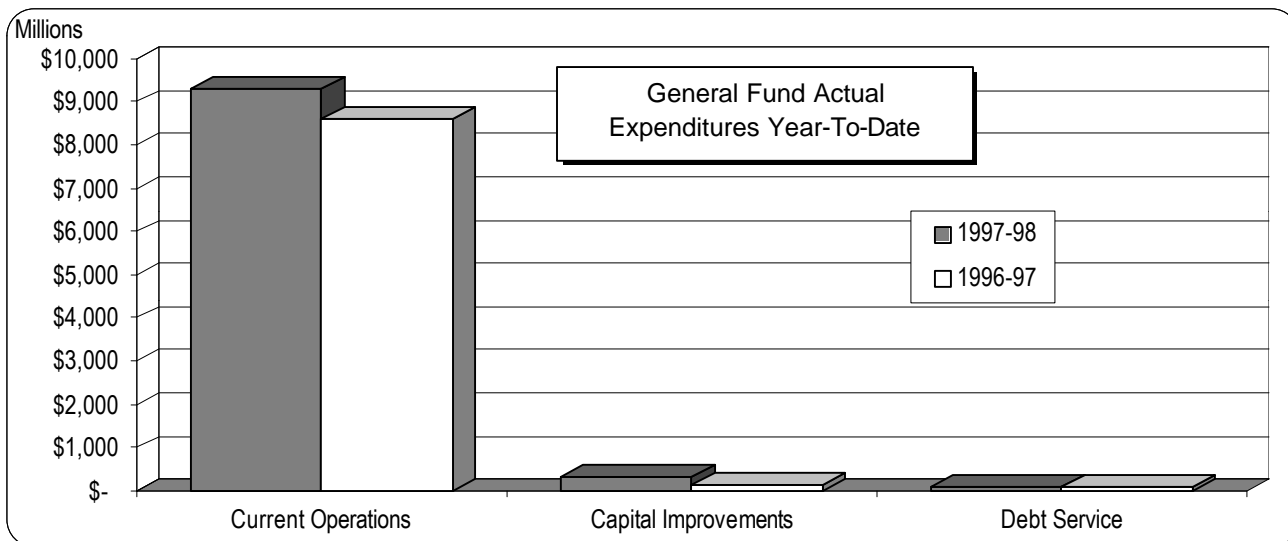
STATE OF NORTH CAROLINA

SUMMARY OF FINANCIAL CONDITION

May 31, 1998

Expenditures

Actual appropriation expenditures through May 31, 1998, exclusive of appropriation expenditures for capital improvements funded by bond proceeds, were greater than actual appropriation expenditures through May 1997 by \$872.8 million, or 9.8%.



Expenditures for current operations (exclusive of expenditures for capital improvements and debt service) through May 1998 were greater than such expenditures through May 1997 by \$713.5 million, or 8.3%.

General Fund Actual Appropriation Expenditures Year-To-Date Through May						
<i>Expressed in Millions</i>						
	1997-98	1996-97	Change	Percent Change	Percent of Total Expenditures	
					1997-98	1996-97
Current Operations:						
General Government [1]	\$ 151.2	\$ 125.0	\$ 26.2	21.0%	1.5%	1.3%
Education	5,644.4	5,150.2	494.2	9.6%	55.4%	54.2%
Health and Human Services [2]	2,088.3	1,909.2	179.1	9.4%	20.5%	20.1%
Economic Development	85.8	68.6	17.2	25.1%	0.8%	0.7%
Environment and Natural Resources [2]	141.4	228.9	(87.5)	(38.2%)	1.4%	2.4%
Public Safety, Correction, and Regulation	1,156.9	1,079.0	77.9	7.2%	11.4%	11.4%
Agriculture	42.8	40.2	2.6	6.5%	0.4%	0.4%
Operating Reserves/Rounding	2.8	(1.0)	3.8	(380.0%)		
Total Current Operations	9,313.6	8,600.1	713.5	8.3%	91.5%	90.5%
Capital Improvements:						
Funded by General Fund	327.3	157.3	170.0	108.1%	3.2%	1.7%
Debt Service	92.9	103.6	(10.7)	(10.3%)	0.9%	1.1%
	9,733.8	8,861.0	872.8	9.8%	95.6%	93.2%
Capital Improvements:						
Funded by Bond Proceeds	450.0	645.0	(195.0)	(30.2%)	4.4%	6.8%
Total Expenditures	\$10,183.8	\$ 9,506.0	\$ 677.8	7.1%	100.0%	100.0%

[1] General Government expenditures reflect a carryforward from FY 1996-97 of a transfer-in for disaster relief (\$115 million) from unreserved fund balance.

[2] Reorganization Fiscal Year 1997-98.

STATE OF NORTH CAROLINA

SUMMARY OF FINANCIAL CONDITION

May 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 May 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 May 31, 1998.

SCHEDULE OF BOND PRINCIPAL PAYMENT REQUIREMENTS			
GENERAL OBLIGATION BONDS			
<i>(Expressed in Thousands)</i>			
	<i>Payable from:</i>		Total Principal Requirements
	General Fund Revenues	Highway Fund Revenues	
1997-98 Requirements:			
August 1997.....	\$ 18,475	\$ —	\$ 18,475
December 1997.....	3,000	—	3,000
February 1998.....	7,000	—	7,000
March 1998.....	23,565	—	23,565
April 1998.....	6,200	—	6,200
May 1998.....	9,910	—	9,910
June 1998.....	23,435	—	23,435
Totals— 1997-98.....	91,585	—	91,585
Future Years' Requirements:			
1999.....	107,695	16,675	124,370
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
Totals— All Years.....	\$ 1,972,200	\$ 250,000	\$ 2,222,200
Less			
Unamortized Discount..	(6,672)	—	(6,672)
Total Principal, Net.....	\$ 1,965,528	\$ 250,000	\$ 2,215,528

STATE OF NORTH CAROLINA

SUMMARY OF FINANCIAL CONDITION

May 31, 1998

Summary Information - Highway Fund and Highway Trust Fund

HIGHWAY FUND AND HIGHWAY TRUST FUND								
COMPARATIVE STATEMENT OF NET COLLECTIONS								
For the Months of May 1998 and 1997, and the Eleven Months Ended May 31, 1998 and 1997								
(Expressed in Millions)								
	Month				Year-To-Date			
	1997-98	1996-97	Change	Percent Change	1997-98	1996-97	Change	Percent Change
Highway Fund								
Motor Fuels Tax	\$ 64.3	\$ 63.0	\$ 1.3	2.1%	\$ 698.1	\$ 666.3	\$ 31.8	4.8%
Motor Vehicle License Fees	15.1	17.4	(2.3)	(13.2%)	210.5	207.8	2.7	1.3%
Driver License Fees	5.2	5.6	(0.4)	(7.1%)	63.9	62.7	1.2	1.9%
Motor Fuels and Oil Inspection Fees	1.0	1.1	(0.1)	(9.1%)	10.8	10.7	0.1	0.9%
Title Fee	-	-	-	-	-	-	-	-
Other	2.3	2.1	0.2	9.5%	23.7	21.0	2.7	12.9%
Subtotal - Highway Fund	87.9	89.2	(1.3)	(1.5%)	1,007.0	968.5	38.5	4.0%
Highway Trust Fund								
Highway Use Tax	34.8	32.1	2.7	8.4%	368.6	343.0	25.6	7.5%
Motor Fuels Tax	21.6	21.1	0.5	2.4%	233.1	222.1	11.0	5.0%
Title Fee	6.3	6.3	-	-	67.6	66.3	1.3	2.0%
Motor Vehicle Lease	4.1	2.8	1.3	46.4%	36.4	27.4	9.0	32.8%
Registration	0.8	0.8	-	-	8.7	9.4	(0.7)	(7.4%)
Lien Recording	0.2	0.2	-	-	2.1	2.2	(0.1)	(4.5%)
Subtotal - Highway Trust Fund	67.8	63.3	4.5	7.1%	716.5	670.4	46.1	6.9%
Payables and Receipts								
Special Registration Plate Fund	0.3	0.2	0.1	50.0%	2.1	2.0	0.1	5.0%
Safety Inspection and Exhaust Emission	0.2	0.2	-	-	2.1	2.0	0.1	5.0%
Transportation Authority/TransPark	0.7	0.6	0.1	16.7%	5.2	6.6	(1.4)	(21.2%)
Recreation and Natural Heritage Trust Fund	0.2	0.1	0.1	100.0%	1.7	1.7	-	-
Other Receipts	0.2	0.4	(0.2)	(50.0%)	6.0	5.1	0.9	17.6%
Subtotal - Payables and Receipts	1.6	1.5	0.1	6.7%	17.1	17.4	(0.3)	(1.7%)
	\$ 157.3	\$ 154.0	\$ 3.3	2.1%	\$ 1,740.6	\$ 1,656.3	\$ 84.3	5.1%