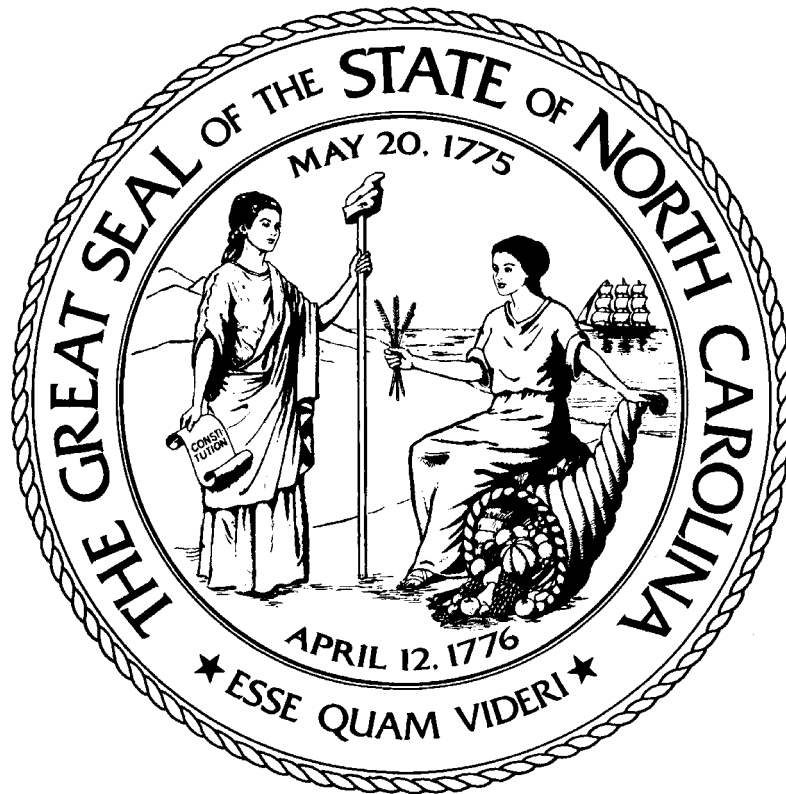


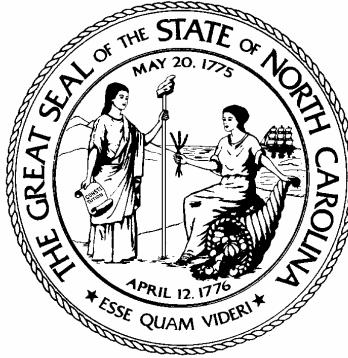
STATE OF
NORTH CAROLINA

SUMMARY OF FINANCIAL CONDITION
SEPTEMBER 30, 2004



OFFICE OF THE STATE CONTROLLER

STATE OF NORTH CAROLINA



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

November 10, 2004

We herewith submit the *Summary of Financial Condition* for the State of North Carolina for the three months ended September 30, 2004. 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.

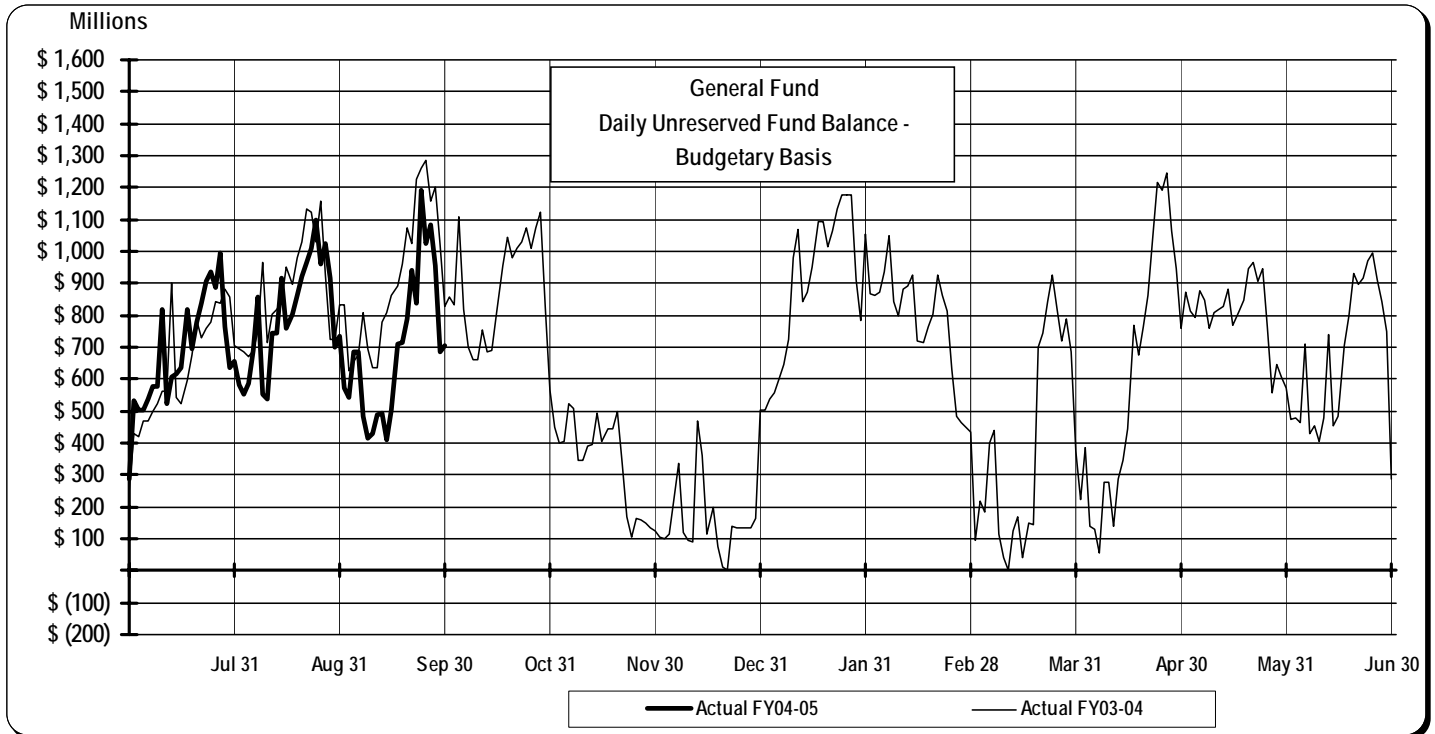
Sincerely,
Robert L. Powell
State Controller
(919) 981-5454

STATE OF NORTH CAROLINA

SUMMARY OF FINANCIAL CONDITION

September 30, 2004

Fund Balance



At September 30, 2005 and 2004, the reserved and unreserved fund balance was composed of the following (in millions):

Fund Balance:	<u>2004-05</u>	<u>2003-04</u>
<u>Reserved:</u>		
Savings account (G.S. 143-15.3).....	\$ 267.1	\$ 150.0
Job Development Incentive Grants.....	4.4	
Retirees' Health Premiums.....	44.1	26.2
Repairs and Renovations (G.S. 143-15.3A).....	76.8	15.0
Disproportionate Share.....	1.5	1.5
Disaster relief.....	5.1	—
One NC Fund.....	1.1	—
Budgetary Shortfall Funds.....	11.7	26.7
Total Reserved.....	<u>411.8</u>	<u>219.4</u>
<u>Unreserved:</u>		
Fund Balance - July 1.....	289.4	250.5
Transfer from reserves.....	—	—
Transfer to reserves.....	—	—
Excess of revenue over (under) expenditures.....	325.5	574.0
Total Unreserved.....	<u>614.9</u>	<u>824.5</u>
Total Fund Balance.....	<u>\$ 1,026.7</u>	<u>\$ 1,043.9</u>

The Office of State Budget and Management directed the release of One NC reserve funds in May 2004 to provide financial assistance to those businesses or industries deemed by the Governor to be vital to a healthy and growing State economy.

STATE OF NORTH CAROLINA

SUMMARY OF FINANCIAL CONDITION

September 30, 2004

Revenues - Tax and Non-Tax

State of North Carolina General Fund Actual Net Revenues

Expressed In Millions

	September				Year-To-Date Through September			
	2004-05	2003-04	Change	% Change	2004-05	2003-04	Change	% Change
Tax Revenues:								
Individual Income	\$ 807.7	\$ 727.7	\$ 80.0	11.0%	\$ 1,946.6	\$ 1,854.9	\$ 91.7	4.9%
Corporate Income	218.2	159.0	59.2	37.2%	261.6	167.3	94.3	56.4%
Sales and Use	353.0	354.2	(1.2)	(0.3)%	1,117.1	1,111.0	6.1	0.5%
Franchise	8.7	8.6	0.1	1.2%	79.1	79.3	(0.2)	(0.3)%
Insurance	2.5	1.8	0.7	38.9%	8.2	7.9	0.3	3.8%
Piped Natural Gas	(2.2)	(1.9)	(0.3)	15.8%	2.8	2.9	(0.1)	(3.4)%
Beverage	18.1	18.3	(0.2)	(1.1)%	48.8	46.6	2.2	4.7%
Inheritance	18.9	10.1	8.8	87.1%	43.5	25.6	17.9	69.9%
Privilege License	0.9	0.8	0.1	12.5%	12.3	10.5	1.8	17.1%
Tobacco Products	3.6	3.8	(0.2)	(5.3)%	11.2	11.2	—	—
Real Estate Conveyance Excise	(0.2)	(9.1)	8.9	97.8%	4.9	5.1	(0.2)	(3.9)%
Gift	0.6	0.4	0.2	50.0%	1.3	1.2	0.1	8.3%
White Goods Disposal	0.3	0.4	(0.1)	(25.0)%	1.3	1.3	—	—
Scrap Tire Disposal	0.9	1.0	(0.1)	(10.0)%	3.2	3.1	0.1	3.2%
Freight Car Lines	—	—	—	—	—	—	—	—
Other	0.5	0.1	0.4	400.0%	0.2	0.2	—	—
Total Tax Revenue	1,431.5	1,275.2	156.3	12.3%	3,542.1	3,328.1	214.0	6.4%
Non-Tax Revenue:								
Treasurer's Investments	6.2	7.8	(1.6)	(20.5)%	17.5	21.1	(3.6)	(17.1)%
Judicial Fees	12.0	11.4	0.6	5.3%	36.8	34.7	2.1	6.1%
Insurance	0.3	0.8	(0.5)	(62.5)%	1.7	3.3	(1.6)	(48.5)%
Disproportionate Share	—	—	—	—	—	—	—	—
Highway Fund Transfer In	4.1	—	4.1	—	4.1	2.8	1.3	46.4%
Highway Trust Fund Transfer In	—	—	—	—	60.6	—	60.6	—
Other	6.3	9.0	(2.7)	(30.0)%	23.7	132.6	(108.9)	(82.1)%
Total Non-Tax Revenue	28.9	29.0	(0.1)	(0.3)%	144.4	194.5	(50.1)	(25.8)%
Total Tax and Non-Tax Revenue	\$ 1,460.4	\$ 1,304.2	\$ 156.2	12.0%	\$ 3,686.5	\$ 3,522.6	\$ 163.9	4.7%

Note that the table represents net tax and non-tax collections and not gross collections. When compared to the prior year through September 30, actual tax and non-tax revenues increased by \$163.9 million, or 4.7%. The substantial decrease in non-tax revenue is due to a transfer-in of \$108.8 million from reserves to generate additional funds for the 2004 fiscal year that did not occur in fiscal year 2005. The net, or actual, tax and non-tax revenues through September 2004 of \$3.7 billion were more than the projected revenues by \$76.5 million.

Major components of tax and non-tax revenues that increased/decreased from the prior year through the end of August 2004 included:

- \$94.3 million for Corporate Income;
- \$91.7 million for Individual Tax and
- \$108.9 million for Non-tax Other

STATE OF NORTH CAROLINA

SUMMARY OF FINANCIAL CONDITION

September 30, 2004

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

For the Month of September 2004, and the Three Months Ended September 30, 2004
(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	\$ 804.7	\$ 807.7	\$ 3.0	100.4%	\$ 1,961.3	\$ 1,946.6	\$ (14.7)	99.3%
Corporate Income [1]	185.3	218.2	32.9	117.8%	195.3	261.6	66.3	133.9%
Sales and Use	346.7	353.0	6.3	101.8%	1,101.0	1,117.1	16.1	101.5%
Franchise	12.8	8.7	(4.1)	68.0%	86.3	79.1	(7.2)	91.7%
Insurance	1.9	2.5	0.6	131.6%	9.3	8.2	(1.1)	88.2%
Beverage	18.0	18.1	0.1	100.6%	45.5	48.8	3.3	107.3%
Inheritance	11.4	18.9	7.5	165.8%	34.2	43.5	9.3	127.2%
Privilege License	0.9	0.9	—	100.0%	10.7	12.3	1.6	115.0%
Tobacco Products	4.2	3.6	(0.6)	85.7%	11.9	11.2	(0.7)	94.1%
Real Estate Conveyance Excise	(0.2)	(0.2)	—	100.0%	4.9	4.9	—	100.0%
Gift	0.4	0.6	0.2	150.0%	1.3	1.3	—	100.0%
White Goods Disposal	0.3	0.3	—	100.0%	1.3	1.3	—	100.0%
Scrap Tire Disposal	0.9	0.9	—	100.0%	3.2	3.2	—	100.0%
Freight Car Lines	—	—	—	—	—	—	—	—
Piped Natural Gas	(2.0)	(2.2)	(0.2)	110.0%	2.9	2.8	(0.1)	96.6%
Other	—	0.5	0.5	—	—	0.2	0.2	—
Total Tax Revenue	<u>1,385.3</u>	<u>1,431.5</u>	<u>46.2</u>	<u>103.3%</u>	<u>3,469.1</u>	<u>3,542.1</u>	<u>73.0</u>	<u>102.1%</u>
Non-Tax Revenue								
Treasurer's Investments	6.5	6.2	(0.3)	95.4%	18.9	17.5	(1.4)	92.6%
Judicial Fees	11.4	12.0	0.6	105.3%	34.1	36.8	2.7	107.9%
Insurance	—	0.3	0.3	—	2.3	1.7	(0.6)	73.9%
Disproportionate share	—	—	—	—	—	—	—	—
Highway Fund Transfer In	4.1	4.1	—	100.0%	4.1	4.1	—	100.0%
Highway Trust Fund Transfer In	—	—	—	—	60.6	60.6	—	100.0%
Other	6.2	6.3	0.1	101.6%	20.9	23.7	2.8	113.4%
Total Non-Tax Revenue	<u>28.2</u>	<u>28.9</u>	<u>0.7</u>	<u>102.5%</u>	<u>140.9</u>	<u>144.4</u>	<u>3.5</u>	<u>102.5%</u>
Total Tax and Non-Tax Revenue	<u>\$ 1,413.5</u>	<u>\$ 1,460.4</u>	<u>\$ 46.9</u>	<u>103.3%</u>	<u>\$ 3,610.0</u>	<u>\$ 3,686.5</u>	<u>\$ 76.5</u>	<u>102.1%</u>

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

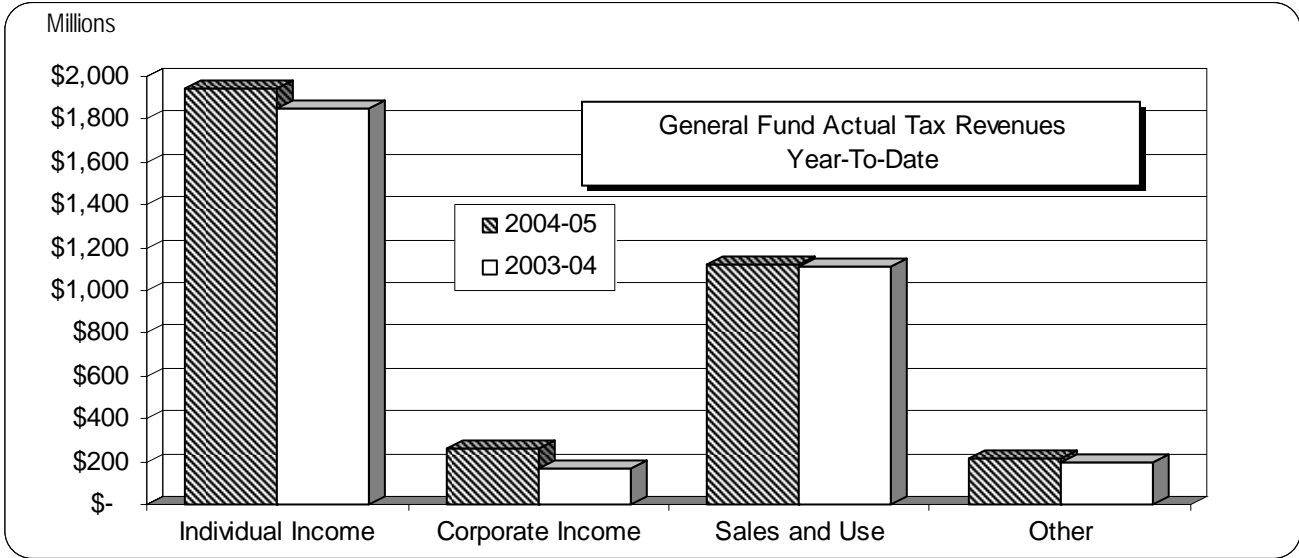
	2004-05		2003-04	
	Current Month	Year-To-Date	Current Month	Year-To-Date
Corporate Income Tax, Reported Net	\$ 218.2	\$ 261.6	\$ 159.0	\$ 167.3
Public School Building Capital Fund	—	18.5	—	17.7
Critical School Facility Needs Fund	—	—	—	2.5
Public School Fund (General Fund receipt to DPI)	—	—	—	—
	<u>—</u>	<u>18.5</u>	<u>—</u>	<u>20.2</u>
Corporate Income Tax, Adjusted for Transfers	<u>\$ 218.2</u>	<u>\$ 280.1</u>	<u>\$ 159.0</u>	<u>\$ 187.5</u>

SUMMARY OF FINANCIAL CONDITION

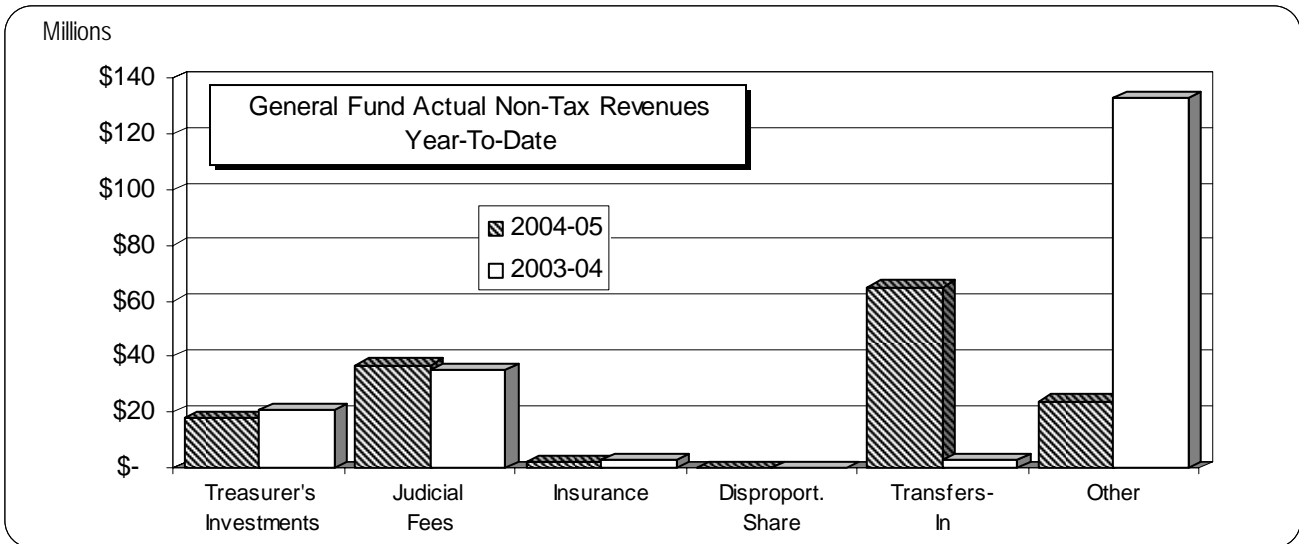
September 30, 2004

Tax revenues through September 2004 were more than the period through September 2003 by \$214.0 million, or 6.4%. 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 September 2004 was \$50.1 million, or 25.8%, less than through the end of September 2003. The substantial decrease in non-tax revenue is due to a transfer-in of \$108.8 million from reserves to generate additional funds for the 2004 fiscal year. Investment revenues decreased by \$3.6 million from the prior year through the end of September.



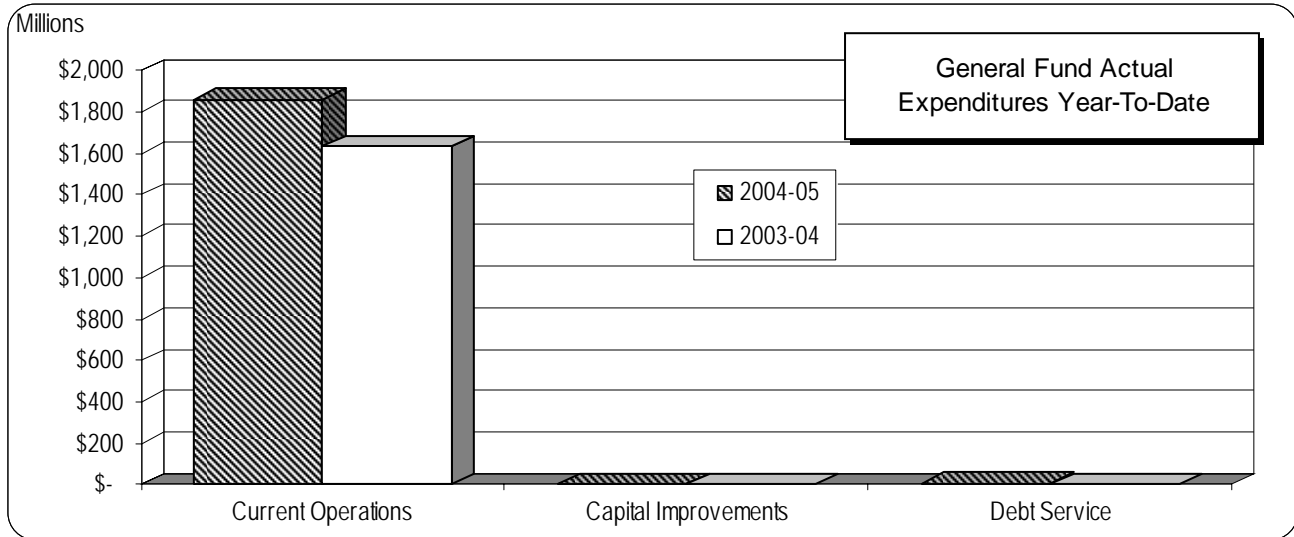
STATE OF NORTH CAROLINA

SUMMARY OF FINANCIAL CONDITION

September 30, 2004

Expenditures

Actual appropriation expenditures through September 2004 were more than actual appropriation expenditures through September 2003 by \$412.4 million, or 14.0%.



Expenditures for current operations (exclusive of expenditures for capital improvements and debt service) through September 2004 were more than such expenditures through September 2003 by \$372.3 million, or 12.9%.

State of North Carolina

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

Expressed in Millions

	2004-05	2003-04	Change	Percent Change	Percent of Total Expenditures	
					2004-05	2003-04
Current Operations:						
General Government	\$ 65.9	\$ 69.7	\$ (3.8)	(5.5%)	2.0%	2.4%
Education	1,939.7	1,698.0	241.7	14.2%	57.7%	57.6%
Health and Human Services	817.0	701.1	115.9	16.5%	24.3%	23.8%
Economic Development	(3.5)	23.1	(26.6)	(115.2%)	(0.1%)	0.8%
Environment and Natural Resources	54.3	51.5	2.8	5.4%	1.6%	1.7%
Public Safety, Correction, and Regulation	367.7	340.9	26.8	7.9%	10.9%	11.6%
Agriculture	12.4	10.6	1.8	17.0%	0.4%	0.4%
Operating Reserves/Rounding	15.0	1.3	13.7	1053.8%	0.4%	—
Total Current Operations	3,268.5	2,896.2	372.3	12.9%	97.2%	98.2%
Capital Improvements:						
Funded by General Fund	11.3	—	11.3	—	0.3%	—
Debt Service	81.2	52.4	28.8	55.0%	2.4%	1.8%
Total Expenditures	\$ 3,361.0	\$ 2,948.6	\$ 412.4	14.0%	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

September 30, 2004

Summary Information - Highway Fund and Highway Trust Fund

HIGHWAY FUND AND HIGHWAY TRUST FUND								
COMPARATIVE STATEMENT OF NET COLLECTIONS								
For the Months of September 2004 and 2003, and the Three Months Ended September 30, 2004 and 2003								
(Expressed in Millions)								
	Month				Year-To-Date			
	2004-05	2003-04	Change	Percent Change	2004-05	2003-04	Change	Percent Change
Highway Fund								
Motor Fuels Tax	\$ 69.6	\$ 84.1	\$(14.5)	(17.2%)	\$ 224.8	\$ 240.2	\$(15.4)	(6.4%)
Motor Vehicle License Fees	15.7	14.7	1.0	6.8%	48.4	47.4	1.0	2.1%
Driver License Fees	5.7	6.0	(0.3)	(5.0%)	19.3	18.0	1.3	7.2%
Motor Fuels and Oil Inspection Fees	1.3	1.2	0.1	8.3%	4.0	3.5	0.5	14.3%
Other	4.9	4.4	0.5	11.4%	14.5	12.3	2.2	17.9%
Subtotal - Highway Fund	97.2	110.4	(13.2)	(12.0%)	311.0	321.4	(10.4)	(3.2%)
Highway Trust Fund								
Highway Use Tax	48.6	47.7	0.9	1.9%	146.3	147.5	(1.2)	(0.8%)
Motor Fuels Tax	23.1	28.0	(4.9)	(17.5%)	74.9	80.0	(5.1)	(6.4%)
Title Fee	7.1	7.0	0.1	1.4%	21.9	21.7	0.2	0.9%
Motor Vehicle Lease	2.1	2.4	(0.3)	(12.5%)	7.4	8.2	(0.8)	(9.8%)
Registration	0.8	0.8	-	-	2.6	2.6	-	-
Lien Recording	0.2	0.1	0.1	100.0%	0.6	0.5	0.1	20.0%
Repayment Fee	0.1	0.1	-	-	0.2	0.2	-	-
Subtotal - Highway Trust Fund	82.0	86.1	(4.1)	(4.8%)	253.9	260.7	(6.8)	(2.6%)
Payables and Receipts								
Special Registration Plate Fund	0.3	0.3	-	-	1.0	0.9	0.1	11.1%
Safety Inspection and Exhaust Emission	0.4	0.3	0.1	33.3%	1.1	1.0	0.1	10.0%
Transportation Authority/TransPark	0.4	0.4	-	-	1.3	1.2	0.1	8.3%
Recreation and Natural Heritage Trust Fund	0.3	0.2	0.1	50.0%	1.0	0.7	0.3	42.9%
Other Receipts	1.3	0.7	0.6	85.7%	4.4	3.1	1.3	41.9%
Subtotal - Payables and Receipts	2.7	1.9	0.8	42.1%	8.8	6.9	1.9	27.5%
	\$ 181.9	\$ 198.4	\$(16.5)	(8.3%)	\$ 573.7	\$ 589.0	\$(15.3)	(2.6%)