NOTE 22: SUBSEQUENT EVENTS

Swap Agreements Relating to Variable Rate General Obligation Bonds

As a means to lower its borrowing costs, the State entered in to an interest rate swap agreement on June 24, 2003, effective July 1, 2003, in connection with the $355 million principal amount of the State's variable rate bonds issued in May 2002. Under the swap agreement with the counterparty, the State is obligated to pay the counterparty each year 1.06% times the then-outstanding principal amount of the bonds and the counterparty is obligated to pay the BMA-Municipal Swap Index Rate for a term of two years ending on July 1, 2005, and extendable for one additional year at the option of the counterparty.

Lease-Purchase Revenue Bonds

On July 15, 2003, the State through the NC Infrastructure Finance Corporation (Corporation), a blended component unit of the State, sold $218,405,000 Lease-Purchase Revenue Bonds, Series 2003, (Revenue Bonds) the proceeds of which will be used to provide funds, together with any other available funds, for the purpose of acquiring three approximately 1,000-cell close security correctional facilities located in Alexander, Anson, and Scotland counties, and paying certain costs incurred in connection with the execution and delivery of the Revenue Bonds. The Revenue Bonds are limited obligations of the Corporation, payable solely from the lease payments and additional payments made by the State pursuant to a lease-purchase agreement dated as of July 1, 2003 (Agreement) between the State and the Corporation. The State's obligations under the Agreement are subject to appropriation. Interest on the bonds will be payable semiannually on each April 1 and October 1, beginning October 1, 2003. The bonds will mature, subject to optional and extraordinary redemption provisions, from October 1, 2004 through 2023 with amounts varying from $40,000 to $23.4 million.

No deficiency judgment may be rendered against the State in any action for breach of any contractual obligation under the governing documents, and the taxing power of the State or any agency, department or commission of the State is not pledged directly or indirectly to secure any moneys due to the owners of the Revenue Bonds.

Federal Repayable Advances

In July 2003, the State received repayable advances of $26.9 million from the Federal Unemployment Account (FUA) (see Note 6, Short-term Debt) to finance an operating deficit in the State's unemployment compensation fund. The advances for July were repaid by August 4, 2003 as employer contribution taxes became available, and the State did not receive additional advances from the FUA until September 15, 2003. From September 15 through September 26, 2003 the State took additional advances of $34.6 million. These advances were repaid in full by September 29, 2003, in accordance with the policy that advances taken from January 1 to September 30, which are repaid in full on or before September 30, are considered cash flow advances and do not accrue interest provided that the State does not take additional advances from October 1 through December 31 (of same calendar year). The State does not plan to take additional FUA advances through December 31, 2003. The September advances of $34.6 million from the FUA were repaid with proceeds from tax anticipation notes issued by the State in September 2003 – see Tax Anticipation Notes below.

General Obligation Refunding Bonds

On August 6, 2003, the State sold $326.710 million of general obligation refunding bonds consisting of $91 million Series 2003D Refunding Bonds and $235.710 million Series 2003E Refunding Bonds. These bonds are dated August 1, 2003 and will bear interest from that date. Interest on the bonds will be payable semiannually on each February 1 and August 1, commencing February 1, 2004. The Bonds will mature from February 1, 2004 to 2013, inclusive, and were issued at rates ranging from 2.00% to 5.00%. The Bonds were issued for the purpose of providing funds to refund in advance of their maturities (1) the $39.7 million outstanding aggregate amount of the State's Prison and Youth Service Facilities Bonds, Series B maturing on and after June 1, 2004, (2) the $52.670 million outstanding aggregate amount of the State's Prison and Youth Service Facilities Refunding Bonds, Series C maturing on and after March 1, 2004, and (3) the $244.5 million outstanding aggregate principal amount of the State's Capital Improvement Bonds, Series A maturing on and after February 1, 2005.

Bond Purchase Agreement

On August 7, 2003, the North Carolina Housing Finance Agency, a major component unit of the State, signed a bond purchase agreement under the 1998 Home Ownership Trust Indenture for Series 16A and 16B bonds in the amount of $30 million and the 16C variable rate bonds in the amount of $20 million. The Agency delivered these bonds on September 16, 2003. Also, on November 4, 2003, the North Carolina Housing Finance Agency issued under the 1992 Multifamily Revenue Refunding Bonds for Series C in the amount of $14.065 million and the Series D taxable interest bonds in the amount of $23.015 million, refunding the 1992 Multifamily Revenue Bonds Series B. Also, on November 14, 2003, the North Carolina Housing Finance Agency issued under the 1998 Home Ownership Trust Indenture for Series 17A and 17B bonds in the amount of $33.280 million and the Series 17C variable rate bonds in the amount of $20 million.

Tax Anticipation Notes

The State is authorized by the Constitution to borrow in anticipation of the collection of taxes due and payable within the current fiscal year an amount not exceeding 50% of such taxes. In September 2003, the State issued $150 million in tax anticipation notes with a maturity date of June 30, 2004. On December 9, 2003, the State issued an additional note for $73 million, if needed, with the same maturity date. As of December 10, 2003, the state has drawn down $150 million on the tax anticipation notes. The State will use unemployment tax receipts to repay these notes.

N.C. Department of Health and Human Services settlement agreement with U.S. Department of Justice and U.S. Department of Health and Human Services.

The Child Care Subsidy audit and settlement agreement on the use of Title IV-E training funds were finalized on September 18, 2003. Under the terms of the settlement agreement, the State agreed to pay a settlement amount of $20 million to the United States as follows. The State paid $10 million on October 3, 2003, and the remaining unpaid balance of $10 million shall accrue interest at the federal judgment rate on the date of the signing of the agreement, which was 1.22%, from the date of the signing until the settlement amount is fully paid. Until the settlement amount is fully paid, the State shall make minimum installment payments each year of $2.5 million no later than June 30 of each year, with the first installment due on or before June 30, 2004. Each installment payment will be applied first to accrued interest, and then to principal. The entire balance of the settlement amount, plus accrued interest, will be due and payable no later than June 30, 2007.

The North Carolina Attorney General's Office was of the opinion that the terms of the settlement agreement were, given the underlying facts and attendant circumstances, reasonable, and that it was appropriate for the State to enter in to the settlement agreement.

Hurricane Isabel

Hurricane Isabel came ashore near Ocracoke on the Outer Banks of North Carolina on September 18, 2003. The storm hammered the fragile Outer Banks and raked across the northeastern portion of the state causing widespread destruction to homes, businesses and farms. Forty-seven of the state's 100 counties were declared disaster areas. Preliminary damage estimates show nearly 200 homes destroyed and more than 1,500 damaged. In the first six weeks following the storm, more than $73 million in federal and state disaster assistance to individuals, households, local governments and private non-profits has been approved. The federal government covers 75 percent of the costs; the state pays the other 25 percent. Losses to agricultural crops, livestock and farm buildings are estimated at $155 million. The damage to timber in the state is estimated at $565 million with more than 833,000 acres sustaining some level of damage.

General Obligation Highway Bonds

On November 19, 2003, the State sold $400 million of general obligation highway bonds. These bonds are dated December 1, 2003 and will bear interest from that date. Interest on the bonds will be payable semiannually on each May 1 and November 1, commencing May 1, 2004. The Bonds will mature from May 1, 2005 to 2020, inclusive, and were issued at rates ranging from 3.00% to 5.00%. The Bonds were issued for the purpose of providing funds to reimburse the State for capital costs of (i) urban loops, (ii) highways in the Intrastate System, and (iii) projects constituting a part of the State secondary highway system resulting in the paving of unpaved roads.

University of North Carolina at Chapel Hill, General Revenue Bonds

On December 1, 2003, the Board of Governors of the University of North Carolina offered The University of North Carolina at Chapel Hill General Revenue Bonds, Series 2003, in the amount of $128,475,000. Interest on the Bonds is payable on each December 1 and June 1, commencing June 1, 2004. The bonds will mature, subject to optional redemption, from December 1, 2004 to December 1, 2033 with amounts varying from $1,255,000 due December 1, 2004 to $31,350,000 Term Bonds due December 1, 2033. The Bonds are being issued primarily to finance or refinance the costs of certain capital projects at The University of North Carolina at Chapel Hill.