NOTE 22: SUBSEQUENT EVENTS

Primary Government

General Obligation Highway and Refunding Bonds

On September 15, 2004, the State sold $682.26 million of general obligation bonds consisting of $300 million Highway Bonds Series 2004 and $382.26 million Refunding Bonds Series 2004 Bonds. These bonds are dated September 1, 2004 and will bear interest from that date. Interest on the Highway Bonds will be payable semiannually on each May 1 and November 1, commencing May 1, 2005. The Highway Bonds will mature from May 1, 2006 to 2020, inclusive, and were issued at coupon rates ranging from 3.00% to 5.00%. The Highway 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. Interest on the Refunding Bonds will be payable semiannually on each March 1 and September 1, commencing March 1, 2005. The Refunding Bonds will mature from March 1, 2005 to 2015, inclusive, and were issued at coupon rates ranging from 3.00% to 5.50%. The Refunding Bonds were issued for the purpose of providing funds to refund in advance of their maturities (1) the $12 million outstanding aggregate amount of the State's Clean Water Bonds, Series 1995A maturing on and after June 1, 2006, (2) the $60 million outstanding aggregate amount of the State's Capital Improvement Bonds, Series 1997 maturing on and after June 1, 2007, (3) the $159.5 million outstanding aggregate principal amount of the State's Public School Building Bonds, Series 1997A maturing on and after March 1, 2008, (4) the $99.925 million outstanding aggregate principal amount of the State's Highway Bonds, Series 1997A maturing on and after May 1, 2008, and (5) the $57 million outstanding aggregate principal amount of the State's Public Improvement Bonds, Series 1999A maturing on and after March 1, 2010.

Lease-Purchase Revenue Bonds

On October 28, 2004, the State through the North Carolina Infrastructure Finance Corporation (Corporation), a blended component unit of the State, sold $53,640,000 Lease-Purchase Revenue Bonds, Series 2004, (Bonds) the proceeds of which will be used to provide funds, together with any other available funds, for the purposes of (1) acquiring privately-owned correctional facilities in Avery County and Pamlico County which have been leased by the State since 1998, (2) paying the costs of design, construction drawings and solicitation of bids for youth development centers (collectively, the *"Projects"*) and (3) paying certain costs incurred in connection with the execution and delivery of the Bonds. The 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 November 1, 2004 (the *"Agreement")* between the State and the Corporation. The State's obligations under the Agreement are subject to appropriation.

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 2004 Bonds.

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 2004, the State issued $300 million in tax anticipation notes with a maturity date of June 30, 2005. The State will use unemployment tax receipts to repay these notes. An initial $260 million was drawn against the note in September and an additional $20 million was drawn in October, making the total outstanding balance on the note $280 million. Of the funds drawn, $230 million was used to repay advances from the Federal Unemployment Account (see Federal Repayable Advances below) and the remainder is to be used to pay unemployment benefits, as needed.

Federal Repayable Advances

On September 29, 2004, the State used $230 million of the proceeds of tax anticipation notes mentioned above to repay the Federal Unemployment Account (FUA) (see note 6, Short-term Debt). Of these funds, $223.8 million was directed to repay advances used to finance an operating deficit in the State's unemployment compensation fund. The remaining $6.2 million was deposited with the FUA to cover current and future benefits. These advances were repaid in full by September 29, 2004, 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, 2004.

Hurricanes

North Carolina was impacted by six tropical weather systems in the 2004 Hurricane Season. In August, Hurricanes Alex, Bonnie, and Charley caused flooding and widespread power outages in eastern North Carolina. In September, Hurricanes Frances, Ivan, and Jeanne devastated central and western North Carolina with torrential rainfall that spawned flash flooding and numerous debris flows, including mudslides and rock falls. Only Hurricanes Frances and Ivan have met the criteria necessary to achieve a Federal Disaster Declaration, while Hurricanes Alex, Bonnie, Charley, and Jeanne met the criteria necessary for a State Disaster Declaration. Preliminary estimates indicate that these storms caused over $230 million in damages that are eligible for state and federal governmental assistance. The State's share is estimated to be approximately $90 million.

Component Units

University of North Carolina at Chapel Hill, Unsecured Loans

On September 22, 2004, the Kenan-Flagler Business School Foundation, which is part of the University reporting entity, closed a $20 million unsecured line of credit with Wachovia Bank, N.A. This credit facility is to be used to fund the expansion of the Paul J. Rizzo Business Conference Center and will expire on September 22, 2006. Advances under the line of credit accrue interest at the variable rate of the LIBOR Market Index plus 1.20%. There is an availability fee due each year on the anniversary date of the line of credit and is calculated as .125% of the difference between the commitment amount and the average balance outstanding for the year leading up to the anniversary date.

On October 1, 2004, the UNC-CH Foundation, which is also part of the University reporting entity, refinanced its $35 million unsecured loan with Bank of America. The purpose of the refinance was to increase the commitment to $47.3 million to provide additional funding for a Student Family Housing Project, and the facility will mature on October 1, 2005. The outstanding balance under the credit facility accrues interest at the LIBOR Rate plus .40%.

Bond Purchase Agreement

On July 14, 2004, 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 19A and 19B bonds in the amount of $65 million. The Agency delivered these bonds on August 18, 2004. Also, in July 2004, Standard & Poor's downgraded the 1993 Multifamily Resolution to AA- due to the downgrade of the Investment Agreement provider JP Morgan Chase.