

NOTES TO THE FINANCIAL STATEMENTS**NOTE 23: SUBSEQUENT EVENTS****Primary Government****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 2005, the State issued \$125 million in tax anticipation notes with a maturity date of June 30, 2006. The State will use unemployment tax receipts to repay these notes. On September 28, 2005, an initial draw of \$75 million was made on the note of which \$35 million was used to repay advances from the Federal Unemployment Account (see Federal Repayable Advances below). The remainder and a subsequent draw of \$15 million made on October 20, 2005, will be used to pay unemployment benefits, as needed.

Federal Repayable Advances

During the months of July 2005 through September 2005, the State received additional repayable advances of \$102.5 million, which brought the total to \$216.2 million, from the Federal Unemployment Account (FUA) to finance an operating deficit in the State's Unemployment Compensation Fund. In August 2005, the State used employer tax collections to pay off \$188.4 million. On September 28, 2005, the State used \$35 million of the proceeds of tax anticipation notes to repay the balance of the FUA. Of these funds, \$27.8 million was directed to repay advances and the remaining \$7.2 million was deposited with the FUA to cover current and future benefits. These advances were repaid in full by September 28, 2005, 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, 2005.

Green Square

On August 5, 2005 legislation was passed to authorize the financing of the Green Square Project, a partnership that involves private and State agencies in the development of an office and museum complex. The complex would house a four-story research center for the North Carolina Museum of Natural Sciences, new credit union offices for State Employees' Credit Union (SECU) employees, and new offices for approximately 615 employees of the Department of Environment and Natural Resources (DENR). The initial architectural design costs will be shared by the parties as follows: DENR and the Museum will pay 67% and SECU will pay 33%. After receiving final approval of the Green Square Project from the Capital Area

Planning Commission, all further design and construction costs will be financed by the SECU. These costs will be apportioned appropriately among the project components and will be included in the calculation of the lease payments or the purchase price of the Green Square Project.

Guaranteed State Energy Contracts

The State is authorized under G.S. 142, Article 8, to finance up to \$50 million for projects that provide energy costs that are sufficient to pay the debt service on the projects' financing. On August 19, 2005, the Department of Administration entered into an installment financing contract for \$5 million of energy conservation improvements at the North Carolina Museum of Art. On November 21, 2005, the Department of Administration entered into a second installment financing contract for \$18.9 million of energy conservation improvements at the Downtown State Government Complex.

Component Units**University of North Carolina at Chapel Hill, Bond Issuance**

On August 30, 2005, the University issued \$404.96 million of University of North Carolina at Chapel Hill General Revenue and Revenue Refunding Bonds, Series 2005A. The 2005A Bonds were issued to provide funds (1) to finance or refinance the costs of certain capital projects at The University of North Carolina at Chapel Hill, (2) to advance refund certain revenue bonds issued for the benefit of the University, (3) to pay capitalized interest on a portion of the 2005A Bonds and (4) to pay the costs incurred in connection with the issuance of the 2005A Bonds. The bonds will mature, subject to mandatory and optional redemption, from December 1, 2005 to December 1, 2034, with amounts varying from \$480 thousand due December 1, 2005 to \$305.68 million Term Bonds due December 1, 2034. The 2005A Bonds have an interest rate range of 3.0% to 5.0%.

University of North Carolina Hospitals, Lease Financing Arrangement

On July 18, 2005, the University of North Carolina Hospitals' Board of Directors approved entering into a tax-exempt lease purchase financing arrangement for routine medical and medical related capital equipment with an aggregate principal amount not to exceed \$50 million.

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State Education Assistance Authority, Bond Issuance

On August 2, 2005, the State Education Assistance Authority (the Authority) issued \$300,000,000 State of North Carolina State Education Assistance Authority Taxable Guaranteed Student Loan Revenue Bonds, 2005 Series P (Senior Lien). The Authority anticipates the issuance of State of North Carolina State Education Assistance Authority Guaranteed Student Loan Revenue Bonds, Series 2005-A, in a total amount not to exceed \$550,000,000 (consisting of tax-exempt bonds in an amount not to exceed \$500,000,000 and taxable bonds in an amount not to exceed \$50,000,000) with an expected date of delivery of October 27, 2005. The proceeds from these issuances will be used to fund student loans.