NOTE 7: LONG-TERM LIABILITIES

A. Changes in Long-Term Liabilities

Primary Government. Long-term liability activity for the year ended June 30, 2009, was as follows (dollars in thousands):

	Balance July 1, 2008 (as restated)	Increases	Decreases	Balance June 30, 2009	Amounts Due Within One Year
Governmental activities:					
Bonds and similar debt payable:					
General obligation bonds	$ 5,533,760	$ —	$ (364,495)	$ 5,169,265	$ 364,385
Special indebtedness:					
Lease-purchase revenue bonds	235,045	—	(10,000)	225,045	10,000
Certificates of participation	965,880	—	(46,295)	919,585	46,985
Limited obligation bonds	—	600,000	—	600,000	19,295
GARVEE bonds	287,565	—	(45,745)	241,820	38,670
Less deferred amounts:					
For issuance discounts	(126)	—	126	—	—
On refunding	(76,923)	—	13,912	(63,011)	—
Add issuance premium	287,272	31,371	(43,512)	275,131	—
Total bonds and similar debt payable	7,232,473	631,371	(496,009)	7,367,835	479,335
Notes payable	33,187	1,070	(6,594)	27,663	4,658
Capital leases payable	24,564	463	(1,194)	23,833	1,242
Arbitrage rebate payable	3,025	607	(2,721)	911	—
Compensated absences	403,361	263,297	(242,377)	424,281	36,136
Net pension obligation	522	9,714	(9,762)	474	—
Workers' compensation	88,749	33,827	(30,310)	92,266	4,634
Deferred death benefit payable	565	—	(35)	530	290
Pollution remediation payable	6,469	978	(759)	6,688	558
Court judgment payable	749,886	—	(18,183)	731,703	—
Cost settlement payable	35,300	—	(20,300)	15,000	15,000
Governmental activity long-term liabilities	$ 8,578,101	$ 941,327	$ (828,244)	$ 8,691,184	$ 541,853
Business-type activities:					
Pollution remediation payable	$ —	$ 250	$ —	$ 250	$ 163
Compensated absences	4,682	3,436	(2,927)	5,191	347
Business-type activity long-term liabilities	$ 4,682	$ 3,686	$ (2,927)	$ 5,441	$ 510

For governmental activities, the compensated absences, net pension obligation, workers' compensation, and cost settlement liabilities are generally liquidated by the General Fund. Pollution remediation payable is generally liquidated by the Highway Fund. Arbitrage rebate payable is generally liquidated by other governmental funds. A portion of compensated absences is also liquidated by the Highway Fund. Internal service funds predominantly serve the governmental funds. Accordingly, long-term liabilities for them are included as part of the above totals for governmental activities. At year-end, $5.831 million of internal service funds compensated absences are included in the above amounts.

Component Units (University of North Carolina System, North Carolina Housing Finance Agency, and the State Education Assistance Authority). Long-term liability activity for the year ended June 30, 2009, was as follows (dollars in thousands):

	Balance July 1, 2008 (as restated)	Increases	Decreases	Balance June 30, 2009	Amounts Due Within One Year
University of North Carolina System:					
Bonds payable:					
Revenue bonds	$ 2,370,579	$ 173,550	$ (148,980)	$ 2,395,149	$ 155,410
Certificates of participation	33,135	—	(2,010)	31,125	2,075
Less deferred amounts:					
For issuance discounts	(40,031)	—	5,282	(34,749)	—
On refunding	(25,305)	(4,641)	4,557	(25,389)	—
Add issuance premium	49,238	1,310	(2,947)	47,601	—
Total bonds payable	2,387,616	170,219	(144,098)	2,413,737	157,485
Notes payable	91,892	12,962	(52,584)	52,270	24,969
Capital leases payable	142,716	75,407	(6,182)	211,941	12,135
Arbitrage rebate payable	317	138	(49)	406	137
Annuity and life income payable	16,706	2,507	(2,048)	17,165	1,465
Compensated absences	311,354	231,462	(211,201)	331,615	34,050
Pollution remediation payable	—	83	—	83	83
Liability insurance trust fund payable	60,958	3,868	(19,612)	45,214	13,459
Total long-term liabilities	$ 3,011,559	$ 496,646	$ (435,774)	$ 3,072,431	$ 243,783

Long-term liabilities of nongovernmental component units of the University of North Carolina System are excluded from the above amounts. At June 30, 2009, nongovernmental component unit foundations and similarly affiliated organizations of the University of North Carolina System had total long-term liabilities of $445.595 million, of which $12.938 million was due within one year and $432.657 million was due in more than one year.

	Balance July 1, 2008	Increases	Decreases	Balance June 30, 2009	Amounts Due Within One Year
North Carolina Housing Finance Agency:					
Bonds payable:					
Revenue bonds	$ 1,569,235	$ —	$ (51,450)	$ 1,517,785	$ 72,630
Less deferred amounts:					
For issuance discounts	(19,237)	—	1,227	(18,010)	—
Total bonds payable	1,549,998	—	(50,223)	1,499,775	72,630
Arbitrage rebate payable	1,564	—	(66)	1,498	100
Compensated absences	875	371	(327)	919	45
Total long-term liabilities	$ 1,552,437	$ 371	$ (50,616)	$ 1,502,192	$ 72,775

	Balance July 1, 2008	Increases	Decreases	Balance June 30, 2009	Amounts Due Within One Year
State Education Assistance Authority:					
Bonds payable:					
Revenue bonds	$ 3,694,937	$ 1,075,655	$ (776,130)	$ 3,994,462	$ 647,400
Arbitrage rebate payable	5,738	—	(3,163)	2,575	1,016
Compensated absences	304	63	(8)	359	11
Total long-term liabilities	$ 3,700,979	$ 1,075,718	$ (779,301)	$ 3,997,396	$ 648,427

B. Bonds, Special Indebtedness, and Notes Payable

Bonds, special indebtedness, and notes payable at June 30, 2009 were as follows (dollars in thousands):

	Interest Rates	Maturing Through Year	Original Issue Amount	Outstanding Balance
Primary Government:				
Governmental activities				
General obligation bonds	0.10% - 5.50%*	2028	$ 7,163,715	$ 5,169,265
Special indebtedness:				
Lease-purchase revenue bonds	3.00% - 5.25%	2024	272,045	225,045
Certificates of participation	3.00% - 5.25%	2028	1,064,840	919,585
Limited obligation bonds	2.00% - 5.25%	2029	600,000	600,000
GARVEE Bonds	3.75% - 4.00%	2019	287,565	241,820
Notes payable	3.64% - 4.00%	2018	38,208	27,663
Component Units:				
University of North Carolina System				
Revenue bonds	0.15% - 10.00%*	2037	$ 2,877,971	$ 2,395,149
Certificates of participation	3.13% - 5.00%	2036	38,745	31,125
Notes payable	0.60% - 8.75%*	2019	121,627	52,270
North Carolina Housing Finance Agency				
Revenue bonds	2.70% - 8.25%*	2039	$ 3,589,241	$ 1,517,785
State Education Assistance Authority				
Revenue bonds	0.53% - 4.00%*	2037	$ 4,833,805	$ 3,994,462

* For variable rate debt, interest rates in effect at June 30, 2009 are included. For variable rate debt with interest rate swaps, the synthetic fixed rates are included.

General obligation bonds are secured by the full faith, credit, and taxing power of the State. The payments on special indebtedness; which include lease-purchase revenue bonds, certificates of participation (COPs), and limited obligation bonds; are subject to appropriation by the General Assembly. Special indebtedness may also be secured by a lien on equipment or facilities, or by lease payments made by the State. Other long-term debts of the State and its component units are payable solely from certain resources of the funds to which they relate.

C. Bonds Authorized but Unissued

The amount of authorized but unissued debt of the primary government at June 30, 2009 totaled $1.97 billion as follows: university projects $1.133 billion, psychiatric hospital $276 million, correctional facilities $215 million, guaranteed energy savings contracts $68 million, parks and land $40 million, State and other projects $188 million, and repairs and renovations $50 million.

The 2009 General Assembly modified the way that existing authorized and unissued indebtedness may be financed in the future. Projects may be financed using general obligation bonds up to a limit of $488 million or with appropriation supported special indebtedness up to a limit of $1.482 billion. Projects may also be financed in total by some combination of general obligation bonds and special indebtedness (except guaranteed energy savings contracts).

In 2005, the N.C. General Assembly enacted General Statute 136-18(12b) providing for the issuance of Grant Anticipation Revenue Vehicle Bonds (GARVEEs), which are payable from revenues consisting primarily of federal transportation funds, with the proceeds to finance federal-aid highway projects. The GARVEEs are limited obligations of the State payable solely from these funding sources. The total amount of GARVEEs that may be issued is subject to limitations contained in the authorizing legislation tied to the historic and future level of federal transportation funds the State has or is expected to receive.

D. Demand Bonds

Included in bonds payable are several variable rate demand bond issues. Demand bonds are securities that contain a "put" feature that allows bondholders to demand payment before the maturity of the debt upon proper notice to the issuer's remarketing or paying agents.

Primary Government

With regard to the following demand bonds, the State has entered into take out agreements, which would convert the demand bonds not successfully remarketed into another form of long-term debt.

Governmental Activities

State of North Carolina Variable Rate General Obligation Bonds, Series D, E, F, and G

On May 1, 2002 the State issued tax-exempt variable rate general obligation demand bonds, ($88.75 million, series D through G) in the total amount of $355 million that have a final maturity date of May 1, 2021. Each series of bonds is subject to mandatory sinking fund redemption that will begin on May 1, 2013. The bonds represent a consolidation of Public Schools Buildings Bonds, Clean Water Bonds and Higher Education Bonds. The bonds currently bear interest at a weekly rate, and the bonds are subject to purchase at a price equal to principal plus interest on demand with seven days notice and delivery to the Tender Agent, First Citizens Bank and Trust Co.

The State's Remarketing Agents, Banc of America Securities (series 2002D), JP Morgan Securities (series 2002E), Goldman Sachs (series 2002F) and Wachovia Bank, N.A. (series 2002G) have agreed to exercise their best efforts to remarket bonds for which a notice of purchase has been received. The quarterly remarketing fee is payable in arrears and is equal to 0.05% per annum of the outstanding principal amount of the bonds assigned to each agent. During the fiscal year 2008-09, Wells Fargo & Co. purchased Wachovia Bank, N.A.

Under four separate standby bond purchase agreements (agreements) between the State and Landesbank Hessen-Thuringen Girozentrale, ("the Bank") a Liquidity Facility has been established for each series for the Tender Agent to draw amounts sufficient to pay the purchase price and accrued interest on bonds delivered for purchase when remarketing proceeds or other funds are not available. The State is required to pay the Bank a commitment fee quarterly in arrears, until the expiration date or the termination date of the agreements. For the past fiscal year the fee was 0.1% per annum under the agreement which began on May 1, 2002.

Under the agreements, any bonds purchased through the Liquidity Facility become Bank Bonds and shall, from the date of such purchase and while they are Bank Bonds, bear interest at the bank bond interest rate. The Bank Bond interest rate is an adjustable rate tied to the prime rate or federal funds rate with a maximum of 18%. Upon remarketing of Bank Bonds and the receipt of the sales price by the Bank, such bonds are no longer considered Bank Bonds. Payment of interest to the Bank is due quarterly for each period in which Bank Bonds are outstanding. At June 30, 2009, there were no Bank Bonds held under the Liquidity Facility by the Bank.

Included in the agreements is a take-out provision, in the event the Remarketing Agent is unable to resell any bonds that are "put" within 90 days of the "put" date. In this situation, the State is required to redeem the Bank Bonds held by the Liquidity Facility. The agreements allow the State to redeem Bank Bonds in equal quarterly installments of principal plus accrued interest. The principal payments will commence with the first business day of any such month (January, April, July, October) that is at least 90 days following the applicable purchase date of the Bank Bond and end no later than the fifth anniversary of such purchase date. If the take out agreement were to be exercised because the entire outstanding $355 million of demand bonds was "put" and not resold, the State would be required to pay $71 million a year for five years under the installment loan agreement plus interest based on the base rate plus 1% for the first 180 days and the base rate plus 2% for the second 180 days. In years two through five, the interest calculation is the base rate plus 3% on the remaining principal. At June 30, 2009, the base rate was 3.25% (the prime rate).

The current expiration date of the agreements is December 31, 2015. The Bank has the option to terminate its commitment on July 15, 2010 or July 15, 2015 by providing adequate notice of its intention. The bonds are not subject to mandatory tender for purchase as a result of immediate termination of the liquidity agreements. Failure by the State to purchase bonds tendered for purchase results in the bonds bearing interest at a floating rate indexed to unsecured commercial paper for 75 days continuing thereafter at an interest rate of 12%.

State of North Carolina Variable Rate General Obligation Refunding Bonds, Series B, C, D, E, and F

On December 5, 2002, the State issued tax-exempt variable rate general obligation demand bonds, ($100 million, series B through E and $99.87 million, series F) in the total amount of $499.87 million that have final maturity dates of June 1, 2019. Each series of bonds is subject to mandatory sinking fund redemption that will begin on June 1, 2012. The bonds were issued to refund certain general obligation bonds of the State. The bonds currently bear interest at a weekly rate, and the bonds are subject to purchase at a price equal to principal plus interest on demand with seven days notice and delivery to the Tender Agent, First Citizens Bank and Trust Co.

The State's Remarketing Agents, Wachovia Bank N. A. (series 2002B), Citigroup (series 2002C), Wachovia Bank N.A. (series 2002D), RBC Capital Markets (series 2002E) and BB&T Capital Markets (series 2002F) have agreed to exercise their best efforts to remarket bonds for which a notice of purchase has been received. The quarterly remarketing fee is payable in arrears and is equal to 0.05% per annum of the outstanding principal amount of the bonds assigned to each agent.

NOTES TO THE FINANCIAL STATEMENTS

Under separate standby bond purchase agreements (agreements) between the State and Wachovia Bank N.A. (series 2002B), Bayerische Landesbank (series 2002C), Landesbank Baden-Wuttemberg (series 2002D), Bayerische Landesbank (series 2002E) and Landesbank Baden-Wuttemberg (series 2002F), (collectively, "the Banks"), liquidity facility agreements have been established for the Tender Agent to draw amounts sufficient to pay the purchase price and accrued interest on bonds delivered for purchase when remarketing proceeds or other funds are not available. The State is required to pay the banks a commitment fee quarterly in arrears until the expiration date or the termination date of the agreements. For the past fiscal year, the fee was 0.11% per annum under the long-term agreement which began on December 5, 2002.

Under the agreements, any bonds purchased through the Liquidity Facility become Bank Bonds and shall, from the date of such purchase and while they are Bank Bonds, bear interest at the Bank Bond interest rate. The Bank Bond interest rate is an adjustable rate tied to the prime rate or federal funds rate with a maximum of 20%. Upon remarketing of Bank Bonds and the receipt of the sales price by the Banks, such bonds are no longer considered Bank Bonds. Payment of interest to the banks is due quarterly for each period in which Bank Bonds are outstanding. At June 30, 2009 there were no Bank Bonds held under the Liquidity Facility.

Included in the agreements is a take-out provision, in the event the Remarketing Agent is unable to resell any bonds that are "put" within 90 days of the "put" date. In this situation, the State is required to redeem the Bank Bonds held by the Liquidity Facility. The agreements allow the State to redeem Bank Bonds in equal quarterly installments of principal plus accrued interest. The payments will commence with the first business day of any such month (January, April, July, October) that is at least 90 days following the applicable purchase date of the Bank Bond and end no later than the fifth anniversary of such purchase date. If the take out agreement were to be exercised because the entire outstanding $499.9 million of demand bonds was "put" and not resold, the State would be required to pay $99.97 million a year for five years under the installment loan agreement plus interest based on the base rate plus 1% for the first 180 days and the base rate plus 2% for the second 180 days. In years two through five, the interest calculation is the base rate plus 3% on the remaining principal. At June 30, 2009 the base rate was 3.25% (the prime rate).

The current expiration date of the Agreements is December 11, 2009 (series 2002B) and November 30, 2015 (series 2002C through 2002F). The Banks for series C through F have the option to terminate its commitment on October 1, 2009, or October 1, 2014 by providing adequate notice of their intentions. The Bank for series 2002B has no optional termination provision. The bonds are not subject to mandatory tender for purchase as a result of immediate termination of the liquidity agreements. Failure by the State to purchase bonds tendered for purchase results in the bonds bearing interest at a floating rate indexed to unsecured commercial paper for 75 days continuing thereafter at an interest rate of 12%.

Component Units

University of North Carolina System

With regards to the following demand bonds, the issuer has not entered into take out agreements, which would convert the demand bonds not successfully remarketed into another form of long-term debt.

The University of North Carolina at Chapel Hill - General Revenue, Series 2001B and 2001C

In 2001 the University issued two series of variable rate demand bonds in the amount of $54.97 million (2001B) and $54.97 million (2001C) that each has a final maturity date of December 1, 2025. The bonds are subject to mandatory sinking fund redemption on the interest payment date on or immediately preceding each December throughout the term of the bonds. The proceeds of these issuances were used to provide funds to refund in advance of their maturity the following issues: Ambulatory Care Clinic, Series 1990; Athletic Facilities, Series 1998; Carolina Inn, Series 1994; School of Dentistry, Series 1995; Kenan Stadium, Series 1996; and Parking System, Series 1997C. While bearing interest at a weekly rate, the bonds are subject to purchase on demand with seven days notice and delivery to the University's Remarketing Agents, J.P. Morgan Chase (2001B) and Bank of America, N.A. (2001C). Effective September 23, 2008, J.P. Morgan Chase replaced Lehman Brothers, Inc.

The University entered into a new line of credit agreement in the amount of $300 million with Wachovia Bank, N.A. on September 21, 2006. Under the new line of credit agreement, the University is entitled to draw amounts sufficient to pay the principal and accrued interest on variable rate demand bonds or commercial paper bonds delivered for purchase. Under the new line of credit agreement, the University may request that Wachovia Bank, N.A. increase the commitment by increments of $25 million for a total commitment of up to $400 million. A request for increase is subject to the Bank's sole discretion, and the University cannot be in default under the agreement at the time of the request. During the fiscal year 2008-09, Wells Fargo & Co. purchased Wachovia Bank, N.A., but the line of credit agreement remains in place under original terms and conditions.

The University is required to pay a quarterly facility fee for the line of credit in the amount of 0.08% per annum based on the size of the commitment. If a long-term debt rating assigned by Standard & Poor's (S&P), Fitch Ratings (Fitch), or Moody's Investors Service (Moody's) is lowered, the facility fee assigned to the lowest rating in the below table shall apply:

S&P	Fitch	Moody's	Facility Fee
AA	AA	Aa2	0.10%
AA-	AA-	Aa3	0.11%
A+	A+	A1	0.14%
A	A	A2	0.18%

In the event that the Bank increases the available commitment prior to the due date for payment of a facility fee, upon request by the University as referenced in the prior paragraph, the University must pay a supplemental fee based on the facility fee applied to the amount of the increase at the time of commitment to increase. The University will also pay an accrued interest fee equal to the amount of accrued interest, at the time of purchase of the bonds, multiplied by the prime rate multiplied by the ratio of the number of days from the date of purchase of the bonds until the date of payment of the accrued interest to 365 days.

Under the line of credit agreement, draws to purchase bonds will accrue interest at the prime rate payable on the same interest date as provided in the Trust Agreement for the original bonds. The University is required to begin making a series of ten fully amortizing semi-annual principal payments on bonds held by the Bank six months after the date of purchase. Commercial paper bonds held by the Bank may be rolled over for a period of 180 days and must be reduced by $1/10^{th}$ of the original amount of the commercial paper bonds for a period of up to 10 rollovers. All outstanding principal and accrued but unpaid interest is due in full at the maturity of the line of credit.

The line of credit agreement expires on September 21, 2011 and is subject to covenants customary to this type of transaction, including a default provision in the event that the University's long-term bond ratings were lowered to below a BBB- for S&P, BBB- for Fitch, and Baa3 for Moody's.

North Carolina Central University – Revenue Bonds Series 2003A

In October of 2003, the North Carolina Capital Facilities Finance Agency issued Student Housing Facilities Revenue Demand Bonds ($21.48 million Variable Rate Revenue Demand Bonds, Series 2003A) that have a maturity date of October 1, 2034. The issuer, the North Carolina Capital Facilities Finance Agency, loaned the proceeds of the Series 2003 Bonds to the North Carolina Central University Real Estate Foundation, Inc. (Foundation). The Foundation used the proceeds to finance the costs of building a student housing facility at North Carolina Central University, to fund a debt service reserve fund for the 2003A Bonds, to pay a portion of the interest on the bonds during construction of the project, and to pay certain costs of issuance of the bonds. The 2003A Bonds are subject to mandatory sinking fund redemption at the principal amount on the interest payment dates.

The Student Housing Facilities Revenue Demand Bonds (Series 2003) has an Irrevocable Letter of Credit (LOC) for $21.82 million. The LOC is to secure the payment of the principal and purchase price of interest on the Series 2003 Bonds. The LOC was issued by Wachovia Bank, N.A. and expired on October 15, 2006. The LOC may be extended by request from the Foundation by delivering a notice of extension to the Trustee with a new expiration date. The LOC was subsequently extended until December 31, 2009. At June 30, 2009, the LOC rate for the bonds was 1.5% and no amounts were drawn on it.

The Foundation paid Wachovia Bank, N.A. a commitment fee of $109 thousand for the letter of credit on the date the bonds were issued. If the Foundation terminates the letter of credit on or before August 31, 2009, then the Foundation must pay a termination fee of $25 thousand. The Bonds are not under a take-out agreement; however, in the event of termination 100% of the unpaid principal will be due and payable plus any unpaid and accrued interest.

Under the LOC agreement, the proceeds of each drawing under the LOC to pay the portion of the purchase price of Series 2003 bonds allocable to principal will constitute a tender advance and must be reimbursed as provided in the agreement. The Foundation is required to repay each tender advance to Wachovia Bank, N.A. plus an interest rate of prime plus 1%. According to the Reimbursement Agreement Amendment dated May 2008, the amount of any tender advance made is repaid based on the earliest to occur of the date the credit provider bonds purchased pursuant to such tender advances are remarketed, the close of business on the date that is 366 days after the tender was made, and/or the termination date.

The Student Housing Facilities Revenue Demand Bonds (Series 2003) has a remarketing fee. The remarketing fee is an upfront charge to reset the interest rates on a weekly basis. The Remarketing Agent is Wachovia Bank, N.A. for the Series 2003A Bonds. At June 30, 2009, the remarketing fee rate for the bonds was 0.13%.

With regard to the following demand bonds, the issuer has entered into take out agreements, which would convert the demand bonds not successfully remarketed into another form of long-term debt.

North Carolina State University - General Revenue Bonds, Series 2003B

On June 20, 2003 the University issued tax-exempt variable rate revenue demand bonds in the amount of $45.66 million that have a final maturity date of October 1, 2027. The bonds are subject to mandatory sinking fund redemption that began on October 1, 2004. The University's proceeds of this issuance were used to pay a portion of the costs of certain improvements on the campus of the University, to refund certain debt previously incurred for that purpose, and to pay the costs incurred in connection with the issuance of the 2003B bonds.

While bearing interest at a weekly rate, the bonds are subject to purchase on demand with seven days notice and delivery to the paying agent, The Bank of New York Mellon. Upon notice from the paying agent, the Remarketing Agent, Wachovia Bank, N.A., has agreed to exercise its best efforts to remarket the bonds for which a notice of purchase has been received.

Under a Standby Bond Purchase Agreement (Agreement) between the Board of Governors of the University of North Carolina and Bayerische Landesbank, a Liquidity Facility has been established for the Trustee (The Bank of New York Mellon) to draw amounts sufficient to pay the purchase price and accrued interest on bonds delivered for purchase when remarketing proceeds or other funds are not available. This Agreement requires a commitment fee equal to 0.13% of the available commitment, payable quarterly in arrears, beginning on July 1, 2003 and on each October 1, January 1, April 1, and July 1 thereafter until the expiration date or the termination date of the Agreement.

Under the Agreement, any bonds purchased through the Liquidity Facility become Liquidity Provider Bonds and shall, from the date of such purchase and while they are Liquidity Provider Bonds, bear interest at the Liquidity Provider rate (the greater of the bank prime commercial lending rate and federal funds rate plus 0.5%). Upon remarketing of Liquidity Provider Bonds and the receipt of the sales price by the Liquidity Provider, such bonds are no longer considered Liquidity Provider Bonds. Payment of the interest on the Liquidity Provider Bonds is due the first business day of each month in which Liquidity Provider Bonds are outstanding. At June 30, 2009, there were no Liquidity Provider Bonds held by the Liquidity Facility. The original Liquidity Facility expiration date has been extended and is scheduled to expire on November 30, 2015, unless otherwise extended based on the terms of the Agreement.

Upon expiration or termination of the Agreement, the University is required to redeem (purchase) the Liquidity Provider Bonds held by the Liquidity Facility in twelve quarterly installments, beginning the first business day of January, April, July, or October, whichever first occurs on or following the Purchase Date along with accrued interest at the Liquidity Provider rate. In the event the entire issue of $44.09 million of demand bonds was "put" and not resold, the University would be required to pay $15 million a year for three years under this agreement assuming a 3.25% interest rate.

North Carolina State University - General Revenue Bonds, Series 2008A

On July 10, 2008 the University issued tax-exempt variable rate revenue demand bonds in the amount of $66.61 million that have a final maturity date of October 1, 2028. The bonds are subject to mandatory sinking fund redemption that begins on October 1, 2014. The University's proceeds of this issuance were used to pay a portion of the costs of certain improvements on the campus of the University, to refund certain debt previously incurred for that purpose, and to pay the costs incurred in connection with the issuance of the 2008A bonds.

While bearing interest at a weekly rate, the bonds are subject to purchase on demand with seven days notice and delivery to the paying agent, The Bank of New York Mellon. Upon notice from the paying agent, the Remarketing Agent, Citigroup Global Markets Inc, has agreed to exercise its best efforts to remarket the bonds for which a notice of purchase has been received.

Under a Standby Bond Purchase Agreement (Agreement) between the Board of Governors of the University of North Carolina and Bank of America, N.A., a Liquidity Facility has been established for the Trustee (The Bank of New York Mellon) to draw amounts sufficient to pay the purchase price and accrued interest on bonds delivered for purchase when remarketing proceeds or other funds are not available. This Agreement requires a commitment fee equal to 0.2% of the available commitment, payable quarterly in arrears, beginning on October 1, 2008 and on each October 1, January 1, April 1 and July 1 thereafter until the expiration date or the termination date of the Agreement.

Under the Agreement, any bonds purchased through the Liquidity Facility become Bank Bonds and shall, from the date of such purchase and while they are Bank Bonds, bear interest at the Base Rate (the greater of the bank prime commercial lending rate and federal funds rate plus 3%) for thirty days. For the period of 31 through 60 days after purchase, the Bank Bonds bear interest at the Base Rate plus one percent. Upon remarketing of Bank Bonds and the receipt of the sales price by the Liquidity Provider, such bonds are no longer considered Bank Bonds. Payment of the interest on the Bank Bonds is due the first business day of each month in which Bank Bonds are outstanding. At June 30, 2009, there were no Bank Bonds held by the Liquidity Facility. The Liquidity Facility is scheduled to expire on July 10, 2011, unless otherwise extended based on the terms of the Agreement.

After the purchase of the Bank Bonds, or expiration or termination of the Agreement, the University is required to redeem (purchase) the Bank Bonds held by the Liquidity Facility in six semi-annual installments, beginning the first business day of the month which next occurs on or following 61 days after the Purchase Date along with accrued interest at the Bank Bond rate plus two percent. In the event the entire issue of $66.61 million of demand bonds was "put" and not resold, the University would be required to pay $24 million a year for three years under this agreement assuming a 5.25% interest rate.

With regard to the following demand bonds, the issuer has entered into take out agreements, which would convert the demand bonds not successfully remarketed into another form of long-term debt, with the exception of Series 2009A Revenue Refunding bonds, for which the University of North Carolina Hospitals acts as its own liquidity facility.

University of North Carolina Hospitals at Chapel Hill - Revenue Bonds, Series 2001A and Series 2001B

On January 31, 2001, the Hospitals issued two series of tax-exempt variable rate demand bonds in the amount of $55 million (2001A) and $55 million (2001B) that have a final maturity date of February 15, 2031. The bonds are subject to mandatory sinking fund redemption that began on February 15, 2002. A portion of the proceeds was used to reimburse the Hospitals for $75 million spent allowing the University of North Carolina (UNC) Health Care System to acquire controlling interest in Rex Healthcare Inc. The remaining proceeds are being used for the renovation of space vacated after the opening of the North Carolina Women's Hospital, North Carolina Children's Hospital, and associated support services. While initially bearing interest in a daily mode, the mode on these bonds may change to a weekly rate, a unit pricing rate, a term rate or a fixed rate.

While in daily mode, the bonds are subject to purchase on any business day upon demand by telephonic notice of tender to the Remarketing Agent on the purchase date and delivery to the bond Tender Agent, Wachovia Bank, N.A. The Hospitals' Remarketing Agents, Merrill Lynch, Pierce, Fenner & Smith Incorporated (Series 2001A) and Banc of America Securities LLC (Series 2001B) have agreed to exercise their best efforts to remarket bonds for which a notice of purchase has been received. The quarterly remarketing fee is payable in arrears and is equal to either 0.05% or 0.08% of the outstanding principal amount of the bonds assigned to each agent, depending upon their performance in comparison to an established benchmark. During the 2008-09 fiscal year, Bank of America, N.A. purchased Merrill Lynch & Co.

Under separate Standby Bond Purchase Agreements for the Series 2001A and Series 2001B (Agreements) between the Hospitals and Landesbank Hessen-Thuringen Girozentrale, a Liquidity Facility has been established for the Tender Agent to draw amounts sufficient to pay the purchase price and accrued interest on bonds delivered for purchase when remarketing proceeds or other funds are not available. These Agreements require an adjustable facility fee based on the long-term rating of the bonds, which is calculated as a percentage of the available commitment. Payments are made quarterly in arrears, on the first business day of each July, October, January, and April thereafter until the expiration date or the termination date of the Agreements. For the past fiscal year the percentage was 0.25% with the long-term agreement that became effective on July 11, 2005. This agreement has been extended to October 11, 2014.

Under the Agreements, any bonds purchased through the Liquidity Facility become Bank Bonds and shall, from the date of such purchase and while they are Bank Bonds, bear interest at the formula rate (base rate equal to the higher of the prime rate for such day or the sum of 0.5% plus the federal funds rate) subject to a maximum rate as permitted by law. Upon remarketing of Bank Bonds and the receipt of the sales price by the Liquidity Provider, such bonds are no longer considered Bank Bonds. Payment of the interest on the Bank Bonds is due quarterly (the first business day of January, April, July and October) for each period in which Bank Bonds are outstanding. At June 30, 2009 there were no Bank Bonds held by the Liquidity Facility.

Included in the Agreements is a take-out provision, in case the Remarketing Agent is unable to resell any bonds that are "put" within 90 days of the "put" date. In this situation, the Hospitals is required to redeem the Bank Bonds held by the Liquidity Facility. The agreements allow the Hospitals to redeem Bank Bonds in equal quarterly installments, on the first business day of January, April, July and October. The payments will commence with the first business day of any such month that is at least 90 days following the applicable Purchase Date of the Bank Bond and end no later than the fifth anniversary of such Purchase Date. If the take out agreement were to be exercised because the entire outstanding $101 million of demand bonds was "put" and not resold, the Hospitals would be required to pay $21.97 million a year for five years under the installment loan agreement assuming an 3.25% prime interest rate.

The current expiration date of the Agreements is December 31, 2015. The Liquidity Provider has the option to terminate its commitment on October 11, 2011, or October 11, 2014 by providing adequate notice of its intention. The Hospitals may request additional extensions of at least one year from the previous termination date. Extensions are at the discretion of Liquidity Provider.

University of North Carolina Hospitals at Chapel Hill - Revenue Refunding Bonds, Series 2003A and Series 2003B

On February 13, 2003, the Hospitals issued two series of tax-exempt variable rate demand bonds in the amount of $63.77 million (2003A) and $34.25 million (2003B) that have a final maturity date of February 1, 2029. The bonds are subject to mandatory sinking fund redemption that began on February 1, 2004. The proceeds were used to advance refund $88.33 million of the Series 1996 Bonds. While initially bearing interest in a weekly mode, the mode on these bonds may change to a daily rate, a unit pricing rate, a term rate or a fixed rate.

While in the weekly mode, the bonds are subject to purchase on demand with seven days' notice to the Remarketing Agent and delivery to the bond Tender Agent, Wachovia Bank, N.A. The Hospitals' Remarketing Agents, Banc of America Securities LLC (Series 2003A) and Wachovia Bank, N.A. (Series 2003B) have agreed to exercise their best efforts to remarket bonds for which a notice of purchase has been received. The quarterly remarketing fee is payable in arrears and is equal to 0.08% of the outstanding principal amount of the bonds assigned to the Remarketing Agent for Series 2003A and is equal to 0.07% of the outstanding principal amount of the bonds assigned to the Remarketing Agent for Series 2003B.

Under separate Standby Bond Purchase Agreements for the Series 2003A and Series 2003B (Agreements) between the Hospitals and Bank of America, N.A. (Series 2003A) or Wachovia Bank, N.A. (Series 2003B) a Liquidity Facility has been established for the Tender Agent to draw amounts sufficient to pay the purchase price on bonds delivered for purchase when remarketing proceeds or other funds are not available. These Agreements require a facility fee equal to 0.22% of the available commitment for Series 2003A and Series 2003B, payable quarterly in advance, beginning on February 13, 2003, and on each February 1, May 1, August 1, and November 1 thereafter until the expiration date or the termination date of the Agreements. In April 2009, a new agreement was signed with Wachovia Bank, N.A., to increase the liquidity commitment rate to 0.85% effective August 2009.

Under the Agreements, any bonds purchased through the Liquidity Facility become Bank Bonds and shall, from the date of such purchase and while they are Bank Bonds, bear interest at the Bank Bond interest rate (for Series 2003A, the rate equals

London Inter-Bank Offered Rate (LIBOR) plus 2.5% for the first 90 days and then equals LIBOR plus 4%; for Series 2003B, the rate equals prime rate plus 1% for the first 90 days and then equals prime plus 2%) subject to a maximum rate as permitted by law. Upon remarketing of Bank Bonds and the receipt of the sales price by the Liquidity Provider, such bonds are no longer considered Bank Bonds. Payment of the interest on the Bank Bonds is on the first business day of each month for each period in which Bank Bonds are outstanding. At June 30, 2009 there were no Bank Bonds held by the Liquidity Facility.

Included in the Agreements is a take-out provision, in case the Remarketing Agent is unable to resell any bonds that are "put" within 90 days of the "put" date. In this situation, the Hospitals is required to redeem the Bank Bonds held by the Liquidity Facility. The Series 2003A agreement allows the Hospitals to redeem Bank Bonds in twelve equal quarterly installments beginning on the first February 1, May 1, August 1 or November 1 that occurs at least 90 days following the applicable Purchase Date of the Bank Bond. If the take-out agreement were to be exercised because the entire outstanding $61.88 million of demand bonds was "put" and not resold, the Hospitals would be required to pay $22.10 million a year for three years under the installment loan agreement assuming a 4.32% interest rate (LIBOR plus 4%). The Series 2003B agreement allows the Hospitals to redeem Bank Bonds in 36 equal monthly installments, on the first business day of each calendar month after the loan date. Payments commence with the first business day of any such month that is at least 120 days following the applicable Purchase Date of the Bank Bond. If the take out agreement were to be exercised because the entire outstanding $33.25 million of demand bonds was "put" and not resold, the Hospitals would be required to pay $12 million a year for three years under the installment loan agreement assuming a 5.25% interest rate (prime plus 2%).

The current expiration date of the Series 2003A Agreement is July 1, 2010 and July 31, 2010 for the Series 2003B Agreement. The Hospitals may request additional extensions, which are approved at the discretion of the Liquidity Provider

University of North Carolina Hospitals at Chapel Hill - Revenue Refunding Bonds-Series 2009A

On February 12, 2009, the Hospitals issued series 2009A tax-exempt variable rate demand bonds in the amount of $44.29 million that have a final maturity date of February 1, 2024. The bonds are subject to mandatory sinking fund redemption that begins on February 1, 2010. The proceeds were used to advance refund $43.51 million of the Series 1999 Bonds. While initially bearing interest in a weekly mode, the mode on these bonds may change to a daily rate, a unit pricing rate, a term rate or a fixed rate.

While in the weekly mode, the bonds are subject to purchase on demand upon delivering irrevocable written notice of tender or irrevocable telephonic notice of tender to the Remarketing Agent not later than 4:00 p.m. on a Business Day not less than seven days before the Purchase Date and upon delivering such Series 2009A bonds to the bond Tender Agent, U.S Bank, N.A., no later than 12:00 noon on such Purchase Date. The Hospitals' Remarketing Agents, Banc of America Securities LLC has agreed to exercise their best efforts to remarket bonds for which a notice of purchase has been received. The quarterly remarketing fee is payable in arrears and is equal to 0.09% of the weighted average daily principal amount of Series 2009A Bonds outstanding during such periods in which the Series 2009A bonds are Variable Rate Bonds.

Under a separate Liquidity Agreement with the Trustee, UNC Hospitals has established itself as Liquidity Facility for the Tender Agent to draw amounts sufficient to pay the purchase price on bonds delivered for purchase when remarketing proceeds or other funds are not available. Upon receipt of any notice from the Remarketing Agent that there is a Projected Funding Amount on the Business Day prior to each Purchase Date or Mandatory Purchase Date, and upon receipt of written demand for payment from the Tender Agent by noon on each Purchase Date or Mandatory Purchase Date, UNC Hospitals shall wire to the Tender Agent, in immediately available funds, an amount equal to the Actual Funding Amount, which shall be equal to the Purchase Price of all Series 2009A bonds tendered or deemed tendered, less the aggregate amount of remarketing proceeds received by the Remarketing Agent, by not later than 2:00 p.m. on the Purchase Date or Mandatory Purchase Date.

State Education Assistance Authority

Guaranteed Student Loan Revenue Bonds

With regards to the following demand bonds, the issuer has not entered into take out agreements, which would convert the demand bonds not successfully remarketed into another form of long-term debt.

Series 2005-A. On October 27, 2005, the Authority issued Guaranteed Student Loan Revenue Bonds, Series 2005-A in the amount of $506.3 million and consisting of tax-exempt and taxable bonds. The proceeds of this issuance were used to finance student loans, refund the Authority's outstanding Series 1995-A bonds, make a deposit into the operating fund, and pay issuance costs. Of this series $71.75 million of tax-exempt bonds remained outstanding as of June 30, 2009. This series of bonds matures on September 1, 2035. While bearing interest at a weekly rate, the bonds are subject to purchase on demand with seven days' notice to the Tender Agent.

Payment of principal and interest on the Series 2005-A bonds is insured by a financial guaranty insurance policy by Ambac Assurance Corporation. The Authority has entered into a standby bond purchase agreement with a commercial bank. Pursuant to this agreement, the respective bank has agreed to purchase any bonds that have been tendered for purchase during the term of the agreement. The Authority is paying down the remaining tranche which entered "bank bond" mode after the expiration of the standby bond purchase agreement on January 29, 2009.

Series 2008-2. On October 30, 2008, the Authority issued Guaranteed Student Loan Revenue and Refunding Bonds, Series 2008-2 in the amount of $309.86 million consisting of two tranches of tax-exempt bonds. Series A-1 in the amount of $150 million matures on July, 1 2036, but $25 million must be retired by mandatory sinking fund redemption on July 1, 2016. Series A-2 in the amount of $159.86 million matures on September 1, 2035. The proceeds of this issuance were used to finance student loans, refund the Authority's outstanding Series 2006-Q and 2005-A bonds, make deposits into the reserve funds, make a deposit into the operating fund, and pay issuance costs. While bearing interest at a weekly rate, the bonds are subject to purchase on demand with seven day's notice to the Tender Agent.

Series 2008-3. On November 21, 2008, the Authority issued Guaranteed Student Loan Revenue and Refunding Bonds, Series 2008-3 in the amount of $105.95 million consisting of two tranches of tax-exempt bonds. Series A-1 in the amount of $30 million matures on July 1, 2027. Series A-2 in the amount of 75.95 million matures on September 1, 2035. The proceeds of this issuance were used to finance student loans, refund the Authority's outstanding Series 1997-E and 2005-A bonds, make deposits into the reserve fund, make a deposit into the operating fund, and pay issuance costs. While bearing interest at a weekly rate, the bonds are subject to purchase on demand with seven day's notice to the Tender Agent.

Series 2008-5. On December 12, 2008, the Authority issued Guaranteed Student Loan Revenue and Refunding Bonds, Series 2008-5 in the amount of $159.86 million consisting of one tranche of tax-exempt bonds. This series of bonds matures on September 1, 2035. The proceeds of this issuance were used to finance student loans, refund the Authority's outstanding Series 2005-A bonds, make deposits into the reserve funds, make a deposit into the operating fund, and pay issuance costs. While bearing interest at a weekly rate, the bonds are subject to purchase on demand with seven day's notice to the Tender Agent.

Each of the 2008 variable rate demand bonds described herein are being remarketed pursuant to remarketing agreements, and each is backed by an irrevocable letter of credit in favor of The Bank of New York Mellon as bond trustee. Three different banks issued the letters of credit (RBC Bank, Bank of America, N.A., and BB&T Corp.). There have been no draws on the letters of credit, but there are "Facility Fees" payable to the issuing banks set at 0.9%.

E. Interest Rate and Basis Swaps

Primary Government

Governmental Activities

Objective. As a means to lower its borrowing costs and increase its savings when compared to fixed-rate refunding bonds at the time of issuance in December 2002, the State entered into two interest rate swaps in connection with its $499.87 million Variable Rate General Obligation Refunding Bonds, Series 2002B-F. The intention of the swap agreements was to effectively change the State's interest rate on the bonds to a synthetic fixed rate of 3.28% (Swap 1) and 3.09% (Swap 2). For comparison, the State sold fixed rate bonds on the same day as the swaps, with the same final maturity, at an interest rate of 4.45%.

In March 2005, the State entered into basis rate swap agreements and related swaptions with three separate counterparties to lower its borrowing costs when compared to fixed rate refunding bonds. The swaption component is disclosed and valued in a separate section within this note (see section F). The bonds associated with basis swaps were as follows (dollars in thousands):

Bonds Associated with Basis Swaps	Principal Amount	Average Coupon	Call Date
Public Improvement, Series 2003A	$ 171,000	4.89%	3/1/2013
Public Improvement, Series 2003B	169,955	4.87%	4/1/2013
Public Improvement, Series 2004A	335,000	4.86%	3/1/2014
Total	$ 675,955		

Terms - Swaps 1 and 2. The bonds and the related swap agreements mature on June 1, 2019 (Swap 1) and June 1, 2017 (Swap 2) and the combined swaps' notional amount of $499.87 million matches the $499.87 million variable-rate bonds. The swaps were entered into at the same time the bonds were issued (December 2002). Starting in fiscal year 2012, the combined notional value of the swaps and the combined principal amount of the associated debt begin to decline. Under the swaps, the State pays the counterparties a fixed payment of 3.28% (Swap 1) and 3.09% (Swap 2) and receives a variable payment computed at 64% of the LIBOR. Conversely, the bonds' variable-rate coupons are closely associated with the Securities Industry and Financial Markets Swap Index (SIFMA).

Terms - 2005 Basis Swaps. The 2005 basis swap agreements were entered into on March 9, 2005 with an effective date of March 30, 2005. The related bonds have serial maturities with Series 2003A having a final maturity on March 1, 2026; Series 2003B and 2004A have final maturities on April 1, 2023 and March 1, 2023, respectively. The basis swap agreements mature on March 1, 2026. The swaps' combined notional amount of $675.96 million matches the $675.96 million fixed rate bonds. Under the terms of the basis rate swap and swaption agreement, the State will pay the SIFMA to the counterparties and will receive 70% of LIBOR plus a fixed spread of 69 basis points (41 attributable to basis swap and 28 basis points for the swaption).

Fair value. Because interest rates have declined since execution of Swaps 1 and 2, the swaps have negative fair values of $18.48 million (Swap 1) and $16.25 million (Swap 2) at June 30, 2009. The 2005 basis rate swaps had positive valuations at June 30, 2009 of: $4 million (Counterparty 1), $2.6 million (Counterparty 2), and $1.3 million (Counterparty 3). The mark-to-market valuations were established by market quotations from the counterparties, representing estimates of the amounts that would be paid for replacement transactions.

Credit risk. As of June 30, 2009, the swaps did not expose the State to credit risk because the swaps had negative aggregate fair values. However, should interest rates change and the aggregate fair value of the swaps become positive, the State would be exposed to credit risk in the amount of the derivatives' aggregate fair value. For the basis swaps, the aggregate fair value is the individual fair value of the swap plus the fair value of the associated swaptions which are disclosed in Section F of Note 7. The current counterparty ratings for each swap are presented in the table below:

Swap Counterparty	Moody's	S&P	Fitch
Swap 1	Aa1	A+	A+
Swap 2	Aa1	AAA	-
Basis Swap Counterparty 1	Aa2	AA	AA
Basis Swap Counterparty 2	A2	A	A+
Basis Swap Counterparty 3	Aa1	AA-	AA-

To mitigate the potential for credit risk, if the counterparty's credit quality falls to a specified rating, the counterparty will be required to collateralize a portion (up to 100%) of the fair value. For Swap 1, if the counterparty's credit quality falls to A1 as determined by Moody's or A+ as determined by either S&P or Fitch and their exposure exceeds $5 million, then the swap will be collateralized by the counterparty with cash, U.S. government or agency securities, or other collateral acceptable to the State. For Swap 1, although the counterparty's S&P and Fitch ratings have fallen to A+, the valuation exposure threshold has not been met to require the counterparty to post any collateral. For Swap 2, if the credit quality falls to Aa1 (Moody's) or AA+ (S&P) and their exposure exceeds $10 million, then the swap will be collateralized by the counterparty with cash, U.S. government or agency securities, or other collateral acceptable to the State. For Swap 2, although the counterparty's Moody's rating has fallen to Aa1, the valuation exposure threshold has not been met to require the counterparty to post any collateral. For the basis swaps, if the counterparty's credit quality is rated lower than Baa1 (Moody's), BBB+ (S&P), or BBB+ (Fitch) by two of the three rating agencies, then the swap will need to be collateralized by the counterparty with cash, U.S. government or agency securities, or other collateral acceptable to the State (Fitch credit ratings only apply to counterparty 1). If the counterparty is required to collateralize a portion of the derivative, then the collateral will be posted with a third party custodian or secured party.

An additional termination event occurs if the counterparty fails to maintain: for Swap 1, at least two ratings of at least Baa1 (Moody's) or BBB+ (S&P and Fitch); for Swap 2, at least one rating of at least Baa3 (Moody's) or BBB- (S&P). An additional termination event for the basis swaps occurs if counterparty 1 or 3 has one or more issues of rated, unsecured, unenhanced senior debt or long-term deposits outstanding and none of such issues has at least two ratings of at least Baa2 or higher as determined by Moody's, or BBB or higher as determined by S&P or Fitch. For counterparty 2, an additional termination event occurs if it has one or more issues of rated, unsecured, unenhanced senior debt outstanding and none of such issues has at least two ratings of Baa2 or higher (Moody's), BBB or higher (S&P) or counterparty 2 fails to have a rating on long-term, unsecured, unenhanced senior debt.

Basis risk and termination risk. Swaps 1 and 2 expose the State to basis risk should the relationship between LIBOR and SIFMA converge, changing the synthetic rate on the bonds. The effect of this difference in basis is indicated by the difference between the intended synthetic rates of 3.28% (Swap 1) and 3.09% (Swap 2) and the synthetic rates as of June 30, 2009 of 3.29% (Swap 1) and 3.09% (Swap 2). As of June 30, 2009, the average rate on the State's variable rate bonds was 0.2%, whereas 64% of LIBOR was 0.2%. The swaps may be terminated by the State with 15 days notice and the counterparties can only terminate the swaps if the State's credit rating falls below Baa1 (Moody's), or BBB+ (S&P or Fitch) for Swap 1, and on Swap 2, below Baa3 (Moody's) or BBB- (S&P or Fitch), or an Event of Default occurs.

2005 Basis Swaps: These swaps expose the State to basis risk should the relationship between the two variable indexes SIFMA and LIBOR converge, which would affect the amount of interest savings realized. The State pays SIFMA and receives 70% of LIBOR plus 69 basis points (28 basis points relate to swaptions) on the notional amounts by counterparty. As of June 30, 2009, there was no basis risk as the State was paying SIFMA equal to 0.35% and receiving 0.91% (70% of LIBOR plus 69 basis points). LIBOR is 0.31% at June 30, 2009. The basis swaps and swaptions may be optionally terminated by the State with two days notice for counterparties 1 and 2 or with five days notice for counterparty 3. The counterparties can only terminate if the State, at any time during the term of the swap transaction, fails to maintain by at least two rating agencies, ratings of at least Baa2 or higher as determined by Moody's, or BBB or higher as determined by S&P or Fitch (Fitch does not apply to counterparty 2).

Market-access risk/Rollover risk. Swap 1 and Swap 2 are for the term of the Bonds and therefore there is no market-access risk or rollover risk. The 2005 basis rate swaps terminate at approximately the same time as the associated serial bonds mature (March 1, 2026; March 1, 2023; and April 1, 2023) and thus no rollover risk exists.

Component Units

University of North Carolina System

University of North Carolina at Chapel Hill

Swap 1

Objective. In order to protect against the risk of interest rate changes, effective October 3, 2000, the University entered into an interest rate swap agreement with Lehman Brothers Special Financing, Inc. (Lehman Brothers) related to $22 million of The University of North Carolina at Chapel Hill Variable Rate Housing System Revenue Bonds, Series 2000. This series of bonds was refunded in its entirety by the issuance of the University's Variable Rate General Revenue Demand Bonds, Series 2001B (2001B Bonds), and the interest rate swap agreement was amended to reflect the refunding.

Terms. Under this amended agreement, Lehman Brothers pays the University interest on the notional amount based on the SIFMA on a quarterly basis. On a semiannual basis, the University pays Lehman Brothers interest at the fixed rate of 5.24%. The notional amount of the swap reduces annually in conjunction with the 2001B Bonds; the reductions began in November 2002 and end in November 2025. The swap agreement matures November 1, 2025. As of June 30, 2009, rates were as follows:

	Terms	Rates
Fixed payment to Lehman Bros.	Fixed	5.24%
Variable payment from Lehman Bros.	SIFMA	0.32%
Net interest rate swap payments		4.92%
Variable rate bond coupon payments		0.17%
Synthetic interest rate on bonds		5.09%

During fiscal year 2008-09, Lehman Brothers, filed for bankruptcy and no longer disburses the variable payment scheduled under the agreement to the University. To account for this consideration and as allowed under the swap documents, the University nets its scheduled fixed payment against that payment that should be received from Lehman Brothers, based upon SIFMA.

Fair value. As of June 30, 2009, the swap had a fair value of negative $3.68 million. The fair value was provided by the University's financial advisor, Prager, Sealy, & Co. Their method calculates the future net settlement payments required by the swap assuming that the current forward rates implied by the yield curve correctly anticipate future spot interest rates. These payments are then discounted using the spot rates implied by the current yield curve for LIBOR due on the date of each future net settlement on the swap.

Credit risk. As of June 30, 2009, the University was not exposed to credit risk because the swap had a negative fair value. However, should interest rates change and the fair value of the swap becomes positive, the University would be exposed to credit risk in the amount of the derivative's positive fair value. Should the swap have a positive fair value of more than

$1 million, at that point Lehman Brothers would be required to collateralize 103% of their exposure. Lehman Brothers Holdings, guarantor of Lehman Brothers Special Financing, Inc., was rated A2 by Moody's, A by S&P, and AA+ by Fitch for unsecured long-term debt.

Basis risk. The University receives the SIFMA from Lehman Brothers and pays a floating rate to its bondholders set by the Remarketing Agent. The University incurs basis risk when its bonds begin to trade at a yield above the SIFMA. Basis risk also exists since swap payments are made quarterly while bond payments are made monthly. With the alternative tax structure of the swap, a change in tax law would trigger the swap being converted from a SIFMA swap to a percentage of LIBOR swap. This would introduce basis risk. If the weekly reset interest rates on the University's bonds are in excess of 65% of LIBOR, the University will experience an increase in debt service above the fixed rate on the swap to the extent that the interest rates on the bonds exceed 65% of LIBOR.

Termination risk. The swap agreement uses the International Swap Dealers Association Master Agreement, which includes standard termination events, such as failure to pay and bankruptcy. Termination could result in the University being required to make an unanticipated termination payment. The swap terminates if the University or Lehman Brothers fails to perform under terms of the contract.

Swap 2

Objective. The University entered into an interest rate swap agreement with Wachovia Bank, N.A. on December 5, 2006, based on a notional amount of $100 million effective December 1, 2007, maturing in December 1, 2036. This transaction serves as a hedge of variable interest rates on a portion of the General Revenue 2001 B&C bonds and the University's outstanding balance of commercial paper. During the 2008-09 fiscal year, Wells Fargo & Co. purchased Wachovia Bank, N.A.

Terms. Under the agreement, Wachovia Bank, N.A. pays the University 67% of the one-month LIBOR index times the notional amount, payable monthly. The University pays Wachovia Bank, N.A. a fixed rate of 3.31% on the notional amount, payable monthly. The effective date of this swap was December 1, 2007. As of June 30, 2009, rates were as follows:

	Terms	Rates
Fixed payment to Wachovia	Fixed	3.31%
Variable payment from Wachovia	LIBOR	0.21%
Net interest rate swap payments		3.10%
Weighted average variable rates		0.01%
Synthetic interest rate on bonds		3.11%

Fair value. As of June 30, 2009, the swap had a fair value of negative $10.08 million. The fair value was developed by Wachovia Bank, N.A., and represents the amount that would be paid to (or received from) another swap dealer to assume the payments under the swap.

Credit risk. As of June 30, 2009, the University was not exposed to credit risk because the swap had a negative fair value. In the event that the swap carried a positive fair value for the University and in the event of a specified ratings downgrade of Wachovia Bank, N.A.'s unsecured long-term debt, Wachovia Bank, N.A. would be required to post collateral in the amount of the difference between the positive fair value of the swap and the thresholds in the below tables. The University is also subject to the same provisions. Wachovia Bank, N.A. was rated AA by S&P, AA- by Fitch and Aa2 by Moody's.

Moody's/S&P Ratings	Threshold
Aa3/AA- or above	$Infinity
A1/A+	$15 million
A2/A	$10 million
A3/A- or below	$0

Basis risk. Changes in swap interest rates and tax-exempt bond interest rates may differ, introducing basis risk in the event the swap is unwound and traditional fixed-rate debt is issued. In the event that the University issues variable rate debt to create synthetic fixed rate debt, the University will be paying a rate on the bonds that may not correlate with 67% of the one-month LIBOR index, altering the "fixed" cost of synthetic debt.

Termination risk. The swap agreement uses the International Swap Dealers Association Master Agreement, which includes standard termination events, such as failure to pay and bankruptcy. Termination could result in the University being required to make an unanticipated termination payment. The swap terminates if the University or Wachovia Bank, N.A. fails to perform under terms of the contract.

Future swap. The University entered into an interest rate swap agreement with The Bank of New York Mellon for $150 million to be effective December 1, 2009. The University has the option to (1) issue variable rate bonds in December 2009, thereby effectively creating synthetic fixed-rate debt, or (2) unwind the swap, capturing the value of the movement of interest rates from the issuance date and issuing traditional fixed rate bonds.

North Carolina State University

Objective. In order to protect against the potential of rising interest rates, the University entered into two separate pay-fixed, receive-variable interest rate swaps at a cost anticipated to be less than what the University would have paid to issue fixed-rate debt.

Terms, fair values, and credit risk. The University's swap agreements contain scheduled reductions to outstanding notional amounts that are expected to approximately follow scheduled or anticipated reductions in the associated bonds payable category. The terms, fair values, and credit ratings of the outstanding swaps as of June 30, 2009 were as follows (dollars in thousands):

Associated Bond Issue	Notional Amounts	Effective Date	Fixed Rate Paid	Variable Rate Received	Fair Values	Swap Termination Date	Counterparty Credit Rating Moody's/S&P/Fitch
General Revenue 2003B	$24,655	6/20/2003	3.54%	75% of LIBOR	$(1,782)	10/01/2027	Aa3 / A+ /A+
General Revenue 2008A	50,000	9/1/2008	3.86%	SIFMA	(4,305)	10/01/2026	Aa1 / AA- /AA-
Total	$74,655				$(6,087)		

Because rates have changed since the effective dates of the swaps, both of the swaps have a negative fair value as of June 30, 2009. The negative fair value may be countered by a reduction in total interest payments required under the variable-rate bonds, creating lower synthetic interest rates. Because the coupons on the University's variable-rate bonds adjust to changing interest rates, the bonds do not have corresponding fair value increases. The fair values are the market values as of June 30, 2009.

As of June 30, 2009, the University was not exposed to credit risk related to positively valued swaps. The swap agreements require termination should the University's or the counterparty's credit rating fall below either Baa2 as issued by Moody's or BBB as issued by S&P or Fitch. Also, under the terms of the swap agreements, should one party become insolvent or otherwise default on its obligations, provisions permit the nondefaulting party to accelerate and terminate all outstanding transactions. To mitigate the potential for credit risk, if the counterparty's credit quality falls below A3 as determined by Moody's or A- as determined by S&P, the swap will be collateralized by the counterparty with cash, U.S. government or agency securities. If the counterparty is required to collateralize, then the collateral will be posted with a third party custodian or secured party. The swap agreements entered into by the University are held with separate counterparties. All the counterparties are rated A+ or better.

Basis risk. The University is exposed to basis risk on the swaps when the variable payment received is based on an index other than SIFMA. Should the relationship between LIBOR and SIFMA move to convergence, the expected cost savings may not be realized. As of June 30, 2009, the SIFMA rate was 0.35%, whereas 75% of LIBOR was 0.23%.

Termination risk. The University or the counterparty may terminate any of the swaps if the other party fails to perform under the terms of the contract. If any of the swaps are terminated, the associated variable-rate bonds would no longer carry synthetic interest rates. Also, if at the time of termination the swap has a negative fair value, the University would be liable to the counterparty for that amount.

Future swap. The University has also entered into a future dated interest rate swap agreement for $22.38 million to be effective March 1, 2017, on the General Revenue Series 2008A bonds.

North Carolina Central University

In October of 2003, the North Carolina Capital Facilities Finance Agency issued Student Housing Facilities Revenue Bonds ($21.48 million Variable Rate Revenue Demand Bonds, Series 2003A). The issuer, the North Carolina Capital Facilities Finance Agency, loaned the proceeds of the Series 2003 Bonds to the North Carolina Central University Real Estate Foundation, Inc. (Foundation). The Foundation used the proceeds to finance the costs of building a student housing facility at North Carolina Central University, to fund a debt service reserve fund for the 2003A Bonds, to pay a portion of the interest on the bonds during construction of the project, and to pay certain costs of issuance of the bonds.

Objective. As a means to lower its borrowing costs and increase its savings, when compared against fixed-rate refunding bonds at the time of issuance in October 2003, effective March 24, 2004, the Foundation entered into two interest rate swaps with Wachovia Bank, N.A., in connection with its $21.48 million Variable Rate Revenue Demand Bonds, Series 2003A. The intention of the swap agreements was to effectively change the interest rate on the bonds to a synthetic fixed rate of 3.52% (Swap 1) and 2.71% (Swap 2).

Terms. The bonds mature on October 1, 2034, and the related swap agreements mature on October 1, 2024 (Swap 1) and April 1, 2009 (Swap 2) and the combined swaps' notional amount of $17.18 million hedges 80% of the $21.48 million variable-rate bonds. The combined notional value of the swaps and the combined principal amount of the associated debt is declining. Under the swaps, the Foundation pays Wachovia Bank, N.A. a fixed rate of 3.52% (Swap 1) and 2.71% (Swap 2) and receives a variable rate at 70% and 100% of LIBOR and SIFMA, respectively. The bonds' variable-rate coupons are closely associated with the SIFMA.

Fair value. As of June 30, 2009, Swap 1 had a negative fair value of $685 thousand and Swap 2 expired in April 2009. The mark-to-market valuation was established by market quotations from Wachovia Bank, N.A. representing estimates of the amounts that would be paid upon terminating the transactions.

Credit risk. As of June 30, 2009, the Foundation was not exposed to credit risk because the swap had a negative fair value.

Basis risk and termination risk. Swap 1 exposes the Foundation to basis risk should the relationship between LIBOR and SIFMA converge, changing the synthetic rate on the bonds. The effect of this difference in basis is indicated by the difference between the intended synthetic rate of 3.52% and the actual rate of 3.99% (Swap 1) at June 30, 2009. As of June 30, 2009, the rate on the Foundation's Bonds was 0.27% whereas 70% of LIBOR was 0.2%. Swap 2 exposed the Foundation to basis risk upon the actual rate on the Foundation's Bond varying from the SIFMA. Termination could result in the Foundation being required to make an unanticipated termination payment. The swap agreement is terminated if the Foundation or Wachovia Bank, N.A. fails to perform under the terms of the contract.

Market-access risk/Rollover risk. Swap 1 exposes the Foundation to market-access and rollover risk when it matures on October 1, 2024, the date when the interest rate on the underlying debt returns to a variable rate. Swap 2 exposed the Foundation to market-access and rollover risk when it matured on April 1, 2009, the date when the interest rate on the underlying debt returned to a variable rate.

University of North Carolina Hospitals

Swap 1

Objective. In order to protect against the risk of interest rate changes, the Hospitals entered into an interest rate swap contract agreement with Bank of America, N.A. (BOA) on February 13, 2003. The agreement covers the Variable Rate Revenue Refunding Bonds, Series 2003A ($63.77 million) and Series 2003B ($34.25 million). The 2003 series of bonds partially refunded Fixed Rate Revenue Bonds, Series 1996.

Terms, fair values, and credit risk. Under this agreement, BOA pays the Hospitals interest on the notional amount based on 67% of the arithmetic mean of LIBOR (with a designated maturity of one month) on a monthly basis. Also on a monthly basis, the Hospitals pays BOA interest at the fixed rate of 3.48%. No cash was paid or received by the Hospitals upon initiation of the agreement. The notional amount of the swap reduces annually; the reductions began in February 2004 and end in February 2029.

The swap agreement terminates February 1, 2029. As of June 30, 2009, rates were as follows:

	Terms	2003A Rates	2003B Rates
Fixed payment to BOA	Fixed	3.48%	3.48%
Variable payment from BOA	LIBOR	0.21%	0.21%
Net interest rate swap payments		3.27%	3.27%
Variable rate bond payments		0.35%	0.27%
Synthetic interest rate on bonds		3.62%	3.54%

The swap agreement has a fair value of negative $9.22 million as of June 30, 2009. The negative fair value of the swap may be countered by reductions in total interest payments required under the variable-rate bond, creating lower synthetic rates. Because the coupons on the Hospitals' variable-rate bonds adjust to changing interest rates, the bonds do not have a corresponding fair value increase. BOA develops the mark-to-market value. Their method calculates the present value of the future net settlement payments required by the swap assuming that the current forward rates implied by the yield curve correctly anticipate future spot interest rates. These payments are then discounted using the spot rates implied by the current yield curve for LIBOR due on the date of each future net settlement on the swap.

As of June 30, 2009, the Hospitals is not exposed to credit risk because the swap has a negative fair value. However, should interest rates change and the fair value of the swap becomes positive, the Hospitals would be exposed to credit risk in the amount of the derivative's fair value. BOA's current long-term ratings are A+ by Fitch, Aa3 by Moody's, and A+ by S&P. At such time that their ratings fall below A3 for Moody's or below A- for S&P, BOA will be required to collateralize a portion of their exposure (up to 100%). The following instruments can serve as eligible collateral: Cash, U.S. Treasury Obligations, U.S. Government Agency Fixed Rate Fixed Maturity Securities, U.S. Government Agency Single Class Mortgage-Backed Securities, U.S. Treasury STRIPS and other U.S. Government Agency Mortgage-Backed Securities. Posted collateral received will be entered in one or more accounts with a domestic office of a commercial bank, trust company or financial institution organized under the laws of the United States (or any state or a political subdivision thereof).

Basis risk. The Hospitals receives 67% of one-month LIBOR Index from BOA and pays a floating rate to its bondholders set by the Remarketing Agent. The Hospitals incurs basis risk when its bonds trade at a yield above 67% of one-month LIBOR Index. If the relationship of the Hospitals' bonds trade to a percentage of LIBOR greater than 67%, the

Hospitals will experience an increase in debt service above the fixed rate on the swap.

Termination risk. The derivative contract uses the International Swap Dealers Association Master Agreement, which includes standard termination events, such as failure to pay and bankruptcy. The Hospitals or the counterparty may terminate the swap if the other party fails to perform under the terms of the contract. If the swap is terminated, the associated variable-rate bonds would no longer carry synthetic interest rates. Also, if at the time of termination the swap has a negative fair value, the Hospitals would be liable to the counterparty for that amount. Termination could result in the Hospitals being required to make an unanticipated termination payment.

Swap 2

Objective. In order to protect against the risk of interest rate changes, the Hospitals entered into an interest rate swap contract agreement with Bank of America, N.A. (BOA) on February 12, 2007 in anticipation of the issuance of the Series 2009A Bonds on February 12, 2009.

Terms, fair values, and credit risk. Under this agreement, BOA pays the Hospitals interest on the notional amount based on 67% of the arithmetic mean of the LIBOR (with a designated maturity of one month) on a monthly basis. Also on a monthly basis, the Hospitals pays BOA interest at the fixed rate of 3.61%. No cash was paid or received by the Hospitals upon initiation of the agreement. The notional amount of the swap reduces annually; the reductions began in February 2010 and end in February 2024.

The swap agreement terminates February 1, 2024. As of June 30, 2009, rates were as follows:

	Terms	2009A Rates
Fixed payment to BOA	Fixed	3.61%
Variable payment from BOA	LIBOR	0.21%
Net interest rate swap payments		3.40%
Variable rate bond payments		0.16%
Synthetic interest rate on bonds		3.56%

The swap agreement has a fair value of negative $3.99 million as of June 30, 2009. The negative fair value of the swap may be countered by reductions in total interest payments required under the variable-rate bond, creating lower synthetic rates. Because the coupons on the Hospitals' variable- rate bonds adjust to changing interest rates, the bonds do not have a corresponding fair value increase. BOA develops the mark-to-market value. Their method calculates the present value of the future net settlement payments required by the swap assuming that the current forward rates implied by the yield curve correctly anticipate future spot interest rates. These payments are then discounted using the spot rates implied by the current yield curve for LIBOR due on the date of each future net settlement on the swap.

As of June 30, 2009, the Hospitals is not exposed to credit risk because the swap has a negative fair value. However, should interest rates change and the fair value of the swap becomes positive, the Hospitals would be exposed to credit risk in the amount of the derivative's fair value. BOA's current long-term ratings are A+ by Fitch, Aa3 by Moody's, and A+ by S&P. At such time that their ratings fall below A3 for Moody's or below A- for S&P, BOA will be required to collateralize a portion of their exposure (up to 100%). The following instruments can serve as eligible collateral: Cash, U.S. Treasury Obligations, U.S. Government Agency Fixed Rate Fixed Maturity Securities, U.S. Government Agency Single Class Mortgage-Backed Securities, U.S. Treasury STRIPS and other U.S. Government Agency Mortgage-Backed Securities. Posted collateral received will be entered in one or more accounts with a domestic office of a commercial bank, trust company or financial institution organized under the laws of the United States (or any state or a political subdivision thereof).

Basis risk. The Hospitals receives 67% of one-month LIBOR Index from BOA and pays a floating rate to its bondholders set by the Remarketing Agent. The Hospitals incurs basis risk when its bonds trade at a yield above 67% of one-month LIBOR Index. If the relationship of the Hospitals' bonds trade to a percentage of LIBOR greater than 67%, the Hospitals will experience an increase in debt service above the fixed rate on the swap.

Termination risk. The derivative contract uses the International Swap Dealers Association Master Agreement, which includes standard termination events, such as failure to pay and bankruptcy. The Hospitals or the counterparty may terminate the swap if the other party fails to perform under the terms of the contract. If the swap is terminated, the associated variable-rate bonds would no longer carry synthetic interest rates. Also, if at the time of termination the swap has a negative fair value, the Hospitals would be liable to the counterparty for that amount. Termination could result in the Hospitals being required to make an unanticipated termination payment.

North Carolina Housing Finance Agency

Objective. The Agency has entered into interest rate swaps in connection with its $73.91 million variable-rate revenue bonds associated with several series in its 1998 Home Ownership Revenue Bond Resolution as a means to lower its borrowing costs when compared against fixed-rate bonds at the time of issuance. The intention of the swap was to effectively lower the Agency's interest rate on the long-term bonds to a fixed rate.

Terms and fair value. The terms and fair value of the outstanding swaps as of June 30, 2009 were as follows (dollars in thousands).

Series	Counterparty	Counterparty Credit Rating Moody's/S&P	Notional Amount	Date of Swap	Maturity Date of Swap	Fixed Rate	Fair Values
15	UBS AG	Aa2/A+	$16,780	5/8/2003	7/1/2032	3.51%	$ (1,069)
16	Bank of America, N.A.	Aa3/A+	17,125	9/16/2003	7/1/2032	3.81%	(1,620)
17	Bank of America, N.A.	Aa3/A+	20,000	12/11/2003	7/1/2032	3.73%	(2.087)
18	Goldman Sachs Mitsui Marine	Aa1/AAA	20,000	4/20/2004	1/1/2035	3.29%	(999)
			$73,905				$ (5,775)

Under all of the swaps, the Agency pays the counterparties a fixed rate and receives a variable payment computed as 63% of LIBOR plus 30 basis points. The bonds' variable-rate coupons are based on the variable SIFMA, which was 0.32% as of June 30, 2009.

Fair value. In total, the swaps have a fair value of negative $5.775 million as of June 30, 2009. Because the coupons on the Agency's variable-rate bonds adjust to changing interest rates, the bonds do not have a corresponding fair value increase. The fair value was estimated using the zero-coupon method. This method calculates the future net settlement payments required by the swap, assuming the current forward rates implied by the yield curve correctly anticipate future spot interest rates. These payments are then discounted using the spot rates implied by the current yield curve for hypothetical zero-coupon bonds due on the date of each future net settlement on the swap.

Credit risk. As of June 30, 2009, the swaps did not expose the Agency to credit risk since the swaps had a negative fair value, in aggregate. However, should interest rates change and the aggregate fair value of the swaps become positive, the Agency would be exposed to credit risk in the amount of the derivatives' aggregate fair value. To mitigate the credit risk to each party to the swap agreement of a decline in credit quality of the other party, each swap agreement provides that collateral must be posted if either party's rating falls below A1 for Moody's and A+ for S&P. The collateral must be posted with a third-party in the form of cash or United States Government Securities. Additionally, each of the swap agreements has termination provisions if ratings fall below certain levels.

Basis risk and termination risk. The swaps expose the Agency to basis risk should the relationship between LIBOR and SIFMA converge, changing the synthetic rate on the bonds. For all swaps, collateral thresholds have been established if the counterparty's ratings reach A2 for Moody's or A for S&P. Series 16, 17 and 18 swaps may be terminated if the counterparty's or the Agency's rating falls below Baa2 as issued by Moody's or BBB as issued by S&P. Series 15 swap may be terminated if the counterparty's or the Agency's rating falls below Baa3 as issued by Moody's and BBB- as issued by S&P.

F. Swaptions

Objective. As a means of lowering its borrowing costs on the existing bonds in the table below and increasing its savings when compared to fixed rate refunding bonds, the State entered into basis swap and swaption contracts with three different financial institutions. Swaptions give the purchaser the right, but not the obligation, to enter into an interest rate swap on a specified future date. These swaptions and the related basis rate swap disclosed previously were entered into as an alternative to a synthetic fixed rate refunding. This swaption alternative provides an annuity to the State (69 basis points total – 28 for the swaptions). The swaptions give each counterparty the option to require the State to enter into pay-fixed, receive-variable interest rate swaps at the various call dates. If the swaptions are exercised, the State would then expect to issue variable-rate refunding bonds sufficient to retire the related issue.

	Principal or Notional Amount (dollars in thousands)				
Bond Series	Counterparty1	Counterparty 2	Counterparty 3	Series Total	Call Date / Swaption Exercise Date
Public Improvement Bonds, Series 2003A	$ 85,500	$ 51,300	$ 34,200	$ 171,000	3/1/2013
Public Improvement Bonds, Series 2003B	84,977	50,987	33,991	169,955	4/1/2013
Public Improvement Bonds, Series 2004A	167,500	100,500	67,000	335,000	3/1/2014
Total	$ 337,977	$ 202,787	$ 135,191	$ 675,955	

Terms. The swaption agreements were entered into on March 9, 2005 and mature March 1, 2026. The swaption annuity was based on the total notional amount of $675.955 million and is tied to the respective bond issues noted above. The counterparties have the right to exercise the swaption agreements 90 days prior to the call date for each series. If exercised, the State will pay the counterparties a fixed rate, and the counterparties will pay the State a variable rate (SIFMA) based on a declining notional amount that matches the amortization of the associated bonds by series. If the swaptions are exercised, the State intends to issue variable rate bonds in a principal amount to retire the associated bond series. The terms of the swaptions are listed below, which include counterparty credit ratings as of June 30, 2009.

	Based on Respective Notional Amounts			
Counterparty	Swaption Annuity Payment Received	Fixed Rate Paid by the State	Variable Rate Received by the State	Counterparty Credit Rating Moody's/S&P
Counterparty 1	28 Basis Points	4.8%	SIFMA	Aa2/AA
Counterparty 2	28 Basis Points	4.8%	SIFMA	A2/A
Counterparty 3	28 Basis Points	4.8%	SIFMA	Aa1/AA-

Fair value. As of June 30, 2009, the swaptions had fair values of negative $24.6 million (Counterparty 1), negative $13.9 million (Counterparty 2) and negative $9.2 million (Counterparty 3), which were estimated using the mark to market method. This method of valuation was established by market quotations from the counterparties representing estimates of the amounts that would be paid for replacement transactions. These values reflect a decline in interest rates from the prior fiscal year, however, only the State has the option to terminate the swaptions. A replacement transaction would generate net present value savings equal to these fair value amounts.

Market-access risk. A small risk exists that the State, for some unforeseen reason, may be unable to issue the variable rate bonds. If the swaptions are exercised and refunding bonds are not issued, the series 2003 A and B and 2004A bonds would not be refunded, the basis rate swaps would continue, and the State would have to pay a termination payment on the swaptions to the counterparties. Termination values will be based on the net present value difference between SIFMA and 4.8% fixed rate.

G. Debt Service Requirements

The following schedules show the debt service requirements for the primary government (governmental activities) and component units (University of North Carolina System, North Carolina Housing Finance Agency, and the State Education Assistance Authority). The debt service requirements of variable rate debt and net swap payments are based on rates as of June 30, 2009 and assume that current interest rates remain the same for their term. As rates vary, variable-rate bond interest payments and net swap payments will vary.

Annual debt service requirements to maturity for general obligation bonds, special indebtedness, GARVEE bonds, revenue bonds, and notes payable are as follows (dollars in thousands).

Primary Government

	Governmental Activities						
	General Obligation Bonds			Certificates of Participation		Lease-Purchase Revenue Bonds	
Fiscal Year Ending June 30	Principal	Interest	Interest Rate Swaps, Net	Principal	Interest	Principal	Interest
2010	$ 364,385	$ 209,925	$ 14,901	$ 46,985	$ 44,556	$ 10,000	$ 10,615
2011	364,550	191,917	14,901	47,740	42,393	10,000	10,154
2012	365,575	173,578	14,901	48,550	40,092	10,000	9,687
2013	367,510	156,274	14,248	49,395	37,889	10,000	9,220
2014	367,685	141,711	12,669	50,290	35,515	10,000	8,749
2015-2019	1,836,500	494,684	38,208	266,835	139,411	50,000	36,339
2020-2024	1,257,515	205,326	—	284,370	70,832	122,225	15,609
2025-2029	245,545	17,890	—	125,420	12,268	2,820	65
Total	$ 5,169,265	$ 1,591,305	$ 109,828	$ 919,585	$ 422,956	$ 225,045	$ 100,438

	Governmental Activities					
	Limited Obligation Bonds		GARVEE Bonds		Notes Payable	
Fiscal Year Ending June 30	Principal	Interest	Principal	Interest	Principal	Interest
2010	$ 19,295	$ 27,634	$ 38,670	$ 11,465	$ 4,658	$ 858
2011	19,960	26,967	36,245	9,658	3,708	700
2012	20,710	26,219	24,470	7,939	2,318	589
2013	21,565	25,425	25,660	6,753	2,369	508
2014	22,440	24,552	27,025	5,548	2,530	421
2015-2019	128,190	106,705	89,750	13,061	12,080	1,094
2020-2024	161,805	73,726	—	—	—	—
2025-2029	206,035	30,594	—	—	—	—
Total	$ 600,000	$ 341,822	$ 241,820	$ 54,424	$ 27,663	$ 4,170

The general obligation bonds include $355 million of variable rate debt without interest rate swaps. For this debt, the variable interest rates change on a weekly basis and are based on the rate paid by each bank. The banks base their rate on what they perceive to be the market (seven-day) for debt of this type given the credit standing of the unit of government. The general obligation bonds also include $499.87 million of variable rate debt with interest rate swaps (see Note 7E).

Component Units

	University of North Carolina System						
	Revenue Bonds			Certificates of Participation		Notes Payable	
Fiscal Year Ending June 30	Principal	Interest	Interest Rate Swaps, Net	Principal	Interest	Principal	Interest
2010	$ 82,205	$ 90,596	$ 7,402	$ 2,075	$ 1,350	$ 24,969	$ 1,131
2011	83,355	87,686	7,294	2,150	1,270	9,047	506
2012	87,715	84,426	7,190	2,230	1,192	13,354	777
2013	88,585	81,200	7,053	2,335	1,086	895	173
2014	90,145	78,208	6,913	2,420	999	752	143
2015-2019	438,369	343,355	30,394	3,175	4,270	3,253	356
2020-2024	426,005	271,910	18,958	3,910	3,533	—	—
2025-2029	396,330	201,102	4,214	4,870	2,572	—	—
2030-2034	457,320	126,616	—	6,145	1,297	—	—
2035-2039	245,120	15,193	—	1,815	101	—	—
Total	$ 2,395,149	$ 1,380,292	$ 89,418	$ 31,125	$ 17,670	$ 52,270	$ 3,086

	Revenue Bonds				
	North Carolina Housing Finance Agency			State Education Assistance Authority	
Fiscal Year Ending June 30	Principal	Interest	Interest Rate Swaps, Net	Principal	Interest
2010	$ 36,880	$ 73,154	$ 2,277	$ —	$ 79,545
2011	39,395	71,590	2,228	—	79,545
2012	41,260	69,890	2,181	—	79,545
2013	44,410	68,048	2,137	—	79,545
2014	45,835	66,015	2,094	—	79,545
2015-2019	230,140	296,943	9,826	35,712	396,566
2020-2024	207,890	243,996	8,405	300,000	386,682
2025-2029	316,280	183,253	6,130	30,000	384,254
2030-2034	346,115	98,179	2,394	1,975,000	300,646
2035-2039	207,790	27,977	75	1,653,750	15,487
2040-2044	1,790	47	—	—	—
Total	$ 1,517,785	$ 1,199,092	$ 37,747	$ 3,994,462	$ 1,881,360

For revenue bonds of the University of North Carolina System and the State Education Assistance Authority, the fiscal year 2010 principal requirements exclude demand bonds classified as current liabilities (see Note 7D). For revenue bonds of the North Carolina Housing Finance Agency, the fiscal year 2010 principal requirements exclude a bond call on July 1, 2009.

H. Bond Defeasances

The State and its component units have defeased certain bonds through current and/or advance refundings. New debt proceeds from current refundings may be used to repay the old debt immediately while new debt proceeds from advance refundings are placed into an irrevocable trust with an escrow agent to provide for all future debt service payments on the defeased bonds. Since these bonds are considered to be defeased, the liabilities for these bonds have been removed from the government-wide statement of net assets.

Component Units

University of North Carolina System

North Carolina State University

On July 10, 2008, North Carolina State University issued $26.96 million in General Revenue Bonds, Series 2008B with an average interest rate of 3.59%. The refunding component of this bond issue was used for 1) a current refunding of $5.52 million of outstanding University of North Carolina System Pool Revenue Bonds, Series 1998B with an average interest rate of 5% and 2) an advance refunding of $3.16 million of outstanding University of North Carolina System Pool Revenue Bonds, Series 2000 with an average interest rate of 5.35%. Both the current refunding and this advance refunding were undertaken to reduce total debt service payments by $152 thousand over the next 12 years and resulted in an economic gain of $128 thousand. At June 30, 2009, the outstanding balance was $3.16 million for the defeased University of North Carolina System Pool Revenue Bonds.

University of North Carolina Hospitals at Chapel Hill

On February 12, 2009, UNC Hospitals issued $44.29 million in University of North Carolina Hospitals at Chapel Hill Revenue Refunding Bonds Series 2009A with an average interest rate of 3.61%. The bonds were issued to advance refund $43.31 million of outstanding University of North Carolina Hospitals at Chapel Hill Revenue Bonds Series 1999 with an average interest rate of 5.25%. This advance refunding was undertaken to reduce total debt service payments by $4.27 million over the next 15 years and resulted in an economic gain of $3.16 million. At June 30, 2009, the outstanding balance was $43.51 million associated with this advanced refunding for the defeased University of North Carolina Hospitals at Chapel Hill Revenue Bonds, Series 1999 bonds.

State Education Assistance Authority

During the year ended June 30, 2009, the Authority issued $309.86 million in 2008-2 Series Tax-Exempt Guaranteed Student Loan Revenue and Refunding Bonds with an initial interest rate of 1.85%, $105.95 million in 2008-3 Series Tax-Exempt Guaranteed Student Loan Revenue and Refunding Bonds with an initial interest rate of 1.35%, and $159.86 million in 2008-5 Series Tax-Exempt Guaranteed Student Loan Revenue and Refunding Bonds with an initial interest rate of 0.95%. The refunding component of these bond issues was used for a current refunding of $551.86 million of outstanding Tax-Exempt Student Loan Revenue Bonds with an average interest rate of 4.26%. The refunding was undertaken to reduce total debt service payments by $403.72 million over the next 28 years and resulted in an economic gain of $330.93 million.

Prior Year Defeasances

During prior years, the State and certain component units defeased certain general obligation and other bonds. For those defeasances involving advance refundings, the proceeds and any securities purchased with 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. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the government-wide statement of net assets. At June 30, 2009, the outstanding balance of prior year defeased bonds was $372 million for the primary government and $149.07 million for the University of North Carolina System (component unit).

I. Bond Redemptions

The bond series resolutions for the North Carolina Housing Finance Agency provide for various methods of redemption. Bonds are redeemed at par from prepayments of mortgage loans securing the issues, from unexpended bond proceeds of the issues, or from funds released via the related decreases in the respective debt service reserve requirements. Various bond issues are redeemable at the option of the Agency with premiums ranging up to 0.5% for up to 12 years after the date of issue.

J. Pollution Remediation Payable

Primary Government

Governmental Activities

The N.C. Department of Transportation (DOT) has several equipment yards across the state with old underground fuel storage tanks. State law requires leaks from tanks to be assessed for remediation. The Department of Environment and Natural Resources assigns a health risk based score to each incident. Incidents with a site score over a set criteria are identified as high priority sites and are required to be remediated. At year-end, DOT had 36 high priority sites. For sites under the set criteria, cleanup is optional. Currently, DOT is not working on low priority sites.

The N.C. Department of Cultural Resources is responsible for cleaning up hazardous substances at the following two properties, the North Carolina Maritime Museum Harborside Property (Harborside Property) and the Tryon Palace Boatworks Site (Boatworks Site). As a result of a U.S. Environmental Protection Agency Superfund assessment, the Harborside Property has been placed under the jurisdiction of the Inactive Hazardous Sites Branch of the N.C. Department of Environment and Natural Resources (DENR). The N.C.

Department of Cultural Resources has agreed upon a remedial action plan with the Hazardous Sites Branch of DENR to voluntarily clean up the Boatworks Site.

At year-end, the State recognized a pollution remediation liability of $6.688 million, of which $5.71 million was for leaking underground fuel tanks at DOT and $978 thousand was for the two polluted sites at the N.C. Department of Cultural Resources. The liability was measured using the expected cash flow technique. The liability could change over time due to changes in cost of goods and services, changes in remediation technology, or changes in laws and regulations governing the remediation effort.

Business-type Activities

The Department of Agriculture and Consumer Services had electrical transformers reconditioned or repaired at the former Ward Transformers industrial site in Wake County, a Superfund site, and was named by the U.S. Environmental Protection Agency as a responsible party for remediation expenses. The electrical transformers had been used by the N.C. State Fair. Based on an approved settlement, the State recognized a pollution remediation liability of $250 thousand.

Component Units

University of North Carolina System

Fayetteville State University recognized a pollution remediation liability of $83 thousand for the voluntary commencement of asbestos removal at various administrative and academic buildings and underground tank removals at the Facilities Maintenance building. These projects are expected to be completed in fiscal year 2010. The amount of the liability was derived from the estimated costs of the abatements and removals.