

NEW ISSUE

Ratings: See “RATINGS” herein.

This Official Statement has been prepared by the North Carolina Turnpike Authority and the North Carolina Local Government Commission to provide information on the Bonds. Selected information is presented on this cover page for the convenience of the user. To make an informed decision regarding the Bonds, a prospective investor should read this Official Statement in its entirety. Unless indicated, capitalized terms used on this cover page have the meanings given in the Official Statement.

NORTH CAROLINA TURNPIKE AUTHORITY

\$233,920,000

Monroe Connector System

State Appropriation Revenue Bonds,

Series 2010A

(Federally Taxable – Build America Bonds)

Dated: Date of Delivery

Due: as shown on inside front cover

Tax Treatment:

In the opinion of Bond Counsel, interest on the Bonds will be included in gross income of the owners thereof for purposes of federal income taxation but will be exempt from all State of North Carolina income taxes. See “LEGAL MATTERS” and “TAX TREATMENT.”

Redemption:

Certain of the Bonds are subject to optional redemption, mandatory sinking fund redemption and extraordinary optional redemption at the times and at the redemption prices described herein. See “THE BONDS—Redemption Provisions.”

Security:

The Bonds will be special obligations of the Authority, secured by and payable from the Revenues pledged therefor as herein described, under certain circumstances, the proceeds of the Bonds, and a Reserve Fund created for the Bonds and any other Bonds issued under the Trust Agreement. *Neither the credit nor the taxing power of the State of North Carolina (the “State”) or any of the State’s political subdivisions is pledged for the payment of principal of, premium, if any, or interest on the Bonds, and no Owner of the Bonds has the right to compel the exercise of the taxing power of the State or any of the State’s political subdivisions or the forfeiture of any of their respective properties other than the funds pledged therefor in connection with any default on the Bonds.*

Interest Payment Dates:

Interest on the Bonds will be paid on January 1 and July 1, commencing January 1, 2011.

Method of Ownership:

Book-Entry Only

Closing/Settlement:

October 26, 2010

Bond Counsel:

Hunton & Williams LLP, Raleigh, North Carolina

Underwriters’ Counsel:

Bode, Call & Stroupe, L.L.P., Raleigh, North Carolina

Trustee and Paying Agent:

Wells Fargo Bank, N.A., Jacksonville, Florida

The Bonds are offered, when, as and if issued and received by the Underwriters, subject to prior sale, and receipt of the opinion of Bond Counsel as to validity and certain other matters.

BofA Merrill Lynch

Citi

J.P. Morgan

Wells Fargo Securities

BB&T Capital Markets

RBC Capital Markets

Southwest Securities, Inc.

Loop Capital Markets LLC

Siebert Brandford Shank & Co., L.L.C.

Piper Jaffray & Co.

The date of this Official Statement is October 14, 2010.

North Carolina Turnpike Authority

\$233,920,000

Monroe Connector System

**State Appropriation Revenue Bonds, Series 2010A
(Federally Taxable – Build America Bonds)**

Maturity Schedule

\$35,005,000 Serial Bonds

Due January 1	Principal Amount	Interest Rate	Price	CUSIP
2022	\$8,375,000	4.250 %	100.000 %	658308AC5
2023	8,615,000	4.450	100.000	658308AD3
2024	8,870,000	4.600	100.000	658308AE1
2025	9,145,000	4.750	100.000	658308AF8

\$61,920,000 5.318% Term Bonds Due January 1, 2031, Price 100.000%, CUSIP 658308AA9
\$136,995,000 5.418% Term Bonds Due January 1, 2041, Price 100.000%, CUSIP 658308AB7

No dealer, broker, salesman or other person has been authorized to give any information or to make any representation other than those contained in this Official Statement in connection with the offering described herein, and, if given or made, such other information or representation must not be relied upon as having been authorized. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy any securities other than the Bonds offered hereby, nor shall there be any offer or solicitation of such offer or sale of the Bonds in any jurisdiction in which it is unlawful for such person to make such offer, solicitation or sale. Neither the delivery of this Official Statement nor the sale of any of the Bonds implies that the information herein is correct as of any date subsequent to the date thereof.

The information contained herein has been obtained from the Authority and other sources believed to be reliable. The information contained herein is subject to change after the date of this Official Statement, and this Official Statement speaks only as of its date.

The Underwriters have provided the following sentence for inclusion in this Official Statement. The Underwriters have reviewed the information in this Official Statement in accordance with, and as part of, their respective responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriters do not guarantee the accuracy or completeness of such information.

IN CONNECTION WITH THIS OFFERING, THE UNDERWRITERS MAY OVERALLOT OR EFFECT TRANSACTIONS THAT STABILIZE OR MAINTAIN THE MARKET PRICE OF BONDS AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

NORTH CAROLINA TURNPIKE AUTHORITY

AUTHORITY MEMBERS

Eugene A. Conti, Jr.	Chairman
Perry R. Safran	Vice Chairman
Robert D. Teer, Jr.	Secretary/Treasurer
Robert C. Clay	Member
John Collett	Member
James Ferebee	Member
Anthony Fox	Member
E. David Redwine	Member
Alan F. Swanstrom	Member

MANAGEMENT STAFF

David W. Joyner	Executive Director
R. Grady Rankin	Chief Financial Officer
Steven D. DeWitt	Chief Engineer
Reid Simons	Director of Government and Public Affairs

FINANCIAL ADVISOR

Public Financial Management, Inc. – Orlando, Florida

BOND COUNSEL

Hunton & Williams LLP – Raleigh, North Carolina

TRAFFIC CONSULTANT

Wilbur Smith Associates

GENERAL ENGINEERING CONSULTANT

HNTB Corporation

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**State of North Carolina
Department of State Treasurer**

JANET COWELL
Treasurer

*State and Local Government Finance Division
and the Local Government Commission*

T. VANCE HOLLOMAN
Deputy Treasurer

**Official Statement
of the North Carolina Local Government Commission**

Concerning

NORTH CAROLINA TURNPIKE AUTHORITY

\$233,920,000

Monroe Connector System

State Appropriation Revenue Bonds,

Series 2010A

(Federally Taxable – Build America Bonds)

INTRODUCTION

The purpose of this Official Statement, which includes the appendices, is to provide certain information in connection with the issuance by the North Carolina Turnpike Authority (the “Authority”) of \$233,920,000 Monroe Connector System State Appropriation Revenue Bonds, Series 2010A (Federally Taxable – Build America Bonds) (the “Bonds”). The Bonds are issued pursuant to applicable provisions of law, a bond order adopted by the Authority on October 6, 2010 (the “Bond Order”), and a Trust Agreement dated as of October 1, 2010 (the “Trust Agreement” and, together with the Bond Order, the “Authority Documents”), between the Authority and Wells Fargo Bank, N.A., as trustee (the “Trustee”). The Bonds are the first issuance of Bonds by the Authority under the Trust Agreement.

This introduction provides certain limited information to serve as a guide to the Official Statement and is expressly qualified by the Official Statement as a whole. Investors should make a full review of the entire Official Statement and the documents summarized or described herein.

For the definition of certain terms used herein and a summary of certain provisions of the Trust Agreement, see Appendix C hereto. Capitalized terms used herein and not otherwise defined have the meanings given such terms in the Trust Agreement unless otherwise indicated.

Authorization. The Authority was created under The Public Toll Roads and Bridges Act, Article 6H of Chapter 136 of the North Carolina General Statutes, as amended (the “Authority Act”). In July, 2009, the North Carolina General Assembly transferred the Authority to the North Carolina Department of Transportation (the “NCDOT”) in Session Law 2009-343 and the Authority is now a part of the NCDOT. See “THE AUTHORITY” herein. The Bonds are issued under the Authority Act and The State and Local

Government Revenue Bond Act, Article 5 of Chapter 159 of the General Statutes of North Carolina, as amended (the “Revenue Bond Act”), and the Authority Documents.

Security. The Bonds will be special obligations of the Authority, secured by and payable from the Revenues and, under certain circumstances, the proceeds of the Bonds. “Revenues” consist of an annual appropriation of \$24,000,000 to the Authority by the State of North Carolina (the “State”) from the North Carolina Highway Trust Fund, a special fund of the State created for the purpose of funding highway construction (the “State Appropriated Revenues”), the Interest Subsidy Payments received from the United States Department of the Treasury with respect to the Bonds under the “Build America Bond” program, and the investment income realized from the investment of amounts held under the Trust Agreement. Additionally, the Bonds will be secured by a Reserve Fund created for the Bonds and by certain other funds, accounts and subaccounts held by the Trustee under the Trust Agreement. See “SECURITY AND SOURCES OF PAYMENT FOR THE BONDS” herein.

Purpose and Plan of Finance. The Bonds are being issued for the purpose of providing funds, together with other available funds, (a) to pay the costs of land acquisition, design, construction and equipping of the Monroe Connector System, a 19.7 mile toll roadway facility to be built in Mecklenburg and Union Counties, North Carolina (the “Monroe Connector System”), (b) to provide funds to pay a portion of the interest on the Bonds until July 1, 2014, (c) to fund the Reserve Fund for the Bonds, and (d) to pay the costs incurred in connection with the issuance of the Bonds. Additional bonds secured in parity with the Bonds (the “Additional Appropriation Bonds”) are expected to be issued in a principal amount that, with the Bonds, will aggregate to approximately \$500,000,000.

Costs of the Monroe Connector System, as now estimated, will be financed with:

- proceeds of the Bonds,
- proceeds of the Additional Appropriation Bonds (estimated to be in a principal amount that, with the Bonds, will aggregate to approximately \$500,000,000 and issued in December 2010),
- proceeds of the Authority’s Monroe Connector System Senior Lien Revenue Bonds (the “Senior Revenue Bonds”), and its Monroe Connector System Subordinated Lien Revenue Bonds, (the “Subordinated Revenue Bonds” and, together with the Senior Revenue Bonds, the “General Revenue Bonds”), payable from toll and other revenues related to the Monroe Connector System, with the General Revenue Bonds estimated to be an aggregate principal amount not to exceed \$625,000,000 and also issued in December 2010,
- up to \$115,000,000 in funds from NCDOT for this purpose, consisting of certain previously designated funds of approximately \$77,000,000 and a loan (payable from toll and other revenues on a priority subordinate to both the Senior Revenue Bonds and Subordinate Revenue Bonds) in an amount estimated not to exceed \$38,000,000, and

- interest earnings on proceeds of the Bonds, the Additional Appropriation Bonds and the General Revenue Bonds.

In addition, certain design and engineering costs, development costs, right-of-way and roadway which will comprise a portion of the Monroe Connector System and environmental mitigation costs are being provided to the Authority by the NCDOT. The General Revenue Bonds will be issued under a separate Trust Agreement (the “General Revenue Bond Trust Agreement”), between the Authority and Wells Fargo Bank, N.A., as trustee (in such capacity, the “Revenue Bond Trustee”).

The Authority. See “THE AUTHORITY” herein for certain information regarding the Authority.

State of North Carolina. Appendix A hereto includes certain information regarding the State that was prepared for inclusion in the Official Statement of the State used in connection with a recent offering of General Obligation Bonds of the State. See “STATE OF NORTH CAROLINA” for certain additional information that supplements the information set forth in Appendix A. The Comprehensive Annual Financial Report for the State of North Carolina for the fiscal year ended June 30, 2009 (the “CAFR”), including the State’s basic financial statements for such fiscal year, is available at the website of the Office of the State Controller at www.osc.nc.gov and printed copies of the CAFR may be obtained from the Office of the State Controller at 3512 Bush Street; Raleigh, NC 27609. The CAFR is hereby incorporated by reference in this Official Statement. Appendix B hereto contains Note 25 – “Events Subsequent to the Issuance of the Original Independent Auditor’s Report” (dated September 15, 2010) from the State’s most recent presentation of the June 30, 2009 financial statements. See “STATE OF NORTH CAROLINA” herein.

Designation of Bonds as “Build America Bonds.” The Authority intends to elect to treat the Bonds as “Build America Bonds” for purposes of the American Recovery and Reinvestment Tax Act of 2009 (the “Recovery Act”) and the provisions of the Internal Revenue Code of 1986, as amended (the “Code”) enacted by the Recovery Act and to receive a cash subsidy from the United States Treasury in connection therewith. Pursuant to the Recovery Act and the Code, the Authority will receive Interest Subsidy Payments from the United States Treasury equal to 35% of the interest payable on the Bonds.

Details of Bonds. The Bonds will be dated the date of delivery thereof. Interest on the Bonds will be payable on January 1 and July 1, beginning January 1, 2011, at the rates shown on the inside front cover. Principal of the Bonds will be payable, subject to prior redemption as described herein for certain of the Bonds, on January 1 in the years and amounts shown on the inside front cover.

The Bonds will be issued as fully registered bonds in book-entry-only form, without physical delivery of bond certificates to the beneficial owners of the Bonds. The Bond Registrar will make payment of principal of and interest on the Bonds to The Depository Trust Company, New York, New York (“DTC”), which will in turn remit such payment to its participants for subsequent distribution to the beneficial owners of the Bonds. Individual purchases of the Bonds by the beneficial owners will be made in denominations of \$5,000 or whole multiples thereof. See Appendix E hereto for more information regarding DTC and the book-entry only system.

Tax Status. In the opinion of Bond Counsel, interest on the Bonds will be included in gross income of the owners thereof for purposes of federal income taxation but will be exempt from all State of North Carolina income taxes. See “TAX TREATMENT” herein.

Professionals. The Underwriters set forth on the cover page of this Official Statement (the “Underwriters”), are underwriting the Bonds. Hunton & Williams LLP, Raleigh North Carolina, is serving as Bond Counsel and as Disclosure Counsel to the Authority. Bode, Call and Stroupe, L.L.P., Raleigh, North Carolina, is serving as counsel to the Underwriters. Ebony Pittman, Esq., an Assistant Attorney General for the State, and Katherine R. White, Esq. General Counsel to NCDOT, both of Raleigh, North Carolina, are acting as counsel to the Authority and the NCDOT respectively. Wells Fargo Bank, N.A., Jacksonville, Florida, is serving as the Trustee and Bond Registrar. Public Financial Management, Inc., Orlando, Florida, is acting as financial advisor to the Authority in connection with the issuance of the Bonds.

THE AUTHORITY

The Authority was created pursuant to the Authority Act and empowered to design, establish, purchase, construct, operate and maintain the turnpike projects within the State specifically authorized by the North Carolina General Assembly. In July 2009, the Authority became a part of the NCDOT, a public agency of the State. The Secretary of NCDOT has delegated to the Authority Board the power to fix, revise, charge and collect tolls and fees for the use of turnpike projects including the Monroe Connector System, to issue bonds and notes for such projects and to invest the proceeds of such bonds and notes.

The nine member Authority Board consists of four members appointed by the General Assembly of North Carolina (two members appointed by the President Pro-Tempore of the Senate and two members appointed by the Speaker of the House of Representatives), four members appointed by the Governor of the State, and the North Carolina Secretary of Transportation. Eugene A. Conti, Jr., the North Carolina Secretary of Transportation, serves as the Chair of the Authority Board. The Authority Board appoints the Executive Director of the Authority, who is the Chief Administrative Officer of the Authority, responsible for the daily administration of the toll projects undertaken by the Authority.

The Authority Act identifies five toll projects for development by the Authority. These five projects are:

- The Monroe Connector System. See “PROJECT AND PLAN OF FINANCE” herein.
- The Triangle Expressway System. This is a new 18.8 mile road system in Wake and Durham Counties from NC 55 Bypass near Holly Springs to Interstate 40 at NC 147. In July 2009, the Authority issued its \$270,083,108.85 Triangle Expressway System Senior Lien Revenue Bonds, Series 2009A and 2009B secured by toll and other revenues of the Triangle Expressway System and its \$352,675,000 Triangle Expressway System State Appropriation Revenue Bonds, Series 2009B (Federally Taxable-Issuer Subsidy-Build America Bonds) secured by an annual appropriation from the

State of \$ 25 million. The Authority expects to open the first phase of the Triangle Expressway System in December, 2011.

- The Garden Parkway. This is a 21.9 mile roadway to be from Interstate 85 west of Gastonia in Gaston County to Interstate 485 and NC 160 near the Charlotte Douglas International Airport in Mecklenburg County. The Authority expects to open this project to traffic in 2015.
- The Mid-Currituck Bridge. This is a new bridge and related roadway over Currituck Sound from the mainland portion of Currituck County in Northeastern North Carolina to the Outer Banks. The Authority expects to open this project to traffic in late 2014.
- The Cape Fear Skyway. This is an approximately 9.5 mile roadway south of Wilmington, North Carolina with a bridge over the Cape Fear River from US 17 Bypass to US 421. The Authority expects to complete its financial feasibility assessment for this project in 2013.

The Triangle Expressway System bonds issued in 2009 are not secured by any toll or other revenues related to the Monroe Connector System or the State Appropriated Revenues. The Bonds will not be secured by any revenues related to the Triangle Expressway System or any other turnpike projects of the Authority. It is anticipated that each of such projects will be financed separately without any sharing of toll or other related revenues.

To the extent NCDOT has obligations with respect to the Monroe Connector System, such agreements are incorporated in the General Revenue Bond Trust Agreement which will be executed by the Chairman of the Authority Board both in that capacity and as Secretary of NCDOT.

STATE OF NORTH CAROLINA

General

Appendix A hereto includes certain information regarding the State that was prepared for inclusion in the Official Statement, dated September 28, 2010, of the State used in connection with a recent offering of \$302,150,000 General Obligation Refunding Bonds, Series 2010C of the State (the "Recent State Bonds"). References within Appendix A to "Appendix B", the "2010C Bonds" and "the Official Statement" are to such items within the context of the Official Statement for the Recent State Bonds. Additionally the paragraphs in Appendix A referencing the Authority use terms which are different from those defined herein.

The Comprehensive Annual Financial Report for the State of North Carolina for the fiscal year ended June 30, 2009 (the "CAFR"), including the State's basic financial statements for such fiscal year, is available at the website of the Office of the State Controller at www.osc.nc.gov and printed copies of the CAFR may be obtained from the Office of the State Controller at 3512 Bush Street; Raleigh, NC 27609. The CAFR is hereby incorporated by reference in this Official Statement. The financial report published with

the Recent State Bonds had an updated Note 25 – “Events Subsequent to the Issuance of the Original Independent Auditor’s Report” to the financial statements in the CAFR dealing with events since the financial statements were dated. Note 25 is not in the CAFR on the website, but a copy thereof is attached as Appendix B hereto. Neither the Office of the State Controller nor the Office of the State Auditor has made any representation that there have been no further subsequent material events since the date of such Note 25 (September 15, 2010). In addition, such Note 25 does not reflect the issuance of the Recent State Bonds, which would be listed in any further update of Note 25.

See “SECURITY AND SOURCES OF PAYMENT FOR THE BONDS – State Appropriated Revenues” and Appendix A -”BUDGETS” for more financial information concerning the State since June 30, 2009.

THE BONDS

Authorization

The issuance of the Bonds received the required approval of the North Carolina Local Government Commission (the “LGC”) on October 5, 2010. The LGC is a division of the State Treasurer’s office charged with general oversight of local government finance in North Carolina, as well as certain matters of finance by selected State Agencies. Its approval is required for the issuance of the Bonds by the Authority. In determining whether to allow bonds to be issued under the Revenue Bond Act, the LGC has been given wide statutory discretion to consider the need for and feasibility of the projects to be financed, the issuing unit’s capability to repay the amount financed from the pledged revenue sources and the issuer’s general compliance with State budget and finance laws. Under the Revenue Bond Act, the LGC is also responsible, with the Authority’s approval, for selling bonds issued pursuant to the Revenue Bond Act.

General

The Bonds will be dated the date of delivery thereof, will bear interest from their date payable on each January 1 and July 1, beginning January 1, 2011, at the rates shown on the inside front cover and will mature, subject to prior redemption as described below for certain Bonds, on January 1 in the years and amounts shown on the inside front cover. The Bonds will be issued as fully registered bonds and will be subject to the provisions of the book-entry-only system described below. Individual purchases of the Bonds by the beneficial owners will be made in denominations of \$5,000 or whole multiples thereof.

Book-Entry Only

The Bonds will be issued as fully registered bonds in book-entry only form without physical delivery of bonds to the beneficial owners of the Bonds. The Trustee will make payments of principal of and interest on the Bonds to DTC, which will in turn remit such payments to DTC participants for subsequent distribution to the beneficial owners of the Bonds. See Appendix E hereto for more information regarding DTC and the book-entry only system.

Redemption Provisions

“Make-Whole” Redemption of the Bonds. The Bonds are subject to redemption prior to their respective maturities at the option of the Authority, in whole or in part, on any Business Day, at the “Make-Whole Redemption Price” (as defined below). The Make-Whole Redemption Price is the greater of (i) 100% of the principal amount of the Bonds to be redeemed and (ii) the sum of the present value of the remaining scheduled payments of principal and interest on the Bonds to be redeemed, not including any portion of those payments of interest accrued and unpaid as of the date on which the Bonds are to be redeemed, discounted to the date on which the Bonds are to be redeemed on a semiannual basis, assuming a 360-day year consisting of twelve 30-day months, at the “Treasury Rate” (defined below) plus twenty-five basis points (0.25%), plus, in each case, accrued and unpaid interest on the Bonds to be redeemed on the redemption date.

Extraordinary Optional Redemption of the Bonds. The Bonds are subject to redemption at any time prior to their maturity at the option of the Authority, in whole or in part, upon the occurrence of an Extraordinary Event, at a redemption price (the “Extraordinary Optional Redemption Price”) equal to the greater of (i) 100% of the principal amount of the Bonds to be redeemed; or (ii) the sum of the present value of the remaining scheduled payments of principal and interest on the Bonds to be redeemed, not including any portion of those payments of interest accrued and unpaid as of the date on which the Bonds are to be redeemed, discounted to the date on which the Bonds are to be redeemed on a semiannual basis, assuming a 360-day year consisting of twelve 30-day months, at the Treasury Rate, plus one hundred basis points (1.00%); plus, in each case, accrued interest on the Bonds to be redeemed to the redemption date.

For purpose of determining the Make-Whole Redemption Price and Extraordinary Redemption Price, the following definitions apply:

“Treasury Rate” means, with respect to any redemption date for a particular Bond, the rate per annum, expressed as a percentage of the principal amount, equal to the semiannual equivalent yield to maturity or interpolated maturity of the Comparable Treasury Issue, assuming that the Comparable Treasury Issue is purchased on the redemption date for a price equal to the Comparable Treasury Price, as calculated by the Designated Investment Banker.

“Comparable Treasury Issue” means, with respect to any redemption date for a particular Bond, the United States Treasury security or securities selected by the Designated Investment Banker which has an actual or interpolated maturity comparable to the remaining average life of the Bond to be redeemed, and that would be utilized in accordance with customary financial practice in pricing new issues of debt securities of comparable maturity to the remaining average life of the Bonds to be redeemed.

“Comparable Treasury Price” means, with respect to any redemption date for a particular Bond, (i) if the Designated Investment Banker receives at least four Reference Treasury Dealer Quotations, the average of such quotations for such redemption date, after excluding the highest and lowest Reference Treasury Dealer Quotations, or (ii) if the Designated Investment Banker obtains fewer than four Reference Treasury Dealer Quotations, the average of all such quotations.

“Designated Investment Banker” means one of the Reference Treasury Dealers appointed by the Authority.

“Reference Treasury Dealer” means each of the four firms, specified by the Authority from time to time, that are primary United States Government securities dealers in the City of New York (each a “Primary Treasury Dealer”); provided, however, that if any of them ceases to be a Primary Treasury Dealer, the Authority will substitute another Primary Treasury Dealer.

“Reference Treasury Dealer Quotations” means, with respect to each Reference Treasury Dealer and any redemption date for a particular Bond, the average, as determined by the Designated Investment Banker, of the bid and asked prices for the Comparable Treasury Issue (expressed in each case as a percentage of its principal amount) quoted in writing to the Designated Investment Banker by such Reference Treasury Dealer at 3:30 P.M., New York City time, on the third Business Day preceding such redemption date.

An “Extraordinary Event” will have occurred if a material adverse change has occurred to Section 54AA or 6431 of the Code (as such Sections were added by Section 1531 of the Recovery Act, pertaining to “Build America Bonds”) pursuant to which the Authority’s 35% Interest Subsidy Payments from the United States Treasury are reduced or eliminated. At the request of the Trustee, the redemption price of the Bonds to be redeemed at the option of the Authority will be determined by an independent accounting firm, investment banking firm or financial advisor retained by the Authority at the Authority’s expense to calculate such redemption price. The Trustee and the Authority may conclusively rely on the determination of such redemption price by such independent accounting firm, investment banking firm or financial advisor and will not be liable for such reliance.

Mandatory Sinking Fund Redemption. The Bonds maturing on January 1, 2031, are subject to mandatory sinking fund redemption, by lot and in such manner as the Trustee may determine, at a price equal to 100% of the principal amount of Bonds to be redeemed, plus accrued interest to the redemption date, on January 1 in the years and in the principal amounts as follows:

Year	Amount
2026	\$9,450,000
2027	9,780,000
2028	10,125,000
2029	10,480,000
2030	10,850,000
2031 *	11,235,000

* Final Maturity

The Bonds maturing on January 1, 2041, are subject to mandatory sinking fund redemption, by lot and in such manner as the Trustee may determine, at a price equal to

100% of the principal amount of Bonds to be redeemed, plus accrued interest to the redemption date, on January 1 in the years and in the principal amounts as follows:

Year	Amount
2032	\$11,630,000
2033	12,050,000
2034	12,480,000
2035	12,930,000
2036	13,390,000
2037	13,870,000
2038	14,370,000
2039	14,885,000
2040	15,420,000
2041 *	15,970,000

* Final Maturity

Other General Redemption Provisions. At least 30 days, but not more than 60 days, prior to a redemption date for Bonds, whether such redemption be in whole or in part, the Bond Registrar will cause a notice of redemption to be mailed first-class, postage prepaid, to all Owners of Bonds to be redeemed in whole or in part; provided, however, that notices to DTC will be sent by registered or certified mail or by other electronic means as may be required by the operation procedures of DTC. Failure to mail any such notice to any Owner or any defect in such notice will not affect the validity of any proceedings for such redemption as to any other Owner to whom such notice is properly given. The Bond Registrar will also cause such notice of redemption to be mailed, by registered or certified mail, to one securities depository and at least two national information services that disseminate redemption information; provided, however, that failure to give such notice or any defect therein will not affect the validity of any proceedings for such redemption.

The Bonds shall be redeemed only in whole multiples of \$5,000. If less than all the Bonds are called for redemption, the maturities or portions of maturities of Bonds to be so redeemed shall be as determined by the Authority. If less than all of the Bonds of any one maturity are to be called for redemption, and the Bonds are not held in book-entry only form, the Bond Registrar shall effect the redemption of the Bonds of such maturity on a pro-rata basis among registered owners, subject to \$5,000 minimum denomination requirements, using such method as the Trustee shall deem fair and appropriate. If the Bonds are held in book-entry only form, and less than all of the Bonds of any one maturity are to be called for redemption, the particular Bonds or portions thereof to be redeemed shall be selected on a “Pro Rata Pass-Through Distribution of Principal” basis in accordance with the procedures of DTC, provided that the selection for redemption of such Bonds shall be made in accordance with the operational arrangements of DTC then in effect providing for adjustment of the principal by a factor provided by the Trustee pursuant to such operational arrangements. If the Trustee does not provide the necessary information and identify the redemption as being on a “Pro Rata Pass-Through Distribution of Principal” basis, the Bonds will be selected for redemption in accordance with the procedures of the DTC by lot. If a portion of a Bond not in book-entry form is called for redemption, a new

Bond in principal amount equal to the unredeemed portion thereof will be issued to the Owner upon surrender thereof.

It is the Authority's intent that redemption allocations made by DTC, the DTC Participants or such other intermediaries that may exist between the Authority and the Beneficial Owners be made on a "Pro Rata Pass-Through Distribution of Principal" basis as described above. However, the Authority can provide no assurance that DTC, the DTC Participants or any other intermediaries will allocate redemptions among Beneficial Owners on such basis. If the DTC operational arrangements do not allow for the redemption of the Bonds on a Pro Rata Pass-Through Distribution of Principal basis as discussed above, then the Bonds will be selected for redemption in accordance with DTC procedures by lot.

Upon giving notice and depositing funds or securities with the Trustee or the Bond Registrar as provided in the Trust Agreement, the Bonds or portions thereof so called for redemption shall become due and payable on the redemption date, and interest on such Bonds or portions thereof shall cease to accrue from and after such date.

Any notice of optional redemption may state that the redemption to be effected is conditioned upon the receipt by the Trustee or Bond Registrar on or prior to the redemption date of moneys sufficient to pay the principal of and premium, if any, and interest on the Bonds to be redeemed and that if such moneys are not so received such notice shall be of no force or effect and such Bonds shall not be required to be redeemed. In the event that such notice contains such a condition and moneys sufficient to pay the principal of and premium, if any, and interest on such Bonds are not received by the Trustee or Bond Registrar on or prior to the redemption date, the redemption will not be made and the Bond Registrar will within a reasonable time thereafter give notice, in the manner in which the notice of redemption was given, that such moneys were not so received.

PROJECT AND PLAN OF FINANCE

Monroe Connector System

The Monroe Connector System will consist of an approximately 19.7 mile roadway extending from US Highway 74 at Interstate 485 in eastern Mecklenburg County, North Carolina, near the Town of Matthews to US Highway 74 near the Town of Marshville in Union County, North Carolina. The roadway will be an alternative and time-saving route for persons now taking US Highway 74 through the Town of Monroe, North Carolina and several other communities.

Plan of Finance

Costs of the Monroe Connector System are expected to be financed with the proceeds of the Bonds, proceeds of Additional Appropriation Bonds, proceeds of the General Revenue Bonds, approximately \$77 million in funds from NCDOT, possibly a loan from NCDOT in an amount up to \$38 million and interest earnings on proceeds of the Bonds, Additional Appropriation Bonds and the General Revenue Bonds. In addition, certain design and engineering costs, development costs, right-of-way and roadway which will comprise a

portion of the Monroe Connector System and environmental mitigation costs are being provided to the Authority by NCDOT.

The General Revenue Bonds will be secured by the tolls and other revenues of the Monroe Connector System as provided in the General Revenue Bond Trust Agreement.

The Bonds are secured solely by the Revenues as herein described and certain funds provided in the Trust Agreement as described herein. **The Bonds will not be secured by the tolls or other revenues of the Monroe Connector System, any lien on or security interest in any portion of the Monroe Connector System or other turnpike project of the Authority, or any funds held under the General Revenue Bond Trust Agreement.** Under the plan of finance, principal of and interest on the Bonds and Additional Appropriation Bonds will be paid from the Revenues and certain investment earnings thereon. Revenues not needed in any fiscal year to make such payments will be withdrawn from the Trust Agreement and deposited to the Revenue Fund under the General Revenue Bond Trust Agreement. Upon such withdrawal from the Trust Agreement, the amounts so transferred shall be transferred free and clear of the lien on and pledge of the Revenues created under the Trust Agreement and such lien and pledge shall thereafter be of no force and effect upon the deposit of such amounts in the Revenue Fund under the General Revenue Bond Trust Agreement.

In certain events, proceeds of the Bonds may be used for a different turnpike project of the Authority if there are State Appropriated Revenues associated with such other project sufficient to pay debt service related to the Bonds, or portion thereof relating to such proceeds. See “Acquisition, Construction and Equipping of the Project” in “General Covenants” in Appendix C.

ESTIMATED SOURCES AND USES OF FUNDS

Sources of Funds

Principal Amount of Bonds	\$233,920,000.00
Total Sources of Funds	<u>\$233,920,000.00</u>

Uses of Funds

Project Costs	\$198,793,928.92
Capitalized Interest ⁽¹⁾	29,081,082.53
Reserve Fund for Bonds	4,303,952.52
Costs of Issuance ⁽²⁾	<u>1,741,036.03</u>
Total Uses of Funds	<u>\$233,920,000.00</u>

(1) An additional \$15,709,799.19 from STIP funds is being deposited into the Debt Service Fund for interest on the Bonds.

(2) Includes underwriters’ discount, initial fees and expenses of the Trustee and rating agency, legal, accounting and other fees and expenses of issuance.

SECURITY AND SOURCES OF PAYMENT FOR THE BONDS

General

The Bonds will be special obligations of the Authority, secured by and payable from the Revenues and, under certain circumstances, the proceeds of the Bonds.

The Trust Agreement provides that the “Revenues” will consist of (a) the State Appropriated Revenues; (b) the Interest Subsidy Payments; and (c) the investment income realized on, and the income and gains realized upon the maturity or sale of, securities held by or on behalf of the Authority in the Revenue Fund, the Debt Service Fund or the Reserve Fund. The Revenues are pledged to the payment of the Bonds and any Additional Appropriation Bonds to the extent and in the manner provided by the Trust Agreement. The Revenue Bond Act provides that the funds so pledged and then held or thereafter received by the Authority shall immediately be subject to the lien of the pledge without any physical delivery thereof or further act, and the lien of the pledge shall be valid and binding as against all parties having claims of any kind in tort, contract, or otherwise against the Authority, without regard to whether such parties have notice thereof.

The principal of and interest on the Bonds shall not be payable from the general funds of the Authority or any funds of NCDOT nor shall they constitute a legal or equitable pledge, charge, lien, or encumbrance upon any of the Authority’s property or upon any of its income, receipts, or revenues, except the funds which are pledged under the Authority Documents. Neither the credit nor the taxing power of the State or any instrumentality thereof are pledged for the payment of the principal or interest of the Bonds, and no Owner of Bonds has the right to compel the exercise of the taxing power by the State or any instrumentality thereof or the forfeiture of any of its property other than Revenues and other funds pledged under the Trust Agreement in connection with any default thereon.

State Appropriated Revenues

The General Assembly of North Carolina has enacted legislation, now in North Carolina General Statutes Section 136-176, that creates a continuing annual appropriation to the Authority of \$24,000,000 designated for the Monroe Connector System. Amounts so appropriated may be used by the Authority to pay debt service or related financing costs and expenses on revenue bonds or notes issued by the Authority to finance the costs of the Monroe Connector System or to fund debt service reserves, operating reserves, and similar reserves in connection therewith. The annual appropriation for the Monroe Connector System, beginning with the annual appropriation for the Authority’s fiscal year ending June 30, 2011, is defined in the Trust Agreement and herein as the “State Appropriated Revenues.” Pursuant to the Trust Agreement the Authority has provided that the State Appropriated Revenues and Interest Subsidy Payments and any investment income realized therefrom shall constitute “Revenues” under the Trust Agreement.

The relevant statutes state that it is the intention of the General Assembly that the enactment of the annual appropriation and the issuance of bonds or

notes by the Authority in reliance thereon shall not in any manner constitute a pledge of the faith and credit and taxing power of the State of North Carolina, and nothing contained therein shall prohibit the General Assembly from amending the appropriations to decrease or eliminate the amount annually appropriated to the Authority. Thus, the legislation creating the State Appropriated Revenues may be amended or repealed by the General Assembly of North Carolina in any future budget year. To the extent the appropriation legislation is not so repealed or amended, however, the amounts received by the Authority pursuant to the appropriation are pledged to secure the obligations of the Authority under the Trust Agreement.

The legislation providing for the annual appropriation provides that the appropriation is to be made to the Authority as a transfer from the North Carolina Highway Trust Fund. **THE HIGHWAY TRUST FUND IS NOT PLEDGED AS SECURITY FOR THE BONDS.** The North Carolina Highway Trust Fund is a separate fund of the State, separate from the State's General Fund and the State's Highway Fund. The North Carolina Highway Trust Fund was created by the General Assembly in 1989. Revenues for the Highway Trust Fund generally come from the following sources:

Motor Fuels Tax – 25% of net motor fuels tax is deposited in the Highway Trust Fund. The tax on motor fuels is 17.5¢ per gallon plus the greater of 3.5¢ per gallon or 7% of the average wholesale price determined semiannually by the Secretary of Revenue and stated as cents per gallon. In the 2009 Session of the North Carolina General Assembly, a floor was established so that the variable component of the motor fuels tax cannot go below the rate of 12.4¢ per gallon. The current tax rate, based on the average wholesale price for the six months ending July 1, 2010, is 31.9¢ per gallon. Refunds or exemptions are granted to the federal government, State and local governments and selected non-profit organizations. In addition, a ¼ cents per gallon inspection tax is levied to pay the cost of certain environmental cleanup programs and is deposited in the Highway Trust Fund.

Highway Use Tax – For the privilege of using the highways, a tax of 3% is levied on the retail value of motor vehicles when purchased or titled in North Carolina. Collections, along with the 3% portion of the tax on gross receipts from motor vehicle rentals described under “REVENUE STRUCTURE – General Fund – *Tax Revenue-Gross Receipts Tax on Motor Vehicle Rentals and Highway Use Tax on Motor Vehicle Sales*” in Appendix A are deposited in the Highway Trust Fund.

Motor Vehicle fees – The Highway Trust Fund receives revenues generated from the certificate of title fee and other fees payable for a registration card or plate for a motor vehicle.

Non-Tax Revenue and Other Revenue – Other sources are interest on the investment of Highway Trust Fund moneys, participation by local governments or grants, damage claim reimbursements and other miscellaneous revenues.

See “REVENUE STRUCTURE – Highway Fund and Highway Trust Fund” in Appendix A.

The following table shows the amount of tax revenue and non-tax revenue received in the Highway Trust Fund in fiscal years 2000-2001 through 2009-2010 and the annual percent increases for each of such fiscal years:

**Highway Trust Fund
Tax and Non-Tax Revenue
(Expressed in Millions)**

Fiscal Year	Motor Fuel Taxes	Highway Use Tax	Motor Vehicle Fees	Non-tax Revenues & Other	Total	Percent Increase (Decrease)
2000-01	\$ 289.8	\$ 545.2	\$ 90.9	\$ 72.4	\$ 998.3	--
2001-02	297.0	555.3	91.0	44.2	987.4	(1.1)%
2002-03	281.3	552.8	91.1	17.1	942.3	(4.6)
2003-04	310.8	578.3	94.1	13.1	996.2	5.7
2004-05	324.3	580.1	99.2	16.2	1,019.8	2.4
2005-06	372.1	577.2	106.3	9.3	1,065.0	4.4
2006-07	393.7	607.5	109.4	19.4	1,129.9	6.1
2007-08	387.8	566.1	103.9	12.6	1,070.4	(5.3)
2008-09	378.9	440.7	86.2	6.1	912.0	(14.8)
2009-10*	382.7	439.5	86.0	6.8	915.0	.3

Sources: Office of the State Controller and the State's Comprehensive Annual Financial Reports (GAAP basis).

*Unaudited.

The amount of the transfer by the General Assembly to the General Fund from the Highway Trust Fund is shown below for fiscal years 2000-2001 through 2009-2010:

Fiscal Year	Transfer to General Fund From Highway Trust Fund (Expressed in Millions)
2000-01	\$170.0 ¹
2001-02	251.7 ²
2002-03	377.4 ³
2003-04	252.4
2004-05	242.5 ⁴
2005-06	252.6
2006-07	57.5 ⁵
2007-08	172.5
2008-09	147.5 ⁶
2009-10	108.6 ⁷

¹ This amount was transferred in each of the fiscal years 1991-1992 through 2000-2001.

² In 2001-02 the General Assembly (a) added \$80 million annually to the prior number and (b) instituted an inflation factor.

³ The increase reflects an additional transfer to the General Fund from the Highway Trust Fund of \$125 million, with such amount treated as a loan.

⁴ The decrease reflects a partial reimbursement from the General Fund to the Highway Trust Fund of approximately \$10 million with respect to the \$125 million loan in 2002-03.

⁵ The decrease reflects a final reimbursement from the General Fund to the Highway Trust Fund of \$115 million (the remaining amount of the \$125 million loan in 2002-03), as well as a reduction of \$80 million in the transfer to the General Fund from the Highway Trust Fund, ending that additional amount instituted in 2001-02.

⁶ Amount reflects reduction in transfer to the General Fund and the transfer of \$25 million to the Authority for its Triangle Expressway System.

⁷ Amount reflects reduction in transfer to the General Fund, transfer of \$40 million to the Authority (\$25 million for its Triangle Expressway System and \$15 million for its Mid-Currituck Bridge Project) and a transfer of \$24 million to the NC Mobility Fund (so designated in part as a result of no funds being encumbered or committed for Monroe Connector System prior to fiscal year end).

The 2010-2011 State budget is currently funded in part with \$1.3 billion of funding that will expire July 1, 2011 (\$1.1 billion of which is derived from temporary taxes), \$1.6 billion in non-recurring federal American Recovery and Reinvestment Act funds and \$0.3 billion in non-recurring budget cuts. That budget includes a transfer of \$84 million from the Highway Trust Fund to the Authority (\$24 million for the Monroe Connector System, \$25 million for the Triangle Expressway System, \$15 million for the Mid-Currituck Bridge Project and \$20 million for the Gaston Parkway System) and an additional \$15 million for the NC Mobility Fund, resulting in a budgeted 2010-2011 transfer to the General Fund of \$72.9 million. If the predicted revenues do not materialize or unexpected expenses arise, the State may have to take action to maintain a balanced budget for 2010-2011.

It has been reported the State's budget gap for fiscal year 2011-2012 is approximately \$3.5 billion. The impact of any 2010-2011 budget changes or funding differences for 2011-2012 on the Highway Trust Fund cannot be predicted at this time. NCDOT will include the \$24,000,000 Monroe Connector appropriation in the budget it submits to the Governor for fiscal year 2011-2012 and succeeding years.

While the Bonds will be payable primarily from the State Appropriated Revenues as described in this Official Statement, the Bonds are bonds of the Authority and are not bonds of the State. The Authority will be responsible for the collection of the State Appropriated Revenues from the State and the deposit of such amounts with the Trustee upon collection, and for oversight of the application of the State Appropriated Revenues for the purposes set forth in the Trust Agreement. The Department of State Treasurer of the State, which traditionally has had responsibility for the administration of bond issues and other financings by the State, will not be responsible for the administration of the Trust Agreement and the Bonds.

Interest Subsidy Payments

In the Recovery Act, Congress added Sections 54AA and 6431 to the Code. These provisions permit state or local governments to obtain certain tax advantages when bonds are issued to as "Build America Bonds." A Build America Bond is a qualified bond under Section 54AA(g) of the Code if it meets certain requirements of the Code and the related Treasury Regulations and the issuer has made an irrevocable election to have the special

rule for qualified bonds apply. Interest on Build America Bonds is not excluded from gross income for purposes of the federal income taxation, and owners of Build America Bonds will not receive any tax credits as a result of ownership of such Build America Bonds when an issuer has elected to receive the Interest Subsidy Payment.

Under the Code, an issuer of a Build America Bond may apply to receive payments (“Interest Subsidy Payments”) directly from the Secretary of the United States Treasury. The amount of an Interest Subsidy Payment is set in the Code at 35% of the corresponding interest payable on the related Build America Bond. To receive a Interest Subsidy Payment, under currently existing procedures, the issuer of the Build American Bond must file a tax return prior to the corresponding bond interest payment date, with such issuer to receive the Interest Subsidy Payment contemporaneously with the interest payment date with respect to the Build America Bond. Depending on the timing of the filing and other factors, the Interest Subsidy Payment may be received before or after the corresponding interest payment date.

The Authority will elect to treat the Bonds as Build America Bonds and apply for Interest Subsidy Payments from the United States Treasury under the Build America Program.” The Interest Subsidy Payments to be received by the Authority constitute Revenues under the Trust Agreement and are pledged under the Trust Agreement to the repayment of the Bonds. No assurances are provided that the Authority will receive the Interest Subsidy Payments. The amount of any Interest Subsidy Payment is subject to legislative changes by Congress. Interest Subsidy Payments will only be paid if the Bonds are qualified under the federal program.

For the Bonds to be and remain qualified under the federal requirements, the Authority must comply with certain requirements and must establish certain facts and expectations with respect to the Bonds, the use and investment of proceeds thereof and the use of property financed thereby. In the Trust Agreement, the Authority has covenanted that so long as the Bonds remain Outstanding, it will comply with the procedures and requirements set forth in Sections 54AA(g) and 6431 of the Code and applicable regulations promulgated from time to time thereunder and any applicable guidance relating to Build America Bonds promulgated by the United States Department of the Treasury or Internal Revenue Service relating to Build America Bonds as necessary to allow the Authority to receive Interest Subsidy Payments with respect to the Build America Bonds.

Interest Subsidy Payments are subject to offset against certain amounts that may, for unrelated reasons, be owed by the Authority or the State to an agency of the United States of America.

Application of Revenues

The NCDOT has made arrangements for the transfer of the State Appropriated Revenues to the Authority from the North Carolina Highway Trust Fund in installments of \$6,000,000 to be made beginning on the date of issuance of the Bonds and thereafter in quarterly installments on each February 16, May 16, August 16 and November 16. The Trust Agreement provides that in the event that the transfer is not made as so arranged, the Authority will make prompt application to the Secretary of the NCDOT to make such transfer with such information as shall be requested in order to show that the transfer to

the Authority of the amounts so appropriated is necessary to pay the debt service payments to be paid with respect to the Bonds. The Authority expects to receive the Interest Subsidy Payment immediately prior to each interest payment date on the Bonds.

The Trust Agreement provides that immediately upon each receipt of State Appropriated Revenues and the Interest Subsidy Payment, the Authority shall transfer the amount received to the Trustee, which is directed to transfer such amounts as follows, and in the following order of priority:

(a) to the Interest Account of the Debt Service Fund created under the Trust Agreement an amount that, together with the amounts then on deposit in the Interest Account, and amounts in the Interest Account available to pay such interest as described below, will be equal to the amount of interest payable on the Bonds on the next Interest Payment Date, or the entire amount of the Revenues if less than the amount required payable on the next Interest Payment Date;

(b) to the Principal Account and the Sinking Fund Account of the Debt Service Fund created under the Trust Agreement an amount that, together with the amounts then on deposit in the Principal Account or the Sinking Fund Account, will be equal to the amount of principal payable on the Bonds within the 12 month period ending on the next January 1, or the entire amount of the Revenues if less than the amount so required;

(c) to the Reserve Fund to the extent of any deficiencies therein; and

(d) the balance, following the transfers described in (a), (b) and (c) and any comparable transfers with respect to Additional Appropriation Bonds, shall be transferred from the Revenue Fund under the Trust Agreement to the Revenue Fund created under the General Revenue Bond Trust Agreement or a similar agreement for other Authority revenue bonds.

Upon the transfer described in (d), the amounts so transferred shall be free and clear of the lien on and pledge of the Revenues created under the Trust Agreement and such lien and pledge shall thereafter be of no force and effect.

The Trust Agreement also creates an account of the Debt Service Fund designated the "Interest Account." \$29,081,082,53, derived from the proceeds of the Bonds, with \$15,709,799.19 in STIP funds, will be deposited to the credit of the Interest Account at the time of issuance thereof. On each Interest Payment Date, commencing January 1, 2011, and ending July 1, 2014, the Trustee shall apply funds in the Interest Account for payment of a portion of the interest due on the Bonds on such Interest Payment Date.

Reserve Fund for Bonds

The Trust Agreement also creates the Reserve Fund with respect to the Bonds and Additional Appropriation Bonds issued pursuant to the Trust Agreement. The Trust Agreement establishes the Reserve Fund Requirement for the Reserve Fund to be the amount that is equal to the maximum Interest Subsidy Payments expected to be received in the current or any future fiscal year. In connection with the issuance of the

Bonds, \$4,303,952.52 will be deposited to the credit of the Reserve Fund simultaneous with the issuance of the Bonds. If the Authority issues any other Build America Bonds under the Trust Agreement, the Authority shall fund, from the proceeds of such Build America Bonds or from any other available sources such amount as shall be necessary for the Reserve Fund to equal the Reserve Fund Requirement.

The Trustee is directed to use amounts in the Reserve Fund to make transfers to the Interest Account to remedy any deficiency therein. Amounts in the Reserve Fund in excess of the Reserve Fund Requirement may be transferred from the Debt Service Fund to the Interest Account and used to pay interest on Bonds.

Additional Bonds

The Trust Agreement provides that the Authority may issue Additional Appropriation Bonds under the Trust Agreement, which Bonds will be payable from the Revenues on a parity with the Bonds, (a) for the purpose of refunding any Bonds or any such refunding Bonds and paying costs incurred in connection therewith, or (b) for purposes of paying additional costs of the Monroe Connector System. Additional Appropriation Bonds for additional costs are expected to be issued in the approximate principal amount of \$266,080,000 (approximately \$500,000,000 in the aggregate with the Bonds). Additional Appropriation Bonds may only be issued upon compliance with certain conditions including the delivery to the Trustee of a certificate of the chief financial officer of the Authority to the effect that during the term of the Bonds and any such Additional Appropriation Bonds, the amount of expected State Appropriated Revenue is expected to be at least 100% of the net debt service, after Interest Subsidy Payments, on all outstanding Bonds and Additional Appropriation Bonds.

CONTINUING DISCLOSURE

In the Trust Agreement, the Authority will undertake, for the benefit of the beneficial owners of the Bonds, to provide to the Municipal Securities Rulemaking Board:

(a) by not later than seven months from the end of each Fiscal Year of the Authority, beginning with the Fiscal Year ending June 30, 2011, (1) the audited financial statements of the Authority for such Fiscal Year, if available, or, if such audited financial statements of the Authority are not available by seven months from the end of such Fiscal Year, unaudited financial statements of the Authority for such Fiscal Year to be replaced subsequently by audited financial statements of the Authority to be delivered within fifteen (15) days after such audited financial statements become available for distribution and (2) to the extent available to the Authority, the audited financial statements of the State for the State's most recent Fiscal Year, if available, or, if such audited financial statements of the State are not available, unaudited financial statements of the State for such Fiscal Year to be replaced subsequently by audited financial statements of the State to be delivered within fifteen (15) days after such audited financial statements become available for distribution;

(b) within ten (10) Business Days following the occurrence of an event, notice of any of the following events with respect to the Bonds:

- (1) principal and interest payment delinquencies;
- (2) unscheduled draws on debt service reserves reflecting financial difficulties;
- (3) unscheduled draws on any credit enhancements reflecting financial difficulties;
- (4) substitution of any credit or liquidity providers, or their failure to perform;
- (5) issuance by the Internal Revenue Service of a proposed or final determination of taxability with respect to the Bonds; a Notice of Proposed Issues on IRS Form 5701-TEB with respect to the Bonds; adverse tax opinions or events affecting the Build America Bond status of the Build America Bonds; other material notices or determination with respect to the tax status of the Bonds; or other event affecting the tax status of the Bonds;
- (6) defeasances;
- (7) rating changes;
- (8) tender offers; and
- (9) bankruptcy, insolvency, receivership or similar proceeding by the Authority;

(c) within ten (10) Business Days following the occurrence of an event, notice of any of the following events with respect to the Bonds, if material:

- (1) non-payment related defaults;
- (2) modification to the rights of the beneficial owners of the Bonds;
- (3) bond calls, other than bond calls relating to mandatory sinking fund redemption;
- (4) release, substitution or sale of any property securing repayment of the Bonds;
- (5) mergers, consolidations, acquisition and sales of assets (other than in the ordinary course of business);
- (6) appointment of a successor or additional trustee or a change in the name of the trustee;

- (7) legislation shall be filed with the North Carolina General Assembly by the Governor of North Carolina or legislation is reported out of a committee in either body of the General Assembly which, if adopted in the form so filed or reported, would result in a reduction or delay in the receipt of \$24 million in State Appropriated Revenues in any 12 month period ending on a January 1; and
- (8) an administrative action is taken by the Governor of North Carolina, NCDOT or any other agency or authority of the State which will result in a reduction or delay in the receipt of \$24 million in State Appropriated Revenues in any 12 month period ending on a January 1.

(d) within ten (10) Business Days following the occurrence of a failure, notice of a failure of the Authority to provide required annual financial information described in (a), (b) or (c) above on or before the date specified.

At present, Section 159-34 of the General Statutes of North Carolina requires the Authority's financial statements to be prepared in accordance with generally accepted accounting principles and to be audited in accordance with generally accepted auditing standards.

The Trust Agreement will also provide that if the Authority fails to comply with the undertaking described above, the Trustee or any beneficial owner of the Bonds may take action to protect and enforce the rights of all beneficial owners with respect to such undertaking, including an action for specific performance; provided, however, that the Authority's failure to comply with the undertaking will not constitute an Event of Default under the Trust Agreement. All actions shall be instituted, had and maintained in the manner provided in this paragraph for the benefit of all beneficial owners of the Bonds.

Pursuant to the Trust Agreement, the Authority will reserve the right to modify from time to time the information to be provided to the extent necessary or appropriate in the judgment of the Authority, provided that any such modification will be done in a manner consistent with Rule 15c2-12 issued under the Securities Exchange Act of 1934, as it may be amended from time to time ("Rule 15c2-12"), and provided further that:

(a) any such modification may only be made in connection with a change in circumstances that arises from a change in legal requirements, change in law, or change in the identity, nature, or status of the Authority;

(b) the information to be provided, as modified, would have complied with the requirements of Rule 15c2-12 as of the date of this Official Statement, after taking into account any amendments or interpretations of Rule 15c2-12, as well as any changes in circumstances; and

(c) any such modification does not materially impair the interests of the beneficial owners of the Bonds, as determined either by the Trustee or bond counsel, or by the approving vote of the Owners of a majority in principal amount of the Bonds pursuant to the terms of the Trust Agreement, as it may be amended from time to time, at the time of the amendment.

Any annual financial information containing modified operating data or financial information is required to explain, in narrative form, the reasons for the modification and the impact of the change in the type of operating data or financial information being provided.

The undertaking described above will terminate upon payment, or provision having been made for payment in a manner consistent with Rule 15c2-12, in full of the principal of and interest on all of the Bonds.

The Authority has not failed to fully comply with its other undertakings pursuant to Rule 15c2-12.

LITIGATION

No litigation is now pending or, to the best of the Authority's knowledge, threatened against or affecting the Authority seeking to restrain or enjoin the authorization, execution or delivery of the Bonds, the Trust Agreement or contesting the validity or the authority or proceedings for the authorization, execution or delivery of the Bonds, the Trust Agreement or the Authority's creation, organization or corporate existence, or the title of any of the Authority's present officers to their respective offices, or the Authority's authority to carry out its obligations thereunder.

LEGAL MATTERS

Legal matters related to the authorization, execution, sale and delivery of the Bonds are subject to the approval of Hunton & Williams LLP, Raleigh, North Carolina, Bond Counsel. See the form of the Bond Counsel opinion (the "Bond Opinion") attached as Appendix D. The Bond Opinion will be limited to matters relating to authorization and validity of the Bonds and to the tax status of interest thereon, as described in the section "TAX TREATMENT." Bond Counsel has not been engaged to investigate the financial resources of the Authority or its ability to provide for payment of the Bonds, and the Bond Opinion will make no statement as to such matters or as to the accuracy or completeness of this Official Statement or any other information that may have been relied on by anyone in making the decision to purchase Bonds. Hunton & Williams LLP has also been engaged to be Disclosure Counsel for the Authority in connection with the Bonds and in that capacity will provide an opinion to the Underwriters as to certain matters concerning this Official Statement other than the financial resources of the Authority or its ability to provide for payment of the Bonds.

Certain legal matters will be passed upon for the Authority by Ebony Pittman, Esq., an Assistant Attorney General for the State, for NCDOT by Katherine R. White, Esq., General Counsel to NCDOT, and for the Underwriters by Bode Call & Stroupe, L.L.P., Raleigh, North Carolina, counsel to the Underwriters.

TAX TREATMENT

Opinion of Bond Counsel

In the opinion of Bond Counsel, interest on the Bonds will be included in gross income for Federal income tax purposes and, under current law, interest on the will be exempt from all income taxes in the State of North Carolina.

Tax Consequences

The following is a discussion of certain material United States federal income tax consequences of the ownership and disposition of the Bonds. This summary is based on the Code and existing and proposed Treasury regulations, revenue rulings, administrative interpretations and judicial decisions, all as currently in effect and all of which are subject to change, possibly with retroactive effect. Except as specifically set forth in this subsection, this summary deals only with Bonds purchased by a United States holder, as defined below, at original issuance and held as capital assets within the meaning of Section 1221 of the Code. It does not discuss all of the tax consequences that may be relevant to such a holder in light of his particular circumstances or to holders subject to special rules, such as insurance companies, financial institutions, regulated investment companies, dealers in securities or foreign currencies, traders in securities that elect the mark-to-market accounting method, persons holding the Bonds as part of a hedging transaction, “straddle,” conversion transaction, or other integrated transaction, or United States holders whose functional currency, as defined in Section 985 of the Code, is not the United States dollar. This discussion does not address United States estate tax consequences of holding the Bonds and, except as specifically described, does not address either tax consequences to pension plans or foreign investors or any aspect of state or local taxation with respect to the Bonds. Persons considering the purchase of the Bonds should consult with their own tax advisors concerning the application of the United States federal income tax laws to their particular situations as well as any tax consequences arising under the laws of any state, local or foreign jurisdiction. The opinion of Bond Counsel with respect to the Bonds, the form of which is attached in Appendix D, will not address such matters.

If a partnership or other entity classified as a partnership for United States federal income tax purposes holds Bonds, the tax treatment of the partnership and each partner generally will depend on the activities of the partnership and the status of the partner. Partnerships acquiring Bonds, and partners in such partnerships, should consult their tax advisors.

United States Holder. As used in the sections below, the term “*United States holder*” means a beneficial owner of a Bond that is for United States federal income tax purposes (a) a citizen or resident of the United States, (b) a corporation (including an entity treated as a corporation for United States federal income tax purposes) created or organized in or under the laws of the United States, any state thereof or the District of Columbia, (c) an estate, the income of which is includible in gross income for United States federal income tax purposes, regardless of its source, or (d) a trust if (i) a court within the United States can exercise primary supervision over the administration of such trust and one or more United States persons have the authority to control all substantial decisions of such

trust or (ii) the trust has in effect a valid election to be treated as a domestic trust for United States federal income tax purposes. Further, as described below, a non-United States holder is any holder of a Bond that is not a United States holder.

Taxation of Interest. Interest paid on a Bond generally will be taxable to a United States holder as ordinary interest income at the time it accrues or is received, in accordance with the United States holder's method of tax accounting.

Sale, Exchange or Retirement of the Bonds. Upon the sale, exchange or retirement of a Bond, a United States holder generally will recognize taxable gain or loss equal to the difference between the amount realized on the sale, exchange or retirement (other than amounts representing accrued and unpaid interest) and the United States holder's adjusted tax basis in the Bond. A United States holder's adjusted tax basis in a Bond will equal the cost of the Bond to that holder, increased by the amount of any original issue discount previously included in income by such holder with respect to such Bond and reduced by any principal payments received by the holder or by any amortized premium.

Gain or loss recognized on the sale, exchange or retirement of a Bond generally will be capital gain or loss, and will generally be long-term capital gain or loss if at the time of sale, exchange or retirement the Bond has been held for more than one year. Through December 31, 2010, non-corporate taxpayers are subject to reduced maximum rates on long-term capital gains and generally are subject to tax at ordinary income rates on short-term capital gains. The deductibility of capital losses is subject to certain limitations. Prospective investors should consult their own tax advisor concerning these tax law provisions.

Any amount realized on the sale, exchange or retirement of a Bond that is attributable to accrued interest will be taxable as interest unless previously taken into account. In addition, the tax treatment of the receipt of any redemption premium resulting from the exercise of an extraordinary optional redemption of the Bonds (see "THE BONDS" – Redemption Provisions") is unclear, and prospective purchasers of the Bonds are urged to consult their tax advisors regarding the tax treatment of any such payment.

Defeasance or material modification of the terms of any Bond may result in a deemed reissuance thereof, in which event a beneficial owner of the defeased Bond generally will recognize taxable gain or loss equal to the difference between the amount realized from the sale, exchange or retirement (less any accrued qualified stated interest which will be taxable as such) and the beneficial owner's adjusted tax basis in the Taxable Bond. Prospective purchasers of the Bonds are urged to consult their tax advisors regarding the foregoing matters.

Original Issue Discount or Premium. "Original issuer discount" will arise for United States federal income tax purposes in respect of any Bond if its stated redemption price at maturity exceeds its issue price by more than a de minimis amount (as determined for tax purposes). The stated redemption price at maturity of a Bond is the sum of all scheduled amounts payable on such Bond other than qualified stated interest. United States holders of Bonds generally will be required to include any original issue discount in income for United States federal income tax purposes as it accrues, in accordance with a constant yield method based on a compounding of interest (which may be before the receipt of cash

payments attributable to such income). Under this method, United States holders of Bonds issued with original issue discount generally will be required to include in income increasingly greater amounts of original issue discount in successive accrual periods.

“Premium” generally will arise for United States federal income tax purposes in respect of any Bond purchased, whether upon issuance or otherwise, for an amount (excluding any amount attributable to accrued interest) in excess of their principal amount. Bonds so purchased will be treated for federal income tax purposes as having amortizable bond premium. A holder’s basis in such a Bond must be reduced by the amount of premium which accrues while such Bond is held by the holder. A United States holder of a Bond issued at a premium may make an election, applicable to all debt securities purchased at a premium by such United States holder, to amortize such premium, using a constant yield method over the term of such Bond. Purchasers of Bonds should consult their own tax advisors as to the calculation, accrual and treatment of amortizable bond premium and the state and local tax consequences of holding such Bonds.

Taxation of Tax-Exempt Investors. Special considerations apply to employee benefit plans and other investors (“Tax-Exempt Investors”) that are subject to tax only on their unrelated business taxable income (“UBTI”). A Tax-Exempt Investor’s income from the Bonds generally will not be treated as UBTI under current law, so long as such Tax-Exempt Investor’s acquisition of such Bonds is not debt-financed. Tax-Exempt Investors should consult with their own tax advisors concerning these special considerations.

The Employees Retirement Income Security Act of 1974, as amended (“ERISA”), and the Code generally prohibit certain transactions between a qualified employee benefit plan under ERISA or tax-qualified retirement plans and individual retirement accounts under the Code (collectively, the “Plans”) and persons who, with respect to a Plan, are fiduciaries or other “parties in interest” within the meaning of ERISA or “disqualified persons” within the meaning of the Code. All fiduciaries of Plans, in consultation with their advisors, should carefully consider the impact of ERISA and the Code on an investment in any Bonds.

Non-United States Holders. The following applies to a holder if the holder is a beneficial owner of a Bond and is not a United States holder or a United States partnership (or entity treated as a partnership for United States federal income tax purposes) (hereinafter a “non-United States holder”). Special rules which will not be addressed herein may apply if a non-United States holder is a “controlled foreign corporation” or a “passive foreign investment company” for United States federal income tax purposes. If a non-United States holder is such an entity, the non-United States holder should consult its tax advisor to determine the tax consequences that may be relevant to the non-United States holder.

All payments on a Bond made to a non-United States holder and any gain realized on a sale, exchange, or other disposition of a Taxable will be exempt from United States federal income and withholding tax, provided that:

- the non-United States holder does not own, actually or constructively, 10% or more of the Authority’s outstanding capital or profit interests within the meaning of the Code and the Treasury regulations;

- the non-United States holder is not a controlled foreign corporation related, directly or indirectly, to the Authority through stock ownership;
- the non-United States holder is not a bank whose receipt of interest on the Bond is described in Section 881(c)(3)(a) of the Code;
- the non-United States holder has fulfilled the certification requirement described below;
- such payments are not effectively connected with the conduct by the non-United States holder of a trade or business in the United States; and
- in the case of gain realized on the sale, exchange, or other disposition of a Bond, if the non-United States holder is a nonresident alien individual, the non-United States holder is not present in the United States for 183 or more days in the taxable year of the disposition where certain other conditions are met.

The certification requirement referred to above will be fulfilled if the non-United States holder provides its name and address to the Trustee on IRS Form W-8BEN (or an acceptable substitute), and certifies, under penalties of perjury, that the holder is not a United States person.

If the non-United States holder is engaged in a trade or business in the United States, and if payments on a Bond are effectively connected with the conduct of that trade or business, or are attributable to a permanent establishment maintained by the non-United States holder in the United States, the holder will generally be taxed in the same manner as a United States holder (see “United States Holder” above), except that the non-United States holder will be required to provide a properly executed IRS Form W-8ECI in order to claim an exemption from or reduction of withholding tax.

Recently proposed legislation could impose United States withholding tax on payments of interest and proceeds of sale in respect of the Bonds to a non-United States holder that does not comply with certain disclosure requirements related to the equity ownership of the non-United States holder by United States persons. If payment of withholding taxes were required, non-United States holders that were eligible for an exemption from United States withholding taxes with respect to such interest and proceeds would be required to seek a refund from the IRS to obtain the benefit of such exemption. It is unclear whether this legislation will be enacted and if so in what form.

Non-United States holders should consult their tax advisors with respect to other tax consequences of the ownership of the Bonds, including the possible imposition of a 30% branch profits tax.

Information Reporting And Backup Withholding. Information returns may be filed with the Internal Revenue Service (“IRS”) in connection with payments on the Bonds and the proceeds from a sale, exchange, or other disposition of the Bonds. Holders may receive statements containing the information reflected on these returns. If the holder is a United States holder, the holder may be subject to United States backup withholding tax on these

payments if it fails to provide its taxpayer identification number to the paying agent and comply with certification procedures or otherwise establish an exemption from backup withholding. If the holder is not a United States holder, it may be subject to United States backup withholding tax on these payments unless the holder complies with certification procedures to establish that the holder is not a United States person. The certification procedures required of the holder to claim the exemption from withholding tax on certain payments on the Bonds described above will satisfy the certification requirements necessary to avoid the backup withholding tax as well.

The amount of any backup withholding made from a payment will be allowable as a credit against the holder's United States federal income tax liability and may entitle the holder to a refund, provided that the holder timely furnishes the required information to the IRS.

Certain State and Local Tax Consequences. In addition to the United States federal income tax consequences described above, prospective investors should consider the potential state and local tax consequences of an investment in the Bonds. State income tax law may vary substantially from state to state, and this discussion does not purport to describe any aspect of the income tax laws of any state or locality. Therefore, potential purchasers should consult their own tax advisors with respect to the various state and local tax consequences of an investment in the Bonds.

Bonds are Build America Bonds. The Authority will make an irrevocable election to treat the Bonds as Build America Bonds. As a result of this election, interest on the Bonds will be includable in gross income of the holders thereof for federal income tax purposes and the holders of the Bonds will not be entitled to any tax credits as a result of either ownership of the Bonds or receipt of any interest payments on the Bonds. Holders of the Bonds should consult their tax advisors with respect to the inclusion of interest on the Bonds in gross income for federal income tax purposes.

Generally

Prospective purchasers of the Bonds should consult their own tax advisors as to the status of interest on the Bonds under the tax laws of any state other than North Carolina.

The IRS has a program to audit state and local government obligations to determine, as applicable, whether the interest thereon is includible in gross income for federal income tax purposes or whether such obligations qualify for certain designations, such as "Build America Bonds." If the IRS does audit the Bonds, under current IRS procedures, the IRS will treat the Authority as the taxpayer and the owners of the Bonds will have only limited rights, if any, to participate.

Bond Counsel's opinions represent its legal judgment based in part upon the representations and covenants referenced therein and its review of existing law, but are not a guarantee of result or binding on the IRS or the courts. Bond Counsel assumes no duty to update or supplement its opinions to reflect any facts or circumstances that may come to Bond Counsel's attention after the date of its opinions or to reflect any changes in law or the interpretation thereof that may occur or become effective after such date.

There are many events that could affect the value and liquidity or marketability of the Bonds after their issuance, including but not limited to public knowledge of an audit of the Bonds by the IRS, a general change in interest rates for comparable securities, a change in federal or state income tax rates, legislative or regulatory proposals affecting state and local government securities and changes in judicial interpretation of existing law. In addition, certain tax considerations relevant to owners of Bonds who purchase Bonds after their issuance may be different from those relevant to purchasers upon issuance. Neither the opinions of Bond Counsel nor this Official Statement purports to address the likelihood or effect of any such potential events or such other tax considerations and purchasers of the Bonds should seek advice concerning such matters as they deem prudent in connection with their purchase of Bonds.

LEGALITY FOR INVESTMENT

Section 159-140 of the General Statutes of North Carolina provides that the Bonds are securities in which all public officers and public bodies of the State of North Carolina and its political subdivisions and agencies and all insurance companies, trust companies, investment companies, banks, savings banks, building and loan associations, savings and loan associations, credit unions, pension or retirement funds, other financial institutions engaged in business in the State of North Carolina, executors, administrators, trustees and other fiduciaries may properly and legally invest funds, including capital in their control or belonging to them, and the Bonds are securities which may properly and legally be deposited with and received by any State of North Carolina or municipal officer or any agency or political subdivision of the State for any purpose for which the deposit of bonds, notes or obligations of the State is now or may hereafter be authorized by law.

RATINGS

Moody's Investors Service ("Moody's") and Standard & Poor's Ratings Services, a division of The McGraw-Hill Companies, Inc. ("S&P"), have given the Bonds the respective ratings of "Aa2" and "AA". Further explanation of the significance of such ratings may be obtained from Moody's and S&P. The Authority has provided to Moody's and S&P certain information that has not been included in this Official Statement. The ratings are not a recommendation to buy, sell or hold the Bonds and should be evaluated independently. There is no assurance that such ratings will not be withdrawn or revised downward by Moody's or S&P. Such action may have an adverse effect on the market price of the Bonds. Neither the Authority nor the Underwriters have undertaken any responsibility after the issuance of the Bonds to assure maintenance of the ratings or to oppose any such revision or withdrawal.

UNDERWRITING

The Underwriters have entered into a Bond Purchase Agreement to purchase all of the Bonds, if any of the Bonds are to be purchased, at a purchase price equal to 99.429661% (the principal amount thereof less an underwriters' discount of \$1,334,136.03). The obligation of the Underwriters to pay for the Bonds is subject to certain terms and conditions set forth in the Bond Purchase Agreement.

The Underwriters may offer and sell the Bonds to certain dealers (including dealers depositing the Bonds into investment trusts) and others at prices lower than the initial public offering prices stated on the cover page hereof. The public offering prices may be changed from time to time by the Underwriters.

J.P. Morgan Securities LLC (“JPMS”), one of the Underwriters of the Bonds, has entered into a negotiated dealer agreement (“Dealer Agreement”) with UBS Financial Services Inc. (“UBSFS”) for the retail distribution of certain securities offerings at the original issue prices. Pursuant to the Dealer Agreement, UBSFS will purchase Bonds from JPMS at the original issue price less a negotiated portion of the selling concession applicable to any Bonds that the firm sells.

Piper Jaffray & Co. has provided the information contained in this paragraph for inclusion in this Official Statement. Piper Jaffray & Co., one of the Underwriters of the Bonds, has entered into an agreement (the “Distribution Agreement”) with Advisors Asset Management, Inc. for the distribution of certain municipal securities offerings allocated to Piper Jaffray & Co. at the original offering prices. Under the Distribution Agreement, if applicable to the Bonds, Piper Jaffray & Co. will share with Advisors Asset Management, Inc. a portion of the fee or commission, exclusive of management fees, paid to Piper Jaffray & Co.

Wells Fargo Securities is the trade name for certain capital markets and investment banking services of Wells Fargo & Company and its subsidiaries, including Wells Fargo Bank, National Association (“WFBNA”) which is one of the Underwriters of the Bonds. WFBNA has entered into an agreement (the “Distribution Agreement”) with Wells Fargo Advisors, LLC (“WFA”) for the retail distribution of certain municipal securities offerings, including the Bonds. Pursuant to the Distribution Agreement, WFBNA will share a portion of its underwriting compensation with respect to the Bonds with WFA. WFA is also a subsidiary of Wells Fargo & Company.

Citigroup Inc., the parent company of Citigroup Global Markets Inc., one of the Underwriters of the Bonds, has entered into a retail brokerage joint venture. As part of the joint venture, Citigroup Global Markets Inc. will distribute municipal securities to retail investors through the financial advisor network of a new broker-dealer, Morgan Stanley Smith Barney LLC. This distribution arrangement became effective on June 1, 2009. As part of this arrangement, each of Citigroup Global Markets Inc. will compensate Morgan Stanley Smith Barney LLC for its selling efforts in connection with their respective allocations of its allocation of the Bonds.

MISCELLANEOUS

Members of the LGC staff have participated in the preparation of this Official Statement and other documents related to the issuance of the Bonds, but the LGC and its staff assume no responsibility for the accuracy or completeness of any representation or statement in this Official Statement.

The LGC and the Authority have each duly authorized the execution and delivery of this Official Statement.

NORTH CAROLINA LOCAL GOVERNMENT COMMISSION

By: /s/ T. Vance Holloman

Secretary

NORTH CAROLINA TURNPIKE AUTHORITY

By: /s/ Eugene A. Conti, Jr.

Chairman

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Appendix A

THE STATE OF NORTH CAROLINA

Appendix A includes certain information regarding the State that was prepared for inclusion in the Official Statement, dated September 28, 2010, of the State used in connection with a recent offering of \$302,150,000 General Obligation Refunding Bonds, Series 2010C of the State (the “Recent State Bonds”). References within Appendix A to “Appendix B”, the “2010C Bonds” and “the Official Statement” are to such items within the context of the Official Statement for the Recent State Bonds. Additionally the paragraphs in Appendix A referencing the Authority use terms which are different from those defined elsewhere in this Official Statement.

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STATE OF NORTH CAROLINA

The State is located on the Atlantic seacoast and is bordered by the states of South Carolina, Georgia, Tennessee and Virginia. The State has a land area, exclusive of waterways and lakes, of 50,000 square miles. The State's estimated population as of July 1, 2009 was 9,380,884, ranking 10th in the nation. During the period from 2000 to 2009, the State's estimated population increased by approximately 16.6%. The State Demographer's Office estimates that North Carolina has eight cities with populations in excess of 100,000 and two cities with populations in excess of 250,000.

Economic Characteristics

Overview – The State's major industry sectors are services, agriculture, trade, manufacturing, exports and tourism. During the period from 1999 to 2009, per capita income in the State grew from \$24,473 to \$34,711, an increase of 10.6% when adjusted for inflation. North Carolina's seasonally adjusted unemployment rate in July 2010 was 9.80%. The state's unemployment rate is 1.2 percentage points lower than it was in June 2009, but 4.9 percentage points higher than it was at the start of the recession.

Compared to last year (May 2009), North Carolina has experienced a slight decline in employment of 3,300 nonfarm payroll jobs. Sectors with the most employment decline since December 2007 are: Manufacturing (-103,400); Construction (-79,800); Trade, Transportation & Utilities (-66,900); and Professional & Business Services (-34,600). Two sectors have experienced gains: Education & Health Services (+16,900) and Government (+39,900).

Services. – The services industry sector is the single largest job segment of the State's economy and constituted approximately 40.0% (1,571,400 jobs) of the State's total non-farm employment in May 2010. This industry includes a broad base of occupations throughout the State, including legal services, educational services, accommodation & food services, health services and technology services. Employment in service industries decreased by 14,300 between May 2009 and May 2010.

The Research Triangle Park (the "Park"), located within Wake and Durham Counties, is one of the largest planned research parks in the world, covering over 7,000 acres of rolling, wooded landscape. Founded in 1959, it is approximately equidistant from Duke University in Durham, the University of North Carolina at Chapel Hill, and North Carolina State University in Raleigh. The Parks' primary objective is to attract research-related institutions to the area. The Park currently contains more than 170 organizations, including International Business Machines Corporation, GlaxoSmithKline, Cisco Systems, MCNC (formerly Micro Electronics Center), RTI International (formerly Research Triangle Institute), the United States Environmental Protection Agency, and the National Institute of Environmental Health Services. The research institutions in the Park employ over 42,000 fulltime knowledge workers and an estimated 10,000 contract employees.

Agriculture. – Agriculture is another basic element of the State's economy. In calendar year 2008 North Carolina's agricultural industry, including food, fiber and forest, contributed over \$70.1 billion to the State's economy, and accounted for 18% of the State's income. Gross agricultural income was in excess of \$11.0 billion in 2008, placing the State

eighth in the nation in gross agricultural income and twelfth in the nation in net farm income. The poultry industry is the leading source of agricultural income in the State, accounting for approximately 39.0% of gross agricultural income in 2008, followed by the pork industry at approximately 22%, nursery and greenhouse products at approximately 8% and the tobacco industry at approximately 7%. According to the State Commissioner of Agriculture, the State ranks first in the nation in the production of all tobacco, flue-cured tobacco, and sweet potatoes, second in hog production, turkeys and Christmas trees sold, and third in processing cucumbers.

Trade. – The trade sector is an integral part of the State’s economy, employing more than 18.42% of the State’s total non-farm employment in May 2010. This industry sector includes wholesale and retail trade, transportation, warehouse, activities and utilities.

Manufacturing. – The State’s economy has historically enjoyed a strong manufacturing base. As of May 2010, employees of manufacturing firms constituted 11.2% of the total non-farm employment, down 3.6 percentage points from 14.8% in 2005.

Manufacturing jobs in the traditional sectors of textiles and apparel have declined due to competition in international markets. These sectors, however, accounted for only 1.3% of total nonfarm employment in December of 2009. While North Carolina remains the national leader in the textile sector, textile and apparel sector employment has declined from 28% of total goods-producing sector (Mining, Logging, Construction, and Manufacturing) in January 1990 to 7.6% as of December 2009, reflecting the growing diversification of the State’s economy.

Exports. – North Carolina was the sixteenth largest exporter among the 50 states in 2009 and exports have steadily increased since the beginning of 2010. The total value of goods exported by firms in the State rose 15.9% to \$6.1 billion in the first quarter of 2010, when compared to the \$5.3 billion expected in the first quarter of 2009.

Tourism. – Travel and tourism are a major industry in North Carolina and significant to the State’s economy. Travel and tourism revenues contributed over \$16.9 billion to the State’s economy in 2008, an increase of 2.1% over 2007. The North Carolina travel and tourism industry supports more than 190,500 jobs, which directly and indirectly represent 4.5% of total non-farm employment for 2008.

Other. – A significant military presence in North Carolina contributes further to the diversity of the State’s economic base, as evidenced by research findings conducted in 2008 by the North Carolina Department of Commerce, as an update and expansion of a study originally completed by the East Carolina University Regional Development Services & Regional Economic Models, Inc. The 2008 model determined that 7% of the State’s 2007 Gross State Product (total goods and services), or \$23.4 billion, is attributed to the military sector in North Carolina. The major military installations in North Carolina are Camp Lejeune Marine Corps Base, New River Air Station, Fort Bragg Army Base, Pope Air Force Base, Cherry Point Marine Corps Air Station, and Seymour Johnson Air Force Base.

Housing Starts

Although showing absolute declines from the previous year, authorization of privately owned housing units remains strong in North Carolina. During the last two years, North Carolina has ranked among the top states in the nation.

New Housing Units Authorized by Building Permit May 2010, Year-to-Date

<u>State</u>	<u>2009 Total</u>	<u>State</u>	<u>2010 Total</u>
1. Texas	82,938	1. Texas	37,487
2. Florida	35,858	2. Florida	18,253
3. California	33,811	3. California	16,774
4. North Carolina	33,785	4. North Carolina	15,199
5. New York	21,078	5. Virginia	8,908

Source: U.S. Department of Commerce, Bureau of the Census.

State Government Organization and Major Responsibilities

State governmental powers are divided among the legislative, executive and judicial branches.

The General Assembly, the legislative branch, is composed of the 50-member Senate and 120-member House of Representatives and has three major functions: to enact general and local laws governing the affairs of the State, to provide and allocate funds for operating State government by enacting revenue and appropriation laws, and to study regulation and funding aspects of State operations. The main work of the General Assembly is the enactment of legislation. The General Assembly is required by law to meet on a biennial basis, a budget being adopted for each biennium. However, for the past 30 years the General Assembly also has met in the second year of each biennium for the purpose of reviewing the State budget and financial condition.

The Governor, elected for a four-year term, is the chief officer of the executive branch. The Governor functions as director of the budget, with responsibilities for all phases of budgeting from initial preparation to final execution. The Governor is commander-in-chief of the State military and is chair of the Council of State, which is composed of the elected officials of the executive branch. The Constitution of the State permits the Governor and Lieutenant Governor to serve two consecutive terms. The Governor has the power to veto budgetary and certain other legislative matters.

The judicial branch administers, through a unified system of courts, the judicial powers of the State in the areas of civil and criminal law.

The largest cost items in the State's budget relate to the State's significant responsibilities in the areas of education, health and human services, public

safety/corrections and transportation. The first three of these areas are discussed below. See “REVENUE STRUCTURE – Highway Fund and Highway Trust Fund” below for a discussion of the transportation area.

Education

Public School System

The State is primarily responsible for the supervision, administration and funding of the State’s public school system. The general cost of operating the system of public schools is paid from the State’s General Fund rather than locally levied ad valorem property taxes. State appropriations are allotted in accordance with various formulae, primarily based upon average daily membership. The State pays a substantial portion of current operating expenses such as salaries of teachers and other staff, instructional supplies, textbooks and transportation. These current operating expenditures are supplemented by the counties. Counties are generally responsible for capital improvements, plant maintenance, insurance and energy costs. The State has also assisted counties in their responsibility for capital outlay expenditures. General Fund appropriations for public schools in fiscal year 2009-2010 comprise 39.2% of the State’s General Fund budget. In addition to other appropriations for school purposes, \$255,264,628 was set aside by the fiscal 2009-2010 budget to supplement funding for small and low-wealth counties.

The Charter Schools Act of 1996, as amended by the General Assembly in 1997, provides the opportunity for individuals or groups to create public schools through a private non-profit organization. Charter schools are designed to give significant autonomy to individual schools and in turn to hold these schools accountable for results. Charter schools receive funding based on the average per pupil allocation in the local education agency from which a student comes. Ninety-six charter schools are operating in the State in the 2009-2010 school year.

The following tables summarize the average daily membership (“ADM”) (including charter schools) and the number of public schools (including charter schools) in the State in the school years presented:

Average Daily Membership

<u>School Year</u>	<u>Elementary (K-5)</u> <u>ADM</u>	<u>Middle (6-8)</u> <u>ADM</u>	<u>Secondary (9-12)</u> <u>ADM</u>	<u>Total</u> <u>ADM</u>
2005-06	656,470	329,644	409,133	1,395,247
2006-07	674,968	329,443	419,372	1,434,162
2007-08	690,210	329,984	424,773	1,444,867
2008-09	698,074	329,642	426,003	1,453,719
2009-10	688,625	331,893	426,852	1,477,370

Source: North Carolina Department of Public Instruction first-month ADM.

Number of Public Schools

<u>School Year</u>	<u>Elementary (K-5)</u>	<u>Middle (6-8)</u>	<u>Secondary (9-12)</u>	<u>Various¹</u>	<u>Total Number of Schools</u>
2005-06	1,181	409	398	358	2,346
2006-07	1,190	414	440	432	2,407
2007-08	1,383	423	472	179	2,457
2008-09	1,231	430	491	349	2,501
2009-10	1,238	429	495	356	2,518

¹ Schools that contain other grade configurations (e.g., K-6, 4-8, 8-12)

Community College System

North Carolina has a system of 58 community colleges dedicated to providing technical and vocational training in over 2,655 curriculum programs. The State currently provides approximately 70% (\$999.8 million in the fiscal 2009-10 budget) of the system’s funding, with the remaining funds coming from federal sources, tuition and fees and local funding sources.

In fiscal year 2008-09, 856,632 people took one or more courses at a local community college, including 308,574 enrolled in curriculum programs leading toward an associate degree, certificate or diploma. Another 288,573 individuals enrolled in occupational extension programs. In addition, all 58 community colleges are approved to offer the college transfer curriculum program, allowing students to take the first two years toward a baccalaureate degree at a community college. In fiscal year 2008-09, the system was also the State’s primary provider of adult literacy training, providing training for approximately 3,814 workplace literacy students.

The community college system has three programs designed to respond to the multiple needs of the State’s business and industrial community. North Carolina began the nation’s first program specifically designed to train the initial workforce of a new industry relocating to the State or an already existing industry in an expansion mode. The system also operates 58 Focused Industrial Training Centers designed to assist employees of established North Carolina industries in upgrading their workforce skills. At present, all 58 community colleges have Small Business Centers providing technical and managerial assistance and counseling to small business owners, would-be owners and their employees.

University of North Carolina System

The University of North Carolina (the “University”) includes the State’s 16 public universities which are commonly referred to as the “constituent institutions”, the North Carolina School of Science and Mathematics and the North Carolina School of the Arts. It is governed by a 32-member Board of Governors elected by the General Assembly. In addition, each constituent institution is governed by a board of trustees. Fall 2009 headcount enrollment, which grew 38% from 1999 to 2009, totaled 222,322. Only five states have higher enrollments in state systems of higher education. The University’s constituent institutions offer more than 200 degree programs.

The University's fiscal year 2009-2010 operating budget totaled \$4,007,817,194 of which \$2,706,834,335 was appropriated from the State's General Fund, with the rest being budgeted from revenues generated by the constituent institutions. Appropriations to the University account for approximately 14% of the State's General Fund appropriations in fiscal year 2009-2010.

Since it was chartered in 1789, the University has followed a State constitutional mandate to make higher education accessible and affordable to all North Carolinians. For the 2009-2010 school year, annual tuition and required fees for in-state undergraduate students ranged from \$3,031 to \$5,450. For non-resident undergraduates, annual tuition and required fees ranged from \$12,080 to \$23,338.

In addition to its teaching mission, the University is committed to academic and scientific research. Annual sponsored project awards to the University institutions were in excess of \$1.1 billion for fiscal year 2008-2009. Sponsored program funding has experienced substantial growth over the past decade (100% in current dollars). The large majority of the University-sponsored program funds are awarded to the flagship research universities, North Carolina State University ("NC State") and UNC Chapel Hill, and are derived from federal sources. The upward funding trends are an indication that the existence of high quality faculty at the University has steadily improved its position among all university systems nationally with respect to federal funds received for research and development. Between 2006 and 2009 the University realized nearly a 10% increase in federal sponsored research. Both UNC Chapel Hill and NC State continue to rank high among their peers in various national comparisons.

The University has a long-standing commitment to public service programs that extend the knowledge and expertise of its faculty to North Carolina residents not enrolled at the constituent institutions. These services include patient care and laboratory services (in teaching hospitals and other health service centers), agricultural extension services, the delivery of public television programming throughout the State and a wide variety of specialized services to governmental and private community groups.

At the 2010 Legislative Session, the North Carolina General Assembly enacted legislation providing \$120.0 million in State appropriations for repairs and renovations for statewide use, with \$60.0 million allocated to the University, and the use of \$479.4 million from non-appropriated funding sources for capital improvements at certain campuses of the University system.

The General Assembly in Session Law 2010-31 (Senate Bill 897) authorized up to \$120 million in Bonds or Special Indebtedness Financing to finance the capital facility cost of repairing and renovating State facilities and related infrastructure. It allocates 50% to the University Board of Governors and 50% to the Office of State Budget and Management. The University and State Budget and Management must consult with the Joint Legislative Commission on Governmental Operations prior to the final allocation of these funds.

Health and Human Services

The Department of Health and Human Services ("DHHS") is responsible for administering a broad range of health and human services programs, including medical

assistance (Medicaid), public health services, mental health services, social services, services for children, services for the aged, blind, and disabled, and vocational rehabilitation. In all, DHHS is responsible for the management and coordination of approximately 15 programmatic divisions and offices. The services and aid provided by DHHS are designed to assist individuals, families, and communities across the State in achieving adequate levels of physical, mental, social, and economic well-being. Programs are financed through a combination of state, local, and federal funds. Counties and regional agencies are often required to match a percentage of State and/or federal funds. Programs often provide grants to counties and regional agencies using formulas based on population, poverty level, population age and other needs-related bases.

Expenditures for health care and health-related costs make up over 82% of the State appropriations allocated to the DHHS. These programs include Medicaid, mental health, public health, and North Carolina's insurance program for children ("Health Choice"). For fiscal year 2009- 2010, the State's General Fund budget allocated approximately \$3.9 billion in State appropriations to DHHS. The total DHHS budget, combined with federal and other receipts, for fiscal year 2009- 2010 was \$16.4 billion, over 67% of which is for the Medicaid program. Of the non-healthcare services, social services reflects over 10% of the total DHHS operating budget, with State appropriations of \$208.2 million for fiscal year 2009-2010, and total funding, including federal receipts, of over \$1.66 billion.

Department of Correction

The Department of Correction has continued to build new and more efficient correctional facilities across the State and to expand and renovate existing correctional facilities. This has allowed for the effective implementation of sentencing reform, resulting in substantial increases in time served by offenders. The State's correctional facility population has more than doubled since 1980 to approximately 40,082 inmates as of June 30, 2010.

The 2009 Legislative Session, as a budget balancing and recurring reduction measure, directed the Department of Corrections to close seven correctional facilities. All seven facilities were closed by April 2, 2010.

REVENUE STRUCTURE

The State has three major operating funds that receive revenues and from which moneys are expended: the General Fund; the Highway Fund; and the Highway Trust Fund. The taxes described below produce a majority of the State's tax revenue. All revenues are collected by the Department of Revenue, except the highway use tax on motor vehicle sales and motor vehicle license tax and fees, which are collected by the Department of Transportation. There are no prohibitions or limitations in the North Carolina Constitution on the State's power to levy taxes, except the income tax rate limitation of 10% and a prohibition against a capitation or "poll" tax.

General Fund

The proceeds of the taxes and non-tax revenue hereinafter described are deposited in the General Fund. Appendix B includes financial statements showing such tax revenue and non-tax revenue for fiscal years 2004-2005 through 2008-2009.

Tax Revenue

Individual Income Tax – State taxable income is determined by making certain statutory adjustments to federal taxable income. State income tax due is computed under a multi-tiered bracket system with tax rates of 6%, 7%, and 7.75%; the breaking points for the higher marginal tax rates vary according to filing status. Additionally, a temporary income tax surtax is imposed on individuals who meet certain income requirements for tax years beginning on or after January 1, 2009, and before January 1, 2011. The surtax is a percentage (2% or 3% depending on NC taxable income level and filing status) of state income tax payable prior to consideration of withholding, payments, or tax credits. The North Carolina Constitution limits the maximum individual tax rate to 10% of net income.

Corporation Income Tax – A tax is levied at the rate of 6.9% on net income of both foreign and domestic corporations. Additionally, a temporary income tax surtax of 3% of a corporation's tax payable prior to consideration of payments or tax credits is imposed for tax years beginning on or after January 1, 2009, and before January 1, 2011. Net income is derived by making certain adjustments to the federal taxable net income of corporations, such as taxes on income and excess profits and interest on obligations of the United States. Corporations having income from both within and outside of the State apportion their income according to a three-factor formula based on payroll, sales (double weighted) and value of property. Alternative formulas may be utilized with the approval of the Secretary of Revenue. The North Carolina Constitution limits the maximum corporate tax rate to 10% of net income.

Sales and Use Tax – A State general tax rate of 5.75% (reverting to 4.75% effective July 1, 2011, due to repeal of the temporary additional 1% rate) is levied on the sale or use (includes certain remote “click-through” sales) or rental of tangible personal property, electronically delivered or accessed digital property, magazines delivered by mail, and selected services such as the rental of hotel and motel rooms and laundry and dry cleaning services. A combined general rate of 8% (reverting to 7% effective July 1, 2011) applies to sales of telecommunications service, ancillary service, video programming services (direct-to-home satellite and cable), and to sales of spirituous liquor other than mixed beverages. The combined general rate is the State's general rate plus the rate of local tax authorized for every county in the State. Preferential tax rates are also levied on sales, use or rental of specific types of property and services as follows: boats and aircraft, 3% (maximum of \$1,500 per boat or aircraft); manufactured/mobile homes, 2% (maximum of \$300 per section); modular homes, 2.5%; residential electricity sales, 3%, and sales of electricity to commercial laundries or to pressing and dry cleaning establishments for use in machinery used in direct performance of the laundering or the pressing and cleaning service, 2.83%. Sales of electricity to farmers, manufacturing industries and manufacturing plants are exempt. Principal items exempt from the tax include raw materials, containers, labels, packaging and shipping materials, baler twine, fertilizer and seed sold to farmers, feed, certain farm products, prescription medicines, and certain computer software. Food

purchased for home consumption, with a few narrowly-defined exceptions, is exempt from the State sales tax. Motor vehicle sales and rentals and motor fuels are taxed under different schedules. Refunds of the tax are granted to the federal and local governments and other specified governmental entities; certain 501(c)(3) organizations; nonprofit hospitals; fire and emergency medical service volunteer organizations; certain qualified retirement facilities, a University-affiliated nonprofit organization that provides facilities for use by a constituent institution of the UNC system; major recycling facilities; certain low enterprise or development tier businesses; certain industrial facilities; utility companies; taxpayers engaged in analytical services; interstate passenger air carriers for taxes paid on fuel; railroad intermodal facilities; interstate carriers; and motorsports racing teams or motorsports sanctioning bodies. State agencies are granted refunds of local sales taxes paid. Local sales and use taxes of 2.0% (2.25% for the twelve counties that levy an additional sales tax) are collected on transactions taxed at the general State rate. Food is subject to a local sales and use tax of 2%. Local sales and use taxes are distributed to counties and, with limited exception, to local units within the county.

Privilege Tax on Certain Machinery and Equipment – A privilege tax at the rate of 1% of sales price is imposed on manufacturers purchasing mill machinery, parts and accessories; major recycling facilities purchasing cranes, port and dock facilities, rail, and material handling equipment; research and development companies in the physical, engineering, and life sciences purchasing certain research and development equipment; software publishing companies purchasing certain equipment to include associated attachments and repair parts; and certain data centers purchasing computer equipment, cooling systems, or electrical equipment; and industrial machinery refurbishing companies purchasing certain repair parts, attachments, or equipment. The maximum tax on a single article is \$80. Fuel purchased by manufacturers to operate an industry or plant is exempt. Items subject to these privilege taxes are not subject to sales and use taxes. State agencies are exempt from this privilege tax.

Gross Receipts Tax on Motor Vehicle Rentals and Highway Use Tax on Motor Vehicle Sales – Gross receipts from long-term lease or rental of motor vehicles (at least 365 continuous days to the same person) are taxed at the rate of 3%; gross receipts from short-term lease or rental of motor vehicles are taxed at the rate of 8%. For both short and long-term rentals, the maximum tax for a vehicle leased continuously to the same person is \$1,000 for Class A and B commercial vehicles and \$1,500 for other recreational vehicles. A 3% highway use tax is levied on the retail sale of motor vehicles with a maximum ceiling of \$1,000 for Class A and B commercial vehicles and \$1,500 for other recreational vehicles. A retailer engaged in the business of leasing or renting motor vehicles may elect to pay the 3% highway use tax on the retail value of motor vehicles (same maximums per vehicle as described above) purchased for lease or rental rather than the 3% or 8% tax on gross receipts from renting or leasing the vehicles. Collections of the 8% tax from short-term rentals are credited to the General Fund and all collections of the two 3% levies are credited to the Highway Trust Fund.

Corporation Franchise Tax – A franchise tax is levied on business corporations at the rate of \$1.50 per \$1,000 of the largest of three alternate bases. These bases are (a) the amount of the capital stock, surplus and undivided profits apportionable to the State; (b) 55% of the appraised value of property in the State subject to local taxation or (c) the book value of real and tangible personal property in the State less any debt outstanding

which was created to acquire or improve real property in the State. A tax of 3.22% is levied on the gross receipts of electric power and light companies. Municipalities (with minor adjustments) receive quarterly distributions equal to 3.09% of taxable gross receipts from sales of electric power within their jurisdictions during the preceding calendar quarter.

Piped Natural Gas Excise Tax – An excise tax is levied on piped natural gas on a declining block rate based on the number of therms of gas consumed in a month. The rate starts at 4.7¢ for the first 200 therms received and declines to 0.3¢ for the number of therms received in excess of 500,000. Sales of piped natural gas to manufacturers or to farmers to be used in their operations are exempt. Municipalities receive quarterly distributions equal to one-half of the tax proceeds collected from customers within their jurisdictions during the previous calendar quarter.

Alcoholic Beverage Taxes – Liquor is sold in stores owned and operated by local ABC (Alcoholic Beverage Control) Boards where such stores are permitted by local governments. A tax at the rate of 30% of the sales price is levied by the State. Profits from operation of the stores are distributed to the county or municipality where the store is located. Beer is taxed at the rate of 61.71¢ per gallon. Wine is taxed at per liter rates as follows: fortified wine – 29.34¢; unfortified wine – 26.34¢. Counties and municipalities where beer and wine are sold receive on a per capita basis an annual distribution equal to the following percentages of the net amount of excise taxes collected on the sale of malt beverages and wine during the 12-month period ending March 31 each year: 20.47% (7.24% for period ending March 31, 2010) of beer tax revenue; 49.44% (18% for period ending March 31, 2010) of unfortified wine tax revenue; and 18% (6.49% for period ending March 31, 2010) of fortified wine tax revenue. Local elections may be held on the question of permitting the sale of liquor by the drink by qualified restaurants and clubs. An additional tax of \$20 per four liters is levied on liquor purchased by restaurants and clubs for resale as mixed beverages, of which \$9 remains with the local jurisdiction, \$10 is distributed to the General Fund and \$1 is dedicated to DHHS for alcohol or substance abuse rehabilitation.

Insurance Tax – A tax is levied on insurance companies based on gross premiums from business in the State at the following rates: (a) 0.74% additional tax for property coverage (10% of the gross premiums from insurance contracts for automobile physical damage coverage and 100% of the gross premiums from all other contracts for property coverage); (b) 2.5% for workers' compensation; and (c) 1.9% for all other policies including those of health maintenance organizations. Out-of-state insurers are also subject to a premium tax and must pay the higher of the rates that would apply to North Carolina insurers doing business in the home state or North Carolina tax rates. In addition to the gross premiums tax, various license taxes are levied on insurance companies and agents. In addition, a regulatory charge against the gross premiums tax liability is levied with proceeds used to finance operations of the Department of Insurance. The rate for the regulatory charge, which is set annually, is currently set at 6.0% of the gross premiums tax liability for calendar year 2010.

Estate Tax – The North Carolina estate tax is equal to the State death tax credit that was allowable under the Internal Revenue Code as it existed prior to 2002 and may not exceed the amount of the federal estate tax due under the Code. The amount of the North Carolina estate tax is limited to the federal estate tax that would be payable if the federal estate tax was computed without regard to the deduction for State death taxes. Because

the North Carolina estate tax is contingent on the federal estate tax, there is and will be no North Carolina estate tax until the federal estate tax is reinstated.

Tobacco Products Tax – A 2.25¢ tax is levied on each cigarette (45¢ for each pack of 20, 56.25¢ for each pack of 25). Tobacco products other than cigarettes are subject to a tax of 12.8% of the cost of the products; of the net proceeds, an amount equal to 3% of the cost price of the products is credited to the General Fund with the remainder credited to the University Cancer Research Fund.

Other Taxes – Other taxes levied for support of the General Fund include a freight car tax, and various privilege taxes. The gift tax was repealed for gifts made on or after January 1, 2009.

Non-Tax Revenue

Institutional and Departmental Receipts – The State receives various items of institutional and departmental receipts which are deposited with the State Treasurer. The most important of these are fees, tuition payments and federal funds collected by State agencies.

Disproportionate Share Hospital Receipts – Like most states, North Carolina receives Medicaid Disproportionate Share Hospital (“DSH”) payments from the federal government for its public hospitals that serve disproportionate share of indigent patients. DSH payments to State-owned public hospitals are returned to the State and the General Assembly appropriates a specified amount of these receipts as non-tax revenue.

A portion of DSH payments to local qualified public hospitals are retained by the hospital and the remainder is retained by the State and used only when appropriated by the General Assembly. The State has completed its \$151.5 million reimbursement to the federal government resulting from 1) an April 2004 audit report in which the State Auditor questioned some DSH expenditures, and 2) from the cost settlement of DSH payments to hospitals dating back to 1996. In September 2006, \$91.5 million of the reimbursement was paid by the local qualified public hospitals and \$15 million was paid from State resources. An additional \$15 million was paid both in September 2007 and September 2008. The final payment of \$15.8 million was paid on September 30, 2009 from State resources.

Tobacco Fund Settlement – On November 23, 1998, 46 states’ Attorneys General and the major tobacco companies signed a settlement agreement that, among other things, reimburses states for smoking-related medical expenses paid through Medicaid and other health care programs. The maximum that North Carolina could receive is approximately \$4.6 billion over the first 25 years pursuant to the settlement agreement; provided, however, that the formulation of the actual amounts payable each year depends upon various factors, including the market share of such companies. Under the general framework established for the application of the proceeds of the national tobacco settlement funds, one-half of the receipts for each year are to be transferred to the Golden L.E.A.F. Foundation, a special non-profit corporation dedicated to assisting economic development in tobacco dependent regions of the State. The remaining half of the annual settlement receipts is deposited equally to two trust funds, the Tobacco Trust Fund, a special trust fund created to foster the vitality and solvency of the tobacco-related segment of the State’s

agricultural economy, and the Health and Wellness Trust Fund, a special trust fund created to address the health needs of North Carolina. In certain years, tobacco settlement receipts ear-marked for the two Trust Funds have been diverted to the General Fund to fund a part of the budgetary deficits in those years.

The following table set forth the tobacco settlement funds received to date, the amounts transferred to the General Fund and the balance paid to the two Trust Funds and the Golden L.E.A.F. Foundation.

<u>Fiscal Year</u>	<u>Settlement Proceeds Received</u>	<u>Settlement Proceeds Transferred to General Fund</u>	<u>Settlement Proceeds Paid to Trust Funds and Golden L.E.A.F.</u>
2000-01	\$140,273,653.02	\$0.00	\$140,273,653.02
2001-02	175,835,881.98	(64,009,022.21)	111,826,859.77
2002-03	169,200,688.26	(78,000,000.00)	91,200,688.26
2003-04	150,507,203.64	(63,046,734.06)	87,460,469.58
2004-05	148,640,948.78	(60,000,000.00)	88,640,948.78
2005-06	136,453,087.12	(32,134,175.77)	104,318,911.35
2006-07	142,825,077.79	(30,000,000.00)	112,825,077.78
2007-08	159,953,561.72	0.00	159,953,561.72
2008-09	175,186,910.62	(48,796,581.88)	126,390,328.74
2009-10	<u>146,358,489.02</u>	<u>(10,000,000.00)</u>	<u>136,358,489.02</u>
Total	<u>\$1,545,235,501.94</u>	<u>(\$385,986,513.92)</u>	<u>\$1,159,248,988.02</u>

The State intends to fund the payments with respect to certain installment financings that provided University-related projects and youth development centers from a portion of the amounts received under the national tobacco settlement funds and deposited to the Tobacco Trust Fund and the Health and Wellness Trust Fund.

The federal government is currently suing the major tobacco companies to recoup costs of the federal government related to smoking. Any award to the federal government in such lawsuit could have an impact on the tobacco companies' ability to make payments under the settlement with the State.

Disputed Payments under the Master Settlement Agreement – A number of tobacco manufacturers that participate in the Tobacco Fund Settlement described above have determined to dispute a portion of their 2006 payment. Approximately \$755 million of their total expected payments of \$6.5 billion due in April 2006 was placed in a disputed payments account pending determination as to whether the participating states have diligently enforced the terms required by the settlement as contained in each state's Model Statute. The State believes that its share of the disputed payment amount is approximately \$18 million. (See "Litigation" below for more information).

Other Non-Tax Revenue – The State receives other non-tax revenue that is deposited in the General Fund. The most important sources are interest earned by the State Treasurer on investments of General Fund moneys and revenues from the judicial branch. Various fees and other charges and receipts are also classified as "other non-tax revenue."

State Lottery – North Carolina approved an education lottery in 2005. The net proceeds of the North Carolina Educational Lottery provide enhanced educational opportunities, support public school construction, and fund college and university scholarships. Lottery ticket sales began on March 3, 2006. Gross sales since start-up through May 31, 2010 totaled \$4.797 billion and the North Carolina Educational Lottery earned over \$1.541 billion for educational programs during that period.

<u>Fiscal Year</u>	<u>Gross Sales</u> (\$ millions)	<u>Earned for Education</u> (\$ millions)
2005-06	\$229.5	\$62.3
2006-07	885.6	315.5
2007-08	1,078.0	350.9
2008-09	1,293.0	414.0
2009-10 (11 months unaudited)	<u>1,311.5</u>	<u>398.9</u>
Total to Date	\$4,797.9	\$1,541.7

Tax and Non-Tax Revenue

The following table shows the amount of tax revenue and non-tax revenue (excluding federal and departmental receipts) reported in the General Fund in each fiscal year 2004-2005 through 2008-2009 with the annual percentage increases for each of such fiscal years:

Tax and Non-Tax Revenue (Expressed in Millions)

<u>Fiscal Year</u>	<u>Tax Revenue</u>	<u>Percent Increase From Previous Year</u>	<u>Tax and Non-Tax Revenue</u>	<u>Percent Increase (Decrease) From Previous Year</u>
2004-05 ¹	15,765.3	13.6	16,133.3	12.2
2005-06 ¹	17,472.1	10.8	17,903.8	11.0
2006-07	19,148.3	9.6	19,676.3	9.9
2007-08	19,147.5	0.0	19,761.2	-
2008-09	16,525.4	(13.7)	17,020.9	(13.9)

Sources: Office of the State Controller and the State’s Comprehensive Annual Financial Reports (GAAP basis).

¹ For fiscal year ending June 30, 2006, the State changed its methodology for applying GASB Standard No. 33, Accounting and Financial Reporting for Nonexchange Transactions to individual income tax. The 2005 amounts have been restated for this change.

Highway Fund and Highway Trust Fund

The State has an approximately 79,438-mile highway system, including roadways, rights-of-way, structures, signs, markings, traffic signals and ferry operations. The maintenance and preservation of the highway system absorbs a major portion of the State Highway Fund.

The North Carolina Highway Trust Fund was created by the General Assembly in 1989. Revenues for the Highway Trust Fund are generated by a 3% highway use tax on the retail value of motor vehicles purchased or titled in North Carolina, 25% of motor fuel tax revenues, increases in fees charged for the issuance of certificates of title, other fee increases, and all investment income earned by the Highway Trust Fund. The amount of the transfer by the General Assembly to the General Fund is shown below for fiscal years 2005-2006 through 2009-2010 is shown below:

<u>Fiscal Year</u>	<u>Transfer to General Fund From Highway Trust Fund (Expressed in Millions)</u>
2005-06	252.6
2006-07	57.5 ¹
2007-08	172.5
2008-09	147.5
2009-10	108.6

¹ The decrease reflects a one-time reimbursement from the General Fund to the Highway Trust Fund of \$115 million, as well as a one-time reduction in the transfer to the General Fund from the Highway Trust Fund of \$80 million.

Moneys in the Highway Trust Fund are being used for a variety of highway and transportation purposes, including paying debt service on State general obligation bonds issued for highway purposes, and debt service of certain bonds of the North Carolina Turnpike Authority.

The proceeds of the taxes hereinafter described are deposited in the Highway Fund and the Highway Trust Fund. The Highway Fund and the Highway Trust Fund revenues for fiscal years 2004-2005 through 2008-2009 are shown in Appendix B.

Motor Fuels Tax – The tax on motor fuels is 17.5¢ per gallon plus the greater of 3.5¢ per gallon or 7% of the average wholesale price determined semiannually by the Secretary of Revenue and stated as cents per gallon. In the 2009 Session of the North Carolina General Assembly, a floor was established so that the variable component of the motor fuels tax cannot go below the rate of 12.4¢ per gallon. The current tax rate, based on the average wholesale price for the six months ending July 1, 2010, is 31.9¢ per gallon. Refunds or exemptions are granted to the federal government, State and local governments and selected non-profit organizations. An amount equal to collections from 0.5¢ per gallon is transferred to funds created to pay the cost of certain environmental cleanup programs, 75% of the remaining net collections are deposited in the Highway Fund for highway purposes; the balance is deposited in the Highway Trust Fund for highway and other road construction purposes.

Highway Use Tax – For the privilege of using the highways, a tax of 3% is levied on the retail value of motor vehicles when purchased or titled in North Carolina. Collections, along with the 3% portion of the tax on gross receipts from motor vehicle rentals described under “**REVENUE STRUCTURE – General Fund – Tax Revenue-Gross Receipts Tax on Motor Vehicle Rentals and Highway Use Tax on Motor Vehicle Sales**” above are deposited in the Highway Trust Fund.

Motor Vehicle License Tax – An annual license tax is levied at the rate of \$28 per private passenger vehicle. The tax imposed on vehicles of common carriers of passengers and on property-hauling vehicles is based on weight. The tax on farm trucks is approximately one-half of the rate levied on private and contract haulers. Collections are deposited in the Highway Fund.

Non-Tax Revenue – The State places non-tax revenue from various sources in the Highway Fund. The most important source is federal aid. Other sources are interest on the investment of Highway Fund moneys and a gasoline inspection fee of 1/4¢ per gallon. In addition, the Highway Trust Fund receives non-tax revenues generated by increases in fees charged for the issuance of certificates of title and other fee increases and all interest and income earned by the Highway Trust Fund. Amounts earned on investments in the Highway Fund and the Highway Trust Fund for fiscal years 2004-2005 through 2008-2009 are as follows:

<u>Fiscal Year</u>	<u>Investment Earnings¹</u> <u>(millions)</u>	
	<u>Highway Fund</u>	<u>Highway Trust Fund</u>
2004-05	\$35.7	\$11.8
2005-06	38.3	3.0
2006-07	49.0	6.5
2007-08	67.9	2.6
2008-09	30.6	1.1

Sources: Office of State Budget and Management, Office of the State Controller and the State’s Comprehensive Annual Financial Reports (GAAP basis).

¹ Total fund balances in the Highway Fund and the Highway Trust Fund have declined over the five year period. See Appendix B – “FINANCIAL STATEMENTS OF THE STATE OF NORTH CAROLINA” for the five year balance sheets of the Highway Fund and the Highway Trust Fund.

The following table shows the amount of tax revenue and non-tax revenue received in the Highway Fund in each fiscal year 2004-2005 through 2008-2009 and the annual percent increases for each of such fiscal years:

**Highway Fund
Tax and Non-Tax Revenue
(Expressed in Millions)**

<u>Fiscal Year</u>	<u>Motor Fuels Tax Revenue¹</u>	<u>Other State Revenue</u>	<u>Federal Funds</u>	<u>Other Funds</u>	<u>Total Revenue</u>	<u>Percent Increase (Decrease)</u>
2004-05	\$972.6	\$540.5	\$1,134.6	\$15.1	\$2,662.8	10.7%
2005-06	1,114.7	665.1	993.9	14.8	2,788.5	4.7
2006-07	1,179.1	738.2	793.6	30.8	2,741.7	(1.7)
2007-08	1,163.5	770.2	904.4	21.0	2,859.1	4.3
2008-09	1,117.1	697.6	1,113.0	28.9	2,956.6	3.4

¹ Motor Fuels Tax Revenue includes the Motor Fuels Tax and the Highway Use Tax. The gasoline tax rate is adjusted each January 1 and July 1 based upon consumption during the preceding six months. The purpose of this adjustment is to assure a constant revenue stream regardless of consumption amounts.

Source: Office of the State Controller and the State's Comprehensive Annual Financial Reports (GAAP basis).

The following table shows the amount of tax revenue and non-tax revenue received in the Highway Trust Fund in fiscal years 2004-2005 through 2008-2009 and the annual percent increases for each of such fiscal years:

**Highway Trust Fund
Tax and Non-Tax Revenue
(Expressed in Millions)**

<u>Fiscal Year</u>	<u>Motor Fuels Tax Revenue</u>	<u>Other State Revenue</u>	<u>Other Funds</u>	<u>Total Revenue</u>	<u>Percent Increase (Decrease)</u>
2004-05	\$904.4	\$114.4	\$1.0	\$1,019.8	2.4%
2005-06	949.3	113.7	2.0	1,065.0	4.4
2006-07	1,001.2	123.4	5.3	1,129.9	6.1
2007-08	953.9	111.0	5.5	1,070.4	(5.3)
2008-09	819.6	92.1	0.3	912.0	(14.8)

Sources: Office of the State Controller and the State's Comprehensive Annual Financial Reports (GAAP basis).

STATE GOVERNMENT EXPENDITURES

The State receives the tax and non-tax revenue discussed above, as well as various funds from the federal government. The financial statements of the State included in

Appendix B to this Official Statement show the total receipts and expenditures from both sources for the General Fund, the Highway Fund, and the Highway Trust Fund for the five fiscal years ended June 30, 2005 to 2009. Unless otherwise indicated, the information set forth below covering the State's recent and current financial status and budgets excludes federal receipts and expenditures.

REQUIREMENTS FOR BALANCED BUDGET

Constitutional Provision

The State Constitution in Article III, Section 5 details the duties of the Governor to prepare and recommend to the General Assembly a comprehensive budget of anticipated revenue and proposed expenditures of the State for the ensuing fiscal period. Furthermore, once a budget is enacted by the General Assembly, the Governor is required to administer this budget and ensure that the State does not incur a deficit during any fiscal period. To comply with this mandate the Governor must survey the collection of revenue and shall effect the necessary economies in the State expenditures whenever she determines that receipts during the fiscal period in question, when added to the beginning unreserved General Fund balance, will not be sufficient to meet budgeted expenditures.

State Budget Act

The State Budget Act ("SBA") sets out the procedures by which the State's budget is prepared, adopted and administered. The SBA requires the adoption of a balanced budget and G.S. 143C-4-1 provides guidance as to what constitutes a balanced budget. A budget for a fund is balanced when the beginning unreserved fund balance for a fiscal year, together with the projected receipts to the fund during the fiscal year, is equal to or greater than the sum of appropriations from the fund for that fiscal year. If the Governor finds that revenues to any fund, when added to the beginning unreserved fund balance in that fund, will be insufficient to support appropriations, the Governor shall immediately notify the General Assembly that a deficit is anticipated. Furthermore, the Governor shall report in a timely manner to the General Assembly a plan containing the expenditure reductions and other lawful measures that are to be implemented to avert a deficit. However, the North Carolina Constitution provides that any such reduction in appropriations to avert a deficit shall be made "after first making adequate provision for the prompt payment of the principal of and interest on bonds and notes of the State according to their terms."

BUDGETS

State Budget

The total State budget is supported from four primary sources of funds: (1) General Fund tax and non-tax revenue; (2) Highway Fund and Highway Trust Fund tax and non-tax revenue; (3) federal funds and (4) other receipts, generally referred to as departmental receipts. Federal funds comprise approximately 33.1% of the total State budget for fiscal year 2009-2010. The largest share of federal funds is designated to support programs of the Department of Health and Human Services. The other major recipients of federal funds are public schools, universities, community colleges and transportation, including highway construction and safety.

Departmental receipts consist of revenues that are received directly by a department and are not tax or non-tax revenue as designated by the General Assembly. Departmental receipts consist of tuition at the universities and community colleges, patient receipts at the hospitals and institutions, sales of goods and services, grants, and various other receipts. These receipts represent approximately 16.1% of the total State budget.

All funds presented to and reviewed by the General Assembly and approved in accordance with its procedures are considered “appropriated” or authorized by the General Assembly.

2009-2010 General Fund Budget and Actual Revenues and Expenditures

The following table sets forth the fiscal year 2009-2010 General Fund budgeted revenues and appropriations, excluding federal and departmental receipts and expenditures, as approved by the General Assembly during the 2009 Regular Session, and the actual performance on the budgetary cash basis (which is not subject to audit) for the 2009-2010 fiscal year (in millions). The table also sets forth comparative results for the twelve months of the preceding fiscal year.

<i>\$ Millions</i>	<u>Authorized Budget 2009-10¹</u>	<u>Actual for Twelve Months Ended June</u>		<u>Percentage of Budget Realized/ Expended for Twelve Months Ended June 2010</u>
		<u>2010*</u>	<u>2009</u>	
Beginning Fund Balance, July 1	\$92.2	\$92.2	\$599.0	
Unreserved	527.5	527.5	1,350.2	
Reserved	\$619.7	\$619.7	\$1,949.2	
Total Beginning Fund Balance				
Revenues:				
Tax Revenues:				
Individual Income	\$9,514.2	\$9,047.6	\$9,470.2	95.1%
Corporate Income	1,051.1	1,197.9	835.5	114.0%
Sales and Use	5,628.6	5,565.0	4,677.9	98.9%
Franchise	622.0	724.5	651.9	116.5%
Insurance	487.3	486.8	466.6	99.9%
Beverage	287.9	282.3	228.5	98.1%
Other:				
Inheritance	113.1	71.9	104.3	63.6%
Privilege	35.1	39.2	37.5	111.7%
Tobacco Products	247.4	251.7	227.1	101.7%
Gift	-	12.0	12.3	N/A
Freight Car Lines	-	0.3	0.2	N/A
Piped Natural Gas	36.1	33.8	34.2	93.6%
Mill Machinery	32.3	31.9	32.9	98.8%
Other	-	0.1	-	N/A
Total Tax Revenues	\$18,055.1	\$17,745.0	\$16,779.1	98.3%

\$ Millions

	<u>Authorized Budget 2009-10¹</u>	<u>Actual for Twelve Months Ended June</u>		<u>Percentage of Budget Realized/ Expended for Twelve Months Ended June 2010</u>
		<u>2010*</u>	<u>2009</u>	
Nontax Revenues:				
Treasurer's Investments	67.2	40.8	113.3	60.7%
Judicial Fees	247.8	216.9	191.2	87.5%
Insurance	77.7	69.6	76.5	89.6%
Disproportionate Share Receipts	125.0	125.0	100.0	100.0%
Total Nontax Revenues	517.7	452.3	481.0	87.4%
Total Tax and Nontax Revenues	\$18,572.8	\$18,197.3	\$17,260.1	98.0%
Transfers In:				
Highway / Highway Trust Fund	126.1	126.2	165.1	100.1%
Other transfers	227.6	382.2 ²	1,720.5 ³	167.9%
Total Transfers In	353.7	508.4	1,885.6	143.7%
Total Revenues and Transfers In	\$18,926.5	\$18,705.7	\$19,145.7	98.8%
Debt Proceeds	487.5	487.5	600.0	100.0%
Total Available Funds	\$20,033.7	\$19,812.9	\$21,694.9	98.9%
Expenditures				
Current Operations	\$18,315.9	\$17,852.7	\$18,996.8	97.5%
Capital Improvements:				
Funded by General Fund	4.9	4.9	23.1	100.0%
Funded by Debt Proceeds ⁴	487.5	487.5	600.0	100.0%
Debt Service	644.1	609.8	548.1	94.7%
Total Budgetary Expenditures	\$19,452.4	\$18,954.9	\$20,168.0	97.4%
Additional Expenditures/Transfers from/to Reserves	50.0⁵	51.8⁶	907.2⁷	103.6%
Total Expenditures	\$19,502.4	\$19,006.7	\$21,075.2	97.5%
Ending Fund Balance				
Unreserved	\$3.8	\$234.7	\$92.2	
Reserved	527.5	571.5 ⁸	527.5 ⁹	
Total Ending Fund Balance	\$531.3	\$806.2	\$619.7	

Source: Office of the State Controller

¹ As authorized by the 2009 Session (SL 2009-451) of the General Assembly. Amounts not updated for actual fiscal year 2010 results.

² Includes Other Non-tax Revenue Transfers of \$333.9 million and \$48.3 million Non-Reverting Departmental Funds Transfer from Reserves.

³ Includes \$192.8 million of Other Non-Tax Revenue Transfers and \$45.3 million Transfer from Reserves, \$802 million Governor's Executive Order #6 which allowed for the transfer of non-general fund and non-highway fund receipts to the general fund to support appropriation expenditures in fiscal year 2009 and \$680.4 million American Recovery & Reinvestment Act.

⁴ Represents debt issuances in the fiscal year.

⁵ Includes \$50 million Clean Water Trust Fund Expenditures.

⁶ Includes \$47.5 million Clean Water Trust Fund Expenditures, \$2.2 million Disaster Relief Reserve and \$2.1 million Job Development Incentive Grants Reserve.

⁷ Includes expenditures of \$53.2 million for the Disaster Relief Budget Shortfall, \$84.5 million Clean Water Trust Fund, \$6.6 million Job Development Incentive Grants Reserve, \$19.3 million Disproportionate Reserve, \$36.1 million Non-Reverting Departmental Funds, \$636.6 million "Rainy Day" Savings Reserve Account, \$69.8 million Repairs and Renovations Reserve and \$1.1 million from the ONE NC Fund Reserve.

⁸ Includes \$150.0 million "Rainy Day" Savings Reserve, \$41.8 Disaster Relief Budget Shortfall \$3.1 Job Development Incentive Grant and \$376.6 Non-Reverting Departmental Funds.

⁹ Includes \$150 million "Rainy Day" Savings Reserve, \$44 million Disaster Relief Reserve \$5.2 Job Development Incentive Grant and \$328.3 Non-Reverting Departmental Funds.

* Preliminary (unaudited)

Unrecorded Losses on Securities Lending Transactions

In August 2010, the State discovered that there are unrecorded losses on securities lending transactions for the fiscal year ended June 30, 2009. See Note E to the financial statements contained in Appendix B, specifically page B-56, for a description of such securities lending activity. The June 30, 2009 financial statements will be restated to show an approximately \$770.8 million (unaudited) loss for the State as a whole and an approximately \$71.6 million (unaudited) loss for the State's General Fund.

Fiscal Year 2010-2011 Revised General Fund Budget Commentary

Under the North Carolina budget process, in odd numbered years the General Assembly enacts a State budget for the next biennium, consisting of an annual budget for each of the two fiscal years in the biennium. The General Assembly customarily convenes in the second year of the biennium and makes adjustments to the budget previously enacted for that second fiscal year. The State is currently in the biennium that began July 1, 2009 and that ends on June 30, 2011, thus the original budget for the 2010-2011 fiscal year was enacted in 2009.

In June 2010, the General Assembly enacted legislation amending the original 2010-2011 fiscal year budget, that appropriates approximately \$19 billion from the General Fund. The revised 2010- 2011 fiscal year budget made adjustments to the original budget (enacted in 2009) that closed a projected cumulative budget gap of \$1.3 billion from the original budget. This expected gap arose on account of reduced forecasted revenues and unanticipated costs, both of which are discussed below.

Revenue Adjustments

In April 2010, the legislature's Fiscal Research Division and the Office of State Budget and Management revised their prior consensus revenue forecast for the 2010-2011

fiscal year, upon which the original biennium budget had been based, downward by \$703 million. The two major factors behind the lower revenue forecast were (1) a lower revenue base in the 2009-2010 fiscal year, resulting from sluggish sales and personal income tax collections; and (2) a downgraded economic forecast for the nation and the State's economy. As a result, baseline revenue collections (removing tax law changes) for the 2009-10 fiscal year were lowered to a 4.5% year-over-year decline compared to a 2.2% decline forecast in May 2009, and for the 2010-11 fiscal year the forecast reduced growth from 3.3% to 2.7%. The revenue portion of the State budget was revised to reflect the newer forecast.

In addition to the lower revenue forecast, the State was projected to lose another \$85 million in Estate Tax revenues. The North Carolina Estate Tax is based upon the federal internal revenue code provisions for the federal estate tax, which expired January 1, 2010 (these provisions are scheduled to be reinstated in 2011). In the absence of the federal estate tax no State estate tax will be collected for 2010.

A lower revenue forecast and the loss of the State estate tax resulted in a \$788 million reduction in General Fund availability for the 2010-2011 fiscal year, from \$19.6 billion to \$18.98 billion.

In addition to the revised revenue forecast, in the revised General Fund budget, the General Assembly made revenue adjustments totaling \$60.0 million. The most significant was a refundable income tax credit to small businesses whose gross receipts are less than \$1 million. The credit amount is equivalent to 25% of the unemployment insurance contributions made by the small business.

Appropriations and Expenditures

In the revised budget for the 2010-2011 fiscal year, appropriations were reduced from \$19.6 billion to \$18.95 billion. The net change in appropriations included (1) replacement of \$563 million in State funds with additional federal Medicaid assistance, (2) budget reductions totaling \$906 million, and (3) increased funding of \$866 million to address unanticipated growth in Medicaid costs, a dramatic increase in higher education enrollment, economic development initiatives and other priorities. The major actions are described below.

Replacement of State Funds with federal ARRA funds. To help address the budgetary shortfall for the 2010-2011 fiscal year, the revised General Fund budget replaced \$563 million in State Medicaid funds with additional federal American Reinvestment and Recovery Act ("ARRA") funds. This appropriation, when added to the \$1.0 billion in federal ARRA funds appropriated in the 2009-2010 fiscal year brings the total amount of ARRA funding used to replace State funding to approximately \$1.6 billion.

Expenditure Reductions. The revised General Fund budget includes \$906 million in budget reductions from the budget for the fiscal year enacted in 2009. The table below outlines some of the larger reductions:

Major Budget Reductions in Senate Bill 897

Education

Education lottery receipts	\$(121,243,793)
Revised estimate for teacher salaries	(44,950,676)
Redirect More at Four funds with federal (TANF) funds	(30,559,012)
School buses and public school transportation	(21,900,000)
Management flexibility reduction for UNC	(70,000,000)
Increase community college tuition	(30,025,612)
Management flexibility reduction for community colleges	(15,000,000)

Health and Human Services

Reform of in-home personal care services	(50,714,943)
Increase Medicaid savings through Community Care of NC	(45,000,000)
Manage rates and utilization of mental health services	(41,000,000)
Medicaid program integrity	(40,000,000)
Use of federal TANF funds to supplant State Child Care funds	(23,625,329)
Immunization changes	(15,894,853)

Justice and Public Safety

Reduce inmate medical costs	(20,500,000)
Revise estimate of prison inmate population	<u>(22,000,000)</u>
Subtotal – Major Budget Reductions	\$(592,414,218)

Education Lottery. The largest revision redirects \$121 million in lottery proceeds to fund teacher positions. This additional funding comes from 1) additional lottery receipts, and 2) the reallocation of funds from other lottery programs as outlined below.

1.	Increase in net lottery revenues for teachers (50% of growth consistent with Lottery Act):revenue	\$36 million
2.	Reallocation of school capital funds (allocating less than the 40% of revenues called for by statute):	63 million
3.	Funds from Lottery Reserve:	17 million
4.	Redirect funds from More at Four to teachers	<u>5 million</u>
	Subtotal of lottery funds to support teachers:	\$121 million

Budget Increases. The revised General Fund budget included expenditure increases, principally for health and human services, education and economic development.

Health and Human Services. The most significant General Fund appropriation increase was in Medicaid expenditures. Disregarding the action to replace State Medicaid funds with additional federal aid, the revised General Fund budget increases the Medicaid budget by \$431 million. This substantial growth results primarily from the difficulties in implementing Medicaid cuts specified in the original budget enacted in 2009; increased enrollment from higher unemployment; and additional consumption of Medicaid services from program beneficiaries.

Other significant changes include \$40 million to restore funds for local mental health agencies and \$14 million for the AIDS Drug Assistance Program.

Education. The revised 2010-2011 fiscal year budget adds \$87 million for unanticipated enrollment increases in higher education, particularly in the community college system. Community college enrollment increased by 34,000 students (15%), the result of greater demand for worker training programs during the recession.

Other significant increases include \$24 million to operate the University system, \$35 million to hold the constituent institution campus budgets harmless for the tuition increase implemented in 2009, and \$10 million to provide diagnostic devices for teachers in low performing schools.

Economic Development. The budget provides \$74 million for several key investments around assistance to small businesses and infrastructure that will help create 30,000 jobs over the next three years. The table below lists the major economic development items.

Major Economic Development Items

One NC Fund	\$12,500,000
Institute for Regenerative Medicine	10,000,000
Jobs Maintenance and Capital Development Fund	6,500,000
Biofuels Center	5,000,000
Biotechnology Center	5,000,000
Regional Economic Development Commissions	5,000,000
Other Economic Development	<u>29,800,000</u>
Subtotal – Major Economic Development Items	\$73,800,000

Salaries and Benefits. Teachers and other State employees received no salary increases. The budget also provided no additional funding to increase contributions to the retirement system.

Contingency Plan if Federal Medicaid Assistance (FMAP) Funds are Not Realized. \$519 million of the additional federal ARRA funds included in the revised 2010-2011 fiscal year budget depends on the outcome of congressional action. Congress is considering legislation to extend enhanced FMAP aid an additional six months. Although the outcome of Congressional legislation is uncertain, like most States, the State factored this additional federal aid into the 2010-2011 fiscal year budget.

In the event funds are not realized, the legislation enacting the budget directs the Governor to manage the non-realization of the federal assistance through the following budgetary actions, in order of priority:

- Transfer \$30 million from the Disaster Relief Fund
- Transfer \$35 million of unclaimed lottery prize money and excess receipts
- Use \$50 million in interest earnings from governmental and proprietary funds
- Use \$23 million from the unappropriated General Fund balance
- Cut \$ 27 million from Medicaid provider rates
- Use \$38.0 million from the Savings Reserve
- Reduce by \$139 million of contributions to the retirement system

- Reduce \$178 million from State agency budgets

Revised 2010-2011 Fiscal Year General Fund Budget

As discussed above under “REQUIREMENTS FOR BALANCED BUDGET – State Budget Act,” the General Assembly is required to adopt a balanced budget. The General Assembly approved a revised budget for the 2010-2011 fiscal year with adjustments to both the budgeted revenues and expenditures requirements. These are summarized below:

<u>Description</u>	<u>2010-2011 (millions)¹</u>
Beginning Unreserved Fund Balance	\$3.9
Revenues Based on Existing Tax Structure	18,199.3
Non-tax Revenues	646.3
Highway Trust Fund Transfer	72.8
Highway Fund Transfer	17.6
Revenue Adjustments:	
Internal Revenue Code Conformity	(7.7)
Unemployment Insurance Refundable Tax Credit	(34.1)
Increase Sales Tax Prepayment Threshold	(7.0)
Relieve Annual Report Compliance Burden on Small Businesses	(.4)
Extend Sunsets on Various Tax Incentives	(3.5)
Improve Tax and Debt Collection Processes	3.0
Modernize Sales Tax on Accommodations	1.7
Modernize Admissions Tax and Restore Amenities Exclusion	(.7)
Reserve for Pending Finance Legislation	(9.8)
Reduce Franchise Tax Burden on Construction Companies	(1.5)
Department of Revenue Settlement Initiative	110.0
Loss of Estate Tax Revenues for FY 2010-11	(85.0)
Increase Justice and Public Fees	13.9
Transfer from the Health and Wellness Trust Fund	5.4
Transfer Aviation from Commerce to DOT	(.5)
Transfer from Wildlife Resources Commission	3.0
Divert Funds from Scrap Tire Disposal Account	2.5
Divert Funds from White Goods Fund	1.2
Transfer from Mercury Pollution Prevention Fund	2.3
Transfer from Bladen Lakes Special Fund	.2
Transfer from DACS-NC State Fair Funds	1.0
Transfer from ECU MRI Lease and Equipment Fund	1.0
Disproportionate Share	35.0
Transfer from Motorfleet Internal Services Fund	14.0
Adjust Transfer from Insurance Regulatory Fund	(2.2)
Subtotal Adjustments to Availability:	<u>41.751</u>
Total Revised General Fund Revenues/Other Availability	<u>18,981.8</u>
Less General Fund Appropriations	<u>\$18,958.3</u>
Balance Remaining	<u>\$23.5</u>

The General Assembly approved General Fund budget for expenditures for fiscal year 2010-2011 is \$18,958.3 million. Major categories for expenditures are as follows:

<u>Category</u>	<u>FY 2010-11 Amount¹</u>	<u>% of Total</u>	<u>Revised FY 2010-11 Amount¹</u>	<u>% of Total</u>
Education	\$11,029.9	56.4	\$10,807.7	57.0
Health and Human Services	4,321.0	22.1	3,949.9	20.8
Justice and Public Safety	2,179.9	11.1	2,115.3	11.2
General Gov't/NER	852.6	4.4	906.2	4.8
Debt Service	709.2	3.6	707.5	3.7
Statewide Reserves/Capital	<u>467.1</u>	<u>2.4</u>	<u>471.7</u>	<u>2.5</u>
Total General Fund Appropriation	<u>\$19,559.7</u>	<u>100.0</u>	<u>\$18,958.3</u>	<u>100.0</u>

¹ Amounts (millions) may not be exact due to rounding.

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Highway Fund and Highway Trust Fund

Prior Years (2008-09 Actual), (2009-10 Actual-Cash Basis*) and (2010-11 Authorized)

A summary, prepared by the North Carolina Department of Transportation, excluding federal and departmental receipts and expenditures, of the actual revenues and expenditures for the 2008-09 and 2009-10 fiscal years and the authorized budget amounts for the 2010-11 fiscal year is presented below (in millions):

Highway Fund (Expressed in Millions)

	<u>Actual</u> <u>2008-09</u>	<u>Actual *</u> <u>2009-10</u>	<u>Authorized</u> <u>2010-11</u>
Beginning Balance, July 1	\$891.74	\$1,021.23	\$1,024.66
Revenue	1,847.81	1,865.28	1,792.54
GARVEE Bond Proceeds	-	263.14	-
Interfund Transfer (Highway Trust Fund)	<u>50.13</u>	<u>43.18</u>	-
Total Available Funds	\$2,789.69	\$3,192.83	\$2,817.20
Expenditures and Obligations			
Current Operations	\$1,332.97	\$1,703.03	\$1,459.36
GARVEE Bond Expenditures	137.52	146.38	-
Interfund Transfer (General Fund)	290.02	309.69	333.18
Capital Improvements	<u>7.94</u>	<u>9.07</u>	-
Total Expenditures and Obligations	<u>\$1,768.45</u>	<u>\$2,168.17</u>	<u>\$1,792.54</u>
Ending Fund Balance, June 30	<u>\$1,021.23</u>	<u>\$1,024.66</u>	<u>\$1,024.66</u>

Highway Trust Fund (Expressed in Millions)

	<u>Actual</u> <u>2008-09</u>	<u>Actual *</u> <u>2009-10</u>	<u>Authorized</u> <u>2010-11</u>
Beginning Balance, July 1	\$(74.61)	\$(169.63)	\$2.18
Revenue	912.09	881.51	928.73
Interfund Transfer (General Fund)	(172.50)	(152.68)	(108.56)
Interfund Transfer (NC Turnpike Authority)	<u>(25.00)</u>	<u>(25.00)</u>	<u>(64.00)</u>
Total Available Funds	\$639.98	\$534.20	\$758.35
Expenditures and Obligations			
Current Operations	<u>\$809.61</u>	<u>\$532.02</u>	<u>\$758.35</u>
Ending Fund Balance, June 30	<u>\$ (169.63)</u>	<u>\$2.18</u>	<u>\$ -</u>

Note: 2009-2010 data is preliminary and unaudited.

ASSESSED VALUATION OF PROPERTY

The following table and chart show the assessed valuation of real property, tangible personal property and property of public service companies for the last ten fiscal years. Exempt property is excluded from the table. Counties are required by statute to assess property at 100% of its appraised value. Real property must be revalued every 8 years but counties may elect to revalue more frequently. The State does not levy an ad valorem tax on real property and tangible personal property.

Assessed Valuation				
<u>Fiscal Year</u>	<u>Real Property</u>	<u>Tangible Personal Property</u>	<u>Public Service Company Property</u>	<u>Total</u>
2000-01	\$382,422,908,009	\$112,992,132,642	\$21,952,438,541	\$517,367,479,192
2001-02	421,831,969,378	116,740,143,820	23,355,586,210	561,927,699,408
2002-03	448,370,864,967	118,788,285,500	22,602,081,344	589,761,231,811
2003-04	486,461,699,574	117,944,792,111	22,997,034,378	627,403,526,063
2004-05	528,533,828,510	117,683,367,201	23,258,360,938	669,475,556,649
2005-06	572,381,845,957	122,599,101,419	23,633,784,744	718,614,732,120
2006-07	614,693,874,746	130,271,584,966	24,343,997,001	769,309,456,713
2007-08	704,351,774,474	134,254,054,069	24,292,362,350	862,898,190,893
2008-09	783,589,059,363	137,705,527,419	24,989,880,076	946,284,466,858
2009-10	819,271,076,080	134,833,894,416	25,094,980,476	979,199,950,972

Source: Compiled by Department of Revenue from reports submitted by counties and municipalities.

PER CAPITA INCOME

North Carolina Compared to United States

Year	Population			Per Capita Income			
	United States Population	U.S. Increase from Prior Period	North Carolina Population	N.C. Increase from Prior Period	United States	North Carolina	N.C. as a Percentage of U.S.
1950	151,868,000 ⁽¹⁾		4,061,929 ⁽¹⁾		\$1,496 ⁽²⁾	\$1,037 ⁽²⁾	69.32%
1960	179,979,000 ⁽¹⁾	18.51%	4,556,155 ⁽¹⁾	12.17%	2,254 ⁽²⁾	1,615 ⁽²⁾	71.65
1970	203,849,000 ⁽¹⁾	13.26	5,084,411 ⁽¹⁾	11.59	4,072 ⁽²⁾	3,255 ⁽²⁾	79.94
1980	226,546,000 ⁽¹⁾	11.13	5,880,095 ⁽¹⁾	15.65	10,062 ⁽²⁾	8,090 ⁽²⁾	80.40
1990	248,791,000 ⁽¹⁾	9.82	6,632,448 ⁽¹⁾	12.79	19,588 ⁽²⁾	17,295 ⁽²⁾	88.29
2000	282,125,000 ⁽¹⁾	13.46	8,049,313 ⁽¹⁾	21.30	29,770 ⁽²⁾	27,055 ⁽²⁾	90.88
2001	284,797,000 ⁽³⁾	0.95	8,186,268 ⁽³⁾	1.70	30,472 ⁽⁴⁾	27,514 ⁽⁴⁾	90.29
2002	288,368,698 ⁽³⁾	1.25	8,320,146 ⁽³⁾	1.64	30,832 ⁽⁴⁾	27,566 ⁽⁴⁾	89.41
2003	290,809,777 ⁽³⁾	0.85	8,407,248 ⁽³⁾	1.05	31,632 ⁽⁴⁾	28,235 ⁽⁴⁾	89.26
2004	293,655,404 ⁽³⁾	0.98	8,541,221 ⁽³⁾	1.59	32,937 ⁽⁴⁾	29,246 ⁽⁴⁾	88.79
2005	296,410,404 ⁽³⁾	0.94	8,683,242 ⁽³⁾	1.66	34,586 ⁽⁴⁾	30,553 ⁽⁴⁾	88.34
2006	299,398,484 ⁽³⁾	1.01	8,856,505 ⁽³⁾	2.00	36,629 ⁽⁴⁾	32,338 ⁽⁴⁾	88.29
2007	301,621,157 ⁽³⁾	0.74	9,061,032 ⁽³⁾	2.31	38,564 ⁽⁴⁾	33,663 ⁽⁴⁾	87.29
2008	304,059,724 ⁽³⁾	0.81	9,222,414 ⁽³⁾	1.78	39,751 ⁽⁴⁾	34,439 ⁽⁴⁾	86.64
2009	306,522,608 ⁽⁵⁾	0.81	9,386,573 ⁽⁵⁾	1.78	40,975 ⁽⁶⁾	35,501 ⁽⁶⁾	86.64

- Source:
- 1 U.S. Department of Commerce, Bureau of the Census.
N.C. Office of State Planning.
 - 2 U.S. Department of Commerce, Bureau of Economic Analysis.
N.C. Office of State Budget and Management.
 - 3 U.S. Census Bureau estimate.
 - 4 U.S. Bureau of Economic Analysis estimate.
 - 5 Since the 2009 population estimates are not available, the Office of State Controller used the growth rate of the previous year to project the 2009 amounts.
 - 6 Since the 2009 per capita income estimates are not available, the Office of State Controller used the U.S. Per Capita Income growth rate of the previous year to project the 2009 "U.S. Per Capita Income" and the previous year "N.C. as a Percentage of U.S." was used to project the "2009 Per Capita Income for North Carolina".

NORTH CAROLINA EMPLOYMENT INFORMATION

The following table sets forth the State's labor force and the number of non-agricultural jobs by major sector from 2007-2009 and May 2010. Statistics with respect to the labor force are based upon actual laborers available in the workforce; while statistics with respect to jobs relate to actual jobs established (one member of the labor force may maintain more than one job). Please note the Labor Force and CES data listed for 2007 through 2009 are unadjusted and the current month data are preliminary, seasonally adjusted.

EMPLOYMENT DATA FOR THE CALENDAR YEARS 2007 and May 2009

	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>May 2010</u>
Labor Force Data (People)				<i>Seasonally Adjusted</i>
Civilian Labor Force:	4,531,444	4,569,876	4,544,622	4,567,209
Employed	4,318,170	4,286,827	4,060,764	4,094,595
Unemployed.....	213,274	283,049	483,858	472,614
Unemployment Rate (%)*	4.7	6.2	10.6	10.3
Jobs (Establishment Data):				
NORTH AMERICAN INDUSTRY				
CLASSIFICATION SYSTEM				
INDUSTRY TITLE				
Total Nonfarm	4,145,100	4,135,100	3,915,700	3,917,600
Total Private	3,457,300	3,429,400	3,200,000	3,164,600
Goods Producing	800,100	758,600	644,600	607,100
Service Providing	3,345,000	3,376,500	3,271,100	3,310,500
Natural Resources & Mining.....	7,000	6,600	6,000	6,200
Construction.....	254,700	236,000	190,900	171,900
Manufacturing	538,500	516,000	447,700	429,000
Durable Goods.....	289,400	277,100	231,400	218,400
Non Durable Goods.....	249,100	238,900	216,300	210,600
Trade, Trans, Warehousing & Utilities	778,100	769,000	719,700	713,200
Wholesale Trade.....	182,300	179,900	166,300	162,200
Retail Trade	465,900	462,900	436,800	436,800
Transportation, Warehouse & Utilities	129,900	126,200	116,600	114,200
Information	72,700	72,200	69,800	69,300
Finance Activities	211,500	211,300	201,900	198,600
Professional and Business Services	499,800	501,700	463,500	472,000
Educational and Health Services.....	522,600	535,500	542,400	549,700
Leisure and Hospitality Services	399,900	403,600	393,400	391,700
Other Services.....	172,600	176,000	164,700	163,000
Government	687,800	705,700	715,700	753,000

Sources: North Carolina Employment Security Commission; Labor Market Information (LMOR); LAUS (Labor Area Unemployment Statistics), Annual 2007 – 2009, May 2010; and CES (Current Employment Statistics) Annual 2007 – 2009, May 2010.

North Carolina's seasonally adjusted unemployment rate was 10.0 percent in June 2010, a decrease of 0.4 of a percentage point from a revised 10.4 percent in May and 1.0 of a percentage points lower than June 2009 (11.0%). Nationally, June's unemployment

rate decreased 0.2 of a percentage point over the month to 9.5 percent. The State's labor force was 4,567,209 in May 2010, showed a decrease of 6,027 from the previous month. During May 2010, 4,094,595 North Carolinians were employed and 472,614 were unemployed.

The monthly payroll survey of employers in North Carolina showed an increase of 12,900 in seasonally adjusted Total Nonfarm employment since April 2010, and a loss of 3,300 since May 2009. The current total for May 2010 is 3,917,600 jobs.

Of the major industries for which payroll data are seasonally adjusted, Government had the largest over-the-month gain in jobs (16,100; 2.2%), followed by Professional & Business Services (1,600; 0.3%) and Trade, Transportation & Utilities (1,300; 0.2%). Manufacturing (2,900; 0.7%) had the largest over-the-month decrease, followed by Leisure & Hospitality Services (2,700; 0.7%).

Since May 2009, Government added the largest number of jobs (39,900; 5.6%) with Local Government contributing the largest increase, 16,900 (State Government also recorded a job gain of 6,600). Professional & Business Services reported an increase of 11,200 (2.4%), followed by Education & Health Services at 8,000 (1.5%), and Mining & Logging at 300 (5.1%).

MAJOR EMPLOYERS

The State's largest major private sector employers, ranked in order according to employment as of the first quarter of 2009 are listed below:

<u>2009 Rank</u>	<u>Employer</u>	<u>Type of Industry</u>
1	Wal-Mart Associates Inc.	Retail Trade
2	Duke University	Educational Services/Health Services
3	Food Lion LLC	Retail Trade
4	Wachovia Bank	Finance Activities
5	Lowes Home Centers Inc.	Retail Trade
6	Bank of America Corporation	Finance Activities
7	Harris Teeter Inc.	Retail Trade
8	International Business Machines	Manufacturing
9	Smithfield Foods Inc.	Manufacturing
10	BB&T	Financial Activities
11	United Parcel Service Inc.	Transportation
12	AT & T Services	Information
13	Target Stores	Retail Trade
14	North Carolina Baptist Hospital	Health Services
15	WakeMed	Health Services
16	US Airways Inc.	Transportation
17	Moses H Cone Mem. Hospital	Health Services
18	Ingles Markets Inc.	Retail Trade
19	Lowes Food Stores	Retail Trade
20	Belk Inc.	Retail Trade
21	Forsyth Memorial Hospital	Health Services
22	Memorial Mission Hospital Inc.	Health Services
23	Progress Energy Carolinas	Utilities
24	Glaxosmithkline	Manufacturing
25	General Mills Restaurant	Leisure & Hospitality

Sources: North Carolina Employment Security Commission.

STATE INDEBTEDNESS

Outstanding General Obligation Indebtedness¹

<u>As of 6/30</u>	<u>Bonds (General)</u>	<u>Bonds (Highway)</u>	<u>Bonds (Total)</u>
2006	\$4,977,910,995	\$756,755,000	\$5,734,665,995
2007	5,197,445,272	702,080,000	5,899,525,272
2008	4,885,609,403	648,025,000	5,533,634,403
2009	4,575,330,000	593,935,000	5,169,265,000
2010*	4,742,737,008	527,922,992	5,270,660,000

*unaudited

¹ Table includes refunding debt but not refunded debt since sufficient funds have been placed with an escrow agent to pay all principal and interest and any premium on the debt refunded to and including: their respective maturities or dates of redemption.

Bonds issued: fiscal year 2001-2002 through fiscal year 2009-2010 –

2001-02	<p>\$204,400,000 Public Improvement Bonds, Series 2002A (Tax-Exempt), 6.32 years average maturity, 4.0583% true interest cost.</p> <p>\$35,000,000 Public Improvement Bonds, Series 2002B (Taxable), 1.5 years average maturity, 3.6317% true interest cost.</p> <p>\$10,600,000 Public Improvement Bonds, Series 2002C (Tax-Exempt), 2.89 years average maturity, 3.4911% true interest cost.</p> <p>\$355,000,000 Variable Rate General Obligation Bonds, Series 2002 D-G issued at a weekly rate.</p>
2002-03	<p>\$18,800,000 Clean Water Bonds, Series 2002A, 13.02 years average maturity, 4.4516% true interest cost.</p> <p>\$50,000,000 Natural Gas Bonds, Series 2002A – Federally Taxable Interest 3.5 years average maturity, 3.3733% true interest cost.</p> <p>\$56,480,000 Refunding bonds, Series 2002A, 5.45 years average maturity, 3.2460% true interest cost.</p> <p>\$499,870,000 Variable Rate General Obligation Refunding Bonds issued at weekly rate, rates fixed (pursuant to interest rate swap agreements with Goldman Sachs Mitsue Marine Derivative Products, L.P. and Bank of America, N.A.) at 3.089% and 3.283% to maturity.</p> <p>\$2,900,000 Clean Water Bonds, Series 2003A, 3.35 years average maturity, 2.7516% net interest cost.</p> <p>\$320,000,000 Public Improvement Bonds, Series 2003A, 15.07 years average maturity, 4.3415% true interest cost.</p> <p>\$283,255,000 Public Improvement Bonds, Series 2003B, 13.41 years average maturity, 4.3094% true interest cost.</p> <p>\$33,000,000 Natural Gas Bonds, Series 2003-Federally Taxable Interest, 3.0 years average maturity, 2.8471% true interest cost.</p>

	\$3,645,000 Clean Water Bonds, Series 2003B, 2.94 years average maturity, 2.8190% net interest cost.
2003-04	\$91,000,000 Refunding Bonds, Series 2003D, 2.66 years average maturity, 2.3396% true interest cost.
	\$235,710,000 Refunding Bonds, Series 2003E, 5.49 years average maturity, 3.2991% true interest cost.
	\$400,000,000 General Obligation Bonds, Series 2003, 10.14 years average maturity, 3.8298% true interest cost.
	\$707,900,000 Public Improvement Bonds, Series 2004A, 14.13 years average maturity, 3.928491% true interest cost.
	\$36,000,000 Natural Gas Bonds, Series 2004A, 3.00 years average maturity, 2.4798% true interest cost.
	\$15,255,000 Clean Water Bonds, Series 2004A, 2.957 years average maturity, 2.2783% net interest cost.
2004-05	\$300,000,000 Highway Bonds, Series 2004, 8.67 years average maturity, 3.5837% true interest cost.
	\$382,260,000 Refunding Bonds, Series 2004, 5.63 years average maturity, 2.9429% true interest cost.
	\$705,500,000 Public Improvement Bonds, Series 2005A, 12.84 years average maturity, 3.9753% true interest cost.
	\$106,985,000 Refunding Bonds, Series 2005A, 9.96 years average maturity, 3.4900% true interest cost.
	\$16,000,000 Natural Gas Bonds, Series 2005, 3.17 years average maturity, 3.5758% true interest cost.
	\$470,510,000 Refunding Bonds, Series 2005B, 8.74 years average maturity, 3.5386% true interest cost.
2005-06	\$70,000,000 Clean Water Bonds, Series 2006A, 11.17 years average maturity, 4.0859% true interest cost.
	\$300,000,000 Higher Education Bonds, Series 2006A, 10.5 years average maturity, 4.2434% true interest cost.
2006-07	\$502,745,000 Public Improvement Bonds, Series 2007A, 10.55 years average maturity, 4.0824% true interest cost.
	\$84,385,000 Refunding Bonds, Series 2007B, 15.4 years average maturity, 4.3520% true interest costs.
2009-10	\$371,920,000 Refunding Bonds, Series 2009A, 6.904 years average maturity, 2.2637% true interest cost.
	\$487,700,000 Public Improvement Bonds, Series 2010A, 10.52 years average maturity, 3.4798% true interest costs.

General Obligation Bonds Authorized and Unissued

The State of North Carolina currently has no authorized but unissued general obligation indebtedness.

Special Indebtedness

Pursuant to the State Capital Facilities Finance Act, the State issues various types of debt that is not supported by the full faith, credit and taxing power of the State. Termed “Special Indebtedness”, such debt is supported primarily by annual appropriations for debt

service by the General Assembly, but may also be secured by a lien on facilities, equipment or other assets. Examples of Special Indebtedness include certificates of participation, lease-revenue bonds and limited obligation bonds.

Outstanding Special Indebtedness Subject to Annual Appropriation

<u>As of 6/30</u>	<u>Total Debt Subject to Annual Appropriation⁽¹⁾</u>
2002	\$-0-
2003	17,500,000
2004	519,570,000
2005	740,215,000
2006	709,105,000
2007	972,685,000
2008	1,200,925,000
2009	1,744,630,000
2010*	1,668,350,000

⁽¹⁾ Does not include North Carolina Turnpike Authority Bonds which are payable from the Highway Trust Fund.

*unaudited

Debt issued: fiscal year 2002-2003 through fiscal year 2008-2009 –

2002-03	\$17,500,000 Certificates of Participation, Series 2003A (Wildlife Projects), 12.38 years average maturity, 4.6816% all-in true interest cost.
2003-04	\$218,405,000 Lease-Purchase Revenue Bonds (North Carolina Correctional Facilities Projects), Series 2003, 12.8 years average maturity, 4.3219% all-in true interest cost. \$158,955,000 Certificates of Participation (State of North Carolina Correctional Facilities Project), Series 2004A, 10.47 years average maturity, 4.0861% all-in true interest cost. \$125,000,000 Certificates of Participation (Repair and Renovation Project), Series 2004B, 10.87 years average maturity, 4.3519% all-in true interest cost.
2004-05	\$53,640,000 Lease-Purchase Revenue Bonds (North Carolina Facilities Projects), Series 2004, 12.1 years average maturity, 4.24% all-in true interest cost.
2005-06	\$188,385,000 Certificates of Participation (2005 Capital Improvements), Series 2005A, 10.95 years average maturity, 4.1756% all-in true interest cost.
2006-07	\$100,000,000 Certificates of Participation (2006 Repairs and Renovations), Series 2006A, 10.292 years average maturity, 4.437805% all-in true interest cost.

2006-07	\$200,000,000 Certificates of Participation (2006 Capital Improvements), Series 2006A, 10.7861 years average maturity, 4.167624% all-in true interest cost.
2007-08	\$200,000,000 Certificates of Participation (Capital Improvements), Series 2007A, 12.97 years average maturity, 4.412% all-in true interest cost. \$75,000,000 Certificates of Participation (Repair and Renovation), Series 2007B, 11.1 years average maturity, 4.346% all-in true interest cost.
2008-09	\$200,000,000 Limited Obligation Bonds (Capital Improvements), Series 2008A, 12.75 year average maturity, 4.3227% all-in true interest cost. \$400,000,000 Limited Obligation Bonds (Capital Improvements), Series 2009A, 11.97 year average maturity, 4.1464% all-in true interest cost.

Authorized and Unissued Special Indebtedness as of July 1, 2010.

<u>Purpose</u>	<u>Date Approved</u>	<u>Authorized and Unissued^{1, 2}</u>
Psychiatric Hospitals	2003/06/09	\$253,368,397
Correctional Facilities	2003/06/07/08/09	118,209,397
University Projects	2004/06/07/08/09/10	902,185,085
Parks and Land	2004/06/07/09	40,000,000
State Projects and Other	2006/07/08/09	80,574,378
Repairs and Renovations	2009/10	159,555,896
Green Square Project	2008/09	34,371,888
		\$1,588,265,041

¹ Total represents Special Indebtedness Authorization.

² Does not include North Carolina Turnpike Authority Authorization.

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Annual Debt Service Requirements for General Obligation Indebtedness and Special Indebtedness

Fiscal Year	General Obligation (including Highway)		Special Indebtedness		Total	
	Existing Debt		Existing Debt		Existing Debt ^{1,2,3,4}	
	Principal	Principal & Interest	Principal	Principal & Interest	Principal	Principal & Interest
2010-11	\$380,280,000	\$627,900,105.54	\$77,700,000	\$157,213,311.28	\$457,980,000	\$785,113,416.82
2011-12	375,705,000	607,634,281.10	79,260,000	155,257,669.40	454,965,000	762,891,950.50
2012-13	387,295,000	600,213,797.78	80,960,000	153,494,595.64	468,255,000	753,708,393.42
2013-14	384,260,000	578,021,260.44	82,730,000	151,546,933.76	466,990,000	729,568,194.20
2014-15	387,560,000	562,441,085.56	84,635,000	149,584,550.01	472,195,000	712,025,635.57
2015-16	388,010,000	543,749,566.52	86,715,000	147,529,681.27	474,725,000	691,279,247.79
2016-17	386,295,000	522,001,416.68	88,875,000	145,474,600.03	475,170,000	667,476,016.71
2017-18	386,765,000	504,676,066.80	91,200,000	143,448,481.27	477,965,000	648,124,548.07
2018-19	389,210,000	488,080,649.84	93,600,000	141,442,768.76	482,810,000	629,523,418.60
2019-20	356,180,000	436,614,749.84	111,160,000	154,128,893.76	467,340,000	590,743,643.60
2020-21	275,850,000	339,655,166.52	110,625,000	148,147,156.26	386,475,000	487,802,322.78
2021-22	256,690,000	307,767,600.00	112,875,000	145,028,156.26	369,565,000	452,795,756.26
2022-23	253,145,000	291,786,050.00	115,225,000	141,822,106.26	368,370,000	433,608,156.26
2023-24	227,385,000	254,375,212.50	118,515,000	139,441,100.01	345,900,000	393,816,312.51
2024-25	147,785,000	164,955,962.50	82,725,000	98,512,018.76	230,510,000	263,467,981.26
2025-26	85,785,000	96,519,812.50	72,605,000	84,375,268.76	158,390,000	180,895,081.26
2026-27	68,630,000	75,676,162.50	70,390,000	78,638,543.76	139,020,000	154,314,706.26
2027-28	40,885,000	45,037,750.00	63,320,000	68,347,993.76	104,205,000	113,385,743.76
2028-29	24,385,000	26,823,500.00	45,235,000	47,327,943.76	69,620,000	74,151,443.76
2029-30	<u>24,385,000</u>	<u>25,604,250.00</u>			<u>24,385,000</u>	<u>25,604,250.00</u>
	<u>\$5,226,485,000</u>	<u>\$7,099,534,446.62</u>	<u>\$1,668,350,000</u>	<u>\$2,450,761,772.77</u>	<u>\$6,894,835,000</u>	<u>\$9,550,296,219.39</u>

¹ Table includes refunding debt but not refunded debt since sufficient funds have been placed with an escrow agent to pay all principal and interest and any premium on the debt refunded to and including their respective maturities or dates of redemption.

² The table above includes \$355,000,000 Variable Rate General Obligation Bonds issued in spring 2002. These bonds bear interest on a variable interest rate basis, initially in a weekly mode, which may not exceed 12% per annum. The table reflects interest on these bonds calculated at a 4% interest rate.

³ Does not include North Carolina Turnpike Bonds (which are payable from the Highway Trust Fund).

⁴ Includes refunding bonds offered hereby.

Per Capita State Indebtedness

<u>As of 6/30</u>	<u>Population</u>	<u>Outstanding General Obligation Debt and Special Indebtedness Subject to Annual Appropriation³</u>	<u>Per Capita</u>
2004	8,541,221 ¹	\$5,495,719,379	\$643.43
2005	8,683,242 ¹	6,433,296,426	740.89
2006	8,856,505 ¹	6,443,770,995	727.57
2007	9,061,032 ¹	6,874,464,474	758.68
2008	9,222,414 ¹	6,734,539,403	730.24
2009	9,386,573 ²	6,913,895,000	736.57
2010	9,386,573 ²	6,939,010,000	739.25

¹ U.S. Census Bureau estimate.

² Since the 2009 population estimates are not available, the Office of State Controller used the growth rate of the previous year to project the 2009 and 2010 amounts.

³ Does not include North Carolina Turnpike Authority Bonds.

Percentage of Annual General Obligation and Special Indebtedness Debt Service to General Expenditures

<u>Fiscal Year Ended June 30</u>	<u>Debt Service (Principal and Interest)¹</u>	<u>Total General Governmental Expenditures²</u>	<u>Percentage</u>
2005	\$553,208,000	\$33,207,069,000	1.67%
2006	657,679,000	33,785,856,000	1.95
2007	726,673,000	37,119,507,000	1.96
2008	759,504,000	38,935,704,000	1.95
2009	803,641,000	40,151,563,000	2.00

Source: Comprehensive Annual Financial Report, N.C. Office of the State Controller.

¹ Debt service on special indebtedness subject to appropriation and general obligation indebtedness. Amounts do not include North Carolina Turnpike Authority Bond debt service.

² Includes General Fund appropriations, Federal funds, funds from Highway Fund and Highway Trust Fund, and other departmental receipts.

Swap Agreements Relating to General Obligation Bonds

The State has previously entered into various interest rate swap agreements. See Note 7.E. “Interest Rate and Basis Swaps” in the notes to the Financial Statements included in Appendix B hereto for a more complete description of such interest rate swap agreements and the State’s obligations thereunder.

Legal Debt Limit

The State Constitution provides in substance that the State shall not contract a debt, other than refunding debt, by borrowing money in any biennium and pledge its faith and credit to the payment thereof for an amount in excess of two-thirds of the amount by which the outstanding debt of the State shall have been reduced in the preceding biennium unless the proposed debt is submitted to and approved by the voters at an election. Exceptions to this requirement, arising either from specific language in the State Constitution or court cases, include refunding bonds, notes or other obligations issued in anticipation of revenues, moral obligation bonds, revenue bonds and obligations as to which the State’s payments are subject to annual appropriation.

Advances to the Employment Security Commission

The State has borrowed from the Federal Unemployment Account (FUA) as described in Note 6, “Short-Term Debt” in the Notes to the Financial Statements included in Appendix B (which shows the June 30, 2009 amounts), and has continued to borrow for the purposes described therein in the current fiscal year. At June 30, 2010 the outstanding amount borrowed from the FUA was \$2.3 billion.

Refunding Bonds

The State is authorized to issue general obligation refunding bonds from time to time as determined by the State Treasurer, without voter approval or action by the General Assembly, to refund any general obligation bonds of the State then outstanding. If favorable market conditions occur, the State may issue bonds to refund any of its existing general obligation bonds if such issuance will result in desirable debt service savings to the State.

Moral Obligation Bonds

There are no outstanding bonds of the State which contemplate the appropriation by the General Assembly of such amount as may be necessary to make up any deficiency in a debt service reserve thereof. Furthermore, no legislation has been enacted by the General Assembly which would authorize the issuance of any such bonds.

Revenue Bonds

Pursuant to Section 136-18(12b) of the North Carolina General Statutes and the State and Local Government Revenue Bond Act, the State issued \$287.57 million and \$242.52 million of Grant Anticipation Revenue Vehicle (GARVEE) Bonds in 2007 and 2009 respectively. The bonds were issued for the purpose of accelerating various transportation projects across the State and to pay certain costs incurred in connection with the Bonds.

The GARVEE Bonds are payable solely from certain federal aid revenues received on behalf of the State and do not create a debt, liability or obligation of the State or any political subdivision of the State. Such federal aid revenues consist of amounts derived from the National Highway System and other federal surface transportation programs.

Guaranteed State Energy Contracts

The State is authorized to finance up to \$500 million for projects that provide energy cost savings that are sufficient to pay the debt service on the projects' financing. As of July 1, 2010 a total of \$61,885,450 of such contracts had been entered into.

General Obligation Bonds Authorized and Unissued

The State of North Carolina currently has no authorized but unissued general obligation indebtedness.

Capital Financing Outlook

The State has authorized but unissued debt subject to annual appropriation of approximately \$1.588 billion, and the State anticipates that all or a large portion of this debt subject to annual appropriation will be issued from time to time over the next several years. The timing and size of additional future issues will depend upon a number of factors, including the cash flow requirements of the State for the programs and projects to be financed with the debt proceeds, the State's financial condition at the time the debt is proposed to be issued, and capital market conditions. The amount and timing of these sales has not been established. See "North Carolina Turnpike Authority" below for the intention to issue debt subject to annual appropriation from the Highway Trust Fund.

North Carolina Turnpike Authority

The North Carolina Turnpike Authority (the "Turnpike Authority") is authorized to construct and operate toll roads within the State, and to issue toll road revenue bonds to finance such costs. At present, the Turnpike Authority is planning the financing and construction of five toll facility projects within the State. On July 27, 2009, the General Assembly authorized the transfer of the functions and funds of the North Carolina Turnpike Authority over to the North Carolina Department of Transportation to conserve expenditures and improve efficiency.

In 2008 the General Assembly enacted legislation authorizing the transfer of funds from the Highway Trust Fund to the Turnpike Authority, with the proceeds of such transfer to be used to pay debt service on bonds issued by the Authority for its Turnpike Projects and for certain related purposes. The legislation established an appropriation to the Turnpike Authority of \$25,000,000 for the fiscal year ending June 30, 2009 and \$64,000,000 for the fiscal year ending June 30, 2010. In 2010 the General Assembly appropriated \$84,000,000 for the fiscal year ending June 30, 2011, \$99,000,000 for the fiscal year ending June 30, 2012 and a continuing appropriation of \$112,000,000 for fiscal years thereafter. The legislation also provides that the General Assembly may amend such appropriations or decrease or eliminate the amount of such appropriations by future legislation. The Authority has expressed its intention to proceed with bond issues in which

all or some source of repayment of the Turnpike Authority's bonds will be such future appropriations. A bond issue obligating the first \$25,000,000 of appropriations to be received annually was issued by the Turnpike Authority in July 2009. The Turnpike Authority plans to issue bonds supported by a second component of such appropriations (\$24 million) before the end of 2010.

**REVENUE BONDS AND OTHER INDEBTEDNESS OF STATE
AUTHORITIES AND INSTITUTIONS
AT JUNE 30, 2009**

The following chart outlines the revenue bonds and other indebtedness of State authorities and institutions at June 30, 2009. The State is not responsible for debt service on any of the revenue bonds and other indebtedness represented in this chart.

Appalachian State University	\$172,070,000
East Carolina University	96,133,924
Elizabeth City State University	17,016,440
Fayetteville State University.....	7,431,578
North Carolina A & T State University.....	16,085,000
North Carolina Central University.....	31,832,536
North Carolina State University at Raleigh	266,300,000
University of North Carolina at Asheville.....	21,280,000
University of North Carolina at Chapel Hill.....	1,172,414,343
University of North Carolina at Charlotte	153,196,550
University of North Carolina at Greensboro.....	110,273,685
University of North Carolina at Pembroke	44,994,011
University of North Carolina School of the Arts.....	9,655,000
University of North Carolina at Wilmington	196,676,141
Western Carolina University	65,884,239
Winston-Salem State University.....	71,802,417
North Carolina Capital Facilities Finance Agency	2,923,190,621
North Carolina Eastern Municipal Power Agency	2,536,965,000
North Carolina Housing Finance Agency	1,499,775,000
North Carolina Medical Care Commission	6,691,721,301
North Carolina Municipal Power Agency No. 1.....	1,641,900,000
North Carolina State Education Assistance Authority.....	3,994,462,000
North Carolina State Ports Authority	97,088,698
Total	\$21,838,148,484

Source: Chief fiscal officer of each authority or institution.

RETIREMENT AND PENSION PLANS

The State provides retirement benefits to its employees through the following contributory, defined benefit plans:

Teachers' and State Employees' Retirement System – Membership is comprised of employees of State agencies and institutions, including teachers and employees of the local boards of education, university and community college faculty and employees, and State-employed law enforcement officers. Total active member accounts estimated at December 31, 2008 amounted to 325,618*, and in addition, there were 96,175 inactive members. Annuitants for December 31, 2008 totaled 151,353. Benefits accrue at the rate of 1.82% of the 4-year average compensation for each year of service. For the fiscal year

beginning July 1, 2010, the system is funded by a member contribution of 6% of compensation and an employer contribution of 3.57%, in addition to investment income. The State's future contributions to the system will depend upon the needs of the system to remain actuarially sound.

Consolidated Judicial Retirement System – Membership is comprised of judges, district attorneys and clerks of court. Total active member accounts estimated at December 31, 2008 amounted to 551 and in addition, there were 54 inactive members. Annuitants for December 31, 2008 totaled 448. Benefits accrue at the rates of 3.02%, 3.52% or 4.02% of final compensation for each year of service, depending on the status of members. For the fiscal year beginning July 1, 2010 the system is funded by a member contribution of 6% of compensation and an employer contribution of 15.11% of covered payroll, in addition to investment income. The State's future contributions to the system will depend upon the needs of the system to remain actuarially sound.

Legislative Retirement System – Membership is comprised of members of the General Assembly. Total active member accounts estimated at December 31, 2008 amounted to 169, and in addition, there were 76 inactive members. Annuitants for December 31, 2008 totaled 261. Benefits accrue at the rate of 4.02% of final compensation for each year of service. For the fiscal year beginning July 1, 2010 the system is funded by a member contribution of 7% of compensation, in addition to investment income. No contribution was made by the State for the fiscal year beginning July 1, 2010 because the plan had a market value in excess of its liabilities. The State's future contributions to the system will depend upon the needs of the system to remain actuarially sound.

Failure to Appropriate Annual Required Contribution

Effective July 1, 2010 for the Teachers' and State Employees' Retirement System, the State has established an employer contribution rate of 3.57% of compensation. If the State receives certain federal funds, the contribution may increase to as much as 4.93% of compensation, but this is still below the Annual Required Contribution of 6.71%. The employer contributions to the Consolidated Judicial Retirement System and Firemen's and Rescue Squad Workers' Pension Fund will also be less than the Annual Required Contribution. This will result in a positive Net Pension Obligation at June 30, 2011.

*Decrease in membership from the previous year is due to a change in reporting of active members that allows the consulting actuary to identify employees who have terminated membership in the year of termination instead of the year after termination.

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The following financial and statistical data represent a consolidation of the three retirement systems for the four years ending December 31, 2008.

**RETIREMENT SYSTEMS
RECEIPTS AND DISBURSEMENTS
(\$ millions)**

	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>
Receipts:				
Employee Contribution	\$709.3	\$749.7	\$803.5	\$853.7
Employer Contribution	281.2	371.2	396.7	517.3
Investment Earnings	3,439.4	5,833.2	4,639.0	(11,358.5)
Other	2.2	1.9	4.6	3.0
Total	\$4,432.1	\$6,956.0	\$5,843.8	(\$9,984.5)
Disbursements:				
Benefit	\$2,474.7	\$2,656.9	\$2,835.5	\$3,022.8
Refunds	79.7	83.2	76.9	74.7
Other	14.7	9.1	15.2	14.0
Total	\$2,569.1	\$2,749.2	\$2,927.6	\$3,111.5
Excess of Income over				
Disbursements	\$1,863.0	\$4,206.8	\$2,916.2	(\$13,096.0)
Net Assets	\$51,990.3	\$56,066.3	\$59,112.0	\$46,016.0
Actuarial Value of Assets ¹	\$50,081.1	\$52,856.4	\$55,744.2	\$55,591.3
Actuarial Value of Accrued Liabilities	(\$47,001.7)	(\$49,792.0)	(\$53,256.1)	(\$55,983.8)
Difference ²	3,079.4	3,064.4	2,488.1	(392.50)
Ratio of Assets to Liabilities	1.07	1.07	1.05	0.99

¹ Actuarial Value of Assets is 5 year smoothed market.

² A positive number indicates the System is more than 100% funded.

Source: North Carolina Retirement System Financial Statements; Consulting Actuary – Buck Consultants.

Fiscal year ending June 30, 2010 performance

For the fiscal year ending June 30, 2010, the investment performance for the North Carolina pension fund returned 11.97 percent compared with a return in the S&P 500 index of 14.43 percent. The market value of pension fund assets was \$65.3 billion compared to \$60.2 billion on June 30, 2009. No representation is made herein as to the future performance of the investments in the retirement systems.

In addition to the above-defined benefit retirement plans, the State administers the following pension and retirement plans.

Firemen and Rescue Squad Pension Fund – Membership is comprised of both volunteer, State and locally employed firemen and certified rescue squad personnel who

elect, membership. Estimated membership totaled 37,288 at June 30, 2009. Pensioners as of June 2009 totaled 10,911. Benefits are \$170 per month payable at age 55 with a minimum of 20 years of service. The plan is funded by a \$10 monthly contribution by the member, investment income and a State appropriation.

National Guard Pension Fund – Membership is established at age 60 for former members of the North Carolina National Guard who have 20 or more years active duty with the National Guard. Benefits are \$95 per month for the first 20 years of service and \$9.50 per month for each additional year of service to a maximum of \$190.00 per month. Pensioners at December 31, 2008 totaled 3,415. The plan is funded by State appropriation and investment income.

Legislative Retirement Fund – The law creating this fund was repealed in 1973. Membership is comprised of members and former members of the General Assembly. Accrued rights were preserved for members at the date of repeal. Benefits totaling \$21,125 were being paid to 13 annuitants for the calendar year ended December 2009. The State appropriates annually the amount necessary to pay benefits due for each year.

Sheriffs' Supplemental Pension Fund – This plan was created to provide supplemental retirement benefits to retired county sheriffs who are at least age 55 with 10 or more years of service as a sheriff. The plan is funded by \$1.25 from each cost of court assessed in criminal cases. The amount of the benefit is equal to one share amount for each year as a sheriff not to exceed 75% of a retired sheriff's final rate of pay offset by benefits from the Local Government Employees' Retirement System, to a maximum of \$1,500 per month from the plan. For fiscal year 2008-2009, there were 84 retired sheriffs in receipt of benefits at an annual cost of \$1,329 million (unaudited).

Local Governmental Employees' Retirement System – Membership is comprised of general employees and local law enforcement officers of participating local governmental entities. Benefits are nearly identical to the benefits that accrue to members of the Teachers' and State Employees' Retirement System described above. The system is funded by an employee contribution of 6% and an employer contribution at varying rates by the participating local governments. As of July 1, 2010 the normal employer contribution rate was 6.35% while the contribution rate for employers of law enforcement members was 6.82%. The State's responsibility is administrative.

Registers of Deeds' Supplemental Pension Fund – This plan was created to provide supplemental retirement benefits to retired elected county Registers of Deeds who have 10 or more years of service as a Register. The plan is funded by monthly remittances to the Department of State Treasurer, by each county, equal to 1.5% of the receipts collected pursuant to Article 1 of Chapter 161 of the General Statutes. The amount of the benefit is 75% of a retired Register of Deeds' final rate of pay offset by benefits from the Local Governmental Employees' Retirement System, to a maximum of \$1,500 per month from the plan. As of December 31, 2008 there were 86 retired Registers of Deeds in receipt of benefits at an annual cost of \$1,503,183.

OTHER POST-EMPLOYMENT BENEFITS

In April 2004, GASB issued Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans* (effective for fiscal year 2006-2007) and in June 2004, GASB issued Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions* (effective for fiscal year 2007-2008), collectively termed "OPEB".

The actuarial data is disclosed in the notes to the State's CAFR, based on the disclosure requirements for a cost-sharing, multiple-employer plan, and are also presented as required supplementary information (RSI). The unfunded actuarial liability is not recorded as an accounting liability but is disclosed in the notes to the financial statements, and as required supplementary information.

Beginning with fiscal year 2007-2008, the State's CAFR presents the required disclosures as an employer under GASB Statement No. 45. GASB Statement No. 45 requires the presentation of the State's OPEB costs.

Retiree Health Benefits

Aon Consulting completed the third actuarial valuation of retiree health benefits plan as of December 31, 2008. The State retiree healthcare benefit is currently funded on a pay-as-you-go basis, with minimal additional accumulation of funds to pay the retiree health benefit. Based on the current funding method with limited accumulation of funds, the actuarial assumptions reflect a short-term discount rate of 4.25%. The projected unit credit method indicated an accrued liability of \$28.288 billion for the retiree healthcare plan (\$27.854 billion unfunded), with an annual required contribution (ARC) of \$2.674 billion. In the aggregate for the 2008-2009 fiscal year, the participating employers in the retiree healthcare plan funded OPEB costs of \$635.7 million.

For the fiscal year 2008-2009, the State and its Component Units, as employers in the cost-sharing, multiple employer plan, funded OPEB costs of \$308.0 million for the retiree healthcare plan, its statutorily required contribution.

Participating employers in the retiree health care benefit plan include the primary government State agencies, local education agencies (LEAs), the University of North Carolina, community colleges, and several local governments.

In the 2006 Session of the General Assembly ratified Senate Bill 837 establishing that for employees first hired on and after October 1, 2006, and members of the General Assembly first taking office on or after February 1, 2007, future coverage as retired employees and retired members of the General Assembly is subject to the requirement that the future retiree have 20 or more years of retirement service credit in order to receive coverage on a noncontributory basis. Employees or members of the General Assembly with 10 but less than 20 years of retirement service credit are eligible for coverage on a partially contributory basis.

The 2007 Session of the General Assembly established the Committee on Actuarial Valuation of Retired Employees' Health Benefits. This committee consist of five members serving ex officio, as follows:

State Budget Officer, who shall serve as the chair;
State Auditor;
State Controller;
State Treasurer; and
Executive Administrator for the Teachers' and the State Employees' Comprehensive Major Medical Plan (the "State Health Plan").

Disability Income Plan of North Carolina

The latest actuarial valuation of disability income benefits plan was done by Buck Consulting and dated December 31, 2008 (Buck report). The Buck report was released on September 29, 2009.

The Buck report employed the aggregate actuarial cost method, which does not identify or separately amortize unfunded liabilities. Information about the plan's funded status and funding progress was prepared using the entry-age actuarial cost method as an approximation. Using the entry-age method, the Buck report indicated an accrued liability of \$477.6 million for the Plan of which (\$127.4 million unfunded), with an ARC of \$78.3 million for the 2008-2009 fiscal year.

In aggregate for the 2008-2009 fiscal year, the participating employers in the disability income plan funded OPEB costs of \$80.0 million.

For the fiscal year 2008-2009, the State, as one employer in the cost-sharing multiple employer plan, funded OPEB costs of \$39.0 million for the disability income plan, its statutorily required contribution.

Participating employers in the Disability Income Plan of North Carolina include the primary government, State agencies, local education agencies (LEAs), the University of North Carolina, and Community Colleges.

LITIGATION

According to the North Carolina Attorney General, no litigation of any kind is now pending (either in State or federal courts) or, to the knowledge of the Department of State Treasurer after consultation with the Attorney General, threatened, to restrain or enjoin the issuance or delivery of the 2010C Bonds or in any manner questioning the proceedings or authority under which the 2010C Bonds are issued or affecting the validity of the 2010C Bonds.

Litigation

The following are cases pending in which the State faces the risk of either a loss of revenue or an unanticipated expenditure. Although an adverse result in any of the cases could have negative budgetary consequences, in the opinion of the Department of State Treasurer after consultation with the Attorney General, an adverse decision in any of these

cases would not materially adversely affect the State's ability to meet its financial obligations.

Hoke County et al. v. State of North Carolina and State Board of Education – Right to a Sound Basic Education (formerly Leandro). In 1994, students and boards of education in five counties in the State filed suit in Superior Court requesting a declaration that the public education system of North Carolina, including its system of funding, violates the State constitution by failing to provide adequate or substantially equal educational opportunities, by denying due process of law, and by violating various statutes relating to public education. Five other school boards and students therein intervened, alleging claims for relief on the basis of the high proportion of at-risk and high-cost students in their counties' systems.

The suit is similar to a number of suits in other states, some of which resulted in holdings that the respective systems of public education funding were unconstitutional under the applicable state law. The State filed a motion to dismiss, which was denied. On appeal, the North Carolina Supreme Court upheld the present funding system against the claim that it unlawfully discriminated against low wealth counties, but remanded the case for trial on the claim for relief based on the Court's conclusion that the constitution guarantees every child the opportunity to obtain a sound basic education. Trial on the claim of one plaintiff-county was held in the fall of 1999. On October 26, 2000 the trial court, in Section Two of a projected three-part ruling, concluded that at-risk children in North Carolina are constitutionally entitled to such pre-kindergarten educational programs as may be necessary to prepare them for higher levels of education and the "sound basic education" mandated by the Supreme Court. On March 26, 2001, the Court issued Section Three of the three-part ruling, in which the judge ordered all parties to investigate certain school systems to determine why they are succeeding without additional funding. The State filed a Notice of Appeal to the Court of Appeals, which resulted in the Court's decision to re-open the trial and call additional witnesses. That proceeding took place in the fall of 2001. On April 4, 2002 the Court entered Section Four of the ruling, ordering the State to take such actions as may be necessary to remedy the constitutional deficiency for those children who are not being provided with access to a sound basic education and to report to the Court at 90-day intervals remedial actions being implemented. On July 30, 2004, the North Carolina Supreme Court affirmed the majority of the trial court's orders, thereby directing the executive and legislative branches to take corrective action necessary to ensure that every child has the opportunity to obtain a sound, basic education. The Supreme Court did agree with the State that the trial court exceeded its authority in ordering pre-kindergarten programs for at-risk children. The State is now undertaking measures to respond to the trial court's directives. The magnitude of State resources which may ultimately be required cannot be determined at this time; however, the total cost could exceed \$100 million.

N.C. School Boards Association, et al. v. Richard H. Moore, State Treasurer, et al. – Use of Administration Payments. On December 14, 1998, plaintiffs, including county school boards of Wake, Durham, Johnston, Buncombe, Edgecombe and Lenoir Counties, filed suit in Superior Court requesting a declaration that certain payments to State administrative agencies must be distributed to the public schools on the theory that such amounts are civil penalties which under the North Carolina Constitution must be paid to the schools.

On December 14, 2001, the Superior Court of Wake County granted summary judgment in favor of the plaintiffs on all issues, concluding that the funds in dispute are civil fines or penalties required by Article IX, Section 7 of the Constitution to be remitted to the public schools in the county where the violation occurred. The court further determined a three-year statute of limitations to be applicable, making the order retroactive to December 1995. This case was argued in the Court of Appeals in February, 2003. The North Carolina Court of Appeals rendered a decision in September 2003 substantially favorable to the State. On July 1, 2005 the Supreme Court reversed the Court of Appeals in part, concluding that a majority of the funds in dispute are civil penalties required to be paid into the Civil Penalty and Forfeiture Fund for the benefit of public schools. The case was remanded to Superior Court and on August 8, 2008 the Superior Court entered a judgment in the amount of \$749.886 million. The court acknowledged, however, that the judicial branch did not have the power to force the State to satisfy the judgment and that any decision to do so would have to come from the legislature.

Southeast Compact Commission – Disposal of Low-level Radioactive Waste. North Carolina and seven other southeastern states created the Southeast Interstate Low-level Radioactive Waste Management Compact to plan and develop a site for the disposal of low-level radioactive waste generated in the member states. North Carolina was assigned responsibility for development of the first disposal site, with costs to be distributed equitably among the Compact members. In 1997 the Compact Commission discontinued funding of the development of the North Carolina site, alleging that the State was not actively pursuing the permitting and development of the proposed site. North Carolina withdrew from the Compact in 1999. The Compact subsequently asked the United States Supreme Court to accept its Complaint against North Carolina demanding the repayment, with interest, of \$80 million of Compact payments expended on the permitting of the site, plus \$10 million of future lost income, interest and attorney fees. The Supreme Court denied this motion in August 2001. On August 5, 2002 the Compact, with the addition of four member states as plaintiffs, filed a new motion requesting the United States Supreme Court to accept the claim under its original jurisdiction. On June 16, 2003, the Court accepted jurisdiction of the case and the State filed an answer and motion to dismiss on August 21, 2003. On November 17, 2003, the U.S. Supreme Court appointed a Special Master with authority to receive evidence and make recommended rulings on the issues presented by the case. On April 2, 2009, the Special Master filed his “Preliminary Report” and his “Second Report” recommending that the Court dismiss the claims seeking enforcement of the monetary sanction imposed against North Carolina by the Compact Commission as well as the entry of partial summary judgment finding that North Carolina did not breach the Compact when it withdrew. Briefing by the parties on Exceptions to the Reports of the Special Master concluded on September 9, 2009. The United States Supreme Court heard oral arguments on January 11, 2010, and issued an opinion on June 1, 2010, finding in favor of North Carolina on all issues before the Court. It is unclear at this point whether plaintiffs will continue to pursue the remaining issues before the Special Master.

State Employees Association of North Carolina v. State; Stone v. State – Diversion of Employer’s Retirement System Contribution. On May 22, 2001, SEANC filed an action in Wake County Superior Court demanding repayment of approximately \$129 million in employer retirement contributions to the Retirement Systems. The Governor withheld, and subsequently used, the withheld funds under his constitutional authority to balance the State budget. The trial court dismissed the action on May 23,

2001, and the North Carolina Court of Appeals affirmed this dismissal on December 3, 2002. The Supreme Court, on June 13, 2003, reversed the Court of Appeals on issues related to class standing and remanded with instructions to consider procedural issues raised but not addressed by the Court of Appeals. The Court of Appeals remanded the case to the Superior Court of Wake County without opinion and without considering any remaining issues.

In June 2002, the Stone case was filed in Wake County Superior Court on behalf of individual State employees and retirees seeking repayment of the withheld employer contribution and a prohibition against future diversions. A class comprised of all members of the Retirement System has been certified and the case is currently proceeding through class notification and toward trial. On September 6, 2006, the trial court issued an interlocutory order in response to cross-motions for summary judgment. The court's order found the diversion of funds to be in violation of the constitution, but did not direct any repayment of funds, reserving the question of repayment for consideration, if necessary after appeal of the constitutional issues. On August 5, 2008 the Court of Appeals affirmed the Superior Court order. Both sides gave notice of appeal and filed petitions for discretionary review with the North Carolina Supreme Court. On June 17, 2009, the Supreme Court dismissed the appeals and denied the petitions for discretionary review.

The case now returns to the Superior Court for consideration of damages. Because the General Assembly has repaid the principal amount withheld from the Retirement System, consideration will focus on lost interest and earnings, if any. A new judge will need to be appointed to hear the case, as the judge previously assigned to the case is now employed by the North Carolina Department of Transportation.

Goldston v. State of North Carolina – Highway Trust Fund Transfers. On November 14, 2002, a lawsuit was filed in Wake County Superior Court demanding that \$80 million transferred by the Governor from the Highway Trust Fund to the General Fund for purposes of balancing the State budget be returned to the Highway Trust Fund. The suit further alleges that actions of the General Assembly regarding the transfer of funds from the Highway Trust Fund to the General Fund constitute a borrowing by the State of Highway Trust Fund cash surplus and are unlawful and unconstitutional. The lawsuit requests a declaration that taxes collected for purposes of Highway Trust Fund expenditures cannot be used for other purposes. Summary Judgment was granted in favor of the State on all issues and Plaintiff has filed a notice of appeal. On September 20, 2005, the North Carolina Court of Appeals upheld the trial court's order. The plaintiff filed a petition for discretionary review with the North Carolina Supreme Court, and the Court agreed on March 2, 2006 to review a portion of the Court of Appeals' decision and oral argument was heard on October 16, 2006. In an opinion filed December 15, 2006, the Supreme Court reversed the Court of Appeals, concluding that plaintiffs have standing to pursue their claims. On remand to Wake County Superior Court, the court ruled in favor of the State on both the standing argument and the merits of the case. Plaintiffs appeal was argued in the Court of Appeals on January 28, 2009. In an opinion filed September 15, 2009 the Court of Appeals held that although the General Assembly had the authority to transfer \$125 million from the Highway Trust Fund to the General Fund, the Governor exceeded his constitutional authority in transferring \$80 million from the Highway Trust Fund to the General Fund. The State has appealed this decision to the North Carolina Supreme Court.

State of North Carolina v. Phillip Morris, Inc., et al., 98 CVS 14377 – Master Settlement Agreement (“MSA”) Payments. On April 20, 2006, the State of North Carolina filed a Motion for Declaratory Order in the North Carolina Business Court against defendants Phillip Morris, Inc., R. J. Reynolds Tobacco Company, and Lorillard Tobacco Company. The Motion is seeking a declaration that (1) in 2003, North Carolina continuously had a Qualifying Statute in full force and effect and “diligently enforced” its provisions throughout that year in accordance with the MSA; (2) North Carolina is not subject to a Non-Participating Manufacturers’ Adjustment for 2003; and (3) defendants are obligated not to withhold or pay into a disputed payments account any payments due, or seek any offset of any payments made, on the basis that North Carolina is subject to a Non-Participating Manufacturers’ Adjustment for 2003. If the State is unable to ultimately prevail in the diligent enforcement litigation, the State may be unable to recover a portion of this year’s MSA payment. On December 4, 2006, Judge Tennille allowed the defendant’s motion to compel arbitration of these issues. The Court of Appeals upheld the Order, and the State’s Petition to the North Carolina Supreme Court has been denied. The State is therefore now participating in a national arbitration process with the tobacco companies and all other MSA States.

Pendergraph v. North Carolina Department of Revenue – Refund of Income Taxes. Taxpayers have filed a class action complaint and petition for judicial review with the North Carolina Business Court for a refund of income taxes on September 24, 2009. Taxpayers are pursuing a constitutional challenge to N.C. Gen. Stat. § 128-31 (1988), N.C. Gen. Stat. § 135-9 (1988) and N.C. Gen. Stat. § 105-134.6 (1988) which repealed the tax exemptions for state and local retirement benefits and subjected all state, local and federal benefits above \$4,000 to tax. These amendments became effective for taxable years beginning on or after January 1, 1989. The Department of Revenue has filed a motion to dismiss, which is currently pending before the court. The amount at issue is not readily calculable, but it is likely to be in excess of \$20 million dollars.

Other Litigation. The State is involved in numerous other claims and legal proceedings, many of which are normal for governmental operations. A review of the status of outstanding lawsuits involving the State by the North Carolina Attorney General did not disclose other proceedings that are expected to have a material adverse effect on the financial position of the State.

Appendix B

**NOTE 25 FROM STATE OF NORTH CAROLINA
JUNE 30, 2009 FINANCIAL STATEMENTS**

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**NOTE 25: EVENTS SUBSEQUENT TO THE ISSUANCE OF THE ORIGINAL
INDEPENDENT AUDITOR'S REPORT**

A. Litigation

Primary Government

Southeast Compact Commission — Disposal of Low-level Radioactive Waste.

North Carolina and seven other southeastern states created the Southeast Interstate Low-level Radioactive Waste Management Compact (Compact) to plan and develop a site for the disposal of low-level radioactive waste generated in the member states. North Carolina was assigned responsibility for development of the first disposal site, with costs to be distributed equitably among the Compact members. In 1997 the Compact Commission discontinued funding of the development of the North Carolina site, alleging that the State was not actively pursuing the permitting and development of the proposed site. North Carolina withdrew from the Compact in 1999. The Compact subsequently asked the United States Supreme Court to accept its Complaint against North Carolina demanding the repayment, with interest, of \$80 million of Compact payments expended on the permitting of the site, plus \$10 million of future lost income, interest and attorney fees. The Supreme Court denied this motion in August 2001. On August 5, 2002 the Compact, with the addition of four member states as plaintiffs, filed a new motion requesting the United States Supreme Court to accept the claim under its original jurisdiction. On June 16, 2003, the Court accepted jurisdiction of the case and the State filed an answer and motion to dismiss on August 21, 2003. On November 17, 2003, the U.S. Supreme Court appointed a Special Master with authority to receive evidence and make recommended rulings on the issues presented by the case. On April 2, 2009, the Special Master filed his "Preliminary Report" and his "Second Report" recommending that the Court dismiss the claims seeking enforcement of the monetary sanction imposed against North Carolina by the Compact Commission as well as the entry of partial summary judgment finding that North Carolina did not breach the Compact when it withdrew. Briefing by the parties on Exceptions to the Reports of the Special Master concluded on September 9, 2009. The United States Supreme Court heard oral arguments on January 11, 2010, and issued an opinion on June 1, 2010, finding in favor of North Carolina on all issues before the Court. It is unclear, at this point, whether plaintiffs will continue to pursue the remaining issues before the Special Master.

Pendergraph v. North Carolina Department of Revenue — Refund of Income Taxes.

Taxpayers filed a class action complaint and petition for judicial review with the North Carolina Business Court for a refund of income taxes on September 24, 2009. Taxpayers are pursuing a constitutional challenge to North Carolina General Statute 128-31, North Carolina General Statute 135-9 and North Carolina General Statute 105-134.6, which repealed the tax exemptions for state and local retirement benefits and subjected all state, local and federal benefits above \$4,000 to tax. These amendments became effective for taxable years beginning on or after January 1, 1989. The Department of Revenue has filed a motion to dismiss, which is currently pending before the Court. The amount at issue is not readily calculable, but it is likely to be in excess of \$20 million.

B. Bonds and Other Similar Debt

Primary Government

General Obligation Bonds

On April 14, 2010, the State issued \$487.7 million of General Obligation Public Improvement Bonds, Series 2010A (the bonds). The bonds were issued pursuant to the provisions of Session Law 2008-107, as amended by Session Law 2009-209, each enacted by the General Assembly of North Carolina. The bonds are dated April 14, 2010 and will bear interest from that date, payable each May 1 and November 1, commencing November 1, 2010. The bonds mature annually (subject to any redemption provisions) from May 1, 2011 to 2030 inclusive, and were issued at coupon rates ranging from 4% to 5%. The bonds were issued for the purpose of providing funding in varying amounts for authorized public improvement projects and to pay certain costs incurred in connection with the execution and delivery of the bonds.

General Obligation Refunding Bonds

On August 31, 2010, the State issued \$472.6 million in General Obligation Refunding Bonds, Series 2010B with an average coupon interest rate of 5% and a true interest cost of 1.72%. The bonds are dated August 31, 2010, and bear interest from that date. Interest on the bonds will be payable semiannually on each June 1 and December 1 commencing December 1, 2010. The bonds will mature annually from June 1, 2011 to 2019, and are not subject to redemption prior to maturity. The proceeds of the Series 2010B Bonds were used to refund \$499.87 million of General Obligation Refunding Bonds Series 2002B through 2002F, to provide for

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NOTES TO THE FINANCIAL STATEMENTS

termination payments on two interest rate swaps and three standby bond purchase agreements associated with the Series 2002B through 2002F bonds and to pay certain costs incurred in connection with the execution and delivery of the bonds. The refunding was undertaken to reduce total debt service payments by \$9.19 million over the next 9 years and resulted in an economic gain of \$7.81 million.

Federal Repayable Advances

During fiscal year 2010, the State received repayable advances from the Federal Unemployment Account (FUA) in the amount of \$2.4 billion to finance an operating deficit in the State's unemployment compensation fund. Proceeds from the advances were used to pay unemployment benefits. The debt is currently interest free through December 31, 2010. The repayable advances can be payable from the unemployment tax contributions and these contributions are currently used for paying down the debt. Meanwhile, the unemployment benefits will continue to be paid from the repayable advances. Total revenue collected from unemployment tax contributions was \$944 million. For fiscal year 2010, employer tax contributions were used to pay down the principal on the repayable advances in the amount of \$874 million. At June 30, 2010, the outstanding balance of the FUA advances was approximately \$2 billion.

Component Units

North Carolina State University – General Revenue Bonds

On April 28, 2010, the Board of Governors of the University of North Carolina (the Board) issued \$18.07 million in North Carolina State University Series 2010A tax-exempt General Revenue Bonds (the 2010A bonds) and \$59.57 million in North Carolina State University Series

2010B taxable General Revenue Bonds (the 2010B bonds). These bonds are dated April 28, 2010, and will bear interest from that date. The Board has elected to treat the 2010B bonds as "Build America Bonds" for purposes of the American Recovery and Reinvestment Act of 2009 and will receive a cash subsidy from the United States Treasury equal to 35% of the interest payable on the 2010B bonds for an effective yield of 3.89%. Interest on both bonds will be payable semiannually on each April 1 and October 1, commencing October 1, 2010. The 2010A bonds will mature from October 1, 2011 to October 1, 2022, and were issued at coupon rates ranging from 3% to 5%. The 2010B bonds will mature from October 1, 2023 to October 1, 2035, and were issued at coupon rates ranging from 5.08% to 6.03%. The 2010A and 2010B bonds were issued to provide funds for renovation, expansion and improvements to certain athletic and dining facilities, the Carmichael Gym Complex,

Student Health Center and construction of a new West Lot parking deck and Randall B Terry Companion Animal Hospital.

University of North Carolina at Chapel Hill – General Revenue and Build America Bonds

On December 2, 2009, the Board of Governors of the University of North Carolina issued (on behalf of the University of North Carolina at Chapel Hill) \$97.74 million in tax-exempt General Revenue Bonds, Series 2009A and \$112.81 million in taxable General Revenue Bonds, Series 2009B. The Board has elected to treat the 2009B bonds as "Build America Bonds" for purposes of the American Recovery and Reinvestment Act of 2009 and will receive a cash subsidy over the life of the bonds at each interest payment date from the United States Treasury equal to 35% of the interest payable on the 2009B bonds. The combined all-in true interest cost for the 2009A and 2009B bonds was 3.77%. Interest on the bonds will be payable semiannually on each June 1 and December 1, commencing June 1, 2010. The bonds will mature from December 1, 2010 to December 1, 2039, and were issued at coupon rates ranging from 3% to 5.76%. The 2009A bonds were issued to provide funds to refund commercial paper bonds and the 2009B bonds were issued to finance specific capital projects at the University.

University of North Carolina at Chapel Hill – Commercial Paper

The University of North Carolina at Chapel Hill issued \$16 million in commercial paper bonds on September 17, 2009, \$12 million in commercial paper bonds on January 14, 2010 and \$5 million in commercial paper bonds on May 20, 2010 through the commercial paper program. Commercial paper bonds can be issued with maturities of up to 270 days and may be rolled over at maturity with similar term restrictions and at current market rates. The funds will provide interim financing on projects for new construction and will be refunded by future long-term bond issues of the University of North Carolina at Chapel Hill.

East Carolina University – General Revenue Bonds

On May 26, 2010, the East Carolina University issued \$27.97 million in taxable General Revenue Series 2010B bonds. These bonds are dated May 26, 2010, and will bear interest from that date. The University has elected to treat the General Revenue Series 2010B bonds as "Build America Bonds" for purposes of the American Recovery and Reinvestment Act of 2009 and to receive a cash subsidy from the United States Treasury equal to 35% of the interest payable on the General Revenue 2010B bonds for an effective yield of 3.56%. Interest on the bonds will be payable semiannually on each October 1 and April 1,

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NOTES TO THE FINANCIAL STATEMENTS

commencing October 1, 2010. The bonds will mature from 2014 to 2035 and were issued at coupon rates ranging from 2.79% to 5.88%. The bonds were issued to fund a dormitory project, a dining hall project, an Olympic sport facility project, and to pay the costs incurred with the issuance of the 2010B bonds.

University of North Carolina at Charlotte — General Revenue and Build America Bonds

On December 2, 2009, the University of North Carolina at Charlotte issued \$8.33 million in Series 2009A tax-exempt General Revenue Bonds and \$49.77 million in Series 2009B taxable General Revenue Build America Bonds. These bonds are dated December 16, 2009, and will bear interest from that date. The University of North Carolina at Charlotte has elected to treat the 2009B bonds as “Build America Bonds” for purposes of the American Recovery and Reinvestment Act of 2009 and to receive a cash subsidy from the United States Treasury equal to 35% of the interest payable on the Series 2009B taxable General Revenue Build America Bonds for an all-in true interest cost of 4.01%. Interest on the bonds will be payable semiannually on each April 1 and October 1, commencing April 1, 2010. Tax-exempt General Revenue Bonds Series 2009A will mature from April 1, 2012 to April 1, 2017, and were issued at coupon rates ranging from 2% to 3%. Series 2009B taxable General Revenue Build America Bonds will mature from April 1, 2018 to April 1, 2039, and were issued at coupon rates ranging from 4.43% to 6.25%. The bonds were issued to provide funds for a 1,173 space parking deck and a residence hall which will house 431 students.

University of North Carolina System Pool Revenue Bonds, Series 2010B-1

On March 31, 2010, the University of North Carolina System issued \$44.49 million in series 2010B-I Pool Revenue Bonds, in which the following universities participated.

On March 31, 2010, the University of North Carolina at Charlotte issued \$2.66 million in the University of North Carolina System Pool Revenue Bonds, Series 2010B-1 with an average interest rate of 5.25%. The bonds were issued for a current refunding of \$2.97 million of outstanding University of North Carolina System Pool Revenue Bonds, Series 1998-B bonds, dated November 3, 1998, with an average interest rate of 4.5%. The refunding was undertaken to reduce total debt service payments by \$218 thousand over the next 14 years and resulted in an economic gain of \$119 thousand.

On March 31, 2010, the University of North Carolina at Charlotte issued \$6.3 million in the University of North Carolina System Pool Revenue Bonds, Series 2010B-1 with an average interest rate of 4.2%. The bonds were issued to advance refund

\$7.41 million of outstanding University of North Carolina at Charlotte Parking System Revenue Bonds Series 2002 bonds with an average interest rate of 5.06%. The net proceeds of the refunding bonds (\$1.46 million) were used to purchase U.S. government securities. These securities were deposited in an irrevocable trust to provide for all future debt service on the refunded bonds. As a result, the refunded bonds are considered to be defeased and the liability has been removed from the statement of net assets. This advance refunding was undertaken to reduce total debt service payments by \$2.29 million over the next 16 years and resulted in an economic gain of \$276 thousand. At June 30, 2010, the outstanding balance was \$7.41 million for the defeased University of North Carolina at Charlotte Parking System Revenue Bonds Series 2002.

On March 31, 2010, the University of North Carolina at Charlotte issued \$13.77 million in University of North Carolina System Pool Revenue Bonds, Series 2010B-1 with an average interest rate of 4.46%. The bonds were issued to advance refund \$13.36 million of outstanding University of North Carolina at Charlotte 2002A General Revenue Promissory Note bonds with an average interest rate of 5.21%. The net proceeds of the refunding bonds (\$350 thousand) were used to purchase U.S. government securities. These securities were deposited in an irrevocable trust to provide for all future debt service on the refunded bonds. As a result, the refunded bonds are considered to be defeased and the liability has been removed from the statement of net assets. This advance refunding was undertaken to reduce total debt service payments by \$800 thousand over the next 15 years and resulted in an economic gain of \$448 thousand. At June 30, 2010, the outstanding balance was \$13.36 million for the defeased University of North Carolina at Charlotte 2002A General Revenue Promissory Note bonds.

On March 31, 2010, Appalachian State University issued \$16.76 million in tax-exempt University of North Carolina System Pool Revenue Bonds Series 2010B-1 Bonds. These bonds are dated March 31, 2010, and will bear interest from that date. Interest on the bonds will be payable semiannually on each October 1 and April 1 commencing October 1, 2010. The bonds will mature from October 1, 2011 to October 1, 2035, and were issued at coupon rates ranging from 3% to 5.25%. The bonds were issued to provide funds for Athletics Facilities Construction and Residence Hall Renovations.

On March 31, 2010, Appalachian State University issued \$5 million in University of North Carolina System Pool Revenue Bonds Series 2010B-1 with an average interest rate of 4.30%. The bonds were issued to advance refund \$5.37 million of outstanding Appalachian State University Housing & Student Center System Revenue Bonds, Series 2001 with an

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NOTES TO THE FINANCIAL STATEMENTS

average interest rate of 5.05%. The net proceeds of the refunding bonds (along with other resources) were used to purchase U.S. government securities. These securities were deposited in an irrevocable trust to provide for all future debt service on the refunded bonds. As a result, the refunded bonds are considered to be defeased and the liability has been removed from the statement of net assets. This advance refunding was undertaken to reduce total debt service payments by \$988 thousand over the next 17.5 years and resulted in an economic gain of \$307 thousand. At June 30, 2010, the outstanding balance was \$5.37 million for the defeased Appalachian State University Housing & Student Center System Revenue Bonds, Series 2001.

University of North Carolina System Pool Revenue Bonds, Series 2010C

On March 31, 2010, the University of North Carolina System issued \$37.99 million in series 2010C Pool Revenue Bonds, in which the following universities participated.

On March 31, 2010, the University of North Carolina at Asheville issued \$5.82 million in University of North Carolina System Pool Revenue Bonds Series 2010C with an average interest rate of 3.27%. The bonds were issued for a current refunding of \$5.87 million of outstanding University of North Carolina at Asheville Series 2002A bonds with an average interest rate of 4.66%. The refunding was undertaken to reduce total debt service payments by \$396 thousand over the next 15 years and resulted in an economic gain of \$213 thousand.

On March 31, 2010, the University of North Carolina at Wilmington issued \$32.17 million in tax-exempt University of North Carolina System Pool Revenue Bonds Series 2010C and will bear interest from that date. Interest on the bonds will be payable semiannually on each April 1 and October 1, commencing October 1, 2010. The bonds will mature from October 1, 2010 to October 1, 2039, and were issued at coupon rates ranging from 2.5% to 5.25%. The bonds were issued to provide funds for construction of an addition to the University Recreation Center and to partially refund bonds series General Revenue 2002A and General Revenue 2003A.

University of North Carolina at Greensboro – Taxable Note

On April 28, 2010, the University of North Carolina at Greensboro on behalf of the Capital Facilities Foundation, Inc. issued a Taxable Note (note) in the amount \$31 million to Bank of America

in exchange for assignment of base rentals from a Housing Facility to be constructed by the Capital Facilities Foundation, Inc. The University of North Carolina at Greensboro has elected to treat the note as “Build America Bonds” for purposes of the American Recovery and Reinvestment Act of 2009 and to receive a cash subsidy from the United States Treasury equal to 35% of the interest payable on the note for an effective yield of 0.79%. This Note is dated April 28, 2010, and interest is calculated monthly on the basis of one-month London Interbank Offered Rate (LIBOR) plus 85 basis points, reset on the first day of each month. Interest is payable on the first day of each month commencing on May 1, 2010, and the note will mature on May 1, 2014. The proceeds from the note will be used by the Capital Facilities Foundation, Inc. to construct a 400 bed Housing Facility.

State Education Assistance Authority – commercial Paper

On February 9, 2010 and May 20, 2010, the State Education Assistance Authority (the Authority) entered into a \$1.58 billion Asset Backed Commercial Paper Conduit Funding Note purchase agreement with Straight A Funding, LLC, for a current refunding of \$1.56 billion of outstanding 1995, 2005 and 2008 State Employee Credit Union (SECU) bonds. The term of the agreement is for five years and will mature on January 19, 2014. The interest rate is variable. The principal and interest are non standard amounts based on student loan repayments. Principal and interest are paid monthly as determined by the Conduit Administrator.

State Education Assistance Authority – Federal Loan Participation Purchase Program

During fiscal year 2010, loans were financed through the Federal Loan Participation Purchase Program (Federal LPP) of the U.S. Department of Education (as discussed in Note 24) creating a short-term liability for the Authority. Under the terms of the Federal LPP authorized by the “Ensuring Continued Access to Student Loans Act of 2008”, Pub. Law 110-227, as amended by Pub. Law 110-315 and Pub. Law 110-350 (ECASLA), all 2009-20 10 participations must be terminated by September 30, 2010. As of June 30, 2010, the Authority’s short-term obligation under the Federal LPP was \$823 million. To effect a termination of its participation in the Federal LPP, the Authority sold the participated student loans to the U.S. Department of Education, as permitted under ECASLA, on September 13, 2010.

Appendix C

**DEFINITION OF CERTAIN TERMS AND SUMMARY
OF THE TRUST AGREEMENT**

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Definitions of Terms

“*Act*” means, collectively, Article 6H of Chapter 136 of the General Statutes of North Carolina, as amended, and Article 5 of Chapter 159 of the General Statutes of North Carolina, as amended.

“*Additional Bonds*” means Bonds issued pursuant to Section 208 of the Trust Agreement or Section 209 of the Trust Agreement.

“*Additional Project*” means any addition, acquisition, improvement, betterment, extension or equipping of or relating to the Initial Project as authorized by the Act, or any previous Additional Project that has become part of the Monroe Connector System.

“*Annual Budget*” means the Authority’s budget for the Monroe Connector System for a Fiscal Year adopted pursuant to the Authority’s bylaws, rules and regulations as in effect from time to time.

“*Authority*” means the North Carolina Turnpike Authority created by the Act and transferred to NCDOT, and any successor thereto.

“*Authority Board*” means the Board of Directors of the Authority.

“*Authority Documents*” means the Bond Order and the Trust Agreement.

“*Authorized Officer*” means the Executive Director, the Chief Financial Officer and any other person authorized by resolution of the Authority Board to perform the duties imposed on an Authorized Officer by the Trust Agreement whose name and specimen signature is filed pursuant to an Officer’s Certificate with the Trustee for such purpose.

“*Bond*” or “*Bonds*” means, collectively, the Series 2010A Bonds and any Additional Bonds.

“*Bond Order*” means the bond order of the Authority with respect to the Series 2010A Bonds adopted on October 6, 2010, pursuant to the Act.

“*Bond Registrar*” means, with respect to any Series of Bonds, the Bond Registrar at the time serving as such under the Trust Agreement, whether the original or a successor Bond Registrar.

“*Bond Year*” means the 12 months ending on each January 1 or if such January 1 is not a Business Day, on the next succeeding Business Day.

“*Business Day*” means a day on which the Trustee, the applicable Bond Registrar and the New York Stock Exchange are open for the purpose of conducting their businesses.

“*Build America Bond*” means Bonds with respect to which, pursuant to Sections 54AA and 6431 of the Code, the Authority has made an irrevocable election to bear interest that is subject to federal income taxation of gross income and treat as “Build America Bonds” pursuant to Section 54AA of the Code, and that are eligible to receive the Interest Subsidy Payment directly from the Treasury Secretary in an amount equal to 35% of the

corresponding interest payable on the related Build America Bond and for which the Authority has filed the required Internal Revenue Service forms. Initially, the Authority has elected to treat all of the Series 2010A Bonds as Build America Bonds.

“Chief Financial Officer” means the person appointed or employed to perform the duties imposed on the Chief Financial Officer of the Authority by the Trust Agreement.

“Comparable Treasury Issue” means, with respect to any redemption date for a particular Bond, the United States Treasury security or securities selected by the Designated Investment Banker which has an actual or interpolated maturity comparable to the remaining average life of the Bond to be redeemed, and that would be utilized in accordance with customary financial practice in pricing new issues of debt securities of comparable maturity to the remaining average life of the Bonds to be redeemed.

“Comparable Treasury Price” means, with respect to any redemption date for a particular Bond, (i) if the Designated Investment Banker receives at least four Reference Treasury Dealer Quotations, the average of such quotations for such redemption date, after excluding the highest and lowest Reference Treasury Dealer Quotations, or (ii) if the Designated Investment Banker obtains fewer than four Reference Treasury Dealer Quotations, the average of all such quotations.

“Completion Date” means the date of acquisition or completion of the Project, or of any segment of the foregoing, as the case may be, as certified by the Authority pursuant to Section 406 of the Trust Agreement.

“Code” means the Internal Revenue Code of 1986, as amended.

“Cost,” as applied to the Project, means, without intending thereby to limit or restrict any proper definition of such word under the provisions of the Act or the Trust Agreement, all items of cost which are set forth in Section 403 of the Trust Agreement.

“Debt Service Fund” means the fund created and designated the North Carolina Turnpike Authority Monroe Connector System State Appropriation Revenue Bonds Debt Service Fund by Section 501 of the Trust Agreement.

“Debt Service Requirement” means, for any period of twelve (12) consecutive calendar months for which such determination is made, the aggregate of the required deposits to be made in respect of Principal and Interest (whether or not separately stated) on Outstanding Bonds during such period, calculated net of Interest Subsidy Payments.

“Default” means any Event of Default and any event that, after notice or lapse of time or both, would become an Event of Default under the Trust Agreement.

“Defaulted Interest” means Defaulted Interest as defined in Section 202 of the Trust Agreement.

“Defeasance Obligations” means noncallable (a) Government Obligations and (b) Defeased Municipal Obligations.

“Defeased Municipal Obligations” means obligations of state or local government municipal bond issuers which are rated the highest rating category by S&P, Fitch or Moody’s, respectively, provision for the payment of the principal of, premium, if any, and interest on which shall have been made by deposit with a trustee or escrow agent of Government Obligations, the maturing principal of and interest on which, when due and payable, shall provide sufficient money to pay the principal of, premium, if any, and interest on such obligations of state or local government municipal bond issuers. References in this definition to state or local government bond issuers shall mean the State of North Carolina and North Carolina local government bond issuers, and, to the extent permitted by law, states other than the State of North Carolina and local government bond issuers other than North Carolina local government bond issuers.

“Depositary” means the State Treasurer of the State and one or more banks or trust companies or other institutions, including the Trustee, duly authorized by law to engage in the banking business and designated by the Authority as a depositary of moneys under the Trust Agreement.

“Designated Investment Banker” means one of the Reference Treasury Dealers appointed by the Authority.

“Eminent Domain” means the eminent domain or condemnation power by which all or any part of the Monroe Connector System may be taken for another public use or any agreement that is reached in lieu of proceedings to exercise such power.

“Event of Default” means each of those events of default set forth in Section 802 of the Trust Agreement.

“Extraordinary Event” means a material adverse change has occurred to Section 54AA or 6431 of the Code (as such Sections were added by Section 1531 of the Recovery Act, pertaining to “Build America Bonds” as described within the Recovery Act) pursuant to which the Authority’s 35% Interest Subsidy Payment from the United States Treasury is reduced or eliminated.

“Fiscal Year” means the period commencing on the first day of July of any year and ending on the last day of June of the following year.

“Fitch” means Fitch Inc., a corporation organized and existing under the laws of the State of Delaware, its successors and assigns, and if such corporation shall be dissolved or liquidated or shall no longer perform the functions of a securities rating agency, “Fitch” shall be deemed to refer to any other nationally recognized securities rating agency designated by the Authority by notice to the Trustee.

“General Engineering Consultant” means any independent engineer or independent firm of engineers prequalified to do work in the State, in accordance with the established guidelines of the NCDOT, who is retained by the Authority to assist the Authority in assessing the status of maintenance and upkeep of the Monroe Connector System, the costs associated therewith and the expected cost of unusual or extraordinary maintenance, repairs, renewals or replacements or capital improvements related to the Monroe Connector

System, and advising the Authority regarding the level of reserves that should be maintained to assure that funds will be available when needed for that purpose.

“General Revenue Bond Trust Agreement” means the Trust Agreement between the Authority and Wells Fargo Bank, N.A., as trustee, to be dated and executed as of a date subsequent to the date of execution of the Trust Agreement pursuant to which the Authority is issuing Revenue Bonds, for the purpose of paying the costs of the Initial Project not being funded with proceeds of the Series 2010A Bonds or Additional Bonds, or if such instrument shall be defeased by debt issued under a successor instrument, such successor instrument.

“Government Obligations” means direct obligations of, or obligations the principal of and the interest on which are fully and unconditionally guaranteed by, the United States of America in either certificated or book-entry form, including (a) stripped Government Obligations stripped by the United States Treasury itself and (b) interest only portions of obligations issued by the Resolution Funding Corporation.

“Initial Project” means the land, easements, rights of way, capital improvements and equipment which are part of the Monroe Connector System and financed with the proceeds of the Series 2010A Bonds or Additional Bonds or Revenue Bonds issued prior to March 31, 2011, all as described in the “Project Description” section of the Final Engineering Report of HNTB North Carolina, P.C.

“Interest Account” means the account in the Debt Service Fund created and so designated by Section 501 of the Trust Agreement.

“Interest Payment Date” means any January 1 or July 1, commencing January 1, 2011, and the comparable dates for any Additional Bonds.

“Interest Subsidy Payment” means, with respect to any Build America Bond, payments provided directly from the Treasury Secretary in an amount equal to 35% (or a lower percentage if pursuant to a change in law) of the corresponding interest payable on the related Build America Bond.

“Investment Obligations” means, to the extent permitted by law, any investment authorized by Section 159-30 of the General Statutes of North Carolina, as such statute may be amended from time to time, or any successor statute.

“Local Government Commission” means the Local Government Commission, a division of the Department of the State Treasurer of the State.

“Maximum Debt Service Requirement” means the highest Debt Service Requirement for the present and any succeeding Fiscal Year, provided if there is more than one Series of Bonds Outstanding, “Maximum Debt Service Requirement” means the aggregate Debt Service Requirement for the Fiscal Year for all Series in which such aggregate number is the highest while there are any Bonds Outstanding.

“Monroe Connector System” means the turnpike project of the Authority known as the “Monroe Connector System” and generally consisting of an approximately 19.7 mile

roadway extending from US Highway 74 at Interstate 485 in eastern Mecklenburg County, North Carolina, near the Town of Matthews to US Highway 74 near the Town of Marshville in Union County, North Carolina, as it may hereafter exist.

“*Moody’s*” means Moody’s Investors Service, Inc., a corporation organized and existing under the laws of the State of Delaware, its successors and assigns, and if such corporation shall be dissolved or liquidated or shall no longer perform the functions of a securities rating agency, “*Moody’s*” shall be deemed to refer to any other nationally recognized securities rating agency designated by the Authority by notice to the Trustee.

“*NCDOT*” means the North Carolina Department of Transportation, a department of the State, and any successor to its functions.

“*NCGS*” means the North Carolina General Statutes, as amended, the official codification of the general and public laws of the State.

“*Officer’s Certificate*” means a certificate signed by an Authorized Officer.

“*Other Revenue Bonds*” means bonds of the Authority issued under the Act for an Other Revenue Project which are payable from the toll and other revenues thereof.

“*Other Revenue Bond Trust Agreement*” means a trust agreement between the Authority and a corporate trustee pursuant to which Other Revenue Bonds are issued.

“*Other Revenue Project*” means a “turnpike project” described in NCGS Section 136-89.183 which is also the subject of an appropriation allocation under NCGS Section 136-176(b2), but does not include the Triangle Expressway System or the Monroe Connector System.

“*Outstanding*” when used with reference to Bonds means, as of a particular date, all Bonds theretofore authenticated and delivered under the Trust Agreement, except:

- (a) Bonds theretofore canceled by the Bond Registrar or delivered to the Bond Registrar for cancellation;
- (b) Bonds deemed to be no longer Outstanding pursuant to Article III of the Trust Agreement;
- (c) Bonds in exchange for or in lieu of which other Bonds have been authenticated and delivered under the Trust Agreement; and
- (d) Bonds deemed to have been paid in accordance with Article XII of the Trust Agreement.

“*Owner*” means a Person in whose name a Bond is registered in the registration books provided for in Section 205 of the Trust Agreement.

“*Person*” includes corporations, firms, associations, partnerships, joint ventures, joint stock companies, trusts, unincorporated organizations, and public bodies, as well as natural persons.

“Predecessor Bonds” of any particular Bond means every previous Bond evidencing all or a portion of the same debt as that evidenced by such particular Bond; and, for purposes of this definition, any Bond authenticated and delivered in lieu of a lost, destroyed or stolen Bond shall be deemed to evidence the same debt as the lost, destroyed or stolen Bond.

“Principal Account” means the account in the Debt Service Fund created and so designated by Section 501 of the Trust Agreement.

“Principal Payment Date” means any date established for the payment of principal of Bonds, whether at maturity pursuant to Section 207 of the Trust Agreement or pursuant to Sinking Fund Requirements or otherwise, and the comparable dates for any Additional Bonds.

“Project” means the Initial Project and any Additional Project constituting a part of the Monroe Connector System; provided such term is subject to redefinition in accordance with Section 702(b) of the Trust Agreement.

“Project Fund” means the fund created and designated the North Carolina Turnpike Authority Monroe Connector System State Appropriation Revenue Bonds Project Fund by Section 401 of the Trust Agreement; provided the name of such fund may be changed by the Authority if the term “Project” is redefined in accordance with Section 702(b) of the Trust Agreement.

“Recovery Act” means the American Recovery and Reinvestment Act of 2009, Pub. L. No. 111-5, 123 Stat. 115 (enacted February 17, 2009).

“Redemption Account” means the account in the Debt Service Fund created and so designated by Section 501 of the Trust Agreement.

“Redemption Price” means, with respect to any Bonds or portion thereof, the principal amount of such Bonds or portion called for redemption plus the applicable premium, if any, payable upon redemption thereof.

“Reference Treasury Dealer” means each of the four firms, specified by the Authority from time to time, that are primary United States Government securities dealers in the City of New York (each a *“Primary Treasury Dealer”*); provided, however, that if any of them ceases to be a Primary Treasury Dealer, the Authority will substitute another Primary Treasury Dealer.

“Reference Treasury Dealer Quotations” means, with respect to each Reference Treasury Dealer and any redemption date for a particular Bond, the average, as determined by the Designated Investment Banker, of the bid and asked prices for the Comparable Treasury Issue (expressed in each case as a percentage of its principal amount) quoted in writing to the Designated Investment Banker by such Reference Treasury Dealer at 3:30 P.M., New York City time, on the third Business Day preceding such redemption date.

“Reserve Fund” means the fund created and designated the North Carolina Turnpike Authority Monroe Connector System State Appropriation Revenue Bonds Reserve Fund by Section 501 of the Trust Agreement.

“Reserve Fund Requirement” means the amount, determined from time to time, that is equal to the maximum Interest Subsidy Payment expected to be received in the current or any future fiscal year to the extent such amount does not exceed the least of (i) the Maximum Debt Service Requirement for all Bonds secured by the Reserve Fund, (ii) 125% of the average aggregate annual Debt Service Requirement for all Bonds secured by the Reserve Fund and (iii) 10% of the stated principal amount of all Bonds secured by the Reserve Fund; provided, however, that if any Series of Bonds secured by the Reserve Fund has original issue discount or premium that exceeds 2% of the stated redemption price at maturity plus any original issue premium attributable exclusively to underwriter’s compensation, the initial offering prices to the public shall be used in lieu of the stated principal amount for purposes of the 10% limitation. The Reserve Fund Requirement may be composed of cash or Investment Obligations, or any combination of the foregoing, as the Authority may determine.

“Revenue Bonds” means bonds issued to finance the Monroe Connector System which are secured by a pledge of the toll and related revenues of the Monroe Connector System.

“Revenue Fund” means the fund created and designated the North Carolina Turnpike Authority Monroe Connector System State Appropriation Revenue Bonds Revenue Fund by Section 501 of the Trust Agreement.

“Revenues” means:

- (a) the State Appropriated Revenues;
- (b) the Interest Subsidy Payments; and
- (c) the investment income realized on, and the income and gains realized upon the maturity or sale of, securities held by or on behalf of the Authority in the Revenue Fund, the Debt Service Fund or the Reserve Fund.

“S&P” means Standard & Poor’s Ratings Services, a Division of The McGraw-Hill Companies, Inc., and its successors and assigns, and if such entity shall be dissolved or liquidated or shall no longer perform the functions of a securities rating agency, “S&P” shall be deemed to refer to any other nationally recognized securities rating agency designated by the Authority by notice to the Trustee.

“Securities Depository” means the Depository Trust Company, New York, New York, or any other recognized securities depository selected by the Authority, which maintains a book-entry system in respect of a Series of Bonds, and shall include any substitute for or successor to the securities depository initially acting as Securities Depository.

“Securities Depository Nominee” means, as to any Securities Depository, such Securities Depository or the nominee of such Securities Depository in whose name there

shall be registered on the registration books maintained by the Bond Registrar the Bond certificates to be delivered to and immobilized at such Securities Depository during the continuation with such Securities Depository of participation in its book-entry system.

“*Serial Bonds*” means the Bonds of any Series that are stated to mature in consecutive annual installments.

“*Series*”, whenever used in the Trust Agreement with respect to Bonds, means all of the Bonds designated as being of the same series.

“*Series 2010A Bonds*” means the North Carolina Turnpike Authority Monroe Connector System State Appropriation Revenue Bonds, Series 2010A (Federally Taxable – Build America Bonds), issued pursuant to the Trust Agreement.

“*Sinking Fund Account*” means the account in the Debt Service Fund created and so designated by the provisions of Section 501 of the Trust Agreement.

“*Sinking Fund Requirement*” means, with respect to the Term Bonds and for any Bond Year, the principal amount fixed or computed for retirement by purchase or redemption on or prior to January 1 of such Bond Year. The Sinking Fund Requirements for the Term Bonds shall be initially the respective principal amounts of such Term Bonds for retirement on each January 1 as fixed in Section 301 of the Trust Agreement. If during any Bond Year, the total principal amount of Term Bonds retired by purchase or redemption under the provisions of the Trust Agreement shall be greater than the amount of the Sinking Fund Requirement for such Term Bonds, the subsequent Sinking Fund Requirements for such Term Bonds shall be reduced in such amount aggregating the amount of such excess as shall be specified in an Officer’s Certificate filed with the Trustee on or prior to November 15 of the next ensuing Bond Year.

“*Special Record Date*” means a date fixed by the Trustee for determining the Owner of Bonds for the payment of Defaulted Interest pursuant to Section 202 of the Trust Agreement.

“*State*” means the State of North Carolina.

“*State Appropriated Revenues*” means any funds appropriated by the State pursuant to NCGS 136-176(b2) or other legislation enacted by the General Assembly of the State providing for the annual appropriation of funds to the Authority to pay debt service on Bonds issued to finance turnpike projects, including the Monroe Connector System, or to fund debt service reserves, operating reserves or similar reserves, beginning with the appropriation for the fiscal year ending June 30, 2011. The initial State Appropriated Revenues are in the annual amount of \$24,000,000.

“*Supplemental Agreement*” means an order or resolution of the Authority authorizing any particular Series of Bonds, together with a supplemental trust agreement executed and delivered by the Authority in connection with the issuance of such Series of Bonds that is required to be executed and delivered by the Trust Agreement prior to the issuance of any such Series.

“*Term Bonds*” means, with respect to the Series 2010A Bonds maturing January 1, 2031, and January 1, 2041, and means with respect to any Additional Bonds, any Bonds so designated as Term Bonds in the Supplemental Trust Agreement.

“*Treasury Rate*” means, with respect to any redemption date for a particular Bond, the rate per annum, expressed as a percentage of the principal amount, equal to the semiannual equivalent yield to maturity or interpolated maturity of the Comparable Treasury Issue, assuming that the Comparable Treasury Issue is purchased on the redemption date for a price equal to the Comparable Treasury Price, as calculated by the Designated Investment Banker.

“*Trust Agreement*” means the Trust Agreement and any supplements and amendments hereto permitted by the Trust Agreement; provided, however, that the Trust Agreement shall not include any Supplemental Agreement executed and delivered by the Authority and the Trustee with respect to a particular Series of Bonds to the extent provided in Section 1105 of the Trust Agreement.

“*Trust Estate*” has the meaning set forth in Section 512 of the Trust Agreement.

“*Trustee*” means the Trustee serving as such under the Trust Agreement, whether original or successor.

Terms of Bonds

Interest Payments on Bonds. Each Bond shall bear interest from the Interest Payment Date next preceding the date on which it is authenticated unless it is (a) authenticated upon an Interest Payment Date, in which event it shall bear interest from such Interest Payment Date, or (b) authenticated prior to the first Interest Payment Date, in which event it shall bear interest from its date or such later date as is specified in the Supplemental Agreement providing for its issuance; provided, however, that if at the time of authentication of any Bond interest is in default, such Bond shall bear interest from the date to which interest has been paid.

The principal of and the interest and premium, if any, on the Bonds shall be payable in any coin or currency of the United States of America that is legal tender for the payment of public and private debts on the respective dates of payment thereof. The payment of interest on each Bond shall be made (a) by the Bond Registrar on each Interest Payment Date to the person appearing on the registration books of the Bond Registrar as the registered owner thereof as of the Regular Record Date by check mailed to the registered owner at his address as it appears on such registration books, or (b) by such additional or alternative means as is provided in any Supplemental Agreement providing for the issuance of such Bond. Unless otherwise provided in a Supplemental Agreement, payment of the principal of all Bonds shall be made upon the presentation and surrender of such Bonds at the designated corporate trust office of the Bond Registrar as the same become due and payable (whether at maturity, by redemption or otherwise).

Any interest on any Bond of any Series which is payable, but is not punctually paid or duly provided for, on any Interest Payment Date (“*Defaulted Interest*”) shall forthwith cease to be payable to the Owner on the relevant Regular Record Date solely by virtue of

such Owner having been such Owner; and such Defaulted Interest may be paid by the Authority, at its election in each case, as provided in subsection (a) or (b) below:

(a) The Authority may elect to make payment of any Defaulted Interest on the Bonds of any Series to the persons in whose names such Bonds (or their respective Predecessor Bonds) are registered at the close of business on a Special Record Date for the payment of such Defaulted Interest, which shall be fixed in the following manner. The Authority shall notify the Trustee in writing of the amount of Defaulted Interest proposed to be paid on each Bond and the date of the proposed payment (which date shall be such as will enable the Trustee to comply with the next sentence), and at the same time, the Authority shall deposit with the Trustee an amount of money equal to the aggregate amount proposed to be paid in respect of such Defaulted Interest or shall make arrangements satisfactory to the Trustee for such deposit prior to the date of the proposed payment, such money when deposited to be held in trust for the benefit of the persons entitled to such Defaulted Interest as in this subsection provided. Thereupon, the Trustee shall fix a Special Record Date for the payment of such Defaulted Interest which shall be not more than fifteen (15) nor less than ten (10) days prior to the date of the proposed payment and not less than ten (10) days after the receipt by the Trustee of the notice of the proposed payment. The Trustee shall promptly notify the Authority of such Special Record Date and, in the name and at the expense of the Authority, such expense to be paid solely from Revenues, shall cause notice of the proposed payment of such Defaulted Interest and the Special Record Date therefor to be mailed, first-class postage prepaid, to each Owner at his address as it appears in the registration books maintained under Section 206 of the Trust Agreement not less than ten (10) days prior to such Special Record Date.

(b) The Authority may make payment of any Defaulted Interest on the Bonds of any Series in any other lawful manner not inconsistent with the requirements of any securities exchange on which such Bonds may be listed and upon such notice as may be required by such exchange, if, after notice given by the Authority to the Trustee of the proposed payment pursuant to this subsection, such method of payment shall be deemed practicable by the Trustee.

Subject to the foregoing provisions of the Trust Agreement, each Bond delivered under the Trust Agreement upon transfer of or in exchange for or in lieu of any other Bond shall carry all the rights to interest accrued and unpaid, and to accrue, which were carried by such other Bond and each such Bond shall bear interest from such date, that neither gain nor loss in interest shall result from such transfer, exchange or substitution.

Exchange of Bonds. Bonds, upon surrender thereof at the designated corporate trust office of the Bond Registrar, together with an assignment duly executed by the Owner or his attorney or legal representative, or legal representative of his estate if the Owner is deceased, in such form as shall be satisfactory to the Bond Registrar, may, at the option of the Owner thereof, be exchanged for an equal aggregate principal amount of Bonds of the same Series and maturity, of any denomination or denominations authorized by the Supplemental Agreement pursuant to which such Bonds were issued, bearing interest at the same rate and in the same form as the Bonds surrendered for exchange.

The Authority shall make provision for the exchange of Bonds at the designated corporate trust office of the Bond Registrar.

Transfer and Registration of Transfer of Bonds. The Bond Registrar shall keep books for the registration and the registration of transfer of the Series of Bonds as to which it is Bond Registrar as provided in the Trust Agreement. The registration books shall be available at all reasonable times for inspection by the Authority and any Owner of such Bonds and may be copied by either of the foregoing and their agents or representatives.

The Bond Registrar shall evidence acceptance of the duties, responsibilities and obligations of the Bond Registrar under the Trust Agreement by the execution of the certificate of authentication on the related Series of Bonds.

The transfer of any Bond may be registered only upon the books kept for the registration and registration of transfer of Bonds upon presentation thereof to the Bond Registrar together with an assignment duly executed by the Owner or his attorney or legal representative, or legal representative of his estate if the Owner is deceased, in such form as shall be satisfactory to the Bond Registrar. No transfer of any Bond shall alter the ownership of such Bond for purposes of the Trust Agreement unless such transfer is registered with the Bond Registrar. Upon any such registration of transfer, the Authority shall, if necessary, execute and the Bond Registrar shall authenticate and deliver in exchange for such Bond a new Bond or Bonds, registered in the name of the transferee, of any denomination or denominations authorized by the Supplemental Agreement pursuant to which such Bond was issued, in the aggregate principal amount equal to the principal amount of such Bond surrendered or exchanged, of the same maturity and bearing interest at the same rate.

In all cases in which Bonds shall be exchanged or the transfer of Bonds shall be registered, the Authority shall, if necessary, execute and the Bond Registrar shall authenticate and deliver at the earliest practicable time Bonds in accordance with the provisions of the Trust Agreement. All Bonds surrendered in any such exchange or registration of transfer shall forthwith be canceled by the Bond Registrar. No service charge shall be made for any registration, transfer or exchange of Bonds, but the Authority and the Bond Registrar may require payment of a sum sufficient to cover any tax or other governmental charge that may be imposed in connection with any transfer or exchange of Bonds. Neither the Authority nor the Bond Registrar shall be required (a) to issue, transfer or exchange Bonds during a period beginning at the opening of business fifteen (15) days before the day of the mailing of a notice of redemption of Bonds and ending at the close of business on the day of such mailing or (b) to transfer or exchange any Bond so selected for redemption in whole or in part.

The Authority, the Trustee, the Bond Registrar and any agent of the Authority, the Trustee or the Bond Registrar, may treat the person in whose name any Bond is registered, including, without limitation, any Securities Depository Nominee, as the Owner of such Bond for the purpose of receiving payment of principal of and premium, if any, and interest on such Bond, and for all other purposes whatsoever, whether or not such Bond be overdue, and, to the extent permitted by law, neither the Authority, the Trustee, the Bond Registrar nor any such agent shall be affected by notice to the contrary.

Cancellation of Bonds. Upon receipt of the same, the Bond Registrar shall cancel all Bonds paid, redeemed or purchased by the Trustee or purchased by the Authority and delivered to the Bond Registrar, and all Bonds delivered to the Bond Registrar in exchange

for other Bonds or delivered to the Bond Registrar upon the transfer of any Bond if a new Bond is delivered upon such transfer. The Bond Registrar shall certify to the Authority the details of all Bonds so canceled. All Bonds canceled under any of the provisions of the Trust Agreement either shall be delivered to the Authority or destroyed by the Bond Registrar, as the Authority directs. Upon destruction of any Bonds, the Bond Registrar shall execute a certificate in duplicate, describing the Bonds so destroyed; and one executed certificate shall be filed with the Authority and the other executed certificate shall be retained by the Bond Registrar.

Additional Bonds

Terms and Conditions for Issuance of Refunding Bonds. The Authority may from time to time issue refunding Bonds to refund Bonds or any such refunding Bonds. Before any Bonds shall be issued, the Authority shall adopt and execute and deliver a Supplemental Agreement authorizing the issuance of such refunding Bonds, fixing the amount and the details thereof as provided in Section 202 of the Trust Agreement and describing in brief and general terms the purpose for issuing such Bonds.

Unless named otherwise in the Supplemental Agreement, the Bonds of each Series shall be designated “Monroe Connector System State Appropriation Revenue Refunding Bonds, Series __” (inserting the year such Bonds are issued and any other distinctive letter or number), shall be stated to mature, subject to the right of prior redemption as therein set forth, on the date or dates specified therein, in such year or years not later than forty (40) years from their date, shall bear interest at a rate or rates not exceeding the maximum rate then permitted by law, shall be numbered and shall have such redemption provisions (subject to the provisions of Article III), all as provided in the Supplemental Agreement. Except as to any differences in the maturities thereof or in the rate or rates of interest or the provisions for redemption, all such Bonds shall be payable on a parity with the Outstanding Bonds and with each other and shall be entitled to the same benefit and security of the Trust Agreement, including, in particular, the pledge, charge and lien upon the State Appropriated Revenues and Interest Subsidy Payments in manner provided in the Trust Agreement.

The Bonds shall be executed substantially in the form and in the manner in the Trust Agreement set forth and shall thereafter be deposited with the Bond Registrar for authentication, but before the Bonds shall be authenticated and delivered to the purchasers thereof, there shall be filed with the Trustee the following:

- (i) an executed copy of the Trust Agreement;
- (ii) an executed copy of the Supplemental Agreement adopted or executed and delivered by the Authority for the particular Series of Bonds;
- (iii) evidence of the approval of the Bonds by the Local Government Commission as required by NCGS 159-86;
- (iv) a certified copy of the resolution of the Authority (which resolution may be incorporated in the Supplemental Agreement for the particular Series of Bonds), approving the award of the Bonds and directing the authentication and

delivery of such Bonds to or upon the order of the purchasers therein named upon payment of the purchase price therein set forth plus the accrued interest thereon;

(v) an Officer's Certificate is delivered to the Trustee (i) stating that the proceeds of such refunding Bonds, together with interest earnings on the Defeasance Obligations to be acquired and other available funds, will be sufficient to pay the principal of and interest and any premium on the Bonds to be refunded to the redemption or maturity date or dates and the expenses incident to the refunding, and (ii) stating that after the issuance of the refunding Bonds, the anticipated State Appropriated Revenues and Interest Subsidy Payments are expected to be sufficient to provide for the payment of debt service on all Bonds that will be Outstanding following such issuance at the times and in the amounts provided in the Trust Agreement; and

(vi) such other documents as are required to be delivered to the Trustee pursuant to the Supplemental Agreement.

When the documents mentioned in subsections (i) to (vi), inclusive, of the Trust Agreement shall have been filed with the Trustee and when the Bonds shall have been executed and authenticated as required by the Trust Agreement, the Trustee shall deliver the Bonds at one time to or upon the order of the purchasers named in the resolution mentioned in subsection (iv), but only upon payment to the Trustee of the purchase price of the Bonds and the accrued interest, if any, thereon to the date of delivery. The Trustee shall be entitled to rely upon the resolutions and documents mentioned in subsections (i) to (vi) above as to all matters stated therein.

If the Authority issues any refunding Bonds as Build America Bonds, it shall fund, from the proceeds of such Build America Bonds or from any other available sources, such amount as shall be necessary for the Reserve Fund to equal the Reserve Fund Requirement.

Terms and Conditions for Issuance of Additional Bonds Other than Refunding Bonds. The Authority may from time to time issue Bonds to finance costs of the Initial Project or any Additional Project, as well as the costs of issuance thereof and the funding of any reserves therefor. Before any Bonds shall be issued, the Authority shall adopt and execute and deliver a Supplemental Agreement authorizing the issuance of such Additional Bonds, fixing the amount and the details thereof as provided in Section 202 of the Trust Agreement and describing in brief and general terms the purpose for issuing such Additional Bonds.

Unless named otherwise in the Supplemental Agreement, the Bonds of each Series shall be designated "Monroe Connector System State Appropriation Revenue Bonds, Series __" (inserting the year such Bonds are issued and any other distinctive letter or number), shall be stated to mature, subject to the right of prior redemption as therein set forth, on the date or dates specified therein, in such year or years not later than forty (40) years from their date, shall bear interest at a rate or rates not exceeding the maximum rate then permitted by law, shall be numbered and shall have such redemption provisions (subject to the provisions of Article III), all as provided in the Supplemental Agreement. Except as to any differences in the maturities thereof or in the rate or rates of interest or the provisions

for redemption, all such Bonds shall be payable on a parity with the Outstanding Bonds, and other Additional Bonds and with each other and shall be entitled to the same benefit and security of the Trust Agreement, including, in particular, the pledge, charge and lien upon the State Appropriated Revenues and Interest Subsidy Payments in manner provided in the Trust Agreement.

The Bonds shall be executed substantially in the form and in the manner set forth in the Trust Agreement and shall thereafter be deposited with the Bond Registrar for authentication, but before the Bonds shall be authenticated and delivered to the purchasers thereof, there shall be filed with the Trustee the following:

- (i) an executed copy of the Trust Agreement;
- (ii) an executed copy of the Supplemental Agreement adopted or executed and delivered by the Authority for the particular Series of Bonds;
- (iii) evidence of the approval of the Bonds by the Local Government Commission as required by NCGS 159-86;
- (iv) a certified copy of the resolution of the Authority (which resolution may be incorporated in the Supplemental Agreement for the particular Series of Bonds), approving the award of the Bonds and directing the authentication and delivery of such Bonds to or upon the order of the purchasers therein named upon payment of the purchase price therein set forth plus the accrued interest thereon;
- (v) for Additional Bonds issued after December 31, 2010, an Officer's Certificate is delivered to the Trustee stating that after the issuance of such Additional Bonds, the anticipated State Appropriated Revenues and Interest Subsidy Payments are expected to be sufficient to provide for the payment of debt service on all Bonds that will be Outstanding following such issuance at the times and in the amounts provided in the Trust Agreement, or, for Additional Bonds issued on or before December 31, 2010, an Officer's Certificate is delivered to the Trustee demonstrating that after the issuance of such Additional Bonds, the State Appropriated Revenues provided for in NCGS 136-176(b2) as of such date will be sufficient to provide for the payment of debt service on all Bonds that will be Outstanding following such issuance at the times and in the amounts provided therefor in the Trust Agreement and the Supplemental Agreement relating to such Additional Bonds, with the debt service calculated taking into account the receipt of Interest Subsidy Payments; and
- (vi) such other documents as are required to be delivered to the Trustee pursuant to the Supplemental Agreement.

When the documents mentioned in subsections (i) to (vi), inclusive, shall have been filed with the Trustee and when the Bonds shall have been executed and authenticated as required by the Trust Agreement, the Trustee shall deliver the Bonds at one time to or upon the order of the purchasers named in the resolution mentioned in subsection (iv), but only upon payment to the Trustee of the purchase price of the Bonds and the accrued interest, if any, thereon to the date of delivery. The Trustee shall be entitled to rely upon

the resolutions and documents mentioned in subsections (i) to (vi) as to all matters stated therein.

If the Authority issues any other Build America Bonds under this provision, it shall fund, from the proceeds of such Build America Bonds or from any other available sources, such amount as shall be necessary for the Reserve Fund to equal the Reserve Fund Requirement.

Certain Redemption Matters

Redemption Notice. At least forty-five (45) days prior to the redemption date of any Bonds to be redeemed, the Authority shall notify the Trustee and the Bond Registrar in writing of its intention to redeem such Bonds. The Authority, the Bond Registrar and the Trustee may mutually agree to a shorter time period for such notice to the Trustee and the Bond Registrar. At least thirty (30) days but not more than sixty (60) days prior to the redemption date of any Bonds to be redeemed, whether such redemption be in whole or in part, the Bond Registrar shall cause a notice of any such redemption signed by the Bond Registrar to be mailed, first class, postage prepaid, to all Owners of Bonds to be redeemed in whole or in part, provided that notice to any Securities Depository shall be sent by registered or certified mail and provided further that failure to mail any such notice to any Owner or any defect in such notice shall not affect the validity of the proceedings for such redemption as to the Bonds of any other Owner to whom notice was properly given. The Bond Registrar shall also deliver a copy of any such notice to the Local Government Commission.

Each such notice shall set forth the designation, date and Series of the Bonds, the CUSIP numbers of the Bonds to be redeemed, the date fixed for redemption, the Redemption Price to be paid, the address and phone number of the Trustee and Bond Registrar, the date of the Redemption Notice, the maturities of the Bonds to be redeemed and, if less than all of the Bonds of any one maturity then Outstanding shall be called for redemption, the distinctive numbers and letters, if any, of such Bonds to be redeemed and, in the case of Bonds to be redeemed in part only, the portion of the principal amount thereof to be redeemed. If any Bond is to be redeemed in part only, the notice of redemption shall state also that on or after the redemption date, upon surrender of such Bond, a new Bond in principal amount equal to the unredeemed portion of such Bond will be issued.

Any notice of redemption, except a notice of redemption in respect of a Sinking Fund Requirement, may state that the redemption to be effected is conditioned upon the receipt by the Trustee or Bond Registrar on or prior to the redemption date of moneys sufficient to pay the principal of and premium, if any, and interest on the Bonds to be redeemed and that if such moneys are not so received such notice shall be of no force or effect and such Bond shall not be required to be redeemed. In the event that such notice contains such a condition and moneys sufficient to pay the principal of and premium, if any, and interest on such Bonds are not received by the Trustee or Bond Registrar on or prior to the redemption date, the redemption shall not be made and the Bond Registrar shall within a reasonable time thereafter give notice, in the manner in which the notice of redemption was given, that such moneys were not so received.

Effect of Calling for Redemption. On or before the date upon which Bonds are to be redeemed, the Authority shall deposit with the Trustee or Bond Registrar money or Defeasance Obligations, or a combination of both, that will be sufficient to pay on the redemption date the Redemption Price of and interest accruing on the Bonds to be redeemed on such redemption date.

On the date fixed for redemption, notice having been given in the manner and under the conditions provided in the Trust Agreement, the Bonds or portions thereof called for redemption shall be due and payable at the Redemption Price provided therefor, plus accrued interest to such date, and if moneys sufficient to pay the Redemption Price of the Bonds or portions thereof to be redeemed plus accrued interest thereon to the date of redemption are held by the Trustee or Bond Registrar in trust for the Owners of Bonds to be redeemed, interest on the Bonds or portions thereof called for redemption shall cease to accrue; such Bonds or portions thereof shall cease to be entitled to any benefits or security under the Trust Agreement or to be deemed Outstanding; and the Owners of such Bonds or portions thereof shall have no rights in respect thereof except to receive payment of the Redemption Price thereof, plus accrued interest to the date of redemption.

Bonds and portions of Bonds for which irrevocable instructions to pay on one or more specified dates or to call for redemption on anyone or more dates as determined by the Authority have been given to the Trustee or Bond Registrar in form satisfactory to it shall not thereafter be deemed to be Outstanding under the Trust Agreement and shall cease to be entitled to the security of or any rights under the Trust Agreement, and the Owners shall have no rights in respect of the same other than to receive payment of the principal or Redemption Price thereof and accrued interest thereon, to be given notice of redemption in the manner provided in Section 303 of the Trust Agreement, and to the extent otherwise provided in the Trust Agreement, to receive Bonds for any unredeemed portions of Bonds if money or Defeasance Obligations (that have maturity dates or redemption dates which, at the option of the holder of such Defeasance Obligations, shall not be later than the date or dates on which moneys will be required to effect such payment or redemption), or a combination of both, sufficient to pay the principal or Redemption Price of such Bonds or portions thereof, together with accrued interest thereon to the date upon which such Bonds are to be paid or redeemed, are held in separate accounts by the Trustee or Bond Registrar in trust for the Owners of such Bonds.

Any Supplemental Agreement may provide that any notice of redemption, except a notice of redemption in respect of a Sinking Fund Requirement, may state that the redemption to be effected is conditioned upon the receipt by the Trustee or Bond Registrar on or prior to the redemption date of moneys sufficient to pay the principal of and premium, if any, and interest on the Bonds to be redeemed, and that if such moneys are not so received, such notice shall be of no force or effect and such Bond shall not be required to be redeemed. In the event that such notice contains such a condition and moneys or Defeasance Obligations sufficient to pay the Redemption Price and interest on such Bonds are not received by the Trustee or Bond Registrar on or prior to the redemption date, the redemption shall not be made and the Trustee or Bond Registrar shall within a reasonable time thereafter give notice, in the manner in which the notice of redemption was given, that such moneys were not so received. The Supplemental Agreement may also provide for the giving of notice of insufficient money prior to the redemption date and such other provisions as the Authority may determine.

Redemption of a Portion of Bonds. If less than all of an Outstanding Bond is selected for redemption, the Owner thereof or his attorney or legal representative, or legal representative of his estate if the Owner is deceased, shall present and surrender such Bond to the Bond Registrar for payment of the principal amount thereof so called for redemption, and the redemption premium, if any, on such principal amount, and the Authority shall, if necessary, execute and the Bond Registrar shall authenticate and deliver to or upon the order of such Owner or his attorney or legal representative, without charge, for the unredeemed portion of the principal amount of the Bond so surrendered, a new Bond of the same Series and maturity, bearing interest at the same rate and of any denomination or denominations authorized by Supplemental Agreement for such Bond.

Project Completion

Completion of the Project and Disposition of Project Fund Balance. The Completion Date for the Project, or any segment thereof, shall be evidenced to the Trustee by an Officer's Certificate (a) setting forth the Cost of the Project, or such segment, whichever is applicable, and stating that, except for amounts not then due and payable or the liability for the payment of which is being contested or disputed by the Authority, which amounts shall be set forth in such Officer's Certificate, all costs and expenses incurred in connection therewith have been paid, and (b) stating that (i) the acquisition, construction and equipping of the Project, or such segment, whichever is applicable, have been completed substantially in accordance with the plans and specifications therefor and the Cost of the same has been paid and (ii) all other facilities necessary in connection with the Project, or such segment, have been acquired, constructed and installed in accordance with the plans and specifications therefor. Notwithstanding the foregoing, such certificate shall state that it is given without prejudice to any rights against third parties that exist at the date of such certificate or that may subsequently come into being. The Authority shall supply such certificate within sixty (60) days after the facts justifying such certification exist.

Upon receipt of such certificate, the Trustee shall withdraw all money then remaining in the Project Fund in excess of the amount then needed for completion of the remainder of the Project and apply the same, subject to Section 603 of the Trust Agreement, (i) for any capital improvement related to the Initial Project which, in the written opinion of nationally recognized bond counsel, is permitted by the Act and shall not adversely affect the tax status of interest on any Bonds issued as tax-exempt or the status of the Bonds as Build America Bonds or (ii) for payment to the federal government of any arbitrage rebate payment required by the Code. In the event that the Authority does not deliver an opinion of nationally recognized bond counsel as required by the preceding sentence at the time it delivers such certificate, the Trustee shall transfer the money in excess of the amount then needed for completion of the Project to the Debt Service Fund as directed in writing by an Authorized Officer.

Notwithstanding other provisions herein, prior to the issuance of Revenue Bonds, no amounts may be drawn from proceeds of Bonds deposited in the Project Fund for payment of costs, or reimbursement of costs, with respect to the Monroe Connector System other than costs of issuance of the Bonds.

Funds Generally

Establishment of Funds. In addition to the Project Fund, there are established the following funds;

(a) North Carolina Turnpike Authority Monroe Connector System State Appropriation Revenue Bonds Revenue Fund;

(b) North Carolina Turnpike Authority Monroe Connector System State Appropriation Revenue Bonds Debt Service Fund, in which there are established four special accounts to be known as the Interest Account, the Principal Account, the Sinking Fund Account and the Redemption Account; and

(c) North Carolina Turnpike Authority Monroe Connector System State Appropriation Revenue Bonds Reserve Fund.

The Revenue Fund, the Debt Service Fund and the Reserve Fund shall be established with and held by the Trustee. The money in all of the funds, accounts and subaccounts established pursuant to the Trust Agreement shall be held in trust and applied as provided in the Trust Agreement and, pending such application, the money in the Debt Service Fund and any accounts and subaccounts therein shall be subject to a pledge, charge and lien in favor of the Owners of the Bonds issued and Outstanding under the Trust Agreement and for the further security of such Owners, except as otherwise provided in the Trust Agreement. The money in the Reserve Fund and any accounts therein shall be subject to a pledge, charge and lien in favor of the Owners of the Bonds issued and Outstanding under the Trust Agreement, except as otherwise provided in the Trust Agreement.

Funds Received by the Authority. All Revenues shall be deposited on a daily basis when received in the Revenue Fund.

The NCDOT has made arrangements for the transfer of the State Appropriated Revenues to the Authority from the North Carolina Highway Trust Fund in four quarterly installments of \$6,000,000 each to be made beginning on the date of issuance of the Series 2010 Bonds, and on each November 16, February 16, May 16, and August 16, thereafter. In the event that the transfer is not made as so arranged, the Authority will make prompt application to the Secretary of the NCDOT to make such transfer, providing such information as may be necessary to the Secretary of the NCDOT to show that the transfer to the Authority of the amounts so appropriated is necessary to enable the Authority to pay the debt service payments to be paid with respect to the Bonds.

The Authority shall comply with the requirements of the Code to qualify and continue the qualification of all the Bonds as Build America Bonds under the Code and will make all filings and provide such information with the Treasury Secretary as shall be necessary to assure the timely receipt by the Authority and payment to the Trustee of the Interest Subsidy Payments to enable the Authority to pay the debt service payments to be paid with respect to the Bonds.

Application of Money in Revenue Fund. Immediately upon each receipt of State Appropriated Revenues, Interest Subsidy Payments or other Revenues to be deposited to the Revenue Fund, the Trustee shall immediately transfer such amounts as follows, and in the following order of priority:

(a) to the Interest Account of the Debt Service Fund an amount that, together with the amounts then on deposit in the Interest Account, will be equal to the amount of interest payable on the Bonds and any Additional Bonds on the next Interest Payment Date, or the entire amount of the Revenues if less than the amount required payable on the next Interest Payment Date;

(b) to the Principal Account and the Sinking Fund Account of the Debt Service Fund an amount that, together with the amounts then on deposit in the Principal Account or the Sinking Fund Account, will be equal to the amount equal to the amount of principal payable on the Bonds and any Additional Bonds within the current Bond Year, or the entire amount of the Revenues if less than the amount required payable within the current Bond Year;

(c) to the Reserve Fund to the extent of any deficiencies therein; and

(d) the balance shall be transferred from the control of the Trustee to the trustee under the General Revenue Bond Trust Agreement Revenue Fund or to the trustee under an Other Revenue Bond Trust Agreement, as directed by the Authority.

Upon the transfer described in (d), the amounts so transferred shall be transferred free and clear of the lien on and pledge of the Revenues created under the Trust Agreement and such lien and pledge shall thereafter be of no force and effect upon the such amounts after the transfer thereof to the trustee under the General Revenue Bond Trust Agreement or an Other Revenue Bond Trust Agreement.

The Authority shall be permitted to retain from the amount to be transferred to the General Revenue Bond Trust Agreement or an Other Revenue Bond Trust Agreement, such amounts as shall be needed to pay arbitrage rebate payments to the federal government as needed in order to comply with Section 603 of the Trust Agreement.

The Authority shall provide to the Trustee such certifications, documentation, agreements and other information as may be necessary for the Trustee to determine the amounts required to be deposited or paid as provided above in the Trust Agreement.

There shall be credited against the amounts required to be deposited or paid as provided in subsection (a) above any amounts set aside for payment of interest on Bonds. On the date of issuance of the Bonds, the Authority has caused to be deposited to the Interest Account, the amount of \$29,081,082,53 from proceeds of the Series 2010A Bonds and \$15,709,799.19 in STIP funds for payment of interest due on the Series 2010A Bonds through July 1, 2014.

On or before the 45th day next preceding any date on which Serial Bonds are to mature or Term Bonds are to be redeemed pursuant to Sinking Fund Requirements therefor or are to mature, the Authority may satisfy all or a portion of its obligation to make

the payments required by subsections (a) and (b) by delivering to the Trustee Serial Bonds maturing or Term Bonds maturing or required to be redeemed on such date. The price paid to purchase any such Bond, including accrued interest to the date of purchase, shall not exceed the principal or Redemption Price plus accrued interest to the date of purchase. Upon such delivery, the Authority shall receive a credit against amounts required to be deposited into the Interest Account, the Principal Account or Sinking Fund Account, as the case may be, on account of such Bonds with respect to all interest payments for the remainder of the Fiscal Year and in the amount of 100% of the principal amount of any such Serial Bonds or Term Bonds so delivered.

Application of Money in Interest Account. Not later than 10:00 A.M. on each Interest Payment Date, date for the payment of Defaulted Interest or date upon which Bonds are to be redeemed, the Trustee shall withdraw from the Interest Account and wire transfer to the Bond Registrar, in federal reserve or other immediately available funds, the amounts required for paying interest on the respective Bonds on such Interest Payment Date. The Bond Registrar shall remit or otherwise set aside the amount due and payable to the Owners.

If the Authority fails to deposit with the Trustee the amounts required to be deposited in the Interest Account as provided in Section 503 of the Trust Agreement, or if the balance in the Interest Account on the Business Day next preceding an Interest Payment Date is insufficient to pay interest coming due on the Bonds on such Interest Payment Date, the Trustee shall notify the Authority of the amount of the deficiency and request the Authority to immediately cure such deficiency.

Application of Money in Principal Account. Not later than 10:00 A.M. on each Principal Payment Date, the Trustee shall withdraw from the Principal Account and wire transfer to the Bond Registrar, in federal reserve or other immediately available funds, the amount necessary to pay the principal of the respective Bonds at their respective maturities. The Bond Registrar shall remit or otherwise set aside the amount due and payable to the Owners.

If on any date there is money in the Principal Account and no Serial Bonds are then Outstanding or if on any Principal Payment Date money remains therein after the payment of the principal of Serial Bonds then due, the Trustee shall withdraw such money therefrom and shall apply the same in the following order: (a) deposit into the Sinking Fund Account the amount then required to be paid thereto by the Authority pursuant to Section 503 of the Trust Agreement, and (b) otherwise make the deposits required by such Section 503.

If the Authority fails to deposit with the Trustee the amounts required to be deposited in the Principal Account as provided in Section 503 of the Trust Agreement, or if the balance in the Principal Account on the Business Day next preceding a Principal Payment Date is insufficient to pay the principal coming due on the Bonds on such Principal Payment Date, the Trustee shall notify the Authority of the amount of the deficiency and request the Authority to immediately cure such deficiency.

Application of Money in Sinking Fund Account. Money held for the credit of the Sinking Fund Account shall be applied to the retirement, purchase, redemption or payment of Term Bonds.

(a) To the extent funds have been deposited to the Sinking Fund Account and are available, the Trustee shall, at the request of the Authority, endeavor to purchase and cancel Term Bonds or portions thereof subject to redemption by operation of the Sinking Fund Account or maturing on the next ensuing January 1 at the direction of an Authorized Officer. The purchase price of each such Term Bond shall not exceed par plus accrued interest to the date of purchase. The Trustee shall pay the interest accrued on such Term Bonds to the date of settlement therefor from the Interest Account and the purchase price from the Sinking Fund Account. No such purchase shall be made by the Trustee from money in the Sinking Fund Account within the period of forty-five (45) days immediately preceding any January 1 on which such Term Bonds are subject to redemption. If in any Bond Year the sum of the amount on deposit in the Sinking Fund Account for the payment of any Term Bonds and the principal amount of the Term Bonds that were purchased during such Bond Year pursuant to the provisions of this paragraph (a) or delivered during such Bond Year to the Trustee by the Authority exceeds the Sinking Fund Requirement for the Outstanding Term Bonds for such Bond Year, the Trustee shall endeavor to purchase Outstanding Term Bonds with such excess money.

(b) The Trustee shall call for redemption on January 1 the Term Bonds then subject to redemption in a principal amount equal to the aggregate Sinking Fund Requirement for the Term Bonds for such Bond Year, less the principal amount of any such Term Bonds retired since the prior January 1 by purchase pursuant to paragraph (a) of the Trust Agreement or delivered during such Bond Year to the Trustee by the Authority. If the amount available in the Sinking Fund Account on a January 1 is not equal to the Sinking Fund Requirement for the Term Bonds for the corresponding Bond Year less the principal amount of any such Term Bonds so delivered or purchased and retired, the Trustee shall apply the amount available in the Sinking Fund Account to the redemption of Term Bonds then subject to redemption so as to exhaust, to the extent practicable, the amount available. On each redemption date the Trustee shall withdraw from the Sinking Fund Account the amount required to pay the Redemption Price of the Term Bonds so called for redemption. The amount of interest on the Term Bonds so called for redemption shall be paid from the Interest Account. If such date is the stated maturity date of any Term Bonds, the Trustee shall not call those Term Bonds for redemption but, on such maturity, shall withdraw the amount required for paying the principal of such Term Bonds when due and payable.

Upon execution by the Authority of the Trust Agreement, the Trust Agreement 506 shall be deemed to be sufficient written notice required to be provided by the Authority to the Trustee pursuant to Section 302 of the Trust Agreement, for any and all redemptions pursuant to Section 506 of the Trust Agreement.

If on any date there is money in the Sinking Fund Account and no Term Bonds are then Outstanding or if on any payment date money remains therein after the mandatory redemption of Term Bonds in accordance with the Sinking Fund Requirement therefor, the Trustee shall withdraw such money therefrom and shall apply the same as follows and in the following order: (a) deposit in the Interest Account and the Principal Account, the

amounts, if any, required to be paid thereto in such month and (b) deposit all remaining amounts to the Revenue Fund.

If, in any Bond Year, by the application of money in the Sinking Fund Account, the Trustee should purchase or receive from the Authority and cancel Term Bonds in excess of the aggregate Sinking Fund Requirement for such Bond Year, the Trustee shall file with the Authority not later than the twentieth (20th) day prior to the next January 1 on which Term Bonds are to be redeemed, a statement identifying the Term Bonds purchased or delivered during such Fiscal Year and the amount of such excess. The Authority shall thereafter cause an Officer's Certificate to be filed with the Trustee not later than November 15 of the following Bond Year setting forth with respect to the amount of such excess the Fiscal Years in which the Sinking Fund Requirements with respect to Term Bonds are to be reduced and the amount by which the Sinking Fund Requirements so determined are to be reduced.

Upon the retirement of any Term Bonds by purchase and redemption pursuant to the provisions of the Trust Agreement, the Trustee shall file with the Authority a statement identifying such Bonds and setting forth the date of purchase or redemption, the amount of the purchase price or the Redemption Price of such Term Bonds, and the amount paid as interest thereon. The expenses incurred in connection with the purchase or redemption of any such Term Bonds shall be paid by the Authority from the Revenue Fund or from any other available moneys.

If the Authority fails to deposit with the Trustee the amounts required to be deposited in the Sinking Fund Account as provided in Section 503 of the Trust Agreement, or if the balance in the Sinking Fund Account on the Business Day next preceding a Principal Payment Date is insufficient to pay the principal coming due on the Bonds on such Principal Payment Date, the Trustee shall notify the Authority of the amount of the deficiency and request the Authority to immediately cure such deficiency.

Application of Money in the Redemption Account. The Trustee shall apply money in the Redemption Account for the purchase or redemption of Bonds as follows:

(a) Subject to the provisions of subsection (c) below, and if instructed to do so by an Authorized Officer, the Trustee shall endeavor to purchase and cancel Bonds or portions thereof, whether or not such Bonds or portions thereof are then subject to redemption, at the direction of an Authorized Officer, provided that the purchase price of each Bond, plus accrued interest to the date of purchase, shall not exceed the Redemption Price that would be payable on the next redemption date to the Owners of such Bonds plus accrued interest to the redemption date if such Bond or such portion thereof were called for redemption on such redemption date from the money in the Redemption Account. The Trustee shall pay the interest accrued on such Bonds or portions thereof to the date of settlement from the Interest Account and the purchase price from the Redemption Account, but no such purchase shall be made by the Trustee from money in the Redemption Account within the period of forty-five (45) days immediately preceding any date on which such Bonds or portions thereof are to be redeemed except from moneys other than the moneys set aside in the Redemption Account for the redemption of Bonds.

(b) Subject to the provisions of subsection (c) below, the Trustee shall call for redemption on a date permitted by the Trust Agreement such amount of Bonds or portions thereof as, with the redemption premium, if any, will exhaust the moneys then held in the Redemption Account as nearly as may be; provided, however, that not less than Fifty Thousand Dollars (\$50,000) principal amount of Bonds shall be called for redemption at anyone time unless the Trustee is so instructed by the Authority. The Trustee shall pay the accrued interest on the Bonds or portions thereof to be redeemed to the date of redemption from the Interest Account or any other available funds of the Authority and the Redemption Price of such Bonds or portions thereof from the Redemption Account. On or before the redemption date, the Trustee shall withdraw from the Redemption Account and the Interest Account, as applicable, and transfer to the Bond Registrar the respective amounts required to pay the Redemption Price and accrued interest to the redemption date of the Bonds or portions thereof so called for redemption.

(c) Money in the Redemption Account maybe applied by the Trustee in each Fiscal Year to the purchase or the redemption of Bonds of anyone or more Series then Outstanding in accordance with the latest Officer's Certificate filed with the Trustee (i) designating such Bonds to be purchased or redeemed, (ii) setting forth the aggregate principal amount of Bonds to be purchased or redeemed, and (iii) designating the Bonds to be redeemed, and if such Bonds are Term Bonds, the years in which future Sinking Fund Requirements are to be reduced as a result of such redemption and the amount of such reduction in each such year.

Money held for the credit of the Redemption Account shall be applied to the purchase or redemption of Bonds in the manner provided in the Trust Agreement.

Deposit and Application of Money in the Reserve Fund. (a) The Authority shall fund, from the proceeds of the Bonds or from any other available sources, concurrently with the delivery of and payment of any Bonds, the Reserve Fund in an amount equal to the Reserve Fund Requirement.

(b) The Trustee shall use amounts in the Reserve Fund to make transfers to the Interest Account to pay interest on Bonds at any time there is a deficiency in the Interest Account.

(c) Any deficiency in the Reserve Fund resulting from the withdrawal of moneys therein shall be restored by the Authority as provided in Section 503 of the Trust Agreement.

(d) Investment earnings from the investment of the Reserve Fund shall be transferred upon receipt to the Revenue Fund. Amounts in the Reserve Fund in excess of the Reserve Fund Requirement shall be deposited to the Revenue Fund.

Escheat. All money that the Trustee has withdrawn from the Debt Service Fund or received from any other source and set aside or delivered to the Bond Registrar for the purpose of paying any of the Bonds secured by the Trust Agreement, either at maturity or by purchase or call for redemption, shall be held in trust solely for the respective Owners of such Bonds.

Any money that is so set aside and that remains unclaimed by the Owners for a period of five (5) years after the date on which such Bonds have become payable shall be treated as abandoned property pursuant to the provisions of NCGS 116B-53, and the Trustee or the Bond Registrar shall report and remit this property to the Escheat Fund established by, according to the requirements of NCGS Chapter 116B, and thereafter the Owners shall look only to the Escheat Fund for payment and then only to the extent of the amounts so received, without any interest thereon, and the Trustee, the Bond Registrar and the Authority shall have no responsibility with respect to such money.

Disposition of Fund Balances. After provision is made for the payment of all Bonds, including the interest thereon, and all other obligations, expenses and charges required to be paid under or in connection with the Trust Agreement, and receipt by the Trustee of an Officer's Certificate to the effect that there are no other indentures, resolutions, bond orders or other agreements that impose a continuing lien on the balances hereinafter mentioned, the Trustee shall pay all amounts in any fund, account or subaccount then held by it under the Trust Agreement to the Authority. If a continuing lien has been imposed on such balance by another resolution, bond order, any other agreement, by court order or decree, or by law, the Trustee shall pay such balance to such person as is entitled to receive the same by law or under the terms of such resolution, bond order, agreement, court order, or decree.

Security Provisions

Security. As security for the payment of the Bonds, the Authority grants in the Trust Agreement to the Trustee for the benefit of the Owners of the Bonds, a pledge, charge and lien upon (i) all Revenues (subject to the release provisions set forth in Section 503 of the Trust Agreement); (ii) all money and securities held by or on behalf of the Trustee in the Project Fund (to the extent provided in Section 401 of the Trust Agreement), the Revenue Fund and the Debt Service Fund established pursuant to the Trust Agreement, and (iii) all money and securities held by or on behalf of the Trustee in the Reserve Fund (collectively, the "*Trust Estate*").

The pledge, charge and lien upon the Trust Estate shall be effective and operate immediately, and the Trustee shall have the right to collect and receive the Revenues in accordance with the provisions of the Trust Agreement at all times during the period from and after the date of delivery of the Bonds issued under the Trust Agreement until all Bonds have been fully paid and discharged, including, without limitation, at all times after the institution and during the pendency of bankruptcy or similar proceedings.

The aforementioned pledge, charge and lien upon the Trust Estate shall not inhibit the sale or disposition of any portion of the Monroe Connector System in accordance with the Trust Agreement and shall not impair or restrict the ability of the Authority to invest in securities and other forms of investment, subject to the provisions of the Trust Agreement.

Security for Deposits. Any and all money received by the Authority under the provisions of the Trust Agreement shall be deposited as received with the Trustee or one or more other Depositories as provided in the Trust Agreement, and all money so deposited with the Trustee shall be trust funds under the terms of the Trust Agreement, and, to the extent permitted by law in the case of the Project Fund, shall not be subject to any lien or attachment by any creditor of the Authority.

All money deposited with the Trustee or any Depositary under the Trust Agreement in excess of the amount guaranteed by the Federal Deposit Insurance Corporation or other federal agency shall be continuously secured, for the benefit of the Authority and the Owners of Bonds, either (a) by lodging with a bank or trust company chosen by the Trustee or Depositary or, if then permitted by law, by setting aside under control of the trust department of the bank or trust company holding such deposit, as collateral security, Government Obligations or other marketable securities eligible as security for the deposit of trust funds under regulations of the Comptroller of the Currency of the United States or applicable State law or regulations, having a market value (exclusive of accrued interest) not less than the amount of such deposit, or (b) if the furnishing of security as provided in clause (a) above is not permitted by applicable law, then in such other manner as may then be required or permitted by applicable State or federal laws and regulations regarding the security for, or granting a preference in the case of, the deposit of trust funds; provided, however, that it shall not be necessary for the Trustee or any Depositary to give security for the deposit of any money with it for the payment of the principal of or the redemption premium or the interest on any Bonds, or for the Trustee or any Depositary to give security for any money that shall be represented by Investment Obligations purchased under the provisions of the Trust Agreement as an investment of such money.

All money deposited with the Trustee or any Depositary shall be credited to the particular fund, account or subaccount to which such money belongs.

Investment Provisions

Investment of Money. Money held for the credit of all funds, accounts and subaccounts shall be continuously invested and reinvested by the Trustee or the Depositaries, whichever is applicable, in Investment Obligations or held as cash to the extent investment or reinvestment in Investment Obligations is not practicable.

Investment Obligations shall mature or be redeemable at the option of the holder thereof not later than the respective dates when the money held for the credit of such funds, accounts and sub accounts will be required for the purposes intended.

Notwithstanding the forgoing, no Investment Obligations pertaining to any Series in any fund, account or subaccount shall mature on a date beyond the latest maturity date of the respective Series of Bonds Outstanding at the time such Investment Obligations are deposited. For purposes of the Trust Agreement, the maturity date of any repurchase agreement shall be deemed to be the stated maturity date of such agreement and not the maturity dates of the underlying obligations.

An Authorized Officer or his designee shall give to the Trustee or any Depositary written directions respecting the investment of any money required to be invested under the Trust Agreement, subject, however, to the provisions of the Trust Agreement, and the Trustee or such Depositary shall then invest such money as so directed. The Trustee or any Depositary may request additional direction or authorization from the Authorized Officer or his designee in writing with respect to the proposed investment of money under the provisions of the Trust Agreement. Upon receipt of such directions, the Trustee or any Depositary shall invest, subject to the provisions of the Trust Agreement, such money in accordance with such directions. If no such directions are given, then any uninvested funds

shall be invested by the Trustee in Government Obligations having the shortest maturity available, but in no event exceeding a maturity of thirty (30) days from the date of investment in the case of funds held in the Project Fund, and the date funds are required to be used to pay debt service on Bonds in the case of funds held in the Debt Service Fund. The Trustee or any Depository shall have no liability for investments made in accordance with the Trust Agreement.

Investment Obligations acquired with money in or credited to any fund, account or subaccount established under the Trust Agreement shall be deemed at all times to be part of such fund, account or subaccount. Any loss realized upon the disposition or maturity of such Investment Obligations shall be charged against such funds, accounts or subaccounts. The interest accruing on any such Investment Obligations and any profit realized upon the disposition or maturity of such Investment Obligations shall be credited to the particular fund, account or subaccount to which such Investment Obligation relates.

The Trustee shall upon written direction from the Authority sell or reduce to cash a sufficient amount as specified by the Authority of such Investment Obligations whenever it is necessary to do so to provide money to make any payment from any such fund, account or subaccount. The Trustee shall not be liable or responsible for any loss resulting from any such action.

Whenever a transfer of money between two or more of the funds, accounts or subaccounts established under the Trust Agreement is permitted or required, such transfer may be made as a whole or in part by transfer of one or more Investment Obligations at a value determined at the time of such transfer in accordance with the Trust Agreement, provided that the Investment Obligations transferred are those in which money of the receiving fund, account or subaccount could be invested at the date of such transfer.

For purposes of making any investment under the Trust Agreement, the Trustee or any Depository may consolidate money held by it in any fund, account or subaccount with money in any other fund, account or subaccount. Transfers from any fund, account or subaccount to the credit of any other fund, account or subaccount provided for in the Trust Agreement may be effectuated on the books and records of the Trustee, the Authority or any Depository without any actual transfer of funds or liquidation of investments. Investment Obligations purchased with consolidated funds shall be allocated to each fund, account or subaccount on a pro rata basis in accordance with the initial amount so invested from each such fund, account or subaccount.

Unless otherwise directed by the Authority, Investment Obligations may be purchased by the Trustee or any Depository through its own investment division or other bank facilities established for such purpose.

Covenant as to Arbitrage. The Authority covenants that so long as any of the Bonds remain Outstanding, money on deposit in any fund, account or subaccount maintained in connection with the Bonds, regardless of whether such money was derived from the proceeds of the sale of the Bonds or from any other sources, will not be used in a manner that would cause any of the Bonds to be “arbitrage bonds” within the meaning of Section 148 of the Internal Revenue Code of 1986, as amended (the “Code”), and applicable regulations promulgated from time to time thereunder, except for moneys on deposit in

such funds, accounts or sub accounts with respect to any Bonds not intended to be tax-exempt under the provisions of the Code (except with respect to Build America Bonds to which such covenants do apply). The Authority further covenants and agrees to comply with the requirements of Section 148 of the Code and applicable regulations promulgated from time to time thereunder with respect to any Bonds intended to be tax-exempt under the provisions of the Code and with respect to Build America Bonds.

General Covenants

Payment of Principal, Interest, Premium and Other Amounts. The Authority shall cause to be paid, when due, the principal of (whether at maturity, by redemption or otherwise) and the premium, if any, and interest on the Bonds at the places, on the dates and in the manner provided in the Trust Agreement and in the Bonds and the documentation authorizing and securing such Bonds, according to the true intent and meaning thereof.

The Bonds are special obligations of the Authority payable solely from the Revenues, the Authority's right to receive the same, and money and Investment Obligations held in the applicable funds, accounts and subaccounts created under the Trust Agreement for the Bonds and the income from Investment Obligations in such funds, accounts and subaccounts. The Bonds shall be secured as provided in Section 512 of the Trust Agreement. The Bonds shall not be deemed to be a debt, liability or obligation of the State or of any other public body in the State secured by a pledge of the faith and credit of the State or of any other public body in the State, respectively, but shall be payable solely from the Revenues and other income or assets pledged under the Trust Agreement. The Authority shall not be obligated to pay the principal of, premium, if any, or interest on the Bonds except from the Revenues and other income or assets pledged under the Trust Agreement, and neither the faith and credit nor the taxing power of the State or of any other public body in the State, including the Authority, is pledged for the payment of the principal of, premium, if any, or interest on the Bonds. The Authority has no taxing power.

The Authority and NCDOT covenant that they will prepare all proposed and actual budgets including, and submit as necessary to all parties for, the continuance of State Appropriated Revenues in an annual amount of at least \$24,000,000.

Acquisition, Construction and Equipping of the Project. (a) The Authority shall acquire, construct and equip the Project for which Bonds are issued or for which money repayable from the proceeds of Bonds are advanced by the Authority for such purpose. The Authority covenants to acquire, construct and equip the Project in conformity with applicable law and all other requirements of all governmental authorities having jurisdiction thereover, and that the Authority will complete the acquisition, construction and equipping of the Project and with all expedition practicable.

(b) Notwithstanding subsection (a), the Authority may, by an Officer's Certificate stating that (1) the Authority has postponed significant work on the Monroe Connector System, (2) Revenue Bonds either have not been or will not be issued prior to December 31, 2011, and (3) an Other Revenue Project will have related Other Revenue Bonds issued prior to any Revenue Bonds, direct the Trustee that after the date of such Officer's Certificate, the term "Project" as used in the Trust Agreement shall mean the particular Other

Revenue Project identified in the Officer's Certificate and all provisions of the Trust Agreement including such term shall be effective with respect to such Other Revenue Project instead of the Monroe Connector System. If the State Appropriated Revenues associated with the identified Other Revenue Project are greater in annual amount than the State Appropriated Revenues associated with the Monroe Connector System, the Outstanding Bonds will be deemed to entirely relate to such Other Revenue Project after the date of the Officer's Certificate. If the State Appropriated Revenues associated with the identified Other Revenue Project are less in annual amount than the State Appropriated Revenues associated with the Monroe Connector System, the Outstanding Bonds will be deemed to relate to the Monroe Connector System and the identified Other Revenue Project in proportion to the associated State Appropriated Revenues. No change in the term "Project" shall be permitted under this subsection after any pledge by the Authority of the balance in the Revenue Fund identified in Section 503(d) of the Trust Agreement.

(c) The Authority shall require each person, firm or corporation with whom it may contract for such construction to (i) furnish a payment and performance bond in the full amount of any contract or (ii) deposit with an Authorized Officer marketable securities that are eligible as security for the deposit of trust funds as provided in Section 601 of the Trust Agreement in the full amount of any contract. The proceeds of any such payment or performance bond or securities shall be deposited in the applicable account or subaccount of the Project Fund and applied toward the completion of the Project in connection with which such payment or performance bond or securities are furnished.

Budgets. The Authority shall adopt an Annual Budget for the Monroe Connector System for each Fiscal Year. To the extent possible, the Authority shall prepare its Annual Budget so that it will be possible to determine from such Annual Budget (a) the amount of State Appropriated Revenues and Interest Subsidy Payments budgeted for deposit in the Revenue Fund during such Fiscal Year, (b) the amount of Revenues budgeted for deposit in the Revenue Fund during such year and (c) the amounts to be deposited or paid under Section 503 of the Trust Agreement.

Records, Accounts and Audits. The Authority shall keep the funds, accounts, sub accounts, money and investments of the Monroe Connector System separate from all other funds, accounts, money and investments, if any, of the Authority and shall keep accurate records and accounts of all items of costs and of all expenditures relating to the Monroe Connector System and of the revenues collected and the application of such revenues. Such records and accounts shall be open to the inspection of the Trustee.

Compliance with Applicable Law. So long as any Bond is Outstanding, the Authority shall comply or cause there to be compliance with all applicable laws, orders, rules, regulations and requirements of any municipal or other governmental authority relating to the construction, use and operation of the Monroe Connector System. Nothing contained in the Trust Agreement shall prevent the Authority from contesting in good faith the applicability or validity of any law, ordinance, order, rules regulation, or requirement so long as its failure to comply with the same during the period of such contest will not materially impair the operation or revenue producing capability of the Monroe Connector System.

Further Instruments and Actions. The Authority shall, from time to time, execute and deliver such further instruments or take such further actions as may be required to carry out the purposes of the Trust Agreement.

Use of Revenues and Inconsistent Actions. The Authority covenants and agrees that, so long as any of the Bonds secured by the Trust Agreement are Outstanding, none of the Revenues will be used for any purpose other than as provided in the Trust Agreement, and that no contract or contracts will be entered into or any action taken by which the rights of Owners of Bonds might be impaired or diminished.

Covenant as to Build America Bonds. The Authority covenants that so long as any Build America Bonds remain Outstanding, it will comply with the procedures and requirements set forth in Sections 54AA(g) and 6431 of the Code and applicable regulations promulgated from time to time thereunder and any applicable guidance relating to Build America Bonds promulgated by the United States Department of the Treasury or Internal Revenue Service relating to Build America Bonds as necessary to allow the Authority to receive Interest Subsidy Payments with respect to the Build America Bonds. In particular, the Authority covenants to file IRS Form 8038-CP with the Internal Revenue Service, and to provide the Trustee with a copy of any such filing, as follows: (i) for fixed rate Build America Bonds, the form must be filed no earlier than 90 days prior to the next Interest Payment Date and not later than 45 days before such Interest Payment Date, and (ii) for variable rate Build America Bonds, the form must be filed for a reimbursement on a regular basis for the aggregate interest payments within 45 days after the last Interest Payment Date that is within the reimbursement period. The covenant set forth in the prior sentence shall be modified as necessary to comply with future law or further guidance from the Treasury Department or Internal Revenue Service. The Authority shall provide the Trustee with a copy of each such IRS Form 8038-CP filed with the Internal Revenue Service within 7 days of such filing.

Default Provisions

Extension of Interest Payment. If the time for the payment of the interest on any Bond is extended, whether or not such extension is by or with the consent of the Authority, such interest so extended shall not be entitled in case of default under the Trust Agreement to the benefit or security of the Trust Agreement and in such case the Owner of the Bond for which the time for payment of interest was extended shall be entitled only to the payment in full of the principal of all Bonds then Outstanding and of interest for which the time for payment shall not have been extended.

Events of Default. Each of the following events is declared by the Trust Agreement an Event of Default:

- (a) payment of the principal of and the redemption premium, if any, on any of the Bonds, is not made when the same are due and payable, either at maturity or by redemption or otherwise;
- (b) payment of the interest on any of the Bonds is not made when the same is due and payable;

(c) the failure of the State to appropriate the State Appropriation Revenues in the annual amount of \$24 million;

(d) final judgment for the payment of money in excess of \$1,000,000 is rendered against the Monroe Connector System, or an identified Other Revenue Project pursuant to Section 702(b) of the Trust Agreement, as a result of the ownership, control or operation of the Monroe Connector System or such Other Revenue Project and any such judgment is not discharged within one hundred twenty (120) days from the entry thereof or an appeal is not taken therefrom or from the order, decree or process upon which or pursuant to which such judgment shall have been granted or entered, in such manner as to stay the execution of or levy under such judgment, order, decree or process or the enforcement thereof; or

(e) the Authority defaults in the due and punctual performance of any other of the covenants, conditions, agreements and provisions contained in the Bonds or the Trust Agreement, and such default continues for thirty (30) days after receipt by the Authority of a written notice from the Trustee specifying such default and requesting that it be corrected, provided that if prior to the expiration of such thirty day period the Authority institutes action reasonably designed to cure such default, no "Event of Default" shall be deemed to have occurred upon the expiration of such thirty day period for so long as the Authority pursues such curative action with reasonable diligence.

No Acceleration of Maturities. Notwithstanding anything in the Trust Agreement, in no event shall there be any acceleration of payment of principal of or interest on any Bonds as a result of the occurrence of any Event of Default under Section 802 of the Trust Agreement or otherwise.

Remedies. Upon the happening and continuance of any Event of Default specified in Section 802 of the Trust Agreement, then and in every such case the Trustee may, and upon the written request of the Owners of not less than 25% in aggregate principal amount of the Bonds then Outstanding shall, proceed (subject to the provisions of Section 902 of the Trust Agreement) to protect and enforce its rights and the rights of the Owners of the Bonds under applicable laws and under the Trust Agreement by such suits, actions or special proceedings in equity or at law, or by proceedings in the office of any board or officer having jurisdiction, either for the specific performance of any covenant or agreement contained in the Trust Agreement or in aid or execution of any power therein granted or for the enforcement of any proper legal or equitable remedy, as the Trustee, being advised by counsel, chosen by the Trustee, shall deem most effectual to protect and enforce such rights.

In the enforcement of any remedy under the Trust Agreement, the Trustee shall be entitled to sue for, enforce payment of and receive any and all amounts then or during any Event of Default becoming, and at any time remaining, due from the Authority for principal, interest or otherwise under any of the provisions of the Trust Agreement or of the Bonds and unpaid, with interest on overdue payments of principal at the rate or rates of interest specified in such Bonds, together with any and all costs and expenses of collection and of all proceedings under the Trust Agreement and under such Bonds without prejudice to any other right or remedy of the Trustee or of the Owners of the Bonds (except to the extent provided in the Trust Agreement), and to recover and enforce any judgment or decree against the Authority, but solely as provided in the Trust Agreement and in such Bonds, for any portion of such amounts remaining unpaid and interest, costs and expenses

as above provided, and to collect (but solely from moneys in the funds and accounts pledged to secure the Bonds under the provisions of the Trust Agreement and any other moneys available for such purpose) in any manner provided by law, the moneys adjudged or decreed to be payable.

If an Event of Default shall occur and be continuing, then, unless the same shall then be prohibited under applicable law, a court of competent jurisdiction may appoint a receiver, with full power to pay and to provide for the payment of principal of and interest on the Bonds as the same shall become due, whether at maturity, pursuant to mandatory sinking fund redemption or otherwise, out of the funds and accounts available therefor, to apply Revenues derived from such operation in accordance with the provisions of the Trust Agreement, and to take such action to the extent permitted by law to cause to be remedied any Event of Default which shall occur or shall have occurred and be continuing; and with such other powers, subject to the direction of said court, as are accorded to receivers in general equity cases and under the applicable provisions of the laws of North Carolina; provided, that the power of such receiver to make provisions for the payment of principal of and interest on Bonds as aforesaid shall not be construed as including the power to pledge the general credit of the Authority to such payments. Any appointment of a receiver under the foregoing provision shall not, by itself, constitute a separate Event of Default under Section 802 of the Trust Agreement.

Pro Rata Application of Funds. Anything in the Trust Agreement to the contrary notwithstanding, if at any time the money in the Interest Account, the Principal Account and the Sinking Fund Account of the Debt Service Fund is not sufficient to pay the interest on or the principal of the Bonds as the same become due and payable, such money, together with any money then available or thereafter becoming available for such purposes (except for such money that has already been deposited in the Interest Account, Principal Account or Sinking Fund Account for a the Bonds pursuant to the provisions of Section 503 of the Trust Agreement), whether through the exercise of the remedies provided for in the Trust Agreement or otherwise, shall be applied, after payment of the reasonable fees and expenses of the Trustee in exercising its rights and remedies under the Trust Agreement:

first: to the payment to the persons entitled thereto of all installments of interest on Bonds then due and payable in the order in which such installments became due and payable and, if the amount available shall not be sufficient to pay in full any particular installment, then to the payment, ratably according to the amounts due on such installment, to the persons entitled thereto, without any discrimination or preference except as to any difference in the respective rates of interest specified in such Bonds;

second: to the payment to the persons entitled thereto of the unpaid principal of any Bonds that shall have become due and payable (other than Bonds deemed to have been paid pursuant to the provisions of Section 1201 of the Trust Agreement), in the order of their due dates, with interest on the overdue principal at a rate equal to the rate on such Bonds, and, if the amount available shall not be sufficient to pay in full all of the amounts due on the Bonds on any date, together with such interest, then to the payment ratably according to the amount of such principal due on such date, to the persons entitled thereto, without any discrimination or preference; and

third: to the payment of the interest on and the principal of Bonds, to the purchase and retirement of Bonds, and to the redemption of Bonds, all in accordance with the provisions of the Trust Agreement.

Whenever money is to be applied by the Trustee pursuant to the provisions of the Trust Agreement, (a) such money shall be applied by the Trustee at such times and from time to time as the Trustee in its sole discretion shall determine, having due regard for the amount of money available for such application and the likelihood of additional money becoming available for such application in the future, (b) setting aside such money as provided in the Trust Agreement in trust for the proper purpose shall constitute proper application by the Trustee and (c) the Trustee shall incur no liability whatsoever to the Authority, to any Owner or to any other person for any delay in applying any such money so long as the Trustee acts with reasonable diligence, having due regard for the circumstances, and ultimately applies the same in accordance with such provisions of the Trust Agreement as may be applicable at the time of application by the Trustee. Whenever the Trustee exercises such discretion in applying such money, it shall fix the date (which shall be an Interest Payment Date unless the Trustee shall deem another date more suitable) upon which such application is to be made and upon such date interest on the amounts of principal to be paid on such date shall cease to accrue. The Trustee shall give such notice as it may deem appropriate of the fixing of any such date and shall not be required to make payment to the Owner of any Bond until such Bond is surrendered to the Trustee for appropriate endorsement or for cancellation if fully paid.

For purposes of the Section, the calculation of “installments of interest then due and payable” on Build America Bonds is not reduced by the amount of any expected Interest Subsidy Payments relating thereto.

Effect of Discontinuance of Proceedings. If any proceeding taken by the Trustee or Owners of Bonds on account of any Event of Default is discontinued or abandoned for any reason, then and in every such case, the Authority, the Trustee and the Owners shall be restored to their former positions and rights under the Trust Agreement, and all rights, remedies, powers and duties of the Trustee shall continue as though no proceedings had been taken.

Control of Proceedings. Anything in the Trust Agreement to the contrary notwithstanding, the Owners of a majority in aggregate principal amount of Bonds at any time Outstanding shall have the right, subject to the provisions of Section 902 of the Trust Agreement, by an instrument or concurrent instruments in writing executed and delivered to the Trustee, to direct the method and place of conducting all remedial proceedings to be taken by the Trustee under the Trust Agreement, provided that such direction shall be in accordance with law and the provisions of the Trust Agreement.

Restrictions Upon Action. Except as provided in Section 813 of the Trust Agreement, no Owner of Bonds shall have any right to institute any suit, action or proceeding in equity or at law on any Bonds or for the execution of any trust under the Trust Agreement or for any other remedy thereunder unless such Owner of Bonds previously (a) has given to the Trustee written notice of the Event of Default on account of which suit, action or proceeding is to be instituted, (b) has requested the Trustee to take action after the right to exercise such powers or right of action, as the case may be, shall have accrued, (c) has afforded the

Trustee a reasonable opportunity either to proceed to exercise the powers granted or to institute such action, suit or proceedings in its or their name, and (d) has offered to the Trustee reasonable security and satisfactory indemnity against the costs, expenses and liabilities to be incurred therein or thereby, and the Trustee shall have refused or neglected to comply with such request within a reasonable time. Such notification, request and offer of indemnity are declared in every such case, at the option of the Trustee, to be conditions precedent to the execution of the powers and trusts of the Trust Agreement or to any other remedy thereunder. Notwithstanding the foregoing provisions of the Trust Agreement and without complying therewith, the Owners of not less than 25% in aggregate principal amount of Bonds then Outstanding may institute any such suit, action or proceeding in their own names for the benefit of all Owners of Bonds. It is understood and intended that, except as otherwise above provided, no one or more Owners of Bonds shall have any right in any manner whatsoever by his or their action to affect, disturb or prejudice the security of the Trust Agreement or to enforce any right thereunder except in the manner provided, that all proceedings at law or in equity shall be instituted, had and maintained in the manner provided in the Trust Agreement and for the benefit of all Owners of Bonds and that any individual rights of action or other right given to one or more of such Owners by law are restricted by the Trust Agreement to the rights and remedies therein provided.

Enforcement of Rights of Action. All rights of action (including the right to file proof of claim) under the Trust Agreement or under any Bonds may be enforced by the Trustee without the possession of any Bonds or the production thereof in any proceedings relating thereto, and any such suit or proceedings instituted by the Trustee shall be brought in its name as Trustee, without the necessity of joining as plaintiffs or defendants any Owners of Bonds, and any recovery of judgment shall be for the equal benefit of the Owners of Bonds, subject to the provisions of the Trust Agreement.

No Remedy Exclusive. No remedy conferred in the Trust Agreement upon or reserved to the Trustee or to the Owners of Bonds is intended to be exclusive of any other remedy or remedies therein provided, and each and every such remedy shall be cumulative and shall be in addition to every other remedy given under the Trust Agreement or now or hereafter existing at law or in equity.

Delay Not a Waiver. No delay or omission by the Trustee or of any Owner of Bonds in the exercise of any right or power accruing upon any default shall impair any such right or power or shall be construed to be a waiver of any such default or any acquiescence therein, and every power or remedy given by the Trust Agreement to the Trustee and to the Owners of Bonds may be exercised from time to time and as often as may be deemed expedient.

The Trustee may, and upon written request of the Owners of not less than a majority in principal amount of the Bonds then Outstanding shall, waive any Event of Default which in Its opinion has been remedied before the entry of final judgment or decree in any suit, action or proceeding instituted by it under the provisions of the Trust Agreement or before the completion of the enforcement of any other remedies' under the Trust Agreement, but no such waiver shall extend to or affect any other existing or subsequent Event of Default or impair any rights or remedies consequent thereon.

Notice of Default. The Trustee shall mail to all Owners of Bonds at their addresses as they appear on the registration books written notice of the occurrence of any Event of Default within thirty (30) days after the Trustee has notice of the same pursuant to the provisions of Section 908 of the Trust Agreement that any such Event of Default shall have occurred; provided, however that, except upon the happening of an Event of Default specified in clauses (a) and (b) of Section 802 of the Trust Agreement, the Trustee may withhold such notice to the Owners if in its opinion such withholding is in the interest of such Owners. The Trustee shall not be subject to any liability to any such Owner by reason of its failure to mail any such notice.

Right to Enforce Payment of Bonds Unimpaired. Nothing in the Trust Agreement shall affect or impair the right of any Owner of Bonds to enforce the payment of the principal of and interest on his Bond or the obligation of the Authority to pay the principal of and interest on each Bond to the Owner thereof at the time and place specified in said Bond.

Trustee Matters

Acceptance of Trusts. The Trustee by execution of the Trust Agreement accepts and agrees to fulfill the trusts imposed upon it by the Trust Agreement, but only upon the terms and conditions set forth in the Trust Agreement and subject to the provisions of the Trust Agreement, to all of which the Authority, the Trustee and the respective Owners of the Bonds agree. Prior to the occurrence of any Event of Default and after the curing of all such Events of Default that may have occurred, the Trustee shall perform such duties and only such duties of the Trustee as are specifically set forth in the Trust Agreement. Upon the occurrence and during the continuation of any Event of Default, the Trustee shall use the same degree of care and skill in their exercise as a prudent person would exercise or use under the circumstances in the conduct of such person's own affairs.

No provision of the Trust Agreement shall be construed to relieve the Trustee from liability for its own negligent action, its own negligent failure to act, or its own willful misconduct, except that:

(a) prior to any such Event of Default under the Trust Agreement, and after the curing of any Event of Default that may have occurred:

(i) the duties and obligations of the Trustee shall be determined solely by the express provisions of the Trust Agreement, and the Trustee shall not be liable except for the performance of such duties and obligations of the Trustee as are specifically set forth in the Trust Agreement, and no implied covenants or obligations shall be read into the Trust Agreement against the Trustee and no permissive right of the Trustee under the Trust Agreement shall impose any duty on the Trustee to take such action, and

(ii) in the absence of willful misconduct on its part, the Trustee may conclusively rely, as to the accuracy of the statements and the correctness of the opinions expressed therein, upon any certificate or opinion furnished to it conforming to the requirements of the Trust Agreement, but in the case of any such certificate or opinion by which any provision of the Trust Agreement is specifically

required to be furnished to the Trustee, the Trustee shall be under a duty to examine the same to determine whether or not on its face it conforms to the requirements of the Trust Agreement; and

(b) at all times, regardless of whether or not any such Event of Default shall exist the Trustee shall not be liable for any error of judgment made in good faith by a responsible officer or officers of the Trustee unless it shall be proved that the Trustee was negligent in ascertaining the pertinent facts.

None of the provisions contained in the Trust Agreement shall require the Trustee to expend or risk its own funds or otherwise incur individual financial liability in the performance of any of its duties or in the exercise of any of its rights or powers.

Indemnification of Trustee as Condition for Remedial Action. The Trustee shall be under no obligation to institute any suit or to take any remedial proceeding (including, but not limited to, the appointment of a receiver) or to enter any appearance or in any way defend in any suit in which it may be made defendant, or to take any steps in the execution of any of the trusts created by the Trust Agreement or in the enforcement of any rights and powers thereunder, until it shall be indemnified to its satisfaction against any and all costs and expenses, outlays and counsel fees and other reasonable disbursements, and against all liability. The Trustee nevertheless may begin suit, or appear in and defend suit, or do anything else in its judgment proper to be done by it as such Trustee, without indemnity, and in such case the Authority, at the request of the Trustee, shall reimburse the Trustee from Revenues for all costs, expenses, outlays and counsel fees and other reasonable disbursements properly incurred in connection therewith. If the Authority shall fail to make such reimbursement, the Trustee may reimburse itself from any money in its possession under the provisions of the Trust Agreement and shall be entitled to a preference therefor over any Bonds Outstanding.

Limitations on Obligations and Responsibilities of Trustee. The Trustee shall be under no obligation to effect or maintain insurance or to renew any policies of insurance or to inquire as to the sufficiency of any policies of insurance carried by the Authority, or to report, or make or file claims or proof of loss for, any loss or damage insured against or that may occur, or to keep itself informed or advised as to the payment of any taxes or assessments, or to require any such payment to be made. Except as to the acceptance of the trusts under the Trust Agreement, the Trustee shall have no responsibility in respect of the validity or sufficiency of the Trust Agreement, or in respect of the validity of Bonds or the due issuance or execution and delivery thereof. The Trustee shall be under no obligation to see that any duties in the Trust Agreement imposed upon the Authority, any Bond Registrar, any consultant, any Depositary (other than a Depositary in which money shall have been deposited by the Trustee under the provisions of the Trust Agreement) or any party other than itself, or any covenants therein contained on the part of any party other than itself to be performed, shall be done or performed, and the Trustee shall be under no obligation for failure to see that any such duties or covenants are so done or performed.

Trustee Not Liable for Failure of Authority to Act. The Trustee shall not be liable or responsible because of the failure of the Authority or of any of its employees or agents to make any collections or deposits or to perform any act in the Trust Agreement required of the Authority or because of the loss of any money arising through the insolvency or the act

or default or omission of any Depository (other than the Trustee or a Depository in which such money shall have been deposited by the Trustee under the provisions of the Trust Agreement). The Trustee shall not be responsible for the application of any of the proceeds of Bonds or any other money deposited with it and invested, paid out, withdrawn or transferred under the Trust Agreement if such application, investment, payment, withdrawal or transfer shall be made in accordance with the provisions of the Trust Agreement. The immunities and exemptions from liability of the Trustee under the Trust Agreement shall extend to its directors, officers, employees and agents.

Compensation and Indemnification of Trustee and Bond Registrar. Subject to the provisions of any contract between the Authority and the Trustee or any Bond Registrar relating to the compensation of the Trustee or such Bond Registrar, the Authority shall pay to the Trustee and each Bond Registrar from Revenues reasonable compensation for all services performed by them under the Trust Agreement and also all their reasonable expenses, charges and other disbursements and those of their attorneys, agents and employees incurred in and about the administration and the performance of their powers and duties under the Trust Agreement and, to the extent permitted by law, shall indemnify and save the Trustee and each Bond Registrar harmless against any liabilities that they may incur in the proper exercise and performance of such powers and duties. If the Authority shall fail to cause any payment required by the Trust Agreement to be made, the Trustee and each Bond Registrar may make such payment from any money in its possession under the provisions of the Trust Agreement and shall be entitled to a preference therefor over any Bonds Outstanding thereunder. The Authority covenants that it shall promptly deposit or cause to be deposited to the credit of the respective fund or account the amount withdrawn therefrom by the Trustee to make any such payment.

Monthly Statements from Trustee. It shall be the duty of the Trustee, on or before the 10th day of each month, to file with the Authority a statement setting forth in respect of the preceding calendar month:

- (a) the amount withdrawn or transferred by it and the amount deposited with it on account of each fund, account or subaccount held by it under the provisions of the Trust Agreement,
- (b) the amount on deposit with it at the end of such month in each such fund, account or subaccount,
- (c) a brief description of all obligations held by it as an investment of money in each such fund, account or subaccount,
- (d) the amount applied to the payment, purchase or redemption of Bonds under the provisions of Article V and a description of the Bonds or portions thereof so paid, purchased or redeemed, and
- (e) any other information that the Authority may reasonably request.

All records and files pertaining to Bonds and the Monroe Connector System in the custody of the Trustee not otherwise restricted or excluded from disclosure by the terms of the Trust Agreement, including, without limitation, Section 1002 of the Trust Agreement,

shall be open at all reasonable times to the inspection of the Authority and its agents and representatives.

Trustee May Rely on Certificates. If at any time it shall be necessary or desirable for the Trustee to make any investigation respecting any fact preparatory to taking or not taking any action or doing or not doing anything as such Trustee, and in any case in which the Trust Agreement provides for permitting or taking any action, the Trustee may rely upon any certificate required or permitted to be filed with it under the provisions of the Trust Agreement, and any such certificate shall be evidence of such fact or protect the Trustee in any action that it may or may not take or in respect of anything it may or may not do, in absence of willful misconduct, by reason of the supposed existence of such fact. Except as otherwise provided in the Trust Agreement, any request, notice, certificate or other instrument from the Authority to the Trustee shall be deemed to have been signed by the proper party or parties if signed by any Authorized Officer, and the Trustee may accept and rely upon a certificate signed by any Authorized Officer as to any action taken by the Authority.

Notice of Default. Except upon the happening of any Event of Default specified in subsections (a) or (b) of Section 802 of the Trust Agreement, the Trustee shall not be obliged to take notice or be deemed to have notice of any Event of Default under the Trust Agreement unless specifically notified in writing of such Event of Default by the Authority or the Owners of not less than 25% in aggregate principal amount of Bonds then Outstanding.

Trustee Not Responsible for Recitals. The recitals, statements and representations contained in the Trust Agreement and in the Bonds shall be taken and construed as made by and on the part of the Authority and not by the Trustee, and the Trustee assumes and shall be under no responsibility for the correctness of the same.

Trustee Protected in Relying on Certain Documents. The Trustee shall be protected and shall incur no liability in acting or proceeding, or in not acting or not proceeding, in absence of willful misconduct, reasonably and in accordance with the terms of the Trust Agreement, upon any resolution, order, notice, request, consent, waiver, certificate, statement, affidavit, requisition, bond or other paper or document that it shall in good faith reasonably believe to be genuine and to have been adopted or signed by the proper board or person or to have been prepared and furnished pursuant to any of the provisions of the Trust Agreement, or upon the written opinion of any attorney, engineer or accountant believed by the Trustee to be qualified in relation to the subject matter, and the Trustee shall be under no duty to make any investigation or inquiry as to any statements contained or matters referred to in any such instrument. The Trustee shall not be under any obligation to see to the recording or filing of the Trust Agreement or otherwise to the giving to any person of notice of the provisions of the Trust Agreement.

Trustee May Pay Taxes and Assessments. In case the Authority shall fail to pay or cause to be paid any lawful tax, assessment or governmental charge or other charge upon any part of the Authority to the extent, if any, that the Authority may be deemed by the Trustee liable for same, the Trustee may pay such tax, assessment or governmental charge, without prejudice, however, to any rights of the Trustee or the Owners of Bonds arising in consequence of such failure; and any amount at any time so paid under the Trust

Agreement shall be repaid upon demand by the Trustee by the Authority, but the Trustee shall be under no obligation to make any such payment from sources provided in the Trust Agreement unless it shall have available or be provided with adequate funds for the purpose of such payment.

Resignation and Removal of Trustee Subject to Appointment of Successor. No resignation or removal of the Trustee and no appointment of a successor Trustee pursuant to the Trust Agreement shall become effective until the acceptance of appointment by the successor Trustee under Section 915 of the Trust Agreement.

Resignation of Trustee. Subject to the provisions of Section 912 of the Trust Agreement, the Trustee may resign and thereby become discharged from the trusts created by the Trust Agreement, by notice in writing given to the Authority, and mailed, postage prepaid, at the Trustee's expense, to each Owner of Bonds, not less than sixty (60) days before such resignation is to take effect, but such resignation shall take effect immediately upon the appointment of a new Trustee under the Trust Agreement if such new Trustee shall be appointed before the time limited by such notice and shall then accept the trusts of the Trust Agreement.

Removal of Trustee. The Trustee may be removed at any time by an instrument or concurrent instruments in writing, (i) executed by the Owners of not less than a majority in aggregate principal amount of Bonds then Outstanding and filed with the Authority, or (ii) executed by an Authorized Officer, so long as no Event of Default shall have occurred and be continuing, in either case not less than sixty (60) days before such removal is to take effect as stated in said instrument or instruments. A photographic copy of any order, instrument or instruments filed with the Authority under the provisions of this paragraph, duly certified by an officer of the Authority as having been received by the Authority, shall be delivered promptly by the Authority to the Trustee.

The Trustee may also be removed at any time for acting or proceeding in violation of, or for failing to act or proceed in accordance with, any provisions of the Trust Agreement with respect to the duties and obligations of the Trustee by any court of competent jurisdiction upon the application of the Authority or the Owners of not less than 25% in aggregate principal amount of Bonds then Outstanding.

Appointment of Successor Trustee. Subject to Section 912 of the Trust Agreement, if at any time hereafter the Trustee shall resign, be removed, be dissolved or otherwise become incapable of acting, or the bank or trust company acting as Trustee shall be taken over by any governmental official, agency, department or board, the positions of Trustee shall thereupon become vacant. If the position of Trustee shall become vacant for any reason, the Authority shall appoint a Trustee to fill such vacancy. A successor Trustee shall not be required if the Trustee shall sell or assign substantially all of its trust business and the vendee or assignee shall continue in the trust business, or if a transfer of the trust department of the Trustee is required by operation of law, provided that such vendee, assignee or transferee is (i) a bank or trust company within or without the State which is duly authorized to exercise corporate trust powers and subject to examination by federal or State authority, (ii) of good standing, and (iii) having a combined capital, surplus and undivided profits aggregating not less than One Hundred Million Dollars (\$100,000,000).

The Authority shall mail notice of any such appointment made by it, postage prepaid, to all Owners of Bonds.

At any time within sixty (60) days after any such vacancy shall have occurred, the Owners of not less than 25% in principal amount of Bonds then Outstanding, by an instrument or concurrent instruments in writing, executed by such Owners and filed with the Authority, may nominate a successor Trustee, which the Authority shall appoint and which shall supersede any Trustee theretofore appointed by the Authority. Photographic copies, duly certified by an officer of the Authority as having been received by the Authority, of each such instrument shall be delivered promptly by the Authority to the predecessor Trustee and to the Trustee so appointed by such Owners.

If no appointment of a successor Trustee shall be made pursuant to the foregoing provisions of the Trust Agreement, any Owner of Bonds or any retiring Trustee may apply to any court of competent jurisdiction to appoint a successor Trustee. Such court may thereupon, after such notice, if any, as such court may deem proper and prescribe, appoint a successor Trustee.

Any successor Trustee hereafter appointed shall be (i) a bank or trust company within or without the State which is duly authorized to exercise corporate trust powers and subject to examination by federal or State authority, (ii) of good standing and (iii) having a combined capital, surplus and undivided profits aggregating not less than One Hundred Million Dollars (\$100,000,000).

Vesting of Duties in Successor Trustee. Every successor Trustee appointed under the Trust Agreement shall execute, acknowledge and deliver to its predecessor, and also to the Authority, an instrument in writing accepting such appointment thereunder, and thereupon such successor Trustee, without any further act, shall become fully vested with all the rights, immunities and powers, and subject to all the duties and obligations, of its predecessor; but such predecessor shall nevertheless, on the written request of its successor or of the Authority and upon payment of the expenses, charges and other disbursements of such predecessor that are payable pursuant to the provisions of Section 905 of the Trust Agreement, execute and deliver an instrument transferring to such successor Trustee all the rights, immunities and powers of such predecessor; and every predecessor Trustee shall deliver all property and money held by it under the Trust Agreement to its successor. Should any instrument in writing from the Authority be required by any successor Trustee for more fully and certainly vesting in such Trustee the rights, immunities, powers and trusts vested by the Trust Agreement or intended to be vested in the predecessor Trustee, any such instrument in writing shall and will, on request, be executed, acknowledged and delivered by the Authority.

Removal and Resignation of Bond Registrar. A Bond Registrar may be removed at anytime, with or without cause, by the Authority upon forty-five (45) days' written notice by the Authority to such Bond Registrar. A copy of such written notice shall be delivered promptly by the Authority to the Trustee. Upon receipt of such notice, the Trustee shall cause notice of such removal to be mailed, postage prepaid, to the Owners not less than thirty (30) days before such removal is to take effect. All costs in connection with such notice shall be borne by the Authority.

A Bond Registrar may resign and thereby become discharged from the duties, obligations and responsibilities of Bond Registrar under the Trust Agreement, by written notice delivered to the Authority and the Trustee. Upon receipt of such notice the Trustee shall cause notice of such resignation to be mailed, postage prepaid, at such Bond Registrar's expense, to the Owners not less than sixty (60) days before such resignation is to take effect, but such resignation shall take effect immediately upon the appointment of a new Bond Registrar if such new Bond Registrar shall be appointed before the time limited by such notice and shall then accept the duties, obligations and responsibilities of Bond Registrar under the Trust Agreement. If at any time thereafter a Bond Registrar shall resign, be removed, be dissolved or otherwise become incapable of acting, or the entity acting as Bond Registrar shall be taken over by any governmental official, agency, department or board, the position of Bond registrar shall thereupon become vacant. If the position of Bond Registrar shall become vacant for any reason, the Authority shall appoint a Bond Registrar to fill such vacancy. A successor Bond Registrar shall not be required if a Bond Registrar shall sell or assign substantially all of its business and the vendee or assignee shall be qualified in the sole judgment of the Authority to carry out the duties, obligations and responsibilities of Bond Registrar under the Trust Agreement. The Authority shall promptly deliver written notice of any such appointment by it to the Trustee and mail such notice, postage prepaid, to all Owners of the applicable Bonds.

Co-Trustee. At any time, but subject to compliance with all applicable regulations, for the purpose of meeting any legal requirements of any jurisdiction in which any part of the trust estate may at the time be located, the Authority and the Trustee shall have power to appoint an additional institution or individual as a co-trustee or separate trustee, and upon the request of the Trustee or of 10% in aggregate principal amount of Bonds then Outstanding the Authority shall for such purpose join with the Trustee in the execution, delivery and performance of all instruments and agreements necessary or proper to appoint such institution or individual to act as co-trustee jointly with the Trustee or as a separate trustee of all or any part of the trust estate, and to vest in such person or institution, in such capacity, such title to the trust estate, or any part thereof, and such rights, powers, duties, trusts or obligations as the Authority and the Trustee may consider necessary or desirable, subject to the remaining provisions of the Trust Agreement.

If the Authority shall not have made such appointment within 30 days after the receipt by it of a request so to do, or in case an Event of Default shall have occurred and be continuing, the Trustee alone shall have the power to make such appointment.

The Trustee and the Authority shall execute, acknowledge and deliver all such instruments as may be reasonably required by any such co-trustee or separate trustee for more fully confirming such title, rights, powers, trusts, duties and obligations to such co-trustee or separate trustee.

Every co-trustee or separate trustee shall, to the extent permitted by law, but to such extent only, be appointed subject to the following terms, namely:

(a) Bonds shall be authenticated and delivered, if applicable, and all rights, powers, trusts, duties and obligations by the Trust Agreement conferred upon the Trustee in respect of the custody, control or management of money, papers, securities and other personal property shall be exercised solely by the Trustee;

(b) all rights, powers, trusts, duties and obligations conferred or imposed upon the Trustee by the Trust Agreement shall be conferred or imposed upon or exercised or performed by the Trustee, or by the Trustee and such co-trustee, or separate trustee jointly, as shall be provided in the instrument appointing such co-trustee or separate trustee, except to the extent that under the law of any jurisdiction in which any particular act or acts are to be performed the Trustee shall be incompetent or unqualified to perform such act or acts, in which event such act or acts shall be performed by such co-trustee or separate trustee;

(c) any request in writing by the Trustee to any co-trustee or separate trustee to take or to refrain from taking any action under the Trust Agreement shall be sufficient warrant for the taking or the refraining from taking of such action by such co-trustee or separate trustee;

(d) any co-trustee or separate trustee to the extent permitted by law may delegate to the Trustee the exercise of any right, power, trust, duty or obligation, discretionary or otherwise;

(e) the Trustee at any time by an instrument in writing with the concurrence of the Authority may accept the resignation of or remove any co-trustee or separate trustee appointed under the Trust Agreement and in case an event of default shall have occurred and be continuing, the Trustee shall have power to accept the resignation of or remove any such co-trustee or separate trustee without the concurrence of the Authority, and upon the request of the Trustee, the Authority shall join with the Trustee in the execution, delivery and performance of all instruments and agreements necessary or proper to effectuate such resignation or removal. A successor to any co-trustee or separate trustee so resigned or removed may be appointed in the manner provided in the Trust Agreement;

(f) no Trustee shall be personally liable by reason of any act or omission of any other trustee under the Trust Agreement;

(g) any demand, request, direction, appointment, removal, notice, consent, waiver or other action in writing executed by the Owners of Bonds and delivered to the Trustee shall be deemed to have been delivered to each such co-trustee or separate trustee; and

(h) any money, papers, securities or other items of personal property received by any such co-trustee or separate trustee shall forthwith, so far as may be permitted by law, be turned over to the Trustee,

Upon the acceptance in writing of such appointment, any such co-trustee or separate trustee shall be vested with such title to the trust estate or any part thereof, and with such rights, powers, duties, trusts or obligations as shall be specified in the instrument of appointment jointly with the Trustee (except insofar as local law makes it necessary for any such co-trustee or separate trustee to act alone) subject to all the terms of the Trust Agreement. Every such acceptance shall be filed with the Trustee and the Authority.

In case any co-trustee or separate trustee shall die, become incapable of acting, resign or be removed, the title to the trust estate and all rights, powers, trusts, duties and

obligations of said co-trustee or separate trustee shall, so far as permitted by law, vest in and be exercised by the Trustee unless and until a successor co-trustee or separate trustee shall be appointed in the manner provided in the Trust Agreement.

Execution of Instruments. Any request, direction, consent or other instrument in writing required or permitted by the Trust Agreement to be signed or executed by any Owners of Bonds may be in any number of concurrent instruments of similar tenor and may be signed or executed by such Owners or their attorneys or legal representatives or legal representative of his estate if the Owner is deceased. Proof of the execution of any such instrument and of the ownership of Bonds shall be sufficient for any purpose of the Trust Agreement and shall be conclusive in favor of the Trustee and the Authority with regard to any action taken by either under such instrument if made in the following manner:

(a) The fact and date of the execution by any person of any such instrument may be proved by the verification, by any officer in any jurisdiction who by the laws thereof has power to take affidavits within such jurisdictions, to the effect that such instrument was subscribed and sworn to before him or by an affidavit of a witness to such execution. Where such execution is on behalf of a person other than an individual, such verification or affidavit shall also constitute sufficient proof of the authority of the signer thereof.

(b) The ownership of Bonds shall be proved by the registration books kept under the provisions of the Trust Agreement.

Nothing contained in the Trust Agreement shall be construed as limiting the Trustee to such proof, it being intended that the Trustee may accept any other evidence of the matters therein stated which it may deem sufficient. Any request or consent of any Owner of Bonds shall bind every future Owner of the same in respect of anything done by the Trustee in pursuance of such request or consent.

Notwithstanding any of the foregoing provisions of the Trust Agreement, the Trustee shall not be required to recognize any person as an Owner of Bonds or to take any action at such an Owner's request unless such Bonds shall be deposited with it.

Preservation of Information: Communications. (a) The Trustee shall preserve, in as current a form as is reasonably practicable, the names and addresses of Owners received by the Trustee from the Bond Registrar.

(b) If an Owner which is a Securities Depository Nominee or three or more Owners which are not Securities Depository Nominees ("*applicants*") apply in writing to the Trustee and furnish reasonable proof that each such applicant has owned a Bond for a period of at least six months preceding the date of such application, and such application states that the applicants desire to communicate with other Owners with respect to their rights under the Trust Agreement or under the Bonds and such application, at its election, either

(i) afford such applicants access to the information preserved at the time by the Trustee in accordance with subsection (a), or

(ii) inform such applicants as to the approximate number of Owners whose names and addresses appear in the information preserved at the time by the Trustee in accordance with subsection (a), and as to the approximate cost of mailing to such Owners the form of communication, if any, specified in such application.

If the Trustee shall elect not to afford such applicants access to such information, the Trustee shall, upon the written request of such applicants, mail to each Owner whose name and address appears in the information preserved at the time by the Trustee in accordance with subsection (a) a copy of the form of communication which is specified in such request, with reasonable promptness after a tender to the Trustee of the material to be mailed and of payment, or provision for the payment, of the reasonable expenses of mailing.

(c) Every Owner, by receiving and holding one or more Bonds, agrees with the Authority and the Trustee that neither the Authority nor the Trustee shall be held accountable by reason of the disclosure of any such information as to the names and addresses of the Owners in accordance with subsection (b), regardless of the source from which such information was derived, and that the Trustee shall not be held accountable by reason of mailing any material pursuant to a request made under such subsection.

Supplemental Agreements

Supplemental Trust Agreement Without Consent. The Authority and the Trustee may, from time to time and at any time, execute and deliver supplemental trust agreements hereto (which supplemental trust agreements shall thereafter form a part of the Trust Agreement) as shall be substantially consistent with the terms and provisions of the Trust Agreement and, in the opinion of the Trustee, who may rely upon a written opinion of legal counsel, shall not materially and adversely affect the interest of the Owners:

(a) to cure any ambiguity or formal defect or omission, to correct or supplement any provision in the Trust Agreement that may be inconsistent with any other provision therein, to make any other provisions with respect to matters or questions arising under the Trust Agreement, or to modify, alter, amend, add to or rescind, in any particular, any of the terms or provisions contained in the Trust Agreement, or

(b) to grant or to confer upon the Trustee, for the benefit of the Owners, any additional rights, remedies, powers, authority or security that may lawfully be granted to or conferred upon the Owners or the Trustee, or

(c) to add to the provisions of the Trust Agreement other conditions, limitations and restrictions thereafter to be observed, or

(d) to add to the covenants and agreements of the Authority in the Trust Agreement other covenants and agreements thereafter to be observed by the Authority or to surrender any right or power reserved to or conferred upon the Authority, or

(e) to make revisions to conform with a pledge of the balance in the Revenue Fund described in Section 503(d) of the Trust Agreement to the Revenue Bonds or Other Revenue Bonds, to provide for the use of amounts in the Project Fund for an Other Revenue Project pursuant to Section 702(b) of the Trust Agreement, or to facilitate identification and

allocation of State Appropriated Revenues if a change in the Project occurs as described in Section 702(b) of the Trust Agreement,

(f) to permit the qualification of the Trust Agreement under any federal statute now or hereafter in effect or under any state blue sky law, and, in connection therewith, if the Authority so determines, to add to the Trust Agreement or any supplemental trust agreement such other terms, conditions and provisions as may be permitted or required by such federal statute or blue sky law; or

(g) to make any other change in the Trust Agreement which, in the opinion of the Trustee, who may rely upon a written opinion of legal counsel, shall not materially and adversely affect the interest of the Owners.

At least thirty (30) days prior to the execution and delivery of any supplemental trust agreement for any of the purposes of the Trust Agreement, the Trustee shall cause a notice of the proposed execution and delivery of such supplemental trust agreement to be mailed, postage prepaid, to all Owners of Bonds. Such notice shall briefly set forth in the nature of the proposed supplemental trust agreement and shall state that copies thereof are on file at the designated corporate trust office of the Trustee for inspection by all Owners of Bonds. A failure on the part of the Trustee to mail the notice required by the Trust Agreement shall not affect the validity of such supplemental trust agreement.

Supplemental Trust Agreement with Consent. Subject to the terms and provisions contained in the Trust Agreement, and not otherwise, the Owners of not less than a majority in aggregate principal amount of Bonds then Outstanding shall have the right, from time to time, anything contained in the Trust Agreement to the contrary notwithstanding, to consent to and approve the execution and delivery of such supplemental trust agreements as are deemed necessary or desirable by the Authority for the purpose of modifying, altering, amending, adding to or rescinding, in any particular, any of the terms or provisions contained in the Trust Agreement or in any supplemental trust agreement; provided, however, that nothing contained in the Trust Agreement shall permit, or be construed as permitting (a) an extension of the maturity of the principal of or the interest on any Bonds without the consent of the Owner of such Bonds, (b) a reduction in the principal amount of any Bonds or the redemption premium or the rate of interest on any Bonds without the consent of the Owner of such Bonds, (c) the creation of a pledge, charge and lien upon the Revenues other than the pledge, charge and lien created by, or a pledge, charge and lien permitted by, the Trust Agreement without the consent of all of the Owners of the Bonds then Outstanding, (d) a preference or priority of any Bonds over any other Bonds except as expressly provided by the Trust Agreement without the consent of all of the Owners of the Bonds then Outstanding or (e) a reduction in the aggregate principal amount of the any Bonds required for consent to such supplemental trust agreement without the consent of all of the Owners of the Bonds then Outstanding.

Nothing contained in the Trust Agreement, however, shall be construed as making necessary the approval by Owners of Bonds of the execution and delivery of any supplemental trust agreement as authorized in Section 1101 of the Trust Agreement. Furthermore, notwithstanding the foregoing provisions of the Trust Agreement, to the extent that the Owners of Bonds are not "affected" by the proposed supplemental trust agreement as provided in Section 1103 of the Trust Agreement, the consent of such Owners

of not less than a majority in aggregate principal amount of Bonds shall not be required as provided in the preceding paragraph.

If at any time the Authority and the Trustee determines that it is necessary or desirable to execute and deliver any supplemental trust agreement for any of the purposes of the Trust Agreement, the Trustee shall cause notice of the proposed supplemental trust agreement to be mailed, postage prepaid, to all Owners of Bonds affected thereby at their addresses as they appear on the registration books. Such notice shall briefly set forth the nature of the proposed supplemental trust agreement and shall state that copies thereof are on file at the designated corporate trust office of the Trustee for inspection by all such Owners of Bonds. The Trustee shall not, however, be subject to any liability to any Owner of Bonds by reason of its failure to cause the notice required by the Trust Agreement to be mailed, and any such failure to cause the notice required by the Trust Agreement to be mailed and any such failure shall not affect the validity of such supplemental trust agreement when consented to and approved as provided in the Trust Agreement.

Whenever, at any time within three (3) years after the date of the mailing of such notice, the Authority delivers to the Trustee an instrument or instruments in writing purporting to be executed by the Owners of not less than a majority in aggregate principal amount of the Bonds then Outstanding that are affected by a proposed supplemental trust agreement, which instrument or instruments shall refer to the proposed supplemental trust agreement described in such notice and shall specifically consent to and approve the execution and delivery thereof in substantially the form of the copy thereof referred to in such notice, thereupon, but not otherwise, the Authority and the Trustee may execute and deliver such supplemental trust agreement in substantially such form, without liability or responsibility to any Owner of any Bonds whether or not such Owner shall have consented thereto.

If the Owners of not less than a majority in aggregate principal amount of any Bonds then Outstanding at the time of the execution and delivery of such supplemental trust agreement and that are affected, as defined in Section 1103 of the Trust Agreement, by a proposed supplemental trust agreement have consented to and approved the execution and delivery thereof as provided in the Trust Agreement, to the extent permitted by law, no Owner of any Bonds shall have any right to object to the execution and delivery of such supplemental trust agreement, to object to any of the terms and provisions contained therein or the operation thereof, to question the propriety of the execution and delivery thereof, or to enjoin or restrain the Authority and the Trustee from executing and delivering the same or from taking any action pursuant to the provisions thereof.

Bonds Affected. For purposes of the Trust Agreement, Bonds shall be deemed to be affected by a supplemental trust agreement if the same adversely affects or diminishes the rights of the Owners of such Bonds against the Authority or the rights of such Owners in the security for such Bonds. The Trustee may in its discretion determine whether any Bonds would be affected by any supplemental trust agreement, and any such determination shall be conclusive upon the Owners of all Bonds, whether theretofore or thereafter issued or incurred. The Trustee shall not be liable for any such determination made in good faith.

Supplemental Trust Agreements Part of Trust Agreement. Any supplemental trust agreement executed and delivered in accordance with the provisions of the Trust

Agreement shall thereafter form a part of the Trust Agreement, and the Trust Agreement shall be and be deemed to be modified and amended in accordance therewith, Thereafter the respective rights, duties and obligations under the Trust Agreement of the Authority, the Trustee and all Owners of Bonds then Outstanding shall thereafter be determined, exercised and enforced in all respects under the provisions of the Trust Agreement as so modified and amended. If any supplemental trust agreement is executed and delivered, Bonds issued thereafter may contain an express reference to such supplemental trust agreement, if deemed necessary or desirable by the Authority.

Not a Supplemental Trust Agreement. For purpose of the Trust Agreement, a supplemental agreement that relates only to the issuance of Bonds for the purpose of refunding all or a portion of the Bonds and paying the costs of issuance associated therewith as provided in Section 208 of the Trust Agreement shall not be deemed or considered to be a supplemental trust agreement for purposes of the Trust Agreement and may be executed without complying with the provisions of the Trust Agreement.

Defeasance

Release of Trust Agreement. When:

(a) the Bonds secured by the Trust Agreement shall have become due and payable in accordance with their terms or otherwise as provided in the Trust Agreement, and the whole amount of the principal and the interest and premium, if any, and other amounts so due and payable thereon shall be paid; and

(b) if the Bonds shall not have become due and payable in accordance with their terms, the Trustee or any Bond Registrar shall hold, sufficient (i) money or (ii) Defeasance Obligations or a combination of (i) and (ii) of this clause (b), the principal of and the interest on which, when due and payable, will provide sufficient money to pay the principal of, and the interest (assuming for this calculation that no subsequent Interest Subsidy Payments are to be received) and redemption premium, if any, on all Bonds then Outstanding to the maturity date or dates of such Bonds or to the date or dates specified for the redemption thereof, as verified by a verification agent acceptable to the Trustee; and

(c) if Bonds are to be called for redemption or prepayment, irrevocable instructions to call the Bonds for redemption or prepayment shall have been given by the Authority to the Trustee; and

(d) sufficient funds shall also have been provided or provision made for paying all other obligations payable under the Trust Agreement by the Authority;

then and in that case the right, title and interest of the Trustee in the funds, accounts and subaccounts mentioned in the Trust Agreement shall thereupon cease, determine and become void and, upon being furnished with an opinion, in form and substance satisfactory to the Trustee, of counsel approved by the Trustee, to the effect that all conditions precedent to the release of the Trust Agreement have been satisfied, the Trustee shall release the Trust Agreement and shall execute such documents to evidence such release as may be required by such counsel, and the Trustee shall turn over to the Authority any surplus in, and all balances remaining in, all funds, accounts and sub accounts other than money held for the redemption

or payment of Bonds. Otherwise, the Trust Agreement shall be, continue and remain in full force and effect; provided, however, that in the event Defeasance Obligations shall be deposited with and held by the Trustee or the Bond Registrar, (i) in addition to the requirements set forth in Article III, the Trustee, within thirty (30) days after such Defeasance Obligations shall have been deposited with it, shall cause a notice signed by the Trustee to be mailed, postage prepaid, to all Owners of Bonds, setting forth (a) the date or dates, if any, designated for the redemption of the Bonds, (b) a description of the Defeasance Obligations so held by it, and (c) that the Trust Agreement has been released in accordance with the provisions of the Trust Agreement, and (ii) (a) the Trustee shall nevertheless retain such rights, powers and privileges under the Trust Agreement as may be necessary and convenient in respect of the Bonds for the payment of the principal, interest and any premium for which such Defeasance Obligations have been deposited and (b) each Bond Registrar shall retain such rights, powers and privileges under the Trust Agreement as may be necessary and convenient for the registration, transfer and exchange of Bonds; provided, however, that failure to mail such notice to any Owner or to the Owners or any defect in such notice so mailed, shall not affect the validity of the release of the Trust Agreement.

All money and Defeasance Obligations held by the Trustee or any Bond Registrar pursuant to the Trust Agreement shall be held in trust and applied to the payment, when due, of the obligations payable therewith.

Miscellaneous Provisions

Parties, Bond Registrar and Owners Alone Have Rights under Trust Agreement. Except as therein otherwise expressly provided, nothing in the Trust Agreement, express or implied, is intended or shall be construed to confer upon any person, firm or corporation, other than the Trustee, each Bond Registrar, the Authority, the Owners of Bonds any right, remedy or claim, legal or equitable, under or by reason of the Trust Agreement or any provision being intended to be and being for the sole and exclusive benefit of the Trustee, the Authority, each Bond Registrar, the Owners of Bonds.

Effect of Covenants: Governing Law. All covenants, stipulations, obligations and agreements of the Authority contained in the Trust Agreement shall be deemed to be covenants, stipulations, obligations and agreements of the Authority to the full extent permitted by the Constitution and laws of the State. The Trust Agreement is executed and delivered with the intent that the laws of the State shall govern its construction.

No Recourse Against Members, Officers or Employees of Authority or NCDOT. No recourse under, or upon, any statement, obligation, covenant or agreement contained in the Trust Agreement, or in any Bond secured by the Trust Agreement, or in any document or certification whatsoever, or under any judgment obtained against the Authority, or by the enforcement of any assessment, or by any legal or equitable proceeding by virtue of any constitution or statute or otherwise or under any circumstances, shall be had against any member, officer or employee of the Authority or NCDOT, either directly or through the Authority for the payment for or to, the Authority or any receiver of the Authority, or for, or to, any Owner of Bonds or otherwise, of any sum that may be due and unpaid upon any such Bond. Any and all personal liability of every nature, whether at common law or in equity or by statute or by constitution or otherwise, of any such member, officer or employee to respond by reason of any act or omission on his or her part or otherwise, for the

payment for, or to, the Authority or any receiver of the Authority, or for, or to, any Owner of Bonds or otherwise, of any sum that may remain due and unpaid upon the Bonds secured by the Trust Agreement or any of them, is expressly waived and released as an express condition of, and in consideration for, the adoption of the Trust Agreement and the issuance of Bonds.

Payment Due on Holidays. If the date for making any payment or the last day for performance of any act or the exercising of any right as provided in the Trust Agreement is not a Business Day, such payment may be made or act performed or right exercised on the next Business Day with the same force and effect as if done on the date provided in the Trust Agreement.

Appendix D

PROPOSED FORM OF OPINION OF BOND COUNSEL

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October 26, 2010

Board of Directors
North Carolina Turnpike Authority
Raleigh, North Carolina

North Carolina Turnpike Authority
\$233,920,000 Monroe Connector System State Appropriation Revenue Bonds,
Series 2010A (Federally Taxable – Build America Bonds)

Ladies and Gentlemen:

We have examined the applicable law and certified copies of proceedings and documents relating to the issuance by the North Carolina Turnpike Authority (the “Authority”) of its \$233,920,000 Monroe Connector System State Appropriation Revenue Bonds, Series 2010A (Federally Taxable – Build America Bonds) (the “Bonds”). Reference is made to the form of the Bonds for additional information concerning their details, payment and redemption provisions, their purpose and the proceedings pursuant to which they are issued.

The Bonds recite that they are issued under and pursuant to the Constitution and laws of the State of North Carolina, an order of the Authority adopted on October 6, 2010, authorizing the issuance of the Bonds (the “Bond Order”), a Trust Agreement, dated as of October 1, 2010 (the “Trust Agreement”), between the Authority and Wells Fargo Bank, N.A., as trustee (the “Trustee”), Article 6H of Chapter 136, as amended, of the General Statutes of North Carolina (the “Authority Act”), and The State and Local Government Revenue Bond Act, Article 5 of Chapters 159 of the North Carolina General Statutes, as amended (the “Revenue Bond Act” and, together with the Authority Act, the “Act”) for the purpose of providing funds, together with any other available funds, (a) to pay the costs of land acquisition, design, construction and equipping of the turnpike project of the Authority known as the “Monroe Connector System” and generally consisting of an approximately 19.7 mile roadway extending from US Highway 74 at Interstate 485 in eastern Mecklenburg County, North Carolina, near the Town of Matthews to US Highway 74 near the Town of Marshville in Union County, North Carolina (the “Project”), (b) to provide funds to pay a portion of the interest on the Bonds until July 1, 2014, (c) to fund the Reserve Fund for the Bonds and (d) to pay costs incurred in connection with the issuance of the Bonds. The Bonds are equally and ratably secured by a pledge of certain appropriations to be made by the State of North Carolina for debt service and other costs with respect to the Project and interest subsidy payments to be made to the Authority with respect to the

Taxable Bonds (the “Revenues”). Additional bonds secured as to the lien on Revenues on a parity with the Bonds are expected to be issued pursuant to the terms of the Trust Agreement. All terms not defined herein are as defined in the Trust Agreement.

Without undertaking to verify the same by independent investigation, we have relied on certifications by representatives of the Authority, the North Carolina Department of Transportation and the North Carolina Local Government Commission as to certain facts relevant to both our opinion and requirements of the Internal Revenue Code of 1986, as amended (the “Code”). The Authority has covenanted to comply with the provisions of the Code regarding, among other matters, the use, expenditure and investment of the proceeds of the Bonds and the timely payment to the United States of any arbitrage rebate amounts with respect to the Bonds, all as set forth in the proceedings and documents relating to the issuance of the Bonds (the “Covenants”).

Based on the foregoing, we are of the opinion that:

1. The Bonds have been authorized and issued in accordance with the Constitution and statutes of the State of North Carolina, including the Act, and constitute valid and legally binding obligations of the Authority, payable as to principal, premium and interest from Revenues. The Bonds do not create or constitute a debt or pledge of the faith and credit of the State of North Carolina or any political subdivision thereof, including the Authority.

2. The Bond Order and the Trust Agreement have been duly adopted and delivered by the Authority and the Trust Agreement constitutes a valid and legally binding agreement of the Authority which assigns and pledges the Revenues to the Trustee and is enforceable against the Authority in accordance with its terms.

3. The rights of the holders of the Bonds and the enforceability of such rights, including enforcement by the Trustee of the obligations of the Authority under the Trust Agreement, may be limited or otherwise affected by (a) bankruptcy, insolvency, reorganization, moratorium and other laws affecting the rights of creditors generally and (b) principles of equity, whether considered at law or in equity.

4. Under current law, interest on the Bonds is included in gross income for Federal income tax purposes. We express no opinion regarding other Federal tax consequences of the ownership of or receipt or accrual of interest on the Bonds.

5. Under current law, interest on the Bonds is exempt from State of North Carolina income taxes.

Our services as bond counsel to the Authority have been limited to rendering the foregoing opinion based on our review of such legal proceedings as we deem necessary to approve the validity of the Bonds and the tax status of the interest thereon. We have not

North Carolina Turnpike Authority

October 26, 2010

Page 3

made any investigation concerning the financial resources of the Authority and therefore we express no opinion as to the accuracy or completeness of any information, including the Preliminary Official Statement dated October 7, 2010, or the Official Statement dated October 14, 2010, with respect to the Bonds, that may have been relied upon by anyone in making the decision to purchase Bonds.

Very truly yours,

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Appendix E

DTC'S BOOK-ENTRY ONLY SYSTEM

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Book-Entry Only System

The Depository Trust Company (“DTC”), New York, New York, will act as securities depository for the Bonds. The Bonds will be delivered as fully-registered bonds registered in the name of Cede & Co., DTC’s partnership nominee, or such other name as may be requested by an authorized representative of DTC. One fully-registered bond for each maturity of the Bonds will be registered in the name of Cede & Co., as nominee for DTC, each in the aggregate principal amount of such maturity and will be deposited with DTC. SO LONG AS CEDE & CO. IS THE REGISTERED OWNER OF THE BONDS, AS DTC’S PARTNERSHIP NOMINEE, REFERENCES HEREIN TO THE OWNERS OR REGISTERED OWNERS OF THE BONDS SHALL MEAN CEDE & CO. AND SHALL NOT MEAN THE BENEFICIAL OWNERS OF THE BONDS.

General. DTC is a limited-purpose trust company organized under the New York Banking Law, a “banking organization” within the meaning of the New York Banking Law, a member of the Federal Reserve System, a “clearing corporation” within the meaning of the New York Uniform Commercial Code, and a “clearing agency” registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for U.S. and non-U.S. equity issues, corporate and municipal debt issues and money market instruments that DTC’s direct participants (“**Direct Participants**”) deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities through electronic computerized book-entry transfers and pledges between Direct Participants’ accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation (“**DTCC**”). DTCC, in turn, is owned by a number of its Direct Participants and Members of the National Securities Clearing Corporation, Government Securities Clearing Corporation, MBS Clearing Corporation and Emerging Markets Clearing Corporation, as well as by the New York Stock Exchange, Inc., the American Stock Exchange, Inc. and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, and trust companies that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly (“**Indirect Participants**”). DTC is rated AAA by Standard & Poor’s Ratings Services (“**S&P**”). The DTC Rules applicable to its Direct and Indirect Participants are on the file with the Securities and Exchange Commission. More information about DTC can be found at dtcc.com.

Purchases; Transfers. Purchases of Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC’s records. The ownership interest of actual purchasers of the Bonds (“**Beneficial Owners**”) is in turn recorded on the Direct and Indirect Participants’ records. Beneficial Owners will not receive written confirmation from DTC of their purchases, but Beneficial Owners are expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participants through which the Beneficial Owners entered into the transaction.

Transfers of ownership interests in the Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of the Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

To facilitate subsequent transfers, all Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Bonds with DTC and their registration in the name of Cede & Co. or such other nominee do not affect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts the Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Notices: Voting. Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants and by Direct and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of the Bonds may wish to take certain steps to augment transmission to them of notices of significant events with respect to the Bonds, such as prepayments, tenders, defaults and proposed amendments to the security documents.

Neither DTC nor Cede & Co. will consent or vote with respect to the Bonds. Under its usual procedures, DTC mails an Omnibus Proxy to the Authority as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Payments. Principal and interest payments with respect to the Bonds will be made to Cede & Co. or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the Authority or the Trustee on each payable date in accordance with their respective holdings shown on DTC's records. Payments by Direct and Indirect Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Direct and Indirect Participants and not of DTC, the Authority or the Trustee, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal and interest to DTC is the responsibility of the Authority and the Trustee, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of the Direct and Indirect Participants.

Discontinuance. DTC may discontinue providing its service as securities depository with respect to the Bonds at any time by giving reasonable notice to the Authority and the Trustee. Under such circumstances, or in the event the Authority

desires to use a similar book-entry system with another securities depository, there may be a successor securities depository (all references to DTC include any such successor). The Authority may also decide to discontinue participation in the system of book-entry transfer through DTC (or a successor securities depository) at any time by giving reasonable notice to DTC. If the book-entry system is discontinued and there is no successor securities depository, Bond certificates will be printed and delivered to the Beneficial Owners.

Disclaimers. The Authority and the Trustee cannot and do not give any assurances that DTC, Direct Participants or Indirect Participants will distribute to the Beneficial Owners of the Bonds (a) payments of principal or interest with respect to the Bonds, (b) confirmations of their ownership interests in the Bonds or (c) prepayment or other notices sent to DTC or Cede & Co., its partnership nominee, as the registered owner of the Bonds, or that they will do so on a timely basis or that DTC, Direct Participants or Indirect Participants will serve and act in the manner described in this Official Statement.

NEITHER THE AUTHORITY NOR THE TRUSTEE WILL HAVE ANY RESPONSIBILITY OR OBLIGATIONS TO THE DIRECT PARTICIPANTS, INDIRECT PARTICIPANTS OR THE BENEFICIAL OWNERS WITH RESPECT TO (1) THE ACCURACY OF ANY RECORDS MAINTAINED BY DTC OR ANY DIRECT PARTICIPANT OR INDIRECT PARTICIPANT; (2) THE PAYMENT BY DTC OR ANY DIRECT PARTICIPANT OR INDIRECT PARTICIPANT OF ANY AMOUNT DUE TO ANY BENEFICIAL OWNER IN RESPECT OF THE PRINCIPAL OF OR INTEREST ON THE BONDS; (3) THE DELIVERY BY DTC OR ANY DIRECT PARTICIPANT OR INDIRECT PARTICIPANT OF ANY NOTICE TO ANY BENEFICIAL OWNER THAT IS REQUIRED OR PERMITTED TO BE GIVEN TO OWNERS UNDER THE TERMS OF THE ORDER; (4) THE SELECTION OF THE BENEFICIAL OWNERS TO RECEIVE PAYMENT IN THE EVENT OF ANY PARTIAL REDEMPTION OF THE BONDS; OR (5) ANY CONSENT GIVEN OR OTHER ACTION TAKEN BY DTC AS OWNER.

The information in this section concerning DTC and DTC's book-entry system has been obtained from DTC, and the Authority takes no responsibility for the accuracy thereof.

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