

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****\$214,505,000****Monroe Connector System****State Appropriation Revenue Bonds, Series 2011****Dated: Date of Delivery****Due: as shown on inside front cover****Tax Treatment:**

In the opinion of Bond Counsel, interest on the Bonds (a) will not be included in gross income for federal income tax purposes, (b) will not be an item of tax preference but will be taken into account in determining adjusted current earnings for purposes of the federal alternative minimum income tax imposed on individuals and corporations, and (c) 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 and mandatory sinking fund 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.*

Other Authority Bonds Separately Offered:

The Bonds are offered only through this Official Statement. See "PROJECT AND PLAN OF FINANCE."

Interest Payment Dates:

Interest on the Bonds will be paid on January 1 and July 1, commencing January 1, 2012.

Method of Ownership:

Book-Entry Only

Closing/Settlement:

November 30, 2011

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****Siebert Brandford Shank & Co., L.L.C.****Piper Jaffray & Co.**

North Carolina Turnpike Authority

\$214,505,000

Monroe Connector System

State Appropriation Revenue Bonds, Series 2011

Maturity Schedule

\$154,645,000 Serial Bonds

Due July 1	Principal Amount	Interest Rate	Yield	CUSIP
2012	\$22,140,000	1.500%	0.220%	658308AG6
2013	18,395,000	3.000	0.690	658308AH4
2014	18,950,000	4.000	1.010	658308AJ0
2015	7,410,000	5.000	1.330	658308AK7
2016	3,255,000	5.000	1.610	658308BK6
2016	4,525,000	4.000	1.610	658308AL5
2017	8,120,000	5.000	1.850	658308AM3
2018	8,525,000	5.000	2.140	658308AN1
2019	6,545,000	5.000	2.400	658308BH3
2019	2,410,000	4.000	2.400	658308AP6
2020	9,380,000	5.000	2.650	658308AQ4
2021	9,845,000	5.000	2.800	658308AR2
2022	860,000	5.000	2.950	658308BF7
2022	1,215,000	3.000	3.050	658308AS0
2023	1,050,000	5.000	3.100	658308BG5
2023	1,110,000	3.125	3.230	658308AT8
2024	3,235,000	5.000	3.260	658308AU5
2025	3,400,000	5.000	3.420	658308AV3
2026	3,565,000	5.000	3.560	658308AW1
2027	3,750,000	5.000	3.690	658308AX9
2028	3,935,000	5.000	3.790	658308AY7
2029	4,135,000	5.000	3.890	658308AZ4
2030	4,340,000	5.000	3.980	658308BA8
2031	3,650,000	5.000	4.050	658308BJ9
2031	900,000	4.000	4.100	658308BB6

\$23,725,000 5.00% Term Bonds Due July 1, 2036, Yield 4.20% CUSIP 658308BE0

\$2,605,000 4.25% Term Bonds Due July 1, 2036, Yield 4.35% CUSIP 658308BC4

\$33,530,000 5.00% Term Bonds Due July 1, 2041, Yield 4.26% CUSIP 658308BD2

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 M. Ferebee, Jr.	Member
Anthony Fox	Member
Thomas A. Stith III	Member
Alan F. Swanstrom	Member

MANAGEMENT STAFF

David W. Joyner	Executive Director
Mark L. Foster	Chief Financial Officer
Barry L. Mickle	Chief Operating 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

TRAFFIC CONSULTANT

Wilbur Smith Associates

GENERAL ENGINEERING CONSULTANT

HNTB Corporation

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.

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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

**\$214,505,000
Monroe Connector System
State Appropriation Revenue Bonds,
Series 2011**

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 its \$214,505,000 Monroe Connector System State Appropriation Revenue Bonds, Series 2011 (the "Bonds"). The Bonds are issued pursuant to applicable provisions of law, a bond order adopted by the Authority on November 14, 2011 (the "Bond Order"), and a Trust Agreement dated as of October 1, 2010 (the "Original Trust Agreement"), between the Authority and Wells Fargo Bank, N.A., as trustee (the "Trustee"), as supplemented by a First Supplemental Trust Agreement dated as of November 1, 2011 (the "First Supplemental Trust Agreement" and, together with the Original Trust Agreement, the "Trust Agreement"). The Trust Agreement and the Bond Order are herein referred to as the "Authority Documents". The Bonds are the second issuance of Bonds by the Authority under the Trust Agreement, and are secured in parity with the Authority's \$233,920,000 Monroe Connector System State Appropriation Revenue Bonds, Series 2010A (Federally Taxable - Build America Bonds) issued October 26, 2010 (the "Series 2010A Bonds" and, together with the Bonds, the "Appropriation Bonds").

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, in parity with the Series 2010A Bonds, 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 Series 2010A 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, in parity with the Series 2010A Bonds, will be secured by a Reserve Fund created for the Appropriation 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”), and (b) to pay the costs incurred in connection with the issuance of the Bonds.

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

- proceeds of the Bonds and the Series 2010A Bonds;
- proceeds of the Authority’s Monroe Connector System Senior Lien Turnpike Revenue Bonds, Series 2011 (the “2011 Toll Revenue Bonds”), payable from toll and other revenues related to the Monroe Connector System, in the aggregate principal amount of \$10,000,000 (the 2011 Toll Revenue Bonds are being privately placed by the Authority under separate offering documents);
- proceeds of the State of North Carolina Grant Anticipation Revenue Vehicle Bonds, Series 2012A in the approximate aggregate principal amount of \$160,000,000 (the “GARVEE Bonds”) expected to be offered not later than the first quarter, 2012, under separate offering documents;
- approximately \$16,000,000 in NCDOT funds required to “match” the use of proceeds of the GARVEE Bonds;
- previously designated funds of NCDOT in the amount of approximately \$77,000,000; and

- interest earnings on proceeds of the Appropriation Bonds, the 2011 Toll Revenue Bonds and the GARVEE Bonds.

In addition, certain design and engineering costs, development costs, right-of-way and roadway costs which will comprise a portion of the Monroe Connector System and environmental mitigation costs are being provided to the Authority by the NCDOT.

The 2011 Toll Revenue Bonds were issued under a separate Trust Agreement (the “Toll Revenue Bond Trust Agreement”), between the Authority and Wells Fargo Bank, N.A., as trustee (in such capacity, the “Revenue Bond Trustee”). It is expected that additional Toll Revenue Bonds will be issued during the period 2016 to 2019 to completely refund the GARVEE Bonds and the 2011 Toll Revenue Bonds. As a result, the permanent debt financing for the capital costs of the Monroe Connector System will be provided by the Appropriation Bonds and such additional Toll Revenue Bonds.

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. 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, 2010 (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 26 - “Events and Additional Disclosure Subsequent to the Issuance of the Original Independent Auditor’s Report” (dated November 2, 2011) from the State’s most recent presentation of the June 30, 2010, financial statements. See “STATE OF NORTH CAROLINA” herein.

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, 2012, 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 July 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 (a) will not be included in gross income for federal income tax purposes, (b) is not an item of tax preference, but is taken into account in determining adjusted current earnings for purposes

of the federal alternative minimum income tax imposed on individuals and corporations, and (c) 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 2017.
- 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 Toll 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 November 9, 2011, of the State used in connection with a recent offering of \$400,000,000 Capital Improvement General Obligation Bonds, Series 2011C of the State (the "Recent State Bonds"). References within Appendix A to "Appendix B", the "2011C 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, 2010 (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 State has had prepared Note 26 -

“Events and Additional Disclosure 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 26 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 26 (November 2, 2011).

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, 2010.

THE BONDS

Authorization

The issuance of the Bonds received the required approval of the North Carolina Local Government Commission (the “LGC”) on November 8, 2011. 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, 2012, at the rates shown on the inside front cover and will mature, subject to prior redemption as described below for certain Bonds, on July 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

The following are possible redemption provisions under consideration for the Bonds. Some or all of these redemption provisions may be applicable to one or the other series of Bonds.

Optional Redemption. The Bonds maturing on or after July 1, 2022, are subject to redemption, at the option of the Authority, either in whole or in part on any date on or after July 1, 2021, at a redemption price equal to 100% of the principal of such Bonds to be redeemed, plus accrued interest to the redemption date.

Mandatory Sinking Fund Redemption. The Bonds maturing on July 1, 2036, and bearing interest at a rate of 5.00%, 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 July 1 in the years and in the principal amounts as follows:

<u>Year</u>	<u>Amount</u>
2032	\$4,300,000
2033	4,510,000
2034	4,735,000
2035	4,965,000
2036*	5,215,000

*Final Maturity

The Bonds maturing on July 1, 2036, and bearing interest at 4.25%, 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 July 1 in the years and in the principal amounts as follows:

<u>Year</u>	<u>Amount</u>
2032	\$475,000
2033	495,000
2034	520,000
2035	545,000
2036*	570,000

*Final Maturity

The Bonds maturing on July 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 July 1 in the years and in the principal amounts as follows:

Year	Amount
2037	\$6,070,000
2038	6,370,000
2039	6,690,000
2040	7,025,000
2041*	7,375,000

*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 in accordance with the procedures of DTC. 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.

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 initially with the proceeds of the Appropriation Bonds, proceeds of the 2011 Toll Revenue Bonds, proceeds of the GARVEE Bonds, approximately \$77 million in funds from NCDOT, and interest earnings on proceeds of the Appropriation Bonds, the 2011 Toll Revenue Bonds and the GARVEE 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. At some point after completion of the Monroe Connector System it is expected additional Toll Revenue Bonds will be issued to refund the GARVEE Bonds and the 2011 Toll Revenue Bonds.

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 Toll Revenue Bond Trust Agreement.** Under the plan of finance, principal of and interest on the 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 Toll 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 Toll Revenue Bond Trust Agreement.

The 2011 Toll Revenue Bonds will be secured by the tolls and other revenues of the Monroe Connector System as provided in the Toll Revenue Bond Trust Agreement.

SOURCES AND USES OF FUNDS

Sources of Funds

Principal Amount of Bonds	\$214,505,000.00
Plus net original issue premium	<u>18,693,018.05</u>
Total Sources of Funds	<u>\$233,198,018.05</u>

Uses of Funds

Project Costs	\$231,735,078.71
Costs of Issuance ⁽¹⁾	<u>1,462,939.34</u>
Total Uses of Funds	<u>\$233,198,018.05</u>

(1) 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 relating to the Series 2010A Bonds; 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 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 Appropriation 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 Appropriation Bonds, and no Owner of Appropriation 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.

In no event shall there be any acceleration of payment of principal of or interest on the Bonds as a result of the occurrence of any Event of Default 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 – 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 June 30, 2011, is 35.0¢ per gallon (effective July 1, 2011). 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*” 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 2005-06 through 2009-10 and the annual percent increases or decreases 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>
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)
2009-10	822.2	89.7	3.0	914.9	0.3

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

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The amount of the transfer by the General Assembly to the General Fund is shown below for fiscal years 2006-07 through 2010-11 and the estimated amounts for 2011-12 and 2012-13 are shown below:

<u>Fiscal Year</u>	<u>Transfer to General Fund From Highway Trust Fund (Expressed in Millions)</u>
2006-07	57.5 ¹
2007-08	172.5
2008-09	147.5 ²
2009-10	108.8 ³
2010-11*	72.9 ⁴
2011-12	76.7 ⁵
2012-13	27.6 ⁶

¹ This amount reflects a final reimbursement from the General Fund to the Highway Trust Fund of \$115 million (the remaining amount of a \$125 million loan in 2002-03).

² Amount reflects the transfer of \$25 million to the Authority for certain costs or debt service on certain bonds.

³ Amount reflects an additional \$39 million reduction in the transfer to the General Fund for funding for the Authority bringing the total for funding the Authority to \$64 million for 2009-10.

⁴ Reflect previously planned reduction in the transfer.

⁵ Amount reflects previously planned reductions in the transfer to the General Fund (\$41.5 million) and appropriates an additional \$35 million to the General Fund to be used to purchase replacement school buses for local school systems. Reallocates \$30 million of unencumbered GAP funds to the Authority from 2009-10 and 2010-11 for the Mid-Currituck Bridge Project to be used for the purchase of school buses.

⁶ Amount reflects previously planned reductions in transfer to the General Fund.

*unaudited

Legislation was adopted under which the General Assembly committed \$84 million to the Authority for fiscal year 2010-11. The amount had been previously scheduled to increase to \$99 million for fiscal year 2011-12 and fiscal year 2012-13. However, the 2011 Session of the General Assembly reduced those funds to \$64 million in 2011-12 and \$81.5 million in 2012-13 for those fiscal years and the difference in each year was reallocated to the appropriation for Urban Loops Construction. The transfer to the Authority is scheduled to increase to \$112 million in fiscal year 2013-14, thereby reducing the amount available for transfer to the General Fund. The impact of any 2011-12 budget changes or funding differences for 2011-12 on the Highway Trust Fund cannot be predicted at this time. NCDOT will include the \$24,000,000 Monroe Connector System appropriation in the budget it submits to the Governor for fiscal year 2012-13 and subsequent years.

While the Appropriation Bonds will be payable primarily from the State Appropriated Revenues as described in this Official Statement, the Appropriation 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 Appropriation Bonds.

Interest Subsidy Payments

In the Recovery Act, Congress added Sections 54AA and 6431 to the Code to permit state or local governments to obtain certain tax advantages when bonds are issued as “Build America Bonds.” 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. The Authority elected to treat the Series 2010A 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 received by the Authority constitute Revenues under the Trust Agreement and are pledged under the Trust Agreement to the repayment of the Appropriation 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; compliance by the Authority with certain requirements (which it has covenanted to do) and 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 on each February 16, May 16, August 16 and November 16. All installments through August 16, 2011, have been paid as scheduled. 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 Appropriation Bonds. The Authority expects to receive the Interest Subsidy Payment immediately prior to each interest payment date on the Series 2010A Bonds.

The Trust Agreement provides that immediately upon each receipt of State Appropriated Revenues and the Interest Subsidy Payments, 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 Appropriation 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 Appropriation Bonds within the 12 month period ending on the next July 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), shall be transferred from the Revenue Fund under the Trust Agreement to the Revenue Fund created under the Toll Revenue Bond Trust Agreement

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.

Reserve Fund for Bonds

The Trust Agreement created the Reserve Fund with respect to the Appropriation Bonds issued pursuant to the Trust Agreement. Such Reserve Fund, upon issuance of the Series 2010A Bonds, was funded to the extent of the Reserve Fund Requirement which is the amount that is equal to the maximum Interest Subsidy Payments expected to be received in the current or any future fiscal year.

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 Appropriation Bonds.

Additional Bonds

The Trust Agreement provides that the Authority may issue additional bonds under the Trust Agreement, which bonds will be payable from the Revenues on a parity with the Appropriation Bonds, (a) for the purpose of refunding any Appropriation 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 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 Appropriation 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 Appropriation 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, 2012, (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 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 July 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 July 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

General

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.

Monroe Connector System

In November 2010, the North Carolina Wildlife Federation, Clean Air Carolina, and the Yadkin Riverkeeper filed suit in the United States Eastern District of North Carolina alleging the Federal Highway Administration and NCDOT violated the National Environmental Policy Act in conducting the environmental impact statement for the Monroe Connector System. In December 2010, the Court denied plaintiffs' request for a preliminary injunction and on October 25, 2011, granted summary judgment in favor of the defendants on all issues. The same plaintiffs in February 2011, filed a petition with the North Carolina Office of Administrative Hearings against the North Carolina Department of Environment and Natural Resources, challenging the issuance of a 401 Water Quality Certification for the Monroe Connector System. That contested case was stayed pending resolution of the above-mentioned federal litigation and may now be resolved. Notice of an

appeal of the Court's decision has been filed and the administrative proceeding, or other actions, may be forthcoming.

The environmental permits obtained for the Monroe Connector System encompass the entire project. The permits obtained are based on a "worst case" scenario. Once the contract is awarded, the contractor and other members of the design-build team will prepare final design details based on the unique design submitted by them during the procurement process. Permit modifications that reflect these designs and further minimize overall environmental impacts will then be submitted to the agencies. Once these modifications are approved for a portion or all of the project, construction will begin. The coordination process with the permitting agencies utilized to develop the environmental impact statement is designed to ensure that the permit modification process proceeds smoothly.

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, including accrued original issue discount ("OID"), on the Bonds (a) is not included in gross income for federal income tax purposes, (b) is not an item of tax preference but is taken into account in determining adjusted current earnings for purposes of the federal alternative minimum income tax imposed on individuals and corporations, and (c) under current law, is exempt from all income taxes in the State of North Carolina. Except as discussed below regarding OID, no other opinion is expressed by Bond Counsel regarding the tax consequences of the ownership of or the receipt or accrual of interest on the Bonds.

Bond Counsel's opinion with respect to the Bonds will be given in reliance upon certifications by representatives of the Authority as to certain facts relevant to both the

opinion and requirements of the Code of 1986. Bond Counsel's opinion is subject to the condition that there is compliance subsequent to the issuance of the Bonds with all requirements of the Code that must be satisfied in order for interest thereon to remain excludable from gross income for federal income tax purposes. The Authority has covenanted to comply with the current 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. Failure by the Authority to comply with such covenants, among other things, could cause interest on the Bonds to be included in gross income for federal income tax purposes retroactively to their date of issue.

Original Issue Discount. The initial public offering prices of each maturity of the Bonds maturing in the years 2022 (bearing interest at 3.0%), 2023 (bearing interest at 3.125%), 2031 (bearing interest at 4.0%) and 2036 (bearing interest at 4.25%) (the "OID Bonds") will be less than their stated principal amount. In the opinion of Bond Counsel, under current law, the difference between the stated principal amount and the initial offering price of each maturity of the OID Bonds to the public (excluding bond houses and brokers) at which a substantial amount of such maturity of such Bonds is sold will constitute OID. The offering prices set forth on the inside cover of this Official Statement for the OID Bonds are expected to be the initial offering price to the public at which a substantial amount of each maturity of such Bonds are sold.

Under the Code, for purposes of determining the holder's adjusted basis in an OID Bond, OID treated as having accrued while the holder holds the Bond will be added to the holder's basis. OID will accrue on a constant yield-to-maturity method. The adjusted basis will be used to determine taxable gain or loss upon the sale or other disposition (including redemption or payment at maturity) of an OID Bond.

Prospective purchasers of the OID Bonds should consult their own tax advisors with respect to the calculation of accrued OID and the state and local tax consequences of owning or disposing of OID Bonds.

Original Issue Premium. Bonds purchased, whether upon issuance or otherwise, for an amount (excluding any amount attributable to accrued interest) in excess of their principal amount 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. No deduction for such amount will be allowed, but it generally will offset interest on the Bonds while so held. Purchasers of such 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.

Tax Consequences Generally. In addition to the matters addressed above, prospective purchasers of the Bonds should be aware that the ownership of tax-exempt obligations may result in collateral Federal income tax consequences to certain taxpayers, including without limitation financial institutions, property and casualty insurance companies, S corporations, foreign corporations subject to the branch profits tax, recipients of Social Security or Railroad Retirement benefits and taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry tax-exempt obligations.

Prospective purchasers of the Bonds should consult their tax advisors as to the applicability and impact of such consequences.

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. 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.

Current and future legislative proposals, if enacted into law, may cause interest on the Bonds to be subject, directly or indirectly, to federal income taxation. As one example, on September 12, 2011, the Obama Administration announced a legislative proposal entitled the American Jobs Act of 2011. For tax years beginning on or after January 1, 2013, the American Jobs Act of 2011, if enacted, may limit the exclusion from gross income of interest on obligations like the Bonds to some extent for taxpayers who are individuals and whose income is subject to higher marginal income tax rates.

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 100% of the principal amount thereof, plus a net original issue premium of \$18,693,018.05 and less an underwriters' discount of \$1,076,739.34. 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 negotiated dealer agreements (each, a "Dealer Agreement") with each of UBS Financial Services Inc. ("UBSFS") and Charles Schwab & Co., Inc. ("CS&Co.") for the retail distribution of certain securities offerings at the original issue prices. Pursuant to each Dealer Agreement (if applicable to this transaction), UBSFS and CS&Co. will purchase Bonds from JPMS at the original issue price less a negotiated portion of the selling concession applicable to any of the Bonds that such firm sells.

Piper Jaffray & Co. and Pershing LLC, a subsidiary of The Bank of New York Mellon Corporation, entered into an agreement (the "Agreement") which enables Pershing LLC to distribute certain new issue municipal securities underwritten by or allocated to Piper Jaffray & Co., including the Bonds. Under the Agreement, Piper Jaffray & Co. will share with Pershing LLC a portion of the fee or commission 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. Wells Fargo Bank, National Association is serving as underwriter, trustee and paying agent for the Bonds.

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

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 November 9, 2011, of the State used in connection with a recent offering of \$400,000,000 Capital Improvement General Obligation Bonds, Series 2011C of the State (the “Recent State Bonds”). References within Appendix A to “Appendix B”, the “2011C 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 48,619 square miles. The State's estimated population as of July 1, 2010 was 9,572,454, ranking 10th in the nation. During the period from 2000 to 2010, the State's estimated population increased by 1,490,723 or 18.5% (the 3rd largest increase among the top 10 states on a percentage basis). The State Demographer's Office estimates that North Carolina has nine cities with populations in excess of 100,000 and three 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, but the military presence and housing starts are also important factors. During the period from 2000 to 2010, per capita personal income in the State grew from \$27,914 to \$35,638, an annual increase of approximately 1% when adjusted for inflation. North Carolina, like the rest of the nation, is still dealing with a prolonged period of high unemployment and slow job growth in the wake of the national recession. North Carolina's September 2011 seasonally adjusted unemployment rate was 10.5 percent, up slightly from 10.1 percent in September 2010. At 10.5 percent, North Carolina's unemployment rate is 1.4 percent higher than the nation as a whole (9.1 percent). Between the State's peak in employment in February 2008 and the low of February 2010, North Carolina lost 328,600 jobs— a decrease of 7.9 percent.

Nonfarm total employment accounts for 3,868,100 jobs in the state. Between February 2008 and February 2010, all major industrial sectors experienced job declines with the exception of Education & Health Services (up 7,600) and Government (up 5,600). The largest job losses were in Manufacturing (down 98,400), Trade Transportation & Utilities (down 71,900), Construction (down 71,700) and Professional & Business Services (down 35,600). However, between July 2010 and July 2011, job growth picked up somewhat, with all the major sectors reporting seasonally adjusted job increases: Leisure & Hospitality Services (up 13,200); Professional & Business Services (up 12,900); Trade, Transportation & Utilities (up 10,300); Financial Activities (up 4,800); Manufacturing (up 2,300); and Information (up 300).

Services – Service providing sectors, including information, financial activities, professional and business services, educational and health services, leisure and hospitality, and other services, account for 1.86 million jobs, or about 48 percent of the total in the State as of the July, 2011 preliminary count.

One major component of the State's service economy is the Research Triangle Park (the "Park"), located within Wake and Durham Counties. It 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 located between three major universities: 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 global companies, including International Business Machines Corporation, GlaxoSmithKline, Syngenta,

Credit Suisse, RTI International and Cisco. The research institutions in the Park employ over 58,000 fulltime knowledge workers and an estimated 10,000 contract employees.

Agriculture. – Agriculture is another basic element of the State’s economy. In calendar year 2009 North Carolina’s agricultural industry, including food, fiber and forest, contributed about \$70 billion to the State’s economy, and accounted for 18% of the State’s income. Gross agricultural income was in excess of \$10.6 billion in 2010, placing the State eighth in the nation in gross agricultural income and seventh in the nation in net farm income. The poultry industry is the leading source of agricultural income in the State, accounting for approximately 37.5% of gross agricultural income in 2010, followed by the pork industry at approximately 23.2%, nursery and greenhouse products at approximately 7.9% and the tobacco industry at approximately 6.1%. 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, trout sold and Christmas trees sold, and third in processing cucumbers and fresh market strawberries.

Trade – Over the four-year period from July 2007 to July 2011, the trade sector lost 56,000 jobs (a 7.2% decline from the 2007 trade sector total), but its proportion of the total of nonfarm employment fell by only 0.1 of a percentage point (18.8 % to 18.7%). This industry sector includes wholesale and retail trade, transportation, warehouse, and utilities.

Manufacturing – Between July 2007 and July 2011, North Carolina lost 102,800 manufacturing jobs. The majority of the job losses occurred during the recession, December 2007 to June 2009. North Carolina’s six largest manufacturing industries declined over the period July 2007 to July 2011 as follows: Furniture & Related Products (down 16,500); Textile Mills (down 15,500); Computer & Electronic Products (down 7,700); Fabricated Metal Products (down 7,000); Chemicals (down 4,800); and Food (down 2,900). The Food manufacturing sector remains North Carolina’s leading sector in manufacturing employment with 51,500 workers. Chemical follows with 39,400. The manufacturing sector as of July 2011 employs 434,900 people.

Exports – Despite the global recession and its impact on North Carolina’s economy, exports continue to be one of the State’s key drivers for economic growth. North Carolina remains the sixteenth largest exporter among the 50 states in 2010 with export sales up 14.3% from the previous year. The total value of goods exported by firms in the State rose 7.5% to \$6.8 billion in the second quarter of 2011 when compared to the \$6.3 billion in the same quarter of 2010.

Tourism – Travel and tourism are a major industry in North Carolina and significant to the State’s economy. Direct visitor spending contributed over \$17 billion to the State’s economy in 2010, an increase of 9% over 2009. The North Carolina travel and tourism industry directly and indirectly sustains more than 378,000 jobs, or 8.6% of all wage and salary employment in the state.

Other – Military. North Carolina hosts the third largest military population in the United States; as of fall 2011, Fayetteville’s Fort Bragg will be the largest Army installation in the world. Other major military installations within the State are Marine

Corps Camp Lejeune, Marine Corps Air Station Cherry Point, Marine Corps Air Station New River, Pope Air Force Base, Seymour Johnson Air Force Base, and the U.S. Coast Guard Air Station in Elizabeth City. These military installations directly contribute to the economic development of North Carolina through capital investment, employment, and defense contracting, and indirectly through increased demand experienced by regional businesses and increased spending from households. In 2008, the State's Department of Commerce determined that the military's Gross State Product value was \$23.4 billion.

Housing. Although remaining mostly flat 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 as shown in the following table:

New Housing Units Authorized by Building Permit

<u>State</u>	<u>2009 Total</u>	<u>State</u>	<u>2010 Total</u>
1. Texas	84,440	1. Texas	88,461
2. Florida	35,329	2. California	43,716
3. California	35,069	3. Florida	38,679
4. North Carolina	33,800	4. North Carolina	33,889
5. Virginia	21,452	5. Virginia	20,992

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 the biennium in odd numbered years. However, since 1973 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, 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. Currently budgeted expenditures are subject to change as described hereafter - see “**BUDGETS - State Budget - 2011-13 General Fund Budget and Commentary on Approved 2011-13 Biennium Budget**”.

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 2010-11 comprise 37.6% of the State’s General Fund budget. In addition to other appropriations for school purposes, \$267,408,736 was set aside by the fiscal 2010-11 budget to supplement funding for small and low-wealth counties.

State law provides the opportunity for individuals or groups to create public schools denominated as “charter 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. One hundred charter schools are operating in the State in the 2011-12 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>
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	1,447,370
2010-11	690,112	337,644	429,307	1,457,063

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>
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
2010-11	1,241	440	494	349	2,524

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 60% (\$985 million in the fiscal 2011-12 budget) of the system’s funding, with the remaining funds coming from federal sources, tuition and fees and local funding sources.

In fiscal year 2010-11, 877,077 people took one or more courses at a local community college, including 371,026 enrolled in curriculum programs leading toward an associate degree, certificate or diploma. Approximately 282,812 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 2011-12, the system was also the State’s primary provider of adult literacy training, providing training for approximately 137,245 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 Customized 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” and one constituent high school, the North Carolina School of Science and Mathematics. 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 2010 headcount enrollment, which grew 36% from 2000 to 2010, totaled 221,727. 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 2011-12 operating budget totals \$3,943,184,987 of which \$2,448,739,468 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 more than 13% of the State's General Fund appropriations in fiscal year 2011-12.

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 2011-12 school year, annual tuition and required fees for in-state undergraduate students ranged from \$3,828 to \$6,874. For non-resident undergraduates, annual tuition and required fees ranged from \$13,572 to \$26,648.

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 2009-10 plus an additional \$200 million in one time federal funding from the American Recovery and Reinvestment Act. Sponsored program funding has experienced substantial growth over the past decade. The 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 2010 the University realized nearly a 7.5% increase in federal sponsored research (not including one-time funding). 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.

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 13 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 approximately 87% 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 2011-12, the State's General Fund budget allocated approximately \$4.5 billion in State appropriations to DHHS. The total DHHS budget, combined with federal and other receipts, for fiscal year 2011-12 was \$18.1 billion, of which 71% is for the Medicaid program. Of the non-healthcare services, social services is the largest portion and reflects 9% of the total DHHS operating budget at \$1.6 billion in total funding of which \$186.2 came from State appropriations.

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 41,030 inmates as of June 30, 2011.

As part of the Justice Reinvestment Act, four prisons have been identified for closure, effective January 1, 2012. For fiscal year 2011-12, the Department of Correction's General Fund budget is \$1.34 billion, which represents 6.8% of the State's total General Fund budget.

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. Current tax rates and subjects may be subject to change as described hereafter - see "**BUDGETS - State Budget - 2011-13 General Fund Budget and Commentary on Approved 2011-13 Biennium Budget**".

General Fund

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 2005-06 through 2009-10 with the annual percentage increases/decreases for each of the such fiscal years:

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

<u>Fiscal Year</u>	<u>Tax Revenue</u>	<u>Percent Increase/Decrease from Previous Year</u>	<u>Tax and Non-Tax Revenue</u>	<u>Percent Increase /Decrease From Previous Year</u>
2005-06	\$17,472.1	10.8	\$17,903.8	11.00%
2006-07	19,148.3	9.6	19,676.3	9.90
2007-08	19,147.5	0.0	19,761.2	.04
2008-09	16,526.4	(13.7)	17,021.5	(13.90)
2009-10	18,674.7	13.0	19,119.1	12.30

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

See Appendix B for complete financial statements showing tax revenues and non-tax revenues for such fiscal years. Except as otherwise noted, the proceeds of the taxes and non-tax revenue hereinafter described are deposited in the General Fund.

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. 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 4.75% 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 (including facilitator fees) and laundry and dry cleaning services. The local rate is 2% for most counties with 17 counties (as of January 1, 2011) levying an additional 0.25%. A combined general rate of 8% 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 development tier one 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% are collected on transactions taxed at the general State rate. Food is subject to a local sales and use tax of 2% in all counties. 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; paper-from-pulp manufacturing and turbine manufacturing entities; 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; 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% of beer tax revenue; 49.44% of unfortified wine tax revenue; and 18% 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 2011.

Estate Tax – The North Carolina estate tax is equal to the state estate tax credit that was allowable under the Internal Revenue Code as it existed prior to 2002 but may not exceed the amount of the federal estate tax due or what would be due without a deduction for State estate taxes. The federal estate tax provisions under the Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010 (TRA 2010) retroactively applied the federal estate tax back to January 1, 2010. Heirs of decedents who died during 2010 have the option of 1) applying the new 2011 estate tax rules with the \$5 million exemption and maximum tax of 35%, and additionally, receiving a full step up in basis of their inherited property, or instead, 2) not applying the 2011 estate tax rules (i.e., applying the tax laws in place in 2010) and receiving a limited step up in basis of up to \$1.3 million (\$3 million in certain cases involving a surviving spouse). The modified carryover basis rules (limited step up basis) have income tax consequences on inherited property.

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.

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. For some purposes certain of these amounts are separately designated by the General Assembly.

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 a disproportionate share of indigent patients. For each year of the biennium 2011-13, an amount equal to DSH payments to State-owned public hospitals is returned to the State and the General Assembly appropriates a specified amount (\$115,000,000) of these receipts as non-tax revenue. The source(s) of the proceeds returned to the General Fund may include General Fund appropriation, nonfederal revenue, fund balances or other sources

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 initial statutory

framework established in North Carolina for the application of the proceeds of the national tobacco settlement funds, one-half of the receipts for each year were 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 were 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.

Effective July 1, 2011, the North Carolina General Assembly amended the State statutes so that one-half of annual settlement receipts that were once transferred to the Tobacco Trust Fund and the Health and Wellness Trust Fund are now allocated as follows: 1) debt service payments for health related capital projects, 2) the University Cancer Research Fund, and 3) the State's General Fund to be used for the following purposes: a) for the benefit of tobacco producers, tobacco allotment holders and persons engaged in tobacco related business, and b) for the benefit of a broad range of health programs and initiatives. The Golden L.E.A.F. Foundation continues to receive the other half of the settlement receipts.

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>
1999-00	\$189,402,277.02	\$0.00	\$189,402,277.02
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	142,825,077.78	(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	146,358,489.02	(10,000,000.00)	136,358,489.02
2010-11	<u>138,256,209.10</u>	<u>(15,397,000.00)</u>	<u>122,859,209.10</u>
Total	<u>\$1,872,893,988.06</u>	<u>(\$401,383,513.92)</u>	<u>\$1,471,510,474.14</u>

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 statute. This dispute could result, if not decided in the State's favor, in approximately \$18 million of the funds the State received in April 2006 being returned to the manufacturers in the form of a reduction in a future year's payment. Each year's payment after 2006 is subject to similar dispute. The amount of any year's potential return to the manufacturers would be based on sales numbers for the year from which the dispute arose.

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 State 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 June 30, 2011 totaled \$6.369 billion and the North Carolina State Lottery earned over \$2.011 billion during that period.

Lottery Sales

<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	1,078.2	350.9
2008-09	1,293.1	414.0
2009-10	1,421.3	432.2
2010-11 (unaudited)	<u>1,461.1</u>	<u>436.2</u>
Total to Date	\$6,368.8	\$2,011.1

* Not adjusted for prize tickets and sales/service bad debt.

Highway Fund and Highway Trust Fund

The State has an approximately 79,186-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 which dates back to 1921 and the imposition of the State's first tax on gasoline.

The North Carolina Highway Trust Fund was created by the General Assembly in 1989. Funds in the Highway Trust Fund are 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. In addition, in most of the years since its creation, the General Assembly has made transfers from the Highway Trust Fund to the General Fund. The

amount of the transfer by the General Assembly to the General Fund is shown below for fiscal years 2006-07 through 2010-11 and the estimated amounts for 2011-12 and 2012-13 are shown below:

<u>Fiscal Year</u>	<u>Transfer to General Fund From Highway Trust Fund (Expressed in Millions)</u>
2006-07	57.5 ¹
2007-08	172.5
2008-09	147.5 ²
2009-10	108.8 ³
2010-11*	72.9 ⁴
2011-12	76.7 ⁵
2012-13	27.6 ⁶

¹ This amount reflects a final reimbursement from the General Fund to the Highway Trust Fund of \$115 million (the remaining amount of a \$125 million loan in 2002-03).

² Amount reflects the transfer of \$25 million to the North Carolina Turnpike Authority for certain costs or debt service on certain bonds.

³ Amount reflects an additional \$39 million reduction in the transfer to the General Fund for funding for the North Carolina Turnpike Authority bringing the total for funding the Turnpike Authority to \$64 million for 2009-10.

⁴ Reflect previously planned reduction in the transfer.

⁵ Amount reflects previously planned reductions in the transfer to the General Fund (\$41.5 million) and appropriates an additional \$35 million to the General Fund to be used to purchase replacement school buses for local school systems. Reallocates \$30 million of unencumbered GAP funds to the North Carolina Turnpike Authority from 2009-10 and 2010-11 for the Mid-Currituck Bridge Project to be used for the purchase of school buses.

⁶ Amount reflects previously planned reductions in transfer to the General Fund.

*unaudited

Legislation was adopted under which the General Assembly committed \$84 million to the North Carolina Turnpike Authority for fiscal year 2010-11. The amount had been previously scheduled to increase to \$99 million for fiscal year 2011-12 and fiscal year 2012-13. However, the 2011 Session of the General Assembly reduced those funds to \$64 million in 2011-12 and \$81.5 million in 2012-13 for those fiscal years and the difference in each year was reallocated to the appropriation for Urban Loops Construction. The transfer to the Turnpike Authority is scheduled to increase to \$112 million in fiscal year 2013-14, thereby reducing the amount available for transfer to the General Fund.

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 2006-07 through 2009-10 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 June 30, 2011, is 35.0¢ per gallon (effective July 1, 2011). 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.

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 Fund receives annual license fees levied at the rate of \$28 per private passenger vehicle as well as similar fees imposed on vehicles of common carriers of passengers and on property-hauling vehicles (based on weight); fees for farm trucks are approximately one-half of the amounts levied on private and contract haulers. 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 2005-06 through 2009-10 are as follows:

<u>Fiscal Year</u>	<u>Investment Earnings¹</u> <u>(millions)</u>	
	<u>Highway Fund</u>	<u>Highway Trust Fund</u>
2005-06	\$38.3	\$3.0
2006-07	49.0	6.5
2007-08	67.9	2.6
2008-09	30.6	1.1
2009-10	31.6	0.9

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 2005-06 through 2009-10 and the annual percent increases for each of such fiscal years:

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

Fiscal Year	Motor Fuels Tax Revenue¹	Other State Revenue	Federal Funds	Other Funds	Total Revenue	Percent Increase (Decrease)
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	691.3	1,119.3	28.9	2,956.6	3.4
2009-10	1,146.1	659.6	823.4	30.0	2,659.1	(10.1)

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 2005-06 through 2009-10 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 Fuels Tax Revenue	Other State Revenue	Other Funds	Total Revenue	Percent Increase (Decrease)
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)
2009-10	822.2	89.7	3.0	914.9	0.3

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, 2006 to 2010. 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.”

The State Constitution and statutory requirements for the State budget, in part for historical reasons, provide for the use of budgetary financial data rather than financial data presented in conformity with generally accepted accounting principles (“GAAP”). The differences between budgetary financial data and GAAP financial data include that budgetary funds are accounted for on a cash basis, rather than on a modified accrual basis, and there is a significant variance in the treatment of appropriated but unspent funds at the end of a fiscal period. The financial statements in Appendix B are GAAP statements.

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 35% of the total State budget for fiscal year 2011-12. 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 are revenues that are received directly by a department but have not been designated as tax or non-tax revenue 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 19.5% 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.

As noted in “**REQUIREMENTS FOR BALANCED BUDGET**,” State budgets are accounted for on a cash basis using budgetary financial data rather than GAAP financial data with a modified accrual basis. Therefore, the following discussion of the State budget in various fiscal years does not directly correspond to data or conclusions presented in the GAAP financial statements in Appendix B. For a budgetary basis schedule for the General Fund and reconciliation of budgetary versus GAAP reporting differences, see the “Schedule of Revenues, Expenditures and Changes in Fund Balance, Budget and Actual (Budgetary Basis – Non-GAAP) General Fund” and accompanying notes in the Required Supplemental Information section of the State’s 2010 CAFR, available in Appendix B and at <http://www.osc.nc.gov/financial/10CAFR/index.html>.

2010-11 General Fund Budget

\$ Millions

	<u>Authorized Budget FY 2010-11</u> ¹	<u>Actual for Twelve Months Ended June</u>		<u>Percentage of Budget Realized/ Expended for Twelve Months Ended June FY 2011</u>
		<u>FY 2011</u> [*]	<u>FY 2010</u>	
Beginning Fund Balance, July 1				
Unreserved	\$236.9	\$236.9	\$92.2	
Reserved	570.8	570.8	527.5	
Total Beginning Fund Balance	\$807.7	\$807.7	\$619.7	
Revenues:				
Tax Revenues:				
Individual Income	\$9,543.3	\$9,734.9	\$9,047.6	102.0%
Corporate Income	1,017.5	1,013.5	1,197.9	99.6%
Sales and Use	5,690.8	5,871.7	5,565.0	103.2%
Franchise	697.9	607.5	724.5	87.0%
Insurance	494.5	480.1	486.8	97.1%
Beverage	277.2	275.2	282.3	99.3%
Other:				
Inheritance	10.1	23.8	71.9	235.6%
Privilege	41.9	41.3	39.2	98.6%
Tobacco Products	251.4	265.3	251.7	105.5%
Real Estate Conveyance Excise	-	-	-	N/A
Gift	-	3.0	12.0	N/A
Solid Waste	-	-	-	N/A
White Goods Disposal	-	-	-	N/A
Scrap Tire Disposal	-	-	-	N/A
Freight Car Lines	-	0.4	0.3	N/A
Piped Natural Gas	34.2	31.0	33.8	90.6%
Mill Machinery	33.4	32.5	31.9	97.3%
Other	-	(0.1)	0.1	N/A
Total Tax Revenues	\$18,092.2	\$18,380.1	\$17,745.0	101.6%
Nontax Revenues:				
Treasurer's Investments	57.5	26.3	40.8	45.7%
Judicial Fees	253.0	225.8	216.9	89.2%
Insurance	67.0	67.5	69.6	100.7%
Disproportionate Share Receipts	135.0	135.0	125.0	100.0%
Total Nontax Revenues	512.5	454.6	452.3	88.7%
Total Tax and Nontax Revenues	\$18,604.7	\$18,834.7	\$18,197.3	101.2%
Transfers In:				
Highway / Highway Trust Fund	\$90.4	\$89.9	\$126.2	99.4%
Other transfers	282.8	1,077.4 ²	384.1 ³	381.0%
Total Transfers In	373.2	1,167.3	510.3	312.8%
Total Revenues and Transfers In	\$18,977.9	\$20,002.0	\$18,707.6	105.4%
Debt Proceeds	500.0	500.0	487.5	100.0%
Total Available Funds	\$20,285.6	\$21,309.7	\$19,814.8	105.0%
Expenditures				
Current Operations	\$18,190.3	\$17,853.3	\$17,852.7	98.1%
Capital Improvements:				
Funded by General Fund	11.2	11.2	4.9	100.0%
Funded by Debt Proceeds ⁴	500.0	500.0	487.5	100.0%
Debt Service	707.5	590.1	609.8	83.4%
Total Budgetary Expenditures	\$19,409.0	\$18,954.6	\$18,954.9	97.7%
Additional Expenditures/Transfers from/to Reserves	50.0⁵	390.8⁶	52.4⁷	781.6%
Total Expenditures	\$19,459.0	\$19,345.4	\$19,007.3	99.4%

\$ Millions				Percentage of
	<u>Authorized</u> <u>Budget</u> <u>FY 2010-11</u> ¹	<u>Actual for Twelve Months</u> <u>Ended June</u> <u>FY 2011</u> [*]	<u>FY 2010</u>	<u>Budget Realized/</u> <u>Expended for Twelve</u> <u>Months Ended</u> <u>June</u> <u>FY 2011</u>
Ending Fund Balance				
Unreserved	\$255.8	\$582.4	\$236.9	
Reserved	570.8	1,381.9 ⁸	570.8 ⁹	
Total Ending Fund Balance	\$826.6	\$1,964.3	\$807.7	

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 \$232.0 million, \$571.2 million Non-Reverting Departmental Funds Transfer from Reserves, \$4.1 million Job Development Incentive Grants Reserve, Repairs and Renovations Reserve \$124.5 and \$145.6 million Savings Reserve.
- ³ Includes \$333.8 million of Other Non-Tax Revenue Transfers, \$48.1 Non-Reverting Department Funds and \$2.2 million Nonrecurring Transfers from other funds.
- ⁴ Represents debt issuances in the fiscal year.
- ⁵ Includes \$50 million Clean Water Trust Fund Expenditures.
- ⁶ Includes \$48.3 million Clean Water Trust Fund Expenditures, \$34.3 million Disaster Relief Reserve and \$308.2 Transfer to Reserves.
- ⁷ Includes expenditures of \$2.8 million for the Disaster Relief Budget Shortfall, \$47.5 million Clean Water and \$2.1 million Job Development Incentive Grants Reserve.
- ⁸ Includes \$295.6 million "Rainy Day" Savings Reserve, \$7.0 Disaster Relief Budget Shortfall \$7.2 Job Development Incentive Grant and \$947.6 Non-Reverting Departmental Funds and Repairs and Renovations Reserve Account \$124.5.
- ⁹ Includes \$150 million "Rainy Day" Savings Reserve, \$41.3 million Disaster Relief Reserve \$3.1 Job Development Incentive Grant and \$376.4 Non-Reverting Departmental Funds.
- ^{*} Preliminary (unaudited)

2010-11 General Fund Budget Commentary

While the national recession officially ended in June 2009, North Carolina's economy continues to experience slow job growth and cautious consumer spending. Despite these headwinds, North Carolina's economy gradually began to build momentum in fiscal year 2010-11. Reflecting this modest improvement, baseline General Fund revenues increased 2.8% in fiscal year 2010-11, slightly above the authorized budget and a significant improvement compared to consecutive years of unprecedented declines.

Despite the slowly recovering economy, a \$3.7 billion budget gap for fiscal year 2011-12 was preliminarily estimated in late 2010. The gap was driven by \$800 million in funding needs, combined with the loss of \$1.6 billion in American Recovery and Reinvestment Act (ARRA) funds and \$1.3 billion in expiring temporary taxes. By March, lower funding needs and a slightly better than expected economic outlook reduced the gap to \$2.6 billion. As an early step to address the anticipated gap, S.B. 109 directed the Governor to reduce General Fund expenditures for fiscal year 2010-11 and increase availability for fiscal year 2011-12 by \$538 million. Special exceptions were made for high need programs including prisons, Medicaid, and public schools.

See "Management's Discussion and Analysis" in Appendix B.

2011-13 Biennium 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 budget for the 2011-13 biennium is summarized below. Note that due to when the budget was adopted, the beginning unreserved fund balance number does not reflect the actual (unaudited) amount of unreserved fund balance at the end of 2010-11 - \$582.4 million.

<u>Description</u>	<u>2011-12 (millions)</u>	<u>2012-13 (millions)</u>
Beginning Unreserved Fund Balance	\$ 520.9	\$ 13.9
Revenues Based on Existing Tax Structure	18,129.8	19,181.9
Non-tax Revenues	631.1	650.5
Highway Trust Fund Transfer	41.5	27.6
Highway Fund Transfer	20.2	24.1
Revenue Adjustments:		
Loss of Estate Tax	(57.1)	(72.2)
Small Business Tax Relief Package	(131.6)	(335.6)
Repeal Wildlife Resources Commission Sales Tax Earmark	22.9	23.9
Suspend Corporate Income Tax Earmark (Public School Construction)	72.1	74.7
Increase in Judicial Fees	61.8	61.7
Increase Investment Company Notice Filing Fee	1.6	1.6
Increase Parking Fees for Visitors	.6	.6
Loss of Revenue from the Town of Butner	(1.2)	(1.2)
Transfer from E-Commerce Reserve Fund	4.5	0
Divert Funds from Parks & Recreation Trust Fund	8.4	0
Divert Funds from Recreational/National Heritage Trust Fund	8.0	0
Transfer from Highway Fund for State Highway Patrol	196.8	188.2
Transfer Additional Funds from Highway Trust Fund	35.2	0
Transfer from Mercury Prevention Pollution Fund	.3	0
Transfer from Commerce – Enterprise Fund	.5	0
Divert Funds from Scrap Tire Disposal Fund	2.3	0
Divert Funds from White Goods Mgmt Account	1.9	0
Diversion of Golden LEAF Funds	17.6	17.6
Master Settlement Agreement Funds	24.7	25.6
Transfer Health and Wellness Trust Funds to Public Health	32.9	0
Department of Revenue – Accounts Receivable Program	25.0	25.0
Medicaid Disproportionate Share Receipts	15.0	15.0
Adjust Transfer from Insurance Regulatory Fund	(.7)	(.7)
Adjust Transfer from Treasurer’s Office	(3.9)	(3.9)
Transfer from NC Flex FICA Funds	1.0	0
Proceeds from the Sale of State Assets	<u>15.0</u>	<u>25.0</u>
Subtotal Adjustments to Availability: 2011 Session	<u>353.6</u>	<u>45.3</u>
Total General Fund Revenues/Other Availability	<u>\$19,697.1</u>	<u>\$19,943.3</u>

Commentary on Approved 2011-13 Biennium Budget

The General Assembly enacted a \$19.7 billion budget for fiscal year 2011-12, closing the \$2.6 billion budget gap through spending reductions (64%) and adjustments to availability (36%) as follows.

Spending Reductions - Spending reductions totaled \$2.1 billion in fiscal year 2011-12 and \$2.5 billion in fiscal year 2012-13. The largest reductions occurred in the education and health and human services categories. Education reductions were \$1.2 billion in fiscal year 2011-12 and \$1.4 billion in fiscal year 2012-13, while health and human services reductions totaled \$531 million in fiscal year 2011-12 and \$650 million in fiscal year 2012-13.

Adjustments to Availability – Adjustments increased availability by \$354 million in fiscal year 2011-12 and \$45 million in fiscal year 2012-13. Major adjustments included transfers from the Highway Fund for state highway patrol (adds \$385 million over the biennium), increases in judicial fees (adds \$124 million over the biennium), and suspension of the corporate income tax earmark for public school construction (adds \$147 million over the biennium).

Other 2011-13 budget highlights include the following:

- (1) Increased the savings reserve account by \$184 million, bringing the total to \$296 million.
- (2) Added \$125 million to Repairs and Renovations account.
- (3) Combined three cabinet departments (Crime Control and Public Safety, Correction, and Juvenile Justice and Delinquency Prevention) into a new Department of Public Safety.
- (4) Fully funded the North Carolina's annual required contribution (ARC) to the Teachers' and State Employees' Retirement System by increasing the appropriation by \$248 million in 2011-12 and \$336 million in 2012-13 bringing the total annual appropriation to \$735 million and \$823 million respectively for each year of the biennium.
- (5) Fully funded the required contribution for the North Carolina State Health Plan.

Revenue Outlook - Even with modest improvement in the North Carolina economy and revenue outlook, the consensus forecast maintained a very cautious revenue outlook for 2011-13. Specifically, the General Assembly budget assumes baseline General Fund revenue to increase 4.6% in fiscal year 2011-12. The economy is expected to continue to accelerate in fiscal year 2012-13, resulting in baseline General Fund revenues growth of 5.5%. While stronger than recent performance, this revenue recovery forecast is below historical growth during economic recoveries and remains near long-term average revenue growth. Substantive tax and revenue adjustments included by the General Assembly in the approved budget are as follows:

- (1) *Expiration of the temporary tax package passed as part of 2009-11 budget* - This package included a 1 cent increase in the state sales tax, a 2 to 3 percent income tax surcharge on highest-income households, and a 3 percent surcharge on corporate income taxes. Allowing the package to expire decreased annual state revenue by an estimated \$1.3 billion.

- (2) *Business-income tax exemption* – This revenue change exempts the first \$50,000 in non-passive business income paid through the personal income tax. The exemption is effective for tax years 2012 and 2013 and saves businesses an estimated \$132 million in 2011-12 and \$336 million in 2012-13.
- (3) *Conform to federal changes on estate tax* – As part of a tax compromise in December 2010, the federal estate tax exemption increased to \$10 million per estate. Without any action, the federal and North Carolina’s estate tax would have returned to 2001 levels (\$1 million per exemption). The budget conforms to the new federal exemption levels, resulting in an estimated revenue loss of \$57 million in 2011-2012 and \$72 million in 2012-2013.

2011-12 General Fund First Three Months

\$ Millions

	Authorized Budget	Actual for Three Months Ended September		Percentage of Budget Realized/Expended for Three Months Ended September
	FY 2011-12 ¹	FY 2012 *	FY 2011	FY 2012
Beginning Fund Balance, July 1				
Unreserved	\$582.4	\$582.4	\$236.9	
Reserved	1,381.9	1,381.9	570.8	
Total Beginning Fund Balance	\$1,964.3	\$1,964.3	\$807.7	
Revenues				
Tax Revenues:				
Individual Income	\$9,800.0	\$2,511.1	\$2,334.6	25.6%
Corporate Income	1,000.2	244.6	212.1	24.5%
Sales and Use	5,293.1	1,430.4	1,506.8	27.0%
Franchise	649.9	99.0	95.6	15.2%
Insurance	510.9	2.5	0.8	0.5%
Beverage	296.6	73.1	71.7	24.6%
Other:				
Inheritance	64.0	2.4	17.9	3.8%
Privilege	43.7	20.9	13.3	47.8%
Tobacco Products	260.2	71.8	68.8	27.6%
Real Estate Conveyance Excise	–	3.2	2.6	N/A
Gift	–	–	1.0	N/A
Solid Waste	–	4.9	4.8	N/A
White Goods Disposal	–	1.2	1.2	N/A
Scrap Tire Disposal	–	4.5	4.3	N/A
Piped Natural Gas	35.9	1.8	1.7	5.1%
Mill Machinery	34.1	9.0	7.9	26.4%
Other	–	0.2	–	N/A
Total Tax Revenues	\$17,987.7	\$4,480.6	\$4,345.1	24.9%
Nontax Revenues:				
Treasurer’s Investments	59.4	5.7	5.6	9.6%
Judicial Fees	279.6	63.7	58.4	22.8%
Insurance	71.4	3.4	3.2	4.8%
Disproportionate Share Receipts	115.0	–	–	0.0%
Total Nontax Revenues	410.4	72.8	67.2	13.9%

	Authorized Budget		Actual for Three Months Ended September		Percentage of Budget Realized/Expended for Three Months Ended September
	FY 2011-12 ¹	FY 2012 *	FY 2011		FY 2012
Total Tax and Nontax Revenues	\$18,513.1	\$4,553.4	\$4,412.3		24.6%
Transfers In:					
Highway / Highway Trust Fund	293.8	24.3	22.5		8.3%
Other transfers	335.0	110.4 ²	65.0 ³		33.0%
Total Transfers In	628.8	134.7	87.5		21.4%
Total Revenue and Transfers In	\$19,141.9	\$4,688.1	\$4,499.8		24.5%
Debt Proceeds	805.0	–	500.0		0.0%
Total Available Funds	\$21,911.2	\$6,652.4	\$5,807.5		30.4%
Expenditures					
Current Operations	\$18,976.8	\$4,371.7	\$3,950.4		23.0%
Capital Improvements:					
Funded by General Fund	11.2	–	–		0.0%
Funded by Debt Proceeds ⁴	805.0	–	500.0		0.0%
Debt Service	707.5	81.4	92.6		11.5%
Total Budgetary Expenditures	\$20,500.5	\$4,453.1	\$4,543.0		21.7%
Additional Expenditures/Transfers from/to Reserves	11.3 ⁵	47.2 ⁶	22.7 ⁷		417.7%
Total Expenditures	\$20,511.8	\$4,500.3	\$4,565.7		21.9%
Ending Fund Balance					
Unreserved	\$ 41.1	\$ 814.5	\$670.1		
Reserved	1,358.3	1,337.6 ⁸	571.9 ⁹		
Total Ending Fund Balance	\$ 1,399.4	\$ 2,152.1	\$1,242.0		

Source: Office of the State Controller

¹ As authorized by the 2011 Session (SL 2011-145) of the General Assembly. Amounts not updated for actual fiscal year 2011 results.

² Includes Other Non-Tax Revenue Transfers of \$110.4 million.

³ Includes \$53.9 million of Other Non-Tax Revenue Transfers and \$11.1 million Job Development Incentive Grants Reserve.

⁴ Represents debt issuances in the fiscal year.

⁵ Includes \$11.3 million Clean Water Trust Fund Expenditures.

⁶ Includes \$2.9 million Clean Water Trust Fund Expenditures, \$3.4 million Disaster Relief Reserve and \$40.9 Non-Reverting Departmental Funds.

⁷ Includes expenditures of \$12.5 million Clean Water and \$10.2 million Non-Reverting Departmental Funds.

⁸ Includes \$295.6 million "Rainy Day" Savings Reserve, \$3.6 Disaster Relief Budget Shortfall \$7.2 Job Development Incentive Grant and \$906.7 Non-Reverting Departmental Funds and Repairs and Renovations Reserve Account \$124.5.

⁹ Includes \$150 million "Rainy Day" Savings Reserve, \$41.3 million Disaster Relief Reserve \$14.2 Job Development Incentive Grant and \$366.4 Non-Reverting Departmental Funds.

* Preliminary (unaudited)

American Recovery and Reinvestment Act (ARRA)

The American Recovery and Reinvestment Act was enacted on February 17, 2009. The ARRA funds provide aid to states and the public in the current economic crisis by creating jobs, retaining jobs, and assisting states with their budget shortfalls. The bill

provides that funds be distributed over three years: 2009, 2010 and 2011. On this same date, Governor Perdue established the North Carolina Office of Economic Recovery and Investment (OERI) to coordinate the State's handling of ARRA funds and state-level economic recovery initiatives. By establishing this office, the Governor has helped to ensure that ARRA funds are to be fully accounted for in accordance with federal law. Over 85% of ARRA funds awarded to state agencies have been expended, with some ARRA grant end dates beyond 2011. To ensure continued accountability for the remaining ARRA funds, OERI duties will be transitioned into the Office of State Budget and Management (OSBM) in Fall 2011.

The General Assembly approved General Fund budget for expenditures for fiscal year 2011-12 is \$19,683.2 million and \$19,943.3 million for fiscal year 2012-13. Major categories for expenditures are as follows:

<u>Category</u>	<u>FY 2011-12 Amount¹</u>	<u>% of Total</u>	<u>FY 2012-13 Amount¹</u>	<u>% of Total</u>
Education	\$10,989.9	55.8	\$10,986.7	55.1
Health and Human Services	4,495.1	22.8	4,455.2	22.3
Justice and Public Safety	2,328.4	11.8	2,323.5	11.7
General Government/Natural and Economic Resources	811.0	4.1	762.4	3.8
Debt Service	690.6	3.5	761.6	3.8
Statewide Reserves/Capital	<u>368.2</u>	<u>1.9</u>	<u>654.1</u>	<u>3.3</u>
Total General Fund Appropriation	<u>\$19,683.2</u>	<u>100.0</u>	<u>\$19,943.3</u>	<u>100.0</u>

¹Amounts may not be exact due to rounding.

Hurricane Irene

On August 27, Hurricane Irene made landfall in eastern North Carolina. As of September 15, estimated losses total approximately \$425 million, of which \$320 million are related to agriculture and crop damage. Residents in 38 counties are eligible for federal individual assistance for recovery costs and 37 counties are eligible for federal public assistance including low-interest loans and grants to help individuals and public entities recover from Hurricane Irene. In addition, farmers in 42 counties are eligible for disaster assistance from the US Agriculture Department. The State will provide funds to satisfy the matching requirement for federal assistance. This 25% match requirement is only applied to the non-agriculture damage that has occurred, which at this point is approximately \$29.66 million (based on estimates of \$139.1 million in damage to non-agriculture entities). As with past hurricanes of this magnitude, it is anticipated the 25% match will be paid out over a number of fiscal years. The Governor, along with the State's Congressional delegation, are working to reduce the amount of the federal match requirement to a level below the 25%. Potential sources for this funding include \$ 6 million already contained in the FY 2011-12 budget for disaster relief and eligible reserves including the Savings Reserve Fund, the Repair and Renovation Reserve Fund as well as other sources from throughout the entire state budget.

Employment Security Commission Matters

In its most recent session, the State Legislature adopted an act that, among other things, makes certain changes in the State’s employment security laws, including in the administration of and qualification for unemployment benefits. Such changes were to be effective as of November 1, 2011. The U.S. Department of Labor informed the State that provisions in the legislation were not in conformity with the requirements of the Federal Unemployment Tax Act or other provisions of federal law. Pursuant to State law, after consultation with the Governor, the Chairman of the State Employment Security Commission moved to suspend the effectiveness of the sections of the law identified by the U.S. Department of Labor. The Legislature may or may not take further action in this matter.

The U.S. Department of Labor recently reported “improper payment” statistics for unemployment insurance by states. The rate reported for North Carolina was below the rates for 18 other states and not high enough to result in additional federal requirements.

Highway Fund and Highway Trust Fund

Prior Years (2009-10 Actual), (2010-11 Actual) and (2011-12 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 2009-10 and 2010-11 fiscal years and the authorized budget amounts for the 2011-12 fiscal year is presented below (in millions):

	Highway Fund (Expressed in Millions)		
	<u>Actual 2009-10</u>	<u>Actual 2010-11</u>	<u>Authorized 2011-12</u>
Beginning Balance, July 1	\$ 1,021.23	\$ 853.30	\$ 650.95
Revenue	1,829.08	1,925.02	2,049.20
GARVEE Bond Proceeds	263.14	.00	.00
Interfund Transfer (Highway Trust Fund) ¹	<u>39.74</u>	<u>37.25</u>	<u>.00</u>
Total Available Funds	3,153.19	2,815.57	2,700.15
Expenditures and Obligations			
Current Operations	1,835.13	1,672.20	2,404.48
GARVEE Bond Expenditures	146.38	165.22	2.00
Interfund Transfer (General Fund)	309.31	324.26	278.42
Capital Improvements	<u>9.07</u>	<u>2.94</u>	<u>15.25</u>
Total Expenditures and Obligations	<u>2,299.89</u>	<u>2,164.62</u>	<u>2,700.15</u>
Ending Fund Balance, June 30	<u>\$ 853.30</u>	<u>\$ 650.95</u>	<u>\$.00</u>

**Highway Trust Fund
(Expressed in Millions)**

	<u>Actual 2009-10</u>	<u>Actual 2010-11</u>	<u>Authorized 2011-12</u>
Beginning Balance, July 1	\$ (169.63)	\$ (18.94)	\$ 188.04
Revenue	916.64	977.85	1,115.41
Interfund Transfer (General Fund)	(152.68)	(105.78)	(76.72)
Interfund Transfer (NC Turnpike Authority)	<u>(25.00)</u>	<u>(52.57)</u>	<u>(64.00)</u>
Total Available Funds	569.33	800.56	1,162.73
Expenditures and Obligations			
Current Operations	<u>588.27</u>	<u>612.52</u>	<u>1,162.73</u>
Ending Fund Balance, June 30	<u>\$ (18.94)</u>	<u>\$ 188.04</u>	<u>\$.00</u>

(1) Includes transfers from the Highway Trust Fund and other small funds.

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.

<u>Fiscal Year</u>	<u>Assessed Valuation</u>			
	<u>Real Property</u>	<u>Tangible Personal Property</u>	<u>Public Service Company Property</u>	<u>Total</u>
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
2010-11	833,316,158,319	129,897,940,874	25,302,403,278	988,516,502,471

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 ⁽³⁾	0.81	9,386,573 ⁽³⁾	1.78	40,975 ⁽⁴⁾	35,501 ⁽⁴⁾	86.64
2010	308,745,538 ⁽³⁾	0.57	9,535,493 ⁽³⁾	1.65	40,584 ⁽⁴⁾	35,638 ⁽⁴⁾	87.81

- 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. Years 2001 through 2009 data will be subject to revision when 2010 Decennial Census is available.
 - 4 U.S. Bureau of Economic Analysis estimate.

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 2008-2010 and July 2011. 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 2008 through 2010 are unadjusted and data for July 2011 are seasonally adjusted.

**EMPLOYMENT DATA
FOR THE CALENDAR YEARS 2008 - 2010 and July 2011**

	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>August 2011</u>
Labor Force Data (People)				<i>Seasonally Adjusted</i>
Civilian Labor Force:	4,577,178	4,554,532	4,512,770	4,500,491
Employed	4,291,565	4,064,521	4,036,343	4,031,052
Unemployed	285,613	490,011	476,427	469,439
Unemployment Rate (%)	6.2	10.8	10.6	10.4
Jobs (Establishment Data):				
NORTH AMERICAN INDUSTRY CLASSIFICATION SYSTEM INDUSTRY TITLE				
TOTAL NONFARM	4,135,100	3,909,000	3,861,900	3,885,400
TOTAL PRIVATE	3,429,400	3,200,200	3,157,600	3,197,400
GOODS PRODUCING	758,600	646,100	612,800	608,700
Natural Resource Mining	6,600	5,900	5,600	5,600
Construction	236,000	192,400	176,000	169,600
Manufacturing	516,000	447,900	431,100	433,500
Durable Goods	277,100	231,600	221,400	223,400
Non Durable Goods	238,900	216,300	209,700	210,100
SERVICE PROVIDING	3,376,500	3,262,900	3,249,100	3,276,700
Trade, Trans, Warehousing & Utilities	769,000	720,500	710,600	718,400
Wholesale Trade	179,900	166,400	163,600	164,400
Retail Trade	462,900	437,500	433,100	440,500
Trans., Warehouse & Utilities	126,200	116,600	113,900	113,500
Information	72,200	69,800	68,200	68,900
Financial Activities	211,300	201,800	199,200	203,200
Professional and Business Services	501,700	466,300	481,000	498,600
Educational and Health Services	535,500	542,100	539,200	539,100
Leisure and Hospitality Services	405,000	392,700	390,400	405,700
Other Services	176,000	160,900	156,200	154,800
Government	705,700	708,800	704,300	688,000

All 2011 Labor Force and CES data for the current month are preliminary.

Estimates may not add to totals due to rounding.

Sources: NC ESC Labor Market Information; LAUS Annual 2008 - 2010, August 2011; CES Annual 2008 - 2010, August 2011.

North Carolina's September 2011 seasonally adjusted civilian labor force increased slightly over the month. The number of persons unemployed rose 0.21 percent to 473,937, as the unemployment rate rose 0.1 of a percentage point to 10.5 percent. This is the highest the rate has been since June 2010. The United States' seasonally adjusted civilian labor force increased 0.3 percent from August to September 2011. The number of persons unemployed increased 0.2 percent, while the unemployment rate was unchanged from the previous month at 9.1 percent.

Seasonally adjusted Total Nonfarm employment for July 2011 fell by 4,100 jobs over the month, but gained 4,400 jobs over the year to 3,868,100. Over the month, the following sectors experienced seasonally adjusted job growth: Professional & Business Services, 3,600; Trade, Transportation & Utilities, 1,900; Manufacturing, 1,300; Leisure & Hospitality Services, 700; Education & Health Services, 600; Information, 300; and Construction, 200. The following sectors reported over-the-month losses: Government, 11,000; Financial Services, 1,500; and Other Services, 200. Mining & Logging reported no change. The major sectors to report over-the-year seasonally adjusted job increases were: Leisure & Hospitality Services, 13,200; Professional & Business Services, 12,900; Trade, Transportation & Utilities, 10,300; Financial Activities, 4,800; Manufacturing, 2,300; and Information, 300.

MAJOR EMPLOYERS

The State's largest major private sector employers, ranked in order according to employment as of the first quarter of 2010 are listed below:

<u>2010</u>	<u>Employer</u>	<u>Type of Industry</u>
<u>Rank</u>		
1	Wal-Mart Associates Inc.	Retail Trade
2	Duke University	Educational Services/Health Services
3	Food Lion LLC	Retail Trade
4	Wells Fargo Bank N.A.	Finance Activities
5	Lowes Home Centers Inc.	Retail Trade
6	Bank of America Corporation	Finance Activities
7	Harris Teeter Inc.	Retail Trade
8	Smithfield Foods Inc	Manufacturing
9	International Business Machines	Manufacturing
10	Branch Banking & Trust	Financial Activities
11	United Parcel Service Inc.	Transportation
12	AT & T Services	Information
13	Target Corporation	Retail Trade
14	North Carolina Baptist Hospitals	Health Services
15	WakeMed Health & Hospitals	Health Services
16	US Airways Inc.	Transportation
17	Ingles Markets Inc.	Retail Trade
18	Lowes Food Stores	Retail Trade
19	Moses H. Cone Memorial Hospital	Health Services
20	Belk Inc.	Retail Trade
21	Memorial Mission Hospital Inc.	Health Services
22	Novant Health Corporation	Health Services
23	Progress Energy Carolinas	Utilities
24	Home Depot USA Inc.	Retail Trade
25	Britthaven Inc.	Health Services

Sources: North Carolina Employment Security Commission.

STATE INDEBTEDNESS

General Obligation Indebtedness

*General Obligation Indebtedness Outstanding*¹

<u>As of 6/30</u>	<u>Bonds (General)</u>	<u>Bonds (Highway)</u>	<u>Bonds (Total)</u>
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
2011*	4,381,500,280	464,704,720	4,846,205,000

*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 2001-02 through fiscal year 2011-12 –

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> <p>\$3,645,000 Clean Water Bonds, Series 2003B, 2.94 years average maturity, 2.8190% net interest cost.</p>

2003-04	<p>\$91,000,000 Refunding Bonds, Series 2003D, 2.66 years average maturity, 2.3396% true interest cost.</p> <p>\$235,710,000 Refunding Bonds, Series 2003E, 5.49 years average maturity, 3.2991% true interest cost.</p> <p>\$400,000,000 General Obligation Bonds, Series 2003, 10.14 years average maturity, 3.8298% true interest cost.</p> <p>\$707,900,000 Public Improvement Bonds, Series 2004A, 14.13 years average maturity, 3.928491% true interest cost.</p> <p>\$36,000,000 Natural Gas Bonds, Series 2004A, 3.00 years average maturity, 2.4798% true interest cost.</p> <p>\$15,255,000 Clean Water Bonds, Series 2004A, 2.957 years average maturity, 2.2783% net interest cost.</p>
2004-05	<p>\$300,000,000 Highway Bonds, Series 2004, 8.67 years average maturity, 3.5837% true interest cost.</p> <p>\$382,260,000 Refunding Bonds, Series 2004, 5.63 years average maturity, 2.9429% true interest cost.</p> <p>\$705,500,000 Public Improvement Bonds, Series 2005A, 12.84 years average maturity, 3.9753% true interest cost.</p> <p>\$106,985,000 Refunding Bonds, Series 2005A, 9.96 years average maturity, 3.4900% true interest cost.</p> <p>\$16,000,000 Natural Gas Bonds, Series 2005, 3.17 years average maturity, 3.5758% true interest cost.</p> <p>\$470,510,000 Refunding Bonds, Series 2005B, 8.74 years average maturity, 3.5386% true interest cost.</p>
2005-06	<p>\$70,000,000 Clean Water Bonds, Series 2006A, 11.17 years average maturity, 4.0859% true interest cost.</p> <p>\$300,000,000 Higher Education Bonds, Series 2006A, 10.5 years average maturity, 4.2434% true interest cost.</p>
2006-07	<p>\$502,745,000 Public Improvement Bonds, Series 2007A, 10.55 years average maturity, 4.0824% true interest cost.</p> <p>\$84,385,000 Refunding Bonds, Series 2007B, 15.4 years average maturity, 4.3520% true interest costs.</p>
2009-10	<p>\$371,920,000 Refunding Bonds, Series 2009A, 6.904 years average maturity, 2.2637% true interest cost.</p> <p>\$487,700,000 Public Improvement Bonds, Series 2010A, 10.52 years average maturity, 3.4798% true interest costs.</p>
2010-11	<p>\$472,595,000 Refunding Bonds, Series 2010B, 6.15 years average maturity, 1.72% true interest costs.</p> <p>\$302,150,000 Refunding Bonds, Series 2010C, 9.86 years average maturity, 2.38% true interest cost.</p>

General Obligation Bonds Authorized and Unissued

The State of North Carolina currently has no authorized but unissued general obligation indebtedness. The State Constitution permits additional general obligation bonds to be issued without a referendum to the extent of two-thirds of the amount by which the State's outstanding indebtedness (defined for this purpose as general obligation bonds) shall have been reduced during the preceding biennium.

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

The table below shows outstanding Special Indebtedness as of the end of the last five fiscal years. Bonds issued by the North Carolina Turnpike Authority, now a part of the State Department of Transportation, are not included since, while payable from annual appropriations for debt service from the General Assembly, such appropriations are to come from the Highway Trust Fund. See “**Related Matters - North Carolina Turnpike Authority**” hereafter.

	<u>As of 6/30</u>	<u>Total Debt Subject to Annual Appropriation</u>
	2007	\$972,685,000
	2008	1,200,925,000
	2009	1,744,630,000
	2010	1,668,350,000
	2011*	2,090,650,000

*unaudited

Debt issued: fiscal year 2002-03 through fiscal year 2011-12 –

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.
2010-11	\$500,000,000 Limited Obligation Bonds (Capital Improvements), Series 2011A, 12.24 year average maturity, 4.244087% all-in true interest cost.
2011-12	\$367,350,000 Limited Obligation Refunding Bonds, Series 2011B, 8.1 year average maturity, 2.625306% all-in true interest cost.
	\$400,000,000 Capital Improvement Limited Obligation Bonds, Series 2011C, 12.41 year average maturity, 3.522059% all-in true interest cost.

Authorized but Unissued at June 30, 2011

Purpose	Years Approved	Authorized but Unissued at June 30, 2011	2011C Bonds Offered Hereby	Remaining Balance Authorized but Unissued ^{1,2}
Psychiatric Hospitals	2003/06/09	\$218,017,597	\$107,681,925	\$110,335,672
Correctional Facilities	2003/06/07/08/09	56,140,697	18,728,056	37,412,641
University Projects	2004/06/07/08/09/ 10/11	471,708,285	199,693,579	272,014,706
Repairs and Renovations	2009/10/11	22,059,896	16,424,077	5,635,819
State Projects and Other	2006/07/08/09	87,900,566	57,472,363	30,428,203
		<u>\$855,827,041</u>	<u>\$400,000,000</u>	<u>\$455,827,041</u>

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 Bonds and Special Indebtedness

<u>Fiscal Year</u>	<u>General Obligation (includes Highway) Existing Debt</u>		<u>Special Indebtedness Existing Debt</u>		<u>Total Existing Debt</u> ^{1,2,3}	
	<u>Principal</u>	<u>Principal & Interest</u>	<u>Principal</u>	<u>Principal & Interest</u>	<u>Principal</u>	<u>Principal & Interest</u>
2011-12	\$375,705,000	\$607,634,281.10	\$91,555,000	\$202,079,148.94	\$467,260,000	\$809,713,430.04
2012-13	387,295,000	600,213,797.78	110,745,000	224,663,908.14	498,040,000	824,877,705.92
2013-14	384,260,000	578,021,260.44	112,990,000	221,790,427.51	497,250,000	799,811,687.95
2014-15	387,560,000	562,441,085.56	115,920,000	219,271,843.76	503,480,000	781,712,929.32
2015-16	388,010,000	543,749,566.52	119,080,000	216,789,281.26	507,090,000	760,538,847.78
2016-17	386,295,000	522,001,416.68	122,385,000	214,100,875.01	508,680,000	736,102,291.69
2017-18	386,765,000	504,676,066.80	126,220,000	211,869,118.76	512,985,000	716,545,185.56
2018-19	389,210,000	488,080,649.84	130,245,000	209,662,031.26	519,455,000	697,742,681.10
2019-20	356,180,000	436,614,749.84	149,500,000	222,136,806.26	505,680,000	658,751,556.10
2020-21	275,850,000	339,655,166.52	150,575,000	215,919,606.26	426,425,000	555,574,772.78
2021-22	256,690,000	307,767,600.00	154,615,000	212,571,806.26	411,305,000	520,339,406.26
2022-23	253,145,000	291,786,050.00	159,095,000	209,358,106.26	412,240,000	501,144,156.26
2023-24	227,385,000	254,375,212.50	165,095,000	208,103,343.76	392,480,000	462,478,556.26
2024-25	147,785,000	164,955,962.50	132,445,000	168,512,756.26	280,230,000	333,468,718.76
2025-26	85,785,000	96,519,812.50	124,815,000	154,661,656.26	210,600,000	251,181,468.76
2026-27	68,630,000	75,676,162.50	125,205,000	148,919,431.26	193,835,000	224,595,593.76
2027-28	40,885,000	45,037,750.00	120,520,000	138,629,606.26	161,405,000	183,667,356.26
2028-29	24,385,000	26,823,500.00	105,295,000	117,772,581.26	129,680,000	144,596,081.26
2029-30	24,385,000	25,604,250.00	63,145,000	70,526,637.50	87,530,000	96,130,887.50
2030-31	—	—	66,400,000	70,714,462.50	66,400,000	70,714,462.50
2031-32	—	—	<u>29,610,000</u>	<u>30,794,400.00</u>	<u>29,610,000</u>	<u>30,794,400.00</u>
	<u>\$4,846,205,000</u>	<u>\$6,471,634,341.08</u>	<u>\$2,475,455,000</u>	<u>\$3,688,847,834.74</u>	<u>\$7,321,660,000</u>	<u>\$10,160,482,175.82</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).

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>
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 ¹	6,913,895,000	736.57
2010	9,535,493 ¹	6,939,010,000	727.70
2011	9,735,890 ²	6,936,855,000	712.50

¹ U.S. Census Bureau estimate.

² Estimate of State Demographer.

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>
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
2010	822,160,000	40,313,496,000	2.04

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.

Related Matters

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, including Special Indebtedness or similar bonds.

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.

Refunding Bonds

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

Advances to the Employment Security Commission

The State has borrowed from the Federal Unemployment Account (FUA) as described in Note 8, "Long-Term Debt" in the Notes to the Financial Statements included in Appendix B (which shows the June 30, 2010 amounts), and has continued to borrow for the purposes described therein in the current fiscal year. At October 20, 2011 the outstanding amount borrowed from the FUA was \$2.591 billion. The State made an interest payment on September 30, 2011, of approximately \$78.45 million from the State's surcharge reserve. The next interest payment is due on September 30, 2012.

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 \$287.6 million and \$242.5 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. See also **“REVENUE BONDS AND OTHER INDEBTEDNESS OF STATE AUTHORITIES AND INSTITUTIONS”** hereafter.

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 June 30, 2011 a total of \$128,001,357 of such contracts had been entered into.

Swap Agreements Relating to General Obligation Bonds

The State has previously entered into various interest rate swap agreements. See Note 7. “Derivative Instruments” in Appendix B hereto for a more complete description of such interest rate swap agreements and the State’s obligations thereunder.

North Carolina Turnpike Authority

The North Carolina Turnpike Authority, a part of the Department of Transportation (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. The General Assembly has 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 Turnpike Authority for its Turnpike Projects and for certain related purposes. The Turnpike Authority has issued approximately \$856.7 million (\$622.8 million Triangle Expressway System Bonds and \$233.9 Monroe Connector System Bonds) in such bonds supported in part by legislative commitments of \$25 million annually for the Triangle Expressway System and \$24 million annually for the Monroe Connector System. The Turnpike Authority has adopted a resolution with the intention of issuing additional bonds for the Monroe Connector System in an aggregate principal amount of up to \$260,000,000 in 2011. The specific amounts and timing of these or other Turnpike Authority issues has not been established.

Capital Financing Outlook

The State has authorized but unissued debt subject to annual appropriation of approximately \$455.8 million (does not include North Carolina Turnpike Authority), 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” above for the intention to issue debt subject to annual appropriation from the Highway Trust Fund.

**REVENUE BONDS AND OTHER INDEBTEDNESS OF STATE
AUTHORITIES AND INSTITUTIONS
AT JUNE 30, 2011**

The following chart outlines the revenue bonds and other indebtedness of State authorities and institutions at June 30, 2011. The State is not responsible for debt service on any of the revenue bonds and other indebtedness represented in this chart.

Appalachian State University	\$255,060,596
East Carolina University	167,675,971
Elizabeth City State University	33,114,520
Fayetteville State University.....	5,693,403
North Carolina A & T State University	12,090,000
North Carolina Central University.....	97,261,106
North Carolina School of the Arts	8,755,000
North Carolina State University at Raleigh.....	390,457,868
University of North Carolina at Asheville	45,556,607
University of North Carolina at Chapel Hill.....	1,334,349,002
University of North Carolina at Charlotte.....	243,075,467
University of North Carolina at Greensboro.....	192,250,835
University of North Carolina at Pembroke.....	31,700,496
University of North Carolina at Wilmington	251,997,269
Western Carolina University.....	106,314,591
Winston-Salem State University.....	66,887,073
North Carolina Capital Facilities Finance Agency	2,807,644,119
North Carolina Eastern Municipal Power Agency.....	2,254,510,000
North Carolina Housing Finance Agency.....	1,333,130,000
North Carolina Medical Care Commission.....	7,297,062,952
North Carolina Municipal Power Agency No. 1	1,541,085,000
North Carolina State Education Assistance Authority	3,298,344,900
North Carolina State Ports Authority	100,577,790
Total.....	\$21,874,594,520

Source: Chief fiscal officer of each authority or institution.

RETIREMENT AND PENSION PLANS

General

The State reports a number of defined benefit public employee retirement plans and two defined contribution plans administered by the State. There are other defined contribution plans administered by a third party under the auspices of the State. The State may or may not make supplementary contributions to these plans. Although the assets of the administered plans are commingled for investment purposes, each plan's assets may be used only for payment of benefits to the members of the plans and for related administrative costs. The State also provides an optional retirement plan for certain university employees and a special separation allowance for eligible sworn law enforcement officers.

Actuarial valuations are used to determine contribution rates for the plans. The State has used 7.25% as the estimated future investment return for the plans for a number of years in making such valuations. The unfunded accrued actuarial liability is a measure of the present value of benefits estimated to be due in the future for current or past employees given assumptions as to mortality, pay levels, retirement experience and employee turnover, less the present value of assets available to pay those benefits given assumptions including normal cost and member contributions. Such determinations result in the calculation of an expected contribution amount (known as the “annual required contribution” or “ARC”) for the State. The level of the contribution amount in later years depends on actual investment return, whether the various other assumptions as to expenditures from the plans correspond to actual facts and whether the State has contributed the complete ARC in intervening years.

Each of the following three defined benefit plans involves employees of the State:

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 at December 31, 2010 amounted to 324,683 (unaudited), and in addition, there were 102,149 inactive members. Annuitants for December 31, 2010 totaled 163,938 (unaudited). 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, 2011, the system is funded by a member contribution of 6% of compensation and an employer contribution of 7.44%, in addition to investment income. The plan does not provide for automatic post-retirement benefit increases. Increases are contingent on actuarial gains of the plan. See “Annual Required Contributions” hereafter.

Consolidated Judicial Retirement System – Membership is comprised of judges, district attorneys and clerks of court. Total active member accounts at December 31, 2010 amounted to 566 (unaudited) and in addition, there were 48 inactive members. Annuitants for December 31, 2010 totaled 543 (unaudited). 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, 2011 the system is funded by a member contribution of 6% of compensation and an employer contribution of 25.05% of covered payroll, in addition to investment income. The plan does not provide for automatic post-retirement benefit increases. Increases are contingent on actuarial gains of the plan.

Legislative Retirement System – Membership is comprised of members of the General Assembly. Total active member accounts estimated at December 31, 2010 amounted to 169 (unaudited), and in addition, there were 77 inactive members. Annuitants for December 31, 2010 totaled 258 (unaudited). Benefits accrue at the rate of 4.02% of final compensation for each year of service. For the fiscal year beginning July 1, 2011 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, 2011 because the plan had a market value in excess of its liabilities. The plan does not provide for automatic post-retirement benefit increases. Increases are contingent on actuarial gains of the plan.

Annual Required Contributions

Effective July 1, 2010, for the Teachers' and State Employees' Retirement System, the State established an employer contribution rate of 4.93% of compensation. Of this, 1.36% was held until a determination was made as to whether federal funds for Medicaid would be received by the State. In August, 2010, those funds were authorized and the 1.36% and all subsequent payments were made to the Retirement System. This was 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 were also less than the respective annual required contributions. Absent unexpected investment returns or other facts at variance with current assumptions, not making the amounts calculated as the ARC should have resulted in the continued existence of an unfunded accrued actuarial liability as of June 30, 2011.

Effective July 1, 2011, for the Teachers' and State Employees' Retirement System, the State established an employer contribution rate of 7.44% of compensation. The annual required contribution was calculated at 7.94%, based on a nine year amortization, but the amortization period was extended from 9 to 12 years, thus allowing the 7.44% employer contribution rate to meet the full annual required contribution.

For more information see Note 12: Retirement Plans in the Notes To The Financial Statements and the table entitled "REQUIRED SUPPLEMENTARY INFORMATION, SCHEDULES OF FUNDING PROGRESS, ALL DEFINED BENEFIT PENSION TRUST FUNDS" in Appendix B.

Financial and Statistical Data

The following financial and statistical data represent a consolidation of the three retirement systems with State employee members for the four years ending December 31, 2010.

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

	2007	2008	2009	2010
Receipts:				
Employee Contribution	\$803.5	\$853.7	\$851.1	\$840.7
Employer Contribution	396.7	517.3	501.7	593.7
Investment Earnings	4,639.0	(11,358.5)	6,688.6	5,717.4
Other	4.6	3.0	1.7	5.3
Total	\$5,843.8	(\$9,984.5)	\$8,043.1	\$7,157.1
Disbursements:				
Benefit	\$2,835.5	\$3,022.8	\$3,168.9	\$3,306.8
Refunds	76.9	74.7	69.1	82.3
Other	15.2	14.0	12.0	10.8
Total	\$2,927.6	\$3,111.5	\$3,250.0	\$3,399.9
Excess of Income over Disbursements	\$2,916.2	(\$13,096.0)	\$4,793.1	\$3,757.2
Net Assets	\$59,112.0	\$46,016.0	\$50,809.2	\$54,566.4
Actuarial Value of Assets ^{1,4}	\$55,744.2	\$55,591.3	\$56,287.9	\$57,583.0
Actuarial Value of Accrued Liabilities ⁴	(\$53,256.1)	(\$55,983.8)	(\$58,676.7)	(\$60,393.0)
Difference ^{2,3}	2,488.1	(392.5)	(2,388.8)	(2,810.0)
Ratio of Assets to Liabilities ³	1.05	0.99	0.96	0.95

¹ Actuarial Value of Assets is 5 year smoothed market.

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

³ The table aggregates the three defined benefit plans involving State employees.

⁴ 2010 unaudited.

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

For the fiscal year ending June 30, 2011, the investment performance for the North Carolina pension fund returned 18.48 percent compared with a return in the S&P 500 index of 30.69 percent. The market value of pension fund assets was \$74.9 billion compared to \$65.3 billion on June 30, 2010.

Other Plans

In addition to the above-defined benefit retirement plans, the State administers the following pension and retirement plans. All are defined benefit plans except for the Sheriff's Supplemental Pension Plan which is a defined contribution plan.

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 38,484 at June 30, 2010. Pensioners as of June 2010 totaled 11,298. 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, 2010 totaled 3,889. The plan is funded by an actuarially-based 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 \$18,600 were being paid to 12 annuitants for the calendar year ended December 2010. The State appropriates annually the amount necessary to pay benefits due for each year.

Sheriffs' Supplemental Pension Fund – This plan is a defined contribution plan established by the State to provide supplemental pension benefits for all eligible, retired county sheriffs. Membership is comprised of sheriffs who are retired from the Local Governmental Employees' Retirement System and beneficiaries that meet the statutory eligibility requirements. At June 30, 2011, there were 91 sheriffs and 0 beneficiary enrolled in the plan with all 100 of the State's counties eligible to participate.

An individual's benefits for the year are calculated as a share of accumulated contributions available for benefits for that year, subject to certain statutory limits. An individual's eligibility is based on minimum years of service as a sheriff with the individual's share increasing with years of service. Because of the statutory limits noted above, not all contributions available for benefits are distributed. The North Carolina Department of Justice administers the plan. If the plan purchases any investments, they are held as part of the State Treasurer's Investment Pool. The State's only cost in the plan is administration.

Receipts collected by each county's Clerk of Superior Court under General Statutes 7A-304(a)(3a), along with investment income, support the plan's benefits and administrative expenses. Sheriffs do not contribute to the plan. For the fiscal year ended June 30, 2011, the Clerks remitted \$1,155,660.74 (unaudited). All benefit and contribution provisions are established by Chapter 143, Article 12H of the General Statutes and may be amended only by the North Carolina General Assembly.

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, 2011 the normal employer contribution rate was 6.88% while the contribution rate for employers of law enforcement members was 7.35%. Effective October 1, 2011, the rate will again increase to 7.36%. 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, 2009 there were 84 retired Registers of Deeds in receipt of benefits at an annual cost of \$1,486,314. The State's ARC for the current fiscal year is zero.

As of December 31, 2009, the total calculated unfunded actuarial accrued liability of the defined benefit plans other than the three plans in the table above was approximately \$157.65 million, less than 1% of the asset value in the plans which had an unfunded liability.

OTHER POST-EMPLOYMENT BENEFITS

The State administers two post-employment benefit plans, the Retiree Health Benefit fund and the Disability Income Plan. Although the assets of the administered plans are commingled for investment purposes, each plan's assets may be used only for payment of benefits to the members of the plans and for related administrative costs. For more information see Note 14: Other Postemployment Benefits in the Notes to the Financial Statements and the table entitled "REQUIRED SUPPLEMENTARY INFORMATION, SCHEDULES OF FUNDING PROGRESS, OTHER POSTEMPLOYMENT BENEFITS" in Appendix B.

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 2007-08), 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 2007-08, 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. See Note 14 to the financial statements in Appendix B for more information on these benefit plans.

State contributions to such plans depend on actual investment return, whether the various other assumptions as to expenditures from the plans correspond to actual facts and what amounts in excess of the payment of current costs, if any, the State has contributed in intervening years.

Retiree Health Benefit

Aon Consulting completed the fourth actuarial valuation of retiree health benefits plan as of December 31, 2010. 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 \$33.495 billion for the retiree healthcare plan (\$32.839 billion unfunded), with an annual required contribution of \$2.911 billion. In the aggregate for the 2010-11 fiscal year, the participating employers in the retiree healthcare plan funded OPEB costs of \$743.659 million (unaudited).

For the fiscal year 2010-11, the State and its Component Units, as employers in the cost-sharing, multiple employer plan, funded OPEB costs of \$365 million (unaudited) 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 North Carolina State Health Plan for Teachers and State Employees (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 was as of December 31, 2010, except for certain information as of a certain date.

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 \$498.5 million (unaudited) for the plan of which \$120.5 million (unaudited) is unfunded, with an ARC of \$67.8 million for the 2010-11 fiscal year. As stated in the Buck report, in aggregate for the 2010-11 fiscal year, the participating employers in the disability income plan funded OPEB costs of \$76.7 million (unaudited).

For the fiscal year 2010-11, the State, as one employer in the cost-sharing multiple employer plan, funded OPEB costs of \$38.7 million (unaudited) 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

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 reopen 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 \$749.866 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. See Note 8: Long-Term Liabilities and Note 22: Commitments and Contingencies in the Notes To The Financial Statements in Appendix B.

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 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.

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 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. 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). The Department of Revenue has filed a motion to dismiss, which was granted by the trial court. Plaintiffs have appealed to the Court of Appeals.

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

**NOTES 26 FROM STATE OF NORTH CAROLINA
JUNE 30, 2010 FINANCIAL STATEMENTS**

DATED AS OF NOVEMBER 2, 2011

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**NOTE 26: EVENTS AND ADDITIONAL DISCLOSURES SUBSEQUENT TO THE
ISSUANCE OF THE ORIGINAL INDEPENDENT AUDITOR'S REPORT**

A. Litigation

Primary Government

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 and 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 filed a motion to dismiss, which was granted by the trial court on March 8, 2011. Plaintiffs have appealed to the Court of Appeals. The amount at issue is not readily calculable, but it is likely to be in excess of \$20 million dollars.

B. Disaster Relief

Primary Government

Hurricane Irene

On August 27, 2011, Hurricane Irene made landfall in eastern North Carolina. As of September 15, 2011, estimated losses total approximately \$425 million, of which \$320 million are related to agriculture and crop damage. Residents in 38 counties are eligible for federal individual assistance for recovery costs and 37 counties are eligible for federal public assistance including low-interest loans and grants to help individuals and public entities recover from Hurricane Irene. In addition, farmers in 42 counties are eligible for disaster assistance from the United States Agriculture Department. The State will provide funds to satisfy the matching requirement for federal assistance. This 25% match requirement is only applied to the non-

agriculture damage that has occurred, which at this point is approximately \$29.66 million (based on estimates of \$139.1 million in damage to non-agriculture entities). As with past hurricanes of this magnitude, it is anticipated the 25% match will be paid out over a number of fiscal years. The Governor, along with the North Carolina Congressional delegation, is working to reduce the amount of the federal match requirement to a level below the 25%. Potential sources for this funding include \$6 million already contained in the Fiscal Year 2011-12 budget for disaster relief and eligible reserves including the Savings Reserve Fund, the Repair and Renovation Reserve Fund, as well as other sources from throughout the entire state budget.

C. Bonds and Other Similar Debt

Primary Government

Capital Improvement Limited Obligation Bonds

On February 16, 2011, the State issued \$500 million of Capital Improvement Limited Obligation Bonds, Series 2011A with a true interest cost of 4.23%. The bonds are dated February 16, 2011, and bear interest from that date. Interest on the bonds will be payable semiannually on each May 1 and November 1 commencing November 1, 2011. The bonds will mature, subject to redemption provisions, from May 1, 2012 to May 1, 2031 inclusive, and were issued at coupon rates ranging from 3% to 5.25%. The bonds were issued pursuant to the provisions of Session Laws 2003-284 of the North Carolina General Assembly and the State Capital Facilities Finance Act, Article 9 of Chapter 142 of the North Carolina General Statutes, as amended (the "State Capital Facilities Finance Act") and in accordance with the provisions of various Session Laws including most recent Session Law 2010-31 (the "Projects Acts"), a resolution of the North Carolina Council of State and the approval of the State Treasurer. The bonds were issued for the purpose of providing funding in varying amounts for the

authorized capital projects and to pay certain costs incurred in connection with the execution and delivery of the bonds.

Limited Obligation Refunding Bonds

On October 26, 2011, the State issued \$367.4 million in Limited Obligation Refunding Bonds, Series 2011B with an average coupon interest rate of 4.95% and a true interest cost of 2.61%. The bonds are dated October 26, 2011, and bear interest from that date. Interest on the bonds will be payable semiannually on each May 1 and November 1 commencing May 1, 2012. The bonds will mature, subject to redemption provisions, from November 1, 2014 to May 1, 2023 inclusive, and were issued at coupon rates ranging from 4% to 5%. The proceeds of the Series 2011B Bonds were used to refund \$139.3 million Lease-Purchase Revenue Bonds (North Carolina Correctional Facilities Projects), Series 2003, \$10.7 million Certificates of Participation, Series 2003A, \$24.8 million Lease-Purchase Revenue Bonds (North Carolina Facilities Projects), Series 2004, \$71.5 million Certificates of Participation (State of North Carolina Correctional Facilities Projects), Series 2004A, \$59.0 million Certificates of Participation (Repairs and Renovations Projects), Series 2004B, \$77.2 million Certificates of Participation (State of North Carolina Capital Improvements), Series 2005A. The net proceeds of the refunding bonds 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 will be removed from the statement of net assets. The refunding was undertaken to reduce total debt service payments by \$27.3 million over the next 13 years and resulted in an economic gain of \$22.2 million. At October 26, 2011 the outstanding balance for the defeased bonds was \$382.5 million.

Federal Repayable Advances

For the period July 1, 2010 through October 24, 2011, the State received repayable advances from the Federal Unemployment

Account (FUA) in the amount of \$1.78 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 was interest free through December 31, 2010. Interest began accruing January 1, 2011 at an interest rate of 4.09%. The interest of \$78.45 million was paid at the end of September 2011 from the State's surcharge reserve. The advances can be repaid from the unemployment tax contributions. Since July 1, 2010 total revenue collected from unemployment tax contributions was \$1.33 billion which was used entirely to pay down the principal on the advances. Meanwhile, the unemployment benefits continue to be paid from the FUA advances. At October 24, 2011, the outstanding balance of the FUA advances was approximately \$2.60 billion.

Component Units

University of North Carolina at Chapel Hill – Commercial Paper

The University of North Carolina at Chapel Hill issued \$10 million in commercial paper on February 1, 2011, \$10 million in commercial paper on April 8, 2011, \$10 million in commercial paper on June 6, 2011 and \$10 million in commercial paper on August 12, 2011 through the commercial paper program in short-term financing. Commercial paper 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.

North Carolina State University – Installment Financing

On December 17, 2010, North Carolina State University issued a \$56 million tax-exempt installment financing contract. This agreement is dated December 17, 2010, and will bear interest at 4.07% from that date. Principal and interest on the financing will be payable monthly, from energy savings, commencing July 17, 2012 and will mature on August 17, 2028. The financing was issued to

State of North Carolina

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provide funds for energy conservation measures at two steam and chilled water central distribution facilities to improve energy efficiency and reliability.

University of North Carolina at Greensboro – General Revenue Bonds and Revenue Refunding Bonds

On September 29, 2011, the University of North Carolina at Greensboro issued \$73.34 million in Series 2011 tax-exempt General Revenue Bonds (General Revenue bonds) and \$4.17 million in Series 2011 Revenue Refunding bonds (Revenue Refunding bonds) with an average interest rate of 4.32%. These bonds are dated September 29, 2011, and will bear interest from that date. Interest on both of the bonds will be payable semiannually on each October 1 and April 1, commencing April 1, 2012. The bonds will mature from April 1, 2012 to April 1, 2036, and were issued at coupon rates ranging from 2% to 5%. The General Revenue bonds were issued to provide funds for the renovation of seven Quad Dormitories and the renovation of the Dining Hall. The Revenue Refunding bonds were issued to advance refund \$4.22 million of outstanding 2002A University of North Carolina System Pool Revenue Bonds with an average interest rate of 5.14%. The net proceeds of the refunding bonds along with other resources were used to purchase 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 will be removed from the statement of net assets. This advance refunding was undertaken to reduce total debt service payments by \$580.5 thousand over the next 16 years and resulted in an economic gain of \$442.96 thousand.

University of North Carolina at Greensboro - Line of Credit

The Capital Facilities Foundation, Inc., a blended component unit of the University of North Carolina at Greensboro, closed on a line of credit for \$67 million from SunTrust Bank on November 2, 2011 and an initial draw against the line in the amount of \$15.99

million was made on that date. The proceeds from the line of credit will be used to pay costs to construct an 800 bed student housing facility and to retire an existing line of credit with RBC Bank used to purchase land. This line of credit is secured by the Capital Facilities Foundation, Inc. assignment of base rentals from the project to SunTrust Bank. The interest rate is set on the 1st business day of each month and is calculated by taking 75% of the 1 month London Interbank Offered Rate (LIBOR) rate plus 124 basis points.

University of North Carolina at Charlotte – Build America Bonds

On November 17, 2010, the University of North Carolina at Charlotte issued \$40.9 million in Series 2010 taxable Build America Bonds. These bonds are dated December 2, 2010, and will bear interest from that date. The University of North Carolina at Charlotte has elected to treat the Series 2010 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 2010 bonds for an effective yield of 4.03%. Interest on the bonds will be payable semiannually on each October 1 and April 1, commencing April 1, 2011. The bonds will mature from April 1, 2011 to April 1, 2040 and were issued at coupon rates ranging from 1.49% to 6.52%. The bonds were issued to provide funds for construction and equipping a football complex and related facilities.

University of North Carolina at Asheville – Build America Bonds

On November 30, 2010, the University of North Carolina at Asheville issued \$26.16 million in Series 2010 taxable Build America Bonds. These bonds are dated December 16, 2010, and will bear interest from that date. The University of North Carolina at Asheville has elected to treat the Series 2010 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 2010 bonds for

State of North Carolina

NOTES TO THE FINANCIAL STATEMENTS

an effective yield of 4.18%. Interest on the bonds will be payable semiannually on each December 1 and June 1, commencing June 1, 2011. The bonds will mature from June 1, 2013 to June 1, 2040 and were issued at coupon rates ranging from 2.4% to 6.77%. The bonds were issued to provide funds for new construction and renovation of existing student housing.

Appalachian State University – General Revenue Bonds

On June 2, 2011, Appalachian State University issued \$60.44 million in Series 2011 tax exempt General Revenue Bonds. These bonds are dated June 2, 2011, 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, 2011. The bonds will mature from Oct 1, 2012 to October 1, 2036 and were issued at coupon rates ranging from 2% to 5%. The bonds were issued to provide funds for the construction of the student union expansion, an honors residence hall, student leadership annex, and a steam and chilled water tunnel.

University of North Carolina Hospitals – Revenue Bonds and Build America Bonds

On November 23, 2010, the Board of Governors of the University of North Carolina System (the Board) issued \$5.59 million in University of North Carolina Hospitals at Chapel Hill Series 2010A tax-exempt Revenue Bonds (the 2010A bonds) and \$43.29 million in University of North Carolina Hospitals at Chapel Hill Series 2010B taxable Build America Revenue Bonds (the 2010B bonds). These bonds are dated November 23, 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 Series 2010B bonds for an effective yield of 3.67%. Interest on both bonds will be payable semiannually on each February 1 and August 1, commencing February 1, 2011. The 2010A bonds will mature from February 1, 2012 to February 1,

2014 and were issued at coupon rates ranging from 3% to 4%. The 2010B bonds will mature from February 1, 2015 to February 1, 2031 and were issued at coupon rates ranging from 2.45% to 6.33%. The 2010A and 2010B bonds were issued to provide funds for the expansion, renovation and equipping of University of North Carolina Hospitals’ Ambulatory Care Center and the acquisition, construction and equipping of University of North Carolina Hospitals’ Imaging and Outpatient Center. The remaining balance, if any, will fund general hospital renovations and equipment.

North Carolina Housing Finance Agency – Home Ownership Revenue Bonds

On August 25, 2011, the North Carolina Housing Finance Agency issued \$34 million in tax-exempt Series 1 Home Ownership Revenue Bonds and \$51 million in tax-exempt Series A-1 Home Ownership Revenue Bonds. The Series A-1 Home Ownership Revenue Bonds were converted from an existing series, Series A Home Ownership Revenue Bonds, which were sold in December 2009. These bonds are dated August 25, 2011, and will bear interest from that date. Interest on the bonds will be payable semiannually on each January 1 and July 1, commencing January 1, 2012. The bonds will mature from January 1, 2012 to July 1, 2028 and were issued at coupon rates ranging from .25% to 4.5%. The bonds were issued to provide funds for the purchase of mortgage loans.

State Education Assistance Authority – Taxable Student Loan Backed Notes

On October 12, 2010, the State Education Assistance Authority (the Authority) issued \$438 million in Series 2010-1 taxable Student Loan Backed Notes with a variable interest rate based on the three month London Interbank Offered Rate (LIBOR) plus .90%. The initial interest rate was 1.21%. Quarterly principal and interest payments will be made primarily from collection on a pool of student loans beginning January 25, 2011. While the final stated

maturity date is July 25, 2041, the Authority has forecast a payout by January 25, 2031.

On March 8, 2011, the Authority issued \$445 million in Series 2011-1 taxable Student Loan Backed Notes in three tranches with variable interest rates based on the three month London Interbank Offered Rate (LIBOR) plus .45% and .90%. The initial average interest rate was 1.18%. Quarterly principal and interest payments will be made primarily from collection on a pool of student loans beginning July 25, 2011. While the final stated maturity is October 25, 2041, the Authority has forecast a payout by July 25, 2030.

On June 2, 2011, the Authority issued \$516 million in Series 2011-2 taxable Student Loan Backed Notes in three tranches with a

variable interest rates based on the three month London Interbank Offered Rate (LIBOR) plus .45% and .80%. The initial average interest rate was .99%. Quarterly principal and interest payments will be made primarily from collection on a pool of student loans beginning October 25, 2011. While the final stated maturity date is July 25, 2036, the Authority has forecast a payout by April 25, 2026.

The refunding component of these issues was used for a current refunding of \$1.37 billion of outstanding taxable and tax-exempt Student Loan Revenue Bonds with an average interest rate of 1.98%. The refunding was undertaken to reduce total debt service payments by \$317.9 million over the next 21 years and resulted in an economic gain of \$277.26 million.

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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*” or “*Additional Appropriation 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.

“*Appropriation Bonds*” means the Series 2010A Bonds, the Series 2011 Bonds and any Additional Bonds.

“*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, the Series 2011 Bonds and any Additional Bonds.

“*Bond Order*” means the bond order of the Authority with respect to the Series 2011 Bonds adopted on November 14, 2011, 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 July 1 or if such July 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*” or “*Bonds*” means Series 2010A 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 elected to treat 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.

“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.

“Depository” 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 depository 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.

“First Supplemental Trust Agreement” means the First Supplemental Trust Agreement dated as of November 1, 2011, between the Authority and the Trustee.

“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.

“GARVEE Act” means Section 136-18(23b) of the NCGS.

“GARVEE Bonds” means the State of North Carolina Grant Anticipation Revenue Vehicle Bonds, Series 2011A, in the approximate principal amount of \$160,000,000 to be issued not later than the first quarter, 2012.

“GARVEE Matching Funds” means the amounts paid by NCDOT for costs of the Initial Project as required by USDOT for GARVEE Act funding and not otherwise financed.

“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.

“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, the Series 2011 Bonds or Additional Bonds or Revenue Bonds, 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, 2012, 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.

“Original Trust Agreement” means the Trust Agreement dated as of October 1, 2010, between the Authority and the Trustee.

“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.

“*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.

“*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” or *“Toll 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 \$233,920,000 Monroe Connector System State Appropriation Revenue Bonds, Series 2010A (Federally Taxable - Build America Bonds), issued pursuant to the Original Trust Agreement.

“Series 2011 Bonds” means the North Carolina Turnpike Authority \$214,505,000 Monroe Connector System Appropriation Revenue Bonds, Series 2011.

“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 July 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 July 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 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 2011 Bonds, the Series 2011 Bonds maturing July 1, 2036 (bearing interest at 5.0%), 2036 (bearing interest at 4.25%) and 2041, and means with respect to any Additional Bonds, any Bonds so designated as Term Bonds in the Supplemental Trust Agreement.

“Toll 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 Appropriation Bonds or Additional Bonds, or if such instrument shall be defeased by debt issued under a successor instrument, such successor instrument.

“Trust Agreement” means the Trust Agreement, the First Supplemental Trust Agreement and any other 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) 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; 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

Use of Proceeds in Project Fund. Proceeds deposited in the Project Fund shall be used to pay Costs of the Project provided proceeds of the Bonds may be used to reimburse NCDOT for interest paid on GARVEE Bonds and for GARVEE Matching Funds.

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 the Bonds or the

status of the Series 2010A 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.

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 beginning on the date of issuance of the Series 2010A Bonds (October 26, 2010), 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 Series 2010A 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 Toll Revenue Bond Trust Agreement Revenue Fund.

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 Toll Revenue Bond Trust Agreement.

The Authority shall be permitted to retain from the amount to be transferred to the Toll 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 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 July 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 July 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 July 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 July 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

July 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 July 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) Upon issuance of the Series 2010A Bonds, the Authority funded 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 Depositaries 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 Depository 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 Depository 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 Depository 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 Depository 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 Depository 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 Depositories, 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 subaccounts 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 Depository 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 Depository shall then invest such money as so directed. The Trustee or any Depository 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 Depository 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 subaccounts 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. 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.

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, as a result of the ownership, control or operation of the Monroe Connector System 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 Depository (other than a Depository 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 of 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,

(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.

Supplements to Supplemental Agreement. Under the First Supplemental Trust Agreement, provisions similar to those set forth in the subsection “Supplemental Agreements” apply to supplements to the First Supplemental 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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HUNTON & WILLIAMS LLP
POST OFFICE BOX 109
RALEIGH, NORTH CAROLINA 27602

TEL 919 • 899 • 3000
FAX 919 • 833 • 6352

November 30, 2011

Board of Directors
North Carolina Turnpike Authority
Raleigh, North Carolina

North Carolina Turnpike Authority
\$214,505,000 Monroe Connector System
State Appropriation Revenue Bonds, Series 2011

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 \$214,505,000 Monroe Connector System State Appropriation Revenue Bonds, Series 2011 (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 November 14, 2011, authorizing the issuance of the Bonds (the "Bond Order"), a Trust Agreement, dated as of October 1, 2010 (the "Original Trust Agreement"), between the Authority and Wells Fargo Bank, N.A., as trustee (the "Trustee"), as supplemented by a First Supplemental Trust Agreement dated as of November 1, 2011 (the "First Supplemental Trust Agreement" and, with the Original Trust Agreement, the "Trust Agreement"), 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"), and (b) to pay costs incurred in connection with the issuance of the Bonds. The Bonds are equally and ratably secured, with the Authority's \$233,920,000 Monroe Connector System State Appropriation Revenue Bonds, Series 2010A (Federally Taxable -

Build America Bonds) (the “Series 2010A Bonds”) issued under the Original Trust Agreement (the Bonds and the Series 2010A Bonds are referred to as the “Appropriation Bonds”), 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 Series 2010A Bonds (the “Revenues”). Additional bonds secured as to the lien on Revenues on a parity with the Appropriation Bonds may 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 has been duly adopted. The Trust Agreement has been duly executed and delivered by the Authority and constitutes a valid and legally binding agreement of the Authority, enforceable against the Authority in accordance with its terms. The Trust Agreement assigns and pledges the Revenues to the Trustee.

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, including accrued original issue discount (“OID”), (a) is not included in gross income for Federal income tax purposes and (b) is not an item of tax preference but is taken into account in determining adjusted current earnings for purposes of the Federal alternative minimum income tax imposed on individuals and corporations. Failure of the Authority to comply with the Covenants could

cause interest on the Bonds to be included in gross income for Federal income tax purposes retroactively to their date of issue. In the case of the Bonds maturing on July 1, 2022 (bearing interest at 3.000%), 2023 (bearing interest at 3.125%), 2031 (bearing interest at 4.000%), and 2036 (bearing interest at 4.250%) (the "OID Bonds"), the difference between (i) the stated principal amount of each maturity of such Bonds and (ii) the initial offering price to the public (excluding bond houses and brokers) at which a substantial amount of such maturity is sold, will constitute OID; OID will be accrued for federal income tax purposes on a constant yield-to-maturity method; and a holder's basis in such a Bond will be increased by the amount of OID treated for federal income tax purposes as having accrued on the Bond while the holder holds the Bond. 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, including OID, 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 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 November 9, 2011, or the Official Statement dated November 17, 2011, 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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