

oOo

NORTH CAROLINA
STATE EDUCATION ASSISTANCE AUTHORITY

Financial Statements

June 30, 2000 and 1999

BOARD OF DIRECTORS

Richard B. Roberts
F. V. Allison, Jr.
Arlene M. Ferren
Steven E. Brooks

Chairman
Vice-Chairman
Treasurer
Secretary and Executive
Director of the Authority

Lewis W. Ammons, Jr.
Peggy H. Farnham

Conrad Pridgen
Nathan Simms

Algie C. Gatewood
Julia R. Hoke
Elizabeth V. McDuffie
Wayne E. Johnson
Assistant Secretaries and Assistant Directors
of the Authority

oOo

TABLE OF CONTENTS

	<u>Pages</u>
Independent Auditors' Report	1
Balance Sheets	2
Statements of Revenues, Expenses and Changes in Fund Equity	3
Statements of Cash Flows	4-5
Notes to Financial Statements	6-17



Koonce Wooten & Haywood, LLP
CERTIFIED PUBLIC ACCOUNTANTS

The Officers and Directors
North Carolina State Education Assistance Authority
Research Triangle Park, North Carolina

INDEPENDENT AUDITORS' REPORT

We have audited the accompanying general purpose financial statements of the North Carolina State Education Assistance Authority, a component unit of the State of North Carolina, as of and for the years ended June 30, 2000 and 1999, as listed in the table of contents. These general purpose financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these general purpose financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the general purpose financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the general purpose financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall general purpose financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the general purpose financial statements referred to above present fairly, in all material respects, the financial position of the North Carolina State Education Assistance Authority, as of June 30, 2000 and 1999, and the results of its operations and cash flows for the years then ended in conformity with generally accepted accounting principles.

Koonce, Wooten & Haywood, LLP

Raleigh, North Carolina
October 30, 2000

Raleigh
4060 Barrett Drive
Post Office Box 17806
Raleigh, North Carolina 27619
919 782 9265
919 783 8937 FAX

Pittsboro
148 East Street
Post Office Box 1399
Pittsboro, North Carolina 27312
919 542 6000
919 542 5764 FAX

NORTH CAROLINA
STATE EDUCATION ASSISTANCE AUTHORITY
Balance Sheets
June 30, 2000 and 1999

ASSETS

	2000	1999
CURRENT ASSETS:		
Cash and Cash Equivalents	\$ 212,741,213	\$ 182,923,082
Investments	318,810,876	274,510,881
Receivables:		
Accounts Receivable		251,165
Intergovernmental Receivables	9,374,938	10,462,644
Interest Receivable	13,558,362	11,583,678
Due from Primary Government	14,479,499	14,577,013
Notes Receivable	94,318,367	75,372,165
Unamortized Bond Issuance Expenses	473,996	298,806
Inventories	836	5,683
Total Current Assets	663,758,087	569,985,117
NONCURRENT ASSETS:		
Notes Receivable	647,952,861	525,109,269
Unamortized Bond Issuance Expenses	4,783,612	3,700,706
Total Non-Current Assets	652,736,473	528,809,975
FIXED ASSETS:		
Office Furniture and Equipment	218,352	297,473
Data Processing System	1,205,536	1,167,551
Other Equipment	115,593	115,316
Accumulated Depreciation	(673,121)	(606,821)
Net Fixed Assets	866,360	973,519
Total Assets	\$ 1,317,360,920	\$ 1,099,768,611

LIABILITIES AND FUND EQUITY

CURRENT LIABILITIES:		
Accounts Payable and Accrued Liabilities:		
Accounts Payable	\$ 5,565,968	\$ 1,541,954
Intergovernmental Payables	76,072	73,634
Accrued Payroll	46,167	88,630
Interest Payable	3,653,772	2,938,524
Accrued Vacation Leave	106,198	84,333
Obligations Under Securities Lending Transactions	136,962,423	108,243,927
Notes Payable		21,595,661
Total Current Liabilities	146,410,600	134,566,663
NONCURRENT LIABILITIES:		
Bonds Payable	695,397,800	521,476,650
Intergovernmental Payables	17,563,898	10,922,351
Total Noncurrent Liabilities	712,961,698	532,399,001
Total Liabilities	859,372,298	666,965,664
FUND EQUITY:		
Retained Earnings	457,988,622	432,802,947
Total Liabilities and Fund Equity	\$ 1,317,360,920	\$ 1,099,768,611

The accompanying notes are an integral part of the financial statements.

NORTH CAROLINA
STATE EDUCATION ASSISTANCE AUTHORITY
Statements of Revenues, Expenses and Changes in Fund Equity
For The Years Ended June 30, 2000 and 1999

	<u>2000</u>	<u>1999</u>
OPERATING REVENUES:		
Investment Earnings	\$ 18,133,932	\$ 19,383,634
Interest Earnings on Loans	56,480,398	43,251,253
Miscellaneous	<u>1,662,945</u>	<u>1,431,007</u>
Total Operating Revenues	<u>76,277,275</u>	<u>64,065,894</u>
OPERATING EXPENSES:		
Personal Services	1,765,640	1,557,977
Supplies and Materials	55,929	55,859
Services	16,940,463	10,001,012
Interest	35,657,095	31,324,383
Depreciation and Amortization	640,469	467,683
Student Loan Service Cancellations	9,259,883	8,933,828
Guaranty Agency Reserve Recall	5,470,175	5,464,175
Other Expenses	<u>5,474,948</u>	<u>804,093</u>
Total Operating Expenses	<u>75,264,602</u>	<u>58,609,010</u>
Operating Income	<u>1,012,673</u>	<u>5,456,884</u>
NON-OPERATING REVENUES (EXPENSES):		
Federal Grants	3,197,859	2,729,780
Grants, Aids and Subsidies	<u>(3,318,154)</u>	<u>(2,084,726)</u>
Total Non-Operating Revenues (Expenses)	<u>(120,295)</u>	<u>645,054</u>
Income Before Operating Transfers	892,378	6,101,938
OPERATING TRANSFERS:		
Transfers from Primary Government	<u>24,293,297</u>	<u>26,532,812</u>
Net Income	25,185,675	32,634,750
FUND EQUITY--July 1	<u>432,802,947</u>	<u>400,168,197</u>
FUND EQUITY--June 30	<u>\$ 457,988,622</u>	<u>\$ 432,802,947</u>

The accompanying notes are an integral part of the financial statements.

NORTH CAROLINA
STATE EDUCATION ASSISTANCE AUTHORITY
Statements of Cash Flows
For The Years Ended June 30, 2000 and 1999

	2000	1999
CASH PROVIDED FROM (USED FOR) OPERATIONS:		
Operating Income	\$ 1,012,673	\$ 5,456,884
Adjustments to Reconcile Operating Income to Net Cash Flows from Operating Activities:		
Depreciation and Amortization	640,469	467,683
Investment Earnings	(18,133,932)	(19,383,634)
Student Loan Principal Repayments	246,132,497	193,944,034
Student Loans Issued	(391,721,809)	(337,546,943)
Student Loan Cancellations and Write-offs	6,623,663	6,617,393
Allowances and Uncollectable Accounts	3,018,500	2,459,500
Capitalized Interest and Other	(5,842,645)	(6,790,326)
Securities Transaction Fees		5,002,962
(Increases) Decreases in Assets:		
Accounts Receivables	251,165	(251,165)
Intergovernmental Receivables	1,087,706	(2,629,026)
Investment Earnings Receivable	(1,671,243)	(2,306,450)
Due from Primary Government	97,514	(1,356,145)
Inventories	4,848	(162)
Increases (Decreases) in Liabilities:		
Accounts Payable	4,024,014	977,526
Intergovernmental Payables	6,643,985	5,537,809
Accrued Payroll	(42,463)	30,823
Interest Payable	715,248	295,923
Accrued Vacation Leave	21,864	16,675
Total Cash Provided from (Used for) Operations	(147,137,946)	(149,456,639)
CASH PROVIDED FROM (USED FOR) NONCAPITAL FINANCING ACTIVITIES:		
Proceeds from Sale of Bonds	200,000,000	240,000,000
Proceeds from Sale of Notes	245,000	25,925,000
Repayment of Bond Principal	(26,078,850)	(12,637,275)
Repayment of Note Principal	(21,840,661)	(89,154,876)
Bond Issuance Cost	(1,629,928)	(1,596,564)
Operating Transfers from Primary Government	24,293,297	26,532,812
Federal Grants	3,197,859	2,729,780
Grants, Aids and Subsidies	(3,318,154)	(2,084,726)
Total Cash Provided from (Used for) Noncapital Financing Activities	174,868,563	189,714,151
CASH PROVIDED FROM (USED FOR) CAPITAL FINANCING ACTIVITIES:		
Acquisition of Fixed Assets	(161,478)	(525,257)
Total Cash Provided from (Used for) Capital Financing Activities	(161,478)	(525,257)

NORTH CAROLINA
STATE EDUCATION ASSISTANCE AUTHORITY
Statements of Cash Flows
For The Years Ended June 30, 2000 and 1999

	2000	1999
CASH PROVIDED FROM (USED FOR)		
INVESTMENT ACTIVITIES:		
Proceeds from the Sale of Non-State		
Treasurer Investments	\$ 221,838,758	\$ 172,222,818
Purchase of Non-State Treasurer Investments	(232,842,517)	(215,739,839)
Investment Earnings	13,252,751	13,386,400
Total Cash Provided from (Used for)		
Investment Activities	2,248,992	(30,130,621)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	29,818,131	9,601,634
CASH AND CASH EQUIVALENTS--July 1	182,923,082	173,321,448
CASH AND CASH EQUIVALENTS--June 30	\$ 212,741,213	\$ 182,923,082
SUPPLEMENTAL DISCLOSURES OF CASH FLOWS INFORMATION:		
Cash Paid During the Year for:		
Interest	\$ 34,831,098	\$ 26,025,498
NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:		
Noncash Distributions from State Treasurer		
Long-Term Investment Pool	\$ 7,517,873	\$ 7,720,426
Investment Earnings from		
Securities Lending Transactions	\$	\$ 5,002,962
Write-up (down) of Investments to Fair Market Value	\$ (2,940,134)	\$ (6,830,847)

The accompanying notes are an integral part of the financial statements.

NORTH CAROLINA
STATE EDUCATION ASSISTANCE AUTHORITY
Notes To Financial Statements
June 30, 2000 and 1999

1. Summary of Significant Accounting Policies

A. Organization and Reporting Entity:

The implementation of Governmental Accounting Standards Board Statement No. 14 required the discrete presentation of condensed financial statements for certain significant component units in the State of North Carolina's annual financial report. The North Carolina State Education Assistance Authority meets the criteria for a component unit and is discretely presented in the June 30, 2000 and 1999 State of North Carolina Comprehensive Annual Financial Reports (CAFR) by the State Auditor's Office and the Office of the State Controller.

The accompanying financial statements report on all funds subject to the direct administrative authority and responsibility of the Authority. These funds are as follows:

1. Reserve Trust Fund
2. North Carolina Student Loan Fund
3. North Carolina Student Incentive Grant Program
4. UNC System Incentive Grant Program
5. North Carolina Student Loan Program for Health, Science and Mathematics
6. North Carolina Nurse Scholars Program
7. North Carolina Masters Nurse Scholars Program
8. North Carolina Nurse Education Scholarship Loan Program
9. Principal Fellows Loan Program
10. Social Workers Scholarship Loan Fund
11. Paul Douglas Teacher Scholarship Program
12. College Vision Savings Program
13. Guaranteed Student Loan Revenue Bond Fund
14. State Budget Code 66011
15. Contingency Fund

A special restricted trust fund, maintained in State budget code 66010, is used to insure loans to students by eligible lenders according to the provisions of the Higher Education Act of 1965 and the National Vocational Student Loan Insurance Act of 1965.

B. Basis of Presentation and Accounting:

The accompanying financial statements of the Authority are presented in conformity with generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board (GASB), as well as the American Institute of Certified Public Accountants (AICPA) and Financial Accounting Standards Board (FASB) pronouncements specifically made applicable to state and local governmental entities by GASB Statements and Interpretations. In accordance with GASB Statement No. 20 "Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting", the State does not apply FASB pronouncements issued after November 30, 1989 for proprietary activities, unless the GASB amends its pronouncements to specifically adopt FASB pronouncements issued after that date.

The financial statements of the Authority have been prepared on the accrual basis of accounting. Under the accrual basis, revenues are recognized when earned and expenses are recognized when incurred.

NORTH CAROLINA
STATE EDUCATION ASSISTANCE AUTHORITY
Notes To Financial Statements
June 30, 2000 and 1999

1. Summary of Significant Accounting Policies (Continued)

The Authority is a sub-agency of the University of North Carolina - General Administration (UNC-GA). As a sub-agency, its records are maintained on the UNC-GA accounting system under the National Association of Colleges and University Business Offices fund structure. For state level (CAFR) reporting requirements, the financial records of the Authority are presented under the GASB enterprise proprietary fund format. This enterprise proprietary fund includes all resources, liabilities and transactions pertaining to primary and supportive operational activities of the Authority.

Accounting records for funds with state appropriated budgets are maintained on the cash basis of accounting. The cash basis records are adjusted as of the end of the fiscal year in order to prepare accrual basis financial statements. State budgets are maintained in compliance with provisions of the Executive Budget Act, North Carolina General Statutes 143-1 through 143-34.5, and trust funds are maintained in compliance with General Statute 116-36.1.

The balance sheets include a self-balancing set of assets, liabilities, and residual equity that report the financial position of the Authority at the end of the fiscal years ended June 30, 2000 and 1999.

The Statements of Revenues, Expenses and Changes in Fund Equity include the one accounting fund group and identify activities which changed retained earnings balances during the fiscal years. These statements identify additions to and deductions from retained earnings balances and transfers from primary government.

C. Accounting Estimates:

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

D. Fixed Assets and Depreciation:

A capitalization threshold of \$5,000 is utilized; therefore, any equipment items costing less than this amount are reflected as expenditures of the fund in the year of acquisition. Fixed assets are reported at cost or, for donated properties, at estimated fair values as of the dates of receipt. The capitalization of newly acquired fixed assets and disposal of recently retired fixed assets are included in the fund. Depreciation is computed using the straight-line method over the estimated useful life of the assets as follows: Office furniture and equipment and data processing systems, 5 years; other equipment, 10 years.

E. Cash and Cash Equivalents:

This classification includes cash on deposit with the State Treasurer, trustees, and commercial banks. Investments are deemed to be cash equivalents if they are readily convertible to cash and have original maturities of three months or less with the exception of commercial repurchase agreements which are considered short-term investments.

NORTH CAROLINA
STATE EDUCATION ASSISTANCE AUTHORITY
Notes To Financial Statements
June 30, 2000 and 1999

1. Summary of Significant Accounting Policies (Concluded)

F. Investments:

Investments are accounted for in accordance with Governmental Accounting Standards Board Statement No. 31, "Accounting and Financial Reporting for Certain Investments and for External Investment Pools". Investments in (a) interest-earning investment contracts, (b) external investment pools, (c) open-end mutual funds, (d) debt securities, and (e) equity securities with readily determinable fair values are measured at fair value on the balance sheet.

G. Receivables:

Provision for expenses and losses on receivables is made in amounts required to maintain an adequate allowance to cover receivables paid through service cancellations and bad debts. At year end, the allowance is adjusted by management based on review of the receivables.

H. Inventories:

Inventories held by the Authority are priced at the lower of cost or market using the first-in, first-out method. The inventory consists of postage.

I. Vacation and Sick Leave:

The Authority records the cost of vacation leave when earned. The policy provides for a maximum accumulation of unused vacation leave of 30 days which can be carried forward each January 1 or for which an employee can be paid upon termination of employment. Also, any accumulated vacation leave in excess of 30 days at year end is converted to sick leave. Under this policy, the accumulated vacation leave for each employee at June 30 equals the leave carried forward at the previous December 31 plus the leave earned less the leave taken between January 1 and June 30.

The Authority, in accordance with state policy, recognizes the cost of sick leave when paid to employees rather than when leave is earned. The policy provides for unlimited accumulation of sick leave, but an employee cannot be compensated for unused sick leave upon termination of employment. However, upon retirement from service to the State, accumulated sick leave will serve to increase the amount of monthly retirement plan benefits payable to retirees. Accordingly, payments to retired state employees for accumulated sick leave will utilize resources of the State Retirement System rather than those of the Authority or the North Carolina General Fund. At June 30, 2000 and 1999 the Authority had a contingent liability of \$278,781 and \$255,139, respectively, for unused sick leave. These amounts are based on salary and benefit rates prevailing at June 30, 2000 and 1999.

J. Income Taxes:

The Authority is a political subdivision of the State of North Carolina. Accordingly, exemption from state and local taxation is provided by Chapter 116, Article 23 of the North Carolina General Statutes. Internal Revenue Code Section 115 provides exemption from federal income taxes.

NORTH CAROLINA
STATE EDUCATION ASSISTANCE AUTHORITY
Notes To Financial Statements
June 30, 2000 and 1999

2. Deposits and Investments

A. Deposits:

Cash and cash equivalents include cash in the State Treasurer's Short-Term Investment Fund (STIF) and Budget Code Cash; funds held by trustees in interest bearing money market accounts; and bank accounts totaling \$212,741,213 at June 30, 2000 and \$182,923,082 at June 30, 1999. The Authority's portion of the State Treasurer's Cash and Investment Pool at June 30, 2000 and 1999 was \$204,360,611 and \$174,106,972, respectively. It is the State Treasurer's policy and practice for the deposits not covered by federal depository insurance to be covered by collateral held by the State of North Carolina's agent in the name of the State and for the investments to be held by the State's agent in the State's name. The carrying amount of the Authority's deposits not with the State Treasurer at June 30, 2000 and 1999 was \$8,380,602 and \$8,816,110, respectively. These deposits were held by trustees. Of these amounts, \$8,380,602 at June 30, 2000 and \$8,816,110 at June 30, 1999, was in money market funds and was not collateralized.

B. Investments:

Investments at June 30, 2000 and 1999 are summarized as follows:

	<u>2000</u>	<u>1999</u>
State Treasurer Long-Term Investment Pool	\$ 110,005,650	\$ 105,273,848
Repurchase Agreements	55,977,664	50,442,778
U. S. Government Obligations	15,865,139	10,550,328
Securities Lending Collateral Investment Pool	<u>136,962,423</u>	<u>108,243,927</u>
	<u>\$ 318,810,876</u>	<u>\$ 274,510,881</u>

The Authority is authorized by the University of North Carolina Board of Governors to invest its special funds in the same manner as the State Treasurer is required to invest by General Statutes. All of the Authority's investments with the State Treasurer are invested in such a way.

Investments maintained by the Authority (separate from those maintained by the State Treasurer) are comprised of repurchase agreements and U.S. Government obligations held by trustees. These investments are category one securities held by the Authority's agent in the Authority's name.

C. Securities Lending Transactions:

Based on the authority provided in G.S. 147-69.3(e), the State Treasurer lends securities from its Investment Pool to broker-deals and other entities (borrowers) for collateral that will be returned for the same securities in the future. The Treasurer's securities custodian manages the securities lending program. During the year, the custodian lent U.S. government securities, corporate bonds and notes for collateral. The custodian is permitted to receive cash, U.S. government securities, or irrevocable letters of credit as collateral for the securities lent. The collateral is initially pledged at 102 percent of the market value of the securities lent, and additional collateral is required if its value falls to less than 100 percent of the market value of the securities lent. There are no restrictions on the amount of loans that can be made. Substantially all security loans can be terminated on demand by either the State Treasurer or the borrower.

NORTH CAROLINA
STATE EDUCATION ASSISTANCE AUTHORITY
Notes To Financial Statements
June 30, 2000 and 1999

2. Deposits and Investments (Continued)

C. Securities Lending Transactions (Continued):

Securities received as collateral are not recorded in either the Treasurer's or the Authority's financial statements because the State Treasurer cannot pledge or sell the collateral securities received unless the borrower defaults.

The cash collateral received is invested by the custodian agent and held in a separate account in the name of the State Treasurer. The average maturities of the cash collateral investments do not differ materially from the average maturity of the securities lent. While cash can be invested in securities ranging from overnight to two years, the custodian agent is not permitted to make investments where the weighted average maturity of all investments exceeds 90 days. At June 30, 2000 and 1999, the weighted average maturity of unmatched investments was less than one month.

At June 30, 2000 and 1999, the State Treasurer had no credit risk exposure to borrowers. The securities custodian is contractually obligated to indemnify the Treasurer for certain conditions, the two most important are default on the part of the borrowers and failure to maintain the daily mark-to market on the loans.

The Authority does not directly engage in security lending transactions; however, it deposits certain funds with the State Treasurer's investment pools which do participate in securities lending activities. In accordance with the statement, the Treasurer's Office allocates a prorata share back to the individual entities owning the funds. The Authority recognizes its portion of securities lending transactions that were held in the State Treasurer's "Securities Lending Collateral Investment Pool" as an asset and equal liability amount as "Obligations Under Securities Lending Transactions." Similarly, for the year ended June 30, 1999, the allocated portion of the income and costs arising from pooled securities lending transactions was reported under "Investment Earnings" and "Interest". Under this method there is no effect on beginning or ending fund balances.

3. Receivables

The gross student loan receivables and related allowances for service cancellations and doubtful accounts at June 30, 2000, were:

	<u>Total</u>	<u>Current</u>	<u>Non-Current</u>
Gross Student Loan Receivables	\$ 776,094,228	\$ 101,344,867	\$ 674,749,361
Less: Allowance for Service Cancellations and Doubtful Accounts	<u>33,823,000</u>	<u>7,026,500</u>	<u>26,796,500</u>
Net Receivables	\$ <u>742,271,228</u>	\$ <u>94,318,367</u>	\$ <u>647,952,861</u>

NORTH CAROLINA
STATE EDUCATION ASSISTANCE AUTHORITY
Notes To Financial Statements
June 30, 2000 and 1999

3. Receivables (Continued)

The gross student loan receivables and related allowances for service cancellations and doubtful accounts at June 30, 1999, were:

	<u>Total</u>	<u>Current</u>	<u>Non-Current</u>
Gross Student Loan Receivables	\$ 631,285,934	\$ 82,100,669	\$ 549,185,265
Less: Allowance for Service Cancellations and Doubtful Accounts	<u>30,804,500</u>	<u>6,728,504</u>	<u>24,075,996</u>
Net Receivables	<u>\$ 600,481,434</u>	<u>\$ 75,372,165</u>	<u>\$ 525,109,269</u>

4. Pension Plans

A. Retirement Plans:

Each permanent full-time employee, as a condition of employment, is a member of either the Teachers' and State Employees' Retirement System of North Carolina or the Optional Retirement Program.

The Teachers' and State Employees' Retirement System is a multiple-employer, cost sharing defined benefit pension plan which is administered by the North Carolina State Treasurer. Additional detail information about the System can be located in the State of North Carolina's Comprehensive Annual Financial Report. Employees contributed 6% of compensation and the Authority contributed, for pension benefits, 8.15% of covered payroll for the years ended June 30, 2000 and 1999. The Authority has no pension plan obligations beyond the matching already paid into the System.

The Optional Retirement Program (Program) is a defined contribution retirement plan which provides retirement benefits with options for payments to beneficiaries in the event of the participant's death. Administrators of the Authority may join the Program instead of the Teachers' and State Employees' Retirement System. The Program is administered by the privately-operated Teachers' Insurance and Annuity Association and the College Retirement Equities Fund (TIAA-CREF), Valic, Lincoln National Life Insurance Company, and Fidelity Investments. Participant eligibility and contributory requirements are established by General Statute 135-5.1. Participants contributed 6% of compensation and the Authority matched with a 6.84% contribution for pension benefits for the years ended June 30, 2000 and 1999. The Authority assumes no liability other than its contribution.

Participants in the Program are vested after five years of service, but the administrator must return the value of both the participant's and the Authority's contributions if termination occurs prior to five years of service. The participant chooses his/her own investment products with the company of choice.

For the years ended June 30, 2000 and 1999, the Authority had a total payroll of \$1,414,834 and \$1,259,370, respectively of which \$1,240,508 and \$1,144,665, was covered under the Teachers' and State Employees' Retirement System and \$145,218 for June 30, 2000 was covered under the Optional Retirement Program. Total employee contributions for pension benefits under the Teachers' and State Employees' Retirement System for June 30, 2000 and 1999 were \$74,430 and \$68,680, respectively. Total employee contributions under the Optional Retirement Program were \$8,715 for the year ended June 30, 2000. Total employer contributions for pension benefits under the Teachers' and State Employees' Retirement System for June 30, 2000 and 1999 were \$101,101 and \$93,290, respectively. Total employer contributions under the Optional Retirement Program were \$9,935 for the year ended June 30, 2000. There was no covered payroll or contributions for the Optional Retirement Program for the year ended June 30, 1999.

NORTH CAROLINA
STATE EDUCATION ASSISTANCE AUTHORITY
Notes To Financial Statements
June 30, 2000 and 1999

4. Pension Plans (Continued)

B. Deferred Compensation and Supplemental Retirement Income Plans:

IRS Section 457 Plan - The State of North Carolina offers its permanent employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. All costs of administering and funding the plan are the responsibility of the plan participants. No costs are incurred by the Authority. All amounts, property and rights derived from deferred compensation and income earned on the deferred compensation are, until paid or made available to the employee or other beneficiary, solely the property and rights of the State of North Carolina, subject only to the claims of the State's general creditors. The State believes that it is very unlikely that it will use these assets to satisfy the claims of general creditors in the future. The voluntary contributions by employees amounted to \$1,110 and \$1,240, for the years ended June 30, 2000 and 1999, respectively.

IRS Section 401(k) Plan - All members of the Teachers' and State Employees' Retirement System and the Optional Retirement Program are eligible to enroll in the Supplemental Retirement Income Plan created under Internal Revenue Code Section 401(k). All costs of administering the plan are the responsibility of the plan participants. No costs are incurred by the Authority. Voluntary contributions by employees for the year ended June 30, 2000 were \$525. There were no voluntary contributions by employees for the year ended June 30, 1999.

IRS Section 403(b) and 403(b)(7) Plans - All permanent Authority employees who are at least half-time can participate in tax sheltered annuity plans created under Internal Revenue Code Sections 403(b) and 403(b)(7). The employee's eligible contributions, made through salary reduction agreements, are exempt from federal and state income taxes until the annuity is received or the contributions are withdrawn. These plans are exclusively for employees of universities and certain charitable and other non-profit institutions. All costs of administering and funding these plans are the responsibility of the plans. No costs are incurred by the Authority. The voluntary contributions by employees amounted to \$3,163 and \$5,172 and for the years ended June 30, 2000 and 1999, respectively.

5. Post-Employment Benefits

A. Health Care:

The Authority participates in state administered programs which provide post-employment health insurance to eligible former employees. Additional detailed information about these programs can be located in the State of North Carolina's Comprehensive Annual Financial Report. The Authority made no contributions for retiree health care benefits for the year ended June 30, 2000. The Authority contributed 2% of covered payroll totaling \$22,893 under the Teachers' and State Employees' Retirement System and the Optional Retirement Program for retiree health care benefits for the year ended June 30, 1999. The Authority assumes no liability for retiree health care benefits provided by the programs other than its contribution.

NORTH CAROLINA
STATE EDUCATION ASSISTANCE AUTHORITY
Notes To Financial Statements
June 30, 2000 and 1999

5. Post-Employment Benefits (Continued)

B. Long-Term Disability:

The Authority participates in the Disability Income Plan of North Carolina (DIPNC). The Plan provides disability income to eligible participants. Eligible participants are employees that are members of the Teachers' and State Employees' Retirement System or the Optional Retirement Program. Additional detailed information about the Plan can be located in the State of North Carolina's Comprehensive Annual Financial Report. The Authority contributed .52% of covered payroll under the Teachers' and State Employees' Retirement System and the Optional Retirement Program for the years ended June 30, 2000 and 1999. For the fiscal years ended June 30, 2000 and 1999, the Authority's total contribution to the Plan was \$7,206 and \$5,952, respectively. The Authority assumes no liability for long-term disability benefits under the Plan other than its contribution.

6. Insurance

Physical plant and equipment used by the Authority and reported on the balance sheet are owned by the State of North Carolina. To provide financial protection for this ownership equity in assets, the State maintains a State Property Fire Insurance Fund as self-insurance against losses which might occur to state-owned property. This fund is administered by the North Carolina Department of Insurance and is maintained without direct cost to individual State agencies. Extended coverage insurance is available at a cost to electing agencies.

7. Lease Obligations

The Authority was previously obligated for annual rental payments under various noncancelable long-term lease agreements for office facilities. Annual rental of these office facilities included in the determination of net income was \$18,230 and \$19,887 for the years ended June 30, 2000 and 1999. There are no minimum lease commitments during years subsequent to the balance sheet date.

8. Fixed Assets

A summary of changes in the fixed assets for the year ended June 30, 2000, is presented as follows:

	Balance <u>July 1, 1999</u>	<u>Additions</u>	<u>Deletions</u>	Balance <u>June 30, 2000</u>
Office Equipment	\$ 297,473	\$ 16	\$ 79,137	\$ 218,352
EDP Equipment	1,167,551	161,000	123,015	1,205,536
Other Equipment	115,316	9,427	9,150	115,593
Total Fixed Assets	<u>\$ 1,580,340</u>	<u>\$ 170,443</u>	<u>\$ 211,302</u>	1,539,481
Less: Accumulated Depreciation				<u>673,121</u>
Net Fixed Assets				<u>\$ 866,360</u>

NORTH CAROLINA
STATE EDUCATION ASSISTANCE AUTHORITY
Notes To Financial Statements
June 30, 2000 and 1999

8. Fixed Assets (Continued)

A summary of changes in the fixed assets for the year ended June 30, 1999, is presented as follows:

	Balance July 1, 1998	Additions	Deletions	Balance June 30, 1999
Office Equipment	\$ 209,637	\$ 99,077	\$ 11,241	\$ 297,473
EDP Equipment	807,201	360,350		1,167,551
Other Equipment	49,486	65,830		115,316
Total Fixed Assets	\$ 1,066,324	\$ 525,257	\$ 11,241	1,580,340
Less: Accumulated Depreciation				606,821
Net Fixed Assets				\$ 973,519

9. Note Payable

The Authority has a revolving line of credit with three banks. The amount of the line of credit at June 30, 2000 and 1999 was \$10,000,000 and \$35,000,000, respectively. There was no balance at June 30, 2000, and the outstanding balance at June 30, 1999 was \$21,595,661. This line is secured by pledged student loans. The proceeds of the line of credit are used for the funding of eligible student loans. Interest accrues at a variable rate as determined by the credit agreement. The line of credit expires on December 31, 2001 and is renewable by mutual agreement of the parties.

10. Bonds Payable

All bonds are obligations of the Authority and are not deemed to constitute a debt or liability of the State of North Carolina. The bonds are secured by federally insured student loans of the Authority. The bonds are summarized as follows:

	Balance July 1, 1999	Additions	Deletions	Balance June 30, 2000
Tax-Exempt Guaranteed Student Loan Revenue Bonds, 1995 Series A (Subordinate Lien):				
Serial Bonds:				
Due 7-01-01 (5.10%)	\$ 1,000,000	\$	\$	\$ 1,000,000
Due 7-01-02 (5.20%)	1,000,000			1,000,000
Due 7-01-03 (5.30%)	1,000,000			1,000,000
Due 7-01-04 (5.40%)	1,000,000			1,000,000
Due 7-01-05 (5.50%)	1,000,000			1,000,000
Term Bonds:				
Due 7-01-10 (6.05%)	5,350,000			5,350,000
Due 7-01-15 (6.30%)	7,000,000			7,000,000
	17,350,000			17,350,000

NORTH CAROLINA
STATE EDUCATION ASSISTANCE AUTHORITY
Notes To Financial Statements
June 30, 2000 and 1999

10. Bonds Payable (Continued)

	<u>Balance</u> July 1, 1999	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> June 30, 2000
Taxable Guaranteed Student Loan Revenue Bonds, 1995 Series B (Senior Lien): Auction Rate Bonds: Due 7-01-15 (Variable Rate)	\$ 121,900,000	\$	\$	\$ 121,900,000
Tax-Exempt Guaranteed Student Loan Revenue Bonds, 1996 Series C (Subordinate Lien) Term Bonds: Due 7-01-16 (6.35%)	25,000,000			25,000,000
Taxable Guaranteed Student Loan Revenue Bonds, 1996 Series D (Senior Lien): Treasury Indexed: Due 12-01-03 (Variable Rate)	34,726,650		26,078,850	8,647,800
Due 12-01-05 (Variable Rate)	<u>52,500,000</u>			<u>52,500,000</u>
	<u>87,226,650</u>		<u>26,078,850</u>	<u>61,147,800</u>
Tax-Exempt Guaranteed Student Loan Revenue Bonds, 1997 Series E (Senior Lien): Auction Rate Bonds: Due 7-01-27 (Variable Rate)	30,000,000			30,000,000
Taxable Guaranteed Student Loan Revenue Bonds, 1998 Series F (Senior Lien): Auction Rate Bonds: Series F-1 Due 7-01-28 (Variable Rate)	120,000,000			120,000,000
Series F-2 Due 7-01-28 (Variable Rate)	<u>120,000,000</u>			<u>120,000,000</u>
	<u>240,000,000</u>			<u>240,000,000</u>

NORTH CAROLINA
STATE EDUCATION ASSISTANCE AUTHORITY
Notes To Financial Statements
June 30, 2000 and 1999

10. Bonds Payable (Continued)

	Balance July 1, 1999	Additions	Deletions	Balance June 30, 2000
Taxable Guaranteed Student Loan Revenue Bonds, 2000 Series G (Senior Lien): LIBOR Indexed: Due 6-01-09 (Variable Rate)	\$ <u>200,000,000</u>	\$ _____	\$ _____	\$ <u>200,000,000</u>
Total	\$ <u>521,476,650</u>	\$ <u>200,000,000</u>	\$ <u>26,078,850</u>	\$ <u>695,397,800</u>

The following schedule shows the annual debt service requirements to pay principal and interest on bonds outstanding at June 30, 2000:

Year	Total
2001	\$ 45,773,051
2002	46,722,051
2003	46,670,051
2004	54,942,806
2005	46,010,975
2006-2010	447,559,208
2011-2015	141,543,500
2016-2020	241,311,500
2021-2025	85,824,000
2026-2029	<u>320,264,400</u>
Total Requirements	1,476,621,542
Less Interest Requirements	<u>781,223,742</u>
Principal Requirements	\$ <u>695,397,800</u>

The Taxable Guaranteed Student Loan Revenue Bonds, 1995 Series B (Senior Lien) are auction rate bonds due July 1, 2015. The Taxable Guaranteed Student Loan Revenue Bonds, 1996 Series D (Senior Lien) are Treasury Indexed Bonds due December 1, 2003 and December 1, 2005. The Tax-Exempt Guaranteed Student Loan Revenue Bonds, 1997 Series E (Senior Lien) are auction rate bonds due July 1, 2027. The Taxable Guaranteed Student Loan Revenue Bonds, 1998 Series F (Senior Lien) are auction rate bonds due July 1, 2028. The Taxable Guaranteed Student Loan Revenue Bonds, 2000 Series G (Senior Lien) are LIBOR indexed bonds due June 1, 2009. All of the above series have a variable interest rate that changes monthly or quarterly. The annual interest requirements in the schedule above were calculated using the rate in effect on June 30, 2000. Therefore, the debt service interest requirement on the 1995 Series B, 1996 Series D, 1997 Series E, 1998 Series F, and 2000 Series G bonds will change on a monthly or quarterly basis throughout the life of the bonds.

NORTH CAROLINA
STATE EDUCATION ASSISTANCE AUTHORITY
Notes To Financial Statements
June 30, 2000 and 1999

11. Transfers from and to the State Education Assistance Authority

The Authority, as a component unit of the State of North Carolina, regularly engages in transactions with other entities of primary government listed below. Resources reported as transfers in and out of the Authority during fiscal year 1999-2000 were comprised as follows:

	<u>Unrestricted Current Funds</u>	
	<u>In</u>	<u>Out</u>
UNC-General Administration	\$ 9,838,350	\$ _____
State Treasurer's Office--Escheats	<u>14,454,947</u>	<u>_____</u>
Total	\$ <u>24,293,297</u>	\$ <u>_____</u>

Resources reported as transfers in and out of the Authority during the fiscal year 1998-1999 were comprised as follows:

	<u>Unrestricted Current Funds</u>	
	<u>In</u>	<u>Out</u>
UNC-General Administration	\$ 12,001,993	\$ _____
State Treasurer's Office--Escheats	<u>14,530,819</u>	<u>_____</u>
Total	\$ <u>26,532,812</u>	\$ <u>_____</u>