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NORTH CAROLINA  
STATE EDUCATION ASSISTANCE AUTHORITY

Financial Statements  
June 30, 2001 and 2000

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

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**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, 2001 and 2000, 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 auditing standards generally accepted in the United States of America. 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, 2001 and 2000, and the results of its operations and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

*Koonce, Wooten & Haywood, LLP*

Raleigh, North Carolina  
October 31, 2001

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NORTH CAROLINA  
STATE EDUCATION ASSISTANCE AUTHORITY  
Balance Sheets  
June 30, 2001 and 2000

	ASSETS	
	2001	2000
<b>CURRENT ASSETS:</b>		
Cash and Cash Equivalents	\$ 314,809,165	\$ 212,741,213
Investments	138,669,449	318,810,876
Receivables:		
Intergovernmental Receivables	10,250,198	9,374,938
Interest Receivable	18,005,753	13,558,362
Due from Primary Government	18,644,819	14,454,947
Due from Component Unit	25,095	24,552
Notes Receivable	125,746,152	94,318,367
Unamortized Bond Issuance Expenses	623,077	473,996
Inventories	14,129	836
Total Current Assets	626,787,837	663,758,087
<b>NON-CURRENT ASSETS:</b>		
Notes Receivable	791,005,650	647,952,861
Unamortized Bond Issuance Expenses	5,859,262	4,783,612
Total Non-Current Assets	796,864,912	652,736,473
<b>FIXED ASSETS:</b>		
Office Furniture and Equipment	211,916	218,352
Data Processing System	1,613,764	1,205,536
Other Equipment	133,531	115,593
Accumulated Depreciation	(928,300)	(673,121)
Net Fixed Assets	1,030,911	866,360
Total Assets	\$ 1,424,683,660	\$ 1,317,360,920
<b>LIABILITIES AND FUND EQUITY</b>		
<b>CURRENT LIABILITIES:</b>		
Accounts Payable and Accrued Liabilities:		
Accounts Payable	\$ 10,759,709	\$ 5,565,968
Intergovernmental Payables	34,715	76,072
Accrued Payroll	50,375	46,167
Interest Payable	3,384,065	3,653,772
Accrued Vacation Leave	114,912	106,198
Bonds Payable	1,000,000	
Obligations Under Securities Lending Transactions		136,962,423
Total Current Liabilities	15,343,776	146,410,600
<b>NON-CURRENT LIABILITIES:</b>		
Bonds Payable	888,630,700	695,397,800
Intergovernmental Payables	21,856,702	16,392,526
Arbitrage Rebate Payable	1,728,562	1,171,372
Total Non-Current Liabilities	912,215,964	712,961,698
Total Liabilities	927,559,740	859,372,298
<b>FUND EQUITY:</b>		
Retained Earnings	497,123,920	457,988,622
Total Liabilities and Fund Equity	\$ 1,424,683,660	\$ 1,317,360,920

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, 2001 and 2000

	<u>2001</u>	<u>2000</u>
<b>OPERATING REVENUES:</b>		
Investment Earnings	\$ 21,518,009	\$ 18,133,932
Interest Earnings on Loans	71,485,393	56,480,398
Miscellaneous	<u>6,168,412</u>	<u>1,662,945</u>
Total Operating Revenues	<u>99,171,814</u>	<u>76,277,275</u>
<b>OPERATING EXPENSES:</b>		
Personal Services	1,815,623	1,765,640
Supplies and Materials	63,612	55,929
Services	26,115,180	16,940,463
Interest	44,538,872	35,657,095
Depreciation and Amortization	818,857	640,469
Student Loan Service Cancellations	10,429,782	9,259,883
Guaranty Agency Reserve Recall	5,464,175	5,470,175
Other Expenses	<u>6,466,778</u>	<u>5,474,948</u>
Total Operating Expenses	<u>95,712,879</u>	<u>75,264,602</u>
Operating Income	<u>3,458,935</u>	<u>1,012,673</u>
<b>NON-OPERATING REVENUES (EXPENSES):</b>		
Federal Grants	3,730,775	3,197,859
Grants, Aids and Subsidies	(8,550,161)	(3,318,154)
Gain on Sale of Investments	<u>4,132,852</u>	<u>                    </u>
Total Non-Operating Revenues (Expenses)	<u>(686,534)</u>	<u>(120,295)</u>
Income Before Operating Transfers	2,772,401	892,378
<b>OPERATING TRANSFERS:</b>		
Transfers from Primary Government	18,644,819	14,454,947
Transfers from Component Unit	<u>17,718,078</u>	<u>9,838,350</u>
Total Operating Transfers	<u>36,362,897</u>	<u>24,293,297</u>
Net Income	39,135,298	25,185,675
FUND EQUITY--July 1	<u>457,988,622</u>	<u>432,802,947</u>
FUND EQUITY--June 30	<u>\$ 497,123,920</u>	<u>\$ 457,988,622</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, 2001 and 2000

	2001	2000
CASH PROVIDED FROM (USED FOR) OPERATIONS:		
Operating Income	\$ 3,458,935	\$ 1,012,673
Adjustments to Reconcile Operating Income to Net Cash Flows from Operating Activities:		
Depreciation and Amortization	818,857	640,469
Investment Earnings	(21,518,009)	(18,133,932)
Student Loan Principal Repayments	305,661,014	246,132,497
Student Loans Issued	(484,202,295)	(391,721,809)
Student Loan Cancellations and Write-offs	7,737,835	6,623,663
Allowances and Uncollectable Accounts	2,650,000	3,018,500
Capitalized Interest and Other	(6,327,128)	(5,842,645)
(Increases) Decreases in Assets:		
Accounts Receivable		251,165
Intergovernmental Receivables	(875,260)	1,087,706
Investment Earnings Receivable	(4,112,279)	(1,671,243)
Due from Primary Government	(4,189,872)	97,514
Due from Component Unit	(543)	
Inventories	(13,291)	4,848
Increases (Decreases) in Liabilities:		
Accounts Payable	5,193,741	4,024,014
Intergovernmental Payables	5,422,819	5,472,613
Arbitrage Rebate Payable	557,190	1,171,372
Accrued Payroll	4,208	(42,463)
Interest Payable	(269,707)	715,248
Accrued Vacation Leave	8,714	21,864
Total Cash Provided from (Used for) Operations	(189,995,071)	(147,137,946)
CASH PROVIDED FROM (USED FOR) NONCAPITAL FINANCING ACTIVITIES:		
Proceeds from Sale of Bonds	225,000,000	200,000,000
Proceeds from Sale of Notes		245,000
Repayment of Bond Principal	(30,767,100)	(26,078,850)
Repayment of Note Principal		(21,840,661)
Bond Issuance Cost	(1,748,985)	(1,629,928)
Operating Transfers from Primary Government	18,644,819	14,454,947
Operating Transfers from Component Unit	17,718,078	9,838,350
Federal Grants	3,730,775	3,197,859
Grants, Aids and Subsidies	(8,550,161)	(3,318,154)
Total Cash Provided from (Used for) Noncapital Financing Activities	224,027,426	174,868,563
CASH PROVIDED FROM (USED FOR) CAPITAL FINANCING ACTIVITIES:		
Acquisition of Fixed Assets	(459,154)	(161,478)
Total Cash Provided from (Used for) Capital Financing Activities	(459,154)	(161,478)

NORTH CAROLINA  
STATE EDUCATION ASSISTANCE AUTHORITY  
Statements of Cash Flows  
For The Years Ended June 30, 2001 and 2000

	2001	2000
CASH PROVIDED FROM (USED FOR)		
INVESTMENT ACTIVITIES:		
Proceeds from the Sale of Non-State Treasurer Investments	\$ 227,890,670	\$ 221,838,758
Redemptions from the State Treasurer Long-Term Investment Portfolio	80,000,000	
Purchase of Non-State Treasurer Investments	(255,470,901)	(232,842,517)
Investment Earnings	16,074,982	13,252,751
Total Cash Provided from (Used for) Investment Activities	68,494,751	2,248,992
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	102,067,952	29,818,131
CASH AND CASH EQUIVALENTS--July 1	212,741,213	182,923,082
CASH AND CASH EQUIVALENTS--June 30	\$ 314,809,165	\$ 212,741,213
SUPPLEMENTAL DISCLOSURES OF CASH FLOWS INFORMATION:		
Cash Paid During the Year for:		
Interest	\$ 44,633,496	\$ 34,831,098
NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:		
Noncash Distributions from State Treasurer Long-Term Investment Pool	\$ 4,938,136	\$ 7,517,873
Write-up (down) of Investments to Fair Market Value	\$ 169,778	\$ (2,940,134)

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

NORTH CAROLINA  
STATE EDUCATION ASSISTANCE AUTHORITY  
Notes To Financial Statements  
June 30, 2001 and 2000

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, 2001 and 2000, 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 present 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 Need-Based 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 Fund
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:

The accompanying financial statements of the Authority have been prepared in conformity with generally accepted accounting principles, as prescribed by the Governmental Accounting Standards Board (GASB), which consist of GASB Statements and Interpretations, as well as 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.



NORTH CAROLINA  
STATE EDUCATION ASSISTANCE AUTHORITY  
Notes To Financial Statements  
June 30, 2001 and 2000

1. Summary of Significant Accounting Policies (Continued)

C. Basis of Accounting:

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.

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, 2001 and 2000.

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.

D. Cash and Cash Equivalents:

This classification includes deposits held by the State Treasurer in the short-term investment portfolio more fully discussed in Note 2, as well as cash on deposit with 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.

E. Investments:

This classification includes deposits held by the State Treasurer in certain long-term investment portfolios more fully discussed in Note 2, as well as investments with trustees and commercial banks. Investments are generally valued at fair value. Additional investment valuation information is provided in Note 2.

F. 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.

NORTH CAROLINA  
STATE EDUCATION ASSISTANCE AUTHORITY  
Notes To Financial Statements  
June 30, 2001 and 2000

1. Summary of Significant Accounting Policies (Concluded)

G. 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.

H. 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 at the date of acquisition 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.

I. 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.

J. 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, 2001 and 2000, the Authority had a contingent liability of \$307,550 and \$278,781 respectively, for unused sick leave. These amounts are based on salary and benefit rates prevailing at June 30, 2001 and 2000.

K. 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.

NORTH CAROLINA  
STATE EDUCATION ASSISTANCE AUTHORITY  
Notes To Financial Statements  
June 30, 2001 and 2000

2. Deposits and Investments

A. Deposits:

Cash and cash equivalents include cash in the State Treasurer's Cash and Investment Pool and Budget Code Cash; funds held by trustees in interest bearing money market accounts; and bank accounts totaling \$314,809,165 at June 30, 2001 and \$212,741,213 at June 30, 2000. The Authority's portion of the State Treasurer's Cash and Investment Pool at June 30, 2001 and 2000, was \$303,507,088 and \$204,360,611, 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, 2001 and 2000, was \$11,302,077 and \$8,380,602, respectively. These deposits were held by trustees. Of these amounts, \$11,302,077 at June 30, 2001 and \$8,380,602 at June 30, 2000, was in money market funds and was not collateralized.

North Carolina General Statutes 147.69.1(c) and 147-69.2 authorize the State Treasurer to invest in the following: obligations of or fully guaranteed by the United States; obligations of certain federal agencies; repurchase agreements; obligations of the State of North Carolina; certificates of deposit of specified institutions; prime quality commercial paper; specified bills of exchange; asset-backed securities, corporate bonds and notes with specified ratings; general obligations of other states; general obligations of North Carolina local governments; certain venture capital limited partnerships; and the obligations or securities of the North Carolina Enterprise Corporation.

B. Investments:

Investments at June 30, 2001 and 2000, are summarized as follows:

	2001	2000
State Treasurer Long-Term Investment Pool	\$ 38,810,509	\$ 110,005,650
Repurchase Agreements	78,225,453	55,977,664
U. S. Government Obligations	21,633,487	15,865,139
Securities Lending Collateral Investment Pool		136,962,423
	<u>\$ 138,669,449</u>	<u>\$ 318,810,876</u>

The Authority is authorized by the University of North Carolina Board of Governors pursuant to General Statute 116-36.2 to invest its special funds in the same manner as the State Treasurer is required to invest, as previously discussed. 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.

NORTH CAROLINA  
STATE EDUCATION ASSISTANCE AUTHORITY  
Notes To Financial Statements  
June 30, 2001 and 2000

3. Receivables

The gross student loan receivables and related allowances for service cancellations and doubtful accounts at June 30, 2001, were:

	<u>Total</u>	<u>Current</u>	<u>Non-Current</u>
Gross Student Loan Receivables	\$ 953,224,802	\$ 133,774,729	\$ 819,450,073
Less: Allowance for Service Cancellations and Doubtful Accounts	<u>36,473,000</u>	<u>8,028,577</u>	<u>28,444,423</u>
Net Receivables	<u>\$ 916,751,802</u>	<u>\$ 125,746,152</u>	<u>\$ 791,005,650</u>

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>

4. Fixed Assets

A summary of changes in the fixed assets for the year ended June 30, 2001, is presented as follows:

	<u>Balance July 1, 2000</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2001</u>
Office Equipment	\$ 218,352	\$ 16,945	\$ 23,381	\$ 211,916
EDP Equipment	1,205,536	424,271	16,043	1,613,764
Other Equipment	<u>115,593</u>	<u>17,938</u>	<u>          </u>	<u>133,531</u>
Total Fixed Assets	<u>\$ 1,539,481</u>	<u>\$ 459,154</u>	<u>\$ 39,424</u>	1,959,211
Less: Accumulated Depreciation				<u>928,300</u>
Net Fixed Assets				<u>\$ 1,030,911</u>

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

	<u>Balance July 1, 1999</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance 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	<u>115,316</u>	<u>9,427</u>	<u>9,150</u>	<u>115,593</u>
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, 2001 and 2000

5. Note Payable

The Authority has a revolving line of credit with three banks. The amount of the line of credit at June 30, 2001 and 2000, was \$10,000,000. There was no balance at June 30, 2001 and 2000. 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.

6. Long-Term Obligations

A. 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, 2000	Additions	Deletions	Balance June 30, 2001
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
	<u>17,350,000</u>			<u>17,350,000</u>
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

NORTH CAROLINA  
STATE EDUCATION ASSISTANCE AUTHORITY  
Notes To Financial Statements  
June 30, 2001 and 2000

6. Long-Term Obligations (Continued)

	Balance July 1, 2000	Additions	Deletions	Balance June 30, 2001
Taxable Guaranteed Student Loan Revenue Bonds, 1996 Series D (Senior Lien):				
Treasury Indexed:				
Due 12-01-03				
(Variable Rate)	\$ 8,647,800	\$	\$ 8,647,800	\$
Due 12-01-05				
(Variable Rate)	<u>52,500,000</u>		<u>22,119,300</u>	<u>30,380,700</u>
	<u>61,147,800</u>		<u>30,767,100</u>	<u>30,380,700</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>
 Taxable Guaranteed Student Loan Revenue Bonds, 2000 Series G (Senior Lien):				
LIBOR Indexed:				
Due 6-01-09				
(Variable Rate)	200,000,000			200,000,000

NORTH CAROLINA  
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June 30, 2001 and 2000

6. Long-Term Obligations (Continued)

	Balance July 1, 2000	Additions	Deletions	Balance June 30, 2001
Taxable Guaranteed Student Loan Revenue Bonds, 2001 Series H (Senior Lien): LIBOR Indexed:				
Due 12-01-12 (Variable Rate)	\$	\$ 105,000,000	\$	\$ 105,000,000
CP Indexed:				
Due 12-01-12 (Variable Rate)		<u>120,000,000</u>		<u>120,000,000</u>
		<u>225,000,000</u>		<u>225,000,000</u>
 Total	 \$ <u>695,397,800</u>	 \$ <u>225,000,000</u>	 \$ <u>30,767,100</u>	 \$ <u>889,630,700</u>

B. Debt Service Requirements:

The following schedule shows the annual debt service requirements to pay principal and interest on bonds outstanding at June 30, 2001:

<u>Year</u>	<u>Total</u>
2002	\$ 37,385,173
2003	37,333,173
2004	37,280,173
2005	37,226,173
2006	66,830,408
2007-2011	362,364,867
2012-2016	438,500,025
2017-2021	77,095,000
2022-2026	52,095,000
2027-2030	<u>289,983,000</u>
 Total Requirements	 1,436,092,992
 Less Interest Requirements	 <u>546,462,292</u>
 Principal Requirements	 <u>\$ 889,630,700</u>

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6. Long-Term Obligations (Concluded)

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. The Taxable Guaranteed Student Loan Revenue Bonds, 2001 Series H (Senior Lien) are LIBOR and CP Indexed Bonds due December 1, 2012. All of the above series have a variable interest rate that changes weekly to quarterly. The annual interest requirements in the schedule above were calculated using the rate in effect on June 30, 2001. Therefore, the debt service interest requirement on the 1995 Series B, 1996 Series D, 1997 Series E, 1998 Series F, 2000 Series G, and 2001 Series H bonds will change on a weekly to quarterly basis throughout the life of the bonds.

7. Arbitrage Rebate Payable

The Internal Revenue Code (IRC) and arbitrage regulations issued by the IRS require rebate to the federal government of excess investment earnings on bond proceeds if the yield on those earnings exceeds the effective yield on the related tax-exempt bonds issued. Regulations also exist for calculating rebate earnings in connection with the accounting for bond proceeds, refunding issues, and proceeds that are commingled with other funds for investment purposes. Rebates are payable every five years from date of bond issue or upon maturity of the bonds, whichever is earlier.

Additionally, the IRC and U. S. Treasury Regulations permit issuers of qualified student loan tax-exempt obligations to earn no more than 2.0% above the bond yield on the qualified student loans financed with such tax-exempt obligations. For excess earnings on qualified student loans, issuers may elect to pay such excess to the U.S. Treasury or return such excess to the borrowers of qualified student loans financed by the tax-exempt obligations. The Authority has elected to implement a program of borrower benefits in order to return such excess to borrowers.

The Authority had computations made to determine the liability at June 30, 2001 and 2000. Based on those results, the Authority incurred expense of \$557,189 for the year ended June 30, 2001, and \$527,661 for the year ended June 30, 2000. This expense is determined using the "Future Value" method of determining cumulative arbitrage liability, as set forth in the U.S. Treasury Regulations and is based on cash flows created by investment, sale, maturity of and earnings on gross bond proceeds. As of June 30, 2001 and 2000, the Authority reported \$1,728,562 and \$1,171,372, respectively, arbitrage rebate payable. The Authority's General Resolution requires that funds equal to the amount of the liability be deposited in the Rebate Fund maintained by the Bond Trustee by September 30 of each year.



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8. Intergovernmental Payables

The amount of retained earnings attributable to federal student loan reserves is the accumulated portion of the Authority's retained earnings derived from the Federal Family Education Loan Program (FFELP) guarantee operations of the Authority. On August 5, 1997, the Higher Education Act was amended by the Balanced Budget Act of 1997. Under this amendment, the Secretary of Education (the Secretary) is required to recall \$1 billion on September 1, 2002, of FFELP reserve funds. The amount owed by each guarantor is based on the agency's reserves and reserve ratio as of September 30, 1996. For purposes of calculation, the reserves include any Federal Student Loan Reserve Account funds in cash or liquid assets held by the agency. The reserve ratio is defined as the amount of the agency's Federal Student Loan Reserve Account as of September 30, 1996, divided by the original principal amount of all outstanding insured loans on that date. Each agency must transfer its required share to a separate account in five equal annual installments for the federal fiscal years 1998 through 2002. The Authority's amount of prorated share of the \$1 billion is \$27,302,876 as determined by the U.S. Department of Education.

The Authority has deposited \$5,464,175 each fiscal year beginning December 1997 into a separate account for a total of \$21,856,702 and \$16,392,526 at June 30, 2001 and 2000, and may not use the funds for any purpose without the express written permission of the Secretary, except for performing certain default reduction activities as outlined in the Balanced Budget Act of 1997. The funds are reflected in the long-term investments of the Authority. At the end of the five year period, the reserve funds in the separate account will be transferred to the U.S. Department of Education.

9. 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 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% and 5.33%, respectively, of covered payroll for the years ended June 30, 2001 and 2000. 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 offers plans administered by the Teachers' Insurance Annuity Association and College Retirement Equities Fund (TIAA-CREF), as well as Lincoln National Life Insurance Company, the Variable Annuity Life Insurance Company (VALIC), 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, 2001 and 2000. The Authority assumes no liability other than its contribution.

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9. Pension Plans (Concluded)

Participants in the Program are vested after five years of service, but plan administrators must return the value of 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, 2001 and 2000, the Authority had a total payroll of \$1,500,784 and \$1,414,834, respectively of which \$1,306,787 and \$1,240,508, was covered under the Teachers' and State Employees' Retirement System and \$153,843 and \$145,258 was covered under the Optional Retirement Program. Total employee contributions for pension benefits under the Teachers' and State Employees' Retirement System for the years ended June 30, 2001 and 2000, were \$78,407 and \$74,430, respectively. Total employee contributions under the Optional Retirement Program for the years ended June 30, 2001 and 2000, were \$9,231 and \$8,715, respectively. Total employer contributions for pension benefits under the Teachers' and State Employees' Retirement System for the years ended June 30, 2001 and 2000, were \$69,652 and \$101,101, respectively. Total employer contributions under the Optional Retirement Program for the years ended June 30, 2001 and 2000, were \$10,523 and \$9,935, respectively.

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 through the North Carolina Public Employee Deferred Compensation Plan (the Plan). The Plan permits each participating employee to defer a portion of his or her salary until future years. The deferred compensation is available to employees upon separation from service, death, disability, retirement or financial hardships if approved by the Board of Trustees of the Plan. The Board, a part of the North Carolina Department of Administration, maintains a separate fund for the exclusive benefit of the participating employees and their beneficiaries, *the North Carolina Public Employee Deferred Compensation Trust Fund*. The Board also contracts with an external third party to perform certain administrative requirements and to manage the trust fund's assets. All costs of administering and funding the plan are the responsibility of the plan participants. No costs are incurred by the Authority. The voluntary contributions by employees amounted to \$1,160 and \$1,110, for the years ended June 30, 2001 and 2000, 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, a defined contribution 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. The voluntary contributions by employees amounted to \$570 and \$525 for the years ended June 30, 2001 and 2000, respectively.

IRS Section 403(b) and 403(b)(7) Plans - All Authority employees who work 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 plan participants. No costs are incurred by the Authority. The voluntary contributions by employees amounted to \$4,895 and \$3,163 for the years ended June 30, 2001 and 2000, respectively.

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10. Other Postemployment Benefits

A. Health Care for Long-Term Disability Beneficiaries and Retirees:

The Authority participates in state administered programs which provide postemployment 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 contributed 1.28% of covered payroll totaling \$18,696 under the Teachers' and State Employees' Retirement System and the Optional Retirement Program for these health care benefits for the year ended June 30, 2001. The Authority made no contributions for these health care benefits for the year ended June 30, 2000. The Authority assumes no liability for retiree health care benefits provided by the programs other than its required contribution.

B. Long-Term Disability:

The Authority participates in the Disability Income Plan of North Carolina (DIPNC). Established by Chapter 135, Article 6 of the General Statutes, DIPNC provides short-term and long-term disability benefits to eligible members of the Teachers' and State Employees' Retirement System or the Optional Retirement Program. The plan provides disability income to eligible participants. 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, 2001 and 2000. For the fiscal years ended June 30, 2001 and 2000, the Authority's total contribution to the DIPNC was \$7,595 and \$7,206, respectively. The Authority assumes no liability for long-term disability benefits under the plan other than its contribution.

11. 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.

12. 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 2000-2001 were comprised as follows:

	<u>Unrestricted Current Funds</u>	
	<u>In</u>	<u>Out</u>
UNC-General Administration	\$ 17,718,078	\$ _____
State Treasurer's Office--Escheats	<u>18,644,819</u>	<u>_____</u>
Total	<u>\$ 36,362,897</u>	<u>\$ _____</u>

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12. Transfers from and to the State Education Assistance Authority (Concluded)

Resources reported as transfers in and out of the Authority during the fiscal year 1999-2000 were comprised as follows:

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

13. Accounting Changes

Securities Lending Transactions — The Authority deposits certain funds with the State Treasurer's Cash and Investment Pool, which participates in securities lending activities. In prior years it was the State's policy to allocate the risk associated with these transactions to each component unit. For the year ended June 30, 2001, the State changed its policy, as a result of discussion with the GASB technical staff, to report the associated risk as part of the State of North Carolina's fiduciary funds rather than to allocate the risk to component units. The effect of this change removes from the Authority issued financial statements the assets and liabilities associated with the State Treasurer's security lending program. This change does not affect the Authority's beginning fund equities.

14. Reclassifications

Certain amounts for 2000 have been reclassified to conform with 2001 classifications. Such reclassifications have no effect on net income or working capital.