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NORTH CAROLINA  
STATE EDUCATION ASSISTANCE AUTHORITY  
Financial Statements  
June 30, 2008 and 2007

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## TABLE OF CONTENTS

	<u>Pages</u>
Independent Auditors' Report	1
Management's Discussion and Analysis	2-6
Statements of Net Assets	7
Statements of Revenues, Expenses and Change in Net Assets	8
Statements of Cash Flows	9-10
Notes to Financial Statements	11-33



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

### INDEPENDENT AUDITORS' REPORT

We have audited the accompanying 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, 2008 and 2007, as listed in the table of contents. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these 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 audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the 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, 2008 and 2007, and the respective changes in financial position and cash flows thereof for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis on pages 2 through 6 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

*Koonce, Wooten & Haywood, L.L.P.*

Raleigh, North Carolina  
October 15, 2008

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NORTH CAROLINA  
STATE EDUCATION ASSISTANCE AUTHORITY  
Management's Discussion and Analysis

Management of the North Carolina State Education Assistance Authority provides this *Management's Discussion and Analysis* for readers of the Authority's financial statements. This narrative overview and analysis of the financial activities of the Authority is for the fiscal years ended June 30, 2008 and 2007. We encourage readers to consider this information in conjunction with the Authority's financial statements which follow.

#### FINANCIAL HIGHLIGHTS

**Net Assets --** The assets of the Authority exceeded its liabilities at fiscal years ending June 30, 2008 and 2007 by approximately \$656 and \$629 million, respectively, (presented as "net assets"). Of this amount, approximately \$53.5 and \$47.8 million, respectively, were reported as "unrestricted net assets." Unrestricted net assets represent the amount available to be used to meet the Authority's ongoing operating obligations.

**Change in Net Assets --** The Authority's total net assets increased by approximately \$26.4 million and \$69.5 million, respectively, (4.2% and 12.4% increase, respectively) in fiscal years 2008 and 2007.

#### OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the North Carolina State Education Assistance Authority's financial statements. The Authority's financial statements include four components: 1) Statements of Net Assets, 2) Statements of Revenues, Expenses and Change in Net Assets, 3) Statements of Cash Flows, and 4) Notes to the Financial Statements. The Authority meets the criteria detailed in Government Accounting Standards Board Statement No. 14 for component units and is discretely presented in the State of North Carolina Comprehensive Annual Financial Report (CAFR) by the State Auditor's Office and the Office of the State Controller. The financial statements contained herein report information pertaining to the Authority.

The financial statements provide a broad view of the Authority's operations in a manner similar to private-sector business. The statements provide both short-term and long-term information about the Authority's financial position, which assists in assessing the Authority's economic condition at the end of each fiscal year. These are prepared using the flow of economic resources measurement focus and the accrual basis of accounting. This basically means they follow methods that are similar to those used by most businesses. They take into account all revenues and expenses connected with the fiscal years even if cash involved has not been received or paid.

The statements of net assets present all of the Authority's assets and liabilities, with the difference between the two reported as "net assets." Over time, increases or decreases in the Authority's net assets may serve as a useful indicator of whether the financial position of the Authority is improving or deteriorating.

NORTH CAROLINA  
STATE EDUCATION ASSISTANCE AUTHORITY  
Management's Discussion and Analysis

The statements of revenues, expenses, and change in net assets present information showing how the Authority's net assets changed during the most recent fiscal years. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in these statements for some items that will not result in cash flows until future fiscal periods.

The statements of cash flows present a reconciliation of cash and cash equivalents between the beginning of a year and the end of a year. These statements assist in assessing the Authority's ability to generate future net cash flows, ability to meet obligations as they come due, reasons for differences in operating income and cash flows from operations, and the effect of noncash transactions.

## FINANCIAL ANALYSIS

### Net Assets

As noted earlier, net assets may serve over time as a useful indicator of an entity's financial position. The Authority's net assets totaled approximately \$656 million as of June 30, 2008, compared to approximately \$629 million as of June 30, 2007.

NORTH CAROLINA  
STATE EDUCATION ASSISTANCE AUTHORITY'S  
Net Assets

	<u>2008</u>	<u>2007</u>
Current Assets	\$ 1,500,007,015	\$ 1,429,886,431
Noncurrent Assets	3,320,627,067	2,540,527,733
Capital Assets	<u>7,042,696</u>	<u>7,740,407</u>
Total Assets	<u>\$ 4,827,676,778</u>	<u>\$ 3,978,154,571</u>
Current Liabilities	\$ 651,312,492	\$ 562,779,073
Noncurrent Liabilities	<u>3,520,695,777</u>	<u>2,786,096,971</u>
Total Liabilities	<u>4,172,008,269</u>	<u>3,348,876,044</u>
Invested in Capital Assets	7,042,696	7,740,407
Restricted	595,105,615	573,753,756
Unrestricted	<u>53,520,198</u>	<u>47,784,364</u>
Total Net Assets	<u>655,668,509</u>	<u>629,278,527</u>
Total Liabilities and Net Assets	<u>\$ 4,827,676,778</u>	<u>\$ 3,978,154,571</u>

The largest portion of the Authority's net assets (90.8% at June 30, 2008 and 91.2% at June 30, 2007) represents resources that are subject to external restrictions on how they may be used. An additional portion (1.07% at June 30, 2008 and 1.2% at June 30, 2007) reflects the Authority's investment in capital assets such as equipment, data processing systems, and intangible assets. The Authority uses these capital assets to provide educational assistance services; consequently, these assets are not available for future spending. The remaining balance of unrestricted net assets may be used to meet the Authority's ongoing operating obligations. Internally imposed designations of resources are not presented as restricted net assets.

NORTH CAROLINA  
STATE EDUCATION ASSISTANCE AUTHORITY  
Management's Discussion and Analysis

At the end of the current fiscal year, the Authority is able to report positive balances in all three categories of net assets. The same situation held true for the prior fiscal year.

Changes in Net Assets

The Authority's net assets increased by approximately \$26.4 million or 4.2% during the year ended June 30, 2008 (increased by approximately \$69.5 million or 12.4% during the year ended June 30, 2007).

	2008	2007
<b>NORTH CAROLINA STATE EDUCATION ASSISTANCE AUTHORITY'S Change in Net Assets</b>		
REVENUES:		
Operating Revenues:		
Interest Earnings on Loans	\$ 200,307,959	\$ 203,436,845
Miscellaneous	<u>2,792,111</u>	<u>2,536,282</u>
Total Operating Revenues	<u>203,100,070</u>	<u>205,973,127</u>
Nonoperating Revenues:		
State Aid	142,983,333	98,394,104
Grants	47,161,206	44,806,597
Investment Earnings	<u>39,731,031</u>	<u>41,534,044</u>
Total Nonoperating Revenues	<u>229,875,570</u>	<u>184,734,745</u>
Total Revenues	<u>432,975,640</u>	<u>390,707,872</u>
EXPENSES:		
Operating Expenses:		
Services	68,954,878	63,078,480
Interest	165,516,534	136,776,275
Borrower Benefits	9,826,798	12,335,620
Student Loan Service Cancellations	15,812,309	13,743,956
Depreciation and Amortization	6,566,354	3,417,750
Other Expenses	<u>1,116,750</u>	<u>6,231,676</u>
Total Operating Expenses	<u>267,793,623</u>	<u>235,583,757</u>
Nonoperating Expenses:		
Grants, Aid and Subsidies	<u>138,792,035</u>	<u>85,673,081</u>
Total Nonoperating Expenses	<u>138,792,035</u>	<u>85,673,081</u>
Total Expenses	<u>406,585,658</u>	<u>321,256,838</u>
CHANGE IN NET ASSETS	26,389,982	69,451,034
NET ASSETS--Beginning of Year	<u>629,278,527</u>	<u>559,827,493</u>
NET ASSETS--End of Year	\$ <u>655,668,509</u>	\$ <u>629,278,527</u>

NORTH CAROLINA  
STATE EDUCATION ASSISTANCE AUTHORITY  
Management's Discussion and Analysis

Approximately 46% of the Authority's total revenues came from interest earnings on resources invested in student loans under various education programs originated by or assigned to the Authority. An additional 12% resulted from grants that include federal and state aid and state designated funds for student assistance. Approximately 33% of total revenues came from the State of North Carolina Education Lottery and interest earnings on and corpus from escheated monies held by the State. These funds were distributed to the Authority pursuant to State law for the purpose of providing grants to North Carolina residents enrolled at certain institutions of higher education in North Carolina. Lastly, an additional 9% resulted from investment earnings on cash, cash equivalents, and short-term and long-term investments during the fiscal year.

The Authority's expenses cover a range of services. Approximately 19% of the Authority's total expenses were for personnel costs, fees paid to others in exchange for administration of education assistance programs, collection costs related to student loans, and fees for professional and specialized services incurred by the Authority to maintain and enhance its information dissemination program on planning, applying, and paying for higher education. Approximately 41% of expenses were for interest incurred on bonds issued by the Authority in order to fund student loans, 34% were for grants and aid distributed for education assistance, 2% were for borrower benefits to students in North Carolina's Federal Family Education Loan Program, and 4% were for student loan service cancellations related to certain state sponsored loan programs.

The increase in net assets for the year ended June 30, 2008 is primarily attributable to increases in investment earnings and bond fund income associated with resources invested in student loans and to increases in funds associated with the federal student loan guaranty program.

## CAPITAL ASSET AND DEBT ADMINISTRATION

### Capital Assets

The Authority's investment in capital assets as of June 30, 2008 amounts to approximately \$19.3 million, net of accumulated depreciation of approximately \$12.3 million, leaving a net book value of approximately \$7 million. The Authority's investment in capital assets as of June 30, 2007 amounted to approximately \$19.1 million, net of accumulated depreciation of approximately \$11.4 million, leaving a net book value of approximately \$7.7 million. This investment in capital assets includes office furniture and equipment, data processing systems, other equipment, and intangible assets.

NORTH CAROLINA  
STATE EDUCATION ASSISTANCE AUTHORITY  
Management's Discussion and Analysis

The total gross increase in the Authority's investment in capital assets for the fiscal year 2008 was approximately \$.25 million. The total gross increase in the Authority's investment in capital assets for the fiscal year 2007 was approximately \$5.1 million. The increase during fiscal year 2008 primarily related to computer equipment and office renovation. The increase during fiscal year 2007 primarily related to the purchase of a perpetual software subscription that provides career planning software free of charge to all public schools in North Carolina.

Debt Administration

All bonds are special obligations of the Authority and do not constitute a debt, liability, or obligation of the State of North Carolina. The Series 2005-A and 2008 SECU Bonds are secured by both federally insured student loans and certain non-federal loans of the Authority which are not insured by the federal government. All other bonds are secured by federally insured student loans of the Authority. The Authority's senior lien bonds carry a triple-A, or the equivalent, rating of the following ratings agencies: Fitch Ratings ("Fitch"), Moody's Investors Service ("Moody's"), and Standard & Poor's Ratings Services, a division of the McGraw-Hill Companies, Inc. ("Standard & Poor's"). The outstanding subordinate lien bonds are rated "A" by Fitch and Standard & Poor's and "A2" by Moody's.

The Authority's total debt increased by approximately \$723 million (24.3%) and \$413 million (16.1%) during the fiscal years 2008 and 2007, respectively. During fiscal year 2008, tax-exempt student loan revenue bonds in the amount of \$434.2 million were issued in August 2007 and taxable student loan revenue private placement bonds in the amount of \$1.09 billion were issued in June 2008. Approximately \$801 million was paid on outstanding bonds during fiscal year 2008.

Additional information on the Authority's long-term debt obligations can be found in Note 7 of the notes to the financial statements of this report.

**ECONOMIC FACTORS**

The Authority does not anticipate any significant changes in its operations for the year ended June 30, 2009. However, the lack of liquidity in the capital markets has resulted in higher than anticipated interest costs on previously issued revenue bonds used to finance student loans. These higher interest rates will likely have a negative impact on the Authority's finances for the upcoming year; the severity of the impact will be determined by the length of the market disruption. The Authority is seeking to refinance its portfolio of variable rate demand bonds and its remaining portfolio of auction rate bonds. Additionally, the Authority is looking for ways to reduce operational costs and is restructuring its borrower benefits package for its student and parent loans in order to improve its financial outlook.



STATEMENTS OF NET ASSETS

NORTH CAROLINA  
STATE EDUCATION ASSISTANCE AUTHORITY  
Statements of Net Assets  
June 30, 2008 and 2007

ASSETS

	2008	2007
<b>CURRENT ASSETS:</b>		
Cash and Cash Equivalents	\$ 48,895,891	\$ 42,932,292
Restricted Cash and Cash Equivalents	375,918,293	184,011,901
Restricted Investments	526,301,478	339,086,305
Receivables:		
Accounts Receivable	10,174,984	8,510,193
Intergovernmental Receivables	7,645,248	21,733,030
Interest Receivable	61,920,720	47,699,563
Due From Component Unit	1,740,000	1,750,000
Due from Primary Government	27,483,812	24,715,042
Notes Receivable	439,205,997	758,499,692
Unamortized Bond Issuance Expenses	587,403	927,127
Inventories	18,016	10,286
Prepaid Expense	115,173	11,000
Total Current Assets	1,500,007,015	1,429,886,431
<b>NONCURRENT ASSETS:</b>		
Restricted Cash and Cash Equivalents	86,414,167	162,943,162
Restricted Investments	390,729,596	328,290,306
Notes Receivable	2,827,260,730	2,034,978,879
Unamortized Bond Issuance Expenses	16,222,574	14,315,386
Total Noncurrent Assets	3,320,627,067	2,540,527,733
<b>CAPITAL ASSETS:</b>		
Office Furniture and Equipment	247,514	203,302
Data Processing Systems	13,911,081	13,737,810
Other Equipment	222,795	188,832
Intangible Assets	5,000,000	5,000,000
Accumulated Depreciation	(12,338,694)	(11,389,537)
Net Capital Assets	7,042,696	7,740,407
Total Assets	\$ 4,827,676,778	\$ 3,978,154,571

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

## LIABILITIES AND NET ASSETS

	<u>2008</u>	<u>2007</u>
<b>CURRENT LIABILITIES:</b>		
Accounts Payable and Accrued Liabilities:		
Accounts Payable	\$ 1,366,888	\$ 438,213
Accrued Payroll	136,370	105,600
Intergovernmental Payables		27,590
Due to IRC Section 529 Plan Participants	93,089,425	23,066,834
Interest Payable	50,411,608	32,203,127
Bonds Payable	506,300,000	506,300,000
Arbitrage Rebate and Excess Earnings Liability		628,401
Accrued Vacation Leave	8,201	9,308
Total Current Liabilities	<u>651,312,492</u>	<u>562,779,073</u>
<b>NONCURRENT LIABILITIES:</b>		
Due to IRC Section 529 Plan Participants	326,024,731	313,399,222
Bonds Payable	3,188,637,000	2,465,426,000
Arbitrage Rebate and Excess Earnings Liability	5,738,829	6,996,212
Accrued Vacation Leave	295,217	275,537
Total Noncurrent Liabilities	<u>3,520,695,777</u>	<u>2,786,096,971</u>
Total Liabilities	<u>4,172,008,269</u>	<u>3,348,876,044</u>
<b>NET ASSETS:</b>		
Invested in Capital Assets, net of Related Debt	7,042,696	7,740,407
Restricted for Educational Assistance Programs	595,105,615	573,753,756
Unrestricted	53,520,198	47,784,364
Total Net Assets	<u>655,668,509</u>	<u>629,278,527</u>
Total Liabilities and Net Assets	<u>\$ 4,827,676,778</u>	<u>\$ 3,978,154,571</u>

NORTH CAROLINA  
STATE EDUCATION ASSISTANCE AUTHORITY  
Statements of Revenues, Expenses and Change in Net Assets  
For The Years Ended June 30, 2008 and 2007

	2008	2007
<b>OPERATING REVENUES:</b>		
Interest Earnings on Loans	\$ 200,307,959	\$ 203,436,845
Miscellaneous	2,792,111	2,536,282
Total Operating Revenues	203,100,070	205,973,127
<b>OPERATING EXPENSES:</b>		
Personal Services	3,168,945	2,727,932
Supplies and Materials	49,145	64,792
Services	65,785,933	60,350,548
Interest	165,516,534	136,776,275
Depreciation and Amortization	6,566,354	3,417,750
Borrower Benefits	9,826,798	12,335,620
Student Loan Service Cancellations	15,812,309	13,743,956
Other Expenses	1,067,605	6,166,884
Total Operating Expenses	267,793,623	235,583,757
Operating Loss	(64,693,553)	(29,610,630)
<b>NONOPERATING REVENUES (EXPENSES):</b>		
State Aid	142,983,333	98,394,104
Noncapital Grants	40,311,596	37,312,122
Federal Grants	6,849,610	7,494,475
Investment Earnings	39,731,031	41,534,044
Grants, Aid and Subsidies	(138,792,035)	(85,673,081)
Total Nonoperating Revenues (Expenses)	91,083,535	99,061,664
Change in Net Assets	26,389,982	69,451,034
NET ASSETS--Beginning of Year	629,278,527	559,827,493
NET ASSETS--End of Year	\$ 655,668,509	\$ 629,278,527

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, 2008 and 2007

	2008	2007
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Receipts from Customers	\$ 79,865,944	\$ 174,062,580
Collection of Loans from Students	635,208,627	937,004,178
Payments to Employees and Fringe Benefits	(3,119,602)	(2,680,352)
Payments to Vendors and Suppliers	(49,316,091)	(54,160,957)
Loans Issued to Students	(934,002,644)	(1,138,007,484)
Payments of Operating Interest Expense	(165,516,534)	(136,776,275)
Net Cash Used by Operating Activities	(436,880,300)	(220,558,310)
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:</b>		
Proceeds from Sale of Bonds	1,524,200,000	570,000,000
Repayment of Bond Principal	(800,989,000)	(156,928,000)
Bond Issuance Costs	(7,179,044)	(3,378,389)
State Aid	142,983,333	98,394,104
Noncapital Grants	40,311,596	37,312,122
Federal Grants	6,849,610	7,494,475
Grants, Aid and Subsidies	(138,792,035)	(85,673,081)
Net Cash Provided by Noncapital Financing Activities	767,384,460	467,221,231
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>		
Acquisition of Capital Assets	(257,063)	(5,094,918)
Net Cash Used by Capital and Related Financing Activities	(257,063)	(5,094,918)
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Proceeds from the Sale and Maturities of Non-State Treasurer Investments	2,090,581,569	2,681,470,026
Investment Earnings	37,492,280	38,862,467
Purchase of Non-State Treasurer Investments	(2,336,979,950)	(2,776,114,433)
Net Cash Used by Investing Activities	(208,906,101)	(55,781,940)
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	121,340,996	185,786,063
<b>CASH AND CASH EQUIVALENTS--Beginning of Year</b>	389,887,355	204,101,292
<b>CASH AND CASH EQUIVALENTS--End of Year</b>	\$ 511,228,351	\$ 389,887,355

NORTH CAROLINA  
STATE EDUCATION ASSISTANCE AUTHORITY  
Statements of Cash Flows  
For The Years Ended June 30, 2008 and 2007

	2008	2007
<b>RECONCILIATION OF OPERATING LOSS TO</b>		
<b>NET CASH USED BY OPERATING ACTIVITIES:</b>		
Operating Loss	\$ (64,693,553)	\$ (29,610,630)
Adjustments to Reconcile Operating Loss to		
Net Cash Used by Operating Activities:		
Depreciation and Amortization	6,566,354	3,417,750
Student Loan Principal Repayments	419,074,430	720,181,295
Student Loans Issued	(867,203,844)	(1,085,766,291)
Student Loan Cancellations and Write-offs	11,167,239	10,419,038
Allowances and Uncollectible Accounts	4,659,000	2,967,000
Capitalized Interest and Other	(40,684,981)	(25,812,017)
(Increase) Decrease in Assets:		
Accounts Receivable	(1,664,791)	91,075,085
Intergovernmental Receivables	14,087,782	1,091,490
Investment Earnings Receivable	(15,238,488)	(18,168,857)
Due from Component Unit	10,000	(240,000)
Due from Primary Government	(2,768,770)	11,324
Inventories	(7,730)	12,844
Prepaid Expense	(104,173)	36,575
Increase (Decrease) in Liabilities:		
Accounts Payable	17,251,372	12,011,444
Accrued Payroll	30,770	18,780
Intergovernmental Payables	(27,590)	10,804
Due to IRC Section 529 Plan Participants	82,648,100	97,757,256
Accrued Vacation Leave	18,573	28,800
	\$ (436,880,300)	\$ (220,558,310)
Net Cash Used by Operating Activities	\$ (436,880,300)	\$ (220,558,310)
 <b>SUPPLEMENTAL DISCLOSURE</b>		
<b>OF CASH FLOWS INFORMATION:</b>		
Cash Paid During the Year for Interest	\$ 145,253,660	\$ 126,448,775
 <b>NONCASH INVESTING, CAPITAL</b>		
<b>AND FINANCING ACTIVITIES:</b>		
Noncash Distributions from State Treasurer		
Long-Term Investment Pool	\$ 2,467,723	\$ 2,110,805
Write-up of Investments to Fair Market Value	\$ 788,360	\$ 264,732

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

NORTH CAROLINA  
STATE EDUCATION ASSISTANCE AUTHORITY  
Notes To Financial Statements  
June 30, 2008 and 2007

1. Summary of Significant Accounting Policies

A. Organization and Reporting Entity:

Governmental Accounting Standards Board Statement No. 14 requires 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, 2008 and 2007, State of North Carolina Comprehensive Annual Financial Reports (CAFR) by the State Auditor's Office and the Office of the State Controller.

The State Education Assistance Authority is a legally separate authority created to provide a system of financial assistance, consisting of grants, loans, work-study or other employment, and other aids, to qualified students to obtain an education beyond the high school level by attending public or private educational institutions. The Authority is governed by a seven-member board of directors, all of whom are appointed by the Governor. The state provides significant subsidies to the Authority; therefore, a financial benefit/burden relationship exists between the state and the Authority.

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

1. Student Aid Funds
2. North Carolina Student Loan Funds
3. Guaranteed Student Loan Revenue Bond Fund
4. North Carolina Student Incentive Grant Program
5. UNC Need-Based Grant Program
6. North Carolina Student Loan Program for Health, Science and Mathematics
7. North Carolina Nurse Scholarship Loan Program
8. North Carolina Masters Nurse Scholarship Loan Program
9. North Carolina Nurse Education Scholarship Loan Program
10. Principal Fellows Scholarship Loan Program
11. Social Workers Scholarship Loan Program
12. Millennium Teacher Scholarship Loan Program
13. Future Teachers of North Carolina Scholarship Loan Program
14. Physical Education/Coaching Scholarship Loan Program
15. Prospective Teacher/Teacher Assistant Scholarship Loan Program
16. Board of Governor's Dental Scholarship Loan Program
17. Board of Governor's Medical Scholarship Loan Program
18. Graduate Nurse Scholarship Loan Program
19. Paul Douglas Teacher Scholarship Loan Program
20. Golden LEAF Scholars Program
21. North Carolina National College Savings Program
22. Alternative Loan and Collection Programs
23. Education Lottery Scholarship Fund
24. Education Access Rewards NC Scholars Fund (EARN)
25. John B. McLendon Scholarship Fund
26. Child Welfare Postsecondary Support Program
27. State Budget Code 66011
28. Operating Funds

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, as amended.

NORTH CAROLINA  
STATE EDUCATION ASSISTANCE AUTHORITY  
Notes To Financial Statements  
June 30, 2008 and 2007

1. Summary of Significant Accounting Policies (Continued)

B. Basis of Presentation:

The accompanying financial statements are presented in accordance with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board (GASB).

In accordance with GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, the Authority does not apply Financial Accounting Standards Board (FASB) pronouncements issued after November 30, 1989 unless the GASB amends its pronouncements to specifically adopt FASB pronouncements issued after that date.

Pursuant to the provisions of GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, the full scope of the Authority's activities is considered to be a single business type activity and accordingly, is reported within a single column in the financial statements.

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 recorded when an obligation has been incurred, regardless of the timing of the cash flows.

Nonexchange transactions, in which the Authority receives (or gives) value without directly giving (or receiving) equal value in exchange includes state appropriations and certain grants. Revenues are recognized as soon as all eligibility requirements imposed by the provider have been met.

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.

The Statements of Net Assets include a self-balancing set of assets, liabilities, and net assets that report the financial position of the Authority at the end of the fiscal years ended June 30, 2008 and 2007. The Statements of Revenues, Expenses and Change in Net Assets include the one accounting fund group and identify activities which changed net asset balances during the fiscal years.

D. Cash and Cash Equivalents:

This classification includes deposits held by the State Treasurer in the short-term investment fund, as well as cash on deposit and money market accounts with trustees/custodians. The short-term investment fund maintained by the State Treasurer has the general characteristics of a demand deposit account in that participants may deposit and withdraw cash at any time without prior notice or penalty. Additional information regarding cash and cash equivalents is provided in Note 2.



NORTH CAROLINA  
STATE EDUCATION ASSISTANCE AUTHORITY  
Notes To Financial Statements  
June 30, 2008 and 2007

1. Summary of Significant Accounting Policies (Continued)

E. Investments:

This classification includes deposits held by the State Treasurer in certain long-term investment funds, as well as investments with trustees/custodians. Investments generally are reported at fair value, as determined by quoted market prices. The net increase (decrease) in the fair value of investments is recognized as a component of investment earnings. Additional information regarding investments 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.

G. Inventories:

Inventories, consisting of postage, are valued at cost.

H. Capital Assets:

Capital assets are stated at cost at date of acquisition or fair value at date of donation in the case of gifts. The Authority capitalizes assets that have a value or cost in excess of \$5,000 at the date of acquisition and an estimated useful life of more than one year. Depreciation is computed using the straight-line method over the estimated useful lives of the assets as follows: Office furniture and equipment, data processing systems, and other equipment -- 5 to 8 years.

I. Restricted Assets:

Restricted assets represent assets whose use is restricted by external parties, by law through constitutional provisions, or by enabling legislation of other governments.

J. Noncurrent Long-Term Liabilities:

Noncurrent long-term liabilities include arbitrage rebate and excess earnings liability, amounts due to participants in the IRC Section 529 savings plan, principal amounts of bonds payable, and compensated absences that will not be paid within the next fiscal year.

Debt issuance costs are deferred and amortized over the life of the debt using the straight-line method.

K. Compensated Absences:

The Authority's policy is to record 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<sup>st</sup> or for which an employee can be paid upon termination of employment. When classifying compensated absences into current and noncurrent, leave is considered taken using a last in, first out (LIFO) method. 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<sup>th</sup> equals the leave carried forward at the previous December 31<sup>st</sup>, plus the leave earned, less the leave taken between January 1<sup>st</sup> and June 30<sup>th</sup>.

In addition to the vacation leave described above, compensated absences include the accumulated unused portion of the special annual leave bonuses awarded by the North Carolina General Assembly. The bonus leave balance on December 31<sup>st</sup> is retained by employees and transferred into the next calendar year. It is not subject to the limitation on annual leave carried forward described above and is not subject to conversion to sick leave.

NORTH CAROLINA  
STATE EDUCATION ASSISTANCE AUTHORITY  
Notes To Financial Statements  
June 30, 2008 and 2007

1. Summary of Significant Accounting Policies (Continued)

There is no liability for unpaid accumulated sick leave because the Authority has no obligation to pay sick leave upon termination or retirement. However, additional service credit for retirement pension benefits is given for accumulated sick leave upon retirement.

L. Net Assets:

The Authority's net assets are classified as follows:

**Invested in Capital Assets, Net of Related Debt:** This represents the Authority's total investment in capital assets, net of outstanding debt obligations related to those capital assets. To the extent debt has been incurred but not yet expended for capital assets, such amounts are not included as a component of invested in capital assets, net of related debt.

**Restricted Net Assets -- Nonexpendable:** Nonexpendable restricted net assets include endowments and similar type assets whose use is limited by donors or other outside sources and as a condition of the gift, the principal is to be maintained in perpetuity. The Authority currently has no nonexpendable restricted net assets.

**Restricted Net Assets -- Expendable:** Expendable restricted net assets include resources for which the Authority is legally or contractually obligated to spend in accordance with restrictions imposed by external parties.

**Unrestricted Net Assets:** Unrestricted net assets include resources derived from noncapital state grants and related state-supported loan programs.

Restricted and unrestricted resources are tracked using a fund accounting system and are spent in accordance with established fund authorities. Fund authorities provide rules for the fund activity and are separately established for restricted and unrestricted activities. Resources are applied on a transactional basis with unrestricted resources applied to expenses of a general unrestricted nature and to expenses of a restricted nature when restricted resources are unavailable. Restricted resources, when available, are applied to appropriate restricted expenses.

M. Revenue and Expense Recognition:

The Authority classifies its revenues and expenses as operating or nonoperating in the accompanying Statements of Revenues, Expenses, and Changes in Net Assets. Operating revenues and expenses generally result from providing services in connection with the Authority's principal ongoing operations. Operating revenues include activities that have characteristics of exchange transactions, such as (1) interest earned on loans and (2) borrower recoveries and fees. Operating expenses are all expense transactions incurred other than those related to capital and noncapital financing or investing activities as defined by GASB Statement No. 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting*.

Nonoperating revenues include activities that have the characteristics of nonexchange transactions. Revenues from nonexchange transactions and State appropriations that represent subsidies to the Authority, as well as investment income, are considered nonoperating since these are either investing, capital or noncapital financing activities.

NORTH CAROLINA  
STATE EDUCATION ASSISTANCE AUTHORITY  
Notes To Financial Statements  
June 30, 2008 and 2007

1. Summary of Significant Accounting Policies (Continued)

N. 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.

O. 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.

2. Deposits and Investments

A. Deposits:

Unless specifically exempt, the Authority is required by North Carolina General Statute 147-77 to deposit moneys received with the State Treasurer or with a depository institution in the name of the State Treasurer. In addition, General Statute 116-36.1 requires the Authority to deposit its institutional trust funds with the State Treasurer.

At June 30, 2008 and 2007, the amounts shown on the Statements of Net Assets as cash and cash equivalents include \$330,745,070 and \$355,476,438, respectively, which represent the Authority's equity position in the State Treasurer's Short-Term Investment Fund. The Short-Term Investment Fund (a portfolio within the State Treasurer's Investment Pool, an external investment pool that is not registered with the Securities and Exchange Commission and does not have a credit rating) had a weighted average maturity of 2.9 years and 1.6 years as of June 30, 2008 and 2007, respectively. Assets and shares of the Short-Term Investment Fund are valued at amortized cost, which approximates fair value. Deposit and investment risks associated with the State Treasurer's Investment Pool (which includes the State Treasurer's Short-Term Investment Fund) are included in the State of North Carolina's *Comprehensive Annual Financial Report*. An electronic version of this report is available by accessing the North Carolina Office of the State Controller's Internet home page <http://www.ncosc.net/> and clicking on "Financial Reports," or by calling the State Controller's Financial Reporting Section at (919) 981-5454.

Cash on hand at June 30, 2008 and 2007 was \$511,228,351 and \$389,887,355, respectively. The carrying amount and bank balance of the Authority's deposits not with the State Treasurer at June 30, 2008 and 2007 was \$180,483,281 and \$34,410,917, respectively. Custodial credit risk is the risk that in the event of a bank failure, the Authority's deposits may not be returned to it. The Authority does not have a deposit policy for custodial credit risk. As of June 30, 2008 and 2007, the Authority's bank balance was exposed to custodial credit risk as follows:

	<u>2008</u>	<u>2007</u>
Uninsured and Collateral Held by Pledging Financial Institution	\$ 163,666,724	\$ 25,251,554
Uninsured and Collateral Held by Pledging Financial Institution's Agent but not in Authority's Name	<u>16,816,557</u>	<u>9,159,363</u>
Total	<u>\$ 180,483,281</u>	<u>\$ 34,410,917</u>

NORTH CAROLINA  
STATE EDUCATION ASSISTANCE AUTHORITY  
Notes To Financial Statements  
June 30, 2008 and 2007

2. Deposits and Investments (Continued)

B. Investments:

North Carolina General Statutes 147-69.1(c) and 147-69.2, which are applicable to the Authority, 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; time deposits of specified institutions; prime quality commercial paper, and asset-backed securities with specified ratings. Also, General Statute 147-69.1(c) authorizes the following: specified bills of exchange or time drafts and corporate bonds and notes with specified ratings. General Statute 147-69.2 authorizes the following: general obligations of other states; general obligations of North Carolina local governments; and obligations of certain entities with specified ratings.

Investments totaled \$917,031,074 at June 30, 2008 and \$667,376,611 at June 30, 2007. The Authority's portion of the State Treasurer's Long-Term Investment Fund at June 30, 2008 and 2007 was \$42,273,169 and \$39,017,086, respectively. The Authority's investments not with the State Treasurer as of June 30, 2008 and 2007 totaled \$874,757,905 and \$628,359,525, respectively.

In accordance with bond resolutions, bond proceeds and debt service funds are invested in obligations that will by their terms mature on or before the date funds are expected to be required for expenditure or withdrawal.

**Non-Pooled Investments:**

*Interest Rate Risk:* Interest rate risk is the risk the Authority may face should interest rate variances affect the fair value of investments. The Authority does not have a formal investment policy that addresses interest rate risk.

The following table presents the fair value of investments by type and investments subject to interest rate risk at June 30, 2008, for the Authority's non-pooled investments:

	Total	Investment Maturities (in Years)			
		Less Than 1	1 to 5	6 to 10	More Than 10
Investments Subject to Interest Rate Risk:					
U.S. Treasuries	\$ 15,664,343	\$	\$	\$	\$ 15,664,343
Repurchase Agreements	7,169,714			3,657,000	3,512,714
Annuity Contracts	<u>9,729,235</u>	<u>9,729,235</u>			
Total Investments Subject to Interest Rate Risk	<u>32,563,292</u>	<u>\$ 9,729,235</u>	<u>\$</u>	<u>\$ 3,657,000</u>	<u>\$ 19,177,057</u>
Investments Not Subject to Interest Rate Risk:					
Investment Agreements	519,131,764				
Other Mutual Funds	302,221,378				
Domestic Stocks	<u>20,841,471</u>				
Total Investments Not Subject to Interest Rate Risk	<u>842,194,613</u>				
Total Non-Pooled Investments	<u>\$ 874,757,905</u>				

NORTH CAROLINA  
STATE EDUCATION ASSISTANCE AUTHORITY  
Notes To Financial Statements  
June 30, 2008 and 2007

2. Deposits and Investments (Continued)

The following table presents the fair value of investments by type and investments subject to interest rate risk at June 30, 2007, for the Authority's non-pooled investments:

	Total	Investment Maturities (in Years)			
		Less Than 1	1 to 5	6 to 10	More Than 10
Investments Subject to Interest Rate Risk:					
U.S. Treasuries	\$ 14,161,057	\$	\$	\$ 8,834,957	\$ 5,326,100
Repurchase Agreements	8,958,259			3,657,000	5,301,259
Annuity Contracts	16,756,594	8,328,282	8,428,312		
Mutual Bond Funds	44,016,400		43,679,629	336,771	
Money Market Mutual Funds	<u>2,616,813</u>	<u>2,616,813</u>			
Total Investments Subject to Interest Rate Risk	<u>86,509,123</u>	<u>\$ 10,945,095</u>	<u>\$ 52,107,941</u>	<u>\$ 12,828,728</u>	<u>\$ 10,627,359</u>
Investments Not Subject to Interest Rate Risk:					
Investment Agreements	330,128,046				
International Mutual Funds	36,672,332				
Other Mutual Funds	151,296,713				
Domestic Stocks	<u>23,753,311</u>				
Total Investments Not Subject to Interest Rate Risk	<u>541,850,402</u>				
Total Non-Pooled Investments	<u>\$ 628,359,525</u>				

*Credit Risk:* Credit Risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The Authority has formally adopted investment policies for credit risk stating that certain investment obligations shall bear one of the two highest ratings by nationally recognized rating services.

As of June 30, 2008, the Authority's non-pooled investments had the following credit quality distribution for securities with credit exposure:

	Fair Value	AAA Aaa	AA Aa	A	BBB Baa	BB/Ba and Below	Unrated
Repurchase Agreements	\$ 7,169,714	\$	\$	\$	\$	\$	\$ 7,169,714
Annuity Contracts	<u>9,729,235</u>						<u>9,729,235</u>
Total	<u>\$16,898,949</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$16,898,949</u>

Rating Agency: Standard & Poor's

NORTH CAROLINA  
STATE EDUCATION ASSISTANCE AUTHORITY  
Notes To Financial Statements  
June 30, 2008 and 2007

2. Deposits and Investments (Continued)

As of June 30, 2007, the Authority's non-pooled investments had the following credit quality distribution for securities with credit exposure:

	Fair Value	AAA Aaa	AA Aa	A	BBB Baa	BB/Ba and Below	Unrated
Repurchase							
Agreements	\$ 8,958,259	\$	\$	\$	\$	\$	\$ 8,958,259
Annuity Contracts	16,756,594						16,756,594
Mutual Bond Funds	44,016,400						44,016,400
Money Market							
Mutual Funds	<u>2,616,813</u>						<u>2,616,813</u>
Total	<u>\$72,348,066</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$72,348,066</u>

Rating Agency: Standard & Poor's

*Custodial Credit Risk:* Custodial credit risk is the risk that, in the event of the failure of the counterparty, the Authority will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Authority does not have a formal policy that addresses custodial credit risk.

At June 30, 2008, the Authority's non-pooled investments were exposed to custodial credit risk as follows:

	Total	Held by Counterparty	Held by Counterparty's Trust Dept or Agent Not in Authority's Name	All Other Investments
Investments Categorized:				
U.S. Treasuries	\$ 15,664,343	\$	\$	\$ 15,664,343
Repurchase Agreements	7,169,714		7,169,714	
Domestic Stocks	<u>20,841,471</u>		<u>20,841,471</u>	
Total Categorized	<u>43,675,528</u>	<u>\$</u>	<u>\$ 28,011,185</u>	<u>\$ 15,664,343</u>
Investments Not Categorized:				
Investment Agreements	519,131,764			
Other Mutual Funds	302,221,378			
Annuity Contracts	<u>9,729,235</u>			
Total Not Categorized	<u>831,082,377</u>			
Total Non-Pooled Investments	<u>\$ 874,757,905</u>			

NORTH CAROLINA  
STATE EDUCATION ASSISTANCE AUTHORITY  
Notes To Financial Statements  
June 30, 2008 and 2007

2. Deposits and Investments (Continued)

At June 30, 2007, the Authority's non-pooled investments were exposed to custodial credit risk as follows:

	<u>Total</u>	<u>Held by Counterparty</u>	<u>Held by Counterparty's Trust Dept or Agent Not in Authority's Name</u>	<u>All Other Investments</u>
Investments Categorized:				
U.S. Treasuries	\$ 14,161,057	\$	\$	\$ 14,161,057
Repurchase Agreements	8,958,259		8,958,259	
Domestic Stocks	<u>23,753,311</u>		<u>23,753,311</u>	
Total Categorized	<u>46,872,627</u>	<u>\$</u>	<u>\$ 32,711,570</u>	<u>\$ 14,161,057</u>
Investments Not Categorized:				
Investment Agreements	330,128,046			
Money Market Mutual Funds	2,616,813			
Mutual Bond Funds	44,016,400			
International Mutual Funds	36,672,332			
Other Mutual Funds	151,296,713			
Annuity Contracts	<u>16,756,594</u>			
Total Not Categorized	<u>581,486,898</u>			
Total Non-Pooled Investments	<u>\$ 628,359,525</u>			

*Concentration of Credit Risk:* Concentration of credit risk is the risk of loss attributable to the magnitude of an investment in a single issuer. The Authority does not have a formal policy that addresses concentration of credit risk. The Authority places no limit on the amount that may be invested in any one issuer. As of June 30, 2008, more than 5% of the Authority's non-pooled investments are in Pallas Capital Funding Corporation (44%), and Trinity Plus Funding Company (6%). As of June 30, 2007, more than 5% of the Authority's non-pooled investments were in Trinity Plus Funding Company (25%), AIG Matched Funding Corporation (12%), Natixis Funding Corporation (7%), and FSA Capital Management Services (6%).

*Foreign Currency Risk:* Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment. The Authority has formally adopted investment policies for foreign currency risk stating that foreign investments must be denominated in U.S. dollars or the securities must be traded solely on an exchange based in the United States. The Authority's non-pooled investments exposed to foreign currency risk are comprised entirely of amounts invested in International Mutual Funds. As of June 30, 2008, there were no amounts invested in International Mutual Funds. As of June 30, 2007, the amount invested in International Mutual Funds was \$36,672,332.

NORTH CAROLINA  
STATE EDUCATION ASSISTANCE AUTHORITY  
Notes To Financial Statements  
June 30, 2008 and 2007

2. Deposits and Investments (Continued)

**Total Non-Pooled Investments:**

The following table presents the fair value of the Authority's total investments not with the State Treasurer at June 30, 2008 and 2007:

	<u>2008</u>	<u>2007</u>
Debt Securities:		
U.S. Treasuries	\$ 15,664,343	\$ 14,161,057
Repurchase Agreements	7,169,714	8,958,259
Annuity Contracts	9,729,235	16,756,594
Mutual Bond Funds		44,016,400
Money Market Mutual Funds		<u>2,616,813</u>
Total Debt Securities	<u>32,563,292</u>	<u>86,509,123</u>
Other Securities:		
Investment Agreements	519,131,764	330,128,046
International Mutual Funds		36,672,332
Other Mutual Funds	302,221,378	151,296,713
Domestic Stocks	<u>20,841,471</u>	<u>23,753,311</u>
Total Other Securities	<u>842,194,613</u>	<u>541,850,402</u>
 Total Non-Pooled Investments	 <u>\$ 874,757,905</u>	 <u>\$ 628,359,525</u>

3. Receivables

The gross receivables and related allowances for service cancellations and doubtful accounts on student loans at June 30, 2008 were:

	<u>Total</u>	<u>Current</u>	<u>Noncurrent</u>
Note Receivable--XAP Corporation	\$ 3,382,274	\$ 322,899	\$ 3,059,375
Gross Student Loan Receivables	3,318,544,453	449,903,603	2,868,640,850
Less: Allowance for Service Cancellations and Doubtful Accounts	<u>55,460,000</u>	<u>11,020,505</u>	<u>44,439,495</u>
Net Receivables	<u>\$ 3,266,466,727</u>	<u>\$ 439,205,997</u>	<u>\$ 2,827,260,730</u>

The gross receivables and related allowances for service cancellations and doubtful accounts on student loans at June 30, 2007 were:

	<u>Total</u>	<u>Current</u>	<u>Noncurrent</u>
Note Receivable--XAP Corporation	\$ 3,613,726	\$ 313,726	\$ 3,300,000
Gross Student Loan Receivables	2,840,665,845	768,753,021	2,071,912,824
Less: Allowance for Service Cancellations and Doubtful Accounts	<u>50,801,000</u>	<u>10,567,055</u>	<u>40,233,945</u>
Net Receivables	<u>\$ 2,793,478,571</u>	<u>\$ 758,499,692</u>	<u>\$ 2,034,978,879</u>



NORTH CAROLINA  
STATE EDUCATION ASSISTANCE AUTHORITY  
Notes To Financial Statements  
June 30, 2008 and 2007

4. Capital Assets

A summary of changes in capital assets for the year ended June 30, 2008 is presented as follows:

	Balance <u>July 1, 2007</u>	<u>Additions</u>	<u>Deletions</u>	Balance <u>June 30, 2008</u>
Capital Assets Not Being Depreciated:				
Intangible Assets	\$ 5,000,000	\$	\$	\$ 5,000,000
Capital Assets Being Depreciated:				
Office Furniture and Equipment	203,302	44,212		247,514
Data Processing Systems	13,737,810	178,888	5,617	13,911,081
Other Equipment	<u>188,832</u>	<u>33,963</u>		<u>222,795</u>
Total Capital Assets	<u>19,129,944</u>	<u>257,063</u>	<u>5,617</u>	<u>19,381,390</u>
Less Accumulated Depreciation for:				
Office Furniture and Equipment	186,987	4,387		191,374
Data Processing Systems	11,076,589	937,170	5,617	12,008,142
Other Equipment	<u>125,961</u>	<u>13,217</u>		<u>139,178</u>
Total Accumulated Depreciation	<u>11,389,537</u>	<u>954,774</u>	<u>5,617</u>	<u>12,338,694</u>
Net Capital Assets	\$ <u>7,740,407</u>	\$ <u>(697,711)</u>	\$ <u>0</u>	\$ <u>7,042,696</u>

A summary of changes in capital assets for the year ended June 30, 2007 is presented as follows:

	Balance <u>July 1, 2006</u>	<u>Additions</u>	<u>Deletions</u>	Balance <u>June 30, 2007</u>
Capital Assets Not Being Depreciated:				
Intangible Assets	\$	\$ 5,000,000	\$	\$ 5,000,000
Capital Assets Being Depreciated:				
Office Furniture and Equipment	209,614		6,312	203,302
Data Processing Systems	14,036,631	46,424	345,245	13,737,810
Other Equipment	<u>140,338</u>	<u>48,494</u>		<u>188,832</u>
Total Capital Assets	<u>14,386,583</u>	<u>5,094,918</u>	<u>351,557</u>	<u>19,129,944</u>
Less Accumulated Depreciation for:				
Office Furniture and Equipment	189,334	3,965	6,312	186,987
Data Processing Systems	9,101,279	2,320,555	345,245	11,076,589
Other Equipment	<u>121,491</u>	<u>4,470</u>		<u>125,961</u>
Total Accumulated Depreciation	<u>9,412,104</u>	<u>2,328,990</u>	<u>351,557</u>	<u>11,389,537</u>
Net Capital Assets	\$ <u>4,974,479</u>	\$ <u>2,765,928</u>	\$ <u>0</u>	\$ <u>7,740,407</u>

5. Accounts Payable and Accrued Liabilities

Accounts payable and accrued liabilities at June 30, 2008 and 2007 were as follows:

	<u>2008</u>	<u>2007</u>
Accounts Payable	\$ 1,366,888	\$ 438,213
Accrued Payroll	136,370	105,600
Intergovernmental Payables	<u>27,590</u>	<u>27,590</u>
	\$ <u>1,503,258</u>	\$ <u>571,403</u>

NORTH CAROLINA  
STATE EDUCATION ASSISTANCE AUTHORITY  
Notes To Financial Statements  
June 30, 2008 and 2007

6. Revolving Line of Credit

On September 15, 2004, the Authority agreed to reimburse the College Foundation, Inc. for principal, interest, unused commitment fees, and other fees due and payable under certain agreements between the Foundation and Branch Banking & Trust concerning a line of credit for which the Authority is designated as guarantor. The sole purpose of the line of credit is to provide funds for education loans or grant awards in the event that the Authority is unable to remit amounts requested by the Foundation in time for scheduled disbursements. The line of credit expires on September 15, 2010.

Interest accrues on the line of credit at a variable rate based on the 30-day LIBOR rate plus 1%, adjusted monthly. In addition, there is an unused fee of 0.125% per annum on the average daily amount of the unused commitment under the line of credit.

As of June 30, 2008, no disbursements have been made from this line of credit. During the years ended June 30, 2008 and 2007, unused fees of \$ 24,913 and \$9,809, respectively, were incurred by the Foundation and subsequently reimbursed by the Authority.

7. Noncurrent Liabilities

A. Changes in Noncurrent Liabilities:

A summary of changes in noncurrent liabilities for the year ended June 30, 2008 is presented as follows:

	Balance July 1, 2007	Additions	Deletions	Balance June 30, 2008	Current Portion
Bonds Payable	\$ 2,971,726,000	\$ 1,524,200,000	\$ 800,989,000	\$ 3,694,937,000	\$ 506,300,000
Accrued Vacation Leave	284,845	27,881	9,308	303,418	8,201
Arbitrage Rebate and Excess Earnings Liability	7,624,613		1,885,784	5,738,829	
Due to IRC Section 529 Plan Participants	<u>336,466,056</u>	<u>103,043,249</u>	<u>20,395,149</u>	<u>419,114,156</u>	<u>93,089,425</u>
Total Noncurrent Liabilities	<u>\$ 3,316,101,514</u>	<u>\$ 1,627,271,130</u>	<u>\$ 823,279,241</u>	<u>\$ 4,120,093,403</u>	<u>\$ 599,397,626</u>

A summary of changes in noncurrent liabilities for the year ended June 30, 2007 is presented as follows:

	Balance July 1, 2006	Additions	Deletions	Balance June 30, 2007	Current Portion
Bonds Payable	\$ 2,558,654,000	\$ 570,000,000	\$ 156,928,000	\$ 2,971,726,000	\$ 506,300,000
Accrued Vacation Leave	256,045	38,277	9,477	284,845	9,308
Arbitrage Rebate and Excess Earnings Liability	4,153,034	3,545,433	73,854	7,624,613	628,401
Due to IRC Section 529 Plan Participants	<u>238,708,800</u>	<u>113,889,039</u>	<u>16,131,783</u>	<u>336,466,056</u>	<u>23,066,834</u>
Total Noncurrent Liabilities	<u>\$ 2,801,771,879</u>	<u>\$ 687,472,749</u>	<u>\$ 173,143,114</u>	<u>\$ 3,316,101,514</u>	<u>\$ 530,004,543</u>

NORTH CAROLINA  
STATE EDUCATION ASSISTANCE AUTHORITY  
Notes To Financial Statements  
June 30, 2008 and 2007

7. Noncurrent Liabilities (Continued)

B. Pledged Revenues

The Authority has collateralized \$3,214,388,755 in student loans receivable and \$172,224,906 in reserves to repay \$3,694,937,000 of bonds issued with regards to Tax-Exempt Guaranteed Student Loan Revenue Bonds 1997 Series E, Tax-Exempt Guaranteed Student Loan Revenue Bonds 2001 Series J, Tax-Exempt Guaranteed Student Loan Revenue Bonds 2002 Series K, Tax-Exempt Guaranteed Student Loan Revenue Bonds 2003 Series M, Tax-Exempt Guaranteed Student Loan Revenue Bonds 2003 Series N, Tax-Exempt Guaranteed Student Loan Revenue Bonds 2004 Series O, Taxable Guaranteed Student Loan Revenue Bonds 2005 Series P, Tax-Exempt and Taxable Guaranteed Student Loan Revenue Bonds Series 2005-A, Tax-Exempt Guaranteed Student Loan Revenue Bonds 2006 Series Q, Tax-Exempt Guaranteed Student Loan Revenue Bonds 2007 Series S, and Taxable Guaranteed Student Loan Revenue Private Placement Bonds 2008-1 Series. Proceeds from the bonds issued were utilized to finance student loans. The bonds are payable through 2037 and are paid down from principal collections on student loans receivable, interest earnings on student loans receivable and investments, and unexpended bond proceeds. The total principal and interest remaining to be paid on the bonds is \$7,389,518,950. For the current year, principal and interest paid, cash collections on student loans receivable, and net available revenues were \$946,293,240, \$364,274,356 and \$125,130,563, respectively. In addition to cash collections on student loans receivable, all net available revenues are expected to be pledged to meet annual principal and interest payments on the bonds.

C. Bonds Payable:

All bonds are special obligations of the Authority and are not deemed to constitute a debt, liability or obligation of the State of North Carolina. All bonds, other than the Series 2005-A Bonds, are secured by federally insured student loans of the Authority. The Series 2005-A Bonds are secured by both federally insured student loans and certain private loans of the Authority which are not insured by the federal government. The bonds are summarized as follows:

	<u>Balance</u> <u>July 1, 2007</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 2008</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	\$ 0
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	0
Series F-2 Due 7-01-28 (Variable Rate)	<u>120,000,000</u>		<u>120,000,000</u>	<u>0</u>
	<u>240,000,000</u>		<u>240,000,000</u>	<u>0</u>

NORTH CAROLINA  
STATE EDUCATION ASSISTANCE AUTHORITY  
Notes To Financial Statements  
June 30, 2008 and 2007

7. Noncurrent Liabilities (Continued)

	<u>Balance</u> <u>July 1, 2007</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 2008</u>
Taxable Guaranteed Student				
Loan Revenue Bonds, 2001				
Series I (Senior Lien):				
LIBOR Indexed:				
Due 12-01-13 (Variable Rate)	\$ 8,438,000	\$	\$ 8,438,000	\$ 0
CP Indexed:				
Due 12-01-13 (Variable Rate)	<u>8,438,000</u>	<u>                    </u>	<u>8,438,000</u>	<u>0</u>
	<u>16,876,000</u>	<u>                    </u>	<u>16,876,000</u>	<u>0</u>
Tax-Exempt Guaranteed Student				
Loan Revenue Bonds, 2001				
Series J (Senior Lien):				
Auction Rate Bonds:				
Due 7-01-31 (Variable Rate)	60,000,000			60,000,000
Tax-Exempt Guaranteed Student				
Loan Revenue Bonds, 2002				
Series K (Senior Lien):				
Auction Rate Bonds:				
Series K-1				
Due 7-01-32 (Variable Rate)	60,000,000			60,000,000
Series K-2				
Due 7-01-32 (Variable Rate)	<u>65,000,000</u>	<u>                    </u>	<u>                    </u>	<u>65,000,000</u>
	<u>125,000,000</u>	<u>                    </u>	<u>                    </u>	<u>125,000,000</u>
Taxable Guaranteed Student				
Loan Revenue Bonds, 2002				
Series L (Senior Lien):				
Auction Rate Bonds:				
Series L-1				
Due 7-01-32 (Variable Rate)	65,000,000		65,000,000	0
Series L-2				
Due 7-01-32 (Variable Rate)	<u>70,000,000</u>	<u>                    </u>	<u>70,000,000</u>	<u>0</u>
	<u>135,000,000</u>	<u>                    </u>	<u>135,000,000</u>	<u>0</u>
Tax-Exempt Guaranteed Student				
Loan Revenue Bonds, 2003				
Series M (Senior Lien):				
Auction Rate Bonds:				
Series M-1				
Due 7-01-33 (Variable Rate)	65,000,000			65,000,000
Series M-2				
Due 7-01-33 (Variable Rate)	65,000,000			65,000,000
Series M-3				
Due 7-01-33 (Variable Rate)	<u>70,000,000</u>	<u>                    </u>	<u>                    </u>	<u>70,000,000</u>
	<u>200,000,000</u>	<u>                    </u>	<u>                    </u>	<u>200,000,000</u>

NORTH CAROLINA  
STATE EDUCATION ASSISTANCE AUTHORITY  
Notes To Financial Statements  
June 30, 2008 and 2007

7. Noncurrent Liabilities (Continued)

	<u>Balance</u> <u>July 1, 2007</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 2008</u>
Tax-Exempt Guaranteed Student Loan Revenue Bonds, 2003 Series N (Senior Lien):				
LIBOR Indexed:				
Due 9-01-15 (Variable Rate)	\$ 270,000,000	\$	\$ 93,213,000	\$ 176,787,000
Tax-Exempt Guaranteed Student Loan Revenue Bonds, 2004 Series O (Senior Lien):				
Auction Rate Bonds:				
Series O-1				
Due 7-01-34 (Variable Rate)	82,000,000			82,000,000
Series O-2				
Due 7-01-34 (Variable Rate)	82,000,000			82,000,000
Series O-3				
Due 7-01-34 (Variable Rate)	82,650,000			82,650,000
Series O-4				
Due 7-01-34 (Variable Rate)	75,000,000			75,000,000
Series O-5				
Due 7-01-34 (Variable Rate)	<u>75,000,000</u>	<u>                    </u>	<u>                    </u>	<u>75,000,000</u>
	<u>396,650,000</u>	<u>                    </u>	<u>                    </u>	<u>396,650,000</u>
Taxable Guaranteed Student Loan Revenue Bonds, 2005 Series P (Senior Lien):				
LIBOR Indexed:				
Due 6-01-20 (Variable Rate)	300,000,000			300,000,000
Tax-Exempt Guaranteed Student Loan Revenue Bonds, Series 2005-A:				
Demand Bonds:				
Series A-1				
Due 9-01-35 (Variable Rate)	159,855,000			159,855,000
Series A-2				
Due 9-01-35 (Variable Rate)	159,855,000			159,855,000
Series A-3				
Due 9-01-35 (Variable Rate)	75,945,000			75,945,000
Series A-4				
Due 9-01-35 (Variable Rate)	<u>75,945,000</u>	<u>                    </u>	<u>                    </u>	<u>75,945,000</u>
	<u>471,600,000</u>	<u>                    </u>	<u>                    </u>	<u>471,600,000</u>
Taxable Guaranteed Student Loan Revenue Bonds, Series 2005-A:				
Demand Bonds:				
Series A-5				
Due 9-01-35 (Variable Rate)	17,350,000			17,350,000
Series A-6				
Due 9-01-35 (Variable Rate)	<u>17,350,000</u>	<u>                    </u>	<u>                    </u>	<u>17,350,000</u>
	<u>34,700,000</u>	<u>                    </u>	<u>                    </u>	<u>34,700,000</u>

NORTH CAROLINA  
STATE EDUCATION ASSISTANCE AUTHORITY  
Notes To Financial Statements  
June 30, 2008 and 2007

7. Noncurrent Liabilities (Continued)

	<u>Balance</u> <u>July 1, 2007</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 2008</u>
Tax-Exempt Guaranteed Student				
Loan Revenue Bonds, 2006				
Series Q (Senior/Subordinate Lien):				
Auction Rate Bonds:				
Series Q-1				
Due 7-01-36 (Variable Rate)	\$ 86,500,000	\$	\$	\$ 86,500,000
Series Q-2				
Due 7-01-36 (Variable Rate)	86,500,000			86,500,000
Series Q-3				
Due 7-01-36 (Variable Rate)	86,500,000			86,500,000
Series Q-4				
Due 7-01-36 (Variable Rate)	86,500,000			86,500,000
Series Q-Sub				
Due 7-01-36 (Variable Rate)	<u>30,000,000</u>	<u>                    </u>	<u>                    </u>	<u>30,000,000</u>
	<u>376,000,000</u>	<u>                    </u>	<u>                    </u>	<u>376,000,000</u>
Taxable Guaranteed Student				
Loan Revenue Bonds, 2006				
Series R (Senior Lien):				
Auction Rate Bonds:				
Series R-1				
Due 7-01-36 (Variable Rate)	97,000,000		97,000,000	0
Series R-2				
Due 7-01-36 (Variable Rate)	<u>97,000,000</u>	<u>                    </u>	<u>97,000,000</u>	<u>0</u>
	<u>194,000,000</u>	<u>                    </u>	<u>194,000,000</u>	<u>0</u>
Tax-Exempt Guaranteed Student				
Loan Revenue Bonds, 2007				
Series S (Senior/Subordinate Lien):				
Auction Rate Bonds:				
Series S-1				
Due 7-01-37 (Variable Rate)		85,000,000		85,000,000
Series S-2				
Due 7-01-37 (Variable Rate)		84,800,000		84,800,000
Series S-3				
Due 7-01-37 (Variable Rate)		84,800,000		84,800,000
Series S-4				
Due 7-01-37 (Variable Rate)		84,800,000		84,800,000
Series S-5				
Due 7-01-37 (Variable Rate)		84,800,000		84,800,000
Series S-Sub				
Due 7-01-37 (Variable Rate)	<u>                    </u>	<u>10,000,000</u>	<u>                    </u>	<u>10,000,000</u>
	<u>                    </u>	<u>434,200,000</u>	<u>                    </u>	<u>434,200,000</u>

NORTH CAROLINA  
STATE EDUCATION ASSISTANCE AUTHORITY  
Notes To Financial Statements  
June 30, 2008 and 2007

7. Noncurrent Liabilities (Continued)

	Balance			Balance
	July 1, 2007	Additions	Deletions	
Taxable Guaranteed Student Loan Revenue Private Placement Bonds 2008-1 Series Libor Indexed Series A-1				
Due 6-01-33 (Variable Rate) \$		\$ 890,000,000		\$ 890,000,000
Series A-2				
Due 6-01-33 (Variable Rate)		<u>200,000,000</u>		<u>200,000,000</u>
		<u>1,090,000,000</u>		<u>1,090,000,000</u>
Total	\$ <u>2,971,726,000</u>	\$ <u>1,524,200,000</u>	\$ <u>800,989,000</u>	\$ <u>3,694,937,000</u>

D. Demand Bonds:

Included in bonds payable is a variable rate demand bond issue. These bonds contain a "put" feature that allows bondholders to demand payment before the maturity of the bonds upon proper notice to the Authority's tender agent. The Authority has not entered into legal agreements that would convert the bonds not successfully remarketed into another form of long-term debt.

**Series 2005-A:** On October 27, 2005, the Authority issued Guaranteed Student Loan Revenue Bonds, Series 2005-A, in the amount of \$506,300,000, consisting of four tranches of tax-exempt bonds totaling \$471,600,000 and two tranches of taxable bonds totaling \$34,700,000. This series of bonds matures on September 1, 2035, but \$12,400,000 must be retired by mandatory sinking fund redemption on October 1, 2012. The proceeds of this issuance were used to finance student loans, refund the Authority's outstanding 1995 Series A bonds, make a deposit to the operating fund, and pay issuance costs. While bearing interest at a weekly rate, the bonds are subject to purchase on demand with seven days' notice to the tender agent.

Payment of principal and interest on the Series 2005-A bonds is insured by a financial guaranty insurance policy by Ambac Assurance Corporation. The Authority has entered into a standby bond purchase agreement with a commercial bank for each respective tranche. Pursuant to each agreement, the respective bank has agreed to purchase any bonds of that respective tranche that have been tendered for purchase during the term of the agreement.

E. Annual Requirements:

The annual requirements to pay principal and interest on bonds outstanding at June 30, 2008 are as follows:

Year	Principal	Interest
2009	\$	\$ 148,627,043
2010		148,627,043
2011		148,627,043
2012		148,627,043
2013		148,627,043
2014-2018	176,787,000	727,717,085
2019-2023	300,000,000	691,101,259
2024-2028	30,000,000	675,669,196
2029-2033	1,275,000,000	664,040,627
2034-2038	<u>1,913,150,000</u>	<u>192,918,568</u>
Total Requirements	\$ <u>3,694,937,000</u>	\$ <u>3,694,581,950</u>

NORTH CAROLINA  
STATE EDUCATION ASSISTANCE AUTHORITY  
Notes To Financial Statements  
June 30, 2008 and 2007

7. Noncurrent Liabilities (Continued)

The Tax-Exempt Guaranteed Student Loan Revenue Bonds, 1997 Series E (Senior Lien) are auction rate bonds due July 1, 2027. The Tax-Exempt Guaranteed Student Loan Revenue Bonds, 2001 Series J (Senior Lien) are auction rate bonds due July 1, 2031. The Tax-Exempt Guaranteed Student Loan Revenue Bonds, 2002 Series K (Senior Lien) are auction rate bonds due July 1, 2032. The Tax-Exempt Guaranteed Student Loan Revenue Bonds, 2003 Series M (Senior Lien) are auction rate bonds due July 1, 2033. The Taxable Guaranteed Student Loan Revenue Bonds, 2003 Series N (Senior Lien) are LIBOR indexed bonds due September 1, 2015. The Tax-Exempt Guaranteed Student Loan Revenue Bonds, 2004 Series O (Senior Lien) are auction rate bonds due July 1, 2034. The Taxable Guaranteed Student Loan Revenue Bonds, 2005 Series P (Senior Lien) are LIBOR indexed bonds due June 1, 2020. The Tax-Exempt and Taxable Guaranteed Student Loan Revenue Bonds, Series 2005-A are demand bonds due September 1, 2035. The Tax-Exempt Guaranteed Student Loan Revenue Bonds, 2006 Series Q (Senior/Subordinate Lien) are auction rate bonds due July 1, 2036. The Taxable Guaranteed Student Loan Revenue Bonds, 2006 Series R (Senior Lien) are auction rate bonds due July 1, 2036. The Tax-Exempt Guaranteed Student Loan Revenue Bonds, 2007 Series S (Senior/Subordinate Lien) are auction rate bonds due July 1, 2037. The Taxable Guaranteed Student Loan Revenue Private Placement Bonds, 2008-1 Series are LIBOR indexed bonds due June 1, 2003. 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, 2008. Therefore, the debt service interest requirements on the aforementioned series will change on a weekly to quarterly basis throughout the life of the bonds.

F. Bond Defeasance:

On June 30, 2008, the Authority issued \$1,090,000,000 in 2008-1 Series Student Loan Revenue Private Placement Bonds with an interest rate of 3.90063%. The refunding component of this issue was used for a current refunding of \$647,400,000 of outstanding Taxable Guaranteed Student Loan Revenue Bonds with an average interest rate of 4.70%. The refunding was undertaken to reduce total debt service payments by \$102,714,177 over the next 25 years and resulted in an economic gain of \$68,942,878.

On August 8, 2006, the Authority issued \$194,000,000 in 2006 Series Q Tax-Exempt Guaranteed Student Loan Revenue Bonds with an average interest rate of 3.67%. The refunding component of this issue was used for a current refunding of \$25,000,000 of outstanding 1996 Series C Tax-Exempt Guaranteed Student Loan Revenue Bonds with an interest rate of 6.35%. The refunding was undertaken to reduce total debt service payments by \$6,093,313 over the next 11 years and resulted in an economic gain of \$4,980,376.

8. Arbitrage Rebate and Excess Earnings Liability

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.



NORTH CAROLINA  
STATE EDUCATION ASSISTANCE AUTHORITY  
Notes To Financial Statements  
June 30, 2008 and 2007

8. Arbitrage Rebate and Excess Earnings Liability (Continued)

The Authority had computations made to determine the arbitrage rebate and excess earnings liability at June 30, 2008 and 2007. Based on those results, the Authority incurred a reduction in expense of \$1,885,783 for the year ended June 30, 2008 and an expense of \$3,545,432 for the year ended June 30, 2007. This expense is determined using the "Future Value" method of determining cumulative arbitrage rebate and excess earnings 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, 2008 and 2007, the Authority reported amounts of \$5,738,829 and \$7,624,613, respectively, for the arbitrage rebate and excess earnings liability. The Authority's General Resolutions require that specific portions of the liability be deposited in the Rebate Fund maintained by the Bond Trustee by September 30 of each year.

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 or the Optional Retirement Program. Eligible employees can elect to participate in the Optional Retirement Program at the time of employment; otherwise they are automatically enrolled in the Teachers' and State Employees' Retirement System.

The Teachers' and State Employees' Retirement System is a cost sharing multiple-employer defined benefit pension plan established by the State to provide pension benefits for employees of the State, its component units, and local boards of education. The plan is administered by the North Carolina State Treasurer.

Benefit and contribution provisions for the Teachers' and State Employees' Retirement System are established by North Carolina General Statutes 135-5 and 135-8 and may be amended only by the North Carolina General Assembly. Employer and member contribution rates are set each year by the North Carolina General Assembly based on annual actuarial valuations. For the year ended June 30, 2008, these rates were set at 3.05% of covered payroll for employers and 6% of covered payroll for members. Required employer contribution rates for the years ended June 30, 2007 and 2006 were 2.66% and 2.34%, respectively, while employee contributions were 6% each year. The Authority made 100% of its annual required contributions for the years ended June 30, 2008, 2007, and 2006.

The Teachers' and State Employees' Retirement System's financial information is included in the State of North Carolina's *Comprehensive Annual Financial Report*. An electronic version of this report is available by accessing the North Carolina Office of the State Controller's Internet home page <http://www.ncosc.net/> and clicking on "Financial Reports," or by calling the State Controller's Financial Reporting Section at (919) 981-5454.

The Optional Retirement Program (Program) is a defined contribution retirement plan that 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 Board of Governors of The University of North Carolina is responsible for the administration of the Program and designates the companies authorized to offer investment products or the trustee responsible for the investment of contributions under the Program and approves the form and contents of the contracts and trust agreements.

NORTH CAROLINA  
STATE EDUCATION ASSISTANCE AUTHORITY  
Notes To Financial Statements  
June 30, 2008 and 2007

9. Pension Plans (Continued)

Participants in the Program are immediately vested in the value of employee contributions. The value of employer contributions is vested after five years of participation in the Program. Participants become eligible to receive distributions when they terminate employment or retire.

Participant eligibility and contributory requirements are established by General Statute 135-5.1. Employer and member contribution rates are set each year by the North Carolina General Assembly. For the years ended June 30, 2008 and 2007, these rates were set at 6.84% of covered payroll for employers and 6% of covered payroll for members. The Authority assumes no liability other than its contribution.

For the years ended June 30, 2008 and 2007, the Authority had a total payroll of \$2,533,276 and \$2,192,467, respectively, of which \$2,247,950 and \$1,923,290 was covered under the Teachers' and State Employees' Retirement System and \$285,326 and \$269,177 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, 2008 and 2007 were \$134,877 and \$115,397, respectively. Total employee contributions under the Optional Retirement Program for the years ended June 30, 2008 and 2007 were \$17,120 and \$16,151, respectively. Total employer contributions for pension benefits under the Teachers' and State Employees' Retirement System for the years ended June 30, 2008, 2007, and 2006 were \$68,562, \$51,159, and \$37,286, respectively. Total employer contributions under the Optional Retirement Program for the years ended June 30, 2008, 2007, and 2006 were \$19,516, \$18,412, and \$12,813, respectively.

B. Deferred Compensation and Supplemental Retirement Income Plans:

IRC Section 457 Plan - The State of North Carolina offers its permanent employers 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 \$22,404 for each of the years ended June 30, 2008 and 2007.

IRC 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 \$58,862 and \$59,715 for the years ended June 30, 2008 and 2007, respectively.

NORTH CAROLINA  
STATE EDUCATION ASSISTANCE AUTHORITY  
Notes To Financial Statements  
June 30, 2008 and 2007

9. Pension Plans (Concluded)

IRC Section 403(b) and 403(b)(7) Plans - Eligible Authority employees 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 nonprofit 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 \$36,436 and \$29,866 for the years ended June 30, 2008 and 2007, respectively.

10. Other Postemployment Benefits

A. Health Benefits:

The Authority participates in the Comprehensive Major Medical Plan (the Plan), a cost sharing, multiple-employer defined benefit health care plan that provides postemployment health insurance to eligible former employees. Eligible former employees include long-term disability beneficiaries of the Disability Income Plan of North Carolina and retirees of the Teachers' and State Employees' Retirement System or the Optional Retirement Program. Coverage eligibility varies depending on years of contributory membership service in their retirement system prior to disability or retirement.

The Plan benefit and contribution provisions are established by Chapter 135-7, Article 1, and Chapter 135, Article 3, of the General Statutes and may be amended only by the North Carolina General Assembly. The Plan does not provide for automatic post-retirement benefit increases.

By General Statute, a Retiree Health Benefit Fund (the Fund) has been established as a fund in which accumulated contributions from employers and any earnings on those contributions shall be used to provide health benefits to retired and disabled employees and applicable beneficiaries. By statute, the Fund is administered by the Board of Trustees Teachers' and State Employees' Retirement System and contributions to the fund are irrevocable. Also by law, Fund assets are dedicated to providing benefits to retired and disabled employees and applicable beneficiaries and are not subject to the claims of creditors of the employers making contributions to the Fund. Contribution rates to the Fund, which are intended to finance benefits and administrative expenses on a pay-as-you-go basis, are determined by the General Assembly in the Appropriations Bill.

For the current fiscal year the Authority contributed 4.1% of the covered payroll under the Teachers' and State Employees' Retirement System and the Optional Retirement Program to the Fund. Required contribution rate for the years ended June 30, 2007, and 2006, was 3.8%. The Authority made 100% of its annual required contributions to the Plan for the years ended June 30, 2008, 2007, and 2006, which were \$103,864, \$83,314, and \$67,669, respectively. The Authority assumes no liability for retiree health care benefits provided by the programs other than its required contribution.

Additional detailed information about these programs can be located in the State of North Carolina's *Comprehensive Annual Financial Report*. An electronic version of this report is available by accessing the North Carolina Office of the State Controller's Internet home page <http://www.ncosc.net/> and clicking on "Financial Reports" or by calling the State Controller's Financial Reporting Section at (919) 981-5454.

NORTH CAROLINA  
STATE EDUCATION ASSISTANCE AUTHORITY  
Notes To Financial Statements  
June 30, 2008 and 2007

10. Other Postemployment Benefits (Continued)

B. Disability Income:

The Authority participates in the Disability Income Plan of North Carolina (DIPNC), a cost-sharing, multiple-employer defined benefit plan, to provide short-term and long-term disability benefits to eligible members of the Teachers' and State Employees' Retirement System and the Optional Retirement Program. Benefit and contribution provisions are established by Chapter 135, Article 6 of the General Statutes, and may be amended only by the North Carolina General Assembly. The plan does not provide for automatic post-retirement benefit increases.

Disability income benefits are funded by actuarially determined employer contributions that are established in the Appropriations Bill by the General Assembly. For the fiscal year ended June 30, 2008, the Authority made a statutory contribution of .52% of covered payroll under the Teachers' and State Employees' Retirement System and the Optional Retirement Program to the DIPNC. The required contribution rate for the years ended June 30, 2007 and 2006 was .52%. The Authority made 100% of its annual required contributions to the DIPNC for the years ended June 30, 2008, 2007, and 2006, which were \$13,173, \$11,401, and \$9,260, respectively. The Authority assumes no liability for long-term disability benefits under the DIPNC other than its contribution.

Additional detailed information about the DIPNC is disclosed in the State of North Carolina's *Comprehensive Annual Financial Report*.

11. Insurance

Physical plant and equipment used by the Authority and reported on the statement of net assets 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.

Additional details on the state-administered risk management programs are disclosed in the State of North Carolina's *Comprehensive Annual Financial Report*, issued by the Office of the State Controller.

12. Changes in Financial Accounting and Reporting

For the year ended June 30, 2008, the Authority implemented the following pronouncements issued by the Governmental Accounting Standards Board (GASB):

GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*.

GASB Statement No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity transfers of Assets and Future Revenues*

GASB Statement No. 50, *Pension Disclosures*

NORTH CAROLINA  
STATE EDUCATION ASSISTANCE AUTHORITY  
Notes To Financial Statements  
June 30, 2008 and 2007

12. Changes in Financial Accounting and Reporting

GASB Statement No. 45, requires cost-sharing employers to recognize OPEB expense for their contractually required contributions to the plan generally consistent with the approach adopted in GASB Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers, with modifications to reflect differences between pension benefits and OPEB*.

GASB Statement No. 48, requires disclosures pertaining to future revenues that have been pledged in order to disclose information about which revenues will be unavailable for other purposes and how long they will continue to do so.

GASB Statement No. 50, aligns the financial reporting requirements for pensions with those of other postemployment benefits, to conform with GASB Statement No. 45. This Statement amends GASB Statement 27 to require note disclosure of the employer contribution rates and percentage of the amount contributed for the current and preceding two years and to disclose how the required contribution rates are established.

13. Subsequent Events

The Authority anticipates issuing State of North Carolina State Education Assistance Authority Guaranteed Student Loan Revenue Bonds during the year ending June 30, 2009. The proceeds from these bonds, net of certain costs of issuance, will be used to fund student loans.