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NORTH CAROLINA

STATE EDUCATION ASSISTANCE AUTHORITY

Financial Statements

June 30, 2010 and 2009

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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 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, 2010 and 2009, 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, 2010 and 2009, 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.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 2 through 7 be presented to supplement the basic financial statements. Such information, although not a part of the financial statements, is required by the Government Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audit of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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

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September 30, 2010

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NORTH CAROLINA
STATE EDUCATION ASSISTANCE AUTHORITY
Management's Discussion and Analysis
June 30, 2010 and 2009

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, 2010 and 2009. 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, 2010 and 2009 by approximately $584 and $600 million, respectively, (presented as "net assets"). Of this amount, approximately $75.8 and $59.8 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 decreased by approximately $15.9 million (2.7%) in fiscal year 2010, and decreased by approximately $55.8 million (8.5%) in fiscal year 2009.

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 statements 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
June 30, 2010 and 2009

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 $584 million as of June 30, 2010, compared to approximately $600 million as of June 30, 2009.

NORTH CAROLINA
STATE EDUCATION ASSISTANCE AUTHORITY'S
Net Assets

	2010	2009
Current Assets	$ 1,739,677,817	$ 1,025,446,988
Noncurrent Assets	3,940,830,396	4,021,756,335
Capital Assets	6,417,199	6,660,461
Total Assets	$ 5,686,925,412	$ 5,053,863,784
Current Liabilities	$ 1,648,311,522	$ 707,278,519
Noncurrent Liabilities	3,454,775,060	3,746,761,773
Total Liabilities	5,103,086,582	4,454,040,292
Invested in Capital Assets	6,417,199	6,660,461
Restricted	501,634,941	533,403,611
Unrestricted	75,786,690	59,759,420
Total Net Assets	583,838,830	599,823,492
Total Liabilities and Net Assets	$ 5,686,925,412	$ 5,053,863,784

The largest portion of the Authority's net assets (85.9% at June 30, 2010 and 88.9% at June 30, 2009) represents resources that are subject to external restrictions on how they may be used. An additional portion (1.10% at June 30, 2010 and 1.11% at June 30, 2009) 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
June 30, 2010 and 2009

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 decreased by approximately $15.9 million or 2.7% during the year ended June 30, 2010 and decreased by approximately $55.8 million or 8.5% during the year ended June 30, 2009.

NORTH CAROLINA
STATE EDUCATION ASSISTANCE AUTHORITY'S
Change in Net Assets

	2010	2009
REVENUES:		
Operating Revenues:		
Interest Earnings on Loans	$ 110,666,253	$ 135,805,132
Miscellaneous	3,793,302	2,987,281
Total Operating Revenues	114,459,555	138,792,413
Nonoperating Revenues:		
State Aid	209,247,467	192,662,912
Grants	65,010,055	39,870,146
Investment Earnings	7,902,627	19,558,205
Total Nonoperating Revenues	282,160,149	252,091,263
Total Revenues	396,619,704	390,883,676
EXPENSES:		
Operating Expenses:		
Services	83,958,622	67,251,953
Interest	72,318,769	131,821,049
Borrower Benefits	7,287,412	11,582,821
Student Loan Service Cancellations	19,363,269	17,216,737
Depreciation and Amortization	3,685,518	1,506,186
Other Expenses	2,463,294	295,438
Total Operating Expenses	189,076,884	229,674,184
Nonoperating Expenses:		
Grants, Aid and Subsidies	223,527,482	217,054,509
Total Nonoperating Expenses	223,527,482	217,054,509
Total Expenses	412,604,366	446,728,693
CHANGE IN NET ASSETS	(15,984,662)	(55,845,017)
NET ASSETS--Beginning of Year	599,823,492	655,668,509
NET ASSETS--End of Year	$ 583,838,830	$ 599,823,492

NORTH CAROLINA
STATE EDUCATION ASSISTANCE AUTHORITY
Management's Discussion and Analysis
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Approximately 29% 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 16% resulted from grants that include federal and state aid and state designated funds for student assistance. Approximately 53% 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 2% 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 21% 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 18% of expenses were for interest incurred on bonds issued by the Authority in order to fund student loans, 54% 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 5% were for student loan service cancellations related to certain state sponsored loan programs.

The decrease in net assets for the year ended June 30, 2010 is primarily attributable to decreases in subsidies associated with the Federal Family Education Program and decreases in investment earnings.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The Authority's investment in capital assets as of June 30, 2010 amounts to approximately $18.7 million, net of accumulated depreciation of approximately $12.3 million, leaving a net book value of approximately $6.4 million. The Authority's investment in capital assets as of June 30, 2009 amounted to approximately $18.6 million, net of accumulated depreciation of approximately $12 million, leaving a net book value of approximately $6.6 million. This investment in capital assets includes office furniture and equipment, data processing systems, other equipment, and intangible assets.

The total gross increase in the Authority's investment in capital assets for the fiscal year 2010 was approximately $.13 million. The total gross decrease in the Authority's investment in capital assets for the fiscal year 2009 was approximately $.76 million. The increase during fiscal year 2010 primarily related to long-term facility improvements. The decrease during fiscal year 2009 primarily related to dispositions of obsolete data processing equipment and workstations.

Bonds and Notes Payable

All long-term indebtedness and notes payable represent special obligations of the Authority and do not constitute a debt, liability, or obligation of the State of North Carolina. The 2008-1 Series 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 indebtedness is secured by federally insured student loans of the Authority.

The Authority's total debt increased by approximately $503 million (12.6%) and $300 million (8.1%) during the fiscal years 2010 and 2009, respectively.

Additional information on the Authority's debt obligations can be found in Note 7 and Note 8 of the notes to the financial statements of this report.

ECONOMIC FACTORS

The primary economic factors affecting the Authority derive from changes in federal law and national economic trends. Under the terms of the Federal Loan Participation Purchase Program ("Federal LPP") authorized by the "Ensuring Continued Access to Student Loans Act of 2008," Pub. Law 110-227, as amended by Pub. Law 110-315 and Pub. Law 110-350 ("ECASLA"), all 2009-2010 participations must be terminated by September 30, 2010. As of June 30, 2010, the Authority's obligation under the Federal LPP was approximately $824 million. To effect a termination of its participation in the Federal LPP, the Authority authorized the "put," or sale, of the participated student loans to the U.S. Department of Education, as permitted under ECASLA. Based on the schedule set by the U.S. Department of Education, the Authority consummated the sale of its interests in the participated student loans on September 13, 2010.

In addition, the Health Care and Education Reconciliation Act of 2010 ("HERA"), signed into law on March 30, 2010, mandates that all new federal student loans be originated through the Federal Direct Loan Program effective July 1, 2010. While HERA obviates the need for the Authority to raise capital to finance new loans under the Federal Family Education Loan Program, this change in federal law does not immediately alter the revenues and obligations associated with the Authority's existing portfolio of financed student loans and loans under guaranty.

However, national economic trends, as manifest in the limited availability of liquidity in the capital markets, continue to present a challenge to the Authority as the agency seeks to realign its outstanding indebtedness with the yields on the underlying student and parent loans pledged to repay that indebtedness. This interest rate disparity will likely continue to have a negative impact on the Authority's finances for the year ending June 30, 2011. Given that the Authority has accessed the conduit facility authorized by the U.S. Department of Education to the maximum level allowable under current law, the extent of the impact of the interest rate disparity will depend upon access to the capital markets and the Authority’s ability to restructure its most expensive debt and remaining auction rate bonds. The Authority has authorized the issuance of approximately $915 million in student loan backed floating rate notes for the primary purpose of refunding and defeasing certain prior obligations of the Authority, including the Authority’s outstanding auction rate bonds and certain privately placed bonds. The Authority expects to close one or more transactions to accomplish this purpose sometime in the coming year.

STATEMENTS OF NET ASSETS

NORTH CAROLINA
STATE EDUCATION ASSISTANCE AUTHORITY
Statements of Net Assets
June 30, 2010 and 2009

ASSETS

	2010	2009
CURRENT ASSETS:		
Cash and Cash Equivalents	$ 47,630,745	$ 52,580,605
Restricted Cash and Cash Equivalents	189,560,506	131,342,812
Restricted Investments	161,723,692	399,290,147
Receivables:		
Accounts Receivable	34,397	253,607
Intergovernmental Receivables	3,023,292	2,922,478
Interest Receivable	90,375,439	71,944,029
Due From Component Unit	1,740,000	1,740,000
Due from Primary Government	26,900,292	6,365,997
Prepaid Items	7,732	27,834
Notes Receivable	1,218,681,722	358,979,479
Total Current Assets	1,739,677,817	1,025,446,988
NONCURRENT ASSETS:		
Restricted Cash and Cash Equivalents	123,495,910	99,019,854
Restricted Investments	507,635,087	385,677,145
Notes Receivable	3,291,600,494	3,516,278,913
Unamortized Bond Issuance Expenses	18,098,905	20,780,423
Total Noncurrent Assets	3,940,830,396	4,021,756,335
CAPITAL ASSETS:		
Office Furniture and Equipment	175,641	175,641
Data Processing Systems	13,269,372	13,227,307
Other Equipment	302,643	214,769
Intangible Assets	5,000,000	5,000,000
Accumulated Depreciation	(12,330,457)	(11,957,256)
Net Capital Assets	6,417,199	6,660,461
Total Assets	$ 5,686,925,412	$ 5,053,863,784

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

LIABILITIES AND NET ASSETS

	2010	2009
CURRENT LIABILITIES:		
Accounts Payable and Accrued Liabilities:		
Accounts Payable	$ 17,869,635	$ 12,019,739
Accrued Payroll	147,273	151,865
Interest Payable	5,956,093	15,053,416
Short-Term Debt	823,685,178	
Notes Payable	120,500,000	
Due to IRC Section 529 Plan Participants	42,287,187	31,626,550
Bonds Payable	637,200,000	647,400,000
Arbitrage Rebate and Excess Earnings Liability	654,974	1,016,032
Accrued Vacation Leave	11,182	10,917
Total Current Liabilities	1,648,311,522	707,278,519
NONCURRENT LIABILITIES:		
Due to IRC Section 529 Plan Participants	537,923,872	397,792,647
Bonds Payable	1,476,450,000	3,347,062,000
Notes Payable	1,440,024,745	
Arbitrage Rebate and Excess Earnings Liability	34,197	1,559,743
Accrued Vacation Leave	342,246	347,383
Total Noncurrent Liabilities	3,454,775,060	3,746,761,773
Total Liabilities	5,103,086,582	4,454,040,292
NET ASSETS:		
Invested in Capital Assets, net of Related Debt	6,417,199	6,660,461
Restricted for Educational Assistance Programs	501,634,941	533,403,611
Unrestricted	75,786,690	59,759,420
Total Net Assets	583,838,830	599,823,492
Total Liabilities and Net Assets	$ 5,686,925,412	$ 5,053,863,784

NORTH CAROLINA
STATE EDUCATION ASSISTANCE AUTHORITY
Statements of Revenues, Expenses and Change in Net Assets
For The Years Ended June 30, 2010 and 2009

	2010	2009
OPERATING REVENUES:		
Interest Earnings on Loans	$ 110,666,253	$ 135,805,132
Miscellaneous	3,793,302	2,987,281
Total Operating Revenues	114,459,555	138,792,413
OPERATING EXPENSES:		
Personal Services	3,510,836	3,517,051
Supplies and Materials	49,701	59,626
Services	80,447,786	63,734,902
Interest	72,318,769	131,821,049
Depreciation and Amortization	3,685,518	1,506,186
Borrower Benefits	7,287,412	11,582,821
Student Loan Service Cancellations	19,363,269	17,216,737
Other Expenses	2,413,593	235,812
Total Operating Expenses	189,076,884	229,674,184
Operating Loss	(74,617,329)	(90,881,771)
NONOPERATING REVENUES (EXPENSES):		
State Aid	209,247,467	192,662,912
Noncapital Grants	56,756,114	32,466,124
Federal Grants	8,253,941	7,404,022
Investment Earnings	7,902,627	19,558,205
Grants, Aid and Subsidies	(223,527,482)	(217,054,509)
Total Nonoperating Revenues (Expenses)	58,632,667	35,036,754
Change in Net Assets	(15,984,662)	(55,845,017)
NET ASSETS--Beginning of Year	599,823,492	655,668,509
NET ASSETS--End of Year	$ 583,838,830	$ 599,823,492

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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, 2010 and 2009

	2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES:		
Receipts from Customers	$ 115,711,528	$ 38,716,773
Collection of Loans from Students	555,851,380	511,480,731
Payments to Employees and Fringe Benefits	(3,520,300)	(3,446,674)
Payments to Vendors and Suppliers	(87,255,067)	(90,890,796)
Loans Issued to Students	(1,108,001,845)	(1,014,169,405)
Payments of Operating Interest Expense	(72,318,769)	(131,821,049)
Net Cash Used by Operating Activities	(599,533,073)	(690,130,420)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
Proceeds from Sale of Bonds and Notes	2,445,329,869	1,075,655,000
Repayment of Bond Principal	(1,941,931,947)	(776,130,000)
Bond Issuance Costs	(630,800)	(5,079,532)
State Aid	209,247,467	192,662,912
Noncapital Grants	56,756,114	32,466,124
Federal Grants	8,253,941	7,404,022
Grants, Aid and Subsidies	(223,527,482)	(217,054,509)
Net Cash Provided by Noncapital Financing Activities	553,497,162	309,924,017
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Acquisition of Capital Assets	(129,939)	(14,865)
Net Cash Used by Capital and Related Financing Activities	(129,939)	(14,865)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from the Sale and Maturities of Non-State Treasurer Investments	6,869,098,287	3,546,149,862
Redemptions from the State Treasurer Long-Term Investment Pool	25,000,000	
Investment Earnings	4,891,916	16,617,799
Purchase of Non-State Treasurer Investments	(6,775,080,463)	(3,230,348,192)
Net Cash Provided by Investing Activities	123,909,740	332,419,469
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	77,743,890	(47,801,799)
CASH AND CASH EQUIVALENTS--Beginning of Year	282,943,271	330,745,070
CASH AND CASH EQUIVALENTS--End of Year	$ 360,687,161	$ 282,943,271

NORTH CAROLINA
STATE EDUCATION ASSISTANCE AUTHORITY
Statements of Cash Flows
For The Years Ended June 30, 2010 and 2009

	2010	2009
RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES:		
Operating Loss	$ (74,617,329)	$ (90,881,771)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:		
Depreciation and Amortization	3,685,518	1,506,186
Student Loan Principal Repayments	425,164,948	358,420,436
Student Loans Issued	(1,022,612,455)	(922,321,793)
Student Loan Cancellations and Write-offs	11,816,044	10,152,162
Allowances and Uncollectible Accounts	7,826,000	7,103,000
Capitalized Interest and Other	(57,596,487)	(62,145,470)
(Increase) Decrease in Assets:		
Accounts Receivable	225,135	9,921,377
Intergovernmental Receivables	(100,814)	4,722,770
Investment Earnings Receivable	(18,457,809)	(10,337,511)
Due from Primary Government	(20,534,295)	21,117,815
Prepaid Expense	20,102	105,355
Increase (Decrease) in Liabilities:		
Accounts Payable	(5,134,030)	(27,868,394)
Accrued Payroll	(4,592)	15,495
Due to IRC Section 529 Plan Participants	150,791,862	10,305,041
Accrued Vacation Leave	(4,871)	54,882
Net Cash Used by Operating Activities	$ (599,533,073)	$ (690,130,420)
SUPPLEMENTAL DISCLOSURE OF CASH FLOWS INFORMATION:		
Cash Paid During the Year for Interest	$ 81,416,092	$ 167,591,431
NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:		
Noncash Distributions from State Treasurer Long-Term Investment Pool	$ 576,739	$ 2,804,674
Write-up of Investments to Fair Market Value	$ 2,832,571	$ 449,933

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

NORTH CAROLINA
STATE EDUCATION ASSISTANCE AUTHORITY
Notes To Financial Statements
June 30, 2010 and 2009

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, 2010 and 2009, 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 program 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 Fund and Federal Loan Participation Purchase Program
3. Guaranteed Student Loan Revenue Bond Fund and Conduit Funding Program
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. Optometry Scholarship Loan Program
28. State Budget Code 66011
29. 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.

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, 2010 and 2009. 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 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, 2010 and 2009

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. 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.

H. 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.

I. 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 and notes 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.

J. 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 1st 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 30th equals the leave carried forward at the previous December 31st, plus the leave earned, less the leave taken between January 1st and June 30th.

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 31st 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.

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.

1. Summary of Significant Accounting Policies (Continued)

K. 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.

L. Revenue and Expense Recognition:

The Authority classifies its revenues and expenses as operating or nonoperating in the accompanying Statements of Revenues, Expenses, and Change 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.

M. Income Taxes:

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

NORTH CAROLINA
STATE EDUCATION ASSISTANCE AUTHORITY
Notes To Financial Statements
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1. Summary of Significant Accounting Policies (Continued)

N. 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, 2010 and 2009, the amounts shown on the Statements of Net Assets as cash and cash equivalents include $236,905,418 and $277,832,847, 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 1.6 years and 1.8 years as of June 30, 2010 and 2009, 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.osc.nc.gov/ and clicking on "Proceed directly to OSC’s index page," then “Reports,” or by calling the State Controller's Financial Reporting Section at (919) 981-5454.

Cash on hand at June 30, 2010 and 2009 was $360,687,161 and $282,943,271, respectively. The carrying amount and bank balance of the Authority's deposits not with the State Treasurer at June 30, 2010 was $123,781,743. The carrying amount and bank balance of the Authority's deposits not with the State Treasurer at June 30, 2009 was $5,110,424. 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, 2010 and 2009, the Authority's bank balance was exposed to custodial credit risk as follows:

	2010	2009
Uninsured and Uncollateralized	$	$
Uninsured and Collateral Held by Pledging Financial Institution	123,781,743	5,110,424
Uninsured and Collateral Held by Pledging Financial Institution’s Agent but not in the Authority’s Name		
Total	$ 123,781,743	$ 5,110,424

NORTH CAROLINA
STATE EDUCATION ASSISTANCE AUTHORITY
Notes To Financial Statements
June 30, 2010 and 2009

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 $669,358,779 at June 30, 2010 and $784,967,292 at June 30, 2009. The Authority's portion of the State Treasurer's Long-Term Investment Fund at June 30, 2010 and 2009 was $23,937,087 and $45,527,776, respectively. The Authority's investments not with the State Treasurer as of June 30, 2010 and 2009 totaled $645,421,692 and $739,439,516, 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, 2010, for the Authority's non-pooled investments:

		Investment Maturities (in Years)			
	Total	Less Than 1	1 to 5	6 to 10	More Than 10
Investments Subject to Interest Rate Risk:					
Annuity Contracts	$ 3,272,539	$ 3,272,539	$	$	$
Money Market Mutual Funds	123,141,930	123,141,930			
Total Investments Subject to Interest Rate Risk	126,414,469	$ 126,414,469	$	$	$
Investments Not Subject to Interest Rate Risk:					
Investment Agreements	53,276,238				
Other Mutual Funds	431,590,706				
Domestic Stocks	34,140,279				
Total Investments Not Subject to Interest Rate Risk	519,007,223				
Total Non-Pooled Investments	$ 645,421,692				

NORTH CAROLINA
STATE EDUCATION ASSISTANCE AUTHORITY
Notes To Financial Statements
June 30, 2010 and 2009

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, 2009, for the Authority's non-pooled investments:

		Investment Maturities (in Years)			
	Total	Less Than 1	1 to 5	6 to 10	More Than 10
Investments Subject to Interest Rate Risk:					
Annuity Contracts	$ 4,874,087	$ 4,874,087	$	$	$
Money Market Mutual Funds	270,033,651	270,033,651			
Total Investments Subject to Interest Rate Risk	274,907,738	$ 274,907,738	$	$	$
Investments Not Subject to Interest Rate Risk:					
Investment Agreements	129,256,496				
Other Mutual Funds	306,281,361				
Domestic Stocks	28,993,921				
Total Investments Not Subject to Interest Rate Risk	464,531,778				
Total Non-Pooled Investments	$ 739,439,516				

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, 2010, 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
Annuity Contracts	$ 3,272,539	$	$	$	$	$	$ 3,272,539
Money Market Mutual Funds	123,141,930						123,141,930
Total	$ 126,414,469	$	$	$	$	$	$ 126,414,469

As of June 30, 2009, 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
Annuity Contracts	$ 4,874,087	$	$	$	$	$	$ 4,874,087
Money Market Mutual Funds	270,033,651						270,033,651
Total	$ 274,907,738	$	$	$	$	$	$ 274,907,738

NORTH CAROLINA
STATE EDUCATION ASSISTANCE AUTHORITY
Notes To Financial Statements
June 30, 2010 and 2009

2. Deposits and Investments (Continued)

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, 2010, 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:				
Domestic Stocks	$ 34,140,279	$	$ 34,140,279	$
Total Categorized	34,140,279	$	$ 34,140,279	$
Investments Not Categorized:				
Investment Agreements	53,276,238			
Money Market Mutual Funds	123,141,930			
Other Mutual Funds	431,590,706			
Annuity Contracts	3,272,539			
Total Not Categorized	611,281,413			
Total Non-Pooled Investments	$ 645,421,692			

At June 30, 2009, 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:				
Domestic Stocks	$ 28,993,921	$	$ 28,993,921	$
Total Categorized	28,993,921	$	$ 28,993,921	$
Investments Not Categorized:				
Investment Agreements	129,256,496			
Money Market Mutual Funds	270,033,651			
Other Mutual Funds	306,281,361			
Annuity Contracts	4,874,087			
Total Not Categorized	710,445,595			
Total Non-Pooled Investments	$ 739,439,516			

NORTH CAROLINA
STATE EDUCATION ASSISTANCE AUTHORITY
Notes To Financial Statements
June 30, 2010 and 2009

2. Deposits and Investments (Continued)

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, 2010, the Authority had no non-pooled investments in any one issuer that equaled more than 5% of the Authority's total non-pooled investments. As of June 30, 2009, more than 5% of the Authority's non-pooled investments were invested in Pallas Capital Funding Corporation (13%).

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, 2010 and 2009, there were no amounts invested in International Mutual Funds.

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, 2010 and 2009:

	2010	2009
Debt Securities:		
Annuity Contracts	$ 3,272,539	$ 4,874,087
Money Market Mutual Funds	123,141,930	270,033,651
Total Debt Securities	126,414,469	274,907,738
Other Securities:		
Investment Agreements	53,276,238	129,256,496
Other Mutual Funds	431,590,706	306,281,361
Domestic Stocks	34,140,279	28,993,921
Total Other Securities	519,007,223	464,531,778
Total Non-Pooled Investments	$ 645,421,692	$ 739,439,516

3. Receivables

The gross receivables and related allowances for service cancellations and doubtful accounts on student loans at June 30, 2010 were:

	Total	Current	Noncurrent
Note Receivable--XAP Corporation	$ 2,681,250	$ 515,625	$ 2,165,625
Gross Student Loan Receivables	4,577,989,966	1,279,513,665	3,298,476,301
Less: Allowance for Service Cancellations and Doubtful Accounts	70,389,000	61,347,568	9,041,432
Net Receivables	$ 4,510,282,216	$ 1,218,681,722	$ 3,291,600,494

NORTH CAROLINA
STATE EDUCATION ASSISTANCE AUTHORITY
Notes To Financial Statements
June 30, 2010 and 2009

3. Receivables (Continued)

The gross receivables and related allowances for service cancellations and doubtful accounts on student loans at June 30, 2009 were:

	Total	Current	Noncurrent
Note Receivable--XAP Corporation	$ 3,059,375	$ 378,125	$ 2,681,250
Gross Student Loan Receivables	3,934,762,017	368,905,031	3,565,856,986
Less: Allowance for Service Cancellations and Doubtful Accounts	62,563,000	10,303,677	52,259,323
Net Receivables	$ 3,875,258,392	$ 358,979,479	$ 3,516,278,913

4. Capital Assets

A summary of changes in capital assets for the year ended June 30, 2010 is presented as follows:

	Balance July 1, 2009	Additions	Balance June 30, 2010
Capital Assets Not Being Depreciated:			
Intangible Assets	$ 5,000,000	$	$ 5,000,000
Capital Assets Being Depreciated:			
Office Furniture and Equipment	175,641		175,641
Data Processing Systems	13,227,307	42,065	13,269,372
Other Equipment	214,769	87,874	302,643
Total Capital Assets	18,617,717	129,939	18,747,656
Less Accumulated Depreciation for:			
Office Furniture and Equipment	134,674	8,842	143,516
Data Processing Systems	11,671,586	343,449	12,015,035
Other Equipment	150,996	20,910	171,906
Total Accumulated Depreciation	11,957,256	373,201	12,330,457
Net Capital Assets	$ 6,660,461	$ (243,262)	$ 6,417,199

A summary of changes in capital assets for the year ended June 30, 2009 is presented as follows:

	Balance July 1, 2008	Additions	Deletions	Balance June 30, 2009
Capital Assets Not Being Depreciated:				
Intangible Assets	$ 5,000,000	$	$	$ 5,000,000
Capital Assets Being Depreciated:				
Office Furniture and Equipment	247,514		71,873	175,641
Data Processing Systems	13,911,081	14,865	698,639	13,227,307
Other Equipment	222,795		8,026	214,769
Total Capital Assets	19,381,390	14,865	778,538	18,617,717
Less Accumulated Depreciation for:				
Office Furniture and Equipment	191,374	15,173	71,873	134,674
Data Processing Systems	12,008,142	362,083	698,639	11,671,586
Other Equipment	139,178	19,844	8,026	150,996
Total Accumulated Depreciation	12,338,694	397,100	778,538	11,957,256
Net Capital Assets	$ 7,042,696	$ (382,235)	$	$ 6,660,461

NORTH CAROLINA
STATE EDUCATION ASSISTANCE AUTHORITY
Notes To Financial Statements
June 30, 2010 and 2009

5. Accounts Payable and Accrued Liabilities

Accounts payable and accrued liabilities at June 30, 2010 and 2009 were as follows:

	2010	2009
Accounts Payable	$ 17,869,635	$ 12,019,739
Accrued Payroll	147,273	151,865
	$ 18,016,908	$ 12,171,604

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 expired 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, 2010, no disbursements have been made from this line of credit. During the years ended June 30, 2010 and 2009, unused fees of $6,250 and $19,896, respectively, were incurred by the Foundation and subsequently reimbursed by the Authority.

On August 3, 2009, the Authority and the College Foundation, Inc. entered into a Loan and Security Agreement with RBC Bank (USA). Under the terms of the Agreement, RBC provides $50,000,000 revolving credit facility to the Authority which could be used to cover disbursements of eligible student and parent loans prior to inclusion in the Loan Participation Purchase Program established by the U.S. Department of Education. The Authority was responsible for payment of all principal, interest and related fees. During the year ended June 30, 2010, $178,170 was incurred in fees related to this agreement. The maturity date for this facility was August 1, 2010.

7. Short-Term Debt

Short-term debt represents obligations under the Loan Participation Purchase Program used to finance FFELP student loans for the 2009-2010 academic year. At June 30, 2010, the total obligation related to these participation interests was $823,685,178. The Authority consummated the sale of its interests in the participated student loans on September 13, 2010.

The Loan Participation Purchase Program was authorized by the “Ensuring Continued Access to Student Loans Act of 2008” (Pub. Law 110-227) (ECASLA). Under the Loan Participation Purchase Program, the Department of Education purchased “participation interests” in FFEL Program loans made during the academic year. In general, the Authority as the “Sponsor” transferred title to the loans to an unrelated entity called the “Custodian.” Upon transfer, the loans were placed in a “participation facility” under the control of the Custodian. In exchange for that transfer, the Custodian sold, on behalf of the Sponsor, participation interests in the loans to the Department. The Department bought those participation interests by providing the Custodian with funds equal to the disbursed amount of the loans. The Custodian then provided those funds to the Sponsor, thus providing liquidity to the Authority for the FFEL Program loans for the 2009-2010 academic year. The program ended June 30, 2010.

NORTH CAROLINA
STATE EDUCATION ASSISTANCE AUTHORITY
Notes To Financial Statements
June 30, 2010 and 2009

8. Noncurrent Liabilities

A. Changes in Noncurrent Liabilities:

A summary of changes in noncurrent liabilities for the year ended June 30, 2010 is presented as follows:

	Balance July 1, 2009	Additions	Deletions	Balance June 30, 2010	Current Portion
Bonds Payable	$ 3,994,462,000	$	$ 1,880,812,000	$ 2,113,650,000	$ 637,200,000
Accrued Vacation Leave	358,300	6,045	10,917	353,429	11,182
Arbitrage Rebate and Excess Earnings Liability	2,575,775		1,886,604	689,171	654,974
Due to IRC Section 529 Plan Participants	429,419,197	183,904,426	33,112,564	580,211,059	42,287,187
Notes Payable		1,577,155,633	16,630,888	1,560,524,744	120,500,000
Total Noncurrent Liabilities	$ 4,426,815,272	$ 1,761,066,104	$ 1,932,452,973	$ 4,255,428,403	$ 800,653,343

A summary of changes in noncurrent liabilities for the year ended June 30, 2009 is presented as follows:

	Balance July 1, 2008	Additions	Deletions	Balance June 30, 2009	Current Portion
Bonds Payable	$ 3,694,937,000	$ 1,075,655,000	$ 776,130,000	$ 3,994,462,000	$ 647,400,000
Accrued Vacation Leave	303,418	63,083	8,201	358,300	10,917
Arbitrage Rebate and Excess Earnings Liability	5,738,829		3,163,054	2,575,775	1,016,032
Due to IRC Section 529 Plan Participants	419,114,156	127,933,303	117,628,262	429,419,197	31,626,550
Total Noncurrent Liabilities	$ 4,120,093,403	$ 1,203,651,386	$ 896,929,517	$ 4,426,815,272	$ 680,053,499

B. Bonds and Notes Payable:

All long-term indebtedness and notes payable represent obligations of the Authority and are not deemed to constitute a debt, liability or obligation of the State of North Carolina. All indebtedness, other than the 2008-1 Series Bonds, is secured by federally insured student loans of the Authority. The 2008-1 Series 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 obligations are summarized as follows:

	Balance July 1, 2009	Additions	Deletions	Balance June 30, 2010
Tax-Exempt Guaranteed Student Loan Revenue Bonds, 2001 Series J (Senior Lien):				
Auction Rate Bonds:				
Due 7-01-31 (Variable Rate)	$ 60,000,000	$	$ 45,000,000	$ 15,000,000
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)	65,000,000			65,000,000
	125,000,000			125,000,000

NORTH CAROLINA
STATE EDUCATION ASSISTANCE AUTHORITY
Notes To Financial Statements
June 30, 2010 and 2009

8. Noncurrent Liabilities (Continued)

	Balance July 1, 2009	Additions	Deletions	Balance June 30, 2010
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)	70,000,000			70,000,000
	200,000,000			200,000,000
Taxable Guaranteed Student Loan Revenue Bonds, 2003 Series N (Senior Lien):				
LIBOR Indexed:				
Due 9-01-15 (Variable Rate)	35,712,000		35,712,000	0
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	0
Series O-2				
Due 7-01-34 (Variable Rate)	82,000,000		82,000,000	0
Series O-3				
Due 7-01-34 (Variable Rate)	82,650,000		82,650,000	0
Series O-4				
Due 7-01-34 (Variable Rate)	68,200,000		18,400,000	49,800,000
Series O-5				
Due 7-01-34 (Variable Rate)	75,000,000		17,150,000	57,850,000
	389,850,000		282,200,000	107,650,000
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-4				
Due 9-01-35 (Variable Rate)	71,745,000		71,745,000	0

NORTH CAROLINA
STATE EDUCATION ASSISTANCE AUTHORITY
Notes To Financial Statements
June 30, 2010 and 2009

8. Noncurrent Liabilities (Continued)

	Balance July 1, 2009	Additions	Deletions	Balance June 30, 2010
Tax-Exempt Guaranteed Student Loan Revenue Bonds, 2006 Series Q (Senior/Subordinate Lien):				
Auction Rate Bonds:				
Series Q-2				
Due 7-01-36 (Variable Rate)	$ 86,500,000	$	$ 86,500,000	$ 0
Series Q-3				
Due 7-01-36 (Variable Rate)	9,300,000		9,300,000	0
Series Q-4				
Due 7-01-36 (Variable Rate)	86,500,000		86,500,000	0
Series Q-Sub				
Due 7-01-36 (Variable Rate)	30,000,000		30,000,000	0
	212,300,000		212,300,000	0
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	0
Series S-2				
Due 7-01-37 (Variable Rate)	84,800,000		84,800,000	0
Series S-3				
Due 7-01-37 (Variable Rate)	84,800,000		84,800,000	0
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	0
Series S-Sub				
Due 7-01-37 (Variable Rate)	10,000,000		10,000,000	0
	434,200,000		349,400,000	84,800,000
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		861,200,000	28,800,000
Series A-2				
Due 6-01-33 (Variable Rate)	200,000,000			200,000,000
	1,090,000,000		861,200,000	228,800,000
Tax- Exempt Guaranteed Student Loan Revenue and Refunding Bonds 2008-2 Series:				
Demand Bonds:				
Series A-1				
Due 7-01-36 (Variable Rate)	150,000,000		15,455,000	134,545,000
Series A-2				
Due 9-01-35 (Variable Rate)	159,855,000			159,855,000
	309,855,000		15,455,000	294,400,000

NORTH CAROLINA
STATE EDUCATION ASSISTANCE AUTHORITY
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8. Noncurrent Liabilities (Continued)

	Balance July 1, 2009	Additions	Deletions	Balance June 30, 2010
Tax- Exempt Guaranteed Student Loan Revenue and Refunding Bonds 2008-3 Series:				
Demand Bonds:				
Series A-1				
Due 7-01-27 (Variable Rate)	$ 30,000,000	$	$ 2,100,000	$ 27,900,000
Series A-2				
Due 9-01-23 (Variable Rate)	75,945,000			75,945,000
	105,945,000		2,100,000	103,845,000
Taxable Guaranteed Student Loan Revenue Private Placement Bonds 2008-4 Series:				
LIBOR Indexed:				
Due 12-01-33 (Variable Rate)	500,000,000			500,000,000
Tax- Exempt Guaranteed Student Loan Revenue and Refunding Bonds 2008-5 Series:				
Demand Bonds:				
Due 9-01-23 (Variable Rate)	159,855,000		5,700,000	154,155,000
Conduit Funding Notes				
Due 1-14-14 (Variable Rate)		1,577,155,633	16,630,888	1,560,524,745
Total	$ 3,994,462,000	$ 1,577,155,633	$ 1,897,442,888	$ 3,674,174,745

C. Pledged Revenues:

The Authority has collateralized $4,441,034,199 in student loans receivable and $65,884,768 in reserves to repay $4,497,859,923 of bonds issued with regards to 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 2004 Series O, Taxable Guaranteed Student Loan Revenue Bonds 2005 Series P, Tax-Exempt Guaranteed Student Loan Revenue Bonds 2007 Series S, Taxable Guaranteed Student Loan Revenue Private Placement Bonds 2008-1 Series, Tax-Exempt Guaranteed Student Loan Revenue and Refunding Bonds 2008-2 Series, Tax Exempt Guaranteed Student Loan Revenue and Refunding Bonds 2008-3 Series, Taxable Guaranteed Student Loan Revenue Private Placement Bonds 2008-4 Series, Tax-Exempt Guaranteed Student Loan Revenue and Refunding Bonds 2008-5 Series, and Conduit Funding Notes and Plan Participation Financing with the Department of Education. Proceeds from the bonds issued were utilized to finance student loans. The bonds are payable through fiscal year 2038 and are paid down from cash 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 and notes is $5,309,358,741. For the current year, principal and interest paid, cash collections on student loans receivable, and net available revenues were $536,735,209, $394,441,371 and $(20,459,874), 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.

8. Noncurrent Liabilities (Continued)

D. Demand Bonds:

Included in bonds payable are several variable rate demand bond issues. 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.

2008-2 Series: On October 30, 2008, the Authority issued Guaranteed Student Loan Revenue and Refunding Bonds, Series 2008-2 in the amount of $309,855,000 consisting of two tranches of tax-exempt bonds. Series A-1 in the original issue amount of $150,000,000 matures on July, 1 2036, but $25 million must be retired by mandatory sinking fund redemption on July 1, 2016. Series A-2 in the original issue amount of $159,855,000 matures on September 1, 2035. The proceeds of this issuance were used to finance student loans, refund the Authority's outstanding Series 2006-Q and 2005-A bonds, make deposits into the reserve funds, make a deposit into the operating fund, and pay issuance costs. While bearing interest at a weekly rate, the bonds are subject to purchase on demand with seven day's notice to the tender agent.

2008-3 Series: On November 21, 2008, the Authority issued Guaranteed Student Loan Revenue and Refunding Bonds, Series 2008-3 in the amount of $105,945,000 consisting of two tranches of tax-exempt bonds. Series A-1 in the original issue amount of $30,000,000 matures on July 1, 2027. Series A-2 in the original issue amount of 75,945,000 matures on September 1, 2035. The proceeds of this issuance were used to finance student loans, refund the Authority's outstanding Series 1997-E and 2005-A bonds, make deposits into the reserve fund, make a deposit into the operating fund, and pay issuance costs. While bearing interest at a weekly rate, the bonds are subject to purchase on demand with seven day's notice to the tender agent.

2008-5 Series: On December 12, 2008, the Authority issued Guaranteed Student Loan Revenue and Refunding Bonds, Series 2008-5 in the original issue amount of $159,855,000 consisting of one tranche of tax-exempt bonds. This series of bonds matures on September 1, 2035. The proceeds of this issuance were used to finance student loans, refund the Authority's outstanding Series 2005-A bonds, make deposits into the reserve funds, make a deposit into the operating fund, and pay issuance costs. While bearing interest at a weekly rate, the bonds are subject to purchase on demand with seven day's notice to the tender agent.

Each of the 2008 variable rate demand bonds described herein are being remarketed pursuant to remarketing agreements, and each is backed by an irrevocable letter of credit in favor of The Bank of New York Mellon NA, as bond trustee. Three different banks issued the letters of credit (RBC, Bank of America, and BB&T). There have been no draws on the letters of credit, but there are "Facility Fees" payable to the issuing banks set at .90%.

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Notes To Financial Statements
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8. Noncurrent Liabilities (Continued)

E. Annual Requirements:

The annual requirements to pay principal and interest on bonds outstanding at June 30, 2010 are as follows:

Year	Principal	Interest
2011	$ 84,800,000	$ 36,009,890
2012		36,009,890
2013		36,009,890
2014		36,009,890
2015		36,009,890
2016-2020	300,000,000	179,854,944
2021-2025		168,378,964
2026-2030	27,900,000	167,976,929
2031-2035	1,176,450,000	91,590,534
2036-2040	524,500,000	1,793,513
Total Requirements	$ 2,113,650,000	$ 789,644,334

The annual requirements to pay principal and interest on notes outstanding at June 30, 2010 are as follows:

Year	Principal	Interest
2011	$ 120,500,000	$ 5,754,473
2012	120,500,000	5,754,473
2013	120,500,000	5,754,473
2014	1,199,024,745	3,117,006
Total Requirements	$ 1,560,524,745	$ 20,380,425

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 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 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, 2033. The Tax Exempt Guaranteed Student Loan Revenue and Refunding Bonds, 2008-2 Series are demand bonds due July 1, 2036 and September 1, 2035. The Tax Exempt Guaranteed Student Loan Revenue and Refunding Bonds, 2008-3 Series are demand bonds due July 1, 2027 and September 1, 2023. The Taxable Guaranteed Student Loan Revenue Private Placement Bonds, 2008-4 Series are LIBOR indexed bonds due December 1, 2033. The Tax Exempt Guaranteed Student Loan Revenue and Refunding Bonds, 2008-5 Series are demand bonds due September 1, 2023. 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, 2010. Therefore, the debt service interest requirements on the aforementioned series will change on a weekly to quarterly basis throughout the life of the bonds.

NORTH CAROLINA
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Notes To Financial Statements
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8. Noncurrent Liabilities (Concluded)

F. Bond Defeasance:

During the year ended June 30, 2010, the Authority entered into funding note purchase agreements in the amount of $745,000,000 with an initial interest rate of .23229% and $832,000,000 with an initial interest rate of .27665%. The refunding component of these agreements was used for a current refunding of $1,485,424,306 of outstanding Tax-Exempt Student Loan Revenue Bonds with an average interest rate of 2.26%. The refunding was undertaken to reduce total debt service payments by $765,664,847 over the next 27 years and resulted in an economic gain on the reduction of interest payments of $107,363,789.

During the year ended June 30, 2009, the Authority issued $309,855,000 in 2008-2 Series Tax-Exempt Guaranteed Student Loan Revenue and Refunding Bonds with an initial interest rate of 1.85%, $105,945,000 in 2008-3 Series Tax-Exempt Guaranteed Student Loan Revenue and Refunding Bonds with an initial interest rate of 1.35%, and $159,855,000 in 2008-5 Series Tax-Exempt Guaranteed Student Loan Revenue and Refunding Bonds with an initial interest rate of .95%. The refunding component of these issues was used for a current refunding of $551,855,000 of outstanding Tax-Exempt Student Loan Revenue Bonds with an average interest rate of 4.26%. The refunding was undertaken to reduce total debt service payments by $403,723,466 over the next 28 years and resulted in an economic gain of $330,926,229.

9. 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.

The Authority had computations made to determine the arbitrage rebate and excess earnings liability at June 30, 2010 and 2009. Based on those results, the Authority incurred a reduction in expense payable of $1,886,604 for the year ended June 30, 2010 and a reduction in expense payable of $3,163,055 for the year ended June 30, 2009. 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, 2010 and 2009, the Authority reported amounts of $689,171 and $2,575,775, 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.

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10. 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, 2010, these rates were set at 3.57% of covered payroll for employers and 6.00 % of covered payroll for members. Required employer contribution rates for the years ended June 30, 2009 and 2008 were 3.36% and 3.05%, respectively, while employee contributions were 6% each year. The Authority made 100% of its annual required contributions for the years ended June 30, 2010, 2009, and 2008.

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.osc.nc.gov/ and clicking on "Proceed Directly to OSC's index page," then "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.

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, 2010 and 2009, 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.

NORTH CAROLINA
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Notes To Financial Statements
June 30, 2010 and 2009

10. Pension Plans (Continued)

For the years ended June 30, 2010 and 2009, the Authority had a total payroll of $2,785,780 and $2,779,328, respectively, of which $2,470,649 and $2,481,287 was covered under the Teachers' and State Employees' Retirement System and $296,738 and $298,041 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, 2010 and 2009 were $148,239 and $148,877, respectively. Total employee contributions under the Optional Retirement Program for the years ended June 30, 2010 and 2009 were $17,804 and $17,882, respectively. Total employer contributions for pension benefits under the Teachers' and State Employees' Retirement System for the years ended June 30, 2010, 2009, and 2008 were $88,202, $83,371, and $68,562, respectively. Total employer contributions under the Optional Retirement Program for the years ended June 30, 2010, 2009, and 2008 were $20,297, $20,386, and $19,516, 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 $36,884 and $22,404 for the years ended June 30, 2010 and 2009, respectively.

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 $56,302 and $54,712 for the years ended June 30, 2010 and 2009, respectively.

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 $21,960 and $25,764 for the years ended June 30, 2010 and 2009, respectively.

11. 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 3A, 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.

For the current fiscal year, the Authority contributed 4.5% 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, 2009 and 2008 was 4.1%. The Authority made 100% of its annual required contributions to the Plan for the years ended June 30, 2010, 2009, and 2008, which were $124,532, $113,952, and $103,864, 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.osc.nc.gov/ and clicking on "Proceed directly to OSC's index page," then "Reports," or by calling the State Controller's Financial Reporting Section at (919) 981-5454.

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.

11. Other Postemployment Benefits (Continued)

Disability income benefits are funded by actuarially determined employer contributions that are established by the General Assembly. For the fiscal year ended June 30, 2010, 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, 2009 and 2008 was .52%. The Authority made 100% of its annual required contributions to the DIPNC for the years ended June 30, 2010, 2009, and 2008, which were $14,390, $14,452, and $13,173, 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*.

12. 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.

13. Subsequent Events

The Loan Participation Purchase Program authorized by the "Ensuring Continued Access to Student Loans Act of 2008" (Pub.Law 110-227) (ECASLA) ended June 30, 2010. As of June 30, 2010, the Authority's obligation related to the participation interest was $823,685,178. The Authority must "redeem" or "put" (turn over ownership) of the associated financed student loans by October 2010. The Authority sold all interest in the loans to the Department of Education under the Master Loan Sale Agreement on September 13, 2010.

The Authority is currently in the process of considering all financing and refinancing options available and has authorized the issuance of approximately $915 million in Student Loan Backed Notes for the purposes of refunding and defeasing certain prior obligations. The Authority expects to close one or more transactions to accomplish this purpose during the coming year.

Subsequent events have been evaluated through September 30, 2010, which is the date the financial statements were issued.