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NORTH CAROLINA
STATE EDUCATION ASSISTANCE AUTHORITY
Financial Statements
June 30, 2012 and 2011

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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, 2012 and 2011, 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, 2012 and 2011, 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 6 be presented to supplement the 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 audits 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 28, 2012

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NORTH CAROLINA
STATE EDUCATION ASSISTANCE AUTHORITY
Management's Discussion and Analysis
June 30, 2012 and 2011

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, 2012 and 2011. 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, 2012 and 2011 by approximately \$586 and \$581 million, respectively, (presented as "net assets"). Of this amount, approximately \$61.5 and \$58.9 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 \$5 million (.86%) in fiscal year 2012 and decreased by approximately \$2.8 million (.48%) in fiscal year 2011.

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, 2012 and 2011

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 \$586 million as of June 30, 2012, compared to approximately \$581 million as of June 30, 2011.

NORTH CAROLINA
STATE EDUCATION ASSISTANCE AUTHORITY'S
Net Assets

	<u>2012</u>	<u>2011</u>
Current Assets	\$ 812,185,647	\$ 697,599,586
Noncurrent Assets	3,740,227,951	3,990,477,435
Capital Assets	<u>5,657,392</u>	<u>6,044,079</u>
Total Assets	<u>\$ 4,558,070,990</u>	<u>\$ 4,694,121,100</u>
Current Liabilities	\$ 518,018,546	\$ 332,446,429
Noncurrent Liabilities	<u>3,453,990,109</u>	<u>3,780,616,057</u>
Total Liabilities	<u>3,972,008,655</u>	<u>4,113,062,486</u>
Invested in Capital Assets, net of Related Debt	5,657,392	6,044,079
Restricted for Educational Assistance Programs	518,929,965	516,079,644
Unrestricted	<u>61,474,978</u>	<u>58,934,891</u>
Total Net Assets	<u>586,062,335</u>	<u>581,058,614</u>
Total Liabilities and Net Assets	<u>\$ 4,558,070,990</u>	<u>\$ 4,694,121,100</u>

The largest portion of the Authority's net assets (89% at June 30, 2012 and 2011) represents resources that are subject to external restrictions on how they may be used. An additional portion (.96% at June 30, 2012 and 1.04% at June 30, 2011) 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
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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 \$5 million or .86% during the year ended June 30, 2012, and decreased by approximately \$2.8 million or .48% during the year ended June 30, 2011.

NORTH CAROLINA STATE EDUCATION ASSISTANCE AUTHORITY'S Change in Net Assets	2012	2011
REVENUES:		
Operating Revenues:		
Interest Earnings on Loans	\$ 69,975,816	\$ 82,159,218
Miscellaneous	<u>5,793,345</u>	<u>26,034,072</u>
Total Operating Revenues	<u>75,769,161</u>	<u>108,193,290</u>
Nonoperating Revenues:		
State Aid	126,191,529	167,839,495
Grants	59,970,545	44,986,548
Investment Earnings	<u>6,491,373</u>	<u>4,420,291</u>
Total Nonoperating Revenues	<u>192,653,447</u>	<u>217,246,334</u>
Total Revenues	<u>268,422,608</u>	<u>325,439,624</u>
EXPENSES:		
Operating Expenses:		
Services	38,553,293	52,280,565
Interest	38,478,482	38,755,220
Student Loan Service Cancellations	17,262,865	18,302,868
Depreciation and Amortization	386,686	10,831,576
Other Expenses	<u>7,422,617</u>	<u>4,202,880</u>
Total Operating Expenses	<u>102,103,943</u>	<u>124,373,109</u>
Nonoperating Expenses:		
Grants, Aid and Subsidies	<u>161,314,944</u>	<u>203,846,731</u>
Total Nonoperating Expenses	<u>161,314,944</u>	<u>203,846,731</u>
Total Expenses	<u>263,418,887</u>	<u>328,219,840</u>
CHANGE IN NET ASSETS	5,003,721	(2,780,216)
NET ASSETS--Beginning of Year	<u>581,058,614</u>	<u>583,838,830</u>
NET ASSETS--End of Year	<u>\$ 586,062,335</u>	<u>\$ 581,058,614</u>

NORTH CAROLINA
STATE EDUCATION ASSISTANCE AUTHORITY
Management's Discussion and Analysis
June 30, 2012 and 2011

Approximately 28% of the Authority's total revenues came from interest earnings and other miscellaneous revenue on resources invested in student loans under various education programs originated by or assigned to the Authority. An additional 22% resulted from grants that include federal and state aid and state designated funds for student assistance. Approximately 47% 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 3% 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 18% 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 14% of expenses were for interest incurred on bonds issued by the Authority in order to fund student loans, 61% were for grants and aid distributed for education assistance, and 7% were for student loan service cancellations related to certain state sponsored loan programs.

The increase in net assets for the year ended June 30, 2012 is primarily attributable to decreases in costs associated with long-term debt and increases in investment earnings and State Aid.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The Authority's investment in capital assets as of June 30, 2012 amounts to approximately \$18.7 million, net of accumulated depreciation of approximately \$13 million, leaving a net book value of approximately \$5.7 million. The Authority's investment in capital assets as of June 30, 2011 amounts to approximately \$18.7 million, net of accumulated depreciation of approximately \$12.7 million, leaving a net book value of approximately \$6 million. This investment in capital assets includes office furniture and equipment, data processing systems, other equipment, and intangible assets.

There was no change in the Authority's gross investment in capital assets for the fiscal year 2012. The total gross increase in the Authority's investment in capital assets for the fiscal year 2011 was approximately \$.02 million. The increase during fiscal year 2011 primarily related to data processing equipment purchases.

NORTH CAROLINA
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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 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 decreased by approximately \$381 million (11.7%) and decreased by approximately \$1.2 billion (27.5%) during the fiscal years 2012 and 2011, respectively. The majority of the 2012 decrease was attributable to the Authority's repayment of debt.

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

ECONOMIC FACTORS

The primary economic factors affecting the Authority continue to derive from changes in federal law and economic trends. Pursuant to certain amendments to the Higher Education Act of 1965, as amended, included in the Health Care and Education Reconciliation Act of 2010, all new federal student loans have been originated through the Federal Direct Loan Program since July 1, 2010. Consequently, the value of the Authority's student loan portfolio has not increased due to new guaranteed student loan originations, and the law has obviated the need for the Authority to raise capital to finance new loans under the Federal Family Education Loan Program. Despite these effects of the change in federal law, the revenues and obligations associated with the Authority's existing portfolio of financed student loans and loans under guaranty remain relatively constant for the immediate and intermediate future. The Authority is working in collaboration with College Foundation, Inc., in the development of a number of new services for colleges and universities, including the verification of student financial aid application data for which a pilot project is underway; while the Authority expects these new services to generate net revenue in the years ahead, the actual impact is difficult to quantify at this point.

STATEMENTS OF NET ASSETS

NORTH CAROLINA
STATE EDUCATION ASSISTANCE AUTHORITY
Statements of Net Assets
June 30, 2012 and 2011

ASSETS

	2012	2011
CURRENT ASSETS:		
Cash and Cash Equivalents	\$ 50,987,180	\$ 49,466,342
Restricted Cash and Cash Equivalents	174,720,133	97,362,221
Restricted Investments	199,333,207	189,294,184
Receivables:		
Accounts Receivable	8,423,341	5,048,866
Intergovernmental Receivables	4,202,116	1,643,444
Interest Receivable	56,058,153	68,951,178
Due From Component Unit	2,641,738	2,661,049
Due from Primary Government	41,968,501	9,832,734
Notes Receivable	273,806,998	273,339,568
Prepaid Items	44,280	
Total Current Assets	812,185,647	697,599,586
NONCURRENT ASSETS:		
Restricted Cash and Cash Equivalents	65,114,625	93,420,493
Restricted Investments	895,079,952	753,887,518
Notes Receivable	2,764,508,691	3,126,572,309
Unamortized Bond Issuance Expenses	15,524,683	16,597,115
Total Noncurrent Assets	3,740,227,951	3,990,477,435
CAPITAL ASSETS:		
Office Furniture and Equipment	175,641	175,641
Data Processing Systems	13,286,452	13,286,452
Other Equipment	302,643	302,643
Intangible Assets	5,000,000	5,000,000
Accumulated Depreciation	(13,107,344)	(12,720,657)
Net Capital Assets	5,657,392	6,044,079
Total Assets	\$ 4,558,070,990	\$ 4,694,121,100

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

LIABILITIES AND NET ASSETS

	<u>2012</u>	<u>2011</u>
CURRENT LIABILITIES:		
Accounts Payable and Accrued Liabilities:		
Accounts Payable	\$ 23,193,796	\$ 24,529,086
Accrued Payroll	87,009	149,492
Interest Payable	4,543,067	4,682,556
Notes Payable	185,000,000	151,000,000
Due to IRC Section 529 Plan Participants	66,238,050	61,667,983
Deferred Income	91,993,124	
Bonds Payable	146,938,778	90,401,189
Accrued Vacation Leave	24,722	16,123
Total Current Liabilities	<u>518,018,546</u>	<u>332,446,429</u>
 NONCURRENT LIABILITIES:		
Due to IRC Section 529 Plan Participants	905,909,206	760,447,748
Bonds Payable	1,507,973,573	1,761,365,412
Notes Payable	1,039,795,436	1,258,476,432
Accrued Vacation Leave	311,894	326,465
Total Noncurrent Liabilities	<u>3,453,990,109</u>	<u>3,780,616,057</u>
 Total Liabilities	 <u>3,972,008,655</u>	 <u>4,113,062,486</u>
 NET ASSETS:		
Invested in Capital Assets, net of Related Debt	5,657,392	6,044,079
Restricted for Educational Assistance Programs	518,929,965	516,079,644
Unrestricted	61,474,978	58,934,891
Total Net Assets	<u>586,062,335</u>	<u>581,058,614</u>
 Total Liabilities and Net Assets	 <u>\$ 4,558,070,990</u>	 <u>\$ 4,694,121,100</u>

NORTH CAROLINA
STATE EDUCATION ASSISTANCE AUTHORITY
Statements of Revenues, Expenses and Change in Net Assets
For The Years Ended June 30, 2012 and 2011

	2012	2011
OPERATING REVENUES:		
Interest Earnings on Loans	\$ 69,975,816	\$ 82,159,218
Miscellaneous	5,793,345	26,034,072
Total Operating Revenues	75,769,161	108,193,290
OPERATING EXPENSES:		
Personal Services	3,447,983	3,306,870
Supplies and Materials	48,699	59,601
Services	35,105,310	48,973,695
Interest	38,478,482	38,755,220
Depreciation and Amortization	386,686	10,831,576
Student Loan Service Cancellations	17,262,865	18,302,868
Other Expenses	7,373,918	4,143,279
Total Operating Expenses	102,103,943	124,373,109
Operating Loss	(26,334,782)	(16,179,819)
NONOPERATING REVENUES (EXPENSES):		
State Aid	126,191,529	167,839,495
Noncapital Grants	57,910,848	41,068,889
Federal Grants	2,059,697	3,917,659
Investment Earnings	6,491,373	4,420,291
Grants, Aid and Subsidies	(161,314,944)	(203,846,731)
Total Nonoperating Revenues	31,338,503	13,399,603
Change in Net Assets	5,003,721	(2,780,216)
NET ASSETS--Beginning of Year	581,058,614	583,838,830
NET ASSETS--End of Year	\$ 586,062,335	\$ 581,058,614

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, 2012 and 2011

	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES:		
Receipts from Customers	\$ 222,632,788	\$ 301,826,315
Collection of Loans from Students	530,257,119	495,871,403
Payments to Employees and Fringe Benefits	(3,516,438)	(3,315,492)
Payments to Vendors and Suppliers	(39,732,517)	(47,631,391)
Loans Issued to Students	(119,190,017)	(137,236,987)
Payments of Operating Interest Expense	(36,367,301)	(37,111,996)
Net Cash Provided by Operating Activities	554,083,634	572,401,852
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
Proceeds from Sale of Bonds and Notes		1,361,156,081
Repayment of Bond Principal	(383,646,427)	(1,784,664,631)
Bond Issuance Costs		(8,939,585)
State Aid	126,191,529	168,420,544
Noncapital Grants	57,910,848	40,487,840
Federal Grants	2,059,697	3,917,659
Grants, Aid and Subsidies	(161,314,944)	(203,846,731)
Net Cash Used by Noncapital Financing Activities	(358,799,297)	(423,468,823)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Acquisition of Capital Assets		(17,081)
Net Cash Used by Capital and Related Financing Activities		(17,081)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from the Sale and Maturities of Non-State Treasurer Investments	1,557,901,607	2,396,564,856
Redemptions from the State Treasurer Long-Term Investment Pool		15,000,000
Investment Earnings	2,114,921	3,214,046
Purchase of Non-State Treasurer Investments	(1,704,727,983)	(2,658,132,955)
Purchase into State Treasurer Long-Term Investment Pool		(26,000,000)
Net Cash Used by Investing Activities	(144,711,455)	(269,354,053)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	50,572,882	(120,438,105)
CASH AND CASH EQUIVALENTS--Beginning of Year	240,249,056	360,687,161
CASH AND CASH EQUIVALENTS--End of Year	\$ 290,821,938	\$ 240,249,056

NORTH CAROLINA
STATE EDUCATION ASSISTANCE AUTHORITY
Statements of Cash Flows
For The Years Ended June 30, 2012 and 2011

	2012	2011
RECONCILIATION OF OPERATING LOSS TO		
NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Operating Loss	\$ (26,334,782)	\$ (16,179,819)
Adjustments to Reconcile Operating Loss to Net Cash Provided by Operating Activities:		
Depreciation and Amortization	1,459,118	10,831,576
Original Issue Discount Expensed	2,111,181	742,052
Student Loan Principal Repayments	442,883,705	395,269,252
Student Loans Issued	(32,456,713)	(48,247,133)
Student Loan Cancellations and Write-offs	12,449,600	12,231,932
Allowances and Uncollectible Accounts	4,948,000	6,211,000
Capitalized Interest and Other	(66,228,403)	(68,945,104)
(Increase) Decrease in Assets:		
Accounts Receivable	(3,374,475)	(5,014,469)
Intergovernmental Receivables	(2,558,672)	1,379,848
Investment Earnings Receivable	12,864,396	21,375,682
Due from Component Units	19,311	(921,049)
Due from Primary Government	59,857,357	17,067,558
Prepaid Expense	(44,280)	7,732
Increase (Decrease) in Liabilities:		
Accounts Payable	(1,474,779)	4,696,743
Accrued Payroll	(62,483)	2,219
Due to IRC Section 529 Plan Participants	150,031,525	241,904,672
Accrued Vacation Leave	(5,972)	(10,840)
	\$ 554,083,634	\$ 572,401,852
Net Cash Provided by Operating Activities		
SUPPLEMENTAL DISCLOSURE		
OF CASH FLOWS INFORMATION:		
Cash Paid During the Year for Interest	\$ 36,506,791	\$ 40,028,757
NONCASH INVESTING, CAPITAL		
AND FINANCING ACTIVITIES:		
Noncash Distributions from State Treasurer		
Long-Term Investment Pool	\$ 2,417,623	\$ 2,005,093
Write-up (Down) of Investments to Fair Market Value	\$ 1,987,458	\$ (750,269)
Noncash "put" or sale of Participation Student Loans	\$	\$ 813,850,392

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

NORTH CAROLINA
STATE EDUCATION ASSISTANCE AUTHORITY
Notes to Financial Statements
June 30, 2012 and 2011

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, 2012 and 2011, 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 nine-member board of directors, seven of whom are appointed by the Governor and two of whom shall be ex officio. 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
3. Guaranteed Student Loan Revenue Bond Fund and Conduit Funding Program
4. UNC Need-Based Grant Program
5. North Carolina Student Loan Program for Health, Science and Mathematics
6. North Carolina Nurse Scholarship Loan Program
7. North Carolina Masters Nurse Scholarship Loan Program
8. North Carolina Nurse Education Scholarship Loan Program
9. Principal Fellows Scholarship Loan Program
10. Social Workers Scholarship Loan Program
11. Millennium Teacher Scholarship Loan Program
12. Future Teachers of North Carolina Scholarship Loan Program
13. Physical Education/Coaching Scholarship Loan Program
14. Prospective Teacher/Teacher Assistant Scholarship Loan Program
15. Board of Governor's Dental Scholarship Loan Program
16. Board of Governor's Medical Scholarship Loan Program
17. Graduate Nurse Scholarship Loan Program
18. Paul Douglas Teacher Scholarship Loan Program
19. Golden LEAF Scholars Program
20. North Carolina National College Savings Program
21. Guaranty Reserve Funds
22. Education Lottery Scholarship Fund
23. John B. McLendon Scholarship Fund
24. Child Welfare Postsecondary Support Program
25. Optometry Scholarship Loan Program
26. National Board for Professional Teaching Standards Loan Program

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, 2012 and 2011

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, 2012 and 2011. 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, 2012 and 2011

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 except for internally generated software which is capitalized when the value or cost is \$1,000,000 or greater and other intangible assets which are capitalized when the value or cost is \$100,000 or greater. 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 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 and original issue discounts 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.

NORTH CAROLINA
STATE EDUCATION ASSISTANCE AUTHORITY
Notes to Financial Statements
June 30, 2012 and 2011

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.

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.

NORTH CAROLINA
STATE EDUCATION ASSISTANCE AUTHORITY
Notes to Financial Statements
June 30, 2012 and 2011

1. Summary of Significant Accounting Policies (Concluded)

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.

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, 2012 and 2011, the amounts shown on the Statements of Net Assets as cash and cash equivalents include \$250,224,920 and \$216,667,130, 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 1.5 years and 1.9 years as of June 30, 2012 and 2011, 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, 2012 and 2011 was \$290,821,938 and \$240,249,056, respectively. The carrying amount and bank balance of the Authority's deposits not with the State Treasurer at June 30, 2012 was \$40,597,018. The carrying amount and bank balance of the Authority's deposits not with the State Treasurer at June 30, 2011 was \$23,581,926. 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 has a deposit policy for custodial credit risk. As of June 30, 2012 and 2011, none of the Authority's bank balance was exposed to custodial credit risk.

NORTH CAROLINA
STATE EDUCATION ASSISTANCE AUTHORITY
Notes to Financial Statements
June 30, 2012 and 2011

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 \$1,094,413,159 at June 30, 2012 and \$943,181,702 at June 30, 2011. The Authority's portion of the State Treasurer's Long-Term Investment Fund at June 30, 2012 and 2011 was \$40,596,992 and \$36,191,911, respectively. The Authority's investments not with the State Treasurer as of June 30, 2012 and 2011 totaled \$1,053,816,167 and \$906,989,791, 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, 2012, 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:					
Annuity Contracts	\$ 1,190,265	\$ 1,190,265	\$	\$	\$
Debt Mutual Funds	355,469,865	355,469,865			
Money Market Mutual Funds	<u>230,646,588</u>	<u>230,646,588</u>			
Total Investments Subject to Interest Rate Risk	<u>587,306,718</u>	<u>\$ 587,306,718</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>
Investments Not Subject to Interest Rate Risk:					
Other Mutual Funds	<u>466,509,449</u>				
Total Non-Pooled Investments	<u>\$ 1,053,816,167</u>				

NORTH CAROLINA
STATE EDUCATION ASSISTANCE AUTHORITY
Notes to Financial Statements
June 30, 2012 and 2011

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, 2011, 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:					
Annuity Contracts	\$ 2,114,980	\$ 2,114,980	\$	\$	\$
Debt Mutual Funds	14,293,172	14,293,172			
Money Market Mutual Funds	<u>183,269,347</u>	<u>183,269,347</u>			
Total Investments Subject to Interest Rate Risk	<u>199,677,499</u>	<u>\$ 199,677,499</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>
Investments Not Subject to Interest Rate Risk:					
Investment Agreements	29,107,286				
Other Mutual Funds	<u>678,205,006</u>				
Total Investments Not Subject to Interest Rate Risk	<u>707,312,292</u>				
Total Non-Pooled Investments	<u>\$ 906,989,791</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, 2012, 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	\$ 1,190,265	\$	\$	\$	\$	\$	\$ 1,190,265
Debt Mutual Funds	355,469,865						355,469,865
Money Market Mutual Funds	<u>230,646,588</u>						<u>230,646,588</u>
Total	<u>\$ 587,306,718</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$ 587,306,718</u>

As of June 30, 2011, 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	\$ 2,114,980	\$	\$	\$	\$	\$	\$ 2,114,980
Debt Mutual Funds	14,293,172						14,293,172
Money Market Mutual Funds	<u>183,269,347</u>						<u>183,269,347</u>
Total	<u>\$ 199,677,499</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$ 199,677,499</u>

NORTH CAROLINA
STATE EDUCATION ASSISTANCE AUTHORITY
Notes to Financial Statements
June 30, 2012 and 2011

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, 2012, the Authority's non-pooled investments were exposed to custodial credit risk as follows:

Investments Not Categorized:	
Debt Mutual Funds	\$ 355,469,865
Money Market Mutual Funds	230,646,588
Other Mutual Funds	466,509,449
Annuity Contracts	<u>1,190,265</u>
Total Non-Pooled Investments	<u>\$ 1,053,816,167</u>

At June 30, 2011, the Authority's non-pooled investments were exposed to custodial credit risk as follows:

Investments Not Categorized:	
Investment Agreements	\$ 29,107,286
Debt Mutual Funds	14,293,172
Money Market Mutual Funds	183,269,347
Other Mutual Funds	678,205,006
Annuity Contracts	<u>2,114,980</u>
Total Non-Pooled Investments	<u>\$ 906,989,791</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, 2012 and 2011, the Authority had no non-pooled investments in any one issuer that equaled more than 5% of the Authority's total non-pooled investments.

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, 2012, there was \$125,589,771 invested in International Mutual Funds. As of June 30, 2011, there were no amounts invested in International Mutual Funds.

NORTH CAROLINA
STATE EDUCATION ASSISTANCE AUTHORITY
Notes to Financial Statements
June 30, 2012 and 2011

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, 2012 and 2011:

	<u>2012</u>	<u>2011</u>
Debt Securities:		
Annuity Contracts	\$ 1,190,265	\$ 2,114,980
Debt Mutual Funds	355,469,865	14,293,172
Money Market Mutual Funds	<u>230,646,588</u>	<u>183,269,347</u>
Total Debt Securities	<u>587,306,718</u>	<u>199,677,499</u>
Other Securities:		
Investment Agreements		29,107,286
Other Mutual Funds	<u>466,509,449</u>	<u>678,205,006</u>
Total Other Securities	<u>466,509,449</u>	<u>707,312,292</u>
 Total Non-Pooled Investments	 <u>\$ 1,053,816,167</u>	 <u>\$ 906,989,791</u>

Reconciliation of Deposits and Investments:

A reconciliation of deposits and investments for the Authority at June 30, 2012 and 2011 is as follows:

	<u>2012</u>	<u>2011</u>
Amount of Deposits with Private Financial Institutions	\$ 40,597,018	\$ 23,581,926
Deposits in the Short Term Investment Fund	250,224,920	216,667,130
Long-Term Investment Fund	40,596,992	36,191,911
Non-Pooled Investments	<u>1,053,816,167</u>	<u>906,989,791</u>
 Total Deposits and Investments	 <u>\$ 1,385,235,097</u>	 <u>\$ 1,183,430,758</u>
Deposits		
Current:		
Cash and Cash Equivalents	\$ 50,987,180	\$ 49,466,342
Restricted Cash and Cash Equivalents	174,720,133	97,362,221
Noncurrent:		
Restricted Cash and Cash Equivalents	<u>65,114,625</u>	<u>93,420,493</u>
 Total Deposits	 <u>\$ 290,821,938</u>	 <u>\$ 240,249,056</u>
Investments		
Current:		
Restricted Short-Term Investments	\$ 199,333,207	\$ 189,294,184
Noncurrent:		
Restricted Long-Term Investments	<u>895,079,952</u>	<u>753,887,518</u>
 Total Investments	 <u>\$ 1,094,413,159</u>	 <u>\$ 943,181,702</u>

NORTH CAROLINA
STATE EDUCATION ASSISTANCE AUTHORITY
Notes to Financial Statements
June 30, 2012 and 2011

3. Receivables

The gross receivables and related allowances for service cancellations and doubtful accounts on student loans at June 30, 2012 were:

	<u>Total</u>	<u>Current</u>	<u>Noncurrent</u>
Note Receivable--XAP Corporation	\$ 2,165,625	\$	\$ 2,165,625
Gross Student Loan Receivables	3,117,698,064	355,354,998	2,762,343,066
Less: Allowance for Service Cancellations and Doubtful Accounts	<u>81,548,000</u>	<u>81,548,000</u>	<u> </u>
Net Receivables	\$ <u>3,038,315,689</u>	\$ <u>273,806,998</u>	\$ <u>2,764,508,691</u>

The gross receivables and related allowances for service cancellations and doubtful accounts on student loans at June 30, 2011 were:

	<u>Total</u>	<u>Current</u>	<u>Noncurrent</u>
Note Receivable--XAP Corporation	\$ 2,165,625	\$ 687,500	\$ 1,478,125
Gross Student Loan Receivables	3,474,346,252	349,252,068	3,125,094,184
Less: Allowance for Service Cancellations and Doubtful Accounts	<u>76,600,000</u>	<u>76,600,000</u>	<u> </u>
Net Receivables	\$ <u>3,399,911,877</u>	\$ <u>273,339,568</u>	\$ <u>3,126,572,309</u>

4. Capital Assets

A summary of changes in capital assets for the year ended June 30, 2012 is presented as follows:

	<u>Balance July 1, 2011</u>	<u>Additions</u>	<u>Balance June 30, 2012</u>
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	13,286,452		13,286,452
Other Equipment	<u>302,643</u>		<u>302,643</u>
Total Capital Assets	<u>18,764,736</u>		<u>18,764,736</u>
Less Accumulated Depreciation for:			
Office Furniture and Equipment	152,358	8,842	161,200
Data Processing Systems	12,361,097	345,296	12,706,393
Other Equipment	<u>207,202</u>	<u>32,549</u>	<u>239,751</u>
Total Accumulated Depreciation	<u>12,720,657</u>	<u>386,687</u>	<u>13,107,344</u>
Net Capital Assets	\$ <u>6,044,079</u>	\$ <u>(386,687)</u>	\$ <u>5,657,392</u>

NORTH CAROLINA
STATE EDUCATION ASSISTANCE AUTHORITY
Notes to Financial Statements
June 30, 2012 and 2011

4. Capital Assets (Continued)

A summary of changes in capital assets for the year ended June 30, 2011 is presented as follows:

	Balance July 1, 2010	Additions	Balance June 30, 2011
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	13,269,372	17,080	13,286,452
Other Equipment	<u>302,643</u>		<u>302,643</u>
Total Capital Assets	<u>18,747,656</u>	<u>17,080</u>	<u>18,764,736</u>
Less Accumulated Depreciation for:			
Office Furniture and Equipment	143,516	8,842	152,358
Data Processing Systems	12,015,035	346,062	12,361,097
Other Equipment	<u>171,906</u>	<u>35,296</u>	<u>207,202</u>
Total Accumulated Depreciation	<u>12,330,457</u>	<u>390,200</u>	<u>12,720,657</u>
Net Capital Assets	\$ <u>6,417,199</u>	\$ <u>(373,120)</u>	\$ <u>6,044,079</u>

5. Accounts Payable and Accrued Liabilities

Accounts payable and accrued liabilities at June 30, 2012 and 2011 were as follows:

	2012	2011
Accounts Payable	\$ 23,193,796	\$ 24,529,086
Accrued Payroll	<u>87,009</u>	<u>149,492</u>
	\$ <u>23,280,805</u>	\$ <u>24,678,578</u>

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 accrued on the line of credit at a variable rate based on the 30-day LIBOR rate plus 1%, adjusted monthly. In addition, there was an unused fee of 0.125% per annum on the average daily amount of the unused commitment under the line of credit. No disbursements were made from the line of credit. During the year ended June 30, 2011, unused fees of \$1,337 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 provided a \$50,000,000 revolving credit facility to the Authority which was 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. This facility matured on, and all obligations under it were satisfied, as of August 1, 2010.

NORTH CAROLINA
STATE EDUCATION ASSISTANCE AUTHORITY
Notes to Financial Statements
June 30, 2012 and 2011

7. Noncurrent Liabilities

A. Changes in Noncurrent Liabilities:

A summary of changes in noncurrent liabilities for the year ended June 30, 2012 is presented as follows:

	Balance July 1, 2011	Additions	Deletions	Balance June 30, 2012	Current Portion
Bonds Payable	\$ 1,851,766,600		\$ 196,854,249	\$ 1,654,912,351	\$ 146,938,778
Accrued Vacation Leave	342,588		5,972	336,616	24,722
Due to IRC Section 529 Plan Participants	822,115,732	207,515,691	57,484,167	972,147,256	66,238,050
Notes Payable	<u>1,409,476,432</u>		<u>184,680,996</u>	<u>1,224,795,436</u>	<u>185,000,000</u>
Total Noncurrent Liabilities	<u>\$ 4,083,701,352</u>	<u>\$ 207,515,691</u>	<u>\$ 439,025,384</u>	<u>\$ 3,852,191,659</u>	<u>\$ 398,201,550</u>

A summary of changes in noncurrent liabilities for the year ended June 30, 2011 is presented as follows:

	Balance July 1, 2010	Additions	Deletions	Balance June 30, 2011	Current Portion
Bonds Payable	\$ 2,113,650,000	\$ 1,361,156,080	\$ 1,623,039,480	\$ 1,851,766,600	\$ 90,401,189
Accrued Vacation Leave	353,429		10,841	342,588	16,123
Arbitrage Rebate and Excess Earnings Liability	689,171		689,171		
Due to IRC Section 529 Plan Participants	580,211,059	287,701,928	45,797,255	822,115,732	61,667,983
Notes Payable	<u>1,560,524,745</u>		<u>151,048,313</u>	<u>1,409,476,432</u>	<u>151,000,000</u>
Total Noncurrent Liabilities	<u>\$ 4,255,428,404</u>	<u>\$ 1,648,858,008</u>	<u>\$ 1,820,585,060</u>	<u>\$ 4,083,701,352</u>	<u>\$ 303,085,295</u>

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 certain private loans of the Authority which are not insured by the federal government. The obligations are summarized as follows:

	Balance July 1, 2011	Additions	Deletions	Balance June 30, 2012
Taxable Guaranteed Student Loan Revenue Bonds, 2005 Series P (Senior Lien):				
LIBOR Indexed:				
Due 6-01-20 (Variable Rate)	\$ 300,000,000	\$	\$ 68,769,000	\$ 231,231,000
Taxable Guaranteed Student Loan Revenue Private Placement Bonds 2008-1 Series:				
LIBOR Indexed:				
Series A-2				
Due 6-01-33 (Variable Rate)	200,000,000			200,000,000

NORTH CAROLINA
STATE EDUCATION ASSISTANCE AUTHORITY
Notes to Financial Statements
June 30, 2012 and 2011

7. Noncurrent Liabilities (Continued)

	<u>Balance</u> <u>July 1, 2011</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 2012</u>
Taxable Guaranteed Student Loan Revenue Private Placement Bonds 2008-4 Series:				
LIBOR Indexed:				
Due 12-01-33 (Variable Rate)	\$ 10,800,000	\$	\$ 9,200,000	\$ 1,600,000
Conduit Funding Notes Due 1-14-14 (Variable Rate)	1,409,476,432		184,680,996	1,224,795,436
Taxable Student Loan Backed Notes Student Loan Backed Notes, 2010-1 Series:				
LIBOR Indexed:				
Tranche A-1 (Sold at 97.4%) Due 7/25/41 (Variable Rate)	417,068,468		36,341,523	380,726,945
Original Issue Discount	<u>(11,039,772)</u>		<u>(564,695)</u>	<u>(10,475,077)</u>
	<u>406,028,696</u>		<u>35,776,828</u>	<u>370,251,868</u>
Taxable Student Loan Backed Notes Student Loan Backed Notes, 2011-1 Series:				
LIBOR Indexed:				
Tranche A-1 (Sold at 99.9%) Due 7/25/21 (Variable Rate)	98,000,000		37,513,118	60,486,882
Tranche A-2 (Sold at 99.1%) Due 1/26/26 (Variable Rate)	127,000,000			127,000,000
Tranche A-3 (Sold at 93.9%) Due 10/25/41 (Variable Rate)	220,000,000			220,000,000
Original Issue Discount	<u>(14,388,690)</u>		<u>(758,630)</u>	<u>(13,630,060)</u>
	<u>430,611,310</u>		<u>36,754,488</u>	<u>393,856,822</u>
Taxable Student Loan Backed Notes Student Loan Backed Notes, 2011-2 Series:				
LIBOR Indexed:				
Tranche A-1 (Sold at 99.8%) Due 10/26/20 (Variable Rate)	217,000,000		47,141,790	169,858,210
Tranche A-2 (Sold at 97.5%) Due 7/25/25 (Variable Rate)	186,000,000			186,000,000
Tranche A-3 (Sold at 94.1%) Due 7/25/36 (Variable Rate)	113,000,000			113,000,000
Original Issue Discount	<u>(11,673,405)</u>		<u>(787,856)</u>	<u>(10,885,549)</u>
	<u>504,326,595</u>		<u>46,353,935</u>	<u>457,972,661</u>
Total	\$ <u>3,261,243,033</u>	\$ <u>0</u>	\$ <u>381,535,246</u>	\$ <u>2,879,707,787</u>

NORTH CAROLINA
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7. Noncurrent Liabilities (Continued)

C. Pledged Revenues:

The Agency has collateralized \$2,924,479,622 in student loans receivable and \$29,467,855 in reserves to repay \$2,914,698,472 bonds and conduit notes payable at June 30, 2012. These taxable guaranteed student loan revenue bonds and Conduit Funding Notes were issued between fiscal years June 30, 2006 through June 30, 2011. Proceeds from the bonds issued were utilized to finance student loans. The bonds are payable through fiscal year 2034 and are paid down from cash collections on student loan receivable, interest earnings on loans and investments, and unexpended bond proceeds. 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. For the current fiscal year, principal and interest paid and total net available revenues were \$419,817,721 and \$440,646,087, respectively. The total principal and interest remaining to be paid on the bonds, and notes payable is \$3,216,253,661.

D. Annual Requirements:

The annual requirements to pay principal and interest on bonds outstanding at June 30, 2012 are as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>
2013	\$ 146,938,778	\$ 24,420,216
2014	137,482,803	23,337,699
2015	140,403,494	22,073,044
2016	138,920,685	20,653,862
2017	132,371,512	19,211,287
2018-2022	476,539,862	75,970,547
2023-2027	216,149,251	53,831,192
2028-2032	95,294,840	43,342,452
2033-2037	<u>205,801,811</u>	<u>7,446,054</u>
Total Requirements	\$ <u>1,689,903,036</u>	\$ <u>290,286,353</u>

The annual requirements to pay principal and interest on notes outstanding at June 30, 2012 are as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>
2013	\$ 185,000,000	\$ 9,024,394
2014	<u>1,039,795,436</u>	<u>2,244,442</u>
Total Requirements	\$ <u>1,224,795,436</u>	\$ <u>11,268,836</u>

The Taxable Guaranteed Student Loan Revenue Bonds, 2005 Series P are LIBOR indexed debt instruments due June 1, 2020. The Taxable Guaranteed Student Loan Revenue Private Placement Bonds, 2008-1 Series are LIBOR indexed debt instruments due June 1, 2033. The Taxable Guaranteed Student Loan Revenue Private Placement Bonds, 2008-4 Series are LIBOR indexed debt instruments due December 1, 2033. The Taxable Student Loan Backed Notes 2010-1 Series are LIBOR indexed debt instruments due July 25, 2014. The Taxable Student Loan Backed Notes 2011-1 Series are LIBOR indexed debt instruments due October, 25, 2041. The Taxable Student Loan Backed Notes 2011-2 are LIBOR indexed debt instruments due July, 25, 2036. All of the above series have a variable interest rate that changes quarterly. The annual interest requirements in the schedule above were calculated using the rate in effect on June 30, 2012. Therefore, the debt service interest requirements on the aforementioned series will change on a quarterly basis throughout the life of the bonds.

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7. Noncurrent Liabilities (Concluded)

E. Bond Defeasance:

During the year ended June 30, 2011, the Authority issued \$438,000,000 in 2010-1 Series Taxable Student Loan Backed Notes with an initial interest rate of 1.21%, \$445,000,000 in 2011-1 Series Taxable Student Loan Backed Notes with an initial average interest rate of 1.18%, and \$516,000,000 in 2011-2 Series Taxable Student Loan Backed Notes with an initial average interest rate of .99%. The refunding component of these issues was used for a current refunding of \$1,368,610,000 of outstanding Taxable and Tax-Exempt Student Loan Revenue Bonds with an average interest rate of 1.98%. The refunding was undertaken to reduce total debt service payments by \$317,895,445 over the next 21 years and resulted in an economic gain of \$277,261,986.

8. 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, 2012, these rates were set at 4.93% of covered payroll for employers and 6% of covered payroll for members. Required employer contribution rates for the years ended June 30, 2011 and 2010 were 4.93% and 3.57%, respectively, while employee contributions were 6% each year. The Authority made 100% of its annual required contributions for the years ended June 30, 2012, 2011, and 2010.

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.

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8. 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, 2012 and 2011, 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, 2012 and 2011, the Authority had a total payroll of \$3,104,469 and \$2,651,541, respectively, of which \$2,807,731 and \$2,354,801 was covered under the Teachers' and State Employees' Retirement System and \$296,739 and \$296,740 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, 2012 and 2011 were \$168,464 and \$141,288, respectively. Total employee contributions under the Optional Retirement Program for the years ended June 30, 2012 and 2011 were \$17,804 each year. Total employer contributions for pension benefits under the Teachers' and State Employees' Retirement System for the years ended June 30, 2012, 2011, and 2010 were \$138,421, \$116,092, and \$88,202, respectively. Total employer contributions under the Optional Retirement Program for the years ended June 30, 2012, 2011, and 2010 were \$20,297 each year.

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 \$43,868 and \$46,584 for the years ended June 30, 2012 and 2011, 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 \$65,970 and \$66,312 for the years ended June 30, 2012 and 2011, 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 for both of the years ended June 30, 2012 and 2011.

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9. 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 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, 2011 and 2010 was 4.9% and 4.1%, respectively. The Authority made 100% of its annual required contributions to the Plan for the years ended June 30, 2012, 2011, and 2010, which were \$155,223, \$129,925, and \$124,532, 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.

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Notes to Financial Statements
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9. 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, 2012, 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, 2011 and 2010 was also .52%. The Authority made 100% of its annual required contributions to the DIPNC for the years ended June 30, 2012, 2011, and 2010, which were \$16,143, \$13,788, and \$14,390, 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*.

10. 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.

11. Reclassifications

Certain reclassifications have been made to the June 30, 2011 financial statements to conform with the June 30, 2012 presentation. Such reclassifications have no effect on the changes in net assets or cash flows as previously reported.

12. Subsequent Events

Subsequent events have been evaluated through September 28, 2012, which is the date the financial statements were available to be issued.

On August 23, 2012, the Authority issued \$600 million in Student Loan Backed Bonds. The bonds are dated August 23, 2012 accruing interest at a rate of 1-month LIBOR plus .8% from that date. Interest and principal is payable on October 25, 2012 and monthly thereafter. While the stated maturity date is July 25, 2039, principal amounts will be paid monthly based on funds available. As such the final payoff is expected earlier. The bonds were issued to prepay a portion of the Authority's Funding Note under the Straight A Funding Federal Conduit and to fund distributions to the Authority for the reimbursement for the pledge of certain Student Loans.