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NORTH CAROLINA  
STATE EDUCATION ASSISTANCE AUTHORITY

Financial Statements

June 30, 2016 and 2015

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

## INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying financial statements of the North Carolina State Education Assistance Authority, a nonmajor component unit of the State of North Carolina, as of and for the years ended June 30, 2016 and 2015, and the related notes to the financial statements, which collectively comprise the Authority's financial statements as listed in the table of contents.

### *Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### *Auditor's Responsibility*

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### *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, 2016 and 2015, and the respective changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

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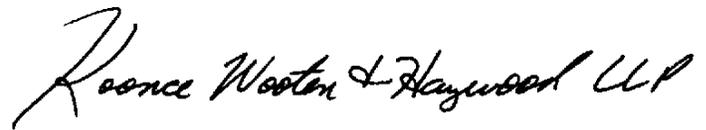
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***Adoption of GASB Statement No. 68, Accounting and Financial Reporting for Pensions***

As discussed in Notes 11 and 12 to the financial statements, the Authority changed its method for accounting and financial reporting of pensions as a result of the adoption of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, effective July 1, 2014. Our opinion is not modified with respect to this matter.

***Other Matter***

Accounting principles generally accepted in the United States of America require that Management's Discussion and Analysis on pages 3 through 7 and Schedule of Proportionate Net Pension Liability and Schedule of Authority Contributions on pages 36 and 37 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.

A handwritten signature in black ink that reads "Rance Wooten & Hayward LLP". The signature is written in a cursive, flowing style.

Raleigh, North Carolina  
September 23, 2016

NORTH CAROLINA  
STATE EDUCATION ASSISTANCE AUTHORITY  
Management's Discussion and Analysis  
June 30, 2016 and 2015

The Management's Discussion and Analysis of the financial performance of the North Carolina State Education Assistance Authority (the Authority) is required supplementary information. This narrative overview and analysis of the financial activities of the Authority is for the fiscal years ended June 30, 2016 and 2015. We encourage readers to consider this information in conjunction with the Authority's financial statements which follow.

#### FINANCIAL HIGHLIGHTS

**Net Position** -- The assets of the Authority exceeded its liabilities at fiscal years ending June 30, 2016 and 2015 by approximately \$577 and \$566 million, respectively, (presented as "net position"). Of this amount, approximately \$73.1 and \$84.7 million, respectively, was reported as "unrestricted net position." Unrestricted net position represents the amount available to be used to meet the Authority's ongoing operating obligations.

**Increase/Decrease in Net Position** -- The Authority's total net position increased by approximately \$11 million (1.95%) in fiscal year 2016 and increased by approximately \$13.9 million (2.52%) in fiscal year 2015.

#### 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 Position, 2) Statements of Revenues, Expenses and Changes in Net Position, 3) Statements of Cash Flows, and 4) Notes to the Financial Statements. Per the criteria detailed in Government Accounting Standards Board Statement No. 61, the Authority is presented as a nonmajor component unit 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 Position present all of the Authority's assets and liabilities, with the difference between the two reported as "net position." Over time, increases or decreases in the Authority's net position may serve as a useful indicator of whether the financial position of the Authority is improving or deteriorating.

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The Statements of Revenues, Expenses, and Changes in Net Position present information showing how the Authority's net position changed during the most recent fiscal years. All changes in net position 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 Position

As noted earlier, net position may serve over time as a useful indicator of an entity's financial position. The Authority's net position totaled approximately \$577 million as of June 30, 2016, compared to approximately \$566 million as of June 30, 2015.

NORTH CAROLINA  
STATE EDUCATION ASSISTANCE AUTHORITY  
Condensed Statements of Net Position

	<u>2016</u>	<u>2015</u>
Current Assets	\$ 778,361,640	\$ 793,922,743
Noncurrent Assets	3,437,721,133	3,503,222,953
Capital Assets	<u>5,125,881</u>	<u>5,123,996</u>
Total Assets	<u>\$ 4,221,208,654</u>	<u>\$ 4,302,269,692</u>
Current Liabilities	\$ 349,328,881	\$ 386,714,063
Noncurrent Liabilities	<u>3,173,912,758</u>	<u>3,230,173,352</u>
Total Liabilities	<u>3,523,241,639</u>	<u>3,616,887,415</u>
Deferred Inflows of Resources	<u>120,358,151</u>	<u>118,827,296</u>
Net Investment in Capital Assets	5,125,881	5,123,996
Restricted for Educational Assistance Programs	499,415,901	476,709,304
Unrestricted	<u>73,067,082</u>	<u>84,721,681</u>
Total Net Position	<u>577,608,864</u>	<u>566,554,981</u>
Total Liabilities and Net Position	<u>\$ 4,221,208,654</u>	<u>\$ 4,302,269,692</u>

The largest portion of the Authority's net position (86% at June 30, 2016 and 84% at June 30, 2015) represents resources that are subject to external restrictions on how they may be used. An additional portion (.89% at June 30, 2016 and .90% at June 30, 2015) 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 position may be used to meet the Authority's ongoing operating obligations. Internally imposed designations of resources are not presented as restricted net position.

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Management's Discussion and Analysis  
June 30, 2016 and 2015

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

Changes in Net Position

The Authority's net position increased by approximately \$11 million or 1.95% during the year ended June 30, 2016, and increased by approximately \$13.9 million or 2.52% during the year ended June 30, 2015.

NORTH CAROLINA  
STATE EDUCATION ASSISTANCE AUTHORITY  
Condensed Statements of Revenues, Expenses, and Changes in Net Position

	<u>2016</u>	<u>2015</u>
REVENUES:		
Operating Revenues:		
Interest Earnings on Loans	\$ 46,364,598	\$ 48,785,365
Miscellaneous	<u>13,518,337</u>	<u>9,401,889</u>
Total Operating Revenues	<u>59,882,935</u>	<u>58,187,254</u>
Nonoperating Revenues:		
State Aid	141,970,649	79,481,975
Grants	40,819,344	35,515,822
Investment Earnings	<u>6,096,074</u>	<u>2,803,492</u>
Total Nonoperating Revenues	<u>188,886,067</u>	<u>117,801,289</u>
Special Item	<u>15,642,446</u>	<u>                    </u>
Total Revenues	<u>264,411,448</u>	<u>175,988,543</u>
EXPENSES:		
Operating Expenses:		
Services	39,529,525	37,251,246
Interest	28,297,039	27,462,503
Student Loan Service Cancellations	22,770,497	14,857,190
Depreciation	25,579	36,671
Other Expenses	<u>1,247,954</u>	<u>3,314,839</u>
Total Operating Expenses	<u>91,870,594</u>	<u>82,922,449</u>
Nonoperating Expenses:		
Grants, Aid and Subsidies	<u>161,486,971</u>	<u>79,126,129</u>
Total Expenses	<u>253,357,565</u>	<u>162,048,578</u>
CHANGES IN NET POSITION	11,053,883	13,939,965
NET POSITION--Beginning of Year, as Restated	<u>566,554,981</u>	<u>552,615,016</u>
NET POSITION--End of Year	<u>\$ 577,608,864</u>	<u>\$ 566,554,981</u>

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Approximately 22.7% 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. Approximately 53.7% came from the State of North Carolina Education Lottery and interest earnings on and corpus from escheated monies held by the State. Approximately 15.4% resulted from grants that include federal and state aid and state designated funds for student assistance. 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. Approximately 5.9% came from a one-time Municipal Derivative antitrust settlement. Lastly, approximately 2.3% 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 15.6% 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 11.2% of expenses were for interest incurred on bonds issued by the Authority in order to fund student loans, 63.7% were for grants and aid distributed for education assistance, and 9% were for student loan service cancellations related to certain state sponsored loan programs.

The increase in net position for the year ended June 30, 2016 is primarily attributed to a one-time Municipal Derivative settlement in the amount of \$15.6 million. More information is available in Note 14 of the Notes to the Financial Statements.

## CAPITAL ASSETS AND DEBT ADMINISTRATION

### Capital Assets

The Authority's investment in capital assets as of June 30, 2016 amounts to approximately \$18.7 million, net of accumulated depreciation of approximately \$13.6 million, leaving a net book value of approximately \$5.1 million. The Authority's investment in capital assets as of June 30, 2015 amounts to approximately \$18.6 million, net of accumulated depreciation of approximately \$13.5 million, leaving a net book value of approximately \$5.1 million. This investment in capital assets includes office furniture and equipment, data processing systems, other equipment, and intangible assets.

### Bonds Payable

All long-term indebtedness represents special obligations of the Authority and does 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.

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On December 1, 2015, the Authority issued \$133,400,000 in Tax-Exempt Student Loan Backed Notes, 2015-1 Series. The notes were directly placed with Bank of America, N.A. The 2015-1 Series Notes were issued for the expressed purpose of prepaying the 2005 Series P Taxable Guaranteed Student Loan Revenue Bonds prior to maturity. More details are available in Note 7 of the Notes to the Financial Statements.

The Authority's total bond debt decreased by approximately \$215 million (11.3%) and approximately \$294 million (13.3%) during the fiscal years 2016 and 2015, respectively. The majority of the 2016 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.

#### ECONOMIC FACTORS

The primary economic factors affecting the Authority result from economic trends coupled with the effects of decisions of the federal government related to financial aid for higher education, and specifically, student loans. The low interest rate environment continued to compress returns on the Authority's student loan portfolio over the past year. Certain decisions of the U.S. Department of Education in administering the federal student loan programs pursuant to changes in federal law have operated to decrease the flow of federal revenue to guaranty agencies and holders of student loans. At the same time, the value of the Authority's student loan portfolio has not increased due to new guaranteed student loan originations, and the existing portfolio is maturing through repayment. Accordingly, the revenues associated with the Authority's portfolio of financed student loans and loans under guaranty are subject to fluctuate, and may eventually, decline. The Authority anticipates that as interest rates rise, the strain on the student loan portfolio due to decisions of the federal government will be ameliorated.

In direct response to the changes in federal law, the Authority, in collaboration with College Foundation, Inc., has developed and launched new services for colleges and universities, including the verification of student financial aid application data and a series of financial education and default prevention services. In addition, and at the behest of the North Carolina General Assembly, the Authority is working with the University of North Carolina, as well as the other principal sectors of higher education, to create operational efficiencies in determining residency for tuition and State-funded financial aid purposes. The Authority expects these new services to generate revenue over time; however, the actual collective impact of these new endeavors is difficult to quantify.

#### ADDITIONAL INFORMATION

This discussion and analysis is intended to provide additional information regarding the activities of the Authority. If you have questions about the report or need additional financial information, contact Elizabeth I. Rozakis, Chief Financial Officer, North Carolina State Education Assistance Authority, P.O. Box 14103, Research Triangle Park, North Carolina 27709, (919) 248-4695, [erozakis@ncseaa.edu](mailto:erozakis@ncseaa.edu), or visit the Authority's website at [www.ncseaa.edu](http://www.ncseaa.edu).

## FINANCIAL STATEMENTS

NORTH CAROLINA  
STATE EDUCATION ASSISTANCE AUTHORITY  
Statements of Net Position  
June 30, 2016 and 2015

ASSETS

	2016	2015
<b>CURRENT ASSETS:</b>		
Cash and Cash Equivalents	\$ 52,865,356	\$ 53,798,411
Restricted Cash and Cash Equivalents	376,464,897	330,117,910
Restricted Investments	101,801,669	111,858,445
Receivables:		
Accounts Receivable	6,018,745	8,079,054
Intergovernmental Receivables	1,727,335	2,189,237
Interest Receivable	29,549,047	32,565,353
Due From Component Unit	2,401,254	1,191,672
Notes Receivable	207,509,275	254,114,860
Prepaid Items	24,062	7,801
Total Current Assets	778,361,640	793,922,743
<b>NONCURRENT ASSETS:</b>		
Restricted Cash and Cash Equivalents	79,468,554	75,120,971
Restricted Investments	1,694,258,242	1,575,158,242
Notes Receivable	1,663,994,337	1,852,943,740
Total Noncurrent Assets	3,437,721,133	3,503,222,953
<b>CAPITAL ASSETS:</b>		
Office Furniture and Equipment	129,869	129,869
Data Processing Systems	13,298,191	13,279,240
Other Equipment	284,542	276,029
Intangible Assets	5,000,000	5,000,000
Accumulated Depreciation	(13,586,721)	(13,561,142)
Net Capital Assets	5,125,881	5,123,996
 Total Assets	 \$ 4,221,208,654	 \$ 4,302,269,692

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

## LIABILITIES AND NET POSITION

	<u>2016</u>	<u>2015</u>
<b>CURRENT LIABILITIES:</b>		
Accounts Payable and Accrued Liabilities:		
Accounts Payable	\$ 15,875,107	\$ 20,306,989
Accrued Payroll	131,147	109,344
Interest Payable	2,804,770	2,518,118
Due to IRC Section 529 Plan Participants	119,347,889	120,300,563
Bonds Payable	211,158,109	243,406,712
Accrued Vacation Leave	11,859	72,337
Total Current Liabilities	<u>349,328,881</u>	<u>386,714,063</u>
<b>NONCURRENT LIABILITIES:</b>		
Due to IRC Section 529 Plan Participants	1,695,081,271	1,569,272,208
Bonds Payable	1,477,990,734	1,660,428,680
Accrued Vacation Leave	358,544	309,032
Net Pension Liability	482,209	163,432
Total Noncurrent Liabilities	<u>3,173,912,758</u>	<u>3,230,173,352</u>
Total Liabilities	<u>3,523,241,639</u>	<u>3,616,887,415</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>		
Deferred Inflows--Nonexchange Transactions	<u>120,358,151</u>	<u>118,827,296</u>
<b>NET POSITION:</b>		
Net Investment in Capital Assets	5,125,881	5,123,996
Restricted for Educational Assistance Programs	499,415,901	476,709,304
Unrestricted	73,067,082	84,721,681
Total Net Position	<u>577,608,864</u>	<u>566,554,981</u>
Total Liabilities and Net Position	<u>\$ 4,221,208,654</u>	<u>\$ 4,302,269,692</u>

NORTH CAROLINA  
STATE EDUCATION ASSISTANCE AUTHORITY  
Statements of Revenues, Expenses and Changes in Net Position  
For the Years Ended June 30, 2016 and 2015

	2016	2015
<b>OPERATING REVENUES:</b>		
Interest Earnings on Loans	\$ 46,364,598	\$ 48,785,365
Miscellaneous	13,518,337	9,401,889
Total Operating Revenues	59,882,935	58,187,254
<b>OPERATING EXPENSES:</b>		
Personal Services	3,657,514	3,674,148
Supplies and Materials	184,933	48,331
Services	35,872,011	33,577,098
Interest	28,297,039	27,462,503
Depreciation	25,579	36,671
Student Loan Service Cancellations	22,770,497	14,857,190
Other Expenses	1,063,021	3,266,508
Total Operating Expenses	91,870,594	82,922,449
Operating Loss	(31,987,659)	(24,735,195)
<b>NONOPERATING REVENUES (EXPENSES):</b>		
State Aid	141,970,649	79,481,975
Noncapital Grants	39,448,062	34,003,298
Federal Grants	1,371,282	1,512,524
Investment Earnings	6,096,074	2,803,492
Grants, Aid and Subsidies	(161,486,971)	(79,126,129)
Total Nonoperating Revenues (Expenses)	27,399,096	38,675,160
Income (Loss) Before Special Item	(4,588,563)	13,939,965
<b>SPECIAL ITEM</b>	15,642,446	
Changes in Net Position	11,053,883	13,939,965
<b>NET POSITION--Beginning of Year:</b>		
Net Position--Beginning of Year, as Previously Reported	566,554,981	553,274,984
Cumulative Effect of Change in Accounting Principal		(659,968)
<b>NET POSITION--Beginning of Year, as Restated</b>	566,554,981	552,615,016
<b>NET POSITION--End of Year</b>	\$ 577,608,864	\$ 566,554,981

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, 2016 and 2015

	2016	2015
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Receipts from Customers	\$ 159,873,627	\$ 175,575,920
Collection of Loans from Students	370,360,248	470,035,516
Payments to Employees and Fringe Benefits	(3,327,900)	(4,168,470)
Payments to Vendors and Suppliers	(41,281,460)	(37,877,413)
Loans Issued to Students	(111,211,159)	(159,396,942)
Payments of Operating Interest Expense	(25,904,135)	(25,069,598)
Net Cash Provided by Operating Activities	348,509,221	419,099,013
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:</b>		
Repayment of Bond Principal	(217,079,453)	(296,124,463)
State Aid	141,970,649	79,481,975
Noncapital Grants	39,448,062	34,003,298
Federal Grants	1,371,282	1,512,524
Grants, Aid and Subsidies	(161,486,972)	(79,126,129)
Net Cash Used by Noncapital Financing Activities	(195,776,432)	(260,252,795)
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>		
Acquisition of Capital Assets	(27,464)	(89,525)
Net Cash Used by Capital and Related Financing Activities	(27,464)	(89,525)
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Proceeds from the Sale and Maturities of Non-State Treasurer Investments	892,977,322	860,901,602
Investment Earnings	2,591,103	1,854,428
Purchase of Non-State Treasurer Investments	(998,512,235)	(993,255,197)
Net Cash Used by Investing Activities	(102,943,810)	(130,499,167)
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	49,761,515	28,257,526
<b>CASH AND CASH EQUIVALENTS--Beginning of Year</b>	459,037,292	430,779,766
<b>CASH AND CASH EQUIVALENTS--End of Year</b>	\$ 508,798,807	\$ 459,037,292

NORTH CAROLINA  
STATE EDUCATION ASSISTANCE AUTHORITY  
Statements of Cash Flows  
For the Years Ended June 30, 2016 and 2015

	2016	2015
RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Operating Loss	\$ (31,987,659)	\$ (24,735,195)
Adjustments to Reconcile Operating Loss to Net Cash Provided by Operating Activities:		
Depreciation	25,579	36,671
Original Issue Discount Expensed	2,392,904	2,392,904
Student Loan Principal Repayments	300,962,410	343,001,116
Student Loans Issued	(52,145,422)	(102,768,469)
Student Loan Cancellations and Write-offs	25,828,240	32,613,035
Allowances and Uncollectible Accounts	(2,795,000)	45,636,000
Capitalized Interest and Other	(36,295,240)	(40,832,359)
Special Item	15,642,446	
(Increase) Decrease in Assets:		
Accounts Receivable	2,060,309	(992,857)
Intergovernmental Receivables	461,902	(436,205)
Investment Earnings Receivable	3,012,968	2,914,323
Due from Component Units	(1,209,582)	1,316,408
Prepaid Expense	(16,262)	44,961
Increase (Decrease) in Liabilities:		
Accounts Payable	(4,145,230)	(1,969,360)
Accrued Payroll and Retirement	340,580	(494,322)
Due to IRC Section 529 Plan Participants	124,856,389	140,410,525
Accrued Vacation Leave	(10,966)	
Increase in Deferred Inflows	1,530,855	22,961,837
Net Cash Provided by Operating Activities	\$ 348,509,221	\$ 419,099,013
 SUPPLEMENTAL DISCLOSURE OF CASH FLOWS INFORMATION:		
Cash Paid During the Year for Interest	\$ 25,373,457	\$ 25,173,512
 NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:		
Noncash Distributions from State Treasurer		
Long-Term Investment Pool	\$ 1,784,738	\$ 2,969,534
Write-Up (Down) of Investments to Fair Market Value	\$ 1,723,573	\$ (2,021,461)

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

NORTH CAROLINA  
STATE EDUCATION ASSISTANCE AUTHORITY  
Notes to Financial Statements  
June 30, 2016 and 2015

1. Summary of Significant Accounting Policies

A. Organization and Reporting Entity:

Governmental Accounting Standards Board (GASB) Statement No. 61, *The Financial Reporting Entity: Omnibus – An Amendment of GASB Statements No. 14 and No. 34*, clarifies the types of relationships that affect the determination of major component units in the financial reporting entity. As a result of GASB No. 61, the North Carolina State Education Assistance Authority (the Authority) is presented as a nonmajor component unit in the State of North Carolina Comprehensive Annual Financial Reports (CAFR) by the State Auditor's Office and the Office of the State Controller.

The 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. The Authority is governed by a nine-member board of directors, seven of whom are appointed by the Governor and two of whom serve ex officio, by virtue of their position of leadership within the two public sectors of higher education in the State. The State provides program subsidies to 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
4. Principal Fellows Program
5. Golden LEAF Scholars Program
6. North Carolina National College Savings Program
7. Guaranty Reserve Funds
8. Education Lottery Scholarship Fund
9. Child Welfare Postsecondary Support Program
10. National Board for Professional Teaching Standards Loan Program
11. Forgivable Education Loans for Service Program
  - Comprised of the following:
    - Student Loan Program for Health, Science and Mathematics
    - North Carolina Nurse Scholarship Loan Program
    - North Carolina Masters Nurse Scholarship Loan Program
    - North Carolina Nurse Education Scholarship Loan Program
    - Social Workers Scholarship Loan Program
    - Millennium Teacher Scholarship Loan Program
    - Future Teachers of North Carolina Scholarship Loan Program
    - Physical Education/Coaching Scholarship Loan Program
    - Prospective Teacher/Teacher Assistant Scholarship Loan Program
    - Board of Governor's Dental Scholarship Loan Program
    - Board of Governor's Medical Scholarship Loan Program
    - Graduate Nurse Scholarship Loan Program
    - Optometry Scholarship Loan Program
    - Teaching Fellows Scholarship Loan Program (transferred to the Authority March 2015)

A special restricted trust fund is used to insure loans to students by eligible lenders according to the provisions of the Higher Education Act of 1965, as amended.

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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 GASB.

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 University of North Carolina - General Administration (UNC-GA) provides the secretariat for the Authority. Financial transactions are maintained on the University of North Carolina at Chapel Hill's ConnectCarolina system, an integrated management system based on Oracle's PeopleSoft.

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 Position include a self-balancing set of assets, liabilities, deferred inflows of resources, and net position that report the financial position of the Authority at the end of the fiscal years ended June 30, 2016 and 2015. The Statements of Revenues, Expenses and Changes in Net Position identify activities which changed net position 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 (STIF), as well as cash on deposit with trustees/custodians. The STIF 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.

E. Investments:

This classification includes deposits held by the State Treasurer in the Long-Term Investment Fund (LTIF), as well as investments with trustees/custodians. Investments generally are reported at fair value, based on quoted market prices in active markets on a trade-date basis. Additional information regarding the fair value measurement of investments is provided in Note 3. 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.

NORTH CAROLINA  
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1. Summary of Significant Accounting Policies (Continued)

G. Capital Assets:

Capital assets are stated at cost at date of acquisition. The Authority capitalizes assets that have a value or cost of \$5,000 or greater 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.

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 payable, compensated absences, and net pension liability that will not be paid within the next fiscal year.

Original issue discounts are deferred and amortized over the life of the debt using the straight-line method and are a component of bonds payable.

The net pension liability represents the Authority's proportionate share of the collective net pension liability reported in the State of North Carolina's 2015 *Comprehensive Annual Financial Report*. This liability represents the Authority's portion of the collective total pension liability less the fiduciary net position of the Teachers' and State Employees' Retirement System. See Note 8 for further information regarding the Authority's policies for recognizing liabilities, expenses, and deferred outflows and inflows related to pensions.

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 1<sup>st</sup> or for which an employee can be paid upon termination of employment. When classifying compensated absences into current and noncurrent, leave is considered taken using a last in, first out (LIFO) method. Also, any accumulated vacation leave in excess of 30 days at year-end is converted to sick leave. Under this policy, the accumulated vacation leave for each employee at June 30<sup>th</sup> equals the leave carried forward at the previous December 31<sup>st</sup>, plus the leave earned, less the leave taken between January 1<sup>st</sup> and June 30<sup>th</sup>.

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

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.

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STATE EDUCATION ASSISTANCE AUTHORITY  
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1. Summary of Significant Accounting Policies (Continued)

K. Net Position:

The Authority's net position is classified as follows:

**Net Investment in Capital Assets:** This represents the Authority's total investment in capital assets, net of outstanding debt liabilities related to those capital assets.

**Restricted Net Position for Educational Assistance Programs--Expendable:** Expendable restricted net position includes resources for which the Authority is legally or contractually obligated to spend in accordance with restrictions imposed by external parties.

**Unrestricted Net Position:** Unrestricted net position includes 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. Both restricted and unrestricted net position include consideration of deferred inflows and outflows of resources.

L. Revenue and Expense Recognition:

The Authority classifies its revenues and expenses as operating or nonoperating in the accompanying Statements of Revenues, Expenses, and Changes in Net Position. 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 earnings, 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  
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1. Summary of Significant Accounting Policies (Concluded)

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. Material estimates that are particularly susceptible to significant change in the near term relate to the determination of allowance for service cancellations and doubtful accounts, and the calculation of current and noncurrent notes receivable, due to IRC Section 529 plan participants, and bonds payable.

2. Deposits and Investments

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, 2016 and 2015, the amounts shown on the Statements of Net Position as cash and cash equivalents include \$431,495,501 and \$388,676,827, respectively, which represent the Authority's equity position in the State Treasurer's Short-Term Investment Fund (STIF). The STIF (a portfolio within the State Treasurer's Investment Pool, an external investment pool that is not registered with the Securities and Exchange Commission or subject to any other regulatory oversight and does not have a credit rating) had a weighted average maturity of 1.5 years as of June 30, 2016 and 2015. Assets and shares of the STIF are valued at fair value. Deposit and investment risks associated with the State Treasurer's Investment Pool (which includes the State Treasurer's STIF) 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 "Reports," or by calling the State Controller's Financial Reporting Section at (919) 707-0500.

Cash on hand at June 30, 2016 and 2015 was \$508,798,807 and \$459,037,292, respectively. The carrying amount of the Authority's deposits not with the State Treasurer at June 30, 2016 was \$77,303,306. The carrying amount of the Authority's deposits not with the State Treasurer at June 30, 2015 was \$70,360,465. 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, 2016 and 2015, none of the Authority's bank balance was exposed to custodial credit risk.

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; certificates of deposit and other deposit accounts 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.

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.

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2. Deposits and Investments (Continued)

Investments totaled \$1,796,059,911 at June 30, 2016 and \$1,687,016,687 at June 30, 2015. The Authority's portion of the State Treasurer's Long-Term Investment Fund at June 30, 2016 and 2015 was \$47,036,122 and \$43,527,811, respectively. The Authority's investments not with the State Treasurer as of June 30, 2016 and 2015 totaled \$1,749,023,789 and \$1,643,488,876, respectively.

**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, 2016, 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:					
Debt Mutual Funds	\$ 624,874,694	\$ 624,874,694	\$	\$	\$
Money Market Mutual Funds	<u>100,970,226</u>	<u>100,970,226</u>			
Total Investments Subject to Interest Rate Risk	<u>725,844,920</u>	<u>\$ 725,844,920</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>
Investments Not Subject to Interest Rate Risk:					
Other Mutual Funds	<u>1,023,178,869</u>				
Total Non-Pooled Investments	<u>\$ 1,749,023,789</u>				

The following table presents the fair value of investments by type and investments subject to interest rate risk at June 30, 2015, 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:					
Debt Mutual Funds	\$ 570,407,017	\$ 570,407,017	\$	\$	\$
Money Market Mutual Funds	<u>142,572,159</u>	<u>142,572,159</u>			
Total Investments Subject to Interest Rate Risk	<u>712,979,176</u>	<u>\$ 712,979,176</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>
Investments Not Subject to Interest Rate Risk:					
Other Mutual Funds	<u>930,509,700</u>				
Total Non-Pooled Investments	<u>\$ 1,643,488,876</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.

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STATE EDUCATION ASSISTANCE AUTHORITY  
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2. Deposits and Investments (Continued)

As of June 30, 2016, 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
Debt Mutual Funds	\$ 624,874,694	\$	\$	\$	\$	\$	\$ 624,874,694
Money Market Mutual Funds	<u>100,970,226</u>	_____	_____	_____	_____	_____	<u>100,970,226</u>
Total	<u>\$ 725,844,920</u>	<u>\$ _____</u>	<u>\$ 725,844,920</u>				

As of June 30, 2015, 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
Debt Mutual Funds	\$ 570,407,017	\$	\$	\$	\$	\$	\$ 570,407,017
Money Market Mutual Funds	<u>142,572,159</u>	_____	_____	_____	_____	_____	<u>142,572,159</u>
Total	<u>\$ 712,979,176</u>	<u>\$ _____</u>	<u>\$ 712,979,176</u>				

*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, 2016, the Authority's non-pooled investments were exposed to custodial credit risk as follows:

Investments Not Categorized:	
Debt Mutual Funds	\$ 624,874,694
Money Market Mutual Funds	100,970,226
Other Mutual Funds	<u>1,023,178,869</u>
Total Non-Pooled Investments	<u>\$ 1,749,023,789</u>

At June 30, 2015, the Authority's non-pooled investments were exposed to custodial credit risk as follows:

Investments Not Categorized:	
Debt Mutual Funds	\$ 570,407,017
Money Market Mutual Funds	142,572,159
Other Mutual Funds	<u>930,509,700</u>
Total Non-Pooled Investments	<u>\$ 1,643,488,876</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, 2016 and 2015, the Authority had no non-pooled investments in any one issuer that equaled more than 5% of the Authority's total non-pooled investments.

NORTH CAROLINA  
STATE EDUCATION ASSISTANCE AUTHORITY  
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2. Deposits and Investments (Concluded)

*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, 2016, there was \$499,820,966 invested in International Mutual Funds. As of June 30, 2015, there was \$234,193,011 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, 2016 and 2015:

	<u>2016</u>	<u>2015</u>
Debt Securities:		
Debt Mutual Funds	\$ 624,874,694	\$ 570,407,017
Money Market Mutual Funds	<u>100,970,226</u>	<u>142,572,159</u>
Total Debt Securities	<u>725,844,920</u>	<u>712,979,176</u>
Other Securities:		
Other Mutual Funds	<u>1,023,178,869</u>	<u>930,509,700</u>
Total Non-Pooled Investments	<u>\$ 1,749,023,789</u>	<u>\$ 1,643,488,876</u>

**Reconciliation of Deposits and Investments:**

A reconciliation of deposits and investments for the Authority at June 30, 2016 and 2015 is as follows:

	<u>2016</u>	<u>2015</u>
Amount of Deposits with Private Financial Institutions	\$ 77,303,306	\$ 70,360,465
Deposits in the Short Term Investment Fund	431,495,501	388,676,827
Long-Term Investment Fund	47,036,122	43,527,811
Non-Pooled Investments	<u>1,749,023,789</u>	<u>1,643,488,876</u>
Total Deposits and Investments	<u>\$ 2,304,858,718</u>	<u>\$ 2,146,053,979</u>
Deposits		
Current:		
Cash and Cash Equivalents	\$ 52,865,356	\$ 53,798,411
Restricted Cash and Cash Equivalents	376,464,897	330,117,910
Noncurrent:		
Restricted Cash and Cash Equivalents	<u>79,468,554</u>	<u>75,120,971</u>
Total Deposits	<u>508,798,807</u>	<u>459,037,292</u>
Investments		
Current:		
Restricted Investments	101,801,669	111,858,445
Noncurrent:		
Restricted Investments	<u>1,694,258,242</u>	<u>1,575,158,242</u>
Total Investments	<u>1,796,059,911</u>	<u>1,687,016,687</u>
Total Deposits and Investments	<u>\$ 2,304,858,718</u>	<u>\$ 2,146,053,979</u>

NORTH CAROLINA  
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Notes to Financial Statements  
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3. Fair Value Measurements

To the extent available, the Authority's investments are recorded at fair value as of June 30, 2016. GASB Statement No. 72 – *Fair Value Measurement and Application*, defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This statements establishes a hierarchy of valuation inputs based on the extent to which the inputs are observable in the marketplace. Inputs are used in applying the various valuation techniques and take into account the assumptions that market participants use to make valuation decisions. Inputs may include price information, credit data, interest and yield curve data, and other factors specific to the financial instrument. Observable inputs reflect market data obtained from independent sources. In contrast, unobservable inputs reflect the entity's assumptions about how market participants would value the financial instrument. Valuation techniques should maximize the use of observable inputs to the extent available.

A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. The following describes the hierarchy of inputs used to measure fair value and the primary valuation methodologies used for financial instruments measured at fair value on a recurring basis.

- Level 1: Investments whose values are based on quoted prices (unadjusted) for identical assets in active markets that a government can access at the measurement date.
- Level 2: Investments with inputs – other than quoted prices included with Level 1 – that are observable for an asset either directly or indirectly.
- Level 3: Investments classified as Level 3 have unobservable inputs for an asset and may require a degree of professional judgment.

As of June 30, 2016, the Authority's investment valuations are as follows:

	<u>Value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Investments by Fair Value Level:				
Mutual Funds:				
Debt Mutual Funds	\$ 624,874,694	\$ 624,874,694		\$
Money Market Mutual Funds	100,970,226	100,970,226		
Other Mutual Funds	<u>1,023,178,869</u>	<u>1,023,178,869</u>		
Total Mutual Funds	1,749,023,789	1,749,023,789		
Other Securities:				
Long-Term Investment Fund	<u>47,036,122</u>		<u>47,036,122</u>	
Total Investments by Fair Value Level	<u>\$ 1,796,059,911</u>	<u>\$ 1,749,023,789</u>	<u>\$ 47,036,122</u>	<u>\$</u>

The Long-Term Investment Fund (LTIF) is held with the State Treasurer and additional information on valuation is included in the State of North Carolina's *Comprehensive Annual Financial Report*. Ownership interest in the LTIF is determined monthly at fair market value based upon units of participation. Units of participation are calculated monthly based upon inflows and outflows as well as allocations of net earnings.

NORTH CAROLINA  
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4. Receivables

The gross receivables and related allowances for service cancellations and doubtful accounts on student loans at June 30, 2016 were:

	<u>Total</u>	<u>Current</u>	<u>Noncurrent</u>
Note Receivable--XAP Corporation	\$ 541,406	\$	\$ 541,406
Gross Student Loan Receivables	2,000,630,206	337,177,275	1,663,452,931
Less: Allowance for Service Cancellations and Doubtful Accounts	<u>129,668,000</u>	<u>129,668,000</u>	<u>                    </u>
Net Receivables	<u>\$ 1,871,503,612</u>	<u>\$ 207,509,275</u>	<u>\$ 1,663,994,337</u>

The gross receivables and related allowances for service cancellations and doubtful accounts on student loans at June 30, 2015 were:

	<u>Total</u>	<u>Current</u>	<u>Noncurrent</u>
Note Receivable--XAP Corporation	\$ 1,082,812	\$ 541,406	\$ 541,406
Gross Student Loan Receivables	2,238,438,788	386,036,454	1,852,402,334
Less: Allowance for Service Cancellations and Doubtful Accounts	<u>132,463,000</u>	<u>132,463,000</u>	<u>                    </u>
Net Receivables	<u>\$ 2,107,058,600</u>	<u>\$ 254,114,860</u>	<u>\$ 1,852,943,740</u>

5. Capital Assets

A summary of capital assets for the years ended June 30, 2016 and 2015 is presented as follows:

	<u>2016</u>	<u>2015</u>
Total Capital Assets	\$ 18,712,602	\$ 18,685,138
Less Accumulated Depreciation	<u>13,586,721</u>	<u>13,561,142</u>
Net Capital Assets	<u>\$ 5,125,881</u>	<u>\$ 5,123,996</u>

6. Accounts Payable and Accrued Liabilities

Accounts payable and accrued liabilities at June 30, 2016 and 2015 were as follows:

	<u>2016</u>	<u>2015</u>
Accounts Payable	\$ 15,875,107	\$ 20,306,989
Accrued Payroll	<u>131,147</u>	<u>109,344</u>
	<u>\$ 16,006,254</u>	<u>\$ 20,416,333</u>

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7. Noncurrent Liabilities

A. Changes in Noncurrent Liabilities:

A summary of changes in noncurrent liabilities for the year ended June 30, 2016 is presented as follows:

	Balance July 1, 2015	Additions/ Adjustments	Reductions	Balance June 30, 2016	Current Portion
Due to IRC Section 529					
Plan Participants	\$ 1,689,572,771	\$ 236,333,765	\$ 111,477,376	\$ 1,814,429,160	\$ 119,347,889
Bonds Payable	1,903,835,392	133,400,000	348,086,549	1,689,148,843	211,158,109
Accrued Vacation Leave	381,369		10,966	370,403	11,859
Net Pension Liability (See Note 8)	<u>163,432</u>	<u>318,777</u>		<u>482,209</u>	
Total Noncurrent Liabilities	<u>\$ 3,593,952,964</u>	<u>\$ 370,052,542</u>	<u>\$ 459,574,891</u>	<u>\$ 3,504,430,615</u>	<u>\$ 330,517,857</u>

A summary of changes in noncurrent liabilities for the year ended June 30, 2015 is presented as follows:

	Balance July 1, 2014	Additions/ Adjustments	Reductions	Balance June 30, 2015	Current Portion
Due to IRC Section 529					
Plan Participants	\$ 1,549,162,246	\$ 251,409,764	\$ 110,999,239	\$ 1,689,572,771	\$ 120,300,563
Bonds Payable	2,197,566,952		293,731,560	1,903,835,392	243,406,712
Accrued Vacation Leave	381,370		1	381,369	72,337
Net Pension Liability (See Note 8)		<u>851,313</u>	<u>687,881</u>	<u>163,432</u>	
Total Noncurrent Liabilities	<u>\$ 3,747,110,568</u>	<u>\$ 252,261,077</u>	<u>\$ 405,418,681</u>	<u>\$ 3,593,952,964</u>	<u>\$ 363,779,612</u>

B. Bonds Payable:

All long-term indebtedness represents obligations of the Authority and is 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, 2015	Additions	Reductions	Balance June 30, 2016
Taxable Guaranteed Student Loan Revenue Bonds, 2005 Series P (Senior Lien):				
LIBOR Indexed:				
Due 6-01-20 (Variable Rate)	\$ 106,211,000		\$ 106,211,000	0
Taxable Guaranteed Student Loan Revenue Private Placement Bonds 2008-1 Series:				
LIBOR Indexed:				
Series A-2				
Due 6-01-33 (Variable Rate)	166,600,000		13,000,000	153,600,000
Original Issue Discount	<u>(2,945,232)</u>		<u>(164,537)</u>	<u>(2,780,695)</u>
	<u>163,654,768</u>		<u>12,835,463</u>	<u>150,819,305</u>

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7. Noncurrent Liabilities (Continued)

	Balance July 1, 2015	Additions	Reductions	Balance June 30, 2016
Taxable Student Loan Backed Notes, 2010-1 Series:				
LIBOR Indexed:				
Tranche A-1 (Sold at 97.4%) Due 7/25/41 (Variable Rate)	\$ 272,398,633		\$ 29,026,877	\$ 243,371,756
Original Issue Discount	<u>(8,780,994)</u>		<u>(564,694)</u>	<u>(8,216,300)</u>
	<u>263,617,639</u>		<u>28,462,183</u>	<u>235,155,456</u>
Taxable Student Loan Backed Notes, 2011-1 Series:				
LIBOR Indexed:				
Tranche A-2 (Sold at 99.1%) Due 1/26/26 (Variable Rate)	85,427,370		30,599,078	54,828,292
Tranche A-3 (Sold at 93.9%) Due 10/25/41 (Variable Rate)	220,000,000			220,000,000
Original Issue Discount	<u>(11,354,170)</u>		<u>(758,631)</u>	<u>(10,595,539)</u>
	<u>294,073,200</u>		<u>29,840,447</u>	<u>264,232,753</u>
Taxable Student Loan Backed Notes, 2011-2 Series:				
LIBOR Indexed:				
Tranche A-1 (Sold at 99.8%) Due 10/26/20 (Variable Rate)	7,137,393		7,137,393	0
Tranche A-2 (Sold at 97.5%) Due 7/25/25 (Variable Rate)	186,000,000		32,992,315	153,007,685
Tranche A-3 (Sold at 94.1%) Due 7/25/36 (Variable Rate)	113,000,000			113,000,000
Original Issue Discount	<u>(8,521,980)</u>		<u>(787,857)</u>	<u>(7,734,123)</u>
	<u>297,615,413</u>		<u>39,341,851</u>	<u>258,273,562</u>
Taxable Student Loan Backed Notes, 2012-1 Series:				
LIBOR Indexed:				
Tranche A (Sold at 99.8%) Due 7/25/39 (Variable Rate)	399,672,126		57,288,689	342,383,437
Original Issue Discount	<u>(1,064,430)</u>		<u>(117,185)</u>	<u>(947,245)</u>
	<u>398,607,696</u>		<u>57,171,504</u>	<u>341,436,192</u>
Taxable Student Loan Backed Notes, 2013-1 Series:				
LIBOR Indexed:				
Due 12/26/39 (Variable Rate)	<u>380,055,676</u>		<u>60,222,491</u>	<u>319,833,185</u>
Tax-Exempt Student Loan Backed Notes, Private Placement Bonds, 2015-1 Series:				
LIBOR Indexed:				
Series A-1 Due 11/25/25 (Variable Rate)		119,000,000	14,001,610	104,998,390
Series A-2 Due 11/25/28 (Variable Rate)		<u>14,400,000</u>		<u>14,400,000</u>
		<u>133,400,000</u>	<u>14,001,610</u>	<u>119,398,390</u>
Total	\$ <u>1,903,835,392</u>	\$ <u>133,400,000</u>	\$ <u>348,086,549</u>	\$ <u>1,689,148,843</u>

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7. Noncurrent Liabilities (Concluded)

C. Pledged Revenues:

The Agency has collateralized \$1,777,273,229 in student loans receivable and \$9,020,003 in reserves to repay \$1,719,422,745 bonds payable at June 30, 2016. These taxable guaranteed student loan revenue bonds were issued between fiscal years June 30, 2006 through June 30, 2016. Proceeds from the bonds issued were utilized to finance student loans. The bonds are payable through fiscal year 2033 and are paid down from cash collections on student loans 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 \$276,877,911 and \$273,979,459, respectively. The total principal and interest remaining to be paid on the bonds is \$1,925,833,736.

D. Annual Requirements:

The annual requirements to pay principal and interest on bonds outstanding at June 30, 2016 are as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>
2017	\$ 211,158,109	\$ 25,858,628
2018	200,613,654	23,266,444
2019	193,741,208	20,687,858
2020	181,142,649	18,215,244
2021	161,175,129	15,969,869
2022-2026	515,099,537	55,792,179
2027-2031	102,892,459	34,674,102
2032-2036	<u>153,600,000</u>	<u>11,946,667</u>
Total Requirements	\$ <u>1,719,422,745</u>	\$ <u>206,410,991</u>

The Taxable Guaranteed Student Loan Revenue Private Placement Bonds, 2008-1 Series are LIBOR indexed debt instruments due June 1, 2033. The Taxable Student Loan Backed Notes 2010-1 Series are LIBOR indexed debt instruments due July 25, 2041. 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. The Taxable Student Loan Backed Notes 2012-1 are LIBOR indexed debt instruments due July 25, 2039. The Taxable Student Loan Backed Notes 2013-1 are LIBOR indexed debt instruments due December 26, 2039. The Tax-Exempt Student Loan Backed Notes, 2015-1 Series are LIBOR indexed debt instruments due November 25, 2028 and were used to prepay the Taxable Guaranteed Student Loan Revenue Bonds, 2005 Series P. All of the above series have a variable interest rate that changes either monthly or quarterly. The annual interest requirements in the schedule above were calculated using the rates in effect on June 30, 2016. Therefore, the debt service interest requirements on the aforementioned series will change on a monthly/quarterly basis throughout the life of the bonds.

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8. Pension Plans

A. Defined Benefit Plan:

*Plan Administration:* The State of North Carolina administers the Teachers' and State Employees' Retirement System (TSERS) plan. This plan is a cost-sharing, multiple-employer, defined benefit pension plan established by the State to provide pension benefits for general employees and law enforcement officers (LEOs) of the State, general employees and LEOs of its component units, and employees of Local Education Agencies (LEAs) and charter schools not in the reporting entity. Membership is comprised of employees of the State (state agencies and institutions), universities, community colleges, and certain proprietary component units along with the LEAs and charter schools. Benefit provisions are established by General Statute 135-5 and may be amended only by the North Carolina General Assembly.

*Benefits Provided:* TSERS provides retirement and survivor benefits. Retirement benefits are determined as 1.82% of the member's average final compensation times the member's years of creditable service. A member's average final compensation is calculated as the average of a member's four highest consecutive years of compensation. General employee plan members are eligible to retire with full retirement benefits at age 65 with five years of creditable service, at age 60 with 25 years of creditable service, or at any age with 30 years of creditable service. General employee plan members are eligible to retire with partial retirement benefits at age 50 with 20 years of creditable service or at age 60 with five years of creditable service. Survivor benefits are available to eligible beneficiaries of general members who die while in active service or within 180 days of their last day of service and who also have either completed 20 years of creditable service regardless of age, or have completed five years of service and have reached age 60. Eligible beneficiaries may elect to receive a monthly Survivor's Alternate Benefit for life or a return of the member's contributions. The plan does not provide for automatic post-retirement benefit increases. Increases are contingent upon actuarial gains of the plan.

*Contributions:* Contribution provisions are established by General Statute 135-8 and may be amended only by the North Carolina General Assembly. Employees are required to contribute 6% of their annual pay. The contributions rate for employers is set each year by the NC General Assembly in the Appropriations Act based on the actuarially-determined rate recommended by the actuary. The Authority's contractually-required contribution rate for the year ended June 30, 2016 was 9.15% of covered payroll. Required employer contribution rates for the years ended June 30, 2015 and 2014 were 9.15% and 8.69%, respectively. Total employee contributions to the pension plan for the years ended June 30, 2016 and 2015 were \$122,673 and \$127,871, respectively. Total employer contributions to the pension plan for the years ended June 30, 2016, 2015, and 2014 were \$187,076, \$195,004, and \$191,949, respectively.

The TSERS Plan's financial information, including all information about the plan's assets, deferred outflows of resources, liabilities, deferred inflows of resources, and fiduciary net position, is included in the State of North Carolina's fiscal year 2015 *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 "Reports" or by calling the State Controller's Financial Reporting Section at (919) 707-0500.

*TSERS Basis of Accounting:* The financial statements of the TSERS plan were prepared using the accrual basis of accounting. Plan member contributions are recognized in the period in which the contributions are due. Employer contributions are recognized when due and the employer has a legal requirement to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of each plan. The plan's fiduciary net position was determined on the same basis used by the pension plan.

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8. Pension Plans (Continued)

*Methods Used to Value TSERS Investment:* Pursuant to *North Carolina General Statutes*, the State Treasurer is the custodian and administrator of the retirement systems. The State Treasurer maintains various investment portfolios in its Investment Pool. The pension trust funds are the primary participants in the Long-Term Investment portfolio and the sole participants in the External Fixed Income Investment, Equity Investment, Real Estate Investment, Alternative Investment, Credit Investment, and Inflation Protection Investment portfolios. The investment balance of each pension trust fund represents its share of the fair market value of the net pension of the various portfolios within the pool. Detailed descriptions of the methods and significant assumptions regarding investments of the State Treasurer are provided in the 2015 *Comprehensive Annual Financial Report*.

*Net Pension Liability:* The Authority reported liabilities of \$482,209 and \$163,432 for the years ended June 30, 2016 and 2015, respectively, for its proportionate share of the collective net pension liability. The net pension liability was measured as of June 30, 2015 and 2014. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2014 and 2013, and update procedures were used to roll forward the total pension liability at June 30, 2015 and 2014. The Authority's proportion of the net pension liability was based on the present value of future salaries for the Authority relative to the present value of future salaries for all participating employers, actuarially-determined. As of June 30, 2015 and 2014, the Authority's proportion was .013% and .014%, respectively.

*Actuarial Assumptions:* The June 30, 2016 and 2015 total pension liability was determined by an actuarial valuation performed as of December 31, 2014 and 2013, respectively. The total pension liability was calculated through the use of update procedures to roll forward from the actuarial valuation date to the measurement date of June 30, 2015 and 2014. The update procedures incorporated the actuarial assumptions used in the valuations. The entry age normal actuarial cost method was utilized. Inflation is assumed to be 3% and salary increases range 4.25% to 9.10%, which includes 3.5% inflation and productivity factor. The long-term expected rate of return on pension plan investments used in the determination of the total pension liability is 7.25% and is net of pension plan investment expense, including inflation.

TSERS currently uses mortality tables that vary by age, gender, employee group (i.e. teacher, general, law enforcement officer), and health status (i.e. disabled and healthy). The current mortality rates are based on published tables and studies that cover significant portions of the U.S. population. The healthy mortality rates also contain a provision to reflect future mortality improvements.

The actuarial assumptions used in the December 31, 2014 and 2013 valuations were based on the results of an actuarial experience study for the period January 1, 2005 through December 31, 2009.

Future ad hoc Cost of Living Adjustment (COLA) amounts are not considered to be substantively automatic and are therefore not included in the measurement.

The projected long-term investment returns and inflation assumptions are developed through review of current and historical capital markets data, sell-side investment research, consultant whitepapers, and historical performance of investment strategies. Fixed income return projections reflect current yields across the U.S. Treasury yield curve and market expectations of forward yields projected and interpolated for multiple tenors and over multiple year horizons. Global public equity return projections are established through analysis of the equity risk premium and the fixed income return projections. Other asset categories and strategies' return projections reflect the foregoing and historical data analysis. These projections are combined to produce the long-term expected rate of return by weighting the expected future real rates of

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8. Pension Plans (Continued)

return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation valuation dates are summarized in the following table:

Asset Class	Long-Term Expected Real Rate of Return	
	June 30, 2015*	June 30, 2014*
	Fixed Income	2.2 %
Global Equity	5.8 %	6.1 %
Real Estate	5.2 %	5.7 %
Alternatives	9.8 %	10.5 %
Credit	6.8 %	6.8 %
Inflation Protection	3.4 %	3.7 %

\* Please note this represents the measurement date of the Pension Plan.

The information above is based on a 30-year expectations developed with the consulting actuary for the 2015 and 2014, respectively, asset, liability, and investment policy study for the North Carolina Retirement Systems. The long-term nominal rates of return underlying the real rates of return are arithmetic annualized figures. The real rates of return are calculated from nominal rates by multiplicatively subtracting a long-term inflation assumption of 3.19%. All rates of return and inflation are annualized.

*Discount Rate:* The discount rate used to measure the total pension liability was 7.25%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current contribution rate and that contributions from employers will be made at statutorily required rates, actuarially determined. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of the current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

*Sensitivity of the Net Pension Liability to Changes in the Discount Rate:* The following presents the net pension liability of the plan calculated using the discount rate of 7.25%, as well as what the net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (6.25%) or 1 percentage point higher (8.25%) than the current rate:

	Net Pension Liability (Asset)		
	1% Decrease (6.25%)	Current Discount Rate (7.25%)	1% Increase (8.25%)
June 30, 2016	\$ 1,451,316	\$ 482,209	\$ (340,190)
June 30, 2015	\$ 1,178,303	\$ 163,432	\$ (692,175)

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8. Pension Plans (Continued)

*Deferred Inflows of Resources and Deferred Outflows of Resources Related to Pensions:* For the year ended June 30, 2016, the Authority recognized pension expense of \$50,894. At June 30, 2016, the Authority reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference Between Actual and Expected Experience	\$	\$ 54,827
Net Difference Between Projected and Actual Earnings on Pension Plan Investments		52,243
Change in Proportion and Differences Between Authority's Contributions and Proportionate Share of Contributions Contributions Subsequent to the Measurement Date	13,617 <u>187,076</u>	3,513
	<u>\$ 200,693</u>	<u>\$ 110,583</u>

Deferred outflows of resources of \$187,076 for the year ended June 30, 2016 related to pensions resulting from contributions subsequent to the measurement date will be recognized as a decrease of net pension liability in the year ended June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year</u>	
2017	\$ (58,879)
2018	(58,879)
2019	(57,922)
2020	78,714
2021	-
	<u>\$ (96,966)</u>

For the year ended June 30, 2015, the Authority recognized pension expense of \$74,921. At June 30, 2015, the Authority reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference Between Actual and Expected Experience	\$	\$ 38,095
Net Difference Between Projected and Actual Earnings on Pension Plan Investments		552,176
Change in Proportion and Differences Between Authority's Contributions and Proportionate Share of Contributions Contributions Subsequent to the Measurement Date	18,814 <u>195,004</u>	
	<u>\$ 213,818</u>	<u>\$ 590,271</u>

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8. Pension Plans (Concluded)

Deferred outflows of resources of \$195,004 for the year ended June 30, 2015 related to pensions resulting from contributions subsequent to the measurement date will be recognized as a decrease of net pension liability in the year ended June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year	
2016	\$ (143,131)
2017	(143,131)
2018	(143,131)
2019	(142,064)
2020	-
	\$ (571,457)

B. Defined Contribution Plan:

The Optional Retirement Program (Program) is a defined contribution pension 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 TSERS. 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, 2016 and 2015, 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, 2016 and 2015, the Authority had payroll of \$2,832,617 and \$2,794,408, respectively, of which \$788,070 and \$663,219 was covered under the Optional Retirement Program. Total employee contributions for pension benefits for the years ended June 30, 2016 and 2015 were \$47,284 and \$39,793, respectively. Total employer contributions for pension benefits for the years ended June 30, 2016, 2015, and 2014 were \$53,904, \$45,364, and \$33,874, respectively. The amount of pension expense recognized in the current year related to ORP is equal to the employer contributions.

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 (TSERS) or the Optional Retirement Program (ORP). Coverage eligibility varies depending on years of contributory membership service in their retirement system prior to disability or retirement.

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9. Other Postemployment Benefits (Continued)

The Plan's benefit and contribution provisions are established by Chapter 135, Article 3B, 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 of the TSERS 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 established by the General Assembly.

For the current fiscal year, the Authority contributed 5.60% of the covered payroll under the TSERS and the ORP to the Fund. Required contribution rates for the years ended June 30, 2015 and 2014 were 5.49% and 5.40%, respectively. The Authority made 100% of its annual required contributions to the Plan for the years ended June 30, 2016, 2015, and 2014, which were \$158,627, \$153,413, and \$146,021, 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 "Reports," or by calling the State Controller's Financial Reporting Section at (919) 707-0500.

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 TSERS and the ORP. Benefit and contribution provisions are established by Chapter 135, Article 6 of the General Statutes, and may be amended only by the North Carolina General Assembly. The plan does not provide for automatic post-retirement benefit increases.

Disability income benefits are funded by actuarially determined employer contributions that are established by the General Assembly. For the fiscal year ended June 30, 2016, the Authority made a statutory contribution of .41% of covered payroll under the TSERS and the ORP to the DIPNC. The required contribution rate for the years ended June 30, 2015 and 2014 were .41% and .44%, respectively. The Authority made 100% of its annual required contributions to the DIPNC for the years ended June 30, 2016, 2015, and 2014, which were \$11,614, \$11,457, and \$11,898, 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*.

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10. Risk Management

The Authority is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These exposures to loss are handled via a combination of methods, including participation in state-administered insurance programs and self-retention of certain risks. There have been no significant reductions in insurance coverage from the previous year.

A. Employee Benefit Plans:

1. State Health Plan

Authority employees and retirees are provided comprehensive major medical care benefits. Coverage is funded by contributions to the State Health Plan (Plan), a discretely presented component unit of the State of North Carolina. The Plan has contracted with third parties to process claims.

2. Death Benefit Plan of North Carolina

Term life insurance (death benefits) of \$25,000 to \$50,000 is provided to eligible workers. This Death Benefit Plan is administered by the State Treasurer and funded via employer contributions. The employer contribution rate was .16% for both the current and prior fiscal years.

B. Other Risk Management and Insurance Activities:

1. Automobile, Fire, and Other Property Losses

The Authority is required to maintain fire and lightning coverage on all state-owned buildings and contents through the State Property Fire Insurance Fund (Fund), an internal service fund of the State. Such coverage is provided at no cost to the Authority for operations supported by the State's General Fund. Other operations not supported by the State's General Fund are charged for the coverage. Losses covered by the Fund are subject to a \$5,000 per occurrence deductible.

2. Public Officers' and Employees' Liability Insurance

The risk of tort claims of up to \$1,000,000 per claimant is retained under the authority of the State Tort Claims Act. In addition, the State provides excess public officers' and employees' liability insurance up to \$10,000,000 via contract with a private insurance company. The Authority pays the premium, based on a composite rate, directly to the private insurer.

3. Employee Dishonesty and Computer Fraud

The Authority is protected for losses from employee dishonesty and computer fraud. This coverage is with a private insurance company and is handled by the North Carolina Department of Insurance. Agencies are charged a premium by the private insurance company. Coverage limit is \$5,000,000 per occurrence. The private insurance company pays 90% of each loss less a \$75,000 deductible.

4. Statewide Workers' Compensation Program

The North Carolina Workers' Compensation Program provides benefits to workers injured on the job. All employees of the State and its component units are included in the program. When an employee is injured, the Authority's primary responsibility is to arrange for and provide the necessary treatment for work related injury. The Authority is responsible for paying medical benefits and compensation in accordance with the North Carolina Workers' Compensation Act. The Authority retains the risk for workers' compensation.

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10. Risk Management (Continued)

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. Adoption of New Accounting Standards

During the year ended June 30, 2016, the Authority adopted the following pronouncements issued by Governmental Accounting Standards Board (GASB):

- GASB Statement No. 72, *Fair Value Measurement and Application*. This Statement addressed accounting and financial reporting issues related to fair value measurements. The objective of this Statement was to improve financial reporting by clarifying the definition of fair value for financial reporting purposes, establish general principles for measuring fair value, provide additional fair value application guidance, and enhance disclosures about fair value measurements. The adoption of this Statement had no impact on the financial statements.
- GASB Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. This Statement simplified the structure of the hierarchy of generally accepted accounting principles (GAAP). The GAAP hierarchy sets forth what constitutes GAAP for all state and local governments. It establishes the order of priority of pronouncements and other sources of accounting and financial reporting guidance that a government entity should apply. The adoption of this Statement had no impact on the financial statements.

During the year ended June 30, 2015, the Authority adopted the following pronouncements issued by Governmental Accounting Standards Board (GASB):

- GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*. This Statement replaces the requirements of GASB Statement No. 27, *Accounting for Pensions by State and Local Government Employers* and GASB Statement No. 50, *Pension Disclosures*, as they relate to pensions that are provided through pension plans administered as trusts or equivalent arrangements that meet certain criteria. The requirements of this Statement revised accounting and financial reporting by state and local governments for pensions and revised information provided by state and local governmental employers about financial support for pensions that is provided by other entities. Refer to Note 12, Application of New Accounting Pronouncement, for information on how the adoption of this Statement affected the financial statements.
- GASB Statement No. 69, *Government Combinations and Disposals of Government Operations*. This Statement established accounting and financial reporting standards related to government combinations (including a variety of transactions referred to as mergers, acquisitions, and transfers of operations) and disposals of government operations that have been transferred or sold. The adoption of this Statement had no impact on the financial statements.
- GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*. This Statement is an amendment of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*. This Statement addressed transition provisions related to certain pension contributions made to defined benefit pension plans prior to implementation of that Statement by employers and nonemployer contributing entities. The adoption of this Statement had no impact on the financial statements as the pension measurement date and the fiscal year end of the Authority are the same.

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12. Application of New Accounting Pronouncement

As discussed previously, the Authority adopted GASB Statement No. 68 during the year ended June 30, 2015. Paragraph 137 of Statement No. 68 states to the extent practical, in the first period of this Statement is applied, changes made to comply with this Statement should be reported as an adjustment of prior periods. Further, paragraph 137 of Statement No. 68 states that it may not be practical to determine the amounts of all deferred inflows of resources and deferred outflows of resources related to pensions at the beginning of the period when the provisions of this Statement are adopted. In such circumstances, paragraph 137 of Statement No. 68 states that beginning balances for deferred inflows of resources and deferred outflows of resources related to pensions should not be reported. As the necessary actuarial data was not available in order to determine the amount of deferred inflows of resources and deferred outflows of resources related to pensions for prior periods, the restatement of beginning net position balance as shown below only includes the following:

- Statement No. 68 defines Net Pension Liability as the liability of employers to employees for benefits provided through a defined benefit pension plan. The Authority had a Net Pension Liability at the beginning of the year of \$659,968. The Authority's adjustment of the prior period to record the beginning Net Pension Liability is a decrease to net position.

As of July 1, 2014, net position as previously reported was restated as follows:

July 1, 2014 Net Position, as Previously Reported	\$ 553,274,984
Restatements: Record the Authority's net pension liability and pension related deferred inflows/outflows of resources pursuant to GASB Statement No. 68 requirements	<u>(659,968)</u>
July 1, 2014 Net Position, as Restated	\$ <u>552,615,016</u>

13. Future Accounting Pronouncement

The GASB has issued the following Statement that will be effective in future years as described below. The Authority has not yet determined the impact of implementing this new pronouncement.

- In August 2015, GASB issued Statement No. 80, *Blending Requirements for Certain Component Units – An Amendment of GASB Statement No. 14*. This Statement adds a new criterion to the blending requirements contained in GASB Statement No. 14, *The Financial Reporting Entity*. The new criterion requires blending component unit organized as a not-for-profit corporation of which the primary government is the sole corporate member. This Statement is effective for the fiscal year ending June 30, 2017.

NORTH CAROLINA  
STATE EDUCATION ASSISTANCE AUTHORITY  
Notes to Financial Statements  
June 30, 2016 and 2015

14. Special Item

The Authority, as a State instrumentality, was identified as a potential claimant in a class action lawsuit captioned, *In re Municipal Derivatives Antitrust Litigation (MDL No. 1950)*, before the United States District Court for the Southern District of New York. The class action asserted claims against a number of financial institutions, alleging that they engaged in bid rigging in the sale of municipal derivative products, including certain investment contracts, between 1992 and 2011. The Authority timely submitted claims to participate in settlements that resulted from the litigation based on the financial products the Authority utilized as an issuer of tax-exempt student loan revenue bonds for investment of certain funds and accounts established under the Authority's 1995 General Resolution. A settlement agreement covering the Authority's claims was approved by the court on February 16, 2016; the Authority received \$15,642,446 for its share in the settlement.

15. Reclassifications

Certain reclassifications have been made to the 2015 financial statements to conform with the 2016 financial statement presentation. Such reclassifications had no effect on net assets or cash flows.

16. Subsequent Events

Subsequent events have been evaluated through September 23, 2016, which is the date the financial statements were available to be issued.

REQUIRED SUPPLEMENTARY INFORMATION

NORTH CAROLINA  
STATE EDUCATION ASSISTANCE AUTHORITY  
Required Supplementary Information  
Schedule of Proportionate Net Pension Liability  
Teachers' and State Employees' Retirement System  
June 30, \*

	<u>2015</u>	<u>2014</u>	<u>2013</u>
Authority's proportionate share percentage of collective net pension liability	0.013%	0.014%	0.014%
Authority's proportionate share of TSERS collective net pension liability	\$ 482,209	\$ 163,432	\$ 163,432
Authority's covered-employee payroll	\$ 2,131,189	\$ 2,208,847	\$ 2,209,421
Authority's net pension liability as a percentage of covered-employee payroll	22.626%	7.399%	7.397%
Plan fiduciary net position as a percentage of the total pension liability	94.640%	98.240%	90.600%

\* Please note this represents the measurement date for the Pension Plan. Information is provided for years available.

SCHEDULE OF CONTRIBUTIONS

NORTH CAROLINA  
 STATE EDUCATION ASSISTANCE AUTHORITY  
 Required Supplementary Information  
 Schedule of Contributions  
 Teachers' and State Employees' Retirement System  
 Last Ten Fiscal Years

	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
Contractually required contribution	\$ 187,076	\$ 195,004	\$ 191,949	\$ 184,045
Contributions in relation to the contractually determined contribution	<u>187,076</u>	<u>195,004</u>	<u>191,949</u>	<u>184,045</u>
Contribution deficiency (excess)	<u>\$ _____</u>	<u>\$ _____</u>	<u>\$ _____</u>	<u>\$ _____</u>
Authority's covered-employee payroll	\$ 2,044,547	\$ 2,131,189	\$ 2,208,847	\$ 2,209,421
Contributions as a percentage of covered-employee payroll	9.15%	9.15%	8.69%	8.33%

<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>
\$ 138,421	\$ 116,092	\$ 88,202	\$ 83,371	\$ 68,562	\$ 51,159
<u>138,421</u>	<u>116,092</u>	<u>88,202</u>	<u>83,371</u>	<u>68,562</u>	<u>51,159</u>
\$ <u><u>          </u></u>					
\$ 2,807,731	\$ 2,354,801	\$ 2,470,649	\$ 2,481,287	\$ 2,247,950	\$ 1,923,290
4.93%	4.93%	3.57%	3.36%	3.05%	2.66%

NORTH CAROLINA  
STATE EDUCATION ASSISTANCE AUTHORITY  
Notes to Required Supplementary Information  
Schedule of Authority Contributions  
Teachers' and State Employees' Retirement System  
June 30, 2016 and 2015

1. Changes of Benefit Terms

Cost of Living Increase

<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>
1.00%	N/A	1.00%	N/A	N/A	N/A	2.20%	2.20%	3.00%

2. Changes of Assumptions

In 2008, and again in 2012, the rates of withdrawal, mortality, service retirement, and salary increase for active members and the rates of mortality for beneficiaries were adjusted to more closely reflect actual experience. Assumptions for leave conversions and loads were also revised in 2012.