

oOo

NORTH CAROLINA
STATE EDUCATION ASSISTANCE AUTHORITY

Financial Statements

June 30, 2017 and 2016

oOo

TABLE OF CONTENTS

	<u>Pages</u>
Independent Auditor's Report	1-2
Required Supplementary Information	
Management's Discussion and Analysis	3-7
Financial Statements	
Statements of Net Position	8
Statements of Revenues, Expenses and Changes in Net Position	9
Statements of Cash Flows	10-11
Notes to Financial Statements	12-34
Required Supplementary Information	
Schedule of Proportionate Net Pension Liability	35
Schedule of Authority Contributions	36
Notes to Required Supplementary Information	37



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, 2017 and 2016, and the related notes to 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, 2017 and 2016, 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.

Raleigh
4060 Barrett Drive
Post Office Box 17806
Raleigh, North Carolina 27619

919 782 9265
919 783 8937 FAX

Durham
3500 Westgate Drive
Suite 203
Durham, North Carolina 27707

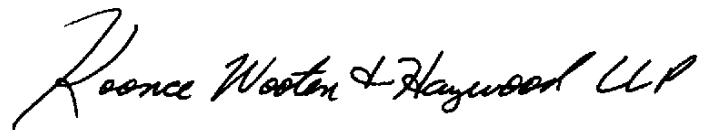
919 354 2584
919 489 8183 FAX

Pittsboro
10 Sanford Road
Post Office Box 1399
Pittsboro, North Carolina 27312

919 542 6000
919 542 5764 FAX

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 & Haywood LLP". The signature is written in a cursive, flowing style.

Raleigh, North Carolina
September 22, 2017

NORTH CAROLINA
STATE EDUCATION ASSISTANCE AUTHORITY
Management's Discussion and Analysis
June 30, 2017 and 2016

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, 2017 and 2016. 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, 2017 and 2016 by approximately \$572 and \$577 million, respectively, (presented as "net position"). Of this amount, approximately \$70.9 and \$73.1 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 decreased by approximately \$5.5 million (.96%) in fiscal year 2017 and increased by approximately \$11 million (1.95%) in fiscal year 2016.

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 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.

NORTH CAROLINA
STATE EDUCATION ASSISTANCE AUTHORITY
Management's Discussion and Analysis
June 30, 2017 and 2016

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

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 \$572 million as of June 30, 2017, compared to approximately \$577 million as of June 30, 2016.

NORTH CAROLINA
STATE EDUCATION ASSISTANCE AUTHORITY
Condensed Statements of Net Position

	<u>2017</u>	<u>2016</u>
Current Assets	\$ 803,244,610	\$ 778,361,640
Noncurrent Assets	3,427,864,215	3,437,721,133
Capital Assets	<u>5,115,752</u>	<u>5,125,881</u>
Total Assets	<u>\$ 4,236,224,577</u>	<u>\$ 4,221,208,654</u>
Current Liabilities	\$ 352,455,164	\$ 349,328,881
Noncurrent Liabilities	<u>3,186,717,910</u>	<u>3,173,912,758</u>
Total Liabilities	<u>3,539,173,074</u>	<u>3,523,241,639</u>
Deferred Inflows of Resources	<u>124,983,124</u>	<u>120,358,151</u>
Net Investment in Capital Assets	5,115,752	5,125,881
Restricted for Educational Assistance Programs	496,044,526	499,415,901
Unrestricted	<u>70,908,101</u>	<u>73,067,082</u>
Total Net Position	<u>572,068,379</u>	<u>577,608,864</u>
Total Liabilities and Net Position	<u>\$ 4,236,224,577</u>	<u>\$ 4,221,208,654</u>

The largest portion of the Authority's net position (87% at June 30, 2017 and 86% at June 30, 2016) represents resources that are subject to external restrictions on how they may be used. An additional portion (.89% at June 30, 2017 and 2016) 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.

NORTH CAROLINA
STATE EDUCATION ASSISTANCE AUTHORITY
Management's Discussion and Analysis
June 30, 2017 and 2016

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.

The Authority's net position decreased by approximately \$5.5 million or .96% during the year ended June 30, 2017, and increased by approximately \$11 million or 1.95% during the year ended June 30, 2016.

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

	<u>2017</u>	<u>2016</u>
REVENUES:		
Operating Revenues:		
Interest Earnings on Loans	\$ 48,809,449	\$ 46,364,598
Miscellaneous	<u>12,485,095</u>	<u>13,518,337</u>
Total Operating Revenues	<u>61,294,544</u>	<u>59,882,935</u>
Nonoperating Revenues:		
State Aid	78,481,975	141,970,649
Grants	101,707,478	40,819,344
Investment Earnings	<u>3,104,530</u>	<u>6,096,074</u>
Total Nonoperating Revenues	<u>183,293,983</u>	<u>188,886,067</u>
Special Item		<u>15,642,446</u>
Total Revenues	<u>244,588,527</u>	<u>264,411,448</u>
EXPENSES:		
Operating Expenses:		
Services	37,946,682	39,529,525
Interest	31,520,149	28,297,039
Student Loan Service Cancellations	21,737,524	22,770,497
Depreciation	29,987	25,579
Other Expenses	<u>1,720,426</u>	<u>1,247,954</u>
Total Operating Expenses	<u>92,954,768</u>	<u>91,870,594</u>
Nonoperating Expenses:		
Grants, Aid and Subsidies	<u>157,174,244</u>	<u>161,486,971</u>
Total Expenses	<u>250,129,012</u>	<u>253,357,565</u>
CHANGES IN NET POSITION	(5,540,485)	11,053,883
NET POSITION--Beginning of Year	<u>577,608,864</u>	<u>566,554,981</u>
NET POSITION--End of Year	<u>\$ 572,068,379</u>	<u>\$ 577,608,864</u>

Approximately 25.1% 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 32.1% came from the State of North Carolina Education Lottery and interest earnings on and corpus from escheated monies held by the State. Approximately 41.6% resulted from grants that include federal and

NORTH CAROLINA
STATE EDUCATION ASSISTANCE AUTHORITY
Management's Discussion and Analysis
June 30, 2017 and 2016

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. Lastly, approximately 1.2% resulted from investment earnings on cash, cash equivalents, and short-term and long-term investments during the fiscal year.

The Authority's expenses cover a range of services. Approximately 15.2% 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 12.6% of expenses were for interest incurred on bonds issued by the Authority in order to fund student loans, 62.8% were for grants and aid distributed for education assistance, and 8.7% were for student loan service cancellations related to certain state sponsored loan programs.

The decrease in net position for the year ended June 30, 2017 is primarily attributed to decreased revenue flows in the Student Loan Finance Program as a result of obligations associated with the U.S. Department of Education's authority over the Federal Family Education Loan Program.

DEBT ADMINISTRATION

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.

The Authority's total bond debt decreased by approximately \$240 million (14.2%) and approximately \$215 million (11.3%) during the fiscal years 2017 and 2016, respectively. The majority of the 2017 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 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

NORTH CAROLINA
STATE EDUCATION ASSISTANCE AUTHORITY
Management's Discussion and Analysis
June 30, 2017 and 2016

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 continue to 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. At the behest of the North Carolina General Assembly and with the assistance of College Foundation, Inc., the Authority implemented, in cooperation with The University of North Carolina and the other principal sectors of higher education, a centralized system for determining residency for tuition and State-funded financial aid purposes. In addition, the Board of Directors of the Authority has authorized the offering of an alternative, State-based loan program to serve the unmet higher education financing needs of students and their parents. The Authority expects these new services to generate revenue over time; however, the actual collective impact of these new endeavors is difficult to quantify.

Meanwhile, the North Carolina General Assembly continues to fund and assign new programs to the Authority that are designed to support K12 education. Appropriations for the Opportunity Scholarship Program that provides vouchers to enable low and moderate income families to enroll their children in the nonpublic schools of their choice are slated to increase over the next biennium. A new State program intended to support families in educating children with certain disabilities was added to the Authority's portfolio of K12 programs with the enactment of the "Appropriations Act of 2017." Continuing to rely upon the Authority's administrative capabilities to implement and administer such specialized programs, the General Assembly is also providing funding to operate these programs. The Authority expects the administrative income for these programs to cover the expenses incurred in operating the programs in the foreseeable future.

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, or visit the Authority's website at www.ncseaa.edu.

FINANCIAL STATEMENTS

NORTH CAROLINA
STATE EDUCATION ASSISTANCE AUTHORITY
Statements of Net Position
June 30, 2017 and 2016

ASSETS

	2017	2016
CURRENT ASSETS:		
Cash and Cash Equivalents	\$ 46,076,959	\$ 52,865,356
Restricted Cash and Cash Equivalents	442,235,633	376,464,897
Restricted Investments	63,391,139	101,801,669
Receivables:		
Accounts Receivable	5,549,002	6,018,745
Intergovernmental Receivables	1,343,130	1,727,335
Interest Receivable	29,090,575	29,549,047
Due From Component Unit	2,471,936	2,401,254
Notes Receivable	213,065,731	207,509,275
Prepaid Items	20,505	24,062
Total Current Assets	803,244,610	778,361,640
NONCURRENT ASSETS:		
Restricted Cash and Cash Equivalents	32,364,500	79,468,554
Restricted Investments	1,974,799,682	1,694,258,242
Notes Receivable	1,420,700,033	1,663,994,337
Total Noncurrent Assets	3,427,864,215	3,437,721,133
CAPITAL ASSETS:		
Office Furniture and Equipment	129,869	129,869
Data Processing Systems	13,318,049	13,298,191
Other Equipment	284,542	284,542
Intangible Assets	5,000,000	5,000,000
Accumulated Depreciation	(13,616,708)	(13,586,721)
Net Capital Assets	5,115,752	5,125,881
 Total Assets	 \$ 4,236,224,577	 \$ 4,221,208,654

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

LIABILITIES AND NET POSITION

	<u>2017</u>	<u>2016</u>
CURRENT LIABILITIES:		
Accounts Payable and Accrued Liabilities:		
Accounts Payable	\$ 12,471,716	\$ 15,875,107
Accrued Payroll	164,680	131,147
Interest Payable	3,226,720	2,804,770
Due to IRC Section 529 Plan Participants	144,889,204	119,347,889
Bonds Payable	191,687,508	211,158,109
Accrued Vacation Leave	15,336	11,859
Total Current Liabilities	<u>352,455,164</u>	<u>349,328,881</u>
NONCURRENT LIABILITIES:		
Due to IRC Section 529 Plan Participants	1,927,771,034	1,695,081,271
Bonds Payable	1,257,499,355	1,477,990,734
Accrued Vacation Leave	394,229	358,544
Net Pension Liability	1,053,292	482,209
Total Noncurrent Liabilities	<u>3,186,717,910</u>	<u>3,173,912,758</u>
Total Liabilities	<u>3,539,173,074</u>	<u>3,523,241,639</u>
DEFERRED INFLOWS OF RESOURCES		
Deferred Inflows--Nonexchange Transactions	<u>124,983,124</u>	<u>120,358,151</u>
NET POSITION:		
Net Investment in Capital Assets	5,115,752	5,125,881
Restricted for Educational Assistance Programs	496,044,526	499,415,901
Unrestricted	70,908,101	73,067,082
Total Net Position	<u>572,068,379</u>	<u>577,608,864</u>
Total Liabilities and Net Position	<u>\$ 4,236,224,577</u>	<u>\$ 4,221,208,654</u>

NORTH CAROLINA
STATE EDUCATION ASSISTANCE AUTHORITY
Statements of Revenues, Expenses and Changes in Net Position
For the Years Ended June 30, 2017 and 2016

	2017	2016
OPERATING REVENUES:		
Interest Earnings on Loans	\$ 48,809,449	\$ 46,364,598
Miscellaneous	12,485,095	13,518,337
Total Operating Revenues	61,294,544	59,882,935
OPERATING EXPENSES:		
Personal Services	4,341,007	3,657,514
Supplies and Materials	187,426	184,933
Services	33,605,675	35,872,011
Interest	31,520,149	28,297,039
Depreciation	29,987	25,579
Student Loan Service Cancellations	21,737,524	22,770,497
Other Expenses	1,533,000	1,063,021
Total Operating Expenses	92,954,768	91,870,594
Operating Loss	(31,660,224)	(31,987,659)
NONOPERATING REVENUES (EXPENSES):		
State Aid	78,481,975	141,970,649
Noncapital Grants	100,175,582	39,448,062
Federal Grants	1,531,896	1,371,282
Investment Earnings	3,104,530	6,096,074
Grants, Aid and Subsidies	(157,174,244)	(161,486,971)
Total Nonoperating Revenues (Expenses)	26,119,739	27,399,096
Income (Loss) Before Special Item	(5,540,485)	(4,588,563)
SPECIAL ITEM		15,642,446
Changes in Net Position	(5,540,485)	11,053,883
NET POSITION--Beginning of Year	577,608,864	566,554,981
NET POSITION--End of Year	\$ 572,068,379	\$ 577,608,864

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, 2017 and 2016

	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES:		
Receipts from Customers	\$ 276,596,662	\$ 159,873,627
Collection of Loans from Students	356,488,975	370,360,248
Payments to Employees and Fringe Benefits	(3,697,229)	(3,327,900)
Payments to Vendors and Suppliers	(38,303,985)	(41,281,460)
Loans Issued to Students	(91,679,202)	(111,211,159)
Payments of Operating Interest Expense	(29,127,245)	(25,904,135)
Net Cash Provided by Operating Activities	470,277,976	348,509,221
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
Repayment of Bond Principal	(242,354,884)	(217,079,453)
State Aid	78,481,975	141,970,649
Noncapital Grants	100,175,582	39,448,062
Federal Grants	1,531,896	1,371,282
Grants, Aid and Subsidies	(157,174,244)	(161,486,972)
Net Cash Used by Noncapital Financing Activities	(219,339,675)	(195,776,432)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Acquisition of Capital Assets	(19,858)	(27,464)
Net Cash Used by Capital and Related Financing Activities	(19,858)	(27,464)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from the Sale and Maturities of Non-State Treasurer Investments	705,157,510	892,977,322
Investment Earnings	3,098,227	2,591,103
Purchase of Non-State Treasurer Investments	(947,295,895)	(998,512,235)
Net Cash Used by Investing Activities	(239,040,158)	(102,943,810)
NET INCREASE IN CASH AND CASH EQUIVALENTS	11,878,285	49,761,515
CASH AND CASH EQUIVALENTS--Beginning of Year	508,798,807	459,037,292
CASH AND CASH EQUIVALENTS--End of Year	\$ 520,677,092	\$ 508,798,807

NORTH CAROLINA
STATE EDUCATION ASSISTANCE AUTHORITY
Statements of Cash Flows
For the Years Ended June 30, 2017 and 2016

	2017	2016
RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Operating Loss	\$ (31,660,224)	\$ (31,987,659)
Adjustments to Reconcile Operating Loss to Net Cash Provided by Operating Activities:		
Depreciation	29,987	25,579
Original Issue Discount Expensed	2,392,904	2,392,904
Student Loan Principal Repayments	285,895,639	300,962,410
Student Loans Issued	(39,041,852)	(52,145,422)
Student Loan Cancellations and Write-offs	27,023,887	25,828,240
Allowances and Uncollectible Accounts	(5,240,000)	(2,795,000)
Capitalized Interest and Other	(30,899,826)	(36,295,240)
Special Item		15,642,446
(Increase) Decrease in Assets:		
Accounts Receivable	469,743	2,060,309
Intergovernmental Receivables	384,205	461,902
Investment Earnings Receivable	472,250	3,012,968
Due from Component Units	(70,682)	(1,209,582)
Prepaid Expense	3,557	(16,262)
Increase (Decrease) in Liabilities:		
Accounts Payable	(2,981,441)	(4,145,230)
Accrued Payroll and Retirement	604,616	340,580
Due to IRC Section 529 Plan Participants	258,231,078	124,856,389
Accrued Vacation Leave	39,162	(10,966)
Increase in Deferred Inflows	4,624,973	1,530,855
Net Cash Provided by Operating Activities	\$ 470,277,976	\$ 348,509,221
 SUPPLEMENTAL DISCLOSURE OF CASH FLOWS INFORMATION:		
Cash Paid During the Year for Interest	\$ 28,705,295	\$ 25,373,457
 NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:		
Noncash Distributions from State Treasurer		
Long-Term Investment Pool	\$ 1,338,006	\$ 1,784,738
Write-Up (Down) of Investments to Fair Market Value	\$ (1,345,481)	\$ 1,723,573

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

NORTH CAROLINA
STATE EDUCATION ASSISTANCE AUTHORITY
Notes to Financial Statements
June 30, 2017 and 2016

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 respective positions 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

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.

NORTH CAROLINA
STATE EDUCATION ASSISTANCE AUTHORITY
Notes to Financial Statements
June 30, 2017 and 2016

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, include 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, 2017 and 2016. 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 Bond Index Fund (BIF), 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 change in the 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
STATE EDUCATION ASSISTANCE AUTHORITY
Notes to Financial Statements
June 30, 2017 and 2016

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 2016 *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 of resources and deferred inflows of resources 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 1st or for which an employee can be paid upon termination of employment. When classifying compensated absences into current and noncurrent, leave is considered taken using a last in, first out (LIFO) method. Also, any accumulated vacation leave in excess of 30 days at year-end is converted to sick leave. Under this policy, the accumulated vacation leave for each employee at June 30th equals the leave carried forward at the previous December 31st, plus the leave earned, less the leave taken between January 1st and June 30th.

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

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

NORTH CAROLINA
STATE EDUCATION ASSISTANCE AUTHORITY
Notes to Financial Statements
June 30, 2017 and 2016

1. Summary of Significant Accounting Policies (Continued)

K. Deferred Outflows/Inflows of Resources:

In addition to liabilities, the Statements of Net Position report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period and so will not be recognized as revenue until then. The Authority has forward funded state aid and net deferred inflows related to pensions that are included in this category.

L. 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.

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.

M. Revenue and Expense Recognition:

The Authority classifies its revenues and expenses as operating or nonoperating in the accompanying Statements of Revenues, Expenses, and Changes in Net 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 interest earned on loans and 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.

NORTH CAROLINA
STATE EDUCATION ASSISTANCE AUTHORITY
Notes to Financial Statements
June 30, 2017 and 2016

1. Summary of Significant Accounting Policies (Concluded)

N. Income Taxes:

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

O. Accounting Estimates:

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. 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, 2017 and 2016, the amounts shown on the Statements of Net Position as cash and cash equivalents include \$377,754,658 and \$431,495,501, 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 1.6 years as of June 30, 2017 and 1.5 years as of June 30, 2016. 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 on the North Carolina Office of the State Controller's website at <http://www.osc.nc.gov/> or by calling the State Controller's Financial Reporting Section at (919) 707-0500.

Cash on hand at June 30, 2017 and 2016 was \$520,677,092 and \$508,798,807, respectively. The carrying amount of the Authority's deposits not with the State Treasurer at June 30, 2017 was \$142,922,434. The carrying amount of the Authority's deposits not with the State Treasurer at June 30, 2016 was \$77,303,306. 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, 2017 and 2016, none of the Authority's bank balance was exposed to custodial credit risk.

NORTH CAROLINA
STATE EDUCATION ASSISTANCE AUTHORITY
Notes to Financial Statements
June 30, 2017 and 2016

2. Deposits and Investments (Continued)

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; specified bills of exchange or time drafts, and corporate bonds and notes with specified ratings; 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.

Investments totaled \$2,038,190,821 at June 30, 2017 and \$1,796,059,911 at June 30, 2016. The Authority withdrew from the State Treasurer's Long-Term Investment Fund (LTIF) during fiscal year 2017 and joined the new State Treasurer's Bond Index Fund (BIF). The Authority's portion in BIF at June 30, 2017 was \$47,028,648 and LTIF at June 30, 2016 was \$47,036,122. The Authority's investments not with the State Treasurer as of June 30, 2017 and 2016 totaled \$1,991,162,173 and \$1,749,023,789, respectively.

The majority of the investments described in this Section, \$1,929,686,802, related to the IRC Section 529 Plan.

Non-Pooled Investments:

Non-Pooled Investments are subject to the following risks as defined by GASB Statement No. 40, *Deposit and Investment Risk Disclosures – An Amendment of GASB Statement No.3*:

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 investments by type and investments subject to interest rate risk at June 30, 2017, 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	\$ 705,778,870	\$ 705,778,870	\$	\$	\$
Money Market Mutual Funds	<u>140,537,121</u>	<u>140,537,121</u>			
Total Investments Subject to Interest Rate Risk	<u>846,315,991</u>	<u>\$ 846,315,991</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>
Investments Not Subject to Interest Rate Risk:					
Other Mutual Funds	<u>1,144,846,182</u>				
Total Non-Pooled Investments	<u>\$ 1,991,162,173</u>				

NORTH CAROLINA
STATE EDUCATION ASSISTANCE AUTHORITY
Notes to Financial Statements
June 30, 2017 and 2016

2. Deposits and Investments (Continued)

The following table presents 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>				

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

As of June 30, 2017, the Authority's non-pooled investments had the following credit quality distribution for securities with credit exposure:

	Amount	AAA Aaa	AA Aa	A	BBB Baa	BB/Ba and Below	Unrated
Debt Mutual Funds	\$ 705,778,870	\$	\$	\$	\$	\$	\$ 705,778,870
Money Market Mutual Funds	<u>140,537,121</u>						<u>140,537,121</u>
Total	<u>\$ 846,315,991</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$ 846,315,991</u>

As of June 30, 2016, the Authority's non-pooled investments had the following credit quality distribution for securities with credit exposure:

	Amount	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>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$ 725,844,920</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.

NORTH CAROLINA
STATE EDUCATION ASSISTANCE AUTHORITY
Notes to Financial Statements
June 30, 2017 and 2016

2. Deposits and Investments (Continued)

At June 30, 2017, the Authority's non-pooled investments were exposed to custodial credit risk as follows:

Investments Not Categorized:	
Debt Mutual Funds	\$ 705,778,870
Money Market Mutual Funds	140,537,121
Other Mutual Funds	<u>1,144,846,182</u>
Total Non-Pooled Investments	<u>\$ 1,991,162,173</u>

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>

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, 2017 and 2016, the Authority had no non-pooled investments in any one issuer that equaled more than 5% of the Authority's total non-pooled investments.

Foreign Currency Risk: Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment. The Authority has formally adopted investment policies for foreign currency risk stating that foreign investments must be denominated in U.S. dollars or the securities must be traded solely on an exchange based in the United States. The Authority's non-pooled investments exposed to foreign currency risk are comprised entirely of amounts invested in International Mutual Funds. As of June 30, 2017, there was \$576,306,842 invested in International Mutual Funds. As of June 30, 2016, there was \$499,820,966 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, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
Debt Securities:		
Debt Mutual Funds	\$ 705,778,870	\$ 624,874,694
Money Market Mutual Funds	<u>140,537,121</u>	<u>100,970,226</u>
Total Debt Securities	<u>846,315,991</u>	<u>725,844,920</u>
Other Securities:		
Other Mutual Funds	<u>1,144,846,182</u>	<u>1,023,178,869</u>
Total Non-Pooled Investments	<u>\$ 1,991,152,173</u>	<u>\$ 1,749,023,789</u>

NORTH CAROLINA
STATE EDUCATION ASSISTANCE AUTHORITY
Notes to Financial Statements
June 30, 2017 and 2016

2. Deposits and Investments (Concluded)

Reconciliation of Deposits and Investments:

A reconciliation of deposits and investments for the Authority at June 30, 2017 and 2016 is as follows:

	<u>2017</u>	<u>2016</u>
Amount of Deposits with Private Financial Institutions	\$ 142,922,434	\$ 77,303,306
Deposits in the Short Term Investment Fund	377,754,658	431,495,501
Bond Index Fund	47,028,648	
Long-Term Investment Fund		47,036,122
Non-Pooled Investments	<u>1,991,162,173</u>	<u>1,749,023,789</u>
Total Deposits and Investments	<u>\$ 2,558,867,913</u>	<u>\$ 2,304,858,718</u>
Deposits		
Current:		
Cash and Cash Equivalents	\$ 46,076,959	\$ 52,865,356
Restricted Cash and Cash Equivalents	442,235,633	376,464,897
Noncurrent:		
Restricted Cash and Cash Equivalents	<u>32,364,500</u>	<u>79,468,554</u>
Total Deposits	<u>520,677,092</u>	<u>508,798,807</u>
Investments		
Current:		
Restricted Investments	63,391,139	101,801,669
Noncurrent:		
Restricted Investments	<u>1,974,799,682</u>	<u>1,694,258,242</u>
Total Investments	<u>2,038,190,821</u>	<u>1,796,059,911</u>
Total Deposits and Investments	<u>\$ 2,558,867,913</u>	<u>\$ 2,304,858,718</u>

3. Fair Value Measurements

To the extent available, the Authority's investments are recorded at fair value as of June 30, 2017 and 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 statement 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.

NORTH CAROLINA
STATE EDUCATION ASSISTANCE AUTHORITY
Notes to Financial Statements
June 30, 2017 and 2016

3. Fair Value Measurements (Continued)

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, 2017, 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	\$ 705,778,870	\$ 705,778,870		\$
Money Market Mutual Funds	140,537,121	140,537,121		
Other Mutual Funds	<u>1,144,846,182</u>	<u>1,144,846,182</u>		
Total Mutual Funds	1,991,162,173	1,991,162,173		
Other Securities:				
Bond Index Fund	<u>47,028,648</u>		<u>47,028,648</u>	
Total Investments by Fair Value Level	<u>\$ 2,038,190,821</u>	<u>\$ 1,991,162,173</u>	<u>\$ 47,028,648</u>	<u>\$</u>

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 Bond Index Fund (BIF) is held with the State Treasurer and additional information on valuation is included in a separately issued report. This report can be obtained from the Department of State Treasurer <https://www.nctreasurer.com>. Ownership interest in the Bond Index Fund 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
STATE EDUCATION ASSISTANCE AUTHORITY
Notes to Financial Statements
June 30, 2017 and 2016

4. Receivables

The gross receivables and related allowances for service cancellations and doubtful accounts on student loans at June 30, 2017 were:

	<u>Total</u>	<u>Current</u>	<u>Noncurrent</u>
Note Receivable--XAP Corporation	\$ 541,406	\$	\$ 541,406
Gross Student Loan Receivables	1,757,652,358	337,493,731	1,420,158,627
Allowance for Service Cancellations and Doubtful Accounts	<u>(124,428,000)</u>	<u>(124,428,000)</u>	<u> </u>
Net Receivables	<u>\$ 1,633,765,764</u>	<u>\$ 213,065,731</u>	<u>\$ 1,420,700,033</u>

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
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>

5. Capital Assets

A summary of capital assets for the years ended June 30, 2017 and 2016 is presented as follows:

	<u>2017</u>	<u>2016</u>
Total Capital Assets	\$ 18,732,460	\$ 18,712,602
Accumulated Depreciation	<u>(13,616,708)</u>	<u>(13,586,721)</u>
Net Capital Assets	<u>\$ 5,115,752</u>	<u>\$ 5,125,881</u>

6. Accounts Payable and Accrued Liabilities

Accounts payable and accrued liabilities at June 30, 2017 and 2016 were as follows:

	<u>2017</u>	<u>2016</u>
Accounts Payable	\$ 12,471,716	\$ 15,875,107
Accrued Payroll	<u>164,680</u>	<u>131,147</u>
	<u>\$ 12,636,396</u>	<u>\$ 16,006,254</u>

NORTH CAROLINA
STATE EDUCATION ASSISTANCE AUTHORITY
Notes to Financial Statements
June 30, 2017 and 2016

7. Noncurrent Liabilities

A. Changes in Noncurrent Liabilities:

A summary of changes in noncurrent liabilities for the year ended June 30, 2017 is presented as follows:

	Balance July 1, 2016	Additions/ Adjustments	Reductions	Balance June 30, 2017	Current Portion
Due to IRC Section 529					
Plan Participants	\$ 1,814,429,160	\$ 385,068,652	\$ 126,837,574	\$ 2,072,660,238	\$ 144,889,204
Bonds Payable	1,689,148,843		239,961,980	1,449,186,863	191,687,508
Accrued Vacation Leave	370,403	39,162		409,565	15,336
Net Pension Liability	<u>482,209</u>	<u>571,083</u>		<u>1,053,292</u>	
Total Noncurrent Liabilities	<u>\$ 3,504,430,615</u>	<u>\$ 385,678,897</u>	<u>\$ 366,799,554</u>	<u>\$ 3,523,309,958</u>	<u>\$ 336,592,048</u>

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	<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>

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, 2016	Additions	Reductions	Balance June 30, 2017
Taxable Guaranteed Student Loan Revenue Private Placement Bonds				
2008-1 Series:				
LIBOR Indexed:				
Series A-2				
Due 6-01-33 (Variable Rate)	\$ 153,600,000		\$ 13,300,000	\$ 140,300,000
Original Issue Discount	<u>(2,780,695)</u>		<u>(164,538)</u>	<u>(2,616,157)</u>
	<u>150,819,305</u>		<u>13,135,462</u>	<u>137,683,843</u>
Taxable Student Loan Backed Notes,				
2010-1 Series:				
LIBOR Indexed:				
Tranche A-1 (Sold at 97.4%)				
Due 7/25/41 (Variable Rate)	\$ 243,371,756		\$ 27,279,876	\$ 216,091,880
Original Issue Discount	<u>(8,216,300)</u>		<u>(564,694)</u>	<u>(7,651,606)</u>
	<u>235,155,456</u>		<u>26,715,182</u>	<u>208,440,274</u>

NORTH CAROLINA
STATE EDUCATION ASSISTANCE AUTHORITY
Notes to Financial Statements
June 30, 2017 and 2016

7. Noncurrent Liabilities (Continued)

	<u>Balance</u> <u>July 1, 2016</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>June 30, 2017</u>
Taxable Student Loan Backed Notes, 2011-1 Series:				
LIBOR Indexed:				
Tranche A-2 (Sold at 99.1%) Due 1/26/26 (Variable Rate)	54,828,292		31,273,291	23,555,001
Tranche A-3 (Sold at 93.9%) Due 10/25/41 (Variable Rate)	220,000,000			220,000,000
Original Issue Discount	<u>(10,595,539)</u>		<u>(758,631)</u>	<u>(9,836,908)</u>
	<u>264,232,753</u>		<u>30,514,660</u>	<u>233,718,093</u>
Taxable Student Loan Backed Notes, 2011-2 Series:				
LIBOR Indexed:				
Tranche A-2 (Sold at 97.5%) Due 7/25/25 (Variable Rate)	153,007,685		38,032,841	114,974,844
Tranche A-3 (Sold at 94.1%) Due 7/25/36 (Variable Rate)	113,000,000			113,000,000
Original Issue Discount	<u>(7,734,123)</u>		<u>(787,856)</u>	<u>(6,946,267)</u>
	<u>258,273,562</u>		<u>37,244,985</u>	<u>221,028,577</u>
Taxable Student Loan Backed Notes, 2012-1 Series:				
LIBOR Indexed:				
Tranche A (Sold at 99.8%) Due 7/25/39 (Variable Rate)	342,383,437		55,672,506	286,710,931
Original Issue Discount	<u>(947,245)</u>		<u>(117,185)</u>	<u>(830,060)</u>
	<u>341,436,192</u>		<u>55,555,321</u>	<u>285,880,871</u>
Taxable Student Loan Backed Notes, 2013-1 Series:				
LIBOR Indexed:				
Due 12/26/39 (Variable Rate)	<u>319,833,185</u>		<u>54,871,704</u>	<u>264,961,481</u>
Tax-Exempt Student Loan Backed Notes, Private Placement Bonds, 2015-1 Series:				
LIBOR Indexed:				
Series A-1 Due 11/25/25 (Variable Rate)	104,998,390		21,624,666	83,373,724
Series A-2 Due 11/25/28 (Variable Rate)	<u>14,400,000</u>		<u>300,000</u>	<u>14,100,000</u>
	<u>119,398,390</u>		<u>21,924,666</u>	<u>97,473,724</u>
Total	<u>\$ 1,689,148,843</u>	<u>\$</u>	<u>\$ 239,961,980</u>	<u>\$ 1,449,186,863</u>

NORTH CAROLINA
STATE EDUCATION ASSISTANCE AUTHORITY
Notes to Financial Statements
June 30, 2017 and 2016

7. Noncurrent Liabilities (Concluded)

C. Pledged Revenues:

The Agency has collateralized \$1,537,762,947 in student loans receivable and \$8,037,558 in reserves to repay \$1,477,067,861 bonds payable at June 30, 2017. 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 \$271,060,179 and \$265,053,966, respectively. The total principal and interest remaining to be paid on the bonds is \$1,687,009,516.

D. Annual Requirements:

The annual requirements to pay principal and interest on bonds outstanding at June 30, 2017 are as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>
2018	\$ 191,687,509	\$ 30,259,567
2019	188,414,210	26,620,541
2020	176,376,620	23,291,968
2021	159,717,301	19,956,728
2022	141,909,293	16,949,078
2023-2027	392,154,478	55,153,354
2028-2032	86,508,450	32,494,636
2033-2037	<u>140,300,000</u>	<u>5,215,783</u>
Total Requirements	\$ <u>1,477,067,861</u>	\$ <u>209,941,655</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. 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, 2017. Therefore, the debt service interest requirements on the aforementioned series will change on a monthly/quarterly basis throughout the life of the bonds.

NORTH CAROLINA
STATE EDUCATION ASSISTANCE AUTHORITY
Notes to Financial Statements
June 30, 2017 and 2016

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 that elect to join the Retirement System. 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 North Carolina 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, 2017 was 9.98% of covered payroll. Required employer contribution rates for the years ended June 30, 2016 and 2015 were 9.15% and 9.15%, respectively. Total employee contributions to the pension plan for the years ended June 30, 2017 and 2016 were \$138,024 and \$122,673, respectively. Total employer contributions to the pension plan for the years ended June 30, 2017, 2016, and 2015 were \$229,579, \$187,076, and \$195,004, 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 2016 *Comprehensive Annual Financial Report*. An electronic version of this report is available on the North Carolina Office of the State Controller's website at <http://www.osc.nc.gov/> or by calling the State Controller's Financial Reporting Section at (919) 707-0500.

NORTH CAROLINA
STATE EDUCATION ASSISTANCE AUTHORITY
Notes to Financial Statements
June 30, 2017 and 2016

8. Pension Plans (Continued)

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.

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 sole participants in the Long-Term Investment portfolio, External Fixed Income Investment, Equity Investment, Real Estate Investment, Alternative Investment, Credit Investment, and Inflation Protection Investment portfolios. The Fixed Income Asset Class includes the Long-Term Investment and External Fixed Income Investment Portfolios. The Global Equity Asset Class includes the Equity Investment Portfolio. 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 2016 *Comprehensive Annual Financial Report*.

Net Pension Liability: The Authority reported liabilities of \$1,053,292 and \$482,209 for the years ended June 30, 2017 and 2016, respectively, for its proportionate share of the collective net pension liability. The net pension liability was measured as of June 30, 2016 and 2015. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2015 and 2014, and update procedures were used to roll forward the total pension liability to June 30, 2016 and 2015. 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, 2016 and 2015, the Authority's proportion was .011% and .013%, respectively.

Actuarial Assumptions: The June 30, 2017 and 2016 total pension liability was determined by an actuarial valuation performed as of December 31, 2015 and 2014, 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, 2016 and 2015. 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 3.50% to 8.10%, 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.

NORTH CAROLINA
STATE EDUCATION ASSISTANCE AUTHORITY
Notes to Financial Statements
June 30, 2017 and 2016

8. Pension Plans (Continued)

The actuarial assumptions used in the December 31, 2015 valuations were based on the results of an actuarial experience study for the period January 1, 2010 through December 31, 2014. The actuarial assumptions used in the December 31, 2014 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 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:

<u>Asset Class</u>	<u>Long-Term Expected Real Rate of Return</u>	
	<u>June 30, 2016*</u>	<u>June 30, 2015*</u>
Fixed Income	1.4 %	2.2 %
Global Equity	5.3 %	5.8 %
Real Estate	4.3 %	5.2 %
Alternatives	8.9 %	9.8 %
Credit	6.0 %	6.8 %
Inflation Protection	4.0 %	3.4 %

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

The information in the preceding table is based on 30-year expectations developed with the consulting actuary and is part of the asset, liability, and investment policy of 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 3.05%. Return projections do not include any excess return expectations over benchmark averages. 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.

NORTH CAROLINA
STATE EDUCATION ASSISTANCE AUTHORITY
Notes to Financial Statements
June 30, 2017 and 2016

8. Pension Plans (Continued)

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, 2017	\$ 1,981,039	\$ 1,053,292	\$ 273,184
June 30, 2016	\$ 1,451,316	\$ 482,209	\$ (340,190)

Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions: For the year ended June 30, 2017, the Authority recognized pension expense of \$198,599. At June 30, 2017, 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	\$	\$ 49,780
Change of Assumptions	155,335	
Net Difference Between Projected and Actual Earnings on Pension Plan Investments	375,637	
Change in Proportion and Differences Between Authority's Contributions and Proportionate Share of Contributions	8,736	27,335
Contributions Subsequent to the Measurement Date	229,579	
	<u>\$ 769,287</u>	<u>\$ 77,115</u>

Deferred outflows of resources of \$229,579 for the year ended June 30, 2017 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, 2018. 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				
2018		\$		76,864
2019				77,574
2020				196,811
2021				111,344
2022				-
		\$		<u>462,593</u>

NORTH CAROLINA
STATE EDUCATION ASSISTANCE AUTHORITY
Notes to Financial Statements
June 30, 2017 and 2016

8. Pension Plans (Continued)

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:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
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	3,513
	<u>187,076</u>	
	<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>

B. Defined Contribution Plan:

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

Participants in the ORP are immediately vested in the value of employee contributions. The value of employer contributions is vested after five years of participation in the ORP. 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, 2017 and 2016, these rates were set at 6.84% of covered payroll for employers and 6% of covered payroll for members. The Authority assumes no liability other than its contribution.

NORTH CAROLINA
STATE EDUCATION ASSISTANCE AUTHORITY
Notes to Financial Statements
June 30, 2017 and 2016

8. Pension Plans (Concluded)

For the years ended June 30, 2017 and 2016, the Authority had payroll of \$3,315,478 and \$2,832,617, respectively, of which \$848,561 and \$788,070 was covered under the Optional Retirement Program. Total employee contributions for pension benefits for the years ended June 30, 2017 and 2016 were \$50,914 and \$47,284, respectively. Total employer contributions for pension benefits for the years ended June 30, 2017, 2016, and 2015 were \$58,042, \$53,904, and \$45,364, 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.

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 5.81% of the covered payroll under the TSERS and the ORP to the Fund. Required contribution rates for the years ended June 30, 2016 and 2015 were 5.60% and 5.49%, respectively. The Authority made 100% of its annual required contributions to the Plan for the years ended June 30, 2017, 2016, and 2015, which were \$183,498, \$158,627, and \$153,413, 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 on the North Carolina Office of the State Controller's website at <http://www.osc.nc.gov/> or by calling the State Controller's Financial Reporting Section at (919) 707-0500.

NORTH CAROLINA
STATE EDUCATION ASSISTANCE AUTHORITY
Notes to Financial Statements
June 30, 2017 and 2016

9. Other Postemployment Benefits (Continued)

B. Disability Income:

The Authority participates in the Disability Income Plan of North Carolina (DIPNC), a cost-sharing, multiple-employer defined benefit plan, to provide short-term and long-term disability benefits to eligible members of the 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, 2017, the Authority made a statutory contribution of .38% of covered payroll under the TSERS and the ORP to the DIPNC. Required contribution rates for the years ended June 30, 2016 and 2015 were .41% in both years. The Authority made 100% of its annual required contributions to the DIPNC for the years ended June 30, 2017, 2016, and 2015, which were \$11,966, \$11,614, and \$11,457, respectively. The Authority assumes no liability for long-term disability benefits under the DIPNC other than its contribution.

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

10. 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.

NORTH CAROLINA
STATE EDUCATION ASSISTANCE AUTHORITY
Notes to Financial Statements
June 30, 2017 and 2016

10. Risk Management (Continued)

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.

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, 2017, the Authority adopted the following pronouncements issued by Governmental Accounting Standards Board (GASB):

- GASB 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 a component unit organized as a not-for-profit corporation of which the primary government is the sole corporate member. The adoption of this Statement had no impact on the financial statements.
- GASB Statement No. 82, *Pension Issues – And Amendment of GASB Statement No. 67, No. 68, and No. 73*. This Statement addressed certain issues related to GASB Statements No. 67, *Financial Reporting for Pension Plans*, No. 68, *Accounting and Financial Reporting for Pensions*, and No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That are Not within the Scope of GASB Statement 68, and Amendments to Certain Provision of GASB Statement 67 and 68*. The new statement gives guidance on settlement information, selection assumptions, and the classification of payments made by employers to satisfy plan member contribution requirements. The adoption of this Statement had no impact on the financial statements.

NORTH CAROLINA
STATE EDUCATION ASSISTANCE AUTHORITY
Notes to Financial Statements
June 30, 2017 and 2016

11. Adoption of New Accounting Standards (Continued)

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.

12. Future Accounting Pronouncements

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 March 2017, GASB issued Statement No. 85, *Omnibus 2017*. The objective of this Statement is to address practice issues that have been identified during implementation and application of certain GASB statements. This Statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits. This Statement is effective for the fiscal year ending June 30, 2018.

13. 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 during the year ended June 30, 2016. There were no receipts during the year ended June 30, 2017. However, the Authority received \$7,890,198 on September 11, 2017 from a subsequent settlement.

14. Subsequent Events

Subsequent events have been evaluated through September 22, 2017, which is the date the financial statements were available to be issued. The Authority received \$7,890,198 on September 11, 2017 with regards to the class action lawsuit captioned, *In re Municipal Derivatives Antitrust Litigation*. Additional information regarding this transaction is provided previously in Note 13.

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>2016</u>	<u>2015</u>	<u>2014</u>
Authority's proportionate share percentage of collective net pension liability	0.011%	0.013%	0.014%
Authority's proportionate share of TSERS collective net pension liability	\$ 1,053,292	\$ 482,209	\$ 163,432
Authority's covered-employee payroll	\$ 2,300,394	\$ 2,131,189	\$ 2,208,847
Authority's net pension liability as a percentage of covered-employee payroll	45.787%	22.626%	7.399%
Plan fiduciary net position as a percentage of the total pension liability	87.320%	94.640%	98.240%

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

SCHEDULE OF AUTHORITY CONTRIBUTIONS

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

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Contractually required contribution	\$ 229,579	\$ 187,076	\$ 195,004	\$ 191,949
Contributions in relation to the contractually determined contribution	<u>229,579</u>	<u>187,076</u>	<u>195,004</u>	<u>191,949</u>
Contribution deficiency (excess)	<u>\$ _____</u>	<u>\$ _____</u>	<u>\$ _____</u>	<u>\$ _____</u>
Authority's covered-employee payroll	\$ 2,300,394	\$ 2,044,547	\$ 2,131,189	\$ 2,208,847
Contributions as a percentage of covered-employee payroll	9.98%	9.15%	9.15%	8.69%

<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>
\$ 184,045	\$ 138,421	\$ 116,092	\$ 88,202	\$ 83,371	\$ 68,562
<u>184,045</u>	<u>138,421</u>	<u>116,092</u>	<u>88,202</u>	<u>83,371</u>	<u>68,562</u>
<u><u>\$</u></u>	<u><u>\$</u></u>	<u><u>\$</u></u>	<u><u>\$</u></u>	<u><u>\$</u></u>	<u><u>\$</u></u>
\$ 2,209,421	\$ 2,807,731	\$ 2,354,801	\$ 2,470,649	\$ 2,481,287	\$ 2,247,950
8.33%	4.93%	4.93%	3.57%	3.36%	3.05%

NORTH CAROLINA
STATE EDUCATION ASSISTANCE AUTHORITY
Notes to Required Supplementary Information
Schedule of Authority Contributions
Teachers' and State Employees' Retirement System
June 30, 2017 and 2016

1. Changes of Benefit Terms

<u>Cost of Living Increase</u>								
<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>
N/A	1.00%	N/A	1.00%	N/A	N/A	N/A	2.20%	2.20%

2. Changes of Assumptions

In 2008, 2012, and 2015, the actuarial assumptions were updated to more closely reflect actual experience.