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NORTH CAROLINA
STATE EDUCATION ASSISTANCE AUTHORITY

Financial Statements

June 30, 2018 and 2017

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

INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying financial statements of the North Carolina State Education Assistance Authority, a nonmajor component unit of the State of North Carolina, as of and for the years ended June 30, 2018 and 2017 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, 2018 and 2017, and the respective changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

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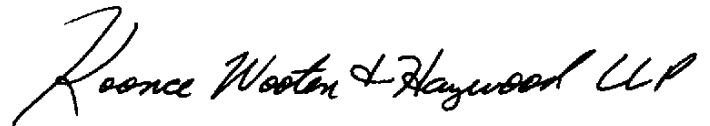
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Adoption of GASB Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions

As discussed in Notes 11 and 12 to the financial statements, the Authority adopted new accounting guidance, GASB No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, effective July 1, 2017. Our opinion is not modified with respect to this matter.

Other Matter

Accounting principles generally accepted in the United States of America require that Management's Discussion and Analysis on pages 3 through 7, Schedule of Proportionate Net Pension Liability and Schedule of Authority Contributions (Pension) on pages 41 and 42, and Schedule of Proportionate Net Other Postemployment Benefits Liability (Asset) and Schedule of Authority Contributions (OPEB) on pages 44 and 45 be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Governmental 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 21, 2018

NORTH CAROLINA
STATE EDUCATION ASSISTANCE AUTHORITY
Management's Discussion and Analysis
June 30, 2018 and 2017

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, 2018 and 2017. 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, 2018 and 2017 by approximately \$584.4 and \$572.0 million, respectively, (presented as "net position"). Of this amount, approximately \$87.8 and \$70.9 million, respectively, was reported as "unrestricted net position." Unrestricted net position represents the amount available to be used to administer the State's grant and loan programs.

Increase/Decrease in Net Position -- The Authority's total net position increased by approximately \$16.4 million (2.88%) in fiscal year 2018 and decreased by approximately \$5.5 million (.96%) in fiscal year 2017.

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 Governmental 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.

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.

NORTH CAROLINA
STATE EDUCATION ASSISTANCE AUTHORITY
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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 \$584.4 million as of June 30, 2018, compared to approximately \$572.0 million as of June 30, 2017.

NORTH CAROLINA
STATE EDUCATION ASSISTANCE AUTHORITY
Condensed Statements of Net Position

	<u>2018</u>	<u>2017</u>
Current Assets	\$ 832,415,214	\$ 803,244,610
Noncurrent Assets	3,428,259,407	3,427,864,215
Capital Assets	<u>5,764,833</u>	<u>5,115,752</u>
Total Assets	<u>\$ 4,266,439,454</u>	<u>\$ 4,236,224,577</u>
Current Liabilities	\$ 333,884,768	\$ 352,455,164
Noncurrent Liabilities	<u>3,220,350,453</u>	<u>3,186,717,910</u>
Total Liabilities	<u>3,554,235,221</u>	<u>3,539,173,074</u>
Deferred Inflows of Resources	<u>127,779,382</u>	<u>124,983,124</u>
Net Investment in Capital Assets	5,764,833	5,115,752
Restricted for Educational Assistance Programs	490,837,589	496,044,526
Unrestricted	<u>87,822,429</u>	<u>70,908,101</u>
Total Net Position	<u>584,424,851</u>	<u>572,068,379</u>
Total Liabilities and Net Position	<u>\$ 4,266,439,454</u>	<u>\$ 4,236,224,577</u>

The largest portion of the Authority's net position (84% at June 30, 2018 and 87% at June 30, 2017) represents resources that are subject to external restrictions on how they may be used. An additional portion (.99% at June 30, 2018 and .89% at June 30, 2017) 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 State grant and loan program management. Internally imposed designations of resources are not presented as restricted net position.

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 increased by approximately \$16.4 million or 2.88% during the year ended June 30, 2018 and decreased by approximately \$5.5 million or .96% during the year ended June 30, 2017.

NORTH CAROLINA
STATE EDUCATION ASSISTANCE AUTHORITY
Management's Discussion and Analysis
June 30, 2018 and 2017

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

	<u>2018</u>	<u>2017</u>
REVENUES:		
Operating Revenues:		
Interest Earnings on Loans	\$ 54,146,212	\$ 48,809,449
Miscellaneous	<u>12,881,061</u>	<u>12,485,095</u>
Total Operating Revenues	<u>67,027,273</u>	<u>61,294,544</u>
Nonoperating Revenues:		
State Aid	78,481,975	78,481,975
Grants	137,066,042	101,707,478
Investment Earnings	<u>4,739,446</u>	<u>3,104,530</u>
Total Nonoperating Revenues	<u>220,287,463</u>	<u>183,293,983</u>
Special Item	<u>7,891,221</u>	<u> </u>
Total Revenues	<u>295,205,957</u>	<u>244,588,527</u>
EXPENSES:		
Operating Expenses:		
Services	37,491,088	37,946,682
Interest	35,852,223	31,520,149
Student Loan Service Cancellations	19,643,381	21,737,524
Depreciation	55,907	29,987
Other Expenses	<u>2,104,265</u>	<u>1,720,426</u>
Total Operating Expenses	<u>95,146,864</u>	<u>92,954,768</u>
Nonoperating Expenses:		
Grants, Aid and Subsidies	<u>183,692,002</u>	<u>157,174,244</u>
Total Expenses	<u>278,838,866</u>	<u>250,129,012</u>
CHANGES IN NET POSITION	16,367,091	(5,540,485)
NET POSITION--Beginning of Year, as Restated (See Note 12)	<u>568,057,760</u>	<u>577,608,864</u>
NET POSITION--End of Year	<u>\$ 584,424,851</u>	<u>\$ 572,068,379</u>

Approximately 22.7% of the Authority's total revenues came from interest earnings and other miscellaneous revenue on resources invested in student loans under various education programs originated by or assigned to the Authority. Approximately 26.6% came from the State of North Carolina Education Lottery and interest earnings on and corpus from escheated monies held by the State. Approximately 46.4% resulted from grants that include federal and State designated funds for student assistance. The State funds were distributed to the Authority pursuant to State law for the purpose of providing education grants to North Carolina residents. Approximately 2.7% came from a one-time \$7,890,198 Municipal Derivative antitrust settlement and a \$1,023 Class Action vendor settlement. Lastly, approximately 1.6% resulted from investment earnings on cash, cash equivalents, and short-term and long-term investments during the fiscal year.

NORTH CAROLINA
STATE EDUCATION ASSISTANCE AUTHORITY
Management's Discussion and Analysis
June 30, 2018 and 2017

The Authority's expenses cover a range of services. Approximately 13.4% 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 12.9% of expenses were for interest incurred on bonds issued by the Authority in order to fund student loans, 65.9% were for grants and aid distributed for education assistance, and 7% were for student loan service cancellations related to certain state sponsored loan programs.

The increase in net position for the year ended June 30, 2018 is primarily attributed to new programs that the State has provided the Authority to administer, rising interest rates, and strategic management of the Authority's resources. In addition, the cumulative effect of the change in accounting principles related to GASB 75 was a \$4,010,619 reduction of the beginning Net Position, which is discussed in more detail in the Notes to the Financial Statements, Note 12.

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 \$217 million (15%) and approximately \$240 million (14.2%) during the fiscal years 2018 and 2017, respectively. The majority of the 2018 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. Certain decisions of the U.S. Department of Education in administering the federal student loan programs pursuant to changes in federal law have operated to decrease the flow of federal revenue to guaranty agencies and holders of student loans. At the same time, the value of the Authority's student loan portfolio has not increased due to new guaranteed student loan originations, and the existing portfolio is maturing through repayment. Accordingly, the revenues associated with the Authority's portfolio of financed student loans and loans under guaranty are subject to fluctuate, and may eventually, decline. As interest rates continue to rise, the strain on the student loan portfolio due to decisions of the federal government should be ameliorated.

NORTH CAROLINA
STATE EDUCATION ASSISTANCE AUTHORITY
Management's Discussion and Analysis
June 30, 2018 and 2017

In direct response to the changes in federal law, the Authority, in collaboration with College Foundation, Inc., has developed and launched services for colleges and universities. 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 May 2018, the Authority began to offer N.C. Student Assist Loans and N.C. Parent Assist Loans to help families bridge the gap between the cost of attendance and other financial aid. The loans have competitive interest rates with no origination fees. The Authority expects these services and programs to generate revenue over time.

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, the Personal Education Savings Account, intended to support families in educating children with certain disabilities, was added to the Authority's portfolio of K12 programs during the fiscal year 2018. 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.

The General Assembly added two additional higher education programs for the Authority to administer in fiscal year 2018. The North Carolina Teaching Fellows (STEM) Loan Program provides forgivable loans to recruit and prepare students to teach special education or science, technology, engineering, or mathematics in the State's public schools. The North Carolina School of Science and Math Program provides a tuition grant to encourage students to attend UNC constituent institutions.

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, 2018 and 2017

ASSETS

	2018	2017
CURRENT ASSETS:		
Restricted Cash and Cash Equivalents	\$ 517,872,560	\$ 488,312,592
Restricted Investments	74,090,993	63,391,139
Receivables:		
Accounts Receivable	5,936,533	5,549,002
Intergovernmental Receivables	2,733,422	1,343,130
Interest Receivable	30,294,322	29,090,575
Due From Component Unit	2,402,517	2,471,936
Notes Receivable	199,080,622	213,065,731
Prepaid Items	4,245	20,505
Total Current Assets	832,415,214	803,244,610
 NONCURRENT ASSETS:		
Restricted Cash and Cash Equivalents	20,216,801	32,364,500
Restricted Investments	2,190,436,094	1,974,799,682
Notes Receivable	1,217,606,512	1,420,700,033
Total Noncurrent Assets	3,428,259,407	3,427,864,215
 CAPITAL ASSETS:		
Office Furniture and Equipment	129,869	129,869
Data Processing Systems	14,023,038	13,318,049
Other Equipment	284,542	284,542
Intangible Assets	5,000,000	5,000,000
Accumulated Depreciation	(13,672,616)	(13,616,708)
Net Capital Assets	5,764,833	5,115,752
 Total Assets	 \$ 4,266,439,454	 \$ 4,236,224,577

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

LIABILITIES AND NET POSITION

	<u>2018</u>	<u>2017</u>
CURRENT LIABILITIES:		
Accounts Payable and Accrued Liabilities:		
Accounts Payable	\$ 8,716,799	\$ 12,471,716
Accrued Payroll	167,193	164,680
Interest Payable	4,277,940	3,226,720
Due to IRC Section 529 Plan Participants	159,769,977	144,889,204
Bonds Payable	160,941,671	191,687,508
Accrued Vacation Leave	11,188	15,336
Total Current Liabilities	<u>333,884,768</u>	<u>352,455,164</u>
NONCURRENT LIABILITIES:		
Due to IRC Section 529 Plan Participants	2,143,638,774	1,927,771,034
Bonds Payable	1,071,363,150	1,257,499,355
Accrued Vacation Leave	450,851	394,229
Net Other Postemployment Benefits Liability	3,822,561	
Net Pension Liability	1,075,117	1,053,292
Total Noncurrent Liabilities	<u>3,220,350,453</u>	<u>3,186,717,910</u>
Total Liabilities	<u>3,554,235,221</u>	<u>3,539,173,074</u>
DEFERRED INFLOWS OF RESOURCES		
Deferred Inflows--Nonexchange Transactions	<u>127,779,382</u>	<u>124,983,124</u>
NET POSITION:		
Net Investment in Capital Assets	5,764,833	5,115,752
Restricted for Educational Assistance Programs	490,837,589	496,044,526
Unrestricted	87,822,429	70,908,101
Total Net Position	<u>584,424,851</u>	<u>572,068,379</u>
Total Liabilities and Net Position	<u>\$ 4,266,439,454</u>	<u>\$ 4,236,224,577</u>

NORTH CAROLINA
STATE EDUCATION ASSISTANCE AUTHORITY
Statements of Revenues, Expenses, and Changes in Net Position
For the Years Ended June 30, 2018 and 2017

	2018	2017
OPERATING REVENUES:		
Interest Earnings on Loans	\$ 54,146,212	\$ 48,809,449
Miscellaneous	12,881,061	12,485,095
Total Operating Revenues	67,027,273	61,294,544
OPERATING EXPENSES:		
Personal Services	4,901,024	4,341,007
Supplies and Materials	237,539	187,426
Services	32,590,064	33,605,675
Interest	35,852,223	31,520,149
Depreciation	55,907	29,987
Student Loan Service Cancellations	19,643,381	21,737,524
Other Expenses	1,866,726	1,533,000
Total Operating Expenses	95,146,864	92,954,768
Operating Loss	(28,119,591)	(31,660,224)
NONOPERATING REVENUES (EXPENSES):		
State Aid	78,481,975	78,481,975
Noncapital Grants	136,026,704	100,175,582
Federal Grants	1,039,338	1,531,896
Investment Earnings	4,739,446	3,104,530
Grants, Aid and Subsidies	(183,692,002)	(157,174,244)
Total Nonoperating Revenues (Expenses)	36,595,461	26,119,739
Income (Loss) Before Special Item	8,475,870	(5,540,485)
SPECIAL ITEM	7,891,221	
Changes in Net Position	16,367,091	(5,540,485)
NET POSITION--Beginning of Year:		
Net Position--Beginning of Year, as Previously Reported	572,068,379	577,608,864
Cumulative Effect of Change in Accounting Principle (See Note 12)	(4,010,619)	
NET POSITION--Beginning of Year, as Restated	568,057,760	577,608,864
NET POSITION--End of Year	\$ 584,424,851	\$ 572,068,379

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, 2018 and 2017

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES:		
Receipts from Customers	\$ 243,533,804	\$ 276,596,662
Collection of Loans from Students	329,748,277	356,488,975
Payments to Employees and Fringe Benefits	(5,012,270)	(3,697,229)
Payments to Vendors and Suppliers	(37,381,765)	(38,303,985)
Loans Issued to Students	(78,166,815)	(91,679,202)
Payments of Operating Interest Expense	(33,459,319)	(29,127,245)
Net Cash Provided by Operating Activities	419,261,912	470,277,976
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
Repayment of Bond Principal	(219,274,946)	(242,354,884)
State Aid	78,481,975	78,481,975
Noncapital Grants	136,026,704	100,175,582
Federal Grants	1,039,338	1,531,896
Special Item	7,891,221	
Grants, Aid and Subsidies	(183,692,002)	(157,174,244)
Net Cash Used by Noncapital Financing Activities	(179,527,710)	(219,339,675)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Acquisition of Capital Assets	(704,989)	(19,858)
Net Cash Used by Capital and Related Financing Activities	(704,989)	(19,858)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from the Sale and Maturities of Non-State Treasurer Investments	1,207,514,622	705,157,510
Investment Earnings	6,045,149	3,098,227
Purchase of Non-State Treasurer Investments	(1,435,176,715)	(947,295,895)
Net Cash Used by Investing Activities	(221,616,944)	(239,040,158)
NET INCREASE IN CASH AND CASH EQUIVALENTS	17,412,269	11,878,285
CASH AND CASH EQUIVALENTS--Beginning of Year	520,677,092	508,798,807
CASH AND CASH EQUIVALENTS--End of Year	\$ 538,089,361	\$ 520,677,092

NORTH CAROLINA
STATE EDUCATION ASSISTANCE AUTHORITY
Statements of Cash Flows
For the Years Ended June 30, 2018 and 2017

	2018	2017
RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Operating Loss	\$ (28,119,591)	\$ (31,660,224)
Adjustments to Reconcile Operating Loss to Net Cash Provided by Operating Activities:		
Depreciation	55,907	29,987
Original Issue Discount Expensed	2,392,905	2,392,904
Student Loan Principal Repayments	255,768,482	285,895,639
Student Loans Issued	(33,456,855)	(39,041,852)
Student Loan Cancellations and Write-offs	26,984,583	27,023,887
Allowances and Uncollectible Accounts	(7,151,000)	(5,240,000)
Capitalized Interest and Other	(25,066,579)	(30,899,826)
(Increase) Decrease in Assets:		
Accounts Receivable	(387,531)	469,743
Intergovernmental Receivables	(1,390,292)	384,205
Interest Receivable	(1,183,624)	472,250
Due from Component Units	69,419	(70,682)
Prepaid Items	16,260	3,557
Increase (Decrease) in Liabilities:		
Accounts Payable and Interest Payable	(2,703,697)	(2,981,441)
Accrued Payroll, Net Pension and OPEB Liabilities	(163,720)	604,616
Due to IRC Section 529 Plan Participants	230,748,513	258,231,078
Accrued Vacation Leave	52,474	39,162
Increase in Deferred Inflows	2,796,258	4,624,973
Net Cash Provided by Operating Activities	\$ 419,261,912	\$ 470,277,976
 SUPPLEMENTAL DISCLOSURE OF CASH FLOWS INFORMATION:		
Cash Paid During the Year for Interest	\$ 32,408,099	\$ 28,705,295
 NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:		
Noncash Distributions from State Treasurer		
Long-Term Investment Pool	\$ 1,094,499	\$ 1,338,006
Write-Down of Investments to Fair Market Value	\$ (1,325,826)	\$ (1,345,481)

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

NORTH CAROLINA
STATE EDUCATION ASSISTANCE AUTHORITY
Notes to Financial Statements
June 30, 2018 and 2017

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
12. North Carolina Teaching Fellows (STEM) Loan Program
13. North Carolina School of Science and Math Tuition Grant
14. Opportunity Scholarship (K-12)
15. Personal Education Savings Account Program (K-12)

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, 2018 and 2017

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 - System Office (UNC-SO) 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, 2018 and 2017. 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, 2018 and 2017

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 Internal Revenue Code (IRC) Section 529 Savings Plan and principal amounts of bonds payable that will not be paid within the next fiscal year. Other long-term liabilities include compensated absences, net pension liability, and net other postemployment benefit (OPEB) liability.

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 2017 *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, deferred outflows of resources, and deferred inflows of resources related to pensions.

The net OPEB liability represents the Authority's proportionate share of the collective net OPEB liability reported in the State of North Carolina's 2017 *Comprehensive Annual Financial Report*. See Note 9 for further information regarding the Authority's policies for recognizing liabilities, expenses, deferred outflows of resources, and deferred inflows of resources related to OPEB.

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 method. Also, any accumulated vacation leave in excess of 30 days at year-end is converted to sick leave. Under this policy, the accumulated vacation leave for each employee at June 30th equals the leave carried forward at the previous December 31st, plus the leave earned, less the leave taken between January 1st and June 30th.

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

NORTH CAROLINA
STATE EDUCATION ASSISTANCE AUTHORITY
Notes to Financial Statements
June 30, 2018 and 2017

1. Summary of Significant Accounting Policies (Continued)

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

K. Deferred Inflows (Net) of Resources:

In addition to liabilities, the Statements of Net Position report a separate section for deferred inflows (net) 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 noncapital grants, and net deferred inflows related to pensions and OPEB that are included in this category as follows:

	2018	2017
Forward Funded State Aid and Noncapital Grants	\$ 128,095,336	\$ 125,675,296
Pensions	(646,204)	(692,172)
OPEB	330,250	
	\$ 127,779,382	\$ 124,983,124

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

Unrestricted: 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 outflows of resources and deferred inflow 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*.

NORTH CAROLINA
STATE EDUCATION ASSISTANCE AUTHORITY
Notes to Financial Statements
June 30, 2018 and 2017

1. Summary of Significant Accounting Policies (Concluded)

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.

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. IRC 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, 2018 and 2017, the amounts shown on the Statements of Net Position as cash and cash equivalents include \$395,022,843 and \$377,754,658, respectively, which represent the Authority's equity position in the State Treasurer's 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 1.4 years as of June 30, 2018 and 1.6 years as of June 30, 2017. 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 <https://www.osc.nc.gov/> or by calling the State Controller's Financial Reporting Section at (919) 707-0500.

Cash on hand at June 30, 2018 and 2017 was \$538,089,361 and \$520,677,092, respectively. The carrying amount of the Authority's deposits not with the State Treasurer at June 30, 2018 was \$143,066,518. The carrying amount of the Authority's deposits not with the State Treasurer at June 30, 2017 was \$142,922,434. 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, 2018 and 2017, none of the Authority's deposits were exposed to custodial credit risk.

NORTH CAROLINA
STATE EDUCATION ASSISTANCE AUTHORITY
Notes to Financial Statements
June 30, 2018 and 2017

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 \$2,264,527,087 at June 30, 2018 and \$2,038,190,821 at June 30, 2017. The Authority's portion in the State Treasurer's BIF at June 30, 2018 and 2017 was \$46,797,320 and \$47,028,648, respectively. The Authority's investments not with the State Treasurer as of June 30, 2018 and 2017 totaled \$2,217,729,767 and \$1,991,162,173, respectively.

The majority of the investments described in this Note, \$2,160,242,015 as of June 30, 2018 and \$1,929,686,802 as of June 30, 2017, 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, 2018, 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	\$ 765,044,269	\$ 765,044,269	\$	\$	\$
Money Market Mutual Funds	<u>135,669,129</u>	<u>135,669,129</u>			
Total Investments Subject to Interest Rate Risk	<u>900,713,398</u>	<u>\$ 900,713,398</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>
Investments Not Subject to Interest Rate Risk:					
Other Mutual Funds	<u>1,317,016,369</u>				
Total Non-Pooled Investments	<u>\$ 2,217,729,767</u>				

NORTH CAROLINA
STATE EDUCATION ASSISTANCE AUTHORITY
Notes to Financial Statements
June 30, 2018 and 2017

2. Deposits and Investments (Continued)

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>				

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, 2018, 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	\$ 765,044,269	\$	\$	\$	\$	\$	\$ 765,044,269
Money Market Mutual Funds	<u>135,669,129</u>						<u>135,669,129</u>
Total	<u>\$ 900,713,398</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$ 900,713,398</u>

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>

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, 2018 and 2017

2. Deposits and Investments (Continued)

At June 30, 2018, the Authority's non-pooled investments were exposed to custodial credit risk as follows:

Investments Not Categorized:	
Debt Mutual Funds	\$ 765,044,269
Money Market Mutual Funds	135,669,129
Other Mutual Funds	<u>1,317,016,369</u>
Total Non-Pooled Investments	<u>\$ 2,217,729,767</u>

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>

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, 2018 and 2017, 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, 2018, there was \$649,564,116 invested in International Mutual Funds. As of June 30, 2017, there was \$576,306,842 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, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
Debt Securities:		
Debt Mutual Funds	\$ 765,044,269	\$ 705,778,870
Money Market Mutual Funds	<u>135,669,129</u>	<u>140,537,121</u>
Total Debt Securities	<u>900,713,398</u>	<u>846,315,991</u>
Other Securities:		
Other Mutual Funds	<u>1,317,016,369</u>	<u>1,144,846,182</u>
Total Non-Pooled Investments	<u>\$ 2,217,729,767</u>	<u>\$ 1,991,162,173</u>

NORTH CAROLINA
STATE EDUCATION ASSISTANCE AUTHORITY
Notes to Financial Statements
June 30, 2018 and 2017

2. Deposits and Investments (Concluded)

Reconciliation of Deposits and Investments:

A reconciliation of deposits and investments for the Authority at June 30, 2018 and 2017 is as follows:

	<u>2018</u>	<u>2017</u>
Amount of Deposits with Private Financial Institutions	\$ 143,066,518	\$ 142,922,434
Deposits in the Short Term Investment Fund	395,022,843	377,754,658
Bond Index Fund	46,797,320	47,028,648
Non-Pooled Investments	<u>2,217,729,767</u>	<u>1,991,162,173</u>
Total Deposits and Investments	<u>\$ 2,802,616,448</u>	<u>\$ 2,558,867,913</u>
Deposits		
Current:		
Restricted Cash and Cash Equivalents	\$ 517,872,560	\$ 488,312,592
Noncurrent:		
Restricted Cash and Cash Equivalents	<u>20,216,801</u>	<u>32,364,500</u>
Total Deposits	<u>538,089,361</u>	<u>520,677,092</u>
Investments		
Current:		
Restricted Investments	74,090,993	63,391,139
Noncurrent:		
Restricted Investments	<u>2,190,436,094</u>	<u>1,974,799,682</u>
Total Investments	<u>2,264,527,087</u>	<u>2,038,190,821</u>
Total Deposits and Investments	<u>\$ 2,802,616,448</u>	<u>\$ 2,558,867,913</u>

3. Fair Value Measurements

To the extent available, the Authority's investments are recorded at fair value as of June 30, 2018 and 2017. 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, 2018 and 2017

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, 2018, 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	\$ 765,044,269	\$ 765,044,269		\$
Money Market Mutual Funds	135,669,129	135,669,129		
Other Mutual Funds	<u>1,317,016,369</u>	<u>1,317,016,369</u>		
Total Mutual Funds	2,217,729,767	2,217,729,767		
Other Securities:				
Bond Index Fund	<u>46,797,320</u>		46,797,320	
Total Investments by Fair Value Level	<u>\$ 2,264,527,087</u>	<u>\$ 2,217,729,767</u>	<u>\$ 46,797,320</u>	<u>\$</u>

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>		47,028,648	
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>

The 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 BIF 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, 2018 and 2017

4. Receivables

The gross receivables and related allowances for service cancellations and doubtful accounts on student loans at June 30, 2018 were:

	<u>Total</u>	<u>Current</u>	<u>Noncurrent</u>
Note Receivable--XAP Corporation	\$ 506,145	\$ 506,145	\$
Gross Student Loan Receivables	1,533,457,989	315,851,477	1,217,606,512
Allowance for Service Cancellations and Doubtful Accounts	<u>(117,277,000)</u>	<u>(117,277,000)</u>	<u> </u>
Net Receivables	<u>\$ 1,416,687,134</u>	<u>\$ 199,080,622</u>	<u>\$ 1,217,606,512</u>

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>

5. Capital Assets

A summary of capital assets for the years ended June 30, 2018 and 2017 is presented as follows:

	<u>2018</u>	<u>2017</u>
Total Capital Assets	\$ 19,437,449	\$ 18,732,460
Accumulated Depreciation	<u>(13,672,616)</u>	<u>(13,616,708)</u>
Net Capital Assets	<u>\$ 5,764,833</u>	<u>\$ 5,115,752</u>

6. Accounts Payable and Accrued Liabilities

Accounts payable and accrued liabilities at June 30, 2018 and 2017 were as follows:

	<u>2018</u>	<u>2017</u>
Accounts Payable	\$ 8,716,799	\$ 12,471,716
Accrued Payroll	<u>167,193</u>	<u>164,680</u>
	<u>\$ 8,883,992</u>	<u>\$ 12,636,396</u>

NORTH CAROLINA
STATE EDUCATION ASSISTANCE AUTHORITY
Notes to Financial Statements
June 30, 2018 and 2017

7. Noncurrent Liabilities

A. Changes in Noncurrent Liabilities:

A summary of changes in noncurrent liabilities for the year ended June 30, 2018 is presented as follows:

	Balance July 1, 2017	Additions/ Adjustments	Reductions	Balance June 30, 2018	Current Portion
Due to IRC Section 529					
Plan Participants	\$ 2,072,660,238	\$ 374,513,218	\$ 143,764,705	\$ 2,303,408,751	\$ 159,769,977
Bonds Payable	1,449,186,863		216,882,042	1,232,304,821	160,941,671
Accrued Vacation Leave	409,565	52,474		462,039	11,188
Net Pension Liability	1,053,292	21,825		1,075,117	
Net OPEB Liability (See Note 9)		<u>4,211,129</u>	<u>388,568</u>	<u>3,822,561</u>	
Total Noncurrent Liabilities	<u>\$ 3,523,309,958</u>	<u>\$ 378,798,646</u>	<u>\$ 361,035,315</u>	<u>\$ 3,541,073,289</u>	<u>\$ 320,722,836</u>

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>

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 student loans of the Authority that are not insured by the federal government. The obligations are summarized as follows:

	Balance July 1, 2017	Additions	Reductions	Balance June 30, 2018
Taxable Guaranteed Student Loan Revenue Private Placement Bonds				
2008-1 Series:				
LIBOR Indexed:				
Series A-2				
Due 9-01-37 (Variable Rate)	\$ 140,300,000		\$ 17,300,000	\$ 123,000,000
Original Issue Discount	<u>(2,616,157)</u>		<u>(164,538)</u>	<u>(2,451,619)</u>
	<u>137,683,843</u>		<u>17,135,462</u>	<u>120,548,381</u>
Taxable Student Loan Backed Notes, 2010-1 Series:				
LIBOR Indexed:				
Tranche A-1 (Sold at 97.4%)				
Due 7/25/41 (Variable Rate)	216,091,880		25,681,513	190,410,367
Original Issue Discount	<u>(7,651,606)</u>		<u>(564,694)</u>	<u>(7,086,912)</u>
	<u>208,440,274</u>		<u>25,116,819</u>	<u>183,323,455</u>

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7. Noncurrent Liabilities (Continued)

	<u>Balance</u> <u>July 1, 2017</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>June 30, 2018</u>
Taxable Student Loan Backed Notes, 2011-1 Series:				
LIBOR Indexed:				
Tranche A-2 (Sold at 99.1%) Due 1/26/26 (Variable Rate)	\$ 23,555,001	\$	\$ 23,555,001	
Tranche A-3 (Sold at 93.9%) Due 10/25/41 (Variable Rate)	220,000,000		6,285,988	213,714,012
Original Issue Discount	<u>(9,836,908)</u>		<u>(758,630)</u>	<u>(9,078,278)</u>
	<u>233,718,093</u>		<u>29,082,359</u>	<u>204,635,734</u>
Taxable Student Loan Backed Notes, 2011-2 Series:				
LIBOR Indexed:				
Tranche A-2 (Sold at 97.5%) Due 7/25/25 (Variable Rate)	114,974,844		34,368,507	80,606,337
Tranche A-3 (Sold at 94.1%) Due 7/25/36 (Variable Rate)	113,000,000			113,000,000
Original Issue Discount	<u>(6,946,267)</u>		<u>(787,856)</u>	<u>(6,158,411)</u>
	<u>221,028,577</u>		<u>33,580,651</u>	<u>187,447,926</u>
Taxable Student Loan Backed Notes, 2012-1 Series:				
LIBOR Indexed:				
Tranche A (Sold at 99.8%) Due 7/25/39 (Variable Rate)	286,710,931		48,601,705	238,109,226
Original Issue Discount	<u>(830,060)</u>		<u>(117,185)</u>	<u>(712,875)</u>
	<u>285,880,871</u>		<u>48,484,520</u>	<u>237,396,351</u>
Taxable Student Loan Backed Notes, 2013-1 Series:				
LIBOR Indexed:				
Due 12/26/39 (Variable Rate)	<u>264,961,481</u>		<u>45,169,037</u>	<u>219,792,444</u>
Tax-Exempt Student Loan Backed Notes, Private Placement Bonds, 2015-1 Series:				
LIBOR Indexed:				
Series A-1 Due 11/25/25 (Variable Rate)	83,373,724		18,013,194	65,360,530
Series A-2 Due 11/25/28 (Variable Rate)	<u>14,100,000</u>		<u>300,000</u>	<u>13,800,000</u>
	<u>97,473,724</u>		<u>18,313,194</u>	<u>79,160,530</u>
Total	<u>\$ 1,449,186,863</u>	\$	<u>\$ 216,882,042</u>	<u>\$ 1,232,304,821</u>

NORTH CAROLINA
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7. Noncurrent Liabilities (Concluded)

C. Pledged Revenues:

The Agency has collateralized \$1,321,159,780 in student loans receivable and \$7,079,798 in reserves to repay \$1,257,792,915 bonds payable at June 30, 2018. 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 2038 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 \$251,683,046 and \$247,875,429, respectively. The total principal and interest remaining to be paid on the bonds is \$1,510,445,432.

D. Annual Requirements:

The annual requirements to pay principal and interest on bonds outstanding at June 30, 2018 are as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>
2019	\$ 160,941,671	\$ 39,954,578
2020	153,068,348	35,066,208
2021	145,890,483	30,430,046
2022	139,356,860	26,003,674
2023	133,420,513	21,768,288
2024-2028	387,923,242	55,365,115
2029-2033	14,191,798	27,052,472
2034-2038	<u>123,000,000</u>	<u>17,012,136</u>
Total Requirements	\$ <u>1,257,792,915</u>	\$ <u>252,652,517</u>

The Taxable Guaranteed Student Loan Revenue Private Placement Bonds, 2008-1 Series are LIBOR indexed debt instruments due September 1, 2037. 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, 2018. Therefore, the debt service interest requirements on the aforementioned series will change on a monthly/quarterly basis throughout the life of the bonds.

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8. Pension Plans

A. Defined Benefit Plan:

Plan Administration: The State of North Carolina administers the Teachers' and State Employees' Retirement System (TSERS) plan. This plan is a cost-sharing, multiple-employer, defined benefit pension plan established by the State to provide pension benefits for general employees and law enforcement officers (LEOs) of the State, general employees and LEOs of its component units, and employees of Local Education Agencies (LEAs) and charter schools not in the reporting entity. Membership is comprised of employees of the State (state agencies and institutions), universities, community colleges, and certain proprietary component units along with the LEAs and charter schools 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, 2018 was 10.78% of covered payroll. Required employer contribution rates for the years ended June 30, 2017 and 2016 were 9.98% and 9.15%, respectively. Total employee contributions to the pension plan for the years ended June 30, 2018 and 2017 were \$141,142 and \$138,024, respectively. Total employer contributions to the pension plan for the years ended June 30, 2018, 2017, and 2016 were \$253,586, \$229,579, and \$187,076, 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 2017 *Comprehensive Annual Financial Report*. An electronic version of this report is available on the North Carolina Office of the State Controller's website at <https://www.osc.nc.gov/> or by calling the State Controller's Financial Reporting Section at (919) 707-0500.

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

NORTH CAROLINA
STATE EDUCATION ASSISTANCE AUTHORITY
Notes to Financial Statements
June 30, 2018 and 2017

8. Pension Plans (Continued)

Methods Used to Value TSERS Investment: Pursuant to North Carolina General Statutes, the State Treasurer is the custodian and administrator of the retirement systems. The State Treasurer maintains various investment portfolios in its External Investment Pool. TSERS and other pension plans of the State of North Carolina are the sole participants in the Long-Term Investment, Fixed Income Investment, Equity Investment, Real Estate Investment, Alternative Investment, Opportunistic Fixed Income Investment, and Inflation Sensitive Investment Portfolios. The Fixed Income Asset Class includes the Long-Term Investment and 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 External Investment Pool. Detailed descriptions of the methods and significant assumptions regarding investments of the State Treasurer are provided in the 2017 *Comprehensive Annual Financial Report*.

Net Pension Liability: The Authority reported liabilities of \$1,075,117 and \$1,053,292 at June 30, 2018 and 2017, respectively, for its proportionate share of the collective net pension liability. The net pension liability was measured as of June 30, 2017 and 2016. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2016 and 2015, and update procedures were used to roll forward the total pension liability to June 30, 2017 and 2016. 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, 2017 and 2016, the Authority's proportion was .014% and .011%, respectively.

Actuarial Assumptions: The June 30, 2018 and 2017 total pension liability was determined by an actuarial valuation performed as of December 31, 2016 and 2015, 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, 2017 and 2016. 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 was 7.20% (for December 31, 2016) and 7.25% (for December 31, 2015) and was 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 mortality rates also contain a provision to reflect future mortality improvements.

The actuarial assumptions used in the December 31, 2016 and 2015 valuations were based on the results of an actuarial experience review for the period January 1, 2010 through December 31, 2014.

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

NORTH CAROLINA
STATE EDUCATION ASSISTANCE AUTHORITY
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8. Pension Plans (Continued)

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:

Asset Class	Long-Term Expected Real Rate of Return	
	June 30, 2017*	June 30, 2016*
Fixed Income	1.4 %	1.4 %
Global Equity	5.3 %	5.3 %
Real Estate	4.3 %	4.3 %
Alternatives	8.9 %	8.9 %
Opportunistic Fixed Income/Credit	6.0 %	6.0 %
Inflation Sensitive/Inflation Protection	4.0 %	4.0 %

* 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. The long-term expected real rate of return for The Bond Index Pool as of June 30, 2017 was 1.3%.

Discount Rate: The discount rate used to measure the total pension liability was lowered from 7.25% (at December 31, 2015) to 7.20% (at December 31, 2016). The discount rate is in line with the long-term nominal expected return on pension plan investments. The calculation of the net pension liability is a present value calculation of the future net pension payments. These net pension payments assume that contributions from plan members will be made at the current statutory contribution rate and that contributions from employers will be made at the contractually required rates, actuarially determined. Based on those 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
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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 applicable discount rate, as well as what the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower or 1-percentage-point higher than the applicable rate:

Net Pension Liability			
	1% Decrease (6.20%)	Discount Rate (7.20%)	1% Increase (8.20%)
June 30, 2018	\$ <u>2,213,035</u>	\$ <u>1,075,117</u>	\$ <u>121,686</u>
	1% Decrease (6.25%)	Discount Rate (7.25%)	1% Increase (8.25%)
June 30, 2017	\$ <u>1,981,039</u>	\$ <u>1,053,292</u>	\$ <u>273,184</u>

Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions: For the year ended June 30, 2018, the Authority recognized pension expense of \$321,380. At June 30, 2018, 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	\$ 23,307	\$ 35,173
Change of Assumptions	169,852	
Net Difference Between Projected and Actual Earnings on Plan Investments	145,500	
Change in Proportion and Differences Between Authority's Contributions and Proportionate Share of Contributions	108,389	19,257
Contributions Subsequent to the Measurement Date	<u>253,586</u>	
	<u>\$ 700,634</u>	<u>\$ 54,430</u>

Deferred outflows of resources of \$253,586 for the year ended June 30, 2018, related to contributions subsequent to the measurement date, will be included as a reduction of the net pension liability in the year ended June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows:

<u>Year</u>	
2019	\$ 89,813
2020	231,429
2021	129,606
2022	(58,230)
2023	-
	<u>\$ 392,618</u>

NORTH CAROLINA
STATE EDUCATION ASSISTANCE AUTHORITY
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8. Pension Plans (Continued)

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 Plan Investments	375,637	
Change in Proportion and Differences Between Authority's Contributions and Proportionate Share of Contributions Contributions Subsequent to the Measurement Date	8,736	27,335
	<u>229,579</u>	
	<u>\$ 769,287</u>	<u>\$ 77,115</u>

Deferred outflows of resources of \$229,579 for the year ended June 30, 2017, related to contributions subsequent to the measurement date, will be included as a reduction of the 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 as pension expense as follows:

<u>Year</u>		
2018	\$	76,864
2019		77,574
2020		196,811
2021		111,344
2022		-
	<u>\$</u>	<u>462,593</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 ORP and designates the companies authorized to offer investment products or the trustee responsible for the investment of contributions under ORP and approves the form and contents of the contracts and trust agreements.

Participants in ORP are immediately vested in the value of employee contributions. The value of employer contributions is vested after five years of participation in 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. Members and employer contribution rates are set each year by the North Carolina General Assembly. For the years ended June 30, 2018 and 2017, these rates were set at 6% of covered payroll for members and 6.84% of covered payroll for employers. The Authority assumes no liability other than its contribution.

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8. Pension Plans (Concluded)

For the years ended June 30, 2018 and 2017, the Authority had a total payroll of \$3,506,268 and \$3,315,478, respectively, of which \$1,030,254 and \$848,561 was covered under ORP. Total employee contributions for pension benefits for the years ended June 30, 2018 and 2017 were \$61,815 and \$50,914, respectively. Total employer contributions for pension benefits for the years ended June 30, 2018, 2017, and 2016 were \$70,469, \$58,042, and \$53,904, respectively. The amount of expense recognized in the current year related to ORP is equal to the employer contributions.

9. Other Postemployment Benefits

The Authority participates in two postemployment benefit plans, the Retiree Health Benefit Fund and the Disability Income Plan of North Carolina, that are administered by the State of North Carolina as pension and other employee benefit trust funds. Each 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 2017 *Comprehensive Annual Financial Report*. An electronic version of this report is available on the North Carolina Office of the State Controller's website at <https://www.osc.nc.gov/> or by calling the State Controller's Financial Reporting Section at (919) 707-0500.

A. Summary of Significant Accounting Policies and Plan Asset Matters:

Basis of Accounting: The financial statements of these plans were prepared using the accrual basis of accounting. Employer contributions are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits are recognized when due and payable in accordance with the terms of each plan. The fiduciary net position of each plan was determined using the same basis as the OPEB plans.

Methods Used to Value Plan Investments: Pursuant to North Carolina General Statutes, the State Treasurer is the custodian and administrator of the other postemployment benefits funds. The State Treasurer maintains various investment portfolios in its External Investment Pool. The Retiree Health Benefit Fund participates in the External Investment Pool. The Disability Income Plan of North Carolina is invested in the Short-Term Investment Portfolio of the External Investment Pool and the Bond Index External Investment Pool. The investment balance of each other employee benefit trust fund represents its share of the fair market value of the net position 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 2017 *Comprehensive Annual Financial Report*.

B. Plan Descriptions:

1. Health Benefits:

Plan Administration: The State of North Carolina administers the North Carolina State Health Plan for Teachers and State Employees, referred to as the State Health Plan (the Plan), a healthcare plan exclusively for the benefit of employees of the State, the University of North Carolina System, community colleges, and certain other component units. In addition, LEAs, charter schools, and some select local governments that are not part of the State's financial reporting entity also participate. Health benefit programs and premium rates are determined by the State Treasurer upon approval of the Plan Board of Trustees.

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9. Other Postemployment Benefits (Continued)

The Retiree Health Benefit Fund (RHBF) has been established as a fund to provide health benefits to retired and disabled employees and their applicable beneficiaries. RHBF is established by General Statute 135-7, Article 1. RHBF is a cost-sharing, multiple-employer, defined benefit healthcare plan, exclusively for the benefit of eligible former employees of the State, the University of North Carolina System, and community colleges. In addition, LEAs, charter schools, and some select local governments that are not part of the State's financial reporting entity also participate.

By statute, RHBF is administered by the Board of Trustees of the TSERS. RHBF is supported by a percent of payroll contribution from participating employing units. Each year the percentage is set in legislation, as are the maximum per retiree contributions from RHBF to the Plan. The State Treasurer, with the approval of the Plan Board of Trustees, then sets the employer contributions (subject to the legislative cap) and the premiums to be paid by retirees, as well as the health benefits to be provided through the Plan.

Benefits Provided: Plan benefits received by retired employees and disabled employees from RHBF are OPEB. The healthcare benefits for retired and disabled employees who are not eligible for Medicare are the same as for active employees as described in Note 10. The plan options change when former employees become eligible for Medicare. Medicare retirees have the option of selecting one of two fully-insured Medicare Advantage/Prescription Drug Plan options or the self-funded Traditional 70/30 Preferred Provider Organization Plan option that is also offered to non-Medicare members. If the Traditional 70/30 Plan is selected by a Medicare retiree, the self-funded State Health Plan coverage is secondary to Medicare.

Those former employees who are eligible to receive medical benefits from RHBF are long-term disability beneficiaries of the Disability Income Plan of North Carolina and retirees of TSERS, the Consolidated Judicial Retirement System, the Legislative Retirement System, the Authority Employees' ORP, and a small number of local governments, with five or more years of contributory membership service in their retirement system prior to disability or retirement, with the following exceptions: for employees first hired on or after October 1, 2006, and members of the General Assembly first taking office on or after February 1, 2007, future coverage as retired employees and retired members of the General Assembly is subject to the requirement that the future retiree have 20 or more years of retirement service credit in order to receive coverage on a noncontributory basis. Employees first hired on or after October 1, 2006 and members of the General Assembly first taking office on or after February 1, 2007 with 10 but less than 20 years of retirement service credit are eligible for coverage on a partially contributory basis. For such future retirees, the State will pay 50% of the State Health Plan's total noncontributory premium.

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

Contributions: Contribution rates to RHBF, which are intended to finance benefits and administrative expenses on a pay-as-you-go basis, are determined by the General Assembly in the Appropriations Bill. The Authority's contractually-required contribution rate for the year ended June 30, 2018 was 6.05% of covered payroll. Contractually required contribution rates for the years ended June 30, 2017 and 2016 were 5.81% and 5.60%, respectively. The Authority made 100% of its annual required contributions to the RHBF for the years ended June 30, 2018, 2017 and 2016, which were \$204,649, \$183,498, and \$158,627, respectively. The Authority assumes no liability for retiree health care benefits provided by the programs other than its required contribution.

NORTH CAROLINA
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9. Other Postemployment Benefits (Continued)

2. Disability Income:

Plan Administration: Short-term and long-term disability benefits are provided through the Disability Income Plan of North Carolina (DIPNC), a cost-sharing, multiple-employer defined benefit plan, to the eligible members of TSERS which include employees of the State, the University of North Carolina System, community colleges, certain participating component units, LEAs which are not part of the reporting entity, and the Authority Employees' ORP. By statute, DIPNC is administered by the Department of State Treasurer and the Board of Trustees of TSERS.

Benefits Provided: Long-term disability benefits are payable as an OPEB from DIPNC after the conclusion of the short-term disability period or after salary continuation payments cease, whichever is later, for as long as an employee is disabled. An employee is eligible to receive long-term disability benefits provided the following requirements are met: (1) the employee has five or more years of contributing membership service in TSERS or the Authority Employees' ORP, earned within 96 months prior to the end of the short-term disability period or cessation of salary contribution payments, whichever is later; (2) the employee must make application to receive long-term benefits within 180 days after the conclusion of the short-term disability period or after salary continuation payments cease or after monthly payments for Workers' Compensation cease (excluding monthly payments for permanent partial benefits), whichever is later; (3) the employee must be certified by the Medical Board to mentally or physically disabled for the further performance of his/her usual occupation; (4) the disability must have been continuous, likely to be permanent, and incurred at the time of active employment; (5) the employee must not be eligible to receive an unreduced retirement benefit from TSERS; and (6) the employee must terminate employment as a permanent full-time employee. An employee is eligible to receive an unreduced retirement benefit from TSERS after (1) reaching the age of 65 and completing five years of membership service, or (2) reaching the age of 60 and completing 25 years of creditable service, or (3) completing 30 years of creditable service, at any age.

For employees who had five or more years of membership service as of July 31, 2007, during the first 36 months of the long-term disability period, the monthly long-term disability benefit is equal to 65% of one-twelfth of an employee's annual base rate of compensation last payable to the participant or beneficiary prior to the beginning of the short-term disability period, plus the like percentage of one-twelfth of the annual longevity payment and local supplements to which the participant or beneficiary would be eligible. The monthly benefits are subject to a maximum of \$3,900 per month reduced by any primary Social Security disability benefits and by monthly payments for Workers' Compensation to which the participant or beneficiary may be entitled, but the benefits payable shall be no less than \$10 a month. After the first 36 months of the long-term disability, the long-term benefit is calculated in the same manner as described above except the monthly benefit is reduced by an amount equal to a monthly primary Social Security disability benefit to which the participant or beneficiary might be entitled had Social Security disability benefits been awarded. When an employee qualifies for an unreduced service retirement allowance from TSERS, the benefits payable from DIPNC will cease, and the employee will commence retirement under TSERS or the Authority Employees' ORP.

For employees who had less than five years of membership service as of July 31, 2007, and meet the requirements for long-term disability on or after August 1, 2007, during the first 36 months of the long-term disability period, the monthly long-term disability benefit shall be reduced by an amount equal to the monthly primary Social Security retirement benefit to which the employee might be entitled should the employee become age 62 during the first 36 months. This reduction becomes effective as of the first day of the month following the month of initial entitlement to Social Security benefits. After the first 36 months of the long-term disability, no further benefits are payable under the terms of this section unless the employee has been approved and is in receipt of primary Social Security disability benefits.

NORTH CAROLINA
STATE EDUCATION ASSISTANCE AUTHORITY
Notes to Financial Statements
June 30, 2018 and 2017

9. Other Postemployment Benefits (Continued)

Contributions: Although DIPNC operates on a calendar year, disability income benefits are funded by actuarially determined employer contributions that are established in the Appropriations Bill by the General Assembly and coincide with the State's fiscal year. The Authority's contractually-required contribution rate for the year ended June 30, 2018 was 0.14% of covered payroll. Contractually required contribution rates for the years ended June 30, 2017 and 2016 were .38% and .41%, respectively. The Authority made 100% of its annual required contributions to DIPNC for the years ended June 30, 2018, 2017 and 2016, which were \$4,736, \$11,966, and \$11,614, respectively. The Authority assumes no liability for long-term disability benefits under the Plan other than its contribution.

C. Net OPEB Liability:

Net OPEB Liability: at June 30, 2018, the Authority reported a liability of \$3,822,561 for its proportionate share of the collective net OPEB liability. The net OPEB liability was measured as of June 30, 2017. The total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of December 31, 2016, and update procedures were used to roll forward the total OPEB liability to June 30, 2017. The Authority's proportion of the net OPEB 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, 2017, the Authority's proportion was .012%, which was an increase of .002% from its proportion measured as of June 30, 2016, which was .010%.

Actuarial Assumptions: The net OPEB liability for RHBF and DIPNC was determined by actuarial valuations as of December 31, 2016, using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified. The net OPEB liability was then rolled forward to June 30, 2017 utilizing update procedures incorporating the actuarial assumptions.

	Retiree Health Benefit Fund	Disability Income Plan of N.C.
Valuation Date	12/31/2016	12/31/2016
Inflation	2.75%	3.00%
Salary Increases*	3.50% - 8.10%	3.50% - 8.10%
Investment Rate of Return**	7.20%	3.75%
Healthcare Cost Trend Rate - Medical	5.00% - 6.50%	N/A
Healthcare Cost Trend Rate - Prescription Drug	5.00% - 7.25%	N/A
Healthcare Cost Trend Rate - Medicare Advantage	4.00% - 5.00%	N/A
Healthcare Cost Trend Rate - Administrative	3.00%	N/A

* Salary increases include 3.5% inflation and productivity factor.

**Investment rate of return is net of pension plan investment expense, including inflation.

N/A - Not Applicable

The OPEB plans currently use 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, 2018 and 2017

9. Other Postemployment Benefits (Continued)

The projected long-term investment returns and inflation assumptions are developed through a 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 projects 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. DIPNC is primarily invested in the Bond Index Investment Pool as of June 30, 2017.

Best estimates of real rates of return for each major asset class included in RHBF's target asset allocation as of June 30, 2017 (the valuation date) are summarized in the following table:

<u>Asset Class</u>	<u>Long-Term Expected Real Rate of Return</u>
Fixed Income	1.4 %
Global Equity	5.3 %
Real Estate	4.3 %
Alternatives	8.9 %
Opportunistic Fixed Income	6.0 %
Inflation Sensitive	4.0 %

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. The long-term expected real rate of return for the Bond Index Investment Pool as of June 30, 2017 (the valuation date) was 1.3%.

Actuarial valuations of the plans involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future.

The actuarial assumptions used for RHBF are consistent with those used to value the pension benefits of TSERS where appropriate. These assumptions are based on the most recent pension valuations available. The discount rate used for RHBF reflects a pay-as-you-go approach.

Projections of benefits for financial reporting purposes of the plans are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and historical pattern of sharing of benefit costs between the employer and plan members to that point. Historically, the benefits funded solely by employer contributions applied equally to all retirees. Currently, as described earlier in the note, benefits are dependent on membership requirements.

NORTH CAROLINA
STATE EDUCATION ASSISTANCE AUTHORITY
Notes to Financial Statements
June 30, 2018 and 2017

9. Other Postemployment Benefits (Continued)

The actuarial methods and assumptions used for DIPNC include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

The actuarial assumptions used in the December 31, 2016 valuations were based on the results of an actuarial experience study prepared as of December 31, 2014.

Discount Rate: The discount rate used to measure the total OPEB liability for RHBF was 3.58%. The projection of cash flows used to determine the discount rate assumed that contributions from employers will be made at the current statutorily determined contribution rate. Based on the above assumptions, the plan's fiduciary net position was not projected to be available to make projected future benefit payments of current plan members. As a result, a municipal bond rate of 3.58% was used as the discount rate used to measure the total OPEB liability. The 3.58% rate is based on the Bond Buyer 20-year General Obligation Index as of June 30, 2017.

The discount rate used to measure the total OPEB asset for DIPNC was 3.75%. 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 those assumptions, the 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 plan investments was applied to all periods of projected benefit payments to determine the total OPEB asset.

Sensitivity of the Net OPEB Liability (Asset) to Changes in the Discount Rate: The following present the Authority's proportionate share of the net OPEB liability (asset) of the plans, as well as what the plans' net OPEB liability (asset) would be if it were calculated using a discount rate that is 1-percentage point lower or 1-percentage point higher than the current discount rate:

Net OPEB Liability (Asset)			
	1% Decrease (2.58%)	Discount Rate (3.58%)	1% Increase (4.58%)
RHBF	\$ <u>4,568,347</u>	\$ <u>3,829,478</u>	\$ <u>3,243,450</u>
	1% Decrease (2.75%)	Discount Rate (3.75%)	1% Increase (4.75%)
DIPNC	\$ <u>(6,090)</u>	\$ <u>(7,163)</u>	\$ <u>(8,239)</u>

Sensitivity of the Net OPEB Liability (Asset) to Changes in the Healthcare Cost Trend Rates: The following presents the net OPEB liability (asset) of the plans, as well as what the plans net OPEB liability (asset) would be if it were calculated using healthcare cost trend rates that are 1-percentage-point lower or 1-percentage-point higher than the current healthcare cost trend rates:

	1% Decrease (Medical - 4.00-5.50%, Pharmacy - 4.00-6.25% Med Advantage - 3.00-4.00% Administrative - 2.00%)	Current Healthcare Cost Trend Rates (Medical - 5.00-6.50%, Pharmacy - 5.00-7.25% Med Advantage - 4.00-5.00% Administrative - 3.00%)	1% Increase (Medical - 6.00-7.50%, Pharmacy - 6.00-8.25% Med Advantage - 5.00-6.00% Administrative - 4.00%)
RHBF Net OPEB Liability	\$ <u>3,128,331</u>	\$ <u>3,829,478</u>	\$ <u>4,761,391</u>
DIPNC Net OPEB Asset	N/A	N/A	N/A

NORTH CAROLINA
STATE EDUCATION ASSISTANCE AUTHORITY
Notes to Financial Statements
June 30, 2018 and 2017

9. Other Postemployment Benefits (Concluded)

Deferred Outflows of Resources and (Deferred Inflows) of Resources Related to OPEB: For the year ended June 30, 2018, the Authority recognized OPEB expense of \$346,788 for RHBF and \$4,789 for DIPNC. At June 30, 2018, the Authority reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	<u>RHBF</u>	<u>DIPNC</u>	<u>Total</u>
Difference Between Actual and Expected Experience	\$ (274,598)	\$ 1,964	\$ (272,634)
Change of Assumptions	(1,054,688)		(1,054,688)
Net Difference Between Projected and Actual Earnings on Plan Investments	(1,423)	1,570	147
Change in Proportion and Differences Between Authority's Contributions and Proportionate Share of Contributions	784,590	2,950	787,540
Contributions Subsequent to the Measurement Date	<u>204,649</u>	<u>4,736</u>	<u>209,385</u>
	<u>\$ (341,470)</u>	<u>\$ 11,220</u>	<u>\$ (330,250)</u>

Amounts reported as deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability related to RHBF and an increase of the net OPEB asset related to DIPNC in the fiscal year ended June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Year Ended <u>June 30</u>	<u>RHBF</u>	<u>DIPNC</u>
2019	\$ (109,295)	\$ 2,031
2020	(109,295)	2,031
2021	(109,295)	2,030
2022	(109,295)	392
2023	<u>(108,939)</u>	<u>-</u>
Total	<u>\$ (546,119)</u>	<u>\$ 6,484</u>

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 are provided comprehensive major medical care benefits. Coverage is funded by contributions to the State Health Plan, a discretely presented component unit of the State of North Carolina. The State Health Plan is funded by employer contributions. Certain plans also require contributions from employees. The State Health Plan has contracted with third parties to process claims. See Note 9, Other Postemployment Benefits, for additional information regarding retiree health benefits.

NORTH CAROLINA
STATE EDUCATION ASSISTANCE AUTHORITY
Notes to Financial Statements
June 30, 2018 and 2017

10. Risk Management (Continued)

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.

3. Disability Income Plan

Short-term and long-term disability benefits are provided to Authority employees through the DIPNC, part of the State's Pension and Other Employee Benefit Trust Funds. Short-term benefits are paid by the Authority up to the first six months of benefits and reimbursed by DIPNC for any additional short-term benefits. As discussed in Note 9, long-term disability benefits are payable as an other postemployment benefit from DIPNC after the conclusion of the short-term disability period or after salary continuation payments cease, whichever is later, for as long as an employee is disabled.

B. Other Risk Management and Insurance Activities:

1. Automobile, Fire, and Other Property Losses

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

2. Public Officers' and Employees' Liability Insurance

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

3. Employee Dishonesty and Computer Fraud

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

4. Statewide Workers' Compensation Program

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

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.

NORTH CAROLINA
STATE EDUCATION ASSISTANCE AUTHORITY
Notes to Financial Statements
June 30, 2018 and 2017

10. Risk Management (Concluded)

5. Cyber and Breach Response Insurance

The Authority is protected for losses from cyber and data breach. This coverage is with a private insurance company, and was initially purchased during the year ended June 30, 2018. Coverage limit is \$5,000,000 for related losses.

11. Adoption of New Accounting Standards

During the year ended June 30, 2018, the Authority adopted the following pronouncements issued by GASB:

- GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. This Statement improves accounting and financial reporting requirements by state and local governments for postemployment benefits other than pensions (OPEB). It also improves information provided by state and local governmental employers about financial support for OPEB that is provided by other entities. This Statement replaces the requirements of Statements No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, for OPEB. In addition, this Statement details the recognition and disclosure requirements for employers with payables to defined benefit OPEB plans that are administered through trusts that meet the specified criteria and for employers whose employees are provided with defined contribution OPEB. Refer to Note 12, Application of New Accounting Pronouncement, for information on how the adoption of this Statement affected the financial statements.
- GASB Statement No. 85, *Omnibus 2017*. This Statement addresses 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 (pensions and OPEB). The adoption of this Statement had no impact on the financial statements.

During the year ended June 30, 2017, the Authority adopted the following pronouncements issued by 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, 2018 and 2017

12. Application of New Accounting Pronouncement

As of July 1, 2017, net position as previously reported was restated as follows:

July 1, 2017 Net Positon, as Previously Reported	\$ 572,068,379
Restatements: Record the Authority's net OPEB liability and OPEB related deferred inflows/outflows of resources pursuant to GASB Statement No. 75 requirements.	<u>(4,010,619)</u>
July 1, 2017 Net Position, as Restated	<u>\$ 568,057,760</u>

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 \$7,890,198 for its share in the settlement during the year ended June 30, 2018. There were no receipts during the year ended June 30, 2017.

14. Subsequent Events

Subsequent events have been evaluated through September 21, 2018, which is the date the financial statements were available to be issued.

15. Reclassifications

Certain reclassifications have been made to the 2017 financial statements to conform with the 2018 financial statement presentation. Such reclassifications had no effect on net assets or cash flows.

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>2017</u>	<u>2016</u>	<u>2015</u>
Authority's proportionate share percentage of collective net pension liability	0.014%	0.011%	0.013%
Authority's proportionate share of TSERS collective net pension liability	\$ 1,075,117	\$ 1,053,292	\$ 482,209
Authority's covered payroll	\$ 2,300,394	\$ 2,044,547	\$ 2,131,189
Authority's net pension liability as a percentage of covered payroll	46.736%	51.517%	22.626%
Plan fiduciary net position as a percentage of the total pension liability	89.510%	87.320%	94.640%

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

SCHEDULE OF AUTHORITY CONTRIBUTIONS (PENSION)

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

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Contractually required contribution	\$ 253,586	\$ 229,579	\$ 187,076	\$ 195,004
Contributions in relation to the contractually determined contribution	<u>253,586</u>	<u>229,579</u>	<u>187,076</u>	<u>195,004</u>
Contribution deficiency (excess)	\$ <u><u> </u></u>	\$ <u><u> </u></u>	\$ <u><u> </u></u>	\$ <u><u> </u></u>
Authority's covered payroll	\$ 2,352,372	\$ 2,300,394	\$ 2,044,547	\$ 2,131,189
Contributions as a percentage of covered payroll	10.78%	9.98%	9.15%	9.15%

<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>
\$ 191,949	\$ 184,045	\$ 138,421	\$ 116,092	\$ 88,202	\$ 83,371
<u>191,949</u>	<u>184,045</u>	<u>138,421</u>	<u>116,092</u>	<u>88,202</u>	<u>83,371</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>
\$ 2,208,847	\$ 2,209,421	\$ 2,807,731	\$ 2,354,801	\$ 2,470,649	\$ 2,481,287
8.69%	8.33%	4.93%	4.93%	3.57%	3.36%

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

1. Changes of Benefit Terms

Cost of Living Increase

<u>2017</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>
1.06%	N/A	1.00%	N/A	1.00%	N/A	N/A	N/A	2.20%	2.20%

2. Changes of Assumptions

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

In 2015, the North Carolina Retirement Systems' consulting actuaries performed the quinquennial investigation of each retirement systems' actual demographic and economic experience (known as the "Experience Review"). The Experience Review provides the basis for selecting the actuarial assumptions and methods used to determine plan liabilities and funding requirements. The most recent Experience Review examined each plan's experience during the period between January 1, 2010 and December 31, 2014. Based on the findings, the Board of Trustees and the TSERS adopted a number of new actuarial assumptions and methods. The most notable changes to the assumptions include updates to the mortality tables and the mortality improvement projection scales to reflect reduced rates of mortality and significant increases in mortality improvements. These assumptions were adjusted to reflect the mortality projection scale MP-2015, released by the Society of Actuaries in 2015. In addition, the assumed rates of retirement, salary increases, and rates of termination from active employment were reduced to more closely reflect actual experience. The discount rate for the TSERS was lowered from 7.25% to 7.20% for the December 31, 2016 valuation.

The Board of Trustees also adopted a new asset valuation method for the TSERS. For determining plan funding requirements, these plans now use a five-year smoothing method with a reset of the actuarial value of assets to market value as of December 31, 2014.

The Notes to Required Supplementary Information reflect the most recent available information included in the State of North Carolina's 2017 *Comprehensive Annual Financial Report*.

NORTH CAROLINA
STATE EDUCATION ASSISTANCE AUTHORITY
Required Supplementary Information
Schedule of Proportionate Net OPEB Liability (Asset)
Cost-Sharing, Multiple-Employer, Defined Benefit OPEB Plans
June 30, *

	<u>2017</u>	<u>2016</u>
Retiree Health Benefit Fund		
Authority's proportionate share percentage of collective net OPEB liability (asset)	0.01168%	0.00968%
Authority's proportionate share of collective net OPEB liability (asset)	\$ 3,829,724	\$ 4,211,129
Authority's covered payroll	\$ 3,148,955	\$ 2,832,617
Authority's net OPEB liability as a percentage of covered payroll	121.62%	148.67%
Plan fiduciary net position as a percentage of the total OPEB liability (asset)	3.52%	2.41%
<hr/>		
Disability Income Plan of North Carolina		
Authority's proportionate share percentage of collective net OPEB liability (asset)	0.01172%	0.01042%
Authority's proportionate share of collective net OPEB liability (asset)	\$ (7,163)	\$ (6,471)
Authority's covered payroll	\$ 3,148,955	\$ 2,832,617
Authority's net OPEB liability as a percentage of covered payroll	(0.23%)	(0.23%)
Plan fiduciary net position as a percentage of the total OPEB liability (asset)	(116.23%)	(116.06%)

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

SCHEDULE OF AUTHORITY CONTRIBUTIONS (OPEB)

NORTH CAROLINA
STATE EDUCATION ASSISTANCE AUTHORITY
Required Supplementary Information
Schedule of Authority Contributions (OPEB)
Cost-Sharing, Multiple-Employer, Defined Benefit OPEB Plans
Last Ten Fiscal Years

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Retiree Health Benefit Fund				
Contractually required contribution	\$ 204,649	\$ 183,498	\$ 158,627	\$ 153,413
Contributions in relation to the contractually determined contribution	<u>204,649</u>	<u>183,498</u>	<u>158,627</u>	<u>153,413</u>
Contribution deficiency (excess)	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>
Authority's covered payroll	\$ 3,382,627	\$ 3,148,955	\$ 2,832,617	\$ 2,794,390
Contributions as a percentage of covered payroll	6.05%	5.83%	5.60%	5.49%

Disability Income Plan of North Carolina

Contractually required contribution	\$ 4,736	\$ 11,966	\$ 11,614	\$ 11,457
Contributions in relation to the contractually determined contribution	<u>4,736</u>	<u>11,966</u>	<u>11,614</u>	<u>11,457</u>
Contribution deficiency (excess)	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>
Authority's covered payroll	\$ 3,382,627	\$ 3,148,955	\$ 2,832,617	\$ 2,794,390
Contributions as a percentage of covered payroll	0.14%	0.38%	0.41%	0.41%

<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>
\$ 146,021	\$ 135,438	\$ 155,223	\$ 129,925	\$ 124,532	\$ 113,952
<u>146,021</u>	<u>135,438</u>	<u>155,223</u>	<u>129,925</u>	<u>124,532</u>	<u>113,952</u>
<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>
\$ 2,704,091	\$ 2,555,455	\$ 3,104,423	\$ 2,651,538	\$ 2,767,308	\$ 2,779,231
5.40%	5.30%	5.00%	4.90%	4.50%	4.10%

\$ 11,898	\$ 11,244	\$ 16,143	\$ 13,788	\$ 14,390	\$ 14,452
<u>11,898</u>	<u>11,244</u>	<u>16,143</u>	<u>13,788</u>	<u>14,390</u>	<u>14,452</u>
<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>
\$ 2,704,091	\$ 2,555,455	\$ 3,104,423	\$ 2,651,538	\$ 2,767,308	\$ 2,779,231
0.44%	0.44%	0.52%	0.52%	0.52%	0.52%

NORTH CAROLINA
STATE EDUCATION ASSISTANCE AUTHORITY
Notes to Required Supplementary Information
Schedule of Authority Contributions (OPEB)
Cost-Sharing, Multiple-Employer, Defined Benefit OPEB Plans
Last Ten Fiscal Years

1. Changes of Benefit Terms

Effective January 1, 2016, benefit terms related to copays, out-of-pocket maximums, and deductibles were changed for three of four options of the RHBF. Most of the changes were an increase in the amount from the previous year.

Effective January 1, 2017, benefit terms related to copays, coinsurance maximums, out-of-pocket maximums and deductibles were changed for two of four options of the RHBF. Most of the changes were an increase in the amount from the previous year.

2. Method and Assumptions Used in Calculations of Actuarially Determined Contributions

An actuarial valuation is performed for each plan each year. The actuarially determined contribution rates in the Schedule of Employer Contributions are calculated by the actuary as a projection of the required employer contribution for the fiscal year beginning six months following the date of the valuation results for the RHBF. The actuarially determined contribution rates in the Schedule of Employer Contributions are calculated by the actuary as a projection of the required employer contribution for the fiscal year beginning 18 months following the date of the valuation results for the DIPNC. See Note 9 for more information on the specific assumptions for each plan. The actuarially determined contributions for those items with covered payroll were determined using the actuarially determined contribution rate from the actuary and covered payroll as adjusted for timing differences and other factors such as differences in employee class. Other actuarially determined contributions are disclosed in the schedule as expressed by the actuary in reports to the plans.

3. Changes of Assumptions

In 2015, the North Carolina Retirement Systems' consulting actuaries performed the quinquennial investigation of each retirement systems' actual demographic and economic experience (known as the "Experience Review"). The Experience Review provides the basis for selecting the actuarial assumptions and methods used to determine plan liabilities and funding requirements. The most recent Experience Review examined each plan's experience during the period between January 1, 2010 and December 31, 2014. Based on the findings, the Board of Trustees and the TSERS and the State Health Plan adopted a number of new actuarial assumptions and methods for the RHBF and the DIPNC. The most notable changes to the assumptions include updates to the mortality tables and the mortality improvement projection scales to reflect reduced rates of mortality and significant increases in mortality improvements. These assumptions were adjusted to reflect the mortality projection scale MP-2015, released by the Society of Actuaries in 2015. In addition, the assumed rates of retirement and rates of termination from active employment were reduced to more closely reflect actual experience.

In 2017, the medical and prescription health trend rates used in the December 31, 2016 actuarial valuation of the RHBF were reduced based upon the plan's most recent experience.

The Notes to Required Supplementary Information reflect the most recent available information included in the State of North Carolina's 2017 *Comprehensive Annual Financial Report*.