

**STATE BOARD OF REGENTS OF THE STATE OF UTAH
STUDENT LOAN PURCHASE PROGRAM
An Enterprise Fund of the State of Utah**

Financial Statements
and
Government Auditing Standards Report
For the Year Ended June 30, 2016

Report No. 16-15



**OFFICE OF THE
STATE AUDITOR**

**STATE BOARD OF REGENTS OF THE STATE OF UTAH
STUDENT LOAN PURCHASE PROGRAM
An Enterprise Fund of the State of Utah**

Financial Statements
and
Government Auditing Standards Report
For the Year Ended June 30, 2016

Report No. 16-15

AUDIT LEADERSHIP:

Van Christensen, CPA, CFE, Audit Director
Jason Allen, CPA, CFE, Audit Supervisor

STATE BOARD OF REGENTS OF THE STATE OF UTAH
STUDENT LOAN PURCHASE PROGRAM
AN ENTERPRISE FUND OF THE STATE OF UTAH
FOR THE YEAR ENDED JUNE 30, 2016

TABLE OF CONTENTS

	<u>Page</u>
INDEPENDENT STATE AUDITOR'S REPORT	1
MANAGEMENT'S DISCUSSION AND ANALYSIS	4
FINANCIAL STATEMENTS:	
Statement of Net Position	10
Statement of Revenues, Expenses, and Changes in Net Position	11
Statement of Cash Flows	12
Notes to Financial Statements	14
REQUIRED SUPPLEMENTARY INFORMATION	40
SUPPLEMENTAL SCHEDULES	43
INDEPENDENT STATE AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH <i>GOVERNMENT AUDITING STANDARDS</i>	48



OFFICE OF THE
UTAH STATE AUDITOR

INDEPENDENT STATE AUDITOR'S REPORT

To the Utah State Board of Regents,
The UHEAA Audit Committee
and
David L. Buhler, Commissioner of Higher Education

Report on the Financial Statements

We have audited the accompanying financial statements of the State Board of Regents of the State of Utah Student Loan Purchase Program (the Program), an enterprise fund of the State of Utah, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Program'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 audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit 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 Program as of June 30, 2016, the changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1, the financial statements present only the State Board of Regents of the State of Utah Student Loan Purchase Program, an enterprise fund of the State of Utah, and do not purport to, and do not, present fairly the financial position of the State of Utah, as of June 30, 2016, the changes in its financial position, or its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 through 9 and the schedules of proportionate share of net pension liability and defined benefit pension contributions pages 41 and 42 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 audit of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Program's financial statements. The accompanying supplemental schedules on pages 44 through 47 are presented for purposes of additional analysis and are not a required part of the financial statements.

The supplemental schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to

prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplemental schedules are fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 26, 2016 on our consideration of the Program's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Program's internal control over financial reporting and compliance.

Office of the Utah State Auditor

Office of the Utah State Auditor
September 26, 2016

STATE BOARD OF REGENTS OF THE STATE OF UTAH STUDENT LOAN PURCHASE PROGRAM

Management's Discussion and Analysis
For the Year Ended June 30, 2016

Introduction

The following discussion and analysis provides an overview of the financial position and activity of the State Board of Regents of the State of Utah Student Loan Purchase Program (the Program) for the year ended June 30, 2016 with selected comparative information for the year ended June 30, 2015. This discussion and analysis has been prepared by management and should be read in conjunction with the financial statements and footnotes which follow this section.

The Program is an enterprise fund of the State of Utah and was established in 1977 by Utah statute for the purpose of originating, purchasing, and servicing the loans of qualified students.

Financial Highlights

The Program's net position decreased during the fiscal year ended June 30, 2016, with assets totaling \$2.5 billion and total liabilities of \$2.2 billion. Net position, which represents the residual interest in the Program's assets and deferred outflows of resources after liabilities and deferred inflows of resources are deducted, decreased by \$7.1 million to \$298.1 million at June 30, 2016.

Using the Financial Statements

The Program's financial report is prepared in accordance with Governmental Accounting Standards Board (GASB) principles and includes three financial statements: the Statement of Net Position; the Statement of Revenues, Expenses, and Changes in Net Position; and the Statement of Cash Flows. The accompanying notes are an integral part of the financial statements.

Each of the financial statements includes combined information for the following funds:

- Short Term Note Fund
- 1993 Revenue Bond Fund
- 2012 Revenue Bond Fund
- 2014 Revenue Bond Fund
- 2015 Revenue Bond Fund
- Warehouse Facility Fund
- Office Facility Bond Fund

While the various funds of the Program are grouped for convenience, the combined assets are available only in accordance with the applicable bond resolutions, federal and Utah State laws, and other outstanding agreements. Included within the financial statements are supplemental schedules which describe the financial activity of the Program by fund.

STATE BOARD OF REGENTS OF THE STATE OF UTAH
STUDENT LOAN PURCHASE PROGRAM

Management's Discussion and Analysis
For the Year Ended June 30, 2016

The Statement of Net Position presents information on all of the Program's assets and deferred outflow of resources and liabilities and deferred inflow of resources with the resulting net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the Program is improving or deteriorating.

The Statement of Revenues, Expenses, and Changes in Net Position presents information showing how the Program's net position changed during the fiscal year ended June 30, 2016.

The Statement of Cash Flows reports the cash receipts, cash payments, and net changes in cash resulting from operations, noncapital financing activities, capital and related financing activities and investing activities.

Significant sources of the Program's revenues include: interest on student loans and servicing revenue. Significant Program expenses include: interest expense, bond related fees, special allowance on student loans, servicing fees and administrative and operating costs.

Statement of Net Position

The Statement of Net Position presents the financial position of the Program at the end of the fiscal year. A summarized comparison of the Program's assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position at June 30, 2016 and 2015 is shown below:

	<u>2016</u>	<u>2015</u>	<u>Change</u>	<u>% Change</u>
Assets				
Current assets	\$ 605,384,632	\$ 726,663,950	\$ (121,279,318)	-16.69%
Capital assets	9,800,866	9,542,620	258,246	2.71%
Other noncurrent assets	1,930,552,162	2,291,412,095	(360,859,933)	-15.75%
Total Assets	<u>2,545,737,660</u>	<u>3,027,618,665</u>	<u>(481,881,005)</u>	<u>-15.92%</u>
Deferred Outflows of Resources	<u>1,085,571</u>	<u>938,235</u>	<u>147,336</u>	<u>15.70%</u>
Liabilities				
Current liabilities	1,199,494,045	542,428,284	657,065,761	121.13%
Noncurrent liabilities	1,009,965,959	2,151,849,434	(1,141,883,475)	-53.07%
Total Liabilities	<u>2,209,460,004</u>	<u>2,694,277,718</u>	<u>(484,817,714)</u>	<u>-17.99%</u>
Deferred Inflows of Resources	<u>39,219,739</u>	<u>29,032,401</u>	<u>10,187,338</u>	<u>35.09%</u>
Net Position:				
Net Investment in Capital Assets	4,812,028	3,867,287	944,741	24.43%
Restricted	254,209,977	257,314,007	(3,104,030)	-1.21%
Unrestricted	39,121,483	44,065,487	(4,944,004)	-11.22%
Total Net Position	<u>\$ 298,143,488</u>	<u>\$ 305,246,781</u>	<u>\$ (7,103,293)</u>	<u>-2.33%</u>

STATE BOARD OF REGENTS OF THE STATE OF UTAH
STUDENT LOAN PURCHASE PROGRAM

Management's Discussion and Analysis
For the Year Ended June 30, 2016

Financial Analysis

Total Assets – Total assets as of June 30, 2016 were \$2.5 billion, a decrease of \$481.9 million (-15.9%) compared to June 30, 2015. The decrease was due to a \$454.1 million (-16.4%) decrease in student loans receivable, a \$7.5 million (-13.3%) decrease in interest receivable, and a \$30.9 million (-18.3%) decrease in cash and cash equivalents and funds held by Trustee. The Program received \$507.0 million in principal payments on student loans during the year ended June 30, 2016, an increase of \$154.8 million (44.0%) over the prior year.

Total Liabilities – Total liabilities decreased \$484.8 million (-18.0%) compared to June 30, 2015. The decrease was primarily due to a \$486.1 million (-18.3%) decrease in bonds and notes payable, and line of credit. The Program paid \$483.7 million in principal on student loan revenue bonds and notes, and line of credit during the fiscal year.

Net Position – Net position of the Program decreased \$7.1 million during the year ended June 30, 2016 to \$298.1 million from a beginning balance of \$305.2 million. Net position, contained within the individual bond funds, is restricted in accordance with the provisions of the applicable bond indentures.

STATE BOARD OF REGENTS OF THE STATE OF UTAH
STUDENT LOAN PURCHASE PROGRAM

Management's Discussion and Analysis
For the Year Ended June 30, 2016

Statement of Revenues, Expenses, and Changes in Net Position

The Statement of Revenues, Expenses, and Changes in Net Position presents the Program's results of operations which are summarized below for the years ended June 30, 2016 and 2015.

	<u>2016</u>	<u>2015</u>	<u>Change</u>	<u>% Change</u>
Operating Revenues				
Interest on student loans	\$ 109,549,673	\$ 75,920,419	\$ 33,629,254	44.30%
Federal loan servicing revenue	3,975,505	2,617,009	1,358,496	51.91%
Investment income	640,039	431,432	208,607	48.35%
Other revenue	5,216,527	4,307,588	908,939	21.10%
Total operating revenues	<u>119,381,744</u>	<u>83,276,448</u>	<u>36,105,296</u>	<u>43.36%</u>
Operating Expenses				
Interest expense	25,337,624	6,596,163	18,741,461	284.13%
Bond and financing related expense	399,619	6,626,917	(6,227,298)	-93.97%
Special allowance	63,614,778	40,623,244	22,991,534	56.60%
Student loan servicing expense	17,300,237	8,644,632	8,655,605	100.13%
Administrative and operating expense	13,317,330	11,040,989	2,276,341	20.62%
Federal loan servicing expense	5,822,205	5,724,107	98,098	1.71%
Federal default fee	343,244	565,787	(222,543)	-39.33%
Total operating expenses	<u>126,135,037</u>	<u>79,821,839</u>	<u>46,313,198</u>	<u>58.02%</u>
Operating income (loss)	<u>(6,753,293)</u>	<u>3,454,609</u>	<u>(10,207,902)</u>	<u>-295.49%</u>
Transfer to Utah System of Higher Education	(250,000)	(265,161)	15,161	5.72%
Transfers - UHEAA Grants	(100,000)	(200,000)	100,000	50.00%
Change in Net Position	<u>(7,103,293)</u>	<u>2,989,448</u>	<u>(10,092,741)</u>	<u>-337.61%</u>
Net Position - Beginning of Year	<u>305,246,781</u>	<u>303,300,566</u>	<u>1,946,215</u>	<u>0.64%</u>
Cumulative effect on prior years of application of new accounting guidance	-	(1,043,233)	1,043,233	-
Net Position - End of Year	<u>\$ 298,143,488</u>	<u>\$ 305,246,781</u>	<u>\$ (7,103,293)</u>	<u>-2.33%</u>

Financial Analysis

Total Operating Revenues – The Program earned \$119.4 million in total operating revenues during the year ended June 30, 2016, an increase of \$36.1 million (43.4%) over the previous fiscal year. The largest component of the increase came from interest on student loans, which increased \$33.6 million (44.3%).

Total Operating Expenses – The Program's total operating expenses for the fiscal year ended June 30, 2016 increased \$46.3 million (58.0%) from the prior fiscal year. The overall increase was due to an increase in special allowance of \$23.0 million (56.6%), an increase in interest expense of \$18.7 million (284.1%), and an increase in student loan servicing expense of \$8.7 million (100.1%). Bond and financing related expense decreased \$6.2 million (-94.0%).

STATE BOARD OF REGENTS OF THE STATE OF UTAH
STUDENT LOAN PURCHASE PROGRAM

Management's Discussion and Analysis
For the Year Ended June 30, 2016

Operating Loss – The Program’s operating loss was \$6.8 million during the year ended June 30, 2016. Net interest margins (a ratio of investment and student loan interest income, minus special allowance, to bond interest expense) decreased in fiscal year 2016 to 183.8% compared to 541.7% during fiscal year 2015. The Program had a negative return on Net Position of 2.3% in fiscal year 2016 compared to a positive return of 1.1% in fiscal year 2015.

Statement of Cash Flows

The Statement of Cash Flows provides additional information about the Program’s financial results, by reporting the major sources and uses of cash. A summarized comparison for the years ended June 30, 2016 and 2015 is shown below:

	<u>2016</u>	<u>2015</u>	<u>Change</u>	<u>% Change</u>
Cash provided by (used in)				
Operating activities	\$ 482,700,140	\$(1,334,611,165)	\$ 1,817,311,305	136.17%
Noncapital financing activities	(513,138,173)	1,355,070,052	(1,868,208,225)	-137.87%
Capital and related financing activities	(1,078,453)	(413,007)	(665,446)	-161.12%
Investing activities	15,259,786	(58,095,965)	73,355,751	126.27%
Net decrease in cash and cash equivalents	(16,256,700)	(38,050,085)	21,793,385	57.28%
Cash and cash equivalents - Beginning of Year	38,746,290	76,796,375	(38,050,085)	-49.55%
Cash and cash equivalents - End of Year	<u>\$ 22,489,590</u>	<u>\$ 38,746,290</u>	<u>\$ (16,256,700)</u>	<u>-41.96%</u>

The Program’s cash and cash equivalents decreased by \$16.3 million, resulting in a balance of \$22.5 million at June 30, 2016. The net decrease was the result of normal pay down of bond interest and principal.

Currently Known Conditions Expected to Have a Significant Effect on Financial Position or Results of Operations

The Program is not aware of any additional facts, decisions or conditions that are expected to have a significant effect on the financial position or results of operations.

Congress will periodically reauthorize the Higher Education Act and could enact changes that have a substantial impact on the Program. In addition, the U.S. Department of Education, under the Higher Education Act rule making process, can impose or modify regulations that can have a substantial impact on the Program.

**STATE BOARD OF REGENTS OF THE STATE OF UTAH
STUDENT LOAN PURCHASE PROGRAM**

Management's Discussion and Analysis
For the Year Ended June 30, 2016

Requests for Information

This financial report is designed to provide a general overview of the State Board of Regents of the State of Utah Student Loan Purchase Program's finances for any interested parties. Questions concerning any of the information provided in this report or requests for additional information should be addressed to:

Deputy Executive Director
Utah Higher Education Assistance Authority
Board of Regents Building, The Gateway
60 South 400 West
Salt Lake City, Utah 84101-1284

STATE BOARD OF REGENTS OF THE STATE OF UTAH
STUDENT LOAN PURCHASE PROGRAM

Statement of Net Position
June 30, 2016

ASSETS

Current Assets

Cash and cash equivalents (Note 2)	\$ 22,489,590
Funds held by Trustee (Notes 2 and 3)	115,585,894
Receivables	
Student loans (Note 4)	413,983,061
Interest - student loans (Note 4)	48,884,179
Due from counterparty (Note 6)	1,219,318
Other receivables	2,856,970
Prepaid expenses	365,620
Total Current Assets	<u>605,384,632</u>

Noncurrent Assets

Student loans receivable (Note 4)	1,901,821,978
Derivative instrument - interest rate swap (Note 6)	28,730,184
Capital assets, less accumulated depreciation of \$6,619,718 (Note 5)	<u>9,800,866</u>
Total Noncurrent Assets	<u>1,940,353,028</u>
TOTAL ASSETS	<u>2,545,737,660</u>

DEFERRED OUTFLOWS OF RESOURCES

Deferred federal default fee (Note 1)	226,977
Deferred pension expense (Note 12)	858,594
TOTAL DEFERRED OUTFLOWS OF RESOURCES	<u>1,085,571</u>

LIABILITIES

Current Liabilities

Accounts payable	2,905,997
Special allowance (Note 1)	21,888,373
Payable to affiliate (Note 10)	657,097
Compensated absences (Note 8)	496,813
Accrued interest payable (Note 6)	3,176,143
Bonds and notes payable (Notes 6 and 8)	248,374,134
Line of credit (Notes 7 and 8)	921,995,488
Total Current Liabilities	<u>1,199,494,045</u>

Noncurrent Liabilities

Compensated absences (Note 8)	394,429
Net pension liability (Note 12)	2,657,696
Bonds and notes payable, net of unamortized premiums and discounts of \$738,108 (Notes 6 and 8)	<u>1,006,913,834</u>
Total Noncurrent Liabilities	<u>1,009,965,959</u>
TOTAL LIABILITIES	<u>2,209,460,004</u>

DEFERRED INFLOWS OF RESOURCES

Deferred interest rate swap income (Note 6)	28,730,184
Deferred gain on bond purchases	10,145,466
Deferred pension income (Note 12)	344,089
TOTAL DEFERRED INFLOWS OF RESOURCES	<u>39,219,739</u>

NET POSITION

Net investment in capital assets	4,812,028
Restricted	254,209,977
Unrestricted (Note 9)	39,121,483
TOTAL NET POSITION	<u><u>\$ 298,143,488</u></u>

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

STATE BOARD OF REGENTS OF THE STATE OF UTAH
STUDENT LOAN PURCHASE PROGRAM

Statement of Revenues, Expenses, and Changes in Net Position
For the Year Ended June 30, 2016

OPERATING REVENUES

Interest on student loans (Note 4)	\$ 109,549,673
Federal loan servicing revenue	3,975,505
Investment income (Notes 2 and 3)	579,035
Unrealized gain on investments	61,004
Other revenue (Note 10)	<u>5,216,527</u>
Total Operating Revenues	<u>119,381,744</u>

OPERATING EXPENSES

Interest expense (Notes 6 and 7)	25,337,624
Bond and financing related expense (Note 6)	399,619
Special allowance (Note 1)	63,614,778
Student loan servicing expense	17,300,237
General and administrative expense (Note 10)	4,925,568
Federal loan servicing expense	5,822,205
Client document processing expense	2,010,145
Depreciation expense (Note 5)	827,683
Federal default fee (Note 1)	343,244
Uninsured claims expense (Note 4)	<u>5,553,934</u>
Total Operating Expenses	<u>126,135,037</u>

OPERATING LOSS (6,753,293)

Transfer to Utah System of Higher Education	(250,000)
Transfers - UHEAA Grants	<u>(100,000)</u>

CHANGE IN NET POSITION (7,103,293)

NET POSITION – Beginning of Year	<u>305,246,781</u>
NET POSITION – End of Year	<u><u>\$ 298,143,488</u></u>

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

**STATE BOARD OF REGENTS OF THE STATE OF UTAH
STUDENT LOAN PURCHASE PROGRAM**

Statement of Cash Flows
For the Year Ended June 30, 2016

CASH FLOWS FROM OPERATING ACTIVITIES	
Principal received on student loans	\$ 507,020,747
Interest received on student loans	77,176,153
Special allowance payments	(60,733,211)
Net borrower payments received for (sent to) related funds	(537,886)
Payments received for internal services	1,667,936
Payments received for client services	1,495,678
Payments for loan purchases	(18,730,315)
Payments for student loan servicing expense	(14,796,040)
Payments for general and administrative expense	(9,928,847)
Payments for federal loan servicing expense	(3,133,304)
Payments for client document processing expense	(1,511,612)
Payments received for federal loan servicing revenue	3,442,758
Payments received for rental revenue	1,617,642
Payments for student loan disbursements	(349,559)
Cash provided by operating activities	<u>482,700,140</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Transfer to Utah System of Higher Education	(250,000)
Transfer for UHEAA Grants	(100,000)
Principal paid on bonds and notes	(253,517,005)
Principal paid on line of credit	(230,211,918)
Interest paid on bonds and notes	(17,790,386)
Interest paid on line of credit	(10,864,139)
Payments for bond related expense	(172,838)
Payments for bond issuance costs	(231,887)
Cash used in noncapital financing activities	<u>(513,138,173)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Acquisition of capital assets	<u>(1,078,453)</u>
Cash used in capital and related financing activities	<u>(1,078,453)</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Proceeds from maturing investments	624,133,431
Interest received on investments	651,511
Purchases of investments	<u>(609,525,156)</u>
Cash provided by investing activities	<u>15,259,786</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	(16,256,700)
CASH AND CASH EQUIVALENTS – Beginning of Year	<u>38,746,290</u>
CASH AND CASH EQUIVALENTS – End of Year	<u>\$ 22,489,590</u>

(continued next page)

STATE BOARD OF REGENTS OF THE STATE OF UTAH
STUDENT LOAN PURCHASE PROGRAM

Statement of Cash Flows
For the Year Ended June 30, 2016

(continued)

RECONCILIATION OF OPERATING LOSS TO CASH
PROVIDED BY OPERATING ACTIVITIES

Operating loss	\$ (6,753,293)
Adjustments to reconcile loss to net cash provided by operating activities	
Amortization and depreciation	(1,497,911)
Interest expense for noncapital and capital financing	27,663,218
Interest revenue from nonoperating investing activities	(579,035)
Unrealized gain on investments	(61,004)
Bond related expense	399,619
Net pension expense	678,380
Change in assets/liabilities	
Student loans receivable	454,079,766
Borrower interest receivable	7,473,048
Special allowance	2,881,507
Other receivables	181,556
Prepaid expenses	(57,663)
Federal default fee	343,244
Accounts payable and payable to affiliate	<u>(2,051,292)</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 482,700,140</u>

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

STATE BOARD OF REGENTS OF THE STATE OF UTAH

STUDENT LOAN PURCHASE PROGRAM

Notes to the Financial Statements
For the Year Ended June 30, 2016

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization – The State Board of Regents of the State of Utah Student Loan Purchase Program (the Program), an enterprise fund of the State of Utah, was formed in 1977, as a separate program for the purpose of originating, purchasing, and servicing the loans of qualified students. The Program began operations January 1, 1979. Bonds issued by the Program are not general obligations of the State of Utah.

Fund Accounting – The Program maintains accounting records under the fund accounting concept. The funds are separate sets of self-balancing accounts set up in accordance with the authorizing acts, bond indentures, and Warehouse agreements. When an expense is incurred for purposes for which both restricted and unrestricted resources are available, it is the Program's general policy to use restricted resources first. The following funds are administered by the Program:

- Short-Term Note Fund – Unencumbered funds generated by various financing facilities and transfers authorized by the State Board of Regents of the State of Utah (the Board) in accordance with bond indenture provisions are maintained in this fund. The Program utilizes a portion of these funds to purchase student loans. Payments, including principal and interest on student loans held by this fund, are deposited in this fund and are used to purchase student loans and pay operating expenses. Program funds designated to meet future collateral and operating requirements and other Program needs are held as investments.
- 1993 Revenue Bond Fund – Proceeds from revenue bond issuances under the General Student Loan Program Indenture dated August 1, 1993 and Supplemental Indentures are recorded in this fund. Outstanding issuances include Series 1999 O, Series 2001 R, Series 2001 S, Series 2006 DD, and Series 2010 EE Bonds, and Series 2011-1 Notes. Proceeds are used to pay bond issuance costs, and establish trustee funds as required by the General Indenture. Principal and interest payments on student loans purchased with bond proceeds, and other revenues are deposited in this fund and are used for debt service of the bonds, and operating expenses in accordance with the provisions of the General Indenture. The net position of this fund is reported as restricted.
- 2012 Revenue Bond Fund – Proceeds from revenue bond issuance under the General Student Loan Program Indenture dated October 1, 2012 are recorded in this fund. Outstanding issuances include Series 2012-1 Notes. Proceeds are used to retire outstanding funding notes, and establish trustee funds as required by the General Indenture. Principal and interest payments on student loans purchased with bond proceeds, and other revenues are deposited in this fund and are used for debt service of the bonds, and operating expenses in accordance with the provisions of the General Indenture. The net position of this fund is reported as restricted.

STATE BOARD OF REGENTS OF THE STATE OF UTAH

STUDENT LOAN PURCHASE PROGRAM

Notes to the Financial Statements
For the Year Ended June 30, 2016

- 2014 Revenue Bond Fund – Proceeds from revenue bond issuance under the General Student Loan Program Indenture dated July 1, 2014 are recorded in this fund. Outstanding issuances include Series 2014-1 Notes. Proceeds are used to retire outstanding revenue bonds, and establish trustee funds as required by the General Indenture. Principal and interest payments on student loans purchased with bond proceeds, and other revenues are deposited in this fund and are used for debt service of the bonds, and operating expenses in accordance with the provisions of the General Indenture. The net position of this fund is reported as restricted.
- 2015 Revenue Bond Fund – Proceeds from revenue bond issuance under the General Student Loan Program Indenture dated June 1, 2015 are recorded in this fund. Outstanding issuances include Series 2015-1 Notes. Proceeds are used to retire outstanding advances, establish trustee funds as required by the General Indenture, and pay cost of issuance. Principal and interest payments on student loans purchased with bond proceeds, and other revenues are deposited in this fund and are used for debt service of the bonds, and operating expenses in accordance with the provisions of the General Indenture. The net position of this fund is reported as restricted.
- Warehouse Facility Fund – Proceeds from the issuance of a line of credit under the Warehouse Loan, Security and Servicing Agreement dated February 23, 2015 are recorded in this fund. Proceeds are used to acquire federally guaranteed student loans, make deposits to the Reserve Fund under the agreement and pay certain transaction costs. Principal and interest payments on student loans purchased with the proceeds, and other revenues are deposited in this fund and are used for debt service of the facility, and operating expenses in accordance with the provisions of the agreement. The net position of this fund is reported as restricted. The Warehouse Facility Fund expires February 20, 2017.
- Office Facility Bond Fund – Proceeds from the revenue bond issuance under the State Board of Regents Revenue Refunding Bonds Indenture dated May 1, 2012 are recorded in this fund. Proceeds are used to pay cost of issuance and refund outstanding revenue bonds. Funds within the Board of Regents budget that would otherwise be expended for rent will be deposited in this fund and will be used for debt service of the bonds and operating expenses, in accordance with the provisions of the General Indenture.

Basis of Accounting – The Program follows all applicable Governmental Accounting Standards Board pronouncements. Also, the accounting and reporting policies of the Program conform with generally accepted accounting principles and follow the accrual basis of accounting. Under this basis of accounting, revenues are recognized when earned and expenses are recognized when incurred. The Program’s funds are accounted for on a flow of economic resources measurement focus. All assets and liabilities associated with the Program are included on the Statement of Net Position.

STATE BOARD OF REGENTS OF THE STATE OF UTAH

STUDENT LOAN PURCHASE PROGRAM

Notes to the Financial Statements
For the Year Ended June 30, 2016

Federal Default Fee – The federal default fee is capitalized and amortized over the estimated lives of the loans using an accelerated method of amortization beginning 36 months from the date the federal default fee is paid by the Program.

Interest on Student Loans – The Federal Government pays quarterly interest subsidy payments on certain federally insured student loans during the period students attend school and during certain other permitted deferment periods. When loans are in repayment, interest is paid by the borrower. Interest on student loans is accrued as earned.

Special Allowance – Federal legislation provides for a special allowance payment for lenders participating in the Student Loan Guarantee Program. The amount of special allowance that is payable on an eligible loan is determined by multiplying the average daily balance of principal and capitalized interest on the loan by the applicable special allowance rate. The rates for special allowance payments are based on formulas that differ according to the type of the loan, the date the loan was first disbursed, and the interest rate. The rate of special allowance payments is based on the bond equivalent 91 day T-Bill rate or the 1-month LIBOR index, depending on the characteristics of the loan.

Under the 2005 Higher Education Reconciliation Act Amendments, for certain loans first disbursed on or after April 1, 2006, if the interest on such loan at the stated interest rate is higher than the special allowance support level (1-month LIBOR rate plus a percentage determined by the U.S. Department of Education) to such loan, including Special Allowance Payments, the holder of the loan must repay the difference to the United States Government at least annually.

Capital Assets – Capital assets are stated at cost – net of accumulated depreciation. The Program capitalizes assets that exceed a \$5,000 threshold and have an estimated useful life greater than one year. Depreciation is provided over the estimated useful lives, ranging from three to ten years for furniture, equipment, and software and forty years for buildings.

Bond Discount and Premium – Discounts and premiums on the sale of bonds are deferred and amortized over the lives of the respective maturities of outstanding bonds using a method that approximates the interest method of amortization.

Operating and Nonoperating Income – The Program distinguishes operating revenues and expenses from nonoperating items. The Program includes, within the operating income section, those revenues generated and expenses incurred that are related to the Program's principal ongoing operations and revenues and expenses related to the Program's Office Facility. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

STATE BOARD OF REGENTS OF THE STATE OF UTAH

STUDENT LOAN PURCHASE PROGRAM

Notes to the Financial Statements
For the Year Ended June 30, 2016

Statement of Cash Flows – For purposes of the Statement of Cash Flows, cash and cash equivalents include checking accounts and short-term investments in the Utah Public Treasurers' Investment Fund, excluding those held by the Trustee.

Pensions – For purposes of measuring the net pension liability (asset), deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Utah Retirement Systems' (the System) pension plan and additions to/deductions from the System fiduciary net position have been determined on the same basis as they are reported by the System. For this purpose, benefit payments are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Use of Estimates – The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

2. CASH AND CASH EQUIVALENTS AND FUNDS HELD BY TRUSTEE AND AGENT

The State of Utah Money Management Council has the responsibility to advise the State Treasurer about investment policies, promote measures and rules that will assist in strengthening the banking and credit structure of the state and review the rules adopted under the authority of the State of Utah Money Management Act (*Utah Code*, Title 51, Chapter 7) that relate to the deposit and investment of public funds.

The Program follows the requirements of the Money Management Act (the Act) in handling its depository and investment transactions. The Act requires the depositing of Program funds in a qualified depository. The Act defines a qualified depository as any financial institution whose deposits are insured by an agency of the Federal Government and which has been certified by the State Commissioner of Financial Institutions as meeting the requirements of the Act and adhering to the rules of the Money Management Council.

Investments – The Act also defines the types of securities authorized as appropriate investments for the Program and the conditions for making investment transactions. Investment transactions may be conducted only through qualified depositories, certified dealers, or directly with issuers of the investment securities. The Act authorizes the Program to invest in:

- Negotiable or nonnegotiable deposits of qualified depositories and permitted negotiable depositories.
- Repurchase and reverse repurchase agreements.

STATE BOARD OF REGENTS OF THE STATE OF UTAH

STUDENT LOAN PURCHASE PROGRAM

Notes to the Financial Statements
For the Year Ended June 30, 2016

- Commercial paper that is classified as “first tier” by two nationally recognized statistical rating organizations.
- Bankers’ acceptances.
- Obligations of the United States Treasury, including bills, notes, and bonds.
- Obligations, other than mortgage derivative products, issued by U.S. government sponsored enterprises (U.S. Agencies) such as the Federal Home Loan Bank System, Federal Home Loan Mortgage Corporation (Freddie Mac), and Federal National Mortgage Association (Fannie Mae).
- Bonds, notes, and other evidence of indebtedness of political subdivisions of the State.
- Fixed rate corporate obligations and variable rate securities rated “A” or higher, or the equivalent of “A” or higher, by two nationally recognized statistical rating organizations.
- Shares or certificates in a money market mutual fund as defined in the Act.
- The Utah Public Treasurers’ Investment Fund (PTIF).

Investments are recorded at fair value in accordance with Statement 72 of the Governmental Accounting Standards Board which pertains to Fair Value Measurement and Application. Accordingly, the change in fair value of investments is recognized as an increase or decrease in investment assets and investment income.

Additionally, the Program follows the fair value measurement guidelines established by generally accepted accounting principles which recognize a three-tiered fair value hierarchy as follows:

- Level 1: Quoted prices for identical investments in active markets;
- Level 2: Observable inputs other than quoted market prices;
- Level 3: Unobservable inputs.

The Program’s investments are classified as follows:

- Investments in mutual funds and government securities are Level 1 and are valued using prices quoted in active markets for those securities.
- Investments in PTIF are Level 2 and are valued using PTIF calculated fair value factors applied to average daily balances in the funds.

STATE BOARD OF REGENTS OF THE STATE OF UTAH
STUDENT LOAN PURCHASE PROGRAM

Notes to the Financial Statements
For the Year Ended June 30, 2016

At June 30, 2016, the Program’s investments and the related maturities are listed below:

<u>Investments</u>	Fair <u>Value</u>	<u>Investment Maturities (in years)</u>	
		Less than <u>one year</u>	<u>6 to 10 years</u>
Mutual Funds	\$ 82,844,065	\$ 82,844,065	\$ -
Public Treasurers’ Investment Fund	50,035,341	50,035,341	-
U.S. Government Securities	963,143	-	963,143
Total Investments	<u>\$ 133,842,549</u>	<u>\$ 132,879,406</u>	<u>\$ 963,143</u>

Interest Rate Risk – The risk that changes in interest rates will adversely affect the fair value of an investment. The Program’s policy for managing its exposure to fair value loss arising from increasing interest rates is to comply with the Act. Section 51-7-11 of the Act requires that the remaining term to maturity of investments may not exceed the period of availability of the funds to be invested. The Act further limits the remaining term to maturity for certain allowed investments. Details can be obtained by reading *Utah Code* Section 51-7-11. At June 30, 2016, the Program’s investments in the PTIF had an average maturity of less than one year.

Credit Risk – The risk that an issuer or other counterparty to an investment will not fulfill its obligations. The Program’s policy for reducing its exposure to credit risk is to comply with the Act as previously discussed. At June 30, 2016, the Program had \$82,844,065 invested in mutual funds with a AA rating and \$50,035,341 invested in the Public Treasurers’ Investment Fund that were not rated by any nationally recognized statistical rating organization registered with the Securities and Exchange Commission (SEC).

Custodial Credit Risk (Deposits) – The risk that, in the event of a bank failure, the Program’s deposits not covered by depository insurance may not be returned. The Program follows the requirements of the Act regarding custodial credit risk. However, the Program does not have a formal deposit policy for custodial credit risk beyond what is required by the Act. Subject to the application of the bank and FDIC rules and regulations, FDIC insurance is provided for the Program’s bank deposits up to \$250,000 for each bank utilized. As of June 30, 2016, \$2,512,296 of the Program’s bank balances of \$2,762,296 was uninsured.

Public Treasurers’ Investment Fund – The Utah State Treasurer’s Office operates the PTIF. The PTIF is available for investment of funds administered by any Utah public treasurer.

The PTIF is not registered with the SEC as an investment company. The PTIF is authorized and regulated by the Act. The Act established the Money Management Council which oversees the activities of the State Treasurer and the PTIF and details the types of authorized investments. Deposits in the PTIF are not insured or otherwise guaranteed by the State of Utah, and participants share proportionally in any realized gains or losses on investments.

**STATE BOARD OF REGENTS OF THE STATE OF UTAH
STUDENT LOAN PURCHASE PROGRAM**

Notes to the Financial Statements
For the Year Ended June 30, 2016

The PTIF operates and reports to participants on an amortized cost basis. The income, gains and losses, net of administration fees, of the PTIF are allocated based upon the participant's average daily balance. The fair value of the PTIF investment pool is approximately equal to the value of the pool shares.

**STATE BOARD OF REGENTS OF THE STATE OF UTAH
STUDENT LOAN PURCHASE PROGRAM**

Notes to the Financial Statements
For the Year Ended June 30, 2016

3. REVENUE BOND FUNDS

The bond indenture agreements require that certain trust funds be established. The following is a summary of cash and investments held by the respective revenue bond funds at June 30, 2016:

1993 Revenue Bond Fund:	
Revenue Account	\$ 52,324,504
Reserve Account	3,450,939
Operating Account	549,672
Total 1993 Revenue Bond Fund	\$ 56,325,115
2012 Revenue Bond Fund:	
Collection Account	\$ 5,776,978
Special Allowance Rebate Account	2,444,187
Reserve Account	677,717
Total 2012 Revenue Bond Fund	\$ 8,898,882
2014 Revenue Bond Fund:	
Collection Account	\$ 3,682,505
Special Allowance Rebate Account	885,701
Reserve Account	499,794
Total 2014 Revenue Bond Fund	\$ 5,068,000
2015 Revenue Bond Fund:	
Collection Account	\$ 8,746,627
Special Allowance Rebate Account	2,663,302
Capitalized Interest	500,000
Reserve Account	839,927
Total 2015 Revenue Bond Fund	\$ 12,749,856
Warehouse Facility Fund:	
Collection Account	\$ 21,470,548
Floor Income Account	7,932,339
Reserve Account	2,315,493
Total Warehouse Facility Fund	\$ 31,718,380
Office Facility Bond Fund:	
Revenue Account	\$ 2,418
Debt Service Account	823,243
Total Office Facility Bond Fund	\$ 825,661
Grand Total	\$ 115,585,894

STATE BOARD OF REGENTS OF THE STATE OF UTAH
STUDENT LOAN PURCHASE PROGRAM

Notes to the Financial Statements
For the Year Ended June 30, 2016

4. STUDENT LOANS RECEIVABLE

Student loans receivable carry variable interest rates or have fixed rates ranging from 0% to 11%. The loans were made to students enrolled or accepted for enrollment at an eligible institution of higher education on at least a half-time basis. Six to twelve months after termination of at least a half-time academic work load, the borrower is required to commence repayment on the loan. Monthly repayment amounts and the length of the repayment period are determined by the amount to be repaid; however, the maximum length of repayment is ten years for Stafford loans and up to thirty years for consolidation loans from the due date of the first payment, exclusive of authorized periods of deferment, forbearance, or income-based repayment plans.

Student loans are guaranteed with respect to principal and accrued interest by agreements with various state guarantee agencies, including the Utah Student Loan Guarantee Program, another program of the State Board of Regents.

The following is a summary of the status of student loans receivable at June 30, 2016:

	Short-Term Note Fund	1993 Revenue Bond Fund	2012 Revenue Bond Fund	2014 Revenue Bond Fund	2015 Revenue Bond Fund	Warehouse Facility Fund	Total
Student and Deferment Repayment and Forbearance	\$ 1,249,236	\$ 28,713,352	\$ 33,511,292	\$ 18,226,637	\$ 41,510,728	\$ 114,935,922	\$ 238,147,167
Unamortized Premiums	20,561,928	508,195,509	246,372,655	193,365,303	279,509,242	810,820,379	2,058,825,016
Student Loan Receivable	-	-	-	-	7,140,104	21,166,207	28,306,311
Allowance	(622,597)	(2,595,454)	(987,695)	(740,772)	(1,152,311)	(3,374,626)	(9,473,455)
Total	<u>\$ 21,188,567</u>	<u>\$ 534,313,407</u>	<u>\$ 278,896,252</u>	<u>\$ 210,851,168</u>	<u>\$ 327,007,763</u>	<u>\$ 943,547,882</u>	<u>\$2,315,805,039</u>

Insurance on student loans is paid at a 100% rate for loans which were first disbursed prior to October 1, 1993, a 98% rate for loans which were first disbursed between October 1, 1993 and June 30, 2006 and at a 97 % rate for loans which were first disbursed after June 30, 2006. At June 30, 2016, the Program has established a student loan receivable allowance of \$9,473,455.

STATE BOARD OF REGENTS OF THE STATE OF UTAH
STUDENT LOAN PURCHASE PROGRAM

Notes to the Financial Statements
For the Year Ended June 30, 2016

5. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2016 was as follows:

	Beginning Balance	Additions	Deletions	Ending Balance
Buildings	\$ 12,879,591	\$ 48,589	\$ -	\$ 12,928,180
Furniture and equipment	399,154	557,090	-	956,244
Computer equipment and software	2,087,841	480,250	(31,931)	2,536,160
Totals at historical cost	<u>15,366,586</u>	<u>1,085,929</u>	<u>(31,931)</u>	<u>16,420,584</u>
Less accumulated depreciation for:				
Buildings	(4,130,419)	(346,008)	-	(4,476,427)
Furniture and equipment	(207,518)	(136,880)	-	(344,398)
Computer equipment and software	(1,486,029)	(344,795)	31,931	(1,798,893)
Total accumulated depreciation	<u>(5,823,966)</u>	<u>(827,683)</u>	<u>31,931</u>	<u>(6,619,718)</u>
Capital Assets, net	<u>\$ 9,542,620</u>	<u>\$ 258,246</u>	<u>\$ -</u>	<u>\$ 9,800,866</u>

6. BONDS AND NOTES PAYABLE

1993 Revenue Bond Fund – The Program has outstanding student loan revenue bonds and student loan backed notes under the authority of the 1993 General Indenture. The bonds and notes are limited obligations of the Board and are secured, as provided in the indentures, by all assets of the 1993 Revenue Bond Fund and the revenues and receipts derived from such assets.

The indenture provides that bonds and notes of each series must be designated a priority or priorities by class, with Class I constituting the highest priority under the indenture and priority decreasing by increasing class roman numeral. Priority with respect to payment of bonds and notes at any particular time and exercise of various rights and remedies is based upon the class of the bonds and notes in descending order of priority.

The indenture provides that a periodic analysis of cash receipts must be performed. Cash receipts remaining after the payment of bond costs, program related expenses, and administrative expenses must be used to reduce bonds and notes principal.

STATE BOARD OF REGENTS OF THE STATE OF UTAH
STUDENT LOAN PURCHASE PROGRAM

Notes to the Financial Statements
For the Year Ended June 30, 2016

Bonds and notes payable for the 1993 Revenue Bond Fund consisted of the following at June 30, 2016:

<u>Issue</u>	<u>Final Maturity Date</u>	<u>Class (Priority)</u>	<u>Interest Rate Type</u>	<u>Balance</u>
2010 Series EE	11/1/2030	I	Fixed	\$ 294,400,000
2011-1	5/31/2035	I	3-Month LIBOR plus spread	125,511,000
1999 Series O	11/1/2038	II	Auction - 28 days	10,000,000
2001 Series R	11/1/2040	II	Auction - 28 days	3,500,000
2001 Series S	5/1/2041	II	Auction - 28 days	8,100,000
2006 Series DD	5/1/2046	II	Auction - 28 days	17,500,000
Total				<u>\$ 459,011,000</u>

Debt service forecasts to maturity on the 1993 revenue bond issue as of June 30, 2016, are summarized below:

<u>Fiscal Year</u>	<u>Principal Amount</u>	<u>Interest Amount</u>
2017	\$ 106,623,000	\$ 9,279,809
2018	53,114,000	7,336,496
2019	49,773,000	6,217,189
2020	45,756,000	5,199,273
2021	41,966,000	4,256,960
2022-2026	158,221,000	9,720,768
2027	3,558,000	55,647
Total	<u>\$ 459,011,000</u>	<u>\$ 42,066,142</u>

The debt service interest rate forecasts are calculated using the interest rate in effect at June 30, 2016. Actual results could differ from these estimates.

All of the outstanding student loan revenue bonds and student loan backed notes in the 1993 Revenue Bond Fund are subject to optional redemption on any date at a redemption price of par plus accrued interest, if any.

**STATE BOARD OF REGENTS OF THE STATE OF UTAH
STUDENT LOAN PURCHASE PROGRAM**

Notes to the Financial Statements
For the Year Ended June 30, 2016

The Series 2010 EE-2 Bonds maturing on November 1, 2026 and November 1, 2030 are subject to mandatory sinking fund redemption at a redemption price equal to the principal amount thereof (without premium) and accrued interest to the redemption date, on the dates and in the principal amounts set forth below:

Redemption Date (November 1)	Amount
2025	\$ 3,700,000
2026*	13,200,000
2028	10,800,000
2029	6,500,000
2030*	5,900,000
Total	<u>\$ 40,100,000</u>

*Maturity

As of June 30, 2016 there were insufficient clearing bids on all of the Program's bonds in which interest rates are set by auction procedure (ARCs). Interest on these bonds will be calculated at the maximum rate. In general, the maximum rate is indexed to either the average 30-day T-bill or the 30-day LIBOR, subject to an 18% maximum. The taxable maximum rate during the year ended June 30, 2016 ranged from 0% to 15.88%.

The bonds and notes issued under the 1993 Trust Estate are limited obligations of the Board secured by and payable solely from the Trust Estate established by the Indenture. The bonds and notes were issued to finance eligible student loans. The Trust Estate consists of student loans acquired under the indenture, all proceeds of the bonds and notes, and net revenues in the funds and accounts, and any other property pledged to the Trust Estate. The Board has pledged these assets and net revenues to repay \$459,011,000 of outstanding student loan revenue bonds and student loan backed notes which are payable through 2046. Principal and interest paid for the current year and total net revenues before interest expense were \$74,040,506 and \$4,914,124, respectively.

Derivative Instrument – On December 30, 2010 the Board issued the Series 2010 EE Bonds for the purpose of refinancing certain outstanding bonds in the 1993 indenture. As part of this issuance, the Board entered into an interest rate exchange (swap) agreement relating to the Board's student loan revenue bonds, Series 2010 EE (the "Series 2010 Bonds") on December 21, 2010. The purpose of the swap is to create a variable rate cost of funds for the Series 2010 Bonds that will be lower than the variable rate cost achievable in the cash bond market. The Board accounts for the swap agreement as a fair value hedging derivative instrument and recognizes changes in fair values on the statement of net position as an asset or liability with a related deferred inflows or outflows of resources respectively. The terms of the swap agreement include:

**STATE BOARD OF REGENTS OF THE STATE OF UTAH
STUDENT LOAN PURCHASE PROGRAM**

Notes to the Financial Statements
For the Year Ended June 30, 2016

Trade Date:	December 21, 2010
Effective Date:	December 30, 2010
Termination Date:	November 1, 2030
Initial Notional Amount:	\$364,150,000
Board Pays Floating:	3-Month LIBOR + 1.64905%
Counterparty Pays Fixed:	Stepped fixed rates ranging from 4.664% to 5.000%
Payment Dates:	The 1 st day of May and November

Changes in the fair value of the swap agreement and the ending fair value of the swap agreement are summarized below:

<u>Derivative</u>	<u>Fair Value at 6/30/2015</u>	<u>Change in Fair Value</u>	<u>Fair Value at 6/30/2016</u>
Interest Rate Exchange	\$ 18,068,010	\$ 10,662,174	\$ 28,730,184

The projected net cash flows of the swap agreement are summarized below:

<u>Fiscal Year</u>	<u>Counterparty Swap Payment</u>			<u>Interest Payments to Bondholders</u>	<u>Total Payments</u>
	<u>To</u>	<u>From</u>	<u>Net</u>		
2017	\$ (7,272,679)	\$ 15,426,275	\$ 8,153,596	\$ (15,426,275)	\$ (7,272,679)
2018	(5,196,419)	11,224,650	6,028,231	(11,224,650)	(5,196,419)
2019	(4,369,454)	9,466,667	5,097,213	(9,466,667)	(4,369,454)
2020	(3,620,954)	7,845,000	4,224,046	(7,845,000)	(3,620,954)
2021	(2,963,997)	6,421,667	3,457,670	(6,421,667)	(2,963,997)
2022-2025	(5,539,071)	12,000,709	6,461,638	(12,000,709)	(5,539,071)
Total	<u>\$ (28,962,574)</u>	<u>\$ 62,384,968</u>	<u>\$ 33,422,394</u>	<u>\$ (62,384,968)</u>	<u>\$ (28,962,574)</u>

Swaps are not normally valued through exchange-type markets with easily accessible quotation systems and procedures. The fair market value was calculated using information obtained from generally recognized sources with respect to quotations, reporting of specific transactions and market conditions and based on accepted industry standards and methodologies. The swap agreement is considered to be Level 3 for GASB 72 purposes (the different levels are discussed in Footnote 2).

- **Credit Risk** – The risk of a change in the credit quality or credit rating of the Board and/or its counterparty. The counterparty’s long-term ratings are “Aa3/Aa2”, “AA-” and “AA” by Moody’s Investors Service, Standard & Poor’s, and Fitch Ratings, respectively.

The Board is exposed to credit risk on hedging derivative instruments that are in asset positions. To minimize its exposure to loss related to credit risk, it is the Board’s policy to require counterparty collateral posting provisions in its non-exchange-traded hedging

STATE BOARD OF REGENTS OF THE STATE OF UTAH

STUDENT LOAN PURCHASE PROGRAM

Notes to the Financial Statements
For the Year Ended June 30, 2016

derivative instruments. These terms require full collateralization of the fair value of hedging derivative instruments in asset positions (net of the effect of applicable netting arrangements) should the counterparties' short-term and long-term credit ratings fall below "A-1" and "A," respectively, as issued by Standard & Poor's or below "Prime-1" and "A2," respectively, as issued by Moody's Investors Service. Collateral posted is to be in the form of cash, U.S. Treasury securities or agency securities held by a third-party custodian. The Board has never failed to access collateral when required.

It is the Board's policy to enter into netting arrangements whenever it has entered into more than one derivative instrument transaction with a counterparty. Under the terms of these arrangements, should one party become insolvent or otherwise default on its obligations, close-out netting provisions permit the non-defaulting party to accelerate and terminate all outstanding transactions and net the transactions' fair values so that a single sum will be owed by, or owed to, the non-defaulting party.

- Interest Rate Risk – The risk that the debt service costs associated with variable rate debt increases and negatively affects coverage ratios and cash flow margins. The Board is exposed to interest rate risk; as the 3-month LIBOR rate increases, the net payment on the swap agreement increases.
- Basis Risk – The risk that arises when variable rates or prices of a swap agreement and a hedged item are based on different interest rate indexes. Because the swap agreement requires the Board to pay a variable rate to the counterparty and is receiving a fixed rate payment in return, basis risk is not applicable.
- Termination Risk – The risk that the swap must be terminated prior to its stated final cash flow date. Purposes for termination include the deterioration of the Board's own credit, and the inability of the Board to obtain a replacement transaction with substantially similar terms. In such a circumstance, the Board would owe, or be owed, a termination payment. No termination events related to the swap agreement have occurred as of June 30, 2016.
- Rollover Risk – The risk that the maturity of the swap contract is not coterminous with the maturity of the related bonds. The swap agreement and the underlying bonds have a final maturity date of November 1, 2030.

2012 Revenue Bond Fund – The Program has outstanding student loan backed notes under the authority of the 2012 General Indenture. The notes are limited obligations of the Board and are secured, as provided in the indentures, by all assets of the 2012 Revenue Bond Fund and the revenues and receipts derived from such assets.

The indenture provides that a periodic analysis of cash receipts must be performed. Cash receipts remaining after the payment of bond costs, program related expenses, and administrative expenses must be used to reduce bond principal.

STATE BOARD OF REGENTS OF THE STATE OF UTAH
STUDENT LOAN PURCHASE PROGRAM

Notes to the Financial Statements
For the Year Ended June 30, 2016

Notes payable for the 2012 Revenue Bond Fund consisted of the following at June 30, 2016:

Issue	Final Maturity Date	Interest Rate Type	Balance
2012-1	12/26/2031	1-Month LIBOR plus 0.75%	\$ 266,491,705

Debt Service forecasts to maturity on the Series 2012-1 Notes as of June 30, 2016, are summarized below:

Fiscal Year	Principal Amount	Interest Amount
2017	\$ 48,181,268	\$ 2,878,357
2018	42,201,859	2,351,126
2019	41,519,030	1,847,875
2020	29,668,382	1,415,806
2021	27,527,876	1,082,990
2022-2026	75,005,138	1,716,540
2027	2,388,152	7,514
Total	\$ 266,491,705	\$ 11,300,208

The debt service interest rate forecasts are calculated using the interest rate in effect at June 30, 2016. Actual results could differ from these estimates.

The Series 2012-1 Notes are subject to an optional prepayment of the notes when the Student Loan Pool Balance is 10% or less than the initial Student Loan Pool Balance.

The notes issued under the 2012 Trust Estate are special limited obligations of the Board secured by and payable solely from the Trust Estate established by the Indenture. The notes were issued to refinance eligible student loans and retire outstanding funding notes of the Board. The Trust Estate consists of student loans acquired under the indenture, all proceeds of the notes and net revenues in the funds and accounts, and any other property pledged to the Trust Estate. The Board has pledged these assets and net revenues to repay \$266,491,705 of outstanding student loan backed notes which are payable through 2032. Principal and interest paid for the current year and total net revenues before interest expense were \$62,488,702 and \$3,244,065, respectively.

2014 Revenue Bond Fund – The Program has outstanding student loan backed notes under the authority of the 2014 General Indenture. The notes are limited obligations of the Board and are secured, as provided in the indentures, by all assets of the 2014 Revenue Bond Fund and the revenues and receipts derived from such assets.

STATE BOARD OF REGENTS OF THE STATE OF UTAH
STUDENT LOAN PURCHASE PROGRAM

Notes to the Financial Statements
For the Year Ended June 30, 2016

The indenture provides that a periodic analysis of cash receipts must be performed. Cash receipts remaining after the payment of bond costs, program related expenses, and administrative expenses must be used to reduce bond principal.

Notes payable for the 2014 Revenue Bond Fund consisted of the following at June 30, 2016:

Issue	Final Maturity Date	Interest Rate Type	Balance
2014-1	12/26/2038	1-Month LIBOR plus 0.55%	\$ 197,286,108

Debt Service forecasts to maturity on the Series 2014-1 Notes as of June 30, 2016, are summarized below:

Fiscal Year	Principal Amount	Interest Amount
2017	\$ 25,473,918	\$ 1,839,065
2018	23,770,555	1,594,440
2019	23,593,328	1,356,958
2020	17,804,373	1,149,930
2021	17,403,842	975,401
2022-2026	59,090,901	2,725,122
2027-2031	20,769,933	936,509
2032-2036	9,379,258	202,539
Total	\$ 197,286,108	\$ 10,779,964

The debt service interest rate forecasts are calculated using the interest rate in effect at June 30, 2016. Actual results could differ from these estimates.

The Series 2014-1 Notes are subject to an optional prepayment of the notes when the Student Loan Pool Balance is 10% or less than the initial Student Loan Pool Balance.

The notes issued under the 2014 Trust Estate are special limited obligations of the Board secured by and payable solely from the Trust Estate established by the Indenture. The notes were issued to retire outstanding student loan revenue bonds of the Board. The Trust Estate consists of student loans acquired under the indenture, all proceeds of the notes and net revenues in the funds and accounts, and any other property pledged to the Trust Estate. The Board has pledged these assets and net revenues to repay \$197,286,108 of outstanding student loan backed notes which are payable through 2039. Principal and interest paid for the current year and total net revenues before interest expense were \$43,251,364 and \$3,857,160, respectively.

STATE BOARD OF REGENTS OF THE STATE OF UTAH
STUDENT LOAN PURCHASE PROGRAM

Notes to the Financial Statements
For the Year Ended June 30, 2016

2015 Revenue Bond Fund – The Program has outstanding student loan backed notes under the authority of the 2015 General Indenture. The notes are limited obligations of the Board and are secured, as provided in the indentures, by all assets of the 2015 Revenue Bond Fund and the revenues and receipts derived from such assets.

The indenture provides that a periodic analysis of cash receipts must be performed. Cash receipts remaining after the payment of bond costs, program related expenses, and administrative expenses must be used to reduce bond principal.

Notes payable for the 2015 Revenue Bond Fund consisted of the following at June 30, 2016:

<u>Issue</u>	<u>Final Maturity Date</u>	<u>Interest Rate Type</u>	<u>Balance</u>
2015-1 A	2/25/2043	1-Month LIBOR plus 0.60%	\$ 317,637,261
2015-1 B	5/25/2043	1-Month LIBOR plus 1.50%	10,850,000
Total			<u>\$ 328,487,261</u>

Debt Service forecasts to maturity on the Series 2015-1 Notes as of June 30, 2016, are summarized below:

<u>Fiscal Year</u>	<u>Principal Amount</u>	<u>Interest Amount</u>
2017	\$ 65,550,001	\$ 3,166,549
2018	57,668,067	2,505,183
2019	53,185,956	1,907,272
2020	37,120,404	1,423,718
2021	33,968,081	1,043,668
2022-2026	75,518,310	1,607,608
2027-2028	5,476,442	37,182
Total	<u>\$ 328,487,261</u>	<u>\$ 11,691,180</u>

The debt service interest rate forecasts are calculated using the interest rate in effect at June 30, 2016. Actual results could differ from these estimates.

The Series 2015-1 Notes are subject to an optional prepayment of the notes when the Student Loan Pool Balance is 10% or less than the initial Student Loan Pool Balance.

The notes issued under the 2015 Trust Estate are special limited obligations of the Board secured by and payable solely from the Trust Estate established by the Indenture. The notes were issued to retire a portion of the outstanding advances from the Warehouse Facility to the Board. The Trust Estate consists of student loans acquired under the indenture, all proceeds

STATE BOARD OF REGENTS OF THE STATE OF UTAH
STUDENT LOAN PURCHASE PROGRAM

Notes to the Financial Statements
For the Year Ended June 30, 2016

of the notes and net revenues in the funds and accounts, and any other property pledged to the Trust Estate. The Board has pledged these assets and net revenues to repay \$328,487,261 of outstanding student loan backed notes which are payable through 2043. Principal and interest paid for the current year and total net revenues before interest expense were \$90,719,831 and \$2,923,179, respectively.

Office Facility Bond Fund – The Program has issued revenue refunding bonds under the authority of the general indenture dated May 1, 2012 (Series 2012 Bonds). The bonds are special limited obligation bonds of the Board payable primarily from (i) funds of the Board budgeted on an annual basis (including from sources and in the amounts that the Board has, prior to the issuance of the Bonds and acquisition of the Building, used to pay rent for office space) and (ii) other legally available moneys of the Board, including certain revenues and reserves of the Program.

Bonds payable for the Office Facility Bond Fund consisted of the following at June 30, 2016:

<u>Issue</u>	<u>Maturity Date</u>	<u>Interest Rate</u>	<u>Balance</u>
Series 2012	2/1/2017 - 2/1/2024	2.0% - 5.0%	\$ 4,750,000

Debt service forecasts to maturity on the Office Facility Bond issue as of June 30, 2016 are summarized below:

<u>Fiscal Year</u>	<u>Principal Amount</u>	<u>Interest Amount</u>
2017	\$ 670,000	\$ 138,888
2018	685,000	125,488
2019	700,000	111,788
2020	715,000	97,788
2021	725,000	81,700
2022-2024	1,255,000	87,300
Total	<u>\$ 4,750,000</u>	<u>\$ 642,952</u>

The Series 2012 Bonds are not subject to redemption prior to maturity.

The bonds issued under the Office Facility Bond Fund are limited obligations of the Board secured solely by a pledge of the proceeds from the sale of the bonds and the moneys and revenues in the fund and accounts held by the Trustee under the Indenture. No other money, revenue or income of the Board is pledged to the repayment of the Office Facility Bonds. The bonds were issued to refund the Series 2002 and Series 2004 Bonds. The Board has pledged these assets and net revenues to repay \$4,750,000 of outstanding Office Facility Bonds which are payable through 2024. Principal and interest paid for the current fiscal year and total net revenues before interest expense were \$806,988 and \$465,619, respectively.

**STATE BOARD OF REGENTS OF THE STATE OF UTAH
STUDENT LOAN PURCHASE PROGRAM**

Notes to the Financial Statements
For the Year Ended June 30, 2016

7. LINE OF CREDIT

Warehouse Facility Fund – The Program has a line of credit under the Warehouse Loan, Security and Servicing Agreement. The line of credit is a limited obligation of the Board and is secured, as provided in the agreement, by all assets of the Warehouse Facility Fund and the revenues and receipts derived from such assets.

The agreement provides that a periodic analysis of cash receipts must be performed. Cash receipts remaining after the payment of financing costs, and program related expenses must be used to reduce outstanding principal.

Line of credit for the Warehouse Facility Fund consisted of the following at June 30, 2016:

Issue	Final Maturity Date	Interest Rate Type	Balance
LIBOR Advance	2/20/2017	1-Month LIBOR plus 0.65%	\$ 829,498,704
Conduit Advance	2/20/2017	CP Rate plus 0.65%	92,496,784
Total			\$ 921,995,488

Debt service forecasts to maturity on the Warehouse Facility Fund as of June 30, 2016 are summarized below:

Fiscal Year	Principal Amount	Interest Amount
2017	\$ 921,995,488	\$ 7,554,367

The debt service interest rate forecasts are calculated using the interest rate in effect at June 30, 2016. Actual results could differ from these estimates.

The line of credit issued under the Warehouse Facility Fund is a limited obligation of the Board secured by and payable solely from the pledged collateral. The line of credit was issued to acquire federally guaranteed student loans. The fund consists of student loans acquired under the agreement, all proceeds of the line of credit and net revenues in the funds and accounts, and any other property pledged to the fund. The Board has pledged these assets and net revenues to repay \$921,995,488 of outstanding principal which is payable through 2017. Principal and interest paid for the current year and total net revenues before interest expense were \$241,076,057 and \$7,259,819, respectively.

STATE BOARD OF REGENTS OF THE STATE OF UTAH
STUDENT LOAN PURCHASE PROGRAM

Notes to the Financial Statements
For the Year Ended June 30, 2016

8. CHANGES IN LONG-TERM LIABILITIES

Long-term liability activity for the year ended June 30, 2016 was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year
Bonds and notes payable	\$ 1,509,543,079	\$ -	\$ (253,517,003)	\$ 1,256,026,076	\$ 246,498,187
Unamortized premiums	10,382,814	-	(2,804,729)	7,578,085	2,355,083
Unamortized discounts	(8,795,329)	-	479,136	(8,316,193)	(479,136)
Net bonds and notes payable	1,511,130,564	-	(255,842,596)	1,255,287,968	248,374,134
Line of credit	1,152,207,406	-	(230,211,918)	921,995,488	921,995,488
Net pension liability	1,700,325	957,371	-	2,657,696	-
Compensated absences	793,731	543,202	(445,691)	891,242	496,813
Total long-term liabilities	<u>\$ 2,665,832,026</u>	<u>\$ 1,500,573</u>	<u>\$ (486,500,205)</u>	<u>\$ 2,180,832,394</u>	<u>\$ 1,170,866,435</u>

9. DESIGNATED AND RESTRICTED NET POSITION

The Program has designated \$37,300,000 of the Short-Term Note Fund Net Position for bond financing, loan repurchases, supplemental loans and working capital.

The Revenue Bond Fund net positions are restricted in total by the general and supplemental indentures (see Note 1).

10. RELATED PARTY TRANSACTIONS

The Program reimburses the University of Utah for payroll, benefits, and certain administrative expenses. The Program incurred \$15,302,320 of such expenses for the year ended June 30, 2016. Of this amount, \$657,097 was payable at June 30, 2016.

The Student Loan Guarantee Program (SLGP), another program of the Board, guarantees student loans held by the Program. Claim payments received from the SLGP amounted to \$26,820,832 for the year ended June 30, 2016. As of June 30, 2016, SLGP owed \$965,766 in defaulted loan claims to the Program. This amount is included in the Student Loan Receivables on the Statement of Net Position.

For the year ended June 30, 2016, the Program charged the Board, the SLGP, and the Utah Educational Savings Plan for rent and other services, totaling \$2,636,697. Of this amount, \$320,968 was a receivable at June 30, 2016.

STATE BOARD OF REGENTS OF THE STATE OF UTAH
STUDENT LOAN PURCHASE PROGRAM

Notes to the Financial Statements
For the Year Ended June 30, 2016

11. ESTIMATED LIABILITY FOR PURPOSE AND NON-PURPOSE INTEREST
ARBITRAGE REBATE

In accordance with the Internal Revenue Code of 1986, as amended (the Code), the Program is required to pay to the United States Treasury certain amounts related to the Program's tax-exempt bond issues. The estimated amount of non-purpose arbitrage payable represents the excess of amounts earned on taxable investments (other than educational loans) over the interest cost of the tax-exempt borrowing, plus income attributable to the excess. Rebate payments are due every fifth year during the life of each bond issue and when the bonds are retired. At June 30, 2016, there was no liability for non-purpose interest arbitrage rebate.

The Code and the related Treasury Regulations also require the Program to keep the yield to the Program on student loans within a designated percentage of the interest cost of the related tax-exempt borrowing. One method of reducing this yield is to make yield reduction payments to the United States Treasury. Estimated yield reduction payments may be made by the end of the tenth year and every fifth year thereafter during the life of each bond issue and when the bonds are retired. At June 30, 2016, there was no liability for yield reduction payments.

12. RETIREMENT PLANS

Plan Descriptions - As required by State law, eligible nonexempt employees (as defined by the U.S. Fair Labor Standards Act) of the Program are covered either by the Utah Retirement Systems' (the System) State and School Noncontributory pension plan (Noncontributory plan) or the Tier 2 Public Employees Contributory pension plan (Tier 2 plan). The Tier 2 plan became effective July 1, 2011. All eligible employees, beginning on or after July 1, 2011, who had no previous service credit with the System, are members of the Tier 2 plan. Eligible exempt employees (as defined by the U.S. Fair Labor Standards Act) are covered by the Teachers Insurance and Annuity Association – College Retirement Equities Fund (TIAA-CREF) or Fidelity Investments (Fidelity).

The Program contributes to the System Noncontributory plan and the Tier 2 plan covering state employee groups, school districts and other local government entities. Those plans are multiple employer, cost-sharing, defined benefit, public employee pension plans. Retirement benefits are determined in accordance with Title 49 of the *Utah Code* and are based on age, years of credited service and highest average monthly salary.

The System is established and governed by the respective sections of Chapter 49 of the *Utah Code Annotated, 1953*, as amended. The defined benefit plans of the System may be amended statutorily by the State Legislature. The Utah State Retirement Office Act provides for the administration of the System under the direction of the Utah State Retirement Board, whose members are appointed by the governor. The System is a component unit of the State

**STATE BOARD OF REGENTS OF THE STATE OF UTAH
STUDENT LOAN PURCHASE PROGRAM**

Notes to the Financial Statements
For the Year Ended June 30, 2016

of Utah. System funds are fiduciary funds defined as pension (and other employee benefit) trust funds. Chapter 49 of the Utah Code grants authority to establish and amend the benefit terms. The System issues a publicly available financial report that includes financial statements and required supplementary information. A copy of the report may be obtained by contacting the System at 560 East 200 South, Salt Lake City, UT 84102 or visiting the website: www.urs.org.

Benefits and Contributions - The System provides retirement, disability, and death benefits. Retirement benefits, which vest after four years of employment, are as follows:

System	Final Average Salary	Years of Service Required and/or Age Eligible for Benefits	Benefit Percent per Year of Service	COLA**
Noncontributory	Highest 3 years	30 years any age 25 years any age* 20 years age 60* 10 years age 62* 4 years age 65	2% per year all years	Up to 4%
Tier 2	Highest 5 years	35 years any age 20 years age 60* 10 years age 62* 4 years age 65	1.5% per year all years	Up to 2.5%

**with actuarial reductions*

***All post-retirement cost-of-living adjustments are non-compounding and are based on the original benefit. The cost-of-living adjustments are also limited to the actual Consumer Price Index (CPI) Increase for the year, although unused CPI increases not met may be carried forward to subsequent years.*

As a condition of participation in the System, employers and/or employees are required to contribute certain percentages of salary and wages as authorized by statute and specified by the System Board. Contributions are actuarially determined at an amount that is expected to finance the costs and benefits earned by employees during the year, with an additional amount to finance any unfunded actuarial accrued liability. Employer contribution rates during the year ended June 30, 2016 were 22.19% for the System Noncontributory plan and 18.24% for the System Tier 2 plan. The Tier 2 rates include a 9.94% required contribution to finance the unfunded actuarial accrued liability of the Noncontributory plan.

For the year ended June 30, 2016, the Program's contributions to the System Noncontributory plan were \$292,406 based on an actuarially determined 22.19% of participating employee gross earnings. An additional 1.5% was contributed to the employee's 401(k) deferred salary plan.

For the year ended June 30, 2016, the Program's contributions to the System Tier 2 plan were \$475,577 based on an actuarially determined 18.24% of participating employee gross earnings. An additional 1.78% was contributed to the employee's 401(k) deferred salary plan.

The Program also contributes to TIAA-CREF and Fidelity which provide individual retirement fund contracts with each participating employee. Employees may allocate

STATE BOARD OF REGENTS OF THE STATE OF UTAH
STUDENT LOAN PURCHASE PROGRAM

Notes to the Financial Statements
For the Year Ended June 30, 2016

Program contributions to either or both of the providers and the contributions to the employee contracts become vested at the time contributions are made. Employees are eligible to participate from the date of employment and are not required to contribute to either fund. Benefits provided to retired employees are based on the value of the individual contracts and the estimated life expectancy of the employee at retirement.

For the year ended June 30, 2016, the Program's contributions to the TIAA-CREF and Fidelity retirement plans were \$894,302 based on 14.20% of participating employee gross earnings. The Program has no further liability once contributions are made.

Net Pension Liability – The net pension liability consists of two components: the System calculated portion, and the portion resulting from Program contributions made to the System after the System measurement date. Those contributions are recorded as Deferred Outflows of Resources with a corresponding increase to the net pension liability. The System portion is calculated annually, and was last measured by the System as of December 31, 2015.

For the year ended June 30, 2016, the Program recognized additions to the net pension liability of \$148,028 for the Noncontributory plan and \$239,762 for the Tier 2 plan. The additions were based on Program contributions made during the period which were subsequent to the December 31, 2015 System measurement date. The total net pension liability at June 30, 2016 was \$1,813,113 for the Noncontributory plan and \$844,583 for the Tier 2 plan totaling \$2,657,696.

The total System pension liability used to calculate the net pension liability was determined by an actuarial valuation. The Program's proportion of the net pension liability was based on a System projection of the Program's long-term share of contributions to the pension plan relative to the projected contributions of all participating local government entities.

At December 31, 2015, the Program's proportion of the System net pension liability was 0.05% of the Noncontributory plan and 0.80% of the Tier 2 plan.

Net Pension Expense – The total employer net pension expense (net pension expense) is calculated annually, and was last measured by the System as of December 31, 2015. For the year ended June 30, 2016, the Program recognized net pension expense of \$266,352 for the Noncontributory plan and \$412,028 for the Tier 2 plan totaling \$678,380.

The net pension expense contains the following System components: normal cost (annual cost of current service); plus interest on total pension liability; plus amortization of experience gains/losses, changes in assumptions, and changes in plan benefits; less expected return on plan assets.

STATE BOARD OF REGENTS OF THE STATE OF UTAH
STUDENT LOAN PURCHASE PROGRAM

Notes to the Financial Statements
For the Year Ended June 30, 2016

Pension – Deferred Outflows of Resources and Deferred Inflows of Resources – For the year ended June 30, 2016, the Program recognized deferred outflows of resources (deferred outflows) and deferred inflows of resources (deferred inflows) as follows:

	<u>Noncontributory Plan</u>	<u>Tier 2 Plan</u>	<u>Total</u>
Deferred Outflows:			
Differences Between Expected and Actual Experience	\$0	\$0	\$0
Net Difference Between Projected and Actual Earnings on Pension Plan Investments	393,702	47,728	441,430
Changes in Proportion	0	29,374	29,374
Contributions Subsequent to the Measurement Date	<u>148,028</u>	<u>239,762</u>	<u>387,790</u>
Total	<u>\$541,730</u>	<u>\$316,864</u>	<u>\$858,594</u>
Deferred Inflows:			
Differences Between Expected and Actual Experience	(\$169,952)	(\$89,749)	(\$259,701)
Changes in Proportion	(7,673)	0	(7,673)
Changes of Assumptions	<u>(60,559)</u>	<u>(16,156)</u>	<u>(76,715)</u>
Total	<u>(\$238,184)</u>	<u>(\$105,905)</u>	<u>(\$344,089)</u>

The Program recognized deferred outflows of \$387,790 in the preceding schedule resulting from contributions made subsequent to the December 31, 2015 System measurement date. Those contributions will be recognized as a reduction of the net pension liability in the year ended June 30, 2017. The other deferred outflows and inflows recognized in the preceding schedule will be recognized in future years pension expense as follows:

<u>Year ended June 30:</u>	<u>Deferred Outflows (Inflows) of Resources</u>
2017	\$56,349
2018	56,349
2019	56,349
2020	56,349
2021	52,053
Thereafter	<u>(150,734)</u>
Total	<u>\$126,715</u>

Actuarial Assumptions – The total pension liability as of December 31, 2015, is based on a System actuarial valuation date of January 1, 2015 and rolled forward using accepted actuarial procedures. The following actuarial assumptions were applied to all periods in the

**STATE BOARD OF REGENTS OF THE STATE OF UTAH
STUDENT LOAN PURCHASE PROGRAM**

Notes to the Financial Statements
For the Year Ended June 30, 2016

measurement: inflation 2.75%; salary increases 3.50% – 10.75% including inflation; investment rate of return 7.50% net of pension plan investment expense including inflation.

The assumptions used in the January 1, 2015 actuarial valuation date were based on the results of a System actuarial experience study performed in 2014 for the five-year period ending December 31, 2013.

Mortality rates were developed from actual experience and mortality tables, based on gender, occupation, and age, as appropriate, with adjustments for future improvement in mortality based on Scale AA, a model developed by the Society of Actuaries.

The following assumption changes were adopted from the most recent actuarial experience study: a decrease in the wage inflation assumption for all employee groups from 3.75% to 3.5%; a modification to the rate of salary increases for most groups, and a decrease in the payroll growth assumption from 3.5% to 3.25%. The post retirement mortality assumption for female educators improved and the pre-retirement mortality assumption had minor changes. Additional changes were made to certain demographic assumptions. As a result, more members are anticipated to terminate employment prior to retirement, slightly fewer members are expected to become disabled, and members are expected to retire at a slightly later age.

The long-term expected rate of return on System pension plan investments was determined using a building block method in which best estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges 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. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Utah Retirement Systems	Target	Real Return	Long-term
Asset Class	Asset	Arithmetic	Expected Real
Asset Class	Allocation	Basis	Rate of Return
Equity Securities	40%	7.06%	2.82%
Debt Securities	20	0.80	0.16
Real Assets	13	5.10	0.66
Private Equity	9	11.30	1.02
Absolute Return	18	3.15	0.57
Cash and Cash Equivalents	0	0.00	0.00
Total	100%		5.23%
	Inflation		<u>2.75</u>
	Expected Arithmetic Nominal Return		<u>7.98%</u>

**STATE BOARD OF REGENTS OF THE STATE OF UTAH
STUDENT LOAN PURCHASE PROGRAM**

Notes to the Financial Statements
For the Year Ended June 30, 2016

The total System long-term expected rate of return is 7.50%, which is comprised of a 2.75% inflation rate, an offset of 0.35% for administrative and investment expenses, and a real long-term expected rate of return of 5.10%.

Discount Rate - The discount rate used to measure the total System pension liability was 7.50%. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current contribution rate and that contributions from participating employers will be made at actuarially determined, contractually required rates. Based on those assumptions, the System pension plan fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the Net Pension Liability to Changes in the Discount Rate - The following presents the Program's proportionate share of the System net pension liability, at December 31, 2015. This is calculated using the discount rate of 7.50%, as well as what the Program's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.50%) or 1-percentage-point higher (8.50%) than the current rate:

	1% Decrease (6.50%)	Current Discount Rate (7.50%)	1% Increase (8.50%)
Program's Proportionate Share Of the Net Pension Liability:			
Noncontributory Plan	\$2,651,206	\$1,464,785	\$ 469,970
Tier 2 Plan	<u>319,091</u>	<u>(1,740)</u>	<u>(244,900)</u>
Total	<u>\$2,970,297</u>	<u>\$1,463,045</u>	<u>\$ 225,070</u>

13. RISK MANAGEMENT

As a State entity, the Program participates in the Utah State Risk Management Fund (the Fund). The Program pays an annual premium for participation in the Fund. Through the Fund, the Program has both property and liability coverage.

The Fund provides property coverage through a combination of self-insurance and private carriers. The Fund provides liability coverage through self-insurance and private carriers up to \$10,000,000 per occurrence.

REQUIRED SUPPLEMENTARY INFORMATION

Program's Proportionate Share of the Net Pension Liability
and
Program's Defined Benefit Pension Contributions

STATE BOARD OF REGENTS OF THE STATE OF UTAH
STUDENT LOAN PURCHASE PROGRAM

Required Supplementary Information
For the Year Ended June 30, 2016

Proportionate Share of the Net Pension Liability – A schedule of the Program’s proportionate share of the net pension liability follows:

	Noncontributory Plan	Tier 2 Plan	Total
Program Proportion of the Net Pension Liability:			
December 31, 2015	0.05%	0.80%	-
December 31, 2014	0.04%	0.62%	-
Program Proportionate Share of the Net Pension Liability (Asset):			
December 31, 2015	\$1,464,785	(\$1,740)	\$1,463,045
December 31, 2014	\$1,062,126	(\$18,893)	\$1,043,233
Program Covered Payroll:			
December 31, 2015	\$1,260,380	\$2,150,735	\$3,411,115
December 31, 2014	\$1,118,932	\$1,356,212	\$2,475,144
Program Proportionate Share of the Net Pension Liability (Asset) As a Percentage of Covered Payroll:			
December 31, 2015	116.22%	-0.08%	-
December 31, 2014	94.92%	-1.39%	-
Plan Fiduciary Net Position as a Percentage of Total Pension Liability:			
December 31, 2015	84.50%	100.20%	-
December 31, 2014	87.20%	103.50%	-

Amounts were presented for the System years ended December 31, 2015 and 2014. Going forward, a full 10-year schedule will be presented as it becomes available.

Details regarding actuarial assumptions can be found in Footnote 12 which precedes this section of the statements.

STATE BOARD OF REGENTS OF THE STATE OF UTAH
STUDENT LOAN PURCHASE PROGRAM

Required Supplementary Information
For the Year Ended June 30, 2016

Defined Benefit Pension Contributions – A schedule of the Program’s pension contributions to the System follows:

	Noncontributory Plan	Tier 2 Plan	Total
Program Contractually Required Contributions:			
June 30, 2016	\$292,406	\$475,577	\$767,983
June 30, 2015	\$299,848	\$318,563	\$618,411
Program Contributions in Relation to the Contractually Required Contributions:			
June 30, 2016	(292,406)	(475,577)	(767,983)
June 30, 2015	(299,848)	(318,563)	(618,411)
Program Contribution Deficiency (Excess):			
June 30, 2016	\$0	\$0	\$0
June 30, 2015	\$0	\$0	\$0
Program Covered Payroll:			
June 30, 2016	\$1,234,301	\$2,375,509	\$3,609,810
June 30, 2015	\$1,265,715	\$1,611,345	\$2,877,060
Program Contributions as a Percentage of Covered Payroll:			
June 30, 2016	23.69%	20.02%	-
June 30, 2015	23.69%	19.77%	-

Amounts were presented for the years ended June 30, 2016 and 2015. Going forward, a full 10-year schedule will be presented as it becomes available.

SUPPLEMENTAL SCHEDULES

Combining Financial Statements

**STATE BOARD OF REGENTS OF THE STATE OF UTAH
STUDENT LOAN PURCHASE PROGRAM**

Combining Statement of Net Position
June 30, 2016

	Short-Term Note Fund	1993 Revenue Bond Fund	2012 Revenue Bond Fund	2014 Revenue Bond Fund	2015 Revenue Bond Fund	Warehouse Facility Fund	Office Facility Bond Fund	Total
ASSETS								
Current Assets								
Cash and cash equivalents	\$ 18,895,356	\$ 158,343	\$ 204,682	\$ 125,959	\$ 626,903	\$ 1,627,225	\$ 851,122	\$ 22,489,590
Funds held by Trustee	-	56,325,115	8,898,882	5,068,000	12,749,856	31,718,380	825,661	115,585,894
Receivables								
Student loans	4,109,563	62,529,801	50,507,758	34,551,770	72,969,789	189,314,380	-	413,983,061
Interest - student loans	355,817	6,463,240	6,182,093	4,257,820	8,150,455	23,474,754	-	48,884,179
Due from counterparty	-	1,219,318	-	-	-	-	-	1,219,318
Other receivables	2,850,394	6,576	-	-	-	-	-	2,856,970
Prepaid expenses	364,725	-	-	895	-	-	-	365,620
Total Current Assets	26,575,855	126,702,393	65,793,415	44,004,444	94,497,003	246,134,739	1,676,783	605,384,632
Noncurrent Assets								
Student loans receivable	17,079,004	471,783,606	228,388,494	176,299,398	254,037,974	754,233,502	-	1,901,821,978
Derivative instrument - interest rate swap	-	28,730,184	-	-	-	-	-	28,730,184
Capital assets, less accumulated depreciation of \$6,619,718	1,469,009	-	-	-	-	-	8,331,857	9,800,866
Total Noncurrent Assets	18,548,013	500,513,790	228,388,494	176,299,398	254,037,974	754,233,502	8,331,857	1,940,353,028
TOTAL ASSETS	45,123,868	627,216,183	294,181,909	220,303,842	348,534,977	1,000,368,241	10,008,640	2,545,737,660
DEFERRED OUTFLOWS OF RESOURCES								
Deferred federal default fee	226,977	-	-	-	-	-	-	226,977
Deferred pension expense	858,594	-	-	-	-	-	-	858,594
TOTAL DEFERRED OUTFLOWS OF RESOURCES	1,085,571	-	-	-	-	-	-	1,085,571
LIABILITIES								
Current Liabilities								
Accounts payable	1,000,802	816,234	210,086	263,992	172,413	430,974	11,496	2,905,997
Special allowance	91,657	1,335,145	3,857,123	1,450,825	3,973,733	11,179,890	-	21,888,373
Payable to affiliate	652,664	-	-	-	-	-	4,433	657,097
Compensated absences	489,355	-	-	-	-	-	7,458	496,813
Accrued interest payable	-	2,691,976	35,630	21,993	39,529	329,145	57,870	3,176,143
Bonds and notes payable	-	108,563,569	48,181,268	25,473,918	65,453,884	-	701,495	248,374,134
Line of credit	-	-	-	-	-	921,995,488	-	921,995,488
Total Current Liabilities	2,234,478	113,406,924	52,284,107	27,210,728	69,639,559	933,935,497	782,752	1,199,494,045
Noncurrent Liabilities								
Compensated absences	382,684	-	-	-	-	-	11,745	394,429
Net pension liability	2,657,696	-	-	-	-	-	-	2,657,696
Bonds and notes payable, net of unamortized premiums and discounts of \$738,108	-	352,044,097	218,310,437	171,812,191	260,459,766	-	4,287,343	1,006,913,834
Total Noncurrent Liabilities	3,040,380	352,044,097	218,310,437	171,812,191	260,459,766	-	4,299,088	1,009,965,959
TOTAL LIABILITIES	5,274,858	465,451,021	270,594,544	199,022,919	330,099,325	933,935,497	5,081,840	2,209,460,004
DEFERRED INFLOWS OF RESOURCES								
Deferred interest rate swap income	-	28,730,184	-	-	-	-	-	28,730,184
Deferred gain on bond purchases	-	9,092,275	-	1,053,191	-	-	-	10,145,466
Deferred pension income	344,089	-	-	-	-	-	-	344,089
TOTAL DEFERRED INFLOWS OF RESOURCES	344,089	37,822,459	-	1,053,191	-	-	-	39,219,739
NET POSITION								
Net investment in capital assets	1,469,009	-	-	-	-	-	3,343,019	4,812,028
Restricted	-	123,942,703	23,587,365	20,227,732	18,435,652	66,432,744	1,583,781	254,209,977
Unrestricted	39,121,483	-	-	-	-	-	-	39,121,483
TOTAL NET POSITION	\$ 40,590,492	\$ 123,942,703	\$ 23,587,365	\$ 20,227,732	\$ 18,435,652	\$ 66,432,744	\$ 4,926,800	\$ 298,143,488

**STATE BOARD OF REGENTS OF THE STATE OF UTAH
STUDENT LOAN PURCHASE PROGRAM**

Combining Statement of Revenues, Expenses, and Changes in Net Position
For the Year Ended June 30, 2016

	Short-Term Note Fund	1993 Revenue Bond Fund	2012 Revenue Bond Fund	2014 Revenue Bond Fund	2015 Revenue Bond Fund	Warehouse Facility Fund	Office Facility Bond Fund	Total
OPERATING REVENUES								
Interest on student loans	\$ 781,146	\$ 13,534,404	\$14,819,795	\$ 9,243,973	\$ 18,635,561	\$ 52,534,794	\$ -	\$ 109,549,673
Federal loan servicing revenue	3,975,505	-	-	-	-	-	-	3,975,505
Investment income	172,268	91,816	13,332	8,329	18,542	262,875	11,873	579,035
Unrealized gain (loss) on investments	(94,153)	200,394	-	-	-	(44,697)	(540)	61,004
Other revenue	3,654,791	-	-	-	-	-	1,561,736	5,216,527
Total Operating Revenues	8,489,557	13,826,614	14,833,127	9,252,302	18,654,103	52,752,972	1,573,069	119,381,744
OPERATING EXPENSES								
Interest expense	-	5,857,694	3,206,795	1,864,636	3,659,732	10,633,733	115,034	25,337,624
Bond and financing related expense	119,259	60,317	14,659	10,882	184,387	7,615	2,500	399,619
Special allowance	159,814	3,086,150	8,433,203	3,167,799	12,690,393	36,077,419	-	63,614,778
Student loan servicing expense	844,668	4,432,692	2,353,313	1,608,895	1,521,225	6,539,444	-	17,300,237
General and administrative expense	2,695,255	587,203	313,775	206,858	357,185	-	765,292	4,925,568
Federal loan servicing expense	5,822,205	-	-	-	-	-	-	5,822,205
Client document processing expense	2,010,145	-	-	-	-	-	-	2,010,145
Depreciation expense	488,025	-	-	-	-	-	339,658	827,683
Federal default fee	343,244	-	-	-	-	-	-	343,244
Uninsured claims expense	86,577	746,128	474,112	400,708	977,734	2,868,675	-	5,553,934
Total Operating Expenses	12,569,192	14,770,184	14,795,857	7,259,778	19,390,656	56,126,886	1,222,484	126,135,037
OPERATING INCOME (LOSS)	(4,079,635)	(943,570)	37,270	1,992,524	(736,553)	(3,373,914)	350,585	(6,753,293)
Transfer to Utah System of Higher Education	(250,000)	-	-	-	-	-	-	(250,000)
Transfers - UHEAA Grants	(100,000)	-	-	-	-	-	-	(100,000)
Transfers - Intrafund	73,618	1,100,000	-	(1,121,541)	9,073,004	(9,128,224)	3,143	-
CHANGES IN NET POSITION	(4,356,017)	156,430	37,270	870,983	8,336,451	(12,502,138)	353,728	(7,103,293)
NET POSITION – Beginning of Year	44,946,509	123,786,273	23,550,095	19,356,749	10,099,201	78,934,882	4,573,072	305,246,781
NET POSITION – End of Year	\$ 40,590,492	\$ 123,942,703	\$ 23,587,365	\$ 20,227,732	\$ 18,435,652	\$ 66,432,744	\$ 4,926,800	\$ 298,143,488

STATE BOARD OF REGENTS OF THE STATE OF UTAH
STUDENT LOAN PURCHASE PROGRAM

Combining Statement of Cash Flows
For the Year Ended June 30, 2016

	Short-Term Note Fund	1993 Revenue Bond Fund	2012 Revenue Bond Fund	2014 Revenue Bond Fund	2015 Revenue Bond Fund	Warehouse Facility Fund	Office Facility Bond Fund	Total
CASH FLOWS FROM OPERATING ACTIVITIES								
Principal received on student loans	\$ 2,499,230	\$ 76,196,896	\$ 63,800,411	\$ 40,748,009	\$ 89,481,506	\$ 234,294,695	\$ -	\$ 507,020,747
Interest received on student loans	204,964	8,036,022	8,968,129	5,874,325	13,704,332	40,388,381	-	77,176,153
Special allowance payments	(734,323)	(2,694,884)	(7,079,162)	(2,665,962)	(9,450,871)	(38,108,009)	-	(60,733,211)
Net borrower payments received for (sent to) related funds	(537,886)	-	-	-	-	-	-	(537,886)
Payments received for internal services	1,667,936	-	-	-	-	-	-	1,667,936
Payments received for client services	1,495,678	-	-	-	-	-	-	1,495,678
Payments for loan purchases	(13,446,760)	(4,029,803)	(931,505)	(120,547)	(68,493)	(133,207)	-	(18,730,315)
Payments for student loan servicing expense	1,758,386	(4,473,186)	(2,388,191)	(1,629,578)	(1,462,252)	(6,601,219)	-	(14,796,040)
Payments for general and administrative expense	(7,837,782)	(592,577)	(318,425)	(209,517)	(207,424)	-	(763,122)	(9,928,847)
Payments for federal loan servicing expense	(3,133,304)	-	-	-	-	-	-	(3,133,304)
Payments for client document processing expense	(1,511,612)	-	-	-	-	-	-	(1,511,612)
Payments received for federal loan servicing revenue	3,442,758	-	-	-	-	-	-	3,442,758
Payments received for rental revenue	-	-	-	-	-	-	1,617,642	1,617,642
Payments for student loan disbursements	(349,559)	-	-	-	-	-	-	(349,559)
Cash provided by (used in) operating activities	(16,482,274)	72,442,468	62,051,257	41,996,730	91,996,798	229,840,641	854,520	482,700,140
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES								
Transfer to Utah System of Higher Education	(250,000)	-	-	-	-	-	-	(250,000)
Transfer for UHEAA Grants	(100,000)	-	-	-	-	-	-	(100,000)
Principal paid on bonds and notes	-	(65,250,000)	(59,266,664)	(41,332,602)	(87,012,739)	-	(655,000)	(253,517,005)
Principal paid on line of credit	-	-	-	-	-	(230,211,918)	-	(230,211,918)
Interest paid on bonds and notes	-	(8,790,506)	(3,222,038)	(1,918,762)	(3,707,092)	-	(151,988)	(17,790,386)
Interest paid on line of credit	-	-	-	-	-	(10,864,139)	-	(10,864,139)
Payments for bond related expense	(77,009)	(60,317)	(14,659)	(10,738)	-	(7,615)	(2,500)	(172,838)
Payments for bond issuance costs	(2,500)	-	-	-	(229,387)	-	-	(231,887)
Cash used in noncapital financing activities	(429,509)	(74,100,823)	(62,503,361)	(43,262,102)	(90,949,218)	(241,083,672)	(809,488)	(513,138,173)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES								
Acquisition of capital assets	(1,068,535)	-	-	-	-	-	(9,918)	(1,078,453)
Cash used in capital and related financing activities	(1,068,535)	-	-	-	-	-	(9,918)	(1,078,453)
CASH FLOWS FROM INVESTING ACTIVITIES								
Proceeds from maturing investments	-	95,439,745	72,363,598	49,348,075	106,899,815	299,273,620	808,578	624,133,431
Interest received on investments	78,115	303,682	13,332	8,329	18,542	218,178	11,333	651,511
Purchases of investments	-	(94,289,955)	(72,227,635)	(48,202,226)	(107,350,652)	(286,644,992)	(809,696)	(609,525,156)
Cash provided by (used in) investing activities	78,115	1,453,472	149,295	1,154,178	(432,295)	12,846,806	10,215	15,259,786
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS								
	(17,902,203)	(204,883)	(302,809)	(111,194)	615,285	1,603,775	45,329	(16,256,700)
CASH AND CASH EQUIVALENTS – Beginning of Year	36,797,559	363,226	507,491	237,153	11,618	23,450	805,793	38,746,290
CASH AND CASH EQUIVALENTS – End of Year	\$ 18,895,356	\$ 158,343	\$ 204,682	\$ 125,959	\$ 626,903	\$ 1,627,225	\$ 851,122	\$ 22,489,590

(continued next page)

STATE BOARD OF REGENTS OF THE STATE OF UTAH
STUDENT LOAN PURCHASE PROGRAM

Combining Statement of Cash Flows
For the Year Ended June 30, 2016

(continued)

	Short-Term Note Fund	1993 Revenue Bond Fund	2012 Revenue Bond Fund	2014 Revenue Bond Fund	2015 Revenue Bond Fund	Warehouse Facility Fund	Office Facility Bond Fund	Total
RECONCILIATION OF OPERATING INCOME (LOSS)								
TO CASH PROVIDED BY (USED IN) OPERATING								
ACTIVITIES								
Operating income (loss)	\$ (4,079,635)	\$ (943,570)	\$ 37,270	\$ 1,992,524	\$ (736,553)	\$ (3,373,914)	\$ 350,585	\$ (6,753,293)
Adjustments to reconcile income (loss) to net cash provided by (used in) operating activities								
Amortization and depreciation	488,025	(2,390,215)	-	-	96,117	-	308,162	(1,497,911)
Interest expense for noncapital and capital financing	-	8,247,909	3,206,795	1,864,636	3,563,615	10,633,733	146,530	27,663,218
Interest revenue from nonoperating investing activities	(172,268)	(91,816)	(13,332)	(8,329)	(18,542)	(262,875)	(11,873)	(579,035)
Unrealized loss (gain) on investments	94,153	(200,394)	-	-	-	44,697	540	(61,004)
Bond related expense	119,259	60,317	14,659	10,882	184,387	7,615	2,500	399,619
Net pension expense	675,237	-	-	-	-	-	3,143	678,380
Change in assets/liabilities:								
Student loans receivable	(11,337,026)	68,468,143	57,805,580	37,812,371	73,624,109	227,706,589	-	454,079,766
Transfer of student loans	76,761	-	-	(21,541)	(13,028)	(42,192)	-	-
Transfer premium paid on student loans	-	-	-	-	9,086,032	(9,086,032)	-	-
Borrower interest receivable	(318,091)	(1,004,269)	(313,782)	(116,220)	2,201,467	7,023,943	-	7,473,048
Special allowance	(574,509)	391,266	1,354,040	501,837	3,239,522	(2,030,649)	-	2,881,507
Other receivables	(576,356)	-	-	-	701,995	-	55,917	181,556
Prepaid expenses	(57,663)	-	-	-	-	-	-	(57,663)
Federal default fee	343,244	-	-	-	-	-	-	343,244
Accounts payable and payable to affiliate	(1,163,405)	(94,903)	(39,973)	(39,430)	67,677	(780,274)	(984)	(2,051,292)
NET CASH PROVIDED BY (USED IN)								
OPERATING ACTIVITIES	\$ (16,482,274)	\$ 72,442,468	\$ 62,051,257	\$ 41,996,730	\$ 91,996,798	\$ 229,840,641	\$ 854,520	\$ 482,700,140



OFFICE OF THE
UTAH STATE AUDITOR

INDEPENDENT STATE AUDITOR'S REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the Utah State Board of Regents,
The UHEAA Audit Committee
and
David L. Buhler, Commissioner of Higher Education

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the State Board of Regents of the State of Utah Student Loan Purchase Program (the Program), an enterprise fund of the State of Utah administered by the Utah Higher Education Assistance Authority, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Program's financial statements, and have issued our report thereon dated September 26, 2016.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Program's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Program's internal control. Accordingly, we do not express an opinion on the effectiveness of the Program's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or to detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Program's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Office of the Utah State Auditor

Office of the Utah State Auditor
September 26, 2016