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NORTH CAROLINA  
STATE EDUCATION ASSISTANCE AUTHORITY

Financial Statements

June 30, 2020

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

## INDEPENDENT AUDITOR'S REPORT

### Report on the Financial Statements

We have audited the accompanying financial statements of the North Carolina State Education Assistance Authority, a nonmajor component unit of the State of North Carolina, as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the Authority's financial statements as listed in the table of contents.

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

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

### *Auditor's Responsibility*

Our responsibility is to express an opinion on these financial statements based on our 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 North Carolina State Education Assistance Authority, as of June 30, 2020, and the respective 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.

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***Other Matters******Required Supplementary Information***

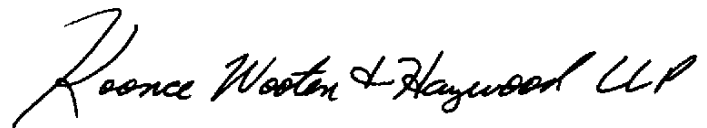
Accounting principles generally accepted in the United States of America require that Management's Discussion and Analysis on pages 3 through 7, Schedule of Proportionate Net Pension Liability and Schedule of Authority Contributions (Pension) on pages 39 and 40, and Schedule of Proportionate Net Other Postemployment Benefits Liability (Asset) and Schedule of Authority Contributions (OPEB) on pages 42 and 43 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 taken as a whole. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The 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 Schedule of Expenditures of Federal Awards is 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 November 6, 2020 on our consideration of the North Carolina State Education Assistance Authority'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 solely 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 the effectiveness of the Authority's 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 Authority's internal control over financial reporting and compliance.



Raleigh, North Carolina  
November 6, 2020

NORTH CAROLINA  
STATE EDUCATION ASSISTANCE AUTHORITY  
Management's Discussion and Analysis  
June 30, 2020

The Management's Discussion and Analysis of the financial performance of the North Carolina State Education Assistance Authority (the Authority) is required supplementary information. This narrative overview and analysis of the financial activities of the Authority is for the fiscal year ended June 30, 2020. We encourage readers to consider this information in conjunction with the Authority's financial statements which follow.

#### FINANCIAL HIGHLIGHTS

**Net Position** -- The assets of the Authority exceeded its liabilities at fiscal years ending June 30, 2020 and 2019 by approximately \$616.6 and \$599.2 million, respectively, (presented as "net position"). Of this amount, approximately \$109.2 and \$95.7 million, respectively, was reported as "unrestricted net position." Unrestricted net position represents the amount available to be used to administer the State's grant and loan programs.

**Increase in Net Position** -- The Authority's total net position increased by approximately \$17.4 million (2.91%) in fiscal year 2020 and \$14.8 million (2.53%) in fiscal year 2019.

#### OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the North Carolina State Education Assistance Authority's financial statements. The Authority's financial statements include four components: 1) Statement of Net Position, 2) Statement of Revenues, Expenses, and Changes in Net Position, 3) Statement of Cash Flows, and 4) Notes to Financial Statements. This report also includes additional reports and schedules required by *Government Auditing Standards*, issued by the Comptroller General of the United States, and by Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*. Per the criteria detailed in Governmental Accounting Standards Board Statement No. 61, the Authority is presented as a nonmajor component unit in the State of North Carolina Comprehensive Annual Financial Report (CAFR) by the State Auditor's Office and the Office of the State Controller. The financial statements contained herein report information pertaining to the Authority.

The financial statements provide a broad view of the Authority's operations in a manner similar to private-sector business. The statements provide both short-term and long-term information about the Authority's financial position, which assists in assessing the Authority's economic condition at the end of each fiscal year. These statements are prepared using the flow of economic resources measurement focus and the accrual basis of accounting. This basically means they follow methods that are similar to those used by most businesses. They take into account all revenues and expenses connected with the fiscal year even if cash involved has not been received or paid.

The Statement of Net Position presents all of the Authority's assets and liabilities, with the difference between the two reported as "net position." Over time, increases or decreases in the Authority's net position may serve as a useful indicator of whether the financial position of the Authority is improving or deteriorating.

NORTH CAROLINA  
STATE EDUCATION ASSISTANCE AUTHORITY  
Management's Discussion and Analysis  
June 30, 2020

The Statement of Revenues, Expenses, and Changes in Net Position presents information showing how the Authority's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will not result in cash flows until future fiscal periods.

The Statement of Cash Flows presents a reconciliation of cash and cash equivalents between the beginning of a year and the end of a year. This statement assists in assessing the Authority's ability to generate future net cash flows, ability to meet obligations as they come due, reasons for differences in operating income and cash flows from operations, and the effect of noncash transactions.

#### FINANCIAL ANALYSIS

As noted earlier, net position may serve over time as a useful indicator of an entity's financial position. The Authority's net position totaled approximately \$616.6 million as of June 30, 2020, compared to approximately \$599.2 million as of June 30, 2019.

NORTH CAROLINA  
STATE EDUCATION ASSISTANCE AUTHORITY  
Condensed Statement of Net Position

	<u>2020</u>	<u>2019</u>
Current Assets	\$ 682,046,980	\$ 719,032,449
Noncurrent Assets	3,655,751,118	3,575,875,249
Capital Assets	<u>1,981,557</u>	<u>6,220,519</u>
Total Assets	<u>\$ 4,339,779,655</u>	<u>\$ 4,301,128,217</u>
Current Liabilities	\$ 327,969,404	\$ 348,033,814
Noncurrent Liabilities	<u>3,270,177,146</u>	<u>3,227,885,840</u>
Total Liabilities	<u>3,598,146,550</u>	<u>3,575,919,654</u>
Deferred Inflows of Resources	<u>124,967,573</u>	<u>126,002,300</u>
Net Investment in Capital Assets	1,981,557	6,220,519
Restricted for Educational Assistance Programs	505,519,522	497,241,015
Unrestricted	<u>109,164,453</u>	<u>95,744,729</u>
Total Net Position	<u>616,665,532</u>	<u>599,206,263</u>
Total Liabilities and Net Position	<u>\$ 4,339,779,655</u>	<u>\$ 4,301,128,217</u>

The largest portion of the Authority's net position (82% at June 30, 2020 and 83% at June 30, 2019) represents resources that are subject to external restrictions on how they may be used. An additional portion (.3% at June 30, 2020 and 1% at June 30, 2019) reflects the Authority's investment in capital assets such as equipment, data processing systems, and intangible assets. The remaining balance of unrestricted net position may be used to meet the Authority's ongoing State grant and loan program management. Internally imposed designations of resources are not presented as restricted net position.

NORTH CAROLINA  
STATE EDUCATION ASSISTANCE AUTHORITY  
Management's Discussion and Analysis  
June 30, 2020

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

The Authority's net position increased by approximately \$17.4 million or 2.91% during the year ended June 30, 2020 and increased by approximately \$14.8 million or 2.53% during the year ended June 30, 2019.

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

	<u>2020</u>	<u>2019</u>
REVENUES:		
Operating Revenues:		
Interest Earnings on Loans	\$ 44,650,913	\$ 57,452,312
Miscellaneous	<u>18,498,076</u>	<u>14,385,069</u>
Total Operating Revenues	<u>63,148,989</u>	<u>71,837,381</u>
Nonoperating Revenues:		
State Aid	78,481,975	78,481,975
Grants	166,655,984	156,269,558
Investment Earnings	<u>8,141,150</u>	<u>11,083,551</u>
Total Nonoperating Revenues	<u>253,279,109</u>	<u>245,835,084</u>
Total Revenues	<u>316,428,098</u>	<u>317,672,465</u>
EXPENSES:		
Operating Expenses:		
Services	37,553,485	38,007,517
Interest	28,759,887	41,348,168
Student Loan Service Cancellations	19,723,347	21,276,296
Depreciation	266,170	223,484
Other Expenses	<u>7,096,024</u>	<u>2,630,146</u>
Total Operating Expenses	<u>93,398,913</u>	<u>103,485,611</u>
Nonoperating Expenses:		
Grants, Aid and Subsidies	<u>205,569,916</u>	<u>199,405,442</u>
Total Expenses	<u>298,968,829</u>	<u>302,891,053</u>
CHANGES IN NET POSITION	17,459,269	14,781,412
NET POSITION--Beginning of Year	<u>599,206,263</u>	<u>584,424,851</u>
NET POSITION--End of Year	<u>\$ 616,665,532</u>	<u>\$ 599,206,263</u>

Approximately 19.9% of the Authority's total revenues came from interest earnings and other miscellaneous revenue on resources invested in student loans under various education programs originated by or assigned to the Authority. Approximately 24.8% came from the State of North Carolina Education Lottery and interest earnings on and corpus from escheated monies held by the State. Approximately 52.7% resulted from grants that include federal and State designated funds for student assistance. The State funds were distributed to the Authority pursuant to State law for the purpose of providing education grants to North Carolina residents. Lastly, approximately 2.6% resulted from investment earnings on cash, cash equivalents, and short-term and long-term investments during the fiscal year.

NORTH CAROLINA  
STATE EDUCATION ASSISTANCE AUTHORITY  
Management's Discussion and Analysis  
June 30, 2020

The Authority's expenses cover a range of services. Approximately 12.6% of the Authority's total expenses were for personnel costs, fees paid to others in exchange for administration of education assistance programs, collection costs related to student loans, and fees for professional and specialized services incurred by the Authority to maintain and enhance its information dissemination program on planning, applying, and paying for higher education. Approximately 9.6% of expenses were for interest incurred on bonds issued by the Authority in order to fund student loans, 68.8% were for grants and aid distributed for education assistance, and 6.6% were for student loan service cancellations related to certain state sponsored loan programs.

The increase in net position for the year ended June 30, 2020 is primarily attributed to programs that the State has charged the Authority with administering, changing interest rates, and strategic management of the Authority's resources.

#### DEBT ADMINISTRATION

All long-term indebtedness represents special obligations of the Authority and does not constitute a debt, liability, or obligation of the State of North Carolina. The 2008-1 Series Bonds are secured by certain non-federal loans of the Authority which are not insured by the federal government. All other indebtedness is secured by federally insured student loans of the Authority.

The Authority's total bond debt decreased by approximately \$155.5 million (15%) and approximately \$197 million (16%) during the fiscal years 2020 and 2019, respectively. The majority of the 2020 decrease was attributable to the Authority's repayment of debt.

Additional information on the Authority's debt obligations can be found in Note 7 of the Notes to Financial Statements.

#### ECONOMIC FACTORS

The primary economic factors affecting the Authority result from economic trends coupled with the effects of decisions of the federal government related to financial aid for higher education, and specifically, student loans. Certain decisions of the U.S. Department of Education in administering the federal student loan programs pursuant to changes in federal law have operated to decrease the flow of federal revenue to guaranty agencies and holders of student loans. At the same time, the value of the Authority's student loan portfolio has not increased due to new guaranteed student loan originations, and the existing portfolio is maturing through repayment. Accordingly, the revenues associated with the Authority's portfolio of financed student loans and loans under guaranty are subject to fluctuate, and may eventually, decline. As the portfolio of the N.C. Student Assist Loans and N.C. Parent Assist Loans begins to grow, the strain on the federal student loan portfolio due to decisions of the federal government should be ameliorated.



NORTH CAROLINA  
STATE EDUCATION ASSISTANCE AUTHORITY  
Management's Discussion and Analysis  
June 30, 2020

In direct response to the changes at the federal level, the Authority, in collaboration with College Foundation, Inc., has developed and launched services for colleges and universities and loan products for students and parents. At the behest of the North Carolina General Assembly and with the assistance of College Foundation, Inc., the Authority implemented, in cooperation with The University of North Carolina and the other principal sectors of higher education, a centralized system for determining residency for tuition and State-funded financial aid purposes. In 2018, the Authority began to offer N.C. Student Assist Loans and N.C. Parent Assist Loans to help students and their families bridge the gap between the cost of attendance and other financial aid. The loans have competitive interest rates with no origination fees. The Authority issued Tax-Exempt Revenue Bonds on July 30, 2020 to provide loan capital for the N.C. Assist Loan Program (see Note 12 of the Notes to Financial Statements). The Authority expects these services and its new loan programs to generate revenue over time.

Meanwhile, the North Carolina General Assembly continues to fund, modify, and assign programs to the Authority that are designed to support K12 education. Appropriations for the Opportunity Scholarship Program that provides vouchers to enable low and moderate income families to enroll their children in the nonpublic schools of their choice are slated to increase over the next biennium. The Personal Education Savings Account, intended to support families in educating children with certain disabilities, was added to the Authority's portfolio of K12 programs during the fiscal year 2018. Continuing to rely upon the Authority's administrative capabilities to implement and administer such specialized programs, the General Assembly is also providing funding to operate these programs. The Authority expects the administrative income for these programs to cover the expenses incurred in operating the programs in the foreseeable future.

In March 2020, the COVID-19 pandemic necessitated that the Authority adapt to a telework environment and transition its staff to work from home with appropriate computer and telephone equipment, Virtual Private Network (VPN) access and other tools. Certain designated mandatory employees continue to conduct essential operations, including information technology, and payment and mail processing, at the Authority's building. During this same period, the U.S. Department of Education issued guidance that the Authority, as the guaranty agency, should stop collection activities on all federally insured student loans through September 30, 2020. The Authority ceased its collection activities on these loans; the Authority intends to resume collection activities for these federally insured student loans in the second quarter of fiscal year 2021. Otherwise, any disruptions due to the COVID-19 pandemic have been isolated and minimal.

#### ADDITIONAL INFORMATION

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

## FINANCIAL STATEMENTS

NORTH CAROLINA  
STATE EDUCATION ASSISTANCE AUTHORITY  
Statement of Net Position  
June 30, 2020

ASSETS

CURRENT ASSETS:

Restricted Cash and Cash Equivalents	\$ 456,808,542
Restricted Investments	48,987,847
Receivables:	
Accounts Receivable	6,305,087
Intergovernmental Receivables	173,487
Interest Receivable	34,186,250
Due From Component Unit	2,637,720
Notes Receivable	132,922,607
Prepaid Items	25,440
Total Current Assets	<u>682,046,980</u>

NONCURRENT ASSETS:

Restricted Cash and Cash Equivalents	132,932,306
Restricted Investments	2,550,032,260
Notes Receivable	972,786,552
Total Noncurrent Assets	<u>3,655,751,118</u>

CAPITAL ASSETS:

Capital Assets	13,561,223
Accumulated Depreciation	(11,579,666)
Net Capital Assets	<u>1,981,557</u>

Total Assets \$ 4,339,779,655

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

LIABILITIES AND NET POSITION

CURRENT LIABILITIES:

Accounts Payable and Accrued Liabilities:

Accounts Payable	\$ 15,847,790
Accrued Payroll	187,065
Interest Payable	1,748,645
Due to IRC Section 529 Plan Participants	195,461,809
Bonds Payable	114,689,382
Accrued Employee Expenses	34,713
Total Current Liabilities	327,969,404

NONCURRENT LIABILITIES:

Due to IRC Section 529 Plan Participants	2,498,717,490
Bonds Payable, Net	764,672,989
Accrued Employee Expenses	694,347
Net Other Postemployment Benefits Liability	4,735,285
Net Pension Liability	1,357,035
Total Noncurrent Liabilities	3,270,177,146

Total Liabilities	3,598,146,550
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DEFERRED INFLOWS OF RESOURCES, NET

Deferred Inflows--Nonexchange Transactions, Net	124,967,573
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NET POSITION:

Net Investment in Capital Assets	1,981,557
Restricted for Educational Assistance Programs	505,519,522
Unrestricted	109,164,453
Total Net Position	616,665,532

Total Liabilities and Net Position	\$ 4,339,779,655
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NORTH CAROLINA  
STATE EDUCATION ASSISTANCE AUTHORITY  
Statement of Revenues, Expenses, and Changes in Net Position  
For the Year Ended June 30, 2020

OPERATING REVENUES:	
Interest Earnings on Loans	\$ 44,650,913
Miscellaneous	18,498,076
Total Operating Revenues	<u>63,148,989</u>
OPERATING EXPENSES:	
Personal Services	5,277,286
Supplies and Materials	197,442
Services	32,276,199
Interest	28,759,887
Depreciation	266,172
Student Loan Service Cancellations	19,723,347
Other Expenses	6,898,580
Total Operating Expenses	<u>93,398,913</u>
Operating Loss	<u>(30,249,924)</u>
NONOPERATING REVENUES (EXPENSES):	
State Aid	78,481,975
Noncapital Grants	165,890,926
Federal Grants	765,058
Investment Earnings	8,141,150
Grants, Aid and Subsidies	(205,569,916)
Total Nonoperating Revenues (Expenses)	<u>47,709,193</u>
Changes in Net Position	17,459,269
NET POSITION--Beginning of Year	<u>599,206,263</u>
NET POSITION--End of Year	<u>\$ 616,665,532</u>

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

NORTH CAROLINA  
STATE EDUCATION ASSISTANCE AUTHORITY  
Statement of Cash Flows  
For the Year Ended June 30, 2020

CASH FLOWS FROM OPERATING ACTIVITIES:

Receipts from Borrowers and Others	\$ 192,879,110
Collection of Loans from Students	244,067,658
Payments to Employees and Fringe Benefits	(4,829,452)
Payments to Vendors and Suppliers	(31,925,866)
Loans Issued to Students	(94,245,859)
Payments of Operating Interest Expense	<u>(26,366,983)</u>
Net Cash Provided by Operating Activities	<u>279,578,608</u>

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:

Repayment of Bond Principal	(157,903,670)
State Aid	78,481,975
Noncapital Grants	165,890,926
Federal Grants	765,058
Grants, Aid and Subsidies	<u>(205,569,916)</u>
Net Cash Used by Noncapital Financing Activities	<u>(118,335,627)</u>

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:

Acquisition of Capital Assets	<u>(1,027,209)</u>
Net Cash Used by Capital and Related Financing Activities	<u>(1,027,209)</u>

CASH FLOWS FROM INVESTING ACTIVITIES:

Proceeds from the Sale and Maturities of Investments	581,230,185
Investment Earnings	7,415,972
Purchase of Investments	<u>(721,122,920)</u>
Net Cash Used by Investing Activities	<u>(132,476,763)</u>

NET INCREASE IN CASH AND CASH EQUIVALENTS 27,739,009

CASH AND CASH EQUIVALENTS--Beginning of Year 562,001,839

CASH AND CASH EQUIVALENTS--End of Year \$ 589,740,848

NORTH CAROLINA  
STATE EDUCATION ASSISTANCE AUTHORITY  
Statement of Cash Flows  
For the Year Ended June 30, 2020

RECONCILIATION OF OPERATING LOSS TO	
NET CASH PROVIDED BY OPERATING ACTIVITIES:	
Operating Loss	\$ (30,249,924)
Adjustments to Reconcile Operating Loss to	
Net Cash Provided by Operating Activities:	
Depreciation	266,172
Original Issue Discount Expensed	2,392,903
Student Loan Principal Repayments	179,166,288
Student Loans Issued	(53,550,362)
Student Loan Cancellations and Write-offs	24,416,457
Allowances and Uncollectible Accounts	(4,166,000)
Capitalized Interest and Other	(15,972,150)
(Increase) Decrease in Assets:	
Accounts Receivable	826,402
Intergovernmental Receivables	1,756,342
Interest Receivable	(1,831,653)
Due from Component Unit	(166,702)
Prepaid Items	(12,099)
Increase in Liabilities:	
Accounts Payable and Interest Payable	2,458,455
Accrued Payroll, Net Pension and OPEB Liabilities	400,028
Due to IRC Section 529 Plan Participants	174,831,372
Accrued Employee Expenses	47,806
Decrease in Deferred Inflows	<u>(1,034,727)</u>
Net Cash Provided by Operating Activities	<u>\$ 279,578,608</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOWS INFORMATION:	
Cash Paid During the Year for Interest	\$ 28,520,752
NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:	
Noncash Distributions from State Treasurer Long-Term Investment Pool	\$ 471,695
Increase in Fair Market Value of Investments	\$ 262,141

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

NORTH CAROLINA  
STATE EDUCATION ASSISTANCE AUTHORITY  
Notes to Financial Statements  
June 30, 2020

1. Summary of Significant Accounting Policies

A. Organization and Reporting Entity:

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

The Authority is a legally separate authority created to provide a system of financial assistance, consisting of grants, loans, work-study or other employment, and other aids, to qualified students to obtain an education. The Authority is governed by a nine-member board of directors, seven of whom are appointed by the Governor and two of whom serve ex officio, by virtue of their respective positions of leadership within the two public sectors of higher education in the State. The State provides program subsidies to the Authority.

The accompanying financial statements present all funds subject to the direct administrative authority and responsibility of the Authority. These funds are as follows:

1. Student Aid Funds
2. North Carolina Student Loan Fund
3. Guaranteed Student Loan Revenue Bond Fund
4. Principal Fellows Program
5. Golden LEAF Scholars Program
6. North Carolina National College Savings Program
7. Guaranty Reserve Funds
8. Education Lottery Scholarship Fund
9. Child Welfare Postsecondary Support Program
10. National Board for Professional Teaching Standards Loan Program
11. Forgivable Education Loans for Service Program
  - Comprised of the following:
    - Student Loan Program for Health, Science and Mathematics
    - North Carolina Nurse Scholarship Loan Program
    - North Carolina Masters Nurse Scholarship Loan Program
    - North Carolina Nurse Education Scholarship Loan Program
    - Social Workers Scholarship Loan Program
    - Millennium Teacher Scholarship Loan Program
    - Future Teachers of North Carolina Scholarship Loan Program
    - Physical Education/Coaching Scholarship Loan Program
    - Prospective Teacher/Teacher Assistant Scholarship Loan Program
    - Board of Governor's Dental Scholarship Loan Program
    - Board of Governor's Medical Scholarship Loan Program
    - Graduate Nurse Scholarship Loan Program
    - Optometry Scholarship Loan Program
    - Teaching Fellows Scholarship Loan Program
12. North Carolina Teaching Fellows (STEM) Loan Program
13. North Carolina School of Science and Math Tuition Grant
14. Opportunity Scholarship (K-12)
15. Personal Education Savings Account Program (K-12)

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



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1. Summary of Significant Accounting Policies (Continued)

B. Basis of Presentation:

The accompanying financial statements are presented in accordance with accounting principles generally accepted in the United States of America as prescribed by the GASB.

C. Basis of Accounting:

The financial statements of the Authority have been prepared on the accrual basis of accounting. Under the accrual basis, revenues are recognized when earned, and expenses are recorded when an obligation has been incurred, regardless of the timing of the cash flows.

Nonexchange transactions, in which the Authority receives (or gives) value without directly giving (or receiving) equal value in exchange, include state appropriations and certain grants. Revenues are recognized as soon as all eligibility requirements imposed by the provider have been met.

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

Accounting records for funds with state appropriated budgets are maintained on the cash basis of accounting. The cash basis records are adjusted as of the end of the fiscal year in order to prepare accrual basis financial statements.

The Statement of Net Position includes a self-balancing set of assets, liabilities, net deferred inflows of resources, and net position that report the financial position of the Authority at the end of the fiscal year ended June 30, 2020. The Statement of Revenues, Expenses, and Changes in Net Position identifies activities which changed net position balances during the fiscal year.

D. Cash and Cash Equivalents:

This classification includes deposits held by the State Treasurer in the Short-Term Investment Fund (STIF), as well as cash on deposit with trustees/custodians. The STIF maintained by the State Treasurer has the general characteristics of a demand deposit account in that participants may deposit and withdraw cash at any time without prior notice or penalty. Additional information regarding cash and cash equivalents is provided in Note 2.

E. Investments:

This classification includes funds invested in the UNC Investment Fund LLC (the "Fund"), as well as investments with trustees/custodians. To the extent available, investments are recorded at fair value, based on quoted market prices in active markets on a trade-date basis. Within the Fund, the fair value of all debt and equity securities with readily determinable fair values are based on quoted market prices. Investments for which a readily determinable fair value does not exist may include investments in private equity, hedge funds, and limited partnerships. These investments are carried at estimated fair values as provided by the respective fund managers of these investments. UNC Management Company, Inc., the manager of the Fund, reviews and evaluates the fair values provided by the respective fund managers as well as the valuation methods and assumptions used in determining the fair value of such investments. Those estimated fair values may differ significantly from the values that would have been used had a ready market for these investments existed. Such differences could be material. Additional information regarding the fair value measurement of investments is provided in Note 3. Additional information regarding investments is provided in Note 2.

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1. Summary of Significant Accounting Policies (Continued)

F. Receivables:

Provision for expenses and losses on receivables is made in amounts required to maintain an adequate allowance to cover receivables paid through service cancellations and bad debts. At year end, the allowance is adjusted by management based on review of the receivables.

G. Capital Assets:

Capital assets are stated at cost at date of acquisition. The Authority capitalizes assets that have a value or cost of \$5,000 or greater at the date of acquisition and an estimated useful life of more than one year except for internally generated software which is capitalized when the value or cost is \$1,000,000 or greater and other intangible assets which are capitalized when the value or cost is \$100,000 or greater. Depreciation is computed using the straight-line method over the estimated useful lives of the assets.

H. Restricted Assets:

Certain resources are reported as restricted assets because restrictions on asset use change the nature or normal understanding of the availability of the asset. The Authority's restricted assets represent assets whose use is restricted by external parties, by law through constitutional provisions, or by enabling legislation of other governments.

I. Noncurrent Long-Term Liabilities:

Noncurrent long-term liabilities include principal amounts of long-term debt and other long-term liabilities that will not be paid within the next fiscal year. Debt is defined as a liability that arises from a contractual obligation to pay cash (or other assets that may be used in lieu of cash) in one or more payments to settle an amount that is fixed at the date the contractual obligation is established. Long-term debt is comprised of bonds payable (direct placements and direct public borrowings). Other long-term liabilities include amounts due to participants in the Internal Revenue Code (IRC) Section 529 Savings Plan, accrued employee expenses, net pension liability, and net other postemployment benefits (OPEB) liability.

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

The net pension liability represents the Authority's proportionate share of the collective net pension liability reported in the State of North Carolina's 2019 *Comprehensive Annual Financial Report*. This liability represents the Authority's portion of the collective total pension liability less the fiduciary net position of the Teachers' and State Employees' Retirement System. See Note 8 for further information regarding the Authority's policies for recognizing liabilities, expenses, deferred outflows of resources, and deferred inflows of resources related to pensions.

The net OPEB liability represents the Authority's proportionate share of the collective net OPEB liability reported in the State of North Carolina's 2019 *Comprehensive Annual Financial Report*. This liability represents the Authority's portion of the collective total OPEB liability less the fiduciary net position of the Retiree Health Benefit Fund. See Note 9 for further information regarding the Authority's policies for recognizing liabilities, expenses, deferred outflows of resources, and deferred inflows of resources related to OPEB.

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1. Summary of Significant Accounting Policies (Continued)

J. Compensated Absences:

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

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

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

K. Deferred Inflows (Net) of Resources:

Deferred inflows of resources represent an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until then. The Authority has forward funded state aid and noncapital grants, and net deferred inflows related to pensions and OPEB that are included in this category as follows:

Forward Funded State Aid and Noncapital Grants	\$ 125,930,498
Pensions	(661,161)
OPEB	(301,764)
	<u>\$ 124,967,573</u>

L. Net Position:

The Authority's net position is classified as follows:

**Net Investment in Capital Assets:** This represents the Authority's total investment in capital assets.

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

**Unrestricted:** This classification includes resources derived from noncapital State grants and related State-supported loan programs. While the funds are considered unrestricted at the State level as the legislature can enact statutes to change the purpose and expenditure of the funds, the Authority is currently required by State legislation to use the funds for specific programs.

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1. Summary of Significant Accounting Policies (Concluded)

Restricted and unrestricted resources are tracked using a fund accounting system and are spent in accordance with established fund authorities. Fund authorities provide rules for the fund activity and are separately established for restricted and unrestricted activities. Resources are applied on a transactional basis with unrestricted resources applied to expenses of a general unrestricted nature and to expenses of a restricted nature when restricted resources are unavailable. Restricted resources, when available, are applied to appropriate restricted expenses. Both restricted and unrestricted net position include consideration of deferred outflows of resources and deferred inflow of resources.

M. Revenue and Expense Recognition:

The Authority classifies its revenues and expenses as operating or nonoperating in the accompanying Statement of Revenues, Expenses, and Changes in Net Position. Operating revenues and expenses generally result from providing services in connection with the Authority's principal ongoing operations. Operating revenues include activities that have characteristics of exchange transactions, such as interest earned on loans and borrower recoveries and fees. Operating expenses are all expense transactions incurred other than those related to capital and noncapital financing or investing activities as defined by GASB Statement No. 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities that Use Proprietary Fund Accounting*.

Nonoperating revenues include activities that have the characteristics of nonexchange transactions. Revenues from nonexchange transactions and State appropriations that represent subsidies to the Authority, as well as investment earnings, are considered nonoperating since these are either investing, capital, or noncapital financing activities.

N. Income Taxes:

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

O. Accounting Estimates:

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Material estimates that are particularly susceptible to significant change in the near term relate to the determination of allowance for service cancellations and doubtful accounts, and the calculation of current and noncurrent notes receivable, due to IRC Section 529 plan participants, and bonds payable.

2. Deposits and Investments

Unless specifically exempt, the Authority is required by North Carolina General Statute 147-77 to deposit moneys received with the State Treasurer or with a depository institution in the name of the State Treasurer. In addition, General Statute 116-36.1 requires the Authority to deposit its institutional trust funds with the State Treasurer.

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2. Deposits and Investments (Continued)

At June 30, 2020, the amount shown on the Statement of Net Position as cash and cash equivalents includes \$410,066,498, which represents the Authority's equity position in the State Treasurer's STIF. The STIF (a portfolio within the State Treasurer's Investment Pool, an external investment pool that is not registered with the Securities and Exchange Commission or subject to any other regulatory oversight and does not have a credit rating) had a weighted average maturity of 1.3 years as of June 30, 2020. Assets and shares of the STIF are valued at fair value. Deposit and investment risks associated with the State Treasurer's Investment Pool (which includes the State Treasurer's STIF) are included in the North Carolina Department of State Treasurer Investment Program's separately issued audit report. This separately issued audit report can be obtained from the Department of State Treasurer, 3200 Atlantic Avenue, Raleigh, NC 27604 or can be accessed from the Department of State Treasurer's website at <https://www.nctreasurer.com/> in the Audited Financial Statements section.

Cash on hand at June 30, 2020 was \$589,740,848. The carrying amount of the Authority's deposits not with the State Treasurer at June 30, 2020 was \$179,674,350. Custodial credit risk is the risk that in the event of a bank failure, the Authority's deposits may not be returned to it. The Authority has a deposit policy for custodial credit risk. As of June 30, 2020, none of the Authority's deposits were exposed to custodial credit risk.

North Carolina General Statutes 147-69.1(c) and 147-69.2, which are applicable to the Authority, authorize the State Treasurer to invest in the following: obligations of or fully guaranteed by the United States; obligations of certain federal agencies; repurchase agreements; obligations of the State of North Carolina; certificates of deposit and other deposit accounts of specified institutions; prime quality commercial paper; asset-backed securities with specified ratings, specified bills of exchange or time drafts, and corporate bonds/notes with specified ratings; general obligations of other states; general obligations of North Carolina local governments; and obligations of certain entities with specified ratings.

In accordance with bond resolutions, bond proceeds and debt service funds are invested in obligations that will by their terms mature on or before the date funds are expected to be required for expenditure or withdrawal.

Investments totaled \$2,599,020,107 at June 30, 2020. At June 30, 2020, the Authority's investments include \$51,244,003, which represents the Authority's equity position in the UNC Investment Fund, LLC (UNC Investment Fund). The UNC Investment Fund is an external investment pool that is not registered with the Securities and Exchange Commission, does not have a credit rating, and is not subject to any regulatory oversight. Investment risks associated with the UNC Investment Fund are included in audited financial statements of the UNC Investment Fund, LLC which may be obtained from UNC Management Company, Inc., 1400 Environ Way, Chapel Hill, NC 27517.

The majority of the investments described in this Note, \$2,514,575,716 as of June 30, 2020 related to the IRC Section 529 Plan.

**Non-Pooled Investments:**

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

*Interest Rate Risk:* Interest rate risk is the risk the Authority may face should interest rate variances affect the fair value of investments. The Authority does not have a formal investment policy that addresses interest rate risk.

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

The following table presents investments by type and investments subject to interest rate risk at June 30, 2020, for the Authority's non-pooled investments:

	Total	Investment Maturities (in Years)			
		Less Than 1	1 to 5	6 to 10	More Than 10
Investments Subject to Interest Rate Risk:					
Debt Mutual Funds	\$ 994,266,224	\$	\$ 40,863,912	\$ 953,402,312	\$
Money Market Mutual Funds	<u>33,200,389</u>	<u>33,200,389</u>			
Total Investments Subject to Interest Rate Risk	<u>1,027,466,613</u>	<u>\$ 33,200,389</u>	<u>\$ 40,863,912</u>	<u>\$ 953,402,312</u>	<u>\$</u>
Investments Not Subject to Interest Rate Risk:					
Other Mutual Funds	<u>1,403,539,175</u>				
Total Non-Pooled Investments	<u>\$ 2,431,005,788</u>				

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

As of June 30, 2020, the Authority's non-pooled investments had the following credit quality distribution for securities with credit exposure:

	Amount	AAA	AA	A	BBB	BB/Ba	Unrated
		Aaa	Aa		Baa	and Below	
Debt Mutual Funds	\$ 994,266,224	\$	\$	\$	\$	\$	\$ 994,266,224
Money Market Mutual Funds	<u>33,200,389</u>						<u>33,200,389</u>
Total	<u>\$ 1,027,466,613</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$ 1,027,466,613</u>

*Custodial Credit Risk:* Custodial credit risk is the risk that, in the event of the failure of the counterparty, the Authority will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Authority does not have a formal policy that addresses custodial credit risk.

At June 30, 2020, the Authority's non-pooled investments were exposed to custodial credit risk as follows:

Investments Not Categorized:	
Debt Mutual Funds	\$ 994,266,224
Money Market Mutual Funds	<u>33,200,389</u>
Total Non-Pooled Investments	<u>\$ 1,027,466,613</u>

*Concentration of Credit Risk:* Concentration of credit risk is the risk of loss attributable to the magnitude of an investment in a single issuer. The Authority does not have a formal policy that addresses concentration of credit risk. The Authority places no limit on the amount that may be invested in any one issuer. As of June 30, 2020, the Authority had no non-pooled investments in any one issuer that equaled more than 5% of the Authority's total non-pooled investments.

NORTH CAROLINA  
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2. Deposits and Investments (Concluded)

*Foreign Currency Risk:* Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment. The Authority has formally adopted investment policies for foreign currency risk stating that foreign investments must be denominated in U.S. dollars or the securities must be traded solely on an exchange based in the United States. As of June 30, 2020, the Authority had no non-pooled investments exposed to foreign currency risk.

**Total Non-Pooled Investments:**

The following table presents the fair value of the Authority's total investments not invested in pooled investments:

Debt Securities:	
Debt Mutual Funds	\$ 994,266,224
Money Market Mutual Funds	<u>33,200,389</u>
Total Debt Securities	<u>1,027,466,613</u>
Other Securities:	
Other Mutual Funds	<u>1,403,539,175</u>
Total Non-Pooled Investments	<u>\$ 2,431,005,788</u>

3. Fair Value Measurements

To the extent available, the Authority's investments are recorded at fair value as of June 30, 2020. GASB Statement No. 72, *Fair Value Measurement and Application*, defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This statement establishes a hierarchy of valuation inputs based on the extent to which the inputs are observable in the marketplace. Inputs are used in applying the various valuation techniques and take into account the assumptions that market participants use to make valuation decisions. Inputs may include price information, credit data, interest and yield curve data, and other factors specific to the financial instrument. Observable inputs reflect market data obtained from independent sources. In contrast, unobservable inputs reflect the entity's assumptions about how market participants would value the financial instrument. Valuation techniques should maximize the use of observable inputs to the extent available.

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

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

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3. Fair Value Measurements (Continued)

The following tables summarizes the Authority's investments, including deposits in the Short-Term Investment Fund, within the fair value hierarchy at June 30, 2020:

	<u>Value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Investments by Fair Value Level:				
Debt Securities:				
Debt Mutual Funds	\$ 994,266,224	\$ 994,266,224		\$
Money Market Mutual Funds	33,200,389	33,200,389		
Other Mutual Funds	<u>1,403,539,175</u>	<u>1,403,539,175</u>		
Total Debt Securities				
Total Investments by Fair Value Level	2,431,005,788	\$ <u>2,431,005,788</u>	\$ _____	\$ _____
Investments as a Position in an				
External Investment Pool:				
Short-Term Investment Fund	410,066,498			
Vanguard Short-Term Reserves Fund	116,770,316			
UNC Investment Fund	<u>51,244,003</u>			
Total Investments Measured at Fair Value	\$ <u>3,009,086,605</u>			

Debt Securities classified in Level 1 of the fair value hierarchy are valued using prices quoted in active markets for those securities.

Ownership interest in the STIF is determined on a fair market valuation basis as of fiscal year end in accordance with the STIF operating procedures. Valuation of the underlying assets is performed by the custodian. Pool investments are measured at fair value in accordance with GASB 72. The Authority's position in the pool is measured and reported at fair value and the STIF is not required to be categorized within the fair value hierarchy.

The Vanguard Short-Term Reserves Fund is composed of traditional and synthetic funding agreements with insurance companies and Vanguard Federal Money Market Fund. The funding agreements are unallocated insurance contracts that are nonparticipating interest-earning investment contracts. Accordingly, these agreements are reported at contract value for purposes of determining the Portfolio's value in the investment pool due to the fact that the terms of the funding agreements are such that the contract value does not change when interest rates increase or decline. Contract value is equal to the initial required contribution amount, plus interest credited each month at the contractual rate, less withdrawals and expenses. As a result, the Vanguard Short-Term Reserves Fund is not required to be categorized within the fair value hierarchy.

Ownership interest in the UNC Investment Fund is determined on a market unit valuation basis each month and in accordance with the UNC Investment Fund's operating procedures. Valuation of the underlying assets is performed by the custodian. Pool investments are measured at fair value in accordance with GASB 72. The Authority's position in the pool is measured and reported at fair value and the UNC Investment Fund is not required to be categorized under the fair value hierarchy.



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4. Receivables

The gross receivables and related allowances for service cancellations and doubtful accounts on student loans at June 30, 2020 were:

	<u>Total</u>	<u>Current</u>	<u>Noncurrent</u>
Note Receivable--XAP Corporation	\$ 238,830	\$ 238,830	\$
Gross Student Loan Receivables	1,213,077,468	240,290,916	972,786,552
Allowance for Service Cancellations and Doubtful Accounts	<u>(107,607,139)</u>	<u>(107,607,139)</u>	<u></u>
Net Receivables	<u>\$ 1,105,709,159</u>	<u>\$ 132,922,607</u>	<u>\$ 972,786,552</u>

5. Capital Assets

A summary of capital assets for the year ended June 30, 2020 is presented as follows:

Capital Assets	\$ 13,561,223
Accumulated Depreciation	<u>(11,579,666)</u>
Net Capital Assets	<u>\$ 1,981,557</u>

6. Accounts Payable and Accrued Liabilities

Accounts payable and accrued liabilities at June 30, 2020 were as follows:

Accounts Payable	\$ 15,847,790
Accrued Payroll	<u>187,065</u>
	<u>\$ 16,034,855</u>

7. Noncurrent Liabilities

A. Changes in Noncurrent Liabilities:

A summary of changes in noncurrent liabilities for the year ended June 30, 2020 is presented as follows:

	<u>Balance</u> <u>July 1, 2019</u>	<u>Additions/</u> <u>Adjustments</u>	<u>Reductions</u>	<u>Balance</u> <u>June 30, 2020</u>	<u>Current</u> <u>Portion</u>
Due to IRC Section 529 Plan Participants	\$ 2,519,347,927	\$ 357,609,237	\$ 182,777,865	\$ 2,694,179,299	\$ 195,461,809
Bonds Payable:					
Direct Placement	167,804,948		26,690,016	141,114,932	1,800,000
Direct Borrowing	867,068,188		128,820,749	738,247,439	112,889,382
Accrued Employee Expenses	681,254	47,806		729,060	34,713
Net Pension Liability	1,330,133	26,902		1,357,035	
Net OPEB Liability	<u>4,389,556</u>	<u>345,729</u>		<u>4,735,285</u>	
Total Noncurrent Liabilities	<u>\$ 3,560,622,006</u>	<u>\$ 358,029,674</u>	<u>\$ 338,288,630</u>	<u>\$ 3,580,363,050</u>	<u>\$ 310,185,904</u>

NORTH CAROLINA  
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7. Noncurrent Liabilities (Continued)

B. Bonds Payable:

	Balance July 1, 2019	Additions	Reductions	Balance June 30, 2020
Direct Placement:				
Taxable Guaranteed Student Loan Revenue				
Private Placement Bonds 2008-1 Series:				
LIBOR Indexed:				
Series A-2				
Due 9-01-37 (Variable Rate)	\$ 106,100,000	\$	\$ 16,800,000	\$ 89,300,000
Original Issue Discount	<u>(2,287,081)</u>	<u>                    </u>	<u>(164,538)</u>	<u>(2,122,543)</u>
	<u>103,812,919</u>	<u>                    </u>	<u>16,635,462</u>	<u>87,177,457</u>
Tax-Exempt Student Loan Backed Notes, Private Placement Bonds, 2015-1 Series:				
LIBOR Indexed:				
Series A-1				
Due 11/25/25 (Variable Rate)	50,492,029		9,754,554	40,737,475
Series A-2				
Due 11/25/28 (Variable Rate)	<u>13,500,000</u>	<u>                    </u>	<u>300,000</u>	<u>13,200,000</u>
	<u>63,992,029</u>	<u>                    </u>	<u>10,054,554</u>	<u>53,937,475</u>
Total Direct Placement	<u>167,804,948</u>	<u>                    </u>	<u>26,690,016</u>	<u>141,114,932</u>
Direct Borrowing:				
Taxable Student Loan Backed Notes, 2010-1 Series:				
LIBOR Indexed:				
Tranche A-1 (Sold at 97.4%)				
Due 7/25/41 (Variable Rate)	164,094,615		22,365,689	141,728,926
Original Issue Discount	<u>(6,522,218)</u>	<u>                    </u>	<u>(564,694)</u>	<u>(5,957,524)</u>
	<u>157,572,397</u>	<u>                    </u>	<u>21,800,995</u>	<u>135,771,402</u>
Taxable Student Loan Backed Notes, 2011-1 Series:				
LIBOR Indexed:				
Tranche A-3 (Sold at 93.9%)				
Due 10/25/41 (Variable Rate)	185,217,216		25,850,580	159,366,636
Original Issue Discount	<u>(8,319,648)</u>	<u>                    </u>	<u>(758,630)</u>	<u>(7,561,018)</u>
	<u>176,897,568</u>	<u>                    </u>	<u>25,091,950</u>	<u>151,805,618</u>
Taxable Student Loan Backed Notes, 2011-2 Series:				
LIBOR Indexed:				
Tranche A-2 (Sold at 97.5%)				
Due 7/25/25 (Variable Rate)	48,456,422		24,158,344	24,298,078
Tranche A-3 (Sold at 94.1%)				
Due 7/25/36 (Variable Rate)	113,000,000			113,000,000
Original Issue Discount	<u>(5,370,555)</u>	<u>                    </u>	<u>(787,856)</u>	<u>(4,582,699)</u>
	<u>156,085,867</u>	<u>                    </u>	<u>23,370,488</u>	<u>132,715,379</u>
Taxable Student Loan Backed Notes, 2012-1 Series:				
LIBOR Indexed:				
Tranche A (Sold at 99.8%)				
Due 7/25/39 (Variable Rate)	197,352,900		30,432,895	166,920,005
Original Issue Discount	<u>(595,690)</u>	<u>                    </u>	<u>(117,185)</u>	<u>(478,505)</u>
	<u>196,757,210</u>	<u>                    </u>	<u>30,315,710</u>	<u>166,441,500</u>

NORTH CAROLINA  
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7. Noncurrent Liabilities (Continued)

	Balance July 1, 2019	Additions	Reductions	Balance June 30, 2020
Taxable Student Loan Backed Notes, 2013-1 Series:				
LIBOR Indexed:				
Due 12/26/39 (Variable Rate)	\$ 179,755,146	\$ _____	\$ 28,241,606	\$ 151,513,540
Total Direct Borrowing	<u>867,068,188</u>	_____	<u>128,820,749</u>	<u>738,247,439</u>
Total Bonds Payable	<u>\$ 1,034,873,136</u>	<u>\$ _____</u>	<u>\$ 155,510,765</u>	<u>\$ 879,362,371</u>

C. Pledged Revenues:

The Agency has collateralized \$988,218,015 in student loans receivable and \$5,777,562 in reserves to repay \$900,064,660 bonds payable at June 30, 2020. These guaranteed bonds payable were issued between fiscal years June 30, 2006 through June 30, 2016. Proceeds from the bonds issued were utilized to finance student loans. The bonds are payable through fiscal year 2038 and are paid down from cash collections on student loans receivable, interest earnings on loans and investments, and unexpended bond proceeds. In addition to cash collections on student loans receivable, all net available revenues are expected to be pledged to meet annual principal and interest payments on the bonds. For the current fiscal year, principal and interest paid and total net available revenues were \$186,424,422 and \$173,646,201, respectively. The total principal and interest remaining to be paid on the bonds is \$1,002,456,853.

D. Annual Requirements:

The annual requirements to pay principal and interest on bonds outstanding at June 30, 2020 are as follows:

Year	Direct Placement		Direct Borrowing	
	Principal	Interest	Principal	Interest
2021	\$ 1,800,000	\$ 3,398,602	\$ 112,889,382	\$ 10,985,313
2022	1,800,000	3,377,420	103,231,348	9,373,774
2023	1,800,000	3,356,238	94,594,790	7,881,731
2024	1,800,000	3,335,057	86,867,344	6,497,580
2025	1,800,000	3,313,875	79,949,516	5,210,897
2026-2030	44,937,475	14,936,354	241,509,511	10,493,267
2031-2035		13,581,042	37,785,294	757,243
2036-2040	<u>89,300,000</u>	<u>5,893,800</u>	_____	_____
Total Requirements	<u>\$ 143,237,475</u>	<u>\$ 51,192,388</u>	<u>\$ 756,827,185</u>	<u>\$ 51,199,805</u>

E. Terms of Debt Agreements:

All long-term indebtedness represents obligations of the Authority and is not deemed to constitute a debt, liability, or obligation of the State of North Carolina. The Authority's debt agreements are secured by the following collateral:

**Notes from Direct Placement:** The 2008-1 Series Bonds are secured by certain student loans of the Authority that are not insured by the federal government. The 2015-1 Series Bonds are secured by federally insured student loans of the Authority.

**Notes from Direct Borrowing:** All indebtedness is secured by federally insured student loans of the Authority.

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7. Noncurrent Liabilities (Concluded)

**Notes from Direct Placement:**

The Taxable Guaranteed Student Loan Revenue Private Placement Bonds, 2008-1 Series are LIBOR indexed debt instruments due September 1, 2037. The Tax-Exempt Student Loan Backed Notes, 2015-1 Series are LIBOR indexed debt instruments due November 25, 2028.

**Notes from Direct Borrowing:**

The Taxable Student Loan Backed Notes 2010-1 Series are LIBOR indexed debt instruments due July 25, 2041. The Taxable Student Loan Backed Notes 2011-1 Series are LIBOR indexed debt instruments due October 25, 2041. The Taxable Student Loan Backed Notes 2011-2 are LIBOR indexed debt instruments due July 25, 2036. The Taxable Student Loan Backed Notes 2012-1 are LIBOR indexed debt instruments due July 25, 2039. The Taxable Student Loan Backed Notes 2013-1 are LIBOR indexed debt instruments due December 26, 2039.

All of the above series have a variable interest rate that changes either monthly or quarterly. The annual interest requirements in the schedule above were calculated using the rates in effect on June 30, 2020. Therefore, the debt service interest requirements on the aforementioned series will change on a monthly/quarterly basis throughout the life of the bonds.

8. Pension Plans

A. Defined Benefit Plan:

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

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

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8. Pension Plans (Continued)

*Contributions:* Contribution provisions are established by General Statute 135-8 and may be amended only by the North Carolina General Assembly. Employees are required to contribute 6% of their annual pay. The contributions rate for employers is set each year by the North Carolina General Assembly in the Appropriations Act based on the actuarially-determined rate recommended by the actuary. The Authority's contractually-required contribution rate for the year ended June 30, 2020 was 12.97% of covered payroll. Employee contributions to the pension plan were \$144,043, and the Authority's contributions were \$311,375 for the year ended June 30, 2020.

The TSERS plan's financial information, including all information about the plan's assets, deferred outflows of resources, liabilities, deferred inflows of resources, and fiduciary net position, is included in the State of North Carolina's fiscal year 2019 *Comprehensive Annual Financial Report*. An electronic version of this report is available on the North Carolina Office of the State Controller's website at <https://www.osc.nc.gov/> or by calling the State Controller's Financial Reporting Section at (919) 707-0500.

*TSERS Basis of Accounting:* The financial statements of the TSERS plan were prepared using the accrual basis of accounting. Plan member contributions are recognized in the period in which the contributions are due. Employer contributions are recognized when due and the employer has a legal requirement to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of each plan. For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the TSERS plan, and additions to/deductions from the TSERS plan's fiduciary net position have been determined on the same basis as they are reported by TSERS.

*Methods Used to Value TSERS Investment:* Pursuant to North Carolina General Statutes, the State Treasurer is the custodian and administrator of the retirement systems. The State Treasurer maintains various investment portfolios in its External Investment Pool. TSERS and other pension plans of the State of North Carolina are the sole participants in the Long-Term Investment, Fixed Income Investment, Equity Investment, Real Estate Investment, Alternative Investment, Opportunistic Fixed Income Investment, and Inflation Sensitive Investment Portfolios. The Fixed Income Asset Class includes the Long-Term Investment and Fixed Income Investment Portfolios. The Global Equity Asset Class includes the Equity Investment Portfolio. The investment balance of each pension trust fund represents its share of the fair market value of the net pension of the various portfolios within the External Investment Pool. Detailed descriptions of the methods and significant assumptions regarding investments of the State Treasurer are provided in the 2019 *Comprehensive Annual Financial Report*.

*Net Pension Liability:* The Authority reported a liability of \$1,357,035 at June 30, 2020 for its proportionate share of the collective net pension liability. The net pension liability was measured as of June 30, 2019. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2018, and update procedures were used to roll forward the total pension liability to June 30, 2019. The Authority's proportion of the net pension liability was based on the present value of future salaries for the Authority relative to the present value of future salaries for all participating employers, actuarially determined. As of June 30, 2019, the Authority's proportion was .013%, which was equal to its proportion measured as of June 30, 2018.

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8. Pension Plans (Continued)

*Actuarial Assumptions:* The following table presents the actuarial assumptions used to determine the total pension liability for the TSERS plan at the actuarial valuation date:

Valuation Date	12/31/2018
Inflation	3.00%
Salary Increases*	3.50% - 8.10%
Investment Rate of Return**	7.00%

\* Salary increases include 3.5% inflation and productivity factor.

\*\*Investment rate of return includes inflation assumption and is net of pension plan investment expense.

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

The actuarial assumptions used in the December 31, 2018 valuations were based on the results of an actuarial experience review for the period January 1, 2010 through December 31, 2014.

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

The projected long-term investment returns and inflation assumptions are developed through review of current and historical capital markets data, sell-side investment research, consultant whitepapers, and historical performance of investment strategies. Fixed income return projections reflect current yields across the U.S. Treasury yield curve and market expectations of forward yields projected and interpolated for multiple tenors and over multiple year horizons. Global public equity return projections are established through analysis of the equity risk premium and the fixed income return projections. Other asset categories and strategies' return projections reflect the foregoing and historical data analysis. These projections are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2019 (the valuation date) are summarized in the following table:

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

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8. Pension Plans (Continued)

The information in the preceding table is based on 30-year expectations developed with the consulting actuary and is part of the asset, liability, and investment policy of the North Carolina Retirement Systems. The long-term nominal rates of return underlying the real rates of return are arithmetic annualized figures. The real rates of return are calculated from nominal rates by multiplicatively subtracting a long-term inflation assumption of 3.05%. Return projections do not include any excess return expectations over benchmark averages. All rates of return and inflation are annualized. The long-term expected real rate of return for The Bond Index Pool as of June 30, 2019 is 1.4%.

*Discount Rate:* The discount rate used to measure the total pension liability was calculated at 7.00% for the December 31, 2018 valuation. The discount rate is in line with the long-term nominal expected return on pension plan investments. The calculation of the net pension liability is a present value calculation of the future net pension payments. These net pension payments assume that contributions from plan members will be made at the current statutory contribution rate and that contributions from employers will be made at the contractually required rates, actuarially determined. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of the current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

*Sensitivity of the Net Pension Liability to Changes in the Discount Rate:* The following presents the net pension liability of the plan at June 30, 2019 calculated using the discount rate of 7.00%, as well as what the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.00%) or 1-percentage-point higher (8.00%) than the current rate:

Net Pension Liability		
1% Decrease (6.00%)	Current Discount Rate (7.00%)	1% Increase (8.00%)
\$ <u>2,582,814</u>	\$ <u>1,357,035</u>	\$ <u>328,762</u>

*Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions:* For the year ended June 30, 2020, the Authority recognized pension expense of \$529,957. At June 30, 2020, the Authority reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

Employer Balances of Deferred Outflows of Resources and Deferred Inflows of Resources  
Related to Pensions by Classification

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference Between Actual and Expected Experience	\$ 113,514	\$ 2,717
Change of Assumptions	144,597	
Net Difference Between Projected and Actual Earnings on Plan Investments	26,012	
Change in Proportion and Differences Between Authority's Contributions and Proportionate Share of Contributions	71,861	3,481
Contributions Subsequent to the Measurement Date	<u>311,375</u>	
	\$ <u>667,359</u>	\$ <u>6,198</u>

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8. Pension Plans (Concluded)

The amount reported as deferred outflows of resources related to contributions subsequent to the measurement date will be included as a reduction of the net pension liability in the year ended June 30, 2021. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows:

Schedule of the Net Amount of the Authority's Balances of Deferred Outflows of Resources  
and Deferred Inflows of Resources that will be Recognized in Pension Expense

Year		
2021	\$	245,763
2022		63,235
2023		31,691
2024		9,097
2025		-
	\$	349,786

B. Defined Contribution Plan:

The Optional Retirement Program (ORP) is a defined contribution pension plan that provides retirement benefits with options for payments to beneficiaries in the event of the participant's death. Administrators of the Authority may join ORP instead of TSERS. The Board of Governors of The University of North Carolina is responsible for the administration of ORP and designates the companies authorized to offer investment products or the trustee responsible for the investment of contributions under ORP and approves the form and contents of the contracts and trust agreements.

Participants in ORP are immediately vested in the value of employee contributions. The value of employer contributions is vested after five years of participation in ORP. Participants become eligible to receive distributions when they terminate employment or retire.

Participant eligibility and contributory requirements are established by General Statute 135-5.1. Member and employer contribution rates are set each year by the North Carolina General Assembly. For the year ended June 30, 2020, these rates were set at 6% of covered payroll for members and 6.84% of covered payroll for employers. The Authority assumes no liability other than its contribution.

For the year ended June 30, 2020, the Authority had a total payroll of \$3,632,991, of which \$1,118,058 was covered under ORP. Total employee and employer contributions for pension benefits for the year ended June 30, 2020 were \$67,083 and \$76,475, respectively. The amount of expense recognized in the current year related to ORP is equal to the employer contributions.

9. Other Postemployment Benefits

The Authority participates in two postemployment benefit plans, the Retiree Health Benefit Fund and the Disability Income Plan of North Carolina, that are administered by the State of North Carolina as pension and other employee benefit trust funds. Each plan's financial information, including all information about the plan's assets, deferred outflows of resources, liabilities, deferred inflows of resources, and fiduciary net position, is included in the State of North Carolina's fiscal year 2019 *Comprehensive Annual Financial Report*. An electronic version of this report is available on the North Carolina Office of the State Controller's website at <https://www.osc.nc.gov/> or by calling the State Controller's Financial Reporting Section at (919) 707-0500.



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9. Other Postemployment Benefits (Continued)

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

*Basis of Accounting:* The financial statements of these plans were prepared using the accrual basis of accounting. Employer contributions are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits are recognized when due and payable in accordance with the terms of each plan. For purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of each plan, and additions to/deductions from each plan's fiduciary net position have been determined on the same basis as they are reported by the plans.

*Methods Used to Value Plan Investments:* Pursuant to North Carolina General Statutes, the State Treasurer is the custodian and administrator of the other postemployment benefits funds. The State Treasurer maintains various investment portfolios in its External Investment Pool. The Retiree Health Benefit Fund participates in the External Investment Pool. The Disability Income Plan of North Carolina is invested in the Short-Term Investment Portfolio of the External Investment Pool and the Bond Index External Investment Pool. The investment balance of each other employee benefit trust fund represents its share of the fair market value of the net position of the various portfolios within the pool. Detailed descriptions of the methods and significant assumptions regarding investments of the State Treasurer are provided in the 2019 *Comprehensive Annual Financial Report*.

B. Plan Descriptions:

1. Health Benefits:

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

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

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

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9. Other Postemployment Benefits (Continued)

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

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

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

*Contributions:* Contribution rates to RHBF, which are intended to finance benefits and administrative expenses on a pay-as-you-go basis, are determined by the North Carolina General Assembly in the Appropriations Bill. The Authority's contractually-required contribution rate for the year ended June 30, 2020 was 6.47% of covered payroll. The Authority's contributions to the RHBF were \$227,666 for the year ended June 30, 2020.

2. Disability Income:

*Plan Administration:* As discussed in Note 10, short-term and long-term disability benefits are provided through the Disability Income Plan of North Carolina (DIPNC), a cost-sharing, multiple-employer defined benefit plan, to the eligible members of TSERS which includes employees of the State, the University of North Carolina System, community colleges, certain participating component units, LEAs which are not part of the reporting entity, and the Authority Employees' ORP. By statute, DIPNC is administered by the Department of State Treasurer and the Board of Trustees of TSERS.

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9. Other Postemployment Benefits (Continued)

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

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

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

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9. Other Postemployment Benefits (Continued)

*Contributions:* Although DIPNC operates on a calendar year, disability income benefits are funded by actuarially determined employer contributions that are established in the Appropriations Bill by the North Carolina General Assembly and coincide with the State's fiscal year. The Authority's contractually-required contribution rate for the year ended June 30, 2020 was 0.10% of covered payroll. The Authority's contributions to DIPNC were \$3,519 for the year ended June 30, 2020.

C. Net OPEB Liability:

*Net OPEB Liability:* At June 30, 2020, the Authority reported a liability of \$4,735,285 for its proportionate share of the collective net OPEB liability. The net OPEB liability was measured as of June 30, 2019. The total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of December 31, 2018, and update procedures were used to roll forward the total OPEB liability to June 30, 2019. The Authority's proportion of the net OPEB liability was based on the present value of future salaries for the Authority relative to the present value of future salaries for all participating employers, actuarially determined. As of June 30, 2019, the Authority's proportion was approximately .013%, which was equal to its proportion measured at June 30, 2018.

*Actuarial Assumptions:* The net OPEB liability for RHBF and DIPNC was determined by actuarial valuations as of December 31, 2018, using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified. The net OPEB liability was then rolled forward to June 30, 2019 utilizing update procedures incorporating the actuarial assumptions.

	Retiree Health Benefit Fund	Disability Income Plan of N.C.
Valuation Date	12/31/2018	12/31/2018
Inflation	3.00%	3.00%
Salary Increases*	3.50% - 8.10%	3.50% - 8.10%
Investment Rate of Return**	7.00%	3.75%
Healthcare Cost Trend Rate - Medical	6.50% grading down to 5.00% by 2024	6.50% grading down to 5.00% by 2024
Healthcare Cost Trend Rate - Prescription Drug	9.50% grading down to 5.00% by 2028	9.50% grading down to 5.00% by 2028
Healthcare Cost Trend Rate - Medicare Advantage	6.50% grading down to 5.00% by 2024	N/A
Healthcare Cost Trend Rate - Administrative	3.00%	N/A

\* Salary increases include 3.5% inflation and productivity factor.

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

N/A - Not Applicable

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9. Other Postemployment Benefits (Continued)

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

The projected long-term investment returns and inflation assumptions are developed through a review of current and historical capital markets data, sell-side investment research, consultant whitepapers, and historical performance of investment strategies. Fixed income return projections reflect current yields across the U.S. Treasury yield curve and market expectations of forward yields projected and interpolated for multiple tenors and over multiple year horizons. Global public equity return projects are established through analysis of the equity risk premium and the fixed income return projections. Other asset categories and strategies' return projections reflect the foregoing and historical data analysis. These projections are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. DIPNC is primarily invested in the Bond Index Investment Pool as of June 30, 2019.

Best estimates of real rates of return for each major asset class included in RHBF's target asset allocation as of June 30, 2019 (the valuation date) are summarized in the following table:

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

The information in the preceding table is based on 30-year expectations developed with the consulting actuary and is part of the asset, liability, and investment policy of the North Carolina Retirement Systems. The long-term nominal rates of return underlying the real rates of return are arithmetic annualized figures. The real rates of return are calculated from nominal rates by multiplicatively subtracting a long-term inflation assumption of 3.05%. Return projections do not include any excess return expectations over benchmark averages. All rates of return and inflation are annualized. The long-term expected real rate of return for the Bond Index Investment Pool as of June 30, 2019 is 1.4%.

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

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

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9. Other Postemployment Benefits (Continued)

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

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

The actuarial assumptions used in the December 31, 2018 valuations were generally based on the results of an actuarial experience study prepared as of December 31, 2014, as amended for updates to certain assumptions (such as the long-term investment return, medical claims, and medical trend rate assumptions) implemented based on annual reviews that have occurred since that experience study.

*Discount Rate:* The discount rate used to measure the total OPEB liability for RHBF was 3.50%. The projection of cash flows used to determine the discount rate assumed that contributions from employers will be made at the current statutorily determined contribution rate. Based on the above assumptions, the plan's fiduciary net position was not projected to be available to make projected future benefit payments of current plan members. As a result, a municipal bond rate of 3.50% was used as the discount rate used to measure the total OPEB liability. The 3.50% rate is based on the Bond Buyer 20-year General Obligation Index as of June 30, 2019.

The discount rate used to measure the total OPEB liability for DIPNC was 3.75%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current contribution rate and that contributions from employers will be made at statutorily required rates, actuarially determined. Based on those assumptions, the plan's fiduciary net position was projected to be available to make all projected future benefit payments of the current plan members. Therefore, the long-term expected rate of return on plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

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

Net OPEB Liability (Asset)			
	1% Decrease (2.50%)	Current Discount Rate (3.50%)	1% Increase (4.50%)
RHBF	\$ <u><u>5,632,355</u></u>	\$ <u><u>4,740,014</u></u>	\$ <u><u>4,024,761</u></u>
	1% Decrease (2.75%)	Current Discount Rate (3.75%)	1% Increase (4.75%)
DIPNC	\$ <u><u>(4,006)</u></u>	\$ <u><u>(4,729)</u></u>	\$ <u><u>(5,432)</u></u>

NORTH CAROLINA  
STATE EDUCATION ASSISTANCE AUTHORITY  
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June 30, 2020

9. Other Postemployment Benefits (Continued)

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

Net OPEB Liability (Asset)			
	1% Decrease (Medical - 4.00-5.50%, Pharmacy - 4.00-8.50% Med Advantage - 4.00-5.50% Administrative - 2.00%)	Current Healthcare Cost Trend Rates (Medical - 5.00-6.50%, Pharmacy - 5.00-9.50% Med Advantage - 5.00-6.50% Administrative - 3.00%)	1% Increase (Medical - 6.00-7.50%, Pharmacy - 6.00-10.50% Med Advantage - 6.00-7.50% Administrative - 4.00%)
RHBFB	\$ <u>3,902,700</u>	\$ <u>4,740,014</u>	\$ <u>5,839,986</u>
	1% Decrease (Medical - 4.00-5.50%, Pharmacy - 4.00-8.50%)	Current Healthcare Cost Trend Rates (Medical - 5.00-6.50%, Pharmacy - 5.00-9.50%)	1% Increase (Medical - 6.00-7.50%, Pharmacy - 6.00-10.50%)
DIPNC	\$ <u>(4,738)</u>	\$ <u>(4,729)</u>	\$ <u>(4,721)</u>

*Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB:* For the year ended June 30, 2020, the Authority recognized OPEB expense of \$348,042 for RHBFB and \$6,156 for DIPNC. At June 30, 2020, the Authority reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

Employer Balances of Deferred Outflows of Resources  
Related to OPEB by Classification

	RHBFB	DIPNC	Total
Differences Between Actual and Expected Experience	\$ (238,956)	\$ 4,831	\$ (234,125)
Changes of Assumptions	(1,197,229)	39	(1,197,190)
Net Difference Between Projected and Actual Earnings on Plan Investments	3,156	901	4,057
Changes in Proportion and Differences Between Authority's Contributions and Proportionate Share of Contributions	1,492,955	4,882	1,497,837
Contributions Subsequent to the Measurement Date	<u>227,666</u>	<u>3,519</u>	<u>231,185</u>
	<u>\$ 287,592</u>	<u>\$ 14,172</u>	<u>\$ 301,764</u>

NORTH CAROLINA  
STATE EDUCATION ASSISTANCE AUTHORITY  
Notes to Financial Statements  
June 30, 2020

9. Other Postemployment Benefits (Continued)

Amounts reported as deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability related to RHBF and an increase of the net OPEB asset related to DIPNC in the fiscal year ended June 30, 2021. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Schedule of the Net Amount of the Authority's Balances of Deferred Outflows of Resources  
and Deferred Inflows of Resources that will be Recognized in OPEB Expense

Year Ended June 30	RHBF	DIPNC
2021	\$ (36,017)	\$ 3,588
2022	(36,017)	1,992
2023	(35,561)	1,625
2024	148,043	1,252
2025	19,478	1,492
Thereafter	-	704
Total	\$ 59,926	\$ 10,653

10. Risk Management

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

A. Employee Benefit Plans:

1. State Health Plan:

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

2. Death Benefit Plan of North Carolina:

Term life insurance (death benefits) of \$25,000 to \$50,000 is provided to eligible workers who enroll in the Teachers' and State Employees' Retirement System. This Death Benefit Plan is administered by the State Treasurer and funded via employer contributions. The employer contribution rate was .16% for the current fiscal year.



NORTH CAROLINA  
STATE EDUCATION ASSISTANCE AUTHORITY  
Notes to Financial Statements  
June 30, 2020

10. Risk Management (Continued)

3. Disability Income Plan:

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

B. Other Risk Management and Insurance Activities:

1. Automobile, Fire, and Other Property Losses:

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

2. Public Officers' and Employees' Liability Insurance:

The risk of tort claims of up to \$1,000,000 per claimant is retained under the authority of the State Tort Claims Act. In addition, the State provides excess public officers' and employees' liability insurance up to \$2,000,000 per claim and \$10,000,000 in the aggregate per fiscal year via contract with a private insurance company. The Authority pays the premium, based on a composite rate, directly to the private insurer.

3. Employee Dishonesty and Computer Fraud:

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

4. Statewide Workers' Compensation Program:

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

Additional details on the state-administered risk management programs are disclosed in the State of North Carolina's *Comprehensive Annual Financial Report*, issued by the Office of the State Controller.

5. Cyber and Breach Response Insurance:

The Authority is protected for losses from cyber and data breach. This coverage is with a private insurance company. Coverage limit is \$5,000,000 for related losses.

NORTH CAROLINA  
STATE EDUCATION ASSISTANCE AUTHORITY  
Notes to Financial Statements  
June 30, 2020

11. Adoption of New Accounting Standard

For the year ended June 30, 2020, the Authority implemented the following pronouncement issued by GASB:

- GASB Statement No. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance*. This Statement provides temporary relief to governments and other stakeholders in light of the COVID-19 pandemic by postponing the effective dates of certain provisions in Statements and Implementation Guides that first became effective or are scheduled to become effective for periods beginning after June 15, 2018.

12. Subsequent Events

Subsequent events have been evaluated through November 6, 2020, which is the date the financial statements were available to be issued.

On July 30, 2020, the Authority issued \$26,450,000 in Tax-Exempt Student Loan Revenue Bonds, Senior Series 2020A. The bonds are dated July 30, 2020 and will bear interest from that date. Interest on the bonds will be payable semiannually on each June 1 and December 1, commencing December 1, 2020. The bonds consist of serial bonds that will mature from 2025 to 2029, with an interest rate of 5.00%, and term bonds that will mature on June 1, 2039. The bonds were issued to provide funds for financing N.C. Student Assist Loans and N.C. Parent Assist Loans.

REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF PROPORTIONATE SHARE OF THE NET PENSION LIABILITY

NORTH CAROLINA  
STATE EDUCATION ASSISTANCE AUTHORITY  
Required Supplementary Information  
Schedule of Proportionate Share of the Net Pension Liability  
Cost-Sharing, Multiple-Employer, Defined Benefit Pension Plan  
Last Seven Fiscal Years \*

	<u>2020</u>	<u>2019</u>	<u>2018</u>
Authority's proportionate share percentage of collective net pension liability	0.013%	0.013%	0.014%
Authority's proportionate share of TSERS collective net pension liability	\$ 1,357,035	\$ 1,330,133	\$ 1,075,117
Authority's covered payroll	\$ 2,379,219	\$ 2,352,372	\$ 2,300,394
Authority's proportionate share of the net pension liability as a percentage of covered payroll	57.037%	56.544%	46.736%
Plan fiduciary net position as a percentage of the total pension liability	87.560%	87.610%	89.510%

\* The amounts presented for each fiscal year were determined as of the prior fiscal year ending June 30.

<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
0.011%	0.013%	0.014%	0.014%
\$ 1,053,292	\$ 482,209	\$ 163,432	\$ 163,432
\$ 2,044,547	\$ 2,131,189	\$ 2,208,847	\$ 2,209,421
51.517%	22.626%	7.399%	7.397%
87.320%	94.640%	98.240%	90.600%

SCHEDULE OF AUTHORITY CONTRIBUTIONS (PENSION)

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

	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>
Contractually required contribution	\$ 311,375	\$ 292,406	\$ 253,586	\$ 229,579
Contributions in relation to the contractually determined contribution	<u>311,375</u>	<u>292,406</u>	<u>253,586</u>	<u>229,579</u>
Contribution deficiency (excess)	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>
Authority's covered payroll	\$ 2,400,732	\$ 2,379,219	\$ 2,352,372	\$ 2,300,394
Contributions as a percentage of covered payroll	12.97%	12.29%	10.78%	9.98%



<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>
\$ 187,076	\$ 195,004	\$ 191,949	\$ 184,045	\$ 138,421	\$ 116,092
<u>187,076</u>	<u>195,004</u>	<u>191,949</u>	<u>184,045</u>	<u>138,421</u>	<u>116,092</u>
<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>
\$ 2,044,547	\$ 2,131,189	\$ 2,208,847	\$ 2,209,421	\$ 2,807,731	\$ 2,354,801
9.15%	9.15%	8.69%	8.33%	4.93%	4.93%

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

1. Changes of Benefit Terms

Teachers' and State Employees' Retirement System:

Cost of Living Increase

<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>
N/A	1.00%	N/A	N/A	N/A	1.00%	N/A	N/A	N/A	2.20%

2. Changes of Assumptions

In 2015, the North Carolina Retirement Systems' consulting actuaries performed the quinquennial investigation of each retirement systems' actual demographic and economic experience (known as the "Experience Review"). The Experience Review provides the basis for selecting the actuarial assumptions and methods used to determine plan liabilities and funding requirements. The most recent Experience Review examined each plan's experience during the period between January 1, 2010 and December 31, 2014. Based on the findings, the Board of Trustees and the TSERS adopted a number of new actuarial assumptions and methods. The most notable changes to the assumptions include updates to the mortality tables and the mortality improvement projection scales to reflect reduced rates of mortality and significant increases in mortality improvements. These assumptions were adjusted to reflect the mortality projection scale MP-2015, released by the Society of Actuaries in 2015. In addition, the assumed rates of retirement, salary increases, and rates of termination from active employment were reduced to more closely reflect actual experience. The discount rate for the TSERS was lowered from 7.25% to 7.20% for the December 31, 2016 valuation. For the December 31, 2017 valuation, the discount rate was lowered to 7.00%.

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

The Notes to Required Supplementary Information reflect the most recent available information included in the State of North Carolina's 2019 *Comprehensive Annual Financial Report*.

NORTH CAROLINA  
STATE EDUCATION ASSISTANCE AUTHORITY  
Required Supplementary Information  
Schedule of Proportionate Share of the Net OPEB Liability (Asset)  
Cost-Sharing, Multiple-Employer, Defined Benefit OPEB Plans  
Last Four Fiscal Years \*

	2020	2019	2018	2017
<b>Retiree Health Benefit Fund</b>				
Authority's proportionate share percentage of collective net OPEB liability (asset)	0.01498%	0.01542%	0.01168%	0.00968%
Authority's proportionate share of collective net OPEB liability (asset)	\$ 4,740,014	\$ 4,392,925	\$ 3,829,724	\$ 4,211,129
Authority's covered payroll	\$ 3,507,443	\$ 3,382,627	\$ 3,148,955	\$ 2,832,617
Authority's proportionate share of the net OPEB liability as a percentage of covered payroll	135.14%	129.87%	121.62%	148.67%
Plan fiduciary net position as a percentage of the total OPEB liability (asset)	4.40%	4.40%	3.52%	2.41%
<b>Disability Income Plan of North Carolina</b>				
Authority's proportionate share percentage of collective net OPEB liability (asset)	0.01096%	0.01109%	0.01172%	0.01042%
Authority's proportionate share of collective net OPEB liability (asset)	\$ (4,729)	\$ (3,369)	\$ (7,163)	\$ (6,471)
Authority's covered payroll	\$ 3,507,443	\$ 3,382,627	\$ 3,148,955	\$ 2,832,617
Authority's proportionate share of the net OPEB liability as a percentage of covered payroll	(0.13%)	(0.10%)	(0.23%)	(0.23%)
Plan fiduciary net position as a percentage of the total OPEB liability (asset)	(113.00%)	(108.47%)	(116.23%)	(116.06%)

\* The amounts presented for each fiscal year were determined as of the prior fiscal year ending June 30.

SCHEDULE OF AUTHORITY CONTRIBUTIONS (OPEB)

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

	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>
<b>Retiree Health Benefit Fund</b>				
Contractually required contribution	\$ 227,666	\$ 219,917	\$ 204,649	\$ 183,498
Contributions in relation to the contractually determined contribution	<u>227,666</u>	<u>219,917</u>	<u>204,649</u>	<u>183,498</u>
Contribution deficiency (excess)	\$ <u><u>          </u></u>	\$ <u><u>          </u></u>	\$ <u><u>          </u></u>	\$ <u><u>          </u></u>
Authority's covered payroll	\$ 3,518,790	\$ 3,507,443	\$ 3,382,627	\$ 3,148,955
Contributions as a percentage of covered payroll	6.47%	6.27%	6.05%	5.83%

**Disability Income Plan of North Carolina**

Contractually required contribution	\$ 3,519	\$ 4,910	\$ 4,736	\$ 11,966
Contributions in relation to the contractually determined contribution	<u>3,519</u>	<u>4,910</u>	<u>4,736</u>	<u>11,966</u>
Contribution deficiency (excess)	\$ <u><u>          </u></u>	\$ <u><u>          </u></u>	\$ <u><u>          </u></u>	\$ <u><u>          </u></u>
Authority's covered payroll	\$ 3,518,790	\$ 3,507,443	\$ 3,382,627	\$ 3,148,955
Contributions as a percentage of covered payroll	0.10%	0.14%	0.14%	0.38%

<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>
\$ 158,627	\$ 153,413	\$ 146,021	\$ 135,438	\$ 155,223	\$ 129,925
<u>158,627</u>	<u>153,413</u>	<u>146,021</u>	<u>135,438</u>	<u>155,223</u>	<u>129,925</u>
\$ <u><u>          </u></u>	\$ <u><u>          </u></u>	\$ <u><u>          </u></u>	\$ <u><u>          </u></u>	\$ <u><u>          </u></u>	\$ <u><u>          </u></u>
\$ 2,832,617	\$ 2,794,390	\$ 2,704,091	\$ 2,555,455	\$ 3,104,423	\$ 2,651,538
5.60%	5.49%	5.40%	5.30%	5.00%	4.90%

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\$ 11,614	\$ 11,457	\$ 11,898	\$ 11,244	\$ 16,143	\$ 13,788
<u>11,614</u>	<u>11,457</u>	<u>11,898</u>	<u>11,244</u>	<u>16,143</u>	<u>13,788</u>
\$ <u><u>          </u></u>	\$ <u><u>          </u></u>	\$ <u><u>          </u></u>	\$ <u><u>          </u></u>	\$ <u><u>          </u></u>	\$ <u><u>          </u></u>
\$ 2,832,617	\$ 2,794,390	\$ 2,704,091	\$ 2,555,455	\$ 3,104,423	\$ 2,651,538
0.41%	0.41%	0.44%	0.44%	0.52%	0.52%

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

1. Changes of Benefit Terms

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

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

Effective January 1, 2019, benefit terms related to copays, out-of-pockets maximums, and deductibles were changed for one of four options of the RHBF. Out-of-pocket maximums increased while certain specialist copays decreased related to option benefits.

Additionally, the December 31, 2017 Disability Income Plan of North Carolina (DIPNC) actuarial valuation includes a liability for the State's potential reimbursement of health insurance premiums paid by employers during the second six months of the short-term disability benefit period.

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

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

3. Changes of Assumptions

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

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

3. Changes of Assumptions (Continued)

For the actuarial valuation measured as of June 30, 2019, the discount rate for the RHBF was updated to 3.50%. Disability rates were adjusted to the non-grandfathered assumptions used in the Teachers' and State Employees' Retirement System actuarial valuation to better align with the anticipated incidence of disability. Medical and prescription drug claims were changed based on most recent experience, and medical and prescription drug trend rates were changed to the current schedule. Enrollment assumptions were updated to model expected migrations among RHBF plan options over the next four years. For the DIPNC actuarial valuation as of December 31, 2018, for individuals who may become disabled in the future, the Social Security disability income benefit (which is an offset for the DIPNC benefit) was updated to be based on assumed calculation parameters in the year of disability.

The Notes to Required Supplementary Information reflect the most recent available information included in the State of North Carolina's 2019 *Comprehensive Annual Financial Report*.



SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

NORTH CAROLINA  
STATE EDUCATION ASSISTANCE AUTHORITY  
Schedule of Expenditures of Federal Awards  
For The Year Ended June 30, 2020

<u>Program Title</u>	<u>Federal CFDA Number</u>
U.S. Department of Education--Direct Program:	
Federal Family Education Loan Program (Guaranty Agencies)	84.032G
Balance of Loans Guaranteed for Years Ending June 30, 2010 and Prior:	
Insured Federal Stafford Loans Outstanding	
Insured Consolidation Loans Outstanding	
Insured Federal PLUS Loans Outstanding	
Insured Federal SLS Loans Outstanding	
Interest and Special Allowance	
Account Maintenance Fees	
TOTALS	

The accompanying notes are an integral part of this schedule.

Outstanding Balance at July 1, 2019	Federal Expenditures
\$ 623,227,442	\$ 623,227,442
412,502,790	412,502,790
42,602,615	42,602,615
242,179	242,179
<u>\$ 1,078,575,026</u>	<u>1,078,575,026</u>
	5,115,041
	<u>765,058</u>
	<u>\$ 1,084,455,125</u>

NORTH CAROLINA  
STATE EDUCATION ASSISTANCE AUTHORITY  
Notes to Schedule of Expenditures of Federal Awards  
June 30, 2020

1. Basis of Accounting and Presentation

The accompanying Schedule of Expenditures of Federal Awards (the Schedule) includes the federal award/expenditure activity of the North Carolina State Education Assistance Authority (the Authority) under programs of the federal government for the year ended June 30, 2020 and is presented on the accrual basis of accounting. The information in the Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the Authority, it is not intended to and does not present the net position, changes in net position, or cash flows of the Authority.

2. Federal Family Education Loan Program (FFELP)

Pursuant to certain amendments to the Higher Education Act of 1965, as amended, included in the Health Care and Education Reconciliation Act of 2010, all new federal student loans have been originated through the Federal Direct Loan Program since July 1, 2010. As a result, the Schedule reflects the balance of FFELP loans guaranteed by the Authority for the years ending June 30, 2010 and prior. Loans outstanding at the beginning of the year are included in the federal expenditures presented in the Schedule. At June 30, 2020, the balance of FFELP loans guaranteed by the Authority totaled \$ 951,170,436.

Beginning with eligible FFELP loans first disbursed on or after April 1, 2006, excess interest must be remitted to the U.S. Department of Education when the applicable interest rate on a loan for any given quarter exceeds the special allowance support level. During the year ended June 30, 2020, excess interest remitted to the U.S. Department of Education on loans funded by the Authority totaled \$ 19,174,369.

3. Continuing Compliance Requirements

Guaranteed student loans impose no continuing compliance requirements other than to repay the loans.

COMPLIANCE AND INTERNAL CONTROL REPORTS



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

INDEPENDENT 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*

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 North Carolina State Education Assistance Authority, a nonmajor component unit of the State of North Carolina, as of and for the year ended June 30, 2020, and have issued our report thereon dated November 6, 2020.

**Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the North Carolina State Education Assistance Authority's internal control over financial reporting (internal control) as a basis for designing 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 Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the North Carolina State Education Assistance Authority'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 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.

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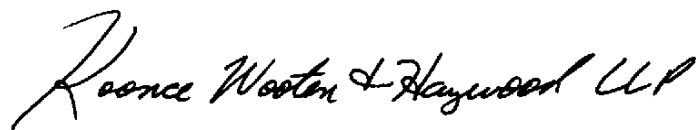
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## Compliance and Other Matters

As part of obtaining reasonable assurance about whether the North Carolina State Education Assistance Authority'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 financial statements. 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.

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

Raleigh, North Carolina  
November 6, 2020



Board of Directors  
North Carolina State Education Assistance Authority  
Research Triangle Park, North Carolina

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM  
AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

**Report on Compliance for Each Major Federal Program**

We have audited the compliance of the North Carolina State Education Assistance Authority, a nonmajor component unit of the State of North Carolina, with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on the Authority's major federal program for the year ended June 30, 2020. The North Carolina State Education Assistance Authority's major federal program is identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs.

***Management's Responsibility***

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal program.

***Auditor's Responsibility***

Our responsibility is to express an opinion on compliance for the North Carolina State Education Assistance Authority's major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on the major federal program occurred. An audit includes examining, on a test basis, evidence about the North Carolina State Education Assistance Authority's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for the major federal program. However, our audit does not provide a legal determination of the North Carolina State Education Assistance Authority's compliance.

***Opinion on Each Major Federal Program***

In our opinion, the North Carolina State Education Assistance Authority complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2020.

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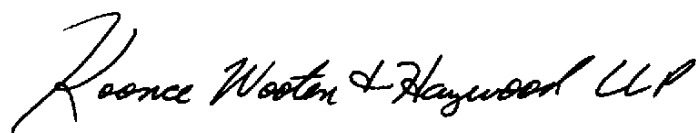
## Report on Internal Control over Compliance

Management of the North Carolina State Education Assistance Authority is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the North Carolina State Education Assistance Authority's internal control over compliance with the types of requirements that could have a direct and material effect on its major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the major program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the North Carolina State Education Assistance Authority's internal control over compliance.

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

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

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

Raleigh, North Carolina  
November 6, 2020

NORTH CAROLINA  
STATE EDUCATION ASSISTANCE AUTHORITY  
Schedule of Findings and Questioned Costs  
For the Year Ended June 30, 2020

**Section I – Summary of Auditor's Results**

*Financial Statements*

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

- Material weakness identified?  Yes  No
- Significant deficiency identified that is not considered to be material weakness?  Yes  None Reported
- Noncompliance material to financial statements noted?  Yes  No

*Federal Awards*

Internal control over major programs:

- Material weakness identified?  Yes  No
- Significant deficiency identified that is not considered to be material weakness?  Yes  None Reported

Type of auditor's report issued on compliance for major programs: Unmodified

Any audit findings disclosed that are required to be reported in accordance with 2 CFR Section 200.516(a)?  Yes  No

Identification of major programs:

CFDA Number  
84.032G

Name of Federal Program or Cluster  
Federal Family Education Loan Program  
(Guaranty Agencies)

Dollar threshold used to distinguish between Type A and Type B programs:

\$750,000

Auditee qualified as low-risk auditee?  Yes  No

**Section II – Financial Statement Findings**

There were no findings relating to the financial statements required to be reported in accordance with generally accepted government auditing standards (GAGAS).

**Section III – Federal Award Findings and Questioned Costs**

There were no findings or questioned costs for Federal awards required to be reported under 2 CFR Section 200.516(a).

This audit report required approximately 1,300 audit hours at a cost of \$180,700.