DEANDORTON

Financial Statements

for

NORTH CAROLINA STATE EDUCATION ASSISTANCE AUTHORITY

June 30, 2023

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Report of Independent Auditors

The Officers and Directors
North Carolina State Education Assistance Authority
Raleigh, North Carolina

Report on the Audit of The Financial Statements

Opinion

We have audited the financial statements of the North Carolina State Education Assistance Authority (the Authority), as of and for the year ended June 30, 2023, and the related notes to the financial statements, which collectively comprise the Authority's financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the respective financial statements of the Authority, as of June 30, 2023, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Authority, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Authority's ability to continue as a going concern for 12 months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Authority's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Authority's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that Management's Discussion and Analysis on pages 3 through 9, Schedule of Proportionate Share of the Net Pension Liability and Schedule of Authority Contributions (Pension) on pages 47 and 48, and Schedule of Proportionate Share of the Net Other Postretirement Benefits Liability (Asset) and Schedule of Authority Contributions (OPEB) on pages 51 and 52 be presented to supplement the financial statements. Such information is the responsibility of management and, 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.

Dean Dorton Allen Ford, PLLC

Raleigh, North Carolina
September 28, 2023

NORTH CAROLINA
STATE EDUCATION ASSISTANCE AUTHORITY
Management's Discussion and Analysis
June 30, 2023

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, 2023. 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, 2023 and 2022 by approximately $568.5 and $632.8 million, respectively, (presented as "net position"). Of this amount, approximately $435.3 and $106.9 million, respectively, was reported as "unrestricted net position." Unrestricted net position represents the amount available to be used to administer the State's grant and loan programs.

Decrease in Net Position -- The Authority's total net position decreased by approximately $64.3 million (10.16%) in fiscal year 2023 and decreased by approximately $7.6 million (1.19%) in fiscal year 2022.

During fiscal year 2023, the Authority sold its remaining Federal Family Education Loan Program (FFELP) portfolio and retired the bonds and notes that were used to finance these loans. The loans were sold on November 1, 2022 at 97% of book value to National Education Loan Network, Inc. (Nelnet) resulting in a loss of $19.6 million. This loss is reflected in Investment Earnings (Losses) on the financial statements. Additionally, the notes and bonds had original issue discounts (OID) that had not been fully amortized. Once the notes and bonds were paid off the remaining OID was written off resulting in an additional expense of $15.9 million.

Funding for the NC Scholarship Program began in fiscal year 2023. The NC Scholarship Program combines the previously existing UNC Need Based Scholarship Program, the Community College Grant Program, and the Education Lottery Scholarship (ELS) into one consolidated scholarship program. The new program is forward funded and is reflected as Deferred Inflows of Resources, Net on the financial statements. The program is intended to simplify the process for students as they explore options to help pay for higher education at one of the State's public higher education institutions (UNC and Community Colleges). Fiscal year 2023 was the last year for ELS; however, the funding for the program was received in fiscal year 2022. There was no current year funding for ELS to offset current year expenditures, resulting in a one-time decrease of $33 million to net position.

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. Pursuant to the provisions of Governmental Accounting Standards Board

(GASB) Statement 84, *Fiduciary Activities*, the financial statements also include Fiduciary Fund Statements for the Aubrey Lee Brooks Foundation, a North Carolina not-for-profit organization. Per the criteria detailed in GASB Statement No. 61, *The Financial Reporting Entity: Omnibus – An Amendment of GASB Statements No. 14 and No. 34,* the Authority is presented as a nonmajor component unit in the State of North Carolina Annual Comprehensive Financial Report (ACFR) 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 the 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.

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.

NORTH CAROLINA
STATE EDUCATION ASSISTANCE AUTHORITY
Management's Discussion and Analysis
June 30, 2023

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 $568.5 million as of June 30, 2023, compared to approximately $632.8 million as of June 30, 2022.

NORTH CAROLINA
STATE EDUCATION ASSISTANCE AUTHORITY
Condensed Statement of Net Position

	2023	2022
Current Assets	$ 715,884,129	$ 721,603,956
Noncurrent Assets	3,950,000,370	4,113,388,484
Capital Assets	2,927,700	3,641,247
Total Assets	$ 4,668,812,199	$ 4,838,633,687
Current Liabilities	$ 314,230,648	$ 355,421,813
Noncurrent Liabilities	3,608,504,679	3,719,255,521
Total Liabilities	3,922,735,327	4,074,677,334
Deferred Inflows of Resources, Net	177,533,146	131,150,569
Net Investment in Capital Assets	2,081,675	1,985,115
Restricted for Educational Assistance Programs	131,175,046	523,900,419
Unrestricted	435,287,005	106,920,250
Total Net Position	568,543,726	632,805,784
Total Liabilities and Net Position	$ 4,668,812,199	$ 4,838,633,687

NORTH CAROLINA
STATE EDUCATION ASSISTANCE AUTHORITY
Management's Discussion and Analysis
June 30, 2023

Of the Authority's $568.5 million in net position, approximately $131.2 million is classified as restricted due to external restrictions (outside of the state) from bond holders and the U.S. Department of Education (USDE) on how the funds can be used. Approximately $2.1 million of the net position reflects the Authority's investment in capital assets such as equipment, data processing systems and intangible assets. The remaining amount of net position is used to manage State grant and loan programs and is classified as unrestricted. With the sale of the FFELP portfolio the classification of the previously related net position changed from restricted to unrestricted. Internally imposed designations of resources are not presented as restricted net position.

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

The Authority's net position decreased by approximately $64.3 million or 10.16% during the year ended June 30, 2023 and decreased by approximately $7.6 million or 1.19% during the year ended June 30, 2022.

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

	2023	2022
REVENUES:		
Operating Revenues:		
Interest Earnings on Loans	$ 21,553,012	$ 33,508,640
Miscellaneous	15,222,258	14,721,490
Total Operating Revenues	36,775,270	48,230,130
Nonoperating Revenues:		
State Aid	48,031,975	78,481,975
Grants	300,064,730	212,736,325
Investment Earnings	(5,486,525)	4,061,017
Total Nonoperating Revenues	342,610,180	295,279,317
Total Revenues	379,385,450	343,509,447
EXPENSES:		
Operating Expenses:		
Services	39,337,674	38,800,373
Interest	26,819,779	12,309,816
Student Loan Service Cancellations	20,654,201	23,725,500
Depreciation and Amortization	1,096,760	733,427
Other Expenses	2,693,011	4,061,818
Total Operating Expenses	90,601,425	79,630,934
Nonoperating Expenses:		
Grants, Aid and Subsidies	353,046,083	271,523,754
Total Expenses	443,647,508	351,154,688
CHANGES IN NET POSITION	(64,262,058)	(7,645,241)
NET POSITION--Beginning of Year	632,805,784	640,451,025
NET POSITION--End of Year	$ 568,543,726	$ 632,805,784

Approximately 9.7% of the Authority's total revenues came from interest earnings and other miscellaneous revenue on resources invested in student loans under various education programs originated by or assigned to the Authority. Approximately 91.7% 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 (1.4)% resulted from investment earnings on cash, cash equivalents, and short-term and long-term investments of $14.1 million netted with the $19.6 million loss from the sale of the FFELP portfolio.

The Authority's expenses cover a range of services. Approximately 8.9% 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 6.0% of expenses were for interest incurred on bonds issued by the Authority in order to fund student loans, 79.6% were associated with grants, aid and subsidies, and 4.7% were for student loan service cancellations related to certain state sponsored loan programs.

The decrease in net position for the year ended June 30, 2023, is primarily attributed to the loss on the sale of the FFELP portfolio and the related write off of the OID on the associated bonds as well as the change in the funding model for the ELS.

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. Bond Series 2020A is secured by certain loans of the Authority which are not insured by the federal government.

The Authority's total bond debt decreased by approximately $652.6 million (97.6%) and approximately $136.5 million (16.9%) during the fiscal years 2023 and 2022, respectively. The majority of the 2023 decrease was attributable to the Authority's net repayment of debt, as a result of the sale of the FFELP portfolio.

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

NORTH CAROLINA
STATE EDUCATION ASSISTANCE AUTHORITY
Management's Discussion and Analysis
June 30, 2023

ECONOMIC FACTORS

Due to the declining portfolio balance, the Authority sold all its remaining FFELP loans to Nelnet in November, 2022. The Authority used the proceeds from the loan sale to redeem the outstanding notes and bonds associated with the FFELP portfolio (Private Placement Bonds, 2015-1; Student Loan Backed Notes, 2010-1, 2011-1, 2011-2, 2012-1 and 2013-1) as well as the Private Placement Bonds 2008-1. The Authority continues to serve as the Guaranty Agency for the FFELP loans that were sold to Nelnet.

Due to the economic crisis created by COVID-19, the USDE has directed the Authority, as a FFELP guaranty agency, to refund all involuntary payments on defaulted loans and relive rehabilitated and consolidation loans. These directives have resulted in lost revenue to the Authority. USDE has permitted the Authority to recoup its lost revenue from March 13, 2020, until the end of the payment pause from the Federal Fund. Through June 30, 2023, the Authority has received approximately $9.0 million in lost revenue reimbursements.

In recent years, the Authority, in collaboration with College Foundation, Inc., has developed and launched services for colleges and universities and loan products for students and parents. As required by North Carolina General Statute 116-204, the Authority, with the assistance of College Foundation, Inc., administers a coordinated and centralized system for determining residency for tuition and State-funded financial aid. 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. In July 2020, the Authority issued Tax-Exempt Revenue Bonds to provide loan capital for the N.C. Assist Loan Program (see Note 7 of the Notes to Financial Statements). The proceeds from these bonds have been fully expended and the Authority is currently using its balance sheet to purchase NC Assist Loans. 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 nonpublic K12 education. Appropriations for the Opportunity Scholarship Program that provides scholarships 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. Additionally, appropriations for the Personal Education Student Accounts for Children with Disabilities Program will increase as well. The Authority expects the administrative income for these programs to cover the expenses incurred in operating the programs in the foreseeable future.

NORTH CAROLINA
STATE EDUCATION ASSISTANCE AUTHORITY
Management's Discussion and Analysis
June 30, 2023

The General Assembly established the NC Scholarship Program in fiscal year 2023. The NC Scholarship Program combines the previously existing UNC Need Based Scholarship Program, the Community College Grant Program, and the ELS into one consolidated scholarship program. The new program is forward funded and is reflected as Deferred Inflows of Resources, Net on the financial statements. The program is intended to simplify the process for students as they explore options to help pay for higher education at one of the State's public higher education institutions (UNC and Community Colleges). The Authority is responsible for running the program and will receive administrative income to cover its costs.

The Authority is the sponsor of the North Carolina National College Savings Program (Program). The Program includes the Vanguard 529 Investment Pools that have a value of approximately $3.3 billion as of June 30, 2023. Additionally, the Program includes an Advisory 529 through Morgan Stanley. Through June 30, 2023 the Advisory 529 Plan had a value of approximately $574 million. Assets held on behalf of participants in the Program totaled approximately $3.8 billion.

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 41349, Raleigh, North Carolina 27629, (919) 248-4695, erozakis@ncseaa.edu, or visit the Authority's website at www.ncseaa.edu.

FINANCIAL STATEMENTS

NORTH CAROLINA
STATE EDUCATION ASSISTANCE AUTHORITY
Statement of Net Position
Proprietary Fund
June 30, 2023

ASSETS

CURRENT ASSETS:		
Restricted Cash and Cash Equivalents	$	577,584,497
Restricted Investments		97,411,954
Receivables:		
Accounts Receivable		6,675,415
Intergovernmental Receivables		4,674,764
Interest Receivable		8,820,442
Due From Component Unit		3,143,917
Notes Receivable		16,304,864
Prepaid Items		1,268,276
Total Current Assets		715,884,129
NONCURRENT ASSETS:		
Restricted Cash and Cash Equivalents		129,741,064
Restricted Investments		3,664,211,808
Notes Receivable		156,047,498
Total Noncurrent Assets		3,950,000,370
CAPITAL ASSETS:		
Capital Assets		16,224,763
Accumulated Depreciation		(13,297,063)
Net Capital Assets		2,927,700
Total Assets	$	4,668,812,199

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

LIABILITIES AND NET POSITION

CURRENT LIABILITIES:		
Accounts Payable and Accrued Liabilities:		
Accounts Payable	$	53,044,426
Accrued Payroll		115,635
Interest Payable		57,214
Lease Payable		174,452
Subscription (SBITA) Payable		93,474
Due to IRC Section 529 Plan Participants		256,747,648
Bonds Payable		3,945,000
Accrued Employee Expenses		52,799
Total Current Liabilities		314,230,648
NONCURRENT LIABILITIES:		
Due to IRC Section 529 Plan Participants		3,588,477,297
Net Bonds Payable		12,013,908
Lease Payable		482,614
Subscription (SBITA) Payable		95,485
Accrued Employee Expenses		679,762
Net Other Postemployment Benefits Liability		4,401,634
Net Pension Liability		2,353,979
Total Noncurrent Liabilities		3,608,504,679
Total Liabilities		3,922,735,327
DEFERRED INFLOWS OF RESOURCES, NET		
Deferred Inflows--Nonexchange Transactions, Net		177,533,146
NET POSITION:		
Net Investment in Capital Assets		2,081,675
Restricted for Educational Assistance Programs		131,175,046
Unrestricted		435,287,005
Total Net Position		568,543,726
Total Liabilities and Net Position	$	4,668,812,199

NORTH CAROLINA
STATE EDUCATION ASSISTANCE AUTHORITY
Statement of Revenues, Expenses, and Changes in Net Position
Proprietary Fund
For the Year Ended June 30, 2023

OPERATING REVENUES:	
Interest Earnings on Loans	$ 21,553,012
Miscellaneous	15,222,258
Total Operating Revenues	36,775,270
OPERATING EXPENSES:	
Personal Services	6,405,923
Supplies and Materials	372,338
Services	32,931,751
Interest	26,819,779
Depreciation and Amortization	1,096,760
Student Loan Service Cancellations	20,654,201
Other Expenses	2,320,673
Total Operating Expenses	90,601,425
Operating Loss	(53,826,155)
NONOPERATING REVENUES (EXPENSES):	
State Aid	48,031,975
Noncapital Grants	299,721,244
Federal Grants	343,486
Investment Earnings (Losses)	(5,486,525)
Grants, Aid and Subsidies	(353,046,083)
Total Nonoperating Revenues (Expenses)	(10,435,903)
Changes in Net Position	(64,262,058)
NET POSITION--Beginning of Year	632,805,784
NET POSITION--End of Year	$ 568,543,726

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

NORTH CAROLINA
STATE EDUCATION ASSISTANCE AUTHORITY
Statement of Cash Flows
Proprietary Fund
For the Year Ended June 30, 2023

CASH FLOWS FROM OPERATING ACTIVITIES:	
Receipts from Borrowers and Others	$ 580,010,023
Collection of Loans from Students and Others	804,373,591
Payments to Employees and Fringe Benefits	(5,364,105)
Payments to Vendors and Suppliers	(23,495,972)
Loans Issued to Students	(89,841,403)
Payments of Operating Interest Expense	(11,272,757)
Net Cash Provided by Operating Activities	1,254,409,377
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:	
Repayment of Bond Principal and Leases (net)	(668,157,261)
State Aid	48,031,975
Noncapital Grants	299,721,244
Federal Grants	343,486
Grants, Aid and Subsidies	(353,046,083)
Net Cash Used by Noncapital Financing Activities	(673,106,639)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITES:	
Acquisition of Capital Assets	(383,213)
Net Cash Used by Capital and Related Financing Activities	(383,213)
CASH FLOWS FROM INVESTING ACTIVITIES:	
Proceeds from the Sale and Maturities of Investments	1,262,455,878
Investment Earnings (Losses)	(5,179,373)
Purchase of Investments	(1,721,758,403)
Net Cash Used by Investing Activities	(464,481,898)
NET INCREASE IN CASH AND CASH EQUIVALENTS	116,437,627
CASH AND CASH EQUIVALENTS--Beginning of Year	590,887,934
CASH AND CASH EQUIVALENTS--End of Year	$ 707,325,561
SUMMARY OF CASH AND CASH EQUIVALENTS:	
Current Restricted Cash and Cash Equivalents	$ 577,584,497
Noncurrent Restricted Cash and Cash Equivalents	129,741,064
	$ 707,325,561

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

NORTH CAROLINA
STATE EDUCATION ASSISTANCE AUTHORITY
Statement of Cash Flows
Proprietary Fund
For the Year Ended June 30, 2023

RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Operating Loss	$	(53,826,155)
Adjustments to Reconcile Operating Loss to Net Cash Provided by Operating Activities:		
Depreciation and Amortization		1,096,760
Original Issue Discount Expensed		15,547,022
Student Loan Principal Repayments		760,596,870
Student Loans Issued		(63,358,529)
Student Loan Cancellations and Write-offs		21,326,267
Allowances and Uncollectible Accounts		897,443
Capitalized Interest and Other		(5,828,674)
(Increase) Decrease in Assets:		
Accounts Receivable		1,120,705
Intergovernmental Receivables		(438,924)
Interest Receivable		26,777,745
Due from Component Unit		(33,683)
Prepaid Items		3,481,724
Increase (Decrease) in Liabilities:		
Accounts Payable and Interest Payable		8,647,066
Accrued Payroll, Net Pension and OPEB Liabilities		1,078,736
Due to IRC Section 529 Plan Participants		490,979,345
Accrued Employee Expenses		(36,918)
Increase in Deferred Inflows		46,382,577
Net Cash Provided by Operating Activities	$	1,254,409,377
SUPPLEMENTAL DISCLOSURE OF CASH FLOWS INFORMATION:		
Cash Paid During the Year for Interest	$	12,766,135
NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:		
Decrease in Fair Market Value of Investments	$	319,565

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

NORTH CAROLINA
STATE EDUCATION ASSISTANCE AUTHORITY
Statement of Fiduciary Net Position
Fiduciary Fund
June 30, 2023

ASSETS

Cash and Cash Equivalents	$ 738
Purchased Interest	2,448
Investments:	
Partnerships	19,269,796
Bonds	3,387,733
Mutual Funds	6,240,109
Stocks	4,284,361
Collateralized Loan Obligations	293,258
Treasury Notes	706,694
Total Assets	$ 34,185,137

NET POSITION

Restricted For:	
Individuals/Other Organizations	$ 34,185,137
Total Net Position	$ 34,185,137

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

NORTH CAROLINA
STATE EDUCATION ASSISTANCE AUTHORITY
Statement of Changes in Fiduciary Net Position
Fiduciary Fund
For the Year Ended June 30, 2023

ADDITIONS		
Investment Activity:		
Investment Income	$	3,012,966
Investment Expenses		(158,270)
Net Investment Income		2,854,696
DEDUCTIONS		
Withdrawals and Distributions		707,008
Increase in Fiduciary Net Position		2,147,688
NET POSITION--Beginning of Year		32,037,449
NET POSITION--End of Year	$	34,185,137

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

NORTH CAROLINA
STATE EDUCATION ASSISTANCE AUTHORITY
Notes to Financial Statements
June 30, 2023

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 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 Annual Comprehensive Financial Report (ACFR) 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. The seven appointed members of the Board consists of four members appointed by the Governor and three members appointed by the UNC-BOG (including a member of a nonpublic K12 school that receives state-funded scholarships on behalf of eligible students), and two of whom serve ex-officio by virtue of their positions with the N.C. Community College System and the University of North Carolina System. The State provides program subsidies to the Authority; therefore, a financial burden/relationship exists between the State and 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 (529 Plan)
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
    Also includes collections from the following programs no longer in operation:
    - 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 and Special Education Licensure) Loan Program
13. North Carolina School of Science and Math and the UNC School of Arts Tuition Grant
14. Opportunity Scholarship (K-12)
15. Personal Education Student Account Program (K-12)
16. NC Scholarship

1. Summary of Significant Accounting Policies (Continued)

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.

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. GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, and GASB Statement No. 84, *Fiduciary Activities*, require the presentation of both proprietary and fiduciary fund financial statements. See below for a description of each fund.

Proprietary Fund: This fund accounts for the Authority's primary activities and is presented as a single column on the accompanying proprietary fund financial statements.

Fiduciary Fund: This fund accounts for the Authority's fiduciary activities, which are considered custodial funds. The assets and activities for the Aubrey Lee Brooks Foundation, an endowment that the Authority provides central administration for, are included in this fund.

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 Authority is administratively housed in the University of North Carolina - System Office (UNC-SO) for organizational, staffing, and budgetary purposes. 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, 2023. 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), cash on deposit with trustees/custodians, and cash held within the Fiduciary Fund. 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.

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1. Summary of Significant Accounting Policies (Continued)

E. Investments:

This classification includes funds invested in an Internal Revenue Code (IRC) Section 529 Savings Plan, which is maintained by the Authority. The Plan enables residents of any state to invest funds to pay for qualified education expenses of their designated beneficiaries on a flexible basis with certain tax benefits in accordance with federal tax law. Also included are funds invested in the UNC Investment Fund LLC, investments with trustees/custodians, and investments held within the Fiduciary Fund. Additional information regarding investments is provided in Note 2.

All investments are carried at estimated fair values as provided by the respective fund managers of these investments. The fund managers review and evaluate the fair values valuation methods and assumptions used in determining the fair value of the investments. Those estimated fair values may differ significantly from the values that would have been used had a ready market existed for these investments. Such differences could be material. Additional information regarding the fair value measurement of investments is provided in Note 3.

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 computer 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. Right-to-use lease and subscription assets are recorded at the present value of payments expected to be made during the lease or subscription term, plus any upfront payments and ancillary charges paid to place the underlying right-to-use asset into service. Lease payables are capitalized as a right-to-use asset when the lease asset has a cost of $5,000 or greater and an estimated useful life of more than one year. Subscription liabilities are capitalized as a right-to-use asset when the underlying subscription asset has a cost of $10,000 or greater and an estimated useful life of more than one year. Amortization for right-to-use lease and subscription assets is computed using the straight-line method over the shorter of the lease/subscription term or the underlying asset's estimated useful life. 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. Accounting and Reporting of Fiduciary Activities:

Pursuant to the provisions of GASB Statement No. 84, *Fiduciary Activities*, custodial funds that are normally expected to be received and disbursed within a 3-month period or otherwise do not meet the fiduciary activity criteria defined by GASB Statement No. 84 continue to be reported in the Statement of Net Position as funds held for others and as operating activities in the Statement of Cash Flows. The IRC Section 529 Savings Plan falls under this provision.

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1. Summary of Significant Accounting Policies (Continued)

The Aubrey Lee Brooks Foundation endowed funds to a trust to provide scholarships to students in certain counties in North Carolina to attend one of three UNC schools. The Authority provides central administration for managing the trust and determining scholarship eligibility. Pursuant to the provisions of GASB Statement No. 84, *Fiduciary Activities*, the Authority's control over the Brooks Foundation assets requires the activities of the Foundation to be included as a Fiduciary Fund within the Authority's financial statements.

J. 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 public borrowings). Other long-term liabilities include amounts due to participants in the North Carolina National College Savings Program, net other postemployment benefits (OPEB) liability, net pension liability, accrued employee expenses, capital lease payable, and subscription (SBITA) liabilities.

Original issue discounts and premiums 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 2022 *Annual Comprehensive 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 9 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 2022 *Annual Comprehensive 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 10 for further information regarding the Authority's policies for recognizing liabilities, expenses, deferred outflows of resources, and deferred inflows of resources related to OPEB.

K. Compensated Absences:

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

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

1. Summary of Significant Accounting Policies (Continued)

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

L. Deferred Inflows (Net) of Resources:

Deferred inflows of resources represent an acquisition of net assets 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 outflows related to pensions and OPEB that are included in this category as follows:

Forward Funded State Aid and Noncapital Grants	$ 179,864,523
Pensions	(1,908,902)
OPEB	(422,475)
	$ 177,533,146

M. Net Position:

The Authority's net position is classified as follows:

Proprietary Fund:

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

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 State Support 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.

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. When both restricted and unrestricted funds are available for expenditure, the decision for funding is transactional based within the departmental management system in place at the Authority. Both restricted and unrestricted net position include consideration of deferred outflows of resources and deferred inflows of resources. See Note 1.L. for further information regarding deferred inflows (net) of resources that had a significant effect on unrestricted net position.

Fiduciary Fund:

Restricted: Fiduciary net position includes resources held in a custodial capacity for other organizations that are not available for alternative use by the Authority.

1. Summary of Significant Accounting Policies (Concluded)

N. 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.

O. 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.

P. Accounting Estimates:

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

2. Deposits and Investments

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

At June 30, 2023, the amount shown on the Statement of Net Position as cash and cash equivalents includes $544,695,589, 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 0.7 years as of June 30, 2023. 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 Investment Management section.

2. Deposits and Investments (Continued)

Cash on hand at June 30, 2023 was $707,326,299. The carrying amount of the Authority's and its fiduciary's deposits not with the State Treasurer at June 30, 2023 was $162,630,710. 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, 2023, 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 $3,795,805,713 at June 30, 2023. The majority of these investments, $3,682,627,973 as of June 30, 2023, related to the IRC Section 529 Plan.

At June 30, 2023, the Authority's investments include $75,734,511, 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.

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.

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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, 2023, for the Authority's non-pooled investments:

		Investment Maturities (in Years)			
	Total	Less Than 1	1 to 5	6 to 10	More Than 10
Investments Subject to Interest Rate Risk:					
U.S. Treasuries	$ 706,694	$ 376,459	$ 109,935	$ 220,300	$
Money Market Mutual Funds	3,613,185	3,613,185			
Marketable Debt Securities	3,387,733	309,181	2,335,633	714,261	28,658
Collateralized Loan Obligations	293,258	293,258			
Total Investments Subject to Interest Rate Risk	$ 8,000,870	$ 4,592,083	$ 2,445,568	$ 934,561	$ 28,658
Investments Not Subject to Interest Rate Risk:					
Exchange Traded Funds	$ 3,166,103				
Common Stock	4,284,361				
Investments in Limited Partnerships	19,269,796				
Other Mutual Funds	2,722,099				
Total Investments Not Subject to Interest Rate Risk	29,442,359				
Total Non-Pooled Investments	$ 37,443,229				

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, 2023, the Authority's non-pooled investments had the following credit quality distribution for securities with credit exposure:

	Amount	AAA Aaa	AA Aa	A	BBB Baa	BB/Ba and Below	Unrated
U.S. Treasuries	$ 706,694	$	$ 706,694	$	$	$	$
Money Market Mutual Funds	3,613,185	351,907					3,261,278
Marketable Debt Securities	3,387,733		248,665	528,754	2,348,516	261,798	
Collateralized Loan Obligations	293,258	293,258					
Total	$ 8,000,870	$ 645,165	$ 955,359	$ 528,754	$ 2,348,516	$ 261,798	$ 3,261,278

2. Deposits and Investments (Continued)

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, 2023, the Authority's non-pooled investments were exposed to custodial credit risk as follows:

Investments Not Categorized:		
Money Market Mutual Funds	$	3,613,185

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, 2023, the Authority had no non-pooled investments in any one issuer that equaled more than 5% of the Authority's total non-pooled investments.

Foreign Currency Risk: Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment. The Authority has formally adopted investment policies for foreign currency risk stating that foreign investments must be denominated in U.S. dollars or the securities must be traded solely on an exchange based in the United States. As of June 30, 2023, 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:		
U.S. Treasuries	$	706,694
Money Market Mutual Funds		3,613,185
Marketable Debt Securities		3,387,733
Collateralized Loan Obligations		293,258
Total Debt Securities	$	8,000,870
Other Securities:		
Exchange Traded Funds		3,166,103
Common Stock		4,284,361
Investments in Limited Partnership		19,269,796
Other Mutual Funds		2,722,099
Total Other Securities		29,442,359
Total Non-Pooled Investments	$	37,443,229

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2. Deposits and Investments (Concluded)

Reconciliation of Deposits and Investments:

A reconciliation of deposits and investments for the Authority as of June 30, 2023 is as follows:

	Proprietary Fund	Fiduciary Fund	Total
Deposits with Private Financial Institutions	$ 162,629,972	$ 738	$ 162,630,710
Deposits in the Short-Term Investment Fund	544,695,589		544,695,589
Non-Pooled Investments	3,261,278	34,181,951	37,443,229
Pooled Investments:			
529 Plan Investments	3,682,627,973		3,682,627,973
UNC Investment Fund	75,734,511		75,734,511
Total Deposits and Investments	$ 4,468,949,323	$ $34,182,689	$ 4,503,132,012
Deposits:			
Current:			
Restricted Cash and Cash Equivalents	$ 577,584,497	$ 738	$ 577,585,235
Noncurrent:			
Restricted Cash and Cash Equivalents	129,741,064		129,741,064
Total Deposits	$ 707,325,561	$ 738	$ 707,326,299
Investments:			
Current:			
Restricted Investments	$ 97,411,954	$ 34,181,951	$ 131,593,905
Noncurrent:			
Restricted Investments	3,664,211,808		3,664,211,808
Total Investments	3,761,623,762	34,181,951	3,795,805,713
Total Deposits and Investments	$ 4,468,949,323	$ 34,182,689	$ 4,503,132,012

NORTH CAROLINA
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Notes to Financial Statements
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3. Fair Value Measurements

To the extent available, the Authority's investments are recorded at fair value as of June 30, 2023. 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. The Authority does not hold any Level 3 investments as of June 30, 2023.

The following tables summarizes the Authority's proprietary and fiduciary investments, including deposits in the Short-Term Investment Fund (STIF), within the fair value hierarchy at June 30, 2023:

	Fair Value	Level 1	Level 2
Investments by Fair Value Level:			
U.S. Treasuries	$ 706,694	$ 706,694	$
Money Market Mutual Funds	3,613,185	3,613,185	
Common Stock	4,284,361	4,284,361	
Mutual Funds	2,722,099	2,722,099	
Exchange Traded Funds	3,166,103	3,166,103	
Marketable Debt Securities	3,387,733	3,387,733	
Collateralized Loan Obligations	293,258	293,258	
Investments in Limited Partnerships	19,269,796	14,252,678	5,017,118
Total Investments Leveled by Fair Value	$ 37,443,229	$ 32,426,111	$ $5,017,118
Investments as a Position in an External Investment Pools:			
Short-Term Investment Fund	544,695,589		
Vanguard 529 Plan	3,108,550,097		
Morgan Stanley 529 Plan	574,077,876		
UNC Investment Fund	75,734,511		
Total Investments in External Investment Pools	4,303,058,073		
Total Investments Measured at Fair Value	$ 4,340,501,302		

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3. Fair Value Measurements (Concluded)

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 Statement No. 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.

Vanguard 529 Plan investments consist of 15 separate investment Portfolios, each of which is invested in one or more Vanguard mutual funds and/or the Vanguard Short-Term Reserve Account, an internal investment pool.

Morgan Stanley 529 Plan investments consist of 13 investment Options, consisting of portfolios representing different risk-level models, ranging from conservative allocations (Conservative Fixed Income) to aggressive allocations (Opportunistic Growth). Each MS 529 Fund in turn invests its assets in one or more of nine Morgan Stanley Pathway Funds ("Pathway Funds"). The Pathway Funds provide exposure to different asset classes utilizing various investment managers selected by an affiliate of Morgan Stanley to create a diversified portfolio.

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 Statement No. 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.

4. Receivables

The gross receivables and related allowances for service cancellations and doubtful accounts on student loans at June 30, 2023 were:

	Total	Current	Noncurrent
Gross Student Loan Receivables	$ 292,103,466	$ 136,055,968	$ 156,047,498
Allowance for Service Cancellations and Doubtful Accounts	(119,751,104)	(119,751,104)	
Net Notes Receivable	$ 172,352,362	$ 16,304,864	$ 156,047,498

5. Capital Assets

A summary of capital assets for the year ended June 30, 2023 is presented as follows:

Capital Assets	$ 16,224,763
Accumulated Depreciation	(13,297,063)
Net Capital Assets	$ 2,927,700

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6. Accounts Payable and Accrued Liabilities

Accounts payable and accrued liabilities at June 30, 2023 were as follows:

Accounts Payable	$ 53,044,426
Accrued Payroll	115,635
	$ 53,160,061

7. Noncurrent Liabilities

A. Changes in Noncurrent Liabilities:

A summary of changes in noncurrent liabilities for the year ended June 30, 2023 is presented as follows:

	Balance July 1, 2022	Additions/ Adjustments	Reductions	Balance June 30, 2023	Current Portion
Due to IRC Section 529 Plan Participants	$ 3,354,245,598	$ 756,922,907	$ 265,943,560	$ 3,845,224,945	$ 256,747,648
Net Bonds Payable:					
Direct Placement	101,882,811		101,882,811		
Direct Borrowing	566,704,293		550,745,385	15,958,908	3,945,000
Accrued Employee Expenses	769,479		36,918	732,561	52,799
Capital Lease Payable	828,066		171,000	657,066	174,452
Subscription (SBITA) Payable	250,605	35,891	97,537	188,959	93,474
Net Pension Liability	634,961	1,719,018		2,353,979	
Net OPEB Liability	4,917,293		515,659	4,401,634	
Total Noncurrent Liabilities	$ 4,030,233,106	$ 758,677,816	$ 919,392,870	$ 3,869,518,052	$ 261,013,373

B. Net Bonds Payable:

	Balance July 1, 2022	Additions	Reductions	Balance June 30, 2023
Direct Placement:				
Taxable Guaranteed Student Loan Revenue Private Placement Bonds 2008-1 Series:				
LIBOR Indexed:				
Series A-2				
Due 9/01/37 (Variable Rate)	$ 63,400,000	$	$ 63,400,000	$
Original Issue Discount	(1,793,467)		(1,793,467)	
	61,606,533		61,606,533	
Tax-Exempt Student Loan Backed Notes, Private Placement Bonds, 2015-1 Series:				
LIBOR Indexed:				
Series A-1				
Due 11/25/25 (Variable Rate)	27,676,278		27,676,278	
Series A-2				
Due 11/25/28 (Variable Rate)	12,600,000		12,600,000	
	40,276,278		40,276,278	
Total Direct Placement	$ 101,882,811	$	$ 101,882,811	$

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7. Noncurrent Liabilities (Continued)

	Balance July 1, 2022	Additions	Reductions	Balance June 30, 2023
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)	$ 105,970,718	$	$ 105,970,718	$
Original Issue Discount	(4,828,136)		(4,828,136)	
	101,142,582		101,142,582	
Taxable Student Loan Backed Notes, 2011-1 Series:				
LIBOR Indexed:				
Tranche A-3 (Sold at 93.9%)				
Due 10/25/41 (Variable Rate)	115,599,845		115,599,845	
Original Issue Discount	(6,043,758)		(6,043,758)	
	109,556,087		109,556,087	
Taxable Student Loan Backed Notes, 2011-2 Series:				
LIBOR Indexed:				
Tranche A-3 (Sold at 94.1%)				
Due 7/25/36 (Variable Rate)	102,368,740		102,368,740	
Original Issue Discount	(3,006,987)		(3,006,987)	
	99,361,753		99,361,753	
Taxable Student Loan Backed Notes, 2012-1 Series:				
LIBOR Indexed:				
Tranche A (Sold at 99.8%)				
Due 7/25/39 (Variable Rate)	125,930,810		125,930,810	
Original Issue Discount	(244,135)		(244,135)	
	125,686,675		125,686,675	
Taxable Student Loan Backed Notes, 2013-1 Series:				
LIBOR Indexed:				
Due 12/26/39 (Variable Rate)	110,683,826		110,683,826	
Tax-Exempt Student Loan Revenue Bonds, 2020A Series:				
Fixed Rate:				
Due 6/01/25 (5.0%) (Sold at 113.7%)	750,000			750,000
Due 6/01/26 (5.0%) (Sold at 115.5%)	2,000,000			2,000,000
Due 6/01/27 (5.0%) (Sold at 117.1%)	2,700,000			2,700,000
Due 6/01/28 (5.0%) (Sold at 118.7%)	3,000,000			3,000,000
Due 6/01/29 (5.0%) (Sold at 120.2%)	2,800,000			2,800,000
Due 6/01/39 (3.125%) (Sold at 98.9%)	7,915,000		3,945,000	3,970,000
Original Issue Premium	1,108,370		369,462	738,908
	20,273,370		4,314,462	15,958,908
Total Direct Borrowing	566,704,293		550,745,385	15,958,908
Total Net Bonds Payable	$ 668,587,104	$	$ $652,628,196	$ 15,958,908

7. Noncurrent Liabilities (Concluded)

C. Pledged Revenues:

The Authority has collateralized $26,663,631 in student loans receivable and $383,300 in reserves to repay $15,220,000 bonds payable at June 30, 2023. These guaranteed bonds payable were issued in fiscal year June 30, 2021. Proceeds from the bonds issued were utilized to finance student loans. The bonds are payable through fiscal year 2029 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 $4,721,328 and $4,551,499, respectively. The total principal and interest remaining to be paid on the bonds is $17,837,259.

D. Annual Requirements:

The annual requirements to pay principal and interest on bonds outstanding at June 30, 2023 are as follows:

	Direct Borrowing	
Year	Principal	Interest
2024	$ 3,945,000	$ 632,041
2025	775,000	570,010
2026	2,000,000	528,125
2027	2,700,000	433,333
2028	3,000,000	301,250
2029-2033	2,800,000	152,500
Total Requirements	$ 15,220,000	$ 2,617,259

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 2020A Series Bonds are secured by private student loans. The Tax-Exempt Student Loan Revenue Bonds 2020A Series are fixed rate serial and term debt instruments due June 1, 2039. The serial bonds bear an interest rate of 5%, and the term bonds bear an interest rate of 3.125%.

F. Sale of FFELP Portfolio:

During fiscal year 2023, the Authority sold its remaining FFELP portfolio and retired the bonds and notes that were used to finance these loans. The sale of these loans resulted in a loss of $19.6 million, which is reflected in Investment Earnings (Losses) on the financial statements. Additionally, the notes and bonds had OID that had not been fully amortized, resulting in $15.9 million reflected in Interest Expense on the financial statements.

8. Leases and Subscription-Based Information Technology Arrangements

A. Lessee Arrangements:

The Authority entered into a commercial lease agreement in March 2022 with the College Foundation, Inc. (CFI) for use of the building and basement located at 3120 Poplarwood Court in Raleigh, N.C. Lease liabilities and the right-to-use leased assets are recorded based on the present value of expected receipts over the term of the lease. The expected payments are discounted using the interest rate stated per the lease contract, or the Authority's estimated incremental borrowing rate if there is no stated contractual interest rate. The Authority's lease term is for five years at a monthly rate of $15,500. The lease has been capitalized based on a 2% imputed interest rate. At June 30, 2023 the total lease liability was $657,066, of which the current portion was $174,452.

B. Subscription-Based Information Technology Arrangements (SBITAs):

The Authority enters SBITAs for the right to use information technology software and cloud computing arrangement (network) assets. Subscription liabilities and the related right-to-use subscription assets are recorded based on the present value of expected payments over the term of the respective SBITA. The expected payments are discounted using the interest rate stated per the SBITA contract, or the Authority's estimated incremental borrowing rate if there is no stated contractual interest rate. The Authority has two SBITAs: one with a three-year term at an annual rate of $12,219, and another with a two and one-half-year term at an annual rate of $85,318. The SBITAs have been capitalized based on a 2.15% imputed interest rate. At June 30, 2023 the total SBITA liability was $188,959, of which the current portion was $93,474.

C. Annual Requirements:

The annual requirements to pay principal and interest on leases and SBITAs at June 30, 2023 are as follows:

	Lease Liabilities		SBITA Liabilities	
Year	Principal	Interest	Principal	Interest
2024	$ 174,452	$ 11,548	$ 93,474	$ 4,063
2025	177,973	8,027	95,485	2,053
2026	181,566	4,434		
2027	123,075	925		
Total Requirements	$ 657,066	$ 24,934	$ 188,959	$ 6,116

9. 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 membership 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 membership 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 in lieu of the return of the member's contributions that is generally available to beneficiaries of deceased members. The plan does not provide for automatic post-retirement benefit increases.

Contributions: Contribution provisions are established by General Statute 135-8 and may be amended only by the North Carolina General Assembly. Plan members are required to contribute 6% of their annual pay. The contribution rate for employers is set each year by the North Carolina General Assembly in the Appropriations Act and may not be less than the contribution rate required of plan members. The TSERS Board of Trustees establishes a funding policy from which an accrued liability rate and a normal contribution rate are developed by the consulting actuary. The sum of those two rates developed under the funding policy is the actuarially determined contribution rate (ADC). The TSERS Board of Trustees may further adopt a contribution rate policy that is higher than the ADC known as the required employer contribution to be recommended to the North Carolina General Assembly. The Authority's contractually-required contribution rate for the year ended June 30, 2023 was 17.38% of covered payroll. Plan members' contributions to the pension plan were $224,383, and the Authority's contributions were $649,963 for the year ended June 30, 2023.

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 2022 *Annual Comprehensive 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.

9. Pension Plans (Continued)

TSERS Basis of Accounting: The financial statements of the TSERS plan are 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 participate in the Long-Term Investment, the 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 2022 *Annual Comprehensive Financial Report*.

Net Pension Liability: The Authority reported a liability of $2,353,979 at June 30, 2023 for its proportionate share of the collective net pension liability. The net pension liability was measured as of June 30, 2022. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2021, and update procedures were used to roll forward the total pension liability to June 30, 2022. The Authority’s proportion of the net pension liability was based on a projection of the present value of future salaries for the Authority relative to the projected present value of future salaries for all participating employers, actuarially determined. As of June 30, 2022, the Authority’s proportion was approximately .016%, which was an increase of 0.002% from its proportion measured as of June 30, 2021, which was approximately .014%.

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	12/31/2021
Inflation	2.50%
Salary Increases*	3.25% - 8.05%
Investment Rate of Return**	6.50%

* Salary increases include 3.25% 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. public plan population. The mortality rates also contain a provision to reflect future mortality improvements.

9. Pension Plans (Continued)

The actuarial assumptions used in the December 31, 2021 valuation were based on the results of an actuarial experience review for the period January 1, 2015 through December 31, 2019.

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, 2022 (the measurement date) are summarized in the following table:

Asset Class	Long-Term Expected Real Rate of Return
Fixed Income	1.1 %
Global Equity	6.5 %
Real Estate	5.9 %
Alternatives	7.5 %
Opportunistic Fixed Income	5.0 %
Inflation Sensitive	2.7 %

The information in the preceding table is based on 30-year expectations developed with an investment consulting firm as part of a study that was completed in early 2022, 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 2.25%. 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, 2022 is 0.78%.

Discount Rate: The discount rate used to measure the total pension liability was calculated at 6.50% for the December 31, 2021 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.

9. Pension Plans (Continued)

Sensitivity of the Net Pension Liability to Changes in the Discount Rate: The following presents the net pension liability of the plan at June 30, 2022 calculated using the discount rate of 6.50%, as well as what the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (5.50%) or 1-percentage-point higher (7.50%) than the current rate:

Net Pension Liability

1% Decrease (5.50%)	Current Discount Rate (6.50%)	1% Increase (7.50%)
$ 4,161,955	$ 2,353,979	$ 861,640

Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions: For the year ended June 30, 2023, the Authority recognized pension expense of $622,590. At June 30, 2023, the Authority reported deferred outflows of resources and deferred inflows of resources related to TSERS 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	$ 10,249	$ 32,085
Change of Assumptions	185,720	
Net Difference Between Projected and Actual Earnings on Plan Investments	773,141	
Change in Proportion and Differences Between Authority's Contributions and Proportionate Share of Contributions	333,044	11,129
Contributions Subsequent to the Measurement Date	649,963	
	$ 1,952,117	$ 43,214

The amount reported as deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the fiscal year ending June 30, 2024. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to TSERS 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	
2024	$ 374,803
2025	364,659
2026	148,856
2027	370,622
2028	-
	$ 1,258,940

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9. Pension Plans (Concluded)

B. Defined Contribution Plan:

The Optional Retirement Program (ORP) is a defined contribution pension plan that provides retirement benefits with options for payments to beneficiaries in the event of the participant's death. Administrators of the Authority may join the ORP instead of TSERS. The ORP is administered by the UNC System.

Benefits are provided by means of contracts issued and administered by the privately-operated Teachers' Insurance and Annuity Association and Fidelity Investments. Participants' eligibility and contributory requirements are established in General Statute 135-5.1 and may be amended only by the North Carolina General Assembly. Participants are always fully vested in their own contributions to the plan and their investment earnings. Participants are fully vested in the Authority's contributions and earnings after five years of participating in the ORP.

Participants contribute 6% of compensation and the Authority contributes 6.84%. For the year ended June 30, 2023, the Authority had a total payroll of $4,642,828, of which $804,374 was covered under ORP. Total employee and employer contributions for pension benefits for the year ended June 30, 2023 were $48,262 and $55,019, respectively. The amount of pension expense recognized in the current year related to ORP is equal to the employer contributions.

10. 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 2022 *Annual Comprehensive Financial Report*. An electronic version of this report is available on the North Carolina Office of the State Controller's website at https://www.osc.nc.gov/ or by calling the State Controller's Financial Reporting Section at (919) 707-0500.

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

Basis of Accounting: The financial statements of these plans were prepared using the accrual basis of accounting. Employer contributions are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits are recognized when due and payable in accordance with the terms of each plan. For purposes of measuring the net other postemployment benefits (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 2022 Annual *Comprehensive Financial Report*.

10. Other Postemployment Benefits (Continued)

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

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

Benefits Provided: Plan benefits received by retired employees and disabled employees from RHBF are OPEB. The healthcare benefits for retired and disabled employees who are not eligible for Medicare are the same as for active employees as described in Note 11. The plan options change when the former employees become eligible for Medicare. The benefits provided include medical and pharmacy coverage for employees and their dependents. Non-Medicare eligible members have two self-funded options administered by the State Health Plan while Medicare members have three options, including one self-funded option and two fully-insured Medicare Advantage/Prescription Drug Plan options. Self-funded medical and pharmacy claims costs are shared between the covered member and the State Health Plan. If the self-funded plan is elected by a Medicare eligible member, the coverage is secondary to Medicare. Fully-insured claims include cost sharing from covered members with the remaining balance paid by the fully-insured carrier.

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 (CJRS), the Legislative Retirement System (LRS), the University 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. 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 five but less than 10 years of retirement service credit are eligible for coverage on a fully contributory basis.

10. Other Postemployment Benefits (Continued)

Section 35.21 (c) & (d) of Session Law 2017-57 repealed retiree medical benefits for employees first hired on or after January 1, 2021.The legislation amended Chapter 135, Article 3B of the General Statutes to require that retirees must earn contributory retirement service in the TSERS (or in an allowed local system unit), the CJRS, or LRS prior to January 1, 2021, and not withdraw that service, in order to be eligible for retiree medical benefits under the amended law. Consequently, members first hired on and after January 1, 2021 will not be eligible to receive retiree medical benefits.

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 Act. The Authority's contractually-required contribution rate for the year ended June 30, 2023 was 6.89% of covered payroll. The Authority's contributions to the RHBF were $ 313,088 for the year ended June 30, 2023.

In fiscal year 2021, the State Health Plan (the Plan) transferred $187.0 million to RHBF as a result of cost savings to the Plan over a span of six years. For financial reporting purposes, the transfer was recognized as a nonemployer contributing entity contribution. The contribution was allocated among the RHBF employers and recorded as noncapital contributions. For the fiscal year ended June 30, 2023, the Authority recognized noncapital contributions for RHBF of $33,430.

2. Disability Income:

Plan Administration: As discussed in Note 11, 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 and LEAs which are not part of the State's reporting entity, and the Authority Employees' ORP. By statute, DIPNC is administered by the Department of State Treasurer and the Board of Trustees of TSERS.

Benefits Provided: Long-term disability benefits are payable as an OPEB from DIPNC after the conclusion of the short-term disability period or after salary continuation payments cease, whichever is later, while the employee is disabled and does not meet the TSERS conditions for unreduced service retirement. 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 becoming disabled or cessation of salary continuation, 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. A general 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; (2) reaching the age of 60 and completing 25 years of creditable service; or (3) completing 30 years of creditable service, at any age.

10. Other Postemployment Benefits (Continued)

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, by an amount equal to the monthly primary Social Security retirement benefit to which the employee might be entitled should the employee be at least age 62, 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, benefits are calculated in the same manner as described above except that after the first 36 months of the long-term disability, no further long-term disability benefits are payable unless the employee has been approved and is in receipt of primary Social Security benefits.

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

Contributions: Although DIPNC operates on a calendar year, disability income benefits are funded by actuarially determined employer contributions that are established in the Appropriations Act 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, 2023 was .10% of covered payroll. The Authority's contributions to DIPNC were $4,544 for the year ended June 30, 2023.

C. Net OPEB Liability:

Retiree Health Benefit Fund: At June 30, 2023, the Authority reported a liability of $4,397,689 for its proportionate share of the collective net OPEB liability for RHBF. The net OPEB liability was measured as of June 30, 2022. The total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of December 31, 2021, and update procedures were used to roll forward the total OPEB liability to June 30, 2022. The Authority's proportion of the net OPEB liability was based on a projection of the present value of future salaries for the Authority relative to the projected present value of future salaries for all participating employers, actuarially determined. As of June 30, 2022, the Authority's proportion was approximately .018%, which was an increase of .004% from its proportion measured at June 30, 2021, which was approximately .014%.

10. Other Postemployment Benefits (Continued)

Disability Income Plan of North Carolina: At June 30, 2023, the Authority reported a liability of $3,945 for its proportionate share of the collective net OPEB liability for DIPNC. The net OPEB liability was measured as of June 30, 2022. The total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of December 31, 2021, and update procedures were used to roll forward the total OPEB liability to June 30, 2022. The Authority's proportion of the net OPEB liability was based on a projection of the present value of future salaries for the Authority relative to the projected present value of future salaries for all participating employers, actuarially determined. As of June 30, 2022, the Authority's proportion was approximately .013%, which was an increase of .002% from its proportion measured at June 30, 2021, which was approximately .011%.

Actuarial Assumptions: The total OPEB liabilities for RHBF and DIPNC was determined by actuarial valuations as of December 31, 2021, using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified. The total OPEB liabilities were then rolled forward to June 30, 2022 utilizing update procedures incorporating the actuarial assumptions.

	Retiree Health Benefit Fund	Disability Income Plan of N.C.
Valuation Date	12/31/2021	12/31/2021
Inflation	2.50%	2.50%
Salary Increases*	3.25% - 8.05%	3.25% - 8.05%
Investment Rate of Return**	6.50%	3.00%
Healthcare Cost Trend Rate - Medical***	6.00% grading down to 5.00% by 2027	N/A
Healthcare Cost Trend Rate - Prescription Drug***	9.50% grading down to 5.00% by 2031	N/A
Healthcare Cost Trend Rate - Medicare Advantage***	0.00% through 2025, 5.00% thereafter	N/A
Healthcare Cost Trend Rate - Administrative***	3.00%	N/A

* Salary increases include 3.25% inflation and productivity factor.
**Investment rate of return is net of OPEB plan investment expense, including inflation.
***Disabilty Income Plan of NC eliminated employer reimbursements from the Plan (which included State Health Plan premiums) effective July 1, 2019.
N/A - Not Applicable

The OPEB plans currently use mortality tables that vary by age, gender, employee group (i.e. teacher, other educational employee, general employee, or law enforcement officer) and health status (i.e. disabled or not disabled). The current mortality rates are based on published tables and studies that cover significant portions of the U.S. public plan 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 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. DIPNC is primarily invested in the Bond Index Investment Pool as of June 30, 2022.

10. Other Postemployment Benefits (Continued)

Best estimates of real rates of return for each major asset class included in RHBF's target asset allocation as of June 30, 2022 (the measurement date) are summarized in the following table:

Asset Class	Long-Term Expected Real Rate of Return
Fixed Income	1.1 %
Global Equity	6.5 %
Real Estate	5.9 %
Alternatives	7.5 %
Opportunistic Fixed Income	5.0 %
Inflation Sensitive	2.7 %

The information in the preceding table is based on 30-year expectations developed with an investment consulting firm as part of a study that was completed in early 2022, 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 2.25%. 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, 2022 is 0.78%.

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. The results of the valuations fluctuate from year to year as actual experience differs from assumptions. This includes demographic experiences (i.e., mortality and retirement) that differ from expected. This also includes financial experiences (i.e., member medical costs and contributions) that vary from expected trends. Actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future.

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

Projections of benefits for financial reporting purposes of the plans are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. Historically, the benefits have been funded solely by employer contributions applied equally to all retirees. Currently, as described above, 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. Prior to July 1, 2019, employers received a reimbursement from DIPNC for employer costs, including the employer's share of the State Health Plan premiums, incurred during the second six months of the first year of a member's short-term disability coverage. With the elimination of the reimbursement to employers, State Health Plan premiums are no longer reimbursed by DIPNC for the benefits that were effective on or after July 1, 2019.

10. Other Postemployment Benefits (Continued)

The actuarial assumptions used in the December 31, 2021 valuations were generally based on the results of an actuarial experience study prepared as of December 31, 2019, 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 3.54% at June 30, 2022 compared to 2.16% at June 30, 2021. The projection of cash flows used to determine the discount rate assumed that contributions from employers would 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 to current plan members. As a result, a municipal bond rate of 3.54% was used as the discount rate used to measure the total OPEB liability. The 3.54% rate is based on the Bond Buyer 20-year General Obligation Index as of June 30, 2022.

The discount rate used to measure the total OPEB liability for DIPNC was 3.08% at June 30, 2022 compared to 3.0% at June 30, 2021. The projection of cash flow used to determine the discount rate assumed that contributions from plan members would be made at the current contribution rate and that contributions from employers would be made at statutorily required rates, actuarially determined. Based on those assumptions, the plan's fiduciary net position was not projected to be available to make all projected future benefit payments to the current plan members. In order to develop the blended discount rate of 3.08%, 3.0% was used during the period that the plan was projected to have a fiduciary net position, and a municipal bond rate of 3.54% was used during the period that the plan was projected to have no fiduciary net position. The 3.54% rate is based on the Bond Buyer 20-year General Obligation Index as of June 30, 2022.

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

Net OPEB Liability

	1% Decrease (2.54%)	Current Discount Rate (3.54%)	1% Increase (4.54%)
RHBF	$ 5,180,239	$ 4,397,689	$ 3,758,971
	1% Decrease (2.08%)	Current Discount Rate (3.08%)	1% Increase (4.08%)
DIPNC	$ 4,857	$ 3,945	$ 3,030

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Notes to Financial Statements
June 30, 2023

10. Other Postemployment Benefits (Continued)

Sensitivity of the Net OPEB Liability to Changes in the Healthcare Cost Trend Rates: The following presents the net OPEB liability of the plans, as well as what the plans' net OPEB liability 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

	1% Decrease (Medical - 4.00-5.00%, Pharmacy - 4.00-8.50%, Med Advantage - 0.00-4.00%, Administrative - 2.00%)	Current Healthcare Cost Trend Rates (Medical - 5.00-6.00%, Pharmacy - 5.00-9.50%, Med Advantage - 0.00-5.00%, Administrative - 3.00%)	1% Increase (Medical - 6.00-7.00%, Pharmacy - 6.00-10.50%, Med Advantage - 0.00-6.00%, Administrative - 4.00%)
RHBF	$ 3,620,189	$ 4,397,689	$ 5,403,242

Effective with the actuarial valuation as of December 31, 2021, the liability for the State's potential reimbursement of costs incurred by employers was removed because the reimbursement by DIPNC was eliminated for disabilities on or after July 1, 2019. Thus sensitivity to changes in the healthcare cost trend rates is no applicable for the DIPNC.

OPEB Expense: For the year ended June 30, 2023, the Authority recognized OPEB expense as follows:

RHBF	$ 320,551
DIPNC	6,313
Total OPEB Expense	$ 326,864

Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB: At June 30, 2023, 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

	RHBF	DIPNC	Total
Differences Between Actual and Expected Experience	$ 30,527	$ 4,422	$ 34,949
Changes of Assumptions	(1,649,400)	(477)	(1,649,877)
Net Difference Between Projected and Actual Earnings on Plan Investments	38,082	4,172	42,254
Changes in Proportion and Differences Between Authority’s Contributions and Proportionate Share of Contributions	1,674,308	3,209	1,677,517
Contributions Subsequent to the Measurement Date	313,088	4,544	317,632
	$ 406,605	$ 15,870	$ 422,475

10. Other Postemployment Benefits (Concluded)

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 liabilities related to RHBF and DIPNC in the fiscal year ending June 30, 2024. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized as 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	RHBF	DIPNC
2024	$ 99,356	$ 2,788
2025	7,324	3,078
2026	(23,930)	2,034
2027	10,768	1,652
2028	(1)	627
Thereafter	-	1,147
Total	$ 93,517	$ 11,326

11. 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 (Plan), a discretely presented component unit of the State of North Carolina. The Plan is funded by employer and employee contributions. Certain plans also require contributions from employees. The State Health Plan has contracted with third parties to process claims. See Note 10, 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 0.13% for the current fiscal year.

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 for up to twelve months. The Board of Trustees of the DIPNC may extend the short-term disability benefits for up to an additional twelve months. During the extended period of short-term disability benefits, payments are made directly by the DIPNC to the beneficiary. As discussed in Note 10, 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.

11. Risk Management (Concluded)

B. Other Risk Management and Insurance Activities:

1. Automobile, Fire, and Other Property Losses:
The Authority is required to maintain all risk coverage on all state-owned buildings and contents through the State Property Fire Insurance Fund (Fund), an internal service fund of the State. Fire and lightning 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 fire and lightning coverage. Coverage for all remaining risks for all buildings is charged to the Authority. 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 private insurance companies. 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 $100,000 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 *Annual Comprehensive 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 $3,000,000 for related losses.

12. Adoption of New Accounting Standards

For the year ended June 30, 2023, the Authority implemented the following pronouncement issued by GASB:

- GASB Statement No. 96, *Subscription-Based Information Technology Arrangements*
This Statement provides guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs). This Statement (1) defines a SBITA; (2) establishes that a SBITA results in a right-to-use subscription asset (an intangible asset) and a corresponding subscription liability; (3) provides the capitalization criteria for outlays other than subscription payments, including implementation costs of a SBITA; and (4) requires note disclosures regarding SBITAs.

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Notes to Financial Statements
June 30, 2023

13. Net Position Restatement

As of July 1, 2022, the Authority implemented GASB Statement No. 96, *Subscription-Based Information Technology Arrangements*. Net position was not restated due to the implementation; however, assets and liabilities were restated as a result of the implementation. See Note 7 for details on the restated balances related to subscription (SBITA) liabilities. Capital assets were restated by an offsetting amount.

14. Subsequent Events

Subsequent events have been evaluated through September 28, 2023, which is the date the financial statements were available to be issued.

The Authority contacted the USDE in April 2023 to request that its Guaranty Agency functions be transferred to another entity. On May 1, 2023, the USDE approved the request, and they designated Education Credit Management Corporation (ECMC) as the replacement Guaranty Agency. The Authority and ECMC have been working to transfer the functions and are on schedule to complete the transfer on November 1, 2023. As such, the Authority will cease Guaranty Agency functions on October 31, 2023.

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 Ten Fiscal Years *

	2023	2022	2021	2020
Authority's proportionate share percentage of collective net pension liability	0.016%	0.014%	0.012%	0.013%
Authority's proportionate share of TSERS collective net pension liability	$ 2,353,979	$ 634,961	$ 1,407,553	$ 1,357,035
Authority's covered payroll	$ 3,241,972	$ 2,684,772	$ 2,400,732	$ 2,379,219
Authority's proportionate share of the net pension liability as a percentage of covered payroll	72.61%	23.65%	58.63%	57.04%
Plan fiduciary net position as a percentage of the total pension liability	84.14%	94.86%	85.98%	87.56%

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

	2019	2018	2017	2016	2015	2014
	0.013%	0.014%	0.011%	0.013%	0.014%	0.014%
	$ 1,330,133	$ 1,075,117	$ 1,053,292	$ 482,209	$ 163,432	$ 163,432
	$ 2,352,372	$ 2,300,394	$ 2,044,547	$ 2,131,189	$ 2,208,847	$ 2,209,421
	56.54%	46.74%	51.52%	22.63%	7.40%	7.40%
	87.61%	89.51%	87.32%	94.64%	98.24%	90.60%

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

	2023	2022	2021	2020
Contractually required contribution	$ 649,963	$ 531,035	$ 396,809	$ 311,375
Contributions in relation to the contractually determined contribution	649,963	531,035	396,809	311,375
Contribution deficiency (excess)	$	$	$	$
Authority's covered payroll	$ 3,739,715	$ 3,241,972	$ 2,684,772	$ 2,400,732
Contributions as a percentage of covered payroll	17.38%	16.38%	14.78%	12.97%

2019	2018	2017	2016	2015	2014
$ 292,406	$ 253,586	$ 229,579	$ 187,076	$ 195,004	$ 191,949
292,406	253,586	229,579	187,076	195,004	191,949
$	$	$	$	$	$
$ 2,379,219	$ 2,352,372	$ 2,300,394	$ 2,044,547	$ 2,131,189	$ 2,208,847
12.29%	10.78%	9.98%	9.15%	9.15%	8.69%

NORTH CAROLINA
STATE EDUCATION ASSISTANCE AUTHORITY
Notes to Required Supplementary Information
Schedule of Authority Contributions (Pension)
Cost-Sharing, Multiple-Employer, Defined Benefit Pension Plan
For the Fiscal Year Ended June 30, 2023

1. Changes of Benefit Terms

Teachers' and State Employees' Retirement System:

Cost of Living Increase

2021	2020	2019	2018	2017	2016	2015	2014	2013	2012
N/A	N/A	N/A	N/A	1.00%	N/A	N/A	N/A	1.00%	N/A

Beginning in fiscal year 2015, with the implementation of GASB Statement No. 68, the above table reflects Cost of Living Increases (COLA's) in the period of the legislative session of Board of Trustees meeting when it was passed. The COLA is effective July 1 of that period and the fiscal year end liability is affected at June 30 of that year because the COLA is included in the actuarial assumptions used to calculate the plan net pension liability.

Effective July 1, 2017, the definition of law enforcement officer related to Teachers’ and State Employees’ Retirement System (TSERS) members was changed by the General Assembly to include Probation/Parole officers for retirement benefit purposes. The change includes officers with respect to service rendered on or after July 1, 2017 and provides for unreduced retirement at age 55 with five years of service as a law enforcement officer or reduced retirement at 50 with 15 years of service as a law enforcement officer.

Effective July 1, 2017, retirees and beneficiaries of deceased retirees receiving benefits from the TSERS as of July 1, 2016 received a 1% cost-of-living adjustment. Retirees and beneficiaries of retirees with retirement effective dates between July 1, 2016 and before June 30, 2017 received a prorated amount. These benefit enhancements reflect legislation enacted by the North Carolina General Assembly.

In December 2021 for the fiscal year ended June 30, 2022, retirees and beneficiaries of deceased retirees receiving benefits from the TSERS as of September 1, 2021, received a one-time-cost-of-living supplement payment, equal to 2% of the beneficiary’s annual retirement allowance.

Benefit recipients of the TSERS will receive a one-time benefit supplement payment equal to 4% of the member’s annual benefit amount, paid by October 2022, as granted by the North Carolina General Assembly for the fiscal year ended June 30, 2023. The one-time supplement does not change the ongoing monthly benefits, and absent additional action by the governing authorities, the payments will not recur in future years.

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

An actuarial valuation is performed for each year for the plan. The actuarially determined contribution rates in the Schedule of Authority 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. See Note 9 for more information on the specific assumptions for the 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.

NORTH CAROLINA
STATE EDUCATION ASSISTANCE AUTHORITY
Notes to Required Supplementary Information
Schedule of Authority Contributions (Pension)
Cost-Sharing, Multiple-Employer, Defined Benefit Pension Plan
For the Fiscal Year Ended June 30, 2023

3. Changes of Assumptions

In January 2021, the actuarial assumptions for the TSERS were updated to more closely reflect actual experience.

In 2020, the North Carolina Retirement Systems' consulting actuaries performed the quinquennial investigation of each retirement system's 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 the examined the TSERS experience during the period between January 1, 2015, and December 31, 2019. Based on the findings, the Board of Trustees of 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 improvements. These assumptions were adjusted to be based on the Pub-2010 mortality tables reflecting the mortality projection scale MP-2019, released by the Society of Actuaries in 2019. In addition, the assumed rates of retirement, salary increases, and rates of termination from active employment were updated to more closely reflect actual experience.

The discount rate for the TSERS was lowered from 7.00% to 6.50% effective for the December 31, 2020 valuation, with the resulting effect on minimum actuarially determined employer contribution rates (or amounts) to be gradually recognized over a five-year period beginning July 1, 2022.

The Notes to Required Supplementary Information reflect the most recent available information included in the State of North Carolina's 2022 Annual Comprehensive Financial Report.

SCHEDULE OF PROPORTIONATE SHARE OF THE NET OPEB LIABILITY (ASSET)

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 Seven Fiscal Years *

	2023	2022	2021
Retiree Health Benefit Fund			
Authority's proportionate share percentage of collective net OPEB liability (asset)	0.01852%	0.01591%	0.01508%
Authority's proportionate share of collective net OPEB liability (asset)	$ 4,397,689	$ 4,919,144	$ 4,183,850
Authority's covered payroll	$ 4,012,485	$ 3,743,190	$ 3,518,790
Authority's proportionate share of the net OPEB liability as a percentage of covered payroll	109.60%	131.42%	118.90%
Plan fiduciary net position as a percentage of the total OPEB liability (asset)	10.58%	7.72%	6.92%
Disability Income Plan of North Carolina			
Authority's proportionate share percentage of collective net OPEB liability (asset)	0.01326%	0.01133%	0.01647%
Authority's proportionate share of collective net OPEB liability (asset)	$ 3,945	$ (1,851)	$ (8,102)
Authority's covered payroll	$ 4,012,485	$ 3,743,190	$ 3,518,790
Authority's proportionate share of the net OPEB liability (asset) as a percentage of covered payroll	0.10%	(0.05%)	(0.23%)
Plan fiduciary net position as a percentage of the total OPEB liability (asset)	90.34%	105.18%	115.57%

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

	2020	2019	2018	2017
	0.01498%	0.01542%	0.01168%	0.00968%
	$ 4,740,014	$ 4,392,925	$ 3,829,724	$ 4,211,129
	$ 3,507,443	$ 3,382,627	$ 3,148,955	$ 2,832,617
	135.14%	129.87%	121.62%	148.67%
	4.40%	4.40%	3.52%	2.41%

	0.01096%	0.01109%	0.01172%	0.01042%
	$ (4,729)	$ (3,369)	$ (7,163)	$ (6,471)
	$ 3,507,443	$ 3,382,627	$ 3,148,955	$ 2,832,617
	(0.13%)	(0.10%)	(0.23%)	(0.23%)
	113.00%	108.47%	116.23%	116.06%

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

	2023	2022	2021	2020
Retiree Health Benefit Fund				
Contractually required contribution	$ 313,088	$ 252,385	$ 250,045	$ 227,666
Contributions in relation to the contractually determined contribution	313,088	252,385	250,045	227,666
Contribution deficiency (excess)	$	$	$	$
Authority's covered payroll	$ 4,544,089	$ 4,012,485	$ 3,743,190	$ 3,518,790
Contributions as a percentage of covered payroll	6.89%	6.29%	6.68%	6.47%

	2023	2022	2021	2020
Disability Income Plan of North Carolina				
Contractually required contribution	$ 4,544	$ 3,611	$ 3,369	$ 3,519
Contributions in relation to the contractually determined contribution	4,544	3,611	3,369	3,519
Contribution deficiency (excess)	$	$	$	$
Authority's covered payroll	$ 4,544,089	$ 4,012,485	$ 3,743,190	$ 3,518,790
Contributions as a percentage of covered payroll	0.10%	0.09%	0.09%	0.10%

	2019	2018	2017	2016	2015	2014
	$ 219,917	$ 204,649	$ 183,498	$ 158,627	$ 153,413	$ 146,021
	219,917	204,649	183,498	158,627	153,413	146,021
	$	$	$	$	$	$
	$ 3,507,443	$ 3,382,627	$ 3,148,955	$ 2,832,617	$ 2,794,390	$ 2,704,091
	6.27%	6.05%	5.83%	5.60%	5.49%	5.40%

	$ 4,910	$ 4,736	$ 11,966	$ 11,614	$ 11,457	$ 11,898
	4,910	4,736	11,966	11,614	11,457	11,898
	$	$	$	$	$	$
	$ 3,507,443	$ 3,382,627	$ 3,148,955	$ 2,832,617	$ 2,794,390	$ 2,704,091
	0.14%	0.14%	0.38%	0.41%	0.41%	0.44%

NORTH CAROLINA
STATE EDUCATION ASSISTANCE AUTHORITY
Notes to Required Supplementary Information
Schedule of Authority Contributions (OPEB)
Cost-Sharing, Multiple-Employer, Defined Benefit OPEB Plans
For the Fiscal Year Ended June 30, 2023

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 five options of the Retiree Health Benefit Fund (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 five 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-pocket 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.

Effective January 1, 2020, benefit terms related to copays, out-of-pocket maximums, and deductibles were changed for the 70/30 PPO option of the RHBF. Only the copays were adjusted for 80/20 PPO option of the RHBF.

Effective January 1, 2021, members first hired on and after January 1, 2021 will not be eligible to receive retiree medical benefits.

Effective January 1, 2022, the structure of employer contributions to the RHBF was altered by legislation. Previously, non-Medicare-eligible retirees had the same employer contribution rates as active employees. As a result of the legislative changes, non-Medicare-eligible retirees have the same employer contribution rate as Medicare-eligible retirees.

Beginning with the Disability Income Plan of North Carolina (DIPNC) actuarial valuation as of December 31, 2017, the valuation included a liability for the State's potential reimbursement of costs incurred by employers for income benefits and health insurance premiums during the second six months of the first year of the employee's short-term disability benefit period. Effective with the actuarial valuation as of December 31, 2021, the liability was removed from the actuarial valuation because the reimbursement from DIPNC was eliminated for disabilities occurring on or after July 1, 2019.

2. Methods 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 Authority Contributions are calculated by the actuary as a projection of the required employer contribution for the fiscal year beginning six months preceding the date of the valuation results for the RHBF. The actuarially determined contribution rates in the Schedule of Authority 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 10 for more information on the specific assumptions for each plan. The actuarially determined contributions 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.

NORTH CAROLINA
STATE EDUCATION ASSISTANCE AUTHORITY
Notes to Required Supplementary Information
Schedule of Authority Contributions (OPEB)
Cost-Sharing, Multiple-Employer, Defined Benefit OPEB Plans
For the Fiscal Year Ended June 30, 2023

3. Changes of Assumptions

Consistent with the prior years, for the actuarial valuation measured as of June 30, 2022 for the RHBF, a number of actuarial assumptions were reviewed and updated. The discount rate for the RHBF was updated to 3.54% form 2.16% as of June 30, 2021. This update was to reflect the Bond Buyer 20-year General Obligation Index as of fiscal year end. Medical and prescription drug claims costs 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 five years. The terms of the Pharmacy Benefits Management contract effective January 1, 2023 were incorporated into the valuation.

For the actuarial valuation measured as of June 30, 2022 for DIPNC, the discount rate was updated to 3.08% from 3.00% as of June 30, 2021. This was a result of an update to reflect the Bond Buyer 20-year General Obligation Index as of fiscal year end, combined with the determination that the plan’s fiduciary net position was not projected to be available to make all projected future benefit payments to the current plan members.

In 2020, the North Carolina Retirement Systems' consulting actuaries performed the quinquennial investigation of each retirement system's 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, 2015, and December 31, 2019. Based on the findings, the Boards of Trustees of the TSERS and the Committee on Actuarial Valuation of Retired Employees' Health Benefits 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 mortality improvements. These assumptions were adjusted to be based on the Pub-2010 mortality tables reflecting the mortality projection scale MP-2019, released by the Society of Actuaries in 2019. In addition, the assumed rates of retirement, salary increases, and rates of termination from active employment were updated to more closely reflect actual experience. Also, in 2020, disability rates were adjusted to the non-grandfathered assumptions used in the TSERS actuarial valuation to better align with the anticipated incidence of disability.

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 to the DIPNC benefit) was updated to be based on assumed Social Security calculation parameters in the year of the disability. The assumed costs related to the Patient Protection and Affordable Care Act regarding the Health Insurance Provider Fee for the fully insured plans and Excise Tax were removed when those pieces were repealed in December 2019 and first recognized in the 2020 OPEB report.

The Notes to Required Supplementary Information reflect the most recent available information included in the State of North Carolina’s 2022 Annual Comprehensive Financial Report.