



Comprehensive Annual Financial Report (CAFR)

Presented by Fran Lawrence

January 16, 2014



North Carolina Department of State Treasurer
Financial Operations

Learn. Invest. Grow. Prosper.

What is the CAFR?

- The North Carolina **Comprehensive Annual Financial Report** (CAFR) is a set of audited annual, governmental financial statements that complies with governmental accounting standards
- State fiscal year ends June 30



North Carolina CAFR

- Prepared by the Office of the State Controller: General Statute 143B-426.40H
- Agencies and component units of the State provide data: General Statute 143B-426.40H
- State Law: An annual financial audit of the State is completed each year by the NC Office of the State Auditor



North Carolina CAFR

- Includes financial information for all fund types of the departments, agencies, boards, commissions and authorities governed and legally controlled by the State
- The pension plans are reported as:
 - A fiduciary fund in the CAFR financial statements
 - Financial statements by retirement system in CAFR footnotes



DST Role in CAFR

- Maintain accurate accounting records
- Maintain adequate internal controls over all financial information
- Adapt and compile the CAFR report to comply with new accounting standards
- Data provider to Office of State Controller



Pension information in the CAFR

- **Note 16:**

- Pension Plan Financial Statements

- Combining Statement of Plan Net Position
 - Combining Statement of Changes in Plan Net Position

- 12 Plans administered by DST

- 7 Defined benefit pension plans
 - 2 Other Postemployment Benefit plans (OPEB): disability, retiree health
 - 1 other benefit plan: death benefit
 - 2 defined contribution plans: 401(k) and 457 plans

- 1 Sheriffs' pension fund: administered by DOJ



Pension information in the CAFR

- **Note 12:**

- 7 Pension plan descriptions, actuarial methods and assumptions
- Net pension liability/asset; rate of return, membership info (New GASB 67 disclosures and existing GASB 27 disclosures)
- No stand alone financial statements for Pension Plans administered by DST

- **Note 14:**

- 2 Other Postemployment Benefits Plans (OPEB): the Retiree Health Benefit Fund and the Disability Income Fund
- Plan descriptions, funding progress, required contributions, actuarial methods and assumptions



Pension information in the CAFR

- **Note 15:**
 - 1 Other Benefit Plan: Death Benefit Plan of North Carolina and additional Disability Plan disclosure
- **Note 3:**
 - Pension Plan Investment Pool
 - Extensive disclosures regarding asset types and risk (GASB 40 tables for interest rate and credit risk)



Pension information in the CAFR

- **Required Supplementary Information:**

Defined Benefit Pension Plans (includes GASB 67):

- Schedule of Changes in the Net Pension Liability
- Schedule of the Net Pension Liability
- Schedule of Employer Contributions
- Schedule of Investment Returns
- Schedules of Funding Progress

OPEB Plans

- Schedules of Funding Progress
- Schedule of Employer Contributions



Questions?





Thank You!

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North Carolina Department of State Treasurer
Financial Operations

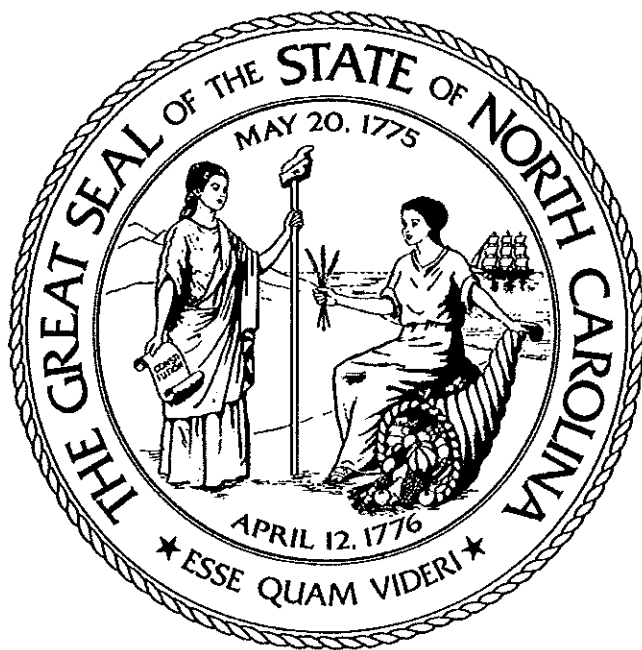
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EXCERPT

NORTH CAROLINA

COMPREHENSIVE ANNUAL FINANCIAL REPORT

FOR THE FISCAL YEAR
ENDED JUNE 30, 2014



PAT MCCRORY
GOVERNOR

LINDA COMBS
STATE CONTROLLER

Prepared by Statewide Accounting staff
Office of the State Controller

<http://www.osc.nc.gov>

NOTES TO THE FINANCIAL STATEMENTS

NOTE 12: RETIREMENT PLANS

The State reports nine retirement plans as pension trust funds, seven defined benefit public employee retirement plans administered by the State, as well as two defined contribution plans, one of which is administered by the State and the other is administered by a third party under the auspices of the State. Although the assets of the administered plans are commingled for investment purposes, each plan's assets may be used only for payment of benefits to the members of that plan and for administrative costs in accordance with the terms of each plan. The plans in this note do not issue separate financial statements, nor are they reported as part of other entities. The financial statements and other required disclosures are presented in Note 16 and in the *Required Supplementary Information (RSI)* section of this CAFR. The State also provides a defined benefit special separation allowance for eligible sworn law enforcement officers and a defined contribution optional retirement plan for certain university employees.

A. Summary of Significant Accounting Policies and Plan Asset Matters*BASIS OF ACCOUNTING*

The financial statements of these plans 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.

METHODS USED TO VALUE INVESTMENTS

Pursuant to North Carolina General Statutes, the State Treasurer is the custodian and administrator of the retirement systems. The State Treasurer maintains various investment portfolios in its Investment Pool. The pension trust funds are the primary participants in the Long-term Investment portfolio and the sole participants in the External Fixed Income Investment, Equity Investment, Real Estate Investment, Alternative Investment, Credit Investment, and Inflation Protection Investment portfolios.

The investment balance of each pension 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 used to estimate the fair value of investments when fair value is based on other than quoted market prices are provided in Note 3. Additionally, the securities lending balance represents assets occurring from securities lending transactions that result from the systems' participation in the pool. The investments of the State Treasurer and securities lending are fully discussed in Note 3.

B. Plan Descriptions*Cost-Sharing, Multiple-Employer, Defined Benefit Plans***1. TEACHERS' AND STATE EMPLOYEES' RETIREMENT SYSTEM**

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 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. Benefit provisions are established by General Statute 135-5 and may be amended only by the North Carolina General Assembly. At June 30, 2014, the number of participating employers was as follows:

State of North Carolina.....	1
LEAs	116
Charter Schools.....	64
Community Colleges.....	58
University of North Carolina System.....	19
N.C. Housing Finance Agency.....	1
Total.....	<u>259</u>

NOTES TO THE FINANCIAL STATEMENTS

Management of the plan is vested in the TSERS Board of Trustees, which consists of 13 members – nine appointed by the Governor, one appointed by the state Senate, one appointed by the state House of Representatives, and the State Treasurer and the State Superintendent, who serve as ex-officio members.

Benefits provided. TSERS provides retirement and survivor benefits. Retirement benefits are determined as 1.32% of the member's average final compensation times the member's years of creditable service. A member's average final compensation is calculated as the average of a member's four highest consecutive years of compensation. General employee plan members are eligible to retire with full retirement benefits at age 65 with five years of creditable service (or 10 years of creditable service for members joining TSERS on or after August 1, 2011), at age 60 with 25 years of creditable service, or at any age with 30 years of creditable service. General employee plan members are eligible to retire with partial retirement benefits at age 50 with 20 years of creditable service or at age 60 with five years of creditable service (or 10 years of creditable service for members joining TSERS on or after August 1, 2011). 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 (10 years for members joining on or after August 1, 2011). Eligible beneficiaries may elect to receive a monthly Survivor's Alternate Benefit for life or a return of the member's contributions. The plan does not provide for automatic post-retirement benefit increases. Increases are contingent upon actuarial gains of the plan.

TSERS plan members who are LEOs are eligible to retire with full retirement benefits at age 55 with five years of creditable service as an officer (or 10 years of creditable service for members joining TSERS on or after August 1, 2011), or at any age with 30 years of creditable service. LEO plan members are eligible to retire with partial retirement benefits at age 50 with 15 years of creditable service as an officer. Survivor benefits are available to eligible beneficiaries of LEO 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 15 years of creditable service as an LEO and have reached age 50, or have completed five years of creditable service as an LEO and have reached age 55, or have completed 15 years of creditable service as an LEO if killed in the line of duty. Eligible beneficiaries may elect to receive a monthly Survivor's Alternate Benefit for life or a return of the member's contributions.

Contributions. Benefits and administrative expenses are funded by member contributions of 6% of compensation, investment income, and by an actuarially determined employer contribution established by legislation. For the fiscal year ended June 30, 2014, the State and other participating employers made statutory contributions of 8.69% of covered payroll. This was equal to the actuarially determined contribution. Contribution provisions are established by General Statute 135-8 and may be amended only by the North Carolina General Assembly. Actual contributions are reported in Section F of this note.

Refunds of contributions. Members who have terminated service as a contributing member, may file an application for a refund of their contributions. By state law, refunds to members with at least five years of service include 4% interest. State law requires a 60 day waiting period after service termination before the refund may be paid. The acceptance of a refund payment cancels the individual's right to the employer contributions or any other benefit provided by TSERS.

2. LOCAL GOVERNMENTAL EMPLOYEES' RETIREMENT SYSTEM

Plan administration. The State of North Carolina administers the Local Governmental Employees' Retirement System (LGERS) plan. This plan is a cost-sharing, multiple-employer, defined benefit plan established by the State to provide benefits for employees of local governments. Membership is comprised of general employees and local law enforcement officers of participating local governmental entities. Benefit provisions are established by General Statute 128-27 and may be amended only by the North Carolina General Assembly. At June 30, 2014, the number of participating local governments was as follows:

Cities.....	426
Counties.....	100
Special Districts.....	360
Total.....	<u>886</u>

Management of the plan is vested in the LGERS Board of Trustees, which consists of 13 members – nine appointed by the Governor, one appointed by the state Senate, one appointed by the state House of Representatives, and the State Treasurer and State Superintendent, who serve as ex-officio members.

Benefits provided. LGERS provides retirement and survivor benefits. Retirement benefits are determined as 1.85% 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. Plan members are eligible to retire with full retirement benefits at age 65 with five years of creditable service, at age 60 with 25 years of creditable service, or at any age with 30 years of creditable service. Plan members are eligible to retire with partial retirement benefits at age 50 with 20 years of creditable service or at age 60 with five years of creditable service (age 55 for firefighters). Survivor benefits are available to eligible beneficiaries of members

NOTES TO THE FINANCIAL STATEMENTS

who die while in active service or within 180 days of their last day of service and who have either completed 20 years of creditable service regardless of age (15 years of creditable service for firefighters and rescue squad members who are killed in the line of duty) or have completed five years of service and have reached age 60. Eligible beneficiaries may elect to receive a monthly Survivor's Alternate Benefit for life or a return of the member's contributions. The plan does not provide for automatic post-retirement benefit increases. Increases are contingent upon actuarial gains of the plan.

LGERS plan members who are LEOs are eligible to retire with full retirement benefits at age 55 with five years of creditable service as an officer, or at any age with 30 years of creditable service. LEO plan members are eligible to retire with partial retirement benefits at age 50 with 15 years of creditable service as an officer. Survivor benefits are available to eligible beneficiaries of LEO 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 15 years of creditable service as an LEO and have reached age 50, or have completed five years of creditable service as an LEO and have reached age 55, or have completed 15 years of creditable service as an LEO if killed in the line of duty. Eligible beneficiaries may elect to receive a monthly Survivor's Alternate Benefit for life or a return of the member's contributions.

Contributions. Benefits and administrative expenses are funded by member contributions of 6% of compensation, investment income and by an actuarially determined employer contribution set annually by the LGERS Board of Trustees. For the fiscal year ended June 30, 2014, all employers made contributions of 7.55% of covered payroll for law enforcement officers and 7.07% for general employees and firefighters. This was equal to the actuarially determined contribution. In addition, employers with an unfunded liability, established when the government initially enters the system, must make additional contributions towards that liability. Contribution provisions are established by General Statute 128-30 and may be amended only by the North Carolina General Assembly. The State's responsibility is administrative only.

Refunds of contributions. Members who have terminated service as a contributing member, may file an application for a refund of their contributions. By state law, refunds to members with at least five years of service include 4% interest. State law requires a 60 day waiting period after service termination before the refund may be paid. The acceptance of a refund payment cancels the individual's right to employer contributions or any other benefit provided by LGERS.

3. FIREFIGHTERS' AND RESCUE SQUAD WORKERS' PENSION FUND

Plan administration. The Firefighters' and Rescue Squad Workers' Pension Fund (FRSWPF) is a cost sharing, defined benefit pension plan with a special funding situation in that the State of North Carolina is not the employer but is legally obligated to contribute to the plan. The State established the plan to provide pension benefits for all eligible firefighters and rescue squad workers. Membership is comprised of both volunteer and locally employed firefighters and emergency medical personnel who elect membership. Benefit provisions are established by General Statute 58-86 and may be amended only by the North Carolina General Assembly. At June 30, 2014, there were 1,811 participating fire and rescue units.

Management of the plan is vested in the LGERS Board of Trustees, which consists of 13 members – nine appointed by the Governor, one appointed by the state Senate, one appointed by the state House of Representatives, and the State Treasurer and State Superintendent, who serve as ex-officio members.

Benefits provided. FRSWPF provides retirement and survivor benefits. The present retirement benefit is \$170 per month. Plan members are eligible to receive the monthly benefit at age 55 with 20 years of creditable service as a firefighter or rescue squad worker, and have terminated paid duties as a firefighter or rescue squad worker. Eligible beneficiaries of members who die before beginning to receive the benefit will receive the amount paid by the member and contributions paid on the member's behalf into the plan. Eligible beneficiaries of members who die after beginning to receive benefits will be paid the amount the member contributed minus the benefits collected.

Contributions. Benefits and administrative expenses are funded by a \$10 monthly contribution by the member, investment income and an actuarially based state appropriation (see Section F for the amount). Contribution provisions are established by General Statute 58-86 and may be amended only by the North Carolina General Assembly.

Refunds of contributions. Members who are no longer eligible or choose not to participate in the fund may file an application for a refund of their contributions. Refunds include the member's contributions and contributions paid by others on the member's behalf. No interest will be paid on the amount of the refund. The acceptance of a refund payment cancels the individual's right to employer contributions or any other benefit provided by FRSWPF.

NOTES TO THE FINANCIAL STATEMENTS**4. REGISTERS OF DEEDS' SUPPLEMENTAL PENSION FUND**

Plan administration. The State of North Carolina administers the Registers of Deeds' Supplemental Pension Fund (RODSPF) which is a cost-sharing, multiple-employer, defined benefit plan established by the State of North Carolina to provide supplemental pension benefits for all eligible, retired county registers of deeds. Membership is comprised of registers of deeds who are retired from the Local Governmental Employees' Retirement System or an equivalent locally sponsored plan and have met the statutory eligibility requirements. At June 30, 2014, there were 93 individuals receiving benefits in the plan with 100 counties participating. Benefit provisions are established by General Statute 161-50 and may be amended only by the North Carolina General Assembly. The State's only cost in the plan is administration.

Management of the plan is vested in the LGERS Board of Trustees, which consists of 13 members – nine appointed by the Governor, one appointed by the state Senate, one appointed by the state House of Representatives, and the State Treasurer and State Superintendent, who serve as ex-officio members.

Benefits provided. An individual's benefits for the year are calculated as a share of accumulated contributions available for benefits for that year, subject to certain statutory limits. An individual's eligibility is based on at least 10 years of service as a register of deeds with the individual's share increasing with years of service. Because of the statutory limits noted above, not all contributions available for benefits are distributed.

Contributions. Benefits and administrative expenses are funded by investment income and 1.5% of the receipts collected by each County Commission under Article 1 of Chapter 161 of the North Carolina General Statutes. The statutory contribution currently has no relationship to the actuary's required contribution. The actuarially determined contribution this year and in the foreseeable future is zero. Registers of Deeds do not contribute. Contribution provisions are established by General Statute 161-50 and may be amended only by the North Carolina General Assembly.

Single-Employer Defined Benefit Plans**5. CONSOLIDATED JUDICIAL RETIREMENT SYSTEM**

Plan administration. The State of North Carolina administers the Consolidated Judicial Retirement System (CJRS). This plan is a single-employer, defined benefit plan established by the State of North Carolina to provide pension benefits for employees of the State Judicial System. Membership is comprised of judges, district attorneys, public defenders and clerks of court. Benefit provisions are established by General Statute 135-58 and may be amended only by the North Carolina General Assembly.

Management of the plan is vested in the TSERS Board of Trustees, which consists of 13 members – nine appointed by the Governor, one appointed by the state Senate, one appointed by the state House of Representatives, and the State Treasurer and the State Superintendent, who serve as ex-officio members.

Benefits provided. The plan provides retirement, disability and death benefits. Retirement benefits are determined as a percentage of the member's final compensation times the member's years of creditable service. The percentage used is determined by the position held by the member. A member's final compensation is the annual equivalent of the rate of compensation most recently applicable to the retiree as a member of the Retirement System. Plan members are eligible to retire with full retirement benefits at age 65 with five years of membership service (10 years of service for members joining CJRS on or after August 1, 2011), or at age 50 with 24 years of creditable service. Plan members are eligible to retire with partial retirement benefits at age 50 with five years of membership service (10 years of service for members joining CJRS on or after August 1, 2011). The reduced benefit is calculated using the same formula as a service retirement benefit, multiplied by a reduction percentage based on the member's age and/or service at early retirement. Survivor benefits are available to spouses of members who die while in active service after reaching age 50 with five years of service. The plan does not provide for automatic post-retirement benefit increases. Increases are contingent upon actuarial gains of the plan.

Contributions. Benefits and administrative expenses are funded by member contributions of 6% of compensation, investment income, and by employer contributions. For the fiscal year ended June 30, 2014, the State made a statutory contribution of 28.01% of covered payroll. This was equal to the actuarially determined contribution. Contribution provisions are established by General Statutes 135-68 and 135-69 and may be amended only by the North Carolina General Assembly. Actual contributions are reported in Section F of this note.

NOTES TO THE FINANCIAL STATEMENTS

Refund of contributions. Members who have terminated service as a contributing member may file an application for a refund of their contributions. By state law, refunds to members with at least five years of service include 4% interest. State law requires a 60 day waiting period after service termination before the refund may be paid. The acceptance of a refund payment cancels the individual's right to employer contributions or any other benefit provided by CJRS.

6. LEGISLATIVE RETIREMENT SYSTEM

Plan administration. The State of North Carolina administers the Legislative Retirement System (LRS). This plan is a single-employer, defined benefit plan established by the State of North Carolina to provide retirement and disability benefits for members of the General Assembly. The benefit will not be payable while the retiree is employed in a position making him eligible to participate in either the Teachers' and State Employees' Retirement System or Consolidated Judicial Retirement System. Benefit provisions are established by General Statute 120-4.21 and may be amended only by the North Carolina General Assembly.

Management of the plan is vested in the TSERS Board of Trustees, which consists of 13 members – nine appointed by the Governor, one appointed by the state Senate, one appointed by the state House of Representatives, and the State Treasurer and the State Superintendent, who serve as ex-officio members.

Benefits provided. LRS provides retirement, disability and survivor benefits. Retirement benefits are determined as 4.02% of the highest annual compensation as a member of the General Assembly times years of creditable service. A member's highest annual compensation is the 12 consecutive months of salary authorized during the member's final legislative term for the highest position ever held as a member of the General Assembly. Plan members are eligible to retire with full retirement benefits at age 65 after five years of service. Plan members are eligible to retire with partial retirement benefits at age 60 after five years of service or at age 50 with 20 years of service. Survivor benefits are available to eligible beneficiaries of contributing members of the General Assembly who die while in active service. The beneficiary will receive a return of the member's contributions with interest. If the member dies while in active service after 12 years of creditable service or after reaching age 60 with five years of service, the surviving beneficiary may choose to receive a lifetime monthly benefit instead of a return of contributions with interest.

Contributions. Benefits and administrative expenses are funded by member contributions of 7% of compensation, investment income, and by actuarially determined employer contributions. For the fiscal year ended June 30, 2014, there was no actuarially determined required contribution. Actuarially determined contribution provisions are established by General Statutes 120-4.19 and 120-4.20 and may be amended only by the North Carolina General Assembly.

Refunds of contributions. Members who have terminated service as a contributing member may file an application for a refund of their contributions. By state law, refunds to members with at least five years of service include interest. State law requires a 60 day waiting period after service termination before the refund may be paid. The acceptance of a refund payment cancels the individual's right to employer contributions or any other benefit provided by LRS.

7. NORTH CAROLINA NATIONAL GUARD PENSION FUND

Plan administration. The North Carolina National Guard Pension Fund (NGPF) is a single-employer, defined benefit plan established by the State of North Carolina to provide pension benefits for members of the North Carolina National Guard (NCNG). Membership is comprised of members and former members of the NCNG who have served and qualified for at least 20 years of creditable military service, have at least 15 years of aforementioned service as a member of the NCNG, and have received an honorable discharge from the NCNG. This is a special funding situation because the State is not the employer, but is legally obligated to contribute to the plan. Benefit provisions are established by General Statute 127A-40 and may be amended only by the North Carolina General Assembly.

Management of the plan is vested in the TSERS Board of Trustees, which consists of 13 members – nine appointed by the Governor, one appointed by the state Senate, one appointed by the state House of Representatives, and the State Treasurer and the State Superintendent, who serve as ex-officio members.

Benefits provided. NGPF provides a pension of \$95 per month for 20 years of creditable military service with an additional \$9.50 per month for each additional year of such service; provided, however that the total pension shall not exceed \$190 per month.

Contributions. Benefits and administrative expenses are funded by investment income and an actuarially determined state appropriation (see Section F for the amount). Contribution provisions are established by General Statute 127A-40 and may be amended only by the North Carolina General Assembly.

NOTES TO THE FINANCIAL STATEMENTS***Defined Contribution Plans*****8. SHERIFFS' SUPPLEMENTAL PENSION FUND**

This plan is a defined contribution plan established by the State of North Carolina to provide supplemental pension benefits for all eligible, retired county sheriffs. Membership is comprised of sheriffs who are retired from the Local Governmental Employees' Retirement System and beneficiaries that meet the statutory eligibility requirements. At June 30, 2014, there were 92 sheriffs and one beneficiary enrolled in the plan with 75 of the State's 100 counties participating.

An individual's benefits for the year are calculated as a share of accumulated contributions available for benefits for that year, subject to certain statutory limits. An individual's eligibility is based on minimum years of service as a sheriff with the individual's share increasing with years of service. Because of the statutory limits noted above, not all contributions available for benefits are distributed. The North Carolina Department of Justice administers the plan. If the plan purchases any investments, they are held as part of the State Treasurer's Investment Pool. The State's only cost in the plan is administration.

Receipts collected by each county's Clerk of Superior Court under General Statutes 7A-304(a)(3a), along with investment income, support the plan's benefits and administrative expenses. Sheriffs do not contribute to the plan. For the fiscal year ended June 30, 2014, the Clerks remitted \$899 thousand. All benefit and contribution provisions are established by Chapter 143, Article 12H of the General Statutes and may be amended only by the North Carolina General Assembly.

9. IRC SECTION 401 (K) PLAN

IRC Section 401(k) Plan - Effective January 1, 1985, Chapter 135, Article 5 of the General Statutes authorized the creation of the Supplemental Retirement Income Plan of North Carolina (the 401(k) Plan) in accordance with Internal Revenue Code (IRC) Section 401(k). Effective July 1, 2008, the Board of Trustees of the North Carolina Public Employee Deferred Compensation Plan was consolidated with the Supplemental Retirement Income Plan's Board to form the North Carolina Supplemental Retirement Board of Trustees (the Board). At that time, the Board began administering these independent plans. Subject to the employer's election to participate in the Plan, all members of the Teachers' and State Employees' Retirement System, Consolidated Judicial Retirement System, Legislative Retirement System, Local Governmental Employees' Retirement System and University Optional Retirement Program and retirement and pension plans sponsored by political subdivisions of the State that qualify under Section 401(a) of the IRC are eligible to enroll in the 401(k) Plan and may contribute up to 80% (limited to an Internal Revenue maximum dollar amount) of their compensation during the plan fiscal year. Members of the 401(k) Plan may receive their benefits upon retirement, disability, termination, hardship, or death. All contributions and costs of administering the 401(k) Plan are the responsibility of the participants. At December 31, 2013, there were approximately 243,000 employees enrolled with 993 participating employers.

The 401(k) Plan is a defined contribution pension plan with direct administration delegated to a third party contractor. Financial statements are based on the Plan's fiscal year. The audited statements for the year ended December 31, 2013, are presented in this financial report as a pension and other employee benefit trust fund. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. The 401(k) Plan's financial statements are prepared using the accrual basis of accounting. Notes receivable represent loans to participants and are reported at outstanding principal balances. Prudential Retirement Services (a subsidiary of Prudential) provides third party administration of the 401(k) Plan. The 401(k) Plan's financial statements are available by contacting the N.C. Department of State Treasurer, 325 North Salisbury Street, Raleigh, NC 27603-1385.

In addition to the voluntary contribution criteria above, General Statute 143-166.30 requires state contributions to the 401(k) Plan to provide benefits for all law enforcement officers employed by the State and its component units. General Statute 143-166.50 requires local governmental units with law enforcement officers to also contribute at least as much as the State. Participation begins at the date of employment. State agencies and component units are required to contribute monthly to the individual accounts of participants an amount equal to 5% of each officer's monthly salary. The State is also required to contribute to the individual accounts of all officers on a per capita basis in equal shares. State law enforcement officers receive \$.50 for each court cost assessed and collected under General Statute 7A-304, while \$1.25 of this assessment goes to local law enforcement officers. General Statutes allow law enforcement officers to voluntarily contribute up to 10% of their compensation within any calendar year, but current Internal Revenue Code provisions define the actual voluntary contribution a law enforcement officer can make. All contributions are immediately vested in the name of each participant. At December 31, 2013, 52 state agencies and component units along with 457 local governmental units outside our reporting entity contributed the required 5%. In addition, five state agencies and 443 local government employers contributed to the 401(k) Plan on a voluntary basis. There were approximately 13,800 LEOs actively participating in the 401(k) Plan and approximately 24,000 LEOs receiving employer contributions as of December 31, 2013.

The 401(k) Plan also reported total member contributions of \$305.336 million. The payrolls for law enforcement officers, on which the required contributions were based for the year ended December 31, 2013, amounted to \$160.099 million for the State, \$23.740 million for universities, and \$4.091 million for community colleges and other miscellaneous component units. The required 5% employer's

NOTES TO THE FINANCIAL STATEMENTS

contribution was made by the State for \$8,005 million, by universities for \$1,187 million, and by the remaining component units and community colleges for \$205 thousand. In addition, the State contributed \$389 thousand for required court cost assessments.

The 401(k) Plan (Supplemental Retirement Plan) discloses a related party transaction in Note 20 of this CAFR. Through an agreement with the Supplemental Plan, as directed by the Board, Prudential Retirement Services provides investment management services along with the third party administration referred to above. The Supplemental Retirement Plan's investment risks are described in Note 3.

C. Plan Membership

The following table summarizes membership information by plan at the actuarial valuation date:

	<i>Cost-Sharing, Multiple-Employer</i>				<i>Single-Employer</i>		<i>North Carolina National Guard</i>
	<i>Teachers' and State Employees'</i>	<i>Local Govern- mental</i>	<i>Firefighters' and Rescue Squad</i>	<i>Registers of Deeds'</i>	<i>Consolidated Judicial</i>	<i>Legislative</i>	
Inactive plan members or beneficiaries currently receiving benefits	187,448	57,405	12,445	95	584	311	4,354
Inactive plan members entitled to but not yet receiving benefits	125,513	50,998	156	2	53	94	5,117
Active plan members	318,009	123,455	42,464	100	566	170	5,535
	<u>630,970</u>	<u>231,858</u>	<u>55,065</u>	<u>197</u>	<u>1,203</u>	<u>575</u>	<u>15,006</u>
Valuation date	12-31-13	12-31-13	12-31-13	12-31-13	12-31-13	12-31-13	12-31-13

D. Investments

Investment policy. The pension plans' policy in regard to the allocation of invested assets is established and may be amended by the State Treasurer. Plan assets are managed by the Investment Management Division of the North Carolina Department of the State Treasurer (IMD) under the direction of the State Treasurer. It is the policy of the State Treasurer to invest plan assets with a focus on protection through diversification, achievement of stable and consistent returns that meet or exceed benchmarks and actuarial assumptions over a long-term projection, with a primary objective of ensuring that all liability payments and obligations are met. The target asset allocation is developed based upon analysis of optimized portfolios, utilizing risk and return characteristics of eligible asset classes, and selecting the most efficient portfolio for a given level of risk.

The adopted asset allocation policy for the Registers of Deeds' Supplemental Pension Fund is 100% in the fixed income asset class as of June 30, 2014. For all plans other than the Registers of Deeds' Supplemental Pension Fund, the following table displays the adopted asset allocation policy as of June 30, 2014:

<u>Asset Class</u>	<u>Target Allocation</u>
Fixed Income	36.0%
Global Equity	40.5%
Real Estate	8.0%
Alternatives	6.5%
Credit	4.5%
Inflation Protection	4.5%
Total	<u>100%</u>

In July 2013, the General Assembly passed Senate Bill 558. Under this bill, the IMD was granted greater authority and flexibility with respect to investments by increasing the percentage limitations on various individual investment asset classes as well as in the aggregate. During the fiscal year ended June 30, 2014, the IMD continued to diversify the pension fund investments and conducted an asset liability study to develop a new asset allocation policy that would utilize some of the additional investment flexibility. A new asset allocation policy was finalized during the fiscal year to be effective July 1, 2014. The new asset allocation

NOTES TO THE FINANCIAL STATEMENTS

policy utilizes different asset classes, changes in the structure of certain asset classes and adopts new benchmarks. Using the asset class categories in the preceding table, the new target allocations effective July 1, 2014 are Fixed Income 29.0%, Global Equity 42.0%, Real Estate 8.0%, Alternatives 8.0%, Credit 7.0% and Inflation Protection 6.0%.

Rate of return. For the year ended June 30, 2014, the annual money-weighted rate of return on pension plan investments, net of pension plan investment expense was:

Retirement System	Money-weighted Rate of Return
Teachers' and State Employees'	15.88%
Local Governmental Employees'	15.86%
Firefighters' and Rescue Squad Workers'	15.62%
Registers of Deeds'	6.04%
Consolidated Judicial	15.87%
Legislative	15.91%
North Carolina National Guard	15.63%

The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

E. Net Pension Liability of Participating Employers

The components of the net pension liability of the participating employers at June 30, 2014, were as follows (dollars in thousands):

	Cost-Sharing, Multiple-Employer				Single-Employer		
	<i>Teachers' and State Employees'</i>	<i>Local Govern- mental</i>	<i>Firefighters' and Rescue Squad</i>	<i>Registers of Deeds'</i>	<i>Consolidated Judicial</i>	<i>Legislative</i>	<i>North Carolina National Guard</i>
Total pension liability	\$ 66,788,196	\$ 22,375,668	\$ 416,823	\$ 24,143	\$ 565,761	\$ 24,418	\$ 140,206
Plan fiduciary net position	(65,615,775)	(22,927,586)	(389,405)	(46,809)	(539,564)	(30,051)	(110,030)
Net pension liability (asset)	<u>\$ 1,172,421</u>	<u>\$ (551,918)</u>	<u>\$ 27,418</u>	<u>\$ (22,666)</u>	<u>\$ 26,197</u>	<u>\$ (5,633)</u>	<u>\$ 30,176</u>
Plan fiduciary net position as a percentage of the total pension liability	98.24%	102.47%	93.42%	193.88%	95.37%	123.07%	78.48%

NOTES TO THE FINANCIAL STATEMENTS

Actuarial assumptions. The total pension liability was determined by actuarial valuations as of December 31, 2013, using the following actuarial assumptions, applied to all prior periods included in the measurement. The total pension liability was then rolled forward to June 30, 2014 utilizing update procedures incorporating the actuarial assumptions.

The following table presents the actuarial assumptions used to determine the total pension liability for each plan at the actuarial valuation date:

	<i>Cost-Sharing, Multiple-Employer</i>				<i>Single-Employer</i>		
	<i>Teachers' and State Employees'</i>	<i>Local Governmental</i>	<i>Firefighters' and Rescue Squad</i>	<i>Registers of Deeds'</i>	<i>Consolidated Judicial</i>	<i>Legislative</i>	<i>North Carolina National Guard</i>
	(Note 1)	(Note 1)		(Note 1)	(Note 1)		
Valuation date	12/31/13	12/31/13	12/31/13	12/31/13	12/31/13	12/31/13	12/31/13
Inflation	3%	3%	3.5%	3%	3%	3%	3%
Salary Increases	4.25%-9.10%	4.25%-8.55%	N/A	4.25%-7.75%	5.00%-5.95%	7.50%	N/A
Investment Rate of Return (Note 2)	7.25%	7.25%	7.25%	5.75%	7.25%	7.25%	7.25%

Note 1 - Salary increases include 3.5% inflation and productivity factor

Note 2 - Investment rate of return is net of pension plan investment expense, including inflation

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

The actuarial assumptions used in the December 31, 2013 valuations were based on the results of an actuarial experience study for the period January 1, 2005 through December 31, 2009.

Future ad hoc COLA amounts are not considered to be substantively automatic and are therefore not included in the measurement.

The projected long-term investment returns and inflation assumptions are developed through review of current and historical capital markets data, sell-side investment research, consultant whitepapers, and historical performance of investment strategies. Fixed income return projections reflect current yields across the U.S. Treasury yield curve and market expectations of forward yields projected and interpolated for multiple tenors and over multiple year horizons. Global public equity return projections are established through analysis of the equity risk premium and the fixed income return projections. Other asset categories and strategies' return projections reflect the foregoing and historical data analysis. These projections are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2014 (see the discussion of the pension plan's investment policy in Section D) are summarized in the following table:

<u>Asset Class</u>	<u>Long-Term Expected Real Rate of Return</u>
Fixed Income	2.5%
Global Equity	6.1%
Real Estate	5.7%
Alternatives	10.5%
Credit	6.8%
Inflation Protection	3.7%

The information above is based on 30 year expectations developed with the consulting actuary for the 2013 asset liability and investment policy study for the North Carolina Retirement Systems. The long-term nominal rates of return underlying the real rates of return are arithmetic annualized figures. The real rates of return are calculated from nominal rates by multiplicatively subtracting a long-term inflation assumption of 3.19%. All rates of return and inflation are annualized.

NOTES TO THE FINANCIAL STATEMENTS

As discussed in Section D, a new asset allocation policy was finalized during the fiscal year to be effective July 1, 2014. The new asset allocation policy utilizes different asset classes, changes in the structure of certain asset classes, and adopts new benchmarks. Using the asset class categories in the preceding table, the new long-term expected arithmetic real rates of return are: Fixed Income 2.2%, Global Equity 5.8%, Real Estate 5.2%, Alternatives 9.8%, Credit 6.8% and Inflation Protection 3.4%.

Discount rate. The discount rate used to measure the total pension liability was 7.25% except for Registers of Deeds' Supplemental Pension Fund which was 5.75%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current contribution rate and that contributions from employers will be made at statutorily required rates, actuarially determined. Based on those assumptions, the pension plans' fiduciary net position was projected to be available to make all projected future benefit payments of the current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the net pension liability to changes in the discount rate. The following presents the net pension liability of the plans calculated using the discount rate of 7.25% (5.75% for RODSPF), as well as what the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.25%; RODSPF 4.75%) or 1-percentage-point higher (8.25%; RODSPF 6.75%) than the current rate (dollars in thousands):

	1% Decrease (6.25%)	Current Discount Rate (7.25%)	1% Increase (8.25%)
<u>Cost-Sharing, Multiple-Employer</u>			
Teachers' and State Employees' net pension liability (asset)	\$ 8,416,451	\$ 1,172,421	\$ (4,944,107)
Local Governmental Employees' net pension liability (asset)	\$ 2,040,727	\$ (551,918)	\$ (2,735,133)
Firefighters' and Rescue Squad's net pension liability (asset)	\$ 76,699	\$ 27,418	\$ (13,861)
<u>Single-Employer</u>			
Consolidated Judicial's net pension liability (asset)	\$ 80,338	\$ 26,197	\$ (20,692)
Legislative's net pension liability (asset)	\$ (3,859)	\$ (5,633)	\$ (7,190)
North Carolina National Guard's net pension liability	\$ 46,567	\$ 30,176	\$ 16,578
	1% Decrease (4.75%)	Current Discount Rate (5.75%)	1% Increase (6.75%)
<u>Cost-Sharing, Multiple-Employer</u>			
Register of Deeds' net pension liability (asset)	\$ (20,353)	\$ (22,666)	\$ (24,654)

NOTES TO THE FINANCIAL STATEMENTS

F. GASB Statement 27 Employer Reporting

1. ACTUARIAL METHODS AND ASSUMPTIONS

The latest actuarial valuations are dated December 31, 2013. The actuarial accrued liability and the schedule of funding progress for the past three years are presented by system in the *Required Supplementary Information* section of this report. Actuarial valuations involve estimates of reported amounts and assumptions about the probability of the occurrence of events. The actuarial value of assets for all systems is based on a five-year smoothed market value. Under this method, realized and unrealized gains and losses on investments are smoothed over five years. Below are listed the various actuarial methods and significant assumptions for these valuations that will be used to determine future annual required contributions.

Retirement System	Valuation Date	Actuarial Cost Method	Amortization Method	Remaining Amortization Period	Period Open/Closed	Asset Valuation Method	Actuarial Assumptions	
							Investment Rate of Return	Projected Salary Increase
Teachers' and State Employees'	12/31/13	Entry Age	Level Dollar	12 years	Closed	5 year smoothed with 80%/120% corridor	7.25%	4.25%-9.10%
Local Governmental Employees'	12/31/13	Frozen Entry Age	Level Percent	10 years	Closed	5 year smoothed with 80%/120% corridor	7.25%	4.25%-8.55%
Firefighters' and Rescue Squad	12/31/13	Entry Age	Level Dollar	12 years	Closed	5 year smoothed with 80%/120% corridor	7.25%	N/A
Registers of Deeds'	12/31/13	Entry Age	Level Dollar	N/A	Closed	5 year smoothed with 80%/120% corridor	5.75%	4.25%-7.75%
Consolidated Judicial	12/31/13	Projected Unit Credit	Level Dollar	12 years	Closed	5 year smoothed with 80%/120% corridor	7.25%	5.00%-5.95%
Legislative	12/31/13	Projected Unit Credit	Level Dollar	8 years	Open	5 year smoothed	7.25%	7.50%
North Carolina National Guard	12/31/13	Entry Age	Level Dollar	12 years	Closed	5 year smoothed with 80%/120% corridor	7.25%	N/A

N/A-Not applicable

As of this valuation, the unfunded actuarial accrued liability for the Registers of Deeds' system, when amortized over 30 years is less than zero. This situation, which is not allowable under generally accepted accounting principles, is redefined by the actuary to effectively mean there is no liability to be amortized.

Within the actuarial assumptions, the projected investment returns for all systems, except the Firefighters' and Rescue Squad Workers' and Legislative, include a 3.0% inflation factor and the projected salaries for the Teachers' and State Employees', Local Governmental Employees', Consolidated Judicial and Register of Deeds' includes a 3.5% inflation and productivity factor. The assumption for the Legislative system does not identify an inflationary factor. The assumption for the Firefighters' and Rescue Squad Workers' includes a 3.5% inflationary factor. The funding status of each of the State's various plans on the date of the most recent actuarial valuation is presented in part three of this section.

CURRENT FISCAL YEAR ASSUMPTIONS

Unless otherwise noted in this footnote or in the required supplementary schedules, the actuarial values, methods and significant assumptions for the current year's required contributions are the same as those presented in the table shown above. The annual required contributions (ARC) for the fiscal year ended June 30, 2014, were developed from various prior year valuations. The Teachers' and State Employees', Local Governmental Employees', Register of Deeds', Consolidated Judicial, Legislative, and National Guard systems' valuations were as of December 31, 2011, and the Firefighters' and Rescue Squad Workers' system was valued at June 30, 2012.

NOTES TO THE FINANCIAL STATEMENTS**2. ANNUAL PENSION COST AND NET PENSION OBLIGATION**

The annual pension costs and net pension obligations for the State's single-employer and special funding defined benefit plans for the current fiscal year are as follows (dollars in thousands):

	Firefighters' and Rescue Squad Workers' Pension Fund	Consolidated Judicial Retirement System	Legislative Retirement System	North Carolina National Guard Pension Fund
Annual required contribution.....	\$ 14,620	\$ 19,477	\$ —	\$ 5,349
Interest on net pension obligation.....	62	27	(8)	(342)
Adjustment to annual required contribution.....	(112)	(51)	18	645
Annual pension cost.....	14,570	19,453	10	5,652
Less: Contributions made.....	(14,627)	(19,477)	—	(7,007)
Increase (decrease) in net pension obligation.....	(57)	(24)	10	(1,355)
Net pension (asset) obligation beginning of year...	852	375	(113)	(4,718)
Net pension (asset) obligation end of year.....	<u>\$ 795</u>	<u>\$ 351</u>	<u>\$ (103)</u>	<u>\$ (6,073)</u>

NOTES TO THE FINANCIAL STATEMENTS

The following table presents the required three year trend of pension costs for the State's single-employer and special funding defined benefit plans and the annual required contributions (ARC) the State made to the Teachers' and State Employees' Retirement System (TSERS), a cost-sharing, multiple-employer plan. The State's statutory annual contribution to the System equals its total annual payment to the System and equals the State's pension cost in these financial statements. The State does not make any contributions to the Local Governmental Employees' System; therefore, it has no related pension cost.

**State of North Carolina's Annual Pension Cost (APC)
and Annual Required Contributions (ARC) as an Employer**
For the Years Ended June 30, 2012 through June 30, 2014 (dollars in thousands)

	Teachers' and State Employees'	Firefighters' and Rescue Squad	Consolidated Judicial	Legislative	North Carolina National Guard
Primary Government:					
2014	\$ 284,461	\$ 14,570	\$ 19,453	\$ 10	\$ 5,652
2013	276,182	13,934	18,476	10	5,898
2012	242,963	14,239	17,177	13	6,259
Component units:					
Universities:					
2014	\$ 181,611				
2013	173,726				
2012	152,850				
Community Colleges:					
2014	\$ 74,159				
2013	70,660				
2012	60,670				
Proprietary Funds:					
2014	\$ 668				
2013	624				
2012	1,041				
Total Primary Government and Component Units:					
2014	\$ 540,899	\$ 14,570	\$ 19,453	\$ 10	\$ 5,652
2013	521,192	13,934	18,476	10	5,898
2012	457,524	14,239	17,177	13	6,259
Percentage of APC Contributed:					
2014		100%	100%	0%	124%
2013		111%	100%	0%	119%
2012		101%	100%	0%	112%
Percentage of ARC Contributed:					
2014	100%				
2013	104%				
2012	100%				
Net Pension (Asset) Obligation:					
2014		\$ 795	\$ 351	\$ (103)	\$ (6,073)
2013		852	375	(113)	(4,718)
2012		2,365	401	(123)	(3,609)

NOTES TO THE FINANCIAL STATEMENTS

3. FUNDING STATUS AND FUNDING PROGRESS

The funding status of each of the State's various plans at the most recent actuarial valuation is presented below. These schedules were developed from actuarial methods and assumptions identified in part one of this section. Multiyear trend information on funding progress is presented in the *Required Supplementary Information (RSI)* section of this CAFR. These schedules indicate whether the actuarial values of plan assets are increasing or decreasing over time in relation to the actuarial accrued liabilities (dollars in thousands).

Retirement System	Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b) - (a)	Funded Ratio (a) / (b)	Annual Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
Teachers' and State Employees'	12-31-13	\$ 62,363,807	\$ 65,805,555	\$ 3,441,748	94.8%	\$ 12,834,121	26.8%
Local Governmental Employees'	12-31-13	\$ 21,498,147	\$ 21,537,813	\$ 39,666	99.8%	\$ 5,241,858	0.8%
Firefighters' and Rescue Squad Workers'	12-31-13	\$ 364,836	\$ 413,054	\$ 48,218	88.3%	N/A	N/A
Registers of Deeds'	12-31-13	\$ 46,406	\$ 24,064	\$ (22,342)	192.8%	\$ 5,960	(374.8)%
Consolidated Judicial	12-31-13	\$ 508,788	\$ 549,345	\$ 42,557	92.3%	\$ 68,457	62.2%
Legislative	12-31-13	\$ 29,318	\$ 24,557	\$ (4,761)	119.4%	\$ 3,579	(133.0)%
North Carolina National Guard	12-31-13	\$ 103,300	\$ 140,022	\$ 36,722	73.8%	N/A	N/A

N/A-Not applicable

G. Special Separation and Allowance

The State provides a special separation allowance (SSA), a single-employer, defined benefit pension plan, for sworn law enforcement officers as defined by General Statutes 135-1(11b) or General Statutes 143-166.30(a)(4) that were employed by State agencies and major component units and retired on a basic service retirement under the provisions of General Statutes 135-5(a). To qualify for the allowance, each retired officer must: (1) have completed 30 or more years of creditable service or have attained 55 years of age and completed five or more years of creditable service; and (2) not have attained 62 years of age; and (3) have completed at least five years of continuous service as a law enforcement officer immediately preceding a service retirement. Each eligible officer is paid an annual separation allowance equal to .85% of the officer's most recent base rate of compensation for each year of creditable service. For the fiscal year ended June 30, 2014, the State and its major component units paid \$16.2 million for 973 retired law enforcement officers. These benefits are funded on a pay-as-you-go basis with each employer (the State or component unit) responsible for the benefits to their former employees. There is no statewide administration of the SSA and there is no actuarial valuation performed. Funds for this allowance are appropriated annually in the budget of each affected state agency or paid from the component unit's operations. These benefits are established in General Statute 143-166.41 and may be amended only by the General Assembly.

H. Optional Retirement Program

The Optional Retirement Program (ORP) is a defined contribution retirement plan that provides retirement benefits with options for payments to beneficiaries in the event of the participant's death. Faculty and administrators with faculty rank in institutions of the University of North Carolina (UNC) System may join the ORP instead of the Teachers' and State Employees' Retirement System. At June 30, 2014, the plan had 16,584 participants with 19 constituent institutions of the UNC System participating.

Benefits are provided by means of contracts issued and administered by the privately-operated Teachers' Insurance and Annuity Association and the College Retirement Equities Fund (TIAA/CREF), Valic, Fidelity Investments and Lincoln National Life Insurance Company. Participants' eligibility and contributory requirements are established in General Statutes 135-5.1 and may be amended only by the North Carolina General Assembly. Participants contribute 6% of compensation and the university contributes 6.84%. There is no liability other than the universities' required contributions. The universities contributed \$103.8 million for the fiscal year ended June 30, 2014. Annual covered payroll was \$1.5 billion and employer contributions expressed as a percentage of annual payroll were 6.84% for the period. Employee contributions expressed as a percentage of annual covered payroll were the required 6% with actual employee contributions of \$91.1 million for the fiscal year ended June 30, 2014.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 14: OTHER POSTEMPLOYMENT BENEFITS

The State administers two postemployment benefit plans, the Retiree Health Benefit Fund and the Disability Income Plan, as pension and other employee benefit trust funds. Although the assets of the administered plans are commingled for investment purposes, each plan's assets may be used only for payment of benefits to members of that plan and for administrative costs in accordance with the terms of the plan. The plans in this note do not issue separate financial statements. The financial statements and other required disclosures are presented in Note 16 and in the *Required Supplementary Information* section of this Comprehensive Annual Financial Report (CAFR).

A. Summary of Significant Accounting Policies and Plan Asset Matters

BASIS OF ACCOUNTING

The financial statements of these plans are 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.

INVESTMENTS/SECURITIES LENDING

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 Investment Pool. Detailed descriptions of the methods and significant assumptions used to estimate the fair value of investments when fair value is based on other than quoted market prices are provided in Note 3. The investment balance of the Disability Income Plan and the Retiree Health Benefit Fund are invested in the State Treasurer external investment pool.

Additionally, the securities lending balance represents assets occurring from securities lending transactions that result from the funds' participation in the pool. The investments of the State Treasurer and securities lending are fully discussed in Note 3.

B. Plan Descriptions and Contribution Information

1. *HEALTH BENEFITS*

Pursuant to North Carolina General Statutes, the State makes available the North Carolina State Health Plan for Teachers and State Employees, referred to as the State Health Plan (the Plan), a cost-sharing, multiple-employer, defined benefit healthcare plan, exclusively for the benefit of employees and former employees of the State, the University of North Carolina System, community colleges, and certain other component units. In addition, Local Education Agencies (LEAs), charter schools, and some select local governments that are not part of the financial reporting entity also participate. At June 30, 2014, the number of participating employers was as follows:

State of North Carolina.....	1
LEAs.....	116
Charter Schools.....	64
Community Colleges.....	58
University of North Carolina System.....	19
N.C. Housing Finance Agency.....	1
Local governments.....	16
Total.....	<u>275</u>

The Plan is reported as a major component unit. It is administered by the State Treasurer, the Board of Trustees, and the Executive Administrator. Health benefit programs and premium rates are determined by the State Treasurer upon approval of the Board of Trustees. Plan benefits received by retired employees and disabled employees are other postemployment benefits (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 15. The plan options change when former employees become eligible for Medicare. Medicare retirees have the option of selecting one of four fully-insured Medicare Advantage/Prescription Drug Plan (MA-PDP) options or the Traditional 70/30 Preferred Provider Organization (PPO) plan option that is also offered to non-Medicare members. If the Traditional 70/30 Plan is selected by a Medicare retiree, self-funded State Health Plan coverage is secondary to Medicare.

NOTES TO THE FINANCIAL STATEMENTS

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

The Plan's 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. The plan does not provide for automatic post-retirement benefit increases.

By General Statute, a Retiree Health Benefit Fund (the Fund) has been established as a fund in which accumulated contributions from employers and any earnings on those contributions shall be used to provide health benefits to retired and disabled employees and their applicable beneficiaries. By statute, the Fund is administered by the Board of Trustees of the Teachers' and State Employees' Retirement System and contributions to the Fund are irrevocable. Also by law, Fund assets are dedicated to providing benefits to retired and disabled employees and their applicable beneficiaries and are not subject to the claims of creditors of the employers making contributions to the Fund. However, Fund assets may be used for reasonable expenses to administer the Fund, including costs to conduct required actuarial valuations of state-supported retired employees' health benefits. Contribution rates to the Fund, which are intended to finance benefits and administrative expenses on a pay-as-you-go basis, are determined by the General Assembly in the Appropriations Bill.

For the current fiscal year, the State and the other employers contributed the legislatively mandated 5.4% of active employee salaries. The Fund is reported as an employee benefit trust fund. The State's total payments are shown in the table on page 150. Actuarially required contributions and the percentage received from all employers can be found in the *Required Supplementary Information* section of this report.

2. *DISABILITY INCOME*

As discussed in Note 15, 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 the Teachers' and State Employees' Retirement System which includes employees of the State, the University of North Carolina system, community colleges, certain participating proprietary component units and Local Education Agencies (LEAs) which are not part of the reporting entity, and the University Employees' Optional Retirement Program. Long-term disability benefits are payable as an other postemployment benefit from DIPNC after the conclusion of the short-term disability period or after salary continuation payments cease, whichever is later, for as long as an employee is disabled. 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 the Teachers' and State Employees' Retirement System (TSERS) or the University Employees' Optional Retirement Program, earned within 96 months prior to the end of the short-term disability period or cessation of salary continuation payments, whichever is later; (2) the employee must make application to receive long-term benefits within 180 days after the conclusion of the short-term disability period or after salary continuation payments cease or after monthly payments for Workers' Compensation cease (excluding monthly payments for permanent partial benefits), whichever is later; (3) the employee must be certified by the Medical Board to be mentally or physically disabled for the further performance of his/her usual occupation; (4) the disability must have been continuous, likely to be permanent, and incurred at the time of active employment; (5) the employee must not be eligible to receive an unreduced retirement benefit from the TSERS; and (6) the employee must terminate employment as a permanent, full-time employee. An employee is eligible to receive an unreduced retirement benefit from the TSERS after (1) reaching the age of 65 and completing five years of creditable service, or (2) reaching the age of 60 and completing 25 years of creditable service, or (3) completing 30 years of creditable service, at any age.

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

NOTES TO THE FINANCIAL STATEMENTS

for an unreduced service retirement allowance from the TSERS, the benefits payable from DIPNC will cease, and the employee will commence retirement under the Teachers' and State Employees' Retirement System or the University Employees' Optional Retirement Program.

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

Although the DIPNC operates on a calendar year, disability income benefits are funded by actuarially determined employer contributions that are established in the Appropriations Bill by the General Assembly and coincide with the state fiscal year. For the fiscal year ended June 30, 2014, the State and the other employers made a statutory contribution of 0.44% of covered payroll. This was equal to the actuarially required contribution. The State's total payments are shown in the table on page 150. Actuarially required contributions and the percentage received from all employers can be found in the *Required Supplementary Information* of this CAFR.

The contributions cannot be separated between the amounts that relate to other postemployment benefits and employment benefits for active employees. Those individuals who are receiving extended short-term disability benefit payments cannot be separated from the number of members currently eligible to receive disability benefits as an other postemployment benefit.

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. By statute, the DIPNC is administered by the Department of State Treasurer and the Board of Trustees of the Teachers' and State Employees' Retirement System. The plan does not provide for automatic post-retirement benefit increases.

NOTES TO THE FINANCIAL STATEMENTS

The following table presents the three year trend of the contractually required contributions for the Retiree Health Benefit Plan and the annual required contributions (ARC) for the Disability Income Plan for the State and its component units made to the plans. For the Retiree Health Benefit Plan, the contractually required contribution is determined by the General Assembly and does not reflect the actuary-based ARC. For the Disability Income Plan, the ARC equals the State's OPEB cost as an employer.

State of North Carolina's Required Contributions as an Employer
For the Years Ended June 30, 2012 through June 30, 2014
(dollars in thousands)

	Retiree Health Benefit	Disability Income
Primary Government:		
2014	\$ 176,765	\$ 14,403
2013	175,722	14,588
2012	163,282	16,981
Component units:		
Universities:		
2014	\$ 197,870	\$ 16,123
2013	189,556	15,737
2012	172,664	17,957
Community Colleges:		
2014	\$ 46,083	\$ 3,755
2013	44,958	3,732
2012	40,773	4,240
Proprietary Funds:		
2014	\$ 415	\$ 34
2013	397	33
2012	700	73
Total Primary Government and Component Units:		
2014	\$ 421,133	\$ 34,315
2013	410,633	34,090
2012	377,419	39,251
Percentage Contributed:		
2014	100%	100%
2013	100%	100%
2012	100%	100%

The following table summarizes membership information by plan at the actuarial valuation date:

	Retiree Health Benefit	Disability Income
Retirees and beneficiaries currently receiving benefits	197,195	N/A
Disabled members receiving long term disability benefits	N/A	7,012
Terminated employees entitled to benefits but not yet receiving them	31,610	-
Active plan members	343,049	325,642
Total	571,854	332,654
Date of valuation	12/31/13	12/31/13

NOTES TO THE FINANCIAL STATEMENTS

The funding status of each plan as of the most recent actuarial valuation date is presented below (dollars in thousands):

	Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c) (3)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
Retiree Health (1)	12/31/13	\$ 890,756	\$ 26,420,168	\$ 25,529,412	3.4%	\$ 15,080,627	169.3%
Disability Income (2)	12/31/13	\$ 442,422	\$ 522,940	\$ 80,518	84.6%	\$ 14,294,017	0.6%

(1) The AAL has been prepared using the projected unit credit cost method.

(2) The AAL has been prepared using the entry age actuarial cost method. The information presented is intended to approximate the funding progress of the plan as required by GASB Statements 43 and 45.

(3) Buck Consulting reported the unadjusted covered payroll for the DIPNC long-term disability benefits.

The Segal Company reported the adjusted, annualized payroll for postemployment health benefits.

Multiyear trend information on funding progress is presented in the *Required Supplementary Information (RSI)* section of this CAFR. These schedules indicate whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

C. Actuarial Methods and Assumptions

Actuarial valuations of the plans involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future. The latest actuarial valuation for Retiree Health is dated December 31, 2013. The latest actuarial valuation for DIPNC is dated December 31, 2013. The schedules of funding progress, presented as required supplementary information following the notes to the financial statements, present multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

The actuarial assumptions used for the Retiree Health Benefit are consistent with those used to value the pension benefits of the TSERS where appropriate. These assumptions are based on the most recent pension valuations available. The discount rate used for Retiree Health 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 funded solely by employer contributions applied equally to all retirees. Currently, as described earlier in the note, benefits are dependent on membership requirements.

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

NOTES TO THE FINANCIAL STATEMENTS

Below are listed the actuarial methods and significant assumptions for these valuations that will be used to determine future annual required contributions.

	<u>Retiree Health Benefit</u>	<u>Disability Income</u>
Valuation Date	12/31/13	12/31/13
Actuarial Cost Method	Projected Unit Credit	Aggregate
Amortization Method	Level percent of pay	Level percent
Remaining Amortization Period	30 years	(1)
Period Open/Closed	Open	(1)
Asset Valuation Method	Market Value of Assets	5 year smoothed with 80%/120% corridor
Actuarial Assumptions:		
Investment Rate of Return (2)	4.25%	5.75%
Healthcare Cost Trend Rate (2)	7.5% graded to 5% over 8 years	N/A
Projected Salary Increases (3)	Vary by group and years of service	4.3% - 9.1%

(1) The aggregate cost method does not identify or separately amortize unfunded liabilities, thus information about the plan's funded status and funding progress has been prepared using the entry age actuarial cost method. The information presented is intended to approximate the funding progress of the plan.

(2) For the Retiree Health Benefit, the investment rate of return includes an inflation and productivity rate of 3.5%. The healthcare cost trend rate includes only inflation of 3%. For the DIFNC, the investment rate of return includes an inflation rate of 3%.

(3) For the DIFNC, the projected salary increases include an inflation and productivity rate of 3.5%.

N/A Not Applicable

NOTES TO THE FINANCIAL STATEMENTS

NOTE 15: RISK MANAGEMENT AND INSURANCE

A. Public Entity Risk Pool — N/A

Public School Insurance Fund

The Public School Insurance Fund (the Fund) is a public entity risk pool reported within the enterprise funds. In accordance with Chapter 115C, Article 38, of the General Statutes, the purpose of the Fund is to insure the Local Education Agencies (LEAs), in order to safeguard the property investments made in the public schools of North Carolina. The community colleges, which are component units, can also acquire insurance through the Fund as stated in General Statute 115D-58.11(c). The board of each LEA and the board of trustees of each community college are required to insure their buildings and contents on a replacement cost basis, as suggested by the Fund. The Fund is financed by premiums collected from the LEAs and the community colleges and interest is earned on the Fund's cash balance. Each board has to give notice of its election to insure in the Fund at least 30 days prior to such insurance becoming effective and shall furnish to the Fund a detailed list of all school buildings, contents and other insurable school property. While policies remain in effect, the Fund shall act as insurer of the properties covered by such insurance. The Fund currently insures 88 out of 116 LEAs and 31 out of 58 community colleges.

Claim liabilities are based on estimates of the ultimate cost of losses that have been reported but not settled. There are no salvage claims since any salvage is adjusted in the claim settlement. There are no subrogation claims pending. Since claims are reviewed by adjusters and the actual loss projection is computed in a short time after the claim is reported, the claim adjustment expense associated with the unpaid claim liability will be reflected in the current period.

The only acquisition costs are related to proposal costs and inspection costs for insured members. Since the Fund can only insure the LEAs and the community colleges, new contracts are immaterial. Since existing contracts are renewed once a year, the Fund's costs are for policy maintenance. Therefore, acquisition costs do not need to be amortized.

The following schedule shows the changes in the reported liability for the past two years (dollars in thousands):

	Fiscal Year	
	2014	2013
Unpaid claims at beginning of year	\$ 7,960	\$ 23,895
Incurred claims:		
Provision for insured events		
of the current year	8,585	6,386
Increases (decreases) in provision		
for insured events of prior years	(6,453)	(5,471)
Total incurred claims	2,132	915
Payments:		
Claims attributable to insured		
events of the current year	1,845	1,975
Claims attributable to insured		
events of the prior years	1,086	14,875
Total payments	2,931	16,850
Total unpaid claims at end		
of the year	\$ 7,161	\$ 7,960

With the collection of premiums from the insured educational units, payment of valid claims becomes the responsibility of the Fund. All claims greater than \$10 million per occurrence are covered by reinsurance contracts. Maximum recoverable from reinsurance for any one catastrophic event is \$45.5 million per occurrence. Losses in excess of the reinsurance limit would be paid by the Fund from long-term investments, subject to the maximum amount of available funds. Annual aggregate limits of \$15 million apply separately with respect to flood and earthquake. Coverage applies to "all risk" perils. Boiler and machinery coverage is provided under separate contract underwritten by the Fund. Incurred losses are reduced by estimated amounts recoverable under the Fund's reinsurance policies.

NOTES TO THE FINANCIAL STATEMENTS**B. Employee Benefit Plans****1. State Health Plan**

In accordance with Chapter 135, Article 3B, Part 1, of the General Statutes, the State established the North Carolina State Health Plan for Teachers and State Employees, referred to as the State Health Plan (the Plan). The Plan provides comprehensive healthcare benefits for employees and retirees of the State and its participating component units, as well as their qualified dependents on a contributory basis. These benefits are extended to employees and retirees of the Local Education Agencies (LEAs), and other employing units allowed by statute, which are not part of the State's reporting entity.

The Plan is reported as a major component unit. Coverage for active employees, non-Medicare retirees, and some Medicare retirees is self funded. Medicare retirees also have the option of selecting a fully-insured Medicare Advantage/Prescription Drug Plan (MA-PDP). Contributions for employee and retiree coverage are made by the State, its participating component units, LEAs, and other qualified employing units. Some of the plans also require an employee or retiree contribution, depending on the plan selected or the employee's or retiree's willingness to participate in wellness activities that reduce or eliminate employee contributions. Contributions for dependent coverage are made by employees and retirees. As described in Note 14, coverage is also extended to certain individuals as an other postemployment benefit. The Plan has contracted with third parties to process claims.

The Plan pays most expenses that are medically necessary and eligible for coverage based on allowed amounts for PPO plan members. Claims are subject to specified annual deductible and co-payment requirements. The Plan provides an unlimited lifetime benefit for the PPO plans. The authority for the PPO plans is provided in General Statute 135-48.2.

Claim liabilities are based on estimates of the ultimate cost of claims that have been incurred (both reported and unreported). Claim liabilities do not include nonincremental claims adjustment expenses. Changes in the Plan's aggregate liabilities for claims for the past two fiscal years are as follows (dollars in thousands):

	Beginning of Fiscal Year Liability	Current-Year Claims and Changes in Estimates	Claim Payments	Balance at Fiscal Year-End
2012-13	\$ 244,060	\$ 2,491,957	\$ (2,490,686)	\$ 245,331
2013-14	245,331	2,606,997	(2,619,652)	232,676

2. Death Benefit Plan of North Carolina

Term life insurance (death benefits) is provided through the Death Benefit Plan, a pension and other employee benefit trust fund, to all members of the Teachers' and State Employees' Retirement System who have completed at least 12 consecutive months of membership in the System. Membership includes employees of the State, the University of North Carolina System, community colleges, and certain participating proprietary component units. Employees of Local Education Agencies (LEAs) and miscellaneous educational units which are not part of the reporting entity are also included. The benefit payment is equal to the greater of (1) the compensation on which contributions were made by the member during the calendar year preceding the year in which his/her death occurs or (2) the member's highest 12 month's salary in a row during the 24 months prior to his/her death. The benefit is subject to a minimum of \$25,000 and to a maximum of \$50,000.

For the period July 1, 2013 to June 30, 2014, death benefits were funded by actuarially based employer contributions that are established in the biennial appropriation bill by the General Assembly. The State, the University of North Carolina System, community colleges, participating proprietary component units, LEAs and other miscellaneous educational units contributed 0.16% of covered payroll (as defined in Note 14) to fund the Death Benefit Plan for the period July 2013 to June 2014.

NOTES TO THE FINANCIAL STATEMENTS

These benefits are established by General Statute 135-5(1) and may be amended only by the North Carolina General Assembly. Claims liabilities are based on estimates of the ultimate cost of claims that have been incurred (both reported and unreported). Changes in the aggregate liabilities for claims for the past two fiscal years are as follows (dollars in thousands):

	Beginning of Fiscal Year Liability	Current-Year Claims and Changes in Estimates	Claim Payments	Balance at Fiscal Year-End
2012-13	\$ 3,533	\$ 45,620	\$ (45,671)	\$ 3,482
2013-14	3,482	44,612	(44,134)	3,960

3. Disability Income Plan of North Carolina

Short-term and long-term disability benefits are provided through the Disability Income Plan of North Carolina (DIPNC), a pension and other employee benefit trust fund, to the eligible members of the Teachers' and State Employees' Retirement System which includes employees of the State, the University of North Carolina System, community colleges, certain participating proprietary component units and the University Employees' Optional Retirement Program. Employees of Local Education Agencies (LEAs) and miscellaneous educational units which are not part of the reporting entity are also included. Short-term benefits are payable after a waiting period of 60 continuous calendar days from the onset of disability. The 60 day waiting period is determined from the last actual day of service, the day of the disabling event if the disabling event occurred on a day other than a normal workday, or the day succeeding at least 365 calendar days after service as a State teacher or State employee, whichever is later. Short-term benefits are provided to currently active employees and the related liability is not measurable. The Board of Trustees may extend the short-term disability benefits of a beneficiary beyond the benefit period of 365 days for an additional period of not more than 365 days; provided the Medical Board determines that the beneficiary's disability is temporary and likely to end within the extended period of short-term disability benefits. During the extended period of short-term disability benefits, payment of benefits shall be made by the Plan directly to the beneficiary. As discussed in Note 14, long-term disability benefits are payable as an other postemployment benefit from DIPNC after the conclusion of the short-term disability period or after salary continuation payments cease, whichever is later, for as long as an employee is disabled. These benefits are established by Chapter 135, Article 6, of the General Statutes and may be amended only by the North Carolina General Assembly.

C. Other Risk Management and Insurance Activities - N/A**1. Automobile, Fire and Other Property Losses**

The State is required by Chapter 58, Article 31, Part 50, of the General Statutes to provide liability insurance on every state-owned motor vehicle, which includes vehicles held by the State's participating component units. The State is self-insured for the first \$1 million of any loss through a retrospective rated plan. The plan purchases excess insurance through a private insurer to cover losses greater than \$1 million up to \$10 million per occurrence. Covered losses include those that occur with vehicles that are not on a stationary track or rail, and federal vehicles when the Governor calls out the National Guard.

Agencies of the State and participating component units using state cars are charged premiums to cover the cost of the excess insurance and to pay for those losses falling under the self-insured retention. Premiums charged are also based on the projected losses to be incurred. The private insurer processes all claims and sets up a reserve for amounts expected to be paid for claims. Claims are paid by the private insurer after they are approved by the Attorney General's Office. Settled claims have not exceeded coverage in any of the past three fiscal years.

The State Property Fire Insurance Fund (the Fund), an internal service fund of the State, was created by Chapter 58, Article 31, of the General Statutes. The Fund insures State owned buildings and contents for fire, extended coverage, and other property losses. The Fund does not charge premiums for fire insurance for operations that are supported by the State's General Fund. Those operations that are not supported by the State's General Fund are charged for fire coverage. Agencies of the State can purchase extended coverage and other property coverage such as sprinkler leakage, business interruption, vandalism, theft, and "all risk" for buildings and contents through the Fund. For those that elect to receive any of this other coverage, the Fund charges premiums. The Fund insures losses up to \$2.5 million per occurrence. All losses covered by the Fund are subject to a \$5,000 per occurrence deductible. However, some agencies have chosen a higher deductible for a reduction in premium.

The Fund purchases excess insurance from private insurers to cover losses over the amounts insured by the Fund. If aggregate uninsured losses sustained by the Fund, in excess of \$50,000 per loss, other than flood and earthquake losses and wind losses by named storms, reach \$5 million in any one annual period, the Fund's retention for the remainder of the annual period is \$100,000 per occurrence. Settled claims have not exceeded coverage in any of the past three fiscal years.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 16: INDIVIDUAL PLAN FINANCIAL STATEMENTS – PENSION AND OTHER EMPLOYEE BENEFIT TRUST FUNDS

Financial statements for Pension and Other Employee Benefit Trust Funds as of and for the fiscal year ended June 30, 2014 are presented below.

COMBINING STATEMENT OF FIDUCIARY NET POSITION

June 30, 2014

(Dollars in Thousands)

	Teachers' and State Employees' Retirement System	Consolidated Judicial Retirement System	Legislative Retirement System	Firefighters' and Rescue Squad Workers' Pension Fund	North Carolina National Guard Pension Fund	Local Governmental Employees' Retirement System
Assets						
Cash and cash equivalents.....	\$ 103,711	\$ 784	\$ 49	\$ 971	\$ 1,341	\$ 59,357
Investments:						
Collective investment funds.....	—	—	—	—	—	—
Unallocated insurance contracts.....	—	—	—	—	—	—
Synthetic guaranteed investment contracts.....	—	—	—	—	—	—
State Treasurer investment pool.....	65,410,227	536,951	30,000	388,455	108,732	22,831,512
Non-State Treasurer pooled investments.....	—	—	—	—	—	—
Securities lending collateral.....	2,600,635	21,300	1,202	15,472	4,442	907,668
Receivables:						
Accounts receivable.....	3,356	1	5	34	9	3,490
Interest receivable.....	112	1	—	1	1	42
Contributions receivable.....	67,362	—	—	—	—	39,885
Due from other funds.....	39,066	1,972	—	—	—	—
Due from component units.....	7,417	—	—	—	—	—
Notes receivable.....	—	—	—	—	—	—
Total Assets.....	68,231,886	561,009	31,256	404,933	114,525	23,841,954
Liabilities						
Accounts payable and accrued liabilities:						
Accounts payable.....	—	—	—	—	—	—
Benefits payable.....	1,484	—	—	—	14	453
Obligations under securities lending.....	2,608,346	21,394	1,196	15,528	4,481	913,899
Funds held for others.....	6,281	51	9	—	—	16
Total Liabilities.....	2,616,111	21,445	1,205	15,528	4,495	914,368
Net Position						
Restricted for:						
Pension benefits.....	65,615,775	539,564	30,051	389,405	110,030	22,927,586
Postemployment benefits.....	—	—	—	—	—	—
Other employment benefits.....	—	—	—	—	—	—
Total Net Position.....	\$ 65,615,775	\$ 539,564	\$ 30,051	\$ 389,405	\$ 110,030	\$ 22,927,586

NOTES TO THE FINANCIAL STATEMENTS

401(k) Supplemental Retirement Income Plan	Deferred Compensation Plan	Death Benefit Plan of N.C.	Retiree Health Benefit Fund	Disability Income Plan of N.C.	Sheriffs' Pension Fund	Register of Deeds' Supplemental Pension Fund	Totals
\$ —	\$ —	\$ 8,510	\$ 128,531	\$ 7,515	\$ 935	\$ 83	\$ 311,787
198,366	40,056	—	—	—	—	—	238,422
667,580	142,994	—	—	—	—	—	810,574
1,005,925	209,176	—	—	—	—	—	1,215,101
—	—	401,944	834,433	400,387	—	46,727	90,989,368
5,446,576	684,730	—	—	—	—	—	6,131,306
—	—	51,791	49,039	51,568	121	5,918	3,709,156
245	46	—	—	25,448	—	—	32,634
—	—	8	44	4	—	—	213
3,804	243	741	30,308	2,465	—	69	144,877
—	—	426	14,681	1,171	—	—	57,316
—	—	65	3,956	334	—	—	11,772
273,171	16,627	—	—	—	—	—	289,798
<u>7,595,667</u>	<u>1,093,872</u>	<u>463,485</u>	<u>1,060,992</u>	<u>488,892</u>	<u>1,056</u>	<u>52,797</u>	<u>103,942,324</u>
1,040	311	94	—	—	—	—	1,445
—	—	3,960	1,673	128	—	—	7,712
—	—	52,485	49,237	52,161	117	5,988	3,724,832
—	—	—	—	178	—	—	6,535
<u>1,040</u>	<u>311</u>	<u>56,539</u>	<u>50,910</u>	<u>52,467</u>	<u>117</u>	<u>5,988</u>	<u>3,740,524</u>
7,594,627	—	—	—	—	939	46,809	97,254,786
—	—	—	1,010,082	436,425	—	—	1,446,507
—	1,093,561	406,946	—	—	—	—	1,500,507
<u>\$ 7,594,627</u>	<u>\$ 1,093,561</u>	<u>\$ 406,946</u>	<u>\$ 1,010,082</u>	<u>\$ 436,425</u>	<u>\$ 939</u>	<u>\$ 46,809</u>	<u>\$ 100,201,800</u>

NOTES TO THE FINANCIAL STATEMENTS

COMBINING STATEMENT OF CHANGES IN FIDUCIARY NET POSITION

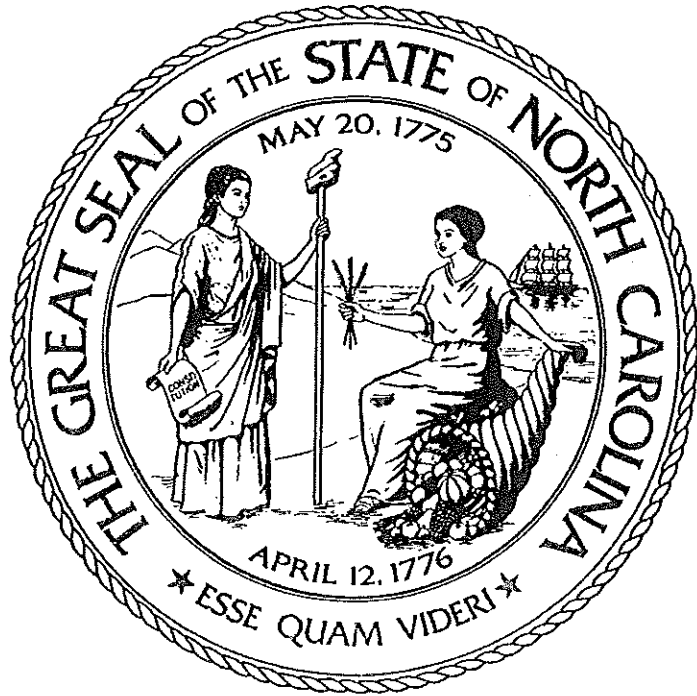
For the Fiscal Year Ended June 30, 2014

(Dollars in Thousands)

	Teachers' and State Employees' Retirement System	Consolidated Judicial Retirement System	Legislative Retirement System	Firefighters' and Rescue Squad Workers' Pension Fund	North Carolina National Guard Pension Fund	Local Governmental Employees' Retirement System
Additions						
Contributions:						
Employer.....	\$ 1,177,341	\$ 21,390	\$ —	\$ —	\$ —	\$ 413,175
Members.....	825,548	5,599	253	2,781	—	346,961
Other contributions.....	—	—	—	14,627	7,007	—
Total contributions.....	2,002,889	26,989	253	17,408	7,007	760,136
Investment income:						
Investment earnings.....	9,500,013	77,389	4,470	56,085	15,566	3,293,723
Less investment expenses.....	(379,008)	(3,095)	(177)	(2,244)	(624)	(131,758)
Net investment income.....	9,121,005	74,294	4,293	53,841	14,942	3,161,965
Other additions:						
Fees, licenses and fines.....	—	—	—	—	—	3,225
Interest earnings on loans.....	—	—	—	—	—	—
Miscellaneous.....	326	1	—	3	1	71
Total other additions.....	326	1	—	3	1	3,296
Total additions.....	11,124,220	101,284	4,546	71,252	21,950	3,925,397
Deductions						
Claims and benefits.....	3,881,333	35,381	2,395	25,264	7,502	1,047,766
Medical insurance premiums.....	—	—	—	—	—	—
Refund of contributions.....	108,064	46	219	350	—	59,033
Administrative expenses.....	10,761	48	37	1,045	73	3,974
Other deductions.....	7	—	—	—	—	—
Total deductions.....	4,000,165	35,475	2,651	26,659	7,575	1,110,773
Change in net position.....	7,124,055	65,809	1,895	44,593	14,375	2,814,624
Net position — July 1, as restated.....	58,491,720	473,755	28,156	344,812	95,655	20,112,962
Net position — June 30.....	\$ 65,615,775	\$ 539,564	\$ 30,051	\$ 389,405	\$ 110,030	\$ 22,927,586

NOTES TO THE FINANCIAL STATEMENTS

401(k) Supplemental Retirement Income Plan	Deferred Compensation Plan	Death Benefit Plan of N.C.	Retiree Health Benefit Fund	Disability Income Plan of N.C.	Sheriffs' Pension Fund	Registers of Deeds' Supplemental Pension Fund	Totals
\$ 166,894	\$ 105	\$ 21,654	\$ 815,157	\$ 65,878	\$ 899	\$ 817	\$ 2,683,310
305,336	66,744	—	—	—	—	—	1,553,222
—	—	22,885	—	—	—	—	44,519
472,230	66,849	44,539	815,157	65,878	899	817	4,281,051
1,119,411	149,212	24,390	119,980	23,599	7	2,721	14,386,566
—	—	(69)	(4,803)	(67)	—	(7)	(521,852)
1,119,411	149,212	24,321	115,177	23,532	7	2,714	13,864,714
—	—	—	—	—	—	—	3,225
11,127	653	—	—	—	—	—	11,780
1,764	222	—	—	—	—	—	2,388
12,891	875	—	—	—	—	—	17,393
1,604,532	216,936	68,860	930,334	89,410	906	3,531	18,163,158
361,283	54,311	44,612	—	76,753	933	1,666	5,539,199
—	—	10,477	791,338	—	—	—	801,815
—	—	—	—	—	—	—	167,712
1,857	294	376	457	866	91	18	19,897
—	—	6,258	3,211	1	—	—	9,477
363,140	54,605	61,723	795,006	77,620	1,024	1,684	6,538,100
1,241,392	162,331	7,137	135,328	11,790	(118)	1,847	11,625,058
6,353,235	931,230	399,809	874,754	424,635	1,057	44,962	88,576,742
\$ 7,594,627	\$ 1,093,561	\$ 406,946	\$ 1,010,082	\$ 436,425	\$ 939	\$ 46,809	\$ 100,201,800



REQUIRED
SUPPLEMENTARY
INFORMATION

REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF CHANGES IN THE NET PENSION LIABILITY
COST-SHARING, MULTIPLE-EMPLOYER, DEFINED BENEFIT PENSION PLANS

(Dollars in Thousands)

	<u>2014</u>
Teachers' and State Employees'	
Total pension liability	
Service Cost	\$ 1,556,027
Interest	4,648,995
Changes of benefit terms	355,224
Differences between expected and actual experience	(345,392)
Changes of assumptions	-
Benefit payments, including refunds of member contributions	(3,989,397)
Net change in total pension liability	<u>2,225,457</u>
Total pension liability - beginning	64,562,739
Total pension liability - ending (a)	<u>\$ 66,788,196</u>
Plan fiduciary net position	
Contributions-employer	\$ 1,177,341
Contributions-member	825,548
Net investment income	9,121,005
Benefit payments, including refunds of member contributions	(3,989,397)
Administrative expense	(10,762)
Other	320
Net change in plan fiduciary net position	<u>7,124,055</u>
Plan fiduciary net position - beginning	58,491,720
Plan fiduciary net position - ending (b)	<u>\$ 65,615,775</u>
TSERS's net pension liability - ending (a) - (b)	<u>\$ 1,172,421</u>
Local Governmental Employees'	
Total pension liability	
Service Cost	\$ 654,735
Interest	1,555,958
Changes of benefit terms	(7,790)
Differences between expected and actual experience	(80,590)
Changes of assumptions	-
Benefit payments, including refunds of member contributions	(1,106,799)
Net change in total pension liability	<u>1,015,514</u>
Total pension liability - beginning	21,360,154
Total pension liability - ending (a)	<u>\$ 22,375,668</u>
Plan fiduciary net position	
Contributions-employer	\$ 413,175
Contributions-member	346,961
Net investment income	3,161,964
Benefit payments, including refunds of member contributions	(1,106,799)
Administrative expense	(3,974)
Other	3,297
Net change in plan fiduciary net position	<u>2,814,624</u>
Plan fiduciary net position - beginning	20,112,962
Plan fiduciary net position - ending (b)	<u>\$ 22,927,586</u>
LGERS's net pension asset - ending (a) - (b)	<u>\$ (551,918)</u>

REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF CHANGES IN THE NET PENSION LIABILITY
COST-SHARING, MULTIPLE-EMPLOYER, DEFINED BENEFIT PENSION PLANS

(Dollars in Thousands)

	<u>2014</u>
Firefighters' and Rescue Squad Workers'	
Total pension liability	
Service Cost	\$ 5,710
Interest	29,394
Changes of benefit terms	8,770
Differences between expected and actual experience	2,714
Changes of assumptions	(16,688)
Benefit payments, including refunds of member contributions	(25,614)
Net change in total pension liability	<u>4,286</u>
Total pension liability - beginning	412,537
Total pension liability - ending (a)	<u>\$ 416,823</u>
Plan fiduciary net position	
Contributions-employer	\$ 14,627
Contributions-member	2,781
Net investment income	53,842
Benefit payments, including refunds of member contributions	(25,614)
Administrative expense	(1,045)
Other	2
Net change in plan fiduciary net position	<u>44,593</u>
Plan fiduciary net position - beginning	344,812
Plan fiduciary net position - ending (b)	<u>\$ 389,405</u>
FRSWPF's net pension liability - ending (a) - (b)	<u>\$ 27,418</u>

Registers of Deeds'

Total pension liability	
Service Cost	\$ 563
Interest	1,342
Changes of benefit terms	-
Differences between expected and actual experience	302
Changes of assumptions	-
Benefit payments, including refunds of member contributions	(1,666)
Net change in total pension liability	<u>541</u>
Total pension liability - beginning	23,602
Total pension liability - ending (a)	<u>\$ 24,143</u>
Plan fiduciary net position	
Contributions-employer	\$ 817
Contributions-member	-
Net investment income	2,714
Benefit payments, including refunds of member contributions	(1,666)
Administrative expense	(18)
Other	-
Net change in plan fiduciary net position	<u>1,847</u>
Plan fiduciary net position - beginning	44,962
Plan fiduciary net position - ending (b)	<u>\$ 46,809</u>
RODSPF's net pension asset - ending (a) - (b)	<u>\$ (22,666)</u>

REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF CHANGES IN THE NET PENSION LIABILITY
SINGLE-EMPLOYER, DEFINED BENEFIT PENSION PLANS

(Dollars in Thousands)

	<u>2014</u>
Consolidated	
Judicial	
Total pension liability	
Service Cost	\$ 16,637
Interest	39,405
Changes of benefit terms	3,031
Differences between expected and actual experience	(2,484)
Changes of assumptions	-
Benefit payments, including refunds of member contributions	(35,428)
Net change in total pension liability	<u>21,161</u>
Total pension liability - beginning	544,600
Total pension liability - ending (a)	<u><u>\$ 565,761</u></u>
Plan fiduciary net position	
Contributions-employer	\$ 21,390
Contributions-member	5,598
Net investment income	74,294
Benefit payments, including refunds of member contributions	(35,428)
Administrative expense	(48)
Other	3
Net change in plan fiduciary net position	<u>65,809</u>
Plan fiduciary net position - beginning	473,755
Plan fiduciary net position - ending (b)	<u><u>\$ 539,564</u></u>
CJRS's net pension liability - ending (a) - (b)	<u><u>\$ 26,197</u></u>
Legislative	
Total pension liability	
Service Cost	\$ 747
Interest	1,678
Changes of benefit terms	146
Differences between expected and actual experience	762
Changes of assumptions	-
Benefit payments, including refunds of member contributions	(2,614)
Net change in total pension liability	<u>719</u>
Total pension liability - beginning	23,699
Total pension liability - ending (a)	<u><u>\$ 24,418</u></u>
Plan fiduciary net position	
Contributions-employer	\$ -
Contributions-member	253
Net investment income	4,293
Benefit payments, including refunds of member contributions	(2,614)
Administrative expense	(37)
Other	-
Net change in plan fiduciary net position	<u>1,895</u>
Plan fiduciary net position - beginning	28,156
Plan fiduciary net position - ending (b)	<u><u>\$ 30,051</u></u>
LRS's net pension asset - ending (a) - (b)	<u><u>\$ (5,633)</u></u>

REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF CHANGES IN THE NET PENSION LIABILITY
SINGLE-EMPLOYER, DEFINED BENEFIT PENSION PLANS

(Dollars in Thousands)

	<u>2014</u>
North Carolina	
National Guard	
Total pension liability	
Service Cost	\$ 512
Interest	9,330
Changes of benefit terms	5,752
Differences between expected and actual experience	192
Changes of assumptions	-
Benefit payments, including refunds of member contributions	<u>(7,502)</u>
Net change in total pension liability	<u>8,284</u>
Total pension liability - beginning	<u>131,922</u>
Total pension liability - ending (a)	<u><u>\$ 140,206</u></u>
Plan fiduciary net position	
Contributions-employer	\$ 7,007
Contributions-member	-
Net investment income	14,942
Benefit payments, including refunds of member contributions	(7,502)
Administrative expense	(73)
Other	1
Net change in plan fiduciary net position	<u>14,375</u>
Plan fiduciary net position - beginning	<u>95,655</u>
Plan fiduciary net position - ending (b)	<u><u>\$ 110,030</u></u>
NGPF's net pension liability - ending (a) - (b)	<u><u>\$ 30,176</u></u>

REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF THE NET PENSION LIABILITY
COST-SHARING, MULTIPLE-EMPLOYER, DEFINED BENEFIT PENSION PLANS
Last Two Fiscal Years

(Dollars in Thousands)

Teachers' and State Employees'	2014	2013
Total pension liability	\$ 66,788,196	\$ 64,562,739
Plan fiduciary net position	(65,615,775)	(58,491,720)
Net pension liability	<u>\$ 1,172,421</u>	<u>\$ 6,071,019</u>
Plan fiduciary net position as a percentage of the total pension liability	98.24%	90.60%
Covered-employee payroll	\$ 13,548,227	\$ 13,451,164
Net pension liability as a percentage of covered-employee payroll	8.65%	45.13%
Local Governmental Employees'		
Total pension liability	\$ 22,375,668	\$ 21,360,154
Plan fiduciary net position	(22,927,586)	(20,112,962)
Net pension liability (asset)	<u>\$ (551,918)</u>	<u>\$ 1,247,192</u>
Plan fiduciary net position as a percentage of the total pension liability	102.47%	94.16%
Covered-employee payroll	\$ 5,553,383	\$ 5,421,364
Net pension liability (asset) as a percentage of covered-employee payroll	(9.94%)	23.01%
Firefighters' and Rescue Squad Workers'		
Total pension liability	\$ 416,823	\$ 412,537
Plan fiduciary net position	(389,405)	(344,812)
Net pension liability	<u>\$ 27,418</u>	<u>\$ 67,725</u>
Plan fiduciary net position as a percentage of the total pension liability	93.42%	83.58%
Covered-employee payroll	N/A	N/A
Net pension liability as a percentage of covered-employee payroll	N/A	N/A
Registers of Deeds'		
Total pension liability	\$ 24,143	\$ 23,602
Plan fiduciary net position	(46,809)	(44,962)
Net pension asset	<u>\$ (22,666)</u>	<u>\$ (21,360)</u>
Plan fiduciary net position as a percentage of the total pension liability	193.88%	190.50%
Covered-employee payroll	N/A	N/A
Net pension asset as a percentage of covered-employee payroll	N/A	N/A

REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF THE NET PENSION LIABILITY
SINGLE-EMPLOYER, DEFINED BENEFIT PENSION PLANS

Last Two Fiscal Years

(Dollars in Thousands)

Consolidated Judicial	2014	2013
Total pension liability	\$ 565,761	\$ 544,600
Plan fiduciary net position	<u>(539,564)</u>	<u>(473,755)</u>
Net pension liability	\$ 26,197	\$ 70,845
Plan fiduciary net position as a percentage of the total pension liability	95.37%	86.99%
Covered-employee payroll	\$ 76,367	\$ 71,533
Net pension liability as a percentage of covered-employee payroll	34.30%	99.04%
Legislative		
Total pension liability	\$ 24,418	\$ 23,699
Plan fiduciary net position	<u>(30,051)</u>	<u>(28,156)</u>
Net pension asset	\$ (5,633)	\$ (4,457)
Plan fiduciary net position as a percentage of the total pension liability	123.07%	118.81%
Covered-employee payroll	\$ 3,608	\$ 3,600
Net pension asset as a percentage of covered-employee payroll	(156.13)%	(123.81)%
North Carolina National Guard		
Total pension liability	\$ 140,206	\$ 131,922
Plan fiduciary net position	<u>(110,030)</u>	<u>(95,655)</u>
Net pension liability	<u>\$ 30,176</u>	<u>\$ 36,267</u>
Plan fiduciary net position as a percentage of the total pension liability	78.48%	72.51%
Covered-employee payroll	N/A	N/A
Net pension liability as a percentage of covered-employee payroll	N/A	N/A

State of North Carolina

**REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF EMPLOYER CONTRIBUTIONS
COST-SHARING, MULTIPLE-EMPLOYER, DEFINED BENEFIT PENSION PLANS**

Last Ten Fiscal Years

(Dollars in Thousands)

Teachers' and State Employees'	2014	2013	2012	2011	2010
Actuarially determined contribution	\$ 1,177,341	\$ 1,078,783	\$ 1,015,762	\$ 926,429	\$ 492,779
Contractually required contribution	1,177,341	1,120,482	1,015,762	680,670	492,779
Contributions in relation to the actuarially determined contribution	1,177,341	1,120,482	1,015,762	680,670	492,779
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ (41,699)</u>	<u>\$ -</u>	<u>\$ 245,759</u>	<u>\$ -</u>
Covered Payroll	\$ 13,548,227	\$ 13,451,164	\$ 13,652,715	\$ 13,806,691	\$ 13,803,324
Contributions as a percentage of covered-employee payroll	8.69%	8.33%	7.44%	4.93%	3.57%
Local Governmental Employees'					
Actuarially determined contribution	\$ 397,462	\$ 370,152	\$ 376,340	\$ 342,910	\$ 230,121
Contractually required contribution	413,175	383,889	389,399	361,998	273,337
Contributions in relation to the actuarially determined contribution	413,175	383,889	389,399	361,998	273,337
Contribution excess	<u>\$ (15,713)</u>	<u>\$ (13,737)</u>	<u>\$ (13,059)</u>	<u>\$ (19,088)</u>	<u>\$ (43,216)</u>
Covered Payroll	\$ 5,553,383	\$ 5,421,364	\$ 5,402,147	\$ 5,329,651	\$ 5,320,927
Contributions as a percentage of covered-employee payroll	7.44%	7.08%	7.21%	6.79%	5.14%
Firefighters' and Rescue Squad Workers'					
Actuarially determined contribution	\$ 14,620	\$ 14,074	\$ 14,389	\$ 12,243	\$ 10,074
Contractually required contribution	14,627	15,447	14,398	10,110	10,080
Contributions in relation to the actuarially determined contribution	14,627	15,447	14,398	10,110	10,080
Contribution deficiency (excess)	<u>\$ (7)</u>	<u>\$ (1,373)</u>	<u>\$ (9)</u>	<u>\$ 2,133</u>	<u>\$ (6)</u>
Covered Payroll	N/A	N/A	N/A	N/A	N/A
Contributions as a percentage of covered-employee payroll	N/A	N/A	N/A	N/A	N/A
Registers of Deeds'					
Actuarially determined contribution	\$ -	\$ -	\$ -	\$ -	\$ -
Contractually required contribution	817	937	843	772	736
Contributions in relation to the actuarially determined contribution	817	937	843	772	736
Contribution excess	<u>\$ (817)</u>	<u>\$ (937)</u>	<u>\$ (843)</u>	<u>\$ (772)</u>	<u>\$ (736)</u>
Covered Payroll	N/A	N/A	N/A	N/A	N/A
Contributions as a percentage of covered-employee payroll	N/A	N/A	N/A	N/A	N/A

Changes in benefit terms, methods and assumptions are presented in Notes to the Required Supplementary Information (RSI) schedules following the pension RSI tables.

State of North Carolina

2009	2008	2007	2006	2005
\$ 492,689	\$ 429,064	\$ 341,476	\$ 315,225	\$ 255,137
492,689	468,669	371,476	315,225	255,137
492,689	468,669	371,476	315,225	255,137
<u>\$ -</u>	<u>\$ (39,605)</u>	<u>\$ (30,000)</u>	<u>\$ -</u>	<u>\$ -</u>
\$ 14,663,363	\$ 13,976,026	\$ 14,592,991	\$ 13,471,154	\$ 11,757,465
3.36%	3.35%	2.55%	2.34%	2.17%

\$ 257,982	\$ 241,533	\$ 225,950	\$ 209,453	\$ 206,834
271,363	256,612	241,094	229,399	213,873
271,363	256,612	241,094	229,399	213,873
<u>\$ (13,381)</u>	<u>\$ (15,079)</u>	<u>\$ (15,144)</u>	<u>\$ (19,946)</u>	<u>\$ (7,039)</u>
\$ 5,284,862	\$ 4,948,042	\$ 4,693,423	\$ 4,484,358	\$ 4,247,359
5.13%	5.19%	5.14%	5.12%	5.04%

\$ 9,757	\$ 8,734	\$ 8,440	\$ 7,926	\$ 7,521
9,762	8,734	8,440	7,926	7,521
9,762	8,734	8,440	7,926	7,521
<u>\$ (5)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
N/A	N/A	N/A	N/A	N/A
N/A	N/A	N/A	N/A	N/A

\$ -	\$ -	\$ -	\$ -	\$ 29
754	926	3,150	3,219	3,019
754	926	3,150	3,219	3,019
<u>\$ (754)</u>	<u>\$ (926)</u>	<u>\$ (3,150)</u>	<u>\$ (3,219)</u>	<u>\$ (2,990)</u>
N/A	N/A	N/A	N/A	N/A
N/A	N/A	N/A	N/A	N/A

State of North Carolina

**REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF EMPLOYER CONTRIBUTIONS
SINGLE-EMPLOYER, DEFINED BENEFIT PENSION PLANS**

Last Ten Fiscal Years

(Dollars in Thousands)

Consolidated Judicial	2014	2013	2012	2011	2010
Actuarially determined contribution	\$ 21,390	\$ 18,992	\$ 18,956	\$ 13,322	\$ 10,740
Contractually required contribution	21,390	18,992	18,956	10,457	10,740
Contributions in relation to the actuarially determined contribution	21,390	18,992	18,956	10,457	10,740
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,865</u>	<u>\$ -</u>
Covered Payroll	\$ 76,367	\$ 71,533	\$ 75,673	\$ 69,206	\$ 71,079
Contributions as a percentage of covered-employee payroll	28.01%	26.55%	25.05%	15.11%	15.11%
Legislative					
Actuarially determined contribution	\$ -	\$ -	\$ -	\$ -	\$ -
Contractually required contribution	-	-	-	-	-
Contributions in relation to the actuarially determined contribution	-	-	-	-	-
Contribution excess	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered Payroll	\$ 3,608	\$ 3,600	\$ 3,314	\$ 4,029	\$ 3,657
Contributions as a percentage of covered-employee payroll	0.00%	0.00%	0.00%	0.00%	0.00%
North Carolina National Guard					
Actuarially determined contribution	\$ 5,349	\$ 5,667	\$ 6,075	\$ 5,719	\$ 5,682
Contractually required contribution	7,007	7,007	7,007	7,007	7,008
Contributions in relation to the actuarially determined contribution	7,007	7,007	7,007	7,007	7,008
Contribution deficiency (excess)	<u>\$ (1,658)</u>	<u>\$ (1,340)</u>	<u>\$ (932)</u>	<u>\$ (1,288)</u>	<u>\$ (1,326)</u>
Covered Payroll	N/A	N/A	N/A	N/A	N/A
Contributions as a percentage of covered-employee payroll	N/A	N/A	N/A	N/A	N/A

Changes in benefit terms, methods and assumptions are presented in Notes to the Required Supplementary Information (RSI) schedules following the pension RSI tables.

2009	2008	2007	2006	2005
\$ 10,017	\$ 8,214	\$ 7,300	\$ 6,695	\$ 6,907
10,603	40,844	8,090	6,989	6,907
10,603	10,844	8,090	6,989	6,907
<u>\$ (586)</u>	<u>\$ (2,630)</u>	<u>\$ (790)</u>	<u>\$ (294)</u>	<u>\$ -</u>
\$ 80,265	\$ 64,678	\$ 64,257	\$ 55,512	\$ 54,861
13.21%	16.77%	12.59%	12.59%	12.59%
\$ -	\$ -	\$ -	\$ -	\$ -
-	209	-	-	-
-	209	-	-	-
<u>\$ -</u>	<u>\$ (209)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
\$ 3,686	\$ 3,614	\$ 3,714	\$ 3,657	\$ 3,671
0.00%	5.78%	0.00%	0.00%	0.00%
\$ 6,248	\$ 6,232	\$ 7,324	\$ 5,944	\$ 1,412
5,892	7,007	7,007	6,042	1,564
5,892	7,007	7,007	6,042	1,564
<u>\$ 356</u>	<u>\$ (775)</u>	<u>\$ 317</u>	<u>\$ (98)</u>	<u>\$ (152)</u>
N/A	N/A	N/A	N/A	N/A
N/A	N/A	N/A	N/A	N/A

**REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF INVESTMENT RETURNS
ALL DEFINED BENEFIT PENSION TRUST FUNDS**

Annual money-weighted rate of return,
net of investment expense 2014

Cost-Sharing, Multiple Employer

Teachers' and
State Employees' 15.88%

Local Governmental
Employees' 15.86%

Firefighters' and Rescue
Squad Workers' 15.62%

Registers of Deeds' 6.04%

Single-Employer

Consolidated
Judicial 15.87%

Legislative 15.91%

North Carolina
National Guard 15.63%

REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF FUNDING PROGRESS
ALL DEFINED BENEFIT PENSION TRUST FUNDS

June 30, 2014

(Dollars in Thousands)

Retirement System	Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b) - (a) NOTE 1	Funded Ratio (a) / (b)	Annual Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
Teachers' and State Employees'	12-31-13	\$ 62,363,807	\$ 65,805,555	\$ 3,441,748	94.8%	\$ 12,834,121	26.8%
	12-31-12	59,911,833	63,630,278	3,718,445	94.2%	12,774,187	29.1%
	12-31-11	58,125,011	61,846,697	3,721,686	94.0%	12,801,046	29.1%
Local Governmental Employees'	12-31-13	\$ 21,498,147	\$ 21,537,813	\$ 39,666	99.8%	\$ 5,241,858	0.8%
	12-31-12	20,295,239	20,338,785	43,546	99.8%	5,123,481	0.9%
	12-31-11	19,326,359	19,373,800	47,441	99.8%	5,106,766	0.9%
Firefighters' and Rescue Squad Workers'	12-31-13	\$ 364,836	\$ 413,054	\$ 48,218	88.3%	N/A	N/A
	6-30-12	338,885	403,817	64,932	83.9%	N/A	N/A
	6-30-11	327,984	391,837	63,853	83.7%	N/A	N/A
Registers of Deeds'	12-31-13	\$ 46,406	\$ 24,064	\$ (22,342)	192.8%	\$ 5,960	(374.8)%
	12-31-12	44,996	23,517	(21,479)	191.3%	5,613	(382.7)%
	12-31-11	42,623	22,194	(20,429)	192.1%	5,875	(347.7)%
Consolidated Judicial	12-31-13	\$ 506,788	\$ 549,345	\$ 42,557	92.3%	\$ 68,457	62.2%
	12-31-12	481,286	527,585	46,299	91.2%	68,237	67.9%
	12-31-11	460,647	512,643	51,996	89.9%	67,815	76.7%
Legislative	12-31-13	\$ 29,318	\$ 24,557	\$ (4,761)	119.4%	\$ 3,579	(133.0)%
	12-31-12	29,416	23,852	(5,564)	123.3%	3,510	(158.5)%
	12-31-11	29,468	23,757	(5,711)	124.0%	3,679	(155.2)%
North Carolina National Guard	12-31-13	\$ 103,300	\$ 140,022	\$ 36,722	73.8%	N/A	N/A
	12-31-12	96,597	131,722	35,125	73.3%	N/A	N/A
	12-31-11	91,108	129,500	38,392	70.4%	N/A	N/A

NOTE 1 - A negative UAAL denotes excess actuarial assets

N/A - Not applicable

The information presented in these required supplementary schedules was determined as part of the actuarial valuations at the dates indicated. Additional information for the latest actuarial valuations is presented on page 142.

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF EMPLOYER CONTRIBUTIONS

For the Fiscal Year Ended June 30, 2014

Changes of benefit terms.

	<u>Cost of Living Increase</u>								
	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>
<u>Cost-Sharing, Multiple-Employer</u>									
Teachers' and State Employees'	1.00%	N/A	N/A	N/A	2.20%	2.20%	3.00%	2.00%	1.70%
Local Governmental Employees'	N/A	N/A	N/A	0.10%	2.15%	2.20%	2.80%	2.50%	N/A
Firefighters' and Rescue Squad Workers' (1)	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Registers of Deeds'	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
<u>Single-Employer</u>									
Consolidated Judicial	1.00%	N/A	N/A	N/A	2.20%	2.20%	3.00%	2.00%	1.70%
Legislative	1.00%	N/A	N/A	N/A	2.20%	2.20%	3.00%	2.00%	1.70%
North Carolina National Guard (2)	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A

(1) In 2006, the Firefighters' and Rescue Squad Workers' Pension Fund increased retirement benefits from \$161 to \$163. In 2007, retirement benefits were increased from \$163 to \$165. In 2008, retirement benefits increased from \$165 to \$167. In 2009, retirement benefits were increased from \$167 to \$170.

(2) In 2007, the National Guard Pension Fund increased basic benefits from \$75 to \$80 and total potential benefits from \$150 to \$160. In 2008, basic benefits were increased from \$80 to \$95 and total potential benefits were increased from \$160 to \$190.

N/A - not applicable

Changes of assumptions. In 2008, and again in 2012, the rates of withdrawal, mortality, service retirement and salary increase for active members and the rates of mortality for beneficiaries were adjusted to more closely reflect actual experience. Assumptions for leave conversions and loads were also revised in 2012. These assumptions pertain to the Teachers' and State Employees' Retirement System, the Local Governmental Employees' Retirement System, the Firefighters' and Rescue Squad Workers' Pension Fund, the Registers of Deeds' Pension Fund, the Consolidated Judicial Retirement System and the National Guard Pension Fund.

Method and assumptions used in calculations of actuarially determined contributions.

An actuarial valuation is performed for each plan each year. The actuarially determined contribution rates in the Schedule of Employer Contributions are calculated by the actuary as a projection of the required employer contribution for the fiscal year beginning 18 months following the date of the valuation results. See Note 12 for more information on the specific assumptions for each plan. The actuarially determined contributions for those items with covered payroll were determined using the actuarially determined contribution rate from the actuary and covered payroll as adjusted for timing differences and other factors such as differences in employee class. Other actuarially determined contributions are disclosed in the schedule as expressed by the actuary in reports to the plans.

REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF FUNDING PROGRESS
OTHER POSTEMPLOYMENT BENEFITS

June 30, 2014

(Dollars in Thousands)

	Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b) - (a)	Funded Ratio (a) / (b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
			(1)			(2)	
Retiree Health Benefit	12-31-13	\$ 890,756	\$ 26,420,168	\$ 25,529,412	3.4%	\$ 15,080,627	169.3%
	12-31-12	765,828	23,883,107	23,117,279	3.2%	14,957,179	154.6%
	12-31-11	729,095	30,339,346	29,610,251	2.4%	14,851,954	199.4%
Disability Income	12-31-13	\$ 442,422	\$ 522,940	\$ 80,518	84.6%	\$ 14,294,017	0.6%
	12-31-12	432,667	503,192	70,525	86.0%	14,163,204	0.5%
	12-31-11	406,068	511,417	105,349	79.4%	14,139,467	0.8%

(1) The Retiree Health Benefit AAL has been prepared using the projected unit credit cost method. The Disability Income AAL has been prepared using the entry age actuarial cost method. The information presented is intended to approximate the funding progress of the plan as required by GASB Statements 43 and 45.

(2) Buck Consulting reported the unadjusted covered payroll for the DIPNC long-term disability benefits. The Segal Company reported the adjusted, annualized payroll for postemployment health benefits.

REQUIRED SUPPLEMENTARY INFORMATION
 SCHEDULE OF EMPLOYER CONTRIBUTIONS
 OTHER POSTEMPLOYMENT BENEFITS

For the Fiscal Years Ended June 30, 2012-2014

(Dollars in Thousands)

	<u>State Fiscal Year</u>	<u>Annual Required Contribution</u>	<u>Percentage Contributed</u>
Retiree Health Benefit	2014	\$ 2,223,900	36%
	2013	2,021,026	42%
	2012	2,480,160	34%
Disability Income	2014	\$ 65,730	100%
	2013	64,065	100%
	2012	67,377	113%