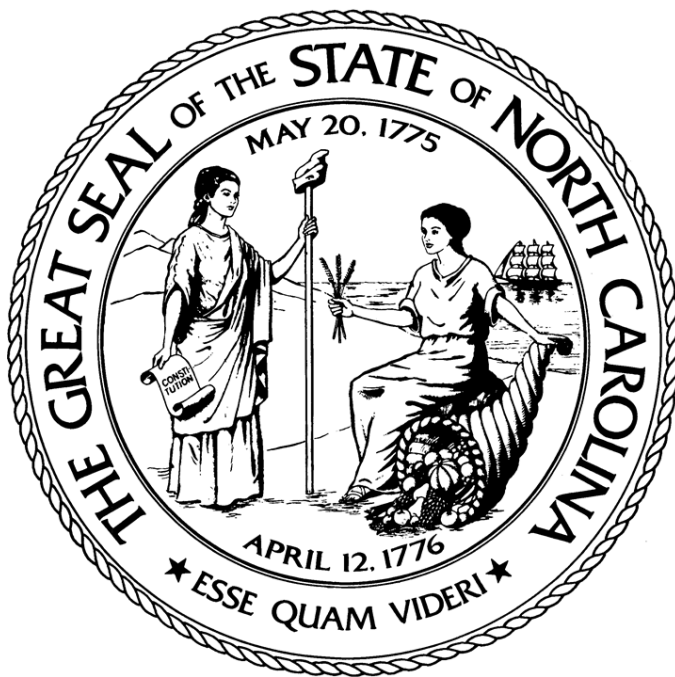


NORTH CAROLINA

COMPREHENSIVE ANNUAL FINANCIAL REPORT

FOR THE FISCAL YEAR
ENDED JUNE 30, 2012



BEVERLY E. PERDUE
GOVERNOR

DAVID T. MCCOY
STATE CONTROLLER

Prepared by Statewide Accounting Division
Office of the State Controller

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

NOTES TO THE FINANCIAL STATEMENTS

NOTE 12: RETIREMENT PLANS

The State reports 10 retirement plans as pension trust funds. Section A of this note describes the seven defined benefit public employee retirement plans and one defined contribution plan administered by the State. The remaining plans, described in Note 13, are defined contribution plans administered by a third party under the auspices of the State. The State may or may not make supplementary contributions to these plans. 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 the 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* section of this *CAFR*. The State also provides an optional retirement plan for certain university employees and a special separation allowance for eligible sworn law enforcement officers.

A. Plan Descriptions and Contribution Information
1. TEACHERS' AND STATE EMPLOYEES' RETIREMENT SYSTEM

This plan is a cost-sharing, multiple-employer, defined benefit plan established by the State of North Carolina to provide pension benefits for employees of the State, its component units, Local Education Agencies (LEAs), and miscellaneous educational units 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 miscellaneous educational units. At June 30, 2012, the number of participating employers was 245 as shown below:

State of North Carolina.....	1
LEAs and miscellaneous units.....	166
Community Colleges.....	58
University of North Carolina System.....	19
Proprietary component units.....	1

Benefits and administrative expenses are funded by member contributions of 6% of compensation, investment income, and by an actuarially based required employer contribution established by legislation. For the fiscal year ended June 30, 2012, the State made a statutory contribution of 7.44% of covered payroll. This was equal to the actuarially required contribution. Benefit and contribution provisions are established by General Statutes 135-5 and 135-8 and may be amended only by the North Carolina General Assembly.

Actual payments made in relation to the required contributions for the State are shown in *Section D* of this note and in the *Required Supplementary Information* section of this report.

The plan does not provide for automatic post-retirement benefit increases. Increases are contingent upon actuarial gains of the plan.

2. CONSOLIDATED JUDICIAL RETIREMENT SYSTEM

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. The plan provides retirement, disability and death benefits. 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, 2012, the State made a statutory contribution of 25.05% of covered payroll. This was equal to the actuarially required contribution. Benefit and contribution provisions are established by General Statutes 135-57, 135-58, 135-68 and 135-69 and may be amended only by the North Carolina General Assembly.

Actual payments made in relation to the required contributions for the State are shown in *Section D* of this note and in the *Required Supplementary Information* section of this report.

The plan does not provide for automatic post-retirement benefit increases. Increases are contingent upon actuarial gains of the plan.

NOTES TO THE FINANCIAL STATEMENTS**3. LEGISLATIVE RETIREMENT SYSTEM**

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.

Benefits and administrative expenses are funded by member contributions of 7% of compensation, investment income, and by actuarially based employer contributions. For the fiscal year ended June 30, 2012, there was no actuarially based required contribution.

Benefit and actuarially based contribution provisions are established by General Statutes 120-4.21, 120-4.19 and 120-4.20 and may be amended only by the North Carolina General Assembly. Actual payments made in relation to the required contributions for the State are shown in *Section D* of this note and in the *Required Supplementary Information* section of this report.

The plan does not provide for automatic post-retirement benefit increases. Increases are contingent upon actuarial gains of the plan.

OTHER STATE ADMINISTERED SYSTEMS

The State also administers the following pension and retirement plans for persons who are not necessarily considered employees of the State or its component units.

4. FIREMEN'S AND RESCUE SQUAD WORKERS' PENSION FUND

This plan 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 firemen and rescue squad workers. Membership is composed of both volunteer and locally employed firemen and emergency medical personnel who elect membership. At June 30, 2012, there were 1,836 participating fire and rescue units.

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

5. NORTH CAROLINA NATIONAL GUARD PENSION FUND

This plan 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. This also is a special funding situation because the State is not the employer, but is legally obligated to contribute to the plan.

Benefits and administrative expenses are funded by an actuarially based state appropriation (see section D) and investment income. Benefit and contribution provisions are established by General Statute 127A-40 and may be amended only by the North Carolina General Assembly.

6. REGISTERS OF DEEDS' SUPPLEMENTAL PENSION FUND

This plan 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 composed of registers of deeds who are retired from the Local Governmental Employees' Retirement System or an equivalent local plan and have met the statutory eligibility requirements. At June 30, 2012, there were 85 individuals receiving benefits in the plan with all 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 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. The State Treasurer administers the plan and *Section B* of this note describes the accounting and investing for the plan. The State's only cost in the plan is administration.

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 required contribution this year and in the foreseeable future is zero. Registers of deeds do not contribute. The actuarially required contribution and percentage of that contribution actually made is in the *Required Supplementary Information* section of this report. All benefit and contribution provisions are established by General Statute 161-50 and may be amended only by the North Carolina General Assembly.

NOTES TO THE FINANCIAL STATEMENTS**7. 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, 2012, there were 91 sheriffs and no beneficiaries enrolled in the plan with all 100 of the State's counties eligible to participate.

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. *Section B* of this note describes the accounting and investing for the plan. 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, 2012, the Clerks remitted \$1.023 million. 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.

8. LOCAL GOVERNMENTAL EMPLOYEES' RETIREMENT SYSTEM

This plan is a cost-sharing, multiple-employer, defined benefit plan established by the State of North Carolina for employees of local governments. Membership is comprised of general employees and local law enforcement officers of participating local governmental entities.

At June 30, 2012, the number of participating local governments was 895, as shown below:

Cities.....	427
Counties.....	100
Special districts.....	368

The plan provides retirement benefits nearly identical to the benefits that accrue to members of the Teachers' and State Employees' Retirement System. This plan also provides disability benefits for members who become totally and permanently disabled from performing their usual job. Benefits and administrative expenses are funded by employee contributions of 6% and actuarially based employer contributions. The annual required contribution (ARC) and actual contribution for all employers was 7.36% of covered payroll for law enforcement officers and 6.88% for general employees and firemen. In addition, employers with an unfunded liability, established when the government initially enters the system, must make additional contributions towards that liability. The State's responsibility is administrative only. Benefit and contribution provisions are established by General Statutes 128-27 and 128-30 and may be amended only by the North Carolina General Assembly.

The plan does not provide for automatic post-retirement benefit increases. Increases are contingent upon actuarial gains.

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

	Teachers' and State Employees'	Judicial	Legislative	Firemen's and Rescue Squad	North Carolina National Guard	Registers of Deeds'	Local Govern- mental
Employee Groups							
Retirees and beneficiaries currently receiving benefits	171,786	562	278	11,520	4,071	84	51,700
Terminated employees entitled to benefits but not yet receiving them	110,686	55	83	159	4,993	2	44,350
Active plan members	317,906	566	170	39,734	5,567	100	121,638
Total	<u>600,378</u>	<u>1,183</u>	<u>531</u>	<u>51,413</u>	<u>14,631</u>	<u>186</u>	<u>217,688</u>
Date of valuation	12-31-11	12-31-11	12-31-11	6-30-11	12-31-11	12-31-11	12-31-11

NOTES TO THE FINANCIAL STATEMENTS**B. 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 made a formal commitment to provide the contributions. Benefits and refunds 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 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 value of the net assets 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.

C. Actuarial Methods and Assumptions

The latest actuarial valuations are dated December 31, 2011 (June 30, 2011, for the Firemen's and Rescue Squad Workers' Fund). The actuarial accrued liability and the schedule of funding progress for the past six 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'	12/31/11	Entry age	Level dollar	12 years	Closed	5 year smoothed with 80%/120% corridor	7.25%	4.25%-9.10%
Consolidated Judicial	12/31/11	Projected unit credit	Level dollar	12 years	Closed	5 year smoothed with 80%/120% corridor	7.25%	5.00%-5.95%
Legislative	12/31/11	Projected unit credit	Level dollar	8 years	Open	5 year smoothed	7.25%	7.50%
Firemen's and Rescue Squad	6/30/11	Entry age	Level dollar	12 years	Closed	5 year smoothed with 80%/120% corridor	7.25%	N/A
North Carolina National Guard	12/31/11	Entry age	Level dollar	12 years	Closed	5 year smoothed with 80%/120% corridor	7.25%	N/A
Registers of Deeds'	12/31/11	Entry age	Level dollar	N/A	Closed	5 year smoothed with 80%/120% corridor	5.75%	4.25%-7.75%
Local Governmental Employees'	12/31/11	Frozen entry age	Level percentage	Various	Closed	5 year smoothed with 80%/120% corridor	7.25%	4.25%-8.55%

N/A-Not applicable

NOTES TO THE FINANCIAL STATEMENTS

Only minor technical adjustments for the respective systems were adopted and enacted by the North Carolina General Assembly effective July 1, 2011. No cost of living increases were adopted for any of the systems.

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 Legislative and Firemen's and Rescue Squad Workers', include a 3% inflation factor and the projected salaries for Teachers' and State Employees', Consolidated Judicial, Registers of Deeds', and Local Governmental Employees' includes a 3.5% inflation and productivity factor. The assumption for the Legislative system does not identify an inflationary factor. The assumption for the Firemen's and Rescue Squad Workers' includes a 3.50% 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 section E of this note.

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 on the prior page. The annual required contributions (ARC) for the fiscal year ended June 30, 2012, were developed from various prior year valuations. The Teachers' and State Employees', Local Governmental Employees', Consolidated Judicial, and National Guard systems' valuations were as of December 31, 2009, the Legislative system was valued at December 31, 2010, and the Firemen's and Rescue Squad Worker's Fund was valued at June 30, 2010. These valuations used amortization periods of eight years for Legislative and nine years for all the other systems. Registers of Deeds' was valued at December 31, 2009, but effectively had no liability to be amortized. The Local Governmental Employees' system is an aggregate of numerous employers, and consequently, has various amortization periods. The rate of investment return and projected salary increases used in these valuations assumed essentially the same increases as in the most current valuations reported on the prior page.

D. 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):

	Consolidated Judicial Retirement System	Legislative Retirement System	Firemen's and Rescue Squad Workers' Pension Fund	North Carolina National Guard Pension Fund
Annual required contribution.....	\$ 17,204	\$ —	\$ 14,389	\$ 6,075
Interest on net pension obligation.....	31	(10)	183	(207)
Adjustment to annual required contribution.....	(58)	23	(333)	391
Annual pension cost.....	17,177	13	14,239	6,259
Less: Contributions made.....	(17,204)	—	(14,398)	(7,007)
Increase (decrease) in net pension obligation.....	(27)	13	(159)	(748)
Net pension (asset) obligation beginning of year....	428	(136)	2,524	(2,861)
Net pension (asset) obligation end of year.....	<u>\$ 401</u>	<u>\$ (123)</u>	<u>\$ 2,365</u>	<u>\$ (3,609)</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 (the System), 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, 2010 through June 30, 2012 (dollars in thousands)

	Teachers' and State Employees'	Judicial	Legislative	Firemen's and Rescue Squad	North Carolina National Guard
Primary Government:					
2012	\$ 242,963	\$ 17,177	\$ 13	\$ 14,239	\$ 6,259
2011	165,721	13,330	15	12,205	5,882
2010	120,935	10,405	32	10,035	5,716
Component units:					
Universities:					
2012	\$ 152,850				
2011	95,125				
2010	66,935				
Community Colleges:					
2012	\$ 60,670				
2011	40,001				
2010	27,444				
Proprietary Funds:					
2012	\$ 1,041				
2011	998				
2010	722				
Total Primary Government and Component Units:					
2012	\$ 457,524	\$ 17,177	\$ 13	\$ 14,239	\$ 6,259
2011	301,845	13,330	15	12,205	5,882
2010	216,036	10,405	32	10,035	5,716
Percentage of APC Contributed:					
2012		100%	0%	101%	112%
2011		77%	0%	83%	119%
2010		99%	0%	100%	123%
Percentage of ARC Contributed:					
2012	100%				
2011	100%				
2010	100%				
Net Pension (Asset) Obligation:					
2012		\$ 401	\$ (123)	\$ 2,365	\$ (3,609)
2011		428	(136)	2,524	(2,861)
2010		(2,634)	(151)	429	(1,736)

NOTES TO THE FINANCIAL STATEMENTS

E. 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 *Section C* of this note. 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).

<i>Retirement System</i>	<i>Valuation Date</i>	<i>Actuarial Value of Assets</i>	<i>Actuarial Accrued Liability (AAL)</i>	<i>Unfunded AAL (UAAL) (b) - (a)</i>	<i>Funded Ratio (a) / (b)</i>	<i>Annual Covered Payroll (c)</i>	<i>UAAL as a Percentage of Covered Payroll ((b-a)/c)</i>
		(a)	(b)				
Teachers' and State Employees'	12-31-11	\$ 58,125,011	\$ 61,846,697	\$ 3,721,686	94.0%	\$ 12,801,046	29.1%
Consolidated Judicial	12-31-11	\$ 460,647	\$ 512,643	\$ 51,996	89.9%	\$ 67,815	76.7%
Legislative	12-31-11	\$ 29,468	\$ 23,757	\$ (5,711)	124.0%	\$ 3,679	(155.2)%
Firemen's and Rescue Squad Workers'	6-30-11	\$ 327,984	\$ 391,837	\$ 63,853	83.7%	N/A	N/A
North Carolina National Guard	12-31-11	\$ 91,108	\$ 129,500	\$ 38,392	70.4%	N/A	N/A
Registers of Deeds'	12-31-11	\$ 42,623	\$ 22,194	\$ (20,429)	192.1%	\$ 5,875	(347.7)%
Local Governmental Employees'	12-31-11	\$ 19,326,359	\$ 19,373,800	\$ 47,441	99.8%	\$ 5,106,766	0.9%

F. Optional Retirement Plan

The Optional Retirement Program (Program) 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 UNC System may join the Program instead of the Teachers' and State Employees' Retirement System. At June 30, 2012, the Plan had 13,636 participants.

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. Participants contribute 6% of compensation and the university contributes 6.84%. There is no liability other than the universities' required contributions. The universities contributed \$93.1 million for the fiscal year ended June 30, 2012. Annual covered payroll was \$1.4 billion and employer contributions expressed as a percentage of annual covered payroll were the required 6.84% for the period. Employee contributions expressed as a percentage of annual covered payroll were the required 6%, with actual employee contributions of \$81.7 million for the fiscal year ended June 30, 2012.

Participants are vested after five years of service, but the company must return the value of the institutions' contributions to the State if termination occurs prior to five years of service.

The participant chooses his/her own investment products with the company of choice.

G. Special Separation 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 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, 2012, the State and its component units paid \$14.3 million for 874 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.

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 represents its share of the fair value of the net assets in the Long-term Investment portfolio. The Retiree Health Benefit Fund currently does not have investments.

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), miscellaneous educational units, and some select local governments that are not part of the financial reporting entity also participate. At June 30, 2012, the number of participating employers was as shown below:

State of North Carolina.....	1
LEAs and miscellaneous units.....	166
Community Colleges.....	58
University of North Carolina System.....	19
Proprietary component units.....	1
Local governments.....	16

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 benefits and contribution 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 post employment benefits (OPEB). The healthcare benefits for retired and disabled employees are the same as for active employees as described in Note 15, except that the coverage becomes secondary when former employees become eligible for Medicare.

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 (UEORP), 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.

NOTES TO THE FINANCIAL STATEMENTS

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 5.0% 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 the following page. 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 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, 2012, the State and the other employers made a statutory contribution of 0.52% of covered payroll. This was greater than the actuarially required contribution of 0.46%. The State's total payments are shown in the following table. Actuarially required contributions and the percentage received from all employers can be found in the *Required Supplementary Information* of this CAFR.

NOTES TO THE FINANCIAL STATEMENTS

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.

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 required by GASB 45. 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, 2010 through June 30, 2012
(dollars in thousands)

	Retiree Health Benefit	Disability Income
Primary Government:		
2012	\$ 163,282	\$ 16,981
2011	164,713	17,480
2010	152,440	17,615
Component units:		
Universities:		
2012	\$ 172,664	\$ 17,957
2011	159,564	16,933
2010	140,450	16,230
Community Colleges:		
2012	\$ 40,773	\$ 4,240
2011	39,757	4,219
2010	34,593	3,997
Proprietary Funds:		
2012	\$ 700	\$ 73
2011	992	105
2010	910	105
Total Primary Government and Component Units:		
2012	\$ 377,419	\$ 39,251
2011	365,026	38,737
2010	328,393	37,947
Percentage Contributed:		
2012	100%	100%
2011	100%	100%
2010	100%	100%

NOTES TO THE FINANCIAL STATEMENTS

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

Employee Groups	Retiree Health Benefit	Disability Income
Retirees and beneficiaries currently receiving benefits	179,120	n/a
Disabled members receiving long term disability benefits	n/a	6,754
Terminated employees entitled to benefits but not yet receiving them	30,241	-
Active plan members	341,500	324,290
Total	550,861	331,044
Date of valuation	12/31/11	12/31/11

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)	12/31/11	\$ 729,095	\$ 30,339,346	\$ 29,610,251	2.4%	\$ 14,851,954	199.4%
Disability Income (2)	12/31/11	\$ 406,068	\$ 511,417	\$ 105,349	79.4%	\$ 14,139,467	0.8%

(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.

NOTES TO THE FINANCIAL STATEMENTS**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, 2011. The latest actuarial valuation for DIPNC is dated December 31, 2011. 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.

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	12/31/11	12/31/11
Actuarial Cost Method	Projected Unit Credit	Aggregate
Amortization Method	Level percent of pay	Level percent of pay
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)	8% 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 3.50%. The healthcare cost trend rate includes only inflation of 3.00%. For the DIPNC, the investment rate of return includes an inflation rate of 3.00%.

(3) For the DIPNC, the projected salary increases include an inflation and productivity rate of 3.50%.

N/A Not Applicable

NOTES TO THE FINANCIAL STATEMENTS

NOTE 15: RISK MANAGEMENT AND INSURANCE

A. Public Entity Risk Pool

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 90 out of 115 LEAs and 30 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 Fund does consider investment income in determining if a premium deficiency exists.

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	
	2012	2011
Unpaid claims at beginning of year ...	\$ 15,039	\$ 530
Incurred claims:		
Provision for insured events		
of the current year	19,304	20,340
Increases (decreases) in provision		
for insured events of prior years	4,250	56
Total incurred claims	23,554	20,396
Payments:		
Claims attributable to insured		
events of the current year	6,992	5,505
Claims attributable to insured		
events of the prior years	7,706	382
Total payments	14,698	5,887
Total unpaid claims at end		
of the year	\$ 23,895	\$ 15,039

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.

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. This care is also 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.

Coverage is self-funded by contributions to the Plan, which is reported as a major component unit. Contributions for employee and retiree coverage are made by the State, its participating component units, LEAs, and other qualified employing units. Employees and retirees also contribute to the

NOTES TO THE FINANCIAL STATEMENTS

cost of coverage for the 80/20 Standard Preferred Provider Organization (PPO) plan option. 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 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
2010-11	\$ 253,329	\$ 2,449,828	\$ (2,478,940)	\$ 224,217
2011-12	224,217	2,506,642	(2,486,799)	244,060

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, 2011 to June 30, 2012, 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 2011 to June 2012.

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
2010-11	\$ 3,439	\$ 43,267	\$ (42,320)	\$ 4,386
2011-12	4,386	44,566	(45,419)	3,533

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.

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, 2012 are presented below.

COMBINING STATEMENT OF PLAN NET ASSETS

June 30, 2012

(Dollars in Thousands)

	Teachers' and State Employees' Retirement System	Consolidated Judicial Retirement System	Legislative Retirement System	Firemen's and Rescue Squad Workers' Pension Fund	North Carolina National Guard Pension Fund	Local Governmental Employees' Retirement System
Assets						
Cash and cash equivalents.....	\$ 110,202	\$ 1,341	\$ 28	\$ 682	\$ 1,351	\$ 39,481
Investments:						
Collective investment funds.....	—	—	—	—	—	—
Unallocated insurance contracts.....	—	—	—	—	—	—
Synthetic guaranteed investment contracts....	—	—	—	—	—	—
State Treasurer investment pool.....	55,017,042	439,388	27,606	317,189	86,665	18,579,424
Non-State Treasurer pooled investments.....	—	—	—	—	—	—
Securities lending collateral.....	1,222,535	9,796	615	7,057	2,029	411,292
Receivables:						
Accounts receivable.....	2,850	12	—	36	9	4,090
Interest receivable.....	139	1	—	1	1	37
Contributions receivable.....	47,867	—	21	4,318	—	49,901
Due from other funds.....	35,862	1,780	—	—	—	—
Due from component units.....	4,098	—	—	—	—	—
Notes receivable.....	—	—	—	—	—	—
Total Assets.....	56,440,595	452,318	28,270	329,283	90,055	19,084,225
Liabilities						
Accounts payable and accrued liabilities:						
Accounts payable.....	—	—	—	—	—	—
Benefits payable.....	9,163	73	14	124	21	287
Obligations under securities lending.....	1,277,860	10,250	638	7,370	2,138	432,338
Total Liabilities.....	1,287,023	10,323	652	7,494	2,159	432,625
Net Assets						
Held in trust for:						
Employees' pension and other benefits.....	55,153,572	441,995	27,618	321,789	87,896	18,651,600
Total Net Assets.....	\$ 55,153,572	\$ 441,995	\$ 27,618	\$ 321,789	\$ 87,896	\$ 18,651,600

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
\$ —	\$ —	\$ 5,629	\$ 751,348	\$ 15,280	\$ 1,290	\$ 85	\$ 926,717
180,730	36,832	—	—	—	—	—	217,562
650,231	139,811	—	—	—	—	—	790,042
872,431	192,326	—	—	—	—	—	1,064,757
—	—	404,310	—	403,079	—	46,028	75,320,731
3,624,032	451,431	—	—	—	—	—	4,075,463
—	—	24,200	76,800	25,193	135	2,712	1,782,364
204	33	—	—	17,012	—	—	24,246
—	—	3	343	7	—	—	532
6,716	203	855	22,320	2,311	—	87	134,599
—	—	427	13,634	1,388	—	—	53,091
—	—	49	2,956	307	—	—	7,410
250,391	13,256	—	—	—	—	—	263,647
<u>5,584,735</u>	<u>833,892</u>	<u>435,473</u>	<u>867,401</u>	<u>464,577</u>	<u>1,425</u>	<u>48,912</u>	<u>84,661,161</u>
978	219	110	—	—	—	—	1,307
—	—	3,533	61,107	103	—	—	74,425
—	—	25,852	80,663	26,812	138	2,884	1,866,943
<u>978</u>	<u>219</u>	<u>29,495</u>	<u>141,770</u>	<u>26,915</u>	<u>138</u>	<u>2,884</u>	<u>1,942,675</u>
 5,583,757	 833,673	 405,978	 725,631	 437,662	 1,287	 46,028	 82,718,486
<u>\$ 5,583,757</u>	<u>\$ 833,673</u>	<u>\$ 405,978</u>	<u>\$ 725,631</u>	<u>\$ 437,662</u>	<u>\$ 1,287</u>	<u>\$ 46,028</u>	<u>\$82,718,486</u>

NOTES TO THE FINANCIAL STATEMENTS

COMBINING STATEMENT OF CHANGES IN PLAN NET ASSETS

For the Fiscal Year Ended June 30, 2012

(Dollars in Thousands)

	Teachers' and State Employees' Retirement System	Consolidated Judicial Retirement System	Legislative Retirement System	Firemen's and Rescue Squad Workers' Pension Fund	North Carolina National Guard Pension Fund	Local Governmental Employees' Retirement System
Additions:						
Contributions:						
Employer.....	\$ 1,015,762	\$ 18,956	\$ —	\$ —	\$ —	\$ 389,399
Members.....	815,245	5,071	232	2,738	—	334,588
Other contributions.....	—	—	—	14,398	7,007	—
Total contributions.....	1,831,007	24,027	232	17,136	7,007	723,987
Investment Income:						
Investment earnings (loss).....	1,456,843	11,619	731	8,563	2,297	490,367
Less investment expenses.....	(266,452)	(2,119)	(135)	(1,542)	(415)	(89,342)
Net investment income (loss).....	1,190,391	9,500	596	7,021	1,882	401,025
Other additions:						
Fees, licenses and fines.....	—	—	—	—	—	3,682
Interest earnings on loans.....	—	—	—	—	—	—
Miscellaneous.....	1,336	—	—	8	—	38
Total other additions.....	1,336	—	—	8	—	3,720
Total additions.....	3,022,734	33,527	828	24,165	8,889	1,128,732
Deductions:						
Claims and benefits.....	3,520,078	32,621	2,048	24,084	7,140	918,637
Medical insurance premiums	—	—	—	—	—	—
Refund of contributions.....	98,771	489	—	450	—	50,105
Administrative expenses.....	10,661	30	11	855	61	4,444
Other deductions.....	12	—	—	—	—	13
Total deductions.....	3,629,522	33,140	2,059	25,389	7,201	973,199
Change in net assets.....	(606,788)	387	(1,231)	(1,224)	1,688	155,533
Net assets — July 1.....	55,760,360	441,608	28,849	323,013	86,208	18,496,067
Net assets — June 30.....	\$ 55,153,572	\$ 441,995	\$ 27,618	\$ 321,789	\$ 87,896	\$ 18,651,600

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
\$ 157,101	\$ —	\$ 24,795	\$ 710,027	\$ 80,537	\$ 1,023	\$ 843	\$ 2,398,443
277,222	58,213	—	—	—	—	—	1,493,309
—	—	20,976	—	—	—	—	42,381
434,323	58,213	45,771	710,027	80,537	1,023	843	3,934,133
(15,174)	4,164	43,696	4,530	43,750	12	5,022	2,056,420
—	—	(77)	(140)	(78)	—	(9)	(360,309)
(15,174)	4,164	43,619	4,390	43,672	12	5,013	1,696,111
—	—	—	—	—	—	—	3,682
10,968	559	—	—	—	—	—	11,527
1,885	406	—	—	—	—	—	3,673
12,853	965	—	—	—	—	—	18,882
432,002	63,342	89,390	714,417	124,209	1,035	5,856	5,649,126
280,668	44,509	44,566	—	75,458	1,200	1,516	4,952,525
—	—	96	692,410	—	—	—	692,506
—	—	—	—	—	—	—	149,815
2,061	441	744	335	785	111	16	20,555
—	—	—	—	—	—	—	25
282,729	44,950	45,406	692,745	76,243	1,311	1,532	5,815,426
149,273	18,392	43,984	21,672	47,966	(276)	4,324	(166,300)
5,434,484	815,281	361,994	703,959	389,696	1,563	41,704	82,884,786
\$ 5,583,757	\$ 833,673	\$ 405,978	\$ 725,631	\$ 437,662	\$ 1,287	\$ 46,028	\$ 82,718,486



REQUIRED SUPPLEMENTARY INFORMATION

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

June 30, 2012

(Expressed in Thousands)

<i>Retirement System</i>	<i>Valuation Date</i>	<i>Actuarial Value of Assets</i>	<i>Actuarial Accrued Liability (AAL)</i>	<i>Unfunded AAL (UAAL) (b) - (a)</i>	<i>Funded Ratio (a) / (b)</i>	<i>Annual Covered Payroll</i>	<i>UAAL as a Percentage of Covered Payroll ((b-a)/c)</i>
		(a)	(b)	NOTE 1		(c)	
Teachers' and State Employees'	12-31-11	\$ 58,125,011	\$ 61,846,697	\$ 3,721,686	94.0%	\$ 12,801,046	29.1%
	12-31-10	57,102,198	59,876,066	2,773,868	95.4%	13,053,831	21.3%
	12-31-09	55,818,099	58,178,272	2,360,173	95.9%	13,253,030	17.8%
	12-31-08	55,127,658	55,518,745	391,087	99.3%	13,267,554	3.0%
	12-31-07	55,283,120	52,815,089	(2,468,031)	104.7%	12,701,017	(19.4)%
	12-31-06	52,420,808	49,391,907	(3,028,901)	106.1%	11,711,386	(25.9)%
Consolidated Judicial	12-31-11	\$ 460,647	\$ 512,643	\$ 51,996	89.9%	\$ 67,815	76.7%
	12-31-10	451,196	492,606	41,410	91.6%	66,605	62.2%
	12-31-09	439,987	474,949	34,962	92.6%	66,171	52.8%
	12-31-08	433,553	441,933	8,380	98.1%	65,083	12.9%
	12-31-07	430,356	418,137	(12,219)	102.9%	61,338	(19.9)%
	12-31-06	406,015	378,490	(27,525)	107.3%	53,348	(51.6)%
Legislative	12-31-11	\$ 29,468	\$ 23,757	\$ (5,711)	124.0%	\$ 3,679	(155.2)%
	12-31-10	29,835	23,752	(6,083)	125.6%	3,668	(165.8)%
	12-31-09	29,792	23,511	(6,281)	126.7%	3,622	(173.4)%
	12-31-08	30,097	23,092	(7,005)	130.3%	3,670	(190.9)%
	12-31-07	30,698	22,883	(7,815)	134.2%	3,680	(212.4)%
	12-31-06	29,589	21,742	(7,847)	136.1%	3,695	(212.4)%
Firemen's and Rescue Squad Workers'	6-30-11	\$ 327,984	\$ 391,837	\$ 63,853	83.7%	N/A	N/A
	6-30-10	318,273	370,236	51,963	86.0%	N/A	N/A
	6-30-09	315,697	351,324	35,627	89.9%	N/A	N/A
	6-30-08	316,973	339,022	22,049	93.5%	N/A	N/A
	6-30-07	305,869	322,453	16,584	94.9%	N/A	N/A
	6-30-06	287,933	304,339	16,406	94.6%	N/A	N/A
North Carolina National Guard	12-31-11	\$ 91,108	\$ 129,500	\$ 38,392	70.4%	N/A	N/A
	12-31-10	86,559	127,066	40,507	68.1%	N/A	N/A
	12-31-09	81,371	121,855	40,484	66.8%	N/A	N/A
	12-31-08	78,067	112,747	34,680	69.2%	N/A	N/A
	12-31-07	74,794	109,431	34,637	68.3%	N/A	N/A
	12-31-06	66,898	105,017	38,119	63.7%	N/A	N/A
Registers of Deeds'	12-31-11	\$ 42,623	\$ 22,194	\$ (20,429)	192.1%	\$ 5,875	(347.7)%
	12-31-10	40,529	22,104	(18,425)	183.4%	5,926	(310.9)%
	12-31-09	38,913	21,840	(17,073)	178.2%	6,092	(280.3)%
	12-31-08	37,212	18,365	(18,847)	202.6%	6,024	(312.9)%
	12-31-07	35,453	17,830	(17,623)	198.8%	5,869	(300.3)%
	12-31-06	32,371	17,375	(14,996)	186.3%	5,558	(269.8)%
Local Governmental Employees'	12-31-11	\$ 19,326,359	\$ 19,373,800	\$ 47,441	99.8%	\$ 5,106,766	0.9%
	12-31-10	18,570,514	18,646,430	75,916	99.6%	5,113,742	1.5%
	12-31-09	17,723,253	17,804,791	81,538	99.5%	5,184,128	1.6%
	12-31-08	17,100,739	17,173,975	73,236	99.6%	4,974,742	1.5%
	12-31-07	16,791,984	16,868,147	76,163	99.5%	4,750,682	1.6%
	12-31-06	15,564,789	15,643,377	78,588	99.5%	4,468,394	1.8%

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 135.

REQUIRED SUPPLEMENTARY INFORMATION**SCHEDULE OF CONTRIBUTIONS FROM THE EMPLOYERS AND OTHER CONTRIBUTING ENTITIES****ALL DEFINED BENEFIT PENSION TRUST FUNDS**

For the Six-Year Period 2007 to 2012 (July 1 to June 30)

(Expressed in Thousands)

<i>Retirement System</i>	<i>State Fiscal Year</i>	<i>Annual Required Contribution</i>	<i>Percentage Contributed</i>	
Teachers' and State Employees'	2012	\$ 988,418	100%	
	2011	902,661	73%	
	2010	483,205	100%	
	2009	472,374	100%	
	2008	406,576	99%	Note 1
	2007	332,149	100%	Note 2
Consolidated Judicial	2012	\$ 17,204	100%	
	2011	13,082	78%	
	2010	10,248	100%	
	2009	8,373	106%	
	2008	8,158	104%	Note 1
	2007	6,520	100%	Note 2
Legislative	2012	\$ —	NR	
	2011	—	NR	
	2010	—	NR	
	2009	—	NR	
	2008	—	NR	Note 1
	2007	—	NR	
Firemen's and Rescue Squad Workers'	2012	\$ 14,389	100%	
	2011	12,243	83%	
	2010	10,074	100%	
	2009	9,757	100%	
	2008	8,734	100%	
	2007	8,440	100%	
North Carolina National Guard	2012	\$ 6,075	115%	
	2011	5,719	122%	
	2010	5,682	123%	
	2009	6,248	94%	
	2008	6,232	112%	
	2007	7,324	96%	
Registers of Deeds' Note 3	2012	\$ —	NR	
	2011	—	NR	
	2010	—	NR	
	2009	—	NR	
	2008	—	NR	
	2007	—	NR	
Local Governmental Employees'	2012	\$ 372,105	100%	
	2011	341,157	100%	
	2010	262,591	100%	
	2009	265,690	100%	
	2008	246,004	100%	
	2007	233,003	100%	

NR- No contribution was required or made.

Note 1- The State made additional contributions not related to the ARC of \$42.4 million for Teachers', \$2.3 million for Judicial and \$209 thousand for Legislative.

Note 2- The State made minor additional contributions not related to the ARC disclosed in that year's CAFR.

Note 3- For Registers, significant fees and collections are contributed. They are not directly related to the ARC.

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 135.

REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULES OF FUNDING PROGRESS
OTHER POSTEMPLOYMENT BENEFITS

June 30, 2012

(Expressed in Thousands)

	<i>Valuation Date</i>	<i>Actuarial Value of Assets (a)</i>	<i>Actuarial Accrued Liability (AAL) (b)</i>	<i>Unfunded AAL (UAAL) (b) - (a)</i>	<i>Funded Ratio (a) / (b)</i>	<i>Covered Payroll (c)</i>	<i>UAAL as a Percentage of Covered Payroll ((b-a)/c)</i>
			(1)			(2)	
Retiree Health Benefit	12-31-11	\$ 729,095	\$ 30,339,346	\$ 29,610,251	2.4%	\$ 14,851,954	199.4%
	12-31-10	655,445	33,494,641	32,839,196	2.0%	15,098,336	217.5%
	12-31-09	556,303	33,321,784	32,765,481	1.7%	15,131,146	216.5%
Disability Income	12-31-11	\$ 406,068	\$ 511,417	\$ 105,349	79.4%	\$ 14,139,467	0.8%
	12-31-10	377,995	498,506	120,511	75.8%	14,360,373	0.8%
	12-31-09	352,628	492,731	140,103	71.6%	14,534,661	1.0%

(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
SCHEDULES OF EMPLOYER CONTRIBUTIONS
OTHER POSTEMPLOYMENT BENEFITS

For the Fiscal Years Ended June 30, 2010-2012

(Expressed in Thousands)

	<i>State Fiscal Year</i>	<i>Annual Required Contribution</i>	<i>Percentage Contributed</i>
Retiree Health Benefit	2012	\$ 2,480,160	34%
	2011	2,910,616	30%
	2010	3,018,969	27%
Disability Income	2012	\$ 67,377	113%
	2011	67,841	113%
	2010	72,428	107%