



# Retirement System's Financial Reporting Update

*Presented by Fran Lawrence*

January 21, 2016



North Carolina Department of State Treasurer  
Financial Operations

*Learn. Invest. Grow. Prosper.*

# Retirement System's Financial Reporting Update

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- Comprehensive Annual Financial Report at June 30, 2015
- Schedule of Employer Allocations and Schedule of Pension Amounts by Employer (GASB 68 Tables)
- Upcoming Technical Accounting Changes



# North Carolina CAFR

- The North Carolina **Comprehensive Annual Financial Report** (CAFR) is a set of audited annual, governmental financial statements that complies with governmental accounting standards
- Includes financial information for all fund types of the departments, agencies, boards, commissions and authorities governed and legally controlled by the State
- State fiscal year ends June 30
- State Law: An annual financial audit of the State is completed each year by the NC Office of the State Auditor



# DST Role in CAFR

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



# Pension information in the CAFR

- **Government-Wide Financial Statements - Statement of Net Position**
  - GASB 68 implementation results in Net Pension Liability recorded on State's financial statements
  - \$344.96 Million at June 30, 2015 for Teachers and State Employees Pension Plan
  - Net Pension Liability is included in 'Long-term liabilities'



# 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**
    - 3 Other Postemployment Benefit plans (OPEB): disability, retiree health, 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: Retirement Plans**
  - Sections A-E - Plan disclosures
    - Significant Accounting Policies
    - Plan Descriptions - overview of each pension plan
    - Plan membership
    - Investment disclosures
    - Net pension liability/asset by Plan
    - Actuarial Assumptions by Plan
  - Section F – Employer disclosures



# Pension information in the CAFR

- **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
- **Note 15:**
  - 1 OPEB: 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)
- **Required Supplementary Information**
  - Separate schedules for Pension Plans and Employers



# GASB 68 Financial Reporting

- Schedule of Employer Allocations and Schedule of Pension Amounts with footnotes for:
  - Teachers' and State Employees Retirement System
  - Local Government Employees' Retirement System
  - Register of Deeds' Supplemental Pension Fund
- Annual Audits by Office of State Auditor
  - 6/30/14 - First time audits issued in June 2015 (clean)
  - 6/30/15 - Expected to be issued in March 2016



# New Technical Accounting Guidance

Overview of upcoming changes to accounting related to pension plans, investments and OPEBs

- New GASB Standards:
  - Fair Value of Investments Disclosures (GASB 72)
  - Pension Plan Accounting and Financial Reporting Amendments (GASB 71, GASB 73, GASB 78)
  - Other Post Employment Benefit Plan Accounting and Financial Reporting (GASB 74 and GASB 75)
- GASB Exposure Draft



# New Technical Accounting Guidance

## Statement No. 72, *Fair Value Measurement and Application*

- Significant impact to DST for stand alone Investment Financial Statement disclosures. Impact to CAFR will be determined by OSC.
- Defines fair value and how it should be measured, what assets and liabilities should be measured at fair value, guidance for determining fair value of certain assets and what information about fair value should be disclosed in the notes to the financial statements.
- Will include a fair value hierarchy of how easily fair value can be obtained/calculated.
- Similar to current Financial Accounting Standards Board standards.
- Effective for the FYE 6/30/2016.



# New Technical Accounting Guidance

## GASB 67 & 68 Amendments/Changes:

- Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date* – an amendment of GASB Statement No. 68, amends a paragraph in GASB 68 to require that, at transition, a government recognize a beginning deferred outflow of resources for its pension contributions, if any, made subsequent to the measurement date of the beginning net pension liability. Implemented in conjunction with GASB 68 as of 6/30/15.
- Statement No. 73, *Accounting and Financial Reporting For Pensions and Related Assets That Are Not Within The Scope of GASB Statement 68, And Amendments to Certain Provisions of GASB Statements 67 and 68*, extends the pension standards by establishing requirements for those pensions and pension plans that are not administered through a trust meeting specified criteria. Effective FYE 6/30/2016.



# New Technical Accounting Guidance

## GASB 67 & 68 Amendments/Changes:

- Statement No. 78, *Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans*, amends the scope and applicability of Statement 68 to exclude pensions provided to employees of state or local governmental employers that participate in certain private or federally sponsored multiple-employer defined benefit pension plan. Not applicable to any DST Plan.
- GASB Exposure Draft, *Pension Issues, an amendment of GASB Statements No. 67, No. 68, and No. 73*. Objective of this proposed Statement is to address practice issues that have been raised with respect to GASBs 67, 68 & 73. Expect final standard to be issued by March 31, 2016. Evaluating impact to DST's Plans.



# New Technical Accounting Guidance

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## OPEB Statements were issued in June 2015:

- Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, addresses the reporting by OPEB plans that administer those benefits. Effective FYE 6/30/2017.
- Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, provides guidance for reporting by governments that provide OPEB to their employees and for governments that finance OPEB for employees of other employers. Effective FYE 6/30/2018.



# Questions?

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**Thank You!**

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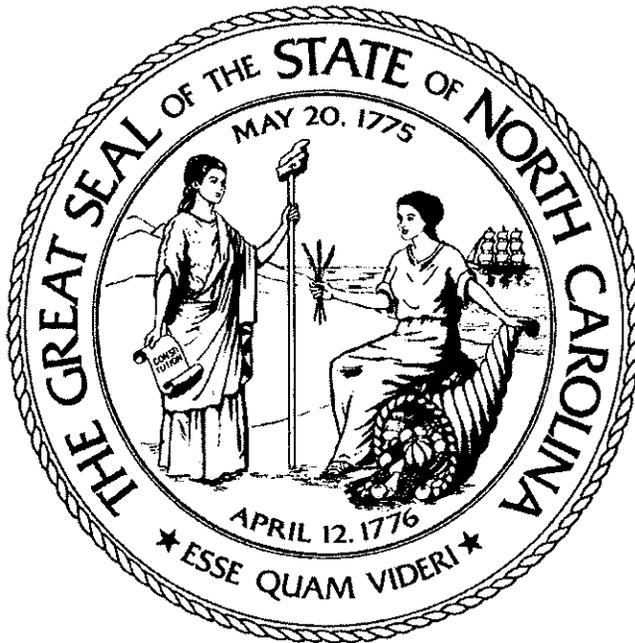
**North Carolina Department of State Treasurer**  
*Financial Operations*

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# NORTH CAROLINA

## COMPREHENSIVE ANNUAL FINANCIAL REPORT

FOR THE FISCAL YEAR  
ENDED JUNE 30, 2015



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 overseen and administered by a third party under the auspices of the State. Although the assets of the plans directly administered by the State 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 the administrative costs in accordance with the terms of each plan. Nine of 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 Supplemental Retirement Income Plan of North Carolina (401(k) Plan) issues separately audited financial statements. Information on how to obtain the 401(k) Plan financial statements is found in Section B.9. 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 Fixed Income Asset Class includes the Long-term Investment and External Fixed Income Investment portfolios. The Global Equity Asset Class includes the Equity Investment portfolio.

The investment balance of each pension trust fund represents its share of the fair market value of the net 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 pension plan established by the State to provide pension benefits for general employees and law enforcement officers (LEOs) of the State, general employees and LEOs of its component units, and employees of Local Education Agencies (LEAs) and charter schools not in the reporting entity. Membership is comprised of employees of the State (state agencies and institutions), universities, community colleges, and certain proprietary component units along with the LEAs and charter schools that elect to join the Retirement System. Benefit provisions are established by General Statute 135-5 and may be amended only by the North Carolina General Assembly. At June 30, 2015, the number of participating employers was as follows:

State of North Carolina.....	1
LEAs .....	116
Charter Schools.....	62
Community Colleges.....	58
University of North Carolina System....	19
Other Component Units.....	5
	261

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

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 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 (not including sick leave) 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.* Contribution provisions are established by General Statute 135-8 and may be amended only by the North Carolina General Assembly. Plan members are required to contribute 6% of their annual pay. The contribution rate for employers is set each year by the North Carolina General Assembly in the Appropriations Act based on the actuarially determined rate recommended by the actuary. The State and other participating employers’ contractually required contribution rate for the year ended June 30, 2015 was 9.15% of covered payroll. This was equal to the actuarially determined contribution. This amount, combined with plan member contributions and investment income fund the benefits earned by plan members during the year and administrative expenses. 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, prior to January 1, 2015, refunds to members with at least five years of service included 4% interest. Effective January 1, 2015, refunds to members include interest (currently 4%) regardless of the number of years of retirement service credit or of the reason for separation from service. 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 pension 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, 2015, the number of participating local governments was as follows:

Cities .....	425
Counties .....	100
Special Districts .....	363
	888

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.

**NOTES TO THE FINANCIAL STATEMENTS**

*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 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. Cost of living benefit increases are contingent upon investment gains of the plan at the discretion of the LGERS Board of Trustees, except as authorized by the General Assembly.

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.* Contribution provisions are established by General Statute 128-30 and may be amended only by the North Carolina General Assembly. Plan members are required to contribute 6% of their annual pay. The actuarially determined contribution rate for employers is set annually by the LGERS Board of Trustees. For the fiscal year ended June 30, 2015, all employers made contributions of 7.06% of covered payroll for law enforcement officers and 7.54% for general employees and firefighters. This was equal to the actuarially determined contribution. This amount, combined with member contributions and investment income fund the benefits earned by plan members during the year and administrative expenses. 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.

*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, prior to January 1, 2015, refunds to members with at least five years of service included 4% interest. Effective January 1, 2015, refunds to members include interest (currently 4%) regardless of the number of years of retirement service credit or of the reason for separation from service. 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, 2015, there were 1,777 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 fully credited service as a firefighter or rescue squad worker regardless of whether the member has terminated paid employment. 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.* Contribution provisions are established by General Statute 58-86 and may be amended only by the North Carolina General Assembly. Plan member benefits and administrative expenses are funded by a \$10 monthly contribution by the member, investment income and an actuarially based state appropriation. Actual contributions are reported in Section F of this note.

**NOTES TO THE FINANCIAL STATEMENTS**

*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.

**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 pension 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, 2015, there were 99 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 eligibility to receive benefits under the RODSPF is based on at least 10 years of service as a register of deeds. An individual's benefit amount in a given year is limited to the lesser of the following:

1. the member's years of service multiplied by the value of one share of accumulated contributions available for benefits for that year, as specified in G.S. 161-50.3; and
2. when the benefit amount is combined with the individual's maximum retirement allowance upon retirement under the Local Governmental Employees' Retirement System or equivalent locally sponsored retirement plan, the benefit amount is limited to the lesser of the following:
  - a. seventy-five percent (75%) of a member's annual compensation, computed on the latest monthly rate (including any and all supplements); or
  - b. one thousand five hundred dollars (\$1,500).

Because of the statutory limits noted above, not all contributions available for benefits are distributed.

*Contributions.* Contribution provisions are established by General Statute 161-50 and may be amended only by the North Carolina General Assembly. Benefits and administrative expenses are funded by investment income and 1.5% of the receipts collected by each County Commission under Article I 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.

***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 pension 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, 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. 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.

**NOTES TO THE FINANCIAL STATEMENTS**

*Contributions.* Contribution provisions are established by General Statutes 135-68 and 135-69 and may be amended only by the North Carolina General Assembly. Plan members are required to contribute 6% of their annual pay. The contribution rate for the State is set each year by the North Carolina General Assembly in the Appropriations Act based on the actuarially determined rate recommended by the actuary. The State's contractually required contribution for the year ended June 30, 2015 was 27.21% of covered payroll. This was equal to the actuarially determined contribution. This amount, combined with member contributions and investment income fund the benefits earned by plan members during the year and administrative expenses. Actual contributions are reported in Section F of this note.

*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, prior to January 1, 2015, refunds to members with at least five years of service included 4% interest. Effective January 1, 2015, refunds to members include interest (currently 4%) regardless of the number of years of retirement service credit or of the reason for separation from service. 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 pension 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.* 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. Plan members are required to contribute 7% of their annual pay. The contribution rate for the State is set each year by the North Carolina General Assembly in the Appropriations Act based on the actuarially determined rate recommended by the actuary. For the fiscal year ended June 30, 2015, there was no actuarially determined required contribution. The actuarially determined contributions combined with member contributions and investment income fund the benefits earned by plan members during the year and administrative expenses. 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, prior to January 1, 2015, refunds to members with at least five years of service included 4% interest. Effective January 1, 2015, refunds to members include interest (currently 4%) regardless of the number of years of retirement service credit or of the reason for separation from service. 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.

**NOTES TO THE FINANCIAL STATEMENTS****7. NORTH CAROLINA NATIONAL GUARD PENSION FUND**

*Plan administration.* The North Carolina National Guard Pension Fund (NGPF) is a single-employer, defined benefit pension 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 \$99 per month for 20 years of creditable military service with an additional \$9.90 per month for each additional year of such service; provided, however that the total pension shall not exceed \$198 per month.

*Contributions.* Contribution provisions are established by General Statute 127A-40 and may be amended only by the North Carolina General Assembly. Plan member benefits and administrative expenses are funded by investment income and an actuarially determined state appropriation. Actual contributions are reported in Section F of this note.

***Defined Contribution Plans*****8. SHERIFFS' SUPPLEMENTAL PENSION FUND**

This plan is a defined contribution pension 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, 2015, there were 96 sheriffs and four beneficiaries enrolled in the plan with 81 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, 2015, the Clerks remitted \$894 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. 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. All contributions and costs of administering the 401(k) Plan are the responsibility of the participants. All contributions are immediately vested in the name of each participant. At December 31, 2014, there were approximately 247,900 employees enrolled with 998 participating employers. Benefit and contribution provisions are established by Chapter 135, Article 5 of the North Carolina General Statutes and may be amended only by the North Carolina General Assembly.

Benefits of the 401(k) Plan depend solely on amounts contributed to the plan plus investment earnings. Members of the 401(k) Plan may receive their benefits upon retirement, disability, termination, hardship, or death. Participants may choose from several options, including systematic withdrawals, full or partial lump-sum withdrawals, or transfer of their balance to an eligible employer-sponsored retirement plan or IRA.

**NOTES TO THE FINANCIAL STATEMENTS**

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, 2014, are presented in this financial report as a pension and other employee benefit trust fund. 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, 3200 Atlantic Avenue, Raleigh, NC 27604-1668.

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, 2014, 56 state agencies and component units along with 467 local governmental units outside our reporting entity contributed the required 5%. In addition, five state agencies and 446 local government employers contributed to the 401(k) Plan on a voluntary basis. There were approximately 13,400 LEOs actively contributing to the 401(k) Plan and approximately 24,500 LEOs receiving employer contributions as of December 31, 2014. All LEO benefit and contribution provisions are established by North Carolina General Statutes 143-166.30 and 143-166.50 and may be amended only by the North Carolina General Assembly.

The 401(k) Plan reported total member contributions of \$295.812 million. The payrolls for law enforcement officers, on which the required contributions were based for the year ended December 31, 2014, amounted to \$160.628 million for the State, \$25.15 million for universities, and \$4.39 million for community colleges and other miscellaneous component units. The required 5% employer's contribution was made by the State for \$8.132 million, by universities for \$1.047 million, and by the remaining component units and community colleges for \$231 thousand. In addition, the State contributed \$361 thousand for required court cost assessments. The amount of pension expense recognized in the current fiscal year is equal to the employer contributions.

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.

**10. OPTIONAL RETIREMENT PROGRAM**

The Optional Retirement Program (ORP) is a defined contribution pension plan that provides retirement benefits with options for payments to beneficiaries in the event of the participant's death. 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. The ORP is administered by the UNC System. At June 30, 2015, the plan had 17,400 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) and Fidelity Investments. 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 are always fully vested in their own contributions to the plan and their investment earnings. Participants are fully vested in the university's contributions and earnings after five years of participating in the ORP.

Participants contribute 6% of compensation and the university contributes 6.84%. The universities contributed \$109.5 million for the fiscal year ended June 30, 2015. Annual covered payroll was \$1.6 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 \$96.1 million for the fiscal year ended June 30, 2015. The amount of pension expense recognized in the current fiscal year related to ORP was \$103.9 million. Forfeitures reduced the universities' pension expense by \$5.6 million for the fiscal year ended June 30, 2015. Any liabilities reported by the universities are immaterial to this CAFR.

**NOTES TO THE FINANCIAL STATEMENTS****C. Plan Membership**

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

	Cost-Sharing, Multiple-Employer				Single-Employer		
	Teachers' and State Employees'	Local Govern-mental	Firefighters' and Rescue Squad	Registers of Deeds'	Consolidated Judicial	Legislative	North Carolina National Guard
Inactive plan members or beneficiaries currently receiving benefits .....	194,607	60,408	12,730	95	610	300	4,421
Inactive plan members entitled to but not yet receiving benefits .....	134,871	55,298	153	-	50	93	5,317
Active plan members .....	314,956	123,184	43,134	100	566	170	5,661
	<u>644,434</u>	<u>238,890</u>	<u>56,017</u>	<u>195</u>	<u>1,226</u>	<u>563</u>	<u>15,399</u>
Valuation date .....	12-31-14	12-31-14	12-31-14	12-31-14	12-31-14	12-31-14	12-31-14

**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, 2015. 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, 2015:

<u>Asset Class</u>	<u>Target Allocation</u>
Fixed Income	29.0%
Global Equity	42.0%
Real Estate	8.0%
Alternatives	8.0%
Credit	7.0%
Inflation Protection	6.0%
<b>Total</b>	<u>100.0%</u>

The preceding table reflects a new asset allocation policy which became 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.

**NOTES TO THE FINANCIAL STATEMENTS**

*Rate of return.* For the year ended June 30, 2015, the annual money-weighted rate of return on pension plan investments, net of pension plan investment expense was:

	Teachers' and State Employees'	Local Governmental	Firefighters' and Rescue Squad	Registers of Deeds'	Consolidated Judicial	Legislative	North Carolina National Guard
Money-weighted Rate of Return	2.27%	2.27%	2.26%	2.26%	2.27%	2.25%	2.25%

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, 2015, were as follows (dollars in thousands):

	Cost-Sharing, Multiple-Employer				Single-Employer		
	Teachers' and State Employees'	Local Governmental	Firefighters' and Rescue Squad	Registers of Deeds'	Consolidated Judicial	Legislative	North Carolina National Guard
Total pension liability	\$ 68,692,228	\$ 23,496,136	\$ 422,667	\$ 23,820	\$ 582,766	\$ 23,952	\$ 151,250
Plan fiduciary net position	65,007,030	23,047,342	386,308	46,994	538,534	28,456	110,529
Net pension liability (asset)	<u>\$ 3,685,198</u>	<u>\$ 448,794</u>	<u>\$ 36,359</u>	<u>\$ (23,174)</u>	<u>\$ 44,232</u>	<u>\$ (4,504)</u>	<u>\$ 40,721</u>
Plan fiduciary net position as a percentage of the total pension liability	94.64%	98.09%	91.40%	197.29%	92.41%	118.80%	73.08%

*Actuarial assumptions.* The total pension liability was determined by actuarial valuations as of December 31, 2014, 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, 2015 utilizing update procedures incorporating the actuarial assumptions.

	Cost-Sharing, Multiple-Employer				Single-Employer		
	Teachers' and State Employees' (Note 1)	Local Governmental (Note 1)	Firefighters' and Rescue Squad	Registers of Deeds' (Note 1)	Consolidated Judicial (Note 1)	Legislative (Note 1)	North Carolina National Guard
Valuation date	12/31/14	12/31/14	12/31/14	12/31/14	12/31/14	12/31/14	12/31/14
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 3.50% inflation and productivity factor

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

**NOTES TO THE FINANCIAL STATEMENTS**

For the fiscal year ended June 30, 2015, retirees in the Teachers' and State Employees' system and the Consolidated Judicial system received a 1% cost of living adjustment for retirees whose retirement began on or before July 1, 2013. Members with effective dates between August 1, 2013 and June 1, 2014 received a prorated amount. For the fiscal year ended June 30, 2015, retirees in the Legislative Retirement system received a 1% cost of living adjustment for retirees whose retirement began on or before January 1, 2014. Members with retirement effective dates between February 1, 2014 and June 1, 2014 received a prorated amount. The North Carolina National Guard Fund increased the monthly benefit from \$95 to \$99, the monthly additional benefit from \$9.50 to \$9.90 and the maximum monthly benefit from \$190 to \$198. Firefighters' and Rescue Squad Workers' Pension Fund made a change in benefit terms to allow for in-service distributions to members who are at least 55 years of age and have at least 20 years of creditable service. These benefit enhancements reflect legislation enacted by the North Carolina General Assembly effective July 1, 2014. These enhancements were reflected as liabilities in the valuations described above.

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, 2014 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, 2015 (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	2.2%
Global Equity	5.8%
Real Estate	5.2%
Alternatives	9.8%
Credit	6.8%
Inflation Protection	3.4%

The information in the preceding table is based on 30 year expectations developed with the consulting actuary for the 2014 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.

*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.

**NOTES TO THE FINANCIAL STATEMENTS**

*Sensitivity of the Plans' net pension liability to changes in the discount rate.* The following presents the net pension liability of the plans at June 30, 2015 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>			
TSERS' net pension liability (asset)	\$ 11,091,429	\$ 3,685,198	\$ (2,599,843)
LGERS' net pension liability (asset)	3,129,503	448,794	(1,809,644)
FRSWPF' net pension liability (asset)	86,337	36,359	(5,502)
<u>Single-Employer</u>			
CJRS' net pension liability (asset)	\$ 99,695	\$ 44,232	\$ (3,843)
LRS' net pension asset	(2,756)	(4,504)	(6,040)
NCNGs' net pension liability	58,365	40,721	26,090
	1% Decrease (4.75%)	Current Discount Rate (5.75%)	1% Increase (6.75%)
<u>Cost-Sharing, Multiple-Employer</u>			
RODs' net pension asset	\$ (20,908)	\$ (23,174)	\$ (25,124)

**F. GASB Statement 68 Employer Reporting****1. EMPLOYER CONTRIBUTIONS**

The following table presents the primary government's and component units' contributions recognized by the pension plans at June 30, 2015 (dollars in thousands):

	Teachers' and State Employees'	Firefighters' and Rescue Squad	Consolidated Judicial	Legislative	North Carolina National Guard	Total
Primary Government	\$ 320,093	\$ 13,900	\$ 18,949	\$ —	\$ 6,039	\$358,981
Component Units						
University of North Carolina System	\$ 187,863	\$ —	\$ —	\$ —	\$ —	\$187,863
Community Colleges	78,840	—	—	—	—	78,840
Other Component Units	2,340	—	—	—	—	2,340
Total Contributions	<u>\$ 589,136</u>	<u>\$ 13,900</u>	<u>\$ 18,949</u>	<u>\$ —</u>	<u>\$ 6,039</u>	<u>\$628,024</u>

**NOTES TO THE FINANCIAL STATEMENTS****2. PENSION LIABILITIES, PENSION EXPENSE, AND DEFERRED OUTFLOWS OF RESOURCES AND DEFERRED INFLOWS OF RESOURCES RELATED TO PENSIONS**

As of June 30, 2015, the primary government and component units reported net pension liabilities for defined benefit pension plans administered by the State as follows (dollars in thousands):

	Primary Government	Component Units		
		University of North Carolina System	Community Colleges	Other Component Units
Proportionate Share of the Net Pension Liability				
Teachers' and State Employees' Retirement System	\$ 267,119	\$ 173,441	\$ 68,803	\$ 2,049
Net Pension Liability				
Firefighters' and Rescue Squad	27,418	--	--	--
Consolidated Judicial	26,197	--	--	--
North Carolina National Guard	30,176	--	--	--
Total Net Pension Liability	<u>\$ 350,910</u>	<u>\$ 173,441</u>	<u>\$ 68,803</u>	<u>\$ 2,049</u>

The primary government also reported a net pension asset of \$5,633 for the Legislative Retirement System. Each net pension liability (asset) was measured as of June 30, 2014, and the total pension liability used to calculate each net pension liability (asset) was determined by an actuarial valuation as of December 31, 2013. Update procedures were used to roll forward the total pension liability to June 30, 2014. For TSERS, the primary government's and each component unit's proportion of the collective net pension liability was based on a projection of the present value of future salaries relative to the projected present value of future salaries of all participating employers, actuarially determined. The primary government's proportion of the collective net pension liability was further allocated to individual proprietary funds based on each fund's proportionate share of the total prior year pension contributions.

The primary government's and component units' proportions of the collective net pension liability for the Teachers' and State Employees' Retirement System as of June 30, 2014 and 2013 were as follows:

	Primary Government	Component Units		
		University of North Carolina System	Community Colleges	Other Component Units
Teachers' and State Employees' Retirement System				
Proportion – June 30, 2014	22.78%	14.79%	5.87%	0.17%
Proportion – June 30, 2013	22.95%	14.48%	5.80%	0.17%
Change – Increase (Decrease)	(0.17)	0.31	0.07	--

For the year ended June 30, 2015, the primary government and component units recognized pension expense for defined benefit pension plans administered by the State as follows (dollars in thousands):

	Primary Government	Component Units		
		University of North Carolina System	Community Colleges	Other Component Units
Pension Expense				
Teachers' and State Employees' Retirement System	\$ 115,834	\$ 79,446	\$ 31,207	\$ 918
Consolidated Judicial	10,923	--	--	--
Legislative	247	--	--	--
Total Pension Expense	<u>\$ 127,004</u>	<u>\$ 79,446</u>	<u>\$ 31,207</u>	<u>\$ 918</u>

**NOTES TO THE FINANCIAL STATEMENTS**

As a result of its requirement to contribute, the primary government recognized expense of \$10.32 million for FRSWPF and \$7.22 million for NGPF for the year ended June 30, 2015. The primary government's proportion of the collective net pension liability for Firefighters' and Rescue Squad Workers' and for North Carolina National Guard was 100% and 100%, respectively, as of June 30, 2014 and 2013.

At June 30, 2015, the primary government and component units reported deferred outflows of resources related to defined benefit pension plans administered by the State from the following sources (dollars in thousands):

	Deferred Outflows of Resources					
	Teachers' and State Employees'	Firefighters' and Rescue Squad	Consolidated Judicial	Legislative	North Carolina National Guard	Total
<b>Primary Government:</b>						
Difference between actual and expected experience	\$ —	\$ 2,458	\$ —	\$ 447	\$ 115	\$ 3,020
Change in proportion and differences between agency's contributions and proportionate share of contributions	12,592	—	—	—	—	12,592
Contributions subsequent to the measurement date	320,093	13,900	18,949	—	6,039	358,981
<b>Total</b>	<b>\$ 332,685</b>	<b>\$ 16,358</b>	<b>\$ 18,949</b>	<b>\$ 447</b>	<b>\$ 6,154</b>	<b>\$ 374,593</b>
<b>Component Units:</b>						
<b>University of North Carolina System</b>						
Change in proportion and differences between agency's contributions and proportionate share of contributions	\$ 22,246					
Contributions subsequent to the measurement date	187,863					
<b>Total</b>	<b>\$ 210,109</b>					
<b>Community Colleges</b>						
Change in proportion and differences between agency's contributions and proportionate share of contributions	\$ 8,266					
Contributions subsequent to the measurement date	78,840					
<b>Total</b>	<b>\$ 87,106</b>					
<b>Other Component Units</b>						
Change in proportion and differences between agency's contributions and proportionate share of contributions	\$ 167					
Contributions subsequent to the measurement date	2,340					
<b>Total</b>	<b>\$ 2,507</b>					

**NOTES TO THE FINANCIAL STATEMENTS**

At June 30, 2015, the primary government and component units reported deferred inflows of resources related to defined benefit pension plans administered by the State from the following sources (dollars in thousands):

	Deferred Inflows of Resources					Total
	Teachers' and State Employees'	Firefighters' and Rescue Squad	Consolidated Judicial	Legislative	North Carolina National Guard	
<b>Primary Government:</b>						
Difference between actual and expected experience	\$ 62,265	\$ —	\$ 1,982	\$ —	\$ —	\$ 64,247
Changes of assumptions	—	15,115	—	—	—	15,115
Net difference between projected and actual earnings on pension plan investments	902,498	23,338	32,199	1,870	6,422	966,327
Change in proportion and differences between agency's contributions and proportionate share of contributions	6,934	—	—	—	—	6,934
Total	<u>\$ 971,697</u>	<u>\$ 38,453</u>	<u>\$ 34,181</u>	<u>\$ 1,870</u>	<u>\$ 6,422</u>	<u>\$ 1,052,623</u>
<b>Component Units:</b>						
<b>University of North Carolina System</b>						
Difference between actual and expected experience	\$ 40,428					
Net difference between projected and actual earnings on pension plan investments	585,994					
Change in proportion and differences between agency's contributions and proportionate share of contributions	2,520					
Total	<u>\$ 628,942</u>					
<b>Community Colleges</b>						
Difference between actual and expected experience	\$ 16,037					
Net difference between projected and actual earnings on pension plan investments	232,459					
Change in proportion and differences between agency's contributions and proportionate share of contributions	1,611					
Total	<u>\$ 250,107</u>					
<b>Other Component Units</b>						
Difference between actual and expected experience	\$ 477					
Net difference between projected and actual earnings on pension plan investments	6,923					
Change in proportion and differences between agency's contributions and proportionate share of contributions	11					
Total	<u>\$ 7,411</u>					

**NOTES TO THE FINANCIAL STATEMENTS**

Amounts reported as deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2016. These amounts are found in the preceding Deferred Outflows of Resources table. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows (dollars in thousands):

## Teachers' and State Employees'

Year Ending June 30	Primary Government	Component Units		
		University of North Carolina System	Community Colleges	Other Component Units
2016	\$ (240,560)	\$ (151,961)	\$ (60,590)	\$ (1,815)
2017	(240,560)	(151,961)	(60,590)	(1,815)
2018	(240,560)	(151,961)	(60,590)	(1,815)
2019	(237,423)	(150,814)	(60,071)	(1,798)

## Other Plans

Year Ending June 30	Primary Government			
	Firefighters' and Rescue Squad	Consolidated Judicial	Legislative	North Carolina National Guard
2016	\$ (7,152)	\$ (8,552)	\$ (152)	\$ (1,528)
2017	(7,152)	(8,552)	(335)	(1,567)
2018	(7,152)	(8,552)	(467)	(1,605)
2019	(7,150)	(8,525)	(467)	(1,605)
2020	(1,317)	—	(2)	(2)
Thereafter	(6,072)	—	—	—

*Actuarial Assumptions.* The total pension liability in the December 31, 2013 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

	Teachers' and State Employees' (Note 1)	Firefighters' and Rescue Squad	Consolidated Judicial (Note 1)	Legislative	North Carolina National Guard
Valuation date	12/31/13	12/31/13	12/31/13	12/31/13	12/31/13
Inflation	3%	3.5%	3%	3%	3%
Salary Increases	4.25%-9.10%	N/A	5.00%-5.95%	7.50%	N/A
Investment Rate of Return (Note 2)	7.25%	7.25%	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

**NOTES TO THE FINANCIAL STATEMENTS**

The following table presents the adopted asset allocation policy and best estimates of arithmetic real rates of return for each major asset class as of June 30, 2014:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Fixed Income	36.0%	2.5%
Global Equity	40.5%	6.1%
Real Estate	8.0%	5.7%
Alternatives	6.5%	10.5%
Credit	4.5%	6.8%
Inflation Protection	4.5%	3.7%
<b>Total</b>	<b>100%</b>	

*Sensitivity of the net pension liability to changes in the discount rate.* The following presents the primary government's and component units' net pension liability calculated using the discount rate of 7.25%, as well as what the proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.25%) or 1-percentage-point higher (8.25%) than the current rate (dollars in thousands):

	<u>Net Pension Liability (Asset)</u>		
	<u>1% Decrease (6.25%)</u>	<u>Current Discount Rate (7.25%)</u>	<u>1% Increase (8.25%)</u>
Teachers' and State Employees' Proportionate Share			
Primary Government	\$ 1,917,562	\$ 267,119	\$ (1,126,441)
University of North Carolina System	1,245,079	173,441	(731,402)
Community Colleges	493,911	68,803	(290,140)
Other Component Units	14,712	2,049	(8,642)
Firefighters' and Rescue Squad	\$ 76,699	\$ 27,418	\$ (13,861)
Consolidated Judicial	\$ 80,338	\$ 26,197	\$ (20,692)
Legislative	\$ (3,859)	\$ (5,633)	\$ (7,190)
North Carolina National Guard	\$ 46,567	\$ 30,176	\$ 16,578

## NOTES TO THE FINANCIAL STATEMENTS

**3. CHANGES IN NET PENSION LIABILITY (ASSET) FOR SINGLE-EMPLOYER, DEFINED-BENEFIT PLANS**

The following schedule presents the changes in the net pension liability for the single-employer, defined-benefit plans as of June 30, 2015 (dollars in thousands):

	<u>Consolidated Judicial</u>	<u>Legislative</u>
<b>Total pension liability</b>		
Service Cost	\$ 16,637	\$ 747
Interest	39,405	1,678
Changes of benefit terms	3,031	146
Differences between expected and actual experience	(2,484)	762
Benefit payments, including refunds of member contributions	(35,428)	(2,614)
<b>Net change in total pension liability</b>	<u>21,161</u>	<u>719</u>
<b>Total pension liability - beginning (a)</b>	544,600	23,699
<b>Total pension liability - ending (c)</b>	<u>\$ 565,761</u>	<u>\$ 24,418</u>
<b>Plan fiduciary net position</b>		
Contributions-employer	\$ 21,390	\$ -
Contributions-member	5,598	253
Net investment income	74,294	4,293
Benefit payments, including refunds of member contributions	(35,428)	(2,614)
Administrative expense	(48)	(37)
Other	3	-
<b>Net change in plan fiduciary net position</b>	<u>65,809</u>	<u>1,895</u>
<b>Plan fiduciary net position - beginning (b)</b>	473,755	28,156
<b>Plan fiduciary net position - ending (d)</b>	<u>\$ 539,564</u>	<u>\$ 30,051</u>
<b>Net pension liability (asset) - beginning (a) - (b)</b>	70,845	(4,457)
<b>Net pension liability (asset) - ending (c) - (d)</b>	<u>\$ 26,197</u>	<u>\$ (5,633)</u>

**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, 2015, the State and its major component units paid \$16.4 million for 968 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 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, 2015, the number of participating employers was as follows:

State of North Carolina.....	1
LEAs.....	116
Charter Schools.....	80
Community Colleges.....	58
University of North Carolina System.....	19
Other Component Units.....	5
Local governments.....	<u>18</u>
Total.....	<u>297</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 self-funded 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, the self-funded State Health Plan coverage is secondary to Medicare.

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**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 5.49% 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 156. 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 membership service, or (2) reaching the age of 60 and completing 25 years of creditable service, or (3) completing 30 years of creditable service, at any age.

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

**NOTES TO THE FINANCIAL STATEMENTS**

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. This reduction becomes effective as of the first day of the month following the month of initial entitlement to Social Security benefits. After the first 36 months of the long-term disability, no further benefits are payable under the terms of this section unless the employee has been approved and is in receipt of primary Social Security disability benefits.

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, 2015, the State and the other employers made a statutory contribution of 0.41% of covered payroll. This was equal to the actuarially required contribution. The State's total payments are shown in the table on page 156. 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.

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.

**Required Contributions as an Employer**  
**For the Years Ended June 30, 2013 through June 30, 2015**  
*(dollars in thousands)*

	Retiree Health Benefit	Disability Income
Primary Government:		
2015	\$ 182,167	\$ 13,604
2014	176,765	14,403
2013	175,722	14,588
Component units:		
Universities:		
2015	\$ 206,262	\$ 15,404
2014	197,870	16,123
2013	189,556	15,737
Community Colleges:		
2015	\$ 47,511	\$ 3,548
2014	46,083	3,755
2013	44,958	3,732
Other Component Units:		
2015	\$ 426	\$ 32
2014	415	34
2013	397	33
Percentage Contributed:		
2015	100%	100%
2014	100%	100%
2013	100%	100%

For 2015 and the two preceding years, the primary government and component units together contributed 100% of the required contributions for Retiree Health Benefit and Disability Income.

**NOTES TO THE FINANCIAL STATEMENTS**

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

	<u>Retiree Health Benefit</u>	<u>Disability Income</u>
Retirees and beneficiaries currently receiving benefits .....	201,212	N/A
Disabled members receiving long term disability benefits .....	N/A	6,900
Terminated employees entitled to benefits but not yet receiving them .....	34,150	-
Active plan members .....	<u>346,964</u>	<u>323,579</u>
Total .....	<u>582,326</u>	<u>330,479</u>
 Date of valuation .....	 12/31/14	 12/31/14

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

	<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets (a)</u>	<u>Actuarial Accrued Liability (AAL) (b)</u>	<u>Unfunded AAL (UAAL) (b-a)</u>	<u>Funded Ratio (a/b)</u>	<u>Covered Payroll (c) (3)</u>	<u>UAAL as a Percentage of Covered Payroll ((b-a)/c)</u>
Retiree Health (1)	12/31/14	\$ 944,955	\$ 27,559,481	\$ 26,614,526	3.4%	\$ 15,642,890	170.1%
Disability Income (2)	12/31/14	\$ 450,599	\$ 503,060	\$ 52,461	89.6%	\$ 14,459,667	0.4%

(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, 2014. The latest actuarial valuation for DIPNC is dated December 31, 2014. 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.

**NOTES TO THE FINANCIAL STATEMENTS**

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.

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>
<b>Valuation Date</b>	12/31/14	12/31/14
<b>Actuarial Cost Method</b>	Projected Unit Credit	Aggregate
<b>Amortization Method</b>	Level percent of pay	Level percent
<b>Remaining Amortization Period</b>	30 years	(1)
<b>Period Open/Closed</b>	Open	(1)
<b>Asset Valuation Method</b>	Market Value of Assets	5 year smoothed with 80%/120% corridor
<b>Actuarial Assumptions:</b>		
<b>Investment Rate of Return (2)</b>	4.25%	5.75%
<b>Healthcare Cost Trend Rate (2)</b>	7% graded to 5% over 8 years	N/A
<b>Projected Salary Increases (3)</b>	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 DIPNC, the investment rate of return includes an inflation rate of 3%.

(3) For the DIPNC, 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**

**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 87 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	
	2015	2014
Unpaid claims at beginning of year .....	\$ 7,161	\$ 7,960
<b>Incurred claims:</b>		
Provision for insured events		
of the current year .....	10,524	8,585
Increases (decreases) in provision		
for insured events of prior years .....	(1,899)	(6,453)
Total incurred claims .....	8,625	2,132
<b>Payments:</b>		
Claims attributable to insured		
events of the current year .....	1,448	1,845
Claims attributable to insured		
events of the prior years .....	4,162	1,086
Total payments .....	5,610	2,931
Total unpaid claims at end		
of the year .....	\$ 10,176	\$ 7,161

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. Currently, there are no claims for reinsurance.

**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
2013-14	\$ 245,331	\$ 2,606,997	\$ (2,619,652)	\$ 232,676
2014-15	232,676	2,715,826	(2,663,469)	285,033

**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, 2014 to June 30, 2015, 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 2014 to June 2015.

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):

**NOTES TO THE FINANCIAL STATEMENTS**

	Beginning of Fiscal Year Liability	Current-Year Claims and Changes in Estimates	Claim Payments	Balance at Fiscal Year-End
2013-14	\$ 3,482	\$ 44,612	\$ (44,134)	\$ 3,960
2014-15	3,960	48,719	(50,119)	2,560

**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 following at least 365 calendar days of employment 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****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.

Claims of \$10,000 or higher are paid when the Council of State approves the request for payment. Claims less than \$10,000 are paid without Council of State approval. Claims costs are recognized when they are approved by the Council of State and are outstanding for

**NOTES TO THE FINANCIAL STATEMENTS**

payment; when known estimates of losses are waiting to be submitted to the Council of State for approval; or when a loss occurs and can be reasonably estimated. Changes in the balances of claims liabilities 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
2013-14	\$ 1,119	\$ 1,238	\$ (1,017)	\$ 1,340
2014-15	1,340	978	(706)	1,612

**2. Medical Malpractice Protection****a. Professional Liability Insurance for State Medical Personnel**

Agencies of the State and participating component units are insured under the State Tort Claims Act, Chapter 143, Article 31, of the General Statutes. This act allows partial waiver of sovereign immunity up to \$1 million that the State may pay cumulatively to all claimants on account of injury and damage to any one person arising out of a single occurrence. The State has purchased commercial liability insurance for state employees which is in excess over recovery from the Tort Claims Act and Defense of State Employees Act; however, claims involving medical malpractice are generally excluded from this coverage.

The University of North Carolina at Chapel Hill Medical School and UNC Hospitals participate in the Liability Insurance Trust Fund, which is described in detail below. East Carolina University (ECU) provides medical malpractice insurance for the Brody School of Medicine faculty physicians and independently licensed allied health providers. There is a shared blanket policy for all other employees of the ECU Physicians. The medical malpractice insurance is with a private insurance company with coverage of \$3 million per occurrence, \$5 million annual aggregate, and a \$200,000 deductible; as well as an excess policy in the amount of \$10 million. All other universities purchase medical professional liability insurance.

Chapter 237, Section 11.33, of the 1999 Session Laws of North Carolina authorized the Department of Health and Human Services, the Department of Environment and Natural Resources, and the Department of Public Safety to provide medical liability coverage on behalf of employees licensed to practice medicine or dentistry; all licensed physicians who are faculty members of the University of North Carolina who work on contract for the Division of Mental Health, Developmental Disabilities, and Substance Abuse Services for incidents that occur in Division programs; and on behalf of medical residents from the University of North Carolina who are in training at institutions operated by the Department of Health and Human Services. The extent of coverage is a maximum of \$1 million for each individual incident and does not affect current coverage under the State Tort Claims Act. The Department of Health and Human Services, the Department of Environment and Natural Resources, and the Department of Public Safety purchase commercial professional liability insurance for their medical staff. Settled claims have not exceeded coverage in any of the past three fiscal years.

Insurance coverage varies depending upon the amount of coverage and the type of policy. Typically the amount of primary coverage for medical liability is \$1 million per individual, claim, or incidence, and \$3 million total or aggregate. Some departments and institutions have purchased higher limits to provide additional coverage above that provided by the primary policy for medical liability. The policies are written on a claims made or occurrence basis, with the majority of the policies being claims made. The claims liabilities are not measurable.

**b. Self-Insurance through the Liability Insurance Trust Fund**

The Liability Insurance Trust Fund (Trust Fund) is an unincorporated entity created by Chapter 116, Article 26, of the General Statutes and the University of North Carolina Board of Governors Resolution of June 9, 1978. The Trust Fund is a self-insurance program established to provide professional medical malpractice liability covering the University of North Carolina Hospitals at Chapel Hill (the Hospitals) and the University of North Carolina at Chapel Hill Faculty Physicians (UNCFP). The Trust Fund provides coverage for program participants and individual health care practitioners working as employees, agents, or officers of program participants. The Trust Fund is exempt from federal and state income taxes, and is not subject to regulation by the North Carolina Department of Insurance. Coverage is self-funded by contributions from participants and investment income. Contributions are based on the actuarially determined funding level for a given plan year.

For the periods ending June 30, 2014 and June 30, 2015, the Trust Fund provided coverage on an occurrence basis of \$3 million per individual and \$7 million in the aggregate per claim. Excess reinsurance coverage was not purchased for the policy years ending June 30, 2014 and June 30, 2015, as the Trust Fund chose to retain 100% of the liability. In lieu of reinsurance, the participants contributed \$10 million in the aggregate into the Reimbursement Fund during previous fiscal years for future losses.

For the fiscal year ending June 30, 2015, the Trust Fund purchased a direct insurance policy to cover the first \$1 million per occurrence and \$3 million in the aggregate for dental residents. In the event the Trust Fund has insufficient funds to pay existing and future claims, it has

**NOTES TO THE FINANCIAL STATEMENTS**

the authority to borrow necessary amounts up to \$30 million. Any such borrowing would be repaid from the assets and revenues of program participants. No borrowings have been made under this authority to date. The Trust Fund council believes adequate funds are on deposit in the Trust Fund to meet estimated losses based upon the results of the independent actuary’s report.

The Trust Fund establishes claim liabilities based on estimates of the ultimate cost of all losses and loss adjustment expenses, including losses and loss adjustment expenses incurred but not yet reported, which are unpaid at the balance sheet date. The claims liabilities of \$41.842 million and \$36.846 million are the present values of the aggregate actuarially determined claims liabilities of \$49.480 million and \$56.732 million, discounted at 0.5% at June 30, 2014 and 0.5% at June 30, 2015.

These estimates are reviewed annually, and as adjustments become necessary, such adjustments are reflected in current operations. Claims against participants are paid from the corpus of the Trust Fund. Changes in the Trust Fund’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
2013-14	\$ 44,282	\$ 1,588	\$ (4,028)	\$ 41,842
2014-15	41,842	(1,188)	(3,808)	36,846

**3. Public Officers' and Employees' Liability Insurance**

In accordance with Chapter 58, Article 32, Part 15, of the General Statutes, public officers' and employees' liability insurance is provided by private insurers for all employees of the State and participating component units except for doctors and dentists. The policy provides \$10 million excess insurance over the \$1 million statutory limit payable for any one claim under the State Tort Claims Act. The first \$150,000 of an award against a state agency is the responsibility of the state agency’s General Fund budget code or up to \$1 million if a Non-General Fund budget code. For General Fund budget codes, any award greater than \$150,000 but less than \$1 million is funded by proportionate shares of estimated lapse salaries from all agencies’ General Fund budget codes. Since state agencies and component units are responsible for funding any tort claims of \$1 million or less from their budget and/or lapse salaries, total claims liabilities are not measurable. Employers are charged a premium for the excess insurance based on a composite rate. The employers pay the premiums directly to the private insurer. Settled claims have not exceeded coverage in any of the past three fiscal years.

**4. Employee Dishonesty and Computer Fraud**

Blanket public employee dishonesty and computer fraud insurance is provided for agencies of the State and its component units with a limit of \$5 million per occurrence, subject to a 10% participation in each loss and a \$75,000 deductible. This coverage is placed with a private insurance company and is handled by the North Carolina Department of Insurance. Agencies of the State and its component units are charged premiums by the private insurance company. A small number of state agencies and component units of the State require faithful performance coverage in addition to employee dishonesty coverage. In these instances, separate policies have been purchased. The amounts of coverage and the deductibles vary among these separate policies. Settled claims have not exceeded coverage in any of the past three fiscal years.

**5. Statewide Workers' Compensation Program**

The Statewide Workers' Compensation Program (the Program) was created by Chapter 97, Article 1; Chapter 115C, Article 23; and Chapter 115D, Article 2 of the General Statutes to provide benefits to workers injured on the job. The program includes all employees of the State, universities and certain other component units. The program also includes community college employees and employees of Local Education Agencies (LEAs) whose salaries are paid with State funds. Although the LEAs are not part of the State reporting entity, the State is responsible for the workers’ compensation liability of the state-funded LEA employees. Similarly, although community colleges are component units of the State, the primary government is responsible for the workers’ compensation liability of state-funded college employees.

An injury is covered under workers' compensation if it is caused by an accident that arose out of and in the course of employment. Also, certain occupational diseases specifically designated in the North Carolina Workers' Compensation Act are compensable. Losses payable by the Program include medical claims, loss of wages, disability, and death benefits. Payments of all medical benefits are subject to approval based on a fee schedule established by the North Carolina Industrial Commission (NCIC). Loss of wages and disability benefits are payable based on 66 2/3% of an employee's average weekly salary subject to a statutory compensation rate minimum and maximum

**NOTES TO THE FINANCIAL STATEMENTS**

established annually by the NCIC. Death benefits are payable for 500 weeks at 66 2/3% of an employee's average weekly salary. In certain instances, death benefits may be extended beyond the 500 weeks.

The responsibility for claiming compensation is on the injured employee. If the injured employee or his representative does not notify the employer within 30 days from the date of injury, the employer can refuse compensation. A claim must be filed with the NCIC by either the employee or the employer within two years from the date of knowledge thereof; otherwise the claim is barred by law and no further compensation is allowable. When an employee is injured, the employer's primary responsibility is to arrange for and provide the necessary treatment for any work-related injury. The employer tries to provide the best possible medical care for injured employees to help them reach maximum medical improvement and return to work as soon as possible.

The State and its component units are self-insured for workers' compensation. A third-party administrator handles workers' compensation claims. State agencies and participating component units contribute to a fund administered by the Office of the State Controller to cover their workers' compensation claims. This fund is reported in the general fund. The third party administrator receives a per case administration fee and draws down state funds to make medical and indemnity payments on behalf of the State in accordance with the North Carolina Workers' Compensation Act. The Department of Public Instruction administers the Program for the State funded LEA employees through the same third party administrator.

Each state agency and participating component unit is billed for claims and an administrative fee paid to the third party administrator. Budgets for workers' compensation for most state agencies and participating component units are based on the prior year's loss experience. The workers' compensation liability is recognized when it is probable and reasonably estimated. This liability is presented as a component of the Governmental Activities Long-Term Liabilities.

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

	Beginning of Fiscal Year Liability	Current-Year Claims and Changes in Estimates	Claim Payments	Balance at Fiscal Year-End
2013-14	\$ 150,251	\$ 90,927	\$ (63,464)	\$ 177,714
2014-15	177,714	90,929	(66,480)	202,163

**6. Workers' Compensation Fund**

The Workers' Compensation Fund (the Fund) is an insurance enterprise reported within the enterprise funds. The Fund is created in the Department of Insurance (the Department) and is administered by the State Fire and Rescue Commission (the Commission) through a service contract with a third-party administrator. In accordance with Chapter 58, Article 87, of the General Statutes, the purpose of the Workers' Compensation Fund is to provide workers' compensation benefits to members of "eligible units," which consist of volunteer fire departments or volunteer rescue/EMS units that are not part of a unit of local government and are exempt from state income tax under General Statute 105-130.11. These eligible units are not part of the reporting entity. Benefits are payable for compensable injuries or deaths which occurred on or after July 1, 1996. The Fund is financed by transfers from General Fund and by per capita fixed dollar amounts for each member of a participating eligible unit's roster. The per capita fixed dollar amount is set annually by the Commission and is paid by the eligible units to the Commission on or before July 1 of each year for credit to the Fund. If payment is not received by July 1, the eligible unit shall not receive workers' compensation coverage for that fiscal year. As of June 30, 2015, the Fund consisted of 1,115 eligible units representing approximately 42,492 members.

The liability for unpaid claims is based on an actuarial determination and represents a reasonable estimate of the ultimate cost of open claims and claim settlement expenses that are unpaid as of the fiscal year end, including incurred but not reported losses. The liability for unpaid claims is continually reviewed, and as adjustments become necessary such adjustments are included in current operations. Claim liabilities do not include nonincremental claims adjustment expenses. The Fund considers anticipated investment income in determining if a premium deficiency exists. The Fund recognizes subrogation from third parties as a reduction to claim and claim settlement expenses incurred. As of June 30, 2015, there was no reduction for subrogation.

Acquisition costs consist of commission payments to independent insurance agents for marketing, promotional and administrative assistance with policy maintenance to eligible units. As coverage is renewed annually, acquisition costs are not amortized.

The Fund maintains both specific excess of loss and aggregate reinsurance coverage. The specific excess of loss coverage provides for statutory limits above the Fund's retention of \$500,000 per occurrence and a \$1.5 million limit for employer's liability above the Fund's

**NOTES TO THE FINANCIAL STATEMENTS**

retention of \$500,000 per occurrence. Incurred losses are reduced by estimated amounts recoverable under the Fund's excess of loss and aggregate reinsurance policies. As of June 30, 2015, there are claims recoverable from reinsurers in the amount of \$338 thousand.

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

	Beginning of Fiscal Year Liability	Current-Year Claims and Changes in Estimates	Claim Payments	Balance at Fiscal Year-End
2013-14	\$ 18,581	\$ 10,523	\$ (7,554)	\$ 21,550
2014-15	21,550	7,472	(7,397)	21,625

## 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, 2015 are presented below.

**COMBINING STATEMENT OF FIDUCIARY NET POSITION**

June 30, 2015

*(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
<b>Assets</b>						
Cash and cash equivalents.....	\$ 152,473	\$ 1,056	\$ 267	\$ 1,979	\$ 1,028	\$ 75,211
Investments:						
Collective investment funds.....	—	—	—	—	—	—
Unallocated insurance contracts.....	—	—	—	—	—	—
Synthetic guaranteed investment contracts.....	—	—	—	—	—	—
State Treasurer investment pool.....	64,739,462	535,618	28,171	384,295	109,490	22,925,299
Non-State Treasurer pooled investments.....	—	—	—	—	—	—
Securities lending collateral.....	2,919,070	24,132	1,284	17,395	4,989	1,035,281
Receivables:						
Accounts receivable.....	3,702	1	3	33	10	3,194
Interest receivable.....	177	1	—	1	1	59
Contributions receivable.....	66,493	—	21	—	—	44,094
Due from other funds.....	40,926	1,915	—	—	—	—
Due from component units.....	11,405	—	—	—	—	—
Notes receivable.....	—	—	—	—	—	—
Total Assets.....	<u>67,933,708</u>	<u>562,723</u>	<u>29,746</u>	<u>403,703</u>	<u>115,518</u>	<u>24,083,138</u>
<b>Liabilities</b>						
Accounts payable and accrued liabilities:						
Accounts payable.....	—	—	—	—	—	—
Benefits payable.....	894	1	—	—	—	496
Obligations under securities lending.....	2,919,070	24,132	1,284	17,395	4,989	1,035,281
Funds held for others.....	6,714	56	6	—	—	19
Total Liabilities.....	<u>2,926,678</u>	<u>24,189</u>	<u>1,290</u>	<u>17,395</u>	<u>4,989</u>	<u>1,035,796</u>
<b>Net Position</b>						
Restricted for:						
Pension benefits.....	65,007,030	538,534	28,456	386,308	110,529	23,047,342
Postemployment benefits.....	—	—	—	—	—	—
Other employment benefits.....	—	—	—	—	—	—
Total Net Position.....	<u>\$ 65,007,030</u>	<u>\$ 538,534</u>	<u>\$ 28,456</u>	<u>\$ 386,308</u>	<u>\$ 110,529</u>	<u>\$ 23,047,342</u>

## NOTES TO THE FINANCIAL STATEMENTS

401(k) Supplemental Retirement Income Plan	457 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
\$ —	\$ —	\$ 4,485	\$ 144,514	\$ 3,572	\$ 911	\$ 135	\$ 385,631
194,345	34,062	—	—	—	—	—	228,407
628,871	133,348	—	—	—	—	—	762,219
1,082,102	226,669	—	—	—	—	—	1,308,771
—	—	394,158	853,416	398,980	—	46,790	90,415,679
5,932,825	753,311	—	—	—	—	—	6,686,136
—	—	38,394	48,263	38,790	62	4,530	4,132,190
266	43	—	—	23,540	—	—	30,792
—	—	5	63	3	1	—	311
5,478	413	722	30,050	2,240	—	68	149,579
—	—	433	15,167	1,109	—	—	59,550
—	—	121	6,802	508	—	—	18,836
285,875	18,413	—	—	—	—	—	304,288
<u>8,129,762</u>	<u>1,166,259</u>	<u>438,318</u>	<u>1,098,275</u>	<u>468,742</u>	<u>974</u>	<u>51,523</u>	<u>104,482,389</u>
1,130	352	100	—	—	—	—	1,582
—	—	2,560	—	302	—	—	4,253
—	—	38,394	48,263	38,790	62	4,529	4,132,189
—	—	—	—	181	—	—	6,976
<u>1,130</u>	<u>352</u>	<u>41,054</u>	<u>48,263</u>	<u>39,273</u>	<u>62</u>	<u>4,529</u>	<u>4,145,000</u>
8,128,632	—	—	—	—	912	46,994	97,294,737
—	—	—	1,050,012	429,469	—	—	1,479,481
—	1,165,907	397,264	—	—	—	—	1,563,171
<u>\$ 8,128,632</u>	<u>\$ 1,165,907</u>	<u>\$ 397,264</u>	<u>\$ 1,050,012</u>	<u>\$ 429,469</u>	<u>\$ 912</u>	<u>\$ 46,994</u>	<u>\$ 100,337,389</u>

## NOTES TO THE FINANCIAL STATEMENTS

## COMBINING STATEMENT OF CHANGES IN FIDUCIARY NET POSITION

For the Fiscal Year Ended June 30, 2015

*(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
<b>Additions</b>						
Contributions:						
Employer.....	\$ 1,262,988	\$ 18,949	\$ —	\$ —	\$ —	\$ 408,694
Members.....	854,306	6,239	253	2,822	—	363,863
Other contributions.....	—	—	—	13,900	6,039	—
Total contributions.....	<u>2,117,294</u>	<u>25,188</u>	<u>253</u>	<u>16,722</u>	<u>6,039</u>	<u>772,557</u>
Investment Income:						
Investment earnings.....	1,868,454	15,481	817	11,083	3,167	661,726
Less investment expenses.....	(399,830)	(3,305)	(176)	(2,372)	(674)	(141,149)
Net investment income.....	<u>1,468,624</u>	<u>12,176</u>	<u>641</u>	<u>8,711</u>	<u>2,493</u>	<u>520,577</u>
Other additions:						
Fees, licenses and fines.....	—	—	—	—	—	3,218
Interest earnings on loans.....	—	—	—	—	—	—
Miscellaneous.....	394	—	—	5	—	68
Total other additions.....	<u>394</u>	<u>—</u>	<u>—</u>	<u>5</u>	<u>—</u>	<u>3,286</u>
Total additions.....	<u>3,586,312</u>	<u>37,364</u>	<u>894</u>	<u>25,438</u>	<u>8,532</u>	<u>1,296,420</u>
<b>Deductions</b>						
Claims and benefits.....	4,075,030	38,204	2,384	26,463	7,958	1,117,822
Medical insurance premiums.....	—	—	—	—	—	—
Refund of contributions.....	109,380	160	88	450	—	54,756
Administrative expenses.....	10,646	30	17	1,622	75	4,086
Other deductions.....	1	—	—	—	—	—
Total deductions.....	<u>4,195,057</u>	<u>38,394</u>	<u>2,489</u>	<u>28,535</u>	<u>8,033</u>	<u>1,176,664</u>
Change in net position.....	(608,745)	(1,030)	(1,595)	(3,097)	499	119,756
Net position — July 1.....	<u>65,615,775</u>	<u>539,564</u>	<u>30,051</u>	<u>389,405</u>	<u>110,030</u>	<u>22,927,586</u>
Net position — June 30.....	<u>\$ 65,007,030</u>	<u>\$ 538,534</u>	<u>\$ 28,456</u>	<u>\$ 386,308</u>	<u>\$ 110,529</u>	<u>\$ 23,047,342</u>

## NOTES TO THE FINANCIAL STATEMENTS

## COMBINING STATEMENT OF CHANGES IN FIDUCIARY NET POSITION

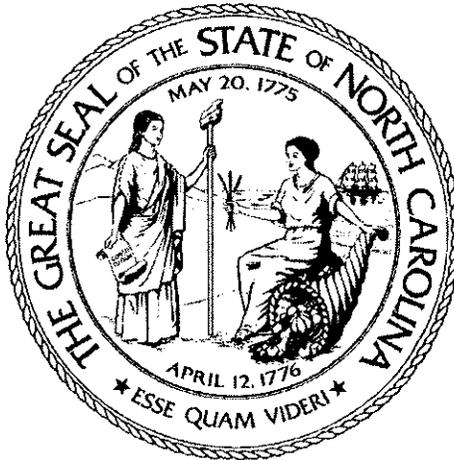
For the Fiscal Year Ended June 30, 2015

*(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
<b>Additions</b>						
Contributions:						
Employer.....	\$ 1,262,988	\$ 18,949	\$ —	\$ —	\$ —	\$ 408,694
Members.....	854,306	6,239	253	2,822	—	363,863
Other contributions.....	—	—	—	13,900	6,039	—
Total contributions.....	2,117,294	25,188	253	16,722	6,039	772,557
Investment Income:						
Investment earnings.....	1,868,454	15,481	817	11,083	3,167	661,726
Less investment expenses.....	(399,830)	(3,305)	(176)	(2,372)	(674)	(141,149)
Net investment income.....	1,468,624	12,176	641	8,711	2,493	520,577
Other additions:						
Fees, licenses and fines.....	—	—	—	—	—	3,218
Interest earnings on loans.....	—	—	—	—	—	—
Miscellaneous.....	394	—	—	5	—	68
Total other additions.....	394	—	—	5	—	3,286
Total additions.....	3,586,312	37,364	894	25,438	8,532	1,296,420
<b>Deductions</b>						
Claims and benefits.....	4,075,030	38,204	2,384	26,463	7,958	1,117,822
Medical insurance premiums.....	—	—	—	—	—	—
Refund of contributions.....	109,380	160	88	450	—	54,756
Administrative expenses.....	10,646	30	17	1,622	75	4,086
Other deductions.....	1	—	—	—	—	—
Total deductions.....	4,195,057	38,394	2,489	28,535	8,033	1,176,664
Change in net position.....	(608,745)	(1,030)	(1,595)	(3,097)	499	119,756
Net position — July 1.....	65,615,775	539,564	30,051	389,405	110,030	22,927,586
Net position — June 30.....	\$ 65,007,030	\$ 538,534	\$ 28,456	\$ 386,308	\$ 110,529	\$ 23,047,342

## NOTES TO THE FINANCIAL STATEMENTS

401(k) Supplemental Retirement Income Plan	457 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
\$ 172,662	\$ 1,029	\$ 22,380	\$ 854,383	\$ 63,267	\$ 894	\$ 802	\$ 2,806,048
295,812	70,651	—	—	—	—	—	1,593,946
—	—	23,798	—	—	—	—	43,737
468,474	71,680	46,178	854,383	63,267	894	802	4,443,731
454,062	61,552	10,035	25,015	9,719	1	1,125	3,122,237
—	—	(94)	(5,256)	(93)	—	(11)	(552,960)
454,062	61,552	9,941	19,759	9,626	1	1,114	2,569,277
—	—	—	—	—	—	—	3,218
11,580	728	—	—	—	—	—	12,308
1,735	239	—	—	—	—	—	2,441
13,315	967	—	—	—	—	—	17,967
935,851	134,199	56,119	874,142	72,893	895	1,916	7,030,975
399,783	61,580	48,719	—	78,977	832	1,715	5,859,467
—	—	10,588	825,337	—	—	—	835,925
—	—	—	—	—	—	—	164,834
2,063	273	375	344	872	90	16	20,509
—	—	6,119	8,531	—	—	—	14,651
401,846	61,853	65,801	834,212	79,849	922	1,731	6,895,386
534,005	72,346	(9,682)	39,930	(6,956)	(27)	185	135,589
7,594,627	1,093,561	406,946	1,010,082	436,425	939	46,809	100,201,800
\$ 8,128,632	\$ 1,165,907	\$ 397,264	\$ 1,050,012	\$ 429,469	\$ 912	\$ 46,994	\$ 100,337,389



## REQUIRED SUPPLEMENTARY INFORMATION PENSION PLANS

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*Required supplementary information for pension plans provides information on the sources of changes in net pension liabilities, information about the components of net pension liabilities, employer contributions, and investment returns.*

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The Required Supplementary Information for Pension Plans includes the following schedules:

Schedule of Changes in the Net Pension Liability and Related Ratios: Cost-Sharing, Multiple-Employer, Defined Benefit Pension Plans

Schedule of Changes in the Net Pension Liability and Related Ratios: Single-Employer, Defined Benefit Pension Plans

Schedule of Employer and Nonemployer Contributions: Cost-Sharing, Multiple-Employer, Defined Benefit Pension Plans

Schedule of Employer and Nonemployer Contributions: Single-Employer, Defined Benefit Pension Plans

Schedule of Investment Returns: All Defined Benefit Pension Trust Funds

Notes to Required Supplementary Information: Schedule of Employer Contributions

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

Last Two Fiscal Years

(Dollars in Thousands)

	<u>2015</u>	<u>2014</u>
<b>Teachers' and State Employees'</b>		
<b>Total pension liability</b>		
Service Cost	\$ 1,562,846	\$ 1,556,027
Interest	4,803,766	4,648,995
Changes of benefit terms	-	355,224
Differences between expected and actual experience	(278,170)	(345,392)
Benefit payments, including refunds of member contributions	(4,184,410)	(3,989,397)
<b>Net change in total pension liability</b>	<u>1,904,032</u>	<u>2,225,457</u>
<b>Total pension liability - beginning</b>	66,788,196	64,562,739
<b>Total pension liability - ending (a)</b>	<u>\$ 68,692,228</u>	<u>\$ 66,788,196</u>
<b>Plan fiduciary net position</b>		
Contributions-employer	\$ 1,262,988	\$ 1,177,341
Contributions-member	854,306	825,548
Net investment income	1,468,624	9,121,005
Benefit payments, including refunds of member contributions	(4,184,410)	(3,989,397)
Administrative expense	(10,646)	(10,762)
Other	393	320
<b>Net change in plan fiduciary net position</b>	<u>(608,745)</u>	<u>7,124,055</u>
<b>Plan fiduciary net position - beginning</b>	65,615,775	58,491,720
<b>Plan fiduciary net position - ending (b)</b>	<u>\$ 65,007,030</u>	<u>\$ 65,615,775</u>
<b>TSERS's net pension liability - ending (a) - (b)</b>	<u>\$ 3,685,198</u>	<u>\$ 1,172,421</u>
<b>Plan fiduciary net position as a percentage of the total pension liability</b>	94.64%	98.24%
<b>Covered-employee payroll</b>	\$ 13,803,148	\$ 13,548,227
<b>Net pension liability as a percentage of covered-employee payroll</b>	26.70%	8.65%
<b>Local Governmental Employees'</b>		
<b>Total pension liability</b>		
Service Cost	\$ 670,936	\$ 654,735
Interest	1,628,373	1,555,958
Changes of benefit terms	65,914	(7,790)
Differences between expected and actual experience	(72,177)	(80,590)
Benefit payments, including refunds of member contributions	(1,172,578)	(1,106,799)
<b>Net change in total pension liability</b>	<u>1,120,468</u>	<u>1,015,514</u>
<b>Total pension liability - beginning</b>	22,375,668	21,360,154
<b>Total pension liability - ending (a)</b>	<u>\$ 23,496,136</u>	<u>\$ 22,375,668</u>
<b>Plan fiduciary net position</b>		
Contributions-employer	\$ 408,694	\$ 413,175
Contributions-member	363,863	346,961
Net investment income	520,578	3,161,964
Benefit payments, including refunds of member contributions	(1,172,578)	(1,106,799)
Administrative expense	(4,086)	(3,974)
Other	3,285	3,297
<b>Net change in plan fiduciary net position</b>	<u>119,756</u>	<u>2,814,624</u>
<b>Plan fiduciary net position - beginning</b>	22,927,586	20,112,962
<b>Plan fiduciary net position - ending (b)</b>	<u>\$ 23,047,342</u>	<u>\$ 22,927,586</u>
<b>LGERS's net pension liability (asset) - ending (a) - (b)</b>	<u>\$ 448,794</u>	<u>\$ (551,918)</u>
<b>Plan fiduciary net position as a percentage of the total pension liability</b>	98.09%	102.47%
<b>Covered-employee payroll</b>	\$ 5,650,694	\$ 5,553,383
<b>Net pension liability (asset) as a percentage of covered-employee payroll</b>	7.94%	(9.94%)

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

Last Two Fiscal Years

*(Dollars in Thousands)*

	<u>2015</u>	<u>2014</u>
<b>Firefighters' and Rescue Squad Workers'</b>		
<b>Total pension liability</b>		
Service Cost	\$ 5,884	\$ 5,710
Interest	29,671	29,394
Changes of benefit terms	-	8,770
Differences between expected and actual experience	(2,799)	2,714
Changes of assumptions	-	(16,688)
Benefit payments, including refunds of member contributions	(26,912)	(25,614)
<b>Net change in total pension liability</b>	<u>5,844</u>	<u>4,286</u>
<b>Total pension liability - beginning</b>	<u>416,823</u>	<u>412,537</u>
<b>Total pension liability - ending (a)</b>	<u>\$ 422,667</u>	<u>\$ 416,823</u>
<b>Plan fiduciary net position</b>		
Contributions-member	\$ 2,822	\$ 2,781
Contributions-nonemployer	13,900	14,627
Net investment income	8,711	53,842
Benefit payments, including refunds of member contributions	(26,912)	(25,614)
Administrative expense	(1,622)	(1,045)
Other	4	2
<b>Net change in plan fiduciary net position</b>	<u>(3,097)</u>	<u>44,593</u>
<b>Plan fiduciary net position - beginning</b>	<u>389,405</u>	<u>344,812</u>
<b>Plan fiduciary net position - ending (b)</b>	<u>\$ 386,308</u>	<u>\$ 389,405</u>
<b>FRSWPF's's net pension liability - ending (a) - (b)</b>	<u>\$ 36,359</u>	<u>\$ 27,418</u>
<b>Plan fiduciary net position as a percentage of the total pension liability</b>	91.40%	93.42%
<b>Covered-employee payroll</b>	N/A	N/A
<b>Net pension liability as a percentage of covered-employee payroll</b>	N/A	N/A
<b>Registers of Deeds'</b>		
<b>Total pension liability</b>		
Service Cost	\$ 578	\$ 563
Interest	1,372	1,342
Differences between expected and actual experience	(558)	302
Benefit payments, including refunds of member contributions	(1,715)	(1,666)
<b>Net change in total pension liability</b>	<u>(323)</u>	<u>541</u>
<b>Total pension liability - beginning</b>	<u>24,143</u>	<u>23,602</u>
<b>Total pension liability - ending (a)</b>	<u>\$ 23,820</u>	<u>\$ 24,143</u>
<b>Plan fiduciary net position</b>		
Contributions-employer	\$ 802	\$ 817
Net investment income	1,114	2,714
Benefit payments, including refunds of member contributions	(1,715)	(1,666)
Administrative expense	(16)	(18)
<b>Net change in plan fiduciary net position</b>	<u>185</u>	<u>1,847</u>
<b>Plan fiduciary net position - beginning</b>	<u>46,809</u>	<u>44,962</u>
<b>Plan fiduciary net position - ending (b)</b>	<u>\$ 46,994</u>	<u>\$ 46,809</u>
<b>RODSPF's net pension asset - ending (a) - (b)</b>	<u>\$ (23,174)</u>	<u>\$ (22,666)</u>
<b>Plan fiduciary net position as a percentage of the total pension liability</b>	197.29%	193.88%
<b>Covered-employee payroll</b>	N/A	N/A
<b>Net pension asset as a percentage of covered-employee payroll</b>	N/A	N/A

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

Last Two Fiscal Years

*(Dollars in Thousands)*

	<u>2015</u>	<u>2014</u>
<b>Consolidated</b>		
<b>Judicial</b>		
<b>Total pension liability</b>		
Service Cost	\$ 16,812	\$ 16,637
Interest	40,846	39,405
Changes of benefit terms	-	3,031
Differences between expected and actual experience	(2,289)	(2,484)
Benefit payments, including refunds of member contributions	(38,364)	(35,428)
<b>Net change in total pension liability</b>	<u>17,005</u>	<u>21,161</u>
<b>Total pension liability - beginning</b>	<u>565,761</u>	<u>544,600</u>
<b>Total pension liability - ending (a)</b>	<u>\$ 582,766</u>	<u>\$ 565,761</u>
<b>Plan fiduciary net position</b>		
Contributions-employer	\$ 18,949	\$ 21,390
Contributions-member	6,238	5,598
Net investment income	12,176	74,294
Benefit payments, including refunds of member contributions	(38,364)	(35,428)
Administrative expense	(30)	(48)
Other	1	3
<b>Net change in plan fiduciary net position</b>	<u>(1,030)</u>	<u>65,809</u>
<b>Plan fiduciary net position - beginning</b>	<u>539,564</u>	<u>473,755</u>
<b>Plan fiduciary net position - ending (b)</b>	<u>\$ 538,534</u>	<u>\$ 539,564</u>
<b>CJRS's net pension liability - ending (a) - (b)</b>	<u>\$ 44,232</u>	<u>\$ 26,197</u>
<b>Plan fiduciary net position as a percentage of the total pension liability</b>	92.41%	95.37%
<b>Covered-employee payroll</b>	\$ 69,638	\$ 76,367
<b>Net pension liability as a percentage of covered-employee payroll</b>	63.52%	34.30%
<b>Legislative</b>		
<b>Total pension liability</b>		
Service Cost	\$ 844	\$ 747
Interest	1,742	1,678
Changes of benefit terms	-	146
Differences between expected and actual experience	(579)	762
Benefit payments, including refunds of member contributions	(2,473)	(2,614)
<b>Net change in total pension liability</b>	<u>(466)</u>	<u>719</u>
<b>Total pension liability - beginning</b>	<u>24,418</u>	<u>23,699</u>
<b>Total pension liability - ending (a)</b>	<u>\$ 23,952</u>	<u>\$ 24,418</u>
<b>Plan fiduciary net position</b>		
Contributions-member	\$ 253	\$ 253
Net investment income	642	4,293
Benefit payments, including refunds of member contributions	(2,473)	(2,614)
Administrative expense	(17)	(37)
<b>Net change in plan fiduciary net position</b>	<u>(1,595)</u>	<u>1,895</u>
<b>Plan fiduciary net position - beginning</b>	<u>30,051</u>	<u>28,156</u>
<b>Plan fiduciary net position - ending (b)</b>	<u>\$ 28,456</u>	<u>\$ 30,051</u>
<b>LRS's net pension asset - ending (a) - (b)</b>	<u>\$ (4,504)</u>	<u>\$ (5,633)</u>
<b>Plan fiduciary net position as a percentage of the total pension liability</b>	118.80%	123.07%
<b>Covered-employee payroll</b>	\$ 3,611	\$ 3,608
<b>Net pension asset as a percentage of covered-employee payroll</b>	(124.73%)	(156.13%)

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

Last Two Fiscal Years

*(Dollars in Thousands)*

	<u>2015</u>	<u>2014</u>
<b>North Carolina</b>		
<b>National Guard</b>		
<b>Total pension liability</b>		
Service Cost	\$ 550	\$ 512
Interest	9,916	9,330
Changes of benefit terms	8,734	5,752
Differences between expected and actual experience	(198)	192
Benefit payments, including refunds of member contributions	(7,958)	(7,502)
<b>Net change in total pension liability</b>	<u>11,044</u>	<u>8,284</u>
<b>Total pension liability - beginning</b>	140,206	131,922
<b>Total pension liability - ending (a)</b>	<u>\$ 151,250</u>	<u>\$ 140,206</u>
<b>Plan fiduciary net position</b>		
Contributions-nonemployer	\$ 6,039	\$ 7,007
Net investment income	2,493	14,942
Benefit payments, including refunds of member contributions	(7,958)	(7,502)
Administrative expense	(75)	(73)
Other	-	1
<b>Net change in plan fiduciary net position</b>	<u>499</u>	<u>14,375</u>
<b>Plan fiduciary net position - beginning</b>	110,030	95,655
<b>Plan fiduciary net position - ending (b)</b>	<u>\$ 110,529</u>	<u>\$ 110,030</u>
<b>NGPF's net pension liability - ending (a) - (b)</b>	<u>\$ 40,721</u>	<u>\$ 30,176</u>
<b>Plan fiduciary net position as a percentage of the total pension liability</b>	73.08%	78.48%
<b>Covered-employee payroll</b>	N/A	N/A
<b>Net pension liability as a percentage of covered-employee payroll</b>	N/A	N/A

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

Last Ten Fiscal Years

*(Dollars in Thousands)*

<b>Teachers' and State Employees'</b>	<b>2015</b>	<b>2014</b>	<b>2013</b>	<b>2012</b>	<b>2011</b>
Actuarially determined contribution	\$ 1,262,988	\$ 1,177,341	\$ 1,078,783	\$ 1,015,762	\$ 926,429
Contractually required contribution	1,262,988	1,177,341	1,120,482	1,015,762	680,670
Contributions in relation to the actuarially determined contribution	1,262,988	1,177,341	1,120,482	1,015,762	680,670
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (41,699)</u>	<u>\$ -</u>	<u>\$ 245,759</u>
Covered-employee payroll	\$ 13,803,148	\$ 13,548,227	\$ 13,451,164	\$ 13,652,715	\$ 13,806,691
Contributions as a percentage of covered-employee payroll	9.15%	8.69%	8.33%	7.44%	4.93%
<b>Local Governmental Employees'</b>					
Actuarially determined contribution	\$ 402,429	\$ 397,462	\$ 370,152	\$ 376,340	\$ 342,910
Contractually required contribution	408,694	413,175	383,889	389,399	361,998
Contributions in relation to the actuarially determined contribution	408,694	413,175	383,889	389,399	361,998
Contribution excess	<u>\$ (6,265)</u>	<u>\$ (15,713)</u>	<u>\$ (13,737)</u>	<u>\$ (13,059)</u>	<u>\$ (19,088)</u>
Covered-employee payroll	\$ 5,650,694	\$ 5,553,383	\$ 5,421,364	\$ 5,402,147	\$ 5,329,651
Contributions as a percentage of covered-employee payroll	7.23%	7.44%	7.08%	7.21%	6.79%
<b>Firefighters' and Rescue Squad Workers' *</b>					
Actuarially determined contribution	\$ 13,900	\$ 14,620	\$ 14,074	\$ 14,389	\$ 12,243
Contractually required contribution	13,900	14,627	15,447	14,398	10,110
Contributions in relation to the actuarially determined contribution	13,900	14,627	15,447	14,398	10,110
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ (7)</u>	<u>\$ (1,373)</u>	<u>\$ (9)</u>	<u>\$ 2,133</u>
Covered-employee 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
<b>Registers of Deeds'</b>					
Actuarially determined contribution	\$ -	\$ -	\$ -	\$ -	\$ -
Contractually required contribution	802	817	937	843	772
Contributions in relation to the actuarially determined contribution	802	817	937	843	772
Contribution excess	<u>\$ (802)</u>	<u>\$ (817)</u>	<u>\$ (937)</u>	<u>\$ (843)</u>	<u>\$ (772)</u>
Covered-employee 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

\* Nonemployer contributing entity

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

<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>
\$ 492,779	\$ 492,689	\$ 429,064	\$ 341,476	\$ 315,225
492,779	492,689	468,669	371,476	315,225
492,779	492,689	468,669	371,476	315,225
<u>\$ -</u>	<u>\$ -</u>	<u>\$ (39,605)</u>	<u>\$ (30,000)</u>	<u>\$ -</u>
\$ 13,803,324	\$ 14,663,363	\$ 13,976,026	\$ 14,592,991	\$ 13,471,154
3.57%	3.36%	3.35%	2.55%	2.34%

\$ 230,121	\$ 257,982	\$ 241,533	\$ 225,950	\$ 209,453
273,337	271,363	256,612	241,094	229,399
273,337	271,363	256,612	241,094	229,399
<u>\$ (43,216)</u>	<u>\$ (13,381)</u>	<u>\$ (15,079)</u>	<u>\$ (15,144)</u>	<u>\$ (19,946)</u>
\$ 5,320,927	\$ 5,284,862	\$ 4,948,042	\$ 4,693,423	\$ 4,484,358
5.14%	5.13%	5.19%	5.14%	5.12%

\$ 10,074	\$ 9,757	\$ 8,734	\$ 8,440	\$ 7,926
10,080	9,762	8,734	8,440	7,926
10,080	9,762	8,734	8,440	7,926
<u>\$ (6)</u>	<u>\$ (5)</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

\$ -	\$ -	\$ -	\$ -	\$ -
736	754	926	3,150	3,219
736	754	926	3,150	3,219
<u>\$ (736)</u>	<u>\$ (754)</u>	<u>\$ (926)</u>	<u>\$ (3,150)</u>	<u>\$ (3,219)</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 EMPLOYER AND NONEMPLOYER CONTRIBUTIONS**  
**SINGLE-EMPLOYER, DEFINED BENEFIT PENSION PLANS**

Last Ten Fiscal Years

*(Dollars in Thousands)*

<b>Consolidated Judicial</b>	<b>2015</b>	<b>2014</b>	<b>2013</b>	<b>2012</b>	<b>2011</b>
Actuarially determined contribution	\$ 18,949	\$ 21,390	\$ 18,992	\$ 18,956	\$ 13,322
Contractually required contribution	18,949	21,390	18,992	18,956	10,457
Contributions in relation to the actuarially determined contribution	18,949	21,390	18,992	18,956	10,457
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,865</u>
Covered-employee payroll	\$ 69,638	\$ 76,367	\$ 71,533	\$ 75,673	\$ 69,206
Contributions as a percentage of covered-employee payroll	27.21%	28.01%	26.55%	25.05%	15.11%
<b>Legislative</b>					
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-employee payroll	\$ 3,611	\$ 3,608	\$ 3,600	\$ 3,314	\$ 4,029
Contributions as a percentage of covered-employee payroll	0.00%	0.00%	0.00%	0.00%	0.00%
<b>North Carolina National Guard *</b>					
Actuarially determined contribution	\$ 6,039	\$ 5,349	\$ 5,667	\$ 6,075	\$ 5,719
Contractually required contribution	6,039	7,007	7,007	7,007	7,007
Contributions in relation to the actuarially determined contribution	6,039	7,007	7,007	7,007	7,007
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ (1,658)</u>	<u>\$ (1,340)</u>	<u>\$ (932)</u>	<u>\$ (1,288)</u>
Covered-employee 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

\* Nonemployer contributing entity

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

2010	2009	2008	2007	2006
\$ 10,740	\$ 10,017	\$ 8,214	\$ 7,300	\$ 6,695
10,740	10,603	40,844	8,090	6,989
10,740	10,603	10,844	8,090	6,989
<u>\$ -</u>	<u>\$ (586)</u>	<u>\$ (2,630)</u>	<u>\$ (790)</u>	<u>\$ (294)</u>
\$ 71,079	\$ 80,265	\$ 64,678	\$ 64,257	\$ 55,512
15.11%	13.21%	16.77%	12.59%	12.59%

\$ -	\$ -	\$ -	\$ -	\$ -
-	-	209	-	-
-	-	209	-	-
<u>\$ -</u>	<u>\$ -</u>	<u>\$ (209)</u>	<u>\$ -</u>	<u>\$ -</u>
\$ 3,657	\$ 3,686	\$ 3,614	\$ 3,714	\$ 3,657
0.00%	0.00%	5.78%	0.00%	0.00%

\$ 5,682	\$ 6,248	\$ 6,232	\$ 7,324	\$ 5,944
7,008	5,892	7,007	7,007	6,042
7,008	5,892	7,007	7,007	6,042
<u>\$ (1,326)</u>	<u>\$ 356</u>	<u>\$ (775)</u>	<u>\$ 317</u>	<u>\$ (98)</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**  
Last Two Fiscal Years

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<b>Annual money-weighted rate of return, net of investment expense</b>	<b>2015</b>	<b>2014</b>
<b><i>Cost-Sharing, Multiple Employer</i></b>		
Teachers' and State Employees'	2.27%	15.88%
Local Governmental Employees'	2.27%	15.86%
Firefighters' and Rescue Squad Workers'	2.26%	15.62%
Registers of Deeds'	2.26%	6.04%
<b><i>Single-Employer</i></b>		
Consolidated Judicial	2.27%	15.87%
Legislative	2.25%	15.91%
North Carolina National Guard	2.25%	15.63%

## NOTES TO REQUIRED SUPPLEMENTARY INFORMATION SCHEDULE OF EMPLOYER CONTRIBUTIONS

For the Fiscal Year Ended June 30, 2015

*Changes of benefit terms.*

	<u>Cost of Living Increase</u>									
	<u>2014</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>
<b><u>Cost-Sharing, Multiple-Employer</u></b>										
Teachers' and State Employees'	N/A	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	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	N/A
Registers of Deeds'	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
<b><u>Single-Employer</u></b>										
Consolidated										
Judicial	N/A	1.00%	N/A	N/A	N/A	2.20%	2.20%	3.00%	2.00%	1.70%
Legislative	N/A	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	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. In 2015, basic benefits were increased from \$95 to \$99 and total potential benefits were increased from \$190 to \$198.

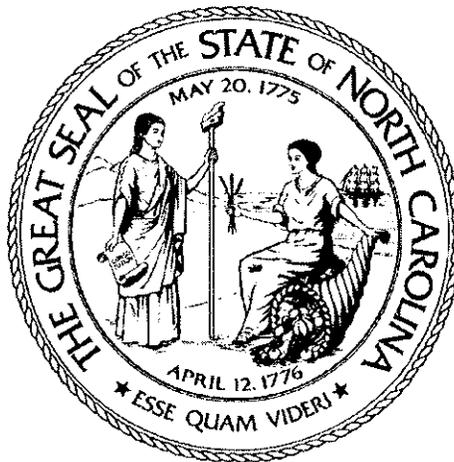
N/A - not applicable

*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.

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## REQUIRED SUPPLEMENTARY INFORMATION PENSIONS — EMPLOYERS (PRIMARY GOVERNMENT AND COMPONENT UNITS)

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*Required supplementary information for employers provides information on the allocations of net pension liabilities and employer contributions.*

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The Required Supplementary Information for Employers includes the following schedules:

- Schedule of the Primary Government's and Component Units' Proportionate Share of the Net Pension Liability
- Schedule of the Primary Government's (Nonemployer) Proportionate Share of the Net Pension Liability
- Schedule of the Primary Government and Component Units Contributions: Cost-Sharing, Multiple-Employer, Defined Benefit Pension Plans

*Note: For information about the net pension liability of Consolidated Judicial and Legislative (single employer plans) and the primary government's contributions to Consolidated Judicial, Legislative, Firefighters' and Rescue Squad Workers', and North Carolina National Guard, refer to the preceding section on required supplementary information for pension plans. Firefighters' and Rescue Squad Workers' and the North Carolina National Guard are special funding situations in which the State is not the employer but is the only contributing entity. The net pension liabilities of pension plans were measured as of June 30, 2015. The net pension liabilities of employers were measured as of June 30, 2014.*

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**REQUIRED SUPPLEMENTARY INFORMATION  
SCHEDULE OF THE PRIMARY GOVERNMENT'S AND COMPONENT UNITS'  
PROPORTIONATE SHARE OF THE NET PENSION LIABILITY**

Last Two Fiscal Years\*

(Dollars in Thousands)

**Cost-Sharing, Multiple-Employer, Defined Benefit Pension Plans**

<b>Teachers' and State Employees'</b>	<u>2015</u>	<u>2014</u>
<b>Primary Government</b>		
Proportion of the net pension liability	22.78%	22.95%
Proportionate share of the net pension liability	\$ 267,119	\$ 1,393,385
Covered-employee payroll	\$ 3,255,443	\$ 3,203,001
Proportionate share of the net pension liability as a percentage of covered-employee payroll	8.21%	43.50%
<b>Component Units</b>		
<b>University of North Carolina System</b>		
Proportion of the net pension liability	14.79%	14.48%
Proportionate share of the net pension liability	\$ 173,441	\$ 878,936
Covered-employee payroll	\$ 2,089,885	\$ 1,987,497
Proportionate share of the net pension liability as a percentage of covered-employee payroll	8.30%	44.22%
<b>Community Colleges</b>		
Proportion of the net pension liability	5.87%	5.80%
Proportionate share of the net pension liability	\$ 68,803	\$ 352,004
Covered-employee payroll	\$ 853,383	\$ 1,165,333
Proportionate share of the net pension liability as a percentage of covered-employee payroll	8.06%	30.21%
<b>Other Component Units</b>		
Proportion of the net pension liability	0.17%	0.17%
Proportionate share of the net pension liability	\$ 2,049	\$ 10,605
Covered-employee payroll	\$ 25,673	\$ 39,228
Proportionate share of the net pension liability as a percentage of covered-employee payroll	7.98%	27.03%
Plan fiduciary net position as a percentage of the total pension liability	98.24%	90.60%

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

**REQUIRED SUPPLEMENTARY INFORMATION  
SCHEDULE OF THE PRIMARY GOVERNMENT'S (NONEMPLOYER)  
PROPORTIONATE SHARE OF THE NET PENSION LIABILITY**

Last Two Fiscal Years\*

(Dollars in Thousands)

**Cost-Sharing, Multiple-Employer, Defined Benefit Pension Plans**

<b>Firefighters' and Rescue Squad Workers'</b>	<u>2015</u>	<u>2014</u>
<b>Primary Government</b>		
Proportion of the net pension liability	100.00%	100.00%
Proportionate share of the net pension liability	\$ 27,418	\$ 67,725
Plan fiduciary net position as a percentage of the total pension liability	93.42%	83.58%

**Single-Employer, Defined Benefit Pension Plans**

**North Carolina  
National Guard**

<b>Primary Government</b>		
Proportion of the net pension liability	100.00%	100.00%
Proportionate share of the net pension liability	\$ 30,176	\$ 36,267
Plan fiduciary net position as a percentage of the total pension liability	78.48%	72.51%

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

**REQUIRED SUPPLEMENTARY INFORMATION  
 SCHEDULE OF THE PRIMARY GOVERNMENT AND COMPONENT UNITS CONTRIBUTIONS  
 COST-SHARING, MULTIPLE-EMPLOYER, DEFINED BENEFIT PENSION PLANS**

Last Two Fiscal Years

*(Dollars in Thousands)*

<b>Teachers' and State Employees'</b>	<u>2015</u>	<u>2014</u>
<b>Primary Government</b>		
Contractually required contribution	\$ 320,093	\$ 282,898
Contributions in relation to the contractually required contribution	320,093	282,898
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
Covered-employee payroll	\$ 3,498,284	\$ 3,255,443
Contributions as a percentage of covered-employee payroll	9.15%	8.69%
<b>Component Units</b>		
<b>University of North Carolina System</b>		
Contractually required contribution	\$ 187,863	\$ 181,611
Contributions in relation to the contractually required contribution	187,863	181,611
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
Covered-employee payroll	\$ 2,053,148	\$ 2,089,885
Contributions as a percentage of covered-employee payroll	9.15%	8.69%
<b>Community Colleges</b>		
Contractually required contribution	\$ 78,840	\$ 74,159
Contributions in relation to the contractually required contribution	78,840	74,159
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
Covered Payroll	\$ 861,639	\$ 853,383
Contributions as a percentage of covered-employee payroll	9.15%	8.69%
<b>Other Component Units</b>		
Contractually required contribution	\$ 2,340	\$ 2,231
Contributions in relation to the contractually required contribution	2,340	2,231
Contribution excess	<u>\$ -</u>	<u>\$ -</u>
Covered Payroll	\$ 25,574	\$ 25,673
Contributions as a percentage of covered-employee payroll	9.15%	8.69%