



# NORTH CAROLINA DEPARTMENT OF STATE TREASURER

THE STATE TREASURER'S ANNUAL REPORT  
TO THE PEOPLE OF NORTH CAROLINA

STATE TREASURER JANET COWELL



FISCAL YEAR

# 2010-2011



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Dear Fellow Citizens,

I am pleased to provide you with the 2010-2011 Annual Report, which summarizes key activities and outcomes for the Department of State Treasurer.

This past year has represented the culmination of much of the due diligence and planning that has taken place in the Department since I took office in January 2009. At that time, we began work establishing our key goals, which included protecting the pension fund, maintaining the state's AAA credit rating, promoting ethics and accountability, advancing financial literacy throughout the state, and improving operational efficiency.

This year, we are seeing the fulfillment of many of our essential goals. During the 2011 legislative session, the Department succeeded in getting legislation passed that allows additional investment flexibility in the pension portfolio for maximizing returns and minimizing risk. Despite the slow economic recovery, the pension fund returned over 18 percent for the 2010-2011 fiscal year.

Thanks to our conservative debt management and strong oversight of state agencies and local governments, the state maintained its AAA rating from all three major credit rating agencies.

Another of our central goals is to ensure that North Carolina citizens of all ages have the tools and resources they need to make sound financial decisions. To that end, the Department partnered with the N.C. Department of Public Instruction to integrate financial literacy education into the K-12 social studies curriculum at North Carolina's public schools beginning in the 2012-2013 school year.

I recognize the tremendous responsibility vested in me as State Treasurer, and I am grateful for the trust you have placed in me. I am also grateful to the professional staff within the Department of State Treasurer, as well as the financial and other expert partners who help the Department achieve solid results for the benefit of North Carolina's citizens.

Thank you for your interest in the Department of State Treasurer and for taking time to read our Annual Report. I look forward to continuing to work with you in the coming years to serve the state's citizens and build and maintain a fiscally sound and prosperous North Carolina.

Sincerely,

Janet Cowell  
*North Carolina State Treasurer*



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North Carolina State Bird, Cardinal

# NORTH CAROLINA STATE TREASURER'S ANNUAL REPORT INTRODUCTION



NORTH CAROLINA  
STATE TREASURER'S  
ANNUAL REPORT



The vision of the Department of State Treasurer is to create and maintain a fiscally sound and prosperous North Carolina. We work to achieve this goal by providing outstanding customer service and by taking utmost care in overseeing the finances of the State. By striving for excellence in our day-to-day work at the Department, we hope to provide value to, and instill confidence in, the state's citizens, customers, and financial community.

KEY RESPONSIBILITIES	DIVISION WITH THE DEPARTMENT OF STATE TREASURER
ACT AS FISCAL ADVISOR TO THE STATE AND LOCAL GOVERNMENTS	ALL DIVISIONS
ADMINISTER RETIREMENT PLANS AND OTHER BENEFIT PROGRAMS FOR PUBLIC EMPLOYEES	RETIREMENT SYSTEMS DIVISION (RSD)
INVEST AND OVERSEE SHORT-TERM FUNDS FOR GOVERNMENT ENTITIES AND LONG-TERM FUNDS PRIMARILY FOR THE PENSION FUND	INVESTMENT MANAGEMENT DIVISION (IMD)
OVERSEE LOCAL GOVERNMENT FINANCE, MANAGE STATE AND LOCAL DEBT ISSUANCE, AND INTERFACE WITH BOND RATING AGENCIES	LOCAL GOVERNMENT COMMISSION (LGC)
OPERATE THE STATE BANK AND PROVIDE INTERNAL ACCOUNTING AND FINANCIAL REPORTING	FINANCIAL OPERATIONS DIVISION (FOD)
MANAGE UNCLAIMED PROPERTY PROGRAM	UNCLAIMED PROPERTY DIVISION (UPP)



At the heart of the Department's work are its core values, which are implemented consistently at all levels and across all Divisions. These include: maintaining a high level of integrity and ethics, promoting trust and accountability by conducting all work in an open and transparent manner, recruiting employees with the highest levels of expertise, providing superior customer service, encouraging diverse ideas and perspectives, and keeping a long-term view.

In the interest of promoting these core values, the Department identified its highest priorities and outlined detailed plans for their achievement. The Department has taken decisive steps toward accomplishing these goals during the last several years. During the 2010-2011 fiscal year, many of these key goals are coming to fruition.

- Protecting the Pension Fund
- Maintaining the State's AAA Bond Rating
- Ensuring Transparency, Ethics, and Accountability
- Increasing Customer Service
- Increasing Operational Efficiencies and Improving Risk Management
- Contributing to State Innovation and Economic Development
- Advancing Financial Literacy across North Carolina

## PROTECTING THE PENSION FUND

One of the primary responsibilities of the Department of State Treasurer is to provide a safe and secure retirement for North Carolina's 850,000 public employees, including teachers, police officers, firefighters, and public servants from all over the state. These individuals rely on the integrity, knowledge, and judgment of the Department of State Treasurer.

The North Carolina Pension Fund is invested for the long term, and conservatively managed to protect the full funding status. This keeps our state prepared to pay out obligatory pension benefits.

Below are a few of the initiatives undertaken during the fiscal year to help ensure a secure retirement for state employees.

- The Future of Retirement Study Commission, a diverse group of citizens and experts dedicated to evaluating retirement benefits for North Carolina state and local government employees, presented its recommendations to the Boards of Trustees of the Retirement Systems. The Boards of Trustees, in turn, voted to pass along to the General Assembly recommendations regarding automatic enrollment of future employees into supplemental savings plans, a study of the consolidation of administration of 403(b) plans offered by local school systems, and changes in the way interest is calculated on employee contributions.
- Hired the systems' first director of risk management in the Department's Investment Management Division.
- Gained investment flexibility during the 2010-2011 legislative session to make investments in hedged equity strategies within the public equity portfolio, increase the percentage of investments permitted in the "alternatives" category, and internally manage public equity portfolios designed to replicate nationally recognized benchmark indices. This additional investment flexibility allows the plan to improve its risk and return profile while continuing to diversify assets, while the ability to manage global equity internally has the potential to provide cost savings.
- Assets in the North Carolina Pension Fund were valued at \$74.9 billion as of June 30, 2011, up from \$65.3 billion as of June 30, 2010.



## MAINTAINING THE STATE'S AAA BOND RATING

A triple-A bond rating indicates that North Carolina has followed well-defined financial management policies and demonstrated strong debt management practices. Standard and Poor's, Moody's Investors Service, and Fitch Ratings – three primary bond rating agencies – all reaffirmed the "AAA" rating for North Carolina in the 2010–2011 fiscal year. North Carolina remains one of only seven states to enjoy top-tier rankings from all three of the rating agencies.

While maintaining this strong rating is a good sign of the state's fiscal health, federal budget deficits may present a challenge to sustaining the triple-A rating. Bond ratings are largely dependent on the economic stability and diversity of revenues, conservative debt management, administrative capabilities, fiscal performance, and financial condition, including funding of long-term benefit programs such as the retirement systems and health care.

Each year the State's Debt Affordability Committee makes recommendations to the Governor and General Assembly concerning the debt capacity of the General Fund, Highway Fund and Highway Trust Fund for the next ten-year period. While a number of factors are considered, the main factor determining each fund's debt capacity is the percentage of State tax revenues that are dedicated to debt service. The Committee recommends debt service not exceed 4 percent of State tax revenues in the General Fund and not exceed 6 percent of State revenues in the Highway Fund and Highway Trust Fund.

Below are a few of the achievements in maintaining the triple-A bond rating:

- Oversaw the issuance of \$3.3 billion in local debt (\$6.48 billion in the previous fiscal year), \$1.6 billion in revenue bonds for State and regional authorities (\$2.5 billion in the previous fiscal year), and \$1.5 billion in state debt (\$1.72 billion in the previous fiscal year).
- Released Debt Affordability Study in February 2011, which provides the Governor and General Assembly with a basis for assessing the impact of future debt issuance on the State's fiscal position and enables informed decision-making regarding both financing proposals and capital spending priorities.

- Began process of implementing updated systems and technology to allow for increased self-service, quality control, electronic documentation, and imaging.
- Advocated for comprehensive reform to North Carolina's revenue structure to stabilize the state's finances and maintain its competitiveness.

## ENSURING TRANSPARENCY, ETHICS, AND ACCOUNTABILITY

Treasurer Cowell recognizes that restoring public confidence in financial markets, banks and government is necessary in the successful execution of the office. Access to government meetings and documents is enshrined in the state's constitution and is one of the pillars of a strong democracy.

In the interest of promoting ethics and transparency, the Department aims to institute and comply with transparent and ethical practices, increase accountability through performance measurement/management, reduce the risk of fraud and abuse in all Department activities, and strengthen board oversight.

Reforms to increase transparency and strengthen oversight are especially important in times of financial crisis, when there is an erosion of public confidence in the financial services sector and government. During the fiscal year, the Department introduced a number of reforms to restore confidence:

- Established an Internal Audit Division and hired compliance officer to conduct a comprehensive risk assessment of the Department.
- Continued the process of replacing Internet/Intranet infrastructure to support transparency and centralize electronic document management for the Department.
- Initiated an Enterprise Risk Management study, which included setting objectives; identifying, assessing, and responding to risks; and making recommendations for monitoring and incorporating risk considerations into Departmental strategic planning.



## INCREASING CUSTOMER SERVICE

Customer orientation is at the top of the list of core values for the Department of State Treasurer. It is our commitment to keep the customer, the citizens of the state of North Carolina, at the center of our focus in all that we do.

With the many programs and services that the Department provides, continuous improvement of customer service remains a strategic goal. In 2010–2012, we are implementing technology and process improvements to ensure that each North Carolina citizen experiences time savings and solid customer service when accessing or inquiring about Department of State Treasurer services.

The Department introduced the following initiatives to improve customer service:

- Continued Internet redesign project to offer wider range of services, improve customer experience, and support call center.
- Initiated formal audits of its Unclaimed Property and Escheats Division to ensure that property is being returned promptly and efficiently to North Carolina citizens.
- In conjunction with UNC School of Government, launched an online County and Municipal Fiscal Analysis tool to enable finance officers, public officials and citizens to better understand the fiscal health of North Carolina's cities, towns and counties.
- Implemented internal training programs through its Human Resources office to improve employees' customer relations skills, hone their knowledge of systems and processes, and promote their professional development.
- Enhanced NC Cash program outreach at events throughout North Carolina, incorporating financial literacy and retirement information.

## INCREASING OPERATIONAL EFFICIENCIES AND IMPROVING RISK MANAGEMENT

The Department of State Treasurer is consistently looking for ways to increase efficiencies and reduce risks. These strategies allow us to provide value to the taxpayer of North Carolina through cost savings and increased security.

We assessed and identified operational areas for efficiency gains in 2010-2011. As a result, we implemented new technologies, as well as improvements in personnel and project management, that will produce time and cost savings for the Department while allowing us to maintain a high level of service to the citizens of North Carolina.

In the interest of boosting operational efficiency, the Department took the following steps:

- Worked with lawmakers to transfer the State Health Plan to the Department of State Treasurer effective January 1, 2012. The Plan is currently governed by a legislative oversight committee within the General Assembly. Numerous reports have suggested organizational changes to the Plan and recommended that it be moved to a different governing model. (House Bill 323)
- Launched initiative to identify key knowledge areas within the Department and develop plans to transfer this knowledge to other Department employees as needed. Key knowledge areas included reviewing and issuing bonds, managing and monitoring state debt, and analyzing the financial condition of local governments.
- Initiated reviews of the Death and Disability Section of the Retirement Systems Division to increase operational efficiency and better serve the citizens of North Carolina.
- In response to Ennis Knupp review, met to review roles and responsibilities to address gaps, minimize overlaps, and enhance efficiencies within the Financial Operations Division.



## CONTRIBUTING TO STATE INNOVATION AND ECONOMIC DEVELOPMENT

Treasurer Cowell recognizes the importance of economic development in building and maintaining a financially strong and prosperous North Carolina. In addition, the Treasurer realizes that state innovation plays a significant role in driving economic development.

In order to encourage innovation and economic development throughout North Carolina, the Department:

- Committed \$60 million in investments through the \$232 million N.C. Innovation Fund, which was established in March 2010 to achieve returns for the pension fund while helping North Carolina-based businesses expand their operations and create new jobs.
- Established leadership, goals, and objectives for its Diversity Council, which promotes diversity in race, culture, and ideas throughout the Department. The Council seeks to recruit and retain ethnic minorities for employment and internships, as well as ensure that diverse perspectives are considered in Departmental decision-making.
- Encouraged greater ethnic and gender diversity on corporate boards by asking lawmakers, business executives, and minority leaders to participate in the Director Diversity Initiative (DDI), a joint project of the Center for Banking and Finance and the Center for Civil Rights at the University of North Carolina School of Law.

## ADVANCING FINANCIAL LITERACY

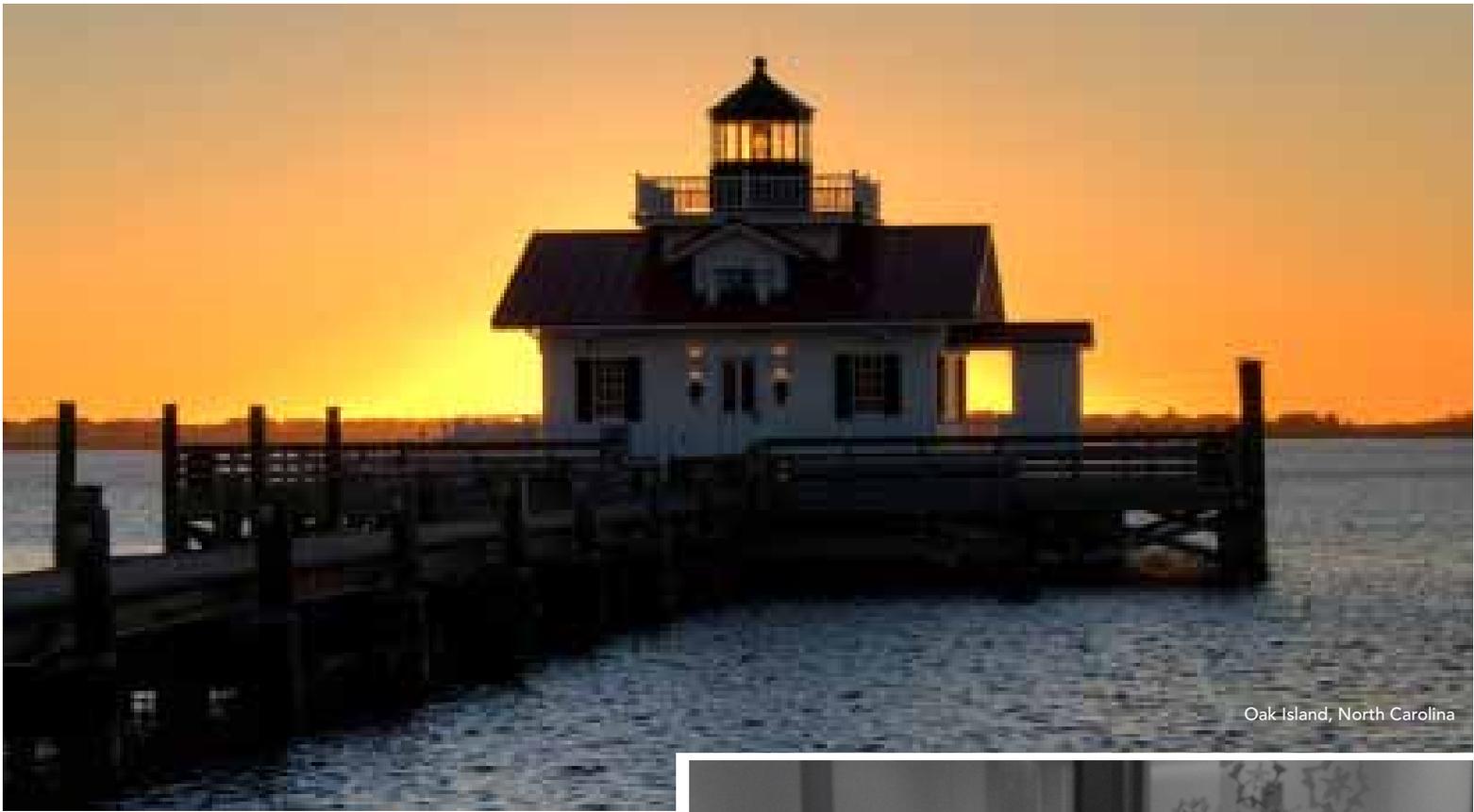
The Department of State Treasurer is committed to helping North Carolina families increase their understanding of finances and ability to grow personal wealth. Financial literacy helps provide citizens of all ages with the information and resources to manage their finances and make important financial decisions.

The Department is engaged in a number of programs that offer financial counseling and education for all age groups, with a focus on adult financial literacy.

Below are a few of the efforts that we launched in the 2010-2011 fiscal year.

- Teamed with NC REAL (North Carolina Rural Entrepreneurship through Action Learning) to launch a Student Entrepreneurship Tour to promote business innovation in colleges and universities throughout North Carolina.
- Partnered with VITA (Volunteer Income Tax Assistance) coalitions throughout the state to promote its programs, which offer free tax preparation services, assistance with opening bank accounts, credit counseling, and financial literacy/asset building assistance to North Carolina citizens.
- Co-sponsored the second annual Financial Literacy Summit with JumpStart Coalition for Financial Literacy to provide training and resources to help K-12 teachers educate their students on financial management and improve their own personal financial literacy.
- Partnered with the North Carolina Office of State Personnel to offer resources for displaced workers on the Financial Literacy section of the Department's website, including ways to budget after a layoff, avoid foreclosure, and find new employment.





Oak Island, North Carolina

# RETIREMENT SYSTEMS DIVISION



NORTH CAROLINA  
STATE TREASURER'S  
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RETIREMENT SYSTEMS DIVISION STATISTICS

	2008-2009	2009-2010	2010-2011
TOTAL ASSETS IN N.C. RETIREMENT SYSTEMS	\$60.2 BILLION	\$65.3 BILLION	\$74.9 BILLION
AMOUNT DELIVERED TO RETIREES	\$3.9 BILLION	\$4.2 BILLION	\$4.3 BILLION
NUMBER OF RETIREES RECEIVING BENEFITS	220,000	229,000	242,000
AVERAGE HOLD TIMES FOR RSD CALL CENTER	2:16 MINUTES (136 SECONDS)	1:20 MINUTES (80 SECONDS)	0:51 MINUTES (51 SECONDS)
NUMBER OF NEW RETIREMENTS PROCESSED DURING THE YEAR	14,318	13,472	14,642
TOTAL ASSETS IN SUPPLEMENTAL 401(K)/457 PLANS	\$4.4 BILLION	\$5.1 BILLION	\$6.3 BILLION
NUMBER OF 401(K) PLAN MEMBERS	217,847	221,052	224,644
NUMBER OF 457 PLAN MEMBERS	29,155	30,692	34,149



The Retirement Systems Division (“RSD”) of the Department of State Treasurer administers the retirement and benefit plans that cover the vast majority of public employees in the state. The Division administers both the public pension plans and the NC Supplemental Retirement Plans.

The North Carolina public pension plans provide benefits for more than 850,000 North Carolinians, including:

- Teachers
- State employees
- Firefighters
- Police officers
- Other public workers

The North Carolina Retirement Systems (“Systems”) is the 32nd largest pension fund in the world and the 11th largest public pension fund in the United States. RSD administers the retirement and fringe benefit plans created under state law for active and retired public employees who are members of the Systems. Staff continuously reviews features and options within the defined benefit programs to ensure that plans and benefits are sustainable over time and are an efficient use of employees’ and taxpayers’ contributions.

RSD also administers additional benefit plans, including the NC 401(k) and Deferred Compensation (NC 457) Plans, Disability, Death and certain benefits unique to law enforcement officers.

A key purpose of the retirement systems and benefit plans is to assist the public employers in the state in recruiting and retaining skilled employees for careers in public service by providing valuable post-employment benefits, including replacement income at retirement, as well as disability or survivor benefits.

The Systems’ assets, referred to as the North Carolina Pension Fund, were valued at \$74.9 billion at the end of the fiscal year, an increase of \$9.6 billion from the previous fiscal year.



## THE BASIC FUNCTIONS

The Retirement Systems administers four major retirement systems and 11 smaller systems and pension funds:

SYSTEM	NO. OF MEMBERS	VALUE
TEACHERS' AND STATE EMPLOYEES' RETIREMENT SYSTEM (TSERS)	590,770	\$54 BILLION
LOCAL GOVERNMENTAL EMPLOYEES' RETIREMENT SYSTEM (LGERS)	212,866	\$17.7 BILLION
CONSOLIDATED JUDICIAL RETIREMENT SYSTEM (CJRS)	1,157	\$429 MILLION
LEGISLATIVE RETIREMENT SYSTEM (LRS)	504	\$28 MILLION
FIREMEN'S AND RESCUE SQUAD WORKERS' PENSION FUND	49,903*	\$323 MILLION*
NATIONAL GUARD PENSION PLAN	3,889	\$82 MILLION
LEGISLATIVE RETIREMENT FUND	12	-
REGISTERS OF DEEDS' SUPPLEMENTAL PENSION FUND	184	\$40.9 MILLION

\* Data as of June 30, 2010, all other values as of June 30, 2011.



The Division also offers a number of supplemental plans and benefit programs:

PROGRAM/PLAN	SERVICE
DISABILITY INCOME PLAN	PROVIDES EQUITABLE REPLACEMENT INCOME FOR ELIGIBLE MEMBERS TEMPORARILY OR PERMANENTLY DISABLED
PUBLIC EMPLOYEES' SOCIAL SECURITY AGENCY	ADMINISTERS THE STATE'S RESPONSIBILITY UNDER THE SOCIAL SECURITY AGREEMENT OF JULY 16, 1951
TEACHERS' AND STATE EMPLOYEES' BENEFIT TRUST	PROVIDES GROUP DEATH BENEFITS FOR MEMBERS OF TSERS AND LGERS. THE TRUST ALSO INCLUDES THE SEPARATE INSURANCE BENEFITS PLAN FOR STATE AND LOCAL GOVERNMENTAL LAW ENFORCEMENT OFFICERS
SUPPLEMENTAL RETIREMENT INCOME PLAN – NC 401(K)	PROVIDES MEMBERS WITH VOLUNTARY SAVINGS/INVESTMENT PROGRAM TO SUPPLEMENT RETIREMENT INCOME
PUBLIC EMPLOYEE DEFERRED COMPENSATION PLAN – NC 457	PROVIDES MEMBERS WITH VOLUNTARY SAVINGS/INVESTMENT PROGRAM TO SUPPLEMENT RETIREMENT INCOME
NC 401(K)/NC 457 TRANSFER BENEFIT	ENABLES MEMBERS TO RECEIVE AN ADDITIONAL MONTHLY LIFETIME BENEFIT (ANNUITY) BY TRANSFERRING ALL OR A PORTION OF THE BALANCE IN THEIR NC 401(K) AND/OR NC 457 ACCOUNT(S) TO TSERS OR LGERS AT OR AFTER RETIREMENT
CONTRIBUTORY DEATH BENEFIT FOR RETIRED MEMBERS	OFFERS AN OPTIONAL BENEFIT THAT GIVES RETIREES A ONE-TIME DEATH BENEFIT OF UP TO \$10,000
SUPPLEMENTAL INSURANCE	PROVIDES RETIRED MEMBERS WITH OPTIONAL SUPPLEMENTAL INSURANCE, E.G. DENTAL, VISION, OR LIFE
HEALTH TRUST FUND	MANAGES TRUST FUND FOR RETIRED MEMBERS WHO RECEIVE HEALTH INSURANCE THROUGH THE STATE HEALTH PLAN OF NORTH CAROLINA



## HISTORY OF NORTH CAROLINA RETIREMENT SYSTEMS

The North Carolina Retirement Systems Division was established in 1941. Prior to establishing RSD, the only pension system that was established in the state was for Confederate soldiers.

The first pension law went into effect in 1885 and granted a pension of \$30 annually to Confederate veterans who were unable to work due to the loss of an eye, leg, or arm. These benefits were also available to soldiers' widows as long as they did not remarry. The system expanded later in 1885 to include widows of soldiers who died of disease while in active service.

By 1901, the pension became available to all widows, soldiers, and sailors who were unable to perform manual labor due to injuries sustained while serving on behalf of the State of North Carolina or the Confederate States of America. Pension benefits to members of the Confederate military were:

- First class: totally disabled – \$72 annually
- Second class: loss of leg or arm – \$60 annually
- Third class: loss of hand or foot – \$48 annually
- Fourth class: widows, those who lost an eye, and those who were disabled due to other wounds not classified in the prior categories – \$30 annually

In 1927, pensioners were reclassified to include slaves who had been servants to soldiers or slaves who had served in a role for soldier support.

Today, public pensions have expanded to include many more North Carolinians under the management of the Department of State Treasurer. More currently:

- In 1939, the Local Governmental Employees' Retirement System ("LGERS") was established. The System framework was in place; however, the System did not begin acquiring members until 1945.
- In 1941, the Teachers' and State Employees' Retirement System ("TSERS") was established. Parts of the Division were under the State Auditor and parts were under the State Treasurer.
- In the 1970s, the General Assembly created the Disability Salary Continuation Program for members of the Teachers' and State Employees' Retirement System. The program, designed as a temporary disability program, was discontinued and reestablished in 1988 as the Disability Income Plan of North Carolina ("DIPNC") for TSERS members.

Today, the Retirement Systems also processes death benefits and return of contributions to its members, far beyond the services provided in the late 1800s.



## RETIREMENT SYSTEMS' BOARDS OF TRUSTEES STRUCTURE

The four largest systems and the Supplemental Retirement Income Plans are overseen by boards that maintain the administration and responsibility for the proper operation of each system or plan. Below are the responsibilities and structures of each:

### TEACHERS' AND STATE EMPLOYEES' RETIREMENT SYSTEM

STATE TREASURER IS EX-OFFICIO CHAIRPERSON

Fourteen members, including seven actively working employees or retirees, as well as seven public and appointed members who also serve on the Local Governmental Employees' Retirement System Board

### LOCAL GOVERNMENTAL EMPLOYEES' RETIREMENT SYSTEM

STATE TREASURER IS EX-OFFICIO CHAIRPERSON

Fourteen members, including the same seven ex-officio or public Teachers' and State Employees' Retirement System Board members, plus seven members representing local governments

### FIREMEN'S AND RESCUE SQUAD WORKERS' PENSION FUND

STATE TREASURER IS EX-OFFICIO CHAIRPERSON

Five members, including actively working employees, volunteers, and a member of the public

### CONSOLIDATED JUDICIAL RETIREMENT SYSTEM

STATE TREASURER IS EX-OFFICIO CHAIRPERSON

Fourteen members, including seven actively working employees or retirees, and seven public and appointed members who also serve on the LGERS Board. Topics are included during the LGERS/TSERS Board of Trustees meetings

### SUPPLEMENTAL RETIREMENT INCOME PLANS

STATE TREASURER IS EX-OFFICIO CHAIRPERSON

Nine members, including six members appointed by the Governor (experience in finance and investments; one State employee), one member appointed by the General Assembly upon recommendation of the Speaker of the House of Representatives, one member appointed by the General Assembly upon recommendation of the President Pro Tempore of the Senate



## DIVISION STRUCTURE

Staff efforts are devoted to accurate and timely benefit distribution in the most efficient and cost-effective manner possible. In order to optimize its administration efforts, the Retirement Systems Division is divided into six working groups:

- The Director's Office
- The Accounting Section
- The Benefits Processing Section
- The Member Services Section
- The Records Section
- The Retirement Processing Section

### DIRECTOR'S OFFICE

The Director's staff is responsible for the overall operation of the Division and carrying out the policies and directives of the State Treasurer and the governing boards. They provide assistance to legislators and committees of the General Assembly, including:

- Drafting proposed legislation and acquiring actuarial notes for introduced bills
- Managing action and administrative appeals by individual members of the Retirement Systems
- Maintaining a working relationship with associations and organizations of employees and employers
- Providing information to state agencies, institutions, and local governments

Division operations include processing applications for retirement; processing applications to receive benefits such as contribution refunds, disability or death benefits; maintaining retirement accounts and data; and providing customer service to all active and retired employees.

### ACCOUNTING SECTION

The main function of the Accounting Section is to provide on-time benefit payment services to qualified payees of the Systems in a customer-service driven environment. In addition, the section is responsible for maintaining accurate financial records for all payees, tracking records, and balancing payroll contribution reports from more than 1,200 participating public sector employers.

During the 2010-2011 fiscal year, the Accounting Section:

- Processed and balanced contribution information from employers' payroll reports submitted each month to individual accounts in ORBIT (Online Retirement Benefits through Integrated Technology). The employer payroll information identifies the percentage each employee contributes to his or her retirement every pay period. By the end of the fiscal year, 418,169 members' accounts were posted.
- Enrolled 46,334 new members during the fiscal year
- Distributed \$4.4 billion in benefits for the fiscal year

### BENEFITS PROCESSING SECTION

The main function of the Benefits Processing Section is to ensure prompt delivery of disability and death benefits for qualified employees, retirees, and their beneficiaries in an effective and efficient manner.

Staff in this section is also responsible for calculation and payment of requested refunds of accumulated employee contributions for qualified members who terminate employment. Members who terminate employment with their public sector employer can apply to have their six percent of contributions made to the Retirement System refunded no sooner than 60 days after termination of employment.

This Section also manages the various death benefit programs related to the Systems and the Separate Insurance Benefits Fund ("SIBF"). Responsibilities include the calculation and payment of death benefits, survivors' alternate benefits, and other lump-sum payments.

The staff works closely with the Retirement System's Medical Review Board to:

- Determine and administer both disability retirement benefits under LGERS and TSERS and disability benefits under the provisions of the Disability Income Plan for teachers and state employees
- Determine eligibility for disability benefits from the other retirement systems



Additional responsibilities of this Section include the calculation and payment of monthly disability benefits, as well as the calculation and payment of reimbursements for short-term disability benefits paid by the various employers under the provisions of the Disability Income Plan.

For the period of July 2010 through June 2011, the Benefits Processing Section:

- Provided disability reimbursements to employers totaling \$16.6 million
- Processed 7,055 death notifications
- Refunded 16,592 payments for return of accumulated contributions
- Presented 3,428 new disability applications to the Medical Board, a nearly eight percent increase from the previous fiscal year
- Reviewed 1,677 re-examinations for determination of continued disability benefits by the Medical Board

### MEMBER SERVICES SECTION

The main function of the Member Services Section is to provide public service employees and employers with accurate and timely information and to provide education about plan provisions, benefits, and available services within the Systems in a manner intended to advance partnerships and relationships.

The staff accomplish these functions by replying to letters of request, responding to incoming member calls and making on-site visitors' counseling available to all participants in the Systems.

During the 2010-2011 fiscal year, Member Services:

- Responded to 20,997 letters, e-mails, and faxes
- Answered 267,860 telephone calls through the Call Center, with an average hold time of 51 seconds, reducing the hold time by more than half compared to the previous fiscal year
- Met with 2,903 members in the Visitors' Office
- Conducted 206 retirement planning conferences, reaching more than 11,754 members

- Provided 18 employer education seminars, many of which included a newly developed employer disability curriculum
- Enrolled five local government employers with 17 new members in the Local Governmental Employees' Retirement System

### RECORDS SECTION

The main function of the Records Section is to secure incoming mail to assist with timely and accurate processing. Processes include accurately scanning, indexing, and routing documents, and electronically storing and protecting member information for the purpose of delivering benefits.

During the 2010-2011 fiscal year, the Records Section:

- Processed 69,312 membership support documents, a decrease of more than 16 percent compared to last fiscal year
- Processed 51,424 new beneficiary designation forms, an increase of almost 10 percent compared to last fiscal year
- Electronically distributed more than 760,000 pages to operational staff
- Created, maintained, and stored electronic files for individuals who are currently, or have been at one time, members of any of the state-administered Retirement Systems
- Maintained 20 million documents in an electronic document imaging system



## RETIREMENT PROCESSING SECTION

The main function of the Retirement Processing Section is to calculate retirement estimates for eligible members and process retirement applications for continuing benefits in a prompt, accurate, and efficient manner.

The Retirement Processing Section is responsible for:

- Determining eligibility for monthly retirement allowances
- Processing payment of benefits for all retirement systems governed by the Boards of Trustees and administered by the Department
- Performing service credit purchase cost calculations for the various Retirement Systems

For the period July 2010 through June 2011, the Retirement Processing Section:

- Implemented the new NC 401(k)/NC 457 Transfer Benefit option for retiring members, processing 46 applications for a lifetime monthly benefit (annuity)
- Set up 14,642 new retirements for payment, an eight percent increase from the previous fiscal year
- Monitored more than 145,000 service purchase estimates through the Service Purchase Estimator in members' ORBIT accounts
- Calculated 6,551 service purchase cost calculations
- Estimated 6,778 retirement benefits
- Monitored almost 60,000 Transfer Benefit estimates through the online Transfer Benefits Estimator in members' ORBIT accounts. The Transfer Benefits estimator was established in December 2010.
- Monitored more than one million benefit estimates through the online Benefits Estimators on the Department of State Treasurer's website and in members' ORBIT accounts. This represents a staggering 195 percent increase from the previous fiscal year. In addition to the online estimates, Division staff received member requests to complete 6,778 manually calculated benefit estimates, a three percent increase from the previous fiscal year.

## FUNDING THE SYSTEMS

### ACTUARIAL VALUATION

An actuarial valuation is prepared by an actuary to assess the funding progress of each retirement system and to determine the contribution rates necessary to sustain the system. An actuarial valuation is an inventory of the assets and liabilities of a retirement system at a specific point in time. Information collected covers all the active (both in-service and terminated) members and all the retired members and other beneficiaries who are receiving benefit payments. Everyone who has been promised a benefit from the system is included in the actuarial calculations to determine the present value of the system's liabilities.

These liabilities are then compared to the system's assets, and calculations are made to determine what contribution rate is needed to fund the uncovered liabilities in the time period originally established. Annual valuations are made to permit gradual changes in the contribution level and/or funding period and keep the funding on a proper course.

The annual valuation also is used by the actuary to compare actual separation, compensation, and investment experience with the actuarial assumptions used in the valuation of the liabilities of the system. The actuarial valuation balance sheets for each retirement system are included with the tables that follow.



## ACTUARIAL ASSUMPTIONS

Actuarial assumptions are estimates made for the purposes of calculating benefits. Possible variables include life expectancy, return on investments, interest rates, and compensation. By calculating the possible payout of benefits, the actuary can determine the contribution rates and what amounts should be set aside as readily available cash or liquid securities.

ECONOMIC ASSUMPTIONS	ASSET VALUATION	NORMAL CONTRIBUTION PERCENTAGE RATE	EXPERIENCED GAINS AND LOSSES
<ul style="list-style-type: none"> <li>Economic assumptions used for the actuarial valuation of all retirement systems based on an interest rate of 7.25 percent per year.</li> <li>Average rates of salary increase of about five percent per year, based on inflation assumptions, varying at different ages.</li> <li>Assumed rates for mortality, withdrawals, disabilities, and service retirements based on actual past experience and projected future changes.</li> </ul>	<ul style="list-style-type: none"> <li>Asset valuation: Based on a modified market-related value. The retirement systems described in this report, with the exception of the Legislative Retirement System and Consolidated Judicial Retirement System, are being funded on a full actuarial reserve basis and use the entry age normal cost method as the actuarial cost approach.</li> </ul>	<ul style="list-style-type: none"> <li>Normal contribution percentage rate under the entry age normal cost method is calculated on the basis of the adopted actuarial assumptions as the level percentage of the compensation of the average new member.</li> <li>If contributed throughout the entire period of active service, then this would be sufficient, together with contributions, to support all the benefits payable on an account.</li> <li>Accrued liability is the difference between total liabilities and the present value of future normal cost contributions and the members' future contributions.</li> </ul>	<ul style="list-style-type: none"> <li>TSERS: Experienced gains and losses are reflected in the amount of the unfunded accrued liability and thereby affect the period of liquidation.</li> <li>LGERS: Experienced gains and losses are reflected in the normal contribution rate.</li> <li>CJRS and LRS are funded on a full actuarial reserve basis but use the projected unit credit cost method with unfunded accrued liability as the actuarial cost approach.</li> </ul>

All retirement systems are joint contributory, defined benefit plans with contributions made by both employees and employers. Each active member contributes six percent of his or her compensation for creditable service by monthly payroll deduction. The only exception to this member contribution rate is the Legislative Retirement System to which each active member contributes seven percent of his or her compensation. Employers make monthly contributions based on a percentage rate of the members' compensation for the month. Employer contribution rates were actuarially calculated for the year ending June 30, 2011. As of June 30, 2011, only the Local Governmental Employees' Retirement System, Legislative Retirement System, and Registers of Deeds' Supplemental Pension Fund have actuarially calculated employer contribution rates. The rates for all other systems are set by the General Assembly at a rate below the actuarially calculated rate.



## FUNDING STATUS OF THE SYSTEMS

The North Carolina Retirement Systems have a high funded status relative to other public pension funds. This is attributable to consistent use of conservative actuarial assumptions and an approved actuarial cost method since the establishment of the systems, as well as the recognition of all promised benefits in the actuarial liabilities. A simple measure for determining the funded status of a system is to relate the total present assets to total accrued liabilities to determine a funded ratio.

The total accrued liabilities are found by adding the assets and the unfunded accrued liabilities. For purposes of comparison, the funded ratios for the major Retirement Systems are illustrated in Chart 1. The annual actuarial study of TSERS reports a funding status of 95.4 percent. The annual actuarial study is based on data collected through December 31, 2010, and shows a slight decrease from the previously reported status of 95.9 percent.

While the Department continues to navigate volatile markets well, the funding status is expected to decline as losses from the 2008 downturn are distributed over the next several years. If funding contributions are met, funding status will fall to 90 percent.

Though TSERS is below a fully funded status, it continues to rank within the top six systems nationally.

CHART 1: FUNDED RATIO OF THE RETIREMENT SYSTEMS

TEACHERS' AND STATE EMPLOYEES' RETIREMENT SYSTEM	LOCAL GOVERNMENTAL EMPLOYEES' RETIREMENT SYSTEM	CONSOLIDATED JUDICIAL RETIREMENT SYSTEM
2001 – 111.6%	2001 – 99.3%	2001 – 108.9%
2002 – 108.4%	2002 – 99.4%	2002 – 107.4%
2003 – 108.1%	2003 – 99.3%	2003 – 107.6%
2004 – 108.1%	2004 – 99.3%	2004 – 108.6%
2005 – 106.5%	2005 – 99.4%	2005 – 107.6%
2006 – 106.1%	2006 – 99.5%	2006 – 107.3%
2007 – 104.7%	2007 – 99.5%	2007 – 102.9%
2008 – 99.3%	2008 – 99.6%	2008 – 98.1%
2009 – 95.9%	2009 – 99.5%	2009 – 92.6%
2010 – 95.4%	2010 – 99.6%	2010 – 91.6%



## TEACHERS' AND STATE EMPLOYEES' RETIREMENT SYSTEM OF NORTH CAROLINA N.C.G.S. §§ 135-1 THROUGH 135-18.5

The Teachers' and State Employees' Retirement System ("TSERS") provides benefits to all full-time teachers and state employees in all public school systems, universities, departments, institutions, and agencies of the state.

TSERS began operations with a membership of 42,878 teachers and state employees, and with appropriations from the state of \$1.8 million. The membership has grown over the years in proportion to the growth in size and complexity of the public schools and state government.

### TSERS MEMBERSHIP AT DECEMBER 31, 2010

ACTIVE MEMBERS	324,683
INACTIVE MEMBERS	102,149
RETIRED MEMBERS AND BENEFICIARIES OF DECEASED MEMBERS	163,938

Invested assets at market value amounted to \$54 billion. For more information about investments for the NC Retirement Systems, please see the Investment Management Division section of this Annual Report.

Operations of TSERS during calendar year 2010 resulted in:

- Total receipts of \$7,093,424,384
- Total expenditures of \$3,367,841,562

The latest Actuary's Valuation Balance Sheet for TSERS, as of December 31, 2010, is shown in Table T10 in the Statistical Tables Section. Based on the latest actuary's report, the General Assembly set the employer contribution rate at 4.93 percent of covered payroll, effective July 1, 2010, and at 7.44 percent of covered payroll, effective July 1, 2011. On this basis, the total of employee and employer rates of contribution is adequate to fund all future benefits presently authorized, based on current service, and to fund, over a period of nine years from January 1, 2011, the remaining accrued liability for past service.



CHART 2: TEACHERS' AND STATE EMPLOYEES' RETIREMENT SYSTEM OF  
NORTH CAROLINA YEAR ENDED DECEMBER 31, 2010

SOURCES OF FUNDS		
EMPLOYEE CONTRIBUTIONS	\$ 835,800,000	11.78%
EMPLOYER CONTRIBUTIONS	\$ 583,000,000	8.22%
OTHER INCOME*	\$ 5,305,000	.08%
INVESTMENT INCOME	\$ 5,669,300,000	79.92%
APPLICATIONS OF FUNDS		
RETIREE BENEFITS	\$ 3,274,800,000	46.17%
REFUNDS**	\$ 82,200,000	1.16%
ADMINISTRATIVE EXPENSES	\$ 10,600,000	.15%
OTHER EXPENSES***	\$ 169,000	-
ADDITION TO RESERVES FOR FUTURE BENEFITS	\$ 3,725,600,000	52.52%

\* Includes Miscellaneous Income and Restore Inactive Accounts

\*\* Return of contributions

\*\*\* Transfer to Restore Inactive Accounts



## LOCAL GOVERNMENTAL EMPLOYEES' RETIREMENT SYSTEM OF NORTH CAROLINA N.C.G.S. §§ 128-21 THROUGH 128-38

The Local Governmental Employees' Retirement System ("LGERS") is maintained for the employees of cities, towns, counties, boards, commissions, and other entities of local government in North Carolina.

Because initial participation by local governments is voluntary, the operation of LGERS is dependent upon the initial acceptance and continuing financial support of the governing bodies and employees of local governments. Approval and acceptance are evidenced by the fact that, as of December 31, 2010, a total of 889 cities, towns, counties, and local commissions were participating in LGERS.

LGERS began operations in 1945 with 18 participating local governments, 2,102 members and assets of \$178,053.

### LGERS MEMBERSHIP AT DECEMBER 31, 2010

ACTIVE MEMBERS	122,585
INACTIVE MEMBERS	41,077
RETIRED MEMBERS AND BENEFICIARIES OF DECEASED MEMBERS	49,204

Invested assets at market value amounted to \$17.7 billion. For more information about investments for the NC Retirement Systems, please see the Investment Management Division section of this report.

Operations of LGERS during the calendar year 2010 resulted in:

- Total receipts of \$2,502,336,289
- Total expenditures of \$881,058,983

The latest Actuary's Valuation Balance Sheet for LGERS, as of December 31, 2010, is shown in Table T11 in the Statistical Tables Section. Based on the actuary's latest report, the Board of Trustees set the employer normal contribution rate at 6.88 percent of covered payroll for general employees and at 7.36 percent of covered payroll for law enforcement officers, effective July 1, 2011. The accrued liability rate, if any, varies with each employing unit depending on the amount of prior service that was awarded to the members.

In accordance with the provisions of the legislation that caused the merger of the Law Enforcement Officers' Retirement System and LGERS on January 1, 1986, the normal contribution rates are separate for each of the two groups of employees while the accrued liability rate is the same.



CHART 3: LOCAL GOVERNMENTAL EMPLOYEES' RETIREMENT SYSTEM OF  
NORTH CAROLINA YEAR ENDED DECEMBER 31, 2010

SOURCES OF FUNDS		
EMPLOYEE CONTRIBUTIONS	\$ 331,700,000	13.25%
EMPLOYER CONTRIBUTIONS	\$ 318,500,000	12.73%
OTHER INCOME*	\$ 4,400,000	.17%
INVESTMENT INCOME	\$ 1,847,800,000	73.89%
APPLICATIONS OF FUNDS		
RETIREE BENEFITS	\$ 833,500,000	33.31%
REFUNDS**	\$ 43,200,000	1.73%
ADMINISTRATIVE EXPENSES	\$ 4,300,000	.17%
OTHER EXPENSES***	\$ 37,600	-
ADDITION TO RESERVES FOR FUTURE BENEFITS	\$ 1,621,300,000	64.79%

\* Fee, Licenses and Fines Court Costs, Miscellaneous Income and Restore Inactive Accounts

\*\* Return of contributions

\*\*\* Transfer to Restore Inactive Accounts



**CONSOLIDATED JUDICIAL RETIREMENT SYSTEM OF NORTH CAROLINA  
N.C.G.S. §§ 135-50 THROUGH 135-72**

The Consolidated Judicial Retirement System (“Judicial System”) was created by the 1983 session (Regular Session, 1984) of the General Assembly, effective January 1, 1985. The Judicial System was formed by combining the previously existing Uniform Judicial, Uniform Solicitorial, and Uniform Clerks of Superior Court Retirement Systems. The Courts Commission was responsible for the design of the benefit structure of the previous systems, which was carried forward to the new consolidated system.

The membership of the Judicial System comprises the elected judges and justices, district attorneys, clerks of superior court of the General Court of Justice, and public defenders.

**CJRS MEMBERSHIP AT DECEMBER 31, 2010**

ACTIVE MEMBERS	566
INACTIVE MEMBERS	48
RETIRED MEMBERS AND BENEFICIARIES OF DECEASED MEMBERS	543

The invested assets at market value were about \$429 million. For more information about investments for the NC Retirement Systems, please see the Investment Management Division section of this report.

Operations of the Judicial System during the calendar year 2010 resulted in:

- Total receipts of \$60,376,718
- Total expenditures of \$30,115,957

The latest Actuary’s Valuation Balance Sheet for the Judicial System, as of December 31, 2010, is shown in Table T12 in the Statistical Tables Section. Based on the actuary’s latest report, the General Assembly set the employer contribution rate at 25.05 percent of covered members’ payroll, effective July 1, 2011. On this basis, the total number of member and employer rates of contribution is adequate to fund all future benefits presently authorized based on current service.



CHART 4: CONSOLIDATED JUDICIAL RETIREMENT SYSTEM OF NORTH CAROLINA  
YEAR ENDED DECEMBER 31, 2010

SOURCES OF FUNDS		
EMPLOYEE CONTRIBUTIONS	\$4,600,000	7.66%
EMPLOYER CONTRIBUTIONS	\$10,700,000	17.71%
OTHER INCOME*	\$390	
INVESTMENT INCOME	\$45,000,000	74.63%
APPLICATIONS OF FUNDS		
RETIREE BENEFITS	\$30,000,000	49.74%
REFUNDS	\$59,000	.1%
ADMINISTRATIVE EXPENSES	\$27,600	.04%
OTHER EXPENSES	-	-
ADDITION TO RESERVES FOR FUTURE BENEFITS	\$30,300,000	50.12%

\* *Miscellaneous Income*



### LEGISLATIVE RETIREMENT SYSTEM N.C.G.S. §§ 120-4.8 THROUGH 120-4.29

The Legislative Retirement System was created by the 1983 session of the General Assembly as a retirement plan for members of the General Assembly. The membership also includes:

- Members who were vested or had maintained contributions in the Legislative Retirement Fund
- Those retirees receiving a benefit from the Legislative Fund who elect to transfer to the Legislative Retirement System

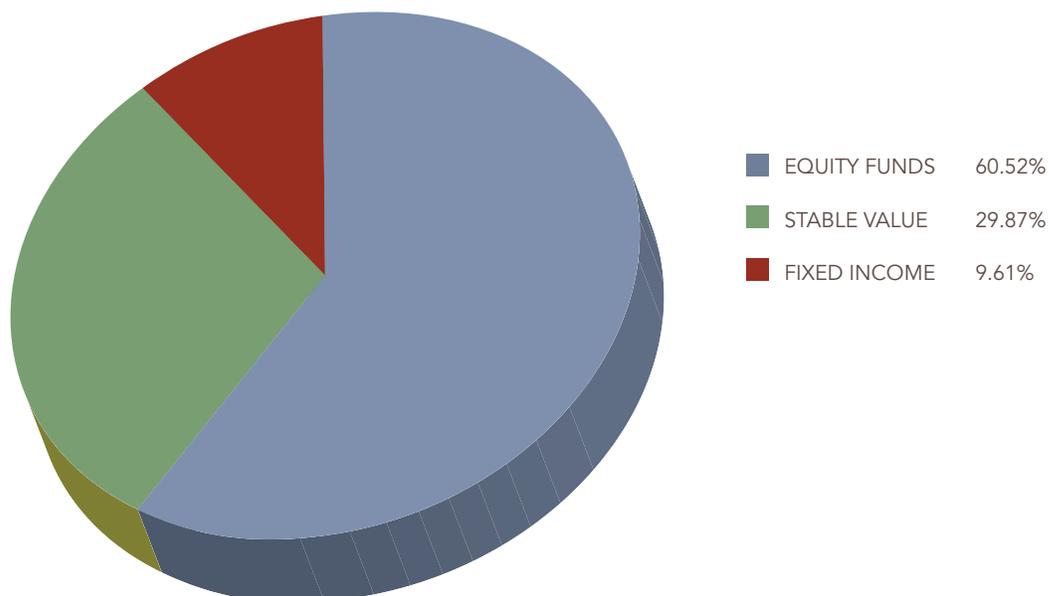
#### LRS MEMBERSHIP AT DECEMBER 31, 2010

ACTIVE MEMBERS	169
INACTIVE MEMBERS	77
RETIRED MEMBERS	258

As of December 31, 2010, assets totaled \$28,456,897. For more information about investments for the NC Retirement Systems, please see the Investment Management Division section of this report.

Based on the latest actuarial report, the employer contribution rate was set by the General Assembly at 0 percent of covered payroll effective July 1, 2011. On this basis, the total of employee and employer rates of contribution is adequate to fund all future benefits presently authorized.

#### MEMBERS' 401(K) INVESTMENT CHOICES



**SUPPLEMENTAL RETIREMENT INCOME PLAN OF NORTH CAROLINA (NC 401(K) PLAN)  
N.C.G.S. §§ 135-90 THROUGH 135-95; 143-166.30; AND 143-166.50**

The 1983 Session (Regular Session, 1984) enacted enabling-type legislation creating the State's Internal Revenue Code Section 401(k) Plan effective as of January 1, 1985. The Plan is a voluntary savings/investment program designed to supplement members' replacement income in retirement. The Plan is governed jointly by the State Treasurer and the Supplemental Retirement Board of Trustees.

Prudential Retirement, the Plan's third-party administrator, is responsible, under the Plan document adopted by the Board and the terms of the contract with the Board, for all aspects of operating the Plan. This responsibility includes communications and record-keeping.

**NC 401(K) PLAN MEMBERSHIP AS OF FISCAL YEAR ENDED JUNE 30, 2011**

**NC 401(K) PLAN MEMBERSHIP AT JUNE 30, 2011**

PLAN MEMBERSHIP	224,644
EMPLOYER CONTRIBUTIONS*	\$154,938,488
MEMBER CONTRIBUTIONS	**\$241,115,809

*\* Many local government employers contribute to employee plans. Also, Law Enforcement Officers (LEOs) are statutorily required to receive a 5% employer contribution to their NC 401(k) account. State government employers do not make a contribution for non-LEO members.*

*\*\* Members may choose to contribute pre-tax or post-tax (Roth) deferrals into the Plan.*

The total Plan assets at market value increased by 23.8 percent over the previous year to \$5.48 billion.

Under the current contract, members may select from 12 separate account investment options including a stable value fund. Some members also have assets invested in the frozen mutual funds that were previously offered in the Plan. As of June 30, 2011, 29.87 percent of the assets were invested in Stable Value, 9.61 percent were invested in fixed income, and 60.52 percent were invested in equity funds. In addition, the outstanding loan balances totaled \$252.2 million.



**THE NORTH CAROLINA PUBLIC EMPLOYEE DEFERRED COMPENSATION PLAN (NC 457 PLAN)  
N.C.G.S. §§ 143B-426.24**

The North Carolina Public Employee Deferred Compensation Plan was established by its Board of Trustees on Executive Order from the Governor in 1974. The Plan is a voluntary tax-deferred savings/investment program designed to supplement members' replacement income in retirement. This Plan is also governed by the Supplemental Retirement Board of Trustees; the State Treasurer is the chairperson of the Board.

Prudential Retirement, the Plan's third-party administrator, is responsible under the Plan document adopted by the Board and the terms of the contract with the Board for all aspects of operating the Plan, including communications and record-keeping.

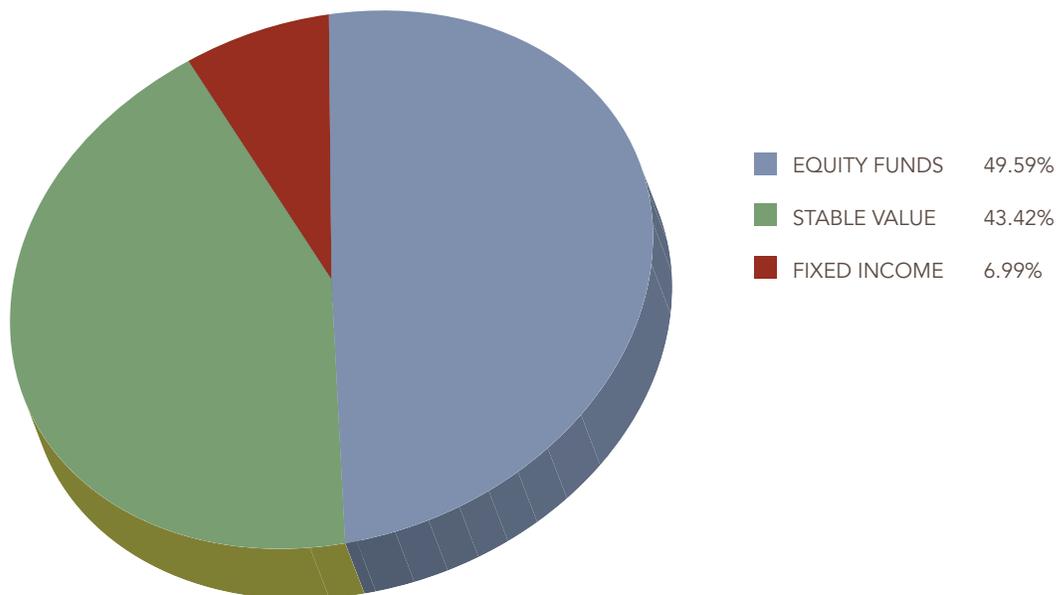
**NC DEFERRED COMPENSATION PLAN MEMBERSHIP AT JUNE 30, 2011**

PLAN MEMBERSHIP	34,149
MEMBER CONTRIBUTIONS	* \$41,435,589

\* Members may choose to contribute pre-tax or post-tax (Roth) deferrals into the Plan

The total Plan assets at market value increased by 18.91 percent over the previous year to \$837.1 million. Under the current contract, members may select from 12 separate account investment options including a stable value fund. Some members also have assets invested in the frozen mutual funds that were previously offered in the Plan. As of June 30, 2011, 43.42 percent of the assets were invested in Stable Value, 6.99 percent were invested in fixed income, and 49.59 percent were invested in equity funds. In addition, the outstanding loan balances totaled \$12.6 million.

**MEMBERS' DEFERRED COMPENSATION INVESTMENT CHOICES**



**TEACHERS' AND STATE EMPLOYEES' BENEFIT TRUST**  
**N.C.G.S. §§ 135-5(l); 143-166.20; AND 143-166.60**

The Teachers' and State Employees' Benefit Trust ("Benefit Trust") was established January 1, 1980, by the Board of Trustees of the Teachers' and State Employees' Retirement System after enabling legislation was enacted in the 1979 session of the General Assembly. The Board of Trustees of the Local Governmental Employees' Retirement System elected to become a participating affiliate in the Trust on the same date.

The purpose of the Benefit Trust is to provide group death benefits for members of these two retirement systems. Formerly, identical type death benefits were provided directly by these retirement systems. The Contributory Death Benefit, Retiree Death Benefit Plan, and the active member death benefit are included in the Benefit Trust.

All contributions to fund the death benefits plans are held separate and apart from any pension or retirement funds.

In 2010, the employer contribution rate to fund this benefit for members of TSERS was 0.16 percent of covered payroll. The employer contribution rate for members of LGERS is actuarially determined and varies among employers.

The Benefit Trust further includes the Separate Insurance Benefits Plan ("SIBP") for State and Local Governmental Law Enforcement Officers. The Plan provides additional death benefits to active and retired law enforcement officers and additional accident and sickness insurance coverage for law enforcement officers.

Since current assets are more than adequate to support the benefits, the contributions to the Plan could continue to be suspended or benefits could be improved.

**DEATH BENEFIT PAYMENTS, CALENDAR YEAR 2010**

RETIREMENT SYSTEM MEMBERS	NUMBER OF PAYMENTS	PAYMENT AMOUNT
TEACHERS' AND STATE EMPLOYEES'	555	\$21,400,000
LOCAL GOVERNMENTAL EMPLOYEES'	139	\$5,600,000

Additionally, the Benefit Trust includes the Retiree Death Benefit Plan. This plan is funded by participant contributions. Effective July 1, 2007, the benefit is \$10,000 after 24 full months of contributions. If a participant's death occurs before 24 full months of contributions, the benefit is limited to a refund of contributions plus interest.

Chart 5 presents the distribution of revenues by source and expenditures by purpose. The number of deaths and amounts of benefit payments, according to member group, during 2010 are also provided in the chart.



**CHART 5: NORTH CAROLINA TEACHERS' AND STATE EMPLOYEES' BENEFIT TRUST  
YEAR ENDED DECEMBER 31, 2010**

**SOURCES OF FUNDS**

LOCAL GOVERNMENTAL EMPLOYEES' RETIREMENT SYSTEM DEATH BENEFIT	\$ 4,600,000	6.06%
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RETIREEES' DEATH BENEFIT	\$ 19,600,000	25.90%
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TEACHERS' AND STATE EMPLOYEES' RETIREMENT SYSTEM DEATH BENEFIT	\$ 21,800,000	28.72%
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INVESTMENT INCOME	\$ 29,800,000	39.32%
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**APPLICATIONS OF FUNDS**

LOCAL DEATH BENEFITS PAID	\$ 5,400,000	7.09%
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DEATH BENEFITS AND INSURANCE PAID SIBP	\$ 907,000	1.20%
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ADMINISTRATIVE EXPENSES	\$ 555,000	.73%
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RETIREE DEATH BENEFITS PAID	\$ 17,600,000	23.21%
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STATE DEATH BENEFITS PAID	\$ 21,700,000	28.60%
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ADDITION TO RESERVES FOR FUTURE BENEFITS	\$ 29,700,000	39.17%
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**FIREMEN’S AND RESCUE SQUAD WORKERS’ PENSION FUND**  
**N.C.G.S. §§ 58-86-1 THROUGH 58-86-90**

The Firemen’s and Rescue Squad Workers’ Pension Fund was created by the General Assembly in 1959 to provide benefits for certified firemen. The statutes were amended to include certified rescue squad workers beginning January 1, 1982.

Both volunteer and paid personnel are included in the membership. Funded by an initial appropriation of \$235,000, retroactive benefit payments amounting to \$210,700 were made to 362 retirees during August 1962 to cover all benefits due and payable since July 1, 1961.

**FIREMEN’S AND RESCUE SQUAD WORKERS’ MEMBERSHIP AT JUNE 30, 2010**

ACTIVE MEMBERS	38,484
RETIRED MEMBERS	11,298

Invested assets at market value amounted to about \$323.35 million. For more information about investments for the NC Retirement Systems, please see the Investment Management Division section of this report.

Operations of the Firemen’s and Rescue Squad Workers’ Pension Fund during the 2010 fiscal year resulted in:

- Total receipts of \$64,336,894
- Total expenditures of \$24,633,459

The latest Actuary’s Valuation Balance Sheet, as of June 30, 2010, is shown in Table T13 in the Statistical Tables Section. Based on the latest actuary’s report, the General Assembly appropriated \$10.1 million for the 2010–2011 fiscal year. The annual appropriations will fund all future benefits, based on current service, and will fund, over a period of nine years from June 30, 2011, the remaining accrued liabilities for past service.

Chart 6 presents the distribution of revenues by source and expenditures by purpose.



**CHART 6: FIREMEN'S AND RESCUE SQUAD WORKERS' PENSION FUND  
YEAR ENDED JUNE 30, 2010**

<b>SOURCES OF FUNDS</b>		
APPROPRIATION	\$10,000,000	15.71%
MEMBER CONTRIBUTIONS	\$2,894,500	4.50%
INVESTMENT INCOME	\$51,326,600	79.78%
MISCELLANEOUS INCOME	\$6,000	.01%
<b>APPLICATIONS OF FUNDS</b>		
PENSION BENEFITS	\$23,378,600	36.34%
REFUNDS	\$409,900	.64%
ADMINISTRATIVE EXPENSES	\$844,800	1.31%
ADDITION TO RESERVES FOR FUTURE BENEFITS	\$39,703,000	61.71%



## RETIREEES' HEALTH PREMIUMS FUNDS

Funds are remitted from employers through their monthly ORBIT payroll reporting process to pay individual coverage costs of retirees' health insurance. This coverage is under the State's health plan. Retirees from the Teachers' and State Employees', Consolidated Judicial, and Legislative Retirement Systems are eligible for coverage. Legislation allows selected employers in the Local Governmental Employees' Retirement System to participate in the Retirees' Health Premiums Fund. The method of collecting the employers' payments is a surcharge on active members' payroll payable with the employer contribution rate to the affected retirement system.

### FINANCIAL INFORMATION FOR 2010

Beginning Fund Balance	\$556,303,039
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#### ADDITIONS:

Employer Contributions	\$708,031,560
Investment Income	\$7,455,362

#### DEDUCTIONS:

Health Premiums Paid	\$616,040,295
Administrative Expense	\$304,605
Ending Fund Balance	\$655,445,062

## LEGISLATIVE RETIREMENT FUND

### N.C.G.S. §§ 120-4.1 THROUGH 120-4.2

The Legislative Retirement Fund was created by the 1969 session of the General Assembly as a retirement plan for members and elected officers of the North Carolina General Assembly. The Fund was abolished by the 1973 session (second session 1974). The abolishing act preserved the vested and inchoate rights of the members in the Fund so that all members and former members of the General Assembly, who had qualified by virtue of service as of 1974, are still in receipt of monthly allowances or may apply for and receive monthly allowances at age 65.

In the year ended December 31, 2010, there were 12 former members and officers of the General Assembly in receipt of allowances with a cost of \$18,900. This cost is funded by a contribution of 5 percent of compensation paid by members at retirement and an annual general fund appropriation made to the General Assembly. This fund is not operated as a retirement fund, but as an expendable trust fund. In this expendable trust, money is not added to the fund. Only the 12 members who applied for retirement during the years of operation are covered in this fund.



**DISABILITY INCOME PLAN**  
**N.C.G.S. §§ 135-100 THROUGH 135-113**

The Disability Income Plan of North Carolina was created in 1987 by the North Carolina General Assembly. This plan replaced the former provisions for disability retirement under the Teachers' and State Employees' Retirement System and replaced the benefits provided under the former Disability Salary Continuation Plan.

The purpose of this plan is to provide equitable replacement income for eligible teachers and state employees who become temporarily or permanently disabled for the performance of their duty prior to retirement. Based on the latest actuarial report, the General Assembly set the employer contribution rate to fund this benefit at 0.52 percent of the covered payroll of the members of the Teachers' and State Employees' Retirement System, and the Optional Retirement Program, effective July 1, 2011.

**DISABILITY INCOME PLAN STATISTICS**  
**CALENDAR YEAR 2009 AND 2010**

	2009	2010
NUMBER OF DISABLED MEMBERS	6,089	6,480
NEW CLAIMS DURING THE YEAR	824	1,250
EMPLOYER CONTRIBUTIONS	\$78,600,000	\$77,717,001
INVESTMENT INCOME	\$21,500,000	\$29,838,540
AMOUNT OF BENEFIT PAYMENTS	\$72,500,000	\$60,158,493

**PUBLIC EMPLOYEES' SOCIAL SECURITY AGENCY**  
**N.C.G.S. §§ 135-19 THROUGH 135-26**

The Public Employees' Social Security Agency administers the state's responsibility under the Social Security Agreement between the State of North Carolina and the United States Secretary of Health and Human Services. This Agreement was entered into on July 16, 1951, and executed pursuant to authority in Section 218 of the Federal Social Security Act and Article 2, Chapter 135, of the General Statutes of North Carolina.

The provisions of the Agreement require the Social Security Agency to provide the mechanics of coverage for the state and its qualified political subdivisions and act as a liaison between the state and the Social Security Administration.



**NATIONAL GUARD PENSION PLAN**  
**N.C.G.S. §§ 127A-40**

The National Guard Pension Plan (“Guard Plan”) was transferred to the Department of State Treasurer for payment of monthly benefits by the 1979 session of the General Assembly, effective July 1, 1979. This Division pays allowances based on the certification of eligibility of former National Guardsmen by the Secretary of the Department of Crime Control and Public Safety. Benefit payments are funded by State General Fund appropriations by the General Assembly.

**GUARD PLAN MEMBERSHIP AT DECEMBER 31, 2010**

BENEFICIARIES IN RECEIPT OF MONTHLY ALLOWANCES	3,889
MONTHLY ALLOWANCES	\$6,657,500

The 1983 session of the General Assembly enacted legislation creating a trust fund for financing Guard Plan payments and requiring that the Plan be maintained on a generally accepted actuarial basis. Based on an actuarial study after passage of this legislation, the June 1984 session appropriated \$1.7 million to begin actuarial reserve funding. The funding after mid-year budget cuts was \$5.9 million.

**REGISTERS OF DEEDS’ SUPPLEMENTAL PENSION FUND**  
**N.C.G.S. §§ 161-50 THROUGH 161-50.5**

The Registers of Deeds’ Supplemental Pension Fund was created by the 1987 session of the General Assembly for the purpose of providing a supplement to the Local Governmental Employees’ Retirement System benefits for Registers of Deeds. The stated purpose of the Act was to attract the most highly qualified talent available within the state to that county office.

In October 1987, each county board of commissioners began remitting monthly to the Department of State Treasurer an amount equal to 4.5 percent of the receipts collected pursuant to Article 1 of Chapter 161 of the General Statutes for deposit to the credit of the Registers of Deeds’ Supplemental Pension Fund. Benefits from the Registers of Deeds’ Supplemental Pension Fund became payable beginning July 1, 1988.

Effective July 1, 2007, this funding was reduced to 1.5 percent.

- As of December 31, 2010, this fund had total assets in the amount of \$40.9 million.
- For the year ending December 31, 2010, the Fund paid total benefits in the amount of \$1.4 million.



## THE YEAR'S HIGHLIGHTS

### COMPLETED THE WORK OF THE FUTURE OF RETIREMENT STUDY COMMISSION

The Future of Retirement Study Commission, established in 2010 to deliberate on the design of the Retirement Systems for future public employees in response to the changing economy, issued the following recommendations to the State Treasurer:

- Choice between a defined benefit ("DB") and defined contribution ("DC") plan for all current and future employees
- Automatic enrollment in a supplemental DC plan for future new hires
- A minimum unreduced retirement age of 55 for all future hires other than law-enforcement officers
- A study to consolidate administration of 403(b) plans offered by local school systems
- Giving flexibility to the Local Governmental Employees' Retirement System Board of Trustees to grant cost-of-living adjustments (COLAs)

### CREATED ANNUITY OPTION FOR SUPPLEMENTAL RETIREMENT INCOME PARTICIPANTS

The Department implemented the NC 401(k)/NC 457 Transfer Benefit option for active retiring members in TSERS and LGERS. Active TSERS and LGERS members with an existing NC 401(k) or NC Deferred Compensation (457) account through Prudential Retirement were given the one-time opportunity to transfer all or a portion of their plan funds at or after retirement to TSERS or LGERS to receive a lifetime monthly benefit (annuity), effective January 1, 2011.

The Retirement Systems and Prudential Retirement partnered with the State Employees' Credit Union to provide members with information on the Transfer Benefit.

### SELECTED NEW SUPPLEMENTAL INSURANCE PROVIDER

The Retirement Systems selected Pierce Insurance Agency Inc. to provide supplemental insurance products to retirement benefit recipients. The insurance agency offers retirees coverage for vision, dental, and term and whole life insurance.

### ENHANCED ONLINE CUSTOMER INFORMATION

Retirement Systems members' registration in ORBIT (Online Retirement Benefits through Integrated Technology) increased from 147,000 in the 2009 fiscal year to more than 200,000 registered users in the 2010 fiscal year.

ORBIT, a Web portal launched in 2007, enables members to access their retirement account information immediately and provides self-service by offering tools that help members make critical retirement planning decisions.



Several new features were added to ORBIT this fiscal year to benefit both members and employers:

- The NC 401(k)/NC 457 Transfer Benefit Estimator was added to ORBIT, allowing members to create a customized estimate to determine if the annuity is the best option. More than 59,000 estimates were generated through the Transfer Benefit Estimator since its inception in October 2010. Additionally, more than 1.2 million additional online estimates were generated for retirement benefits and service purchases combined.
- The functionality of ORBIT was enhanced, enabling public sector employers to generate their own reports and view invoices through the Employer Self Service feature. Previously, employers had to contact the Retirement Systems and formally request reports.

## LEGISLATION

The 2010 Session of the North Carolina General Assembly enacted legislation to:

- Create the NC 401(k) and NC 457 Transfer Benefit option for retirees and retiring members in TSERS and LGERS to receive an additional monthly lifetime benefit (annuity) based on their transferred balance. The new Transfer Benefit option also enables law enforcement officers (“LEOs”) who did not take advantage of the previously established LEO NC 401(k) Transfer Benefit plan to transfer funds under this new plan.
- Clarify that elected officials convicted of certain offenses, which require the forfeiting of all retirement benefits, are always eligible for a return of member contributions and, if applicable, interest.
- Move the timing of the Social Security offset for Disability Income Plan of NC (“DIPNC”) recipients from December to January to mirror the schedule of Social Security payments.
- Clarify that a DIPNC recipient who has five or more years of contributing retirement service with a state-supported retirement system, and who has been approved for benefits but is not yet in receipt of benefits due to lump-sum payouts of vacation and bonus leave, is eligible for non-contributory State Health Plan coverage.
- Require a 12.29 percent employer contribution rate from July 1, 2010, through June 30, 2011, on the local-paid portion of salary paid from local funds for community college presidents.
- Count Optional Retirement Program (“ORP”) service under TSERS reciprocity provisions, allowing the ORP service of an ORP member to be added to a member’s TSERS service for the purpose of determining eligibility for TSERS benefits.

## COMMUNICATIONS

The Retirement Systems expanded its targeted communication to include:

- Disability Messenger, a newsletter printed and mailed to public sector employees receiving disability benefits. The annual newsletter provides guidance on the various disability processes and explanations for actions taken, such as benefit reductions due to Social Security or Workers’ Compensation. The newsletter is provided in addition to the personalized communication from the Retirement Systems and access to the “Disability Benefits Processing and Training” web pages.
- The first electronic newsletter to retired public sector employees. The Retirement Report e-newsletter was sent to retirees who provided email addresses while registering for ORBIT. The e-newsletter supplements the printed newsletter mailed to retired members.



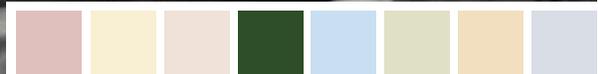


Skyline of Charlotte, North Carolina

# INVESTMENT MANAGEMENT DIVISION



NORTH CAROLINA  
STATE TREASURER'S  
ANNUAL REPORT



INVESTMENT MANAGEMENT DIVISION STATISTICS

	2008-2009	2009-2010	2010-2011
TOTAL ASSETS OF NC RETIREMENT SYSTEMS	\$60.2 BILLION	\$65.3 BILLION	\$74.9 BILLION
INVESTMENT PERFORMANCE FOR THE NC PENSION FUND	14.2% DECREASE	12% INCREASE	18.48% INCREASE
<b>RETURNS FROM EACH ASSET CLASS WITH THE TOTAL PENSION FUND</b>			
FIXED INCOME	7.62%	13.2%	5.3%
GLOBAL EQUITY	-27.76%	14.31%	30.76%
PRIVATE EQUITY	-21.53%	12.88%	15.24%
HEDGE FUNDS	-16.77%	10.25%	6.84%
REAL ESTATE	-31.43%	-16.74%	18.16%
<b>FUNDED STATUS</b>			
FUNDED STATUS OF THE TEACHERS' AND STATE EMPLOYEES' RETIREMENT SYSTEM (TSERS)	99.3%	95.9%	95.4%



The Investment Management Division (“IMD”) serves as the investment arm for the Department of State Treasurer. This Division employs over 20 investment professionals that provide the expertise for state government investing. IMD is responsible for the management of the Cash Management Program, the Pension Fund Investment Program (“Pension Fund”), and the Ancillary Investment Programs. At the end of the fiscal year ending June 30, 2011, total assets of these programs were \$88.35 billion.

**PROGRAM PERCENTAGE OF TOTAL ASSETS IN 2011**

CASH MANAGEMENT PROGRAM	MAIN PARTICIPANTS ARE THE STATE’S GENERAL FUND AND HIGHWAY FUNDS	13.32%
PENSION FUND INVESTMENT PROGRAM	ASSETS OF THE TEACHERS’ AND STATE EMPLOYEES’ RETIREMENT SYSTEM, THE CONSOLIDATED JUDICIAL RETIREMENT SYSTEM, THE FIREMEN’S AND RESCUE WORKERS’ PENSION FUND, THE LOCAL GOVERNMENTAL EMPLOYEES’ RETIREMENT SYSTEM, THE LEGISLATIVE RETIREMENT SYSTEM, AND THE NORTH CAROLINA NATIONAL GUARD PENSION FUND. COLLECTIVELY, THESE SYSTEMS AND FUNDS ARE REFERRED TO AS THE NORTH CAROLINA RETIREMENT SYSTEMS (“SYSTEMS”).	84.82%
ANCILLARY INVESTMENT PROGRAM	ESCHEATS FUND, UNC AND PUBLIC HOSPITAL FUNDS, THE LOCAL GOVERNMENT OTHER POST-EMPLOYMENT BENEFITS FUND, AND OTHER NON-PENSION ASSETS INVESTED IN THE CORE FIXED INCOME PORTFOLIO	1.85%

The Treasurer is directed by statute to establish, maintain, administer, manage, and operate investment programs for all funds on deposit, pursuant to the applicable statutes. In doing so, the Treasurer has full powers as a fiduciary and, with the Investment Team, manages the investment programs so assets may be readily converted into cash when needed.

In establishing the comprehensive management program, the State Treasurer, utilizing a professional investment staff, has developed an investment strategy for each portfolio that recognizes the guidelines of the governing General Statutes and provides appropriate diversification. In addition to the Treasurer and the Investment team managing these programs, the Investment Advisory Committee (“IAC”) provides opinion on policies and general strategy for achieving investment of the Pension Fund, including asset allocation, in consultation with IMD staff.



## CASH MANAGEMENT PROGRAM REVIEW

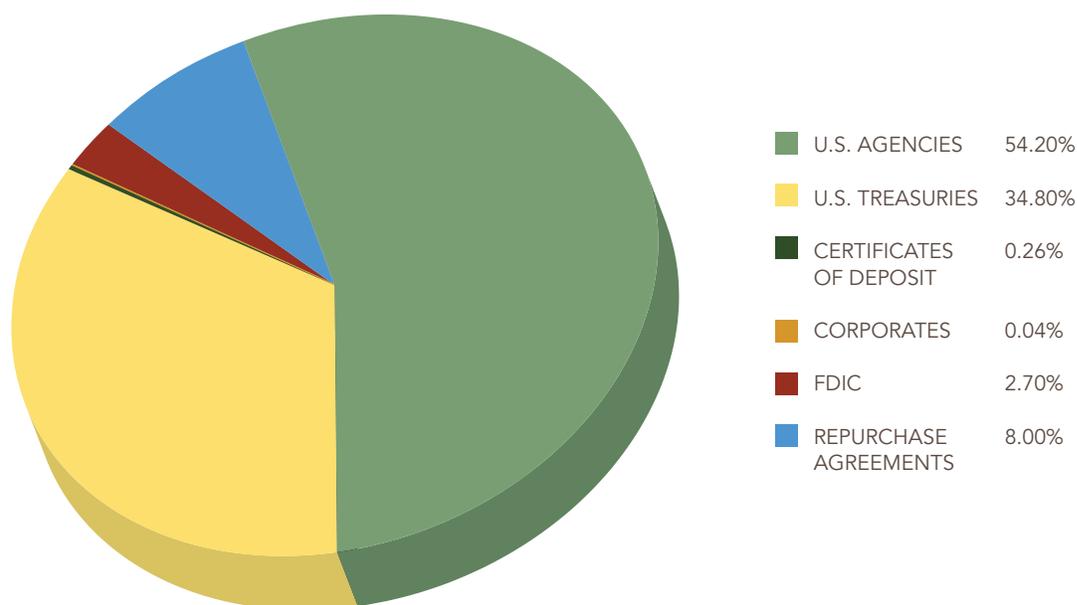
The Cash Management Program's objective is to maximize income consistent with the principles of preservation of capital and liquidity. These investments include short-term money market accounts and bonds that typically get the best interest rates. Additionally, this program includes state bank deposits overseen by the Department of State Treasurer as the State's banker.

### SHORT-TERM INVESTMENT FUND

The Short-Term Investment Fund ("STIF") comprises 99.35 percent of the Cash Management Program. The Bond Proceeds Fund, managed by Sterling Capital, accounts for 0.65 percent of the Program.

The STIF is an internally managed portfolio of highly liquid fixed income securities. These securities are primarily money market instruments and short to intermediate term U.S. Treasuries and Agencies. All bank accounts of the State Treasurer are included in this portfolio, which serves as the main operating account for state agencies. Because the Treasurer's cash balances are ultimately subject to disbursement upon presentation of valid warrants, the primary consideration in making investments is safety and liquidity; the secondary consideration is income. For the fiscal year 2011, the STIF generated a cash return of 1.0 percent. The following graph provides STIF Asset Allocation as of June 30, 2011.

STIF ASSET ALLOCATION AS OF JUNE 30, 2011



**\* Definitions:**

*U.S. Treasuries* – government debt issued by the United States Department of the Treasury

*Certificates of Deposit* – financial product commonly offered to consumers by banks, thrift institutions and credit unions

*Corporates* – debt from a company or corporation

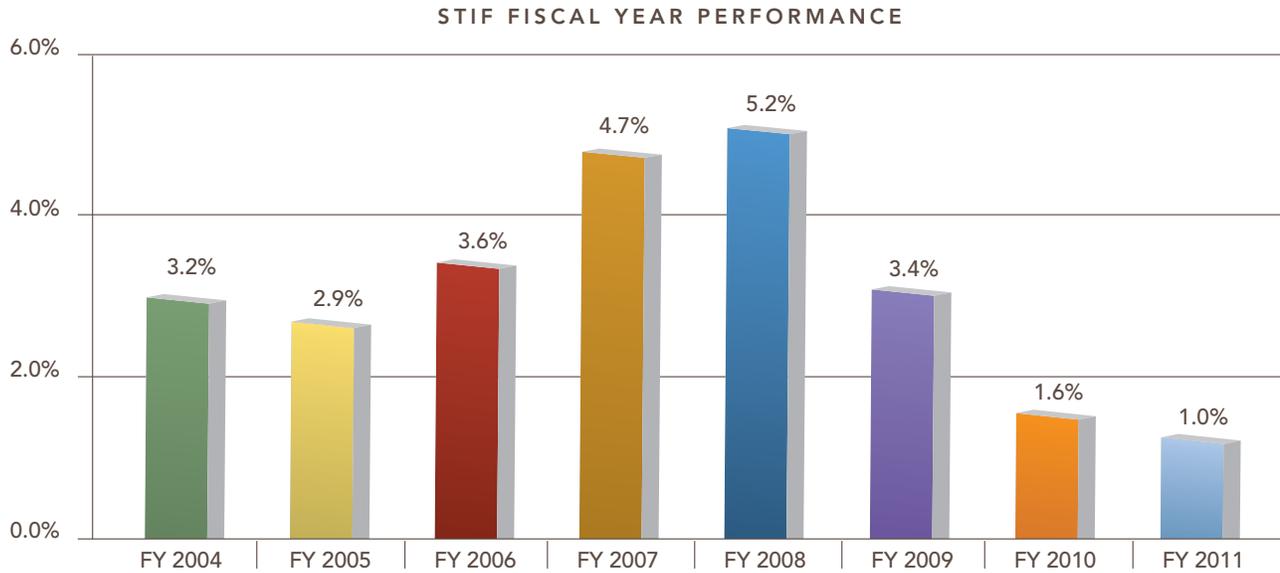
*FDIC* – FDIC-guaranteed notes

*Repurchase Agreements* – short-term collateralized loan

*U.S. Agencies* – debt from a federal government agency or government sponsored enterprise such as the Government National Mortgage Association (GNMA or Ginnie Mae), the Federal National Mortgage Association (FNMA or Fannie Mae), the Federal Home Loan Mortgage Corporation (FHLMC or Freddie Mac), Federal Home Loan Banks and Federal Farm Credit Banks



The following chart provides historic returns for the fund as of June 30, 2011.



**STIF TOP TEN POSITIONS AS OF JUNE 30, 2011**

ISSUER	COUPON	MATURITY DATE	PAR VALUE (\$)
HSBC SECURITIES	0.100%	07/01/2010	500,000,000
UBS WARBURG REPO	0.070%	07/01/2010	500,000,000
WACHOVIA REPO	0.050%	07/01/2010	350,000,000
U.S. TREASURY NOTE	1.250%	11/30/2010	350,000,000
U.S. TREASURY NOTE	0.875%	12/31/2010	350,000,000
U.S. TREASURY NOTE	0.875%	1/31/2011	350,000,000
U.S. TREASURY NOTE	0.875%	02/28/2011	350,000,000
U.S. TREASURY NOTE	0.875%	03/31/2011	350,000,000
U.S. TREASURY NOTE	0.875%	04/30/2011	350,000,000
U.S. TREASURY NOTE	0.875%	05/31/2011	350,000,000



## STIF SUMMARY OF BROKERS UTILIZED DURING FISCAL YEAR 2010 – 2011

Brokers are used to execute buy and sell orders on behalf of the fund, adding the benefit of experience in the field to investment decisions. Below is a list of brokers used to facilitate trades of securities during the fiscal year ending June 30, 2011.

BANK OF AMERICA	HSBC SECURITIES	RAYMOND JAMES
BARCLAYS CAPITAL	JEFFERIES	RBC CAPITAL MARKETS
CITIGROUP	JPMORGAN CHASE	RBS GREENWICH CAPITAL
CREDIT SUISSE SECURITIES	LOOP CAPITAL	UBS WARBURG
DEUTSCHE BANK SECURITIES	MIZUHO SECURITIES	WELLS FARGO SECURITIES
FIRST TENNESSEE	MORGAN KEEGAN	WILLIAMS CAPITAL
GOLDMAN SACHS	MORGAN STANLEY	



## PENSION FUND INVESTMENT PROGRAM REVIEW

The Investment Management Division's goal is to maintain the long-term strength of the retirement systems by providing a consistent long-term actuarial rate of return while simultaneously minimizing risk in the portfolio. The portfolio contains long-term investments in stocks, bonds, real estate, private equity, hedged strategies, credit strategies, and inflation protection. The Division conducts its activities in accordance with the Statement of Investment Policy approved by the Treasurer in consultation with the Investment Advisory Committee. This policy covers fiduciary standards of care, asset allocation ranges, rebalancing processes, and other issues.

North Carolina is consistently ranked in the top five of state retirement funding ratios. (See next page.)

### OPERATING POLICY

In all transactions executed for any investment program managed by the State Treasurer, the objective is to perform such business in the best interest of the beneficial owners of the trusts' assets, which are North Carolina's public employees, teachers, firefighters, police officers, and other public workers. Within the Pension Fund, assets are divided into various classes of investments defined in the chart below.

PORTFOLIO	INVESTMENT MANDATE	EXAMPLES
FIXED INCOME INVESTMENT PORTFOLIO	LONGER TERM INVESTMENTS	INVESTMENT GRADE CORPORATE SECURITIES, TREASURIES, AGENCIES, MBS
GLOBAL EQUITY INVESTMENT PORTFOLIO	EQUITY SECURITIES	RELATIONSHIPS WITH EXPERIENCED INVESTMENT ADVISORS
REAL ESTATE INVESTMENT PORTFOLIO	REAL ESTATE	LIMITED PARTNERSHIPS* MANAGED BY EXPERIENCED REAL ESTATE ADVISORS
PRIVATE EQUITY INVESTMENT PORTFOLIO	PRIVATE EQUITY	LIMITED PARTNERSHIPS* MANAGED BY EXPERIENCED PRIVATE EQUITY ADVISORS
HEDGED STRATEGIES INVESTMENT PORTFOLIO	HEDGE FUNDS	A DIVERSIFIED MIX OF HEDGED STRATEGIES MANAGED BY EXPERIENCED HEDGE FUND OF FUNDS
CREDIT STRATEGIES INVESTMENT PORTFOLIO	CREDIT ORIENTED INVESTMENTS	A DIVERSIFIED MIX OF CREDIT FOCUSED INVESTMENT VEHICLES MANAGED BY EXPERIENCED INVESTMENT ADVISORS
INFLATION PROTECTION INVESTMENT PORTFOLIO	INFLATION-LINKED INVESTMENTS	A DIVERSIFIED MIX OF INFLATION-LINKED INVESTMENT VEHICLES MANAGED BY EXPERIENCED INVESTMENT ADVISORS

\* Limited Partnerships are the standard vehicle for investment in private equity and real estate funds with a main purpose of buying interests in investments that, in general, are not publicly traded. The partnership has a General Partner whose responsibilities include making and monitoring investments, ultimately exiting investments to generate returns on behalf of the investors. The investors are known as Limited Partners.



## PENSION FUND STRATEGY

The tradition of conservative fiscal management has served North Carolina's public workers and taxpayers well throughout the years. The Pension Fund continues that tradition with a significant allocation in fixed income assets (bonds) combined with minimal exposure to high-risk assets and an increasingly diversified portfolio. The result of this strategy is a fund that is a top performer in turbulent economic and financial market environments, and steady in bull markets. The below chart outlines the one-, three-, five-, and ten-year average returns and exposure to risk within the different percentiles of public funds in comparison to the performance and exposure to risk of the North Carolina Pension Fund.

### NATIONAL AVERAGE RETURNS AND EXPOSURE TO RISK

RETURNS	1 YEAR	3 YEAR	5 YEAR	10 YEAR
25 <sup>TH</sup> PERCENTILE	23.38%	5.27%	5.72%	6.54%
MEDIAN	21.52%	4.29%	4.86%	5.93%
75 <sup>TH</sup> PERCENTILE	19.53%	3.34%	4.28%	5.41%
<b>NC PENSION FUND RISK</b>	<b>18.93%</b>	<b>4.83%</b>	<b>5.43%</b>	<b>5.91%</b>
25 <sup>TH</sup> PERCENTILE	7.11	12.68	10.69	8.99
MEDIAN	7.91	13.63	11.66	10.03
75 <sup>TH</sup> PERCENTILE	8.82	14.68	12.25	10.48
<b>NC PENSION FUND</b>	<b>6.56</b>	<b>11.65</b>	<b>9.79</b>	<b>8.46</b>

Source: BNY Mellon Total Funds – Public Funds \$1+ billion (Gross of Fees)

## FISCAL YEAR REVIEW

The fiscal year ending June 30, 2011 saw a significant price appreciation in almost all asset classes, further extending gains achieved during the previous fiscal year. The Pension Fund benefited significantly from this growth, outperforming its actuarial rate of return as equity markets surged to near pre-recession levels.

Despite strong portfolio returns, economic uncertainty and volatility were high, leading to fluctuations in returns. The year saw continued structural problems with economic conditions in the United States, indicated by relatively high unemployment and lower than expected growth in gross domestic product, among other key economic indicators. Europe continues to deal with problems such as unsustainable levels of sovereign debt issued by some members of the European Union.

Significant advances were made during the year to diversify plan assets and decrease risk in the fund. Changes included a shift in the Global Equity portfolio from a historical bias toward domestic assets to a higher percentage of global assets, including a focus on capturing the growth in emerging economies. Additionally, the fund continued to utilize flexibility achieved in the 2009 legislative session to make investments in Credit Strategies and Inflation Protection Strategies.



Additional legislative flexibility was requested from the General Assembly in 2011. Flexibility received includes an increase in the percentage of Alternative Investments allowed in the plan and the ability to hedge risks in the Global Equity portfolio. This flexibility will be utilized over the coming years to further reduce risk while maintaining the earning potential of the portfolio.

### TOTAL PENSION FUND STRUCTURE

As of June 30, 2011, the Pension Fund maintained a market value of \$74.9 billion. IMD is constantly monitoring the overall Pension Fund in an effort to control risk. The following chart highlights the strategic asset allocation targets over the past seven years.

#### CURRENT AND HISTORICAL STRATEGIC TARGETS

	JUNE 2005	JUNE 2006	JUNE 2007	JUNE 2008	JUNE 2009	JUNE 2010	JUNE 2011
FIXED INCOME	39.5%	39.5%	39.5%	39.5%	39.5%	38.0%	38.0%
GLOBAL EQUITY	54.5%	54.5%	52.0%	50.0%	50.0%	48.0%	40.5%
REAL ESTATE	3.5%	3.5%	5.0%	6.0%	6.0%	6.0%	8.0%
ALTERNATIVES	2.2%	2.50%	3.00%	4.50%	4.50%	4.50%	4.50%
CREDIT STRATEGIES	0.0%	0.0%	0.0%	0.0%	0.0%	1.5%	4.5%
INFLATION PORTFOLIO	0.0%	0.0%	0.0%	0.0%	0.0%	1.5%	4.5%

IMD utilizes rebalancing to ensure the overall portfolio weights stay in line with the target ranges. Asset allocation and a disciplined approach to rebalancing ultimately controls the level of risk that an investment portfolio experiences.

#### PENSION FUND ASSET ALLOCATION AS OF JUNE 30, 2011

	MARKET VALUE	PORTFOLIO WEIGHT	TARGET WEIGHT	TARGET RANGE
FIXED INCOME	\$28,297,573,842	37.8%	38.0%	34.0% - 42.0%
GLOBAL EQUITY	\$33,910,744,570	45.3%	40.5%	35.0% - 50.0%
REAL ESTATE	\$4,219,961,390	5.6%	8.0%	5.0% - 10.0%
PRIVATE EQUITY	\$3,180,435,848	4.2%	4.5%	3.5% - 5.0%
HEDGED STRATEGIES	\$431,603,992	0.6%	4.5%	3.5% - 5.0%
CREDIT STRATEGIES	\$2,504,263,977	3.3%	4.5%	0% - 5.0%
INFLATION PORTFOLIO	\$2,397,013,678	3.2%	4.5%	0% - 5.0%
TOTAL FUND	\$74,941,597,297	100.0%	---	---



## TOTAL FUND PERFORMANCE

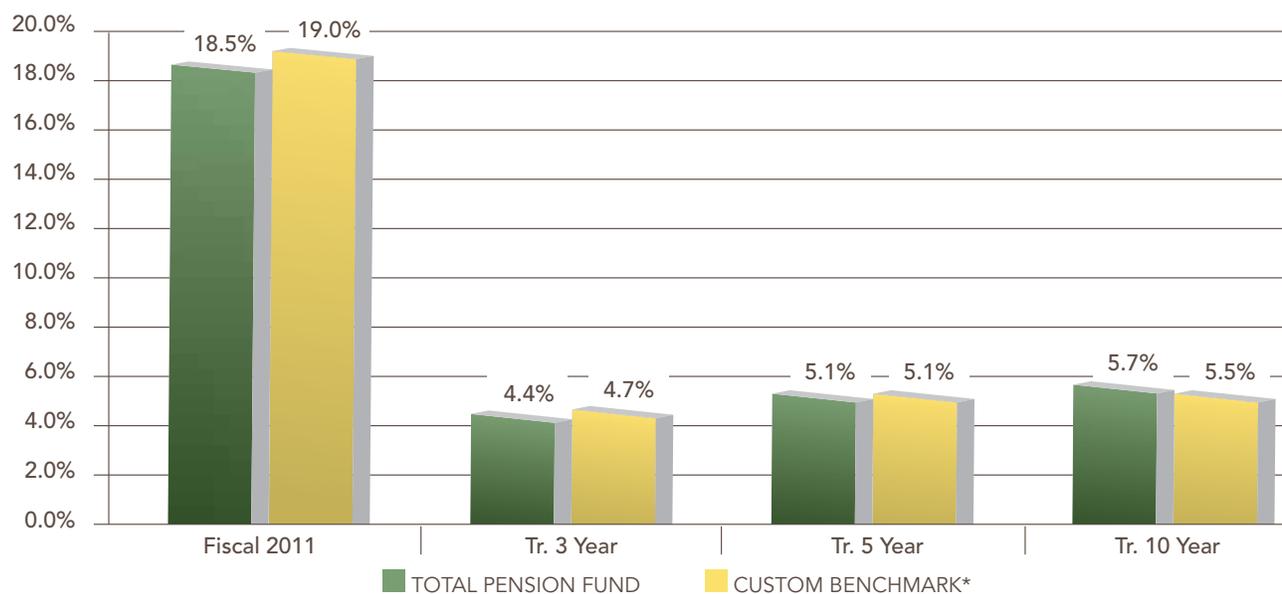
The Pension Fund has underperformed its custom benchmark over the past fiscal year. The following chart provides fiscal year returns for each asset class within the total Pension Fund.

For the fiscal year 2011, the Fund returned 18.5 percent, net of fees. Compared to its peer group plans, the Fund outperformed the median public plan with greater than \$1 billion across the three and five-year time periods, according to BNY Mellon. The below charts provide a snapshot for the total pension fund's annualized performance and performance by asset class for one-, three-, five-, and ten-year periods.

### 2011 FISCAL YEAR RETURNS TOTAL PENSION FUND

Fixed Income	5.32%
Global Equity	30.76%
Real Estate	18.16%
Private Equity	5.24%
Hedged Strategies	6.84%
Credit Strategies	15.79%
Inflation	-16.35%
Total PENSION Fund	18.48%

### TOTAL PENSION FUND ANNUALIZED PERFORMANCE



\*38.0% Fixed Income Benchmark, 47.0% Custom Equity Benchmark, 6% Custom Real Estate Benchmark, 4.5% Custom Alternatives Benchmark, 3.0% Custom Credit Benchmark, & 1.5% Custom Inflation Benchmark.



The following chart details performance by asset class and also provides the benchmarks or target returns.

ANNUALIZED PERFORMANCE AS OF JUNE 30, 2011

	1-YEAR	3-YEAR	5-YEAR	10-YEAR
<b>TOTAL PENSION PLAN</b>	<b>18.5%</b>	<b>4.4%</b>	<b>5.1%</b>	<b>5.7%</b>
TOTAL PENSION CUSTOM BENCHMARK <sup>1</sup>	19.0%	4.7%	5.1%	5.5%
<b>FIXED INCOME PORTFOLIO</b>	<b>5.3%</b>	<b>8.7%</b>	<b>8.1%</b>	<b>7.1%</b>
CUSTOM FIXED INCOME BENCHMARK <sup>2</sup>	4.4%	7.7%	7.4%	6.7%
<b>GLOBAL EQUITY INVESTMENT PORTFOLIO</b>	<b>30.8%</b>	<b>2.6%</b>	<b>3.0%</b>	<b>4.3%</b>
CUSTOM GLOBAL EQUITY BENCHMARK <sup>3</sup>	31.4%	2.4%	2.8%	3.6%
<b>REAL ESTATE INVESTMENT PORTFOLIO</b>	<b>18.2%</b>	<b>-12.3%</b>	<b>-3.2%</b>	<b>2.8%</b>
CUSTOM REAL ESTATE BENCHMARK <sup>4</sup>	21.5%	-7.4%	0.3%	5.6%
<b>PRIVATE EQUITY INVESTMENT PORTFOLIO</b>	<b>15.2%</b>	<b>0.7%</b>	<b>6.2%</b>	<b>2.2%</b>
CUSTOM PRIVATE EQUITY BENCHMARK <sup>5</sup>	19.9%	6.1%	5.6%	6.7%
<b>HEDGED STRATEGIES INVESTMENT PORTFOLIO</b>	<b>6.8%</b>	<b>-0.7%</b>	<b>1.6%</b>	<b>-</b>
CUSTOM HEDGED STRATEGIES BENCHMARK <sup>6</sup>	4.2%	4.4%	6.0%	6.1%
<b>CREDIT STRATEGIES INVESTMENT PORTFOLIO</b>	<b>15.8%</b>	<b>-</b>	<b>-</b>	<b>-</b>
CUSTOM CREDIT STRATEGIES BENCHMARK <sup>7</sup>	7.5%	-	-	-
<b>INFLATION PROTECTION INVESTMENT PORTFOLIO</b>	<b>-16.4%</b>	<b>-</b>	<b>-</b>	<b>-</b>
CUSTOM INFLATION PORTFOLIO BENCHMARK <sup>8</sup>	6.4%	-	-	-

<sup>1</sup> 38.0% Fixed Income Benchmark, 47.0% Custom Equity Benchmark, 6% Custom Real Estate Benchmark, 4.5% Custom Alternatives Benchmark, 3.0% Custom Credit Benchmark, & 1.5% Custom Inflation Benchmark.

<sup>2</sup> The ML Custom Benchmark consists of 40% Gov't 5+yr / 35% Corp. (Inv. Grade - BBB Max 25%) 5+yr / 25% Mtg. Master.

<sup>3</sup> 60% Russell 3000 / 40% Custom Non-US (MSCI ACWI ex US IMI Index)

<sup>4</sup> 90% NCREIF Open End Funds Index and 10% FTSE EPRA/NAREIT Global Securities Index.

<sup>5</sup> Russell 3000 Index lagged 3 months + 250 basis points.

<sup>6</sup> U.S. T-Bill + 400 basis points.

<sup>7</sup> 7.5% annualized return

<sup>8</sup> Consumer Price Index + 300 basis points



## CORPORATE GOVERNANCE

The Department of State Treasurer maintains a corporate governance program. The pension fund works through proxy voting, shareholders resolutions, dialogue with corporate leaders and regulatory agencies, and collaboration with other institutional investors to create long term value for portfolio companies. These initiatives are designed to enhance long-term shareowner value. They include the following strategic objectives:

- Financial regulatory reform
- Board diversity
- Sustainability
- Company engagement

## FINANCIAL REGULATORY REFORM

During Congressional debate of the Dodd-Frank Wall Street Reform and Consumer Protection Act, the North Carolina Retirement Systems signed a letter, along with 19 other pension funds, urging Congress to reaffirm the authority of the Securities and Exchange Commission to give shareowners "proxy access." Proxy access gives a group of shareowners the right to put candidates on a corporate ballot. Such access provides investors a necessary tool to ensure transparency, accountability and management risk at the board level. The June 2010 letter represented more than seven million active and retired employees with assets in excess of \$1 trillion.

## DIVERSITY

In May 2010, the Department partnered with Director Diversity Initiative (DDI), a joint project with the Center of Banking and Finance and the Center for Civil Rights at the University of North Carolina at Chapel Hill School of Law. The partnership includes identifying and encouraging potential directors to attend the one day board training as well as encouraging them to register with DDI Database.

## COMPANY ENGAGEMENT – MASSEY ENERGY

Following the tragedy at the West Virginia Upper Big Branch mine, the North Carolina Retirement Systems, along with eight other public pension funds, sent an April 2010 letter to Admiral Bobby Inman, Lead Director of Massey Energy Company, expressing concern about poor corporate governance practices.

In addition, the coalition of funds urged shareholders to withhold votes from Directors Dan Moore, Baxter Philips, Jr., and Richard Gabrys at the annual meeting in May 2010. Shareholders cast between 48 to 49 percent of their shares against all three Directors, some of the highest opposition votes against any S&P 500 company in 2010.



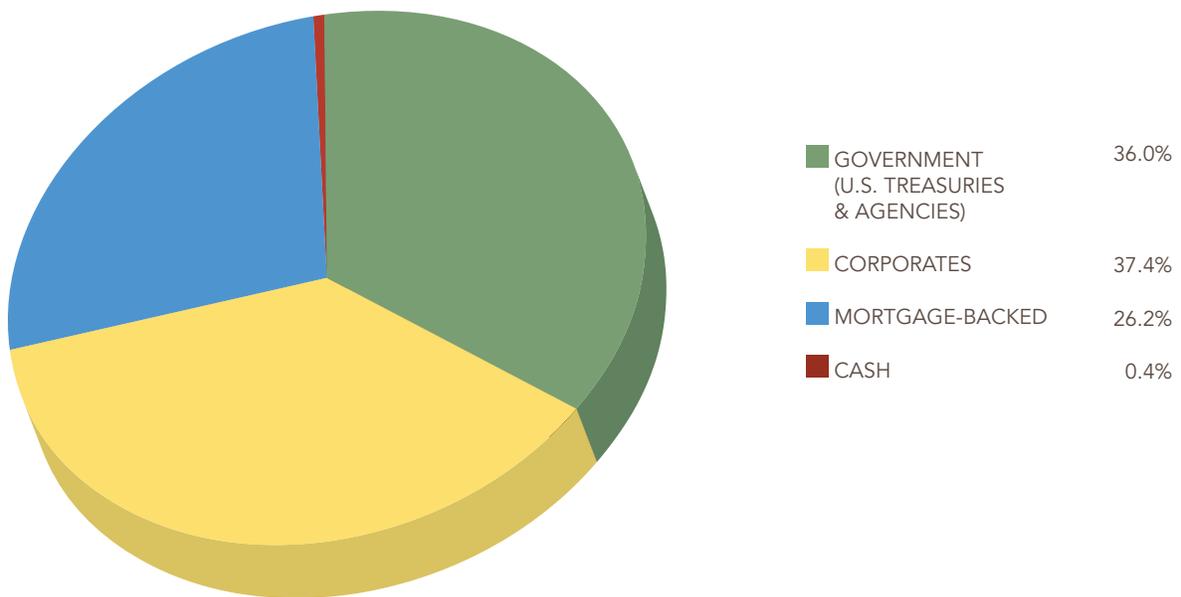
## FIXED INCOME

As of June 30, 2011, the fixed income allocation maintained a market value of \$28.3 billion, representing 37.8 percent of the Pension Fund. The Pension Fund's core Long-Term Investment Portfolio ("LTIP") represents the bulk of the fixed income assets with a market value of \$26.1 billion. The balance of the fixed income assets are in non-core strategies.

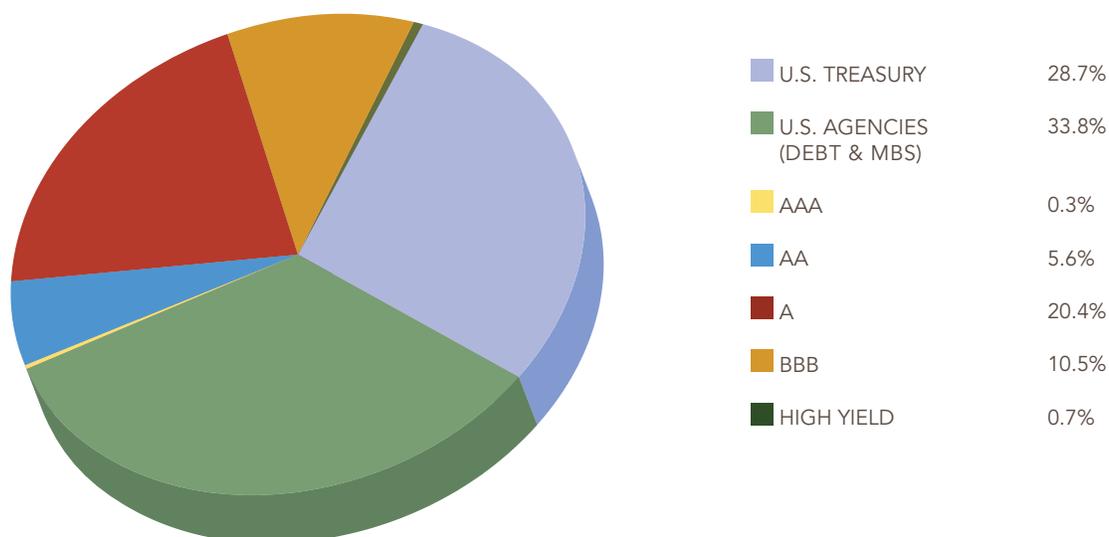
### CORE FIXED INCOME STRUCTURE

The LTIP is an internally managed investment grade fixed income portfolio that takes an enhanced approach to generating excess returns versus an assigned benchmark. The portfolio is structured to provide an intermediate duration profile that better matches the Pension Fund's longer duration liability stream versus a short duration fixed income portfolio. Because of this approach, the duration of the portfolio tends to be relatively long. Duration is a measure of a bond's price sensitivity to changes in interest rates. The portfolio comprises U.S. Treasuries, Agencies, Corporate Bonds, and GNMA mortgage-backed securities. The following chart displays the allocation of the LTIP by investment and by quality, or credit rating, of investment.

LTIP SECTOR ALLOCATION AS OF JUNE 30, 2011



LTIP QUALITY ALLOCATION AS OF JUNE 30, 2011



\*Credit Quality based on Moody's Ratings

FIXED INCOME MARKET OVERVIEW

The fiscal year began with concerns over a weak economy and sluggish growth that prompted the Fed to announce additional support in the form of Treasury purchases. The \$600 billion open market purchase initiative, dubbed QE2, provided support to the market as the economy struggled. Later in the calendar year, signs of economic growth pushed rates higher before the optimism faded throughout the first half of 2011. By the end of the fiscal year, the net changes resulted in a steeper yield curve that was lower on the front end and higher on the long end compared with the fiscal year prior. Ten year US Treasury yields were up roughly 20 basis points and 30 year yields were up almost 50 basis points. While Treasuries experienced some volatility with the wavering economy, Investment Grade corporate bonds maintained their momentum from the prior year and outperformed other sectors on tightening spreads. Below are the lists of the top ten corporate exposures within the LTIP and a summary of brokers utilized to trade securities in the portfolio.

LTIP TOP 10 CORPORATE POSITIONS AS OF JUNE 30, 2011

CORPORATE ISSUER	% OF LTIP
BANK OF AMERICA	1.7%
AT&T	1.1%
JP MORGAN	1.1%
GENERAL ELECTRIC	1.0%
GOLDMAN SACHS	1.0%

CORPORATE ISSUER	% OF LTIP
CITIGROUP	0.9%
WELLS FARGO	0.9%
VERIZON	0.8%
MORGAN STANLEY	0.8%
WAL-MART	0.7%



LTIP SUMMARY OF BROKERS UTILIZED DURING FISCAL YEAR 2011

BANK OF AMERICA	CROSS POINT CAPITAL	HSBC SECURITIES	MIZUHO SECURITIES	STIFEL NICOLAUS
BARCLAYS CAPITAL	CREDIT SUISSE SECURITIES	JP MORGAN CHASE	MORGAN KEEGAN	SUNTRUST CAPITAL MARKETS
BNY MELLON	DEUTSCHE BANK SECURITIES	JEFFERIES & COMPANY	MORGAN STANLEY	UBS SECURITIES
CANTOR FITZGERALD	FIRST TENNESSEE BANK	KEYBANC CAPITAL	RBC CAPITAL MARKETS	US BANCORP
CITIGROUP	GOLDMAN SACHS	LOOP CAPITAL	RBS GREENWICH CAPITAL	WELLS FARGO SECURITIES

CORE FIXED INCOME PERFORMANCE

For the fiscal year, the LTIP returned 5.22 percent net of fees, outperforming the benchmark return of 4.41 percent performance. The excess returns for the fiscal year continued to build upon the portfolio's history of strong performance across all respective time periods. The portfolio's overweight to an improving corporate bond market had the biggest impact on positive relative performance for the fiscal year.

LONG TERM INVESTMENT PORTFOLIO ANNUALIZED PERFORMANCE



## NON-CORE FIXED INCOME STRUCTURE

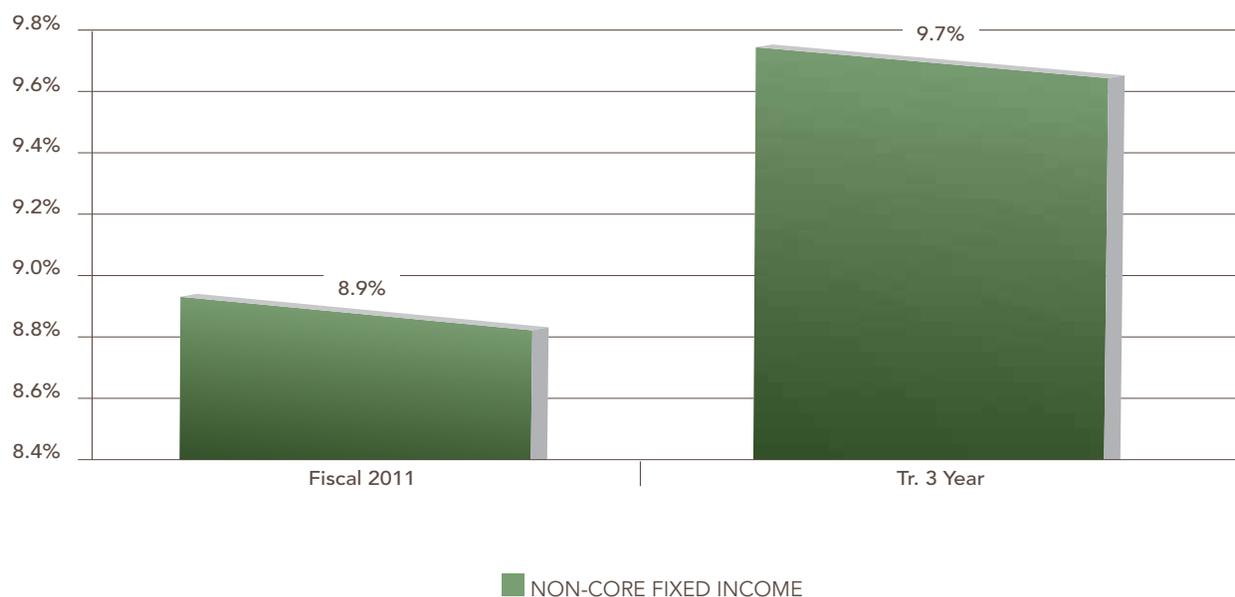
The non-core component consists of a liquidity allocation to the Short-Term Investment Fund and two opportunistic allocations to externally managed high quality Residential Mortgage-Backed Securities ("RMBS") and Commercial Mortgage-Backed Securities ("CMBS") strategies. The RMBS and CMBS strategies were executed in response to market dislocations during the credit crisis and were structured to take advantage of attractive risk/return opportunities in high quality mortgage debt.

The non-core strategies include allocations to STIF (\$1.5 billion), and investment grade RMBS (\$0.6 billion) and CMBS (\$0.1 billion).

## NON-CORE FIXED INCOME PERFORMANCE

The non-core fixed income composite posted a return of 8.91 percent for the fiscal year. The mortgage-backed securities strategies produced strong results, with the RMBS and CMBS portfolios producing returns of 10.0 percent and 12.8 percent, respectively, for the fiscal year ending June 30, 2011.

### NON-CORE FIXED INCOME PERFORMANCE

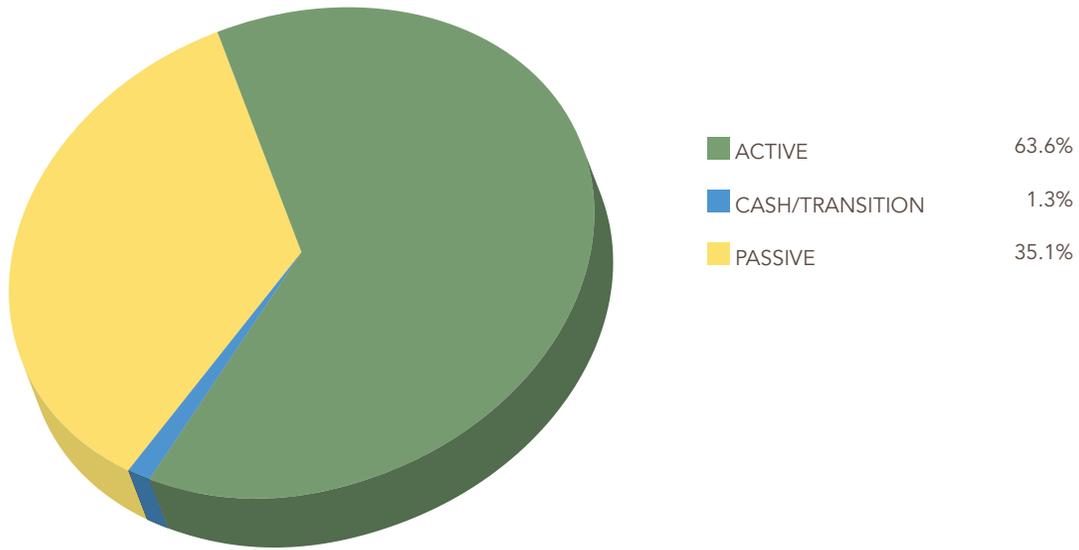


## GLOBAL EQUITY

The Global Equity portfolio ended fiscal year June 30, 2011 at \$33.9 billion, with \$16.5 billion in U.S. equity and \$17.4 billion in non-U.S. As a percentage of the Pension Fund's assets, the Global Equity allocation was 45.3 percent on June 30, 2011 versus 47.9 percent on June 30, 2010.

All investments of the Global Equity portfolio are managed externally according to one of two different strategies: passive or active. Passive investments track existing indices in relatively efficient markets. Actively managed portfolios give the manager discretion to make investment decisions within the parameters of the portfolio's mandate. The following chart provides percentage of distribution between these types of strategies.

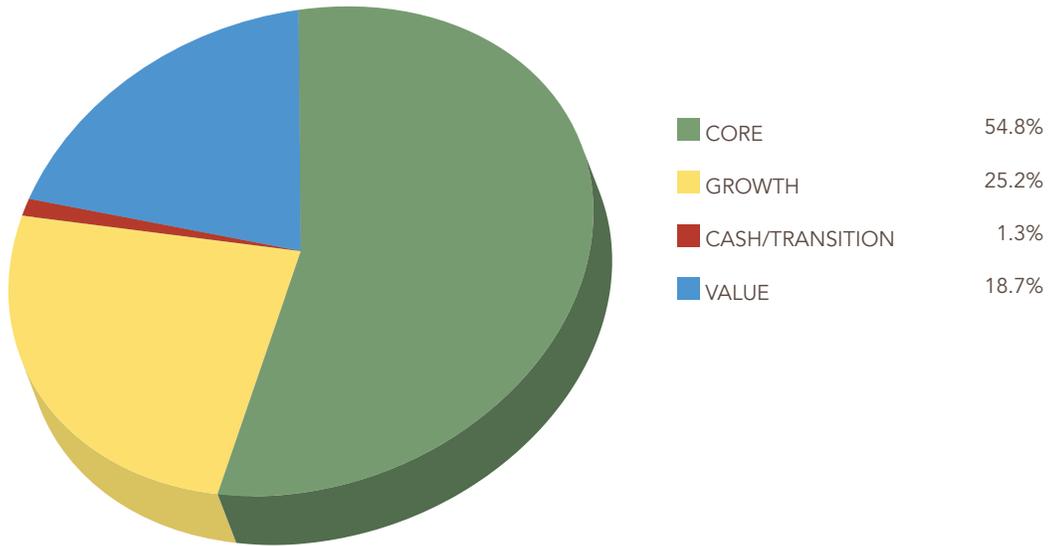
GLOBAL EQUITY ACTIVE & PASSIVE ALLOCATION



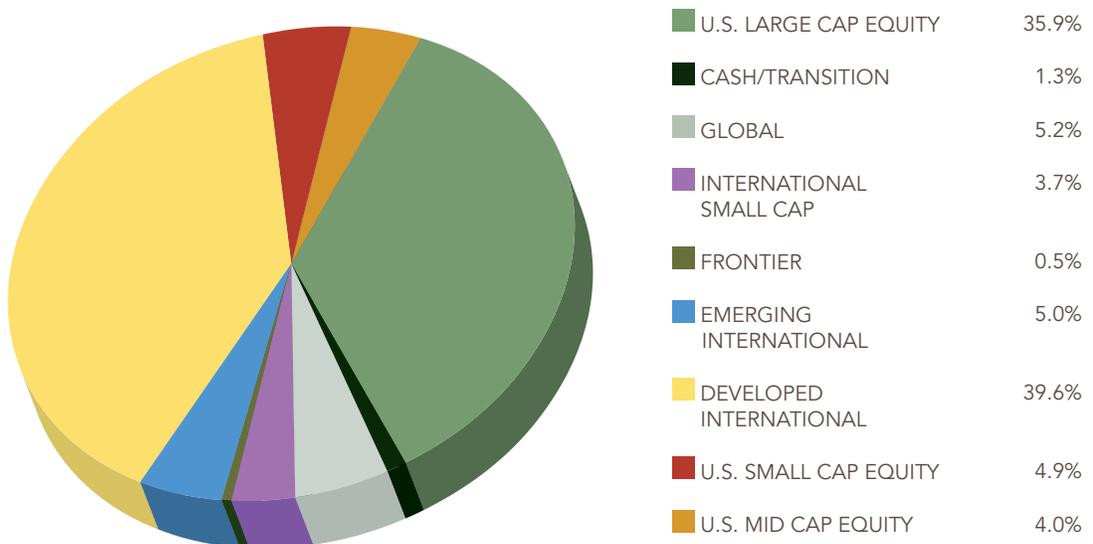
The Global Equity portfolio maintains prudent diversification within the broad equity market. The Global Equity portfolio is also categorized into U.S. Large-Cap, U.S. Mid-Cap, U.S. Small-Cap, and Non-U.S. investments. As of June 30, 2011, U.S. investments were 48.7 percent of the portfolio and non-U.S. Investments were 51.3 percent.



GLOBAL EQUITY STYLE ALLOCATION



GLOBAL EQUITY SIZE ALLOCATION



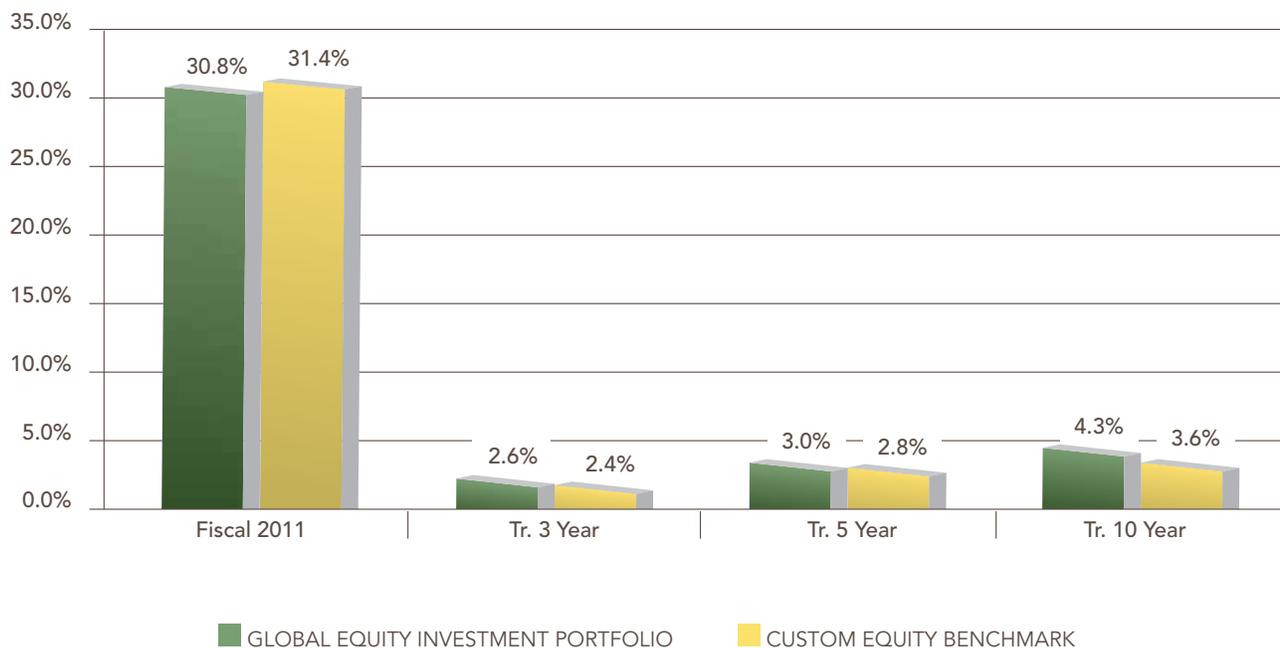
## GLOBAL EQUITY MARKET OVERVIEW

Global equity markets rallied during the last six months of 2010. The U.S. equity market as represented by the Russell 3000 index was up nearly 25 percent. The non-U.S. markets as represented by the MSCI EAFE and MSCI EM indices were up 24 percent and 28 percent, respectively. Macroeconomic concerns about European sovereign debt problems and signs of a potential slowing of the economic recovery worldwide tempered the equity markets during the first six months of 2011. Returns in the equity markets during this time period was 6 percent for U.S. markets as measured by the Russell 3000 index, 5.4 percent for developed non-U.S. markets as represented by the MSCI EAFE index and .8 percent for undeveloped non-U.S. markets as represented by the MSCI EM index.

## GLOBAL EQUITY PERFORMANCE

For the fiscal year, the Global Equity investment portfolio returned 30.8 percent, net of fees, underperforming its benchmark return by 0.6 percent. The underperformance was due to non-U.S. equity managers' underperformance, which more than offset U.S. managers outperforming their relative benchmarks. The below graph illustrates the fiscal year performance against the benchmark, as well as the three-, five- and ten-year trailing returns.

GLOBAL EQUITY INVESTMENT PORTFOLIO ANNUALIZED PERFORMANCE



**GLOBAL EQUITY PORTFOLIO INVESTMENT ADVISORS (FY ENDING 2011)**

Below is a list of the Global Equity investment advisor relationships and top ten holdings as of June 30, 2011.

U.S. EQUITY INVESTMENT ADVISORS	STYLE	MARKET VALUE (\$)
WELLINGTON BIOTECHNOLOGY	SMALL-CAP ACTIVE	656,116,021
EARNEST PARTNERS SMALL-CAP VALUE	SMALL-CAP ACTIVE	247,247,690
STERLING SMALL-CAP VALUE	SMALL-CAP ACTIVE	201,132,522
NUMERIC SMALL-CAP VALUE	SMALL-CAP ACTIVE	216,957,820
BROWN SMALL-CAP GROWTH	SMALL-CAP ACTIVE	262,855,949
NUMERIC SMALL-CAP GROWTH	SMALL-CAP ACTIVE	88,458,658
WELLINGTON MID-CAP OPPORTUNITIES	MID-CAP ACTIVE	694,861,096
TIMESQUARE MID-CAP GROWTH	MID-CAP ACTIVE	262,327,996
TIMESQUARE MID-CAP FOCUSED	MID-CAP ACTIVE	121,912,188
MELLON CAPITAL MANAGEMENT MID-CAP	MID-CAP PASSIVE	269,342,040
HOTCHKIS LARGE-CAP VALUE	LARGE-CAP ACTIVE	1,115,280,488
WELLINGTON GROWTH	LARGE-CAP ACTIVE	894,687,365
WELLINGTON TECHNICAL EQUITY	LARGE-CAP ACTIVE	562,539,200
WELLINGTON LARGE-CAP VALUE	LARGE-CAP ACTIVE	803,070,599
SANDS LARGE-CAP GROWTH	LARGE-CAP ACTIVE	1,118,379,484
RELATIONAL INVESTORS LARGE-CAP	LARGE-CAP ACTIVE	710,579,997
PIEDMONT STRATEGIC CORE	LARGE-CAP ACTIVE	634,979,315
RHUMBLINE R200 PASSIVE	LARGE-CAP PASSIVE	2,980,586,137
FIRST CITIZENS LARGE-CAP	LARGE-CAP PASSIVE	1,228,499,548
MELLON CAPITAL MANAGEMENT LARGE-CAP	LARGE-CAP PASSIVE	2,110,004,114



## NON-U.S. GLOBAL EQUITY PORTFOLIO INVESTMENT ADVISORS (FY ENDING 2011)

The list below includes investment style and market value. Active investing is highly involved, while passive investing focuses more on the potential for long-term appreciation. The second list details the top holdings in the portfolio and the percentage of each.

NON-U.S. EQUITY INVESTMENT ADVISORS	STYLE	MARKET VALUE (\$)
BAILLIE GIFFORD EAFE	NON-U.S. ACTIVE	1,525,460,832
BLACKROCK MSCI ACWI EX-U.S.	NON-U.S. ACTIVE	3,875,210,423
GMO INTL	NON-U.S. ACTIVE	1,438,896,069
WELLINGTON INTL	NON-U.S. ACTIVE	1,253,137,572
OESCHLE EAFE GROWTH	NON-U.S. ACTIVE	1,048,898,164
INVESCO INTL	NON-U.S. ACTIVE	878,547,698
ALLIANCE ACWI EX-U.S.	NON-U.S. ACTIVE	687,922,379
MONDRIAN EAFE VALUE	NON-U.S. ACTIVE	980,495,356
MONDRIAN INTL SC	NON-U.S. ACTIVE	309,016,543
FRANKLIN TEMPLETON INTL SC	NON-U.S. ACTIVE	328,273,276
ALLIANCE EMERGING MARKETS	NON-U.S. ACTIVE	620,492,303
WALTER SCOTT INTL	NON-U.S. ACTIVE	911,735,450
BAILLIE GIFFORD EMERGING MARKETS	NON-U.S. ACTIVE	344,295,155
BLACKROCK EMERGING MARKETS	NON-U.S. ACTIVE	408,570,445
BLACKROCK FRONTIER MARKETS	NON-U.S. ACTIVE	178,960,322
MONDRIAN EMERGING MARKETS	NON-U.S. ACTIVE	304,601,986
BLACKROCK ACWI EX-U.S. IMI	NON-U.S. PASSIVE	612,378,958
BLACKROCK MSCI CANADA INDEX	NON-U.S. PASSIVE	490,390,819
BLACKROCK EAFE IMI INDEX FUND	NON-U.S. PASSIVE	326,062,677
LONGVIEW GLOBAL EQUITY	GLOBAL ACTIVE	980,183,816
BRANDES GLOBAL EQUITY	GLOBAL ACTIVE	720,786,645
AGA GLOBAL STRATEGY	GLOBAL ACTIVE	70,216,836



GLOBAL EQUITY TOP 10 HOLDINGS (FY ENDING 2011)

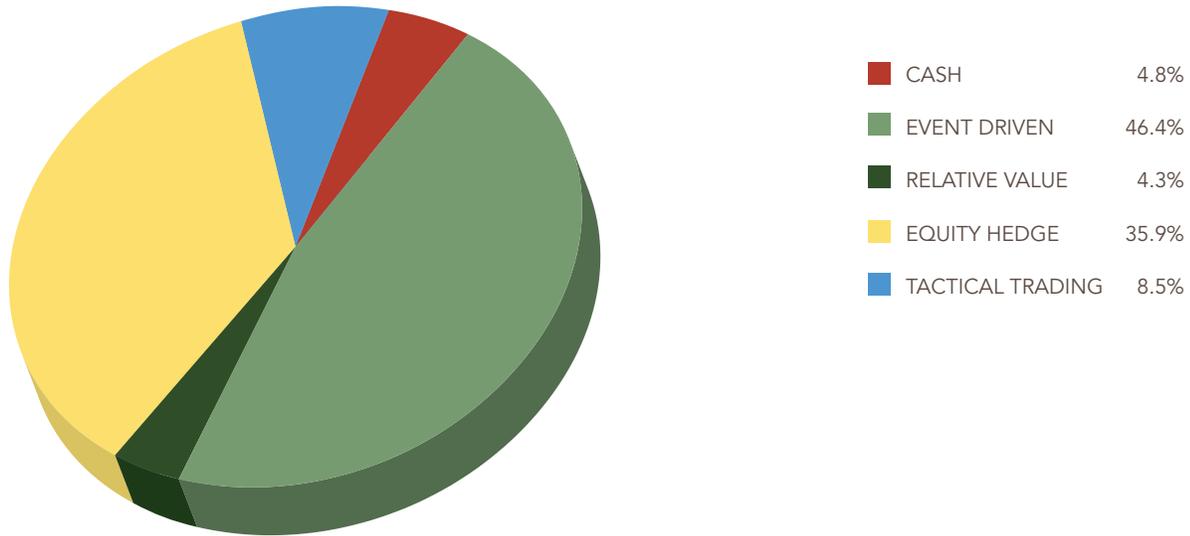
COMPANY	% OF EIP	COMPANY	% OF EIP
APPLE	0.9%	PFIZER	0.5%
EXXON MOBIL	0.8%	OCCIDENTAL PETROLEUM	0.5%
MICROSOFT	0.6%	CHEVRON	0.5%
WELLS FARGO	0.5%	GENERAL ELECTRIC	0.5%
JP MORGAN CHASE	0.5%	CVS CAREMARK	0.5%



## HEDGED STRATEGIES

Hedging techniques are used to reduce exposure to various risks. Hedging against investment risk means strategically using instruments in the market to offset the risk of any adverse price movements. In other words, investors hedge one investment by making another. The market value of the Hedged Strategies portfolio at fiscal year end was \$431.6 million, representing 0.6 percent of the Pension Fund.

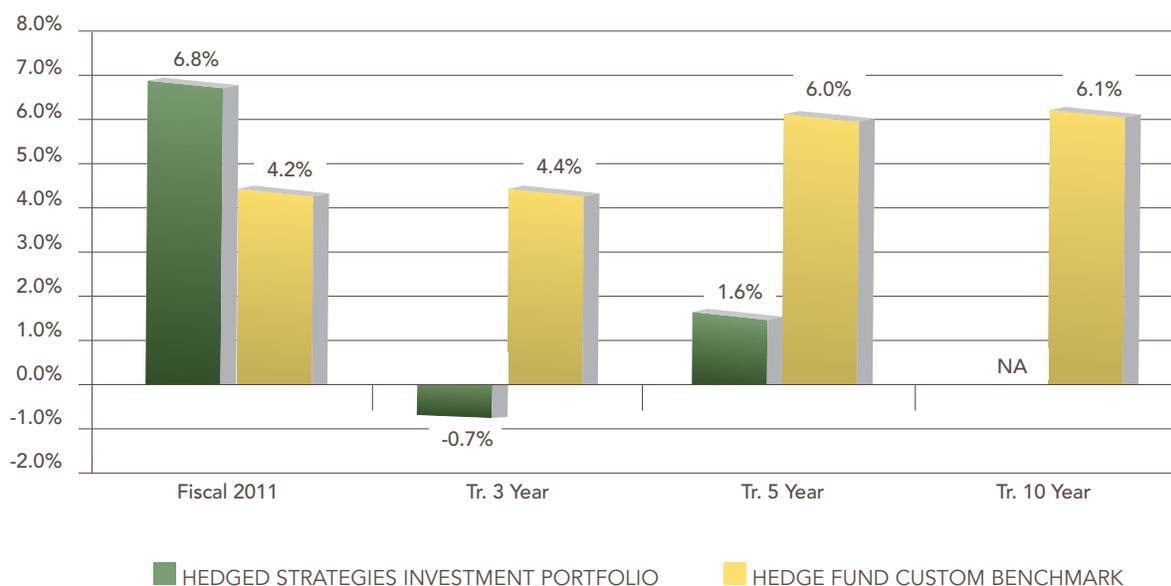
HEDGED STRATEGIES ALLOCATION



## HEDGED STRATEGIES PERFORMANCE

For the fiscal year, the Hedged Strategies investment portfolio returned 6.8 percent, net of fees, outperforming its custom benchmark, the 90-Day U.S. Treasury Bill + 400 basis points, by 2.6 percent. The chart below illustrates returns and benchmarks for the fiscal and trailing years.

### HEDGED STRATEGIES INVESTMENT PORTFOLIO ANNUALIZED PERFORMANCE



### HEDGED STRATEGIES INVESTMENT ADVISORS (FY ENDING 2011)

HEDGED STRATEGY ADVISORS AND FUNDS	MARKET VALUE (\$)
FRANKLIN STREET PARTNERS	\$ 357,092,227
SCS GLOBAL SERIES I	\$ 32,588,421
BLACKROCK - CARS	\$ 29,379,317
BROYHILL FUND	\$ 8,912,523
DKR RELATIVE VALUE	\$ 442,770
TACONIC OPP FUND	\$ 104,449
CS/NC INVEST FUND 2011 SERIES	\$ 3,084,285

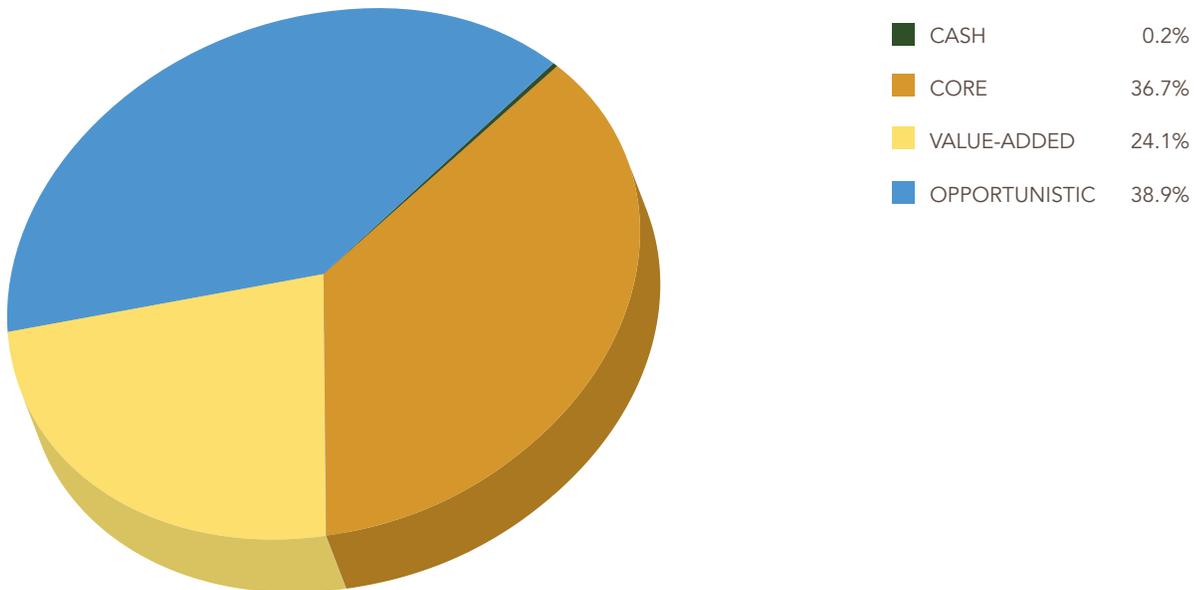


## REAL ESTATE

As of June 30, 2011, the Real Estate Investment Portfolio (“REIP”) was valued at \$4.2 billion. The REIP is an actively managed portfolio of both open-end and closed-end commingled funds as well as separate account mandates. The REIP allocation as a percent of Pension Fund assets has grown to 5.6 percent at fiscal year end.

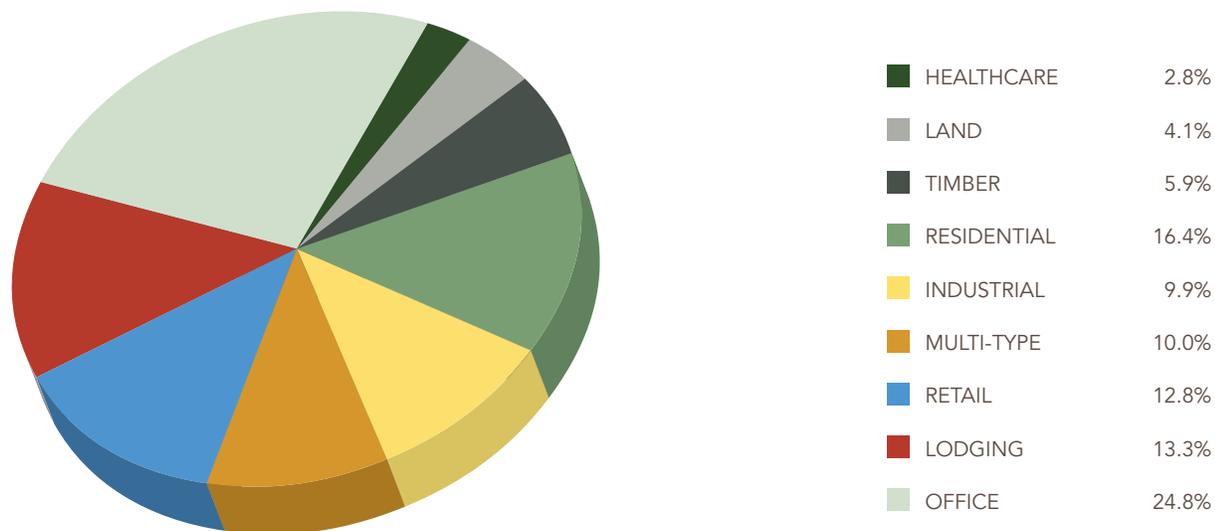
The REIP maintains a “Core Plus” strategy, seeking the majority of returns from income as opposed to capital appreciation. Core real estate is represented by well-located, stable properties with high occupancy levels. Core investment returns are primarily driven by property income with debt levels typically at 0 - 50 percent of property value. Value-Added real estate generally requires some additional leasing and moderate tenant improvements before the properties are sold. Returns are derived from both income and capital appreciation with debt levels ranging from 50 percent to 65 percent of property value. Upon completion of value-added strategies, assets become core and can be sold at premium valuations. Opportunistic real estate investments require significant capital expenditures. Returns are derived from capital appreciation due to the lack of “going-in” cash flows. Opportunistic strategies include development, redevelopment, restructuring, land, and distressed properties. These investments have high debt levels typically between 65 percent and 80 percent of property value. At fiscal year end, the REIP’s exposure to core and value-added strategies was 61 percent versus 39 percent in Opportunistic funds. The below chart outlines these allocations:

STRATEGY ALLOCATION



In addition, the analysis of new investments focuses on location and property types, and employs a moderate level of risk. The REIP continues its objective by expanding into a variety of property types including debt, industrial, land, lodging, multi-type, office, multi-family residential, single-family residential, retail, and timber. The below chart displays the percentage of each property type allocation as of June 30, 2011:

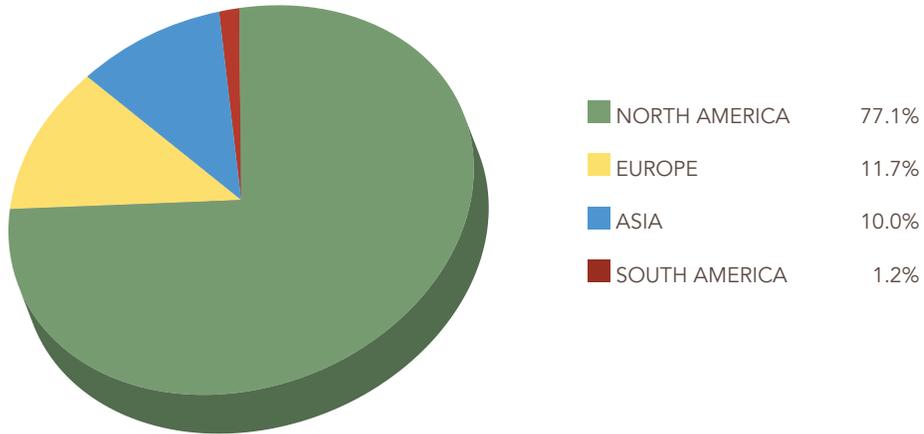
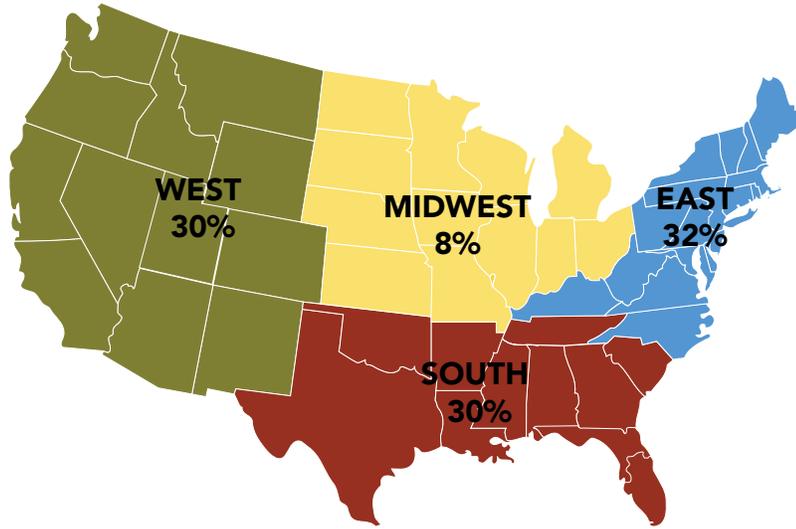
PROPERTY TYPE ALLOCATION



Geographically, the REIP has a North American focus, yet is diversified among the South, East, West, and Midwest regions. International investment exposure is approximately 23 percent, with the majority split between Europe and Asia. The following charts show the U.S. and global geographic allocations as of June 30, 2011:



DOMESTIC ALLOCATION



## REAL ESTATE MARKET OVERVIEW

During the fiscal year, the commercial real estate market showed improvements. The global REIT market gained over 33 percent, evidenced by gains in the FTSE/EPRA/NAREIT Global Securities index. The REIP's private equity real estate benchmark component, the NCREIF-ODCE, gained 20 percent during the fiscal year as well. The value disparity between fully-leased, Class A real estate located in primary and secondary markets continues. Recent core transactions have traded at pre-recession capitalization rates below 5 percent while wide bid/ask spreads continue in the non-Core space. A global search for yield has led to throngs of bidders such as sovereign wealth funds, hedge funds, institutional investors, and REITs competing for Core real estate. Further, several large open-end real estate funds have entry queues over \$2 billion. Therefore, purchasing core real estate today is an expensive proposition, but manufacturing it presents a clear and profitable exit strategy if executed effectively.

Regarding non-core private market fundamentals, the key issue today is recovery of tenant demand as opposed to an oversupply issue witnessed in past cycles. Outside the apartment sector, the development pipeline has declined dramatically as lenders are hesitant to make construction loans. Occupancies troughed in 2009, and rents followed this trend in 2010. Cash flows improved modestly following significant rent declines, but the outlook is for a multi-year recovery due to lackluster economic and employment growth.

U.S. GDP growth resumed at the beginning of fiscal year 2010 on the heels of unprecedented government spending and remained positive throughout fiscal 2011, but a growth rate of 0.4 percent for the quarter ending March 31, 2011 is low and the possibility of a double-dip is a concern. The aforementioned government spending has not translated into meaningful job growth with unemployment remaining above 9 percent. Continued high structural unemployment is a major headwind to the real estate sector. Leasing commercial real estate is particularly challenging today as corporations delay expansion plans awaiting a more certain economic outlook.

Similar to the U.S., there was a large valuation discrepancy in Europe between primary and secondary properties. Sovereign debt issues are creating a "wait and see" attitude among potential buyers, both foreign and domestic. Financing for development and secondary market assets is difficult to obtain and has led to a dearth of transactions. Tenant activity is characterized by occupiers downsizing or moving to more efficient space while those capable of expansion are waiting for more certain economic outlooks.

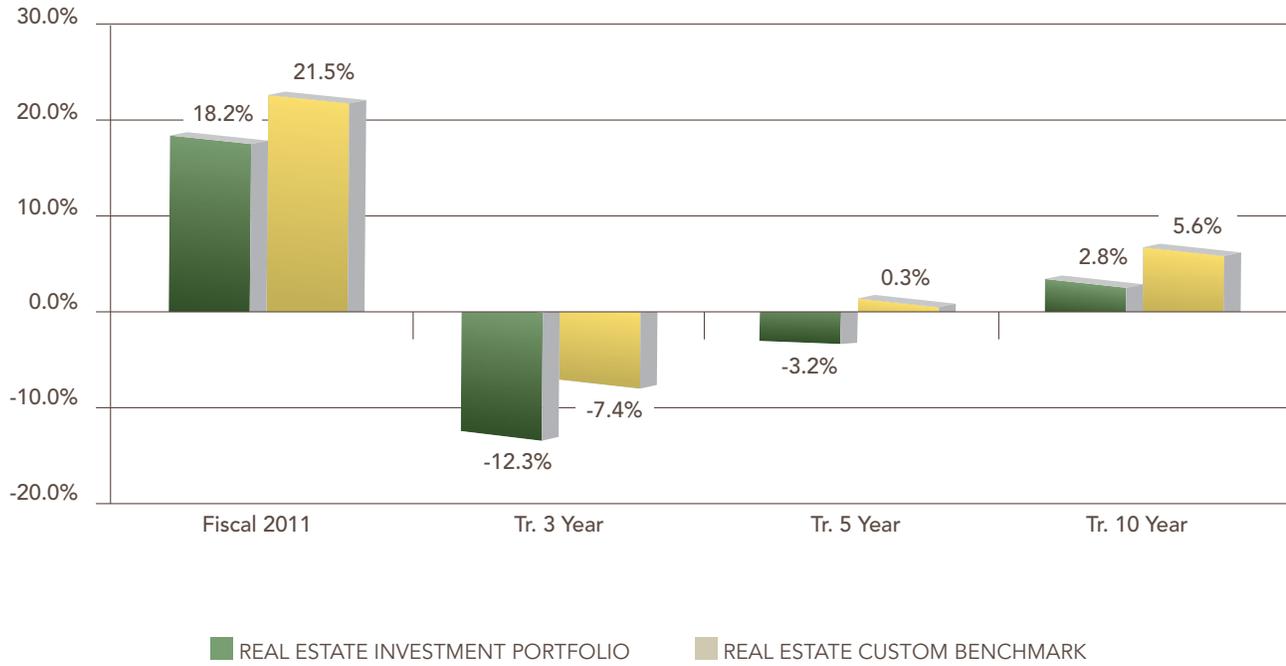
Asia, ex-Japan, economies stabilized in the second quarter of 2011 due to developments in industrial production, exports, and domestic consumption. Japan is expected to recover from the earthquake in March 2011, and the Chinese government continues to tighten liquidity by raising reserve requirements for large banks and restricting lending to real estate. In 2011, both Hong Kong and Singapore have seen rising rents due to strong economic growth coupled with low vacancy and limited supply. This led to strength in the direct/private commercial real estate markets, but the REITs did not reflect this and instead traded on concerns over a hard landing in China, rising local interest rates, European debt issues, and overall negative sentiment. In Asia (particularly China, Hong Kong, and Singapore), underlying property fundamentals are strong and improving. However, their respective securities markets trade at discounts to NAVs.

## REAL ESTATE PERFORMANCE

For the fiscal year 2011, the REIP returned 18.2 percent, net of fees, underperforming its custom benchmark return of 21.5 percent. The majority of the REIP's growth as a percent of the Pension Fund occurred during fiscal years 2006 through 2008. Private equity real estate investments of such vintages have few realizations this soon after commencement. These commitments and their corresponding management fees translate to large capital outflows until realizations occur and sale proceeds are distributed. Returns tend to be negative in early years, producing a J-shaped series of returns known as the "J-curve effect." The chart below illustrates returns and benchmarks for the fiscal and trailing years.



REAL ESTATE INVESTMENT PORTFOLIO  
ANNUALIZED PERFORMANCE



## REAL ESTATE INVESTMENT ADVISORS (FY ENDING 2011)

Below is a list of the real estate investment advisors and fund relationships as of June 30, 2011.

REIP ADVISORS AND FUNDS	MARKET VALUE (\$)	REIP ADVISORS AND FUNDS	MARKET VALUE (\$)
JP MORGAN STRATEGIC PROPERTY FUND	321,381,530	DRA G&I FUND V CO-INVESTMENT	29,372,110
TIMBERLAND INV RES - NAHELE	238,089,192	LEM RE MEZZANINE FUND II	29,098,947
BLACKSTONE RE PARTNERS VI	205,402,838	BENSON ELLIOT RE PARTNERS II	28,273,238
UBS TRUMBULL PROPERTY FUND	192,736,357	AG NET LEASE REALTY FUND II	28,204,053
STARWOOD SDL/SOF VII CO-INV	113,956,669	PALADIN LATIN AMERICAN PARTNERS III	26,534,690
STARWOOD OPPORTUNITY FUND VII	104,571,423	DRA GROWTH & INCOME FUND VI	25,766,408
UBS TRUMBULL PROPERTY INCOME FUND	104,232,726	SRI NINE REIT	21,769,333
BLACKSTONE RE PARTNERS V	99,813,453	AMERICAN VALUE PARTNERS FUND I	17,549,980
KEYSTONE INDUSTRIAL FUND II	99,367,630	DB REAL ESTATE GLOBAL OPPS I-A/I-B	17,454,826
RREEF GLOBAL OPP FUND II	99,179,269	DRA GROWTH & INCOME FUND IV	16,670,134
CIM URBAN REIT	98,374,027	ROCKWOOD CAPITAL RE PARTNERS VIII	16,477,729
MSREF VI	95,068,139	AG CORE PLUS REALTY FUND I	15,798,630
WARBURG PINCUS REAL ESTATE I	93,413,668	FROGMORE REAL ESTATE PARTNERS II	15,629,686
NORTHCREEK FUND	92,763,000	HARRISON STREET RE PARTNERS II	15,197,692
DLJ REAL ESTATE CAPITAL PARTNERS III	92,235,966	CHEROKEE INVESTMENTS PARTNERS IV	14,851,953
KEYSTONE INDUSTRIAL FUND I	91,940,406	LONE STAR REAL ESTATE FUND II	14,451,122
NORTHROCK CORE FUND	91,558,235	PENWOOD CSIP I	14,289,974
PRUDENTIAL PRISA	86,610,889	JER REAL ESTATE PARTNERS IV	13,909,704
DRA GROWTH & INCOME FUND V	85,495,421	RREEF GOF II - 2010 SENIOR NOTE	13,027,242
SRI SEVEN REIT	78,056,912	FROGMORE REAL ESTATE PARTNERS I	12,667,659
AG CORE PLUS REALTY FUND II	73,946,758	ROCKPOINT REAL ESTATE FUND I	11,676,454



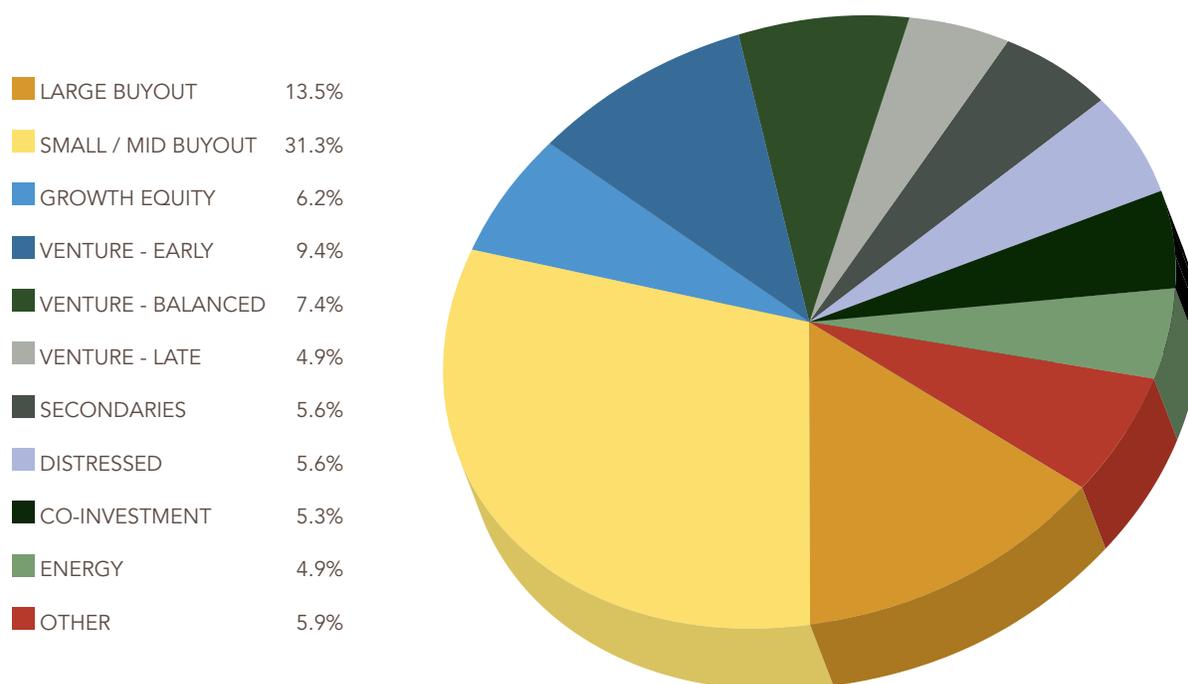
REIP ADVISORS AND FUNDS	MARKET VALUE (\$)	REIP ADVISORS AND FUNDS	MARKET VALUE (\$)
ROCKPOINT REAL ESTATE FUND III	73,828,814	CROW HOLDINGS REALTY PARTNERS IV-A	9,054,401
CBRE STRATEGIC PARTNERS V	68,311,029	PATRIA BRAZIL REAL ESTATE FUND II	6,477,743
TERRA FIRMA DEUTSCHE ANNINGTON	67,413,809	DLJ REAL ESTATE CAPITAL PARTNERS II	4,668,791
SRI EIGHT REIT	50,464,846	WESTBROOK REAL ESTATE FUND III	3,697,065
ROCKWOOD CAPITAL RE PARTNERS VI	46,385,354	CHEROKEE INVESTMENTS PARTNERS III	3,605,305
HAWKEYE (SCOUT) FUND 1-A	46,167,587	VALUE ENHANCEMENT FUND II	3,552,023
DLJ REAL ESTATE CAPITAL PARTNERS IV	45,002,215	AG ASIA REALTY FUND II	2,684,096
ROCKWOOD CAPITAL RE PARTNERS VII	42,539,392	RMK EMERGING TIMBERLAND FUND	1,162,789
VALUE ENHANCEMENT FUND IV	39,332,680	WESTBROOK REAL ESTATE FUND IV	657,035
STAG INVESTMENTS II	37,953,795	WESTBROOK REAL ESTATE FUND II	307,800
CROW HOLDINGS REALTY PARTNERS V	37,488,916	CIGNA REALTY OPEN-END FUND	296,572
ROCKPOINT REAL ESTATE FUND II	37,210,072	WESTBROOK REAL ESTATE FUND I	189,065
CROW HOLDINGS REALTY PARTNERS IV	36,506,565	DRA GROWTH & INCOME FUND III	155,898
MSREF V INTERNATIONAL	33,570,612	DLJ REAL ESTATE CAPITAL PARTNERS I	1
CBRE STRATEGIC PARTNERS IV	33,229,087	BENSON ELLIOT RE PARTNERS III	-2,073
CROSSHARBOR INSTL PARTNERS	33,010,915	DRA GROWTH & INCOME FUND VII	-
JER REAL ESTATE PARTNERS III	31,963,807	SENTINEL REAL ESTATE FUND	-
RLJ REAL ESTATE FUND III	31,672,256	SENTINEL REALTY PARTNERS V	-
RLJ LODGING FUND II	30,617,630	SRI TEN REIT	-
PENWOOD PSIP II	30,091,313		



## PRIVATE EQUITY

As of June 30, 2011, the Private Equity investment portfolio maintained a market value of approximately \$3.2 billion, representing 4.2 percent of the Pension Fund. The portfolio invests in limited partnerships which are externally managed by experienced private equity investment professionals.

Private equity investments are unlikely to provide positive returns in early years. Investment gains in private equity are typically realized in later years as assets of funds mature and increase in value due to the efforts of the management company, producing a "J-curve effect." Specifically, the cost of management fees and write-downs of underperforming assets are borne by funds early, while the realization of gains comes with the eventual sale of assets after their value has increased. Private equity investments may be categorized into various sub-strategies. The Private Equity investment portfolio's allocation to these sub-strategies is displayed below.



### PRIVATE EQUITY MARKET OVERVIEW

The Private Equity Industry fundraising environment is on track to achieve its third consecutive year of increase, though the overall level remains constrained compared to historic levels. While the public portfolios of large institutional investors have recovered significantly, they are not at 2007 levels, impacting alternative allocation decisions. In addition, the overhang of outstanding unfunded commitments continues to burden investors. In the U.S., the estimated length of time to invest this outstanding commitment is 4-5 years.

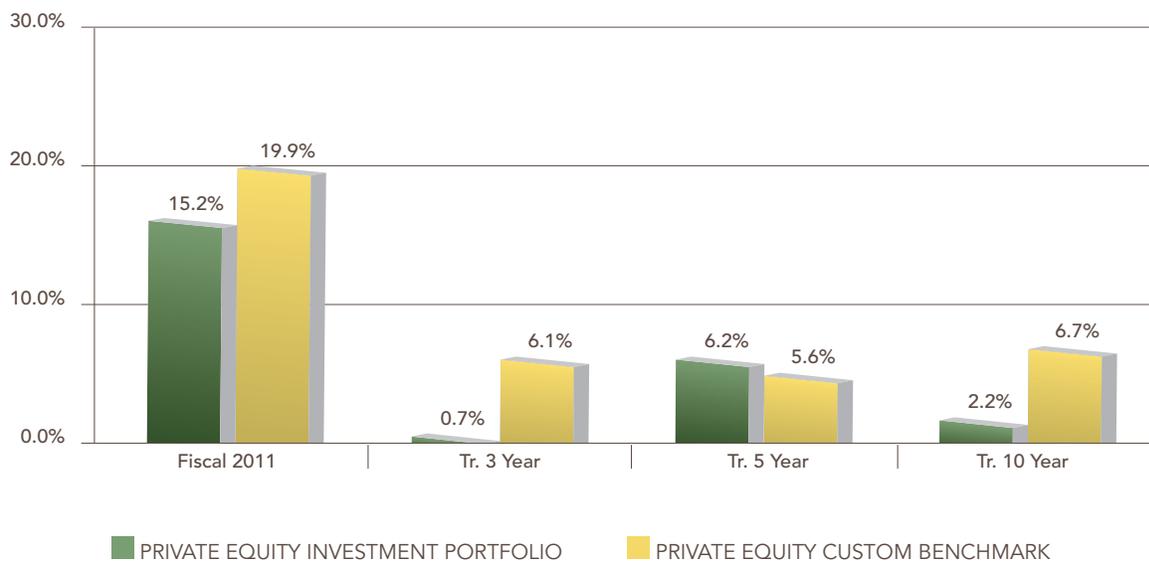
Global Private Equity investment activity has increased for six consecutive quarters, having a positive impact on reducing unfunded commitments. Transaction volume is largely driven by the availability and cost of debt for strategies involving leverage. While the lending environment has improved and borrowing costs remain low, bank appetite to hold illiquid corporate credit has been and continues to be severely impacted by stricter regulatory hurdles. In contrast, demand for debt is increasing due to 1) maturing debt profiles of existing investments, and 2) managers' willingness to pursue new investments as a clearer picture of the economic environment emerges. Alternative sources of capital are emerging to fill this void, albeit at a higher cost.

The exit environment has improved. The global M&A environment has been driven by large corporate balance sheets with significant cash. Corporations searching for growth in a slow economy have created demand for acquisitions, where consolidation synergies and operational efficiencies will drive earnings growth. In terms of global IPOs, Private Equity exit volumes have been tracking higher, and the backlog continues to grow. Volatile Public Equity markets will continue to challenge pricing, but the recent success of a few venture-backed IPOs and interest in exits by investors is expected to increase activity.

### PRIVATE EQUITY PERFORMANCE

For the fiscal year, the Private Equity investment portfolio returned 15.24 percent, underperforming its benchmark return of 19.91 percent. The Private Equity investment portfolio is benchmarked against a public equity index. This can lead to a significant short-term difference between portfolio performance and benchmark performance. The portfolio did outperform on a 5-year timeframe. The chart below illustrates returns and benchmarks for the fiscal and trailing years.

PRIVATE EQUITY INVESTMENT PORTFOLIO  
ANNUALIZED PERFORMANCE



## PRIVATE EQUITY INVESTMENT ADVISORS (FY ENDING 2011)

Below is a list of the Private Equity investment advisors and fund relationships as of June 30, 2011.

PRIVATE EQUITY FUND	MARKET VALUE (\$)	PRIVATE EQUITY FUND	MARKET VALUE (\$)
CS/NC INVESTMENT FUND 2006	180,301,950	WARBURG PINCUS PRIVATE EQUITY X - 10	22,423,119
PARISH CAPITAL EUROPE I	150,997,442	TPG BIOTECHNOLOGY PARTNERS III	21,331,811
WLR RECOVERY FUND IV	123,536,653	LINDSAY GOLDBERG III LP	21,195,154
TERRA FIRMA CAPITAL PARTNERS II LP.	111,103,149	CATTERTON GROWTH PARTNERS	20,584,874
PARISH CAPITAL I	101,006,655	PERSEUS MARKET OPPORTUNITY FUND	20,425,673
PARISH CAPITAL II	97,010,707	TPG BIOTECHNOLOGY PARTNERS II	19,607,486
LONGREACH CAPITAL PARTNERS 1	92,099,311	AMPERSAND 2006 LIMITED PARTNERSHIP	19,371,631
LINDSAY GOLDBERG II	78,785,510	SYNERGY LIFE SCIENCE PARTNERS	17,257,254
KRG CAPITAL FUND IV	75,228,750	ACCESS CAPITAL II	16,555,121
AVISTA CAPITAL PARTNERS II	68,075,093	TCV VI	16,549,240
CS/NC INVESTMENT FUND 2008	66,052,907	ARCH VENTURE FUND VII	15,316,707
ELEVATION PARTNERS	64,107,562	CAROUSEL CAPITAL PARTNERS III	14,285,517
CVC EUROPE EQUITY PARTNERS IV	60,686,581	CASTLE HARLAN PARTNERS IV	13,457,389
TERRA FIRMA CAPITAL PARTNERS III	58,997,702	PAPPAS LIFE SCIENCE VENTURES III	11,865,541
LEXINGTON MIDDLE MARKET INVESTORS	58,881,562	STARVEST PARTNERS II	11,371,797
MATLINPATTERSON GLOBAL OPPORTUNITIES PARTNERS III	58,355,509	AG PRIVATE EQUITY PARTNERS IV (R)	10,210,054
HARVEST PARTNERS V	57,502,213	HIGHLAND CONSUMER FUND I	9,901,941
FRANCISCO PARTNERS II	56,938,857	HALIFAX CAPITAL PARTNERS II	9,688,797
TENAYA CAPITAL FUND V	53,706,197	HIGHLAND CAPITAL PARTNERS VII	9,368,229
AVISTA CAPITAL PARTNERS I	53,025,775	AURORA VENTURES V LLC	8,514,480
COLLER INTERNATIONAL PARTNERS IV	52,329,349	HARVEST PARTNERS IV	8,258,152
CRESTVIEW PARTNERS II	51,113,439	HATTERAS VENTURE PARTNERS III	7,878,087
PERSEUS PARTNERS VII	49,524,370	HORSLEY BRIDGE INTERNATIONAL V	6,833,531



PRIVATE EQUITY FUND	MARKET VALUE (\$)	PRIVATE EQUITY FUND	MARKET VALUE (\$)
HORSLEY BRIDGE INTERNATIONAL IV	46,222,710	PAPPAS LIFE SCIENCE VENTURES IV	6,807,357
PCA-SYN INVESTMENTS	45,228,375	KRG CAPITAL FUND II	5,553,229
ROBECO CLEAN TECH II	45,208,771	CS/NC INVESTMENT FUND 2008 - SERIES II	5,358,533
ROBECO CLEAN TECH II CO-INV	45,084,950	NOVAK BIDDLE VENTURE PARTNERS IV	5,203,865
CHAPTER IV INVESTORS SPECIAL SITUATIONS FUND	44,896,962	AURORA VENTURES IV LLC	5,137,042
QUAKER BIOVENTURES II	43,800,371	NOVAK BIDDLE VENTURE PARTNERS V	5,070,012
KRG CAPITAL FUND III	41,189,914	INTERSOUTH PARTNERS VI	4,651,725
CVE KAUFFMAN FUND I	40,267,546	WLR AGO CO-INV	4,393,139
CREDIT SUISSE INNOVATION FUND	37,888,311	NCEF LIQUIDATING TRUST	3,805,494
BURRILL LIFE SCIENCES CAPITAL FUND III	36,850,157	NOVAK BIDDLE VENTURE PARTNERS III	3,742,160
WLR AHM CO-INV	34,019,978	NORTH CAROLINA ECONOMIC OPPORTUNITIES FUND	3,514,728
MARKSTONE CAPITAL PARTNERS	32,294,158	HIGHLAND CAPITAL PARTNERS VI	2,968,934
LEXINGTON MIDDLE MARKET INVESTORS II	31,376,843	FRANKLIN FAIRVIEW I	2,263,156
CASTLE HARLAN PARTNERS V	28,215,230	A.V. MANAGEMENT IV LLC	1,747,117
ANGELENO INVESTORS II	27,870,746	PAPPAS LIFE SCIENCE VENTURES II	926,729
CHARTERHOUSE CAPITAL PARTNERS IX	27,638,408	DLJ MERCHANT BANKING PARTNERS II	346,468
HORSLEY BRIDGE IX	26,798,774	INTERSOUTH PARTNERS III	61,858
TUDOR VENTURES III	26,348,069	SPROUT GROWTH II	34,918
BURRILL LIFE SCIENCES CAPITAL FUND	22,744,996	KITTY HAWK CAPITAL III	18,884
AG PRIVATE EQUITY PARTNERS IV	22,744,185	ACADEMY VENTURE FUND LLC	11,205

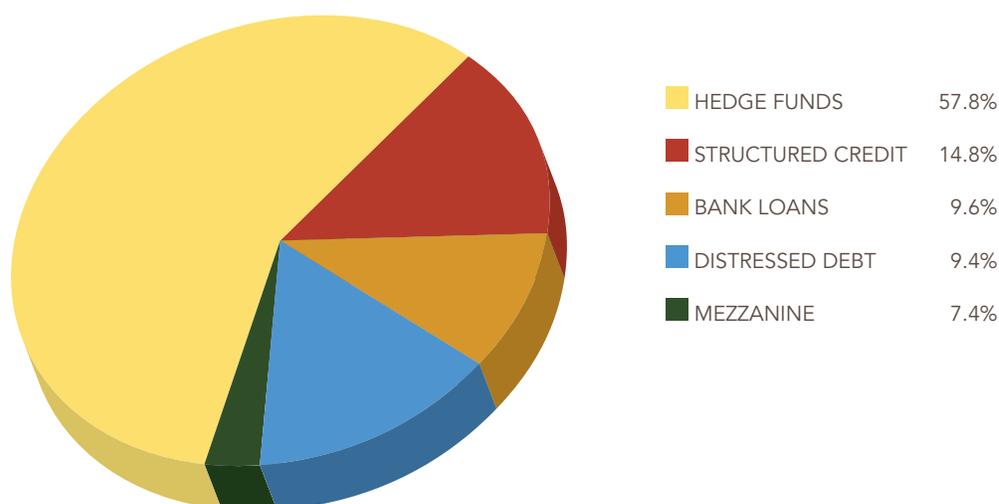
\* During the first half of 2011 NCRS sold seven funds in the secondary market and have a receivable from the purchasing counter parties of \$257,422,184



## CREDIT STRATEGIES

As of June 30, 2011, the Credit Strategies investment portfolio maintained a market value of approximately \$2.5 billion, representing 3.3 percent of the Pension Fund. The portfolio invests in a diversified mix of credit focused investment vehicles managed by experienced investment advisors.

### STRATEGY ALLOCATION



## CREDIT MARKET OVERVIEW

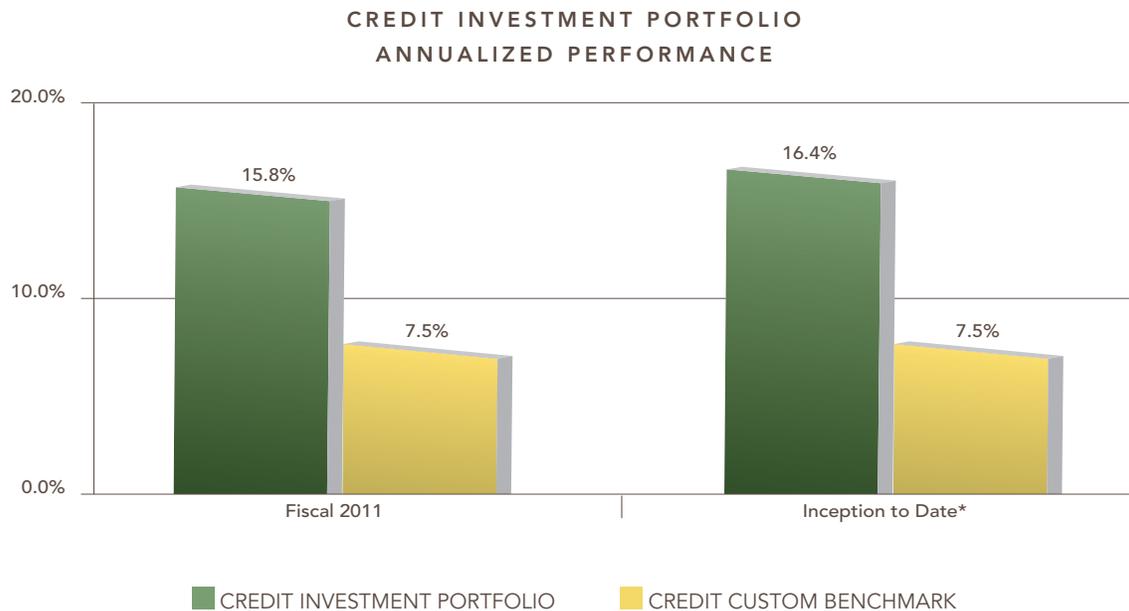
The fiscal year began with concerns over a weak economy and sluggish growth that prompted the Fed to announce additional support to strengthen the markets. As a result of the additional stimulus, the markets showed signs of revival. However, by year end, the optimism over the recovery had waned as concerns mounted over sustained high unemployment and a European debt crisis that was hampering global growth expectations. The results of the economic uncertainty pushed spreads to higher levels during the final month of the fiscal year.

With the exception of June, the credit markets performed well throughout the year marked by a high level of non-investment grade issuance as investors continued their pursuit for yield and risk. High yield issues returned over 15 percent for the fiscal year, as measured by the Merrill Lynch High Master Index. Bank loans also produced strong performance, with the Credit Suisse Leveraged Loan Index returning 9.7 percent for the fiscal year.



## CREDIT STRATEGIES PERFORMANCE

For the fiscal year, the Credit Investment Portfolio returned 15.8 percent, outperforming its benchmark return of 7.5 percent. The Credit Investment Portfolio's outperformance is attributable to the continuing rally within the structured credit markets, particularly in residential and commercial mortgage-backed securities. Performance during the second half of the fiscal year was tempered as investments with lower risk profiles were phased into the portfolio.



\*The inception date of the Credit Investment Portfolio was 1/1/2010.

## CREDIT STRATEGIES INVESTMENT ADVISORS (FY ENDING 2011)

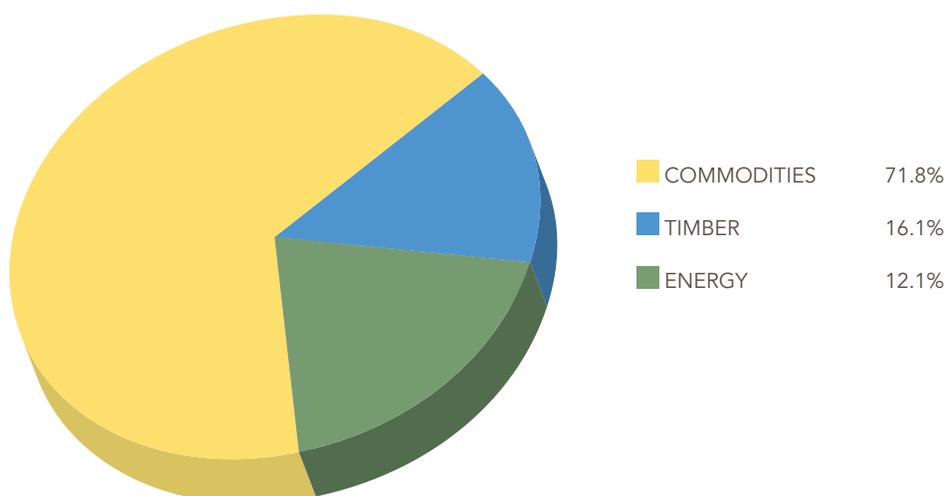
CREDIT FUNDS	MARKET VALUE (\$)	CREDIT FUNDS	MARKET VALUE (\$)
PAAMCO	519,625,430	WLR PPIF	70,008,106
ANCHORAGE CAPITAL	307,101,226	CVI CREDIT VALUE	67,500,000
MONARCH DEBT RECOVERY	301,755,074	AG COMMERCIAL REAL ESTATE DEBT	66,327,366
BRIGADE LCS	301,536,865	VARDE X	25,000,000
AG CAPITAL RECOVERY VI	256,386,185	AG CAPITAL RECOVERY V	8,795,593
AG GLOBAL DEBT STRATEGY	236,599,115	CITADEL MORTGAGE OPP	1,606,429
AG GECC-PPIF	230,503,268	AG TALF	20,134
GSO CAPITAL OPPORTUNITIES	81,993,916		



## INFLATION PROTECTION

As of June 30, 2011, the Inflation Investment Portfolio maintained a market value of \$2.4 billion, representing 3.2 percent of the Pension Fund. The portfolio invests in a diversified mix of inflation-linked investment vehicles managed by experienced investment advisors.

### STRATEGY ALLOCATION



### INFLATION MARKET OVERVIEW

For the fiscal year ending June 30, 2011, the U.S. economy experienced a moderate level of inflation. Despite the indication from the Federal Reserve to keep interest rates low and induce lending and consumption, the year-over-year percentage increase in the Consumer Price Index ("CPI") was 3.6 percent. The core CPI - CPI excluding food and energy - was 1.6 percent for the fiscal year. The significant difference between CPI and core CPI shows the sizeable increase in energy commodities prices (+35.1%) throughout the fiscal year. Driving the rise in prices were emerging markets demand, the political instability in oil-producing countries, and the Japanese earthquake. In the last month of the fiscal year, the U.S. experienced a sharp pull back in energy prices (-6.3%). In May, crude oil hit a high of \$114.8 a barrel, but declined through the end of the fiscal year as growing concerns about the economic recovery hurt demand.

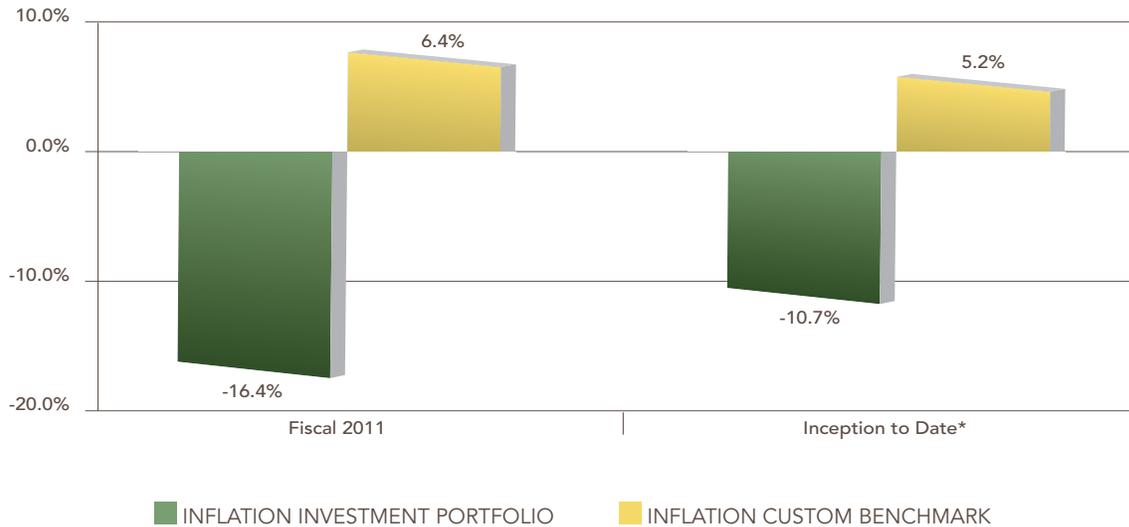
Approaching the end of the fiscal year, the energy component of the CPI declined two consecutive months as prices in gasoline and household fuels dropped. However, gold prices hit an all-time high in June 2011 and closed at \$1,506 per ounce at fiscal year end.

### INFLATION PROTECTION PERFORMANCE

For the fiscal year, the Inflation Investment Portfolio returned -16.4 percent, underperforming its benchmark return of 6.4 percent. The portfolio's underperformance is attributable to a large legacy investment in Campbell Timber that marked a significant write-down early in the fiscal year. This investment was reclassified into the Inflation Investment Portfolio in January 2010 and comprised a significant portion of the nascent allocation. The other two segments of the portfolio, commodities and energy private equity, have performed well throughout the fiscal year.



INFLATION INVESTMENT PORTFOLIO ANNUALIZED PERFORMANCE



\*The inception date of the Inflation Investment Portfolio was 1/1/2010.

INFLATION PROTECTION INVESTMENT ADVISORS (FY ENDING 2011)

INFLATION PORTFOLIO FUNDS	MARKET VALUE (\$)	INFLATION PORTFOLIO FUNDS	MARKET VALUE (\$)
GRESHAM TAP FLEX	685,199,823	QUINTANA ENERGY I	82,672,231
BLACKSTONE RESOURCES SELECT	500,000,000	QUINTANA ENERGY II	39,958,039
CAMPBELL TIMBER FUND III	384,012,019	QUINTANA ENERGY I CO-INV	25,825,922
VERMILLION CELADON	295,023,152	SHERIDAN PROD PARTNERS II-B	12,016,000
CREDIT SUISSE ENHANCED	238,636,933	ENERGY CAPITAL PARTNERS II	11,692,990
SHERIDAN PRODUCTION PARTNERS I	115,455,000	ENCAP ENERGY FUND VIII	1,845,165
		QUINTANA ENERGY II CO-INV	-



## ANCILLARY INVESTMENT PROGRAMS REVIEW

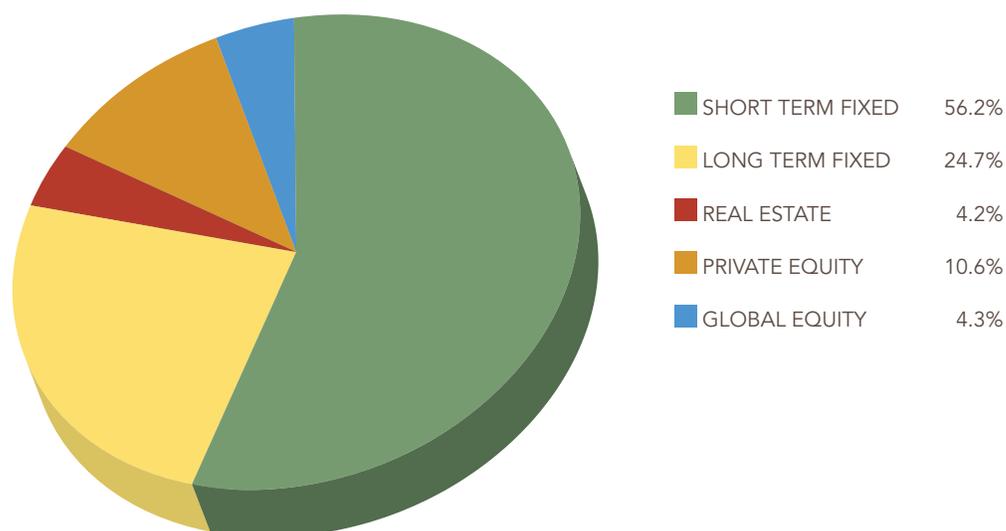
The Ancillary Funds Investment Program's objective is to generate returns that match or exceed those of the appropriate benchmarks over a three- to five-year basis for the Escheats Fund, UNC and Public Hospital Funds, the Local Government Other Post-Employment Benefits Program, and other non-Pension assets invested in the core fixed income portfolio.

### ESCHEAT INVESTMENT PROGRAM

Pursuant to G.S. 147-69.2(b)(12), up to 20 percent of the Escheat Investment Fund's assets can be invested in authorized equity, real estate and alternative investments. For the fiscal year ending June 30, 2011, the Escheat Fund maintained a total portfolio market value of \$376.4 million, with \$304.6 million invested in fixed income, \$16.2 million invested in equity, \$15.6 million invested in real estate, and \$40.0 million invested in private equity. The following table and chart provide the Escheats asset allocation and the percentage of total fund as of June 30, 2011.

### ESCHEAT INVESTMENT FUND ASSET ALLOCATION AS OF JUNE 30, 2011

	MARKET VALUE (\$)	PORTFOLIO WEIGHT	TARGET WEIGHT
<b>FIXED INCOME</b>	\$304,581,099	80.9%	80.0%
<b>GLOBAL EQUITY</b>	\$16,232,529	4.3%	12.0%
<b>REAL ESTATE</b>	\$15,644,672	4.2%	4.0%
<b>PRIVATE EQUITY</b>	\$39,955,166	10.6%	4.0%
<b>ESCHEAT FUND</b>	<b>\$376,413,466</b>	<b>100%</b>	<b>---</b>

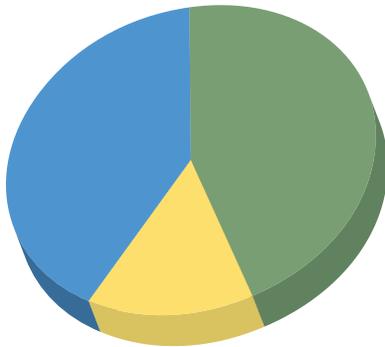


## UNC AND PUBLIC HOSPITALS

G.S. 147-69.2(b2) & G.S. 147-69.2(b3) allows North Carolina Public Hospitals and UNC Hospital to invest funds with the State Treasurer.

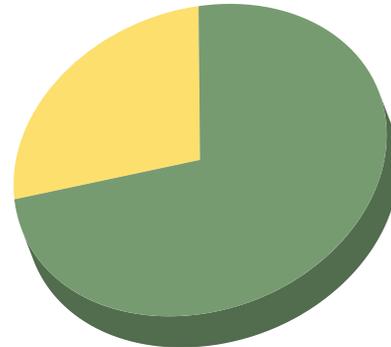
As of June 30, 2011, the UNC Hospital's portfolio maintained a market value of \$349 million. The market value for the New Hanover Hospital portfolio was \$57.9 million, the market value for Columbus Regional Healthcare System was \$6.8 million, and the market value for the Margaret R. Pardee Hospital plan was \$5.5 million. The allocations to the hospital plans are displayed below.

UNC HOSPITAL



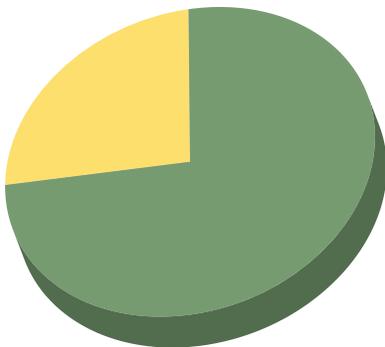
DOMESTIC EQUITY	44.9%
INT'L EQUITY	14.6%
STIF	40.4%

NEW HANOVER HOSPITAL



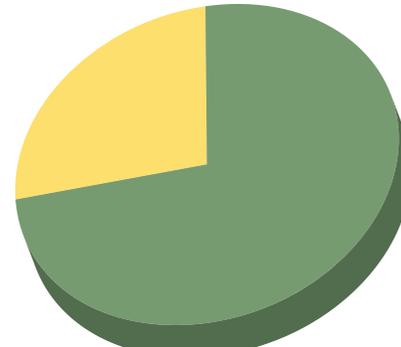
DOMESTIC EQUITY	73.8%
INT'L EQUITY	26.2%

COLUMBUS REGIONAL HEALTHCARE



DOMESTIC EQUITY	75.3%
INT'L EQUITY	24.7%

MARGARET R. PARDEE HOSPITAL



DOMESTIC EQUITY	74.4%
INT'L EQUITY	25.6%



### **OTHER POST-EMPLOYMENT BENEFITS FUND**

Pursuant to G.S. 159-30.1, deposits are held for the Local Government Other Post-Employment Benefits Fund, all subject to compliance with G.S. 147-69.2. The assets are allocated as follows: STIF, LTIF, and authorized Equity funds. As of June 30, 2011, there were a total of 13 participants with assets totaling \$59.3 million.

### **OTHER NON-PENSION LONG-TERM INVESTMENT PORTFOLIO PARTICIPANTS**

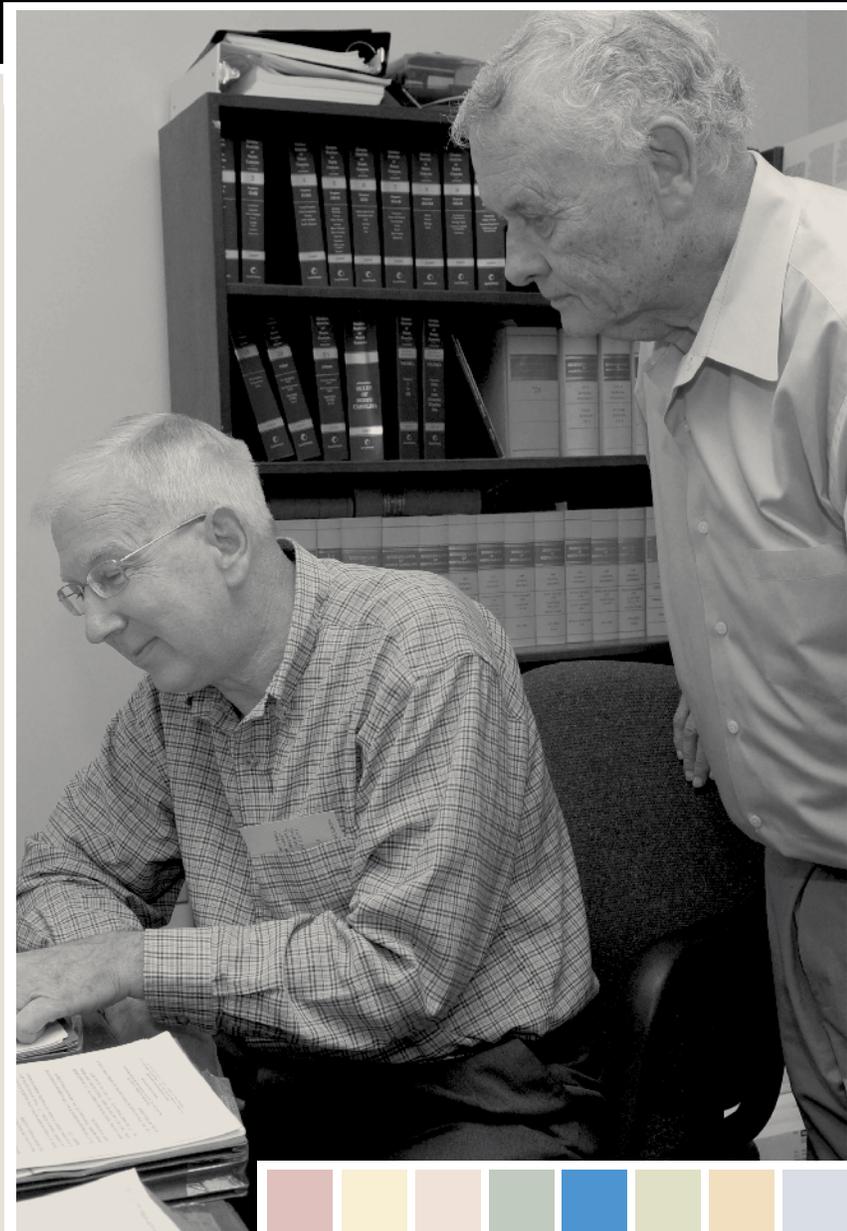
As of June 30, 2011, the aggregate market value of other non-pension participants invested in the Long-Term Investment Portfolio was \$1.1 billion.





Appalachian Mountains, Blue Ridge Parkway, North Carolina

# STATE AND LOCAL GOVERNMENT FINANCE DIVISION



NORTH CAROLINA  
STATE TREASURER'S  
ANNUAL REPORT



STATE AND LOCAL GOVERNMENT FINANCE DIVISION STATISTICS

	2008-2009	2009-2010	2010-2011
MAINTAINED THE AAA BOND RATING	YES	YES	YES
NUMBER OF LOCAL GOVERNMENT UNITS CONTACTED REGARDING THEIR FISCAL HEALTH OR COMPLIANCE WITH GENERAL STATUTES	475	510	439
TOTAL DEBT ISSUED BY LOCAL GOVERNMENTS	\$4.9 BILLION	\$6.5 BILLION	\$3.3 BILLION
DEBT ISSUED FOR SPECIAL STATE AND LOCAL AUTHORITIES AND AGENCIES	\$2.6 BILLION	\$2.5 BILLION	\$1.6 BILLION
TOTAL STATE DEBT ISSUED	\$600 MILLION	\$1.7 BILLION	\$1.5 BILLION



The State and Local Government Finance Division handles the sale and delivery of all State and local debt and monitors the repayment of State and local government debt. Staff counsel assists local governments in determining the feasibility of projects, the size of the financing, and the most expedient form of financing. Additionally, this Division monitors and analyzes the fiscal and accounting practices of all local governments.

The Division comprises the Debt Management section, which issues and monitors all State debt, and the Fiscal Management section, which monitors fiscal and accounting standards for local governments. The Division also provides the State Treasurer, the Local Government Commission, the North Carolina Capital Facilities Finance Agency, and the North Carolina Infrastructure Finance Corporation with staff assistance in fulfilling their respective statutory functions.

2010-11 FISCAL YEAR SUMMARY OF DEBT ISSUED

TOTAL STATE	\$ 1.51 BILLION
TOTAL LOCAL GOVERNMENTS	\$ 3.30 BILLION
<b>TOTAL</b>	<b>\$ 4.81 BILLION</b>

**HISTORY**

In 1931, the North Carolina General Assembly established the Local Government Commission (“LGC”), staffed by this Division, to help address the problems in local government finance caused by the Depression. In 1933, 62 North Carolina counties, 152 cities and towns, and some 200 special districts were in default on the principal or the interest or both of outstanding obligations. Currently, the State of North Carolina has a larger number of AAA-rated units than any other state, and the debt of its local governments in general finds a significantly better reception on the national bond markets than the national average. Many attribute this favored credit status, in part, to the work of the Local Government Commission. This Commission is unique nationally and is often referred to as a model for local government financial oversight.

**THE LOCAL GOVERNMENT COMMISSION**

The LGC, established by G.S. 159-3, provides assistance to local governments and public authorities in North Carolina. It is staffed by the Department of State Treasurer and approves the issuance of debt for all units of local government and assists these units with fiscal management. The Commission is composed of nine members: the State Treasurer, the Secretary of State, the State Auditor, the Secretary of Revenue, and five others by appointment (three by the Governor, one by the General Assembly upon the recommendation of the President Pro Tempore, and one by the General Assembly upon the recommendation of the Speaker of the House). The State Treasurer serves as Chairman and selects the Secretary of the Commission, who heads the administrative staff serving the Commission. The General Statutes require the Commission to meet quarterly. As a matter of practice, the Commission’s executive committee meets in the intervening months.



## THE NORTH CAROLINA CAPITAL FACILITIES FINANCE AGENCY

Private colleges, universities, nonprofit, and for-profit corporations providing certain services may receive financing assistance through bonds issued by the North Carolina Capital Facilities Finance Agency ("Agency"). The Agency Board of Directors is composed of seven members: the State Treasurer, the State Auditor, and five others by appointment (three by the Governor, one by the President Pro Tempore of the Senate, and one by the Speaker of the House of Representatives). The administrative staff for the Agency is provided by the Department of State Treasurer. The Agency meets monthly.

Following initial contact from an applicant, the staff generally begins the process of determining project feasibility and desirability with a preliminary conference. Upon receipt of an application, financial capability and responsibility are reviewed through ratio and trend analysis. The staff presents the project and its recommendations to the Agency and subsequently to the Local Government Commission for approval. Since its creation, the Agency has provided over \$4.9 billion in tax-exempt capital financing. There have been no defaults in bonds issued by the Agency. At June 30, 2011, there was \$2.8 billion in outstanding obligations. Each issue is payable solely from revenues derived from each entity financed, is separately secured, and is separate and independent from all other series of bonds as to source of payment and security. During the fiscal year ended June 30, 2011, the Agency issued \$184.3 million in bonds for seven institutions. The Agency's annual report is available from the Department of the State Treasurer.

## THE NORTH CAROLINA INFRASTRUCTURE FINANCE CORPORATION

The North Carolina Infrastructure Finance Corporation ("Corporation") was created by the General Assembly and organized as a separate not-for-profit corporation. It is managed by a three-member board appointed by the State Treasurer. The Corporation is authorized to issue tax-exempt debt to finance the acquisition, construction, repair, and renovation of State facilities and related infrastructure. The debt obligations are secured by lease or payment agreements with the State financially responsible for the debt payments. The administrative staff for the Corporation

is also provided by the Department of State Treasurer. The Corporation, used in past years to finance State construction, repair and renovation, was inactive during this fiscal year because it is no longer being used as the preferred method for issuing this type of State debt.

## DEBT MANAGEMENT

The Division issues and monitors all State debt, including debt secured by a pledge of the taxing power of the State and debt for which repayment is subject to appropriation. With the assistance of other State agencies, the Division determines the cash needs, plans for the repayment of debt (maturity schedules), and schedules the sale at the most appropriate time. An official statement describing the issue and other required disclosures about the State is prepared with the advice and cooperation of bond counsel. Finally, the Division handles the actual sale and delivery of the debt, maintains the State bond records and register of bonds, and monitors the debt service payments. At June 30, 2011, the State had General Obligation bonds outstanding of \$4.8 billion and Certificates of Participation, Limited Obligation Bonds, and Lease-Purchase bonds outstanding of \$2.1 billion. (See Tables 7 and 8.)

The Division also is responsible for the authorization and sale of revenue bonds for the North Carolina Medical Care Commission, the Municipal Power Agencies, the North Carolina Capital Facilities Finance Agency, and the North Carolina Housing Finance Agency. Only the specific revenues pledged for payment secure these bonds. The staff works with the personnel of these agencies in determining the feasibility and scheduling of the bond offerings, in structuring the issues and the underlying security documents, and in preparing the data that must be presented to the Local Government Commission for its approval.

The Division assists the State Treasurer in representing the State in all presentations to Moody's Investors Service, Inc., Standard and Poor's Corporation, and Fitch Ratings, Inc., the three national bond rating agencies used by the State and local governmental units in North Carolina. At June 30, 2011, the State had a "Triple-A" rating, the highest rating attainable, from all three national rating agencies. Only six other states enjoyed this distinction. These ratings have enabled the State to sell its bonds at interest rates considerably below the Bond Buyer's Index, thereby providing tremendous savings to North Carolina's taxpayers.



In addition, the Division staffs the State's Debt Affordability Committee and drafts an annual Debt Affordability Study, which provides the General Assembly with an overview of the State's debt load and borrowing capacity. For 2010-11, due primarily to the reduced revenue assumptions for the State, the Study determined that the State's General Fund debt capacity has been exhausted until fiscal year 2013. The Study also provided an estimate of the annual debt capacity for the Transportation Funds (the State Highway Fund and Highway Trust Fund) and projected that there is currently no new Transportation debt capacity until fiscal year 2014.

The other primary function of the Division is the approval, sale and delivery of all North Carolina local government bonds and notes. This includes the sale of revenue bonds, which are secured only by specific revenue pledged in payment of the bonds. The Division staff counsels and assists local governmental units in determining the necessity of a project, the size of the issue, and the most expedient form of financing. A review is made of the debt management policies of the unit, the effect of the financing on the unit's tax rate and the unit's compliance with The Local Government Budget and Fiscal Control Act. Sale dates are scheduled depending on the need for the money, the anticipated interest rates and the most favorable times bonds can be sold with a minimum of competition. The staff strives to resolve all problems and to determine that all statutory requirements are met before applications are presented to the Local Government Commission for approval.

Debt records are maintained for all units on principal and interest payments coming due in the current and future years. All debt service payments are monitored through a system of monthly reports. At June 30, 2011, authorized and unissued general obligation bonds for local governments and authorities amounted to \$3.9 billion and general obligation debt outstanding amounted to \$10.3 billion. (See Table 7.)

Another responsibility of the Division's staff is assisting units that desire to enter into agreements to finance the lease or installment purchase of capital assets. Before approving such agreements, the Local Government Commission must find that the proposed project is necessary and expedient, the proposed undertaking cannot be economically financed by a bond issue, and that the contract will not require an excessive increase in taxes. During the fiscal year ended

June 30, 2011, the Local Government Commission approved contracts or other agreements (including refundings) totaling \$1.1 billion. (See Tables 5 and 6.)

In order to preserve the tax-exempt status of debt issues of the State that are currently outstanding, the staff continues to perform several tasks to ensure compliance with arbitrage regulations of the Internal Revenue Service. The projects involve monitoring investment yields, monitoring penalties in lieu of rebate requirements, preparing monthly status reports on each debt issue, and preparing information for use by bond counsel and other outside finance and legal professionals.



**BOND ISSUANCES FOR 2010-11<sup>1</sup>**

	FY NO.	2010-11 AMOUNT (IN MILLIONS)
<b>BONDS SOLD FOR STATE:</b>		
G.O. BONDS (GENERAL FUND)	2	\$ 774.8
NC TURNPIKE AUTHORITY REVENUE BONDS	1	233.9
SPECIAL INDEBTEDNESS	1	500.0
<b>TOTAL ISSUED:</b>	<b>4</b>	<b>\$ 1,508.7</b>
<b>BONDS AND NOTES SOLD FOR LOCAL GOVERNMENT UNITS:</b>		
G.O. BONDS	47	854.9
REVENUE BONDS	43	1,106.1
STATE BONDS AND REVOLVING LOANS	75	102.9
SPECIAL OBLIGATION BONDS - SOLID WASTE	3	28.3
G.O. NOTES <sup>3</sup>	37	235.7
REVENUE NOTES <sup>3</sup>	19	45.4
<b>TOTAL ISSUED:</b>	<b>224</b>	<b>\$ 2,373.3</b>
INSTALLMENT/LEASE CONTRACTS SOLD FOR LOCAL UNITS:	158	\$ 925.8
<b>TOTAL FOR LOCAL GOVERNMENT</b>	<b>382</b>	<b>\$ 3,299.1</b>
<b>REVENUE BONDS SOLD FOR:</b>		
MEDICAL CARE COMMISSION	18	859.2
HOUSING FINANCE AGENCY	1	14.2
POWER AGENCIES <sup>4</sup>	1	146.1
INDUSTRIAL FACILITIES & POLLUTION CONTROL FINANCING AUTHORITIES <sup>5</sup>	14	351.8
CAPITAL FACILITIES FINANCE AGENCY	7	184.3
<b>TOTAL ISSUED:</b>	<b>41</b>	<b>\$ 1,551.6</b>
<b>GRAND TOTAL ISSUED:</b>	<b>427</b>	<b>\$ 6,363.4</b>

<sup>1</sup> These totals include approximately \$1.8 billion of bonds issued as part of the 2009 American Recovery and Reinvestment Act. A summary of these federal stimulus bonds is discussed in the Other Highlights section.

<sup>2</sup> The GARVEES are bonds issued for the State Department of Transportation for transportation construction and improvement costs. They are payable solely from certain federal transportation revenues received on behalf of the State and do not create a liability or obligation of the State or any political subdivision.

<sup>3</sup> These are ongoing programs involving more than a year in duration. The purpose of these projects is to allow interim funding of large ongoing programs until a sufficient amount of bonds or favorable market conditions justify replacing the notes with permanent financing.

<sup>4</sup> These bonds were issued for North Carolina Eastern Municipal Power Agency and for North Carolina Municipal Power Agency # 1.

<sup>5</sup> Bonds issued by these authorities are commonly referred to as Industrial Revenue Bonds and are used to attract and retain manufacturing industries to the State. These issuance numbers include Recovery Zone Facility Bonds, a form of industrial revenue bond created by the 2009 American Recovery and Reinvestment Act.

A comparison of bond issuances by the categories above in fiscal year 2010-11 with issuances in the past two fiscal years is shown in Chart 8.



## FISCAL MANAGEMENT

Another function of the Division involves monitoring certain fiscal and accounting standards prescribed for local governmental units by the Local Government Budget and Fiscal Control Act. The Act requires each unit of local government to have its accounts audited annually by a Certified Public Accountant or by an accountant certified by the Commission as qualified to audit local government accounts. As a part of its role in assisting local units and monitoring their fiscal programs, the Division provides guidance in following generally accepted accounting principles. Each local government is required to file a copy of its annual audit report with the Division and submit all audit invoices to the Division for approval.

The staff of the Fiscal Management Section annually reviews the audited financial statements of approximately 1,321 local governments and public authorities. The staff determines that all reports are prepared in accordance with generally accepted accounting principles and that applicable auditing standards have been followed. The staff also reviews the audit report to evaluate the financial condition of the unit, to determine if the unit complied with the Local Government Budget and Fiscal Control Act and other State laws, and to determine if the unit has an adequate system of internal controls in place. As a part of the audit review process, staff reviewed approximately 549 single audits and approximately 264 "Yellow Book" audits to ensure that audits performed under Government Auditing Standards (the "Yellow Book") and the federal and State single audit acts meet all the federal and State requirements.

When Division staff notes problems, local governments and public authorities, as well as their independent auditors, receive written communication expressing the staff's concerns, suggestions for improvements and an offer of assistance. On behalf of the Local Government Commission, staff requests a response detailing the unit's plans to take corrective action. In fiscal year 2010-11, staff sent approximately 439 audit letters to units of local government.

In providing assistance to local governments, units are counseled in accounting systems and internal controls, cash and investment management, budget preparation, risk management, capital planning, and changes in laws and

regulations. Educational programs in the form of seminars and classes also are provided in order to accomplish these tasks. Staff members make presentations throughout the year at various workshops sponsored by:

- UNC School of Government
- North Carolina Association of School Business Officials
- North Carolina Government Finance Officers Association
- North Carolina Association of County Finance Officers
- North Carolina Local Government Investment Association
- North Carolina Rural Economic Development Center, Inc.
- North Carolina Finance and Reimbursement Officers
- Government Finance Officers Association of the United States and Canada
- North Carolina League of Municipalities
- North Carolina Department of Environment and Natural Resources
- North Carolina State University MPA Program
- United States Department of Agriculture ("USDA")

## OUTREACH AND COMMUNICATION

In fiscal year 2010-11, staff issued 23 public memoranda directed to local governments, auditors and the state's public finance community. Topics included the continued implementation of GASB Statement No. 54 on Reporting Fund Balance, as well as the Statement on Auditing Standards ("SAS") 115 and 117, continuing disclosure requirements, the revised fee schedule, a potential federal government shutdown, and changes to the OPEB trust fund held by the State Treasurer. For a complete index of Division memos, visit [www.nctreasurer.com/DSTHome/StateAndLocalGov/AuditingAndReporting/Memos.htm](http://www.nctreasurer.com/DSTHome/StateAndLocalGov/AuditingAndReporting/Memos.htm). In addition, interested parties may subscribe to the LGC News listerv, launched in the spring of 2010. Staff provides updates of public memoranda, as well as other pertinent information about public finance issues. The listserv currently has over 857 subscribers.

- Staff members worked with the School of Government to present the 10th annual State Treasurer's Conference on Local Government Accounting, Auditing and Financial Management, held in April 2011. The



conference was intended for both local government auditors and officials. It was conducted at two sites and drew more than 375 participants. Topics covered included Governmental Accounting Standards Board ("GASB") Statement No. 54 and its implementation in North Carolina, a current GASB update, private/public partnerships, a primer on the Local Government Budget and Fiscal Control Act, and a risk management update. In addition, staff members spoke at 18 continuing education courses and conferences sponsored by organizations such as the School of Government, various North Carolina finance officers associations, the national Government Finance Officers Association conference, the League of Municipalities, the North Carolina Association of Certified Public Accountants, the USDA, and N.C. State University.

- A new CPE class for governmental auditors was developed this year in collaboration with the School of Government. Held at the UNC campus, the class covered GASB Statement No. 54, general GASB updates, single audit issues, common governmental and accounting reporting problems, and the new audit process for 2011. It was well received with 145 attendees.
- The Department sponsored the 21st annual "State Treasurer's Governmental Accounting/Financial Management Awards Program" for local governments and public authorities that make significant improvements in their accounting or financial management systems. This award program is designed to recognize applicants that have enhanced their current operations through the implementation of new and improved accounting and financial management programs. The applications were evaluated by the North Carolina Association of Certified Public Accountants ("NCACPA"). Also, an exchange of ideas between local governments occurred as a result of the publicity surrounding this program.

Additionally, a member of the staff serves on the Governmental Accounting and Auditing Committee of the North Carolina Association of Certified Public Accountants. Staff members provide additional assistance to independent auditors by researching their questions concerning governmental accounting, auditing, and budgeting, as well

as North Carolina General Statutes. In addition, a member of the staff serves on the Governmental Accounting Standards Advisory Council. GASB exposure drafts are analyzed, and any comments and recommendations that staff may have on these drafts are submitted to the GASB.

## OTHER HIGHLIGHTS

### • Federal Stimulus Legislation and Bonds Update –

In response to the economic crisis and recession that developed in 2008-09, the U.S. Congress adopted the American Recovery and Reinvestment Act ("ARRA") in February 2009, which created several types of new bonds that could be issued by local governments and authorities. New bonds authorized under this act included taxable bonds with a direct subsidy to the issuer by the federal government, and tax credit bonds that allow bond purchasers to receive a tax credit against their taxable income. The taxable bonds included Build America Bonds and Recovery Zone Economic Development Bonds. The new tax credit bonds include Clean Renewable Energy Bonds, Qualified Energy Conservation Bonds, Qualified School Construction Bonds, and a renewal of the Qualified Zone Academy Bonds.

From the initial authorization of ARRA bonds in 2009 through June 30, 2010, the Commission approved the issuance of the stimulus-designated bonds for local governments and the State totaling about \$1.2 billion. In fiscal year 2010-11, an additional \$1.8 billion in bonds from the stimulus program were approved for issuance by local governments and the State as follows:

TYPE	AMOUNT
QUALIFIED SCHOOL CONSTRUCTION BONDS	\$ 195,263,020
QUALIFIED ZONE ACADEMY BONDS	\$ 11,800,000
BUILD AMERICA BONDS	\$ 1,130,211,818
RECOVERY ZONE ECONOMIC DEVELOPMENT BONDS	\$ 171,060,246
RECOVERY ZONE FACILITY BONDS	\$ 326,530,000
<b>GRAND TOTAL</b>	<b>\$ 1,834,865,084</b>



The authorization to issue most of the stimulus bonds expired December 31, 2010. After that date, the only stimulus bonds that may be issued are for school construction and energy conservation and renewal.

The stimulus bonds shown above are included in the issuance totals chart for all bonds previously shown above in the report.

- **Fiscal Analysis Dashboard Project** – After rollout in July 2010, the new analysis tool for cities (550) and counties (100) continues to allow governments to quickly benchmark themselves against up to five of their peers in four different areas – governmental activities, the General Fund, Water and Sewer operations, and Electric operations. The tool provides five years of historical data from audited financial statements and provides up to 20 different analytical ratios and calculations by which a government can measure its financial well being.

- **Audit Review and Invoice Approval Process** – During this fiscal year, staff, with the help of the Information Technology Division, has developed a new process to more efficiently process contracts, audits, and invoices. All data is remitted to the Department of State Treasurer electronically in a standardized format. It utilizes a data portal where each local government or auditor places the financial statements, contract, or invoice in a unique mailbox. The files are retrieved and processed electronically. To date, the process is going smoothly and has been well received by early users, as well as the local governments and auditors that beta tested the process. The system is designed to improve turnaround time, allowing much quicker identification of financial issues and/or crisis conditions, and will use much less paper than the old system of sending two to three paper copies of financial statements to the State for processing.



CHART 7: PURPOSES FOR WHICH LOCAL GOVERNMENTS SOLD BONDS AND NOTES  
FISCAL YEAR 2011

	SCHOOL	UTILITIES	REFUNDING	OTHER	NO.	TOTAL AMOUNT
<b>G.O. BONDS</b>						
COUNTIES	\$ 336,717,380	\$ 1,916,000	\$ 230,045,000	\$ 67,307,620	20	\$ 635,986,000
MUNICIPALITIES	-	17,490,011	43,749,000	153,604,989	26	214,844,000
DISTRICTS AND AUTHORITIES	-	4,113,000	-	-	1	4,113,000
TOTAL G.O. BONDS	\$ 336,717,380	\$ 23,519,011	\$ 273,794,000	\$ 220,912,609	47	\$ 854,943,000
<b>REVENUE BONDS</b>						
COUNTIES	\$ -	\$ 57,632,000	\$ -	\$ 22,000,000	27	\$ 79,632,000
MUNICIPALITIES	-	417,628,880	31,515,000	12,075,000	6	461,218,880
DISTRICTS AND AUTHORITIES	-	18,894,000	396,325,000	149,995,000	10	565,214,000
TOTAL REVENUE BONDS	\$-	\$ 494,154,880	\$ 427,840,000	\$ 184,070,000	43	\$ 1,106,064,880
<b>SPECIAL OBLIGATION BONDS</b>						
SOLID WASTE	\$ -	\$ 28,250,000	\$ -	\$ -	3	\$ 28,250,000
TOTAL SPECIAL OBLIGATION BONDS	\$ -	\$ 28,250,000	\$ -	\$ -	3	\$ 28,250,000
<b>WATER AND SEWER REVOLVING LOANS</b>						
COUNTIES	\$ -	\$ 14,936,782	\$ -	\$ 195,430	9	\$ 15,132,212
MUNICIPALITIES	-	76,472,335	-	32,500	52	76,504,835
DISTRICTS	-	11,288,560	-	-	14	11,288,560
TOTAL WATER AND SEWER REVOLVING LOANS	\$ -	\$ 102,697,677	\$ -	\$ 227,930	75	\$ 102,925,607
<b>NOTES</b>						
G.O. BOND ANTICIPATION NOTES	\$ 23,996,740	\$ 18,845,000	\$ -	\$ 192,904,269	37	\$ 235,746,009
REVENUE NOTES	-	36,419,000	-	8,938,564	19	45,357,564
TOTAL	\$ 23,996,740	\$ 55,264,000	\$-	\$ 201,842,833	56	\$ 281,103,573
<b>TOTAL BONDS AND NOTES</b>	<b>\$ 360,714,120</b>	<b>\$ 703,885,568</b>	<b>\$ 701,634,000</b>	<b>\$ 607,053,372</b>	<b>224</b>	<b>\$ 2,373,287,060</b>



**CHART 8: DEBT MANAGEMENT ACTIVITIES - STATE AND LOCAL (IN MILLIONS) FY 2011**

	FY2010-11		FY2009-10		FY2008-09	
	NO.	AMT.	NO.	AMT.	NO.	AMT.
<b>BONDS SOLD FOR STATE</b>						
G.O. BONDS (GENERAL FUND)	2	\$ 774.8	2	\$ 859.6	-	\$ -
G.O. BONDS (HIGHWAY FUND)	-	-	-	-	-	-
SPECIAL INDEBTEDNESS	1	500.0	-	-	2	600.0
GRANT ANTICIPATION REVENUE VEHICLE BONDS	-	-	1	242.5	1	-
NC TURNPIKE AUTHORITY REVENUE BONDS	1	233.9	1	622.8	-	-
<b>TOTAL ISSUED</b>	<b>4</b>	<b>\$ 1,508.7</b>	<b>4</b>	<b>\$ 1,724.9</b>	<b>3</b>	<b>\$ 600.0</b>
<b>BONDS AND NOTES SOLD FOR LOCAL GOVERNMENT UNITS</b>						
G.O. BONDS	47	\$ 854.9	88	2,563.2	33	\$ 1,734.0
REVENUE BONDS	43	1,106.1	41	1,489.7	22	1,014.0
SPECIAL OBLIGATION BONDS - SOLID WASTE	3	28.3	2	18.4	-	-
G.O. NOTES	37	235.7	36	381.1	12	362.4
REVENUE NOTES	19	45.4	27	301.3	6	88.7
<b>SUBTOTAL BONDS &amp; NOTES ISSUED</b>	<b>149</b>	<b>\$ 2,270.4</b>	<b>194</b>	<b>\$ 4,753.7</b>	<b>73</b>	<b>\$ 3,199.1</b>
<b>INSTALLMENT/LEASE CONTRACTS SOLD FOR LOCAL UNITS</b>						
WATER & SEWER REVOLVING LOANS *	75	102.9	30	79.3	11	81.6
WATER & SEWER REVOLVING LOANS (STIMULUS) *	-	-	73	88.6	72	84.0
<b>TOTAL FOR LOCAL GOVERNMENT UNITS</b>	<b>382</b>	<b>\$ 3,299.1</b>	<b>419</b>	<b>\$ 6,478.7</b>	<b>297</b>	<b>\$ 4,921.8</b>
<b>REVENUE BONDS SOLD FOR</b>						
MEDICAL CARE COMMISSION	18	\$ 859.2	18	\$ 1,100.4	13	\$ 1,975.5
HOUSING FINANCE AGENCY	1	14.2	3	217.1	-	-
POWER AGENCIES	1	146.1	5	846.5	2	107.4
INDUSTRIAL FACILITIES AND POLLUTION CONTROL FINANCING AUTHORITIES	14	351.8	11	93.5	1	\$ 3.5
CAPITAL FACILITIES FINANCE AGENCY	7	184.3	10	195.0	5	509.5
CENTENNIAL AUTHORITY	-	-	1	37.9	-	-
<b>TOTAL ISSUED</b>	<b>41</b>	<b>\$ 1,555.6</b>	<b>48</b>	<b>\$ 2,490.4</b>	<b>21</b>	<b>\$ 2,595.9</b>
<b>GRAND TOTAL ISSUED</b>	<b>427</b>	<b>\$ 6,363.4</b>	<b>471</b>	<b>\$10,694.0</b>	<b>321</b>	<b>\$ 8,117.7</b>

\* Represents amounts of Water and Sewer Revolving Loans approved for issuance by the Commission during the fiscal year.





Wetlands in Surf City, North Carolina

# UNCLAIMED PROPERTY & ESCHEATS DIVISION



NORTH CAROLINA  
STATE TREASURER'S  
ANNUAL REPORT



UNCLAIMED PROPERTY AND ESCHEATS DIVISION STATISTICS

	2008-2009	2009-2010	2010-2011
AMOUNT OF FUNDS DEPOSITED	\$101,236,002	\$163,293,449	\$144,768,449
AMOUNT PAID TO RIGHTFUL OWNERS	\$39,372,068	\$48,365,264	\$46,962,169
AMOUNT OF PRINCIPAL TRANSFERRED FOR SCHOLARSHIPS OUT OF THE ESCHEAT FUND	\$169,550,449	\$165,576,562	\$136,799,219
AMOUNT OF INTEREST SENT TO SEAA FOR SCHOLARSHIPS	\$6,365,997	\$7,343,987	\$9,832,734
<b>INQUIRIES REGARDING UNCLAIMED PROPERTY</b>			
NUMBER OF PHONE CALLS	126,639	88,625	89,295
NUMBER OF WEB SEARCHES	4,502,625	4,345,909	4,776,414
TOTAL NUMBER OF CLAIMS PAID	38,862	38,583	28,211



The Department of State Treasurer oversees and maintains the State's unclaimed property. By law, unclaimed property is escheated, or turned over, to the department for safekeeping. The Unclaimed Property and Escheats Division is responsible for recovering and returning such property to all rightful owners.

The funds in this program were previously held by financial institutions, insurance companies, businesses and government agencies in the form of wages, utility deposits, insurance policy proceeds, and other sources of funds. Property is considered unclaimed when the apparent owner fails to communicate interest in it for a period of time called the dormancy period. Once the property has met its dormancy limit and the holder has made a good faith effort to locate an apparent owner, any funds they are holding are escheated to the State Treasurer's Office. Upon receipt of this information, the Unclaimed Property and Escheats Division works to locate the owners by various means, including listing names on the website, earning media coverage through television and newspapers, and sending lists to Clerks of Court.

The interest earned on these funds is sent to the State Education Assistance Authority ("SEAA") for student loans and grants. At the end of the 2011 fiscal year, ending June 30, a total amount of \$9.8 million from interest earned and \$116.3 million from the principal was sent to SEAA to be used for needy and worthy students. A total of 79,421 students were assisted through SEAA.

The General Assembly has mandated additional funds from the principal to be sent to the Department of Veterans Scholarship Fund in the amount of \$6.5 million and community colleges in the amount of nearly \$14 million.

Currently the unclaimed property fund is valued at approximately \$400 million. This is a combination of unclaimed property collected from businesses and interest earnings from the investment of the fund.

Additionally the Division staff attends outreach events such as the North Carolina State Fair, Mountain State Fair, various civic organizations and many other events throughout the State to promote public awareness about the program.

The total number of claims paid for year ending June 30, 2011 was 28,211, totaling nearly \$47 million. Additionally, NCCash.com, a searchable online database of unclaimed property, now has nearly 105,000 subscribers who are automatically notified if they have property.



## HISTORY

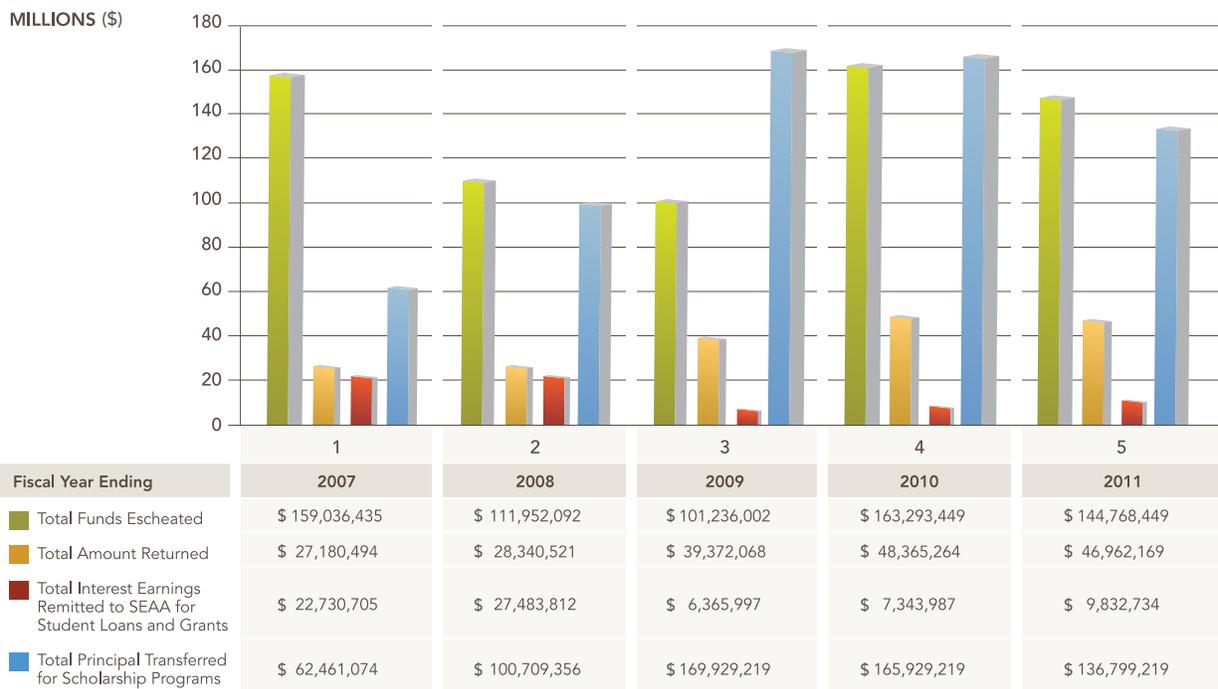
The principle of escheat originated in England during the Middle Ages. The basic premise was that property which remained without an owner, or to which the owner's heirs failed to make a claim, reverted to the Sovereign, from whom all property rights were derived. This concept was brought to the American colonies by the English settlers.

Upon the conclusion of the Revolutionary War, the State of North Carolina inherited the rights previously held by the Crown, including the right of escheat. The North Carolina Legislature adopted the University Act of 1789, which gave the newly formed University of North Carolina "all the property that has heretofore or shall hereafter escheat to the state."

Throughout the early decades of the University, the escheat collections, though often minimal, provided a vital source of funds for the institution. The Treasurer of the University was responsible for the collection of escheat property under the law. For the period through June 30, 1971, the University of North Carolina had collected and was maintaining a fund of nearly \$5 million.

Effective July 1, 1971 the State Treasurer was designated the Escheat Officer for the State of North Carolina, with the responsibility for collection, management, and investment of monies in the Escheat Fund.

### UNCLAIMED PROPERTY FACTS





North Carolina State Flower, Dogwood Blossoms

# FINANCIAL OPERATIONS DIVISION



NORTH CAROLINA  
STATE TREASURER'S  
ANNUAL REPORT



FINANCIAL OPERATIONS DIVISION STATISTICS

	2008-2009	2009-2010	2010-2011
AMOUNT IN CHECKS PROCESSED BY STATE BANK	\$25 BILLION	\$22 BILLION	\$22.6 BILLION
TOTAL DOLLAR AMOUNT OF WIRE TRANSFERS PROCESSED	\$122.7 BILLION	\$123.9 BILLION	\$132.9 BILLION
TOTAL NUMBER OF WIRE TRANSFERS	14,595	16,120	18,324
CASH BALANCES IN THE STATE TREASURER'S DEPOSITORY ACCOUNT AT CONCENTRATION AND COMMUNITY BANKS	\$40 MILLION	\$50.9 MILLION	\$27.8 MILLION



The Financial Operations Division (“FOD”) performs the State Treasurer’s role of serving as the State’s Banker and ensures that efficient banking services are provided to all State agencies and institutions. The Division also is charged with properly accounting for and reporting on all funds that are deposited, invested and disbursed through the Department of State Treasurer.

The Division comprises four sections:

- Banking Operations
- Bank Reconciliation Unit
- Statewide Accounting Operations
- Departmental Accounting

## HISTORY

In 1925, the General Assembly passed a law stating that all deposits received by the state must be deposited into centralized accounts in the name of the State Treasurer at banks approved by the Treasurer. In 1929, it designated the State Treasurer’s office as the centralized office of deposits and disbursements. As such, the position of Treasurer for each state agency and department was eliminated. This centralized system for managing the flow of monies collected and disbursed by all State departments, agencies, institutions, and universities ensures that the State continues to be the prime beneficiary of the flow of State funds through the commercial banking system in the course of conducting State business.

By 2009, the Department had begun issuing warrants electronically to vendors, employees, and retirees.

FOD was first formed in its current setup in 2001. Prior to that time, the Departmental Accounting section was part of the Administrative Services Division, while the Banking and Statewide Accounting sections were part of the Investment and Banking Division. The 2001 redesign was intended to make the workflow more efficient and cleaner for internal controls.



## BANKING OPERATIONS

All revenues collected by a State entity on behalf of the State must be deposited with the State Treasurer. The Banking Operations Section maintains correspondent depository relationships with various North Carolina banks and savings institutions in order for those entities to have a convenient location to make their deposits. Relationships are maintained with the six major banking institutions that have a statewide branch network (Wachovia, Bank of America, RBC, First Citizens, BB&T, and SunTrust), as well as more than 90 community banks across the state. The Banking Operations Section also performs accounting and monitoring functions for the Collateralization of Public Deposits program, which provides for the securing of funds deposited by the State and local units of government with financial institutions.

State entities disburse funds from their accounts maintained with the State Treasurer either electronically or by the issuance of warrants or checks. During fiscal year 2010-2011, more than 7.1 million warrants were processed, representing approximately \$22 billion in payments.

The Banking Operations Section is also responsible for activities of the Division's custodian bank, including securities delivery instructions, as well as collection of income and maturities.

## BANK RECONCILIATION UNIT

The Bank Reconciliation Unit is responsible for reconciling all of the State Treasurer's bank accounts. It reports to the Director of the Financial Operations Division for internal control purposes.

## STATEWIDE ACCOUNTING OPERATIONS

This section manages the accounting for the State Treasurer's \$87 billion investment pool and banking programs. It also maintains the general ledgers for the pension fund, employee benefit trust funds, and the Escheats Fund, also known as the Unclaimed Property Fund, administered by the State Treasurer. The accounts for the outstanding General Obligation and Special Indebtedness of the State are maintained by the Statewide Accounting Operations section. Functions include the recording of new debt and the timely payment of principal and interest for the State's debt. The section is also responsible for the financial statement audit of the NC Supplemental Retirement Income Plan (NC 401k) and the North Carolina Public Employee Deferred Compensation Plan (NC 457).

## DEPARTMENTAL ACCOUNTING

The Departmental Accounting section manages all fiscal duties that relate to the administration of the programs of the Department of State Treasurer. These duties include developing and monitoring the operating budget for the Department, preparing payroll for more than 400 employees and contractors, managing accounts payable, and enforcing centralized purchasing.





Wrightsville Beach, North Carolina

# STATISTICAL TABLES



NORTH CAROLINA  
STATE TREASURER'S  
ANNUAL REPORT



TABLE 1

TREASURER'S CASH BALANCES AS OF JUNE 30, 2011

<b>CONCENTRATION ACCOUNTS</b>			
RALEIGH, BANK OF AMERICA	\$	2,552,315.48	
UNEMPLOYMENT CLEARING ACCOUNT	\$	543,037.33	
RALEIGH, BRANCH BANKING & TRUST CO.	\$	1,767,573.62	
RALEIGH, FIRST CITIZENS BANK & TRUST CO.	\$	1,492,560.06	
RALEIGH, RBC CENTURA BANK	\$	450,353.24	
RALEIGH, SUNTRUST BANK & TRUST CO.	\$	1,992,198.21	
RALEIGH, WACHOVIA BANK, NA	\$	14,741,184.30	
TOTAL CONCENTRATION ACCOUNTS	\$	23,539,222.24	
<b>COMMUNITY BANK ACCOUNTS</b>			
MURPHY, UNITED COMMUNITY BANK	\$	80,716.59	
ABERDEEN, FIRST BANK	\$	32,955.50	
AHOSKIE, SOUTHERN BANK & TRUST	\$	32,955.59	
AHOSKIE, SOUTHERN BANK & TRUST	\$	320,937.96	
ALBEMARLE, BANK OF STANLEY	\$	32,000.39	
ANGIER, FIRST BANK	\$	31,999.60	
ASHEBORO, COMMUNITY ONE BANK	\$	55,880.53	
ASHEBORO, FIRST BANK	\$	30,000.23	
BAKERSVILLE, UNITED COMMUNITY BANK	\$	32,000.22	
BATH, SOUTHERN BANK & TRUST	\$	15,405.10	
BOONE, BANK OF GRANITE	\$	32,955.06	
BOONE, HIGH COUNTRY BANK	\$	9,999.84	
BRYSON CITY, UNITED COMMUNITY BANK	\$	31,045.27	
BURNSVILLE, CAROLINA FIRST	\$	31,999.62	
CAMDEN, TOWNEBANK	\$	31,999.99	
CARY, FIDELITY BANK	\$	32,000.28	
COLUMBIA, EAST CAROLINA BANK	\$	77,850.43	
COLUMBUS, TRYON FEDERAL BANK	\$	31,999.51	
CONCORD, FIFTH THIRD BANK	\$	24,999.69	
CREEDMOOR, FIDELITY BANK	\$	25,321.56	
CRESWELL, EAST CAROLINA BANK	\$	15,761.06	
CURRITUCK, EAST CAROLINA BANK	\$	24,999.99	
DANBURY, NEWBRIDGE BANK	\$	17,671.37	
DURHAM, MECHANICS & FARMERS BANK	\$	58,746.53	
ENGELHARD, EAST CAROLINA BANK	\$	31,044.32	
FAYETTEVILLE, CAPITAL BANK	\$	111,283.95	
FRANKLIN, MACON SAVINGS BANK	\$	32,000.20	
GASTONIA, FIDELITY BANK	\$	32,000.29	
GATESVILLE, SOUTHERN BANK & TRUST	\$	31,999.71	
GRANTSBORO, FIRST SOUTH BANK	\$	49,999.88	
GREENSBORO, MECHANICS & FARMERS BANK	\$	484,776.33	
HAMPSTEAD, FIRST FEDERAL BANK	\$	25,000.46	
HARRISBURG, BANK OF THE CAROLINAS	\$	32,955.70	
HIGH POINT, HIGH POINT BANK	\$	19,999.97	
JEFFERSON, FIFTH THIRD BANK	\$	32,000.40	
KENANSVILLE, FIRST BANK	\$	32,000.47	
KERNERSVILLE, BANK OF NORTH CAROLINA	\$	31,999.62	
KINGS MOUNTAIN, FIDELITY BANK	\$	14,805.88	
LAKE LURE, CAROLINA FIRST BANK	\$	29,999.73	
LAURINBURG, FIRST BANK	\$	31,999.66	
LENOIR, BANK OF GRANITE	\$	48,238.62	
LEWISTON, SOUTHERN BANK & TRUST	\$	12,895.23	
LEXINGTON, NEWBRIDGE BANK	\$	53,014.93	
LILLINGTON, FIDELITY BANK	\$	31,999.71	
LUMBERTON, LUMBEE GUARANTY BANK	\$	32,000.44	
MANTEO, EAST CAROLINA BANK	\$	91,223.72	
MARION, FIFTH THIRD BANK	\$	44,999.61	
MARION, MOUNTAIN FIRST BANK	\$	32,000.11	
MAYODAN, FIRST BANK	\$	4,635.95	
MT. AIRY, SOUTHERN COMMUNITY BANK	\$	31,999.55	
MT. AIRY, SURREY BANK	\$	25,000.02	
MT. OLIVE, SOUTHERN BANK & TRUST	\$	32,955.46	
NAGS HEAD, EAST CAROLINA BANK	\$	40,597.43	
NEWLAND, UNITED COMMUNITY BANK	\$	30,000.17	
NEWTON, PEOPLES BANK	\$	32,000.28	
NORTH WILKESBORO, YADKIN VALLEY BANK & TRUST	\$	33,910.12	
OCRACOCKE, EAST CAROLINA BANK	\$	92,178.92	
PEMBROKE, LUMBEE GUARANTY BANK	\$	85,492.05	
PLYMOUTH, SOUTHERN BANK & TRUST	\$	31,044.70	
POLKTON, FIRST BANK	\$	31,044.39	
RALEIGH, MECHANICS & FARMERS BANK	\$	23,402.64	
REIDSVILLE, NEWBRIDGE BANK	\$	33,910.72	
ROBBINS, FIDELITY BANK	\$	32,000.15	
ROBBINSVILLE, UNITED COMMUNITY BANK	\$	31,022.58	
SALEMBURG, SOUTHERN BANK & TRUST	\$	51,104.48	
SALISBURY, FIDELITY BANK	\$	23,438.50	
SANFORD, FIRST BANK	\$	31,999.67	
SEVEN SPRINGS, SOUTHERN BANK & TRUST	\$	30,089.25	
SHELBY, FIDELITY BANK	\$	32,955.44	
SHELBY, FIRST NATIONAL BANK	\$	32,000.28	
SILER CITY, FIDELITY BANK	\$	2,535.12	
SPARTA, FIFTH THIRD BANK	\$	20,536.99	
SPRUCE PINES, CAROLINA FIRST	\$	31,044.96	
ST. PAULS, FIRST BANK	\$	32,000.25	
SWAN QUARTER, EAST CAROLINA BANK	\$	60,656.29	
TARBORO, THE HERITAGE BANK	\$	31,999.61	
TROY, FIDELITY BANK	\$	32,000.43	
TROY, FIRST BANK	\$	70,209.44	
WALNUT COVE, SOUTHERN COMMUNITY BANK	\$	249,999.76	
WANCHESE, EAST CAROLINA BANK	\$	56,836.19	
WASHINGTON, FIRST BANK	\$	31,999.84	
WAYNESVILLE, UNITED COMMUNITY BANK	\$	31,999.71	
WENTWORTH, FIDELITY BANK	\$	51,104.07	
WEST END, FIRST BANK	\$	12,895.19	
WEST JEFFERSON, FIFTH THIRD BANK	\$	200,000.24	
WHITEVILLE, SECURITY SAVINGS BANK	\$	32,000.16	
WINDSOR, SOUTHERN BANK & TRUST	\$	31,999.53	
WINTON, SOUTHERN BANK & TRUST	\$	32,000.39	
YANCYVILLE, FIDELITY BANK	\$	42,507.63	
TOTAL COMMUNITY BANKS ACCOUNTS	\$	4,329,549.40	
<b>TREASURER'S CASH BALANCE 6/30/2011</b>			<b>\$27,868,771.64</b>



TABLE 2

**SUMMARY OF INVESTMENTS BY PARTICIPANTS  
FOR THE PERIODS ENDED JUNE 30, 2011 AND JUNE 30, 2010 (IN THOUSANDS)**

RETIREMENT TRUST FUNDS	JUNE 30, 2011	JUNE 30, 2010
TEACHERS' AND STATE EMPLOYEES' RETIREMENT SYSTEM	\$ 55,732,927	\$ 48,848,161
LOCAL GOVERNMENTAL EMPLOYEE'S RETIREMENT SYSTEM	18,478,709	15,796,819
NORTH CAROLINA FIREMEN'S PENSION FUND	288,088	253,032
RESCUE SQUAD WORKERS' PENSION FUND	35,295	30,772
CONSOLIDATED JUDICIAL RETIREMENT SYSTEM	440,924	386,959
NORTH CAROLINA NATIONAL GUARD PENSION PLAN	86,317	72,931
LEGISLATIVE RETIREMENT SYSTEM	28,866	25,987
<b>TOTAL RETIREMENT TRUST FUNDS:</b>	<b>\$ 75,091,126</b>	<b>\$ 65,414,661</b>
<b>OTHER FUNDS:</b>		
GENERAL FUND	\$ 1,849,707	\$ 1,549,856
OTHER FUNDS WHICH EARN INTEREST FOR THE GENERAL FUND	1,397,347	1,438,615
HIGHWAY FUND	823,479	782,036
HIGHWAY TRUST FUND	212,767	154,682
UNIVERSITY FUNDS	2,368,667	2,313,547
OTHER INDEPENDENT TRUST FUNDS	4,102,579	3,683,165
LOCAL POLITICAL SUBDIVISIONS	749,894	598,957
LICENSING BOARDS	28,800	31,828
OTHER NON-PENSION INVESTMENTS	1,017,452	862,802
<b>TOTAL OTHER FUNDS</b>	<b>\$ 12,550,692</b>	<b>\$ 11,415,488</b>
<b>GRAND TOTAL ALL FUNDS</b>	<b>\$87,641,818</b>	<b>\$76,830,149</b>



TABLE 3

STATEMENT OF DEPARTMENTAL REVENUES AND EXPENDITURES BUDGET AND  
ACTUAL (BUDGETARY BASIS) GENERAL FUND (DEPARTMENTAL ACTIVITIES ONLY)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

	AUTHORIZED BUDGET	YEAR-TO-DATE ACTUAL	VARIANCE FAVORABLE (UNFAVORABLE)
<b>DEPARTMENTAL EXPENDITURES</b>			
GENERAL ADMINISTRATION	\$ 2,434,720	\$ 2,329,074	\$ 105,646
ESCHEAT OPERATIONS	3,132,651	3,101,263	31,388
INFORMATION SERVICES	8,240,850	7,808,130	432,720
INVESTMENT MANAGEMENT OPERATIONS	6,513,018	4,693,036	1,819,982
LOCAL GOVERNMENT OPERATIONS	4,361,324	4,047,226	314,098
STATE BOND ISSUANCE COST	890,676	890,676	-
RETIREMENT OPERATIONS	20,723,540	17,212,899	3,510,641
FINANCIAL OPERATIONS:			
BANKING	3,245,280	2,873,965	371,315
ACCOUNTING	1,623,761	1,496,879	126,882
<b>TOTAL EXPENDITURES</b>	<b>\$ 51,165,820</b>	<b>\$ 44,453,148</b>	<b>\$ 6,712,672</b>
<b>DEPARTMENTAL RECEIPTS</b>			
GENERAL ADMINISTRATION	\$ 2,434,720	\$ 2,329,074	\$ (105,646)
ESCHEAT OPERATIONS	3,132,651	3,101,263	(31,388)
INFORMATION SERVICES	8,240,850	7,808,130	(432,720)
INVESTMENT MANAGEMENT OPERATIONS	2,864,465	2,155,996	(708,469)
LOCAL GOVERNMENT OPERATIONS	1,035,183	733,409	(301,774)
STATE BOND ISSUANCE COST	890,676	890,676	-
RETIREMENT OPERATIONS	20,723,540	17,212,899	(3,510,641)
FINANCIAL OPERATIONS:			
BANKING	48,017	48,017	-
ACCOUNTING	1,623,761	1,496,879	(126,882)
<b>TOTAL RECEIPTS</b>	<b>\$ 40,993,863</b>	<b>\$ 35,776,342</b>	<b>(5,217,521)</b>
<b>APPROPRIATION</b>	<b>\$10,171,957</b>	<b>\$8,676,806</b>	<b>\$1,495,151</b>



TABLE 4

**GENERAL OBLIGATION BONDS  
LOCAL GOVERNMENT REFERENDA AND AUTHORIZATIONS  
FISCAL YEAR JULY 1, 2010 THROUGH JUNE 30, 2011**

	PROPOSITIONS			BONDS		
	# PROPOSED	# APPROVED	% APPROVED	\$ PROPOSED	\$ APPROVED	% APPROVED
<b>COUNTIES:</b>						
VOTED PROPOSITIONS:						
COMMUNITY COLLEGE	1	1	100.00%	\$ 12,000,000	\$ 12,000,000	100.00%
LIBRARY	1	1	100.00%	\$ 40,000,000	\$ 40,000,000	100.00%
WATER	1	1	100.00%	\$ 1,916,000	\$ 1,916,000	100.00%
TOTAL	3	3	100.00%	\$ 53,916,000	\$ 53,916,000	100.00%
NONVOTED PROPOSITIONS:						
2/3RD ISSUES	1	1	100.00%	\$ 14,225,000	\$ 14,225,000	100.00%
REFUNDING	8	8	100.00%	\$246,000,000	\$ 246,000,000	100.00%
TOTAL	9	9	100.00%	\$260,225,000	\$ 260,225,000	100.00%
DISTRICTS:						
VOTED PROPOSITIONS:						
WATER	2	2	100.00%	\$ 20,500,000	\$ 20,500,000	100.00%
TOTAL	2	2	100.00%	\$ 20,500,000	\$ 20,500,000	100.00%
<b>MUNICIPALITIES:</b>						
VOTED PROPOSITIONS:						
WATER	1	1	100.00%	\$ 750,000	\$ 750,000	100.00%
STREETS	3	3	100.00%	\$180,260,000	\$ 180,260,000	100.00%
HOUSING	1	1	100.00%	\$ 15,000,000	\$ 15,000,000	100.00%
NEIGHBORHOOD IMPROVEMENTS	1	1	100.00%	\$ 32,000,000	\$ 32,000,000	100.00%
TOTAL	6	6	100.00%	\$228,010,000	\$ 228,010,000	100.00%
NONVOTED PROPOSITIONS:						
REFUNDING	5	5	100.00%	\$ 31,825,000	\$ 31,825,000	100.00%
2/3RDS	1	1	100.00%	\$ 2,130,000	\$ 2,130,000	100.00%
TOTAL	6	6	100.00%	\$ 33,955,000	\$ 33,955,000	100.00%
TOTAL VOTED	11	11	100.00%	\$302,426,000	\$ 302,426,000	100.00%
TOTAL NONVOTED	15	15	100.00%	\$262,355,000	\$ 262,355,000	100.00%
<b>GRAND TOTALS</b>	<b>26</b>	<b>26</b>	<b>100.00%</b>	<b>\$ 596,606,000</b>	<b>\$ 596,606,000</b>	<b>100.00%</b>



TABLE 5

INSTALLMENT PURCHASE AGREEMENTS APPROVED BY PURPOSE  
FISCAL YEAR JULY 1, 2010 THROUGH JUNE 30, 2011

MUNICIPALITIES:		AMOUNT	COUNTIES:		AMOUNT
UTILITIES			SCHOOLS		
SANITARY SEWER	\$	5,086,803			\$ 188,754,937
ELECTRIC		3,840,582	PUBLIC BUILDINGS		
GAS		729,250	COURTHOUSE/LAW ENFORCEMENT/JAIL	\$	131,727,178
WATER		11,133,172	COUNTY BUILDINGS		33,852,000
		<u>\$ 20,789,807</u>	HOSPITAL		4,800,000
PUBLIC BUILDINGS			HEALTH & HUMAN SERVICES		1,850,000
FIRE STATION	\$	6,843,865	SOCIAL SERVICES		1,400,000
MUNICIPAL BUILDINGS		82,670,195			<u>\$ 173,629,178</u>
MUSEUM		778,987	UTILITIES		
TOWN HALL		10,327,056	WATER	\$	6,458,456
JAIL		610,821	SANITARY SEWER		9,196,234
CONVENTION CENTER		15,032,627			<u>\$ 15,654,690</u>
COMMUNITY CENTER		1,100,000	COMMUNITY COLLEGE		
LIBRARY		6,563,562	ECONOMIC DEVELOPMENT	\$	57,445,630
		<u>\$ 123,927,113</u>	FIRE STATION		725,000
PARKING	\$	22,643,697	REFUNDING		295,295,861
LAND ACQUISITION		5,801,500	EQUIPMENT		5,641,053
RECREATION		13,538,563	TELECOMMUNICATIONS		1,120,947
STREETS & SIDEWALKS		8,834,338			<u>\$ 365,828,491</u>
EQUIPMENT		1,546,402	COMMUNITY COLLEGES		
TELECOMMUNICATIONS		3,752,297	GURANTEED ENERGY SAVINGS CONTRACT		\$ 11,000,088
REFUNDING		51,504,450	AUTHORITIES		
STORMWATER		9,100,025	MUNICIPAL BUILDING/ LAND ACQUISITION		\$ 3,000,000
PUBLIC TRANSIT AUTHORITY		2,317,556	SUBTOTAL		
ECONOMIC DEVELOPMENT		25,157,192			\$ 757,867,384
AIRPORT		733,400	GRAND TOTAL		
VEHICLES		9,950,184			\$1,057,988,908
OTHER (MAUSOLEUM)		525,000			
		<u>\$ 155,404,604</u>			
SUBTOTAL		\$ 300,121,524			



TABLE 6

INSTALLMENT AND LEASE AGREEMENTS APPROVED  
BY THE LOCAL GOVERNMENT COMMISSION  
FISCAL YEARS ENDED JUNE 30, 2011, 2010, AND 2009 (IN MILLIONS)

	FY NO.	2010-11 AMT.	FY NO.	2009-10 AMT.	FY NO.	2008-09 AMT.
COUNTIES	38	\$ 391.1	50	\$ 904.0	49	\$ 858.4
MUNICIPALITIES	53	\$ 248.6	54	\$ 354.0	77	\$ 1,085.0
AUTHORITIES / DISTRICTS	1	\$ 3.0	1	\$ 4.0	3	\$ 5.1
COMMUNITY COLLEGE/GESC	11	\$ 68.4	2	\$ 2.2	11	\$ 48.0
<b>SUBTOTAL</b>	<b>103</b>	<b>\$ 711.1</b>	<b>107</b>	<b>\$ 1,264.2</b>	<b>140</b>	<b>\$ 1,996.5</b>
REFUNDINGS	16	\$ 346.8	11	\$ 444.0	6	\$ 147.8
<b>GRAND TOTAL</b>	<b>119</b>	<b>\$ 1,057.9*</b>	<b>118</b>	<b>\$ 1,708.2*</b>	<b>146</b>	<b>\$ 2,144.3*</b>

\*Total includes refundings.



TABLE 7

SUMMARY OF STATE AND LOCAL GOVERNMENT  
DEBT AND AUTHORIZATIONS AT JUNE 30, 2011

	GENERAL OBLIGATION DEBT	SPECIAL INDEBTEDNESS/ INSTALLMENT/ LEASE PURCHASE DEBT <sup>2</sup>	REVENUE BOND/ REVOLVING AND STATE BOND LOAN/SPECIAL OBLIGATION BOND DEBT <sup>3</sup>	TOTAL	INDUSTRIAL REVENUE BONDS	TOTAL INDEBTEDNESS	GENERAL OBLIGATION BONDS AUTHORIZED AND UNISSUED <sup>4</sup>	NON-GENERAL OBLIGATION DEBT AUTHORIZED AND UNISSUED <sup>4</sup>
STATE OF NC	\$ 4,846,205,000	\$ 2,090,650,000	\$ -	\$6,936,855,000	\$ -	\$ 6,936,855,000	\$ -	\$ 855,827,041
GARVEE 1	\$ -	\$ -	\$ 373,080,000	\$373,080,000	\$ -	\$ 373,080,000	\$ -	\$ -
NC TURNPIKE	\$ -	\$ -	\$ 856,678,109	\$856,678,109	\$ -	\$ 856,678,109	\$ -	\$ 716,080,000
STATE AUTHORITIES AND INSTITUTIONS	\$ -	\$ -	\$21,874,594,520	\$21,874,594,520	\$ -	\$21,874,594,520	\$ -	\$ -
TOTALS	\$ 4,846,205,000	\$ 2,090,650,000	\$23,104,352,629	\$30,041,207,629	\$ -	\$30,041,207,629	\$ -	\$1,571,907,041
COUNTIES	\$ 7,690,853,971	\$ 5,148,007,949	\$ 856,523,877	\$13,695,385,797	\$ -	\$13,695,385,797	\$ 1,703,043,580	\$ 74,000,000
MUNICIPALITIES	\$ 2,271,237,791	\$ 3,008,147,396	\$ 5,542,121,510	\$10,821,506,697	\$ -	\$10,821,506,697	\$ 1,071,953,000	\$ 1,347,000
DISTRICTS	\$ 356,895,694	\$ 9,022,941	\$ 844,196,465	\$1,210,115,100	\$ -	\$ 1,210,115,100	\$ 180,204,000	\$ -
AUTHORITIES	\$ -	\$ 10,912,515	\$ 2,886,590,033	\$2,897,502,548	\$1,655,188,776	\$ 4,552,691,324	\$ -	\$ -
TOTAL	\$10,318,987,456	\$ 8,176,090,801	\$10,129,431,885	\$28,624,510,142	\$1,655,188,776	\$30,279,698,918	\$ 2,955,200,580	\$ 75,347,000
GRAND TOTAL	\$15,165,192,456	\$10,266,740,801	\$33,233,784,514	\$58,665,717,771	\$1,655,188,776	\$60,320,906,547	\$ 2,955,200,580	\$1,647,254,041

Note: Outstanding indebtedness above does not include the bonded indebtedness for which funds have been escrowed from advance refunding proceeds or other sources to cover the debt.

1 Grant Anticipation Revenue Vehicle Bonds.

2 Includes only debt approved by the Local Government Commission (LGC). Certain types of installment purchase debt are excluded from LGC approval, i.e. motor vehicles, certain short-term financings, and USDA loans.

3 Excludes projects financed by State Revolving Loans that are currently under construction, but not yet placed in service.

4 Excludes refunding authorizations.



TABLE 8

STATE OF NORTH CAROLINA ANNUAL DEBT SERVICE REQUIREMENTS  
FOR GENERAL OBLIGATION BONDS AND SPECIAL INDEBTEDNESS

FISCAL YEAR	GENERAL OBLIGATION EXISTING DEBT		HIGHWAY EXISTING DEBT		SPECIAL INDEBTEDNESS EXISTING DEBT		TOTAL EXISTING DEBT <sup>1,2,3</sup>	
	PRINCIPAL	PRINCIPAL & INTEREST	PRINCIPAL	PRINCIPAL & INTEREST	PRINCIPAL	PRINCIPAL & INTEREST	PRINCIPAL	PRINCIPAL & INTEREST
2011-12 \$	319,136,268	528,402,553.10	56,568,732	79,231,728.00	91,555,000	196,932,282.42	467,260,000	804,566,563.52
2012-13 \$	325,648,016	518,732,254.38	61,646,984	81,481,543.40	98,390,000	194,869,908.14	485,685,000.00	795,083,705.92
2013-14 \$	321,842,120	498,851,170.24	62,417,880	79,170,090.20	100,680,000	192,570,746.26	484,940,000.00	770,592,006.70
2014-15 \$	340,883,868	502,133,637.36	46,676,132	60,307,448.20	103,125,000	190,250,862.51	490,685,000.00	752,691,948.07
2015-16 \$	350,426,972	494,869,028.92	37,583,028	48,880,537.60	105,945,000	188,011,493.77	493,955,000.00	731,761,060.29
2016-17 \$	334,509,036	460,797,094.48	51,785,964	61,204,322.20	108,875,000	185,764,912.53	495,170,000.00	707,766,329.21
2017-18 \$	341,433,188	452,515,194.80	45,331,812	52,160,872.00	112,000,000	183,538,793.77	498,765,000.00	688,214,860.57
2018-19 \$	343,822,812	438,044,178.44	45,387,188	50,036,471.40	115,230,000	181,323,081.26	504,440,000.00	669,403,731.10
2019-20 \$	298,873,000	376,839,137.84	57,307,000	59,775,612.00	133,655,000	193,792,706.26	489,835,000.00	630,407,456.10
2020-21 \$	275,850,000	339,655,166.52	-	-	134,020,000	187,586,218.76	409,870,000.00	527,241,385.28
2021-22 \$	256,690,000	307,767,600.00	-	-	137,205,000	184,232,468.76	393,895,000.00	492,000,068.76
2022-23 \$	253,145,000	291,786,050.00	-	-	140,770,000	181,024,918.76	393,915,000.00	472,810,968.76
2023-24 \$	227,385,000	254,375,212.50	-	-	145,340,000	178,646,662.51	372,725,000.00	433,021,875.01
2024-25 \$	147,785,000	164,955,962.50	-	-	110,890,000	137,716,331.26	258,675,000.00	302,672,293.76
2025-26 \$	85,785,000	96,519,812.50	-	-	102,180,000	123,862,981.26	187,965,000.00	220,382,793.76
2026-27 \$	68,630,000	75,676,162.50	-	-	101,440,000	118,122,506.26	170,070,000.00	193,798,668.76
2027-28 \$	40,885,000	45,037,750.00	-	-	95,925,000	107,834,456.26	136,810,000.00	152,872,206.26
2028-29 \$	24,385,000	26,823,500.00	-	-	79,470,000	86,977,181.26	103,855,000.00	113,800,681.26
2029-30 \$	24,385,000	25,604,250.00	-	-	36,030,000	39,732,487.50	60,415,000.00	65,336,737.50
2030-31 \$	-	-	-	-	37,925,000	39,916,062.50	37,925,000.00	39,916,062.50
2031-32 \$	-	-	-	-	-	-	-	-
	<b>\$4,381,500,280</b>	<b>\$5,899,385,716.08</b>	<b>\$464,704,720</b>	<b>\$572,248,625.00</b>	<b>\$2,090,650,000</b>	<b>\$3,092,707,062.01</b>	<b>\$6,936,855,000</b>	<b>\$9,564,341,403.09</b>

<sup>1</sup> Table includes refunding debt but not refunded debt since sufficient funds have been placed with an escrow agent to pay all principal and interest and any premium on the debt refunded to and including their respective maturities or dates or redemption.

<sup>2</sup> The table above includes \$355,000,000 Variable Rate General Obligation Bonds issued in spring 2002. These bonds bear interest on a variable interest rate bases, initially in a weekly mode, which may not exceed 12% per annum. The table reflects interest on these bonds calculated at a budgeted interest rate.

<sup>3</sup> Does not include North Carolina Turnpike Bonds (which are payable from the Highway Trust Fund).



TABLE 9

**REVENUE BONDS AND OTHER INDEBTEDNESS OF STATE  
AUTHORITIES AND INSTITUTIONS AT JUNE 30, 2011**

The following chart outlines the revenue bonds and other indebtedness of State authorities and institutions at June 30, 2011. The State is not responsible for debt service on any of the revenue bonds and other indebtedness represented in this chart.

APPALACHIAN STATE UNIVERSITY	\$ 255,060,596.00
EAST CAROLINA UNIVERSITY	167,675,971.00
ELIZABETH CITY STATE UNIVERSITY	33,114,520.00
FAYETTEVILLE STATE UNIVERSITY	5,693,403.00
NORTH CAROLINA A & T STATE UNIVERSITY	12,090,000.00
NORTH CAROLINA CENTRAL UNIVERSITY	97,261,061.00
NORTH CAROLINA SCHOOL OF THE ARTS	8,755,000.00
NORTH CAROLINA STATE UNIVERSITY AT RALEIGH	390,457,868.00
UNIVERSITY OF NORTH CAROLINA AT ASHEVILLE	45,556,607.00
UNIVERSITY OF NORTH CAROLINA AT CHAPEL HILL	1,334,349,002.00
UNIVERSITY OF NORTH CAROLINA AT CHARLOTTE	243,075,467.00
UNIVERSITY OF NORTH CAROLINA AT GREENSBORO	192,250,835.00
UNIVERSITY OF NORTH CAROLINA AT PEMBROKE	31,700,496.00
UNIVERSITY OF NORTH CAROLINA AT WILMINGTON	251,997,269.00
WESTERN CAROLINA UNIVERSITY	106,314,591.00
WINSTON-SALEM STATE UNIVERSITY	66,887,073.00
NORTH CAROLINA CAPITAL FACILITIES FINANCE AGENCY	2,807,644,119.00
NORTH CAROLINA EASTERN MUNICIPAL POWER AGENCY	2,254,510,000.00
NORTH CAROLINA HOUSING FINANCE AGENCY	1,333,130,000.00
NORTH CAROLINA MEDICAL CARE COMMISSION	7,297,062,952.00
NORTH CAROLINA MUNICIPAL POWER AGENCY NO. 1	1,541,085,000.00
NORTH CAROLINA STATE EDUCATION ASSISTANCE AUTHORITY	3,298,344,899.56
NORTH CAROLINA STATE PORTS AUTHORITY	100,577,790.53
TOTAL	\$ 21,874,594,520.09

Source: Chief fiscal officer of each authority or institution.



TABLE 10

 VALUATION BALANCE SHEET SHOWING THE ASSETS AND LIABILITIES OF THE  
TEACHERS' AND STATE EMPLOYEES' RETIREMENT SYSTEM OF NORTH CAROLINA

ASSETS	DECEMBER 31, 2010	DECEMBER 31, 2009
<b>CURRENT ACTUARIAL VALUE OF ASSETS:</b>		
ANNUITY SAVINGS FUND	\$ 10,374,986,307	\$ 9,907,133,268
PENSION ACCUMULATION FUND	\$ 46,727,212,141	\$ 45,910,965,849
TOTAL CURRENT ASSETS	\$ 57,102,198,448	\$ 55,818,099,117
<b>FUTURE MEMBER CONTRIBUTIONS TO ANNUITY SAVINGS FUND</b>	\$ 6,982,786,111	\$ 7,067,975,174
<b>PROSPECTIVE CONTRIBUTIONS TO PENSION ACCUMULATION FUND:</b>		
NORMAL CONTRIBUTIONS	\$ 5,842,264,379	\$ 5,913,539,229
UNFUNDED ACCRUED LIABILITY CONTRIBUTIONS	\$ 2,773,867,483	\$ 2,360,173,025
UNDISTRIBUTED GAIN CONTRIBUTIONS	(\$269,831,467)	(\$2,519,386,465)
TOTAL PROSPECTIVE CONTRIBUTIONS	\$ 8,346,300,395	\$ 5,754,325,789
<b>TOTAL ASSETS</b>	<b>\$ 72,431,284,954</b>	<b>\$ 68,640,400,080</b>
LIABILITIES	DECEMBER 31, 2010	DECEMBER 31, 2009
<b>ANNUITY SAVINGS FUND:</b>		
PAST MEMBER CONTRIBUTIONS	\$ 10,374,986,307	\$ 9,907,133,268
FUTURE MEMBER CONTRIBUTIONS	\$ 6,982,786,111	\$ 7,067,975,174
TOTAL CONTRIBUTIONS TO ANNUITY SAVINGS FUND	\$ 17,357,772,418	\$ 16,975,108,442
<b>PENSION ACCUMULATION FUND:</b>		
BENEFITS CURRENTLY IN PAYMENT	\$ 30,098,133,293	\$ 28,751,924,527
BENEFITS TO BE PAID TO CURRENT ACTIVE MEMBERS	\$ 25,245,210,710	\$ 25,432,753,576
RESERVE FOR INCREASES IN RETIREMENT ALLOWANCES EFFECTIVE JULY 1, 2011 (JULY 1, 2010 FOR DECEMBER 31, 2009 FIGURE)	0	0
RESERVE FROM UNDISTRIBUTED GAINS/(LOSSES)	(\$269,831,467)	(\$2,519,386,465)
TOTAL BENEFITS PAYABLE FROM PENSION ACCUMULATION FUND	\$ 55,073,512,536	\$ 51,665,291,638
<b>TOTAL LIABILITIES</b>	<b>\$ 72,431,284,954</b>	<b>\$ 68,640,400,080</b>



TABLE 11

VALUATION BALANCE SHEET SHOWING THE ASSETS AND LIABILITIES OF THE  
NORTH CAROLINA LOCAL GOVERNMENTAL EMPLOYEES' RETIREMENT SYSTEM

ASSETS	DECEMBER 31, 2010	DECEMBER 31, 2009
<b>CURRENT ACTUARIAL VALUE OF ASSETS:</b>		
ANNUITY SAVINGS FUND	\$ 3,850,421,168	\$ 3,648,588,129
PENSION ACCUMULATION FUND	\$ 14,720,092,735	\$ 14,074,665,367
TOTAL CURRENT ASSETS	\$ 18,570,513,903	\$ 17,723,253,496
<b>FUTURE MEMBER CONTRIBUTIONS TO ANNUITY SAVINGS FUND</b>	\$ 2,729,749,724	\$ 2,775,074,506
<b>PROSPECTIVE CONTRIBUTIONS TO PENSION ACCUMULATION FUND:</b>		
NORMAL CONTRIBUTIONS	\$ 3,016,121,418	\$ 3,150,965,492
UNFUNDED ACCRUED LIABILITY CONTRIBUTIONS	\$ 75,916,127	\$ 81,538,254
UNDISTRIBUTED GAIN CONTRIBUTIONS	(\$83,557,541)	(\$246,009,998)
TOTAL PROSPECTIVE CONTRIBUTIONS	\$ 3,175,595,086	\$ 2,986,493,748
<b>TOTAL ASSETS</b>	<b>\$ 24,475,858,713</b>	<b>\$ 23,484,821,750</b>
LIABILITIES	DECEMBER 31, 2010	DECEMBER 31, 2009
<b>ANNUITY SAVINGS FUND:</b>		
PAST MEMBER CONTRIBUTIONS	\$ 3,850,421,168	\$ 3,648,588,129
FUTURE MEMBER CONTRIBUTIONS	\$ 2,729,749,724	\$ 2,775,074,506
TOTAL CONTRIBUTIONS TO ANNUITY SAVINGS FUND	\$ 6,580,170,892	\$ 6,423,662,635
<b>PENSION ACCUMULATION FUND:</b>		
BENEFITS CURRENTLY IN PAYMENT	\$ 8,010,025,590	\$ 7,471,675,919
BENEFITS TO BE PAID TO CURRENT ACTIVE MEMBERS	\$ 9,802,104,690	\$ 9,835,493,194
RESERVE FOR INCREASES IN RETIREMENT ALLOWANCES EFFECTIVE JULY 1, 2011 (JULY 1, 2010 FOR DECEMBER 31, 2009 FIGURE)	0	0
RESERVE FROM UNDISTRIBUTED GAINS/(LOSSES)	(\$83,557,541)	(\$246,009,998)
TOTAL BENEFITS PAYABLE FROM PENSION ACCUMULATION FUND	\$ 17,895,687,821	\$ 17,061,159,115
<b>TOTAL LIABILITIES</b>	<b>\$ 24,475,858,713</b>	<b>\$ 23,484,821,750</b>



TABLE 12

 VALUATION BALANCE SHEET SHOWING THE ASSETS AND LIABILITIES OF THE  
CONSOLIDATED JUDICIAL RETIREMENT SYSTEM OF NORTH CAROLINA

ASSETS	DECEMBER 31, 2010	DECEMBER 31, 2009
<b>CURRENT ACTUARIAL VALUE OF ASSETS:</b>		
ANNUITY SAVINGS FUND	\$ 51,978,400	\$ 49,222,622
PENSION ACCUMULATION FUND	\$ 399,217,113	\$ 390,764,682
TOTAL CURRENT ASSETS	\$ 451,195,513	\$ 439,987,304
<b>FUTURE MEMBER CONTRIBUTIONS TO ANNUITY SAVINGS FUND</b>	\$ 40,398,973	\$ 41,551,909
<b>PROSPECTIVE CONTRIBUTIONS TO PENSION ACCUMULATION FUND:</b>		
NORMAL CONTRIBUTIONS	\$ 127,405,284	\$ 130,431,846
UNFUNDED ACCRUED LIABILITY CONTRIBUTIONS	\$ 41,410,514	\$ 34,962,037
UNDISTRIBUTED GAIN CONTRIBUTIONS	(\$4,999,695)	(\$47,510,380)
TOTAL PROSPECTIVE CONTRIBUTIONS	\$ 163,816,103	\$ 117,883,503
<b>TOTAL ASSETS</b>	<b>\$ 655,410,589</b>	<b>\$ 599,422,716</b>
LIABILITIES	DECEMBER 31, 2010	DECEMBER 31, 2009
<b>ANNUITY SAVINGS FUND:</b>		
PAST MEMBER CONTRIBUTIONS	\$ 51,978,400	\$ 49,222,622
FUTURE MEMBER CONTRIBUTIONS	\$ 40,398,973	\$ 41,551,909
TOTAL CONTRIBUTIONS TO ANNUITY SAVINGS FUND	\$ 92,377,373	\$ 90,774,531
<b>PENSION ACCUMULATION FUND:</b>		
BENEFITS CURRENTLY IN PAYMENT	\$ 275,323,825	\$ 265,506,533
BENEFITS TO BE PAID TO CURRENT ACTIVE MEMBERS	\$ 292,709,086	\$ 290,652,032
RESERVE FOR INCREASES IN RETIREMENT ALLOWANCES EFFECTIVE JULY 1, 2011 (JULY 1, 2010 FOR DECEMBER 31, 2009 FIGURE)	0	0
RESERVE FROM UNDISTRIBUTED GAINS/(LOSSES)	(\$4,999,695)	(\$47,510,380)
TOTAL BENEFITS PAYABLE FROM PENSION ACCUMULATION FUND	\$ 563,033,216	\$ 508,648,185
<b>TOTAL LIABILITIES</b>	<b>\$ 655,410,589</b>	<b>\$ 599,422,716</b>



TABLE 13

FIREMEN'S AND RESCUE SQUAD WORKERS' PENSION FUND

VALUATION BALANCE SHEET	6/30/2010	6/30/2009
<b>FIREFIGHTERS</b>		
CURRENT ASSETS		
ANNUITY SAVINGS FUND	\$ 33,510,022	\$ 32,756,008
PENSION ACCUMULATION FUND	250,273,133	249,020,221
TOTAL CURRENT ASSETS	283,783,155	281,776,229
FUTURE MEMBER CONTRIBUTIONS TO ANNUITY SAVINGS FUND	\$ 25,463,756	\$ 22,998,916
PROSPECTIVE CONTRIBUTIONS TO PENSION ACCUMULATION FUND		
NORMAL CONTRIBUTIONS	\$ 47,561,837	\$ 39,538,456
ACCRUED LIABILITY CONTRIBUTIONS	50,635,822	33,914,273
TOTAL	98,197,659	73,452,729
<b>TOTAL ASSETS</b>	<b>\$ 407,444,570</b>	<b>\$ 378,227,874</b>
LIABILITIES		
ANNUITY SAVINGS FUND		
PAST MEMBER CONTRIBUTIONS	\$ 33,510,022	\$ 32,756,008
FUTURE MEMBER CONTRIBUTIONS	25,463,756	22,998,916
TOTAL CONTRIBUTIONS TO ANNUITY SAVINGS FUND	58,973,778	55,754,924
PENSION ACCUMULATION FUND		
BENEFITS CURRENTLY IN PAYMENT	\$ 174,957,949	165,944,329
BENEFITS TO BE PAID TO CURRENT ACTIVE MEMBERS	173,512,843	156,528,621
TOTAL BENEFITS PAYABLE FROM PAF	348,470,792	322,472,950
<b>TOTAL LIABILITIES</b>	<b>\$ 407,444,570</b>	<b>\$ 378,227,874</b>
<b>RESCUE SQUAD WORKERS</b>		
CURRENT ASSETS		
ANNUITY SAVINGS FUND	\$ 3,137,794	\$ 3,078,114
PENSION ACCUMULATION FUND	31,351,667	30,842,916
TOTAL CURRENT ASSETS	34,489,461	33,921,030
FUTURE MEMBER CONTRIBUTIONS TO ANNUITY SAVINGS FUND	\$ 2,166,323	\$ 2,077,753
PROSPECTIVE CONTRIBUTIONS TO PENSION ACCUMULATION FUND		
NORMAL CONTRIBUTIONS	\$ 3,962,381	\$ 3,493,955
ACCRUED LIABILITY CONTRIBUTIONS	1,327,549	1,713,054
TOTAL	5,289,930	5,207,009
<b>TOTAL ASSETS</b>	<b>\$ 41,945,714</b>	<b>\$ 41,205,792</b>



TABLE 13 (CONTINUED)

## FIREMEN'S AND RESCUE SQUAD WORKERS' PENSION FUND

VALUATION BALANCE SHEET	6/30/2010	6/30/2009
<b>RESCUE SQUAD WORKERS (CONTINUED)</b>		
LIABILITIES		
ANNUITY SAVINGS FUND		
PAST MEMBER CONTRIBUTIONS	\$ 3,137,794	\$ 3,078,114
FUTURE MEMBER CONTRIBUTIONS	2,166,323	2,077,753
TOTAL CONTRIBUTIONS TO ANNUITY SAVINGS FUND	5,304,117	5,155,867
PENSION ACCUMULATION FUND		
BENEFITS CURRENTLY IN PAYMENT	18,509,893	17,925,939
BENEFITS TO BE PAID TO CURRENT ACTIVE MEMBERS	18,131,704	18,123,986
TOTAL BENEFITS PAYABLE FROM PAF	36,641,597	36,049,925
<b>TOTAL LIABILITIES</b>	<b>\$ 41,945,714</b>	<b>\$ 41,205,792</b>
<b>TOTAL</b>		
CURRENT ASSETS		
ANNUITY SAVINGS FUND	\$ 36,647,816	\$ 35,834,122
PENSION ACCUMULATION FUND	281,624,800	279,863,137
TOTAL CURRENT ASSETS	318,272,616	315,697,259
FUTURE MEMBER CONTRIBUTIONS TO ANNUITY SAVINGS FUND	27,630,079	25,076,669
PROSPECTIVE CONTRIBUTIONS TO PENSION ACCUMULATION FUND		
NORMAL CONTRIBUTIONS	51,524,218	43,032,411
ACCRUED LIABILITY CONTRIBUTIONS	51,963,371	35,627,327
TOTAL	103,487,589	78,659,738
<b>TOTAL ASSETS</b>	<b>\$ 449,390,284</b>	<b>\$ 419,433,666</b>
LIABILITIES		
ANNUITY SAVINGS FUND		
PAST MEMBER CONTRIBUTIONS	\$ 36,647,816	\$ 35,834,122
FUTURE MEMBER CONTRIBUTIONS	27,630,079	25,076,669
TOTAL CONTRIBUTIONS TO ANNUITY SAVINGS FUND	64,277,895	60,910,791
PENSION ACCUMULATION FUND		
BENEFITS CURRENTLY IN PAYMENT	\$ 193,467,842	\$ 183,870,268
BENEFITS TO BE PAID TO CURRENT ACTIVE MEMBERS	191,644,547	174,652,607
TOTAL BENEFITS PAYABLE FROM PAF	385,112,389	358,522,875
<b>TOTAL LIABILITIES</b>	<b>\$ 449,390,284</b>	<b>\$ 419,433,666</b>

