



NORTH CAROLINA
DEPARTMENT
of STATE
TREASURER



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

STATE TREASURER
JANET COWELL

FISCAL YEAR

2011-2012



DEAR FELLOW CITIZENS,

I am pleased to provide you with the 2011-12 Annual Report, which summarizes key activities and outcomes for the Department of State Treasurer.

When I took office in January 2009, I immediately began work establishing my key goals for the Department, including protecting our pension fund, maintaining the state's AAA bond rating, and advancing financial literacy in the state. Now, as I look back over the past four years, we have made a lot of progress toward achieving many of these goals. I am excited to continue our forward momentum as a Department and state.

This past year has been especially critical in terms of reaching our Department milestones. In January 2012, we accepted responsibility for the operations of the State Health Plan for Teachers and State Employees. This transition brought the two largest benefit programs for state employees under one roof, presenting us with a tremendous opportunity to improve accountability, efficiency, outreach and health outcomes for members.

At the same time, we made great strides in protecting retirement benefits for members, safeguarding the fiscal health of our local governments, and enhancing customer service. During the 2012 legislative session, we worked to put measures in place that would prevent and deter fraud, waste and abuse of our retirement programs. In addition, our conservative debt management and strong oversight of state agencies and local governments helped the state maintain its AAA rating from all three major credit rating agencies, despite downgrade on the federal level.

We have also made advancements in educating North Carolinians on personal finance. With student debt in the United States exceeding \$1 trillion for the first time in history, the Department partnered with the College Foundation of North Carolina to launch an online tool to help community college students assess the amount of loans they can reasonably expect to pay back after graduation. More than 13,000 students were using the tool at the end of the fiscal year to help them manage their debt and stay on track for a financially secure future.

None of these achievements would have been possible without the adoption of newer, more effective tools and technology. In April 2012, we launched a fully redesigned website for the Department, offering a wider range of services for members and improving the customer experience. We also implemented updated systems and software to streamline both the audit management and accounting processes.

The changes that have been put in place put us in an ideal position to continue our forward movement over the next four years. Thank you for the opportunity to continue to serve as your State Treasurer and work toward achieving my strategic objectives for the Department and state. I pledge to continue my work with Department staff and our expert partners to secure the fiscal strength and prosperity of North Carolina and its citizens.

Sincerely,

A handwritten signature in black ink that reads "Janet Cowell". The signature is fluid and cursive.

Janet Cowell
North Carolina State Treasurer

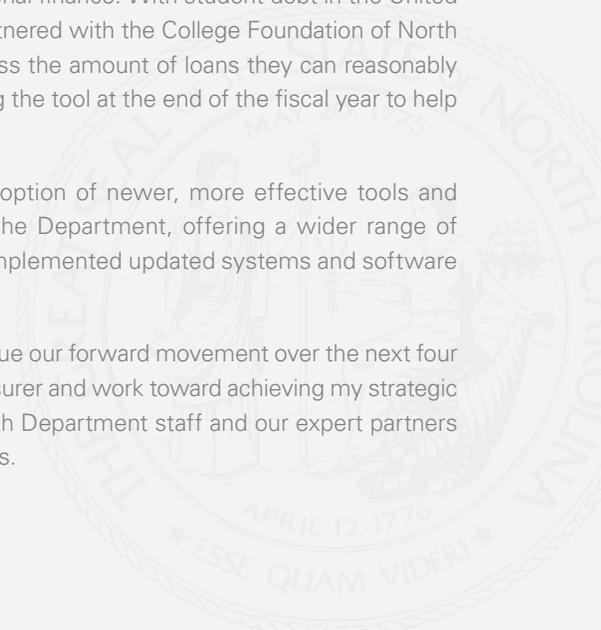


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INTRODUCTION



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 diligent oversight of the finances of the State and outstanding customer service. 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)
Administer health care coverage for teachers and state employees	STATE HEALTH PLAN DIVISION (SHP)
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	STATE AND LOCAL GOVERNMENT FINANCE DIVISION (SLG)
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:

- Integrity
- Accountability
- Transparency
- Expertise
- Customer service
- 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 realized many of these goals throughout the past four years and is working to build on them for the coming four-year term.

- Protecting the Pension Fund
- Maintaining the State’s AAA Bond Rating
- Improving Health Outcomes for Public Employees while Promoting Fiscal Stability of the State Health Plan
- Ensuring Transparency, Ethics and Accountability
- Improving Customer Service
- Increasing Operational Efficiencies and Enhancing Risk Management
- Contributing to Job Creation in the State
- 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.

- Introduced House Bill 1074, which is designed to help the Retirement Systems Division detect and prevent fraud related to retirement benefits. The bill creates a definition of "fraud investigation" for the state and local retirement systems, provides access to records for purposes of conducting fraud investigations, and delineates procedures for reporting on investigations. It also affords whistleblower protection to staff of employers in the Local Governmental Employees' Retirement System, provides authority to the Retirement Systems Division to prevent "salary spiking," and makes it a Class 1 Misdemeanor to keep a disabled decedent's retirement benefit.
- Selected Buck Consultants to conduct an evaluation of the risk for fraud and waste in the Retirement Systems and other benefit plans administered by the Department. The Retirement Systems Division will use the information provided in this evaluation to prevent abuse of its benefit programs and improve oversight of public resources.
- Achieved a 2.21 percent return in the pension fund portfolio over the 2011-12 fiscal year. As of June 30, 2012, pension assets were valued at \$74.5 billion. According to BNY Mellon, the pension fund's fiscal year performance (gross of fees) was in the top quartile among public funds with assets of \$1 billion or more, while its level of risk was in the bottom quartile.
- Engaged in several corporate governance initiatives, employing proxy voting, shareholders resolutions, dialogue with corporate leaders and regulatory agencies, and collaboration with other institutional investors to promote long-term value for the pension portfolio. See page 45 for more information on the Department's corporate governance program.

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 2011-12 fiscal year. North Carolina remains one of only eight 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 10-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 \$4.2 billion in local debt (\$3.3 billion in the previous fiscal year), \$1.3 billion in revenue bonds for State and regional authorities (\$1.6 billion in the previous fiscal year), and \$1.3 billion in state debt (\$1.5 billion in the previous fiscal year).
- Assisted seven North Carolina local governments whose bond ratings were put on negative outlook by Moody's Investors Service in August 2011. The State and Local Government Finance Division made Moody's aware of the unique features of North Carolina local government financial operations, including the Division's oversight of finances and borrowings of local governments, which contributed to the revision of these governments' outlooks to stable in December 2011.



- Maintained the state's AAA bond rating despite the downgrade of the United States rating by Standard & Poor's in August 2011.
- Awarded \$368 million of limited obligation refunding bonds, saving the state approximately \$22.5 million in debt service costs.

IMPROVING HEALTH OUTCOMES FOR PUBLIC EMPLOYEES WHILE PROMOTING FISCAL STABILITY OF THE STATE HEALTH PLAN

In January 2012, the Department of State Treasurer accepted responsibility for managing the day-to-day operations of the State Health Plan. In doing so, the Department aims to ensure the Plan remains fiscally stable while improving health outcomes for state employees.

The Plan had formerly been governed by a legislative oversight committee within the General Assembly. Numerous reports had suggested organizational changes to the Plan and recommended that it be moved to a different governing model.

In the six months following the transition, several steps were taken to ensure a strong governance structure for the State Health Plan and cost savings for members and the State.

- In December 2011, a new Board of Trustees was established for the State Health Plan. The 10-member board, made up of plan members and experts in medicine and health administration, is responsible for decisions regarding vendor contracts and the design of employee health benefits.
- During its first meeting following the Plan's transition to the Department of State Treasurer, the Board approved a recommendation to implement an Employer Group Waiver Plan prescription drug program for retirees on Medicare. The move is expected to save the state approximately \$19.3 million in Medicare retiree prescription drug costs and reduce the state's unfunded liability related to Other Post-Employment Benefits by 19 percent, or approximately \$6 billion.

See page 78 for more information on the State Health Plan Division.

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:

- Upgraded Internet/Intranet to support transparency and centralize electronic document management for the Department.
- Conducted a Listening Tour across the state following the transfer of the State Health Plan to the Department of State Treasurer. During the tour, Treasurer Cowell and various members of the Plan's new board listened to members' concerns about costs and services for health coverage.
- Continued to convene Audit Committee meetings to ensure integrity of financial reports and other financial information provided to any governmental body or the public, oversee the performance of the Internal Audit Division, and ensure compliance with internal controls regarding finance, accounting and operating procedures. All committee meetings are open to the public and all audit reports are made public and submitted to the Office of State Budget and Management.

IMPROVING 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 2011-12, 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:

- Completed a full redesign of the Department’s website to offer a wider range of services, improve the customer experience and support the call center.
- Gained legislative authority to offer a new 403(b) retirement savings option, which will be made available to K-12 teachers and other public school personnel in North Carolina for the first time during the 2012-13 fiscal year. This optional program will allow school systems to offer increased participant services, reduced participation fees and confidence that the plan is in compliance with IRS regulations.
- Continued to offer and enhance internal training programs through the Human Resources office to improve employees’ customer relations skills, hone their knowledge of systems and processes, and promote their professional development.

INCREASING OPERATIONAL EFFICIENCIES AND ENHANCING 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 2011-12. 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:

- Completed internal reviews of the Social Media Program, the Retirement Systems Division’s Death & Disability section and Call Center, and the Debt Services section of the State and Local Government Finance Division to enhance efficiency.

Recommendations were made to improve policies and procedures, enhance risk management, streamline processes, ensure legislative compliance and evaluate progress made on action items identified during external reviews.

- Concluded a formal audit of the Unclaimed Property and Escheats Division to ensure that property is being returned promptly and efficiently to North Carolina citizens. As a result of this audit, the Department enhanced claims processing and outreach at events throughout North Carolina, incorporating financial literacy and retirement information.

CONTRIBUTING TO JOB CREATION IN THE STATE

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 and job creation.

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

- Committed \$65 million in investments during the fiscal year 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 the Accelerator, an allocation of up to \$35 million within the N.C. Innovation Fund designed to generate returns for the pension fund while supporting early-stage life sciences firms in North Carolina. The fund also promotes collaboration among North Carolina universities, research institutions and private enterprises on the development of biopharmaceutical therapeutics, diagnostics and medical devices.
- Encouraged greater ethnic and gender diversity on corporate boards by sponsoring “Broadening Corporate Diversity: Earning a Board Seat,” an event that helps attendees master the skills needed to serve on boards, provides realistic approaches to advancing candidacy and gives guidelines for evaluating opportunities. This annual event is part of 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 ACROSS NORTH CAROLINA

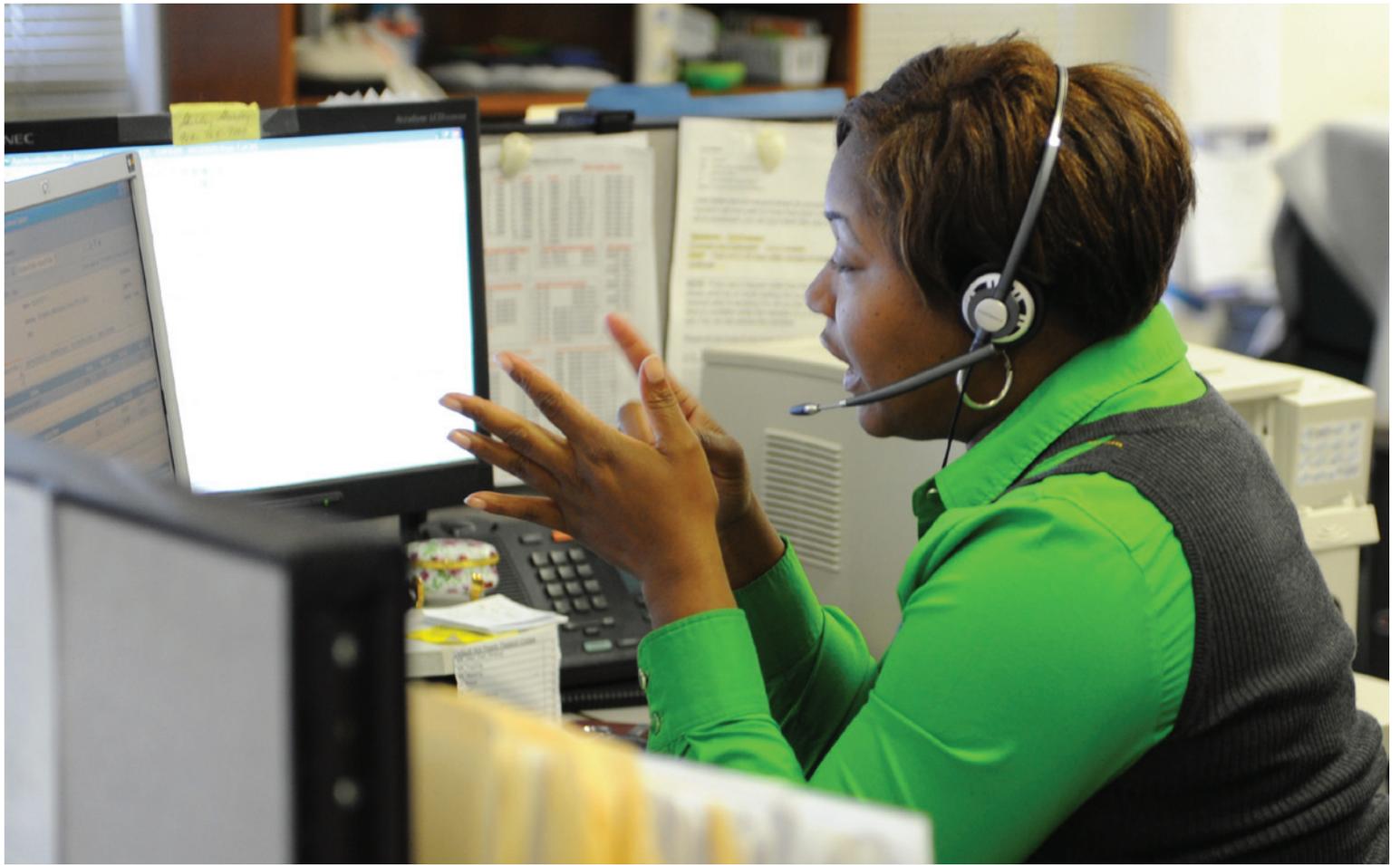
The Department of State Treasurer is committed to helping North Carolina families increase their understanding of finances and ability to grow personal wealth. Financial literacy helps provide citizens of all ages with the information and resources to manage their finances and make important financial 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 2011-12 fiscal year.

- Partnered with the College Foundation of North Carolina to introduce “Advanced Money Management for Community College Students,” an online tool to help community college students assess the amount of loans they could reasonably expect to pay back after graduation, thereby helping them avoid incurring unmanageable debt.
- Conducted a tour of community colleges across the state, giving Treasurer Cowell the opportunity to promote the online tool and speak with students about their experiences with borrowing and finance.
- Co-sponsored the third 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. The summit was designed to address 2009 legislation that integrated financial literacy education into the core standards for North Carolina’s K-12 public schools.
- Created the “In Your Own Words” video, a compilation of photos and video footage from more than 100 North Carolinians illustrating what financial literacy means to them. The video, developed in recognition of National Financial Literacy Month in April, is shown at various financial literacy events and presentations throughout the state.





RETIREMENT SYSTEMS DIVISION



RETIREMENT SYSTEMS DIVISION STATISTICS

	2009-2010	2010-2011	2011-2012
TOTAL ASSETS IN N.C. RETIREMENT SYSTEMS	\$65.3 BILLION	\$74.9 BILLION	\$74.5 BILLION
AMOUNT DELIVERED TO RETIREES	\$4.2 BILLION	\$4.3 BILLION	\$4.6 BILLION
NUMBER OF RETIREES RECEIVING BENEFITS	229,000	242,000	254,000
AVERAGE HOLD TIMES FOR RSD CALL CENTER	1:20 (80 SECONDS)	0:51 (51 SECONDS)	1:03 (63 SECONDS)
NUMBER OF NEW RETIREMENTS PROCESSED DURING THE YEAR	13,472	14,642	15,992
TOTAL ASSETS IN SUPPLEMENTAL 401(K)/457 PLANS	\$5.1 BILLION	\$6.3 BILLION	\$6.5 BILLION
NUMBER OF 401(K) PLAN MEMBERS	221,052	224,644	227,711
NUMBER OF 457 PLAN MEMBERS	30,692	34,149	38,268



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 (optional defined contribution 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 \$74.5 billion at the end of the 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)	600,378	\$54 BILLION
LOCAL GOVERNMENTAL EMPLOYEES’ RETIREMENT SYSTEM (LGERS)	217,688	\$18.2 BILLION
CONSOLIDATED JUDICIAL RETIREMENT SYSTEM (CJRS)	1,183	\$431 MILLION
LEGISLATIVE RETIREMENT SYSTEM (LRS)	531	\$27 MILLION
FIREMEN’S AND RESCUE SQUAD WORKERS’ PENSION FUND	51,254*	\$317 MILLION*
NATIONAL GUARD PENSION PLAN	14,631	\$86 MILLION
LEGISLATIVE RETIREMENT FUND	10	--
REGISTERS OF DEEDS’ SUPPLEMENTAL PENSION FUND	186	\$46.1 MILLION

* Data as of June 30, 2011, all other values as of December 31, 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

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 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 TSERS. 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. The State Treasurer is the ex-officio chairperson of all boards. Below are the responsibilities and structures of each:

TEACHERS’ AND STATE EMPLOYEES’ RETIREMENT SYSTEM	LOCAL GOVERNMENTAL EMPLOYEES’ RETIREMENT SYSTEM	FIREMEN’S AND RESCUE SQUAD WORKERS’ PENSION FUND	CONSOLIDATED JUDICIAL RETIREMENT SYSTEM	SUPPLEMENTAL RETIREMENT INCOME PLANS
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	Fourteen members, including the same seven ex-officio or public Teachers’ and State Employees’ Retirement System Board members, plus seven members representing local governments	Five members, including actively working employees, volunteers, and a member of the public	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	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 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 timely 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 2011-12 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, 419,378 members’ accounts were posted.
- Enrolled 42,977 new members during the fiscal year
- Distributed \$4.6 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 6 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.

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.

The staff works closely with the Retirement Systems’ 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

For the period of July 2011 through June 2012, the Benefits Processing Section:

- Provided disability reimbursements to employers totaling \$11.2 million
- Processed 6,712 death notifications
- Refunded 16,458 payments for return of accumulated contributions
- Presented 3,338 new disability applications to the Medical Board
- Reviewed 1,756 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 2011-12 fiscal year, a portion of the Records Section staff who are responsible for member maintenance were transitioned to Member Services. The records and imaging staff continue to secure incoming mail; scan, index and route documents; and electronically store and protect member information for the purpose of delivering benefits in a timely and accurate manner.



The newly expanded Section:

- Responded to 55,513 letters, e-mails and faxes
- Answered 278,849 telephone calls through the Call Center, with an average hold time of 63 seconds
- Met with 3,027 members in the Visitors' Office
- Conducted 232 retirement planning conferences, reaching more than 14,677 members
- Provided 30 employer education seminars that provide an overview of TSERS, LGERS and DIPNC
- Enrolled nine employers in LGERS
- Processed 76,726 membership support documents, an increase of 10 percent compared to last fiscal year
- Processed 53,060 new beneficiary designation forms, an increase of almost 10 percent compared to last fiscal year
- Electronically distributed almost 730,000 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 2011-12 fiscal year, the Retirement Processing Section:

- Processed 174 applications for a lifetime monthly benefit (annuity) through the NC 401(k)/NC 457 Transfer Benefit option for retiring members
- Set up 15,992 new retirements for payment, a 9 percent increase from the previous fiscal year
- Conducted more than 150,000 service purchase estimates through the Service Purchase Estimator in members' ORBIT accounts
- Calculated 5,343 service purchase cost calculations
- Estimated 7,373 retirement benefits, an 8 percent increase from the previous fiscal year
- Generated almost 90,000 Transfer Benefit estimates through the online Transfer Benefits Estimator in members' ORBIT accounts. The Transfer Benefits estimator was established in December 2010.
- Calculated, in addition to the manually calculated estimates, more than 1.2 million benefit estimates through the online Benefits Estimators on the Department of State Treasurer's website and in members' ORBIT accounts.



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"> • Economic assumptions used for the actuarial valuation of all retirement systems based on an interest rate of 7.25 percent per year • Average rates of salary increase of about 5 percent per year, based on inflation assumptions, varying at different ages • Assumed rates for mortality, withdrawals, disabilities, and service retirements based on actual past experience and projected future changes 	<ul style="list-style-type: none"> • Asset valuation is 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. 	<ul style="list-style-type: none"> • 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. • 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. • Accrued liability is the difference between total liabilities and the present value of future normal cost contributions and the members’ future contributions. 	<ul style="list-style-type: none"> • TSERS: Experienced gains and losses are reflected in the amount of the unfunded accrued liability and thereby affect the period of liquidation. • LGERS: Experienced gains and losses are reflected in the normal contribution rate. • 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.



Funding of the Systems

All retirement systems are joint contributory, defined benefit plans with contributions made by both employees and employers. Each active member contributes 6 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 7 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 fiscal year 2011-12. As of June 30, 2012, 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 annual funding from the North Carolina General Assembly, consistent use of conservative actuarial assumptions and an approved actuarial cost method since the establishment

of the systems, and 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 94 percent. The annual actuarial study is based on data collected through December 31, 2011, and shows a slight decrease from the previously reported status of 95.4 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
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%
2011 – 94%	2011 – 99.8%	2011 – 89.9%



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, 2011	
ACTIVE MEMBERS	317,906
INACTIVE MEMBERS	110,686
RETIRED MEMBERS AND BENEFICIARIES OF DECEASED MEMBERS	171,786

Invested assets at market value amounted to \$54 billion as of December 31, 2011. For more information about investments for the North Carolina Retirement Systems, please see the Investment Management Division section of this Annual Report.

Operations of TSERS during calendar year 2011 resulted in:

- Total receipts of \$2,832,285,813
- Total expenditures of \$3,538,215,187

The latest Actuary's Valuation Balance Sheet for TSERS, as of December 31, 2011, is shown in Table 10 in the Statistical Tables section. Based on the latest actuary's report, the General Assembly set the employer contribution rate at 7.44 percent of covered payroll effective July 1, 2011, and at 8.33 percent of covered payroll effective July 1, 2012. 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 12 years from January 1, 2012, the remaining accrued liability for past service.

CHART 2:

TEACHERS' AND STATE EMPLOYEES' RETIREMENT SYSTEM OF NORTH CAROLINA
YEAR ENDED DECEMBER 31, 2011

SOURCES OF FUNDS

EMPLOYEE CONTRIBUTIONS	\$830,000,000	29.31%
EMPLOYER CONTRIBUTIONS	\$837,800,000	29.58%
OTHER INCOME*	\$1,500,000	.06%
INVESTMENT INCOME	\$1,162,700,000	41.05%

APPLICATIONS OF FUNDS

RETIREE BENEFITS	\$3,432,900,000	121.21%
REFUNDS**	\$94,200,000	3.33%
ADMINISTRATIVE EXPENSES	\$10,800,000	.38%
OTHER EXPENSES***	\$145,000	--
ADDITION TO RESERVES FOR FUTURE BENEFITS	(\$705,929,375)	(24.92%)

* 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, 2011, a total of 898 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, 2011	
ACTIVE MEMBERS	121,638
INACTIVE MEMBERS	44,350
RETIRED MEMBERS AND BENEFICIARIES OF DECEASED MEMBERS	51,700

Invested assets at market value amounted to \$18.2 billion as of December 31, 2011. For more information about investments for the North Carolina Retirement Systems, please see the Investment Management Division section of this report.

Operations of LGERS during the calendar year 2011 resulted in:

- Total receipts of \$1,090,589,541
- Total expenditures of \$940,811,032

The latest Actuary’s Valuation Balance Sheet for LGERS, as of December 31, 2011, is shown in Table 11 in the Statistical Tables section. Based on the actuary’s latest report, the Board of Trustees set the employer normal contribution rate at 6.74 percent of covered payroll for general employees and at 7.22 percent of covered payroll for law enforcement officers, effective July 1, 2012. 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, 2011**

SOURCES OF FUNDS		
EMPLOYEE CONTRIBUTIONS	\$333,800,000	30.62%
EMPLOYER CONTRIBUTIONS	\$375,000,000	34.39%
OTHER INCOME*	377,500,000	.38%
INVESTMENT INCOME	\$1,847,800,000	34.61%
APPLICATIONS OF FUNDS		
RETIREE BENEFITS	\$889,000,000	81.52%
REFUNDS**	\$47,100,000	4.32%
ADMINISTRATIVE EXPENSES	\$4,500,000	.41%
OTHER EXPENSES***	80,998	.02%
ADDITION TO RESERVES FOR FUTURE BENEFITS	\$149,778,000	13.73%

* Fee, Licenses, 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, 2011

ACTIVE MEMBERS	566
INACTIVE MEMBERS	55
RETIRED MEMBERS AND BENEFICIARIES OF DECEASED MEMBERS	562

The invested assets at market value were about \$431 million as of December 31, 2011. For more information about investments for the North Carolina Retirement Systems, please see the Investment Management Division section of this report.

Operations of the Judicial System during the calendar year 2011 resulted in:

- Total receipts of \$28,136,935
- Total expenditures of \$32,776,883

The latest Actuary’s Valuation Balance Sheet for the Judicial System, as of December 31, 2011, is shown in Table 12 in the Statistical Tables section. Based on the actuary’s latest report, the General Assembly set the employer contribution rate at 26.55 percent of covered members’ payroll, effective July 1, 2012. 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, 2011**

SOURCES OF FUNDS

EMPLOYEE CONTRIBUTIONS	\$4,600,000	16.64%
EMPLOYER CONTRIBUTIONS	\$14,200,000	50.53%
INVESTMENT INCOME	\$9,200,000	32.83%

APPLICATIONS OF FUNDS

RETIREE BENEFITS	\$32,700,000	116.25%
REFUNDS	\$37,000	.13%
ADMINISTRATIVE EXPENSES	\$31,300	.11%
ADDITION TO RESERVES FOR FUTURE BENEFITS	(\$4,600,000)	(16.49%)



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

The Legislative Retirement System was created by the 1983 legislative session 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, 2011

ACTIVE MEMBERS	170
INACTIVE MEMBERS	83
RETIRED MEMBERS	278

As of December 31, 2011, assets totaled \$27 million. For more information about investments for the North Carolina 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, 2012. On this basis, the total of employee and employer rates of contribution is adequate to fund all future benefits presently authorized.

**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 AT JUNE 30, 2012

PLAN MEMBERSHIP	227,711
EMPLOYER CONTRIBUTIONS*	\$79,064,532
MEMBER CONTRIBUTIONS**	\$139,733,748

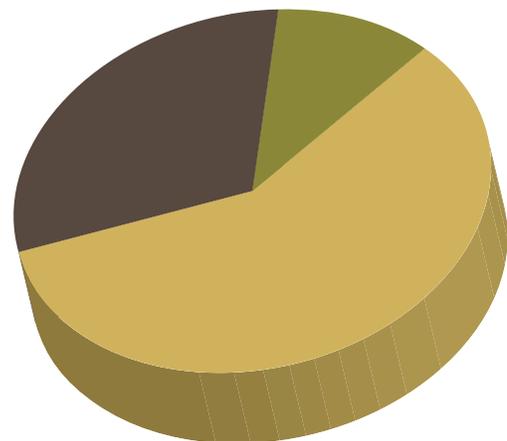
* Many local government employers contribute to employee plans. Also, Law Enforcement Officers (LEOs) are statutorily required to receive a 5 percent employer contribution to their NC 401(k) account. State government employers do not make a contribution for non-LEO members.

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

The total Plan assets at market value increased by 3.86 percent over the previous year to \$5.69 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, 2012, 30.61 percent of the assets were invested in Stable Value, 10.64 percent were invested in fixed income, and 58.75 percent were invested in equity funds. Outstanding loan balances totaled \$257.3 million.

MEMBERS’ 401(K) INVESTMENT CHOICES



■ EQUITY FUNDS	58.75%
■ STABLE VALUE	30.61%
■ FIXED INCOME	10.64%



**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, 2012**

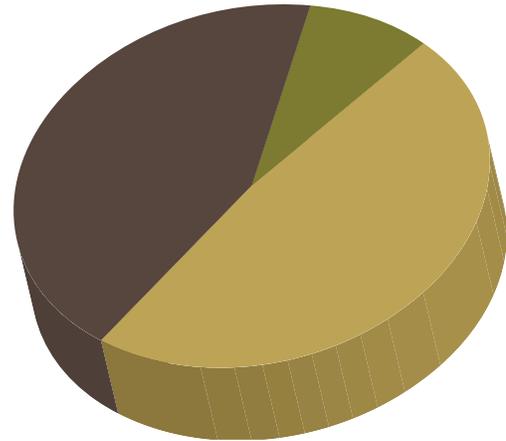
PLAN MEMBERSHIP	38,268
MEMBER CONTRIBUTIONS*	\$30,230,237

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

The total Plan assets at market value increased by 2.98 percent over the previous year to \$862 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, 2012, 42.93 percent of the assets were invested in Stable Value, 8.74 percent were invested in fixed income, and 48.33 percent were invested in equity funds. Outstanding loan balances totaled \$14 million.

MEMBERS' DEFERRED COMPENSATION INVESTMENT CHOICES



- EQUITY FUNDS 48.33%
- STABLE VALUE 42.93%
- FIXED INCOME 8.74%

Staff is actively implementing the new legislatively approved NC 403(b) program, which is tentatively scheduled for implementation in early 2013.



TEACHERS’ AND STATE EMPLOYEES’ BENEFIT TRUST
N.C.G.S. §§ 135-5(I); 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 2011, 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 2011

RETIREMENT SYSTEM MEMBERS	NO. OF PAYMENTS	PAYMENT AMOUNT
TEACHERS’ AND STATE EMPLOYEES’	556	\$21,200,000
LOCAL GOVERNMENTAL EMPLOYEES’	118	\$4,700,000



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 below 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 2011 are also provided in the chart below.

CHART 5:

**NORTH CAROLINA TEACHERS' AND STATE EMPLOYEES' BENEFIT TRUST
YEAR ENDED DECEMBER 31, 2011**

SOURCES OF FUNDS

LOCAL GOVERNMENTAL EMPLOYEES' RETIREMENT SYSTEM DEATH BENEFIT	\$4,400,000	5.09%
RETIRES' DEATH BENEFIT	\$19,600,000	23.52%
TEACHERS' AND STATE EMPLOYEES' RETIREMENT SYSTEM DEATH BENEFIT	\$21,800,000	24.67%
LEGISLATIVE DEATH BENEFIT	\$15,000	.02%
INVESTMENT INCOME	\$40,700,000	46.70%

APPLICATIONS OF FUNDS

LOCAL DEATH BENEFITS PAID	\$4,500,000	5.25%
DEATH BENEFITS AND INSURANCE PAID SIBP	\$963,000	1.10%
ADMINISTRATIVE EXPENSES	\$751,000	.86%
RETIREE DEATH BENEFITS PAID	\$17,900,000	20.57%
STATE DEATH BENEFITS PAID	\$20,400,000	23.41%
ADDITION TO RESERVES FOR FUTURE BENEFITS	\$42,500,000	48.80%



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 firefighters. 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, 2011

ACTIVE MEMBERS	39,734
RETIRED MEMBERS	11,520

Invested assets at market value amounted to about \$317.19 million as of June 30, 2011. For more information about investments for the North Carolina 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 2010-11 fiscal year resulted in:

- Total receipts of \$19,816,900
- Total expenditures of \$25,388,096

The latest Actuary's Valuation Balance Sheet, as of June 30, 2011, is shown in Table 13 in the Statistical Tables section. Based on the latest actuary's report, the General Assembly appropriated \$10 million for the 2010-11 fiscal year. The annual appropriations will fund all future benefits, based on current service, and will fund, over a period of 12 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, 2011**

SOURCES OF FUNDS

APPROPRIATION	\$10,000,000	50.86%
MEMBER CONTRIBUTIONS	\$2,700,000	13.82%
INVESTMENT INCOME	\$6,991,443	35.28%
MISCELLANEOUS INCOME	\$8,000	.04%

APPLICATIONS OF FUNDS

PENSION BENEFITS	\$24,000,000	121.53%
REFUNDS	\$450,425	2.27%
ADMINISTRATIVE EXPENSES	\$853,263	4.31%
ADDITION TO RESERVES FOR FUTURE BENEFITS	(\$5,571,197)	(28.11%)



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 under the State 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 2011

BEGINNING FUND BALANCE	\$655,445,062
ADDITIONS:	
EMPLOYER CONTRIBUTIONS	\$739,410,330
INVESTMENT INCOME	\$6,378,761
DEDUCTIONS:	
HEALTH PREMIUMS PAID	\$671,786,854
ADMINISTRATIVE EXPENSE	\$352,715
ENDING FUND BALANCE	\$729,094,584

**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, 2011, there were 10 former members and officers of the General Assembly in receipt of allowances with a cost of \$16,375. 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 which money is not added to the fund. Only the 10 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, 2012.

DISABILITY INCOME PLAN STATISTICS CALENDAR YEAR 2010 AND 2011

	2010	2011
NUMBER OF DISABLED MEMBERS	6,480	10,802
NEW CLAIMS DURING THE YEAR	1,250	3,338
EMPLOYER CONTRIBUTIONS	\$77,717,001	\$77,044,109
INVESTMENT INCOME	\$29,838,540	\$40,954,945
AMOUNT OF BENEFIT PAYMENTS	\$60,158,493	\$63,657,797



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 during the 1979 session of the General Assembly, effective July 1, 1979. This Plan 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, 2011

BENEFICIARIES IN RECEIPT OF MONTHLY ALLOWANCES	4,071
MONTHLY ALLOWANCES	\$6,953,632

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 this Fund became payable beginning July 1, 1988.

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

- As of December 31, 2011, this fund had total assets in the amount of \$44.8 million.
- For the year ending December 31, 2011, the Fund paid total benefits in the amount of \$1.5 million.



THE YEAR'S HIGHLIGHTS

Operational Assessments

The Retirement Systems Division initiated independent reviews of three process areas – the Call Center and the Death and Disability units. External consultants were asked to review the Division's operating practices, process management and communication within the three units. As a result of the independent findings, the Division began to implement recommendations including:

- Developing a quality control process
- Developing consistent communication materials
- Enhancing employee training
- Reducing the employee to manager ratio in the Call Center

Enhanced Online Customer Information

The number of Retirement Systems members registered in ORBIT (Online Retirement Benefits through Integrated Technology) remained steady with more than 200,000 members during the 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.

During the 2011-12 fiscal year, the Retirement Systems forms and estimators were relocated to the ORBIT landing page. This enables the forms and estimators to be updated with the same business rules and at the same time as the forms and estimators located in the secure ORBIT portal.

Personalized forms and the three estimators – Retirement Benefits, Transfer Benefits and Service Credit – remain available inside the secure ORBIT portal after a member logs in.

LEGISLATION

During the 2011 session, the North Carolina General Assembly enacted legislation to:

- Change the vesting period from five years to 10 years for TSERS general employees and law enforcement officers who become members on or after August 1, 2011.
- Clarify and amend penalties for an employer's late submission of a monthly report on retirees who have returned to work. If the employer does not submit the report within the required 90 days, the Retirement System may assess the employer with a penalty of 10 percent of the compensation of the unreported retirees, with a minimum penalty of \$25.
- Specify that it is a Class 1 Misdemeanor to fraudulently receive the retirement benefit of a deceased retiree at least two months after the retiree's death.
- Allow an Optional Retirement Program ("ORP") member who leaves employment with the University of North Carolina System ("UNC") to count any combination of TSERS, LGERS, Consolidated Judicial Retirement System, or ORP membership service toward vesting with five years of service, and not forfeit the UNC employer contributions held by the ORP member with fewer than five ORP years.
- Create a centralized 403(b) Retirement Annuity Plan as an option for employees of local boards of education.

COMMUNICATIONS

The Employee Training Unit and the publications function transitioned to join the Retirement Systems Communication Unit in March 2012. This new organizational alignment will enable the integration and consistency of information internally and externally. This newly consolidated unit also includes knowledge management and the development of forms and letters.





INVESTMENT MANAGEMENT DIVISION



INVESTMENT MANAGEMENT DIVISION STATISTICS

	2009-2010	2010-2011	2011-2012
TOTAL ASSETS OF NC RETIREMENT SYSTEMS	\$65.3 BILLION	\$74.9 BILLION	\$74.5 BILLION
INVESTMENT PERFORMANCE FOR THE NC PENSION FUND	12% INCREASE	18.48% INCREASE	2.21% INCREASE
RETURNS FROM EACH ASSET CLASS WITH THE TOTAL PENSION FUND			
FIXED INCOME	13.22%	5.32%	11.66%
GLOBAL EQUITY	14.31%	30.76%	-5.98%
PRIVATE EQUITY	12.88%	15.24%	6.55%
HEDGE FUNDS	10.25%	6.84%	-6.52%
REAL ESTATE	-16.74%	18.16%	7.88%
CREDIT STRATEGIES	-	15.79%	0.37%
INFLATION PROTECTION	-	-16.35%	-10.67%
FUNDED STATUS			
FUNDED STATUS OF THE TEACHERS' AND STATE EMPLOYEES' RETIREMENT SYSTEM (TSERS)	95.90%	95.40%	94%



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, 2012, total assets of these programs were \$88.18 billion.

PROGRAM PERCENTAGE OF TOTAL ASSETS IN 2012

CASH MANAGEMENT PROGRAM	Main participants are the State’s General Fund and Highway Funds	13.96%
PENSION FUND INVESTMENT PROGRAM	Assets of the Teachers’ and State Employees’ Retirement System, the Consolidated Judicial Retirement System, the Firemen’s and Rescue Squad 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”).	84.45%
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	1.59%

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

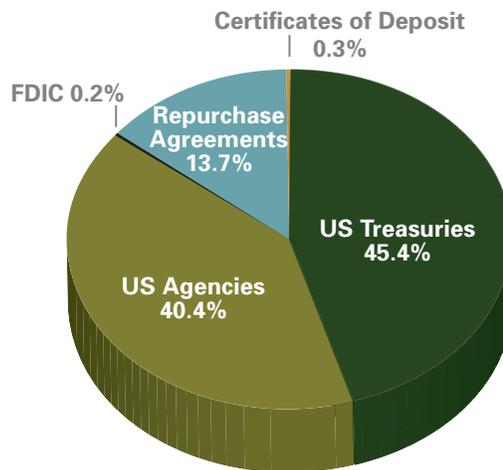
The Cash Management Program’s objective is to maximize income consistent with the principles of preservation of capital and liquidity. These investments include short-term money market accounts and bonds that typically get the best interest rates. Additionally, this program includes state bank deposits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

Short-Term Investment Fund

The Short-Term Investment Fund (“STIF”) comprises 99.48 percent of the Cash Management Program. The Bond Proceeds Fund, managed by Sterling Capital, accounts for 0.52 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 2011-12, the STIF generated a cash return of 0.65 percent. The following graph provides STIF Asset Allocation as of June 30, 2012.

STIF ASSET ALLOCATION AS OF 6/30/12



* 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

FDIC – FDIC-guaranteed notes

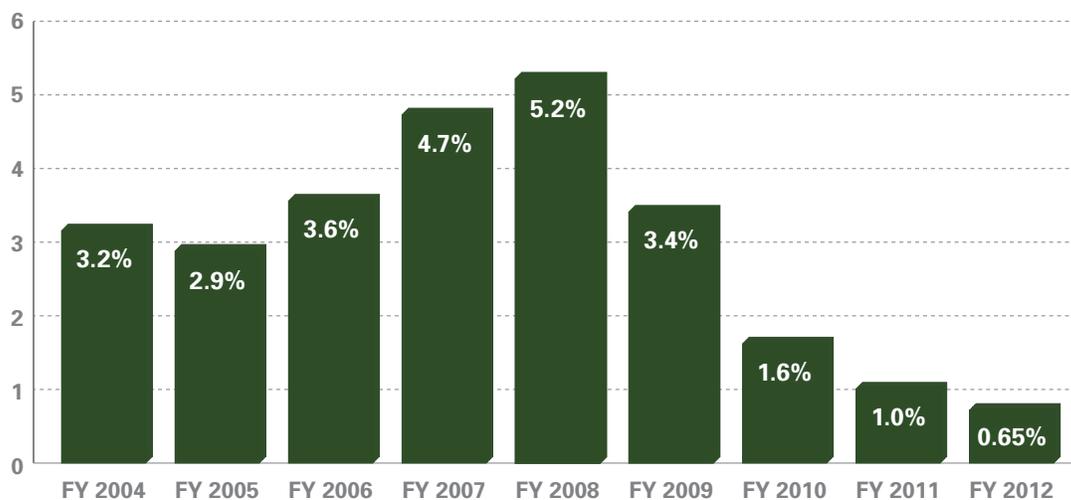
Repurchase Agreements – short-term collateralized loan

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, 2012.

STIF FISCAL YEAR PERFORMANCE



STIF TOP TEN POSITIONS AS OF JUNE 30, 2012

ISSUER	COUPON	MATURITY DATE	PAR VALUE (\$)
MIZUHO SECURITIES REPO	0.180%	7/2/2012	1,250,000,000
WACHOVIA REPO	0.210%	7/2/2012	475,000,000
U.S. TREASURY NOTE	0.625%	7/31/2012	450,000,000
U.S. TREASURY NOTE	0.375%	8/31/2012	450,000,000
U.S. TREASURY NOTE	0.375%	9/30/2012	450,000,000
U.S. TREASURY NOTE	0.375%	10/31/2012	450,000,000
U.S. TREASURY NOTE	0.500%	11/30/2012	450,000,000
U.S. TREASURY NOTE	0.625%	1/31/2013	450,000,000
U.S. TREASURY NOTE	0.625%	2/28/2013	450,000,000
U.S. TREASURY NOTE	0.750%	3/31/2013	450,000,000



STIF SUMMARY OF BROKERS UTILIZED DURING FISCAL YEAR 2011-12

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, 2012.

BANK OF AMERICA

BARCLAYS CAPITAL

CITIGROUP

CREDIT SUISSE SECURITIES

DEUTSCHE BANK SECURITIES

FIRST TENNESSEE BANK

GOLDMAN SACHS

HSBC SECURITIES

JEFFERIES & COMPANY

JP MORGAN CHASE

LOOP CAPITAL

MIZUHO SECURITIES

MORGAN KEEGAN

MORGAN STANLEY

RBC CAPITAL MARKETS

RBS GREENWICH CAPITAL

STIFEL NICOLAUS

SUNTRUST CAPITAL MARKETS

UBS SECURITIES

WELLS FARGO SECURITIES

WILLIAMS CAPITAL

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.

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, monitoring and 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 10-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
25TH PERCENTILE	2.58%	12.63%	2.88%	7.08%
MEDIAN	1.09%	11.91%	1.82%	6.62%
75TH PERCENTILE	0.24%	11.14%	1.14%	5.96%
NC PENSION FUND	2.69%	11.16%	3.05%	6.66%

RISK	1 YEAR	3 YEAR	5 YEAR	10 YEAR
25TH PERCENTILE	12.82	10.77	13.30	10.91
MEDIAN	11.12	9.68	12.36	10.23
75TH PERCENTILE	9.32	8.46	11.07	9.24
NC PENSION FUND	9.19	8.30	10.44	8.56

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

Fiscal Year Review

The fiscal year ending June 30, 2012 was a period of continued volatility in world markets and economies. Investors were presented with significant challenges over the last 12 months as anxiety caused by the ongoing European debt crisis, the China slowdown, and the overall slowing global economic growth resulted in increased market volatility and reduced equity returns. These macroeconomic factors largely contributed to the pension fund underperforming its actuarial rate of return.

The overall performance for fiscal year 2011-12 was driven primarily by strong results in fixed income, real estate and private equity. The first half of the fiscal year was characterized by a sharp downward correction in the public equity markets driven by stress in the Eurozone and fears of a slowdown in the Chinese economy. Slower than expected growth in gross domestic product and high structural unemployment further weakened the equity markets.

Advances made to further diversify plan assets and decrease risk in the fund continued during fiscal year 2011-12. The Global Equity portfolio continued its shift from a historical bias toward domestic assets to a higher percentage of global assets, especially in emerging markets. The fund also continued to utilize flexibility achieved during the 2009 legislative session by building out the still young credit and inflation protection portfolios. Additionally, the pension fund has begun to utilize the authority that was gained in 2011 to increase the percentage of alternative investments allowed in the plan and the ability to hedge risks in the Global Equity portfolio. The pension fund will continue to use this additional flexibility over the coming years to further reduce risk while maintaining the earning potential of the portfolio.



Total Pension Fund Structure

As of June 30, 2012, the pension fund maintained a market value of \$74.5 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 2006	JUNE 2007	JUNE 2008	JUNE 2009	JUNE 2010	JUNE 2011	JUNE 2012
FIXED INCOME	39.5%	39.5%	39.5%	39.5%	38.0%	38.0%	36.0%
GLOBAL EQUITY	54.5%	52.0%	50.0%	50.0%	48.0%	40.5%	40.5%
REAL ESTATE	3.5%	5.0%	6.0%	6.0%	6.0%	8.0%	8.0%
ALTERNATIVES	2.5%	3.0%	4.5%	4.5%	4.5%	4.5%	6.5%
CREDIT STRATEGIES	0.0%	0.0%	0.0%	0.0%	1.5%	4.5%	4.5%
INFLATION PORTFOLIO	0.0%	0.0%	0.0%	0.0%	1.5%	4.5%	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 assist in controlling the level of risk that an investment portfolio experiences.

PENSION FUND ASSET ALLOCATION AS OF JUNE 30, 2012

	MARKET VALUE	PORTFOLIO WEIGHT	TARGET WEIGHT	TARGET RANGE
FIXED INCOME	\$27,535,997,652	36.98%	36.0%	34.0% - 42.0%
GLOBAL EQUITY	\$31,996,540,642	42.97%	40.5%	35.0% - 50.0%
REAL ESTATE	\$5,774,722,557	7.75%	8.0%	5.0% - 10.0%
PRIVATE EQUITY	\$3,563,887,274	4.79%	6.5%	0% - 7.5%
HEDGED STRATEGIES	\$267,936,619	0.36%	4.5%	0% - 5.0%
CREDIT STRATEGIES	\$3,114,607,799	4.18%	4.5%	0% - 5.0%
INFLATION PORTFOLIO	\$2,213,621,508	2.97%	4.5%	0% - 5.0%
TOTAL FUND	\$74,467,314,051	100.0%	---	---



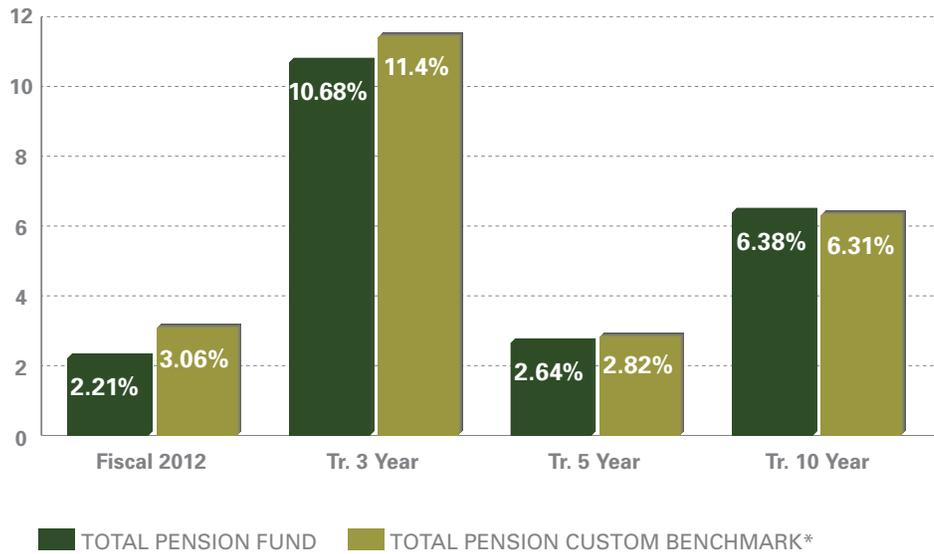
Total Fund Performance

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, the fund returned 2.21 percent, net of fees. Compared to its peer group plans, the fund outperformed the median public plan with greater than \$1 billion for one-, five- and 10-year time periods, according to BNY Mellon. The charts below provide a snapshot for the total pension fund’s annualized performance and performance by asset class for one-, three-, five- and 10-year periods.

2012 FISCAL YEAR RETURNS	
FIXED INCOME	11.66%
GLOBAL EQUITY	-5.98%
REAL ESTATE	7.88%
PRIVATE EQUITY	6.55%
HEDGED STRATEGIES	-6.52%
CREDIT STRATEGIES	0.37%
INFLATION	-10.67%
TOTAL PENSION FUND	2.21%

TOTAL PENSION FUND ANNUALIZED PERFORMANCE



* The Total Pension Custom Benchmark consists of the dynamically weighted return of the Fixed Income Benchmark, Custom Equity Benchmark, Custom Real Estate Benchmark, Custom Alternatives Benchmark, Custom Credit Benchmark and 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, 2012

	1-YEAR	3-YEAR	5-YEAR	10-YEAR
TOTAL PENSION PLAN	2.21%	10.68%	2.64%	6.38%
Total Pension Custom Benchmark ¹	3.06%	11.40%	2.82%	6.31%
FIXED INCOME PORTFOLIO	11.66%	10.01%	9.13%	7.31%
Custom Fixed Income Benchmark ²	12.84%	9.94%	8.69%	7.02%
GLOBAL EQUITY INVESTMENT PORTFOLIO	-5.98%	12.01%	-1.89%	5.28%
Custom Global Equity Benchmark ³	-5.92%	11.84%	-2.35%	4.85%
REAL ESTATE INVESTMENT PORTFOLIO	7.88%	2.0%	-4.57%	3.5%
Custom Real Estate Benchmark ⁴	13.68%	5.84%	-0.20%	6.54%
PRIVATE EQUITY INVESTMENT PORTFOLIO	6.55%	11.49%	4.19%	4.96%
Custom Private Equity Benchmark ⁵	7.73%	26.02%	4.42%	7.07%
HEDGED STRATEGIES INVESTMENT PORTFOLIO	-6.52%	3.26%	-1.91%	-
Custom Hedged Strategies Benchmark ⁶	-2.57%	1.87%	3.61%	5.17%
CREDIT STRATEGIES INVESTMENT PORTFOLIO	0.37%	-	-	-
Custom Credit Strategies Benchmark ⁷	-2.20%	-	-	-
INFLATION PROTECTION INVESTMENT PORTFOLIO	-10.67%	-	-	-
Custom Inflation Portfolio Benchmark ⁸	-10.13%	-	-	-

¹ The Total Pension Custom Benchmark consists of the dynamically weighted return of the Fixed Income Benchmark, Custom Equity Benchmark, Custom Real Estate Benchmark, Custom Alternatives Benchmark, Custom Credit Benchmark and Custom Inflation Benchmark.

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

³ The Custom Non-US Benchmark is the MSCI ACWI ex US IMI Index.

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

⁵ The Custom Private Equity Benchmark is the custom Cambridge Associates Benchmark.

⁶ The Custom Equity Hedge Benchmark is the return of the MSCI World Index beta adjusted to the target beta of the Equity Hedge portfolio.

⁷ The Custom Credit Benchmark consists of 50% HFRX Distressed / 20% HFRX Relative Value / 15% CS Leveraged Loan / 15% BOA High Yield.

⁸ The Custom Inflation Benchmark is the dynamically weighted return of the Private Energy Benchmark (Cambridge Energy) and the Commodities Benchmark (DJ-UBS Commodities Index).



CORPORATE GOVERNANCE

The Department of State Treasurer maintains a corporate governance program to enhance long-term shareholder value. The pension fund works through proxy voting, shareholder resolutions, dialogue with corporate leaders and regulatory agencies, and collaboration with other institutional investors to create long-term value for portfolio companies.

Board Declassification

The Department believes that directors should be elected on an annual basis. Studies show that a move to annual elections makes directors more accountable and thereby contributes to improved performance and increased shareholder value. During the 2012 proxy season, the North Carolina Retirement Systems submitted 25 shareholder board declassification proposals to increase the accountability of directors by urging a repeal of the companies' classified board structures and a move to annual elections. The Retirement Systems partner with Professor Lucian Bebchuk and the Harvard Law School Shareholder Rights Project ("SRP") to implement this initiative and assist in company engagement.

The SRP focuses on the firms in the S&P 500 stock index with classified board structures. This initiative has resulted in 14 companies agreeing to put forth management proposals. Of the 13 proposals that went to a vote this proxy season, 10 passed, receiving 99 percent of the votes cast. These 10 companies have all amended their bylaws to move to an annual election cycle. Of the 11 Retirement Systems proposals filed, nine passed with an average support of 83 percent of the votes cast, leading one company to amend its bylaws and three other companies to agree to put forward a management proposal next year.

Proxy Access

The Department believes that companies should provide access to the management proxy for long-term shareowners who own a minimum percentage of company shares. Today, shareowners' access to the proxy is a common right in countries around the globe, and a handful of U.S. companies have voluntarily adopted access mechanisms.

Given the long history of poor governance practices at energy-drilling company Nabors Industries, the Retirement Systems, along with eight other public pension funds, filed a shareowner resolution asking Nabors' board of directors to grant substantial, long-term shareholders the right to nominate directors using the company's proxy statement. The board has a record of awarding excessive CEO compensation and perks despite long-term underperformance, and has been unresponsive to shareowner concerns. The board had negotiated a \$100 million non-performance award that was triggered when CEO Eugene Isenberg relinquished his title. This payment was later waived in response to shareowner outrage. Proxy advisory firm Glass Lewis has given Nabors an "F" for its pay-for-performance model, the worst possible rating, over the last three years.

The North Carolina Retirement Systems was part of a larger group of 11 public institutional investors that had called on the Nabors' board to implement governance reforms, including replacing three directors, naming an independent chair and adopting a majority vote standard.

At the June annual meeting, the proxy access shareowner resolution received a majority of shareowner votes to officially nominate directors. This non-binding resolution was the first time such a measure had received majority support since the Securities and Exchange Commission measure to impose such a rule was blocked by a court ruling.



Political Spending Disclosure

The Department believes that boards should develop and disclose publicly their guidelines for approving charitable and political contributions. Boards should disclose on an annual basis the amounts and recipients of all monetary and non-monetary contributions made by the company during the prior fiscal year. In addition, the Department believes that companies should have board oversight policies to make sure that such expenses are in the best interest of the shareholder.

In 2012, Treasurer Cowell joined seven other elected officials, including North Carolina State Representative William Current, to sign a letter to the Securities and Exchange Commission requesting that it develop rules requiring disclosure of political spending. In addition, this year, the Retirement Systems sent letters requesting Devon Energy and Halliburton provide full disclosure of political spending, including contributions made to 527s and trade associations, as well as develop a board oversight policy. Finally, during the 2012 proxy season, the Retirement Systems, in partnership with Investor Voice and the Center for Political Accountability, filed a shareholder resolution with Nike asking the company to disclose political contributions and spending on a semiannual basis. All three companies – Devon Energy, Halliburton and Nike – were ranked in the bottom tier of S&P 100 companies, according to the 2011 Center for Political Accountability-Zicklin Index of Corporate Political Accountability and Disclosure.

Diversity

In May 2010, the Department partnered with the 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 identifies potential directors and encourages them to attend a daylong board training and register with the DDI Database.

As part of this initiative, in May 2012 the Department sponsored “Broadening Corporate Diversity: Earning a Board Seat,” an event designed to help attendees master the skills needed to serve on boards. The annual event also provides realistic approaches to advancing candidacy and gives guidelines for evaluating opportunities to serve on boards.



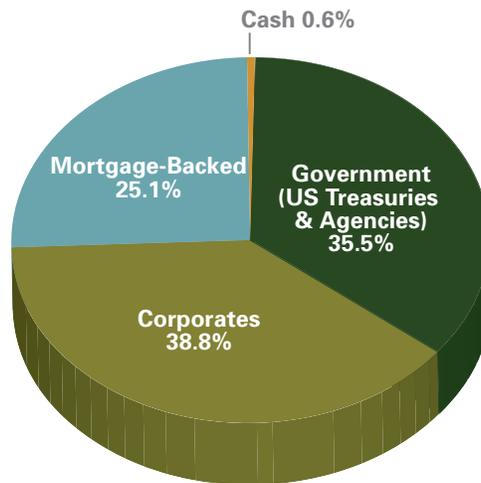
FIXED INCOME

As of June 30, 2012, the fixed income allocation maintained a market value of \$27.5 billion, representing 36.9 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 \$26.8 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 6/30/12



**Credit Quality based on Moody’s Ratings*

Fixed Income Market Overview

The fiscal year began with S&P downgrading the U.S. credit rating from AAA to AA+ in August, citing concerns over limited debt reduction measures. Despite the downgrade in quality, Treasury yields rallied amid concerns over the European debt crisis and slowing global growth. September brought more stimulus action from the Federal Reserve, as they announced “Operation Twist.” The policy involved selling \$400 billion in short-term Treasuries and the purchase of longer dated bonds, with the intention of being accommodative by putting pressure on longer term rates. While some domestic growth and optimism began to show in late 2011 and early 2012, it faded quickly on weak economic data and lingering European and banking sector concerns. By the end of the fiscal year, the net changes resulted in a flatter yield curve that was materially lower on the back end. Five-year UST yields were down 100 basis points, while 10 and 30 UST yields were down roughly 150 basis points. Although Treasury securities benefitted from a flight to quality, corporate spreads widened during the end of 2011 before returning to the levels from the previous fiscal year end.



Below are the lists of the top 10 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, 2012

CORPORATE ISSUER	% OF LTIP
BANK OF AMERICA	1.3%
JP MORGAN	1.1%
AT&T	1.1%
GENERAL ELECTRIC	1.0%
GOLDMAN SACHS	0.9%
CITIGROUP	0.9%
MORGAN STANLEY	0.7%
VERIZON	0.7%
WAL-MART	0.7%
WELLS FARGO	0.7%

LTIP SUMMARY OF BROKERS UTILIZED DURING FISCAL YEAR 2012

BANK OF AMERICA
 BARCLAYS CAPITAL
 BNY MELLON
 BNP PARIBAS
 BB&T CAPITAL
 CANTOR FITZGERALD
 CAROLINA CAPITAL MARKETS
 CITIGROUP
 CROSS POINT CAPITAL
 CREDIT SUISSE SECURITIES

DEUTSCHE BANK SECURITIES
 FIRST TENNESSEE BANK
 GOLDMAN SACHS
 HSBC SECURITIES
 JP MORGAN CHASE
 JEFFERIES & COMPANY
 KEYBANC CAPITAL
 MIZUHO SECURITIES
 MORGAN KEEGAN
 MORGAN STANLEY

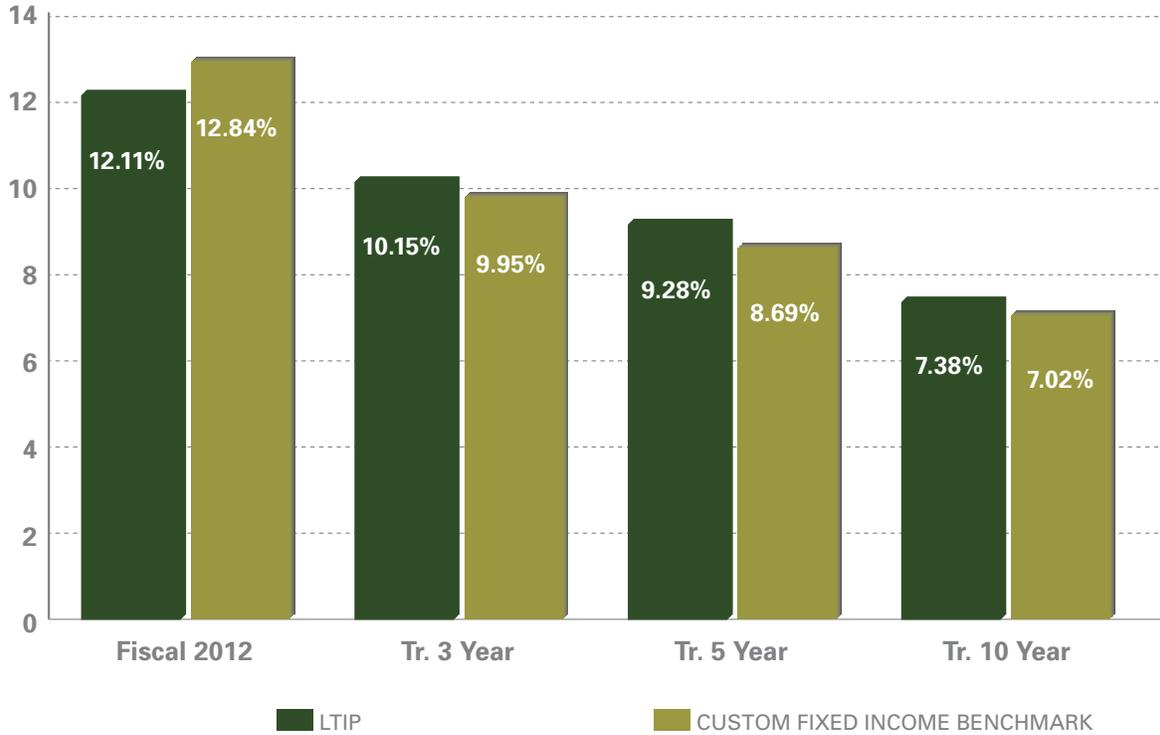
RBC CAPITAL MARKETS
 RBS GREENWICH CAPITAL
 STIFEL NICOLAUS
 SUNTRUST CAPITAL MARKETS
 UBS SECURITIES
 US BANCORP
 WELLS FARGO SECURITIES
 WILLIAMS CAPITAL



Core Fixed Income Performance

For the fiscal year, the LTIP returned 12.11 percent net of fees, underperforming the benchmark return of 12.84 percent. While the portfolio remained ahead of the benchmark on longer time periods, the underperformance for the fiscal year was driven by the combination of a short relative duration position and declining rates.

LONG TERM INVESTMENT PORTFOLIO ANNUALIZED PERFORMANCE



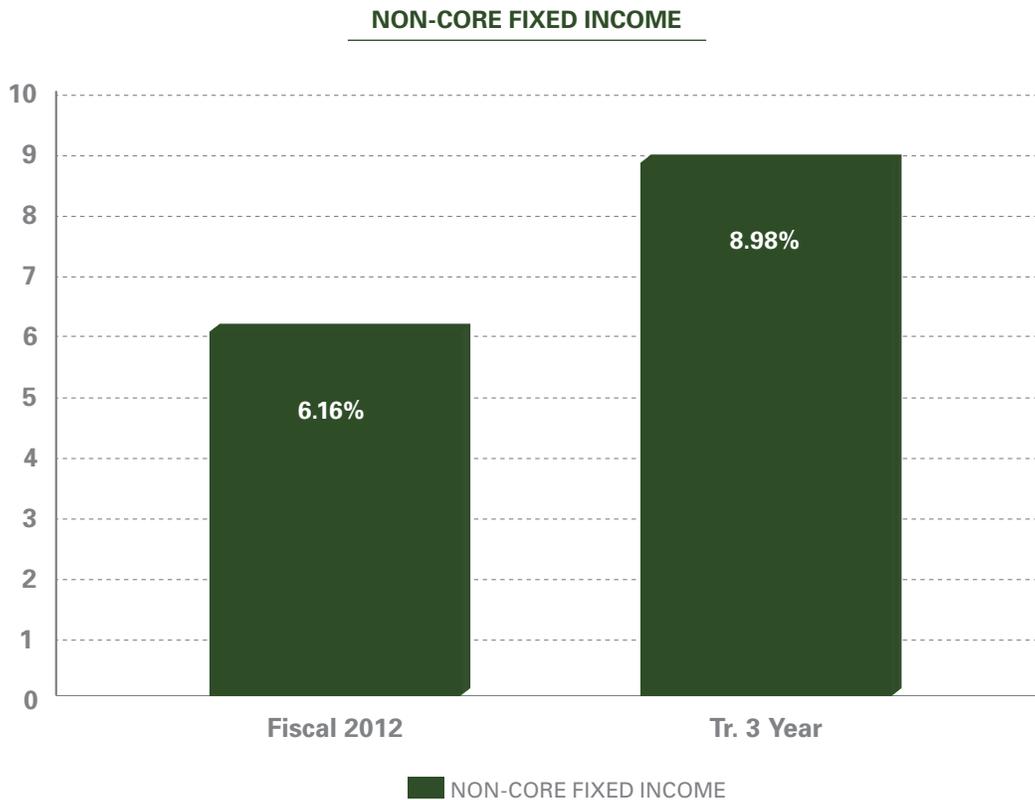
Non-Core Fixed Income Structure

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 (\$200 million), and investment grade RMBS (\$400 million) and CMBS (\$200 million).

Non-Core Fixed Income Performance

The non-core fixed income composite posted a return of 6.16 percent for the fiscal year. The mortgage-backed securities strategies produced strong results, with the RMBS and CMBS portfolios producing returns of 3.80 percent and 8.34 percent, respectively, for the fiscal year ending June 30, 2012.

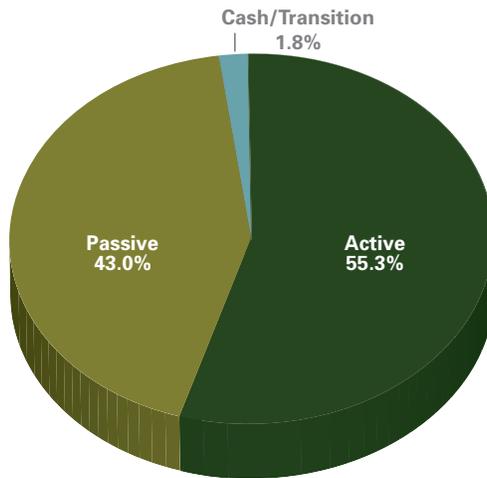


GLOBAL EQUITY

The Global Equity portfolio ended fiscal year 2011-12 at \$32 billion. As a percentage of the pension fund’s assets, the Global Equity allocation was 43 percent on June 30, 2012 versus 45.3 percent on June 30, 2011.

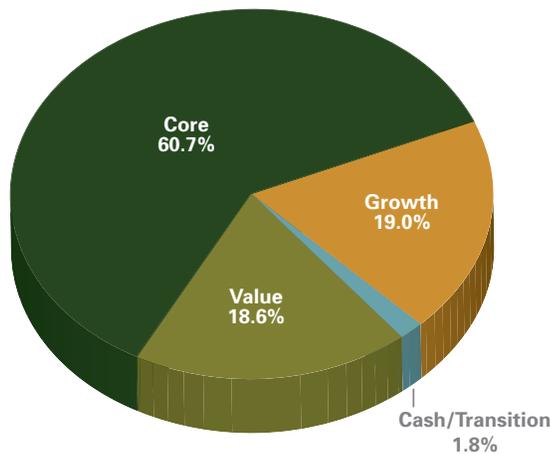
All investments of the Global Equity portfolio are managed externally according to one of two different strategies: passive or active. Passive investments track existing indexes in relatively efficient markets. Actively managed portfolios give the manager discretion to make investment decisions within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

GLOBAL EQUITY ACTIVE & PASSIVE ALLOCATION



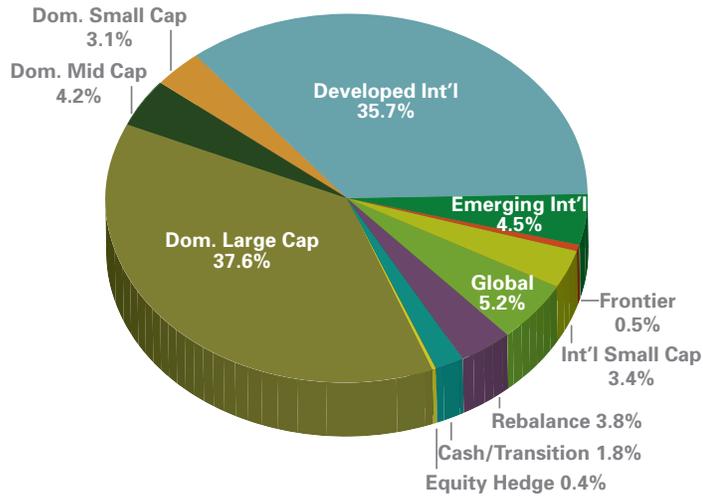
The Global Equity portfolio maintains prudent diversification within the broad equity market. The portfolio is also categorized into U.S. Large-Cap, U.S. Mid-Cap, U.S. Small-Cap and Non-U.S. investments. As of June 30, 2012, U.S. investments were 51.7 percent of the portfolio and non-U.S. investments were 48.3 percent.

GLOBAL EQUITY STYLE ALLOCATION



GLOBAL EQUITY SEGMENT ALLOCATION





Global Equity Market Overview

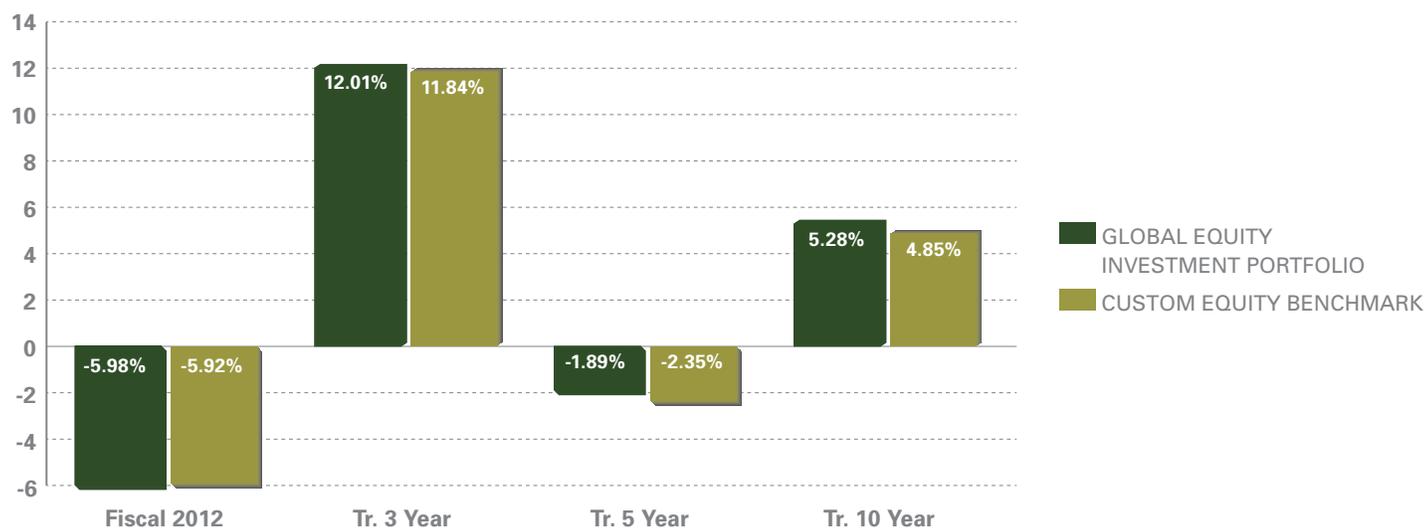
The 2011-12 fiscal year was a challenging period for all investors. Global equity markets experienced increased market volatility and lower returns as a result of the instability of the Eurozone and the ongoing European debt crisis, the slowdown in China, and the overall slowing global economic growth. While the U.S. equity markets held steady as represented by the 3.84 percent return of the Russell 3000 index, international markets, as represented by the MSCI ACWI ex-US IMI, experienced a considerable decline of 14.79 percent.

Global Equity Performance

For the fiscal year, the Global Equity portfolio declined 5.98 percent, net of fees, underperforming its benchmark return by 0.1 percent. The underperformance was due to U.S. equity managers' underperformance, which more than offset global and non-U.S. managers outperforming their relative benchmarks. The graph on the next page illustrates the fiscal year performance against the benchmark, as well as the three-, five- and 10-year trailing returns.



GLOBAL EQUITY INVESTMENT PORTFOLIO ANNUALIZED PERFORMANCE



GLOBAL EQUITY PORTFOLIO INVESTMENT ADVISORS (FY ENDING 2012)

Below is a list of the Global Equity investment advisor relationships and top ten holdings as of June 30, 2012.

INVESTMENT ADVISORS	STYLE	MARKET VALUE (\$)
BROWN ADVISORY GROWTH	SMALL-CAP ACTIVE	256,368,408
EARNST PARTNERS VALUE	SMALL-CAP ACTIVE	238,267,690
NUMERIC VALUE	SMALL-CAP ACTIVE	215,929,282
STERLING VALUE	SMALL-CAP ACTIVE	183,001,835
NUMERIC GROWTH	SMALL-CAP ACTIVE	87,188,470
MCM MID CAP	MID-CAP PASSIVE	262,907,283
WELLINGTON MID CAP	MID-CAP ACTIVE	667,974,313
TIMESQUARE GROWTH	MID-CAP ACTIVE	263,548,952
TIMESQUARE FOCUSED GROWTH	MID-CAP ACTIVE	133,718,134
RHUMBLINE R200	LARGE-CAP PASSIVE	3,190,013,308
MCM LARGE CAP	LARGE-CAP PASSIVE	2,202,469,271
FIRST CITIZENS	LARGE-CAP PASSIVE	1,283,858,690
SANDS GROWTH	LARGE-CAP ACTIVE	1,228,094,655
HOTCHKIS LARGE CAP VALUE	LARGE-CAP ACTIVE	1,133,715,330
WELLINGTON LARGE CAP VALUE	LARGE-CAP ACTIVE	819,612,850
RELATIONAL INVESTORS	LARGE-CAP ACTIVE	679,778,373
PIEDMONT STRATEGIC CORE	LARGE-CAP ACTIVE	650,848,336
WELLINGTON GROWTH	ALL-CAP ACTIVE	832,467,078



NON-U.S. GLOBAL EQUITY PORTFOLIO INVESTMENT ADVISORS (FY ENDING 2012)

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.

INVESTMENT ADVISORS	STYLE	MARKET VALUE (\$)
BAILLIE GIFFORD EAFE PLUS	NON-U.S. ACTIVE	1,343,201,442
GMO INTERNATIONAL	NON-U.S. ACTIVE	1,230,248,136
WELLINGTON INTERNATIONAL	NON-U.S. ACTIVE	1,026,516,847
MONDRIAN EAFE	NON-U.S. ACTIVE	880,046,451
WALTER SCOTT EAFE	NON-U.S. ACTIVE	854,385,377
OECHSLE SELECT	NON-U.S. ACTIVE	775,889,850
INVESCO EAFE	NON-U.S. ACTIVE	738,291,808
BLACKROCK INTERIM EMERGING	NON-U.S. ACTIVE	506,103,340
BLACKROCK EMERGING	NON-U.S. ACTIVE	365,646,405
FRANKLIN TEMP. INTERNATIONAL SC	NON-U.S. ACTIVE	295,555,568
BAILLIE GIFFORD EMERGING	NON-U.S. ACTIVE	294,411,682
MONDRIAN INTERNATIONAL SC	NON-U.S. ACTIVE	280,755,927
MONDRIAN EMERGING	NON-U.S. ACTIVE	279,620,012
BLACKROCK FRONTIER	NON-U.S. ACTIVE	147,507,402
BLACKROCK MSCI ACWI EX-US IMI	NON-U.S. PASSIVE	3,310,834,278
BLACKROCK INTERIM ACWI EX-US	NON-U.S. PASSIVE	569,000,279
BLACKROCK MSCI ACWI EX-US SC	NON-U.S. PASSIVE	512,966,501
BLACKROCK MSCI CANADA	NON-U.S. PASSIVE	409,569,045
BLACKROCK MSCI EAFE IMI	NON-U.S. PASSIVE	281,487,682
LONGVIEW GLOBAL EQUITY	GLOBAL-ACTIVE	976,432,884
BRANDES GLOBAL EQUITY	GLOBAL-ACTIVE	676,629,342
AGA GLOBAL STRATEGY	GLOBAL-ACTIVE	5,595,616
GLADIUS	REBALANCE	1,213,426,211
TIGER TAR HEEL PARTNERS	EQUITY HEDGE	130,070,613

GLOBAL EQUITY TOP 10 HOLDINGS (FY ENDING 2012)

COMPANY	% OF EIP	COMPANY	% OF EIP
APPLE INC.	1.66%	WELLS FARGO & CO.	0.67%
EXXON MOBILE CORP.	0.93%	HEWLETT-PACKARD CO.	0.59%
MICROSOFT CORP.	0.72%	GENERAL ELECTRIC	0.58%
PEPSICO INC.	0.67%	GOOGLE	0.57%
PFIZER INC.	0.67%	JPMORGAN CHASE & CO.	0.52%



EQUITY HEDGES

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 adverse price movements. Equity hedge strategies are expected to reduce the volatility of the Global Equity portfolio while achieving equity-like returns. The market value of the Equity Hedge portfolio at fiscal year end was \$130 million, representing 0.41 percent of the Global Equity portfolio.

Equity Hedge Performance

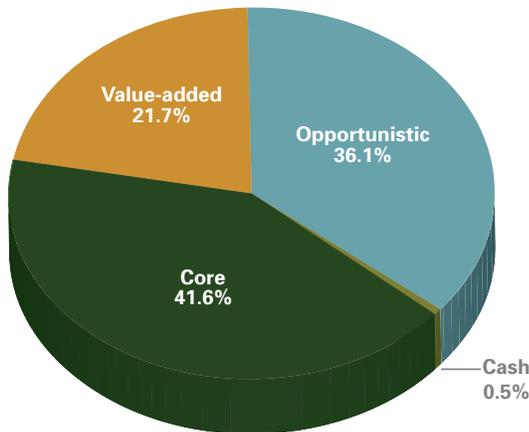
The Equity Hedge investment portfolio began with an initial investment in May 2012, resulting in a track record that is far too short to evaluate. Macro concerns drove equity market gyrations during the latter part of the fiscal year. The portfolio returned negative 7.10 percent, for the two months ending June 30, 2012, underperforming its custom benchmark over those two months.

REAL ESTATE

As of June 30, 2012, the Real Estate Investment Portfolio (“REIP”) was valued at \$5.8 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 percentage of pension fund assets has grown to 7.75 percent at fiscal year end.

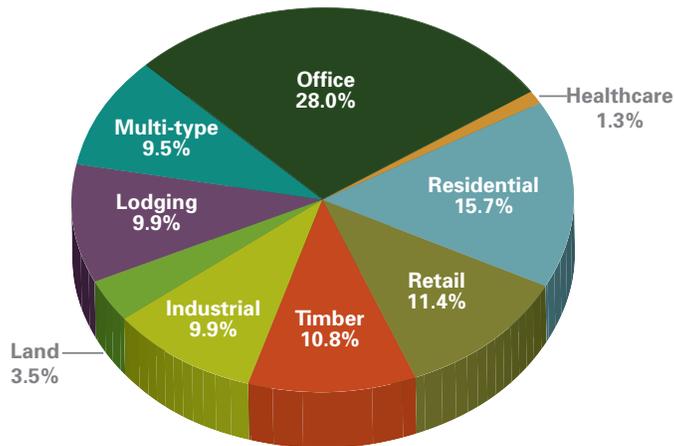
The REIP maintains a “Core Plus” strategy, seeking the majority of returns from income as opposed to capital appreciation. Core real estate is represented by well-located, stable properties with high occupancy levels. Core investment returns are primarily driven by property income with debt levels typically 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 64 percent versus 36 percent in Opportunistic funds. The chart below outlines these allocations:

STRATEGY ALLOCATION (BASED ON VALUATION)



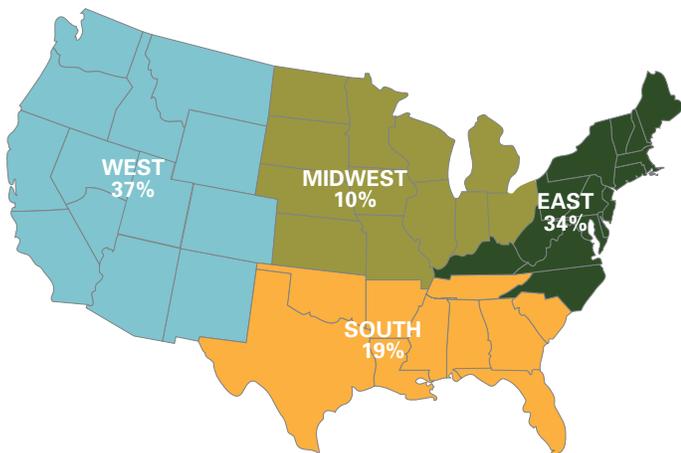
In addition, the analysis of new investments focuses on location and property types, and employs a moderate level of risk. The REIP continues its objective by expanding into a variety of property types including debt, industrial, land, lodging, multi-type, office, multi-family residential, single-family residential, retail and timber. The chart below displays the percentage of each property type allocation as of June 30, 2012.

SECTOR ALLOCATION (BASED ON VALUATION)*

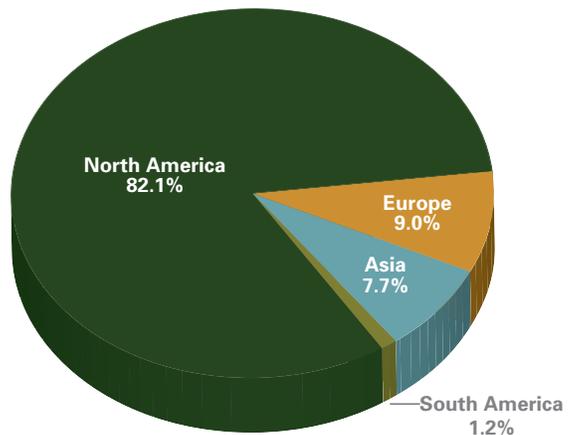


Geographically, the REIP has a North American focus, yet is diversified among the South, East, West and Midwest regions. International investment exposure is approximately 18 percent, with the majority split between Europe and Asia. The following charts show the U.S. and global geographic allocations as of June 30, 2012.

DOMESTIC ALLOCATION



GEOGRAPHIC ALLOCATION (BASED ON VALUATION)



Real Estate Market Overview

During the fiscal year, the commercial real estate market recovery continued, but at a more moderate pace than last year. The global REIT market benchmark gained 2.4 percent during the fiscal year and the private equity real estate benchmark, the NCREIF-ODCE, gained 14.66 percent. This is compared with gains of 33.4 percent and 20.1 percent in fiscal year 2011, respectively. The commercial real estate market recovery mirrors that of the broader economy, where slowing GDP and job growth are ongoing concerns. Continued high structural unemployment, evidenced by the U.S. unemployment rate of 8.3 percent and the Eurozone rate of 11.1 percent, negatively impacts the real estate sector and creates leasing challenges, since businesses that are not hiring often do not require additional space.

In the U.S., attractive financing is available today for well-located properties, but difficult to obtain for higher risk strategies such as development. Therefore, expansion of new supply is not an issue today as was the case in past real estate cycles. Core transactions are trading at sub 5 percent capitalization rates. In the non-core space, wide bid/ask spreads are still common. With the 10-year Treasury ending the quarter with a yield of only 1.64 percent, the global search for yield continues, making the acquisition of core properties highly competitive. A further confluence of forces, including increased institutional investor allocations to alternative assets, public REITs accessing low-cost capital, an increasing sovereign wealth fund market presence, and large open-end real estate fund entry queues magnifies the appetite for core real estate. Therefore, purchasing core real estate today continues to be an expensive proposition, but manufacturing it presents a clear and profitable exit strategy if executed effectively.

In Europe, sovereign debt issues are a concern and banks are curtailing lending in the face of new regulations. This is reducing the availability of liquidity in debt markets, especially secondary markets. While western economies have enacted measures to support real estate valuations, most Asian markets, with the exception of Japan, instituted government policies to curb residential price appreciation. In China, government programs may ease due to weaker economic growth forecasts. Recent office rental rate declines in Singapore and Hong Kong are attributed to landlords seeking to maintain high occupancies following rent spikes last year, since these markets are still characterized as having low vacancy with limited new supply.

Real Estate Performance

For the fiscal year 2011-12, the REIP returned 7.88 percent, net of fees, underperforming its custom benchmark return of 13.60 percent. Benchmark issues are an industry-wide problem. Recently, partnerships among major industry consultants, associations and research organizations have been developed to address the lack of options, especially those that reflect non-core strategies. The current REIP benchmark only reflects core real estate, which is only 42 percent of the REIP. As shown above, core has outperformed non-core in this post-crisis era due to a global search for yield. REIP management is an active member of the Pension Real Estate Association, which has teamed with the Investment Property Databank to produce a new benchmark to address this issue. The REIP is positioned to outperform its current benchmark by manufacturing core assets in order to exit where a large pool of core buyers exists.

REAL ESTATE INVESTMENT PORTFOLIO ANNUALIZED PERFORMANCE



REAL ESTATE INVESTMENT ADVISORS (FY ENDING 2012)

Below is a list of the real estate investment advisors and fund relationships as of June 30, 2012.

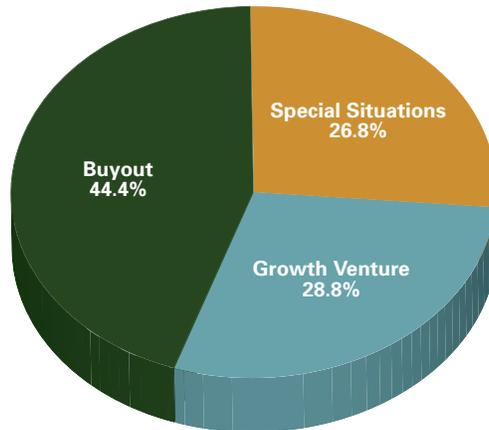
REIP ADVISORS AND FUNDS	MARKET VALUE (\$)	REIP ADVISORS AND FUNDS	MARKET VALUE (\$)
NORTHROCK CORE FUND, L.P.	487,095,562	RLJ REAL ESTATE FUND III, L.P.	34,320,395
CAMPBELL TIMBER FUND III	376,733,332	CROSSHARBOR INSTL PARTNERS, L.P.	33,564,728
JP MORGAN STRATEGIC PROPERTY FUND	359,491,502	JER REAL ESTATE PARTNERS III, L.P.	32,174,625
TIMBERLAND INV RES - NAHELE	234,653,849	RLJ LODGING FUND II, L.P.	32,100,261
BLACKSTONE RE PARTNERS VI, L.P.	224,818,556	DRA G&I FUND V CO-INVESTMENT, LLC	31,593,535
UBS TRUMBULL PROPERTY FUND	212,275,419	LEM RE MEZZANINE FUND II, L.P.	30,437,147
KEYSTONE INDUSTRIAL FUND II, L.P.	166,874,620	CROSSHARBOR INST INVESTORS II	30,015,227
NORTHCREEK FUND LP	146,639,141	DRA GROWTH & INCOME FUND VI, LLC	29,993,302
RREEF GLOBAL OPP FUND II, LLC	116,998,006	SRI NINE REIT	28,770,940
UBS TRUMBULL PROPERTY INCOME FUND	115,197,660	MSREF V INTERNATIONAL, L.P.	27,408,107
LONE STAR REAL ESTATE FUND II	112,580,824	WCP RE FUND III	27,393,267
BLACKSTONE RE PARTNERS V, L.P.	110,736,642	PALADIN LATIN AMERICAN PARTNERS III, L.P.	25,298,125
STARWOOD SDL/SOF VII CO-INV	110,111,487	BROOKFIELD RE FIN FUND III	23,420,228
STARWOOD OPPORTUNITY FUND VII, L.P.	107,816,283	BENSON ELLIOT RE PARTNERS II, L.P.	23,117,948
CIM URBAN REIT, LLC	105,955,471	PENWOOD CSIP I, L.P.	22,279,569
MSREF VI, L.P.	104,638,644	AMERICAN VALUE PARTNERS FUND I, L.P.	21,938,389
PRUDENTIAL PRISA	101,339,154	JER REAL ESTATE PARTNERS IV, L.P.	17,770,153
KEYSTONE INDUSTRIAL FUND I, L.P.	98,672,240	VALUE ENHANCEMENT FUND IV	17,623,479
WARBURG PINCUS REAL ESTATE I, L.P.	94,330,834	CHEROKEE INVESTMENTS PARTNERS IV, L.P.	17,097,591
DLJ REAL ESTATE CAPITAL PARTNERS III, L.P.	91,531,830	FROGMORE REAL ESTATE PARTNERS II, L.P.	16,444,196
DRA GROWTH & INCOME FUND V, LLC	87,231,592	PATRIA BRAZIL REAL ESTATE FUND II	14,721,003
CROW HOLDINGS REALTY PARTNERS V, L.P.	86,788,514	AG CORE PLUS REALTY FUND I, L.P.	13,063,091
CBRE STRATEGIC PARTNERS V, L.P.	79,393,031	FROGMORE REAL ESTATE PARTNERS I, L.P.	12,618,494
ROCKPOINT REAL ESTATE FUND III, L.P.	71,783,748	CROW HOLDINGS REALTY PARTNERS IV-A, L.P.	12,023,537
DLJ REAL ESTATE CAPITAL PARTNERS IV, L.P.	69,731,881	RREEF GOF II - 2010 SENIOR NOTE	10,235,650
ROCKWOOD CAPITAL RE PARTNERS VI, L.P.	68,283,133	DB REAL ESTATE GLOBAL OPPS I-A/I-B, L.P.	7,946,986
ROCKWOOD CAPITAL RE PARTNERS VII, L.P.	64,020,239	AG ASIA REALTY FUND II, L.P.	7,742,629
BLACKSTONE RE PARTNERS VII	63,358,921	ROCKPOINT REAL ESTATE FUND I, L.P.	7,568,085
AG CORE PLUS REALTY FUND II, L.P.	62,447,292	DRA GROWTH & INCOME FUND IV, LLC	7,489,080
TERRA FIRMA DEUTSCHE ANNINGTON, L.P.	59,457,145	BENSON ELLIOT RE PARTNERS III, L.P.	4,738,517
PENWOOD PSIP II, L.P.	58,944,812	CHEROKEE INVESTMENTS PARTNERS III, L.P.	4,571,838
SRI EIGHT REIT	56,697,998	DLJ REAL ESTATE CAPITAL PARTNERS II, L.P.	4,571,355
SRI SEVEN REIT	53,355,399	WESTBROOK REAL ESTATE FUND IV, L.P.	3,974,927
AG NET LEASE REALTY FUND II, L.P.	52,317,663	WESTBROOK REAL ESTATE FUND III, L.P.	3,422,774
CROW HOLDINGS REALTY PARTNERS IV, L.P.	48,445,006	VALUE ENHANCEMENT FUND II	2,922,963
ROCKPOINT REAL ESTATE FUND II, L.P.	44,281,527	SRI TEN REIT	2,691,444
DRA GROWTH & INCOME FUND VII, LLC	43,047,082	RMK EMERGING TIMBERLAND FUND	763,512
HAWKEYE (SCOUT) FUND 1-A, L.P.	41,804,113	WESTBROOK REAL ESTATE FUND II, L.P.	340,268
HARRISON STREET RE PARTNERS II	37,363,470	CIGNA REALTY OPEN-END FUND	296,572
ROCKWOOD CAPITAL RE PARTNERS VIII, L.P.	37,119,027	WESTBROOK REAL ESTATE FUND I, L.P.	232,220
STAG INVESTMENTS II, LLC	35,501,526	DRA GROWTH & INCOME FUND III, LLC	71,026
CBRE STRATEGIC PARTNERS IV, L.P.	34,558,295		



PRIVATE EQUITY

As of June 30, 2012, the Private Equity investment portfolio maintained a market value of approximately \$3.6 billion, representing 4.8 percent of the pension fund. The portfolio invests in limited partnerships, which are externally managed by experienced private equity investment professionals. Private equity investments may be categorized into various sub-strategies. The Private Equity portfolio’s allocation to these sub-strategies is displayed below.

STRATEGY ALLOCATION (BASED ON FAIR MARKET VALUE)



Private Equity Market Overview

The Private Equity Industry fundraising environment remains challenged with limited improvement expected through 2012. Active fundraising in prior years has resulted in significant levels of available capital for fund managers to invest in new opportunities. While the increased investment pace in 2011 and 2012 is having a positive impact on reducing this available capital, the overhang of outstanding unfunded commitments continues to burden investors, impacting additional alternative allocation decisions.

The macro environment greatly influenced global Private Equity investment activity, with a backdrop of European anxiety, Asia struggling to maintain growth rates, a pending U.S. Presidential election, and increased financial regulations. In response to this economic uncertainty, purchase valuations have, in general, declined. Borrowing costs have remained low; however, banks have had difficulty finding lending opportunities that meet stringent underwriting standards, further impacted by stricter regulatory hurdles. Alternative sources of capital have emerged to fill the void left by banks. Ultimately, good companies with the ability to withstand the broader economic woes are able to attain attractive financing.

The exit environment, following a year of improvement, can best be described as volatile. Following early signs of improvement in the initial public offering (“IPO”) market, filings and pricings in the U.S. have declined year-over-year for the 12-month period ending June 2012. Global M&A, as measured by transaction values, has, until recently, declined since the third quarter of 2010. Strategic acquirers must weigh growth opportunities against a backdrop of economic uncertainties.

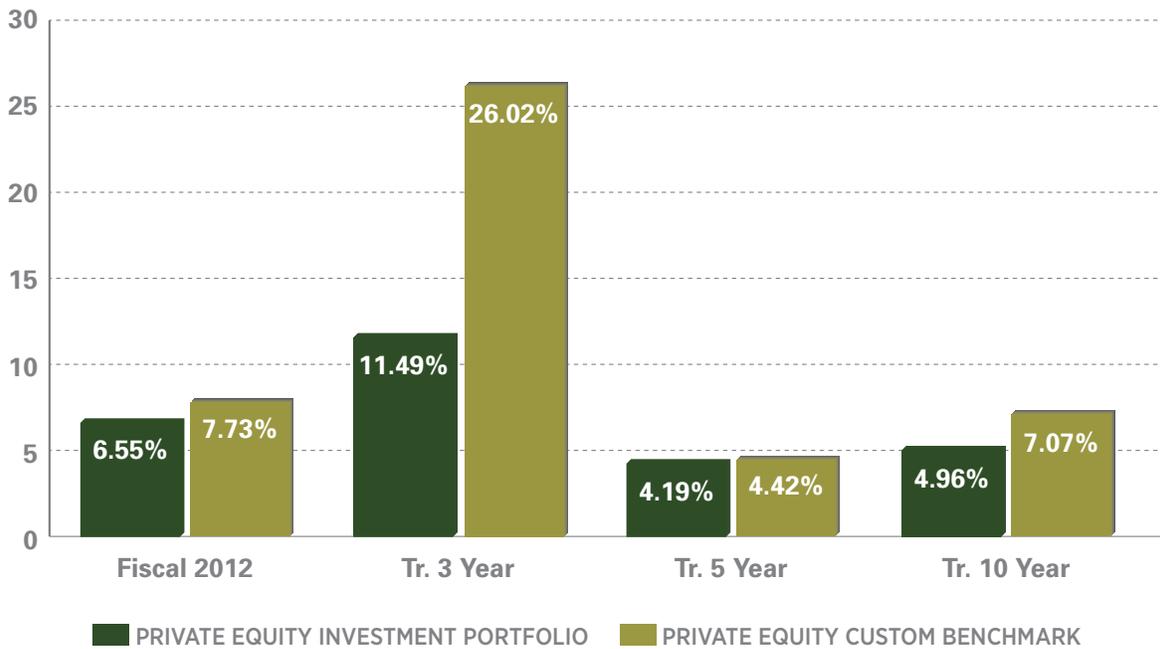


Private Equity Performance

For the fiscal year, the Private Equity investment portfolio returned 6.55 percent, underperforming its benchmark return of 7.73 percent. A new Private Equity benchmark was adopted in 2011, replacing what had been a public equity benchmark. While one-year performance fully reflects this new comparison, historical performance is more a reflection of the former public equity benchmark. However, one year is not an accurate depiction of the portfolio, as Private Equity is a long-term strategy. The Private Equity portfolio is fairly immature, and is being compared to a benchmark that contains more mature funds that are increasingly benefitting from the earlier work performed on investments. Not until more time has passed, allowing not only investments to mature, but for the benchmark to be fully integrated, will a comparison to the benchmark be a more accurate depiction of the overall health of the portfolio.

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 INVESTMENT PORTFOLIO ANNUALIZED PERFORMANCE



PRIVATE EQUITY INVESTMENT ADVISORS (FY ENDING 2012)

Below is a list of the Private Equity investment advisors and fund relationships as of June 30, 2012.

PRIVATE EQUITY FUND	MARKET VALUE (\$)	PRIVATE EQUITY FUND	MARKET VALUE (\$)
CS/NC INVESTMENT FUND 2006	169,690,719	BURRILL LIFE SCIENCES CAPITAL FUND III, L.P.	39,955,497
WLR RECOVERY FUND IV, L.P.	159,350,824	AVISTA CAPITAL PARTNERS, L.P.	38,814,392
PARISH CAP EUROPE I, L.P.	120,180,327	TPG PARTNERS V, L.P.	37,667,561
TERRA FIRMA CAPITAL PARTNERS II, L.P.	103,171,048	LINDSAY GOLDBERG III, L.P.	35,091,960
PARISH CAPITAL II, L.P.	102,102,790	TUDOR VENTURES III, L.P.	33,868,991
PARISH CAPITAL I, L.P.	97,924,995	WLR AHM CO-INV, L.P.	32,894,954
TERRA FIRMA CAPITAL PARTNERS III, L.P.	96,641,074	COLLER INTERNATIONAL PARTNERS IV, L.P.	32,749,159
AVISTA CAPITAL PARTNERS II, L.P.	94,706,093	TPG BIOTECH PARTNERS III, L.P.	30,330,060
CREDIT SUISSE INNOVATION FUND	91,360,430	CATTERTON GROWTH PARTNERS, L.P.	26,961,219
LINDSAY GOLDBERG & BESSEMER II, L.P.	89,716,392	ANGELENO INVESTORS II, L.P.	26,557,463
ELEVATION PARTNERS, L.P.	81,980,404	AMPERSAND 2006, L.P.	25,914,303
LONGREACH CAPITAL PARTNERS 1, L.P.	79,985,415	MARKSTONE CAPITAL PARTNERS, L.P.	25,372,794
CS/NC INVESTMENT FUND 2008	79,213,129	PCA-SYN INVESTMENTS, L.L.L.P.	25,312,399
WARBURG PINCUS PRIVATE EQUITY X, L.P.	75,066,324	KRG CAPITAL FUND III, L.P.	25,142,994
KRG CAPITAL FUND IV, L.P.	74,765,194	ARCH VENTURE FUND VII, L.P.	23,248,413
CRESTVIEW PARTNERS FUND II, L.P.	73,528,745	WARBURG PINCUS PRIVATE EQUITY IX, L.P.	23,245,954
APOLLO INVESTMENT FUND VI, L.P.	72,774,435	AG PRIVATE EQUITY PARTNERS IV, L.P.	22,132,043
HARVEST PARTNERS V, L.P.	68,071,438	TPG BIOTECH PARTNERS II, L.P.	20,931,259
TENAYA CAPITAL FUND V, L.P.	64,917,233	PERSEUS MARKET OPPORTUNITY FUND, L.P.	18,937,579
LEXINGTON MIDDLE MARKET INVESTORS, L.P.	59,811,882	SYNERGY LIFE SCIENCE PARTNERS, L.P.	18,262,725
CHARTERHOUSE CAPITAL PARTNERS IX, L.P.	56,212,765	CASTLE HARLAN PARTNERS IV, L.P.	16,688,408
CVC EUROPE EQUITY PARTNERS IV, L.P.	53,901,573	STARVEST PARTNERS II	15,609,340
ROBECO CLEAN TECH II, L.P.	53,757,464	VISTA EQUITY PART FUND IV	15,457,949
HORSLEY BRIDGE INTERNATIONAL IV, L.P.	51,827,425	HIGHLAND CONSUMER FUND I, L.P.	14,797,807
MATLIN PATTERSON GLOBAL OPP III, L.P.	50,551,277	TPG PARTNERS VI, L.P.	14,482,869
LEXINGTON MIDDLE MARKET INVESTORS II, L.P.	50,369,927	CASTLE HARLAN PARTNERS V, L.P.	14,336,959
MT. KELLET CAP PARTNERS II	49,602,030	ACCESS CAPITAL II, L.P.	13,979,817
QUAKER BIOVENTURES II, L.P.	48,435,612	HARVEST PARTNERS VI	13,846,144
ROBECO CLEAN TECH II CO-INV	46,567,999	OAKTREE EURO PRIN FUND III	13,560,155
CVE KAUFFMAN I	45,732,250	HORSLEY BRIDGE INTERNATIONAL V, L.P.	12,902,464
FRANCISCO PARTNERS II, L.P.	45,037,676	TCV VI, L.P.	12,195,596
HORSLEY BRIDGE IX, L.P.	44,314,663	PAPPAS VENTURES III, L.P.	12,193,506
CHAPTER IV SPECIAL SITUATIONS FUND, L.P.	43,788,113	HALIFAX CAPITAL PARTNERS II, L.P.	12,097,895
TPG PARTNERS IV, L.P.	41,842,821	HIGHLAND CAPITAL PARTNERS VII, L.P.	11,905,594
PERSEUS PARTNERS VII, L.P.	41,480,532	CAROUSEL CAPITAL PARTNERS III, L.P.	10,796,280



PRIVATE EQUITY FUND	MARKET VALUE (\$)
AG PRIVATE EQUITY PARTNERS IV - R, L.P.	10,039,176
AURORA VENTURES V, LLC	9,621,700
PAPPAS VENTURES IV, L.P.	9,463,052
HATTERAS VENTURE PARTNERS III, L.P.	8,301,384
CS/NC INVESTMENT FUND 2008 - SERIES II	8,030,649
HARVEST PARTNERS IV, L.P.	7,802,723
WLR AGO CO-INV, L.P.	6,637,411
NOVAK BIDDLE VENTURE PARTNERS V, L.P.	6,454,483
KRG CAPITAL FUND II, L.P.	6,051,102
BURRILL LIFE SCIENCES CAPITAL FUND, L.P.	6,048,753
NOVAK BIDDLE VENTURE PARTNERS IV, L.P.	5,877,013
AURORA VENTURES IV, LLC	5,290,049

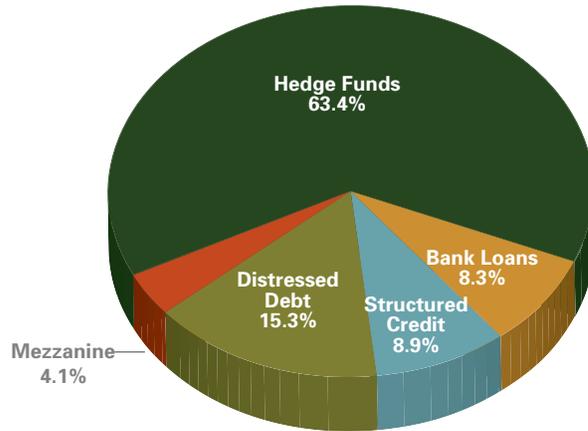
PRIVATE EQUITY FUND	MARKET VALUE (\$)
INTERSOUTH PARTNERS VI, L.P.	4,732,335
NC ECONOMIC OPPORTUNITY FUND	3,262,966
NEW ENTERPRISE ASSOC 14	3,150,000
NOVAK BIDDLE VENTURE PARTNERS III, L.P.	3,102,154
HIGHLAND CAPITAL PARTNERS VI, L.P.	2,355,462
FRANKLIN FAIRVIEW I, L.P.	2,267,803
AV MANAGEMENT IV, LLC	1,911,728
PAPPAS VENTURES II, L.P.	710,091
NCEF LIQUIDATING TRUST	586,071
DLJ MERCHANT BANKING II, L.P.	226,984
INTERSOUTH PARTNERS III, L.P.	62,880



CREDIT STRATEGIES

As of June 30, 2012, the Credit Strategies investment portfolio maintained a market value of approximately \$3.1 billion, representing 4.2 percent of the pension fund. The portfolio has a target weight of 4.5 percent and invests in a diversified mix of credit-focused investment vehicles managed by experienced investment advisors.

STRATEGY ALLOCATION (BASED ON VALUATION)



Credit Market Overview

The fiscal year began with concerns about the United States debt ceiling and the potential for the first ever downgrade of U.S. debt. Following the debt ceiling resolution, volatility spiked and credit spreads widened due to renewed concerns about the health of the U.S. economy. In response to market weakness, the Federal Reserve announced “Operation Twist,” which signaled its continued interest in stimulating the economy by keeping long-term interest rates low.

In the fourth quarter of 2011, concerns about the Eurozone debt crisis began to resurface, negatively impacting the markets. Numerous measures were taken by central banks to provide the market with much-needed liquidity and support. In December, the European Central Bank launched a major plan, commonly referred to as LTRO (long-term refinancing operation), to help refinance European financial institutions.

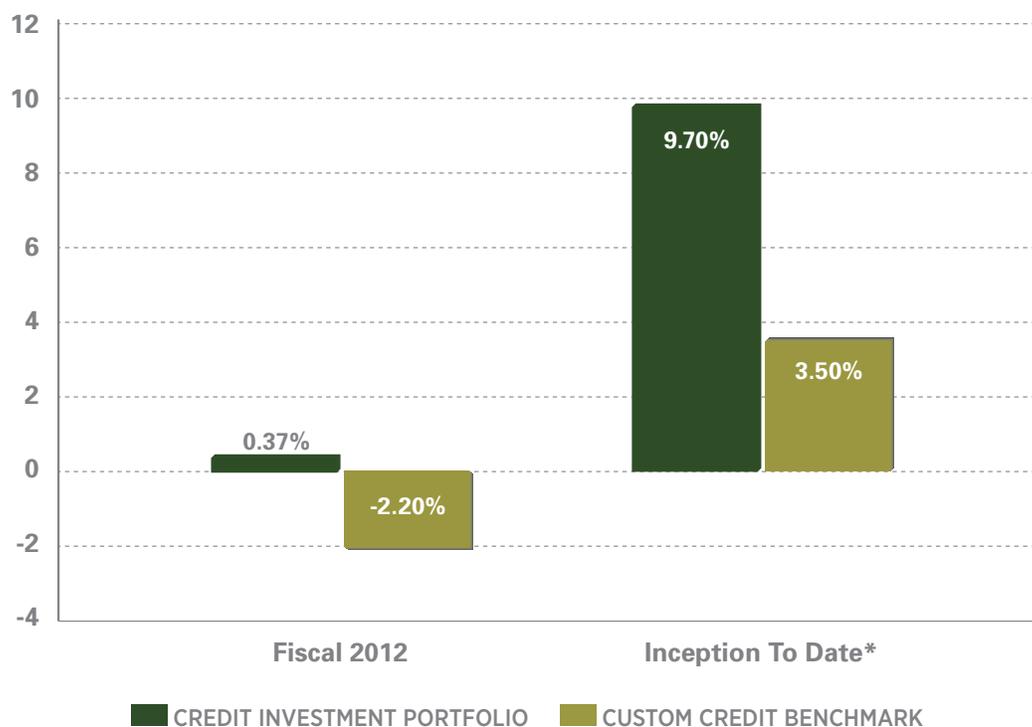
The second half of the fiscal year was less eventful than the first. In general, the credit markets exhibited strength with only a few moments of weakness, resulting in narrowing credit spreads and reduced volatility.

Credit Strategies Performance

For the fiscal year, the Credit Investment Portfolio returned 0.37 percent, outperforming its benchmark return of negative 2.20 percent. The Credit Investment Portfolio’s outperformance is attributable to a conservative investment approach that has served the plan well during periods of increased volatility and uncertainty.



CREDIT INVESTMENT PORTFOLIO ANNUALIZED PERFORMANCE



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

CREDIT STRATEGIES INVESTMENT ADVISORS (FY ENDING 2012)

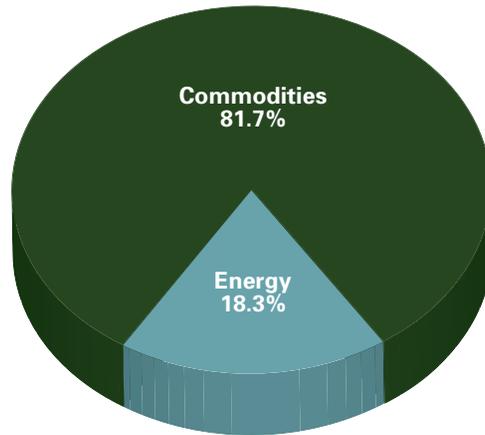
CREDIT FUNDS	MARKET VALUE (\$)	CREDIT FUNDS	MARKET VALUE (\$)
PAAMCO	515,086,874	SILVERBACK ARBITRAGE FUND	125,000,000
BRIGADE LCS FUND	309,611,925	GSO CAPITAL OPPORTUNITIES FUND	105,511,248
ANCHORAGE CAPITAL PARTNERS	295,268,698	CLAREN ROAD CREDIT FUND	99,035,865
MONARCH DEBT RECOVERY FUND	288,350,115	VARDE X FUND	86,783,296
AG GLOBAL DEBT STRATEGY PARTNERS, L.P.	253,506,448	WLR PPIF	52,001,986
AG CAPITAL RECOVERY VI, L.P.	201,353,753	AG COMMERCIAL REAL ESTATE DEBT FUND, L.P.	49,437,068
AG GECC-PPIF	171,839,968	GSO CAPITAL OPPORTUNITIES FUND II	19,244,778
CVI CREDIT VALUE FUND	164,200,000	FORTRESS CREDIT OPPS FUND III	12,420,152
OAKTREE VALUE OPPORTUNITIES	159,504,000	AG CAPITAL RECOVERY V, L.P.	5,784,256
SABA CAPITAL MGMT	156,035,720		



INFLATION PROTECTION

As of June 30, 2012, the Inflation Protection Portfolio maintained a market value of \$2.2 billion, representing 3.0 percent of the pension fund. The portfolio invests in a diversified mix of inflation-linked investment vehicles managed by experienced investment advisors.

STRATEGY ALLOCATION (BASED ON VALUATION)



Inflation Market Overview

For the fiscal year ending June 30, 2012, the U.S. economy experienced a relatively low level of inflation with a year-over-year percentage increase in the Consumer Price Index ("CPI") of 1.7 percent. However, the core CPI (excluding food and energy) was 2.2 percent. The difference between CPI and core CPI is attributable to the decline in the energy index, which fell 3.9 percent over the fiscal year. The energy sector had a volatile year driven by economic issues in the Eurozone, the political instability in oil-producing countries, and slowdown in the emerging market economies.

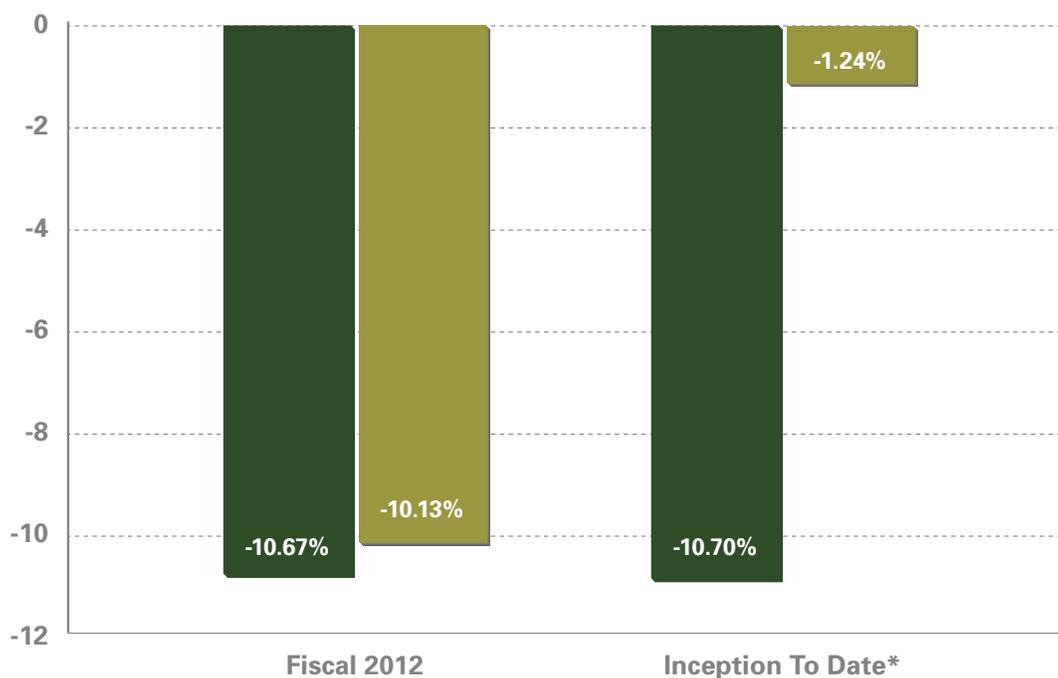
Crude oil hit a low of \$75.67 per barrel in October and then hit a high of \$109.77 in February before ending the year at \$84.96 per barrel. Natural gas prices continued to decline throughout the year due to abundant supply, closing the year at \$2.82 per million British Thermal Units after hitting an all-time low of \$1.90 in April. In May and June, extremely hot weather and a lack of rain pushed grain markets (soybeans, corn, wheat, etc.) to fresh highs. Gold prices reached an all-time high of \$1900.2 per ounce in September and closed at \$1597.45 per ounce at fiscal year end.

Inflation Protection Performance

For the fiscal year, the Inflation Protection Portfolio dropped 10.67 percent, underperforming its benchmark return of negative 10.13 percent. The portfolio's underperformance is attributable to the J-curve in the portfolio's private energy investments. The Inflation Portfolio is a relatively young portfolio and many of the investments in the portfolio are recent vintages (2010, 2011 and 2012). The liquid commodities segment of the portfolio has outperformed its benchmark by 33 basis points throughout the fiscal year.



INFLATION INVESTMENT PORTFOLIO ANNUALIZED PERFORMANCE



■ INFLATION INVESTMENT PORTFOLIO ■ CUSTOM INFLATION BENCHMARK

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

INFLATION PROTECTION INVESTMENT ADVISORS (FY ENDING 2012)

INFLATION PORTFOLIO FUNDS	MARKET VALUE (\$)	INFLATION PORTFOLIO FUNDS	MARKET VALUE (\$)
GRESHAM TAP FLEX	698,973,074	SHERIDAN PROD PARTNERS II-B	18,510,000
BLACKSTONE RESOURCES SELECT	439,612,877	ENCAP ENERGY FUND VIII	17,452,172
CREDIT SUISSE ENHANCED	410,474,292	EIF US POWER FUND IV	13,462,944
VERMILLION CELADON	237,534,966	ENERGY CAPITAL PART II	10,695,806
SHERIDAN PRODUCTION PARTNERS I, L.P.	116,376,000	ARCLIGHT ENERGY PARTNERS V	6,225,605
PWP ABVO III	76,279,598	RED KITE MINE FINANCE II	5,719,079
QUINTANA ENERGY I, L.P.	72,929,033	QUINTANA ENERGY I CO-INV	4,014,811
QUINTANA ENERGY II, L.P.	29,188,655	ENCAP VIII - CO-INVEST	3,860,966
ENERGY CAPITAL PARTNERS II LP	24,752,492	DENHAM CAPITAL VI	1,360,774



ANCILLARY INVESTMENT PROGRAM REVIEW

The Ancillary 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, Public Hospital Funds, the Local Government Other Post-Employment Benefits Program, and other non-pension assets invested in the core fixed income portfolio.

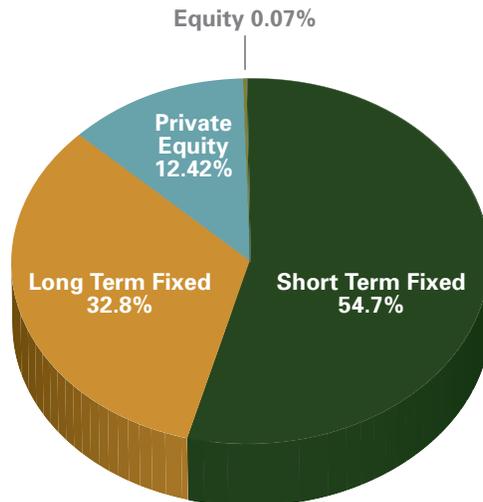
Escheat Investment Program

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, 2012, the Escheat Fund maintained a total portfolio market value of \$317.9 million, with \$278.2 million invested in fixed income, \$39.5 million invested in private equity, and \$230,407 invested in global equity. The following table and chart provide the Escheats asset allocation and the percentage of the total fund as of June 30, 2012.

ESCHEAT INVESTMENT FUND ASSET ALLOCATION AS OF JUNE 30, 2012

	MARKET VALUE	PORTFOLIO WEIGHT	TARGET WEIGHT
FIXED INCOME	\$278,239,497	87.5%	80.0%
GLOBAL EQUITY	\$230,407	.07%	12.0%
REAL ESTATE	\$0	0%	4.0%
PRIVATE EQUITY	\$39,478,496	12.43%	4.0%
ESCHEAT FUND (TOTAL)	\$317,948,401	100%	---

ESCHEAT INVESTMENT FUND ASSET ALLOCATION

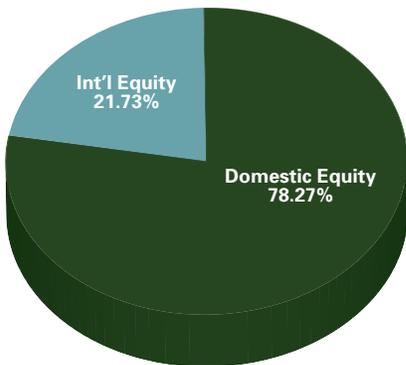


Public Hospitals

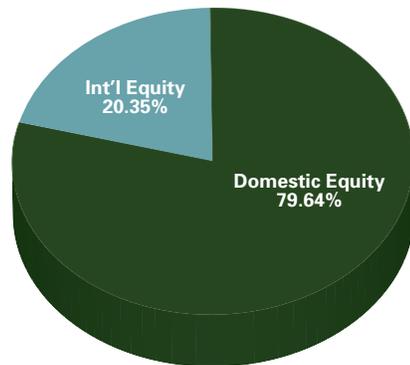
G.S. 147-69.2(b2) & G.S. 147-69.2(b3) allow North Carolina public hospitals to invest funds with the State Treasurer.

As of June 30, 2012, the market value for the New Hanover Hospital portfolio was \$59 million, the market value for Columbus Regional Healthcare System was \$7 million, the market value for the Margaret R. Pardee Hospital was \$5.6 million, and the market value for the Watauga Medical Center was \$4.6 million. The allocations to the hospital plans are displayed below.

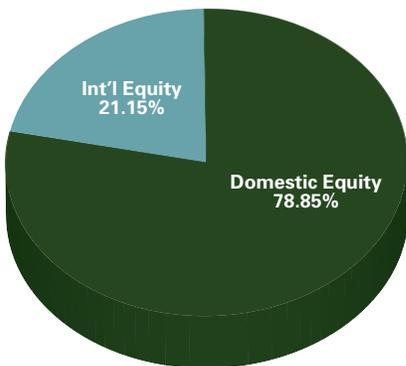
NEW HANOVER HOSPITAL



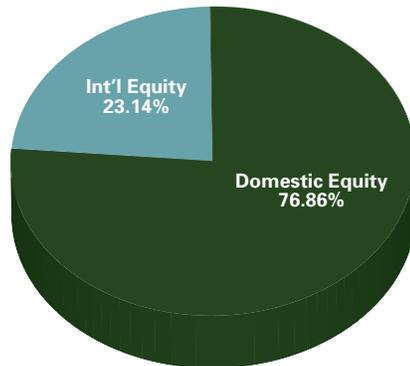
COLUMBUS REGIONAL HEALTHCARE



MARGARET R. PARDEE HOSPITAL



WATAUGA MEDICAL CENTER



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, 2012, there were a total of 15 participants with assets totaling \$79.9 million.

Other Non-Pension Long-Term Investment Portfolio Participants

As of June 30, 2012, the aggregate market value of other non-pension participants invested in the Long-Term Investment Portfolio was \$1.2 billion.





STATE & LOCAL GOVERNMENT FINANCE DIVISION



STATE AND LOCAL GOVERNMENT FINANCE DIVISION STATISTICS

	2009-10	2010-11	2011-12
Maintained the AAA Bond Rating	YES	YES	YES
Number of Local Government Units Contacted Regarding their Fiscal Health or Compliance with General Statutes	510	439	283
Total Debt Issued by Local Governments	\$6.5 BILLION	\$3.3 BILLION	\$4.2 BILLION
Debt Issued for Special State and Local Authorities and Agencies	\$2.5 BILLION	\$1.6 BILLION	\$1.3 BILLION
Total State Debt Issued	\$1.7 BILLION	\$1.5 BILLION	\$1.3 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 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 and local 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.

2011-12 FISCAL YEAR SUMMARY OF DEBT ISSUED

TOTAL STATE	\$ 1.31 BILLION
TOTAL LOCAL GOVERNMENTS	\$ 4.22 BILLION
TOTAL	\$ 5.53 BILLION

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 one of the largest numbers of AAA-rated units in the nation, 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 LGC. This Commission is unique nationally and serves as a role model for local government financial oversight for states across the nation.

THE LOCAL GOVERNMENT COMMISSION

The LGC, established by G.S. 159-3, provides assistance to local governments and public authorities in North Carolina. Staffed by the Department of State Treasurer, the LGC 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 of the Senate, and one by the General Assembly upon the recommendation of the Speaker of the House of Representatives). The State Treasurer serves as Chair 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 full Commission meets six times a year.

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"), established by the General Assembly in 1986. 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 Division. 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 is reviewed through ratio and trend analysis. The staff presents the project and its recommendations to the Agency board and subsequently to the LGC for approval. Since its creation, the Agency has provided over \$5 billion in tax-exempt capital financing. There have been no defaults in bonds issued by the Agency. At June 30, 2012, there were \$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, 2012, the Agency issued \$128.6 million in bonds for six institutions. The Agency's annual report is available from the Department of 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 certificates of participation 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, with the State financially responsible for the debt payments. The administrative staff for the Corporation is also provided by the Division. The Corporation, used in past years to finance State construction, repair and renovation, has been inactive during the past several fiscal years because certificates of participation are 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, 2012, the State had General Obligation bonds outstanding of \$4.5 billion and certificates of participation, limited obligation bonds and lease-purchase bonds outstanding of \$2.4 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 LGC 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, 2012, the State had a "Triple-A" rating, the highest rating attainable, from all three national rating agencies. Only seven 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 2011-12, 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.

Another 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 LGC 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, 2012, authorized and unissued general obligation bonds for local governments and authorities amounted to \$2.8 billion and general obligation debt outstanding amounted to \$10.2 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 LGC 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, 2012, the LGC approved contracts or other agreements (including refundings) totaling \$1.2 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 ("IRS"). 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 2011-12¹

	FY NO.	2011-12 AMOUNT (IN MILLIONS)
BONDS SOLD FOR STATE		
G.O. BONDS (GENERAL FUND)		
NORTH CAROLINA TURNPIKE AUTHORITY REVENUE BONDS	2	224.5
GRANT ANTICIPATION REVENUE VEHICLE BONDS ²	2	325.1
SPECIAL INDEBTEDNESS	2	767.5
TOTAL ISSUED:	6	\$ 1,317.0
BONDS AND NOTES SOLD FOR LOCAL GOVERNMENT UNITS:		
G.O. BONDS	52	1,401.4
REVENUE BONDS	48	1,046.8
WATER AND SEWER REVOLVING LOANS	21	80.9
WATER AND SEWER LOANS (STIMULUS)	45	23.9
SPECIAL OBLIGATION BONDS - SOLID WASTE	2	16.5
G.O. NOTES ³	50	424.8
REVENUE NOTES ³	15	38.2
TOTAL ISSUED:	233	\$ 3,032.5
INSTALLMENT/LEASE CONTRACTS SOLD FOR LOCAL UNITS:	132	\$ 1,197.2
TOTAL FOR LOCAL GOVERNMENT	365	\$ 4,229.7
REVENUE BONDS SOLD FOR:		
MEDICAL CARE COMMISSION	11	765.4
HOUSING FINANCE AGENCY	1	14.2
POWER AGENCIES ⁴	1	424.0
INDUSTRIAL FACILITIES & POLLUTION CONTROL FINANCING AUTHORITIES ⁵	2	7.9
CAPITAL FACILITIES FINANCE AGENCY	6	128.8
TOTAL ISSUED:	21	\$ 1,340.3
GRAND TOTAL ISSUED:	392	\$ 6,887.0

¹ These totals include approximately \$141 million of Qualified School Construction Bonds issued as part of the 2009 American Recovery and Reinvestment Act. A summary of the federal stimulus bonds is discussed in the Other Highlights section of this report.

² 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.

³ 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.

⁴ These bonds were issued for North Carolina Eastern Municipal Power Agency.

⁵ 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.

A comparison of bond issuances by the categories above in fiscal year 2011-12 with issuances in the past two fiscal years is shown below in Chart 8.

FISCAL MANAGEMENT

Another function of the Division involves monitoring certain fiscal and accounting standards prescribed for local governmental units and public authorities by the Local Government Budget and Fiscal Control Act. The Act requires each unit of local government and public authority 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 more than 1,200 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 568 single audits and 234 "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 LGC, staff requests a response detailing the unit's plans to take corrective action. In fiscal year 2011-12, staff sent approximately 283 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:

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

OUTREACH AND COMMUNICATION

In fiscal year 2011-12, staff issued 23 public memoranda directed to local governments, auditors and the State's public finance community. Topics included the implementation of the new audit submission process, reporting to the newly created joint legislative committee on local government, audit and reporting tips, and the annual statistical reports. For a complete index of Division memos, visit www.nctreasurer.com/slg/Pages/Memos.aspx. In addition, interested parties may subscribe to the LGC News listserv, 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 1,125 subscribers.

- Staff members worked with the University of North Carolina ("UNC") School of Government to present the eleventh annual State Treasurer's Conference on Local Government Accounting, Auditing and Financial Management held in April 2012. The conference was intended for both local government auditors and officials. It was conducted at two sites and drew more than 260 participants. Topics covered included a current Governmental Accounting Standards Board ("GASB") update, current purchasing practices in



local governments in the State, implementation of House Bill 1779, current issues in payroll from the IRS, and general topics of interest to local governments. In addition, staff members spoke at 16 continuing education courses and conferences sponsored by organizations such as the UNC School of Government, various North Carolina finance officers associations, the national Government Finance Officers Association, the League of Municipalities, the North Carolina Association of Certified Public Accountants, the USDA, and N.C. State University.

- A Continuing Professional Education class for governmental auditors was developed in 2011 and offered again in 2012 in collaboration with the UNC School of Government. Held at the UNC campus, the class covered an audit review from the State's perspective, Unclaimed Property requirements for local governments, a general GASB update, single audit issues, House Bill 1779, G.S. 159 from the auditor's perspective, and common governmental and accounting reporting problems. It was well received with 135 attendees.
- The Department sponsored the 22nd annual "State Treasurer's Governmental Accounting/Financial Management Awards Program" for local governments and public authorities who 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.

A member of the staff serves on the Governmental Accounting and Auditing Committee of the NCACPA. 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. A staff member also serves on the Committee on Accounting, Auditing and Financial Reporting for the Government Finance Officers' Association of the United States and Canada. 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 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 that 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, 2011, the Commission approved the issuance of the stimulus designated bonds for local governments and the State totaling about \$3 billion. 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. In fiscal year 2011-12, an additional \$141 million in Qualified School Construction Bonds from the stimulus program were approved for issuance by local governments. No energy conservation and renewal bonds have been issued.

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

- **Fiscal Analysis Dashboard Project** – After rollout in July 2010, the new analysis tool for cities (553) 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 up to 20 different analytical ratios and calculations by which a government can measure its financial well-being.
- **Audit Review & Invoice Approval Process** – During 2011-12, the staff, with the help of the Information Technology Division, implemented a new process to more efficiently process contracts, audits and invoices. It utilized a data portal where each local government or auditor uploaded the financial statements, contract or invoice



electronically in a unique mail box. The process went smoothly and was well received by all users, especially by the local governments and State agencies. The system was designed to improve turnaround time, allowing much quicker identification of financial issues and/or crisis conditions, and used much less paper than the old system of sending two to three bound paper copies of financial statements to the State for processing.

Stage 2, which will be implemented in 2012-13, will include the design, acquisition and implementation of new information management software to facilitate the collection of data relevant to local government financial information. The new software will provide better data management and facilitate analysis and search capabilities for local government financial data over multiple years. The system and its respective processes are expected to go live in the fall of 2012.

CHART 7

**PURPOSES FOR WHICH LOCAL GOVERNMENTS SOLD BONDS AND NOTES
FISCAL YEAR 2012**

	SCHOOL	UTILITIES	REFUNDING	OTHER	NO.	TOTAL AMOUNT
G.O. BONDS						
COUNTIES	\$327,395,000	-	\$538,461,000	\$58,145,000	24	\$924,001,000
MUNICIPALITIES	-	46,691,306	240,814,863	174,557,419	24	462,063,588
DISTRICTS AND AUTHORITIES	-	6,564,000	8,784,000	-	4	15,348,000
TOTAL G.O. BONDS	\$327,395,000	\$53,255,306	\$788,059,863	\$232,702,419	52	\$1,401,412,588
REVENUE BONDS						
COUNTIES	-	\$42,486,000	\$139,875,000	-	9	\$182,361,000
MUNICIPALITIES	-	116,071,000	242,577,300	201,565,000	29	560,213,300
DISTRICTS AND AUTHORITIES	-	13,813,000	220,442,614	70,000,000	10	304,255,614
TOTAL REVENUE BONDS	-	\$172,370,000	\$602,894,914	\$271,565,000	48	\$1,046,829,914
SPECIAL OBLIGATION BONDS						
SOLID WASTE	-	\$12,220,000	\$4,290,000	-	2	\$16,510,000
TOTAL SPECIAL OBLIGATION BONDS	-	\$12,220,000	\$4,290,000	-	2	\$16,510,000
WATER AND SEWER REVOLVING LOANS						
COUNTIES	-	\$12,250,280	-	-	6	\$12,250,280
MUNICIPALITIES	-	87,160,591	-	-	50	87,160,591
DISTRICTS	-	5,400,956	-	-	10	5,400,956
TOTAL WATER AND SEWER REVOLVING LOANS	-	\$104,811,827	-	-	66	\$104,811,827
NOTES						
G.O. BOND ANTICIPATION NOTES	-	\$58,513,000	-	\$366,266,126	50	\$424,779,126
REVENUE NOTES	-	38,191,000	-	-	15	38,191,000
TOTAL NOTES	-	\$96,704,000	-	\$366,266,126	65	\$462,970,126
TOTAL BONDS AND NOTES	\$327,395,000	\$439,361,133	\$1,395,244,777	\$870,533,545	233	\$3,032,534,455



CHART 8

DEBT MANAGEMENT ACTIVITIES - STATE AND LOCAL (IN MILLIONS)
FISCAL YEAR 2012

	FY 2011-12		FY 2010-11		FY 2009-10	
	NO.	AMT.	NO.	AMT.	NO.	AMT.
BONDS SOLD FOR STATE						
G.O. BONDS (GENERAL FUND)	-	\$-	2	\$774.8	2	\$859.6
G.O. BONDS (HIGHWAY FUND)	-	-	-	-	-	-
SPECIAL INDEBTEDNESS	2	767.4	1	500.0	-	-
GRANT ANTICIPATION REVENUE VEHICLE BONDS	2	325.1	-	-	1	242.5
NC TURNPIKE AUTHORITY REVENUE BONDS	2	224.5	1	233.9	1	622.8
TOTAL ISSUED	6	1,317.0	4	\$1,508.7	4	\$1,724.9
BONDS AND NOTES SOLD FOR LOCAL GOVERNMENT UNITS						
G.O. BONDS	52	1,401.4	47	854.9	88	2,563.2
REVENUE BONDS	48	1,046.8	43	1,106.1	41	1,489.7
SPECIAL OBLIGATION BONDS - SOLID WASTE	2	16.5	3	28.3	2	18.4
G.O. NOTES	50	424.8	37	235.7	36	381.1
REVENUE NOTES	15	38.2	19	45.4	27	301.3
SUBTOTAL BONDS & NOTES ISSUED	167	2,927.7	149	\$2,270.4	194	\$4,753.7
INSTALLMENT/LEASE CONTRACTS SOLD FOR LOCAL UNITS	132	1,197.2	158	925.8	122	\$1,557.1
WATER & SEWER REVOLVING LOANS	21	80.9	75	102.9	30	79.3
WATER & SEWER REVOLVING LOANS (STIMULUS)	45	23.9	-	-	73	88.6
TOTAL FOR LOCAL GOVERNMENT UNITS	365	\$4,229.7	382	\$3,299.1	419	\$6,478.7
REVENUE BONDS SOLD FOR						
MEDICAL CARE COMMISSION	11	765.4	18	859.2	18	1,100.4
HOUSING FINANCE AGENCY	1	14.2	1	14.2	3	217.1
POWER AGENCIES	1	424.0	1	146.1	5	846.5
INDUSTRIAL FACILITIES AND POLLUTION CONTROL FINANCING AUTHORITIES	2	7.9	14	351.8	11	93.5
CAPITAL FACILITIES FINANCE AGENCY	6	128.8	7	184.3	10	195.0
CENTENNIAL AUTHORITY	-	-	-	-	1	37.9
TOTAL ISSUED	21	\$1,340.3	41	\$1,555.6	48	\$2,490.4
GRAND TOTAL ISSUED	392	\$6,887.0	427	\$6,363.4	471	\$10,694.0





STATE HEALTH PLAN DIVISION

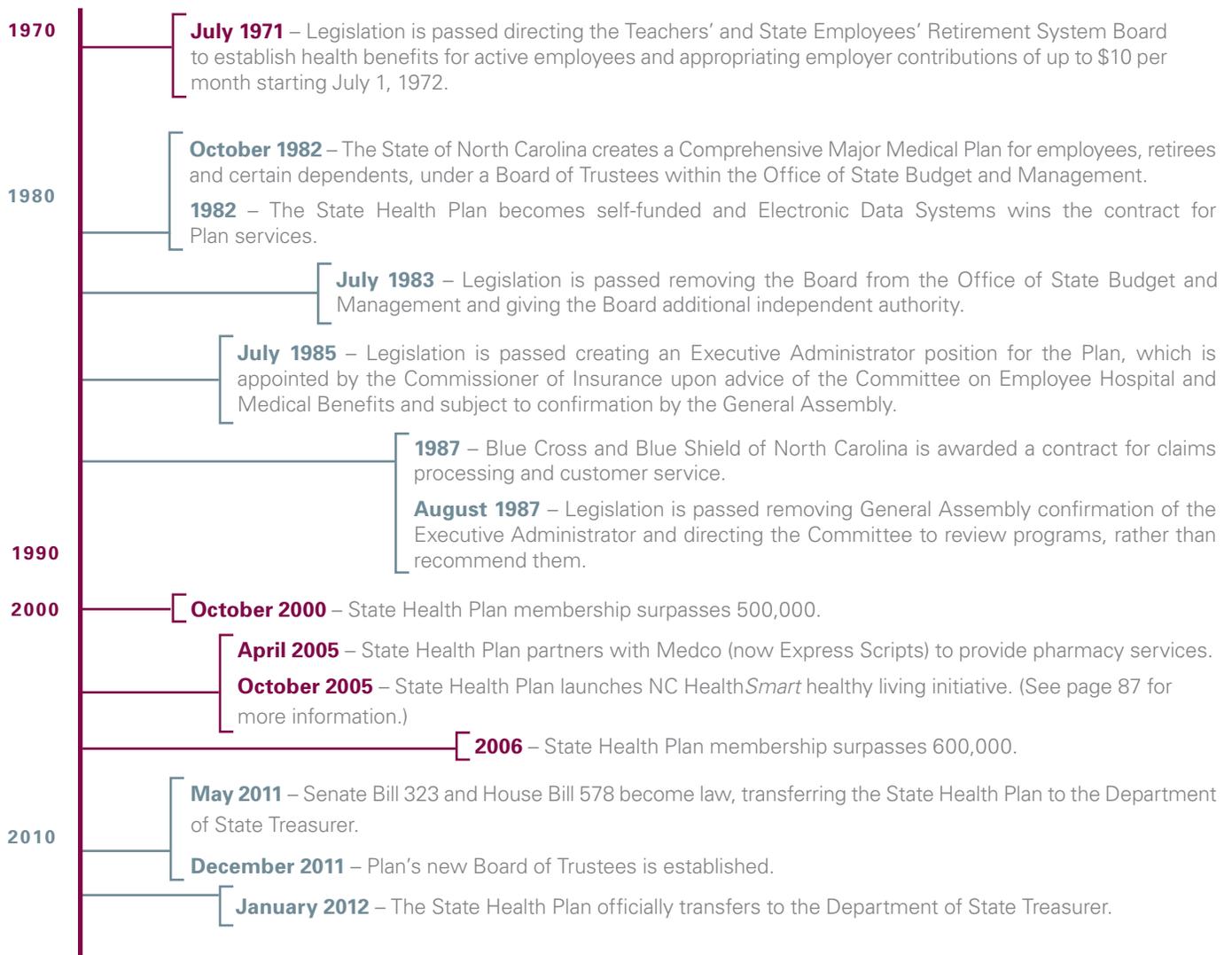


The State Health Plan for Teachers and State Employees was officially transferred to the Department of State Treasurer Jan. 1, 2012. While this report contains data for the entire 2011-12 fiscal year, the Department only oversaw operations for the final six months covered in this report.

The mission of the State Health Plan is to provide quality health care products and services for the health and well-being of North Carolina teachers, state employees, retirees and their dependents.

The Plan provides health care coverage to approximately 660,000 teachers, state employees, retirees, current and former lawmakers, state university and community college personnel, state hospital staff and their dependents. The Plan's goals include maintaining quality, accessible and affordable health care for its members, ensuring fiscal responsibility and transparency, enhancing member health and wellness, providing high-level customer service, and fostering a high-performing organization.

HISTORY OF THE STATE HEALTH PLAN



The transition of the State Health Plan to the Department of State Treasurer placed the administration of health and retirement benefits under one roof, allowing for improved communication and coordination. It is envisioned that this change will enable long-range strategic planning to ensure the sustainability of benefits, which was not possible in the former structure. The Treasurer, Executive Administrator and Board of Trustees are designated as fiduciaries for the Plan, with ultimate decision-making entrusted to the Treasurer.

STATE HEALTH PLAN BOARD OF TRUSTEES STRUCTURE

The new governance structure outlined in the legislation established a 10-member Board of Trustees with fiduciary responsibility. The Board of Trustees is tasked with making significant decisions regarding the State Health Plan, such as approving large contracts, designing Plan benefit programs, and setting premium rates, copays and deductibles. The legislature still determines member eligibility rules and provides state funding for the Plan.

The legislation also outlined that the Board of Trustees should be composed of: an employee of a State department, agency or institution; a teacher employed by a North Carolina public school system; a retired employee of a State department, agency or institution; and a retired teacher from a North Carolina public school system. The board was also to be made up of experts with relevant skills such as health economics, health benefits and administration, and health law.

MEMBERS OF THE BOARD OF TRUSTEES ARE APPOINTED OR SERVE IN THE FOLLOWING WAY:

State Treasurer is an ex officio member of the Board and serves as its Chair, but only votes in the event of a tie.	Director of State Budget serves as an ex officio non-voting member.	Two members are appointed by the Governor.	Two members are appointed by the State Treasurer.	Two members are appointed by the General Assembly upon the recommendation of the Speaker of the House of Representatives.	Two members are appointed by the General Assembly upon the recommendation of the President Pro Tempore of the Senate.
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STATE HEALTH PLAN STRUCTURE

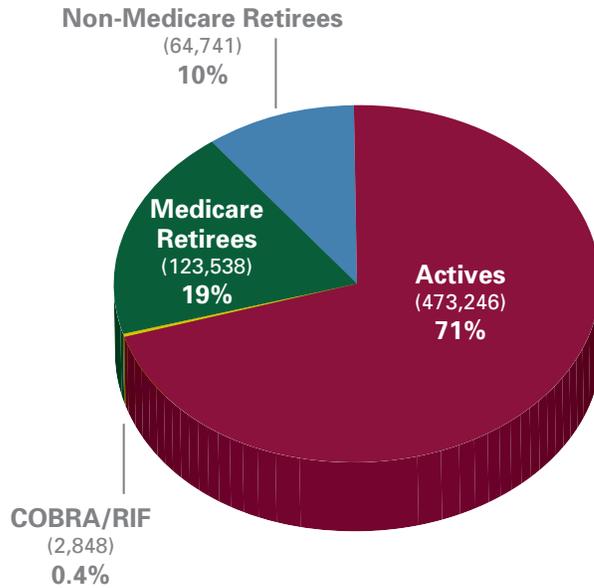
The State Health Plan provides health care coverage to approximately 660,000 teachers, state employees, retirees, current and former lawmakers, state university and community college personnel, state hospital staff and their dependents.

Among total membership, there are:

- Nearly 474,000 active employees and dependents. Dependents include spouses and children up to age 26.
- More than 2,800 COBRA participants and their dependents. The Consolidated Omnibus Budget Reconciliation Act of 1985 (“COBRA”) requires most employers with group health plans to offer employees the opportunity to continue their group health care coverage temporarily under their employer’s plan if their coverage otherwise would cease due to termination, layoff or other change in employment status.
- More than 188,000 retirees and their dependents.



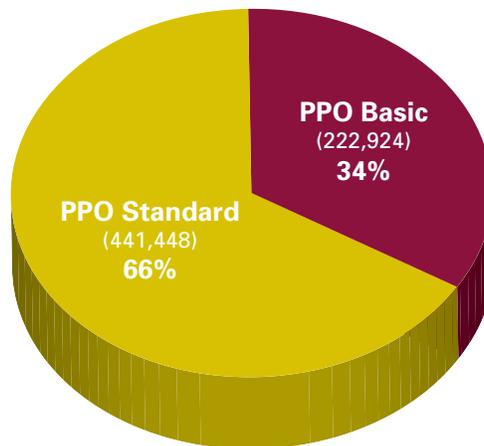
**AVERAGE MEMBERSHIP BY EMPLOYEE STATUS
(APRIL THROUGH JUNE 2012)**



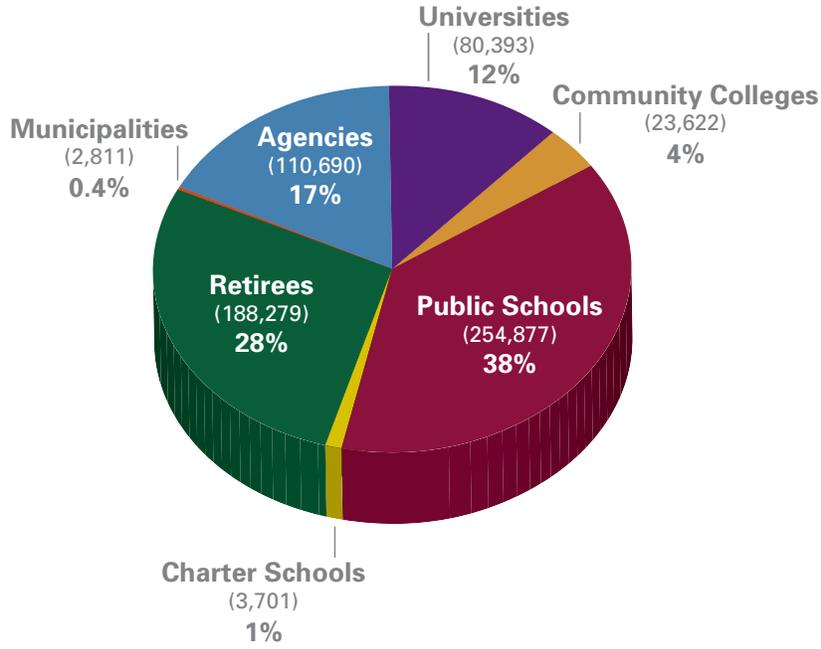
The Plan offers two Preferred Provider Organization (“PPO”) plans, described below, using the Blue OptionsSM network. These plans offer freedom of choice among in-network providers, lower out-of-pocket costs and a strong emphasis on preventive health.

- The 70/30 Basic PPO Plan has higher copays, coinsurance and deductibles in exchange for reduced premiums when members choose coverage for more than just themselves. In April through June of 2012, the 70/30 Plan accounted for 222,924 members, or 34 percent of total membership.
- The 80/20 Standard PPO Plan has a higher coverage level than the Basic plan. In April through June of 2012, the 80/20 Plan accounted for 441,448 members, or 66 percent of total membership.

**AVERAGE MEMBERSHIP BY PLAN
(APRIL THROUGH JUNE 2012)**



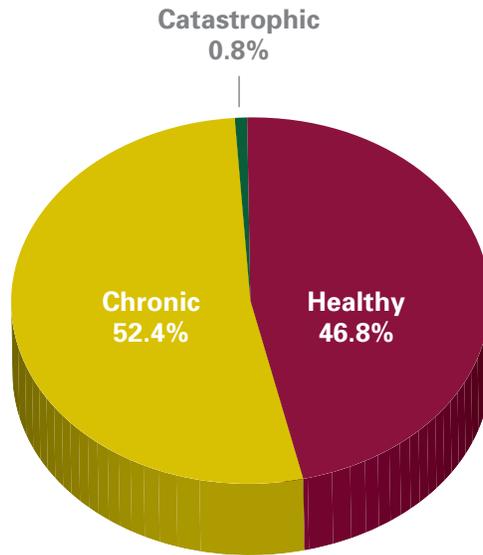
**AVERAGE MEMBERSHIP BY ENTITY
(APRIL THROUGH JUNE 2012)**



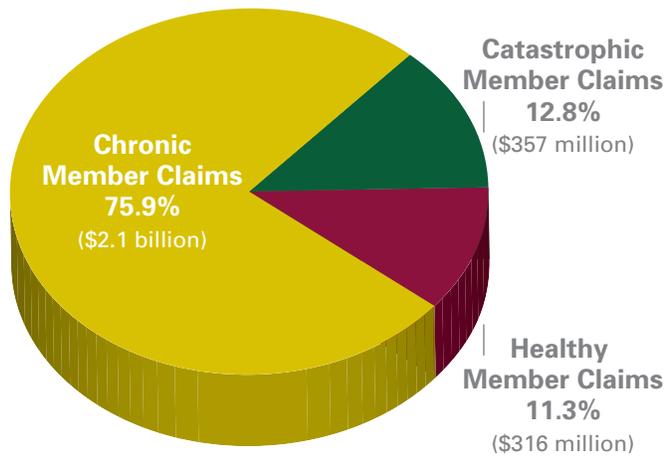
MEMBERSHIP HEALTH SNAPSHOT

The State Health Plan monitors the general health of its member population to identify and address health-related trends.

HEALTH SNAPSHOT OF PLAN MEMBERS AS OF DECEMBER 2011



TOTAL CLAIMS BY MEMBER HEALTH STATUS



The Plan also tracks member health trends from year to year. Within the total non-Medicare population, between fiscal year 2006 and fiscal year 2011, the Clinical Risk Group analysis found that over the six-year period:

- The percentage of healthy members decreased from 50.2 percent to 46.8 percent.
- The percentage of chronic members increased from 48.9 percent to 52.4 percent.
- The percentage of catastrophic members remained relatively stable every year.



DIVISION STRUCTURE

The State Health Plan is dedicated to providing members with an excellent customer experience and convenient access to health and wellness programs. The Plan is self-insured and exempt from the Employee Retirement Income Security Act ("ERISA") as a government-sponsored plan.

The Plan is organized into several core sections to most effectively administer member benefits and costs. These sections are:

- Policy, Planning and Analysis
- Health Plan Operations
- Integrated Health Management
- Contracting and Legal Compliance
- Pharmacy
- Data Reporting and Analytics

Policy, Planning and Analysis

The Policy, Planning and Analysis section is primarily responsible for the development of Plan benefit design and product options, including:

- The development of financial projections
- Analysis of financial performance of the Plan as a whole and individual products/benefit design options
- Review of overall Plan financial forecasts related to benefit design, option selection and member attributes

In addition, the section serves as primary contact for external requests and relationships with the North Carolina General Assembly, other governmental bodies, and various stakeholder organizations. The section serves the Plan and the Department of State Treasurer as health care and health plan policy experts and analysts, conducting research and providing information as needed for the Plan, the Department, the General Assembly and other external bodies.

Health Plan Operations

Health Plan Operations is primarily responsible for the State Health Plan's third party administrative services agreement, including: customer service, member eligibility, enrollment, claims and related services.

In conjunction with the Department of State Treasurer, the Operations team is responsible for all internal, external and member communications for the Plan.

Integrated Health Management

Integrated Health Management ("IHM") is responsible for the management of the Plan's healthy living initiative, NC HealthSmart. This program provides a continuum of health and wellness supports and services for Plan members, including: health promotion, worksite wellness, health coaching, and disease and case management. For more information on NC HealthSmart, see page 87.

Contracting and Legal Compliance

The Contracting and Legal Compliance section is responsible for all State Health Plan contract procurement, contract monitoring, regulatory compliance and legal compliance. Nearly all the Plan's expenditures, \$2.6 billion for fiscal year 2011-12, are made through contractual agreements. These agreements enable the Plan to provide comprehensive health benefits for the more than 660,000 teachers, state employees, retirees, and dependents covered by the Plan.

Pharmacy

The Pharmacy section is responsible for the management, development and enhancement of all aspects of the Plan's pharmacy contracts and programs. This includes implementing strategic pharmacy initiatives, overseeing the Plan's pharmacy benefit manager contract to ensure maximum economic value, and managing the Plan's Medicare Part D program.

Data Reporting and Analytics

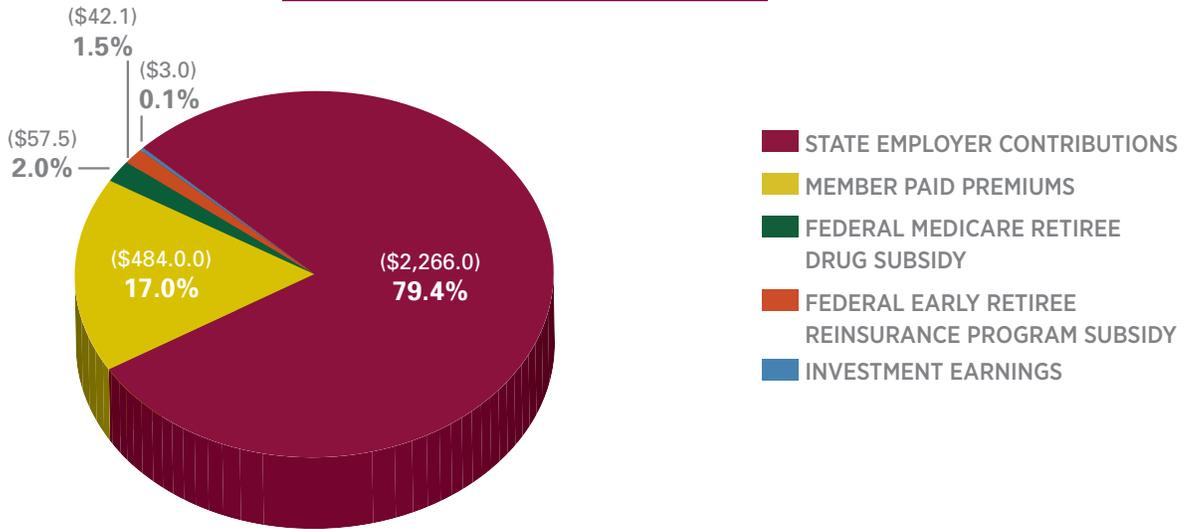
The Data Reporting and Analytics section collects, analyzes and summarizes data in order to generate statistical, financial and analytic reports to assist the Plan in making data-driven business decisions.



FUNDING THE STATE HEALTH PLAN

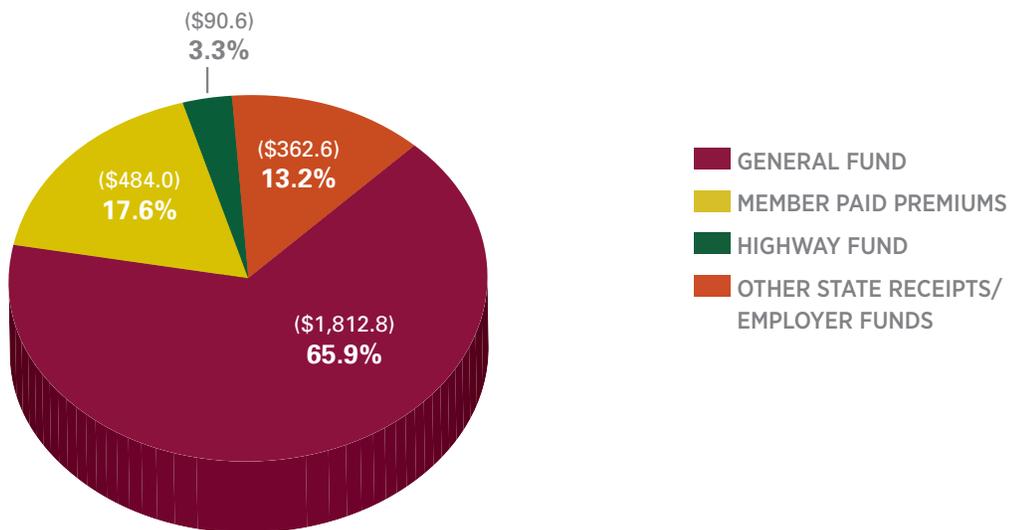
The General Assembly does not appropriate funds directly to the State Health Plan. Instead, it provides funds to state agencies, universities, community colleges, local school systems and the retirement system to pay an “employer contribution” or monthly premium on behalf of employees and retirees. As such, the State Health Plan is 100 percent receipt-supported, with premium receipts, including employer contributions and amounts paid by employees and retirees for their own and dependent coverage, representing approximately 97 percent of total revenues in fiscal year 2011-12.

**FY 2011-12 PLAN REVENUES
(\$ MILLIONS)**



While the General Assembly does not appropriate funds directly to the State Health Plan, the State’s General Fund is the primary source of funding for employer contributions.

**FY 2011-12 PREMIUM CONTRIBUTIONS
(\$ MILLIONS)**



Traditionally the State has offered employee-only and retiree-only coverage on a “non-contributory” basis, meaning the state paid the full premium cost on behalf of employees and retirees through the employer contribution. In the 2011 legislative session, the General Assembly introduced, for the first time, an employee-only and retiree-only premium effective September 1, 2011. The new premium applied only to those enrolled in the 80/20 Standard PPO plan option and was priced at \$10.00 per month for Medicare retirees and \$21.62 for employees and non-Medicare retirees. Active employees and retirees could still elect coverage under the 70/30 Basic PPO plan option on a premium-free basis.

Currently employees and retirees may enroll their eligible dependents in the plan on a “fully contributory” basis, meaning the member is responsible for paying the full premium cost of dependent coverage.

Premium rates are established for each state biennium based on an actuarially based forecast prepared by the Plan’s consulting actuary. Historical claims experience is trended forward to cover anticipated increases in cost and utilization and any required or

proposed benefit changes. The forecasting methodology also assumes the build-up and maintenance of an adequate reserve to cover fluctuating claims costs and cash flows.

The forecast model produces a projected premium increase that is required to cover the Plan’s expenses during the upcoming forecast period or fiscal biennium, and that premium increase is applied to all rates across the board. If a 5 percent increase is required according to the model, the General Assembly is asked to increase the employer contribution by 5 percent and the employee-only, retiree-only and dependent premium rates are also increased by 5 percent.

Future premium rates are impacted by the Plan’s actual financial performance. If claims experience is less than projected, the Plan’s cash reserves increase over the year and the required premium increase in the next year will be lower than originally projected. Conversely, if claims experience is higher than projected, the Plan will spend down or use its reserve to cover the increased cost, and the required premium increase in the next year will be higher than originally projected.

STATE HEALTH PLAN FINANCIAL SUMMARY

	FY 2009-10	FY 2010-11	FY 2011-12
PREMIUM CONTRIBUTIONS	\$2,412,567,798	\$2,683,532,588	\$2,749,917,355
OTHER RECEIPTS	\$77,890,152	\$114,436,437	\$102,762,812
TOTAL REVENUES	\$2,490,457,950	\$2,797,969,025	\$2,852,680,167
MEDICAL CLAIMS	\$1,797,515,414	\$1,827,826,009	\$1,826,775,490
PHARMACY CLAIMS	\$596,709,775	\$655,868,735	\$628,032,853
TOTAL CLAIMS	\$2,394,225,189	\$2,483,694,744	\$2,454,808,343
ADMINISTRATIVE EXPENSES	\$164,649,780	\$165,902,094	\$165,480,561
TOTAL EXPENDITURES	\$2,558,874,969	\$2,649,596,838	\$2,620,288,904
PLAN INCOME/(LOSS)	(\$68,417,019)	\$148,372,187	\$232,391,263



NC HEALTHSMART

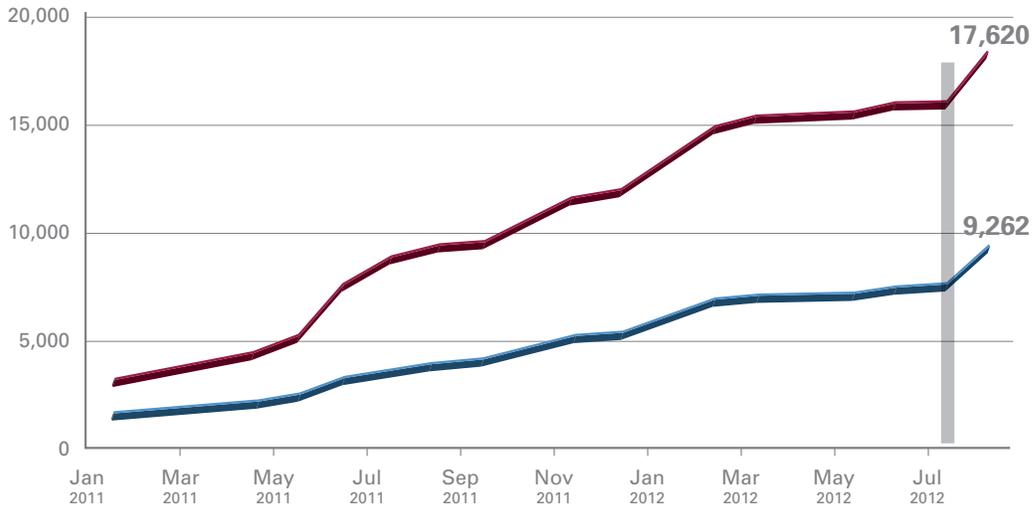
NC HealthSmart, the Plan's healthy living initiative, provides members with tools and services to help them manage weight, quit smoking, exercise better, reduce stress and take easy preventive steps to protect their health. Resources include healthy lifestyle, maternity and behavioral health coaches. Many programs are offered to members at no extra cost.

NC HealthSmart services include:

- Preventive services, from flu shots to routine physicals
- A 24-hour nurse line to help provide quick answers to medical concerns
- Specialty Case Management to help with Chronic Kidney Disease ("CKD") and End Stage Renal Disease ("ESRD")
- Maternity coaches to offer support and answer questions about mother and baby health
- An online Personal Health Portal featuring:
 - A Health Assessment online or by phone to help employees learn about their health status
 - Digital Health Coaching with automated counseling to help participants eat healthier, be more active, lower cholesterol and more
 - A secure Personal Health Record to keep health information in one place
- Help quitting tobacco through QuitlineNC. This service includes support by phone and free nicotine replacement patches when participants talk to a Quit Coach® and enroll in the multi-call program. This service is available 24 hours a day, seven days a week. Between July 1, 2011 and June 30, 2012:
 - 667 members utilized the multiple call program.
 - 853 members received Nicotine Replacement Therapy patches.
 - 3,343 members called the 24-hour nurse line.
- Eat Smart, Move More, Weigh Less, a 15-week, live, interactive online weight management program
 - Number of classes: 98 (117 classes in fiscal year 2010-11)
 - Number of enrollees: 1,810 (2,049 enrollees in fiscal year 2010-11)
 - Number of participants who completed course: 972 (1,428 participants in fiscal year 2010-11)
- Nurses, health coaches and case managers to help manage chronic diseases like diabetes, high blood pressure and depression, as well as other serious conditions such as cancer and severe injuries. Between July 1, 2011 and June 30, 2012:
 - 15,444 members engaged with a health coach on disease management (8,620 in fiscal year 2010-11)
 - 4,638 members engaged with a health coach for lifestyle coaching (3,474 in fiscal year 2010-11)
 - 4,445 members – telephonic
 - 193 members – online



Among members who logged on to the Personal Health Portal, 17,620 members registered (top line in graph below) and 9,262 completed their online health assessment (bottom line in graph below).



NC HEALTHSMART PILOT PROGRAMS

The Plan oversees three pilot programs to measure the effectiveness of incentives designed to encourage members to access the online Personal Health Portal and take a Health Assessment. Pilot programs are offered to employees in the following partner agencies:

- Charlotte-Mecklenburg Schools (“CMS”) – CMS employees who are Plan members can get a \$15 reduced copay for primary care visits. To receive the reduced copay for themselves, spouses and dependents, eligible Plan subscribers must complete a Health Assessment and health screening and participate in a wellness challenge.
- Department of Health and Human Services agencies in Butner – To receive a \$15 reduced copay for primary care visits, employees at the following sites must complete a Health Assessment and health screening:
 - Central Regional Hospital
 - R.J. Blackley Alcohol and Drug Abuse Treatment Center
 - Whitaker Psychiatric Residential Treatment Facility
 - Murdoch Developmental Center



THE YEAR'S HIGHLIGHTS

Stork Rewards

The Stork Rewards program is open to pregnant subscribers or spouses (dependent children are not eligible) who became pregnant on or after Oct. 1, 2011. To qualify, members must call a maternity coach at NC HealthSmart for an initial assessment and complete one action item, as determined by a coach, for each trimester following enrollment in the program.

- Qualifying participants have their inpatient hospital copayment waived at delivery:
- \$233 for members enrolled in the 80/20 Standard plan
- \$291 for members enrolled in the 70/30 Basic plan

STORK REWARDS PROGRAM HIGHLIGHTS AS OF JUNE 30, 2012:

PROGRAM ENROLLMENT	2,480
PROGRAMS COMPLETED	1,328

Telephonic Enrollment Offered to Retirees

During Annual Enrollment, the State Health Plan began offering retirees the option to enroll by phone. This opportunity offered retirees the ability to either elect changes to their medical benefit electronically through ORBIT or by calling a toll-free number. This effort eliminated paper enrollment, which in turn saved time and money and provided more efficiency around the enrollment process. Retirees also received reminder calls, which gave them the option of enrolling by phone and provided assistance with a customer service representative if needed.

- 120,137 calls were made to retirees from March 19 to June 25, 2012.
- 4,146 retirees opted for assistance based on the reminder call.
- 1,966 elected to make a change to their enrollment.

State Health Plan Board of Trustees Actions

The new governance structure outlined in legislation established a 10-member Board of Trustees with fiduciary responsibility over State Health Plan operations. During its inaugural six months, the board took the following actions:

- Approved a recommendation to implement an Employer Group Waiver Program ("EGWP") for retirees on Medicare. The move is expected to save the state approximately \$19.3 million annually in Medicare retiree prescription drug costs

(on an incurred basis) and reduce the state's unfunded liability related to Other Post-Employment Benefits ("OPEB") by 19 percent. Based on the evaluation as of December 31, 2011, the Plan's consulting actuary estimates implementation of EGWP reduced the accrued liability by \$4.9 billion. The reduction of unfunded liability has a positive impact on the state's AAA bond rating. The transition to EGWP takes place Jan. 1, 2013.

- Approved an additional recommendation to cap the maximum amount members must pay to cover the difference between brand and generic medications when a generic equivalent is available. Under the new provision, members would pay no more than \$100 per a 30-day supply of brand medication.
- Affirmed the health plan design and premium structure enacted by the General Assembly in May 2011.

New Contracts Awarded for Third Party Administration and Related Services

The State Health Plan issued a Request for Proposals ("RFP") in February 2012 for third party administrators for health care claims and related services. The RFP was designed to offer the Board of Trustees the flexibility to consider different health care plans that will be in the best interest of members. The intent of the RFP was to solicit partners who are industry leaders equipped to provide customer service, technology, staff and a collaborative approach needed to support the Plan's employers and members.

LEGISLATION

The 2012 session of the North Carolina General Assembly enacted legislation to revise several sections of General Statute § 135-48. This legislation clarified the rules under which employees can enroll in the Plan. Employees who do not elect to enroll themselves or dependents in the Plan when first eligible or within 30 days of hire will only be allowed to enroll during Annual Enrollment, unless they experience a qualifying event.

COMMUNICATIONS

The State Health Plan expanded its outreach effort to include the first printed issue of *Member Focus*, its monthly member newsletter. This special edition was sent to members in January 2012 to inform them of the transition of the State Health Plan to the Department of State Treasurer. The monthly electronic newsletter keeps members up-to-date on pharmacy and health benefits, and provides tips on how to stay healthy and save money. From February 2011 to February 2012, the Plan saw a 22.5 percent increase in subscribers, from 14,691 to 18,907.





UNCLAIMED PROPERTY AND ESCHEATS DIVISION



UNCLAIMED PROPERTY AND ESCHEATS DIVISION STATISTICS

	2009-10	2010-11	2011-12
AMOUNT OF FUNDS DEPOSITED	\$163,293,449	\$144,768,449	\$115,665,277
AMOUNT PAID TO RIGHTFUL OWNERS	\$48,365,264	\$46,962,169	\$42,601,455
AMOUNT OF PRINCIPAL TRANSFERRED FOR SCHOLARSHIPS OUT OF THE ESCHEAT FUND	\$165,929,219	\$136,799,219	\$152,117,592
AMOUNT OF INTEREST SENT TO SEAA FOR SCHOLARSHIPS	\$7,343,987	\$9,832,734	\$9,834,939

INQUIRIES REGARDING UNCLAIMED PROPERTY

NUMBER OF PHONE CALLS	88,625	89,295	115,248
NUMBER OF WEB SEARCHES	4,345,909	4,776,414	5,364,423
TOTAL NUMBER OF CLAIMS PAID	38,583	28,211	31,192



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, government agencies and other businesses 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 for 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 2011-12 fiscal year, ending June 30, a total amount of \$9.8 million from interest earned and \$134.5 million from the principal was sent to SEAA to be used for needy and worthy students. A total of 84,432 students were assisted through SEAA with scholarships from the Escheats Fund during the 2011-12 academic year.

The General Assembly has mandated that additional funds from the principal be sent to the Department of Veterans Affairs Scholarship Fund in the amount of \$6.5 million and the Community College Program in the amount of nearly \$11 million.

Currently the unclaimed property fund is valued at approximately \$344 million. This is a combination of unclaimed property collected from businesses and interest earnings from the investment of the fund. The total number of reports received from businesses for year ending June 30, 2012, was 10,142, totaling \$115.7 million.

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

The total number of claims paid for year ending June 30, 2012, was 31,192, totaling \$42.6 million. Additionally, NCCash.com, a searchable online database of unclaimed property, now has nearly 120,000 subscribers who are automatically notified if they have property.

HISTORY

The concept 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.

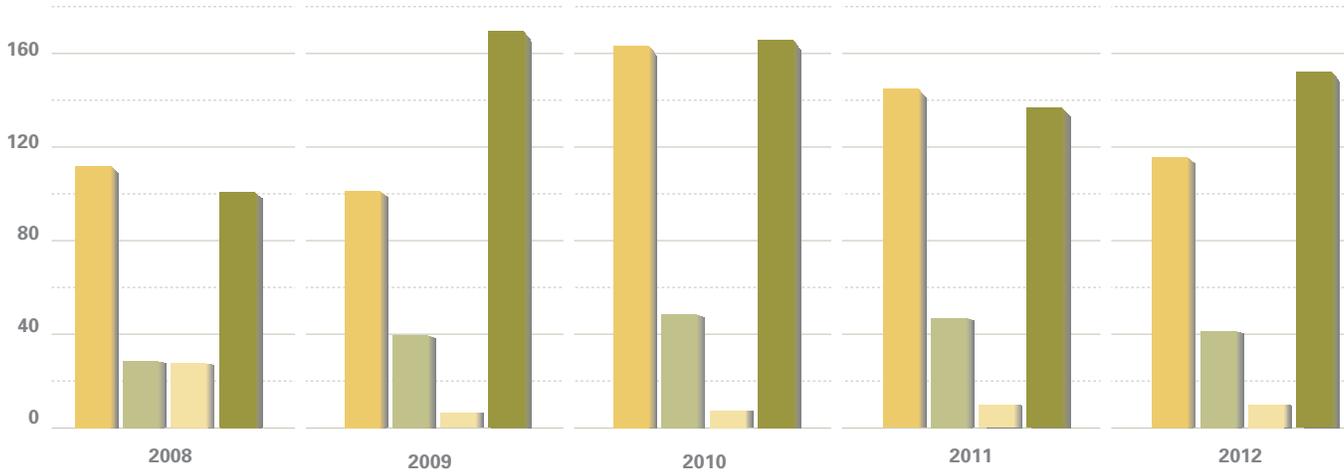
Upon the conclusion of the Revolutionary War, the State of North Carolina inherited the rights previously held by the Crown, including the right of escheat. The North Carolina Legislature adopted the University Act of 1789, which gave the newly formed University of North Carolina "all the property that 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 moneys in the Escheat Fund.



UNCLAIMED PROPERTY FACTS



FISCAL YEAR ENDING	2008	2009	2010	2011	2012
TOTAL FUNDS ESCHEATED	\$ 111,952,092	\$ 101,236,002	\$ 163,293,449	\$ 144,768,449	\$ 115,665,277
TOTAL AMOUNT RETURNED	28,340,521	39,372,068	48,365,264	46,962,169	42,601,455
TOTAL INTEREST EARNINGS REMITTED TO SEAA FOR STUDENT LOANS AND GRANTS	27,483,812	6,365,997	7,343,987	9,832,734	9,834,939
TOTAL PRINCIPAL TRANSFERRED FOR SCHOLARSHIP PROGRAMS	100,709,356	169,550,449	165,929,219	136,799,219	152,117,592





FINANCIAL OPERATIONS DIVISION



FINANCIAL OPERATIONS DIVISION STATISTICS

	2009-10	2010-11	2011-12
AMOUNT IN CHECKS	\$22 BILLION	\$22.6 BILLION	\$20 BILLION
TOTAL DOLLAR AMOUNT OF WIRE TRANSFERS PROCESSED	\$123.9 BILLION	\$132.9 BILLION	\$155.8 BILLION
TOTAL NUMBER WIRE TRANSFERS	16,120	18,324	21,000
CASH BALANCES IN THE STATE TREASURER'S DEPOSITORY ACCOUNT AT CONCENTRATION AND COMMUNITY BANKS	\$50.9 MILLION	\$ 27.8 MILLION	\$100.4 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. FOD is also 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 areas:

- 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 moneys 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 began issuing warrants electronically to vendors, employees and retirees.

FOD was 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. Banking Operations maintains 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 six of the major banking institutions that have a statewide branch network (Wells Fargo, Bank of America, PNC, First Citizens, BB&T and SunTrust), as well as more than 90 other bank accounts across the state. State funds are deposited both at branch locations as well as electronically through Automated Clearing House and wires. Banking Operations reviews all incoming electronic payments and ensures that the funds are credited to the account of the agency expecting the funds.

Banking Operations also monitors the Collateralization of Public Deposits program, which requires that public funds have securities pledged against them to ensure that public funds on deposit across the State that belong to the State and local governments are made whole in the event of bank failure. As of June 30, 2012, Banking Operations oversaw \$6.6 billion in pledged securities and collateral for \$5.4 billion in deposits not otherwise covered by the Federal Deposit Insurance Corporation.

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 2011-12, more than 6 million warrants were processed, representing approximately \$20 billion in payments. In addition, Banking Operations initiated approximately 21,000 wires in the amount of \$155.8 billion.

Banking Operations 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. The unit reports to the Director of FOD for internal control purposes.

STATEWIDE ACCOUNTING OPERATIONS

This area 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 area. Functions include the recording of new debt and the timely payment of principal and interest for the State’s debt. The area is also responsible for the financial statement audit of the NC 401(k) Plan (Supplemental Retirement Income Plan) and the NC 457 Plan (Public Employee Deferred Compensation Plan).

DEPARTMENTAL ACCOUNTING

The Departmental Accounting area 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 approximately 400 employees and contractors, managing accounts payable and enforcing centralized purchasing.





STATISTICAL TABLES



STATISTICAL TABLES

TABLE 1

TREASURER'S CASH BALANCES AS OF JUNE 30, 2012			
Concentration Bank Accounts			
Raleigh, Bank Of America & BOA Unemployment Clearing Account	\$6,306,531.95	Lexington, Newbridge Bank	\$1,099,999.35
Raleigh, Branch Banking & Trust Co.	\$3,063,419.80	Lillington, Fidelity Bank	\$1,000,000.08
Raleigh, First Citizens Bank & Trust Co.	\$1,302,707.41	Lumberton, Lumbee Guaranty Bank	\$1,000,000.37
Raleigh, PNC Bank	\$325,384.37	Manteo, East Carolina Bank	\$1,000,000.25
Raleigh, Suntrust Bank & Trust Co.	\$1,612,447.69	Marion, Fifth Third Bank	\$1,000,000.18
Raleigh, Wells Fargo Bank, NA	\$23,094,768.43	Marion, Mountain First Bank	\$1,000,000.26
Total Concentration Accounts	\$35,705,259.65	Mayodan, First Bank	\$5,758.20
Non-Main Bank Accounts			
Aberdeen, First Bank	\$1,000,000.21	Mt. Airy, Southern Community Bank	\$1,000,000.12
Ahoskie, Southern Bank & Trust	\$999,999.90	Mt. Airy, Surrey Bank	\$1,000,000.14
Albemarle, Bank of Stanley	\$999,999.55	Mt. Olive, Southern Bank & Trust	\$999,999.62
Angier, First Bank	\$1,000,000.43	Murphy, United Community Bank	\$999,999.95
Asheboro, Community One Bank	\$1,000,000.01	Nags Head, East Carolina Bank	\$104,022.85
Asheboro, First Bank	\$1,000,000.27	Newland, United Community Bank	\$1,000,000.06
Bakersville, United Community Bank	\$595,664.74	Newton, Peoples Bank	\$1,000,000.22
Bath, Southern Bank & Trust	\$18,401.10	North Wilkesboro, Yadkin Valley Bank & Trust	\$1,000,000.39
Boone, Bank of Granite	\$1,000,000.17	Ocracoke, East Carolina Bank	\$175,158.92
Bryson City, United Community Bank	\$893,927.20	Pembroke, Lumbee Guaranty Bank	\$999,999.85
Burnsville, TD Bank	\$207,464.20	Plymouth, Southern Bank & Trust	\$910,361.76
Camden, TowneBank	\$551,507.49	Polkton, First Bank	\$322,331.64
Cary, Fidelity Bank	\$805,913.78	Raleigh, Mechanics & Farmers Bank	\$961,760.39
Columbia, East Carolina Bank	\$725,960.65	Reidsville, Newbridge Bank	\$999,999.70
Columbus, Tryon Federal Bank	\$904,628.42	Robbins, Fidelity Bank	\$690,502.26
Concord, Fifth Third Bank	\$999,999.74	Robbinsville, United Community Bank	\$235,098.86
Creedmoor, Fidelity Bank	\$80,245.50	Salemburg, Southern Bank & Trust	\$700,576.37
Creswell, East Carolina Bank	\$34,049.10	Salisbury, Fidelity Bank	\$211,822.50
Currituck, East Carolina Bank	\$1,000,000.17	Sanford, First Bank	\$1,000,000.48
Danbury, Newbridge Bank	\$108,313.94	Seven Springs, Southern Bank & Trust	\$1,000,000.31
Durham, Mechanics & Farmers Bank	\$1,000,000.41	Shelby, Fidelity Bank	\$999,999.86
Edenton, Southern Bank & Trust	\$1,000,000.18	Shelby, First National Bank	\$1,000,000.33
Engelhard, East Carolina Bank	\$201,447.15	Siler City, Fidelity Bank	\$3,506.12
Fayetteville, Capital Bank	\$1,100,000.21	Sparta, Fifth Third Bank	\$49,419.49
Franklin, Macon Savings Bank	\$1,000,000.48	Spruce Pines, TD Bank	\$999,999.71
Gastonia, Fidelity Bank	\$999,999.71	Sugar Mountain, Mountain Community Bank	\$167.47
Gatesville, Southern Bank & Trust	\$439,616.55	Swan Quarter, East Carolina Bank	\$252,214.37
Grantsboro, First South Bank	\$679,295.58	Tarboro, The Heritage Bank	\$999,999.95
Greensboro, Mechanics & Farmers Bank	\$1,000,000.07	Troy, Fidelity Bank	\$999,999.95
Hampstead, First Federal Bank	\$999,999.70	Troy, First Bank	\$1,000,000.22
High Point, High Point Bank	\$1,000,000.27	Wadesboro, Anson Bank and Trust	\$326,773.64
Jefferson, Fifth Third Bank	\$999,999.50	Walnut Cove, Southern Community Bank	\$999,999.57
Kenansville, First Bank	\$999,999.86	Wanchese, East Carolina Bank	\$716,419.14
Kernersville, Bank of North Carolina	\$999,999.57	Washington, First Bank	\$1,000,000.01
Kings Mountain, Fidelity Bank	\$26,311.85	Waynesville, United Community Bank	\$999,999.94
Lake Lure, TD Bank	\$42,589.03	Wentworth, Fidelity Bank	\$999,999.67
Laurinburg, First Bank	\$999,999.87	West Jefferson, Fifth Third Bank	\$338,250.45
Lenoir, Bank of Granite	\$1,053,495.86	Wilmington, First Federal Bank	\$14,400.00
Lewiston, Southern Bank & Trust	\$149,073.16	Windsor, Southern Bank & Trust	\$1,000,000.22
		Winton, Southern Bank & Trust	\$999,999.55
		Yanceyville, Fidelity Bank	\$999,999.62
		Total Non-Main Bank Accounts	\$64,736,449.94
		Treasurer's Cash Balance 6/30/2012	\$100,441,709.59



TABLE 2

**SUMMARY OF INVESTMENTS BY PARTICIPANTS
FOR THE PERIODS ENDED JUNE 30, 2012 AND JUNE 30, 2011 (IN THOUSANDS)**

RETIREMENT TRUST FUNDS	JUNE 30, 2012	JUNE 30, 2011
TEACHERS' AND STATE EMPLOYEES' RETIREMENT SYSTEM	\$55,132,969	\$55,732,927
LOCAL GOVERNMENTAL EMPLOYEES' RETIREMENT SYSTEM	18,626,037	18,478,709
NORTH CAROLINA FIREMEN'S PENSION FUND	282,969	288,088
RESCUE SQUAD WORKERS' PENSION FUND	34,910	35,295
CONSOLIDATED JUDICIAL RETIREMENT SYSTEM	440,730	440,924
NORTH CAROLINA NATIONAL GUARD PENSION PLAN	88,017	86,317
LEGISLATIVE RETIREMENT SYSTEM	27,634	28,866
TOTAL RETIREMENT TRUST FUNDS	\$74,633,266	\$75,091,126
OTHER FUNDS		
GENERAL FUND	\$1,849,908	\$1,849,707
OTHER FUNDS WHICH EARN INTEREST FOR THE GENERAL FUND	1,317,184	1,397,347
HIGHWAY FUND	675,923	823,479
HIGHWAY TRUST FUND	435,822	212,767
UNIVERSITY FUNDS	2,519,832	2,368,667
OTHER INDEPENDENT TRUST FUNDS	4,382,944	4,102,579
LOCAL POLITICAL SUBDIVISIONS	866,669	749,894
LICENSING BOARDS	26,911	28,800
OTHER NON-PENSION INVESTMENTS	1,154,416	1,017,452
TOTAL OTHER FUNDS	\$13,229,609	\$12,550,692
GRAND TOTAL ALL FUNDS	\$87,862,875	\$87,641,818



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, 2012

	AUTHORIZED BUDGET	YEAR-TO-DATE ACTUAL	VARIANCE FAVORABLE (UNFAVORABLE)
DEPARTMENTAL EXPENDITURES			
GENERAL ADMINISTRATION	\$1,951,559	\$1,945,000	\$6,559
ESCHEAT OPERATIONS	3,151,651	2,964,440	187,211
INFORMATION SERVICES	8,130,339	8,130,317	22
INVESTMENT MANAGEMENT OPERATIONS	5,764,422	5,467,249	297,173
LOCAL GOVERNMENT OPERATIONS	4,381,918	3,988,277	393,641
RETIREMENT OPERATIONS	19,515,630	17,903,602	1,612,028
STATE HEALTH PLAN OPERATIONS *	180,464,149	165,480,562	14,983,587
FINANCIAL OPERATIONS:			
BANKING	3,244,057	3,074,272	169,785
ACCOUNTING	1,578,196	1,451,305	126,891
TOTAL EXPENDITURES	\$228,181,921	\$210,405,024	\$17,776,897
DEPARTMENTAL RECEIPTS			
GENERAL ADMINISTRATION	\$1,951,559	\$1,945,000	\$(6,559)
ESCHEAT OPERATIONS	3,151,651	2,964,440	(187,211)
INFORMATION SERVICES	8,130,339	8,130,317	(22)
INVESTMENT MANAGEMENT OPERATIONS	2,245,129	1,957,883	(287,246)
LOCAL GOVERNMENT OPERATIONS	4,381,918	4,104,604	(277,314)
RETIREMENT OPERATIONS	19,515,630	17,903,602	(1,612,028)
STATE HEALTH PLAN OPERATIONS *	180,464,149	165,480,562	(14,983,587)
FINANCIAL OPERATIONS:			
BANKING	-	157	157
ACCOUNTING	1,578,196	1,451,305	(126,891)
TOTAL RECEIPTS	\$221,418,571	\$203,937,870	\$(17,480,701)
APPROPRIATION	\$6,763,350	\$6,467,154	\$296,196

* State Health Plan became a division of DST effective January 1, 2012.



STATISTICAL TABLES

TABLE 4

GENERAL OBLIGATION BONDS
LOCAL GOVERNMENT REFERENDA AND AUTHORIZATIONS
FISCAL YEAR JULY 1, 2011 THROUGH JUNE 30, 2012

COUNTIES:	PROPOSITIONS			BONDS		
	# PROPOSED	# APPROVED	% APPROVED	\$ PROPOSED	\$ APPROVED	% APPROVED
VOTED PROPOSITIONS:						
COMMUNITY COLLEGE	1	1	100.00%	\$12,900,000	\$12,900,000	100.00%
TOTAL	1	1	100.00%	\$12,900,000	\$12,900,000	100.00%
NONVOTED PROPOSITIONS:						
REFUNDING	12	12	100.00%	\$ 689,473,000	\$689,473,000	100.00%
TOTAL	12	12	100.00%	\$689,473,000	\$689,473,000	100.00%
DISTRICTS:						
VOTED PROPOSITIONS:						
WATER	4	3	75.00%	\$30,992,000	\$9,992,000	32.24%
SEWER	1	1	100.00%	13,211,000	13,211,000	100.00%
TOTAL	5	4	80.00%	\$44,203,000	\$23,203,000	52.49%
NONVOTED PROPOSITIONS:						
REFUNDING	3	3	100.00%	\$12,115,000	\$12,115,000	100.00%
TOTAL	3	3	100.00%	\$12,115,000	\$12,115,000	100.00%
MUNICIPALITIES:						
VOTED PROPOSITIONS:						
WATER	1	1	100.00%	\$3,366,000	\$3,366,000	100.00%
STREETS	3	2	66.67%	23,000,000	17,000,000	73.91%
HOUSING	1	1	100.00%	16,000,000	16,000,000	100.00%
TRANSPORTATION	1	1	100.00%	40,000,000	40,000,000	100.00%
PARKS & RECREATION	4	3	75.00%	32,000,000	27,500,000	85.94%
LAND	1	1	100.00%	1,500,000	1,500,000	100.00%
TOTAL	11	9	81.82%	\$115,866,000	\$105,366,000	90.94%
NONVOTED PROPOSITIONS:						
REFUNDING	15	15	100.00%	\$327,051,000	\$327,051,000	100.00%
2/3RDS	4	4	100.00%	25,285,000	25,285,000	100.00%
TOTAL	19	19	100.00%	\$352,336,000	\$352,336,000	100.00%
TOTAL VOTED	17	14	82.35%	\$172,969,000	\$141,469,000	81.79%
TOTAL NONVOTED	34	34	100.00%	\$1,053,924,000	\$1,053,924,000	100.00%
GRAND TOTALS	51	48	94.12%	\$1,226,893,000	\$1,195,393,000	97.43%



STATISTICAL TABLES

TABLE 5

INSTALLMENT PURCHASE AGREEMENTS APPROVED BY PURPOSE
FISCAL YEAR JULY 1, 2011 THROUGH JUNE 30, 2012

MUNICIPALITIES:	AMOUNT
UTILITIES	
SANITARY SEWER	\$8,103,657
ELECTRIC	2,040,747
GAS	1,370,000
WATER	27,934,230
	\$39,448,634
PUBLIC BUILDINGS	
FIRE STATION	\$3,547,800
MUNICIPAL BUILDINGS	16,011,424
TOWN HALL	18,785,646
JAIL	6,000,000
CONVENTION CENTER	4,000,000
COLISEUM COMPLEX	24,000,000
PUBLIC SAFETY	37,800,000
	\$110,144,870
PARKING	
PARKING	\$19,100,000
WASTEWATER	
WASTEWATER	558,000
RECREATION	
RECREATION	7,049,462
STREETS & SIDEWALKS	
STREETS & SIDEWALKS	12,442,530
EQUIPMENT	
EQUIPMENT	5,530,339
TELECOMMUNICATIONS	
TELECOMMUNICATIONS	3,485,500
REFUNDING	
REFUNDING	174,023,000
STORMWATER	
STORMWATER	1,130,000
ECONOMIC DEVELOPMENT	
ECONOMIC DEVELOPMENT	2,750,000
INFRASTRUCTURE DEVELOPMENT	
INFRASTRUCTURE DEVELOPMENT	5,000,000
VEHICLES	
VEHICLES	3,500,000
	\$234,568,831
SUBTOTAL	\$384,162,335

COUNTIES:	AMOUNT
SCHOOLS	
SCHOOLS	\$121,182,604
PUBLIC BUILDINGS	
COURTHOUSE / LAW ENFORCEMENT / JAIL	60,560,000
COUNTY BUILDINGS	46,959,300
HOSPITAL	14,000,000
LIBRARY	1,500,000
	\$123,019,300
UTILITIES	
ELECTRIC	\$700,000
WATER	8,615,024
SANITARY SEWER	12,159,109
	\$21,474,133
COMMUNITY COLLEGE	
COMMUNITY COLLEGE	\$15,369,588
ECONOMIC DEVELOPMENT	
ECONOMIC DEVELOPMENT	17,075,000
SOLID WASTE	
SOLID WASTE	4,370,000
REFUNDING	
REFUNDING	443,364,490
EQUIPMENT	
EQUIPMENT	3,160,000
TELECOMMUNICATIONS	
TELECOMMUNICATIONS	19,050,000
	\$502,389,078
COMMUNITY COLLEGES	
GUARANTEED ENERGY SAVINGS CONTRACT	\$10,381,380
DISTRICTS/AUTHORITIES	
WATER	\$3,228,210
MUNICIPAL BUILDING	225,000
SEWER	300,000
SCHOOLS	32,324,000
	\$36,077,210
SUBTOTAL	\$814,523,705
GRAND TOTAL	\$1,198,686,040



STATISTICAL TABLES

TABLE 6

**INSTALLMENT AND LEASE AGREEMENTS
APPROVED BY THE LOCAL GOVERNMENT COMMISSION FISCAL YEARS ENDED JUNE 30, 2012, 2011, AND 2010
(IN MILLIONS)**

	FY 2011-12		FY 2010-11		FY 2009-10	
	NO.	AMT.	NO.	AMT.	NO.	AMT.
COUNTIES	24	\$ 309.4	38	\$ 391.1	50	\$ 904.0
MUNICIPALITIES	44	210.1	53	248.6	54	354.0
AUTHORITIES/DISTRICTS	5	36.0	1	3.0	1	4.0
COMMUNITY COLLEGE/GESC	7	25.7	11	68.4	2	2.2
SUBTOTAL	80	\$ 581.2	103	\$ 711.1	107	\$1,264.2
REFUNDINGS	32	\$ 617.4	16	\$ 346.8	11	\$ 444.0
GRAND TOTAL	112	\$1,198.6*	119	\$1,057.9*	118	\$1,708.2

*Total includes refundings.

TABLE 7

**SUMMARY OF STATE AND LOCAL GOVERNMENT
DEBT AND AUTHORIZATIONS AT JUNE 30, 2012**

	General Obligation Debt	Special Indebtedness/ Installment/ Lease Purchase Debt	Revenue Bond/ Revolving and State Bond Loan/Special Obligation Bond Debt	Total	Industrial Revenue Bonds	Total Indebtedness	General Obligation Bonds Authorized and Unissued	Non-General Obligation Debt Authorized and Unissued
State of NC	\$4,470,500,000	\$2,383,900,000	\$ -	\$6,854,400,000	\$ -	\$6,854,400,000	\$ -	\$455,827,041
Garvee ¹	-	-	657,620,000	657,620,000	-	657,620,000	-	-
NC Turnpike	-	-	1,081,183,108	1,081,183,108	-	1,081,183,108	-	-
State Authorities and Institutions	-	-	32,980,902,275	32,980,902,275	-	32,980,902,275	-	-
Totals	\$4,470,500,000	\$2,383,900,000	\$34,719,705,383	\$41,574,105,383	\$ -	\$41,574,105,383	\$ -	\$455,827,041
Counties	\$7,463,367,441	\$5,014,498,644	\$854,587,272	\$13,332,453,357	\$ -	\$13,332,453,357	\$1,343,430,000	\$ -
Municipalities	2,412,305,319	2,976,315,863	5,628,107,863	11,016,729,045	-	11,016,729,045	1,059,195,046	24,000,000
Districts	354,525,370	11,268,198	1,694,539,551	2,060,333,119	-	2,060,333,119	124,836,000	-
Authorities	-	8,077,452	2,140,588,525	2,148,665,977	1,546,032,995	3,694,698,972	-	-
Total	\$10,230,198,130	\$8,010,160,157	\$10,317,823,211	\$28,558,181,498	\$1,546,032,995	\$30,104,214,493	\$2,527,461,046	\$24,000,000
Grand Total	\$14,700,698,130	\$10,394,060,157	\$45,037,528,594	\$70,132,286,881	\$1,546,032,995	\$71,679,843,653	\$2,527,461,046	\$479,827,041

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.

¹Grant Anticipation Revenue Vehicle Bonds.



STATISTICAL TABLES

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 ^{1, 2, 3}	
	PRINCIPAL	PRINCIPAL & INTEREST	PRINCIPAL	PRINCIPAL & INTEREST	PRINCIPAL	PRINCIPAL & INTEREST	PRINCIPAL	PRINCIPAL & INTEREST
2012-13	\$325,648,016	\$518,732,254.38	\$61,646,984	\$81,481,543.40	\$110,745,000	\$224,793,870.64	\$498,040,000	\$825,007,668.42
2013-14	321,842,120	498,851,170.24	62,417,880	79,170,090.20	112,990,000	221,831,958.76	497,250,000.00	799,853,219.20
2014-15	340,883,868	502,133,637.36	46,676,132	60,307,448.20	115,920,000	219,271,843.76	503,480,000.00	781,712,929.32
2015-16	350,426,972	494,869,028.92	37,583,028	48,880,537.60	119,080,000	216,789,281.26	507,090,000.00	760,538,847.78
2016-17	334,509,036	460,797,094.48	51,785,964	61,204,322.20	122,385,000	214,100,875.01	508,680,000.00	736,102,291.69
2017-18	341,433,188	452,515,194.80	45,331,812	52,160,872.00	126,220,000	211,869,118.76	512,985,000.00	716,545,185.56
2018-19	343,822,812	438,044,178.44	45,387,188	50,036,471.40	130,245,000	209,662,031.26	519,455,000.00	697,742,681.10
2019-20	298,873,000	376,839,137.84	57,307,000	59,775,612.00	149,500,000	222,136,806.26	505,680,000.00	658,751,556.10
2020-21	275,850,000	339,655,166.52	-	-	150,575,000	215,919,606.26	426,425,000.00	555,574,772.78
2021-22	256,690,000	307,767,600.00	-	-	154,615,000	212,571,806.26	411,305,000.00	520,339,406.26
2022-23	253,145,000	291,786,050.00	-	-	159,095,000	209,358,106.26	412,240,000.00	501,144,156.26
2023-24	227,385,000	254,375,212.50	-	-	165,095,000	208,103,343.76	392,480,000.00	462,478,556.26
2024-25	147,785,000	164,955,962.50	-	-	132,445,000	168,512,756.26	280,230,000.00	333,468,718.76
2025-26	85,785,000	96,519,812.50	-	-	124,815,000	154,661,656.26	210,600,000.00	251,181,468.76
2026-27	68,630,000	75,676,162.50	-	-	125,205,000	148,919,431.26	193,835,000.00	224,595,593.76
2027-28	40,885,000	45,037,750.00	-	-	120,520,000	138,629,606.26	161,405,000.00	183,667,356.26
2028-29	24,385,000	26,823,500.00	-	-	105,295,000	117,772,581.26	129,680,000.00	144,596,081.26
2029-30	24,385,000	25,604,250.00	-	-	63,145,000	70,526,637.50	87,530,000.00	96,130,887.50
2030-31	-	-	-	-	66,400,000	70,714,462.50	66,400,000.00	70,714,462.50
2031-32	-	-	-	-	29,610,000	30,794,400.00	29,610,000.00	30,794,400.00
2032-33	-	-	-	-	-	-	-	-
	\$4,062,364,012	\$5,370,983,162.98	\$408,135,988	\$493,016,897.00	\$2,383,900,000	\$3,486,940,179.55	\$6,854,400,000	\$9,350,940,239.53

¹ 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 of redemption.

² 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 basis, 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.

³ 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, 2012

The following chart outlines the revenue bonds and other indebtedness of State authorities and institutions at June 30, 2012. The State is not responsible for debt service on any of the revenue bonds and other indebtedness represented in this chart.

APPALACHIAN STATE UNIVERSITY	\$	255,172,062
EAST CAROLINA UNIVERSITY		162,935,971
ELIZABETH CITY STATE UNIVERSITY		37,415,643
FAYETTEVILLE STATE UNIVERSITY		25,693,213
NORTH CAROLINA A&T STATE UNIVERSITY		14,405,000
NORTH CAROLINA CENTRAL UNIVERSITY		93,958,436
NORTH CAROLINA SCHOOL OF THE ARTS		8,275,000
NORTH CAROLINA STATE UNIVERSITY AT RALEIGH		417,646,121
UNIVERSITY OF NORTH CAROLINA AT ASHEVILLE		43,661,169
UNIVERSITY OF NORTH CAROLINA AT CHAPEL HILL		1,362,772,538
UNIVERSITY OF NORTH CAROLINA AT CHARLOTTE		360,679,486
UNIVERSITY OF NORTH CAROLINA AT GREENSBORO		231,355,524
UNIVERSITY OF NORTH CAROLINA AT PEMBROKE		79,261,189
UNIVERSITY OF NORTH CAROLINA AT WILMINGTON		246,855,487
WESTERN CAROLINA UNIVERSITY		116,938,835
WINSTON-SALEM STATE UNIVERSITY		70,887,358
NORTH CAROLINA CAPITAL FACILITIES FINANCE AGENCY		2,826,273,884
NORTH CAROLINA EASTERN MUNICIPAL POWER AGENCY		2,183,270,000
NORTH CAROLINA HOUSING FINANCE AGENCY		1,205,690,000
NORTH CAROLINA MEDICAL CARE COMMISSION		7,456,658,735
NORTH CAROLINA MUNICIPAL POWER AGENCY NO. 1		1,453,730,000
NORTH CAROLINA STATE EDUCATION ASSISTANCE AUTHORITY		2,879,707,786
NORTH CAROLINA STATE PORTS AUTHORITY		98,616,520
TOTAL	\$	21,631,859,957

Source: Chief Fiscal Officer of each authority or institution.



STATISTICAL TABLES

TABLE 10

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

	DECEMBER 31, 2011	DECEMBER 31, 2010
ASSETS		
CURRENT ACTUARIAL VALUE OF ASSETS:		
ANNUITY SAVINGS FUND	\$ 10,752,336,286	\$ 10,374,986,307
PENSION ACCUMULATION FUND	47,372,674,594	46,727,212,141
TOTAL CURRENT ASSETS	\$ 58,125,010,880	\$ 57,102,198,448
FUTURE MEMBER CONTRIBUTIONS TO ANNUITY SAVINGS FUND	\$ 6,805,113,560	\$ 6,982,786,111
PROSPECTIVE CONTRIBUTIONS TO PENSION ACCUMULATION FUND:		
NORMAL CONTRIBUTIONS	\$ 5,716,295,391	\$ 5,842,264,379
UNFUNDED ACCRUED LIABILITY CONTRIBUTIONS	3,721,686,023	2,773,867,483
UNDISTRIBUTED GAIN CONTRIBUTIONS	(381,514,173)	(269,831,467)
TOTAL PROSPECTIVE CONTRIBUTIONS	\$ 9,056,467,241	\$ 8,346,300,395
TOTAL ASSETS	\$ 73,986,591,681	\$ 72,431,284,954
LIABILITIES		
ANNUITY SAVINGS FUND:		
PAST MEMBER CONTRIBUTIONS	\$ 10,752,336,286	\$ 10,374,986,307
FUTURE MEMBER CONTRIBUTIONS	6,805,113,560	6,982,786,111
TOTAL CONTRIBUTIONS TO ANNUITY SAVINGS FUND	\$ 17,557,449,846	\$17,357,772,418
PENSION ACCUMULATION FUND:		
BENEFITS CURRENTLY IN PAYMENT	\$ 31,664,133,498	\$ 30,098,133,293
BENEFITS TO BE PAID TO CURRENT ACTIVE MEMBERS	24,821,838,190	25,245,210,710
RESERVE FOR INCREASES IN RETIREMENT ALLOWANCES EFFECTIVE JULY 1, 2012 (JULY 1, 2011 FOR DECEMBER 31, 2010 FIGURE)	324,684,320	0
RESERVE FROM UNDISTRIBUTED GAINS/(LOSSES)	(381,514,173)	(269,831,467)
TOTAL BENEFITS PAYABLE FROM PENSION ACCUMULATION FUND	\$ 56,429,141,835	\$ 55,073,512,536
TOTAL LIABILITIES	\$ 73,986,591,681	\$ 72,431,284,954



STATISTICAL TABLES

TABLE 11

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

	DECEMBER 31, 2011	DECEMBER 31, 2010
ASSETS		
CURRENT ACTUARIAL VALUE OF ASSETS:		
ANNUITY SAVINGS FUND	\$ 4,061,500,266	\$ 3,850,421,168
PENSION ACCUMULATION FUND	15,264,859,027	14,720,092,735
TOTAL CURRENT ASSETS	\$ 19,326,359,293	\$ 18,570,513,903
FUTURE MEMBER CONTRIBUTIONS TO ANNUITY SAVINGS FUND	\$ 2,704,907,155	\$ 2,729,749,724
PROSPECTIVE CONTRIBUTIONS TO PENSION ACCUMULATION		
NORMAL CONTRIBUTIONS	\$ 3,159,575,906	\$ 3,016,121,418
UNFUNDED ACCRUED LIABILITY CONTRIBUTIONS	47,440,424	75,916,127
UNDISTRIBUTED GAIN CONTRIBUTIONS	(149,757,800)	83,557,541
TOTAL PROSPECTIVE CONTRIBUTIONS	\$ 3,057,258,530	\$ 3,175,595,086
TOTAL ASSETS	\$ 25,088,524,978	\$ 24,475,858,713
LIABILITIES		
ANNUITY SAVINGS FUND:		
PAST MEMBER CONTRIBUTIONS	\$ 4,061,500,266	\$ 3,850,421,168
FUTURE MEMBER CONTRIBUTIONS	2,704,907,155	2,729,749,724
TOTAL CONTRIBUTIONS TO ANNUITY SAVINGS FUND	\$ 6,766,407,421	\$ 6,580,170,892
PENSION ACCUMULATION FUND:		
BENEFITS CURRENTLY IN PAYMENT	\$ 8,539,306,057	\$ 8,010,025,590
BENEFITS TO BE PAID TO CURRENT ACTIVE MEMBERS	9,932,569,300	9,802,104,690
RESERVE FOR INCREASES IN RETIREMENT ALLOWANCES EFFECTIVE JULY 1, 2012 (JULY 1, 2011 FOR DECEMBER 31, 2010 FIGURE)	0	0
RESERVE FROM UNDISTRIBUTED GAINS/(LOSSES)	(149,757,800)	83,557,541
TOTAL BENEFITS PAYABLE FROM PENSION ACCUMULATION FUND	\$ 18,322,117,557	\$ 17,895,687,821
TOTAL LIABILITIES	\$ 25,088,524,978	\$ 24,475,858,713



TABLE 12

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

	DECEMBER 31, 2011	DECEMBER 31, 2010
ASSETS		
CURRENT ACTUARIAL VALUE OF ASSETS:		
ANNUITY SAVINGS FUND	\$ 53,951,667	\$ 51,978,400
PENSION ACCUMULATION FUND	406,695,562	399,217,113
TOTAL CURRENT ASSETS	\$ 460,647,229	\$ 451,195,513
FUTURE MEMBER CONTRIBUTIONS TO ANNUITY SAVINGS FUND	\$ 39,771,688	\$ 40,398,973
PROSPECTIVE CONTRIBUTIONS TO PENSION ACCUMULATION FUND:		
NORMAL CONTRIBUTIONS	\$ 126,021,056	\$ 127,405,284
UNFUNDED ACCRUED LIABILITY CONTRIBUTIONS	51,995,656	41,410,514
UNDISTRIBUTED GAIN CONTRIBUTIONS	(7,966,107)	(4,999,695)
TOTAL PROSPECTIVE CONTRIBUTIONS	\$ 170,050,605	\$ 163,816,103
TOTAL ASSETS	\$ 670,469,522	\$ 655,410,589
LIABILITIES		
ANNUITY SAVINGS FUND:		
PAST MEMBER CONTRIBUTIONS	\$ 53,951,667	\$ 51,978,400
FUTURE MEMBER CONTRIBUTIONS	39,771,688	40,398,973
TOTAL CONTRIBUTIONS TO ANNUITY SAVINGS FUND	\$ 93,723,355	\$ 92,377,373
PENSION ACCUMULATION FUND:		
BENEFITS CURRENTLY IN PAYMENT	\$ 287,879,823	\$ 275,323,825
BENEFITS TO BE PAID TO CURRENT ACTIVE MEMBERS	293,899,389	292,709,086
RESERVE FOR INCREASES IN RETIREMENT ALLOWANCES EFFECTIVE JULY 1, 2012 (JULY 1, 2011 FOR DECEMBER 31, 2010 FIGURE)	2,933,062	0
RESERVE FROM UNDISTRIBUTED GAINS/(LOSSES)	(7,966,107)	(4,999,695)
TOTAL BENEFITS PAYABLE FROM PENSION ACCUMULATION FUND	\$ 576,746,167	\$ 563,033,216
TOTAL LIABILITIES	\$ 670,469,522	\$ 655,410,589

