



NORTH CAROLINA
DEPARTMENT
of STATE
TREASURER



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

STATE TREASURER
JANET COWELL

FISCAL YEAR

2012-2013



DEAR FELLOW CITIZENS,

I am pleased to provide you with the 2012-2013 Annual Report, which summarizes key activities and outcomes for the Department of State Treasurer.

It's been a year of recovery for the people of North Carolina, and I am pleased that even with our challenges, we are in secure financial standing. This year, I and my staff kept our pension fund strong and maintained the state's AAA bond rating, while returning a record amount of unclaimed property to its rightful owners.

North Carolina's pension fund continued to receive national attention and high rankings, as the fund returned 9.52 percent for the fiscal year, outperforming the 7.25 percent long-term target rate of return. I sought and received bipartisan support from the General Assembly for investment flexibility, improving our ability to protect and grow the pension fund in a low-interest rate environment. The goal is ensuring the fund's long-term stability for the more than 900,000 public employees and retirees who depend on it. We also worked to expand the supplemental retirement programs for public employees, which is one of the nation's largest.

Our conservative debt management and strong oversight of state agencies and local governments have led North Carolina to maintain its AAA bond rating, despite the threat of additional downgrades at the federal level. In addition, North Carolina remained one of only nine states in the country with a AAA bond rating from all three rating agencies.

After taking the initiative of creating a new governance model for the State Health Plan and taking over day-to-day operations in 2012, one of my first actions was to visit members across our state to hear from them – their ideas and concerns. What I heard from members was that they wanted lower out-of-pocket costs, more choices, and to be rewarded for wellness activities. The board incorporated this feedback when they voted to offer more plan options to members in 2014, including Medicare Advantage plans. The plans include financial incentives for wellness activities to encourage healthy choices. The board took significant steps to secure the Plan's long-term financial stability as well. At the end of my first year of oversight, we successfully reduced the unfunded liability of the Plan by nearly \$10 billion, without reducing benefits for members.

As a Department, we continue to enhance our customer service on all fronts. In the Unclaimed Property Division, we reformed operations and modernized marketing and outreach. This fiscal year, we launched "Bill the Bill," a mascot for the program, to increase visibility. We also marked the successful launch of the Unclaimed Property Holder Seminar, providing education and resources to businesses and individuals across the state. As a result of our reforms, the Department returned a record \$50 million in unclaimed property to its rightful owners.

In the aftermath of the financial crisis, financial education is more important than ever. Our outreach efforts focused on lifelong financial education, from pre-K through retirement readiness. I led the charge to have financial education integrated into the K-12 social studies curriculum in North Carolina's public schools, which was implemented in the 2012-13 school year. To expand our financial literacy outreach to preschoolers, we launched a library tour with the story of *Patches the Pig*, which was written by a 7-year-old North Carolinian, about a piggy bank that values spending wisely.

I and my staff will continue to focus on you, the people we serve, and improving your lives. I am honored to have the opportunity to serve a second term as your State Treasurer, and to continue our progress toward a brighter future for North Carolina. My commitment remains strong, as we work together to ensure a fiscally strong and prosperous state for all who call North Carolina home.

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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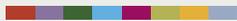
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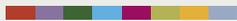
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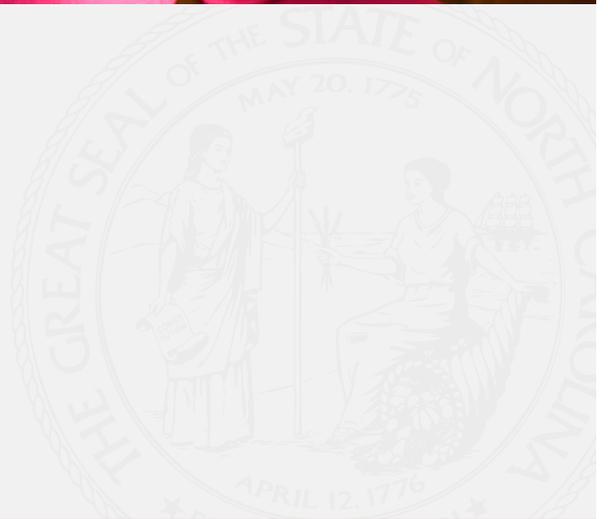
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INTRODUCTION



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 taking utmost care in overseeing the finances of the State. By striving for excellence in our day-to-day work at the Department, we hope to 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 public 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:

- Integrity
- Accountability
- Transparency
- Expertise
- Customer service
- Long-term view

In the interest of promoting these core values, the Department continues to work on its highest priorities and detailed plans for their achievement. The Department has realized many of these goals and continues to build on them.

- 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
- Increasing Customer Service
- Increasing Operational Efficiencies and Improving Risk Management
- Contributing to State Innovation and Economic Development
- Advancing Financial Literacy across North Carolina



PROTECTING THE PENSION FUND

One of the primary responsibilities of the Department of State Treasurer is to provide a safe and secure retirement for North Carolina's 900,000 public employees, including teachers, police officers, firefighters and public servants. 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 is 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 public employees.

- Introduced and received bipartisan support for Senate Bill 558 to obtain additional investment flexibility for the state pension fund to take advantage of available opportunities besides low bond returns.
- Initiated an independent fraud, waste and abuse assessment through Buck Consultants to evaluate the risk for fraud and waste in the Retirement Systems and other benefit plans it administers. 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.
- Announced a new chief investment officer for the North Carolina Retirement Systems in January 2013.
- Achieved a 9.52 percent return in the pension fund portfolio during the 2012-2013 fiscal year, outperforming the 7.25 percent long-term target rate of return and the market benchmark of 8.1 percent. As of June 30, 2013, pension assets were valued at \$80 billion.
- Announced a new program to invest with firms that will help select emerging managers for the North Carolina pension fund's equity investment portfolio. Two firms were selected for the initial round of investments. The firms were chosen based on their proven track record of identifying small investment firms with the potential to achieve above-benchmark results.

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 2012-13 fiscal year. North Carolina remains one of only nine states to enjoy top-tier rankings from all three of the ratings 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 four percent of State tax revenues in the General Fund and not exceed six percent of State revenues in the Highway Fund and Highway Trust Fund.

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

- Oversaw the issuance of \$3.9 billion in local debt (\$4.2 billion in the previous fiscal year), \$2.3 billion in revenue bonds for state and regional authorities (\$1.3 billion in the previous fiscal year), and \$1.6 billion in state debt (\$1.3 billion in the previous fiscal year).
- A July 2013 report from the Pew Charitable Trusts, entitled *The State Role in Local Government Financial Distress*, profiled the Local Government Commission (LGC) as one of the most extensive local government assistance programs in the United States. LGC was recognized as the oldest intervention program in the country, emphasizing state-level monitoring to detect early signs of trouble. The report noted that the three national rating agencies reward North Carolina communities with higher bond ratings because of the Commission's oversight.
- Released the Debt Affordability Study in February 2013, which provides the Governor and General Assembly with a basis for assessing the impact of future debt issuance on the State's fiscal position and enables informed decision-making regarding both financing proposals and capital spending priorities. The Study shows \$351 million available in each of the next 5 years
- Awarded \$1.3 billion obligation refunding bonds, saving the state approximately \$59.3 million in debt service costs.



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

During fiscal year 2012-2013, the State Health Plan completed its first full year as part of the Department of State Treasurer. In January 2012, the Department of State Treasurer took over 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 the health of 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. Over the past year, additional steps were taken to ensure a strong governance structure for the State Health Plan and cost savings for members and the State.

- The Treasurer went on a listening tour across our state to hear ideas and concerns from members. She heard that they wanted lower out-of-pocket costs, more choices, and to be rewarded for wellness activities, which were considered by the State Health Plan's Board of Trustees.
- The Plan's Board of Trustees voted to offer more choice and new plan options to members beginning on January 1, 2014, in response to member concerns. These new options include Medicare Advantage Plans and financial incentives for wellness activities and to encourage healthy choices.
- In April 2013, a new executive administrator of the State Health Plan was named to manage responsibility for the day-to-day operations.
- Following the first year of oversight of the State Health Plan, the Unfunded Actuarial Accrued Liability (UAAL) of the Plan has been reduced by \$9.7 billion.
- The Plan re-bid the Third Party Administrator contract, resulting in savings of approximately \$22.4 million annually.
- As part of the transition, the Plan took on a fresh new look.

ENSURING TRANSPARENCY, ETHICS, AND ACCOUNTABILITY

Treasurer Cowell continues to recognize 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.

- 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.
- Conducted multiple independent reviews, including on Investments and Retirement.

ENHANCING CUSTOMER SERVICE

Customer orientation is a core value for the Department of State Treasurer. The customer is at the center of our focus in all that we do.

In 2012-13, we continued 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.

- Upgraded the Department's email communications and social media to enhance outreach to members, constituents and stakeholders more efficiently and in real-time.
- Began implementation of a new 403(b) retirement savings option, to be made available to K-12 teachers and other public school personnel in North Carolina. The 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 training programs to improve employees' customer-relation skills, improve their knowledge of systems and processes, and promote their professional development.
- Introduced "Bill the Bill," a mascot to increase visibility and outreach for the Unclaimed Property program.



INCREASING OPERATIONAL EFFICIENCIES AND IMPROVING RISK MANAGEMENT

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

We assessed and identified operational areas for efficiency gains in 2012-13. 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 improving operational efficiency, the Department took the following steps:

- Completed audits of Human Resources – Separations; the Retirement Systems Division’s Employer Reporting process and Firefighter and Rescue Squad Workers’ process; Unclaimed Property Division’s Claims process; and Financial Operations Division’s Cash Concentration.
- Implemented “AutoAudit,” a fully integrated audit system that allows the Department’s Internal Audit section to complete their work in a single database for risk assessment, planning, scheduling, work papers, reporting, issue tracking and administration. AutoAudit is integrated with Issue Track, which is used by auditees to respond to issues uncovered during the audit process.
- Reformed the receiving process within the Unclaimed Property Division to reduce risk and further safeguard the receipt and handling of tangible unclaimed property.

CONTRIBUTING TO STATE INNOVATION AND ECONOMIC DEVELOPMENT

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

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

- Continued to identify and invest in North Carolina-based businesses 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. More than \$170 million has been committed to seven private equity managers and 11 companies through co-investments alongside private equity managers.

- Increased deposits to North Carolina community banks from \$4 million to \$70 million over the last two years.

ADVANCING FINANCIAL LITERACY

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

We continued to expand our financial literacy efforts in 2012-2013. The following initiatives were implemented during the fiscal year:

- Continued to partner with the College Foundation of North Carolina and expanded Advanced Money Management for Community College Students. The online tool helps community college students assess the amount of loans they could reasonably expect to pay back after graduation, thereby helping them avoid incurring unmanageable debt.
- Launched a Pre-K through 2nd grade Financial Literacy Program featuring *Patches the Pig*, to introduce young children to important financial concepts and help provide a critical foundation for beginning students. Treasurer Cowell visited public libraries and schools across the state, reading the story of *Patches the Pig* and engaging North Carolina students around the importance of good saving and spending practices at an early age.
- Expanded financial literacy outreach from pre-kindergarten to K-12 and community colleges.





RETIREMENT SYSTEMS DIVISION



**RETIREMENT SYSTEMS DIVISION STATISTICS
DEFINED BENEFIT PLANS**

	2010-2011	2011-2012	2012-2013
TOTAL ASSETS IN N.C. RETIREMENT SYSTEMS	\$74.9 BILLION	\$74.5 BILLION	\$80 BILLION
AMOUNT OF RETIREMENT BENEFITS PAID	\$4.3 BILLION	\$4.6 BILLION	\$4.8 BILLION
NUMBER OF RETIREES RECEIVING BENEFITS	242,000	254,000	239,387
NUMBER OF NEW RETIREMENTS PROCESSED DURING THE YEAR	14,642	15,992	16,260

DEFINED CONTRIBUTION PLANS

TOTAL ASSETS IN SUPPLEMENTAL 401(K)/457 PLANS	\$6.3 BILLION	\$6.5 BILLION	\$7.3 BILLION
NUMBER OF 401(K) PLAN MEMBERS	224,644	227,711	231,000
NUMBER OF 457 PLAN MEMBERS	34,149	38,268	41,200

Defined Benefit Plans data as of June 30, 2013. Defined Contribution Plans data as of December 31, 2012



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 (voluntary defined contribution plans).

The North Carolina public pension plans provide benefits for more than 900,000 members, including:

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

The North Carolina Retirement Systems (“Systems”) is the 31st largest pension fund in the world and the 9th 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 \$80 billion as of June 30, 2013.

THE BASIC FUNCTIONS

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

SYSTEM	NO. OF MEMBERS	POOLED ASSETS
TEACHERS' AND STATE EMPLOYEES' RETIREMENT SYSTEM (TSERS)	617,396	\$58.3 BILLION
LOCAL GOVERNMENTAL EMPLOYEES' RETIREMENT SYSTEM (LGMERS)	224,480	\$20.0 BILLION
CONSOLIDATED JUDICIAL RETIREMENT SYSTEM (CJRS)	1,171	\$471 MILLION
LEGISLATIVE RETIREMENT SYSTEM (LRS)	533	\$28 MILLION
FIREFIGHTERS' AND RESCUE SQUAD WORKERS' PENSION FUND	52,936	\$341 MILLION*
NATIONAL GUARD PENSION PLAN	9,647	\$94 MILLION
LEGISLATIVE RETIREMENT FUND	8	---
REGISTERS OF DEEDS' SUPPLEMENTAL PENSION FUND	194	\$45 MILLION

**Data as of June 30, 2012, all other values as of June 30, 2013*



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
TEACHERS' AND PROFESSIONAL EDUCATORS' INVESTMENT PLAN – NC 403(b)	Provides teachers and school employees a voluntary retirement savings option. Anticipated launch First Quarter 2014.
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, i.e. dental, vision, accident or life
HEALTH TRUST FUND	Manages trust fund for retired members who receive health insurance through the State Health Plan of North Carolina

HISTORY OF NORTH CAROLINA RETIREMENT SYSTEMS

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

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

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

- First class: totally disabled - \$72 annually
- Second class: loss of leg or arm - \$60 annually

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

In 1927, pensioners were reclassified to include slaves who had been servants to soldiers or 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	FIREFIGHTERS’ AND RESCUE SQUAD WORKERS’ PENSION FUND	CONSOLIDATED JUDICIAL RETIREMENT SYSTEM	SUPPLEMENTAL RETIREMENT INCOME PLANS
State Treasurer is ex-officio chairperson	State Treasurer is ex-officio chairperson	State Treasurer is ex-officio chairperson	State Treasurer is ex-officio chairperson	State Treasurer is ex-officio chairperson
Fourteen members, including seven actively working employees or retirees, as well as seven public and appointed members who also serve on the Local Governmental Employees’ Retirement System Board	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 five working groups:

- The Director's Office
- The Retirement 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.

Retirement Accounting Section

The main function of the Retirement 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 2012-13 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, 489,336 members' accounts were posted.
- Enrolled 50,334 new members during the fiscal year
- Distributed \$ 4.9 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 of NC (DIPNC).

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 DIPNC for teachers and state employees



- Determine eligibility for disability benefits from the other retirement system

During the 2012-2013 fiscal year, the Benefits Processing Section:

- Provided disability reimbursements to employers totaling \$12.8 million
- Processed 7,536 death notifications
- Refunded 14,190 payments for return of accumulated contributions
- Presented 3,343 new disability applications to the Medical Board
- Reviewed 1,443 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 and emails of request, responding to incoming member calls, making onsite visitors counseling available to all participants in the Systems, conducting retirement planning conferences across the state, and secure incoming mail; Additionally, staff are responsible for scanning, indexing and routing documents; and electronically storing and protecting member information for the purpose of delivering benefits in a timely and accurate manner.

The Section:

- Responded to 23,453 letters, e-mails and faxes
- Answered 235,407 telephone calls through the Call Center
- Met with 3,289 members in the Visitors' Office
- Conducted 245 retirement planning conferences, reaching more than 14,235 members
- Provided 23 employer education seminars that offer an overview of TSERS, LGERS and DIPNC
- Enrolled three employers in LGERS
- Processed 74,508 membership support documents.
- Electronically distributed more than 730,000 pages of incoming mail 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 more than 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 2012-2013 fiscal year, the Retirement Processing Section:

- Set up 16,260 new retirements for payment, a 1.6 percent increase from the previous fiscal year
- Conducted more than 160,000 service purchase estimates through the Service Purchase Estimator in members' ORBIT accounts, a 10.5 percent increase from the previous fiscal year.
- Calculated 5,742 service purchase cost calculations
- Estimated 6,746 retirement benefits
- Generated more than 100,000 Transfer Benefit estimates through the online Transfer Benefits Estimator in members' ORBIT accounts, an 11 percent increase from the previous fiscal year.
- Processed 139 applications for a lifetime monthly benefit (annuity) through the NC 401(k)/NC 457 Transfer Benefit option for retiring members
- Calculated more than 1 million benefit estimates through the online Benefits Estimators on the Department of State Treasurer's website and in members' ORBIT accounts, compared to slightly more than 6,000 requests for manually calculated estimates



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 each 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 investment rate of return 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 (LRS) and Consolidated Judicial Retirement System (CJRS), 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. TSERS and LGERS 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 2012-13. As of June 30, 2013, 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 determined 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 94.2 percent. The annual actuarial study is based on data collected through December 31, 2012, and shows a slight increase from the previously reported status of 94 percent as of December 31, 2011.

While stock markets are at all-time highs and interest rates at record lows, we are unlikely to see the same strong returns that we have seen during the past few years, which will impact the future funding status.

Though TSERS is below a fully funded status, it continues to rank within the top five 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
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%
2012 – 94.2%	2012 – 99.8%	2012 – 91.2%



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, 2012

ACTIVE MEMBERS	319,999
INACTIVE MEMBERS	117,489
RETIRED MEMBERS AND BENEFICIARIES OF DECEASED MEMBERS	179,908

Invested assets at market value amounted to \$58.3 billion as of June 30, 2013. 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 fiscal year ended June 30, 2013 resulted in:

- Total contributions of \$1,950,557,000
- Total expenditures of \$3,824,798,000

The latest Actuary’s Valuation Balance Sheet for TSERS, as of December 31, 2012, 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 8.33 percent of covered payroll effective July 1, 2012, and at 8.68 percent of covered payroll effective July 1, 2013. 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, 2013, the remaining accrued liability for past service.

CHART 2:

TEACHERS’ AND STATE EMPLOYEES’ RETIREMENT SYSTEM OF NORTH CAROLINA
FISCAL YEAR ENDED JUNE 30, 2013

SOURCES OF FUNDS

EMPLOYEE CONTRIBUTIONS	\$830,075,000	11.6%
EMPLOYER CONTRIBUTIONS	\$1,120,482,000	15.6%
INVESTMENT INCOME	\$5,212,399,000	72.8%

APPLICATIONS OF FUNDS

RETIREE BENEFITS	\$3,722,932,000	97.3%
REFUNDS (RETURN OF CONTRIBUTIONS)	\$92,070,000	2.4%
ADMINISTRATIVE AND OTHER EXPENSES	\$9,796,000	0.3%



**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, 2012, a total of 901 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, 2012	
ACTIVE MEMBERS	122,270
INACTIVE MEMBERS	47,663
RETIRED MEMBERS AND BENEFICIARIES OF DECEASED MEMBERS	54,547

Invested assets at market value amounted to \$20 billion as of June 30, 2013. 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 fiscal year ended June 30, 2013, resulted in:

- Total contributions of approximately \$722,554,000
- Total expenditures of approximately \$1,035,440,000

The latest Actuary’s Valuation Balance Sheet for LGERS, as of December 31, 2012, 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 7.07 percent of covered payroll for general employees and at 7.55 percent of covered payroll for law enforcement officers, effective July 1, 2013. 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
FISCAL YEAR ENDED JUNE 30, 2013**

SOURCES OF FUNDS		
EMPLOYEE CONTRIBUTIONS	\$338,665,000	13.6%
EMPLOYER CONTRIBUTIONS	\$383,889,000	15.4%
OTHER INCOME	\$3,527,000	0.1%
INVESTMENT INCOME	\$1,770,721,000	70.9%
APPLICATIONS OF FUNDS		
RETIREE BENEFITS	\$981,198,000	94.8%
REFUNDS (RETURN OF CONTRIBUTION)	\$49,865,000	4.8%
ADMINISTRATIVE EXPENSES	\$4,377,000	0.4%



**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, 2012

ACTIVE MEMBERS	564
INACTIVE MEMBERS	48
RETIRED MEMBERS AND BENEFICIARIES OF DECEASED MEMBERS	559

The invested assets at market value were \$471 million as of June 30, 2013. 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 fiscal year ended June 30, 2013, resulted in:

- Total contributions of approximately \$23,608,000
- Total expenditures of approximately \$33,697,000

The latest Actuary’s Valuation Balance Sheet for the Judicial System, as of December 31, 2012, 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 28.01 percent of covered members’ payroll, effective July 1, 2013. 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
FISCAL YEAR ENDED JUNE 30, 2013**

SOURCES OF FUNDS

EMPLOYEE CONTRIBUTIONS	\$4,616,000	7.1%
EMPLOYER CONTRIBUTIONS	\$18,992,000	29.0%
INVESTMENT INCOME	\$41,849,000	63.9%

APPLICATIONS OF FUNDS

RETIREE BENEFITS (INCLUDING DEATH BENEFITS)	\$33,636,000	99.8%
REFUNDS (RETURN OF CONTRIBUTIONS)	\$39,000	0.1%
ADMINISTRATIVE EXPENSES	\$22,000	0.1%



**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, 2013

ACTIVE MEMBERS	169
INACTIVE MEMBERS	81
RETIRED MEMBERS	283

As of June 30, 2013, the investment assets totaled \$28 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, 2013. 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 143-66.50**

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, 2013

PLAN MEMBERSHIP	231,000
EMPLOYER CONTRIBUTIONS*	\$162,296,000
MEMBER CONTRIBUTIONS**	\$279,937,000

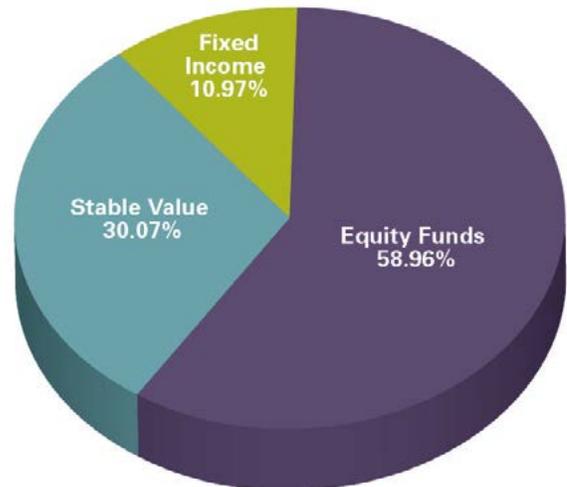
* Many local government employers contribute to employee plans. Also, Law Enforcement Officers (LEOs) are statutorily required to receive a 5 percent employer contribution to their NC 401(k) account. State government employers do not make a contribution for non-LEO members. Amounts for calendar year 2012.

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

The total plan assets at market value increased by 13.78% percent over the previous year to \$6.35 billion.

Under the current contract, members may select from 12 separate account investment options including a stable value fund. As of December 31, 2012, 30.07 percent of the assets were invested in Stable Value, 10.97 percent were invested in fixed income, and 58.96 percent were invested in equity funds. Outstanding loan balances totaled \$261 million.

MEMBERS’ 401(K) INVESTMENT CHOICES



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 recordkeeping.

**NC DEFERRED COMPENSATION PLAN MEMBERSHIP
AT JUNE 30, 2013**

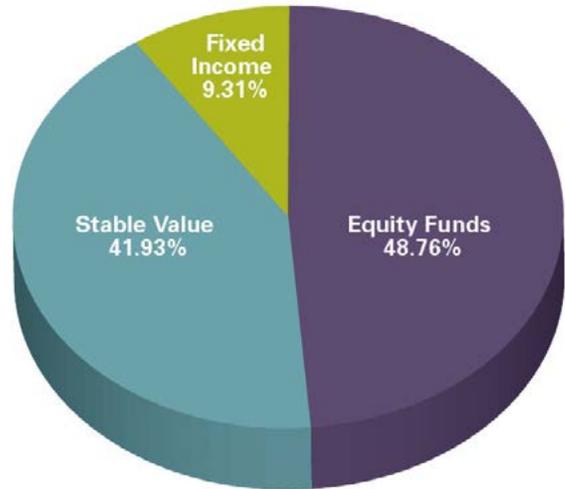
PLAN MEMBERSHIP	41,200
MEMBER CONTRIBUTIONS*	\$62,645,000

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

The total plan assets at market value increased by 8 percent over the previous year to \$931 million.

Under the current contract, members may select from 12 separate account investment options including a stable value fund. As of June 30, 2013, 41.93 percent of the assets were invested in Stable Value, 9.31 percent were invested in fixed income, and 48.76 percent were invested in equity funds. Outstanding loan balances from participants totaled \$15 million.

MEMBERS' DEFERRED COMPENSATION INVESTMENT CHOICES



Staff is actively implementing the new legislatively approved NC 403(b) Program, which is tentatively scheduled for implementation in 2014.



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

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

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

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

In 2012, 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.

DEATH BENEFIT PAYMENTS, FISCAL YEAR ENDED JUNE 30, 2013

RETIREMENT SYSTEM MEMBERS	NO. OF PAYMENTS	PAYMENT AMOUNT
TEACHERS’ AND STATE EMPLOYEES’	518	\$19,864,000
LOCAL GOVERNMENTAL EMPLOYEES’	123	\$4,886,000

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 amounts of benefit payments, according to member group, during the fiscal year ended June 30, 2013, are also provided in the chart below.

CHART 5:

**NORTH CAROLINA TEACHERS’ AND STATE EMPLOYEES’ BENEFIT TRUST
FISCAL YEAR ENDED JUNE 30, 2013**

SOURCES OF FUNDS

LOCAL GOVERNMENTAL EMPLOYEES’ RETIREMENT SYSTEM DEATH BENEFIT (LGERS)	\$18,000	0.00%
RETIRES’ DEATH BENEFIT	\$21,967,000	55.18%
TEACHERS’ AND STATE EMPLOYEES’ RETIREMENT SYSTEM DEATH BENEFIT (TSERS)	\$22,059,000	55.41%
LEGISLATIVE DEATH BENEFIT	\$60,000	0.00%
INVESTMENT INCOME	(4,293,000)	(10.59%)

APPLICATIONS OF FUNDS

LOCAL DEATH BENEFITS PAID (LGERS)	\$4,886,000	10.53%
DEATH BENEFITS AND INSURANCE PAID SIBP (LAW ENFORCEMENT OFFICERS)	\$557,000	1.20%
ADMINISTRATIVE EXPENSES	\$799,000	1.72%
RETIREE DEATH BENEFITS PAID	\$20,237,000	43.60%
STATE DEATH BENEFITS PAID (TSERS)	\$19,864,000	42.79%
LEGISLATIVE DEATH BENEFITS	\$75,000	0.16%



FIREFIGHTERS’ AND RESCUE SQUAD WORKERS’ PENSION FUND

N.C.G.S. §§ 58-86-1 THROUGH 58-86-90

The Firefighters’ 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. During fiscal year ended June 30, 2013, the name of the plan changed to North Carolina Firefighters’ and Rescue Squad Workers’ Pension Fund.

FIREFIGHTERS’ AND RESCUE SQUAD WORKERS’ MEMBERSHIP AT JUNE 30, 2012*

ACTIVE MEMBERS	40,870
RETIRED MEMBERS	11,912

Invested assets at market value amounted to about \$341.4 million as of June 30, 2013. For more information about investments for the North Carolina Retirement Systems, please see the Investment Management Division section of this report.

Operations of the Firefighters’ and Rescue Squad Workers’ Pension Fund during the 2012-2013 fiscal year resulted in:

- Total contributions of \$19,167,000
- Total expenditures of \$26,092,000

The latest Actuary’s Valuation Balance Sheet, as of June 30, 2012, is shown in Table 13 in the Statistical Tables section. Based on the latest financial report, the General Assembly appropriated \$15.4 million for the fiscal year ended June 30, 2013. The annual appropriations will fund all future benefits, based on current service, and will fund, over a period of 12 years from June 30, 2012, the remaining accrued liabilities for past service.

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

CHART 6:

**FIREFIGHTERS’ AND RESCUE SQUAD WORKERS’ PENSION FUND
FISCAL YEAR ENDED JUNE 30, 2013**

SOURCES OF FUNDS

APPROPRIATION	\$15,447,000	31.5%
MEMBER CONTRIBUTIONS	\$3,720,000	7.6%
INVESTMENT INCOME	\$29,941,000	60.9%
MISCELLANEOUS INCOME	\$7,000	0.0%

APPLICATIONS OF FUNDS

PENSION BENEFITS	\$24,761,000	94.9%
REFUNDS	\$532,000	2.0%
ADMINISTRATIVE EXPENSES	\$799,000	3.1%



RETIRES' 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 FISCAL YEAR ENDED JUNE 30, 2013

BEGINNING FUND BALANCE	\$725,631,000
ADDITIONS:	
EMPLOYER CONTRIBUTIONS	\$813,223,000
INVESTMENT INCOME	\$25,296,000
DEDUCTIONS:	
HEALTH PREMIUMS PAID	\$752,117,000
ADMINISTRATIVE EXPENSE	\$424,000
ENDING FUND BALANCE	\$811,609,000

**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 fiscal year ended June 30, 2013, there were 8 former members and officers of the General Assembly in receipt of allowances with a cost of \$6,300. This cost is funded by a contribution of 5 percent of compensation paid by members at retirement and an annual general fund appropriation made by 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 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 0.44 percent of the covered payroll of the members of the Teachers' and State Employees' Retirement System, and the Optional Retirement Program, effective July 1, 2013.

DISABILITY INCOME PLAN STATISTICS FISCAL YEAR ENDED JUNE 30, 2013

	2013
NUMBER OF DISABLED MEMBERS	6,884
NEW CLAIMS DURING THE YEAR	2,806
EMPLOYER CONTRIBUTIONS	\$64,969,000
INVESTMENT INCOME	(\$3,085,000)
AMOUNT OF BENEFIT PAYMENTS	\$73,955,000



**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*	
BENEFICIARIES IN RECEIPT OF MONTHLY ALLOWANCES	4,282
BENEFITS	\$7,408,000

* Membership data as of December 31, 2012. Benefit payment data as of June 31, 2013

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 the December 31, 2012, actuarial valuation, the National Guard Pension Plan was 73.3 percent funded with \$93.3 million in assets. The current annual appropriation is \$7 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 June 30, 2013, this fund had total assets in the amount of \$44.9 million
- For the fiscal year ended June 30, 2013, the Fund paid total benefits in the amount of \$1.6 million.



THE YEAR'S HIGHLIGHTS

DEPARTMENT INITIATES FRAUD, WASTE AND ABUSE REVIEW

The Department initiated an independent fraud, waste and abuse assessment to evaluate the risk for fraud and waste in the Retirement Systems and other benefit plans it administers. 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. Buck Consultants was selected to conduct the review.

NEW PENSION GUIDANCE

In 2012, the Governmental Accounting Standards Board ("GASB") issued two new standards. GASB No. 67, Financial Reporting for Pension Plans, an amendment of GASB Statement No. 25, ("GASB 67") will be effective for fiscal year end June 30, 2014. GASB No. 68, Accounting and Financial Reporting for Pensions an amendment of GASB Statement No. 27, ("GASB 68") will be effective for fiscal year end June 30, 2015. In November 2013, GASB issued GASB No. 71 Pension Transition for Contributions Made Subsequent to the Measurement Date, an amendment of GASB 68.

The objective of GASB 67 and GASB 68 is to improve financial reporting by state and local governmental pension plans and state and local governments. Provisions include financial statement specifics and enhanced note disclosures, a measurement of net pension liability and certain required supplementary information including the sources of the changes in net pension liability, and explanations of how and why those liabilities changed from year to year. In addition, new information about rates of return on pension plan investments is intended to inform financial report users about the effects of market conditions on the pension plan's assets over time to facilitate analysis of the plan's investment strategy. The Department continues to be an active participant in following the progression of other new standards being proposed.

LEGISLATION

The 2013 Session of the North Carolina General Assembly enacted legislation to:

- Transfer oversight of the Registers of Deeds and Fire-fighters' and Rescue Squad Workers Pension Funds to the Local Governmental Employees' Retirement Systems (LGERS) Board of Trustees; and to transfer oversight of the National Guard Pension Fund to the Teachers' and State Employees' Retirement System (TSERS).
- Extend the Transfer Benefit option to participants in the NC 403(b) plan, enabling participants to transfer their NC 403(b) funds to TSERS. The current Transfer Benefit Option enables TSERS and LGERS members to transfer their NC 401(k) and/or NC 457 funds to the NC Retirement System to receive an additional lifetime monthly benefit.
- Add oversight of the new NC 403(b) Program to the duties of the Supplemental Retirement Board of Trustees. This Board is also responsible for the oversight of the NC 401(k) and NC 457(b) Plans.
- Allow additional investment flexibility for the state pension fund to take advantage of available opportunities in the alternatives asset class.
- Clarify that Optional Retirement Program (ORP) members are permitted to file electronic ORP election forms with the Retirement System.
- Allow service in the following capacity during the first six months immediately following the effective date of TSERS retirement without affecting the member's retirement benefit: as a member of a board of trustees of a community college or of any constituent institution of The University of North Carolina as an unpaid bona fide volunteer guardian ad litem in the guardian ad litem program.





INVESTMENT MANAGEMENT DIVISION



INVESTMENT MANAGEMENT DIVISION STATISTICS

	2009-2010	2010-2011	2011-2012	2012-2013
TOTAL ASSETS OF NC RETIREMENT SYSTEMS	\$65.3 BILLION	\$74.9 BILLION	\$74.5 BILLION	\$80 BILLION
INVESTMENT PERFORMANCE FOR THE NC PENSION FUND	12% INCREASE	18.48% INCREASE	2.21% INCREASE	9.52% INCREASE
RETURNS FROM EACH ASSET CLASS WITH THE TOTAL PENSION FUND				
FIXED INCOME	13.22%	5.32%	11.66%	-0.75%
GLOBAL EQUITY	14.31%	30.76%	-5.98%	18.78%
PRIVATE EQUITY	12.88%	15.24%	6.55%	5.76%
HEDGE FUNDS	10.25%	6.84%	-6.52%	6.49%
REAL ESTATE	-16.74%	18.16%	7.88%	10.90%
CREDIT STRATEGIES	-	15.79%	0.37%	17.45%
INFLATION PROTECTION	-	-16.35%	-1.67%	-2.95%
FUNDED STATUS				
FUNDED STATUS OF THE TEACHERS' AND STATE EMPLOYEES' RETIREMENT SYSTEM (TSERS)	95.90%	95.40%	94%	94.2%



The Investment Management Division (“IMD”) serves as the investment arm for the Department of State Treasurer. This Division employs more than 20 investment professionals who 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, 2013, total assets of these programs were \$93.73 billion.

PROGRAM PERCENTAGE OF TOTAL ASSETS IN 2013		
CASH MANAGEMENT PROGRAM	Main participants are the State’s General Fund and Highway Funds	13.15%
PENSION FUND INVESTMENT PROGRAM	Assets of the Teachers’ and State Employees’ Retirement System, the Consolidated Judicial Retirement System, the Firefighters’ and Rescue Squad Workers’ Pension Fund, the Local Governmental Employees’ Retirement System, the Legislative Retirement System, the North Carolina National Guard Pension Fund, and the Retiree Health Benefit Fund. Collectively, these systems and funds are referred to as the North Carolina Retirement Systems (“Systems”).	85.34%
ANCILLARY INVESTMENT PROGRAM	Escheats Fund, Public Hospital Funds, the Local Government Other Post-Employment Benefits Fund, the Conservation Easement Endowment Fund, and other non-pension assets invested in the core fixed income portfolio	1.51%

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

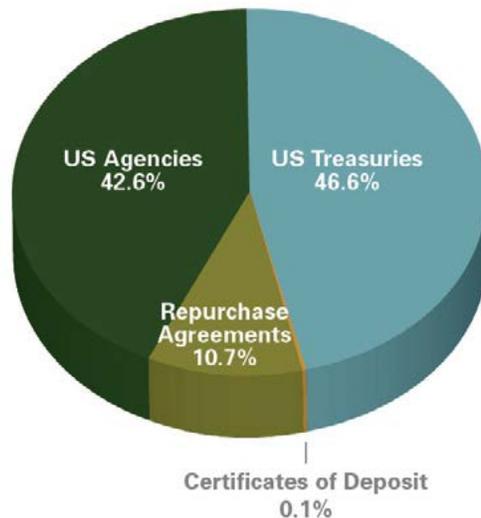
The Cash Management Program’s objective is to maximize income consistent with the principles of preservation of capital and liquidity. This program includes state bank deposits overseen by the Department of State Treasurer as the State’s banker.

Short-Term Investment Fund

The Short-Term Investment Fund (“STIF”) comprises 99.68 percent of the Cash Management Program. The Bond Proceeds Fund, managed by Sterling Capital, accounts for 0.32 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 2013, the STIF generated a cash return of 0.44 percent. The following graph provides STIF Asset Allocation as of June 30, 2013.

STIF ASSET ALLOCATION AS OF 6/30/13



* 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

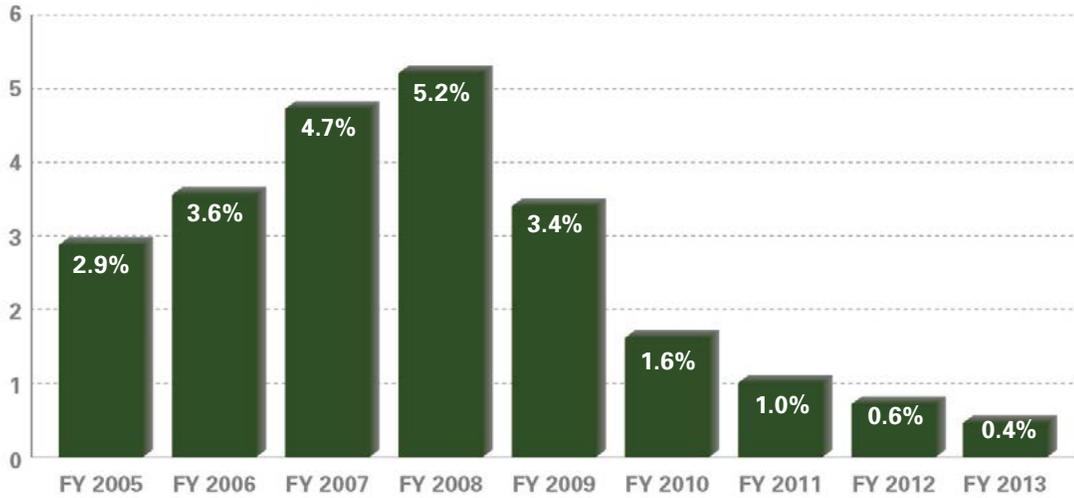
Repurchase Agreements – short-term collateralized loan

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, 2013.

STIF FISCAL YEAR PERFORMANCE



STIF TOP TEN POSITIONS AS OF JUNE 30, 2013

ISSUER	COUPON	MATURITY DATE	PAR VALUE (\$)
MIZUHO SECURITIES REPO	0.160%	7/1/2013	600,000,000
U.S. TREASURY NOTE	0.375%	6/30/2013	500,000,000
U.S. TREASURY NOTE	0.375%	7/31/2013	500,000,000
U.S. TREASURY NOTE	0.125%	8/31/2013	500,000,000
U.S. TREASURY NOTE	0.125%	9/30/2013	500,000,000
U.S. TREASURY NOTE	0.250%	1/31/2014	500,000,000
U.S. TREASURY NOTE	0.250%	2/28/2014	500,000,000
U.S. TREASURY NOTE	0.250%	3/31/2014	500,000,000
U.S. TREASURY NOTE	0.250%	4/30/2014	500,000,000
U.S. TREASURY NOTE	0.250%	5/31/2014	500,000,000



STIF SUMMARY OF BROKERS UTILIZED DURING FISCAL YEAR 2012-13

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, 2013.

BANK OF AMERICA	FIRST TENNESSEE BANK	RBS GREENWICH CAPITAL
BARCLAYS CAPITAL	GOLDMAN SACHS	SOUTH STREET SECURITIES
BB&T CAPITAL	HSBC SECURITIES	STIFEL NICOLAUS
BNP PARIBAS	JEFFERIES & COMPANY	SUNTRUST CAPITAL MARKETS
CASTLEOAK	JP MORGAN CHASE	UBS SECURITIES
CITIGROUP	LOOP CAPITAL	WELLS FARGO SECURITIES
CREDIT SUISSE FIRST BOSTON	MIZUHO SECURITIES	WILLIAMS CAPITAL
DEUTSCHE BANK SECURITIES	MORGAN STANLEY	

Pension Fund Investment Program Review

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

North Carolina is consistently ranked in the top five of state retirement funding ratios.

Operating Policy

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

PORTFOLIO	INVESTMENT MANDATE	EXAMPLES
Fixed Income Investment Portfolio	Longer Term Investments	Investment Grade Corporate Securities, Treasuries, Agencies, MBS
Global Equity Investment Portfolio	Equity Securities	Relationships with experienced investment advisors
Real Estate Investment Portfolio	Real Estate	Limited Partnerships* managed by experienced real estate advisors
Private Equity Investment Portfolio	Private Equity	Limited Partnerships* managed by experienced private equity advisors
Hedged Strategies Investment Portfolio	Hedge Funds	A diversified mix of hedged strategies managed by experienced hedge fund of funds
Credit Strategies Investment Portfolio	Credit Oriented Investments	A diversified mix of credit-focused investment vehicles managed by experienced investment advisors
Inflation Protection Investment Portfolio	Inflation-linked Investments	A diversified mix of inflation-linked investment vehicles managed by experienced investment advisors

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



Pension Fund Strategy

The tradition of conservative fiscal management has served North Carolina's public workers and taxpayers well throughout the years. The pension fund continues that tradition with a significant allocation in fixed income assets (bonds) combined with reasonable exposure to more volatile growth-oriented 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, but lower returns than the typical large public fund peer 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	13.50%	12.16%	5.64%	7.90%
MEDIAN	12.34%	11.54%	5.17%	7.34%
75TH PERCENTILE	10.69%	10.50%	4.39%	6.92%
NC PENSION FUND	10.01%	10.34%	5.41%	6.89%
RISK				
25TH PERCENTILE	4.60	9.41	12.67	10.37
MEDIAN	4.15	8.45	11.87	9.71
75TH PERCENTILE	3.74	7.54	10.86	8.92
NC PENSION FUND	3.91	7.11	10.09	8.16

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

Fiscal Year Review

The fiscal year ending June 30, 2013 resulted in strong performance for the Pension Fund, outperforming the actuarial return assumption by 2.27%. The Pension Fund benefited significantly from surging global equity markets, while fixed income returns struggled as the market prepared for the end of monetary stimulus and interest rates began to modestly rise.

The fiscal year began with uncertainty surrounding the European debt crisis. As the risk in Europe diminished, uncertainty over the "fiscal cliff", the election, and uninspiring economic data resulted in no changes to monetary or fiscal policy. Despite the slow economic growth, equity markets rallied throughout the year in response to continued global stimulus. As the fiscal year came to a close, the Federal Reserve signaled an eventual tapering of quantitative easing as markets and the economy continued their recovery.

In July 2013, the General Assembly passed Senate Bill 558. Under this bill the Investment Management Division was granted greater investment authority and flexibility by increasing the percentage limitations on various individual alternative investment asset classes as well as in the aggregate. This flexibility will be utilized over the coming years to better manage the risk of underperforming the long-term investment objectives.



Total Pension Fund Structure

As of June 30, 2013, the pension fund maintained a market value of \$80.0 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 2007	JUNE 2008	JUNE 2009	JUNE 2010	JUNE 2011	JUNE 2012	JUNE 2013
FIXED INCOME	39.5%	39.5%	39.5%	38.0%	38.0%	36.0%	36.0%
GLOBAL EQUITY	52.0%	50.0%	50.0%	48.0%	40.5%	40.5%	40.5%
REAL ESTATE	5.0%	6.0%	6.0%	6.0%	8.0%	8.0%	8.0%
ALTERNATIVES	3.0%	4.5%	4.5%	4.5%	4.5%	6.5%	6.5%
CREDIT STRATEGIES	0.0%	0.0%	0.0%	1.5%	4.5%	4.5%	4.5%
INFLATION PORTFOLIO	0.0%	0.0%	0.0%	1.5%	4.5%	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 are important tools to help control the level of risk that an investment portfolio experiences.

PENSION FUND ASSET ALLOCATION AS OF JUNE 30, 2013

	MARKET VALUE	PORTFOLIO WEIGHT	TARGET WEIGHT	TARGET RANGE
FIXED INCOME	\$27,012,774,667	33.8%	36.0%	30.0% - 42.0%
GLOBAL EQUITY	\$37,100,542,428	46.4%	40.5%	35.0% - 50.0%
REAL ESTATE	\$6,501,804,451	8.1%	8.0%	6.0% - 10.0%
PRIVATE EQUITY	\$3,449,821,067	4.3%	6.5%	3.5% - 7.5%
HEDGED STRATEGIES	\$272,146,029	0.3%		
CREDIT STRATEGIES	\$3,297,799,827	4.1%	4.5%	2.0% - 5.0%
INFLATION PORTFOLIO	\$2,359,216,548	2.9%	4.5%	2.0% - 5.0%
TOTAL FUND	\$79,994,105,017	100.0%	---	---



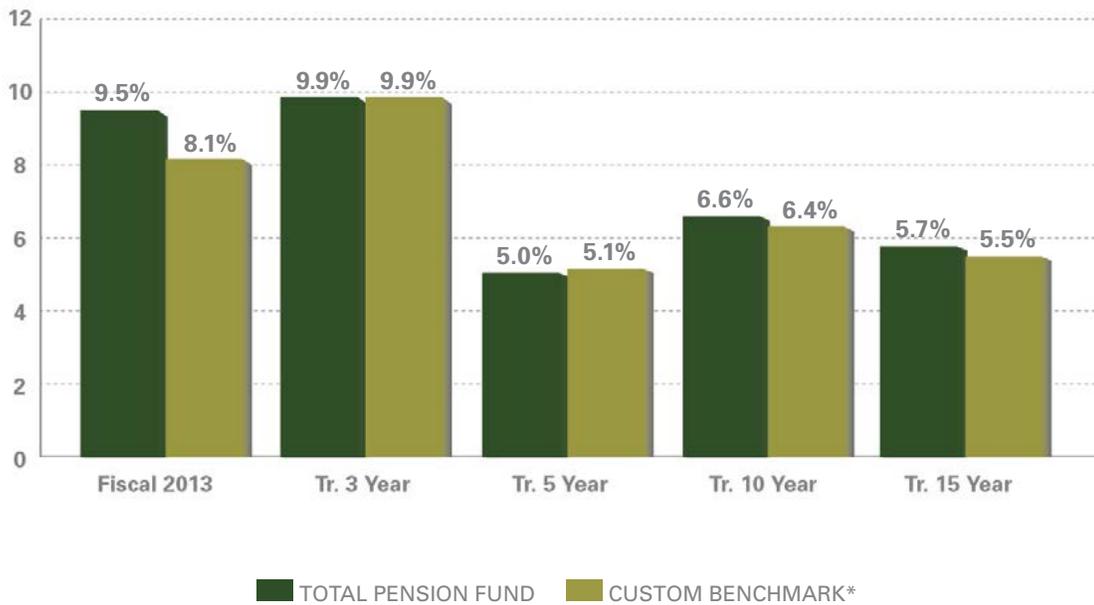
Total Fund Performance

The pension fund has outperformed 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 2013, the fund returned 9.52 percent, net of fees. 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.

2013 FISCAL YEAR RETURNS	
FIXED INCOME	-0.75%
GLOBAL EQUITY	18.78%
REAL ESTATE	10.90%
PRIVATE EQUITY	5.76%
HEDGED STRATEGIES	6.49%
CREDIT STRATEGIES	17.45%
INFLATION	-2.95%
TOTAL PENSION FUND	9.52%

TOTAL PENSION FUND ANNUALIZED PERFORMANCE



* As of 7/1/11, 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, & 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, 2013					
	1-YEAR	3-YEAR	5-YEAR	10-YEAR	15-YEAR
TOTAL PENSION PLAN	9.5%	9.9%	5.0%	6.6%	5.7%
Total Pension Custom Benchmark ¹	8.1%	9.9%	5.1%	6.6%	5.5%
FIXED INCOME PORTFOLIO	-0.8%	5.3%	7.3%	5.7%	6.6%
Custom Fixed Income Benchmark ²	-1.9%	4.9%	6.7%	5.3%	6.3%
GLOBAL EQUITY INVESTMENT PORTFOLIO	18.8%	13.5%	3.8%	7.1%	4.7%
Custom Global Equity Benchmark ³	17.4%	13.2%	3.5%	6.6%	3.8%
REAL ESTATE INVESTMENT PORTFOLIO	10.9%	12.2%	-4.2%	4.4%	5.5%
Custom Real Estate Benchmark ⁴	11.2%	15.4%	0.1%	7.0%	8.1%
PRIVATE EQUITY INVESTMENT PORTFOLIO	5.8%	9.1%	2.8%	7.0%	5.9%
Custom Private Equity Benchmark ⁵	9.7%	12.3%	7.1%	10.8%	6.7%
HEDGED STRATEGIES INVESTMENT PORTFOLIO	6.5%	2.1%	-0.5%	2.8%	-
Custom Hedged Strategies Benchmark ⁶	5.6%	2.3%	3.2%	5.2%	-
CREDIT STRATEGIES INVESTMENT PORTFOLIO	17.5%	10.9%	-	-	-
Custom Credit Strategies Benchmark ⁷	3.3%	2.8%	-	-	-
INFLATION PROTECTION INVESTMENT PORTFOLIO	-3.0%	-10.2%	-	-	-
Custom Inflation Portfolio Benchmark ⁸	-3.4%	-2.6%	-	-	-

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, & 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 Global Equity Benchmark is the dynamically weighted return of the Domestic Benchmark, the Non-US Benchmark, the Global Benchmark, the Rebalance Benchmark, and the Equity Hedge Benchmark

⁴ The Custom Real Estate Benchmark consists of 90% NCREIF ODCE Index / 10% FTSE EPRA/NAREIT Global Securities Index

⁵ The Custom Private Equity Benchmark is a custom Cambridge Associates benchmark

⁶ The Custom Hedge Fund Benchmark is the HFRI FOF Conservative Index

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)



COST

In order to best maximize returns with limited internal resources, the Investment Management Division utilizes external managers for a portion of the fund.

Over time, the Department, with the advice and counsel of the Investment Advisory Committee, has used a lower risk and lower cost approach to investing the North Carolina Retirement System trust funds. While costs have risen somewhat over time as more diverse external investment strategies were pursued, our all-in cost of investing the retirement trust fund remains modest, and we continue to actively seek out cost-efficiencies in our operations.

During the fiscal year, the Department engaged Hewitt EnnisKnupp to conduct an extensive and independent analysis of the fees, incentives, and expenses for each of the investment transactions entered into from January 2009 until June 2012. Hewitt EnnisKnupp stated:

The IMD staff is to be applauded for the results they have achieved in negotiating investment fees. They have done an exceptional job.

Key Findings:

- 1. The fees for virtually all of the global equity managers reviewed were lower than the median for the universe.*
- 2. The management fees for most of the credit strategies and inflation protection investments are also below industry comparables; other fee components for these investments are generally below average or reasonable.*
- 3. For private equity and real estate, overall the fees are reasonable when compared to a universe of comparable investments.*

Reinforcing those results, CEM Benchmarking, a leading independent cost and performance analysis firm, reports that our cost structure for calendar year 2012 was below those of most of our institutional peers. We calculate this leads to savings of about \$80 million per year compared to the median peer. Importantly, after deducting all fees, incentives, and expenses for the trust fund, we exceeded our performance benchmarks; which is a positive for plan beneficiaries, employers, and taxpayers. At the same time, we continue to proactively target improvements in cost-efficiency, transparency, risk management, and compliance, and are working with the Legislature and Governor to obtain necessary additional staff resources.

**CALENDAR YEAR 2012 NCRS COSTS OF INVESTMENT OPERATIONS COMPARED TO PEERS
(EXPRESSED IN BASIS POINTS WHERE 50 BASIS POINTS EQUALS 0.50%)**

	TOTALS	INVESTMENT MANAGEMENT	OVERSIGHT, CUSTODIAL AND OTHER
MEDIAN PEER	64.2	63.3	1.1
NCRS	53.9	53.4	0.4
PERCENTILE	40%	40%	7%

Source: CEM [Cost Effectiveness Measurement] Benchmarking Inc., The peer group consists of 16 U.S. public pension funds managing from \$38 billion to \$249 billion. The median peer managed \$71 billion versus NCRS' \$78 billion average size during 2012. CEM Benchmarking's methodology incorporates default average expenses for underlying investment managers held within fund-of-fund vehicles, but excludes carry/performance fees for private investments because most peers do not provide such data. All such fees and expenses have been deducted from all reported investment returns.



The following chart provides further detail on fees and incentives paid to external investment managers for the fiscal year. Additional detail is available by visiting www.NCTreasurer.com/inv.

TOTAL NCRS EXTERNAL FEES PAID FY 2012-2013

	MANAGEMENT FEES	INCENTIVE FEES	TOTAL FEES	PORTFOLIO MARKET VALUE	RATIO OF FEES TO MARKET VALUE
GLOBAL EQUITY	\$94,404,194	\$0	\$94,404,194	\$37,100,542,428	0.25%
PRIVATE EQUITY	\$48,134,307	\$27,972,636	\$76,106,943	\$3,449,821,067	2.21%
REAL ESTATE	\$79,062,398	\$10,894,521	\$89,956,919	\$6,501,804,451	1.38%
HEDGE FUNDS	\$2,000,457	\$788,496	\$2,788,953	\$272,146,029	1.02%
EXTERNAL FIXED INCOME	\$489,958	\$10,613,301	\$11,103,259	\$383,202,973	2.90%
CREDIT	\$40,153,992	\$76,200,689	\$116,354,681	\$3,297,799,827	3.53%
INFLATION	\$22,083,458	\$3,404,800	\$25,488,258	\$2,359,216,548	1.08%
TOTAL	\$286,328,763	\$129,874,442	\$416,203,206	\$79,994,105,017	0.52%

* Total management fees previously reported differ from the above data due to accrual and timing issues. This includes either accruals of management fees owed but not paid at year end or the timing difference between the actual charge and the booking of actual costs that occurs in certain other investments.

** Consistent with industry convention, cost figures do not include the fees and expenses of investment managers that are held within fund-of-fund vehicles. Such fees and expenses have been deducted from all reported investment returns.

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, shareholders 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 North Carolina Retirement Systems (NCRS) 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 2013 proxy season, RSD submitted 13 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 election. NCRS partnered with the Professor Lucian Bebchuk and the Harvard Law School Shareholder Rights Project (SRP) to implement this initiative and assist in company engagement.

Out of the 13 proposals, 7 companies agreed to move to annual elections either by the board amending the by-laws or by agreeing to bring management proposals to a vote at their 2013 annual meetings. Out of these seven companies, one company – Bemis Company, Inc. – declassified through the board amending its by-laws, and the other six companies submitted management proposals. Out of these proposals, five passed for the following companies: Hess Corporation, Lexmark International, People's United Financial, Inc., Ryder System, Inc., and Snap-On, Inc.

The remaining six companies that did not agree with the proposals brought precatory shareholder proposals to a vote at their 2013 annual meeting. Five of those proposals passed for the following companies: Jarden Corporation, Kellogg Company, Teradata Corporation, and United States Steel Corporation.



Proxy Access

NCRS believes that companies should provide access to the management proxy for long-term shareowners that 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, in 2013 NCRS again co-filed a shareholder resolution along with three other public institutional investors asking the board of directors of energy-drilling company Nabors Industries to grant substantial, long-term shareholders the right to nominate directors using the company's proxy statement. In 2012, the same shareholder proposal received a majority of shareowner votes. 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.

At the 2013 annual meeting, the proposal for Nabors again received a majority of votes cast. However, the Bermuda-based company elected to count broker non-votes as against votes, a measure not allowed for United States companies and that runs counter to corporate governance best practices. Due to the broker non-votes, Nabors stated that the proposal received less than a majority of votes cast and the proposal did not pass.

Political Spending Disclosure

NCRS believes that the board should develop and disclose publicly its guidelines for approving charitable and political contributions. The board 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, NCRS believes that companies should have board oversight policies to make sure that such expenses are in the best interest of the shareholder.

During the 2013 proxy season, NCRS, in partnership with Investor Voice and Center for Political Accountability, again filed a shareholder resolution with Nike asking the company to disclose political contributions and spending on a semiannual basis. According to the 2012 Center for Political Accountability-Zicklin Index of Corporate Political Accountability and Disclosure, Nike received a below average rating. The NCRS proposal failed receiving 18.3 percent of the votes cast.

Diversity

In February 2013, Treasurer Cowell announced a \$500 million Emerging Managers program for the pension fund's equity investment portfolio recognizing that there are many smaller, high-performing managers that have the potential to add value to the pension portfolio. The two firms selected for the initial round of investments were FIS Group and Leading Edge Investment Advisors, which were chosen through a competitive search process. They were chosen based on their proven track record of identifying small investment firms with the potential to achieve above-benchmark results. Both firms are historically underutilized businesses (HUBs) under North Carolina law, meaning that they are at least 51 percent owned by minority, women, disabled and/or disadvantaged business owners. The firms were allocated an initial \$300 million of the \$500 million to invest with emerging managers according to the pension fund's overall equity investment portfolio objectives. The Department has made advancing a culture of diversity a strategic objective and is committed to working with HUBs to the extent possible without compromising superior risk-adjusted returns.



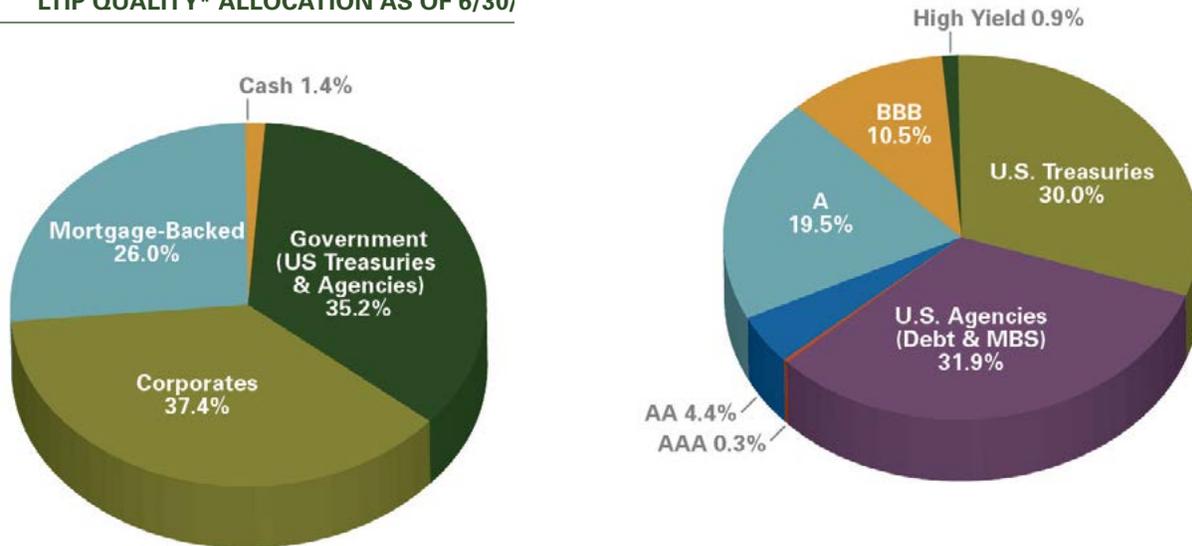
FIXED INCOME

As of June 30, 2013, the fixed income allocation maintained a market value of \$27.0 billion, representing 33.4 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 \$26.0 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 a long duration profile that better matches the pension fund’s longer duration liability stream versus an intermediate 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 Governmental National Mortgage Association (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 6/30/13
LTIP QUALITY* ALLOCATION AS OF 6/30/13



**Credit Quality based on Moody’s Ratings*

Fixed Income Market Overview

The fiscal year began under the cloud of global pressure from uncertainty in Europe, weak domestic economic data and the federal government’s “operation twist” program that had all pushed rates back down. While the risk in Europe slowly subsided, rates remained range bound through the end of 2012 thanks to lackluster economic data, uncertainty over “fiscal cliff” negotiations and an election result that pointed to no material changes in monetary or fiscal policy. Most of the rate movement during the fiscal year came during the 2nd quarter of 2013, as the Federal Reserve Chairman’s mention of tapering down bond purchases hit bond markets hard in the quarter. The comments drove 10-year Treasury yields up more than 60 basis points during the quarter, as the market prepared for the end of stimulus and eventual increase in rates. Investment Grade bonds outperformed Treasury debt on credit spreads that moved tighter through the fiscal year. For the fiscal year, 5-year U.S. Treasury (UST) yields were up roughly 70 basis points and 10 and 30-year UST yields were up close to 80 basis points.



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, 2013

CORPORATE ISSUER	% OF LTIP
BANK OF AMERICA	1.1%
GENERAL ELECTRIC	1.1%
JP MORGAN	1.0%
GOLDMAN SACHS	1.0%
AT&T	1.0%
WAL-MART	0.7%
MORGAN STANLEY	0.7%
CITIGROUP	0.7%
WELLS FARGO	0.7%
VERIZON	0.6%

LTIP SUMMARY OF BROKERS UTILIZED DURING FISCAL YEAR 2013

BANK OF AMERICA
 BARCLAYS CAPITAL
 BNP PARIBAS
 BNY MELLON
 CANTOR FITZGERALD
 CASTLEOAK SECURITIES
 CITIGROUP
 CREDIT SUISSE SECURITIES
 CROSS POINT

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

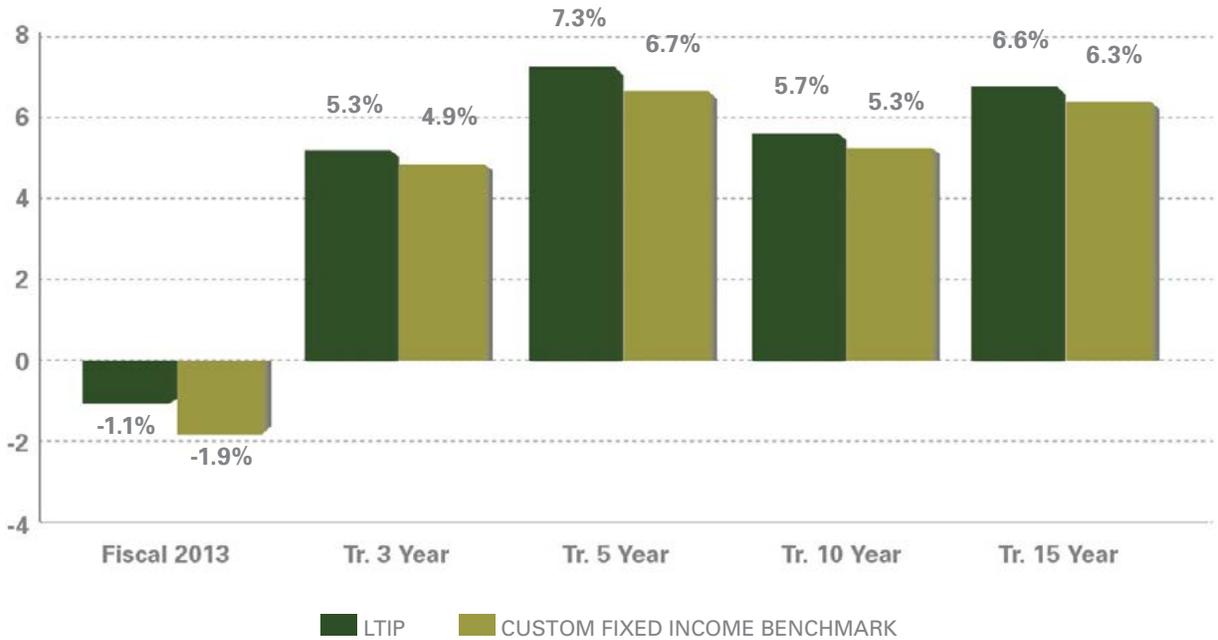
RAYMOND JAMES
 RBC CAPITAL MARKETS
 RBS GREENWICH CAPITAL
 STIFEL NICOLAUS
 SUNTRUST CAPITAL MARKETS
 UBS SECURITIES
 US BANK
 WELLS FARGO SECURITIES
 WILLIAMS CAPITAL



Core Fixed Income Performance

For the fiscal year, the LTIP return was down -1.10% net of fees versus a benchmark return of -1.93%. While the rising rate environment resulted in negative returns, the portfolio was favorably positioned for the rate increase. The portfolio's defensive position of short relative duration and overweight to corporate bonds were the driving factors in outperforming the benchmark.

LONG TERM INVESTMENT PORTFOLIO ANNUALIZED PERFORMANCE



Non-Core Fixed Income Structure

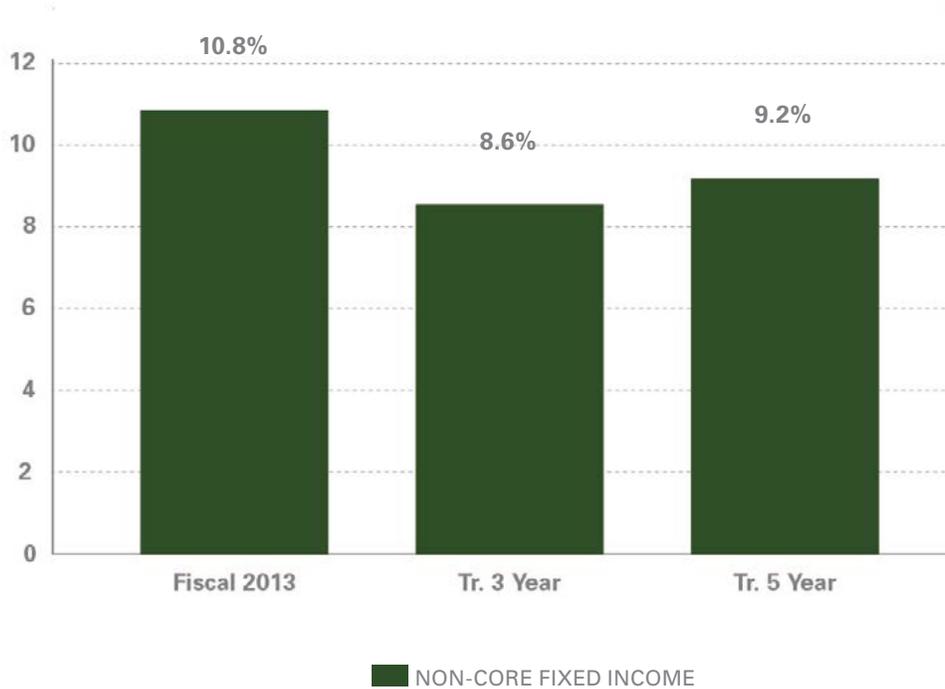
The non-core component consists of a liquidity allocation to the Short-Term Investment Fund and two opportunistic allocations to externally managed high quality Residential Mortgage-Backed Securities (“RMBS”) and Commercial Mortgage-Backed Securities (“CMBS”) strategies. The RMBS and CMBS strategies 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 (\$0.7 billion) and investment grade RMBS (\$0.4 billion).

Non-Core Fixed Income Performance

The non-core fixed income composite posted a return of 10.8 percent for the fiscal year. The mortgage-backed securities strategies produced strong results, with the RMBS and CMBS portfolios producing returns of 15.0 percent and 34.2 percent, respectively, for the fiscal year ending June 30, 2013.

NON-CORE FIXED INCOME PERFORMANCE



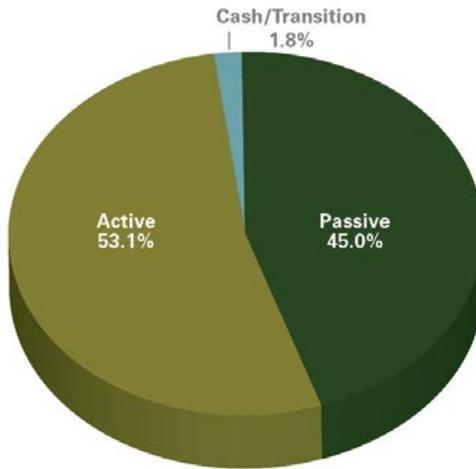
GLOBAL EQUITY

The Global Equity portfolio ended fiscal year June 30, 2013 at \$37 billion, with \$18.7 billion in U.S. equity and \$18.3 billion in non-U.S. As a percentage of the pension fund’s assets, the Global Equity allocation was 46.4 percent on June 30, 2013 versus 43.0 percent on June 30, 2012.

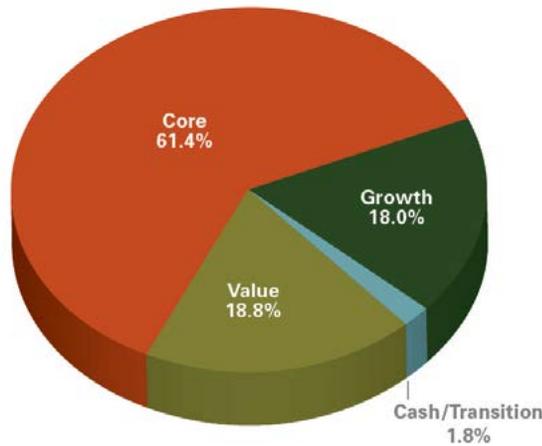
The Global Equity portfolio maintains prudent diversification within the broad equity market. The portfolio is also categorized into U.S. Large-Cap, U.S. Mid-Cap, U.S. Small-Cap and non-U.S. investments. As of June 30, 2013, U.S. investments were 50.6 percent of the portfolio and non-U.S. investments were 49.4 percent.

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 charts provide percentage of distribution between type, style, and strategy.

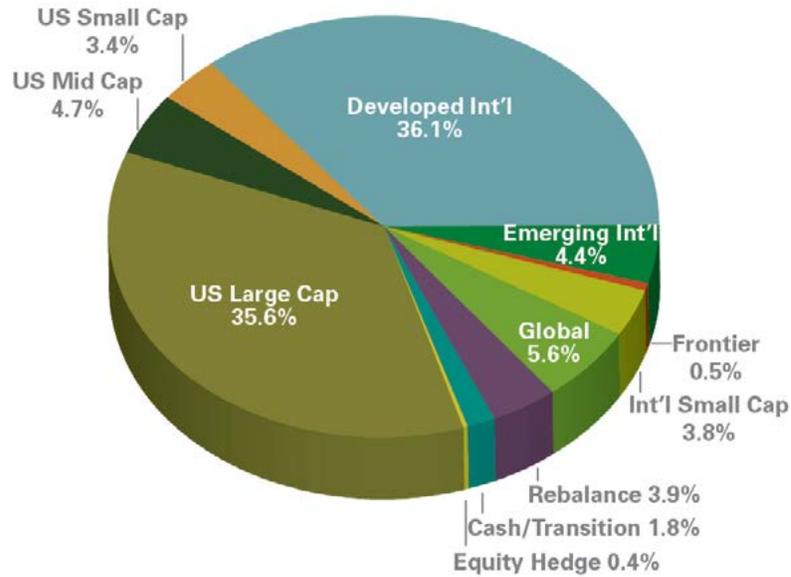
GLOBAL EQUITY ACTIVE & PASSIVE ALLOCATION



GLOBAL EQUITY STYLE ALLOCATION



GLOBAL EQUITY STRATEGY ALLOCATION



Global Equity Market Overview

The 2012-13 fiscal year saw investors encouraged by government intervention. Despite sluggish economic growth, global equity markets posted strong returns in response to announcements of continued stimulus by the European Central Bank, U.S. Federal Reserve, and Japan's new Prime Minister Shinzo Abe. U.S. equity markets represented by the Russell 3000 index rose a strong 21.46 percent and international markets, as represented by the MSCI ACWI ex-US IMI, trailed, but with a respectable increase of 13.91 percent.

Global Equity Performance

For the fiscal year, the Total Equity portfolio gained 18.78 percent, net of fees, outperforming its benchmark return by 137 basis points (bps). The outperformance was across all composite portfolios: U.S. equity was ahead by 54 bps, non-U.S. equity 102 bps, global equity 886 bps, and hedged equity 376 bps. The graph below illustrates the fiscal year performance against the benchmark, as well as the three-, five-, 10- and 15-year trailing returns.



GLOBAL EQUITY INVESTMENT PORTFOLIO ANNUALIZED PERFORMANCE



GLOBAL EQUITY PORTFOLIO INVESTMENT ADVISORS (FY ENDING 2013)

Below is a list of the Global Equity investment advisor relationships and top ten holdings as of June 30, 2013.

INVESTMENT ADVISORS	STYLE	MARKET VALUE (\$)
BROWN SMALL-CAP GROWTH	SMALL-CAP ACTIVE	316,935,509
EARNEST PARTNERS SMALL-CAP VALUE	SMALL-CAP ACTIVE	304,513,963
NUMERIC SMALL-CAP VALUE	SMALL-CAP ACTIVE	287,775,621
STERLING SMALL-CAP VALUE	SMALL-CAP ACTIVE	231,461,428
NUMERIC SMALL-CAP GROWTH	SMALL-CAP ACTIVE	117,845,547
MCM MID-CAP	MID-CAP PASSIVE	764,956,888
WELLINGTON MID-CAP OPPORTUNITIES	MID-CAP ACTIVE	476,463,017
TIMESQUARE MID-CAP GROWTH	MID-CAP ACTIVE	331,537,201
TIMESQUARE MID-CAP FOCUSED	MID-CAP ACTIVE	173,885,379
RHUMBLINE RUSSELL 200 PASSIVE	LARGE-CAP PASSIVE	3,811,072,621
MCM LARGE-CAP	LARGE-CAP PASSIVE	2,787,818,521
FIRST CITIZENS LARGE-CAP	LARGE-CAP PASSIVE	1,555,963,183
WELLINGTON LARGE CAP VALUE	LARGE-CAP ACTIVE	993,629,885
HOTCHKIS LARGE-CAP VALUE	LARGE-CAP ACTIVE	987,131,279
SANDS LARGE-CAP GROWTH	LARGE-CAP ACTIVE	949,172,824
RELATIONAL INVESTORS LARGE-CAP	LARGE-CAP ACTIVE	859,211,469
WELLINGTON GROWTH	LARGE-CAP ACTIVE	560,313,220
PIEDMONT STRATEGIC CORE	LARGE-CAP ACTIVE	534,093,760
LEADING EDGE LARGE-CAP	LARGE-CAP ACTIVE	156,817,508



NON-U.S. GLOBAL EQUITY PORTFOLIO INVESTMENT ADVISORS (FY ENDING 2013)

INVESTMENT ADVISORS	STYLE	MARKET VALUE (\$)
BAILLIE GIFFORD EAFE PLUS	NON-U.S. ACTIVE	1,560,807,253
GMO INTERNATIONAL	NON-U.S. ACTIVE	1,399,702,294
WELLINGTON INTERNATIONAL	NON-U.S. ACTIVE	1,254,807,936
WALTER SCOTT EAFE	NON-U.S. ACTIVE	1,190,929,163
MONDRIAN EAFE	NON-U.S. ACTIVE	1,031,034,532
OECHSLE SELECT	NON-U.S. ACTIVE	1,026,415,679
BLACKROCK EMERGING	NON-U.S. ACTIVE	634,511,710
MONDRIAN EMERGING	NON-U.S. ACTIVE	519,353,263
BAILLIE GIFFORD EMERGING	NON-U.S. ACTIVE	460,927,920
FRANKLIN TEMP. INTERNATIONAL SC	NON-U.S. ACTIVE	418,994,000
MONDRIAN INTERNATIONAL SC	NON-U.S. ACTIVE	384,924,864
BLACKROCK FRONTIER	NON-U.S. ACTIVE	184,401,750
FIS GROUP	NON-U.S. ACTIVE	147,484,916
BLACKROCK MSCI ACWI EX-US IMI	NON-U.S. PASSIVE	3,779,565,590
BLACKROCK MSCI EAFE IMI	NON-U.S. PASSIVE	1,366,652,324
BLACKROCK MSCI CANADA IMI	NON-U.S. PASSIVE	617,851,298
BLACKROCK MSCI ACWI EX-US SC	NON-U.S. PASSIVE	595,895,763
LONGVIEW GLOBAL EQUITY	GLOBAL-ACTIVE	1,250,019,698
GLADIUS ACONCAGUA	GLOBAL-ACTIVE	1,432,841,490
BRANDES GLOBAL EQUITY	GLOBAL-ACTIVE	822,772,147
TIGER TAR HEEL PARTNERS	EQUITY HEDGE-ACTIVE	142,142,244

GLOBAL EQUITY TOP 10 HOLDINGS (FY ENDING 2013)

COMPANY	% OF EIP	COMPANY	% OF EIP
EXXON MOBIL	0.8%	PFIZER	0.6%
MICROSOFT	0.7%	JOHNSON & JOHNSON	0.5%
GOOGLE	0.7%	JP MORGAN	0.5%
APPLE	0.7%	HEWLETT PACKARD	0.5%
WELLS FARGO	0.6%	GENERAL ELECTRIC	0.4%

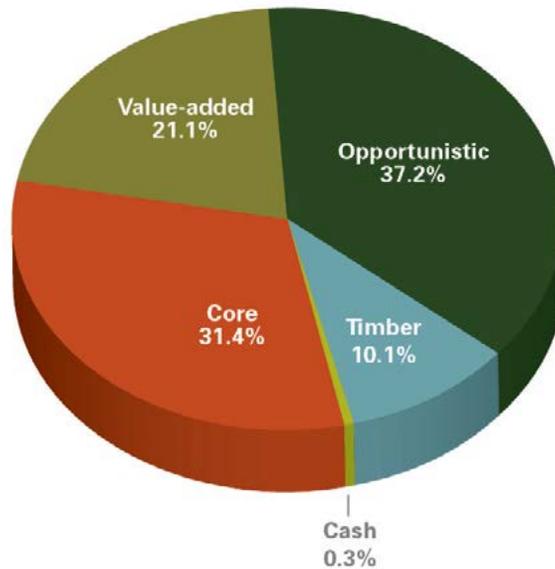


REAL ESTATE

As of June 30, 2013, the Real Estate Investment Portfolio (“REIP”) was valued at \$6.5 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 8.13 percent at fiscal year end.

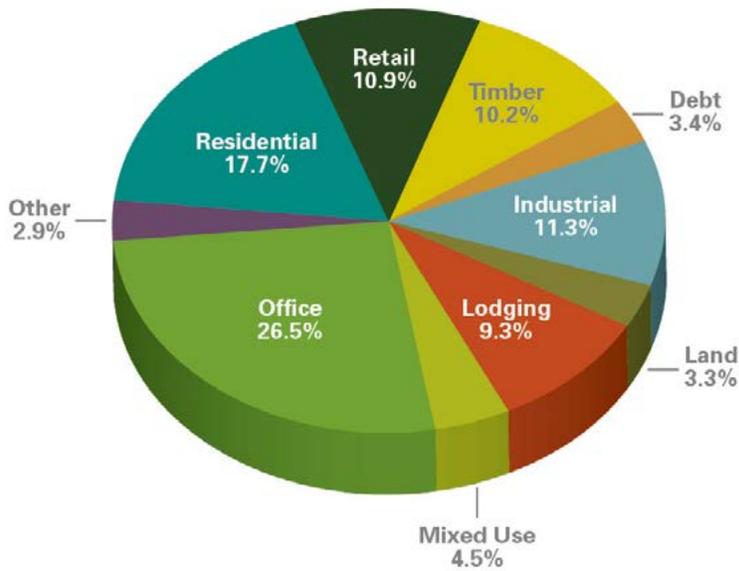
The REIP seeks returns from income and capital appreciation by investing in core, value-added, opportunistic and other real estate strategies. Core real estate is represented by well-located, stable properties with high occupancy levels. Core investment returns are primarily driven by property income 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 63 percent versus 37 percent in opportunistic funds. The chart below outlines these allocations:

STRATEGY ALLOCATION



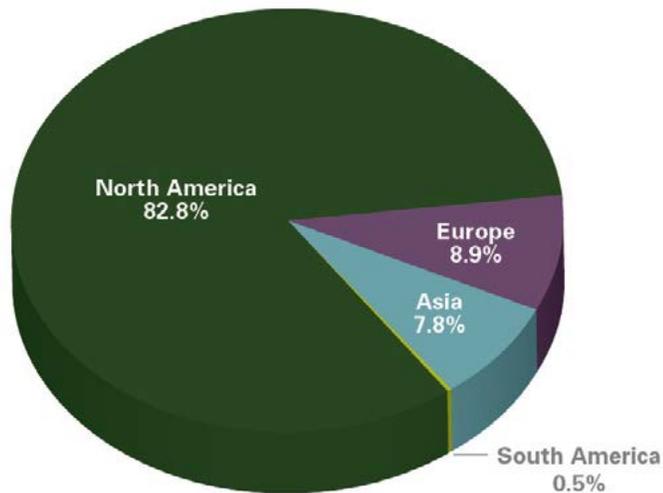
In addition, the analysis of new investments focuses on location and property types, and employs a moderate level of risk. The REIP continues its objective by expanding into a variety of property types including debt, industrial, land, lodging, multi-type, office, multi-family residential, single-family residential, retail and timber. The chart below displays the percentage of each property type allocation as of June 30, 2013.

PROPERTY TYPE ALLOCATION



Geographically, the REIP has a North American focus, yet is diversified among the South, East, West and Midwest regions. International investment exposure is approximately 17 percent, with the majority split between Europe and Asia. The following chart shows global geographic allocations as of June 30, 2013.

GLOBAL GEOGRAPHIC ALLOCATION



Real Estate Market Overview

The general investment environment for real estate today is cautiously optimistic and, given the economic and political turmoil in the rest of the world, one could argue the U.S. offers the best risk-adjusted returns. The U.S. markets tend to look solid, particularly in the gateway cities, as well as in the energy and technology corridors. Demand for U.S. core assets is coming not only from U.S. institutions but also from international institutions and sovereigns. The demand for core has driven cap rates down causing many investors to move out on the risk spectrum into secondary cities or lower quality assets in the major markets.

New supply in the U.S. markets continues to be under control, if almost non-existent. The multifamily sector (with the support of FNMA and FHLMC) is the only sector with noticeable inventories to be delivered. Despite the new construction, multifamily vacancy rates have remained low and rental rates have continued to increase. Within the retail sector, the super-regional and regional malls have performed well over the year. Industrial markets along the coast of California, the northeast and Texas have also performed well, especially warehouses, while R&D and flex have lagged.

Although property occupancy rates are up from last year with rental rate pressure in some select sectors and locations, in general, fundamentals have not kept pace with the capital inflows that have driven real estate prices higher.

The Eurozone economy still struggles to emerge from its record-long recession. In contrast, the U.K. economy is starting to disconnect from the European malaise. Vacancy rates remain high across Europe, with London being a notable exception. The available supply is increasingly concentrated in peripheral secondary grade properties and locations, with high quality space in core areas becoming scarce.

The investment market continues to be strong, especially for prime assets with secure income flows. The London real estate market, in particular, continues to attract a wide range of international capital, but there are signs that the strength of the investment market is also spreading beyond London as the U.K. economy is gathering momentum. Other countries currently in favor are Germany and select Scandinavian countries. France has fallen out of favor recently due to economic issues and a government-stymied business environment.

Real estate performance across much of the Asia Pacific region has been mixed. Amid mostly decelerating returns, Japan experienced a noticeable shift to the upside. This was primarily a result of new leadership at the Bank of Japan which surprised the markets with bold monetary easing. Consumer prices in developing Asia are forecast to rise, as slow growth helps to contain inflationary pressures. Japan's "reflation" initiative is one factor driving this. Another factor is rising labor costs in China relative to the rest of the world.



Real Estate Performance

For the fiscal year 2013, the REIP returned 10.9 percent, net of fees, underperforming its custom benchmark return of 11.2 percent. The custom benchmark consists of 10% public REITS and 90% core private real estate. The REIT component of the REIP performed favorably at 15.4% against the FTSE/EPRA/NAREIT returns of 14.3% for the same period. The private component of the Portfolio, ex-timber, also performed favorably with returns of 10.8% relative to the NCREIF ODCE of 10.7%. Timber accounts for 10% of the REIP and is not represented in the blended benchmark for the asset class. Timber prices continued to suffer over the past year due to little demand for new housing as new household formations continue to lag its historical mean. Consequently, Timber returns of only 7.1% for the year were a drag on overall REIP returns. Management expects the REIP to continue to make positive progress in the year going forward.

REAL ESTATE INVESTMENT PORTFOLIO ANNUALIZED PERFORMANCE



REAL ESTATE INVESTMENT ADVISORS (FY ENDING 2013)

Below is a list of the real estate investment advisors and fund relationships as of June 30, 2013.

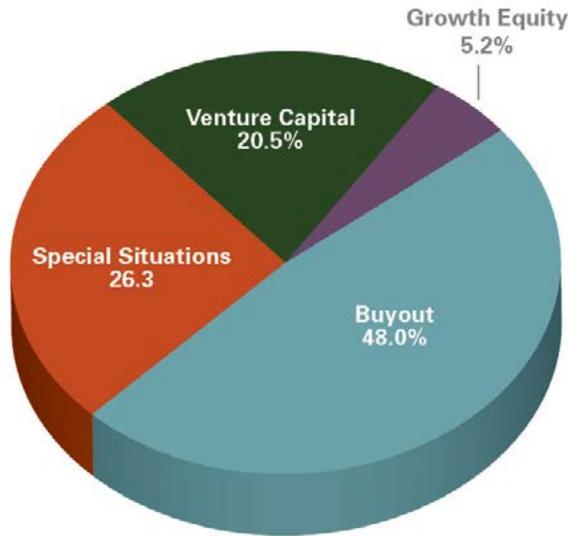
REIP ADVISORS AND FUNDS	MARKET VALUE (\$)	REIP ADVISORS AND FUNDS	MARKET VALUE (\$)
NORTHROCK CORE FUND	605,282,789	BROOKFIELD RE FIN FUND III	37,164,066
CAMPBELL TIMBER FUND III	420,728,068	ROCKWOOD CAPITAL RE PARTNERS VIII	37,107,009
JP MORGAN STRATEGIC PROPERTY FUND	403,483,802	CROSSHARBOR INST INVESTORS II	36,895,446
MS GLOBAL RE SECURITIES	382,363,010	SECURITY CAP FOCUS SELECT	33,122,711
BLACKSTONE RE PARTNERS VI	236,893,866	DRA G&I FUND V CO-INVESTMENT	31,632,136
TIMBERLAND INV RES - NAHELE	234,087,398	DRA GROWTH & INCOME FUND VI	31,378,990
NORTHCREEK FUND	233,195,546	CBRE STRATEGIC PARTNERS IV	30,377,983
UBS TRUMBULL PROPERTY FUND	223,967,294	SRI NINE REIT	29,250,492
BLACKSTONE RE PARTNERS VII	166,846,834	CROSSHARBOR INSTL PARTNERS	29,111,266
KEYSTONE INDUSTRIAL FUND II	160,278,658	JER REAL ESTATE PARTNERS III	26,376,289
LONE STAR REAL ESTATE FUND II	139,691,021	BENSON ELLIOT RE PARTNERS II	26,178,067
UBS TRUMBULL PROPERTY INCOME FUND	123,033,004	FROGMORE REAL ESTATE PARTNERS II	23,662,853
BLACKSTONE RE PARTNERS V	116,242,859	PENWOOD CSIP I	23,475,494
KEYSTONE INDUSTRIAL FUND I	110,788,121	ROCKPOINT REAL ESTATE FUND IV	23,070,988
CIM URBAN REIT	110,099,690	AMERICAN VALUE PARTNERS FUND I	22,656,660
STARWOOD OPPORTUNITY FUND VII	107,511,498	LEM RE MEZZANINE FUND II	20,566,548
PRUDENTIAL PRISA	105,829,082	PALADIN LATIN AMERICAN PARTNERS III	20,031,531
DRA GROWTH & INCOME FUND VII	103,767,469	MSREF V INTERNATIONAL	19,458,924
MSREF VI	102,539,769	SRI TEN REIT	18,819,523
AG NET LEASE REALTY FUND II	95,567,965	FROGMORE REAL ESTATE PARTNERS I	17,657,725
RREEF GLOBAL OPP FUND II	94,822,800	KTR INDUSTRIAL FUND III	16,500,000
DLJ REAL ESTATE CAPITAL PARTNERS III	90,144,523	CHEROKEE INVESTMENTS PARTNERS IV	15,771,861
WARBURG PINCUS REAL ESTATE I	89,634,334	BENSON ELLIOT RE PARTNERS III	15,431,895
STARWOOD SDL/SOF VII CO-INV	88,985,748	VALUE ENHANCEMENT FUND IV	14,575,569
TERRA FIRMA DEUTSCHE ANNINGTON	87,172,490	AG ASIA REALTY FUND II	13,258,282
CROW HOLDINGS REALTY PARTNERS V	86,453,480	JER REAL ESTATE PARTNERS IV	12,412,330
DRA GROWTH & INCOME FUND V	85,830,410	CROW HOLDINGS REALTY PARTNERS IV-A	11,181,721
CBRE STRATEGIC PARTNERS V	85,669,546	ROCKPOINT REAL ESTATE FUND I	11,087,485
DLJ REAL ESTATE CAPITAL PARTNERS IV	77,702,559	AG CORE PLUS REALTY FUND I	11,048,896
ROCKWOOD CAPITAL RE PARTNERS VI	72,939,260	MEADOW RE FUND II	10,994,301
WCP RE FUND III	67,403,233	RREEF GOF II - 2010 SENIOR NOTE	10,583,350
ROCKWOOD CAPITAL RE PARTNERS VII	65,912,987	PATRIA BRAZIL REAL ESTATE FUND II	9,908,772
PENWOOD PSIP II	64,922,140	DLJ REAL ESTATE CAPITAL PARTNERS II	5,094,806
ROCKPOINT REAL ESTATE FUND II	55,259,875	DB REAL ESTATE GLOBAL OPPS I-A/I-B	3,992,667
HARRISON STREET RE PARTNERS III	46,577,764	DRA GROWTH & INCOME FUND IV	3,136,373
CROW HOLDINGS REALTY PARTNERS IV	45,020,196	WESTBROOK REAL ESTATE FUND III	3,099,014
NORTHROCK II	44,667,655	CHEROKEE INVESTMENTS PARTNERS III	2,670,450
AG CORE PLUS REALTY FUND II	44,141,311	HARRISON STREET RE PARTNERS IV	2,500,000
SRI EIGHT REIT	43,827,295	VALUE ENHANCEMENT FUND II	2,380,780
RLJ REAL ESTATE FUND III	42,574,549	WESTBROOK REAL ESTATE FUND IV	395,021
SRI SEVEN REIT	42,196,841	CIGNA REALTY OPEN-END FUND	296,572
ROCKPOINT REAL ESTATE FUND III	41,349,051	DRA GROWTH & INCOME FUND III	49,425
HAWKEYE (SCOUT) FUND 1-A	40,679,552	WESTBROOK REAL ESTATE FUND I	44,983
STAG INVESTMENTS II	40,676,728	ROCKWOOD CAPITAL RE PARTNERS IX	14,095
RLJ LODGING FUND II	39,820,465	ROCKPOINT NYC CIP INVESTORS	0



PRIVATE EQUITY

As of June 30, 2013, the Private Equity investment portfolio maintained a market value of approximately \$3.5 billion, representing 4.3 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.

PRIVATE EQUITY STRATEGY ALLOCATION



Private Equity Market Overview

The Private Equity fundraising environment is on track to be the largest fundraising year since 2009. We are seeing a trend in the market of fewer fund managers raising capital, accompanied by an increase in fund sizes. Managers that do successfully raise capital are benefitting by increasing investor desire to consolidate manager relationships, likely with increased commitments. The Private Equity capital overhang that has caused concerns in the past has declined 30% since the 2008 peak. Given the fundraising activity, that overhang no longer appears to be a concern to investors.

The macro environment remains unclear in terms of the health of the world’s economies. However, strength in the public markets would suggest the worst is behind us. In light of this scenario, the current environment can be described as a sellers’ market. Managers eager to exit portfolio companies that have been in their control for an extended period of time as a result of the economic downturn are seeking to capitalize on attractive valuations relative to the public comparables. Buyers, on the other hand, can utilize the availability of debt at attractive interest rates to underwrite to acceptable return profiles. While debt has thus far not been used inappropriately, with levels remaining fairly consistent over the past few years, its availability does pose a reason for concern as banks are willing to lend more than managers are utilizing. As we have seen throughout the Private Equity industry, an economic downturn in an over-levered portfolio can negatively impact returns, and cause managers to focus on capital preservation as opposed to return generation.

The exit environment has improved in the Initial Public Offering (IPO) market. Twenty-one venture-backed companies have raised \$2.1 billion in Q2 2013, more than double the amount of exits and dollars raised over Q1 2013. This is a dramatic surge in the number of IPOs since Facebook chilled the market in Q2 2012. Eleven of the IPOs were biotechnology companies, which marks the most biotech IPOs since Q3 2000. As the IPO market was particularly attractive, mergers and acquisitions declined, particularly within biotechnology.

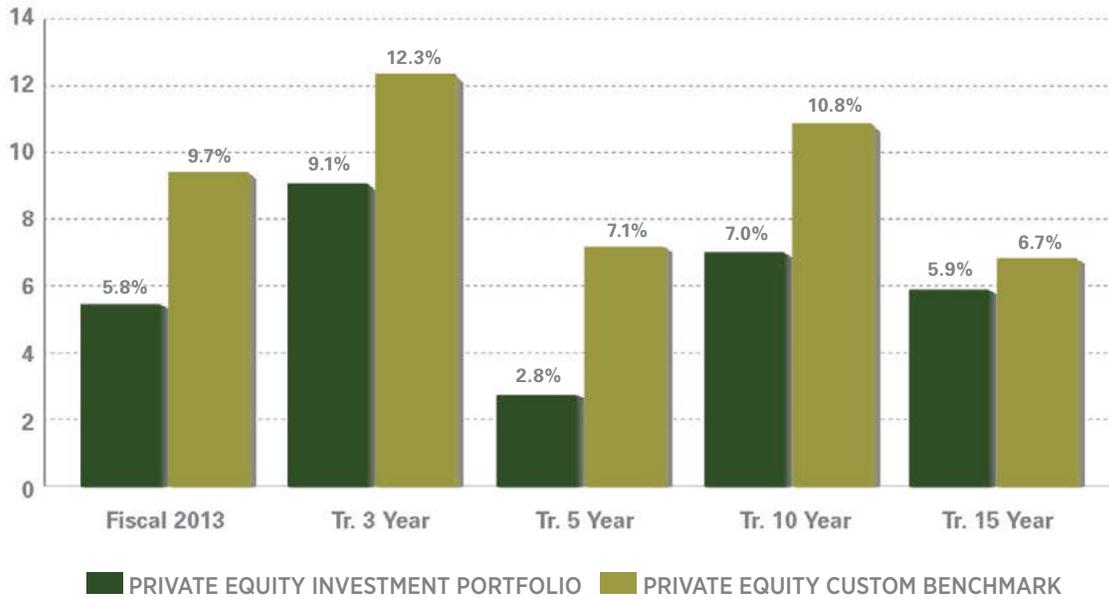


Private Equity Performance

For the fiscal year, the Private Equity investment portfolio returned 5.76 percent, underperforming its benchmark return of 9.70 percent. A new Private Equity benchmark was adopted in 2011, replacing what had been a public equity benchmark. 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 pre-2006 investments. Approximately 13.2% of NCRS Private Equity commitments since inception were completed the 24-month period ending June 30, 2013. Not until more time has passed, allowing investments to mature, will a more accurate depiction of the overall health of the portfolio be seen.

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 2013)

Below is a list of the Private Equity investment advisors and fund relationships as of June 30, 2013.

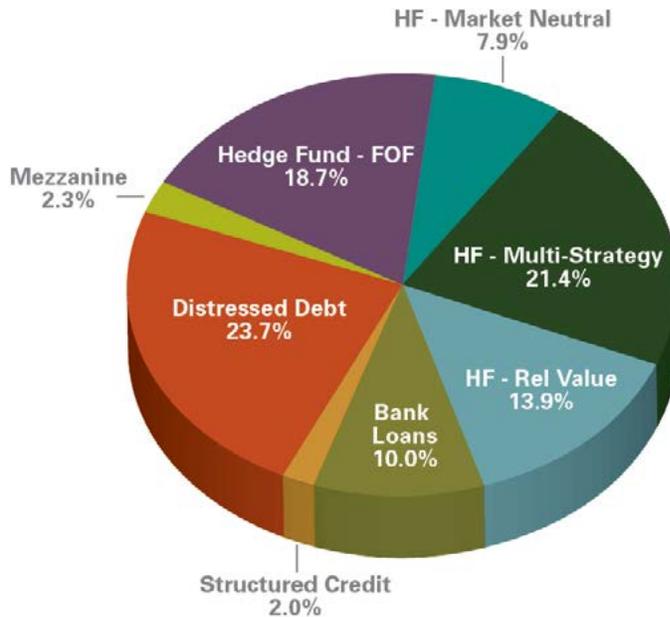
PRIVATE EQUITY ADVISORS & FUNDS	MARKET VALUE (\$)	PRIVATE EQUITY ADVISORS & FUNDS	MARKET VALUE (\$)
CS/NC INVESTMENT FUND 2006	176,980,652	COLLER INTERNATIONAL PARTNERS IV	20,109,211
STEPSTONE PIONEER CAP EUROPE I	147,094,442	PERSEUS PARTNERS VII	19,636,902
WLR RECOVERY FUND IV	133,467,207	TENAYA CAPITAL FUND VI	19,264,525
TERRA FIRMA CAPITAL PARTNERS III	106,259,887	OAKTREE EURO PRIN FUND III	19,188,434
TERRA FIRMA CAPITAL PARTNERS II	105,290,946	CS/NC INVESTMENT FUND 2008 - SERIES II	18,994,260
CS/NC INVESTMENT FUND 2008	102,324,361	ANGELENO INVESTORS II	17,756,985
STEPSTONE PIONEER CAPITAL II	99,228,246	STARVEST PARTNERS II	17,657,346
KRG CAPITAL FUND IV	98,083,751	SYNERGY LIFE SCIENCE PARTNERS	17,464,553
AVISTA CAPITAL PARTNERS II	92,185,176	CASTLE HARLAN PARTNERS IV	16,185,266
STEPSTONE PIONEER CAPITAL I	89,766,007	MILESTONE PARTNERS IV	15,928,609
CREDIT SUISSE INNOVATION FUND	89,459,817	HIGHLAND CONSUMER FUND I	15,140,055
LINDSAY GOLDBERG & BESSEMER II	78,710,030	PERSEUS MARKET OPPORTUNITY FUND	14,630,935
CHARTERHOUSE CAPITAL PARTNERS IX	78,145,545	STEPSTONE-SYN INVESTMENTS	14,462,920
CRESTVIEW PARTNERS FUND II	77,346,272	HALIFAX CAPITAL PARTNERS II	12,943,407
MATLIN PATTERSON GLOBAL OPP III	68,102,341	PAPPAS VENTURES IV	12,538,805
LONGREACH CAPITAL PARTNERS 1	67,184,529	HATTERAS VENTURE PARTNERS III	12,213,820
CHAPTER IV SPECIAL SITUATIONS FUND	62,893,608	CATTERTON PARTNERS VII	11,673,744
LINDSAY GOLDBERG III	62,463,855	HIGHLAND CAPITAL PARTNERS VII	11,198,729
LEXINGTON MIDDLE MARKET INVESTORS II	62,223,821	NEW ENTERPRISE ASSOC 14	10,699,810
ROBECO CLEAN TECH II	60,944,577	AURORA VENTURES V	10,547,485
HORSLEY BRIDGE IX	58,574,586	PAPPAS VENTURES III	9,436,152
TENAYA CAPITAL FUND V	56,960,508	ACCESS CAPITAL II	9,008,480
HORSLEY BRIDGE INTERNATIONAL IV	56,244,014	HARVEST PARTNERS IV	8,410,176
HARVEST PARTNERS V	55,167,158	TCV VI	8,290,003
MT. KELLET CAP PARTNERS II	53,345,624	WLR AHM CO-INV	8,136,441
BURRILL LIFE SCIENCES CAPITAL FUND III	51,554,018	NOVAK BIDDLE VENTURE PARTNERS V	7,643,299
LEXINGTON MIDDLE MARKET INVESTORS	50,383,284	AURORA VENTURES IV	7,333,157
CVE KAUFFMAN I	47,347,158	KRG CAPITAL FUND II	6,882,892
QUAKER BIOVENTURES II	47,131,915	CAROUSEL CAPITAL PARTNERS III	6,270,034
HARVEST PARTNERS VI	45,227,816	NOVAK BIDDLE VENTURE PARTNERS IV	5,615,960
ROBECO CLEAN TECH II CO-INV	44,780,924	WLR AGO CO-INV	5,069,395
FRANCISCO PARTNERS II	44,520,410	BURRILL LIFE SCIENCES CAPITAL FUND	4,578,999
TPG BIOTECH PARTNERS III	39,720,125	INTERSOUTH PARTNERS VI	4,154,012
AVISTA CAPITAL PARTNERS	39,631,164	CAROUSEL CAPITAL PARTNERS IV	3,417,760
CVC EUROPE EQUITY PARTNERS IV	37,726,635	NC ECONOMIC OPPORTUNITY FUND	2,671,709
AG PRIVATE EQUITY PARTNERS IV	37,230,117	AV MANAGEMENT IV	2,642,727
CATTERTON GROWTH PARTNERS	36,399,404	HALIFAX CAPITAL PARTNERS III	2,227,766
AG PRIVATE EQUITY PARTNERS IV - R	33,323,407	NOVAK BIDDLE VENTURE PARTNERS III	2,210,083
KRG CAPITAL FUND III	26,677,323	FRANKLIN FAIRVIEW I	1,642,582
ARCH VENTURE FUND VII	26,073,048	HIGHLAND CAPITAL PARTNERS VI	1,293,137
AMPERSAND 2006	24,216,519	PAPPAS VENTURES II	554,894
VISTA EQUITY PART FUND IV	23,414,082	ACCEL-KKR	229,947
ELEVATION PARTNERS	23,403,671	DLJ MERCHANT BANKING II	192,424
TPG BIOTECH PARTNERS II	22,752,598	NCEF LIQUIDATING TRUST	18,795
CASTLE HARLAN PARTNERS V	22,376,241	INTERSOUTH PARTNERS III	10,435
TUDOR VENTURES III	21,753,767	HG CAPITAL 7	0
MARKSTONE CAPITAL PARTNERS	20,745,881	LEVINE LEICHTMAN CAPITAL PARTNERS V	0
HORSLEY BRIDGE INTERNATIONAL V	20,514,649	MARLIN EQUITY IV	0



CREDIT STRATEGIES

As of June 30, 2013, the Credit Strategies investment portfolio maintained a market value of approximately \$3.3 billion, representing 4.1 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



Credit Market Overview

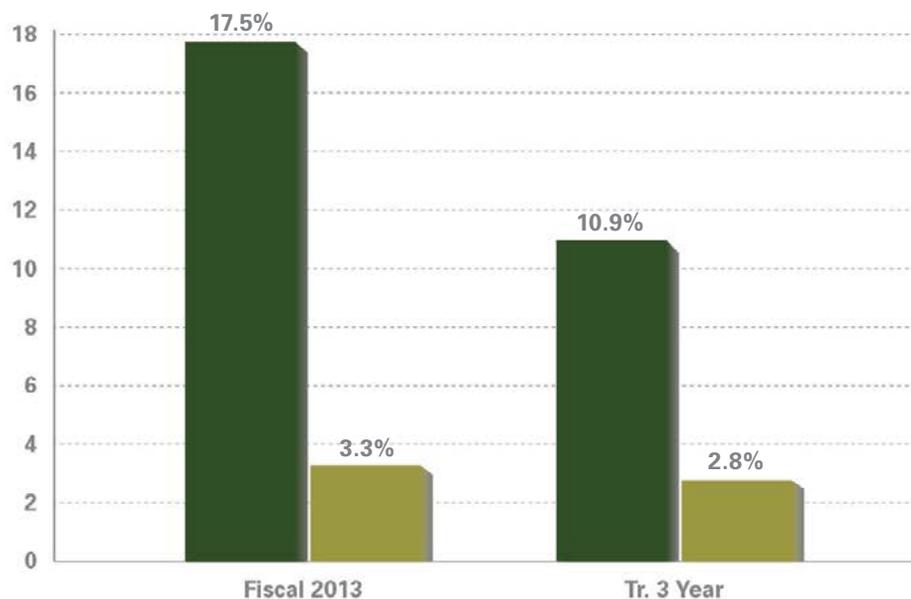
Overall, the credit markets exhibited strength with only a few moments of weakness, resulting in narrowing credit spreads and reduced volatility. The fiscal year began with continued concerns about the European debt crisis. The European Central Bank President, Mario Draghi, stated that European leaders would “do whatever it takes to save the Euro.” This signaling, along with a coordinated easing of interest rates by Central Bankers and the Federal Reserve, reduced fears and provided the financial markets with a floor. In the fourth quarter of 2012, concerns about a US “fiscal cliff” gripped the financial markets. Law makers were able to avoid the fiscal cliff by making a few last minute compromises. As the fiscal year came to a close, the Federal Reserve signaled an eventual tapering of quantitative easing because the markets were healing and the economy showed signs of a strong recovery.

Credit Strategies Performance

For the fiscal year, the Credit Investment Portfolio returned 17.45 percent, outperforming its benchmark return of 3.34 percent. The Credit Investment Portfolio’s outperformance is attributable to a diversified and conservative investment approach that has served the plan well during periods of increased uncertainty and during periods of economic recovery.



CREDIT STRATEGIES ANNUALIZED PERFORMANCE



■ CREDIT STRATEGIES ■ CREDIT CUSTOM BENCHMARK

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

CREDIT STRATEGIES INVESTMENT ADVISORS (FY ENDING 2013)

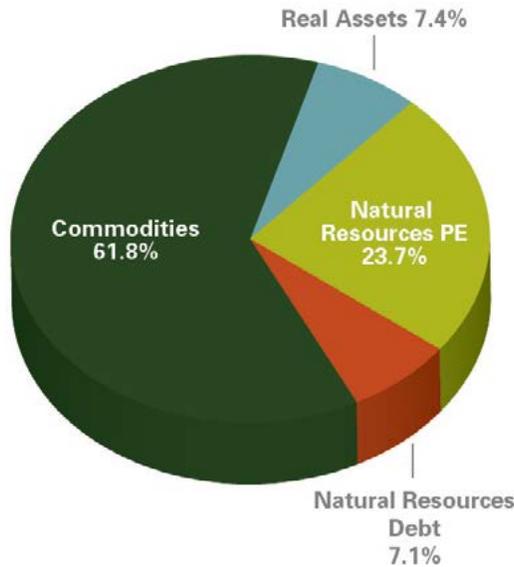
CREDIT ADVISORS & FUNDS	MARKET VALUE (\$)	CREDIT ADVISORS & FUNDS	MARKET VALUE (\$)
PAAMCO	611,884,460	CLAREN ROAD CREDIT FUND	107,791,610
ANCHORAGE CAPITAL PARTNERS	355,393,352	CVI CREDIT VALUE FUND II	65,900,000
MONARCH DEBT RECOVERY FUND	345,000,000	GSO CAPITAL OPPORTUNITIES FUND	56,387,627
AG GLOBAL DEBT STRATEGY PARTNERS, L.P.	328,954,104	WLR PPIF	38,745,363
BRIGADE LCS FUND	325,642,323	AG COMMERCIAL REAL ESTATE DEBT FUND, L.P.	26,696,476
OAKTREE VALUE OPPORTUNITIES	225,552,000	FORTRESS CREDIT OPPTS FUND III	24,781,459
CVI CREDIT VALUE FUND	220,600,000	GSO CAPITAL OPPORTUNITIES FUND II	20,237,503
SABA CAPITAL MGMT	152,063,270	AG CAPITAL RECOVERY V, L.P.	4,974,657
SILVERBACK ARBITRAGE FUND	128,992,876	AG GECC-PPIF	110,647
VARDE X FUND	120,965,697	HIGHBRIDGE IRISH SPECIALTY LOAN FUND III	0
AG CAPITAL RECOVERY VI, L.P.	112,747,095		



INFLATION PROTECTION

As of June 30, 2013, the Inflation Protection Portfolio maintained a market value of \$2.4 billion, representing 3 percent of the pension fund. The portfolio invests in a diversified mix of inflation-linked investment vehicles managed by experienced investment advisors.

STRATEGY ALLOCATION



Inflation Market Overview

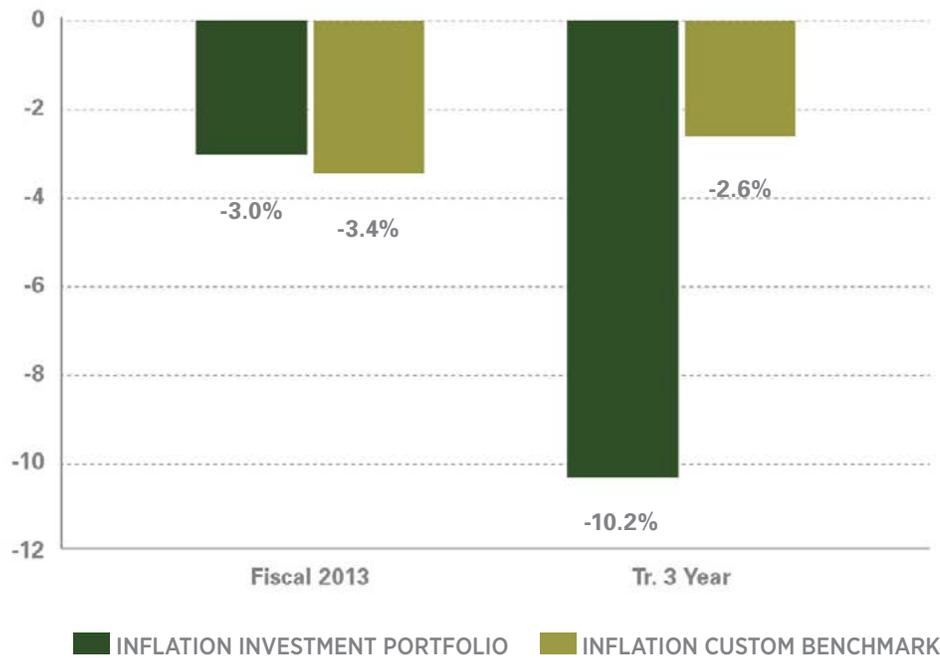
For the fiscal year ending June 30, 2013, the U.S. economy experienced low levels of inflation with a year-over-year percentage increase in the Consumer Price Index (“CPI”) of 1.8 percent which held below the Federal Reserve’s long run target of 2% for most of the financial year except for a brief spike to 2.2% in October 2012. The core CPI (excluding food and energy) was 1.6% year over year at the end of June 2013. The difference between CPI and core CPI is attributable to higher energy and transportation costs. Commodities experienced another difficult year in 2013 as growth expectations in China and other emerging markets were adjusted downward. Industrial and precious metals were the biggest losers with the price of gold dropping 25.4% from \$1592 in July 2012 to \$1192 in June 2013. However, crude oil climbed from \$84 at the beginning of July 2012 to \$96 by the end of June 2013 with some volatile price swings in between and a peak of \$99 per barrel on the back of escalation of tensions in the Middle East and supply issues. Natural gas increased from \$2.8 per million BTU at the beginning of July 2012 to over \$3.5 BTU at the end of June 2013 having topped out at \$4.4 BTU in April 2013.

Inflation Protection Performance

For the fiscal year, the Inflation Protection Portfolio returned negative 2.95 percent, outperforming its benchmark return of negative 3.41 percent by 46 basis points. The portfolio’s relative outperformance is attributable to the liquid commodities long segment of the portfolio which has outperformed its benchmark by 141 basis points. The private investment portfolio is relatively young and is in the midst of the J-curve effect.



INFLATION INVESTMENT PORTFOLIO ANNUALIZED PERFORMANCE



INFLATION PROTECTION INVESTMENT ADVISORS (FY ENDING 2013)

INFLATION PORTFOLIO ADVISORS & FUNDS	MARKET VALUE (\$)	INFLATION PORTFOLIO ADVISORS & FUNDS	MARKET VALUE (\$)
GRESHAM TAP FLEX	655,557,843	ENERGY CAPITAL PART II (SUMMIT CO-INV)	22,988,712
BLACKSTONE RESOURCES SELECT	417,282,201	CAPITAL DYNAMICS US SOLAR ENERGY	21,722,438
CREDIT SUISSE ENHANCED	381,302,268	INTERVALE CAPITAL FUND II	17,862,377
SHERIDAN PROD PARTNERS II-B	137,431,000	RED KITE MINE FINANCE II	17,737,920
MTP ENERGY FUND	126,374,659	WOOD CREEK NORTH STAR CO-INV	15,000,000
PWP ABVO III	101,639,499	EIF US POWER FUND IV	12,425,264
SHERIDAN PRODUCTION PARTNERS I	87,129,000	ENCAP VIII - CO-INVEST	12,235,346
QUINTANA ENERGY I	63,665,602	GSO CO-INVEST I	11,792,476
WOOD CREEK NORTH STAR	57,487,414	DENHAM CAPITAL VI	10,359,143
ENERGY CAPITAL PARTNERS II	44,590,490	MTP ENERGY OPP FUND	7,810,374
BLACKSTONE ENERGY PARTNERS I	40,562,577	GSO BAKKEN HOLDINGS I	2,810,741
ARCLIGHT ENERGY PARTNERS V	31,133,597	LINDSAY GOLDBERG III FORMATION ENERGY	1,398,055
QUINTANA ENERGY II	27,455,916	QUINTANA ENERGY I CO-INV	399,947
ENCAP ENERGY FUND VIII	25,952,803	QUINTANA ENERGY II CO-INV	0



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.

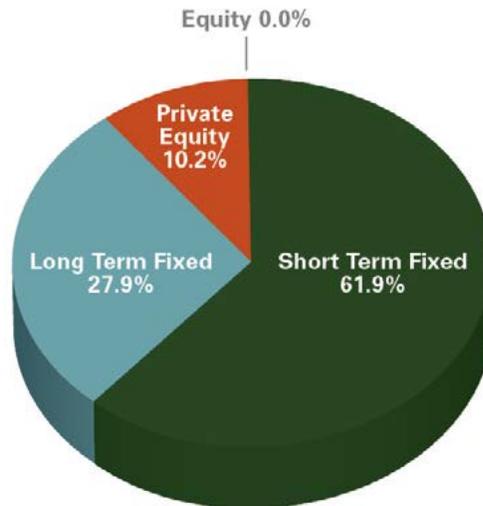
Escheat Investment Program

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, 2013, the Escheat Fund maintained a total portfolio market value of \$369.2 million, with \$331.6 million invested in fixed income, \$37.6 million invested in private equity, and \$7,361 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, 2013. Actual allocations versus target weights reflect the relatively large appropriations out of the fund in recent years.

ESCHEAT INVESTMENT FUND ASSET ALLOCATION AS OF JUNE 30, 2013

	MARKET VALUE	PORTFOLIO WEIGHT	TARGET WEIGHT
FIXED INCOME	\$331,557,851	89.8%	80.0%
GLOBAL EQUITY	\$7,361	0.0%	12.0%
REAL ESTATE	\$0	0.0%	4.0%
PRIVATE EQUITY	\$37,672,626	10.2%	4.0%
ESCHEAT FUND	\$369,237,838	100%	---

ESCHEAT INVESTMENT FUND ASSET ALLOCATION

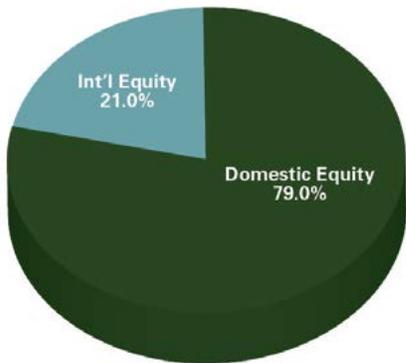


Public Hospitals

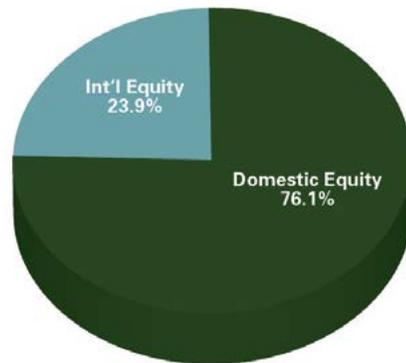
G.S. 147-69.2(b2) & G.S. 147-69.2(b3) allow North Carolina public hospitals to invest funds with the State Treasurer.

As of June 30, 2013, the market value for the New Hanover Hospital portfolio was \$71.0 million, the market value for Columbus Regional Healthcare System was \$7.8 million, the market value for the Margaret R. Pardee Hospital was \$7.7 million, and the market value for the Watauga Medical Center was \$13.0 million. The allocations to the hospital plans are displayed below.

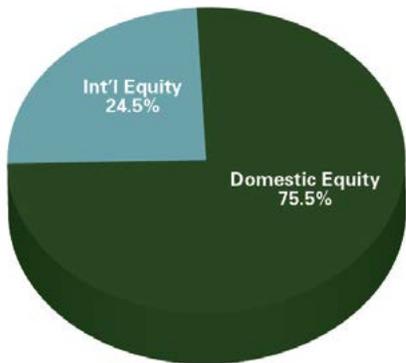
NEW HANOVER HOSPITAL



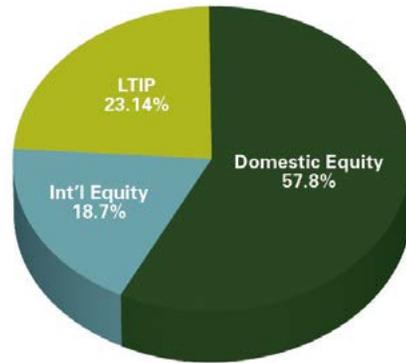
COLUMBUS REGIONAL HEALTHCARE SYSTEM



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, 2013, there were a total of 15 participants with assets totaling \$115.2 million.

Other Non-Pension Long-Term Investment Portfolio Participants

As of June 30, 2013, the aggregate market value of other non-pension participants invested in the Long-Term Investment Portfolio was \$1.1 billion.





STATE & LOCAL GOVERNMENT FINANCE DIVISION



STATE AND LOCAL GOVERNMENT FINANCE DIVISION STATISTICS

	2010-11	2011-12	2012-13
Maintained the AAA Bond Rating	YES	YES	YES
Number of Local Government Units Contacted Regarding their Fiscal Health or Compliance with General Statutes	439	283	348
Total Debt Issued by Local Governments	\$3.3 BILLION	\$4.2 BILLION	\$3.9 BILLION
Debt Issued for Special State and Local Authorities and Agencies	\$1.6 BILLION	\$1.3 BILLION	\$2.3 BILLION
Total State Debt Issued	\$1.5 BILLION	\$1.3 BILLION	\$1.6 BILLION



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

The Division comprises the Debt Management section, which issues and monitors all State 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.

2012-13 FISCAL YEAR SUMMARY OF DEBT ISSUED

TOTAL STATE	\$ 1.57 BILLION
TOTAL LOCAL GOVERNMENTS	\$ 3.95 BILLION
TOTAL	\$ 5.52 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. The debt of North Carolina’s 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 is often referred to as a model for local government financial oversight.

THE LOCAL GOVERNMENT COMMISSION

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

THE NORTH CAROLINA CAPITAL FACILITIES FINANCE AGENCY

Private colleges, universities, nonprofit and for-profit corporations providing certain services may receive financing assistance through bonds issued by the North Carolina Capital Facilities Finance Agency (“Agency”), 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 Department of State Treasurer. The Agency meets monthly.

Following initial contact from an applicant, the staff generally begins the process of determining project feasibility and desirability with a preliminary conference. Upon receipt of an application, financial capability and responsibility 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 \$5.9 billion in tax-exempt capital financing. At June 30, 2013, there were \$2.9 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, 2013, the Agency issued \$368.7 million in bonds for five institutions. The Agency's annual report is available from the Department of the State Treasurer.

THE NORTH CAROLINA INFRASTRUCTURE FINANCE CORPORATION

The North Carolina Infrastructure Finance Corporation ("Corporation") was created by the General Assembly and organized as a separate not-for-profit corporation. It is managed by a three-member board appointed by the State Treasurer. The Corporation is authorized to issue tax-exempt debt to finance the acquisition, construction, repair and renovation of State facilities and related infrastructure. The debt obligations are secured by lease or payment agreements with the State, with the State financially responsible for the debt payments. The administrative staff for the Corporation is also provided by the Department of State Treasurer. The Corporation, used in past years to finance State construction, repair and renovation, has been inactive during the past several fiscal years because it is no longer being used to issue this type of State debt.

DEBT MANAGEMENT

The State and Local Government Finance 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, 2013, the State had General Obligation bonds outstanding of approximately \$4.0 billion and certificates of participation, limited obligation bonds and lease-purchase bonds outstanding of approximately \$2.52 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, 2013, the State had a "Triple-A" rating, the highest rating attainable, from all three national rating agencies. Only eight 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. The February 1, 2013, study determined that the State's annual General Fund debt capacity was approximately \$350 million in fiscal year 2013. The Study also provided an estimate of the annual debt capacity for the transportation funds (the State Highway Fund and Highway Trust Fund) and projected that there is currently no new transportation debt capacity until fiscal year 2014.

The other primary function of the Division is the approval, sale and delivery of all North Carolina local government bonds and notes. This includes the sale of revenue bonds, which are secured only by specific revenue pledged in payment of the bonds. The Division staff counsels and assists local governmental units in determining the necessity of a project, the size of the issue, and the most expedient form of financing. A review is made of the debt management policies of the unit, the effect of the financing on the unit's tax rate and the unit's compliance with the Local Government Budget and Fiscal Control Act. Sale dates are scheduled depending on the need for the money, the anticipated interest rates and the most favorable times bonds can be sold with a minimum of competition. The staff strives to resolve all problems and to determine that all statutory requirements are met before applications are presented to the 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, 2013, authorized and unissued general obligation bonds for local governments and authorities amounted to \$2.6 billion and general obligation debt outstanding amounted to \$9.9 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, 2013, the LGC approved

contracts or other agreements (including refundings) totaling \$1.8 billion. (See Tables 5 and 6.)

Staff continues to perform several tasks to ensure compliance with various requirements of the Internal Revenue Service, Securities and Exchange Commission and other regulatory agencies, relating to the ongoing management of tax exempt debt, which includes monitoring, arbitrage rebate compliance, preparing and filing secondary market disclosures information and other post issuance compliance duties. Staff also prepares information for use by the General Assembly, bond counsel and other outside finance and legal professionals.

BOND ISSUANCES FOR 2012-13¹

	FY NO.	2012-13 AMOUNT (IN MILLIONS)
BONDS SOLD FOR STATE		
G.O. BONDS (GENERAL FUND)	4	1,321.0
NORTH CAROLINA TURNPIKE AUTHORITY REVENUE BONDS	--	--
GRANT ANTICIPATION REVENUE VEHICLE BONDS ²	--	--
SPECIAL INDEBTEDNESS	1	250.0
TOTAL ISSUED	5	\$ 1,571.0
BONDS AND NOTES SOLD FOR LOCAL GOVERNMENT UNITS		
G.O. BONDS	84	1,285.0
REVENUE BONDS	37	648.5
WATER AND SEWER REVOLVING LOANS	24	103.4
WATER AND SEWER LOANS (STIMULUS)	33	49.2
SPECIAL OBLIGATION BONDS - SOLID WASTE	2	4.6
G.O. NOTES ³	40	242.7
REVENUE NOTES ³	14	66.6
TOTAL ISSUED	234	\$ 2,400.0
INSTALLMENT/LEASE CONTRACTS SOLD FOR LOCAL UNITS	173	1,546.4
TOTAL FOR LOCAL GOVERNMENT	407	\$ 3,946.4
REVENUE BONDS SOLD FOR:		
MEDICAL CARE COMMISSION	13	1,154.0
HOUSING FINANCE AGENCY	3	157.0
POWER AGENCIES ⁴	3	605.0
INDUSTRIAL FACILITIES & POLLUTION CONTROL FINANCING AUTHORITIES ⁵	4	71.6
CAPITAL FACILITIES FINANCE AGENCY	13	263.8
TOTAL ISSUED:	36	\$ 2,251.4
GRAND TOTAL ISSUED:	448	\$ 7,768.8

¹ These totals include approximately \$57 million of Qualified School Construction Bonds issued as part of the 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. The State issued no new GARVEE bonds in fiscal year 2012-2013.

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 and for North Carolina Municipal Power Agency #1.

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 2012-2013 with issuances in the past two fiscal years is shown in Chart 8.

FISCAL MANAGEMENT

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

The staff of the Fiscal Management Section annually reviews the audited financial statements of approximately 1,260 local governments and public authorities. The staff determines that all reports are prepared in accordance with generally accepted accounting principles and that applicable auditing standards have been followed. The staff also reviews the audit report to evaluate the financial condition of the unit, to determine if the unit complied with the Local Government Budget and Fiscal Control Act and other State laws, and to determine if the unit has an adequate system of internal controls in place. As a part of the audit review process, staff reviewed approximately 559 single audits and approximately 266 "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 2012-2013, staff sent approximately 348 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 are also provided in order to accomplish these tasks. Staff members make presentations throughout the year at various workshops sponsored by:

- 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 League of Municipalities
- North Carolina State University MPA Program
- UNC School of Government
- Cherry, Bekaert, LLP

OUTREACH AND COMMUNICATION

In fiscal year 2012-2013, staff issued 21 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 e-communication, launched in the spring of 2010. Staff provides updates of public memoranda, as well as other pertinent information about public finance issues. The LGC News e-communication currently has more than 1,631 subscribers.

- Staff members worked with the University of North Carolina ("UNC") School of Government to present the 12th annual State Treasurer's Conference on Local Government Accounting, Auditing and Financial Management held in April 2013. The conference was intended for both local government auditors and officials. It was conducted at two sites and drew more than 263 participants. Topics covered included a current Governmental Accounting Standards Board ("GASB") update, current financial reporting issues in local governments in the State, implementation of House Bill 1779, a federal and state grant compliance auditing review, and general topics of interest to local governments. In addition, staff members spoke at 11



continuing education courses and conferences sponsored by organizations such as the UNC School of Government, various North Carolina finance officers associations, the Rural Center, the North Carolina Association of Certified Public Accountants, and N.C. State University.

- A Continuing Professional Education class for governmental auditors was offered again in 2013 in collaboration with the UNC School of Government. Held at the UNC campus, the class covered revised auditing standards, the statutory requirements that cover debt approval by the LGC, quality review of audits by the Office of State Auditor, financial reporting issues for local governments, and new GASB standards. It was well received with 107 attendees.
- The Department sponsored the 23rd 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 2012-2013, an additional \$57 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 by local governments

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

- Audit Review and Invoice Approval Process – During 2012-2013, the staff, with the help of the Information Technology Division, implemented the second phase of 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 into a unique mailbox. The data was then imported into information management software that provides data and document management. When staff is performing desk reviews, they now have the prior two years’ audits and communications immediately accessible to them, allowing for better follow-up of ongoing issues. The process continued 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.



- Town of Princeville – In July 2012, the Local Government Commission voted to assume control of the financial affairs of the Town of Princeville. The Town had received an adverse opinion on its 2011 audited financial statements as a result of a poor accounting system and a systemic lack of internal controls. The Town also was at risk of default on loans from United States Department of Agriculture (USDA) and NC Department of Natural Resources (DENR). The staff to the Commission had been monitoring the Town's finances for several years and determined that the town was in violation of

numerous General Statutes, and the overall financial and operational condition of the Town had deteriorated in 2011 and 2012 to the point that action by the LGC was necessary. After stepping in, staff determined that the finances were in a more precarious position than had been originally estimated. Staff continues to work to produce accurate accounting records and develop a sound system of internal and operational controls for the Town. The Commission is still in control of the Town's finances and is working with the Town to move towards the goal of returning control to the Town.

CHART 7

**PURPOSES FOR WHICH LOCAL GOVERNMENTS SOLD BONDS AND NOTES
FISCAL YEAR 2013**

	SCHOOL	UTILITIES	REFUNDING	OTHER	NO.	TOTAL AMOUNT
G.O. BONDS						
COUNTIES	\$142,760,000	\$22,455,000	\$643,001,900	\$206,405,000	35	\$1,014,621,900
MUNICIPALITIES	-	12,353,000	42,809,456	87,910,000	19	143,072,456
DISTRICTS AND AUTHORITIES	-	35,541,000	91,793,459	-	30	127,334,459
TOTAL G.O. BONDS	\$142,760,000	\$70,349,000	\$777,604,815	\$294,315,000	84	\$1,285,028,815
REVENUE BONDS						
COUNTIES	-	\$24,197,750	\$10,985,000	-	7	\$35,182,750
MUNICIPALITIES	-	368,989,819	40,471,673	8,941,881	22	418,403,373
DISTRICTS AND AUTHORITIES	-	20,922,451	174,020,000	-	8	194,942,451
TOTAL REVENUE BONDS	-	\$414,110,020	\$225,476,673	\$8,941,881	37	\$648,528,574
SPECIAL OBLIGATION BONDS						
SOLID WASTE	-	\$4,590,000	-	-	2	\$4,590,000
TOTAL SPECIAL OBLIGATION BONDS	-	\$4,590,000	-	-	2	\$4,590,000
WATER AND SEWER REVOLVING LOANS						
COUNTIES	-	\$33,106,915	-	-	11	\$33,106,915
MUNICIPALITIES	-	106,212,299	-	-	34	106,212,299
DISTRICTS AND AUTHORITIES	-	13,232,209	-	-	12	13,232,209
TOTAL WATER AND SEWER REVOLVING LOANS	-	\$152,551,423	-	-	57	\$152,551,423
NOTES						
G.O. BOND ANTICIPATION NOTES	\$21,178,491	\$113,962,000	-	\$107,596,994	40	\$242,737,485
REVENUE NOTES	-	66,646,000	-	-	14	66,646,000
TOTAL NOTES	\$21,178,491	\$180,608,000	-	\$107,596,994	54	\$309,383,485
TOTAL BONDS AND NOTES	\$163,938,491	\$822,208,443	\$1,003,081,488	\$410,853,875	234	\$2,400,082,297



CHART 8

DEBT MANAGEMENT ACTIVITIES - STATE AND LOCAL (IN MILLIONS)
FISCAL YEAR 2013

	FY 2012-13		FY 2011-12		FY 2010-11	
	NO.	AMT.	NO.	AMT.	NO.	AMT.
BONDS SOLD FOR STATE						
G.O. BONDS (GENERAL FUND)	4	\$1,321.0	-	\$ -	2	\$774.8
G.O. BONDS (HIGHWAY FUND)	-	-	-	-	-	-
SPECIAL INDEBTEDNESS	1	250.0	2	767.4	1	500.0
GRANT ANTICIPATION REVENUE VEHICLE BONDS	-	-	2	325.1	-	-
NC TURNPIKE AUTHORITY REVENUE BONDS	-	-	2	224.5	1	233.9
TOTAL ISSUED	5	\$ 1,571.0	6	\$ 1,317.0	4	\$ 1,508.7
BONDS AND NOTES SOLD FOR LOCAL GOVERNMENT UNITS						
G.O. BONDS	84	\$ 1,285.0	52	\$ 1,401.4	47	\$ 854.9
REVENUE BONDS	37	648.5	48	1,046.8	43	1,106.1
SPECIAL OBLIGATION BONDS - SOLID WASTE	2	4.6	2	16.5	3	28.3
G.O. NOTES	40	242.7	50	424.8	37	235.7
REVENUE NOTES	14	66.6	15	38.2	19	45.4
SUBTOTAL BONDS & NOTES ISSUED	177	\$ 2,247.4	167	\$ 2,927.7	149	\$ 2,270.4
INSTALLMENT/LEASE CONTRACTS SOLD FOR LOCAL UNITS	173	\$ 1,546.4	132	\$ 1,197.2	158	\$ 925.8
WATER & SEWER REVOLVING LOANS*	24	103.4	21	80.9	75	102.9
WATER & SEWER REVOLVING LOANS (STIMULUS) *	33	49.2	45	23.9	-	-
TOTAL FOR LOCAL GOVERNMENT UNITS	407	\$ 3,946.4	365	\$ 4,229.7	382	\$ 3,299.0
REVENUE BONDS SOLD FOR						
MEDICAL CARE COMMISSION	13	\$ 1,154.0	11	\$ 765.4	18	\$ 859.2
HOUSING FINANCE AGENCY	3	157.0	1	14.2	1	14.2
POWER AGENCIES	3	605.0	1	424.0	1	146.1
INDUSTRIAL FACILITIES AND POLLUTION CONTROL FINANCING AUTHORITIES	4	71.6	2	7.9	14	351.8
CAPITAL FACILITIES FINANCE AGENCY	13	263.8	6	128.8	7	184.3
TOTAL ISSUED	36.0	\$ 2,251.4	21	\$ 1,340.3	41	\$ 1,555.6
GRAND TOTAL ISSUED	448	\$ 7,768.8	392	\$ 6,887.0	427	\$ 6,363.4

* Represents amounts of Water and Sewer Revolving Loans issued (closed) during the fiscal year.





North Carolina
State Health Plan

FOR TEACHERS AND STATE EMPLOYEES

A Division of the Department of State Treasurer



STATE HEALTH PLAN
DIVISION

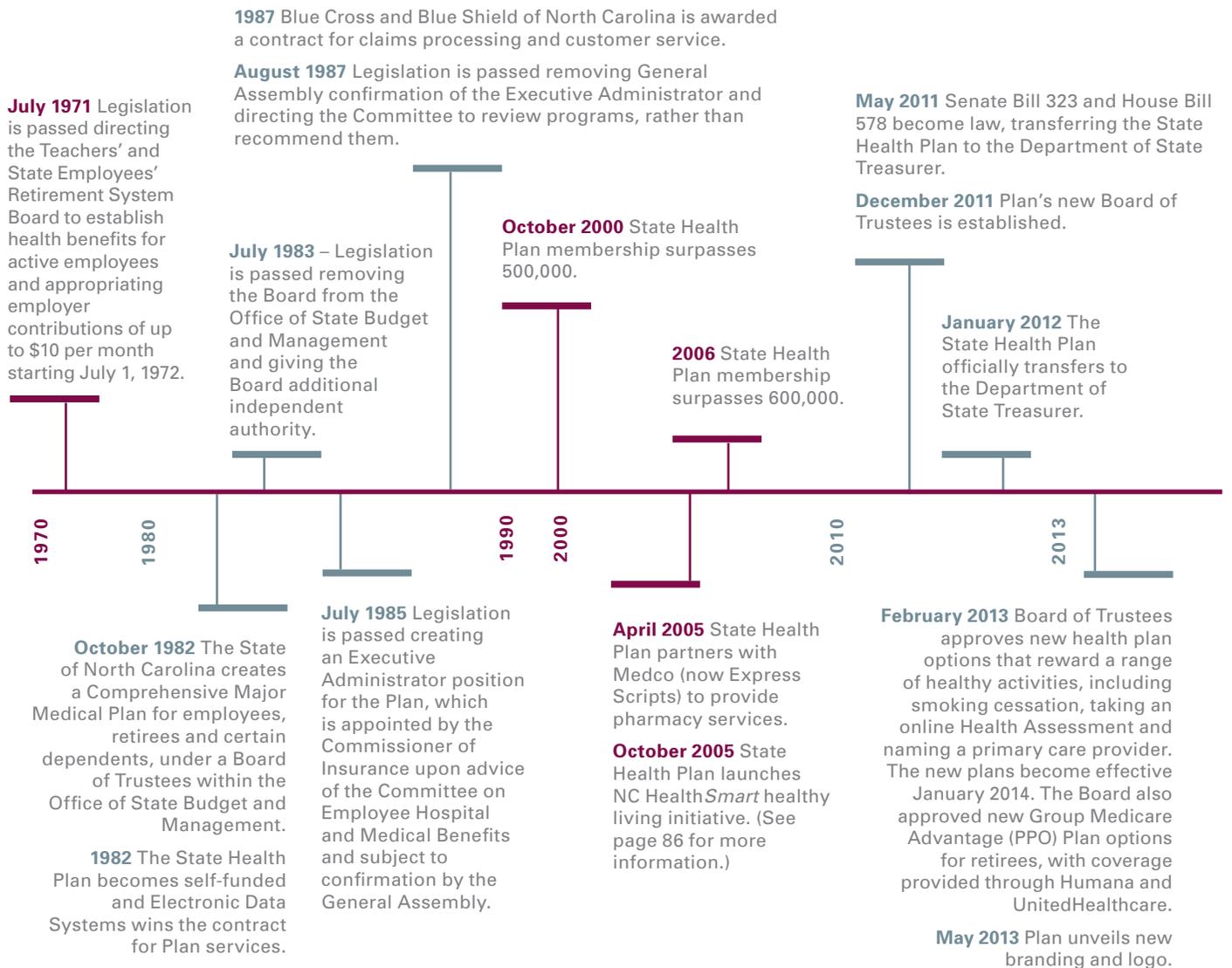


The State Health Plan for Teachers and State Employees was officially transferred to the Department of State Treasurer January 1, 2012. This report contains data for the 2012-13 fiscal year.

The mission of the State Health Plan is to improve the health and health care of North Carolina teachers, state employees, retirees and their dependents, in a financially sustainable manner, thereby serving as a model to the people of North Carolina for improving their health and well-being.

The Plan provides health care coverage to approximately 670,000 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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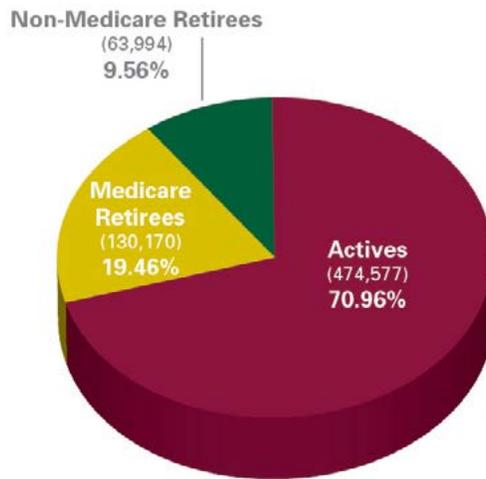
STATE HEALTH PLAN STRUCTURE

The State Health Plan provides health care coverage to approximately 670,000 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:

- More than 474,000 active employees and dependents. Dependents include spouses and children up to age 26.
- More than 1,300 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 194,000 retirees and their dependents.

AVERAGE MEMBERSHIP BY EMPLOYEE STATUS (JULY 2012 THROUGH JUNE 2013)



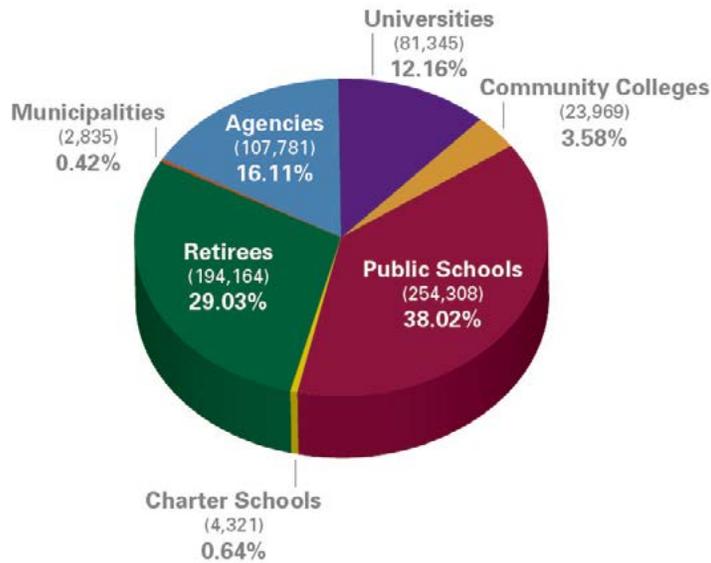
The Plan offers two Preferred Provider Organization (“PPO”) plans, described below, using the Blue Optionssm network. These plans provide freedom of choice among in-network providers, lower out-of-pocket costs and a strong emphasis on preventive health.

- 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. From July 2012 through June of 2013, the 70/30 Plan accounted for 238,611 members, or 36 percent of total membership.
- The 80/20 Standard PPO Plan has a higher coverage level than the Basic plan. From July 2012 through June of 2013, the 80/20 Plan accounted for 430,130 members, or 64 percent of total membership.

AVERAGE MEMBERSHIP BY PLAN (JULY 2012 THROUGH JUNE 2013)



AVERAGE MEMBERSHIP BY ENTITY (JULY 2012 THROUGH JUNE 2013)

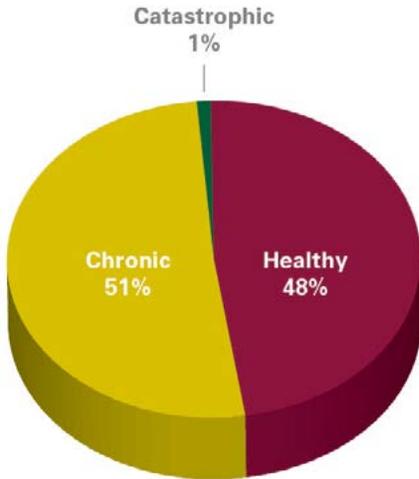


MEMBERSHIP HEALTH SNAPSHOT

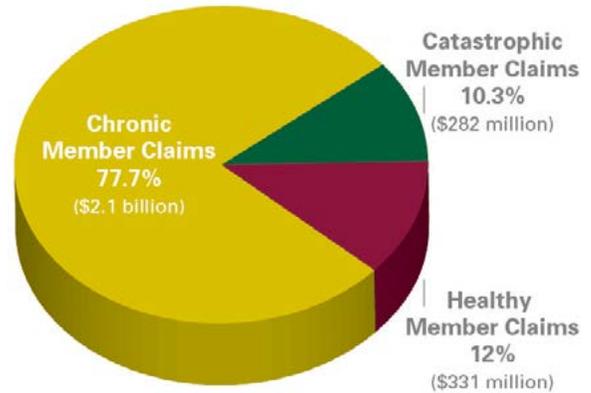
The State Health Plan monitors the general health of its member population to identify and address health-related trends.

**HEALTH SNAPSHOT OF PLAN MEMBERS
AS OF SEPTEMBER 2012**

*Actual percentages (chart has rounded off numbers):
Healthy, 47.8%; Chronic, 51.5%; Catastrophic, 0.7%*



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 2010 and fiscal year 2012, major findings from the Clinical Risk Group* analysis found that over the two-year period:

- Forty-eight percent (48%) of members had no particular health risk in 2012, which is slightly higher than 47% in fiscal year 2010.
- Members having a primary diagnosis of mental health had the highest net increase, 1,991, from 2010 to 2012. This means there were 1,991 more members who received a primary diagnosis of “mental health” from FY 2010 (28,786) to FY 2012 (30,777).
- A 10-year projection by Segal shows a 2.8% decrease in the percentage of members who are healthy if no further actions are taken to improve the health of the covered Plan population.
- A 5- and 10-year projection shows diabetes and oncology as the two specific, primary diseases that will have the highest net member increases.

**Clinical Risk Group analysis is a management tool that performs analysis of claims and clinical data to assign individual members to a specific clinical group based on their diagnoses. The analysis helps to identify the prevalent health risks within the Plan’s population, predict the financial impact of those risks, and find opportunities for the Plan to better control cost and improve the health of their members. (Segal Consulting, 2013.)*



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, nearly \$2.7 billion for fiscal year 2012-13, are made through contractual agreements. These agreements enable the Plan to provide comprehensive health benefits for the more than 670,000 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

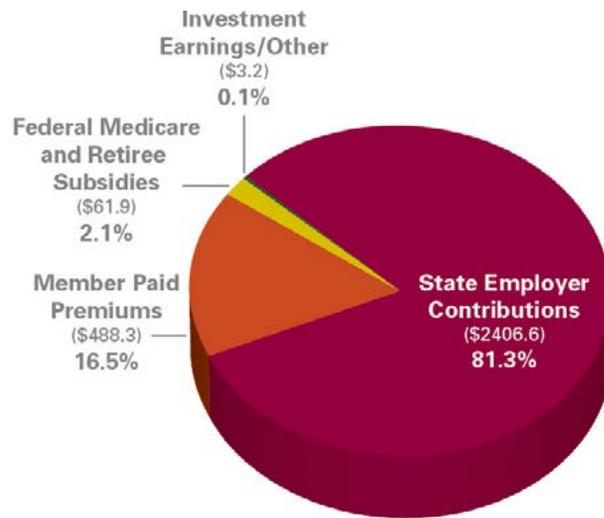
The Data Reporting and Analytics section collects, analyzes and summarizes data in order to generate statistical, financial and analytic reports to assist the Plan in making data-driven business decisions.



FUNDING THE STATE HEALTH PLAN

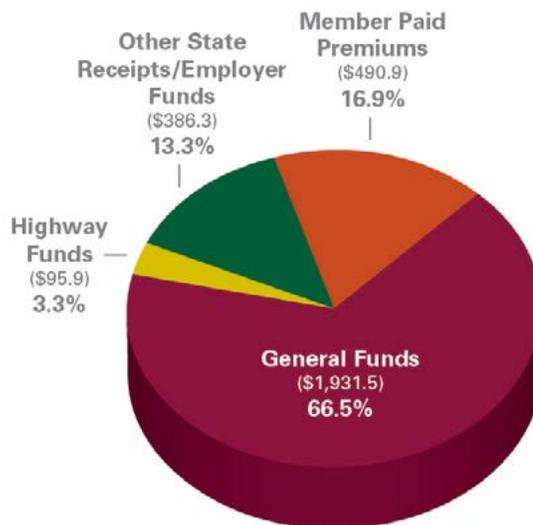
The General Assembly does not appropriate funds directly to the State Health Plan. Instead, it provides funds to state agencies, universities, community colleges, local school systems and the retirement system to pay an “employer contribution” or monthly premium on behalf of employees and retirees. As 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 2012-13.

FISCAL YEAR ENDED 2012-2013 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.

FISCAL YEAR ENDED JUNE 30, 2013 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.

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	FY 2012-13
PREMIUM CONTRIBUTIONS	\$2,464,586,231	\$2,680,693,467	\$2,740,814,168	\$2,904,569,825
OTHER RECEIPTS	\$67,302,863	\$106,412,798	\$102,184,442	\$63,139,306
TOTAL REVENUES	\$2,531,889,094	\$2,787,106,265	\$2,842,998,610	\$2,967,709,131
MEDICAL CLAIMS	\$1,785,001,289	\$1,789,071,132	\$1,852,382,843	\$1,834,681,439
PHARMACY CLAIMS	\$616,515,164	\$660,757,275	\$654,259,637	\$657,275,438
TOTAL CLAIMS	\$2,401,516,453	\$2,449,828,407	\$2,506,642,480	\$2,491,956,877
ADMINISTRATIVE EXPENSES	\$164,657,096	\$163,246,486	\$160,372,011	\$162,022,998
TOTAL EXPENDITURES	\$2,566,173,549	\$2,613,074,893	\$2,667,014,491	\$2,653,979,875
PLAN INCOME/(LOSS)	(\$34,284,455)	\$174,031,372	\$175,984,119	\$313,729,256



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, disease and case management. Many programs are offered to members at no extra cost.

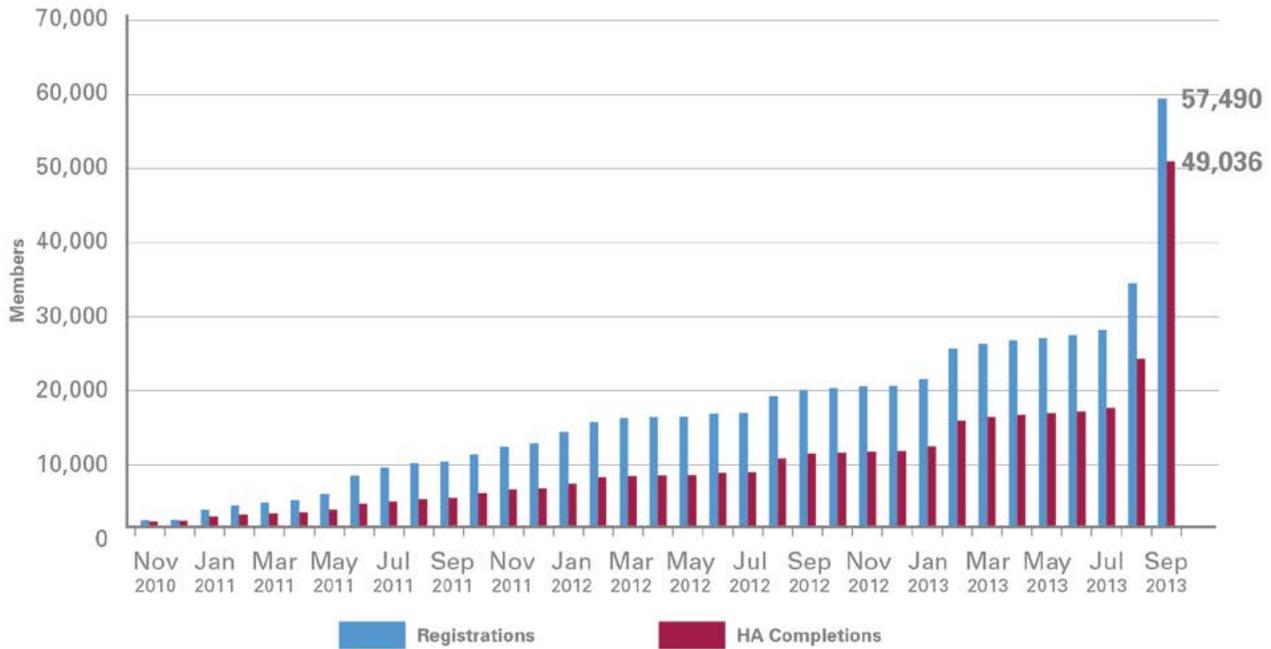
NC HealthSmart services include:

- Preventive services, from flu shots to routine physicals
- A 24-hour nurse line to help provide quick answers to medical concerns
 - 3,038 members called the 24-hour nurse line from July 2012 to June 2013.
- Specialty Case Management to help with Chronic Kidney Disease and End Stage Renal Disease
- 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 members 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 therapies. Nicotine patches were offered December 2009 through August 2013. Beginning September 1, 2013, nicotine replacement therapies will expand to include nicotine patches, gum and combination therapy 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 in English and Spanish. Between July 1, 2012, and June 30, 2013:
 - 489 members utilized the multiple call program.
 - 524 members received Nicotine Replacement Therapy patches.
- Eat Smart, Move More, Weigh Less, a 15-week, live, interactive online weight management program. Between July 2012 and June 2013:
 - 127 classes were held
 - 2,112 members enrolled in the program
 - 1,258 members completed the course
- 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, 2012, and June 30, 2013:
 - 18,385 members engaged with a health coach on disease management
 - 4,706 members engaged with a health coach for lifestyle coaching



Through September 2013, among members who logged on to the Personal Health Portal, 57,490 members registered as new users and 49,036 completed an online Health Assessment.

STATE HEALTH PLAN PORTAL REGISTRATIONS AND HEALTH ASSESSMENT COMPLETIONS



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:

- Department of Health and Human Services - *Your Roadmap to Good Health* - Murdoch Developmental Center employees who are Plan members received a \$15 reduced copay for primary care visits. To receive the reduced copay for themselves, spouses and dependents, eligible Plan subscribers must have completed a Health Assessment and health screening. This program ended September 30, 2012. A total of 1,170 members participated in this program.
- Charlotte-Mecklenburg Schools - *Wellness Wins Program* - CMS employees who are Plan members can receive 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. The reduced primary care copay incentive will end on March 31, 2014. A total of 3,437 members have participated over the two-year program period.
- Department of Health and Human Services agencies in Butner – Employees located at Central Regional Hospital, R.J. Blackley Alcohol and Drug Abuse Treatment Center and Whitaker Psychiatric Residential Treatment Facility received a \$15 reduced copay for primary care visits after completing a Health Assessment and health screening. This program will end November 30, 2013. A total of 1,136 members participated over the two-year program period.



THE YEAR'S HIGHLIGHTS

HEALTH ASSESSMENTS

Health Assessments through the NC Health*Smart* online Personal Health Portal offer members the chance to gain a full perspective of their current health status. In addition, members who completed an assessment receive a free Health Action Plan to guide their health and wellness activities.

- 49,036 members completed a Health Assessment through September 2013. That compares with 10,000 who completed an assessment through September 2012.

STATE HEALTH PLAN BOARD OF TRUSTEES ACTIONS

The board took the following actions in fiscal year 2012-2013:

- The Board of Trustees approved a proposal to offer new health plan options for teachers and state employees. Beginning January 1, 2014, State Health Plan members will have new choices for their health care benefits. Active employees and non-Medicare retirees will have the option to remain on the current premium-free 70/30 plan, or select the Enhanced 80/20 Plan or a new Consumer-Directed Health Plan, which comes with a premium, but allow members to reduce their premium and out-of-pocket costs by completing healthy activities, including smoking cessation, taking an online Health Assessment and naming a primary care provider.
- The Board also approved new Group Medicare Advantage (PPO) Plan options for retirees, with coverage provided through Humana and UnitedHealthcare.

These new plans focus on helping members understand and improve their health care to encourage cost savings and improve the long-term financial stability of the State Health Plan.

LEGISLATION

For Calendar Year 2014 and 2015, the North Carolina General Assembly appropriated maximum premium increases of 3.57% and 2.14%, respectively. The General Assembly included a provision that the State Health Plan shall adopt plan changes to reduce average annual premium increases by at least one in the next four years.

The 2013 session of the General Assembly enacted legislation to revise sections of General Statute § 135-48 and § 147-86 through House Bill 232. Key portions of this legislation included updating the rules under which employees are eligible to enroll in the Plan based on the Affordable Care Act coverage rules. Additionally, retirees who do not elect to enroll themselves or dependents in the Plan when first eligible will only be allowed to enroll during Annual Enrollment, unless they experience a qualifying event; this is consistent with language related to active employees that was enacted in 2012.

COMMUNICATIONS

In support of the new plan options for 2014, the State Health Plan began preparation for a massive training effort for Health Benefit Representatives within employing units across the state. Work also began to prepare for a comprehensive communication effort for members to educate them regarding their new plan options. Communication efforts include direct mail, webinars, enrollment education sessions, online tutorials and other online resources.





UNCLAIMED PROPERTY AND ESCHEATS DIVISION



UNCLAIMED PROPERTY AND ESCHEATS DIVISION STATISTICS

	2009-10	2010-11	2011-12	2012-13
AMOUNT OF FUNDS DEPOSITED	\$163,293,449	\$144,768,449	\$115,665,277	\$162,453,833
AMOUNT PAID TO RIGHTFUL OWNERS	\$48,365,264	\$46,962,169	\$41,335,056	\$50,690,360
AMOUNT OF PRINCIPAL TRANSFERRED FOR SCHOLARSHIPS OUT OF THE ESCHEAT FUND	\$165,929,219	\$136,799,219	\$152,117,592	\$50,307,659
AMOUNT OF INTEREST SENT TO SEAA FOR SCHOLARSHIPS	\$7,343,987	\$9,832,734	\$9,834,939	\$2,481,084

INQUIRIES REGARDING UNCLAIMED PROPERTY

NUMBER OF PHONE CALLS	88,625	89,295	115,248	106,872
NUMBER OF WEB SEARCHES	4,345,909	4,776,414	5,364,423	5,752,216
TOTAL NUMBER OF CLAIMS PAID	38,583	28,211	31,192	38,100



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 2013 fiscal year, ending June 30, a total amount of \$2.4 million from interest earned and \$27.5 million from the principal was sent to SEAA to be used for needy and worthy students. A total of 90,836 students were assisted through SEAA with scholarships from the Escheats Fund during the 2012-2013 academic year.

The General Assembly has mandated that additional funds from the principal be sent to the Department of Veterans Scholarship Fund in the amount of \$6.5 million and the Community College Program in the amount of nearly \$16.3 million.

Currently the unclaimed property fund is valued at approximately \$383 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, 2013, was 11,023, totaling \$162.5 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, 2013, was 38,100, totaling \$50.7 million.

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.

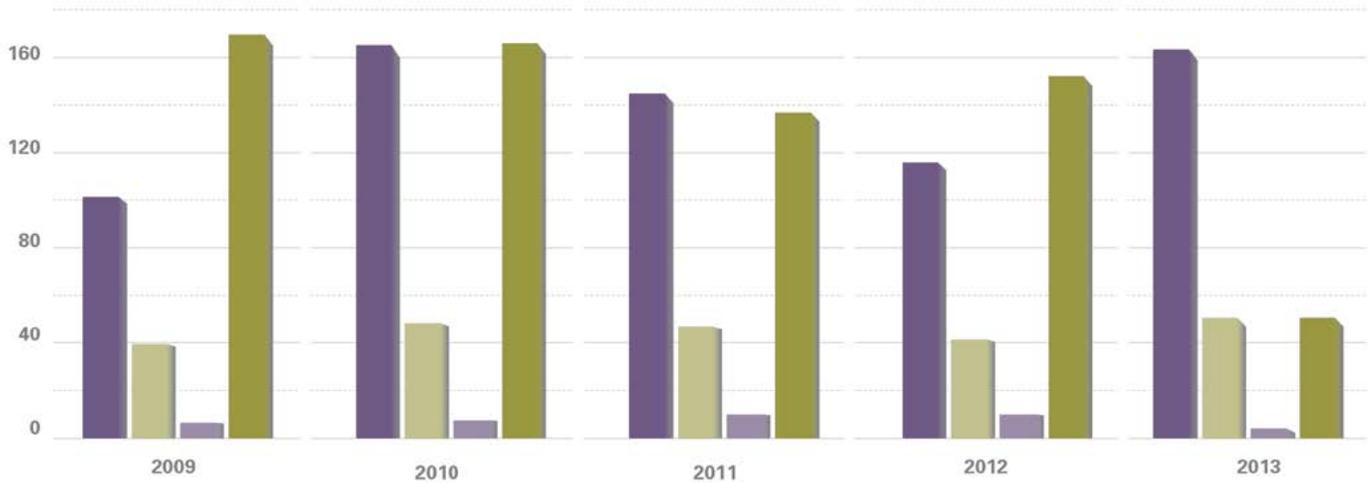
Upon the conclusion of the Revolutionary War, the State of North Carolina inherited the rights previously held by the Crown, including the right of escheat. The North Carolina Legislature adopted the University Act of 1789, which gave the newly formed University of North Carolina "all the property that 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	2009	2010	2011	2012	2013
TOTAL FUNDS ESCHEATED	\$101,236,002	\$163,293,449	\$144,768,449	\$115,665,277	\$162,453,833
TOTAL AMOUNT RETURNED	39,372,068	48,365,264	46,962,169	41,335,056	50,690,360
TOTAL INTEREST EARNINGS REMITTED TO SEAA FOR STUDENT LOANS AND GRANTS	6,365,997	7,343,987	9,832,734	9,834,939	2,481,084
TOTAL PRINCIPAL TRANSFERRED FOR SCHOLARSHIP PROGRAMS	169,550,449	165,929,219	136,799,219	152,117,592	50,307,659





FINANCIAL OPERATIONS DIVISION



FINANCIAL OPERATIONS DIVISION STATISTICS

	2009-10	2010-11	2011-12	2012-13
AMOUNT IN CHECKS	\$22 BILLION	\$22.6 BILLION	\$20 BILLION	\$19.9 BILLION
TOTAL DOLLAR AMOUNT OF WIRE TRANSFERS PROCESSED	\$123.9 BILLION	\$132.9 BILLION	\$155.8 BILLION	\$153.6 BILLION
TOTAL NUMBER WIRE TRANSFERS	16,120	18,324	21,000	21,675
CASH BALANCES IN THE STATE TREASURER'S DEPOSITORY ACCOUNT AT CONCENTRATION AND COMMUNITY BANKS	\$50.9 MILLION	\$ 27.8 MILLION	\$100.4 MILLION	\$95.5 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 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, 2013, Banking Operations oversaw \$8.6 billion in pledged securities and collateral for \$6.8 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 2012-2013, more than 5.5 million warrants were processed, representing approximately \$20 billion in payments. In addition, Banking Operations executed approximately 21,600 wires in the amount of \$153.6 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 also performs monthly reconciliation of budgetary control records with the Office of State Controller.

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, the State Health Plan for Teachers and State Employees, 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 Operations 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, 2013

Concentration Bank Accounts		Lewiston, Southern Bank_trust Co.	\$999,999.89
Raleigh, SunTrust	\$2,894,383.98	Lillington, Fidelity Bank	\$999,999.67
Raleigh, Bank of America	\$1,825,381.47	Lumberton, Lumbee Guaranty Bank	\$204,612.40
Raleigh, PNC Bank	\$136,708.08	Marion, Fifth Third Bank	\$1,000,000.11
Raleigh, Wells Fargo Bank	\$16,599,630.81	Marion, Mountain First Bank	\$1,000,000.39
Raleigh, First Citizens Bank	\$1,158,654.62	Mayodan, First Bank	\$1,000,000.48
Raleigh, BB&T	\$2,400,491.17	Mount Airy, Surrey Bank	\$1,000,000.08
TOTAL CONCENTRATION ACCOUNTS	\$25,015,250.13	Moyock, Bank Of Currituck	\$628,180.89
Non-Main Bank Accounts		Moyock, Gateway Bank & Trust	\$999,999.56
Aberdeen, First Bank	\$1,000,000.05	Mt. Airy, Capital Bank	\$1,000,000.42
Ahoskie, Southern Bank_trust Co	\$1,000,000.31	Mt. Olive, Southern Bank_trust Co	\$505,528.81
Albemarle, Bank Of Stanley	\$1,000,000.20	Murphy, Macon Savings Bank	\$1,000,000.34
Angier, First Bank	\$1,000,000.18	Murphy, United Community Bank	\$999,999.60
Asheboro, First Bank	\$999,999.98	N Wilkesboro, Yadkin Valley Bk_tr	\$436,019.50
Asheboro, Community One Bank	\$1,000,000.12	Nags Head, Vantagesouth Bank	\$1,000,000.25
Bakersville, United Community Bank	\$999,999.86	Newland, Avery Co Bank	\$999,999.53
Bath, Southern Bank_trust Co	\$23,078.10	Newland, United Community Bank	\$1,000,000.40
Boone, Community One Bank	\$1,000,000.15	Newton, Peoples Bank	\$1,000,000.41
Bryson City, United Community Bank	\$1,000,000.15	Ocracoke, Vantagesouth Bank	\$78,591.49
Camden, Townebank	\$1,000,000.20	Plymouth, Southern Bank_trust Co.	\$1,000,000.02
Camden, Townebank	\$999,999.53	Raleigh, Mechanics_farmers Bank	\$486,756.90
Cary, Fidelity Bank	\$1,000,000.02	Reidsville, Newbridge Bank	\$1,000,000.41
Columbia, Vantagesouth Bank	\$1,000,000.00	Robbins, First Bank	\$999,999.56
Columbus, Tryon Federal Bank	\$172,200.31	Robbins, Fidelity Bank	\$1,000,000.37
Concord, Fifth Third Bank	\$31,578.64	Robbinsville, United Community Bank	\$508,643.68
Creedmoor, Fidelity Bank	\$100,000.07	Salemburg, Southern Bank_trust	\$1,000,000.49
Creswell, Vantagesouth Bank	\$1,000,000.00	Salisbury, Fidelity Bank	\$999,999.80
Currituck, East Carolina Bank	\$276,498.23	Sanford, First Bank	\$1,000,000.21
Currituck, Vantagesouth Bank	\$1,000,000.08	Seven Springs, Southern Bnk_trst Co	\$1,000,000.04
Durham, Southbank, Fsb	\$188,371.54	Shelby, First National Bank	\$1,000,000.07
Durham, Mutual Community Sav	\$1,000,000.35	Spruce Pine, Mountain Bank	\$41,325.00
Edenton, Southern Bank_trust Co	\$402,744.53	Spruce Pines, Td Bank	\$1,000,000.27
Edenton, Southern Bank _ Trust Co	\$100,000.05	St. Pauls, First Bank	\$999,999.50
Edenton, Southern Bank_trust Co	\$999,999.96	Sugar Mtn, Mountain Community Bank	\$1,000,000.49
Fayetteville, Capital Bank	\$999,999.92	Swan Quarter, Vantagesouth Bank	\$207,464.20
Fayetteville, Capital Bank	\$999,999.72	Tarboro, The Heritage Bank	\$999,999.57
First Charter, Fcn	\$925,767.38	Troy, First Bank	\$1,000,000.16
Greensboro, Mechanics & Farmers Bank	\$999,999.74	W Jefferson, Fifth Third Bank	\$1,000,000.01
Hampstead, Bank Of Wilmington	\$1,000,000.32	W.jefferson, First Charter Ntnal	\$1,000,000.08
Hampstead, Carolina First Bank	\$999,999.78	Walnut Cove, Capital Bank	\$999,999.79
Hampstead, First Federal Hampstead	\$37,561.85	Wanchese, Vantagesouth Bank	\$406,700.28
Harrisburg, Fifth Third Bank	\$3,541.65	Washington, First Bank	\$99,999.74
Harrisburg, Bank Of The Carolinas	\$7,861.72	Waynesville, United Community Bank	\$99,999.72
High Point, High Point Bank_trust	\$999,999.55	Waynesville, Unted Com	\$999,999.79
High Point, High Point Bank	\$236,439.77	Wentworth, Fidelity Bank	\$7,908.20
Jefferson, Fifth Third Bank	\$1,000,000.35	West End, First Bank	\$283,205.14
Kenansville, First Bank	\$1,000,000.11	Whiteville, Ssb Security Savings Bk	\$1,000,000.02
Kernersville, Bank Of N Carolina	\$999,999.95	Williamston, Ecb	\$3,994.66
Kings Mountain, Fidelity Bank	\$1,000,000.22	Wilmington, First Federal Bank	\$578.76
Kinston, The Little Bank	\$999,999.75	Winton, Southern Bank_trust Co	\$1,000,000.28
Lake Lure, Td Bank	\$1,000,000.03	TOTAL NON-MAIN BANK ACCOUNTS	\$70,505,155.79
Lenoir, Community One Bank	\$999,999.94	TREASURER'S CASH BALANCE 6/30/2013	\$95,520,405.92



TABLE 2

**SUMMARY OF INVESTMENTS BY PARTICIPANTS
FOR THE PERIODS ENDED JUNE 30, 2013 AND JUNE 30, 2012 (IN THOUSANDS)**

RETIREMENT TRUST FUNDS	JUNE 30, 2013	JUNE 30, 2012
TEACHERS' AND STATE EMPLOYEES' RETIREMENT SYSTEM	\$58,429,735	\$55,132,969
LOCAL GOVERNMENTAL EMPLOYEES' RETIREMENT SYSTEM	20,085,910	18,626,037
NORTH CAROLINA FIREFIGHTERS' PENSION FUND	307,549	282,969
RESCUE SQUAD WORKERS' PENSION FUND	37,531	34,910
CONSOLIDATED JUDICIAL RETIREMENT SYSTEM	472,133	440,730
NORTH CAROLINA NATIONAL GUARD PENSION PLAN	95,709	88,017
LEGISLATIVE RETIREMENT SYSTEM	28,152	27,634
RETIREE HEALTH BENEFITS TRUST	719,997	
TOTAL RETIREMENT TRUST FUNDS	\$80,176,716	\$74,633,266
OTHER FUNDS		
GENERAL FUND	\$2,277,966	\$1,849,908
OTHER FUNDS WHICH EARN INTEREST FOR THE GENERAL FUND	1,248,761	1,317,184
HIGHWAY FUND	490,522	675,923
HIGHWAY TRUST FUND	616,664	435,822
UNIVERSITY FUNDS	2,735,732	2,519,832
OTHER INDEPENDENT TRUST FUNDS	3,927,822	4,382,944
LOCAL POLITICAL SUBDIVISIONS	818,801	866,669
LICENSING BOARDS	27,948	26,911
OTHER NON-PENSION INVESTMENTS	1,211,398	1,154,416
TOTAL OTHER FUNDS	\$13,355,614	\$13,229,609
GRAND TOTAL ALL FUNDS	\$93,532,330	\$87,862,875



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, 2013

	AUTHORIZED BUDGET	YEAR-TO-DATE ACTUAL	VARIANCE FAVORABLE (UNFAVORABLE)
DEPARTMENTAL EXPENDITURES			
GENERAL ADMINISTRATION	\$1,895,051	\$1,864,728	\$30,323
ESCHEAT OPERATIONS	3,567,887	3,046,974	520,913
INFORMATION SERVICES	8,366,240	8,361,654	4,586
INVESTMENT MANAGEMENT OPERATIONS	5,854,796	4,912,973	941,823
LOCAL GOVERNMENT OPERATIONS	4,609,956	4,394,346	215,610
RETIREMENT OPERATIONS	19,049,403	17,183,820	1,865,583
FINANCIAL OPERATIONS:			
BANKING	3,306,301	2,966,955	339,346
ACCOUNTING	1,394,485	1,262,679	131,806
STATE HEALTH PLAN	190,130,059	161,401,637	28,728,422
TOTAL EXPENDITURES	\$238,174,178	\$205,395,766	\$32,778,412
DEPARTMENTAL RECEIPTS			
GENERAL ADMINISTRATION	\$1,895,051	\$1,864,728	\$(30,323)
ESCHEAT OPERATIONS	3,567,887	3,046,974	(520,913)
INFORMATION SERVICES	8,366,240	8,361,654	(4,586)
INVESTMENT MANAGEMENT OPERATIONS	2,310,007	1,482,001	(828,006)
LOCAL GOVERNMENT OPERATIONS	4,609,956	4,394,346	(215,610)
RETIREMENT OPERATIONS	19,049,403	17,183,820	(1,865,583)
FINANCIAL OPERATIONS:			
BANKING	-	-	-
ACCOUNTING	1,394,485	1,262,679	(131,806)
STATE HEALTH PLAN	190,130,059	161,401,637	(28,728,422)
TOTAL RECEIPTS	231,323,088	198,997,839	(32,325,249)
APPROPRIATION	\$6,851,090	\$6,397,927	\$453,163



STATISTICAL TABLES

TABLE 4

GENERAL OBLIGATION BONDS
LOCAL GOVERNMENT REFERENDA AND AUTHORIZATIONS
FISCAL YEAR JULY 1, 2012 THROUGH JUNE 30, 2013

	PROPOSITIONS			BONDS		
	# PROPOSED	# APPROVED	% APPROVED	\$ PROPOSED	\$ APPROVED	% APPROVED
COUNTIES:						
VOTED PROPOSITIONS:						
COMMUNITY COLLEGE	2	1	50.00%	\$215,000,000	\$200,000,000	93.02%
TOTAL	2	1	50.00%	\$215,000,000	\$200,000,000	93.02%
NONVOTED PROPOSITIONS:						
REFUNDING	22	22	100.00%	\$1,086,270,000	\$1,086,270,000	100.00%
2/3RDS	2	2	100.00%	64,915,000	64,915,000	100.00%
TOTAL	24	24	100.00%	\$1,151,185,000	\$1,151,185,000	100.00%
DISTRICTS:						
VOTED PROPOSITIONS:						
WATER	1	1	100.00%	\$4,766,000	\$4,766,000	100.00%
SEWER	1	1	100.00%	307,000	307,000	100.00%
TOTAL	2	2	100.00%	\$5,073,000	\$5,073,000	100.00%
NONVOTED PROPOSITIONS:						
REFUNDING	8	8	100.00%	\$141,875,000	\$141,875,000	100.00%
TOTAL	8	8	100.00%	\$141,875,000	\$141,875,000	100.00%
MUNICIPALITIES:						
VOTED PROPOSITIONS:						
STREETS	2	2	100.00%	\$72,246,000	\$72,246,000	100.00%
REDEVELOPMENT	1	2	100.00%	2,000,000	2,000,000	100.00%
TRANSPORTATION	1	1	100.00%	17,850,000	17,850,000	100.00%
PARKS & RECREATION	6	5	83.33%	78,720,000	36,720,000	46.65%
MUNICIPAL BUILDINGS	3	3	100.00%	25,600,000	25,600,000	100.00%
TOTAL	13	12	92.31%	\$196,416,000	\$154,416,000	78.62%
NONVOTED PROPOSITIONS:						
REFUNDING	8	8	100.00%	\$38,710,000	\$38,710,000	100.00%
TOTAL	8	8	100.00%	\$38,710,000	\$38,710,000	100.00%
TOTAL VOTED	17	15	88.24%	\$416,489,000	\$359,489,000	100.00%
TOTAL NONVOTED	40	40	100.00%	\$1,331,770,000	\$1,331,770,000	100.00%
GRAND TOTALS	57	55	96.49%	\$1,748,259,000	\$1,691,259,000	96.74%



TABLE 5

INSTALLMENT PURCHASE AGREEMENTS APPROVED BY PURPOSE
FISCAL YEAR JULY 1, 2012 THROUGH JUNE 30, 2013

MUNICIPALITIES:	AMOUNT
UTILITIES	
SANITARY SEWER	\$3,869,612
ELECTRIC	10,281,020
WATER	9,913,774
	\$24,064,406
PUBLIC BUILDINGS	
FIRE STATION	\$6,144,892
MUNICIPAL BUILDINGS	27,128,363
TOWN HALL	6,568,867
LIBRARY	625,000
AUDITORIUM	28,000,000
PUBLIC SAFETY	850,000
	\$69,317,122
LAND	\$1,217,086
WASTEWATER	250,031
RECREATION	9,829,130
STREETS & SIDEWALKS	5,214,817
EQUIPMENT	25,530,555
FLOOD & EROSION	1,372,880
REFUNDING	183,314,924
STORMWATER	2,035,438
ECONOMIC DEVELOPMENT	16,077,000
TRANSIT	480,000,000
VEHICLES	1,637,883
	\$726,479,744
SUBTOTAL	\$819,861,272

COUNTIES:	AMOUNT
SCHOOLS	
	\$158,400,902
PUBLIC BUILDINGS	
HEALTH & HUMAN SERVICES	\$1,810,000
AIRPORT	9,000,000
ANIMAL SHELTER	4,225,181
COURTHOUSE / LAW ENFORCEMENT / JAIL	45,759,000
COUNTY BUILDINGS	47,595,275
LIBRARY	4,214,899
	\$112,604,355
UTILITIES	
WATER	37,266,068
SANITARY SEWER	8,646,000
	\$45,912,068
COMMUNITY COLLEGE	\$12,684,173
SOLID WASTE	1,700,000
REFUNDING	631,693,520
EQUIPMENT	19,061,152
STORMWATER	3,800,000
LAND ACQUISITION	6,217,868
	\$675,156,713
COMMUNITY COLLEGES	
GUARANTEED ENERGY SAVINGS CONTRACT	21,847,890
DISTRICTS/AUTHORITIES	
MUNICIPAL BUILDING	\$3,690,000
SEWER	500,000
OPERATIONS CENTER	425,000
LEASE	11,138,195
	\$15,753,195
SUBTOTAL	\$1,029,675,123
GRAND TOTAL	\$1,849,536,395



STATISTICAL TABLES

TABLE 6

**INSTALLMENT AND LEASE AGREEMENTS
APPROVED BY THE LOCAL GOVERNMENT COMMISSION FISCAL YEARS ENDED JUNE 30, 2013, 2012, AND 2011
(IN MILLIONS)**

	FY 2012-13		FY 2011-12		FY 2010-11	
	NO.	AMT.	NO.	AMT.	NO.	AMT.
COUNTIES	34	\$ 360.40	38	\$ 391.1	50	\$ 904.0
MUNICIPALITIES	59	819.8	53	248.6	54	354.0
AUTHORITIES/DISTRICTS	5	15.8	1	3.0	1	4.0
COMMUNITY COLLEGE/GESC	5	21.9	11	68.4	2	2.2
SUBTOTAL	103	\$1,217.5	103	\$ 711.1	107	\$1,264.2
REFUNDINGS	26	\$ 632.0	16	\$ 346.8	11	\$ 444.0
GRAND TOTAL	129	\$1,849.5*	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, 2013**

	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	\$ 3,999,580,000	\$ 2,523,155,000	\$ -	\$ 6,522,735,000	\$ -	\$ 6,522,735,000	\$ -	\$ 205,827,041
Garvee ¹	-	-	600,355,000	600,355,000	-	600,355,000	-	-
NC Turnpike	-	-	1,058,458,109	1,058,458,109	-	1,058,458,109	-	-
State Authorities and Institutions	-	-	21,092,818,429	21,092,818,429	-	21,092,818,429	-	-
Totals	\$ 3,999,580,000	\$ 2,523,155,000	\$22,751,631,538	\$29,274,366,538	\$ -	\$29,274,366,538	\$ -	\$ 205,827,041
Counties	\$ 7,220,337,126	\$ 5,137,404,604	\$ 843,751,643	\$ 13,201,493,373	\$ -	\$ 13,201,493,373	\$ 1,228,580,000	\$ 65,000,000
Municipalities	2,330,275,331	2,969,373,637	5,642,884,063	10,942,533,031	-	10,942,533,031	1,095,283,046	-
Districts	336,094,260	11,832,243	1,581,403,076	1,929,329,579	-	1,929,329,579	270,252,000	-
Authorities	-	8,269,606	2,243,927,493	2,252,197,099	1,469,435,703	3,721,632,802	-	28,000,000
Total	\$ 9,886,706,717	\$ 8,126,880,090	\$10,311,966,275	\$28,325,553,082	\$ 1,469,435,703	\$ 29,794,988,785	\$2,594,115,046	\$ 93,000,000
Grand Total	\$ 13,886,286,717	\$10,650,035,090	\$33,063,597,813	\$57,599,919,620	\$1,469,435,703	\$59,069,355,323	\$2,594,115,046	\$298,827,041

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}	
	PRINCIPAL	PRINCIPAL & INTEREST	PRINCIPAL	PRINCIPAL & INTEREST	PRINCIPAL	PRINCIPAL & INTEREST	PRINCIPAL	PRINCIPAL & INTEREST
2013-14	\$308,406,607	\$484,901,625.54	\$56,528,393	\$73,591,879.27	\$120,855,000	\$239,679,008.76	\$485,790,000	\$798,172,513.57
2014-15	325,823,868	482,561,097.94	46,676,132	59,960,970.82	124,175,000	237,115,643.76	496,675,000	779,637,712.52
2015-16	335,146,972	475,807,499.71	37,583,028	48,619,700.29	127,750,000	234,635,331.26	500,480,000	759,062,531.26
2016-17	318,814,036	442,241,396.22	51,785,964	61,012,228.78	131,490,000	231,948,425.01	502,090,000	735,202,050.01
2017-18	336,453,188	445,736,857.16	45,331,812	52,160,867.84	135,780,000	229,716,418.76	517,565,000	727,614,143.76
2018-19	339,062,812	432,364,324.54	45,387,188	50,036,450.46	140,280,000	227,506,331.26	524,730,000	709,907,106.26
2019-20	297,468,000	373,321,060.81	55,877,000	59,774,014.19	160,040,000	239,984,356.26	513,385,000	673,079,431.26
2020-21	274,525,000	337,790,875.00	-	-	161,640,000	233,765,156.26	436,165,000	571,556,031.26
2021-22	256,270,000	307,261,012.50	-	-	166,235,000	230,419,106.26	422,505,000	537,680,118.76
2022-23	251,690,000	291,285,762.50	-	-	171,295,000	227,204,406.26	422,985,000	518,490,168.76
2023-24	225,635,000	254,314,337.50	-	-	177,905,000	225,949,643.76	403,540,000	480,263,981.26
2024-25	147,180,000	164,890,187.50	-	-	145,895,000	186,358,556.26	293,075,000	351,248,743.76
2025-26	85,650,000	96,460,562.50	-	-	138,735,000	172,506,706.26	224,385,000	268,967,268.76
2026-27	68,630,000	75,676,162.50	-	-	139,440,000	166,766,281.26	208,070,000	242,442,443.76
2027-28	40,885,000	45,037,750.00	-	-	135,465,000	156,474,706.26	176,350,000	201,512,456.26
2028-29	24,385,000	26,823,500.00	-	-	120,690,000	135,619,331.26	145,075,000	162,442,831.26
2029-30	24,385,000	25,604,250.00	-	-	79,000,000	88,371,537.50	103,385,000	113,975,787.50
2030-31	-	-	-	-	82,730,000	88,558,712.50	82,730,000	88,558,712.50
2031-32	-	-	-	-	46,430,000	48,638,750.00	46,430,000	48,638,750.00
2032-33	-	-	-	-	17,325,000	17,844,750.00	17,325,000.00	17,844,750.00
2033-34	-	-	-	-	-	-	-	-
	\$3,660,410,483	\$4,762,078,261.92	\$339,169,517	\$405,156,111.65	\$2,523,155,000	\$3,619,063,158.91	\$6,522,735,000	\$8,786,297,532.48

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 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, 2013

The following chart outlines the revenue bonds and other indebtedness of State authorities and institutions at June 30, 2013. The State is not responsible for debt service on any of the revenue bonds and other indebtedness represented in this chart.

APPALACHIAN STATE UNIVERSITY	\$	261,341,848
EAST CAROLINA UNIVERSITY		155,662,641
ELIZABETH CITY STATE UNIVERSITY		36,653,093
FAYETTEVILLE STATE UNIVERSITY		40,909,150
NORTH CAROLINA A&T STATE UNIVERSITY		23,585,000
NORTH CAROLINA CENTRAL UNIVERSITY		90,238,711
NORTH CAROLINA SCHOOL OF THE ARTS		7,780,000
NORTH CAROLINA STATE UNIVERSITY AT RALEIGH		580,432,894
UNIVERSITY OF NORTH CAROLINA AT ASHEVILLE		47,296,264
UNIVERSITY OF NORTH CAROLINA AT CHAPEL HILL		1,408,141,537
UNIVERSITY OF NORTH CAROLINA AT CHARLOTTE		433,548,957
UNIVERSITY OF NORTH CAROLINA AT GREENSBORO		264,005,567
UNIVERSITY OF NORTH CAROLINA AT PEMBROKE		54,017,159
UNIVERSITY OF NORTH CAROLINA AT WILMINGTON		237,309,335
WESTERN CAROLINA UNIVERSITY		113,168,205
WINSTON-SALEM STATE UNIVERSITY		66,487,358
NORTH CAROLINA CAPITAL FACILITIES FINANCE AGENCY		2,899,788,803
NORTH CAROLINA EASTERN MUNICIPAL POWER AGENCY		2,025,720,000
NORTH CAROLINA HOUSING FINANCE AGENCY		1,043,285,000
NORTH CAROLINA MEDICAL CARE COMMISSION		7,296,147,463
NORTH CAROLINA MUNICIPAL POWER AGENCY NO. 1		1,433,090,000
NORTH CAROLINA STATE EDUCATION ASSISTANCE AUTHORITY		2,477,845,491
NORTH CAROLINA STATE PORTS AUTHORITY		96,363,953
TOTAL		\$ 21,092,818,429

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, 2012	DECEMBER 31, 2011
ASSETS		
CURRENT ACTUARIAL VALUE OF ASSETS:		
ANNUITY SAVINGS FUND	\$ 11,116,379,969	\$ 10,752,336,286
PENSION ACCUMULATION FUND	48,795,453,059	47,372,674,594
TOTAL CURRENT ASSETS	\$ 59,911,833,028	\$ 58,125,010,880
FUTURE MEMBER CONTRIBUTIONS TO ANNUITY SAVINGS FUND	\$ 6,819,493,041	\$ 6,805,113,560
PROSPECTIVE CONTRIBUTIONS TO PENSION ACCUMULATION FUND:		
NORMAL CONTRIBUTIONS	\$ 5,739,739,976	\$ 5,716,295,391
UNFUNDED ACCRUED LIABILITY CONTRIBUTIONS	3,718,445,444	3,721,686,023
UNDISTRIBUTED GAIN CONTRIBUTIONS	(76,897,567)	(381,514,173)
TOTAL PROSPECTIVE CONTRIBUTIONS	\$ 9,381,287,853	\$ 9,056,467,241
TOTAL ASSETS	\$ 76,112,613,922	\$ 73,986,591,681
LIABILITIES		
ANNUITY SAVINGS FUND:		
PAST MEMBER CONTRIBUTIONS	\$ 11,116,379,969	\$ 10,752,336,286
FUTURE MEMBER CONTRIBUTIONS	6,819,493,041	6,805,113,560
TOTAL CONTRIBUTIONS TO ANNUITY SAVINGS FUND	\$ 17,935,873,010	\$ 17,557,449,846
PENSION ACCUMULATION FUND:		
BENEFITS CURRENTLY IN PAYMENT	\$ 33,504,462,705	\$ 31,664,133,498
BENEFITS TO BE PAID TO CURRENT ACTIVE MEMBERS	24,749,175,774	24,821,838,190
RESERVE FOR INCREASES IN RETIREMENT ALLOWANCES EFFECTIVE JULY 1, 2013 (JULY 1, 2012 FOR DECEMBER 31, 2011 FIGURE)	0	324,684,320
RESERVE FROM UNDISTRIBUTED GAINS/(LOSSES)	(76,897,567)	(381,514,173)
TOTAL BENEFITS PAYABLE FROM PENSION ACCUMULATION FUND	\$ 58,176,740,912	\$ 56,429,141,835
TOTAL LIABILITIES	\$ 76,112,613,922	\$ 73,986,591,681



STATISTICAL TABLES

TABLE 11

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

	DECEMBER 31, 2012	DECEMBER 31, 2011
ASSETS		
CURRENT ACTUARIAL VALUE OF ASSETS:		
ANNUITY SAVINGS FUND	\$ 4,249,859,016	\$ 4,061,500,266
PENSION ACCUMULATION FUND	16,045,379,829	15,264,859,027
TOTAL CURRENT ASSETS	\$ 20,295,238,845	\$ 19,326,359,293
FUTURE MEMBER CONTRIBUTIONS TO ANNUITY SAVINGS FUND	\$ 2,704,399,469	\$ 2,704,907,155
PROSPECTIVE CONTRIBUTIONS TO PENSION ACCUMULATION FUND:		
NORMAL CONTRIBUTIONS	\$ 3,098,049,897	\$ 3,159,575,906
UNFUNDED ACCRUED LIABILITY CONTRIBUTIONS	43,545,946	47,440,424
UNDISTRIBUTED GAIN CONTRIBUTIONS	60,340,225	(149,757,800)
TOTAL PROSPECTIVE CONTRIBUTIONS	\$ 3,201,936,068	\$ 3,057,258,530
TOTAL ASSETS	\$ 26,201,574,382	\$ 25,088,524,978
LIABILITIES		
ANNUITY SAVINGS FUND:		
PAST MEMBER CONTRIBUTIONS	\$ 4,249,859,016	\$ 4,061,500,266
FUTURE MEMBER CONTRIBUTIONS	2,704,399,469	2,704,907,155
TOTAL CONTRIBUTIONS TO ANNUITY SAVINGS FUND	\$ 6,954,258,485	\$ 6,766,407,421
PENSION ACCUMULATION FUND:		
BENEFITS CURRENTLY IN PAYMENT	\$ 9,160,205,841	\$ 8,539,306,057
BENEFITS TO BE PAID TO CURRENT ACTIVE MEMBERS	10,026,769,831	9,932,569,300
RESERVE FOR INCREASES IN RETIREMENT ALLOWANCES EFFECTIVE JULY 1, 2013 (JULY 1, 2012 FOR DECEMBER 31, 2011 FIGURE)	0	0
RESERVE FROM UNDISTRIBUTED GAINS/(LOSSES)	60,340,225	(149,757,800)
TOTAL BENEFITS PAYABLE FROM PENSION ACCUMULATION FUND	\$ 19,247,315,897	\$ 18,322,117,557
TOTAL LIABILITIES	\$ 26,201,574,382	\$ 25,088,524,978



TABLE 12

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

	DECEMBER 31, 2012	DECEMBER 31, 2011
ASSETS		
CURRENT ACTUARIAL VALUE OF ASSETS:		
ANNUITY SAVINGS FUND	\$ 58,602,290	\$ 53,951,667
PENSION ACCUMULATION FUND	422,683,318	406,695,562
TOTAL CURRENT ASSETS	\$ 481,285,608	\$ 460,647,229
FUTURE MEMBER CONTRIBUTIONS TO ANNUITY SAVINGS FUND	\$ 37,791,818	\$ 39,771,688
PROSPECTIVE CONTRIBUTIONS TO PENSION ACCUMULATION FUND:		
NORMAL CONTRIBUTIONS	\$ 119,682,660	\$ 126,021,056
UNFUNDED ACCRUED LIABILITY CONTRIBUTIONS	46,299,486	51,995,656
UNDISTRIBUTED GAIN CONTRIBUTIONS	7,827,545	(7,966,107)
TOTAL PROSPECTIVE CONTRIBUTIONS	\$ 173,809,691	\$ 170,050,605
TOTAL ASSETS	\$ 692,887,117	\$ 670,469,522
LIABILITIES		
ANNUITY SAVINGS FUND:		
PAST MEMBER CONTRIBUTIONS	\$ 58,602,290	\$ 53,951,667
FUTURE MEMBER CONTRIBUTIONS	37,791,818	39,771,688
TOTAL CONTRIBUTIONS TO ANNUITY SAVINGS FUND	\$ 96,394,108	\$ 93,723,355
PENSION ACCUMULATION FUND:		
BENEFITS CURRENTLY IN PAYMENT	\$ 292,281,547	\$ 287,879,823
BENEFITS TO BE PAID TO CURRENT ACTIVE MEMBERS	296,383,917	293,899,389
RESERVE FOR INCREASES IN RETIREMENT ALLOWANCES EFFECTIVE JULY 1, 2013 (JULY 1, 2012 FOR DECEMBER 31, 2011 FIGURE)	0	2,933,062
RESERVE FROM UNDISTRIBUTED GAINS/(LOSSES)	7,827,545	(7,966,107)
TOTAL BENEFITS PAYABLE FROM PENSION ACCUMULATION FUND	\$ 596,493,009	\$ 576,746,167
TOTAL LIABILITIES	\$ 692,887,117	\$ 670,469,522



TABLE 13

VALUATION BALANCE SHEET SHOWING THE ASSETS AND LIABILITIES OF THE NORTH CAROLINA FIREFIGHTERS' AND RESCUE SQUAD WORKERS' PENSION FUND

	JUNE 30, 2012	JUNE 30, 2011
ASSETS		
CURRENT ACTUARIAL VALUE OF ASSETS:		
ANNUITY SAVINGS FUND	\$ 35,550,363	\$ 34,647,854
PENSION ACCUMULATION FUND	266,361,800	257,565,285
TOTAL CURRENT ASSETS	\$ 301,912,163*	\$ 292,213,139
FUTURE MEMBER CONTRIBUTIONS TO ANNUITY SAVINGS FUND	\$ 27,682,530	\$ 26,745,594
PROSPECTIVE CONTRIBUTIONS TO PENSION ACCUMULATION FUND:		
NORMAL CONTRIBUTIONS	\$ 38,760,406	\$ 38,470,763
ACCRUED LIABILITY CONTRIBUTIONS	64,252,589	62,902,341
TOTAL PROSPECTIVE CONTRIBUTIONS	\$ 103,012,995	\$ 101,373,104
TOTAL ASSETS	\$ 432,607,688	\$ 420,331,837
LIABILITIES		
ANNUITY SAVINGS FUND:		
PAST MEMBER CONTRIBUTIONS	\$ 35,550,363	\$ 34,647,854
FUTURE MEMBER CONTRIBUTIONS	27,682,530	26,745,594
TOTAL CONTRIBUTIONS TO ANNUITY SAVINGS FUND	\$ 63,232,893	\$ 61,393,448
PENSION ACCUMULATION FUND:		
BENEFITS CURRENTLY IN PAYMENT	\$ 186,449,418	\$ 180,320,651
BENEFITS TO BE PAID TO CURRENT ACTIVE MEMBERS	182,925,377	178,617,738
TOTAL BENEFITS PAYABLE FROM PENSION ACCUMULATION FUND	\$ 369,374,795	\$ 358,938,389
TOTAL LIABILITIES	\$ 432,607,688	\$ 420,331,837

* Includes employer contributions receivable of \$4,084,868 as appropriated for fiscal year ending 6/30/2012 but received after such date. The amount was included in the Plan's financial statements in the State's CAFR for fiscal year end 6/30/2012.

