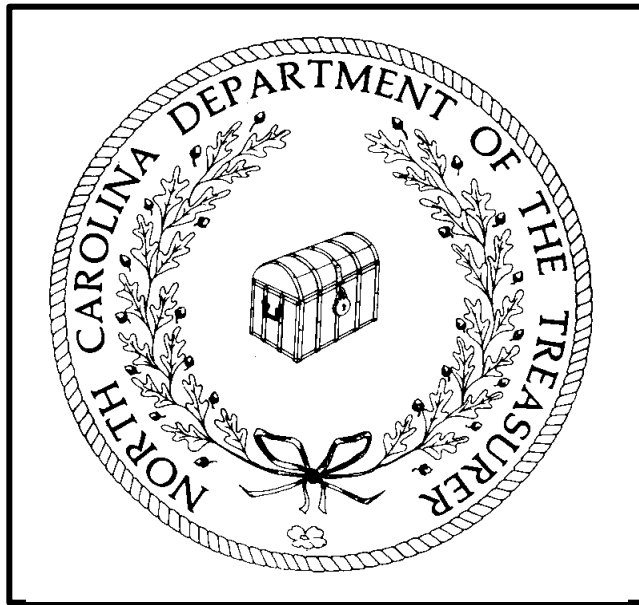

The State Treasurer's

Annual Report

To The People of North Carolina



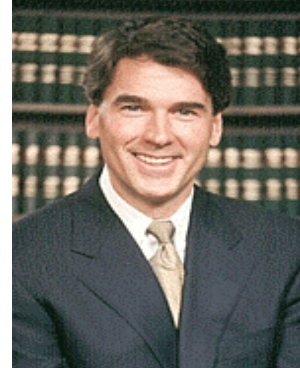
North Carolina
Department of State Treasurer
Fiscal Year 2000-2001

325 North Salisbury Street
Raleigh, North Carolina 27603-1385

North Carolina Department of State Treasurer

RICHARD H. MOORE
STATE TREASURER

325 NORTH SALISBURY STREET
RALEIGH, NORTH CAROLINA 27603-1385



The Honorable Michael F. Easley
Governor of North Carolina
Members of the General Assembly
The People of North Carolina

Sir, Ladies and Gentlemen:

It is with pleasure that I submit to you this Annual Report for the fiscal year 2000-2001.

As the 13th elected State Treasurer (and only the 3^d in 50 years), it is both a great honor and a challenge to follow in a line of respected public servants who have held this office. While our duties are varied and complex, our mission is simple – maintaining and protecting the fiscal integrity of our great state. So long as we maintain the state's AAA credit rating; so long as the state's \$60 billion trust funds are actively and prudently invested and managed; and so long as the retirement funds belonging to North Carolina's public employees are protected and preserved as required by the state constitution, we will continue the tradition of making sure that "good government is indeed a habit."

With the help of wonderful colleagues, I look forward to continuing to serve the people of North Carolina, and I hope that you will find the information contained in this report to be helpful.

Please note this is the last year the Department of State Treasurer will have printed copies of the Annual Report available. This report, and reports in years to follow, will be available on our website (www.treasurer.state.nc.us) and on CD-Rom. To receive a CD-Rom copy of the Annual Report, please call (919) 508-5176 or write the Department.

Sincerely,

A handwritten signature in black ink that reads "Richard H. Moore". The signature is written in a cursive, flowing style.

Richard H. Moore

Fax: (919) 508-5167

Phone: (919) 508-5176

website: www.treasurer.state.nc.us

Department of State Treasurer includes Local Government Commission Teachers' and State Employees' Retirement System, Local Governmental Employees' Retirement System, Public Employees' Social Security Agency, Legislative Retirement Fund, Escheats Fund, and Tax Review Board.
An Affirmative Action/Equal Opportunity Employer

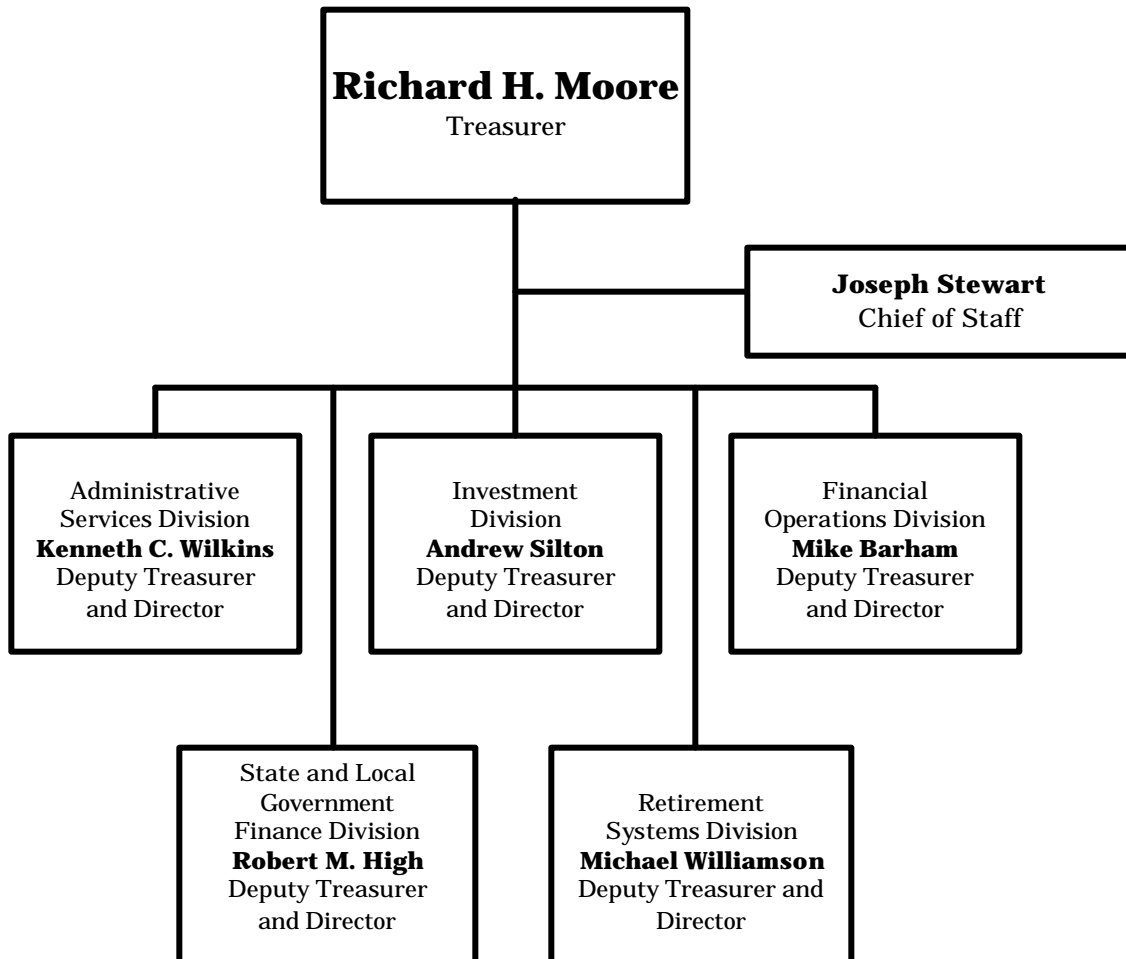
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North Carolina Department of State Treasurer

Table of Organization



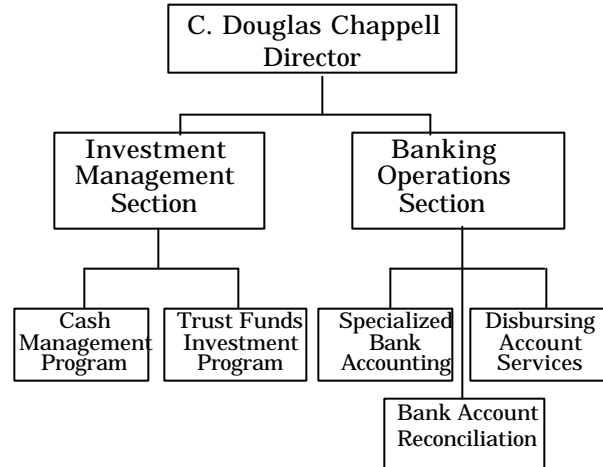
Investment and Banking Division

The Investment and Banking Division's functions can be categorized into two major areas of responsibility:

1. Serving as the "State's Banker."
2. Serving as the "State's Chief Investment Officer."

The Division is organized into two sections in order to carry out these constitutional and statutory functions. They are the "Banking Operations Section" and the "Investment Management Section."

Organizationally, this enables the Division to perform in an effective and efficient manner.



Operational Highlights

- **Assets under management at June 30, 2001 amounted to nearly \$65.9 billion.**
- **Assets of the Cash Management Program totaled \$8.4 billion (at book value) generating a cash return of 6.04%.**
- **Assets of the Trust Funds Investment Program totaled \$57.9 billion at market value producing a total return of (2.04%).**
- **The Long-term Investment Portfolio (fixed-income securities) held assets valued at \$24.4 billion and generated a total return of 11.67% for the fiscal year, while generating an annualized total return of 5.65% during the trailing three-year period.**
- **The Equity Investment Portfolio with assets of \$32.0 billion produced a total return of (12.01%) for the fiscal year, while generating an annualized total return of 5.75% during the trailing 36 months.**
- **The value of securities pledged to the State Treasurer to secure public deposits in North Carolina financial institutions totaled over \$3.6 billion.**
- **Some 250,000 bank deposits, made by 775 depositing agency locations across the State, were processed and accounted for.**
- **Some 23.4 million State warrants were cleared (processed) during the year.**
- **Over 3 million disbursements (12% of all disbursements) were made by electronic funds transfer (EFT).**
- **In excess of \$4.53 billion in pay/benefits were paid to State employees and retirees through "direct deposit." This is 88% of all eligible recipients.**
- **In excess of \$4.6 billion in payments were made electronically to local governmental units.**

Banking Operations

Serving as the State's Banker

The General Assembly of North Carolina has authorized a centralized system for managing the flow of moneys collected and disbursed by all State departments, agencies, institutions and universities (entities). Rather than each of these entities having an account with a commercial bank, they maintain accounts with the State Treasurer. The State Treasurer in turn provides each entity the same service that a commercial bank would normally provide.

This system assures that the State is the prime beneficiary of the flow of its funds through the commercial banking system in the course of conducting State business. This banking function is provided through the Division's Banking Operations Section. During the month of June, reorganization plans were formalized to place the Banking Operations Section under the newly created Financial Operations Division, effective July 1, 2001.

Receiving State Moneys

All revenues collected by a State entity on behalf of the State must be deposited with the State Treasurer for credit to the entity's budget code account. For entities located in Raleigh near the Albemarle Building, deposits are accepted by the Investment and Banking Division's "teller window."

The Department of Revenue utilizes remittance processing equipment for tax payments received by check and prepares "cash letters" for presentment to corresponding depository banks as arranged by the State Treasurer's Office. Additionally, the Department of Revenue has established a system whereby certain taxpayers owing large tax payments to the State must remit the payments electronically for credit to an established State Treasurer's bank account.

For entities located outside of Raleigh, the Division has established correspondent depository relationships with various banks and savings institutions in order for those entities to have a convenient location to make their deposits. During fiscal year 2000-2001, the Division processed and accounted for approximately 250,000 deposits made by 775 different depositing entities. The majority of the entities deposit into a single Raleigh cash concentration account maintained with one of the seven banking institutions having a State-wide branch network. This minimizes the number of bank accounts needed and allows for the funds deposited to be concentrated for use by the Investment Management Section as soon as the moneys become "collected funds."

Some entities are not located near a cash concentration bank branch. In these situations, an account is established with a local community bank to accept their deposits. Once notified of the deposit

of funds into one of the local depository accounts, the Banking Operations Section initiates Automated Clearing House (ACH) debits in order to consolidate the funds into a central bank account. At fiscal year end, there were 65 local depository relationships.

An automated deposit reporting system, operational since 1993, allows the 775 depositing entities to report their deposits to the State Treasurer's Office through an on-line system. The on-line system operates through the State computer network and provides the State Treasurer's Office immediate notification of the deposit of funds by the agencies.

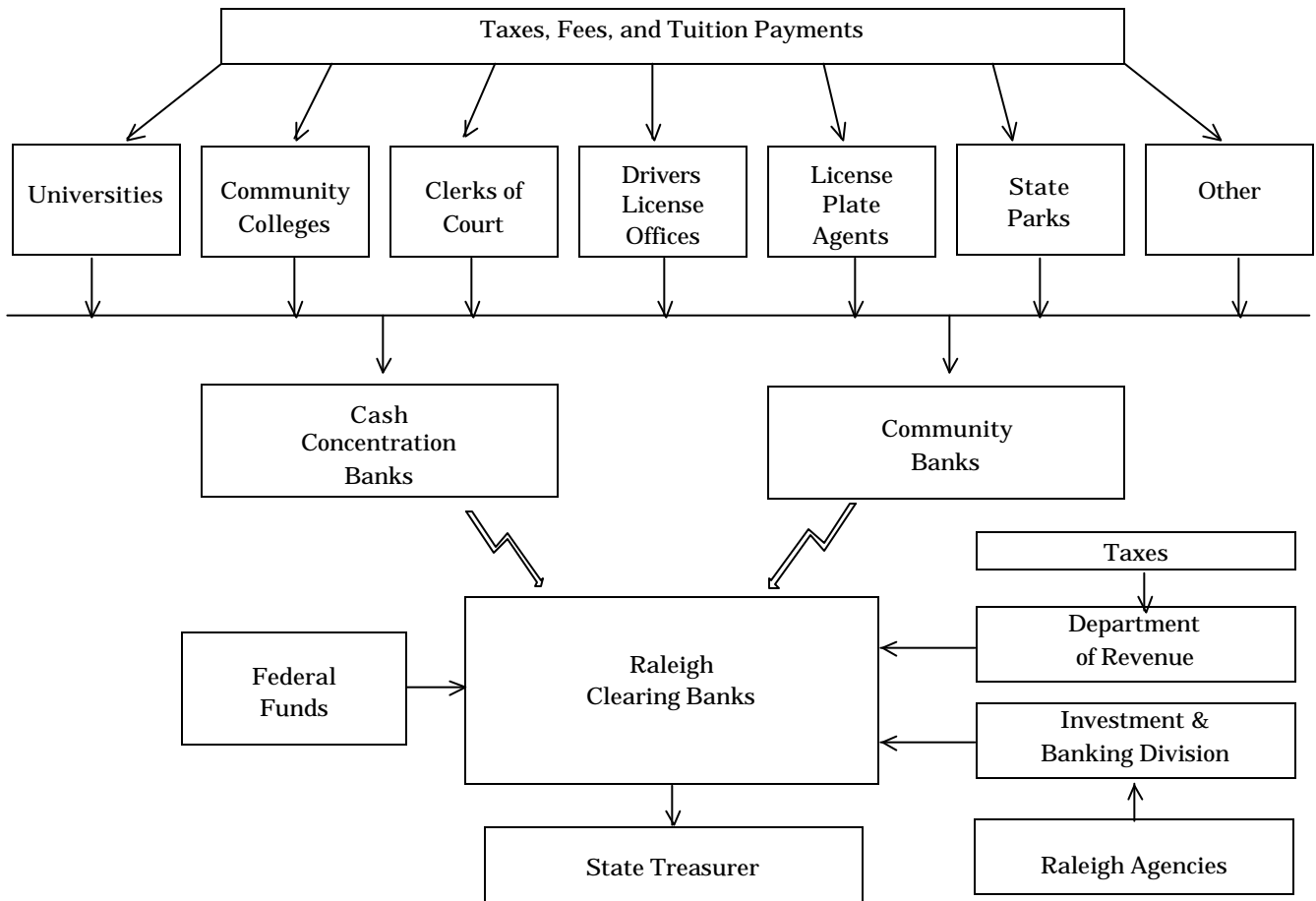
Presented below and on the next page are charts showing the categories of entities depositing with the State Treasurer and the flow of funds collected.

Chart 1

Number of Depositing Locations By Category	
Drivers License Offices	160
License Plate Agents	139
DENR Parks & Offices	74
Clerks of Court	100
Community Colleges (multiple)	70
DOT Stations	53
DHHS Hospitals & Facilities	22
Universities (multiple)	49
Agricultural Facilities	28
Historical Sites	15
Other	<u>65</u>
	<u>775</u>

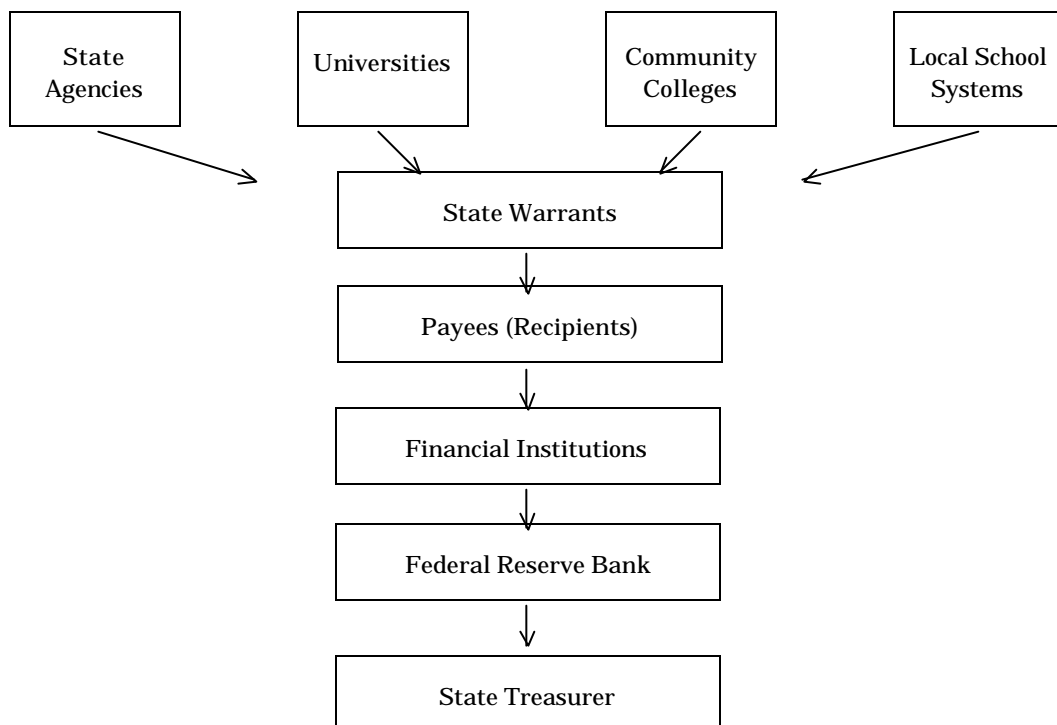
Deposit of State Funds

Chart 2



Routing of State Warrants (Checks) for Payment

Chart 3



Disbursing State Moneys

North Carolina primarily utilizes a warrant system to disburse funds. In order for a State entity to disburse funds, it issues warrants (State checks) against a disbursing account maintained with the State Treasurer, made payable to an eligible payee. The warrants bare the State Treasurer's unique ABA transit-routing number and are payable at par through the Federal Reserve System. Warrants issued by the various State entities are deposited by the recipients into the commercial banking system and are ultimately presented to the State Treasurer's Office for payment. The daily warrant clearings are accepted from the Federal Reserve Bank. The main advantage of the warrant system is that the "banker's float" and the earnings thereon, are captured for the State.

The Division provides each entity a disbursing account. This is similar to a commercial checking account service provided by the banking community for its customers. The Division verifies the validity of warrants presented against each entity's account and does not pay those deemed invalid. Monthly statements are rendered to each entity.

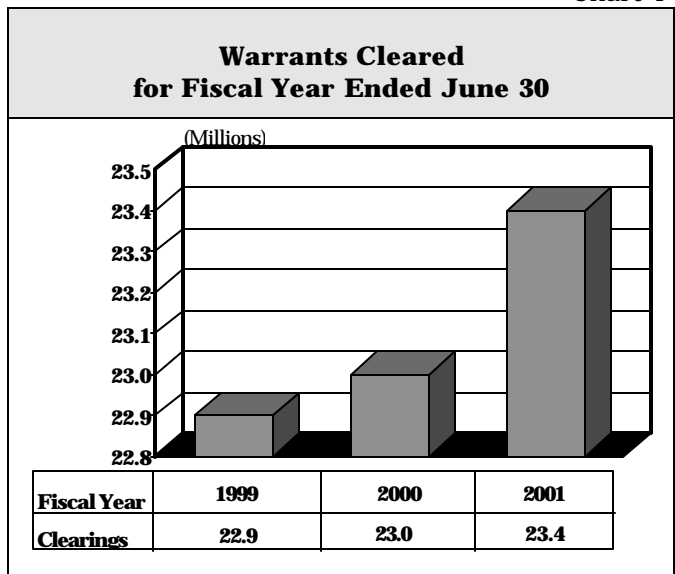
A major change in the method of processing warrant clearings was implemented November 1, 1999. Arrangements were made for all warrant clearings to be processed through the Federal Reserve Bank (FRB) in Charlotte. This arrangement with the FRB, along with the acquisition of an image storage/retrieval system, now allows the various agencies to have access to images of their paid warrants. This access is provided through the Internet, with appropriate levels of security (relative to access) being maintained.

Through the approximately 700 disbursing accounts, some 23.4 million warrants were processed

during the fiscal year. This was only a slight increase from the prior year's figure of 23 million. The largest activity accounts included WIC Benefits, Income Tax Refunds, Unemployment Benefits, Child Support Payments and Social Services Entitlements. Activity associated with maintenance of the accounts included the processing of approximately 1,400 alleged forgeries and approximately 14,000 stop payments.

On the bottom of the preceding page there is a chart showing "the routing" of warrants (checks) as they are presented to this office for payment. The chart below shows the volume of warrants cleared (paid).

Chart 4



In addition to the 23.4 million disbursements by paper warrants, 3 million (12% of all disbursements) were made by electronic funds transfer (EFT.)

Specialized Banking Services

Certain banking services provided by the Banking Operations Section are categorized as "specialized" and include investment transaction processing, collateralization of public funds monitoring and EFT.

Investment Transactions Processing — One of the responsibilities of the Section is the completion of all investment transactions after they have been entered into by the Investment Management Section, which entails consummating the receipt and delivery of securities traded versus payment. Associated with this function is the timely collection of all interest and the par value of all maturing securities. In order to take advantage of the modern concepts of book-entry and central depositories, the

custodial functions for all eligible securities are performed through contractual arrangements, by the Bank of New York. The Bank of New York utilizes the Depository Trust Company, the Participant Trust Company and the Federal Reserve Bank book-entry system. These arrangements enable the State Treasurer to participate actively in the securities lending market.

Collateralization of Public Deposits — A significant responsibility of the Section is to monitor the collateralization of public deposits in North Carolina banks and savings institutions for both State deposits and certain local governmental units. Collateralization is required for deposits exceeding

insurance coverage provided by the Federal Deposit Insurance Corporation (FDIC).

At June 30, 2001, 77 depositories had pledged securities with a total market value of over \$3.6 billion to the State Treasurer through 12 different escrow agents. Sixty-two of these depositories utilize the "Pooling Method" of collateralizing public deposits (deposits of their local governmental depositors are secured through the State Treasurer's Office). Of the total securities pledged, approximately 9% were to secure State deposits. The Section monitors the capital adequacy of the institutions, which are required to provide collateralization. Determining capital adequacy is a vital component of the collateralization monitoring process.

Electronic Funds Transfers — The collection and remittance of funds via electronic funds transfer (EFT) plays a major role in the successful operation of the Division. Methods of EFT utilized include wire transfer, Automated Clearing House (ACH) credits, and ACH debits. The Section funds the direct deposit remittance of payroll and retirement benefits effected by the 12 State payroll centers and the Retirement Systems Division. Over 250,000 people receive their monthly pay/benefits through direct deposit, amounting to more than \$4.53 billion annually. This represents a participation rate of 88% on a combined basis. Other utilization of EFT includes: the collection of federal funds from the Federal government via wire transfer and ACH credit; the daily concentration of funds deposited in the 65 community banks that are not a part of the branch cash concentration system; the weekly collection of interest due on certificates of deposit and savings certificates via ACH debits; and the initiation of vendor payments via ACH credit on behalf of various State agencies.

The Department of Revenue operates its own EFT program for the collection of certain taxes from corporations and local governments. During FY 2000-2001 \$9.9 billion was collected through their EFT program for deposit with the State Treasurer.

State Treasurer's Electronic Payments System (STEPS) — The STEPS program is available to all State agencies for remitting moneys to local governmental units (STEPS-OUT) and for receiving certain moneys from local governmental units (STEPS-IN). The system utilizes the ACH to facilitate the transfers electronically, eliminating the necessity of issuing and mailing checks. A PC software program called "PC-STEPS" is utilized by State agencies to initiate payments and collections through the State Treasurer's Office. STEPS offers the local units the option of having their payments deposited to or remitted from an account maintained with the financial institution of their choice. A cash management

directive issued by the State Controller's Office requires that certain types of payments to and from local units of government be remitted through STEPS.

The use of STEPS-IN has been offered by the Retirement Systems Division since 1992. A unit desiring to remit its monthly retirement contribution payment simply makes a toll-free telephone call to the State's contracted data collection center to authorize an ACH debit to be initiated against its selected depository account. A local unit can also authorize the payment using a personal computer. STEPS allows the local unit the ability to control the effective date of a payment, thereby providing assurance that the payment is not made earlier than necessary, but is made timely in order to avoid any penalties. During FY 2000-2001, over \$4.7 billion of State-shared revenues were distributed, and over \$2.5 billion was collected through STEPS.

Payment of the State's Debt — The State Treasurer is charged with the responsibility of making timely payment of principal and interest on North Carolina's general obligation debt (a function vital to the maintenance of the State's "AAA" credit rating). The Division arranges to have "readily available funds" in the hands of the paying-agent banks on due dates via EFT. Through these arrangements, the bondholders have access to their money as promised; meanwhile, the funds are invested for the benefit of the State until the last possible moment.

Complete information as to amounts of principal and interest due, by issue is provided by the State and Local Government Finance Division.

Bank Account Reconciliation — In 1999 a separate unit was organized, consolidating the reconciliation function of all bank accounts into one unit. The unit reconciles, mostly on a daily basis, all deposit and disbursement transactions pertaining to the various bank accounts.

Bank Account Analysis — The Banking Operations Section monitors the service activity of the seven cash concentration banks and the 65 community banks, in order to ascertain and establish the appropriate balance level to be maintained in each. An established methodology for determining the appropriate balance ensures that the uninvested portion of the Treasurer's cash balances maintained with the depositories, to compensate for banking services rendered, is kept at a minimum.

Cash Flow Calculations — All of the various banking functions result in cash flows that affect the bank balances making up the Treasurer's total cash position on a daily basis. This data is generated daily by the Banking Operations Section and serves as the base for the Division's investment functions.

Investment Management

Serving as the State's Chief Investment Officer

The State Treasurer administers the Cash Management and Trust Funds Investment Programs. As such, 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 so doing, the Treasurer “shall have full power as a fiduciary” and shall manage the investment programs so that the assets “may be readily converted into cash as needed.”

At June 30, 2001, total assets under management were nearly \$65.9 billion. This total represents the aggregate assets of the several retirement systems, various other trust funds, and the General and Highway Funds. 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 diversification as appropriate for the participants. Through these investment programs, as modified from time to time, the investment management staff strives to enhance the performance of assets under the State Treasurer's control.

General Investment Objectives —

Cash Management Program

To generate maximum income consistent with the principles of safety and liquidity. Prudence in discharging this fiduciary obligation requires that all investments be reviewed continuously, so that opportunities in the secondary markets, to improve the quality and/or the income stream, are not overlooked.

Trust Funds Investment Program

To generate returns that match or exceed those of the appropriate benchmarks on a trailing three-year basis, thereby, assisting in maintaining actuarially sound funding levels for the retirement systems assets (the predominant participants), while maintaining the necessary diversification.

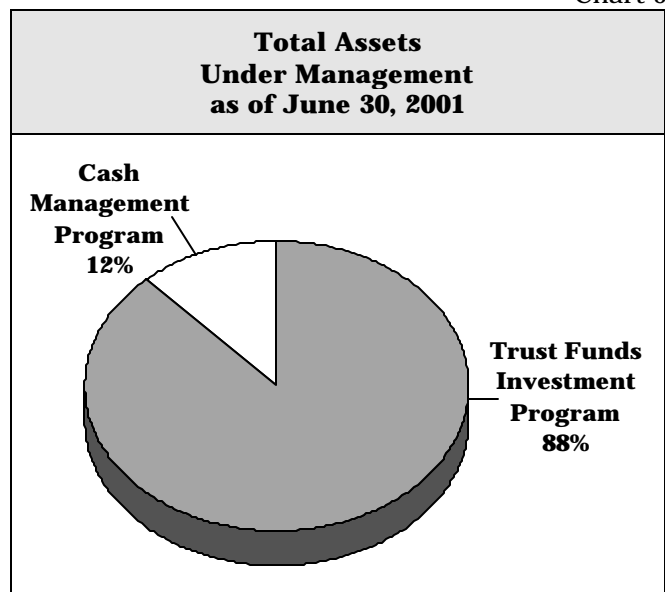
Operating Policy —

In all transactions executed for either investment program managed by the State Treasurer, the objective is to transact such business in the best interest of the beneficial owners of the trusts' assets.

Some of the business will be done with North Carolina institutions or with institutions having an office in this State, provided it can be done at no disadvantage to the interest of said trusts' assets.

Shown below is the percentage the Cash Management and Trust Funds Investment Programs represent of total assets under management:

Chart 5



The State Treasurer's Investment Pool

Most investable assets in the custody of the State Treasurer are held in the State Treasurer's Investment Pool. This investment pool is comprised of five portfolios:

- A short-term fixed income portfolio that invests in highly liquid money market instruments, treasuries, agencies and some liquid short-term corporate issues.
- A long-term fixed income portfolio that invests in longer-term, high quality corporates, as well as treasuries, agencies and GNMA mortgage-backed securities.
- An equity portfolio that invests in equity securities through fiduciary relationships with a number of experienced equity money managers.
- A real estate portfolio that invests in real estate by purchasing shares of beneficial interests in various fiduciary relationships.
- A venture capital portfolio that invests as a limited partner in venture capital partnerships managed by experienced venture capital firms.

The financial statements of the State Treasurer's Investment Pool are included in a separate report found within this document.

In addition, there is a Bond Proceeds pool of approximately \$642 million within the Cash Management Program to hold and invest moneys subject to federal arbitrage regulations.

Investment objectives are realized for the investor funds through participation in multiple portfolios when this is considered appropriate.

Management of the investments is separated between the Cash Management Program and the Trust Funds Investment Program. Cost of the total investment program is shared in an equitable manner among all portfolios administered by the State Treasurer.

The next two charts show the State Treasurer's Investment Pool participating entities' balances and earnings at fiscal year end.

Chart 6

THE STATE TREASURER'S ASSETS UNDER MANAGEMENT PARTICIPATING ENTITIES' BALANCES BY TYPE AND SEGMENT as of June 30, 2001							
(Stated in \$ millions)							
	Cash Management Program	Trust Funds Investment Program					Total
	<u>STIF</u>	<u>LTIF</u>	<u>EIF</u>	<u>REIF</u>	<u>VCIF</u>	<u>Eliminations*</u>	<u>Total</u>
Pool Assets							
General Fund	\$1,755						\$ 1,755
Highway Funds	1,174						1,174
Retirement Funds	65	\$23,378	\$32,068	\$1,059	\$101		56,671
Various Special Funds	3,218	1,252					4,470
Other	<u>1,617</u>	<u>24</u>				<u>(504)</u>	<u>1,137</u>
Total Pool Assets	<u>7,829</u>	<u>24,654</u>	<u>32,068</u>	<u>1,059</u>	<u>101</u>	<u>(504)</u>	<u>65,207</u>
Non-Pool Assets							
Bond Proceeds Fund	<u>633</u>						<u>633</u>
Assets Under Management	<u>\$8,462</u>	<u>\$24,654</u>	<u>\$32,068</u>	<u>\$1,059</u>	<u>\$101</u>	<u>\$(504)</u>	<u>\$65,840</u>
* Amount of investment by other portfolios within "STIF" and "LTIF" and included in the assets of the appropriate portfolio.							
NOTE: Balances shown in this chart are at the Fund level as reported by the Departmental Accounting Section.							

**THE STATE TREASURER'S ASSETS UNDER MANAGEMENT
PARTICIPATING ENTITIES' EARNINGS BY TYPE AND SEGMENT
as of June 30, 2001**

(Stated in \$ millions)

	<u>Cash Management Program</u>	<u>Trust Funds Investment Program</u>				<u>Eliminations*</u>	<u>Total</u>
	<u>STIF</u>	<u>LTIF</u>	<u>EIF</u>	<u>REIF</u>	<u>VCIF</u>		
Income on Pool Assets							
General Fund*	\$168						\$168
Highway Funds	57						57
Retirement Funds	64	\$1,780	\$4,311	\$83	\$ 6		6,244
Various Special Funds	162	88					250
Other	<u>20</u>	<u>2</u>				<u>\$(22)</u>	
Total Income Distributed and Distributable	471	1,870	4,311	83	6	(22)	6,719
Changes in Undistributed Income		<u>973</u>	<u>(8,421)</u>	<u>24</u>	<u>(64)</u>		<u>(7,488)</u>
Total Income of Pool	471	2,843	(4,110)	107	(58)	(22)	(769)
Income on Non Pool Assets							
Bond Proceeds Fund	<u>25</u>						<u>25</u>
Income on Assets Under Management	<u>\$496</u>	<u>\$2,843</u>	<u>\$(4,110)</u>	<u>\$107</u>	<u>\$(58)</u>	<u>\$(22)</u>	<u>\$(744)</u>

*Amount of earnings distributed to other portfolios from "STIF" and "LTIF" and included in the appropriate portfolio earnings.

NOTE: Earnings shown in this chart are at the Fund level as reported by the Departmental Accounting Section.

Cash Management Program

The Cash Management Program is comprised of two portfolios:

- A short-term fixed income portfolio (the Short-Term Investment Portfolio), and
- The bond-arbitrage related investment pool consisting of the unexpended net proceeds of State general obligation bond issues, (the Bond Proceeds Investment Pool).

The investments of the Cash Management Program include primarily money market instruments and short-to-intermediate-term treasuries and agencies. All bank accounts of the State Treasurer are included in portfolios of the Cash Management Program. The Division tracks the flow of funds into and out of the accounts of the State Treasurer on a daily basis. From this is determined the amount of cash which is needed for operations during the day and the amount of cash available for investment that day. Available cash is invested as

authorized with due regard to projected future cash needs.

The benchmark objective of the Cash Management Program is for the year-to-date cash return to match or exceed the U.S. Treasury constant one-year maturity on a trailing three-year period. On this basis, the Cash Management Program generated a 6.04% return versus the benchmark return of 5.22%.

Because the Treasurer's cash balances are ultimately subject to disbursement upon presentation of valid warrants, the primary considerations in making investments are safety and liquidity; the secondary consideration is income. The invested assets of the Cash Management Program fluctuated between \$7.8 billion and \$9.4 billion during the fiscal year. Revenues from the Cash Management Program were approximately \$500 million in the fiscal year ended June 30, 2001, again generating a cash return of 6.04%. Of the earnings, \$225 million was for the General and Highway Funds.

Short-Term Investment Portfolio

Performance Review Fiscal Year Ended June 30, 2001

Chart 10

Short-Term Investment Portfolio (STIP)

Data as of June 30, 2001

Invested Assets: \$7,638,278,119

Benchmark: Two-year constant maturity Treasury Notes

Management: Internal

Inception: 1949

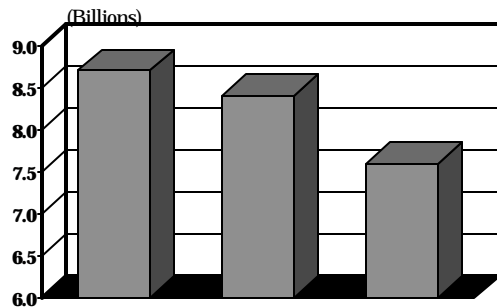
Chart 8

Distribution by Maturity Range as of June 30, 2001

0 — 1 years	26.09%
1 — 2 years	29.76%
2 — 3 years	28.48%
3 — 4 years	8.84%
4 — 5 years	<u>6.83%</u>
	100.00%

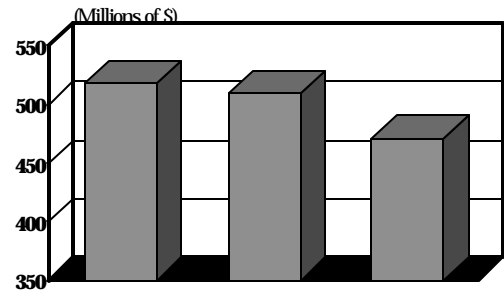
Chart 9

Invested Assets as of June 30



Fiscal Year	1999	2000	2001
Assets	\$8.7	\$8.4	\$7.6

Realized Income for Fiscal Year Ended June 30



Fiscal Year	1999	2000	2001
Income	\$517.7	\$509.3	\$470.8

DESCRIPTION OF THE PORTFOLIO

The Short-Term Investment Portfolio is comprised of high quality money market investments and U.S. Government securities. Created in 1949, it serves as a cash management tool for funds required to be or voluntarily placed on deposit with the State Treasurer. The objective of the portfolio is to provide as high a level of current income as is consistent with safety of principal and sufficient liquidity to meet the daily cash flow requirements. The major participants in the portfolio are the General Fund, Highway Funds, and the cash balances of other trust portfolios managed by the State Treasurer.

The State Treasurer sets the broad investment policy and utilizes the professional in-house staff of the Investment and Banking Division to manage the assets. The current investment method for this portfolio is a laddering of maturities of securities authorized in G.S. 147-69.1. This strategy means that the assets are distributed fairly evenly over a stated maturity range. The maturity range for the Short-Term Investment Portfolio is from one day to seven years. The laddering strategy allows for sufficient liquidity for short-term cash needs, but allows the advantage of investing out the yield curve. Within this laddering strategy, there is an active management style, which takes advantages of opportunities in the marketplace.

The performance benchmark for the portfolio is the two-year constant maturity U.S. Treasury note. This benchmark correlates well with the average maturity of the securities held in the portfolio.

The portfolio declined in size during the past fiscal year from \$8.4 billion to \$7.6 billion while net income decreased from \$509 million to \$471 million.

RISK PROFILE

The portfolio is subject to several forms of risks. These include, but are not limited to, purchasing power, default, reinvestment and market risks. However, the portfolio is considered low risk because of the high quality, highly liquid securities held. The laddered structure also minimizes risk and volatility. By maintaining this low risk approach, participants enter and exit the portfolio on a dollar-in, dollar-out basis.

Chart 11

Top Ten Largest Holdings as of June 30, 2001			
Issuer	Par Value	% of STIP	
USTN 5.750 11/30/02	250,000,000	3.26%	
USTN 5.625 12/31/02	250,000,000	3.26%	
USTN 5.500 01/31/03	250,000,000	3.26%	
USTN 5.375 06/30/03	250,000,000	3.26%	
USTN 5.750 08/15/03	250,000,000	3.26%	
USTN 4.250 11/15/03	250,000,000	3.26%	
USTN 5.875 02/15/04	250,000,000	3.26%	
USTN 4.750 02/15/04	250,000,000	3.26%	
USTN 5.875 11/15/05	250,000,000	3.26%	
USTN 5.625 02/15/06	250,000,000	3.26%	
Total	2,500,000,000	32.60%	

Chart 12

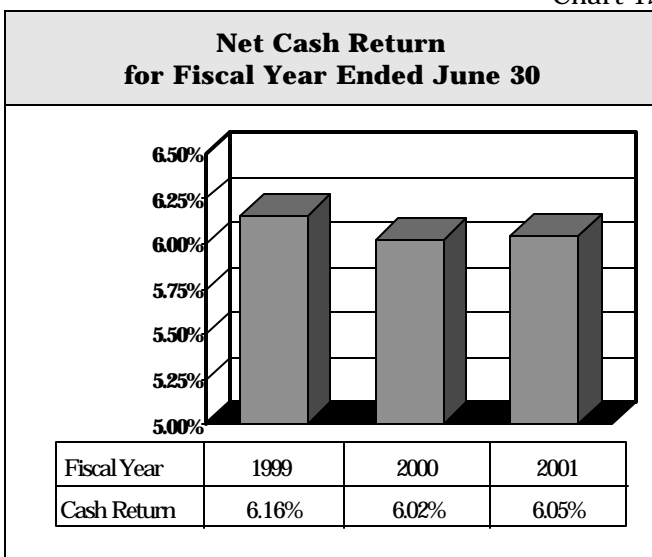
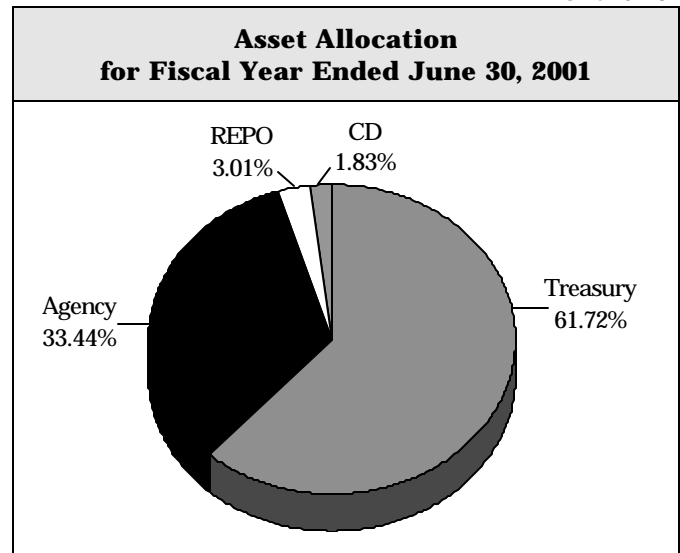


Chart 13



PORTFOLIO CHARACTERISTICS

The portfolio at June 30, 2001, was comprised of 61.72% U.S. Treasury securities, 33.44% U.S. Government agency securities, 1.83% in North Carolina Certificates of Deposit and 3.01% in Repurchase Agreements. The portfolio contained 127 different issues and had an average maturity of about 1.9 years. The portfolio's average duration was 1.8 years with an average coupon of 4.95%. The average weighted yield-to-maturity of the portfolio at June 30, 2001, was 5.92%.

PERFORMANCE SUMMARY

The portfolio had a net cash return for the fiscal year of 6.05%. The return compares with the benchmark two-year constant maturity U.S. Treasury Note, which averaged 5.18% during the past fiscal year. One reason for the difference in returns is that some of the portfolio holdings were earning at rates higher than current interest rates. A large portion of the current portfolio holdings were purchased when interest rates were higher than they were during the past year.

In some years past, this situation has been reversed when portfolio returns were lower than the interest rates during the particular fiscal year.

An additional factor which can affect performance is the amount of funds which are available for investment. Depending on the level of interest rates and the yield curve, cash flow can either add to or subtract from the returns generated.

Bond Proceeds Investment Pool

DESCRIPTION OF THE PORTFOLIO

The Bond Proceeds Investment Pool was established in 1987, as a separate portfolio, in order to comply with Internal Revenue Service (IRS) regulations on bond arbitrage. Sterling Capital Management serves as the managing agent for this portfolio. In addition to asset management, they provide bond arbitrage tracking and record keeping for the State and Local Government Finance Division.

The objective of the portfolio is to provide maximum income within the parameters of the IRS regulations on bond arbitrage.

RISK PROFILE

The portfolio's risk is minimal due to the short-term nature of the assets. Investment vehicles authorized in G.S. 147-69.1 are employed by the investment manager to invest all cash in the portfolio

in excess of the amount required to meet current needs, in such manner as to be "readily convertible into cash" as needed.

PORTFOLIO CHARACTERISTICS

At June 30, 2001, the Bond Proceeds portfolio was comprised of 16 separate bond issues with a combined book value of approximately \$642 million. The average maturity of the portfolio was approximately 80 days. At June 30, the portfolio was comprised of 81% repurchase agreements and 19% in U.S. agency notes.

PERFORMANCE SUMMARY

The portfolio generated earnings of over \$28.9 million and produced a net cash return of 5.87% for the fiscal year.

Trust Funds Investment Program

The Trust Funds Investment Program is comprised of four of the portfolios in the State Treasurer's Investment Pool providing diversification as follows:

- A long-term fixed income portfolio (the Long-Term Investment Portfolio) that invests in longer-term, high quality corporates, as well as treasuries, agencies and GNMA mortgage-backed securities.
- An equity portfolio (the Equity Investment Portfolio) that invests in equity securities through trust relationships with a number of experienced equity money managers.
- A real estate portfolio (the Real Estate Investment Portfolio) that invests in real estate by purchasing shares of beneficial interest in various fiduciary relationships.
- A venture capital portfolio (the Venture Capital Investment Portfolio) that invests, as a limited partner, in venture capital partnerships managed by experienced venture capital firms.

The investments in the Trust Funds Investment Program are primarily for the benefit of the long-term reserves of the pension funds administered by the Department. The two largest of the pension funds are the Teachers' and State Employees' Retirement System and the Local Governmental Employees' Retirement System. Of the trust funds under management, over 98% belongs to the retirement systems.

In addition to the assets of the various retirement systems and funds, numerous other trust funds are managed, including the North Carolina Employee Disability Fund, the Escheat and Aban-

doned Property Fund, various educational trust funds, the State Property Fire Insurance Fund, the Insured Student Loan Program and the Wildlife Endowment Fund.

The benchmark objective for the Trust Funds Investment Program is for the four portfolios which make up the program to match or exceed their respective benchmarks on a trailing three-year period.

This program generated a total return of (2.04%) during the past fiscal year.

SPECIFIC CONSTITUTIONAL PROTECTION

The retirement systems' investment integrity is held inviolate by Article V, Section 6.(2) of the North Carolina Constitution, which provides:

"Neither the General Assembly nor any public officer, employee, or agency shall use or authorize to be used any part of the funds of the Teachers' and State Employees' Retirement System or the Local Governmental Employees' Retirement System for any purpose other than retirement system benefits and purposes, administrative expenses, and refunds; except that retirement system funds may be invested as authorized by law, subject to the investment limitation that the funds of the Teachers' and State Employees' Retirement System and the Local Governmental Employees' Retirement System shall not be applied, diverted, loaned to, or used by the State, any State agency, State officer, public officer, or public employee."

Equity Investment Portfolio

Performance Review Fiscal Year Ended June 30, 2001

EQUITY INVESTMENT PORTFOLIO (EIP)

Data as of June 30, 2001

Invested Assets: \$32,045,487,473

Benchmark: Blended; comprised of 63% S&P 500, 18% S&P 400, 9% S&P 600, 7.5% EAFE and 2.5% Emerging Markets

Management: Nine firms are utilized for the management of 31 separate equity portfolios

Inception: 1961

PORTFOLIO DESCRIPTION

The objective of the EIP is to provide long-term growth of capital while observing the requirements of applicable State law and the principles of prudent investment management. The EIP is expected to generate a "total return" which will equal or exceed that of a blended benchmark over a trailing 36-month time period. The blended benchmark will be constructed to reflect the midpoint or "neutral weightings" of various equity markets, encompassing both domestic and international markets.

This portfolio represents approximately 56.0% of the assets of the various North Carolina retirement systems. These systems are "defined benefit plans" and as such provide retirement benefits to retirees based on formulas prescribed by law.

The diversification represented by this portfolio provides positive benefits to the asset/liability mix during periods of low to moderate inflation due to the long duration of the asset class.

The EIP is constructed based on efficient frontier models that develop mid points or neutral weightings for various equity asset classes. These neutral weightings are designed to show how the portfolio can be constructed so that the best risk reward scenario is obtained. The model breaks the EIP into several components. First, the total portfolio is allocated between domestic equities and interna-

tional equities. From there the domestic component is divided between large-cap, mid-cap and small-cap stocks. In the international arena, assets are divided between developed and emerging markets.

RISK PROFILE

Fiscal year 2001 saw the volatility of the equity markets increase from previous years. Because of the increased volatility and its potential impact on the assets of the EIP, much data is collected and analyzed that allows the State Treasurer to determine with greater accuracy the risk profile of the portfolio. At June 30, 2001, the following risk statistics were observed:

R-squared vs. Blended Benchmark	0.99
Standard Deviation of the EIP	18.95%
Standard Deviation of the Benchmark	18.59%
Beta of the EIP vs. Benchmark	1.02
Sharpe Ratio of the EIP	-0.01

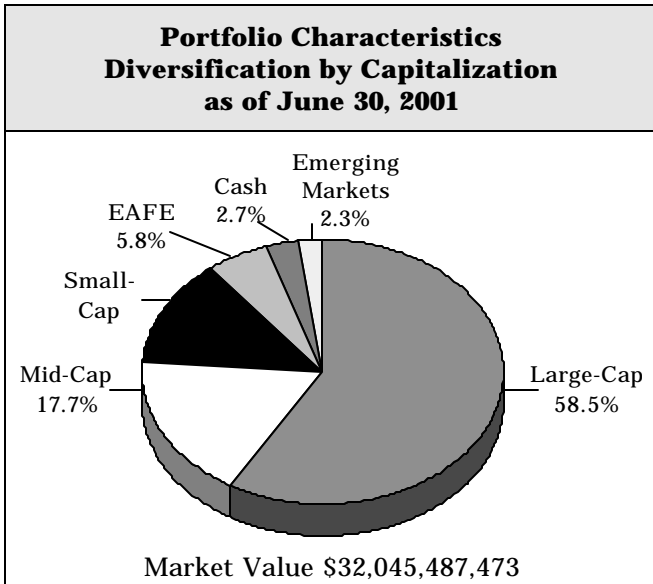
These risk characteristics indicate that the EIP exhibits slightly more volatility than that of the benchmark as evidenced by the standard deviation and beta figures. The Sharpe ratio is a measure of return per unit of risk. A negative number would indicate that the return generated is not commensurate with the risk being taken. A positive number means that incremental return is being generated over what the risk profile would suggest. The EIP exhibits a Sharpe ratio of -0.01 which indicates that the returns being generated are very close to that of the benchmark given the risk profile.

PORTFOLIO CHARACTERISTICS

At June 30, 2001, the EIP held the highest concentration of its assets in domestic large-cap securities. Allocations were made to other areas of the equity markets with the intent of diversifying some of the risks associated with the large-cap sector of the market. Analysis of the correlations between different segments of the market suggests that the correlations are below 1.0, supporting the decision to allocate funds to these components.

At June 30, the EIP employed nine management firms that manage a total of 31 different portfolios. Obviously, several of these firms manage multiple portfolios.

Chart 14



The following table reflects the management firms utilized, the amount of assets, the number of portfolios, and the types of portfolios managed for the EIP.

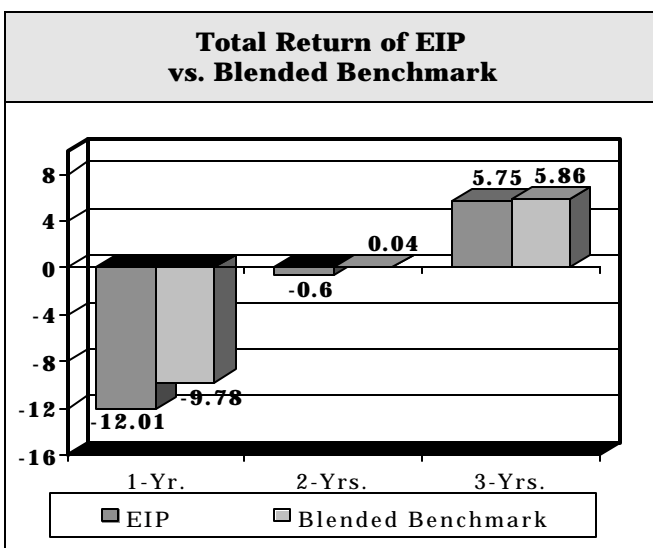
<u>Firm</u>	<u>Total Assets (\$ in millions)</u>	<u># of Port.</u>	<u>Type</u>
Alliance Capital Management	\$12,925	9	Passive Large Passive Mid Passive Small Active Large (2) International Emerging Mkt Global Enhanced S&P 500
Banc of America Capital Management	3,180	3	Passive Large Enhanced 600 Passive Mid
BB&T	212	1	Active Large
Evergreen	1,164	2	Active Large Passive Mid
First Citizens	1,843	2	Active Large Passive Large
Franklin Street Partners	510	2	Opportunistic Active Small
NCM Capital Management	113	1	Active Large
Wachovia Asset Management	1,903	3	Active Large Active Small Passive Mid
Wellington Management Company	9,861	8	Active Large (2) Biotechnology Active Mid Active Small (2) International Emerging Mkt

Chart 15

**Name and market value
of the ten largest exposures
via participation in the various trusts
as of June 30, 2001**

General Electric Co	\$	857,563,700
Microsoft Corp		762,208,000
Citigroup Inc		666,567,000
Exxon Mobil Corporation		581,915,400
Pfizer Inc		539,287,500
AOL Time Warner		527,758,400
American Intl Group		434,082,400
Walmart Stores Inc		384,342,000
Tyco International		360,880,400
Johnson & Johnson		314,726,300

Chart 16



PERFORMANCE SUMMARY

The EIP generated a total return of (12.01%) for fiscal year 2001. The benchmark return was (9.78%). Over a trailing three-year time period, the EIP generated a 5.75% return versus 5.86% for the benchmark. In looking at FY 2001, much of the un-

der performance of the EIP was due to the allocation effect. The portfolio's higher exposure to domestic large cap stocks versus the benchmark hurt performance since domestic mid and small cap stocks posted better performance.

Long-Term Investment Portfolio

**Performance Review
Fiscal Year Ended June 30, 2001**

Chart 17

LONG-TERM INVESTMENT PORTFOLIO (LTIP)

Data as of June 30, 2001

Invested Assets: \$24,404,930,464
Benchmark: Merrill Lynch Blended Benchmark
Management: Internal
Inception: 1941

PORTFOLIO DESCRIPTION

The State Treasurer sets the broad investment policy and utilizes the professional in-house staff of the Investment Management Section to manage the assets of this fixed income portfolio of securities. The holdings in the LTIP consist of fixed rate U.S. Government obligations, corporate debt, federal agency obligations, dollar-denominated sovereign debt and GNMA modified pass-through securities.

The objective of the fund is to provide diversification and positive benefits to the asset/ liability mix during periods of disinflation or deflation, while maximizing returns at a risk level commensurate with the identified benchmark. The benchmark for the LTIP is a blend of established Merrill Lynch indices. The mix consists of 40% U. S. Government/agency securities, 40% corporate obligations and 20% GNMA 30-year mortgage pools.

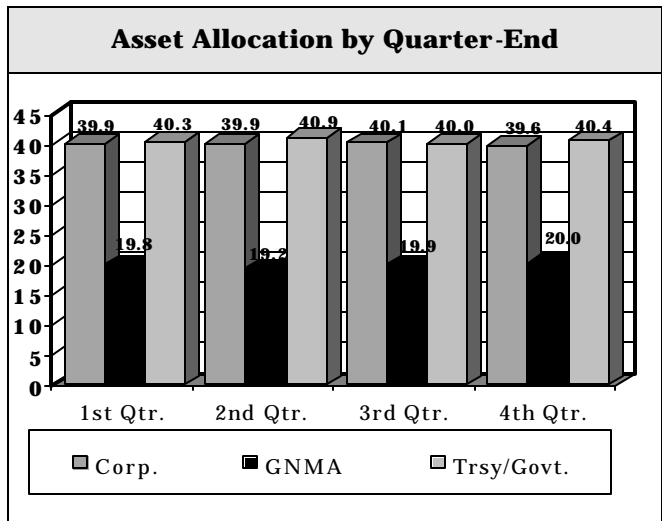
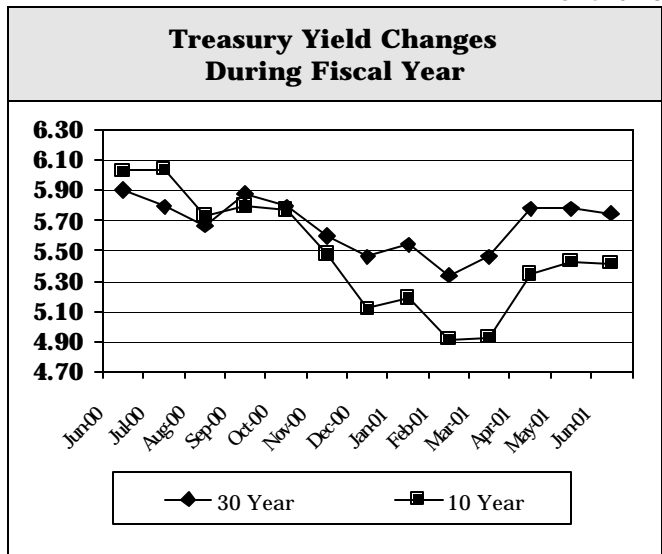


Chart 18



This portfolio represents approximately 41.3% of the assets of the various North Carolina retirement systems and approximately \$1.3 billion of other trust funds. The retirement systems are “defined benefit plans” and as such provide retirement benefits to retirees based on a formula prescribed by law.

RISK PROFILE

The LTIP is exposed to several forms of risk. These include, but are not limited to, purchasing power, default, reinvestment and market risk. Fixed income securities are extremely sensitive to changes in market interest rates. As a means of monitoring the LTIP price sensitivity to changes in market interest rates, the staff tracks statistical data in relation to the portfolio.

PORTFOLIO CHARACTERISTICS

The LTIP continues to be a high quality fixed income portfolio with a diverse group of holdings. The portfolio, at June 30, 2001, included 39.6% corporate obligations, 40.4% U.S. Govt./Agency securities, 20.0% GNMA's. The portfolio consists of 564 different issues, with an average coupon of 7.03%, and an average final maturity of 18.5 years. Two-thirds of the total portfolio consists of securities that are rated AAA.

PERFORMANCE SUMMARY

The Long Term Investment Portfolio continued to outpace the Merrill Lynch blended benchmark on a trailing three-year basis, despite falling just short of the benchmark return for the fiscal year. A series of Fed rate cuts in the second half of the fiscal year pushed the Treasury yield curve lower and steeper, resulting in a more normal curve shape than the inversion of last year. In contrast to the previous fiscal year rate increases, the Fed cut rates six times totaling 275 basis points. Activity in the corporate bond market was twofold, with the spreads widening in the first of half of the fiscal year on economic instability and tightening in the second half on the heels of an aggressive Fed.

The portfolio produced a total return of 11.67% for the fiscal year, trailing the benchmark return of 11.72%. On a trailing three-year basis, the LTIP produced a return of 5.65% compared with 5.52% for the blended benchmark.

Governmental Accounting Standards Board Statement No. 31 became effective for our reporting on July 1, 1997. The Statement requires that investment assets and income be reported at fair value and therefore the fixed income assets of the Long Term Investment Portfolio are managed on a “total return” basis. Total return includes realized income and any appreciation or depreciation reflected in the fair market value from an independent pricing source.

Chart 19

Top Five Corporate & Govt. Holdings in LTIP as of June 30, 2001	
<u>Issuer</u>	<u>Market Value</u>
SBC Comm. (incl. Subs.)	475,832,960
NationsBank (BOA)	294,429,652
Wal-Mart	281,582,826
J P Morgan Chase	276,144,410
Household Finance	278,518,977
UST 8.125 8/15/19	752,540,022
UST 7.875 2/15/21	750,563,614
UST 8.50 2/15/20	741,295,168
UST 7.25 8/15/22	719,007,800
UST 7.50 11/15/16	579,034,125

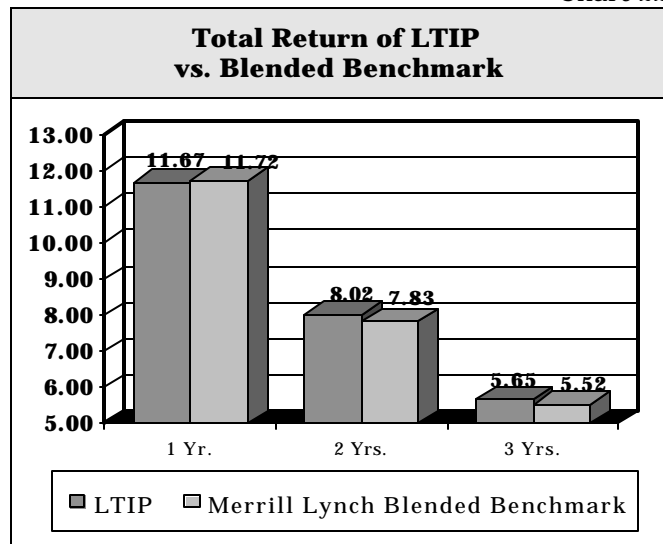
Chart 20

Distribution by Quality Rating as of June 30, 2001	
AAA	66%
AA	18%
A	16%

Chart 21

Maturity Range Distribution as of June 30, 2001	
0 — 5 years	5%
5 — 10 years	24%
10 — 20 years	19%
20 — 30 years	48%
30 + years	4%

Chart 22



Real Estate Investment Portfolio

Performance Review Fiscal Year Ended June 30, 2001

Data as of June 30, 2001

Invested Assets: \$1,084,936,435

Benchmark: National Council of Real Estate Investment Fiduciaries (NCREIF)

Management: Nine investment firms managing 18 separate trusts

Inception: 1984

PORTFOLIO DESCRIPTION

The objective of the Real Estate Investment Portfolio (REIP) is to provide long-term growth of capital while observing the requirements of applicable State law and the principles of prudent investment management. The REIP is expected to generate a "total return" which will equal or exceed that of NCREIF over a trailing 36-month time period. This portfolio represents approximately 1.9% of the assets of the various North Carolina Retirement Systems. Growth of capital will be accomplished by investing and reinvesting a stable flow of current income into the real estate asset class. Positive real rates of return during periods of rising or high inflation, along with a degree of additional diversification, are the goals of this portfolio.

The REIP is constructed to offer both high current income and price appreciation. The portfolio has a varied mix of funds that it utilizes to accomplish this objective. Core portfolios are utilized to provide the base returns for the REIP. It is expected that these portfolios will generate income levels that will grow as property rents are increased and offer the opportunity for price appreciation as well. The REIP also utilizes opportunistic funds which take advantage of pricing anomalies in the market place. These portfolios typically hold their investments for shorter periods of time and incorporate the use of moderate leverage to achieve higher rates of return.

RISK PROFILE

The REIP is utilized as a means of offering solid returns while possessing a lower correlation to the fixed income and equity assets found in the total pension portfolio. Within the REIP, the portfolio is balanced between core holdings and opportunistic funds.

The core positions offer a stable cash flow component while the opportunistic portfolios attempt to

capture significant price appreciation through financial leverage, capital improvements, and other forms of very active management.

PORTFOLIO CHARACTERISTICS

At June 30, 2001, the REIP held the highest concentration of its assets in opportunistic real estate. The portfolio held the next highest concentration in core real estate.

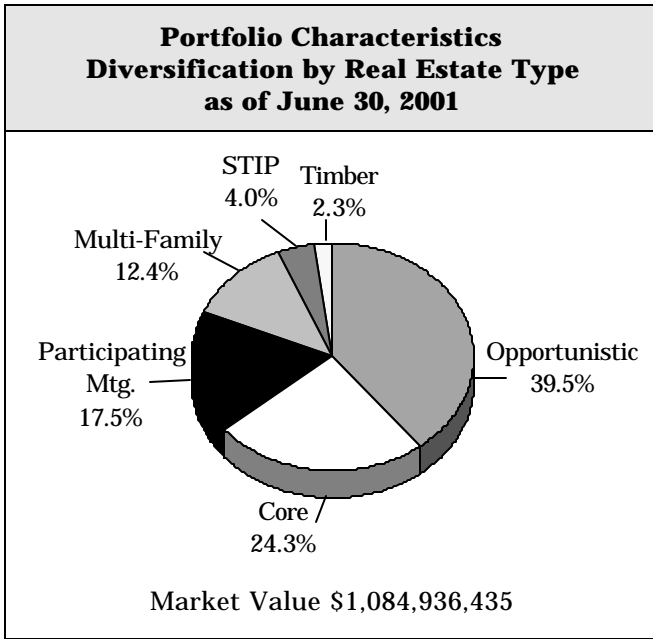
The State Treasurer sets the broad real estate policy and utilizes professional external managers to carry out the mandates. At June 30, the REIP employed nine management firms that currently manage 18 different portfolios. Obviously, some of these firms manage multiple portfolios for the REIP.

The following table reflects the management firms utilized, the amount of assets, the number of portfolios and the types of portfolios managed for the REIP.

As of June 30, 2001

<u>Firm</u>	<u>Total Assets</u> <u>(\$ in millions)</u>	<u># of</u> <u>Port.</u>	<u>Type</u>
DLJ	\$ 29,119	2	Opportunistic
DRA	18,421	1	Opportunistic
Lend Lease	178,060	4	Opportunistic
J.P. Morgan	116,313	1	Core
Sentinel	190,585	2	Multi-Family Opportunistic
Times Square	96,937	1	Core
UBS Brinson	233,057	2	Participating- Mortgage Core
Wachovia	24,286	1	Timber
Westbrook	138,578	4	Opportunistic

Chart 23

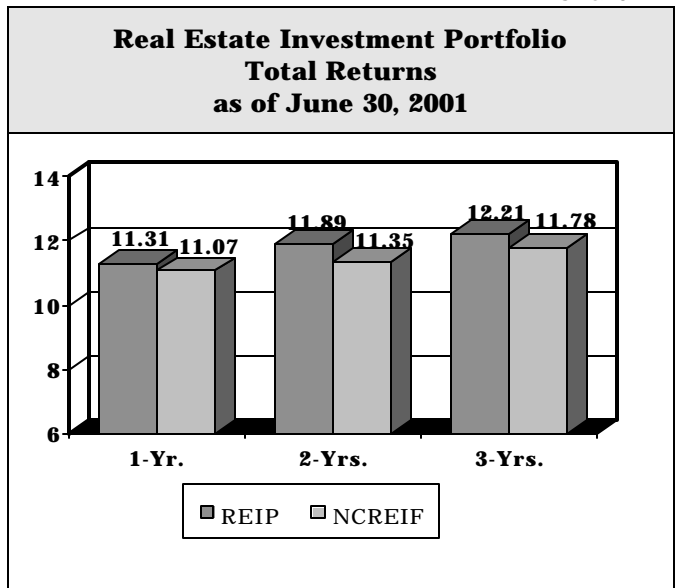


PERFORMANCE SUMMARY

The REIP outperformed the National Council of Real Estate Fiduciaries (NCREIF) benchmark for Fiscal Year 2001, posting a 11.31% total return versus an 11.07% return for the benchmark. On a trailing three-year time period, the REIP has outperformed the NCREIF by generating a 12.21% total return versus 11.78% for the benchmark. In terms of what contributed to the performance of the REIP, strong performance by the opportunistic sector helped the total portfolio exceed its objective. The

total portfolio held a large position in the office property sector. This has been a contributing factor to the positive performance of the portfolio since this property type has consistently outperformed the real estate market in general. Retail was under-weighted versus NCREIF. Given that retail produced the lowest returns in the benchmark, this allocation decision was positive for the REIP. The REIP had significant exposure in both the western and eastern portion of the U.S. and this served to enhance returns since these were the two best performing geographic regions in the country.

Chart 24



Venture Capital Investment Portfolio

Performance Review Fiscal Year Ended June 30, 2001

Data of June 30, 2001

Invested Assets:	\$101,251,367
Benchmark:	The S&P 500 Index is the benchmark used for <u>comparison purposes</u>
Management:	Eleven firms utilized for the management of 14 venture capital and buyout portfolios plus internal management of cash position and the in-kind stock distributions
Inception:	1988

PORTFOLIO DESCRIPTION

The objective of the Venture Capital Investment Portfolio (VCIP) is to provide, over a period of time (seven-to-ten years), a source of potentially high realized income for the retirement system assets. (The 1990 Short Session of the General Assembly changed the governing statutes, which had restricted these investments to the General and Highway Funds, on a retroactive basis.) This portfolio represents approximately .2% of the assets of the various North Carolina Retirement Systems. The partnership risk is controlled by diversification in industry type, stage of corporate development and geographic location.

The VCIP's objective of generating high amounts of realized income over a seven-to-ten year period requires that the partnership portfolio be constructed so that a balance between stage of company development and industry type is maintained. The partnership portfolio uses a combination of early stage, later stage and buyout funds. The early stage funds take a longer period of time to produce returns, but normally provide very strong returns as a result of investments being made in companies very early in their corporate life. To provide returns in the interim, this portfolio invests in later stage and buyout funds that will generally contribute returns sooner than the early stage funds. It is anticipated that these later stage funds will sacrifice some long-term potential in return for quicker recognition of gains. The portfolio also seeks to diversify across industry sectors.

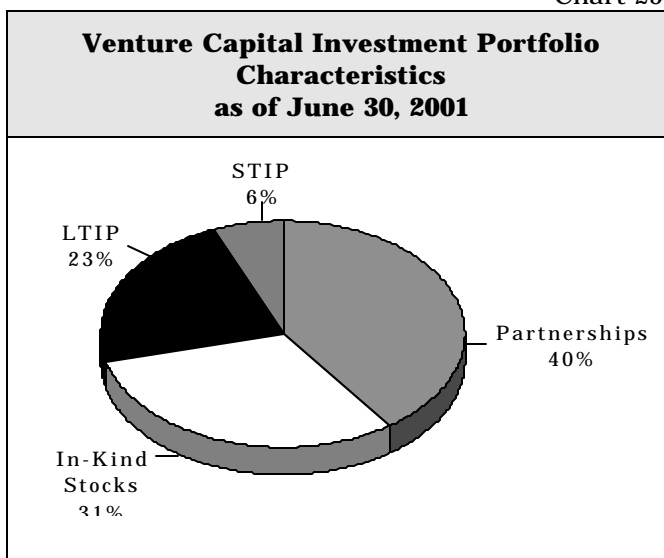
Given the long-term time horizon of these investments, sectors can fall in and out of favor during an investment cycle, so diversification is important. Finally, the portfolio seeks to diversify as to geographic location. There are several areas across the country well-renowned for the success of venture capital companies and the portfolio obviously wants to participate. Also, the portfolio seeks to identify those areas which may be on the verge of breaking through in terms of successful venture capital performance, such as the southeast United States. Lastly, the portfolio has some exposure to international venture capital and buyout activity. With markets becoming more and more global, opportunities exist to reap substantial returns from overseas investments.

The portfolio also holds stock and cash positions that are the result of partnership distributions. The stock positions are monitored daily and the cash positions are invested in both the LTIP and STIP.

OVERALL PORTFOLIO CHARACTERISTICS

At June 30, 2001, the VCIP held 60% of its assets in either in-kind stocks distributions or fixed income investments. The partnership component of the VCIP amounted to 40%.

Chart 25



Given the fact that there have not been many new commitments to the asset class because of statutory limitations, this mix is not surprising since many partnerships are nearing the end of their contractual life.

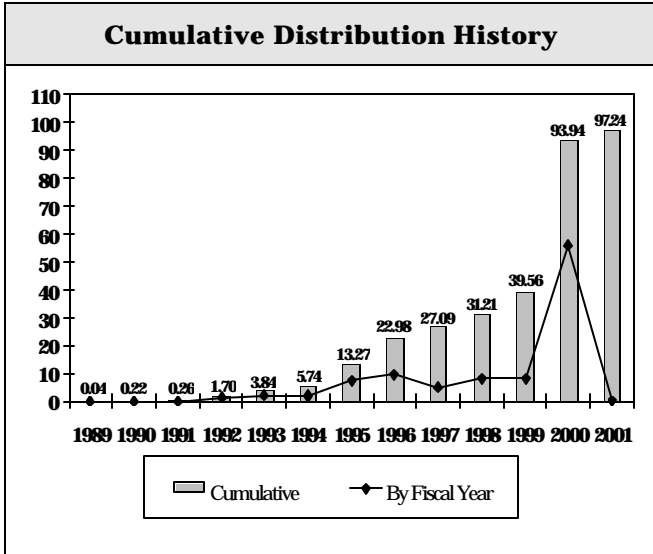
At June 30, 2001, there were 22 different in-kind stock positions held in the VCIP. These stocks could be used as a source of capital for future venture

commitments. Most of these positions represent either technology or telecommunications companies.

The 29% of the VCIP that is held either in STIP or LTIP is the result of cash distributions received from the partnerships.

Fiscal year 2001 was not a strong year in terms of distributions, as the chart below shows. Through June 30, 2001, the VCIP had invested \$50 million and received \$97 million back in distributions. Therefore, the VCIP has recovered considerably more than its cost in venture capital.

Chart 26



RISK PROFILE

Venture capital investing is by its nature a higher risk asset class. Investing in new companies or new technologies can pose the risk of losing all of the principal investment, yet at the same time the potential for returns substantially higher than those of other asset classes justifies exposure in the asset class.

With the risk of the asset class acknowledged, the partnership portfolio is structured with certain risk controls utilized. For example, efforts are made not to overweight any one particular industry sector or geographic location. Professional managers utilized for this program are scrutinized to determine that capabilities are in place to identify good investments leading to strong returns. Finally, partnership investments are balanced between stage of development in order to achieve a consistent realized income stream, rather than sporadic periods of high-income generation.

PARTNERSHIP PORTFOLIO CHARACTERISTICS

As June 30, 2001, the VCIP held most of its partnership assets in vintage 1989 portfolios. Nineteen eighty nine marked the first full year that the pension funds began making venture capital investments. As time has progressed, the portfolio continues to add new vintage year portfolios in order to replace those partnerships which will soon terminate as provided in the original contracts. The portfolio also holds the highest percentage of its partnership assets in early stage partnerships. In theory, these partnerships should produce the highest returns. The portfolio has balanced the early stage program with investments in later stage and buyout funds.

Chart 27

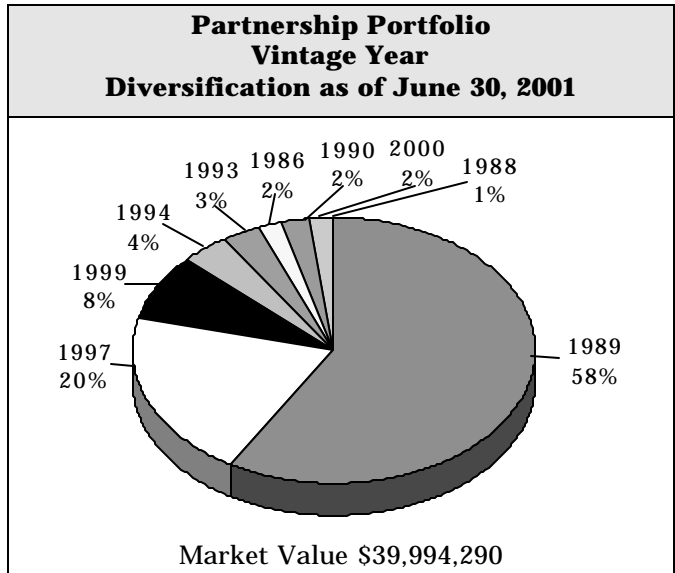
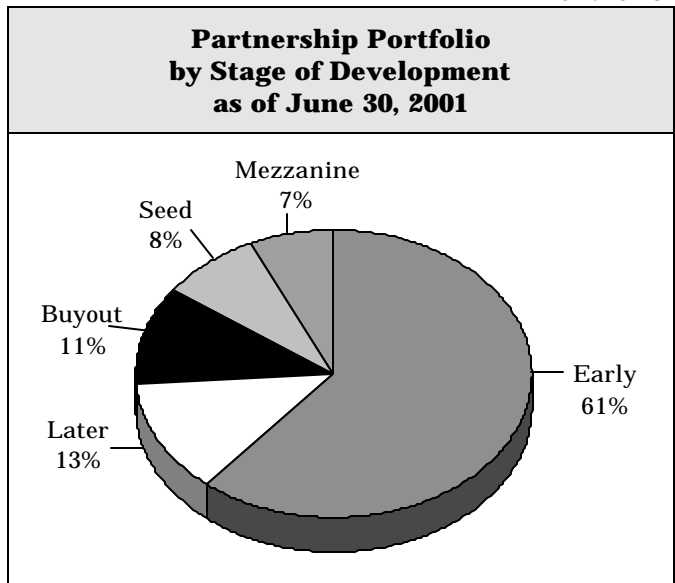


Chart 28



The State Treasurer sets the broad venture capital policy and utilizes external professional managers to carry out the mandates. At June 30, the VCIP employed eleven management firms that manage a total of 14 different portfolios. Obviously, several of these firms manage multiple portfolios for the VCIP.

The following table reflects the management firms utilized, the market value of the investment, the number of partnerships, and the types of partnerships managed for the VCIP.

Firm	Total Market Value (\$ in millions)	# of Partnerships	Type
Academy	\$ 3.2	1	Early Stage
A.M. Pappas	.9	1	Later Stage
Carolinas Capital	.65	1	Early Stage
DLJ Merchant	5.3	1	Buyout
Franklin-Fairview	2.76	1	Buyout
HarbourVest	1.32	1	Later Stage
InterSouth	1.43	2	Early Stage
Kitty Hawk	.5	1	Early Stage
Sprout Capital	2.49	2	Early Stage Later Stage
The N.C. Enterprise Corp.	20.8	2	Early Stage
Venture First	.6	1	Early Stage

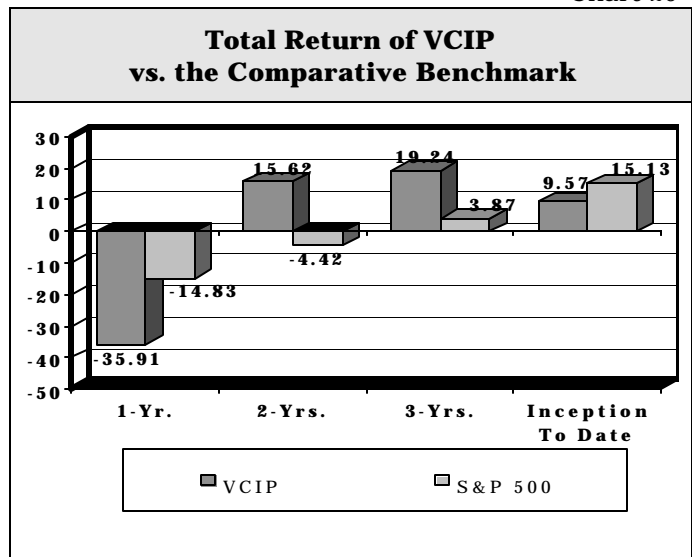
PERFORMANCE SUMMARY

The VCIP recorded a total return of (35.91%) for Fiscal Year 2001. This compares with (14.83%) for the S&P 500.

For the year, the partnership portfolio generated a total return of (19.67%) while the internally held assets posted a (43.4%) return.

It is also important to note that the returns for the VCIP include not only investments made in 1988, but investments made in 2001. Historically, it takes about six years to begin to see solid performance of a venture capital partnership. By combining partnerships that are relatively new (i.e. going through the "J curve" effect) with those that have been in existence for some time, the returns are somewhat diluted.

Chart 29



Supplemental Income Results

In addition to the traditional sources of income from the investment pool, there is supplemental income resulting from further active management of the investment assets. For the fiscal year ended June 30, 2001, supplemental income amounted to nearly \$25 million and was almost five times the

actual operating expenditures of the Investment and Banking Division, which were \$5,082,808. The largest component of the supplemental income efforts is securities lending, which has generated net earnings of \$145 million since its inception in 1979.

Chart 30

The securities lending component is administered by The Bank of New York under stringent requirements established by the State Treasurer. All securities are collateralized at 102%, with the investment of cash collateral being limited to the same securities which are authorized for investment by the Short-term Investment Portfolio.

The Bank of New York provides 100% indemnification to the State Treasurer in the case of borrower default.

Chart 30 shows the sources and monetary results:

Supplemental Income Results			
<u>Source of Income</u>	<u>Short-Term</u>	<u>Long-Term</u>	<u>Totals</u>
Securities Lending	\$13,793,845	\$15,351,982	\$29,145,827
Fail Balance Earnings		<u>842</u>	<u>842</u>
TOTALS:	<u>\$13,793,845</u>	<u>\$15,352,824</u>	<u>\$29,146,669</u>

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State and Local Government Finance Division

The State and Local Government Finance Division is organized to provide the State Treasurer, the Local Government Commission, the North Carolina Solid Waste Management Capital Projects Financing Agency, and the North Carolina Capital Facilities Finance Agency with staff assistance in fulfilling their respective statutory functions. The Division is organized along functional lines into two major groups of services: Debt Management and Fiscal Management.

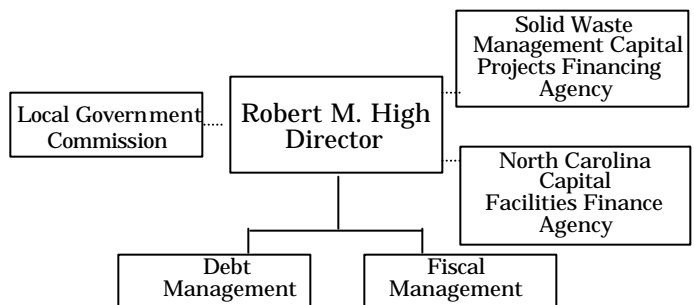
The Local Government Commission (LGC) renders assistance to local governments and public authorities in North Carolina. The LGC, staffed by the Department of State Treasurer, approves the issuance of debt for all units of local government and assists these units with fiscal management. The Commission is composed of nine members: the State Treasurer, the Secretary of State, the State Auditor, the Secretary of Revenue, and five others by appointment (three by the Governor, one by the General Assembly upon the recommendation of the President-Pro Tempore and one by the General Assembly upon the recommendation of the Speaker of the House.) The State Treasurer serves as Chairman and selects the Secretary of the Commission, who heads the administrative staff serving the Commission.

The North Carolina Solid Waste Management Capital Projects Financing Agency provides a loan fund for financing the capital expenses incurred in implementing local and regional solid waste management programs. The Agency Board of Directors

consists of five members: the State Treasurer and four others by appointment (two by the Governor and two by the General Assembly upon the recommendation of one each by the Speaker of the House of Representatives and the President Pro Tempore of the Senate). Administrative staff for the Agency is provided by the Department of State Treasurer.

Nonprofit and for-profit corporations providing certain services may receive financing assistance through bonds issued by the North Carolina Capital Facilities Finance Agency. The Agency Board of Directors is composed of seven members: the State Treasurer, the State Auditor, and five others by appointment (three by the Governor, one by the President 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 Division handles the sale and delivery of all State and local debt and monitors the repayment of State and local government debt.



Operational Highlights

- **Competitive tax-exempt general obligation bonds for the State were sold totaling \$680 million. On August 23, 2000, \$300 million public school building and natural gas bonds (11.52 years average life) were sold at a net interest cost 45 basis points below the national Bond Buyer's Index (the "BBI"), resulting in interest savings in excess of \$16 million over the life of the bonds. On March 7, 2001, \$380 million public school building, clean water and higher education bonds (11.37 years average life) were sold at a net interest cost 43 basis points below the BBI, resulting in interest savings in excess of \$18.7 million over the life of the bonds. The public school building bonds were**

approved by the voters of the State in November 1996, the clean water and natural gas bonds each in November 1998 and the higher education bonds in November 2000.

- **The staff continued its efforts to distribute and receive information electronically. Memorandums, manuals and comparative financial data for all counties and municipalities are available through the Department's homepage. Annual financial information reports were received electronically from 85 counties and 186 municipalities.**

- **The State continued to retain its excellent bond rating of "Triple-A," one of only nine**

states in the nation with this coveted rating from all three national rating agencies.

- Of the \$1.3 billion in general obligation bonds sold for local governments over \$1.1 billion were sold competitively with rates averaging 62 basis points under the national Bond Buyer's Index, which resulted in savings in excess of \$56 million over the life of these bonds.

- The Division continues to utilize electronic bids on general obligation bond issues. Approximately 5.8 bids were received per issue enabling units to receive very competitive interest rate.

- Two bond issues totaling \$125 million were approved and sold for the North Carolina Housing Finance Agency, thus increasing the supply of affordable housing for North Carolinians of moderate and low income. Also, one bond issue of \$27 million on student housing was sold.

- Industrial revenue bonds totaling over \$578 million were issued for 30 projects resulting in the creation of 1,001 jobs and the saving of 506 jobs.

- The staff made presentations at approximately 30 continuing education and conferences for local government officials and their auditors. The courses covered financial management, accounting and auditing issues.

- Memorandums were issued to local governments and their auditors concerning GASB Statement No. 34, escrowed local government reimbursements, consolidation of municipal and county tax billing and collection, wireless 911 funds and reporting issues for electric funds and all units. Memorandums were also issued comparing tax collection efforts, operation of water and sewer systems, operation of electric systems, operation of public hospitals and school capital outlay spending among units.

- The staff worked with the North Carolina Association of County Commissioners to prepare the Fiscal Summary of North Carolina Counties. The Summary provides useful information to county commissioners, managers, and citizens about the operations of each county and compares the operations of each county to others.

- Thirteen local governments received low interest rate clean water revolving loans and state bond loans totaling over \$17 million for the construction of water and sewer systems.

- Installment purchase contracts were sold for over \$627 million, typically for smaller projects.

- The staff has developed the County and Municipal Information Website (<http://ncdst-webt.treasurer.state.nc.us/lgc/units/unitlistjshtm>). The site displays detailed financial, population and property tax data for the latest six year period for all North Carolina counties and municipalities.

- Twenty-six revenue bonds for over \$786 million were sold for local governments, mainly for hospitals, airports and water and sewer projects.

- Over \$435 million in hospital revenue bonds was sold for the North Carolina Medical Care Commission through nine bond issues.

- Over \$196 million was provided for capital projects to private schools, colleges and other nonprofit corporations through 14 bond issues by the North Carolina Capital Facilities Finance Agency.

- The staff reviewed the financial statements of 1,124 local governments and public authorities. These audit reviews included 594 single audits and 213 yellow book audits required by federal and State laws.

- The staff worked with representatives from public housing authorities on a legislative proposal to better coordinate the financial review and oversight functions of the LGC and the Department of Housing and Urban Development (HUD).

- The staff worked with local governments and public authorities whose debt is subject to secondary market disclosure requirements established by the Securities Exchange Commission to be certain that all required disclosures were made by the date required. Failure to meet those requirements would negatively impact a unit's ability to borrow in the future. One hundred and seventy-eight units were required to make this disclosure for the fiscal year ended June 30, 2000.

- The twelfth annual State Treasurer's Awards were presented to local governments and public authorities that demonstrated significant improvements in accounting or financial management programs, systems, methods and procedures.

- The staff worked with the North Carolina Association of County Commissioners and the North Carolina League of Municipalities to

estimate the impact of the 2000 Census upon the intergovernmental revenues of counties and municipalities. If the staff estimated that a significant loss of revenues might occur, the unit was alerted and encouraged to consider these potential losses when adopting their fiscal year 2001-02 budget.

- **The staff surveyed counties and municipalities concerning the consolidation of prop-**

erty tax billings and collections for property taxes other than motor vehicles. The survey was intended to determine how many units have consolidated the services, if units not currently consolidating the services would be willing to do so in the future and the reasons why some units would not be willing to consolidate services.

The State of Tax-Exempt Financing

As one of the few remaining tax shelters, governmental bonds continue to be an attractive means of financing for local governments. Without tax-exempt financing, the interest rates charged on borrowed funds could increase from 1 to 3 percentage points resulting in a 20 to 30 percent increase in the

cost of financing. Utility customers and taxpayers would ultimately pay this increase.

Market conditions were favorable for tax-exempt debt during the fiscal year. The Bond Buyer's Index of 20 General Obligation Bonds ranged from a low of 5.00% on January 11, 2001 to a high of 5.71% on July 6, 2000.

The Basic Functions Debt Management

The Division issues and monitors all State debt secured by a pledge of the taxing power of the State. After voter approval of a bond issue and with the assistance of other State agencies, the Division determines the cash needs, plans for the repayment of debt (maturity schedules), and schedules bond sales at the most appropriate time. An official statement describing the bond 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 bonds, maintains the State bond records and register of bonds, and monitors the debt service payments. At June 30, 2001, the State had general obligation bonds outstanding of \$3.032 billion. (See Tables 8 and 9.)

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, the North Carolina Housing Finance Agency and the North Carolina Solid Waste Management Capital Projects Financing Agency. Only the specific revenues pledged in payment thereof secure these bonds. The staff works with these agencies' personnel in determining the feasibility and scheduling of the bond offering, in structuring the issue and the underlying security documents, and in preparing the data that must be presented to the Local Government Commission for its approval.

The Division assists the State Treasurer in representing the State in all presentations to Moody's Investors Service, Inc.; Standard and Poor's Corporation; and Fitch, Inc., the three national bond rat-

ing agencies used by the State and local governmental units in North Carolina. The State continues to have a "Triple-A" rating, the highest rating attainable, from all three national rating agencies. This favorable rating has enabled the State to sell its bonds at an interest rate considerably below the Bond Buyer's Index, thereby providing tremendous savings to North Carolina's taxpayers.

Another important function of the Division is the approval, sale, and delivery of all North Carolina local government bonds and notes. The Division staff counsels and assists local governmental units in determining the necessity of the 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 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 times when the bonds can be sold with a minimum of competition. The staff strives to resolve all problems and determine that all statutory requirements are met before applications are presented to the Local Government Commission for approval.

After approval is granted, the governmental unit and its bond counsel assist the staff in gathering and assembling information for an official statement, which is mailed to a large group of potential bidders nationwide. The general obligation bonds are awarded through the competitive bid process on the basis of lowest total net interest cost to the governmental unit. After the sale, the staff delivers and validates the definitive bonds and ensures that the

moneys are promptly transferred from the buying brokers to the governmental unit.

In addition to bond sales, the staff assists the units in selling certain short-term debt obligations. These may be bond anticipation notes to provide interim funding of projects until the definitive bonds are sold, or they may be other notes secured by specific pledges of taxes, grants, or future revenues. Authorization for short-term debt obligations also is based upon Local Government Commission 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, 2001, authorized and unissued general obligation bonds for local governments amounted to \$2.66 billion; and general obligation debt outstanding amounted to over \$7.2 billion. (See Table 8.) During the 2000-2001 fiscal year, bonds and notes were sold in the amount of \$2,177,021,489. (See Chart 31.) Of the \$1,290,524,600 in general obligation bonds marketed for local units, over \$1.134 billion were sold competitively at tax-exempt rates averaging approximately 62 basis points below the national average (according to the Bond Buyer's Index). Over the life of these bonds, the issuers are expected to save in excess of \$56 million in interest costs. Such savings are a result, in part, of the Division's successful efforts in maintaining and upgrading the bond ratings of the State and local units and in monitoring the fiscal soundness of the individual local units.

The Division's staff also assists in the sale of revenue bonds, which must have the Commission's approval in order to be issued by municipalities, joint municipal electric power agencies, and county industrial facilities and pollution control financing authorities. These bonds are secured only by specific revenue pledged in payment of the bonds. (See Charts 31 and 32.)

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. Local Government Commission approval is required when the contract or agreement extends for five or more years; and obligates the unit to pay sums of money to another, without regard to whether the payee is a party to the contract; and obligates the unit to the extent of \$500,000 or a sum equal to one tenth of one percent (1/10 of 1%) of the appraised value of property subject to taxation by the unit, whichever is less. Local Government Commission approval also is required when the contract or agreement involves the construction or repair of fixtures or improvements on real property and it is not exempted in G.S. 159-148(b).

Before approving such agreements, the Local Government Commission must find that the proposed project is necessary and expedient, the proposed undertaking cannot be economically financed by a bond issue, and the contract will not require an excessive increase in taxes. During the fiscal year ended June 30, 2001, the Local Government Commission approved contracts or other agreements totaling \$706.9 million. (See Tables 6 and 7.)

The Division also serves as staff to the North Carolina Capital Facilities Finance Agency, an agency established by the General Assembly in 1986. Originally named the North Carolina Educational Facilities Finance Agency, the act creating the Agency has been amended several times and its ability to finance capital projects significantly expanded.

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 seven-member North Carolina Capital Facilities Finance Agency and subsequently to the Local Government Commission for approval. (All debt issued by the Agency also must be approved by the Local Government Commission.)

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. 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. The Local Government Budget and Fiscal Control 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. That audit must be performed in accordance with Generally Accepted Auditing Standards promulgated by the AICPA. If a governmental unit is required to have an expanded audit performed in accordance with Government Auditing Standards, the auditor is required to provide the unit and the Local Government Commission with a copy of the audit firm's most recent peer review re-

port prior to contracting for the audit. Each local government is required to file a copy of its annual audit report with the Division and submit all invoices to the Division for approval. The Division monitors the annual audit reports for compliance with generally accepted accounting principles and single audit disclosure requirements. Also, a detailed analysis is made of the financial condition of each unit. In analyzing a unit's financial condition, staff members look not only at financial ratios and budgetary indicators, but also at possible trends that may be early warning signs of potential financial difficulties. Problems or concerns are brought to the attention of the governmental units and, if problems persist or become more serious, unit visits are made by staff members in order to provide hands-on technical assistance.

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. Staff members also perform research and provide technical assistance to local governments with specific questions in these areas. On-site assistance is furnished to local governments with regard to financial and accounting systems and management services. Educational programs, in the form of seminars and classes, also are provided in order to accomplish these tasks. Staff members make presentations throughout the year at various workshops sponsored by the Institute of Government; the North Carolina Government Finance Officers Association; the North Carolina Association of County Finance Officers; the Association of Government Accountants; the N.C. Local Government Investment Association; and numerous other county, municipal, and school organizations.

The Division has expanded its assistance role by maintaining computerized databases of historical information from local government audit reports, city and county Annual Financial Information Reports, and Reports of Deposits and Investments. The information collected is used in a variety of ways to automate operations and enhance the assistance provided to local governments. The files also are utilized in special projects that benefit the operations of the State. Upon request, data is provided to such organizations as the U.S. Bureau of the Census, the N.C. Department of Revenue, the General Assembly, the N.C. League of Municipalities, the Institute of Government, and the N.C. Association of County Commissioners to assist these groups in their activities.

Because of recent changes in the field of governmental accounting and the enactment of the Federal Single Audit Act and the State Single Audit Act, continuing assistance is provided to the independent auditors of local governments, particularly in the area of professional education. Several members of the staff serve on the Governmental Accounting and Auditing Committee of the North Carolina Association of Certified Public Accountants (NCACPA). The staff helps prepare and instruct several continuing professional education courses in governmental accounting and auditing. These are presented several times annually to independent auditors through the auspices 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 laws. In addition, all exposure drafts of the Governmental Accounting Standards Board (GASB) are analyzed, and any comments and recommendations that staff may have on these drafts are submitted to the GASB.

Significant Accomplishments

Debt Management

North Carolina General Obligation Bonds — In 2000-01 the State sold general obligation bonds totaling \$680 million. On August 23, 2000, \$300 million tax-exempt public school building and natural gas bonds (11.52 years average life) were sold at a net interest cost 45 basis points below the national Bond Buyer's Index (the "BBI"), resulting in interest savings in excess of \$16 million over the life of the bonds. On March 7, 2001, \$380 million tax-exempt public school building, clean water and higher education bonds (11.37 years average life) were sold at a net interest cost 43 basis points below the BBI, resulting in interest savings in excess of \$18 million over the life of the bonds. The public school building bonds were approved by the voters of the State in

November 1996, the clean water and natural gas bonds each in November 1998 and the higher education bonds in November 2000. The State's authorized and unissued general obligation bonds at June 30, 2001 totaled \$4.37 billion. (See Table 8.)

Electronic Bidding — Debt Management has utilized the electronic bidding process during the fiscal year for \$1,814,25,000 of the \$1,970,524,600 in general obligation debt sold. A total of thirty-eight issues were sold with thirty-six issues for local units of governments and two issues for State of North Carolina General Obligation debt. The State issued a total of \$680,000,000 and the local governmental units amount to \$1,134,255,000. This form of bidding produced approximately 5.8 bids per issue

which enabled the issuing units to receive a very competitive net interest cost at the time of sale. In addition to the electronic bidding process, Debt Management will still continue to accept sealed bids in person at the Department of State Treasurer. This system will still continue to be monitored, so as to keep abreast of any further technological changes that will enhance and improve bidding results for the State, and local governmental issuers of general obligation debt.

Installment and Lease Purchase Agreements —

The installment and lease purchase method of financing continues to be used by local governments, typically for smaller projects for which a bond referendum is not cost effective and for essential projects for which units of government face mandates. The number of installment and lease purchase agreements approved decreased from 106 to 102 and the dollar volume approved increased from \$644.5 million in FY 1999-2000 to \$706.9 million in FY 2000-01. (See Tables 6 and 7.) The actual amount of installment and lease purchase agreements closed during the year totaled \$627.2 million. (See Chart 32.)

Revenue Bonds --- Interest in revenue bond financing continued. These bonds are secured by the revenues of the projects being financed rather than property taxes and do not require a vote of the people. During 2000-2001 the Local Government Commission sold over \$786 million in revenue bonds in 26 separate issues for local governments. Sustained economic growth, viable enterprise activities and the narrowing of rate differential between general obligation bonds and revenue bonds have been factors in the increased interest in this type of financing. However, revenue bonds are more costly than general obligation bonds because of both higher interest rates and increased issuance costs. While, most of the revenue bonds in 2000-2001 continued to be for water and sewer projects, the range of projects being financed diversified with a convention center for the City of Greenville financed with a pledge of net occupancy tax revenues. Two of the three State's largest airports issued revenue bonds during the year. Raleigh-Durham Airport Authority had the distinction of having the largest issue at over \$200 million for its airport facilities.

North Carolina Medical Care Commission Bonds — During 2000-2001 the Local Government Commission approved and sold nine separate issues of bonds and notes for the North Carolina Medical Care Commission totaling over \$435 million. This activity continues to reflect the rapidly changing environment of health-care as facilities continue to position themselves for an uncertain future with Medicare/Medicaid adjustments, further changes in

the managed care industry and an aging population demanding more services at lower costs. The largest issue was for WakeMed Hospitals for \$150 million to provide for construction and other renovations. In attempting to meet the needs of our aging population, five independent living/assisted living issues providing for the acquisition or financing of five separate facilities were successfully completed during 2000-2001. Diverse issue needs were met through fixed rate revenue bonds and variable rate demand revenue bonds. In attempting to better address the continuum of health-care, careful planning and evaluation will continue to be given to additional project risks and innovative techniques used in their financing to insure both project success and bondholder confidence.

North Carolina Housing Finance Agency

— The North Carolina Housing Finance Agency (NCHFA) is a self-supporting State agency created by the General Assembly in 1973 to increase the supply of affordable housing for North Carolinians of moderate and low income. The agency sells tax-exempt revenue bonds to finance mortgages for first-time homebuyers at interest rates below conventional market rates. In a companion program, it converts part of its bond authority to provide tax credits (Mortgage Credit Certificates) which first-time homebuyers use in conjunction with conventional loans to lower the cost of home ownership. The agency also issues bonds to finance privately owned rental housing for low-income households. In addition, it finances affordable housing through the federal Housing Credit Program, HOME Investment Partnership Program, and the State's Housing Trust Fund. In its history, the agency has issued more than \$5.5 billion in tax-exempt bonds and tax credits to produce and provide housing for over 117,700 households. In FY 2000-2001, financing and tax credits were provided to support total development of \$477 million. This includes \$125 million through bond sales and 1 mortgage credit certificate elections totaling \$165 million. The Agency also issued \$27 million in student housing facility bonds.

Industrial Revenue Bonds — The use of industrial revenue bonds has contributed to North Carolina's impressive record of industrial development. These bonds provide tax-exempt financing and are used to attract manufacturing industries to the State. Since 1976, there have been 1,087 issues totaling over \$5.6 billion. These 1,087 issues have created over 97,000 jobs and saved over 39,000 jobs. In the fiscal year ended June 30, 2001, 30 issues of Industrial Revenue and Pollution Control Facilities Bonds were issued for a total of \$578,850,000. This resulted in the creation of 1,001 jobs in addition to 506 jobs saved.

Volume Cap Allocation — Legislation was approved by the 1987 Session of the General Assembly to maintain a State pool of the federal volume cap from which projects for industry, low and moderate income housing, low-interest rate student loans, etc., could be approved, thus giving maximum flexibility in use of the volume cap. The volume cap allocation affords tax-exempt financing for projects of this type. For the calendar year 2001, the State was allotted \$503.1 million to use for private activity bonds. In 2002, the volume cap is expected to increase slightly. The Tax and Trade Relief Act increased the per capita allotment from \$50 to \$75 with the increase phased-in from 2003 to 2007.

“Triple-A” General Obligation Bond Ratings — A “Triple-A” general obligation bond rating is the highest attainable and reflects strengths in debt position, economic base, administrative variables, and financial performance. Standard & Poor’s rating agency has assigned “Triple-A” general obligation long-term debt ratings to states, counties, and cities throughout the entire United States; approximately one out of every four of those are North Carolina units. The following North Carolina units have “Triple-A” bond ratings issued by Standard & Poor’s: the State of North Carolina; the counties of Durham, Forsyth, Guilford, Mecklenburg, and Wake; and the cities of Charlotte, Durham, Greensboro, Raleigh, and Winston-Salem. In addition, the Special Airport District of Durham and Wake counties also enjoy a “Triple-A” rating. To quote from Standard & Poor’s Credit Surveys: “The ‘AAA’ General Obligation rating for cities, counties, and states indicates that very high standards have been achieved and maintained.”

North Carolina Capital Facilities Finance Agency — The North Carolina Capital Facilities Finance Agency (NCCFFA) was created in 1986, was originally named the North Carolina Educational Facilities Finance Agency, and provided the benefits of tax-exempt financing to nonprofit private institutions of higher education in the State of North Carolina. This act was amended in 1998 session of the General Assembly (Session Law 1998-124) to broaden its powers to permit financing facilities of kindergarten, elementary and secondary nonprofit private schools. The act creating this agency was amended again in the 1999-2000 session of the General Assembly (Senate Bill 1472) to change its name to its present name and to allow it to finance additional types of capital projects. The additional types of capital projects able to be financed include student housing facilities when owned or operated by an institution other than an institution of higher education or elementary or secondary education. Also included within the authority of the NCCFFA

are special purpose projects which are defined to include water systems or facilities, including all plants, works, instrumentalities, and properties used or useful in obtaining, conserving, treating, and distributing water for domestic or industrial use, irrigation, sanitation, fire protection, or any other public or private use; sewage disposal systems or facilities, including all plants, works, instrumentalities, and properties used or useful in the collection, treatment, purification, or disposal of sewage, other than facilities constituting a water pollution control facility; public transportation systems, facilities, or equipment, including bus, truck, ferry, and railroad terminals, depots, trackages, vehicles, and ferries, and mass transit systems; public parking lots, areas, garages, and other public vehicular parking structures and facilities; public auditoriums, gymnasiums, stadiums, and convention centers; recreational facilities; land, equipment, and facilities for the disposal, treatment, or recycling of solid or other waste that are described in G.S. 159I-8; facilities for the provision of rehabilitation services, education, training, and employment opportunities for persons with disabilities and the disadvantaged not to include a retail facility, however, unless the proposed operator of the facility certifies that at least seventy-five percent of its employees will be disadvantaged or disabled persons and at least seventy-five percent of its inventory will be composed of used, donated items and items manufactured by disadvantaged or disabled persons. While the 1999-2000 amendments, effective July 1, 2000, made significant changes in the scope of activities of the agency, they did not affect the bonds outstanding in any material respect.

The NCCFFA has provided \$1,155,316,979 in tax-exempt capital financing through 83 issues. This amount includes \$23,600,000 in tax-exempt financing originally issued by the North Carolina Industrial Facilities and Pollution Control Facilities Financing Authority in three issues on behalf of 12 corporations. There have been no defaults. At June 30, 2001, there were \$922,577,227 in outstanding obligations. Each issue is payable solely from revenues derived from each corporate 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, 2001, the NCCFFA issued \$196,075,000 for 13 institutions. The Annual Report of the NCCFFA is available from the Office of the State Treasurer.

North Carolina Clean Water Revolving Loan and Grant Funds — The North Carolina Clean Water Revolving Loan and Grant Fund was established by the 1987 General Assembly to provide low-interest rate loans to local governments constructing or improving water and sewer opera-

tions. Demand for the funds has far exceeded the amount appropriated. The intent is for this fund to become self-perpetuating and for a permanent water and sewer loan fund to be made available.

The staff is responsible for reviewing the applicant's fiscal/debt management policies; determining the feasibility of the project; and coordinating the loan offers with the Department of Environment and

Natural Resources. Maturity schedules are prepared for each loan, and the staff oversees the signing of the promissory notes.

In 2000-2001, a total of twenty-six units were selected to receive loans ranging from \$210,740 to \$20,000,000. Additionally, seven State bond loans were approved ranging from \$400,000 to \$3,052,896.

Debt Management Activities - State and Local (In Millions)

Chart 31

	FY	2000-01	FY	1999-00	FY	1998-99
	No.	Amt.	No.	Amt.	No.	Amt.
Bonds Sold for State						
G.O. Bonds (General Fund)	2	\$ 680.0	3	\$ 200.0	2	\$ 475.9
G.O. Bonds (Highway Fund)	0	-	0	-	0	-
Total	2	\$ 680.0	3	\$ 200.0	2	\$ 450.0
Bonds and Notes Sold for Local Government Units:						
G.O. Bonds	42	1,290.5	37	587.8	68	863.0
Revenue Bonds	26	786.8	19	498.4	19	433.1
State Bond and Revolving Loans	13	17.6	17	30.0	55	96.2
Special Obligation Bonds - Solid Waste	0	-	4	16.4	1	2.8
G.O. Notes	33	82.1	21	39.0	29	58.0
Revenue Notes	0	-	0	-	1	1.4
Total	114	\$ 2,177.0	98	\$ 1,171.6	173	\$ 1,454.5
Installment/Lease Contracts Sold for Local Units:						
	83	\$ 627.2	104	\$ 571.6	110	\$ 436.1
Revenue Bonds Sold for:						
Medical Care Commission	9	435.1	12	281.3	22	1,139.1
Housing Finance Agency	3	152.2	4	265.0	4	191.8
Power Agencies	0	-	3	420.9	1	279.2
Industrial Facilities and Pollution Control						
Financing Authorities	30	578.9	26	247.5	29	146.1
Capital Facilities Finance Agency	14	196.1	16	224.6	9	66.2
Total	56	\$ 1,362.3	61	\$ 1,439.3	65	\$ 1,822.4
Grand Total	255	\$ 4,846.5	266	\$ 3,382.5	350	\$ 4,163.0

**Purposes for Which Local Governments
Sold Bonds and Notes
Fiscal Year 2000-2001**

Chart 32

	<u>School</u>	<u>Utilities</u>	<u>Refunding</u>	<u>Other</u>	<u>No.</u>	<u>Total Amount</u>
<u>G.O. Bonds</u>						
Counties	\$ 682,170,000	\$ 5,870,000	\$ 274,705,000	\$ 114,230,000	26	\$ 1,076,975,026
Municipalities	\$ -	\$ 107,978,000	\$ 14,830,000	\$ 65,725,000	18	\$ 188,533,018
Districts and Authorities	\$ -	\$ 25,016,600	\$ -	\$ -	9	\$ 25,016,609
Total G.O. Bonds	<u>\$ 682,170,000</u>	<u>\$ 138,864,600</u>	<u>\$ 289,535,000</u>	<u>\$ 179,955,000</u>	<u>53</u>	<u>\$ 1,290,524,653</u>
<u>Revenue Bonds</u>						
Counties	\$ -	\$ -	\$ -	\$ 22,000,000	1	\$ 22,000,001
Municipalities	\$ -	\$ 288,850,000	\$ 79,590,000	\$ 47,240,000	11	\$ 415,680,011
Districts and Authorities	\$ -	\$ 31,340,000	\$ 88,720,000	\$ 229,043,907	14	\$ 349,103,921
Total Revenue Bonds	<u>\$ -</u>	<u>\$ 320,190,000</u>	<u>\$ 168,310,000</u>	<u>\$ 298,283,907</u>	<u>26</u>	<u>\$ 786,783,933</u>
<u>Special Obligation Bonds</u>						
<u>Solid Waste</u>						
Total Special Obligation Bonds	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
<u>State Bond and Revolving Loans</u>						
Counties	\$ -	\$ 4,855,590	\$ -	\$ -	4	\$ 4,855,594
Municipalities	\$ -	\$ 11,799,893	\$ -	\$ -	7	\$ 11,799,900
Districts	\$ -	\$ 990,199	\$ -	\$ -	2	\$ 990,201
Total State Bond and Revolving Loans	<u>\$ -</u>	<u>\$ 17,645,682</u>	<u>\$ -</u>	<u>\$ -</u>	<u>13</u>	<u>\$ 17,645,695</u>
<u>Notes</u>						
<u>G.O. Bond Anticipation</u>						
Notes	\$ -	\$ 70,592,300	\$ -	\$ 11,475,000	33	\$ 82,067,333
Revenue Notes	\$ -	\$ -	\$ -	\$ -	0	\$ -
Total	<u>\$ -</u>	<u>\$ 70,592,300</u>	<u>\$ -</u>	<u>\$ 11,475,000</u>	<u>33</u>	<u>\$ 82,067,333</u>
Total Bonds and Notes	<u>\$ 682,170,000</u>	<u>\$ 547,292,582</u>	<u>\$ 457,845,000</u>	<u>\$ 489,713,907</u>	<u>125</u>	<u>\$ 2,177,021,614</u>

Fiscal Management

Local Government Statistical Profile Issued — The staff completed the Fiscal Summary of North Carolina Counties, which provides comparative financial information for county governments. The summary is the result of a joint effort by the Department of State Treasurer and the Association of County Commissioners to present a collection of financial data for analysis by local government officials. The summary is targeted primarily for elected and appointed officials of local governments for use during the annual budget process. The use of graphs enhances the summary's usefulness to board members and also to the general public and the news media.

The Fiscal Summary of North Carolina Counties is organized into three sections to facilitate different levels of analysis. The first section presents a financial overview of county governments for the last five fiscal years, including statewide and population grouping statistics. The second section provides comparative financial information for individual local governments primarily through the use of graphs. It includes information about their revenues, expenditures, property taxes, and available fund balances. The last section provides a summary of supplemental tax levies for local school districts.

All of this data will assist officials in comparing current operations of a local government to its own past performance, to similar local governments, and to statewide averages. Comparisons should identify inefficiencies, areas of excess expenditures, and untapped revenue sources. This publication is updated on an annual basis.

The North Carolina Capital Management Trust — The balance of the Cash Portfolio in the North Carolina Capital Management Trust (NCCMT) increased approximately 4.3% from June 30, 2000 to June 30, 2001. At fiscal year-end, the Cash Portfolio totaled \$4.1 billion, while the Term Portfolio had a year-end balance of \$76 million. The North Carolina Capital Management Trust (NCCMT) is a SEC-registered mutual fund, organized in April 1982 as an investment available only to North Carolina units of government and public authorities. The Trust is under the direction of a Board of Trustees, the majority of which are elected by the participating shareholders (units of government and public authorities) based upon their ownership shares of the Trust. There were 556 participants in the Cash Portfolio at June 30, 2001. The number of participants in the Term Portfolio was 44 at June 30, 2001. The NCCMT, a AAAm rated fund by Standard and Poors, is one of the largest local government investment pools in the nation.

Review of Semi-annual Reports of Deposits and Investments — The semi-annual Reports of Deposits and Investments for the six months ended June 30, 1999, and December 31, 1999, submitted by local governments and public authorities, were examined by the staff of the Division. The reports were reviewed to determine strengths and weaknesses in the units' investment portfolios and to identify instances of noncompliance with the North Carolina General Statutes. Weaknesses were communicated in writing to the units along with suggestions for improvement.

Financial Section of Bond Offering Statements — The staff prepared or assisted in the preparation of the financial section of 28 bond offering statements during the fiscal year. The purpose of the financial section of a bond offering statement is to provide users with several years' financial information about a unit of local government. In order to be most meaningful, the presentation of this multi-year information must be consistent in its application of generally accepted accounting principles (GAAP), a particular unit's accounting policies, and the requirements of the General Statutes.

The financial section of a local government's bond offering statement includes: 1) a copy of the unit's most recently audited and issued general purpose financial statements, including the notes; 2) compiled financial statements of the governmental and enterprise fund types of the unit for the three most recent fiscal years, also including notes; and 3) compiled budget statements for all annually budgeted governmental and enterprise fund types that summarize the budgets adopted subsequent to the most recently audited fiscal year.

The preparation of the financial section of bond offering statements requires a careful analysis and can be a very complex process. First, the staff reviews the most recent year's general purpose financial statements for presentation in accordance with GAAP and compliance with North Carolina statutes, and sometimes requests that changes be made in order for the statements to be of the highest possible quality. Next, the staff prepares compiled financial statements of governmental and enterprise fund types for the three most recent fiscal years. Adjustments must often be made for changes in presentation, changes in GAAP, changes in the reporting entity, or corrections of errors. Any material adjustments made are fully disclosed in the notes to the compiled financial statements. Finally, the staff reviews compiled budgets prepared by the unit.

Analysis of Official Pronouncements — Each year the staff analyzes proposed changes or additions to accounting standards that would even-

tually affect State and local government financial reporting. The majority of such changes are issued by the Governmental Accounting Standards Board (GASB), which has the authority to set GAAP for state and local governments. The purpose of the staff's responses is to provide input into the development of governmental accounting standards in light of the impact they would have on North Carolina local governments and the State as well. During the past year, the staff analyzed proposed GASB standards dealing with changes in note disclosures and amendments to GASB Statements No. 21 and 34.

Instructional Support for Continuing Education Courses and Conferences — Staff members spoke at approximately 30 continuing education courses and conferences sponsored by organizations such as the Institute of Government in Chapel Hill, the North Carolina Government Finance Officers Association, the North Carolina Association of County Finance Officers, the North Carolina Local Government Investment Association, the Association of Government Accountants, the North Carolina Association of Council of Governments Finance Directors, and the North Carolina Association of Certified Public Accountants (NCACPA), as well as various regional chapters of the NCACPA. Instruction was provided by the staff at the beginning, intermediate, and advanced levels for a wide range of local government employees and board members as well as independent auditors of local governments.

Monitoring Compliance with "Yellow Book" Requirements — Paragraph 3.36 of the 1994 edition of *Government Auditing Standards* issued by the Comptroller General of the United States, commonly known as the "Yellow Book," contains a requirement that auditors submit a copy of their most recent peer review report to the party contracting for the audit. This requirement was first effective for audits of financial statements for the fiscal year ended June 30, 1995. Auditors are required by the "Yellow Book" to have an external review of their quality control procedures once every three years. In order for audit contracts to be approved, auditors are required to submit a copy of their most recent report to the unit of government and to our staff. External quality review reports have been received from 218 auditors.

Audit Manual for Governmental Auditors — The audit manual issued to CPAs performing governmental audits in North Carolina contains the following: references to authoritative sources and literature, a sample request for proposal for audit services, checklists for statutory compliance with The Local Government Budget and Fiscal Control Act and The School Budget and Fiscal Control Act, a

governmental audit program, illustrative financial statements (for a municipality, a county, a county board of education, a housing authority, and a charter school), sample independent auditor's reports as well as single audit reports, memoranda and publications, and compliance supplements written by State agencies for various federal and State grants. The State Single Audit legislation mandates the preparation of compliance supplements by State agencies, their review and approval by the State Auditor, and issuance by the Division. A checklist for reporting requirements unique to North Carolina local governments was added this year. In addition, the manual is updated each year to reflect the pronouncements of the GASB, Statements of Position of the AICPA, circulars issued by the Federal Office of Management and Budget, and other newly available information. During the past year, the illustrative Financial Statements were apologized for the implementation of GASB Statement No. 33 and Statement No. 36.

Audit Review Process — The staff of the Division annually reviews the audit reports of approximately 1,124 units of local government. Each review consists of the following: an analysis of proper presentation of the financial statements in accordance with generally accepted accounting principles; an analysis of proper reporting in accordance with single audit requirements, where applicable; and an evaluation of the financial condition of the unit and its compliance with The Local Government Budget and Fiscal Control Act, as well as other State laws. Where problems are noted, 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 further assistance, if needed. A response detailing the unit's plans to take corrective action is requested. Approximately 450 of these letters were sent to units of local government during the 2000-2001 fiscal year.

As a part of the audit review process, the Division's staff reviewed approximately 594 single audits. An extensive review is performed to ensure that audits performed under the federal and State single audit acts meet all the provisions of the law, as well as federal and State requirements. This is necessary before auditors' invoices can be approved, for payment, and so State departments and agencies can rely on the reports as a basis for compliance with applicable federal and State regulations.

Local governments and public authorities receiving a certain amount of federal and/or State financial assistance must have a financial statement audit done in accordance with Government Auditing

Standards (the “Yellow Book”). The Division’s staff reviewed approximately 213 “Yellow Book” audits.

Memoranda and Other Publications — A significant service provided by the staff of the Division is the preparation and distribution of memoranda to units of local government and their independent auditors. These memoranda are of an informational, technical, or statistical nature and are distributed to finance officers, elected officials, and independent auditors periodically throughout the year.

Topics of particular interest this year include accounting and budgeting for wireless 911 funds, implementation of GASB Statement No. 34 escrowed local government reimbursements, consolidation of tax billings and collection, common reporting problems and concerns, change orders for contracts, amendments to the fair Labor Standards Act and the State 401(K) Plan. Other topics include the collateralization of public deposits, and procedures for the approval of audit contracts and invoices.

Other memoranda distributed by the staff throughout the year contain statistical data of use to the governmental units, their independent auditors, and elected officials. Examples include a report and analysis of cash and taxes of municipalities and counties as reported at June 30, 2000; fund balance available for appropriation in the General Fund of municipalities and counties at June 30, 2000; county spending for public school capital outlay; statistical information on electric system operations; statistical information on water and sewer system operations; and statistical information on public hospital operations. Governmental units may use these reports to compare their operations to those of other units of like-size, geographic location, or to statewide averages. Independent auditors use this information to assist in the audit process. The report on county spending for schools is required by the N.C. General Statutes to be prepared and provided to the General Assembly.

Another publication updated annually is an illustrative comprehensive annual financial report (CAFR), prepared in cooperation with the Institute of Government in Chapel Hill. The CAFR is utilized as supporting material for educational programs conducted by the Institute.

State Treasurer’s Governmental Accounting/Financial Management Awards Program — The Department sponsored the eleventh annual “State Treasurer’s Governmental Accounting/Financial Management Awards Program.” This awards program is designed to recognize units of government that have enhanced their current operations through the implementation of new and improved accounting and financial management programs.

Entries addressing a variety of topics were submitted for this year’s awards program. The applications were evaluated by the Governmental Accounting and Auditing Committee of the North Carolina Association of Certified Public Accountants (NCACPA). The awards are presented by a representative of the Department and the NCACPA during board meetings of the individual units.

The awards program benefits applicant units that are recognized for their efforts and accomplishments. Also, an exchange of ideas between local governments occurs as a result of the publicity surrounding this program. Application forms are mailed annually to all local units of government.

Monitoring Compliance with New Economic Development Laws — General Statute 158-7.1 requires municipalities and counties to report economic development activities to the staff of the Local Government Commission, and requires the Commission to monitor their compliance within the limits on economic development activities imposed by the Statute. Municipalities and counties are required to report these activities in their Annual Financial Information Report. The staff then reviews the reports to determine that units have complied with the Statute. If it is discovered that a unit is in violation of the requirements of that Statute, the municipality or county must submit all appropriations and expenditures for economic development activities to the Commission for approval for the next three fiscal years.

Arbitrage Rebate Requirements for State Bonds — In order to preserve the tax-exempt status of the general obligation bond issues of the State that are currently outstanding, the staff continues to perform several tasks which are necessary to ensure compliance with arbitrage regulations of the Internal Revenue Service. The projects involve monitoring investment yields, monitoring penalties in lieu of rebate requirements, preparing monthly status reports on each bond issue, and preparing information for use by bond counsel and other outside professionals, who in turn provide technical assistance to the staff.

Financial Reporting of Public School Expenditures — Each year the staff prepares a report for the General Assembly, the Department of Public Instruction and other organizations on county funding for public school capital outlays. This report is used in analyzing the level of county spending for public schools. In addition, the staff works with the Department of Public Instruction on various accounting issues to help ensure the proper accounting of current expenses, capital outlay, and other issues.

Municipal Electric Systems — The staff, in conjunction with the ElectriCities organization, has

been working with municipalities that operate electric systems to help them identify ways to make their electric rates more competitive with investor-owned utilities. Because of the dramatic changes in the electric power industry, municipal electric systems may have to begin competing directly with investor-owned utilities in the sale of electric power. The North Carolina General Assembly has created the Study Commission on the Future of Electric Service in North Carolina to investigate how to best implement retail competition in our State. The Commission has submitted a report to the General Assembly recommending retail choice for all customers by January 1, 2006. No recommendation concerning the debt or stranded cost of the municipal power were made. The Commission did not present legislation to the 2001 General Assembly. The staff will continue to monitor their activities to determine how any proposed legislation will impact the municipal electric systems in North Carolina.

In response to the efforts of the staff, all 51 units that participate in one of the two power agencies (N.C. Eastern Municipal Power Agency or N.C. Power Agency No. 1) have adopted formal transfer policies that will reduce or eliminate subsidies to the General Fund. The goal of the transfer limitation policies is to promote a more self-supporting electrical fund within the unit. With the adoption of these transfer policies, the staff is able to provide timely analysis of a unit's transfer history and policy compliance based upon the information contained in the financial statements. The monitoring of compliance with the transfer policies also shows the development of general trends in cash management, statewide, among the units with electrical systems.

The staff has also worked with units and their auditors to promote adherence to generally accepted accounting principles in reporting transfers, reimbursement and quasi-external transactions in the unit's financial statements. Consistency in reporting these transactions is needed so unit management and statement users may accurately evaluate the operations of the electric systems. The staff has also stressed the importance of disclosing assets in the appropriate funds in accordance with generally accepted accounting principles. These units will also include a note to the financial statements disclosing the status of the activities of the study commission and the potential for deregulation of electric services in the State.

Monitoring Revenue Bond Compliance — The staff continues to monitor local governments for compliance with revenue bond covenants. For each bond, the staff analyzes bond documents and determines the covenants that must be met and the compliance statements that must be issued by the unit's

auditor. When the annual report is received, the staff verifies that covenants have been met and compliance statements have been issued. The staff also receives statements for accounts in which the bond proceeds are invested and verifies that the investments comply with the bond covenants and the General Statutes.

Adherence to Continuing Disclosure Requirements of the Securities and Exchange Commission — The staff continues to prepare resource information to assist units that are subject to Rule 15c2-12 of the Securities and Exchange Commission. The Rule, which applies to units that issued certain debt after July 3, 1995, requires the units to make disclosures to the secondary market, both annually and possibly more frequently, for as long as their applicable debt is outstanding. As the number of units affected by Rule 15c2-12 increases each year, the staff's role in providing assistance is also expected to grow. For the fiscal year ended June 30, 2000, 178 units were required to make an annual information filing.

White Goods Disposal Tax — General Statute 130A-309 has been amended to require those counties receiving distributions under the White Goods Disposal Tax program to list certain information regarding total receipts, expenditures and tonnage handled. The format of the AFIR continues to comply with this legislation while also providing the Department of Environment and Natural Resources with the required data. The data allows the Department of Environment and Natural Resources to determine which counties are managing their white goods programs in accordance with the General Statutes.

Impact of the 2000 Census upon Local Government Revenues — The staff worked with the North Carolina Association of County Commissioners and the North Carolina League of Municipalities to estimate the impact of the 2000 Census upon the intergovernmental revenues of counties and municipalities. For several significant intergovernmental revenues, the population of a unit impacts the amount of revenues distributed to that unit. The population figures used in distributing the revenues are adjusted every ten years based upon the results of the U.S. Census Bureau's most recent census. Local sales tax revenues, Powell Bill revenues and beer and wine tax distributions are the most significant revenues sources impacted by changes in population. The staff estimated the impact of population changes upon those revenue sources. If the staff estimated that a significant loss of revenues might occur, the unit was alerted and encouraged to consider these potential losses when adopting their fiscal year 2001-02 budget.

Tax Billing and Collection Consolidation Survey — The staff surveyed counties and municipalities concerning the consolidation of property tax billings and collections for taxes other than motor vehicles. All counties are required by General Statute to collect property taxes on motor vehicles for municipalities. The survey was intended to promote the consolidation of these services by sharing information between counties and municipalities and addressing any problems encountered in consolidating these services. Counties and municipalities were asked if they currently consolidated these services, and what were the advantages of consolidating these services. Units that have not consolidated these services were asked if they would consider doing so in the future, and what events would have to occur in order for them to consolidate these services. Units that would not consider consolidating these services were asked why they would not do so.

The staff anticipated that the number of units consolidating these services would have increased since the 1989 survey. Counties are now required to collect property taxes on motor vehicles. Also the positive experience of units consolidating these services should lead to more units adopting this practice. Consolidation of these services reduce the cost of collections, makes the payment of the taxes more convenient, improves collection percentages and strengthens internal controls of smaller municipalities. We found that 70 counties and 290 municipalities have consolidated these services. Seventeen counties and 70 municipalities indicated they would consider consolidating these services in

the future. This represents a significant increase since the 1989 survey.

County and Municipal Information Website

— The staff has developed the County and Municipal Information website (<http://ncdst-webt.treasurer.state.nc.us/lgc/units/unitlistjsh.htm>). The site displays detailed financial, population and property tax data for the latest six year period for all North Carolina counties and municipalities. The financial information is obtained from the annual financial information report submitted by the unit and summary information taken from the annual independent audit of the unit. Unit financial information can be accessed by location on a North Carolina map or by unit name. Summary financial information by population groupings is also displayed.

Amendment to G.S. 159 for Public Housing

Authorities — The staff worked with representatives from public housing authorities on a legislative proposal to better coordinate the financial review and oversight functions of the LGC and the Department of Housing and Urban Development (HUD). G.S. 159-42 was added to the Local Government Budget and Fiscal Control Act to allow public housing authorities to comply with the budgeting, investment and reporting requirements of HUD. The LGC staff will continue to review the audited financial statements of public housing authorities. The LGC staff will also continue to receive and evaluate the semi-annual report of deposits and investments, to ensure that all public housing authorities in the state continues to collateralize their deposits in accordance with applicable regulations.

Projects In Progress

Internet Web Site — The staff continues to enhance the information available on the Division's section of the Department's home page. The staff updated LGC memorandums, information compiled from county and municipality Annual Financial Information Reports (AFIR), single audit resources and the employee directory during the year. Data from city and county AFIRs for the fiscal years ended June 30, 1995 through June 30, 2000 are now on the homepage. The illustrative financial statements for a county, municipality, board of education, housing authority, and a charter school are published on the web pages to assist local governments in preparing their financial statements. Several more sections of the policy manual and the audit manual were also added during the fiscal year. Users can download most of this information in Microsoft Word or Excel, which can assist in preparing audit reports and statistical information. Electronic formats for the LGC Form 203 — Report of Deposits

and Investments, the Annual Financial Information Report (AFIR), and the Contract to Audit Accounts have been added to the web site. Local governments with Internet capability can download the selected documents and complete them using the unit's computer. The LGC Form 203 and the AFIR can be electronically filed with the Department.

In an attempt to deliver information as efficiently as possible, the staff has offered to notify units and their auditors by e-mail of new memorandums and updates to the audit and policies manuals that have been placed on the Department's home page. These users can then access that information immediately through the Internet rather than waiting for printed copies to be mailed to them. Information is distributed more quickly at a lower cost. Currently, 156 units and 50 auditors are taking advantage of this service. As more units and auditors gain access to the internet, this practice should

eliminate the need to mail printed material to most, if not all, units and auditors.

Policies Manual Update — The staff continues to work on the Department of State Treasurer Policies Manual, a manual designed to provide guidance in accounting and other administrative issues to governmental units in North Carolina. It is being revised to delete obsolete sections and to incorporate updated information such as: 1) applicable legislative changes, as well as new legislation; 2) information contained in LGC memoranda, publications and technical memoranda; 3) accounting changes mandated and/or suggested by authoritative bodies such as GASB, FASB, etc.; and 4) other accounting issues not previously included in the manual.

A section on financial reporting with copies of the illustrative financial statements were added to the manual to assist units in preparing financial statements. Sections on budgeting, the chart of accounts, and tax billing and collection are currently being updated. As sections are updated, they are made available through the Department's web site. In addition, other sections that have not required an update are being added to the home page.

Charter Schools — Actions taken by the General Assembly and State Board of Education have resulted in the audit process of charter schools becoming subject to the audit requirements of The School Budget and Fiscal Control Act. As a result, the staff has established audit and financial reporting requirements for charter schools and has informed schools and auditors of these requirements. The staff has also prepared illustrative financial statements for a charter school. Charter school contracts to audit accounts, invoices, and audited financial statements are subject to approval by the staff. Seventy-three charter schools submitted audited financial statements for the fiscal year ended June 30, 2000. Eighty-nine charter schools will have audits for the year ended June 30, 2001 and more will be added in subsequent years.

Special Governmental Auditing Task Force — Members of the staff continued to work with the North Carolina Association of Certified Public Accountants (NCACPA) to implement recommendations of the Special Governmental Auditing Task Force created to explore ways to improve local government auditing. The task force was created at the request of the staff and several concerned units, and auditors to review problems related to the quality and timeliness of local government audits.

Staff members worked with the NCACPA and other State agencies to prepare and present courses on compliance audits of local governments. The staff has encouraged units to establish audit committees to select the auditor, monitor the progress of the au-

dit and address issues that arise during the course of the audit. Units that have submitted late audit reports for several years were required to submit an audit schedule, agreed to by the unit and auditor, with their audit contract. The staff will continue to work with auditors, units and other organizations to address these problems.

The New Financial Reporting Model — In June 1999 the GASB issued Statement No. 34, Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments. This statement will greatly change the financial statements of local governments and public authorities in this State. Under the Statement the financial statements of units will consist of management's discussion and analysis, entity-wide financial statements prepared on the accrual basis of accounting, fund financial statements prepared on the accrual or modified accrual basis of accounting, required supplementary information and notes to the financial statements.

The implementation date for Statement No. 34 will be determined by the total revenues of the governmental and enterprise fund types of the unit for the first fiscal year ending after June 15, 1999. Units with revenues of \$100 million or more will implement the new reporting model for the fiscal year ending June 30, 2002. Units with revenues of \$10 million or more but less than \$100 million will implement the new reporting model for the fiscal year ending June 30, 2003. Units with revenues of less than \$10 million will implement the new reporting model for the fiscal year ending June 30, 2004.

Using data from the financial statements for the fiscal year ended June 30, 1999 the staff has determined the implementation date and retroactive infrastructure reporting requirements for individual units. A limited number of units will be in the first implementation phase. Most counties and school boards will implement during phase two. Most cities and public authorities will implement during phase three and will not be subject to retroactive infrastructure requirements. Guidance on how to implement infrastructure reporting has been issued. The staff is working with local governments and their auditors to make changes to the chart of accounts, categorize revenue sources, establish revenue recognition criteria under the modified and full accrual basis and update the illustrative financial statements. Currently, guidance is being developed to help units and auditors determine major funds, allocate internal service fund activities, and prepare cash flow statements on the direct method. The staff will also work with debt analysts and rating agencies to determine how to clearly and concisely present financial statements in the official state-

ments for debt sales. While at the same time helping the analysts and agencies develop an understanding of reporting situations unique to North Carolina local governments.

Local Government Commission Expanded Oversight — During 1999, the responsibility of the Local Government Commission was expanded to include approval of indebtedness or other similar types of financing arrangements of public bodies, agencies or similar entities created by the action of a unit of local government. In certain instances, units of local government can issue tax-exempt debt on behalf of nonprofit organizations. Examples of this include the issuance of debt of nonprofit hospitals by the Medical Care Commission and issuance of debt for private schools and colleges by the Capital Facilities Finance Agency. In each of these cases, the issuance of the debt is approved by the Local Government Commission. However, similar debt issued by local housing authorities, or by nonprofit corporations on behalf of units of local government was not subject to Local Government Commission oversight. These debt issues tend to be more complex transactions that require additional analysis by staff members. The staff is currently developing checklists, applications and other guidance regarding these transactions. In the fiscal year ended June 30, 2001, nine issues totaling \$80 million for housing authorities were approved under this authority.

Qualified Zone Academy Bonds Authorized — In the 1999-2000 session of the General Assembly, legislation was enacted to designate the State Board of Education as the state education agency responsible for administering the Qualified Zone Academy Bond program. This designation permits the State to fund school improvements meeting certain criteria through the issuance of taxable bonds known as Qualified Zone Academy Bonds (QZABs). As with other local government debt the Division will approve, sell and deliver the bonds.

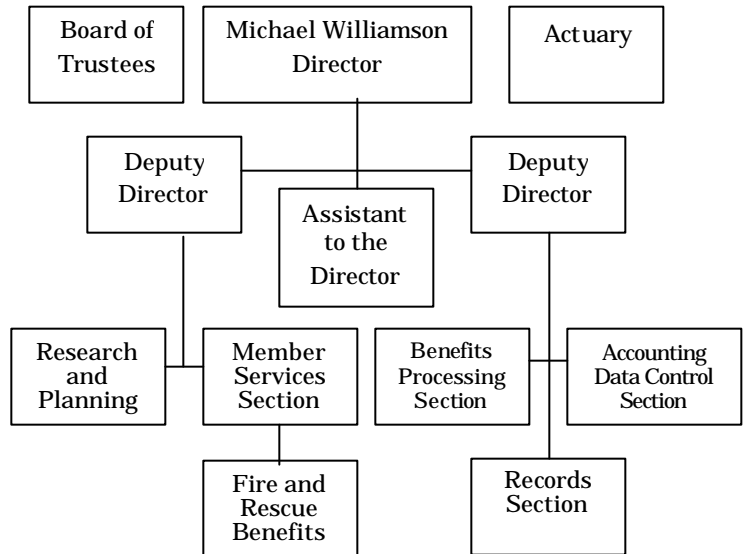
Although QZABs are taxable bonds, the purchasers receive a tax credit, rather than an interest payment, for each full year they hold the bond equal to a percentage of the face amount of the bond. In this regard, the intent of Congress was that the QZABs would be sold at par value without interest cost providing the issuer the ability to save the money that would otherwise have been spent on interest payments. However, a particular issue may be sold at a discount from par value or with a stated interest rate to increase the return for a less creditworthy issuer or to compensate for interest rate fluctuations between pricing and closing.

Proceeds from QZABs may only be used for qualified purposes consistent with both the Federal and North Carolina statutes regarding bond issuances. Consequently, in North Carolina, QZABs would be available to rehabilitate or repair a public school facility in which the qualified zone academy is located or to provide equipment for use at such facility. Construction of new school facilities is not a qualified purpose. Additionally, issuers must certify that they have received written commitments from one or more private entities to make qualified contributions valued at not less than ten percent of the proceeds of the issue. This requirement is intended to promote partnerships between private entities and local schools.

Currently, North Carolina has been allocated \$41 million which may be issued in QZABs. For the calendar year 2001, the State has been allocated 11.9 million. The State has issued \$12.3 million as of the fiscal year ended June 30, 2001. Issuers must comply with state and local laws, as well as the Federal laws, when issuing QZABs. To achieve more effective results for small school districts, the staff is developing a pool program to combine several small issuers.

Retirement Systems Division

The Retirement Systems Division of the Department of State Treasurer administers the statutory retirement and fringe benefit plans, as authorized by the General Assembly of North Carolina, which cover the State's public employees. The administration of the several retirement systems requires a high level of fiduciary responsibility for the employees' trust funds with prudent, honest and efficient use of employees' and taxpayers' contributions. The public purpose of the existence of retirement systems and benefit plans is to recruit and retain competent employees for a career in public service, by providing a replacement income for retirement, disability, or at death for an employee's survivors. The organizational structure herein shows the functional arrangement of the tasks performed in this Division.



Operational Highlights

- **Presented recommendations and draft legislation to the 2001 Session of the General Assembly which resulted in the enactment of laws to:**
 - **provide cost-of-living adjustments equal to 2.0% to retirees of the Teachers' and State Employees' Retirement System, Consolidated Judicial Retirement System, Legislative Retirement System and Local Governmental Employees' Retirement System;**
 - **increase the defined benefit accrual rate from 1.78% to 1.81% in the Local Governmental Employees' Retirement System with a corresponding benefit adjustment to retirees equal to 1.7%;**
 - **allow retired members of the Teachers' and State Employees' Retirement System to be reemployed to teach in public schools without earnings restrictions until July 1, 2003 under certain circumstances;**
 - **remove the cap on the number of sick leave days that can be used for credit at retirement for members of the Teachers' and State Employees' Retirement System retiring on and after July 1, 2001;**
 - **remove the cap on the number of sick leave days that can be used for credit at retirement for members of the Local Governmental Employees' Retirement System retiring on and after January 1, 2002;**
 - **amend withdrawn service purchase provisions in the Teachers' and State Employees' Retirement System;**
 - **allow active members of the General Assembly to become contributing members of the Legislative Retirement System and retired members of the General Assembly to receive service or disability retirement allowances under the Legislative Retirement System regardless of whether they are contributing to the Teachers' and State Employees' Retirement System, Local Governmental Employees' Retirement System or Consolidated Judicial Retirement System;**
 - **transfer the reporting of firemen's rosters from the Department of State Treasurer to the North Carolina Firemen's Association in order to reduce and simplify the paperwork fire departments are responsible for completing by requiring one less roster to be reported for firemen to be covered for the Line of Duty Death Benefit as well as Firemen's and Rescue Squad Workers' Pension Fund Benefits.**
- **Processed benefits for 9,979 new retirees.**
- **Processed refunds for 23,214 former employees.**

- **Established approximately 56,753 new active member accounts.**
- **Increased utilization of direct deposit of monthly benefit payments from 130,000 to approximately 139,000 retirees.**
- **Continued the development and testing of the Disability Automation System, including revised forms, letters, and an employer manual for the new processes. This project is ongoing.**
- **Developed a Judicial System spreadsheet to assist in the calculation of Judicial retirement benefits.**
- **Installed FaxMaker for each Benefits Counselor to allow counselors to fax information directly from their desks.**
- **Installed Laser printers for each Benefits Counselor to allow printing at each counselor's desk.**
- **Mailed updated employer manuals in March, 2001 to approximately 1,550 employers of members of the Teachers' and State Employees' Retirement System and the Local Governmental Employees' Retirement System.**
- **Updated the Retirement Systems Division Section of the State Treasurer's Web page to include the most currently revised editions of retirement forms, handbooks, and the Frequently Asked Questions.**
- **Developed a spreadsheet to calculate Faulkenbury disability payments for State Law Enforcement Officers.**
- **Obtained a new projector for Powerpoint presentations at retirement seminars.**
- **Issued Scope statement and selected a vendor for new electronic document management system (imaging system) which is expected to be in place by the summer of 2002.**

The Basic Functions

The retirement systems administered by this Division are the:

- Teachers' and State Employees' Retirement System
- Local Governmental Employees' Retirement System
- Consolidated Judicial Retirement System
- Legislative Retirement System

The systems are governed by two boards of trustees. The State Treasurer is ex-officio chairman of each board. The board of the Teachers' and State Employees' Retirement System is composed of 14 members, including actively working employees, retirees and public members. The Local Governmental Employees' Retirement System Board, while legally separate, is composed of the same 14 members plus 3 members representing local governments. The Board of Trustees of the Teachers' and State Employees' Retirement System is the governing board of the Consolidated Judicial and Legislative Retirement Systems and all of the other programs listed herein, except for the Firemen's and Rescue Squad Workers' Pension Fund. That fund is governed by a board of trustees, of which the State Treasurer is ex-officio chairman, and is composed of six members, including actively working employees, volunteers, and a public member.

In addition to the retirement systems administered through this Division, responsibility for administration of other programs covers the:

- Firemen's and Rescue Squad Workers' Pension Fund
- Public Employees' Social Security Agency
- Disability Income Plan
- Legislative Retirement Fund
- National Guard Pension Plan
- Teachers' and State Employees' Benefit Trust
- Supplemental Retirement Income Plan
- Registers of Deeds' Supplemental Pension Fund
- Contributory Death Benefit for Retired Members

All retirement systems and other programs administered by this Division are operated on a calendar year basis from January 1 to December 31, rather than the State's fiscal year, except for the Firemen's and Rescue Squad Workers' Pension Fund. For this reason, much of the data shown for the Division is for the captioned year ending December 31.

The administrative expenses of the Division for the retirement systems are paid from the General Fund of the State. These costs are reimbursed monthly to the General Fund from the assets of each trust fund benefited, in proportion to the estimated benefit received.

General Administration

The Director and his immediate staff are responsible for the overall general operation of the Division, and carry 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 the drafting of proposed legislation and the acquisition of actuarial notes for introduced bills; response to news media inquiries; action and administrative appeals by indi-

vidual members of the retirement systems; a working relationship with associations and organizations of employees and employers; and information to State departments, agencies, institutions, and local governments. The staff provides assistance to local governments for Social Security coverage and acts as liaison between the State and the Social Security Administration. The staff also performs planning and research functions, and directs special projects.

Benefits Processing Section

This Section is responsible for the determination of eligibility for monthly retirement allowances and processing payment of all benefits for all retirement systems governed by the boards of trustees and administered by this Department. Responsibilities include the calculation and processing of payments of all retirement allowances under the various systems. For the period July 2000 through June 2001, 9,979 retirements were processed for payment.

The administration and determination of disability benefits through the System's Medical Board under the provisions of the Disability Income Plan for teachers and State employees, and the determination of eligibility for disability benefits from the other retirement systems are incumbent upon this Section. Approximately 5,171 disability claims were reviewed by the Medical Review Board during the 2000-2001 fiscal year. Responsibilities 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 Plan. Reimbursements numbering 1,060 were issued from July 2000 through June 2001 totaling \$7,576,806.

The various death benefit programs related to the Retirement Systems and the Separate Insurance Benefits Fund are managed by this Section. Responsibilities include the calculation and payment of death benefits, return of members' contributions, survivor's alternate benefits, and other lump sum payments. Beneficiary changes for deceased retired members who selected an optional payment plan at retirement that provides for a beneficiary after the death of the member are handled in this Section. Approximately 4,171 death reports were received and processed during this period.

This Section is also responsible for the calculation and the payment of returns of accumulated contributions to terminated employees. A total of 23,214 refunds were processed for the period July 2000 through June 2001.

The calculation of service purchase costs under the provisions of the various retirement systems administered by the Division is performed by this Section. In excess of 7,331 cost calculations were generated by the Benefits Processing Section for the period July 2000 through June 2001.

Accounting/Data Control Section

Maintaining the accounting records for the retirement systems is the responsibility of this Section. Another major responsibility is receiving and processing payroll contribution reports from some 1,600 participating State and local units of government. Contribution information from these payroll reports is electronically posted to the individual accounts for more than 410,000 members.

This Section is responsible for the administration of the Contributory Death Benefit Plan for Retired Members including the notification of eligibility under the Plan, enrollment of members electing coverage, and collection of the required contributions.

Brief descriptions of the other functions performed by this Section are as follows:

- **Retirees' Health Insurance** — Duties pertaining to this program include the receipt and processing of enrollment applications, and coverage change requests for more than 106,000 retirees.
- **Direct Deposit Accounts/Address Changes** — Activities involved in these areas relate to the receipt and processing of Electronic Funds Transfer (EFT) account applications, and changes to direct deposit accounts. Approximately 139,000 retirees' benefits are processed through EFT. Also, over 9,000 address change requests for retirees were processed in this Section.

- **Batch Posting and Systems Transfers** — These duties consist of the deposit and recording of special member contributions, and transfer of funds between systems.
- **Error Checking** — The correction of errors detected by computer edit in the processing of em-

ployers' payroll reports is an important function of the Section. Over 59,000 errors were detected and corrected this past year.

Member Services Section

This Section handles written and telephone communications with members and employers participating in the retirement systems and other benefit programs, responding to a multitude of questions about fringe benefits. Accordingly, during the past year approximately 79,949 letters were written in this Section and approximately 306,314 telephone communications were handled by personal contact with an additional 49,341 handled by the Interactive Voice Response Unit (IVR Unit). In addition, annual pre-retirement planning seminars are conducted by the staff of this Section, as well as retirement and fringe benefit conferences at the request of employers, and employee associations. All visitors to the Division requiring individual counseling about their benefits are referred to this Section. More than 8,576 persons were interviewed during the past 12 months.

The calculation of monthly retirement benefit estimates for future retirees is also a duty of this Section. Responsibilities include service and salary projections to an anticipated date of retirement.

Another important function of this Section is coordinating the participation of local government employers electing to become members of the Local Governmental Employees' Retirement System. This involves meetings with local governing bodies, collecting data for transmission to the Systems' consulting actuary, enrollment of eligible employees and explanation of monthly reporting procedures. Ancillary to this function is assistance to local governments in the adoption of tax shelter and death benefit coverage agreements. During the past year, 11 local government employers elected to become participants, and consequently their employees were enrolled in the Local Governmental Employees' Retirement System.

Records Section

The Records Section is primarily responsible for the creation, maintenance and storage of files for individuals who are currently, or have been at one time, members of any of the State-administered retirement systems.

The Records Section currently maintains approximately 1,168,600 records. These records, heretofore, had been maintained in the form of jacketed microfiche and stored in seven power file cabinets in the Records Section.

The records retention and storage functions have completely changed since January 1, 1996,

with the implementation of the Division's electronic document management system (imaging system). All active and retired member jacketed microfiche records have been converted to the imaging system, while all new records plus updates to existing files are now automatically processed as digital images. Over 11.2 million images have been converted to the imaging system.

The Division issued a Scope statement and selected a vendor for a new imaging system with advanced capabilities. This new system is expected to be in place by the summer of 2002.

Significant Accomplishments Legislation

Prior to the convening of the 2001 Session of the General Assembly, the Director and staff identified all proposals for benefit enhancements and changes recommended by the various associations of educators, employees and retirees. Also identified were measures to enhance administrative ability. Cost estimates for the recommendations were acquired from the Division's consulting actuary. The staff then assisted the State Treasurer and the Retirement

Systems' Boards of Trustees in the formulation of their legislative recommendations.

During the 2001 Session, the Director and staff provided technical assistance and bill drafting services for the standing Senate and House Committees on Pensions and Retirement and communicated the Boards of Trustees' recommendations. The staff also acquired, as provided by State law, 60 actuarial notes disclosing the fiscal impact of every bill intro-

duced which affected a State-administered retirement system or pension plan.

Recommendations of benefits and administrative enhancements by the board of trustees which were acted upon favorably by the General Assembly were to: (1) provide, effective July 1, 2001, in the Teachers' and State Employees' Retirement System, a 2.0% post-retirement increase in the allowances of beneficiaries in receipt of allowances on and before July 1, 2000, and for beneficiaries who commenced retirement with effective dates of August 1, 2000 to June 1, 2001, a prorated portion of the 2.0% post-retirement increase in their allowances based on the number of months a retirement allowance was paid; (2) provide, effective July 1, 2001, in the Local Governmental Employees' Retirement System, a 2.0% post-retirement increase in the allowances of beneficiaries in receipt of allowances on and before July 1, 2000, and for beneficiaries who commenced retirement with effective dates of August 1, 2000 to June 1, 2001, a prorated portion of the 2.0% post-retirement increase in their allowances based on the number of months a retirement allowance was paid; (3) provide, effective July 1, 2001, in the Consolidated Judicial Retirement System, a 2.0% post-retirement increase in the allowances of beneficiaries in receipt of allowances on and before July 1, 2000, and for beneficiaries who commenced retirement with effective dates of August 1, 2000 to June 1, 2001, a prorated portion of the 2.0% post-retirement increase in their allowances based on the number of months a retirement allowance was paid; (4) provide effective July 1, 2001, in the Legislative Retirement System, a 2.0% post-retirement increase in the allowances of beneficiaries in receipt of allowances on and before January 1, 2001, and for beneficiaries who commenced retirement with effective dates of February 1, 2001 to June 1, 2001, a prorated portion of the 2.0% post-retirement increase in their allowances based on the number of months a retirement allowance was paid; (5) increase, effective July 1, 2001, the defined benefit formula accrual rate in the Local Governmental Employees' Retirement System from 1.78% to 1.81% of a member's average final compensation multiplied by a member's creditable service for service and early retirements; (6) provide for an adjustment, on account of the above defined benefit formula increase, to or on account of beneficiaries on the Local Governmental Employees' Retirement System retirement roll as of June 1, 2001, equal to 1.7% of their June allowances;

(7) permit retired members of the Teachers' and State Employees' Retirement System to be re-employed to teach in public schools without earnings restrictions. This provision is effective until July 1, 2003 and applies only to members who have been retired at least 6 months and have not been employed in any capacity, except as a substitute teacher or part-time tutor, with a public school for at least 6 months immediately preceding the effective date of re-employment; (8) remove the cap on the number of sick leave days that can be used for credit at retirement for members of the Teachers' and State Employees' Retirement System retiring on and after July 1, 2001; (9) remove the cap on the number of sick leave days that can be used for credit at retirement for members of the Local Governmental Employees' Retirement System retiring on and after January 1, 2002; (10) amend, effective July 1, 2001, withdrawn service purchase provisions in the Teachers' and State Employees' Retirement System, to provide that after five years of membership service, the service credit under the withdrawn account may be restored upon repayment of the amount withdrawn plus interest at the rate of 6½% compounded annually from the year of withdrawal to the year of repayment, plus a \$25.00 administrative fee; (11) allow active members of the General Assembly to become contributing members of the Legislative Retirement System and retired members of the General Assembly to receive service or disability retirement allowances under the Legislative Retirement System regardless of whether they are contributing to the Teachers' and State Employees' Retirement, Local Governmental Employees' Retirement System or Consolidated Judicial Retirement System; this act became effective October 26, 2001; and (12) transfer the reporting of firemen's rosters from the Department of State Treasurer to the North Carolina Firemen's Association in order to reduce and simplify the paperwork fire departments are responsible for completing by requiring one less roster to be reported for firemen to be covered for the Line of Duty Death Benefit as well as Firemen's and Rescue Squad Workers' Pension Fund Benefits; this act becomes effective January 1, 2002, and the Firemen's Association must report to us by July of each year.

The cost of these amendments in the four affected retirement systems was funded by the gains realized from favorable investment and actuarial experience of each.

Communications

The Research and Planning Officer, in conjunction with other staff, revised forms for purposes of: notice of enrollment, change of name and benefici-

ary, refund of retirement contributions, explanation of purchase of out-of-state service, income tax withholding, income tax withholding for alternate payees

in Equitable Distribution cases, purchase of waiting period service, purchase of local government employment, certificate of coverage for \$6,000 Contributory Death Benefit, income tax withholding for death claims, and medical report for disability benefits. The following three pamphlets were updated: "Things Retirees Need to Know," "\$6,000 Contributory Death Benefit," and "Death and Disability Income Benefits for Law Enforcement Officers."

Six brochures describing the plan provisions of the Teachers' and State Employees' Retirement System, Local Governmental Employees' Retirement System, Consolidated Judicial Retirement System, and Legislative Retirement System are currently being revised for distribution to plan participants in the winter of 2001-2002.

The employer manuals, which include information regarding the most important procedures impacting employers of members of the Teachers' and State Employees' Retirement System and the Local Governmental Employees' Retirement System, were extensively updated this year to reflect statutory and procedural changes. These updates were mailed to the approximately 1,550 affected employers in March, 2001.

Each of the employers that participate in the four retirement systems were provided a copy of the 2000 edition of the book, North Carolina Retirement Systems Laws. This is a reprint of the North Carolina General Statutes containing laws currently in effect governing the retirement systems and benefit plans administered through the Department of State Treasurer.

Functional

The Division has continued to promote direct deposit of monthly benefit payments. Between July 1, 2000 and June 30, 2001, the benefit payments of 8,458 retirees were added to the direct deposit group, bringing the total number of monthly payments made by direct deposit to 138,603. This means that about 89% of the monthly benefit payments made by the Department are on direct deposit. The annualized savings to the State, relative only to the benefit payments placed on direct deposit during the twelve-month period ended June 30, 2001, is estimated to be approximately \$27,000.

During the Firemen's and Rescue Squad Workers' Pension Fund's open enrollment period, which allowed the purchase of prior service during the period from October 1, 2000 to March 31, 2001 and concluded June 30, 2001, approximately 3,500 firemen and rescue squad workers applied to purchase prior service. Of those, 3,450 were verified as eligible to purchase the prior service, and during the period 1,645 members purchased their service.

Subsequent to adjournment of the General Assembly, a digest of all legislative changes was provided to all employing units, including some 1,800 fire departments and rescue squad units, and various employee associations. In addition, Divisional staff contributed various articles which were published in the publications of the State Employees' Association, the Retired Governmental Employees' Association, and other organizations.

The staff of the Member Services Section periodically works with the staff of the State Agency for Public Telecommunications in revising the video programs utilized by the State and Local retirement systems. These programs, which can be used by anyone to explain the basic benefits structure of those retirement systems, are especially suited to the informational requirements of members nearing retirement age. Videos are used in the Division's statewide pre-retirement counseling meetings which are publicized throughout the State by the press, radio, and television. In the spring of 2001, the Member Services staff conducted 13 pre-retirement meetings statewide with some 3,360 members in attendance. In addition, the staff also participated in 107 other meetings, seminars, benefit fairs, and conferences relating to retirement benefits, including PREPARE workshops with 8,497 attendees.

The Division continued its joint venture with the Office of State Personnel and the community college system in the PREPARE workshop program. This program covers legal, health, financial, housing, and family aspects of retirement.

In the Local Governmental Employees' Retirement System, 11 local governments elected to become participating employers with the System. The participation of these employers involved the staff of the Member Services Section in meeting with their governing bodies and employees, acquiring prevaluations from the consulting actuary to determine an employer's contribution rate, and providing all legal documents and agreements for their execution.

During this past year progress continued in the enhancement of computer programs utilized by the Benefits Processing System to provide timely and accurate service to the membership of the Retirement System.

- Continued the development and testing of the Disability Automation System, including revised forms, letters, and an employer manual for the new processes. This project is ongoing.

- Developed a Judicial System spreadsheet to assist in the calculation of Judicial retirement benefits.
- Developed a spreadsheet to calculate Faulkenbury disability payments for State Law Enforcement Officers.

Each of the foregoing were important steps in the Division's ultimate goal of automating, to the greatest possible extent, all activities relating to the processing and payment of benefits.

The Division has completed the conversion of member and retiree records that were on jacketed microfiche to digital images and all new documents are imaged as received.

The enrollment of members function and the change of beneficiaries function now being processed as digital images in the electronic document management system have been further refined so as to permit faster processing. The Division issued a Scope statement and selected a vendor for a new electronic document management system (imaging system) with advanced capabilities which is expected to be in place by the summer of 2002.

Implementation of the new imaging system is not the final step in the automation process for the Department. Additional initiatives, such as optical character recognition and bar coding will allow information to be read by the imaging system from

paper. Payroll history and other historical information may eventually be stored on the imaging system in order to provide faster access. The new system is flexible and expandable such that new users and applications may be added. To date, most of the various retirement processes have been incorporated in automated workflows.

The office receives numerous verbal and written requests for information, from both attorneys and the general public, as to how the retirement law impacts individual members and their spouses with respect to the equitable distribution of their retirement income. Attorneys are required to submit proposed Domestic Relations Orders to the Retirement System for review by the Attorney General's office before any payment of retirement income can be made to a member's ex-spouse in a divorce situation. The office continues to process these requests on a timely basis, thereby providing financial certainty to all parties involved.

The Lotus program that handles equitable distribution affidavits has a real and direct benefit to the members and their ex-spouses by providing them up to the minute information as to the status of a member's account and the financial consequences of a divorce action, thus assisting them and the courts in determining the fair and equitable distribution of a member's retirement income.

The Retirement Systems and Trust Funds Actuarial Valuation

The actuarial valuation is prepared by an actuary to assess the funding progress of a retirement system and the adequacy of the contribution rates which have been established to fund the system. An actuarial valuation is an inventory of the assets and liabilities of a retirement system at a specific point in time. Information collected covers all of the active (both in-service and terminated) members and all of the retired members and other beneficiaries who are receiving benefit payments. In this way, 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 whether the contribution rates will be adequate 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 is also 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.

Actuarial Assumptions

The economic assumptions used for the actuarial valuation of all retirement systems are an interest rate of 7.25% per year and average rates of salary increase of about 6.00% per year, varying at differ-

ent ages. The assumed rates for mortality, withdrawals, disabilities, and service retirements are based on actual past experience. The asset valuation method is based on a modified market related value.

Funding of the Systems

The retirement systems described in this report, except the Legislative Retirement System, are being funded on a full actuarial reserve basis and use the entry age normal cost method as the actuarial cost approach. Under the entry age normal cost method, the normal contribution percentage rate is calculated on the basis of the adopted actuarial assumptions as the level percentage of the compensation of the average new member which, if contributed throughout the entire period of active service, would be sufficient, together with his/her contributions, to support all the benefits payable on his/her account. The accrued liability is the difference between total liabilities and the present value of future normal cost contributions and the members' future contributions. All experience gains and losses are reflected in the amount of the unfunded accrued liability and thereby affect the period of liquidation, except in the

Local Governmental Employees' Retirement System, where they are reflected in the normal contribution rate. The Legislative Retirement System is also being funded on a full actuarial reserve basis, but uses the projected unit credit cost method with unfunded accrued liability as the actuarial cost approach.

All retirement systems are joint contributory, defined benefit plans with contributions made by both employees and employers. Each active member contributes 6% of his/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% of his/her compensation.

Employers make monthly contributions based on a percentage rate of the members' compensation for the month. Employer contribution rates are actuarially calculated.

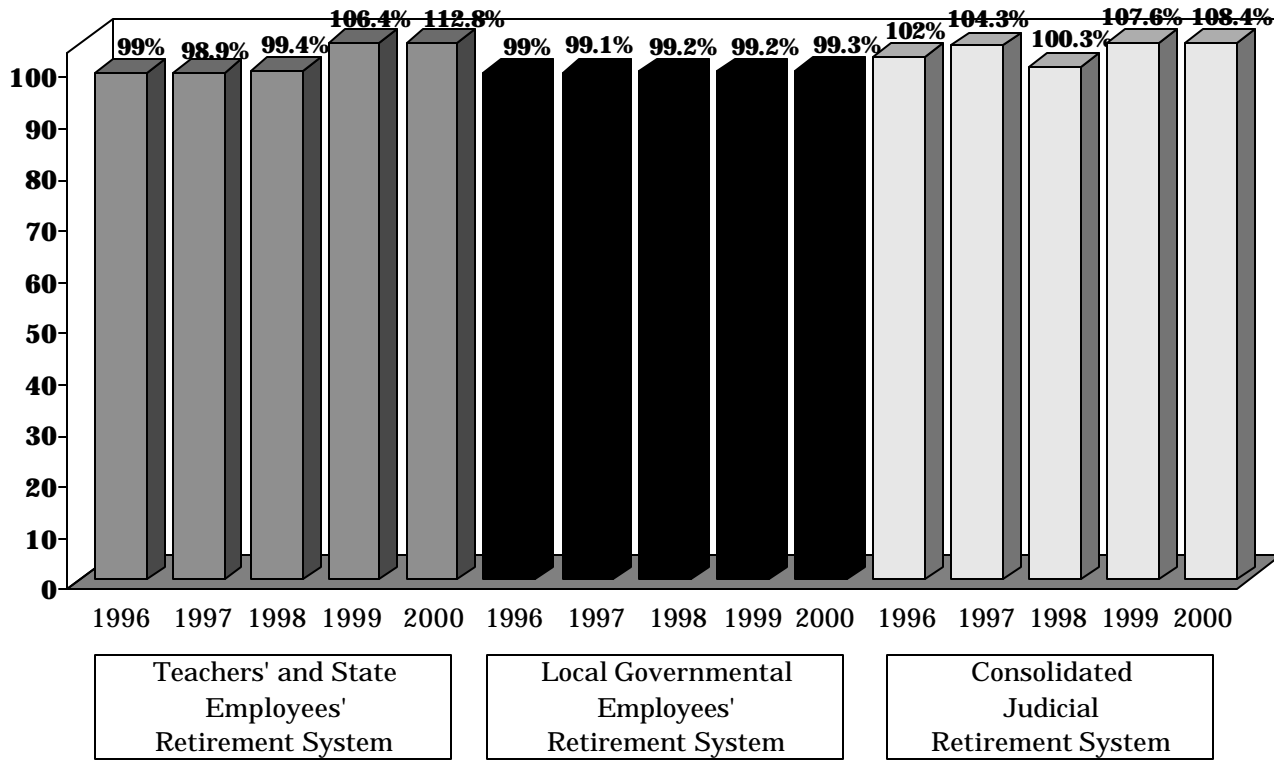
Funded Status

The consistent use of conservative actuarial assumptions and an approved actuarial cost method over the years since the establishment of the retirement systems, and the recognition of all promised benefits in the actuarial liabilities, have resulted in retirement systems which can be labeled as "actuarially sound." A simple measure for determining the funded status of a system is to relate the total

present assets to total accrued liabilities to determine a funded ratio.

The total accrued liabilities are found by adding the assets and the unfunded accrued liabilities. For purposes of comparison, the funded ratios for the major retirement systems are graphically illustrated in Chart 33. When the ratio equals 100%, a system is considered to be "fully funded" on a current basis.

Funded Ratio of the Retirement Systems



**Teachers' and State Employees' Retirement
System of North Carolina (State System)
N.C.G.S. 135-1 Through 135-18.5**

The Teachers' and State Employees' Retirement System has the largest assets and membership of the retirement systems administered by the Division. Created by the General Assembly effective July 1, 1941, the State System provides benefits to all full-time teachers and State employees in all public school systems, universities, departments, institutions, and agencies of the State.

This System began operations with a membership of 42,878 teachers and State employees, and with appropriations from the State of \$1,838,000. The membership has grown over the years in proportion to the growth in size and complexity of the public schools and State government. The active membership at December 31, 2000 was 338,229, and in addition there were 107,743 retired members and beneficiaries of deceased retired members. Invested assets at market value amounted to about \$45.9 billion.

The distribution of the investments of the assets of the State System as of December 31, 2000 was:

Long-Term Fixed Income Investment Fund	\$19,785,015,737
Short-Term Fixed Income Investment Fund	119,645,335
Real Estate Investment Fund	799,227,597
Equity Investment Fund	25,075,295,546
Venture Capital	<u>100,029,461</u>
Total	<u>\$45,879,213,677</u>

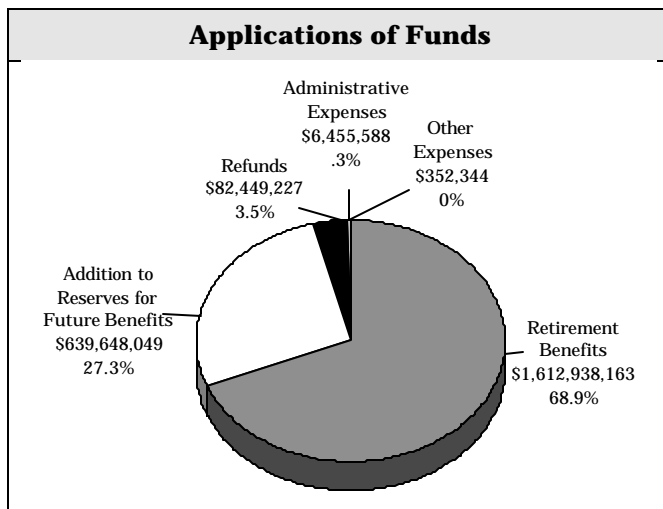
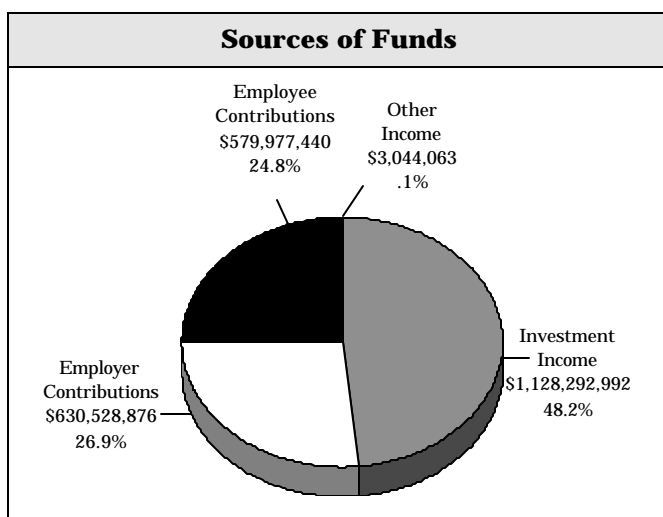
Operations of the State System during the calendar year 2000 resulted in total receipts of \$2,341,843,371 and total expenditures of \$1,702,195,322. Chart 34 graphically presents the distribution of revenues by source and expenditures by purpose.

The latest Actuary's Valuation Balance Sheet for the State System, as of December 31, 2000, is shown in Table 11. Based on the latest actuary's report, the General Assembly set the employer contribution rate at 5.33% of covered payroll, effective July 1, 2000, and at 1.97% of covered payroll, effective July

1, 2001. 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 9 years from January 1, 2001, the remaining accrued liability for past service.

Chart 34

**Teachers' and State Employees'
Retirement System of North Carolina
Year Ended December 31, 2000**



**Local Governmental Employees' Retirement
System of North Carolina (Local System)
N.C.G.S. 128-21 Through 128-38**

The Local System is maintained for the employees of cities, towns, counties, boards, commissions, and other entities of local government in North Carolina.

Because participation by local governments is voluntary, the operation of the Local System is dependent upon the 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, 2000, a total of 879 cities, towns, counties, and local commissions were participating in the Local System.

This System began operations in 1945, with 18 participating local governments, 2,102 members, and assets of \$178,053. The active membership as of December 31, 2000 was 130,366; in addition there were 30,061 retired members and beneficiaries of deceased members. Invested assets at market value amounted to about \$11.6 billion.

The distribution of investments of the assets of the Local System as of December 31, 2000 was:

Long-Term Fixed Income	
Investment Fund	\$5,108,309,360
Short-Term Fixed Income	
Investment Fund	11,177,671
Real Estate Investment Fund	209,534,324
Equity Investment Fund	6,281,732,702
Venture Capital	25,167,124
Total	<u>\$11,635,921,181</u>

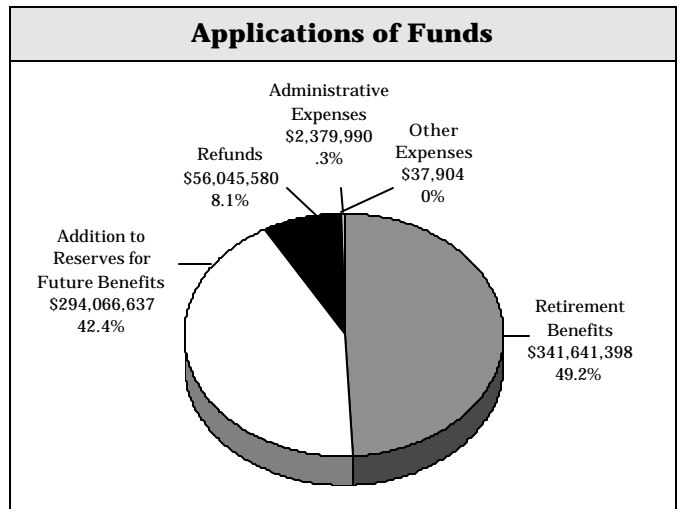
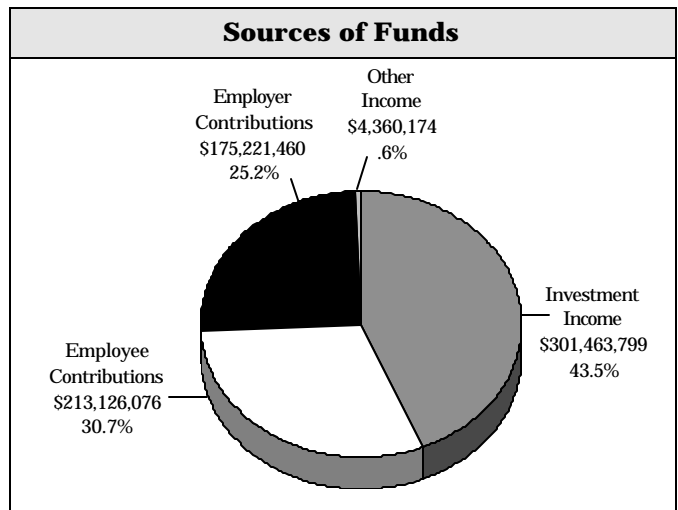
Operations of the Local System during the calendar year 2000 resulted in total receipts of \$694,171,509 and total expenditures of \$400,104,872. Chart 35 graphically presents the distribution of revenues by source and expenditures by purpose.

The latest Actuary's Valuation Balance Sheet for the Local System, as of December 31, 2000, is shown in Table 12.

Based on the actuary's latest report, the Board of Trustees set the employer normal contribution rate at 4.80% of covered payroll for general employees and at 5.27% of covered payroll for law enforcement officers, effective July 1, 2001. 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 the Local Governmental Employees' Retirement System 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 35
**Local Governmental Employees'
Retirement System of North Carolina
Year Ended December 31, 2000**



**Consolidated Judicial Retirement System
of North Carolina (Judicial System)
N.C.G.S. 135-50 Through 135-72**

Chart 36

The Judicial System was created by the 1983 Session (Regular Session, 1984) of the General Assembly, effective January 1, 1985. This 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 is composed of the elected judges and justices, district attorneys, and clerks of superior court of the General Court of Justice. As of December 31, 2000, there were 477 active members and 368 retired members and beneficiaries of deceased retired members. The invested assets at market value were about \$343.9 million.

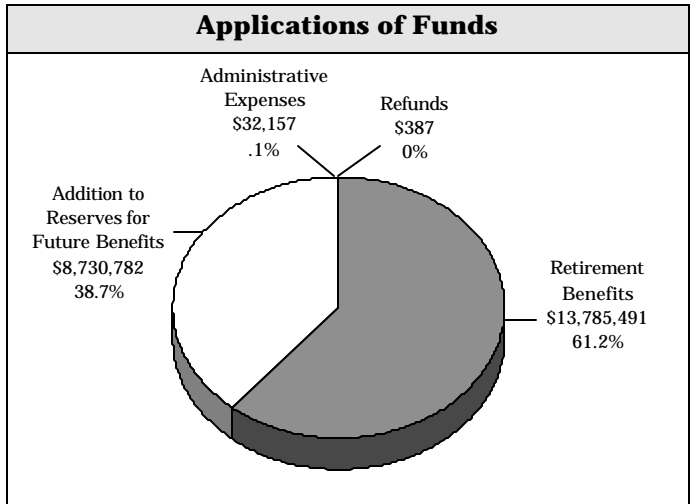
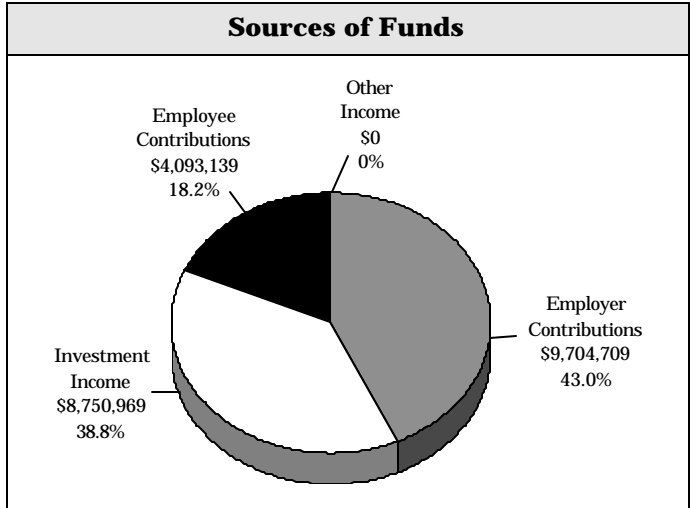
The distribution of the investments of the Judicial System as of December 31, 2000, was:

Long-Term Fixed Income	
Investment Fund	\$150,257,515
Short-Term Fixed	
Investment Fund	685,171
Real Estate Investment Fund	6,112,646
Equity Investment Fund	186,246,446
Venture Capital	<u>687,239</u>
Total	<u>\$343,989,018</u>

Operations of the Judicial System during the calendar year 2000 resulted in total receipts of \$22,548,817 and total expenditures of \$13,818,034. Chart 36 graphically presents the distribution of revenues by source and expenditures by purpose.

The latest Actuary's Valuation Balance Sheet for the Judicial System, as of December 31, 2000, is shown in Table 13. Based on the actuary's latest report, the General Assembly set the employer contribution rate at 14.05% of covered members' payroll, effective July 1, 2001. On this basis, the total of member and employer rates of contribution is more than adequate to fund all future benefits presently authorized based on current service.

**Consolidated Judicial Retirement System of North Carolina
Year Ended December 31, 2000**



**Teachers' and State Employees' Benefit Trust
(Benefit Trust)
N.C.G.S. 135-5(I) ; 128-27(I); 143-166.20; And 143-166.60**

The 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 at the same date. The purpose of the Benefit Trust is to provide group life insurance benefits for members of these two retirement systems. Formerly, identical type death benefits were provided directly by these retirement systems.

All contributions to fund life insurance benefits are paid by the State and local governments, participating in one of the two retirement systems, to the Trust and held separate and apart from any pension or retirement funds. The funding method adopted for the Benefit Trust is one-year term cost. The employer contribution rate to fund this benefit for members of the Teachers' and State Employees' Retirement System is .16% of covered payroll. The employer contribution rate for members of the Local Governmental Employees' Retirement System is actuarially determined and varies among employers.

The Benefit Trust further includes the Separate Insurance Benefits Plan for State and Local Governmental Law Enforcement Officers. The Plan provides additional life insurance benefits to active and retired law enforcement officers and additional accident and sickness insurance coverage for law enforcement officers. These benefits are funded by a \$1.00 cost-of-court assessment in each criminal case conviction in the State.

Additionally, the Benefit Trust includes the Retiree Death Benefit Plan. This plan is funded by participant contributions. The benefit is \$6,000 after 24 months of contributions. If a participant's death occurs before 24 months of contributions, the benefit is limited to a refund of contributions.

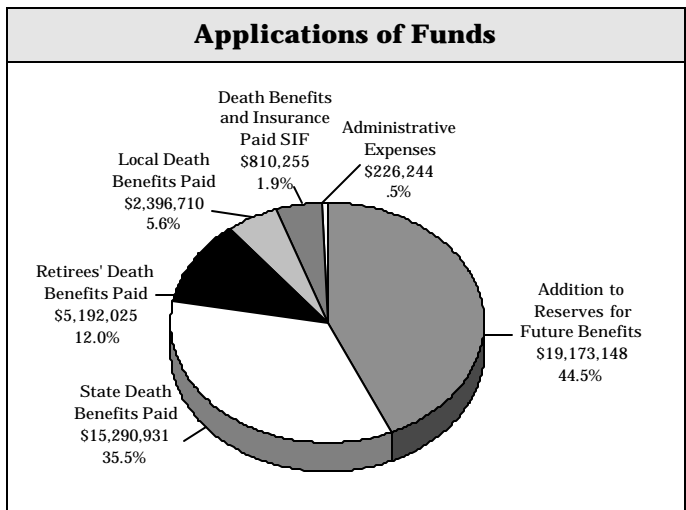
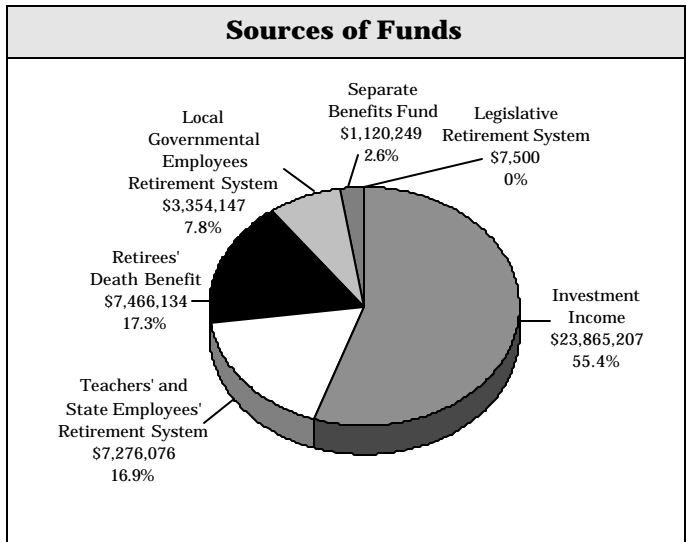
Chart 37 graphically presents the distribution of revenues by source and expenditures by purpose. The number of deaths and amounts of benefit payments, according to member group, during 2000 were:

**Life Insurance Payments
Calendar Year 2000**

Retirement System <u>Membership</u>	Number of <u>Payments</u>	Payment <u>Amount</u>
Teachers' and State Employees'	460	\$15,290,931
Local Governmental Employees'	127	2,396,710

Chart 37

**North Carolina Teachers'
and State Employees' Benefit Trust
Year Ended December 31, 2000**



**Firemen's and Rescue Squad Workers' Pension Fund
(Pension Fund)
N.C.G.S. 58-86-1 Through 58-86-90**

The Pension Fund was created by the 1959 Session of the General Assembly to provide benefits for certified firemen. The statutes were amended to include certified rescue squad workers beginning January 1, 1982. Both volunteer and paid personnel are included in the membership.

Funded by an initial appropriation of \$235,000, retroactive benefit payments amounting to \$210,700 were made to 362 retirees during August of 1962, to cover all benefits due and payable since July 1, 1961. At June 30, 2001, the active membership of the fund was 30,777 while the number of retired members was 8,082. Invested assets at book value amounted to about \$255.2 million.

The distribution of the investments of the assets as of June 30, 2001, was:

Long-Term Fixed Income Investment Fund	\$ 107,324,368
Short-Term Fixed Income Investment Fund	491,018
Real Estate Investment Fund	4,648,359
Equity Investment Fund	142,419,141
Venture Capital	<u>409,634</u>
Total	<u>\$ 255,292,520</u>

Operations of the Pension Fund during the 2001 fiscal year resulted in total receipts of \$10,303,414 and total expenditures of \$15,546,245.

The latest Actuary's Valuation Balance Sheet, as of June 30, 2000, is shown in Table 14. Based on the latest actuary's report, the General Assembly appropriated \$11,079,000 for the 2000-01 fiscal year. The yearly appropriation will fund all future benefits, based on current service, and will fund, over a period of nine years from June 30, 2000, the remaining accrued liabilities for past service.

Retirees' Health Premiums Fund

This fund is used as a conduit of moneys flowing from employers to pay individual coverage cost of retirees' health insurance. This coverage can be under either the State's health plan or approved health maintenance organizations. Retirees from the Teachers' and State Employees', Consolidated Judicial, and Legislative Retirement Systems are eligible for coverage. 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 2000

Beginning Fund Balance	\$215,091,011
Additions:	
Employer Contributions	\$ 56,588,488
Investment Income	<u>8,502,319</u>
	<u>65,090,807</u>
Deductions:	
Health Premiums Paid	\$ 192,034,562
Administrative Expense	<u>186,665</u>
	<u>192,221,227</u>
Ending Fund Balance	<u>\$87,960,591</u>

**Legislative Retirement Fund (Fund)
N.C.G.S. 120-4.1 Through 120-4.2**

The 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, prospectively, 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. There were 30 former members and officers of the General Assembly in receipt of allowances, with a cost in the year ended December 31, 2000, of some \$43,975. The cost is funded by a contribution of 5% of compensation paid by members at retirement and an annual general fund appropriation made to the General Assembly. The Fund is not operated as a retirement fund, but as an expendable trust fund.

**Legislative Retirement System (System)
N.C.G.S. 120-4.8 Through 120-4.29**

The Legislative Retirement System was created by the 1983 Session of the General Assembly as a retirement plan for members of the General Assembly. The membership also includes: (1) members who were vested or had maintained contributions in the Legislative Retirement Fund; and (2) those retirees receiving a benefit from the Legislative Fund who elect to transfer to the Legislative Retirement System.

As of December 31, 2000, the System had 172 active members, 84 inactive members, and 189 re-

tired members. Assets on that date totaled \$27,082,050. Operations of the System during calendar year 2000 resulted in total receipts of \$1,869,083 and disbursements of \$1,059,444 with \$809,639 added to the reserve for future benefits.

Based on the latest actuarial report, the employer contribution rate was set by the General Assembly at 23.20% of covered payroll, effective July 1, 2001. On this basis, the total of employee and employer rates of contribution is adequate to fund all future benefits presently authorized.

**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 with an effective date of January 1, 1988. 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 .52% of the covered pay-

roll of members of the Teachers' and State Employees' Retirement System and the Optional Retirement Program, effective July 1, 2001.

The following are certain statistics relating to the number of disabled members, number of new claims, employer contributions, investment earnings, and amount of benefit payments during the calendar years ended 1999 and 2000.

	<u>1999</u>	<u>2000</u>
Number of Disabled Members	3,974	4,285
New Claims During the Year	743	865
Employer Contributions	\$48,427,491	\$52,268,811
Investment Income	(\$8,080,035)	\$25,988,037
Amount of Benefit Payments	\$32,555,725	\$36,793,409

**Public Employees' Social Security Agency
(Social Security Agency)
N.C.G.S. 135-19 Through 135-26**

The 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 to act as liaison between the State and the Social Security Administration.

**National Guard Pension Plan (Guard Plan)
N.C.G.S. 127A-40**

The Guard Plan was transferred to the Department of State Treasurer for payment of monthly benefits by the 1979 Session of the General Assembly, effective July 1, 1979. This Division pays allowances based on the certification of eligibility of former national guardsmen by the Secretary of the Department of Crime Control and Public Safety. The payments of benefits are funded by State General

Fund appropriations by the General Assembly. As of December 31, 2000, there were 2,001 beneficiaries in receipt of monthly allowances from the Guard Plan at a cost that calendar year of \$1,915,894.

The 1983 Session of the General Assembly enacted legislation, effective July 1, 1983, creating a trust fund for financing National Guard Plan payments and requiring that the Plan be maintained on

a generally accepted actuarial basis. Based on an actuarial study after passage of this legislation, the June 1984 Session appropriated \$1,717,977 to begin

actuarial reserve funding. The funding appropriated for 2000-01 was \$2,074,583.

**Supplemental Retirement Income
Plan of North Carolina [401(k) Plan]
N.C.G.S. 135-90 Through 135-95; 143-166.30; And 143-166.50**

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

Branch Banking and Trust Company (BB&T), 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, recordkeeping, and investment products.

The Plan's number of participating members rose from 157,248 as of July 1, 2000, to 169,549 members as of June 30, 2001, for an increase of over 7.8%. Contributions by employers during this fiscal

year totaled \$91,268,005 while salary deferred contributions by members were over \$162,602,735. The total assets at book value of the Plan increased by 13.8% to \$2,259,185,479.

Under the current contract, members may select from a bank investment contract, a money market account, and eight mutual funds. As of June 30, 2001, 14.68% of the assets were invested in the bank investment contract, 70.4% were invested in the mutual funds, and 9.77% were invested in the money market account. In addition, 4.74% of the assets were loans receivable and 0.41% of the assets were cash on deposit.

A portion of court cost receipts are deposited into the account of each State and local government law enforcement officer. For the year ended June 30, 2001, court cost receipts of \$1,781,112 were transferred and credited to the State and local law enforcement officers' accounts.

The Supplemental Retirement Income Plan of North Carolina continues to be the largest State governmental 401(k) Plan in the United States.

**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 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.

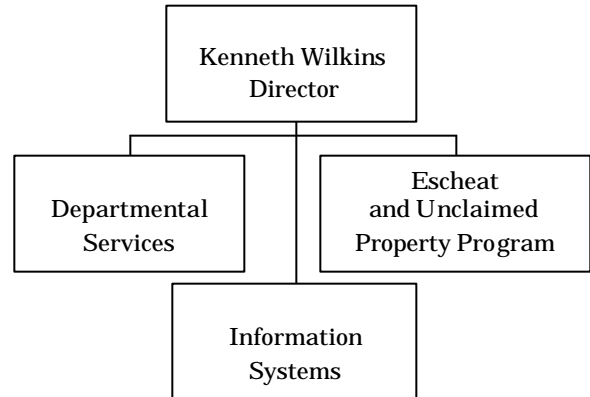
In October of 1987 each county board of commissioners began remitting monthly, to the Department

of State Treasurer, an amount equal to 4.5% of the receipts collected pursuant to Article 1 of Chapter 161 of the General Statutes for deposit to the credit of the Register of Deeds' Supplemental Pension Fund. As of December 31, 2000, the Fund had total assets in the amount of \$11,104,042.

Benefits from the Fund became payable beginning July 1, 1988. For the year ending December 31, 2000, the Fund paid total benefits in the amount of \$691,161 to 64 retired Registers of Deeds.

Administrative Services Division

The Administrative Services Division is organized to provide support services to the State Treasurer and the program divisions within the Department. In addition, the Administrative Services Division is also responsible for the administration of the State's Escheat and Unclaimed Property Program.



Operational Highlights

- **\$18,644,820 in net investment income from earnings of the Escheat and Unclaimed Property Fund was submitted to the State Education Assistance Authority to provide 5,500 loans to North Carolina students in State-supported schools of higher education.**
- **\$64,833,337 in escheated and unclaimed property (cash and securities) was received from 5,421 reports submitted.**
- **\$9,607,419 in cash and securities was refunded to 5,701 rightful owners.**

Departmental Services

Departmental Services provides general support to the Department in areas of departmental accounting, personnel management, information systems, and mail and supply room/purchasing functions.

Personnel Management

As of June 30, 2001, the Department of State Treasurer had 294.5 positions which were assigned as follows:

Personnel Recapitulation

Office of the Treasurer	7
Administrative Services Division	50.5
Information Technology Division	37
Investment and Banking Division	36
State and Local Government	
Finance Division	37
Retirement Systems Division	<u>127</u>
	294.5

During the past fiscal year, 39 employees were promoted to higher level positions and 59 new employees were hired. In addition, there were 50 employees who separated from employment (eight retired) in the Department.

Also this past fiscal year, the following personnel actions were approved by the Office of State Personnel: 21 positions were reallocated up to higher classifications; while one position was reallocated down.

Escheat and Unclaimed Property Program

The Escheats and Unclaimed Property Program is designed to reunite owners with their property using a variety of modern methods. Names and addresses are sent to each Clerk of Superior Court annually. Legal notices are placed in major newspapers for two consecutive weeks.

In an effort to expand this program, we have developed and are beginning to implement an Outreach Program, which will enable us to engage in various activities through out the State. In addition, we are working with AARP, Veterans Administration, Retirement System and many others groups with large memberships to further get our message out to reunite rightful owners of this unclaimed property.

We are making considerable efforts to inform owners of our free service in returning their property and how to prevent their property from escheating in the future. Our website www.treasurer.state.nc.us now has our complete owners' list on line and claim forms can be downloaded, which speeds up the processing.

\$64,883,337 in escheated and unclaimed property (cash and securities) was received from 5,421 reports submitted.

\$18,644,820 in net investment income from earnings of the Escheat and Unclaimed Property Fund was submitted to the State Education Assistance Authority to provide 5,500 loans to North Carolina students in State-supported schools of higher education.

Escheat Fund Fact Sheet

	FY 7/1/97 6/30/98	FY 7/1/98 -6/30/99	FY 7/1/99 -6/30/00	FY7/1/00 6/30/01
Funds Escheated				
Clerks of State Courts	\$ 2,541,706	\$ 1,855,989	\$ 1,074,169	\$ 430,257
State and National Banks	5,998,269	5,259,122	8,496,066	11,137,084
Savings & Loan Associations and Credit Unions	582,303	686,417	177,854	771,297
Insurance Companies	3,407,635	5,453,244	10,096,395	6,540,669
Public Utilities and Membership Co-ops	1,769,144	1,220,824	863,665	3,306,869
State and Governmental Agencies	2,453,930	1,771,640	1,492,544	3,633,733
Other Businesses	6,920,061	10,899,390	8,251,969	14,060,990
Clearinghouses:				
Unclaimed Property Clearing House	2,057,489	3,621,914	3,700,367	14,610,078
Nat. Abandoned Property Processing	904,274	566,878	809,072	1,049,587
Reporting Services	98,877	327,083	476,869	471,090
Reciprocal/Exchange Agreements (32)	671,129	828,072	1,545,823	1,283,398
Interest Assessments	42,723	14,140	17,959	21,934
Auction Proceeds	46,045	28,846	24,742	29,856
Court Settlements	411,494	12,299	5,966	-0-
Total Funds Escheated	<u>\$ 27,905,079</u>	<u>\$ 32,545,858</u>	<u>\$ 37,033,460</u>	<u>\$ 57,346,842</u>
Number of Positive Reports Rcvd	4,138	4,628	3,126	4,871
Securities Reports Received	560	625	437	513
Reciprocal Reports Received	22	21	48	37
Total Reports Received	<u>4,720</u>	<u>5,274</u>	<u>3,611</u>	<u>5,421</u>
Amount of Funds Received	\$ 27,233,950	\$ 31,817,776	\$ 35,487,722	57,515,487
Value of Securities Received	7,189,686	4,789,216	6,932,575	6,206,313
Amount Received- Reciprocal States	671,129	828,071	1,545,823	1,161,537
Total Funds Received	<u>\$ 35,094,765</u>	<u>\$ 37,435,063</u>	<u>\$ 43,966,120</u>	<u>\$ 64,883,337</u>
Number of Cash Refunds Paid	6,245	7,217	7,101	5,669
Number of Security Refunds Paid	448	417	329	277
Number-Refunds to Reciprocal States	25	28	24	32
Total Refunds Paid	<u>6,718</u>	<u>7,622</u>	<u>7,454</u>	<u>5,978</u>
Amount of Cash Refunds Paid	\$ 5,331,579	\$ 6,458,273	\$ 6,549,032	7,400,779
Value of Securities Refunded	1,938,565	2,434,031	1,716,706	1,046,149
Amount Sent to Reciprocal States	1,368,143	1,547,087	1,450,095	1,161,537
Total Amount Refunded	<u>\$ 8,638,287</u>	<u>\$ 10,439,391</u>	<u>\$ 9,715,833</u>	<u>\$ 9,608,465</u>
Investment Income	\$ 15,285,951	\$ 16,873,237	\$ 17,346,035	21,869,382
Less Administrative Expenses	1,986,979	2,342,418	2,891,088	3,044,562
Amount Due to SEAA	<u>\$ 13,298,972</u>	<u>\$ 14,530,819</u>	<u>\$ 14,454,947</u>	<u>\$ 18,644,820</u>
Number of Loans Made to Students	3,813	5,316	5,467	5,500
Fund Balance	\$ 184,395,784	\$228,280,673	\$255,557,620	\$306,242,511
Percent of Administrative Expense to Fund Balance	1.08%	1.03%	1.13%	1.00%

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Financial Statements

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**DEPARTMENT OF STATE TREASURER
COMBINED BALANCE SHEET
ALL DEPARTMENTAL OPERATING FUND TYPES AND ACCOUNT GROUPS
JUNE 30, 2001**

ASSETS	Governmental Fund Types	
	General Fund	Special Revenue Fund
Cash and cash equivalents	\$62,551,942	\$85,269,520
Accounts receivable-local government		
Accounts receivable-contributions	11,571,598	
Accounts receivable-other	1,000	
Accrued interest receivable		354,677
Inventories	25,792	
Investments		
Fixed assets		
 Total Assets	 \$74,150,332	 \$85,624,197
LIABILITIES AND FUND EQUITY		
Liabilities		
Accounts payable-federal government		
Accounts payable-benefits	\$	\$
Accounts payable-interdepartmental	5,302	
Accounts payable-other	237,753	
Escheat refunds payable		
Accrued expenses	1,386,101	
Deferred income		
 Total Liabilities	 1,629,156	
Fund Equity		
Investment in fixed assets	\$	\$
Fund Balance		
Reserved for trust beneficiaries		
Reserved for inventories	25,792	
Reserved for encumbrances	7,264,475	
Unreserved	65,230,909	85,624,197
 Total Fund Balance	 72,521,176	 85,624,197
Total Fund Equity	72,521,176	85,624,197
Total Liabilities and Fund Balance	\$74,150,332	\$85,624,197

The accompanying Notes to the Financial Statements are an integral part of this Statement.

Fiduciary Fund Types			Proprietary Fund		Account group Fixed assets (Departmental)	Total (Memorandum Only)
Expendable Trust Funds	Non-Expendable Trust Funds	Pension Funds	Investment Trust Fund	Type Internal Service Funds		
\$ 23,156,323	\$800,000	\$ 157,378,507	\$ 30,313,269	\$ 12,115,128	\$	\$ 371,584,68
185,319		81,819,215		4,820,504		98,396,63
26,756,852		1,209,779		2,521,638		30,489,26
98,966		782,075	7,275,655	45,109		8,556,48
						25,79
318,137,634		56,606,975,119	461,265,319	412,332,681		57,798,710,75
				1,922,115	3,031,766	4,953,88
<u>\$368,335,094</u>	<u>\$800,000</u>	<u>\$56,848,164,695</u>	<u>\$498,854,243</u>	<u>\$433,757,175</u>	<u>\$3,031,766</u>	<u>\$58,312,717,50</u>
\$	\$	\$ 32,332,495	\$	\$271,217,761	\$	\$ 303,550,25
18,644,820						18,650,12
150,000		1,000	1,704,322	536,451		2,629,52
25,569,042						25,569,04
						1,386,10
5,281,647						5,281,64
<u>\$ 49,645,509</u>	<u>\$</u>	<u>\$ 32,333,495</u>	<u>\$ 1,704,322</u>	<u>\$271,754,212</u>	<u>\$</u>	<u>\$ 357,066,69</u>
\$	\$	\$	\$	\$	\$3,031,766	\$ 3,031,76
318,689,585	800,000	56,815,831,200	497,149,921	249,417,659		57,881,888,36
						25,79
						7,264,47
				(88,834,697)		62,020,40
<u>318,689,585</u>	<u>800,000</u>	<u>56,815,831,200</u>	<u>497,149,921</u>	<u>160,582,962</u>		<u>57,951,199,04</u>
<u>318,689,585</u>	<u>800,000</u>	<u>56,815,831,200</u>	<u>497,149,921</u>	<u>160,582,962</u>	<u>3,031,766</u>	<u>57,954,230,80</u>
<u>\$368,335,094</u>	<u>\$800,000</u>	<u>\$56,848,164,695</u>	<u>\$498,854,243</u>	<u>\$432,337,174</u>	<u>\$3,031,766</u>	<u>\$58,311,297,50</u>

**DEPARTMENT OF STATE TREASURER
 COMBINED STATEMENT OF REVENUES, EXPENDITURES
 AND CHANGES IN FUND BALANCE
 ALL DEPARTMENTAL FUND TYPES
 FOR THE FISCAL YEAR ENDED JUNE 30, 2001**

	Governmental Fund Type	
	General Fund	Special Revenue Fund
Revenues		
Investment income	\$ 5,629,639	\$ 3,205,215
Contributions (employer/employee)		
Federal grants		
Court fees		
Current year's escheats		
Service charges	619,935	
Income tax check-off		
Miscellaneous	240,028,574	
Total Revenues	\$ 246,278,148	\$ 3,205,215
Expenditures		
Current administration		
General	\$ 2,068,192	\$
Escheats	1,770,457	
Investment and banking	5,856,478	
State and local gov't finance	3,489,025	
Retirement systems	11,715,160	
Advisory council-vocational ed		
Retirement and other benefits paid	63,733,471	
Refunds	230,000	
Miscellaneous	240,000,000	
Payments to political parties		
Management fees		
Total Expenditures	\$ 328,862,783	\$
Revenues Over (Under) Expenditures	\$(82,584,635)	\$ 3,205,215
Other Financing Sources (Uses)		
Appropriations	23,908,435	
Interdepartmental In	18,344,445	82,418,982
Interdepartmental Out	\$(11,083,423)	\$
Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	\$(51,415,178)	\$85,624,197
Fund Balance: July 1, 2000	123,939,402	
Adjust Reserve for Related Assets	(3,048)	
Fund Balance: June 30, 2001	\$ 72,521,176	\$85,624,197

Fiduciary Fund Types		Proprietary Fund Type		Total
Expendable Trust Funds	Non-Expendable Trust Funds	Pension Funds	Internal Service Funds	(Memorandum Only)
\$ 32,525,368	\$	\$(1,293,744,735)	\$ 44,643,727	\$(1,207,740,786)
1,822,550		1,339,568,102	65,345,656	1,406,736,308
180				180
47,432,083				47,432,083
			7,594,887	8,214,822
344,448		2,751,749	879,684	244,004,455
<u>\$ 82,124,629</u>	<u>\$</u>	<u>\$ 48,575,116</u>	<u>\$ 118,463,954</u>	<u>\$ 498,647,062</u>
\$ 27,148	\$	\$ 12,663,165	\$ 7,497,930	\$ 22,256,435
3,431,489				5,201,946
				5,856,478
				3,489,025
				11,715,160
745,597		2,083,604,694	122,738,506	2,270,822,268
		135,076,612		135,306,612
		48,261		240,048,261
		45,769,331		45,769,331
<u>\$ 4,204,234</u>	<u>\$</u>	<u>\$ 2,277,162,063</u>	<u>\$ 130,236,436</u>	<u>\$ 2,740,465,516</u>
\$ 77,920,395	\$	\$(2,228,586,947)	\$ (11,772,482)	\$(2,241,818,454)
				23,908,435
			1,722,949	102,486,376
<u>\$(19,609,056)</u>	<u>\$(200,000)</u>	<u>\$</u>	<u>\$</u>	<u>\$ (30,892,479)</u>
\$ 58,311,339	\$(200,000)	\$(2,228,586,947)	\$ (10,049,533)	\$(2,146,316,122)
260,378,246	1,000,000	59,044,418,147	170,632,495	59,600,368,290
				(3,048)
<u>\$318,689,585</u>	<u>\$ 800,000</u>	<u>\$ 56,815,831,200</u>	<u>\$ 160,582,962</u>	<u>\$ 57,454,049,120</u>

STATEMENT OF DEPARTMENTAL REVENUES AND EXPENDITURES
BUDGET AND ACTUAL (BUDGETARY BASIS)
GENERAL FUND (Departmental Activities Only)
FOR THE FISCAL YEAR ENDED JUNE 30, 2001

	Budget	Actual	Variance Favorable (Unfavorable)
Departmental Expenditures			
Current administration			
General administration	\$ 2,579,536	\$ 2,217,903	\$ 361,633
Transition Team Expenses	10,000	8,960	1,040
Escheat operations	2,278,610	2,064,361	214,249
Investment & banking operations	12,422,588	10,632,270	1,790,318
Local government operations	3,497,503	2,971,395	526,108
State bond issuance cost	524,406	497,256	27,150
Retirement operations	13,882,116	13,672,365	209,751
Total Departmental Expenditures	\$35,194,759	\$32,064,510	\$3,130,249
Departmental Receipts			
Current administration	\$	\$	\$
General administration	2,579,536	2,217,903	(361,633)
Transition Team Expenses	10,000	10,000	
Escheat operations	2,278,610	2,064,361	(214,249)
Investment & banking operations	133,171	255,426	122,255
Local government operations	701,248	713,591	12,343
State bond issuance cost	524,406	497,256	(27,150)
Retirement operations	13,882,116	13,666,538	(215,578)
Total Departmental Receipts	20,109,087	19,425,075	(684,012)
Appropriation	\$15,085,672	\$12,639,435	\$2,446,237

The accompanying Notes to the Financial Statements are an integral part of this Statement.

**NORTH CAROLINA DEPARTMENT OF STATE TREASURER
NOTES TO THE FINANCIAL STATEMENTS
ALL DEPARTMENTAL OPERATING
FUND TYPES AND ACCOUNT GROUPS
JUNE 30, 2001**

1. Principles of Presentation

These statements include all operations of budgetary funds administered by the Department of State Treasurer. However, these statements were not prepared in conformity with generally accepted accounting principles. They do not reflect, nor are they intended to reflect, the financial condition of the State of North Carolina. Nor do they reflect the investment activity of the State Treasurer except the results as shown in the budgetary funds. The activity of the Investment Pool is shown in separate financial statements published concurrently herewith. These operations are broken down by type of fund as follows:

A. Governmental Fund Types - Departmental Operations Only

General Fund – Includes all of the following:

General Fund – The operations shown include all administrative expenses and offsetting revenues in Budget Code 13410.

Special Appropriation – This shows General Fund transfers to the Retirement System for the Firemen's and Rescue Squad Workers' Pension Funds. Death Benefit payments for law enforcement officers and firemen and rescue squad workers are also included (Budget Code 13412).

Special Program – This includes the activity of the Retirees' Health Premium Fund (Budget Code 19342).

Special Revenue Fund – this shows the activities of the Health and Wellness Trust Fund (Budget Code 23460).

B. Fiduciary Fund Types

Expendable Trust Funds - Includes the following eight trust funds whose corpus and income are restricted by law to expenditures necessary to carry out the funds' purposes:

Public Employees' Social Security Agency Fund (Budget Code 63411)

Escheat Fund (Budget Code 63412)

Assurance of Land Title Fund (Budget Code 63415)

Legislative Retirement Fund (Budget Code 63422)

Absentee Insurance Fund (Budget Code 63416)

Pine Mountain Lakes Lot Purchase Fund (Budget Code 63419)

Register of Deeds Supplemental Pension Fund (Budget Code 63432)

Educational Facilities Finance Agency (Budget Code 63440)

Non-Expendable Trust Fund

Fire Safety Loan Fund (Budget Code 63414)

Pension Funds - Includes seven retirement trust funds:

Teachers' and State Employees' Retirement System (Budget Code 63423)
Local Governmental Employees' Retirement System (Budget Code 63426)
Consolidated Judicial Retirement System (Budget Code 63425)
N.C. National Guard Pension Fund (Budget Code 63430)
Legislative Retirement System (Budget Code 63431)
Firemen's Pension Fund (Budget Code 63434)
Rescue Squad Workers' Pension Fund (Budget Code 63435)

Investment Trust Fund - Represents the activity of the Local Government Investment Trust Pool pertaining to external participants (Budget Code 03410).

C. Proprietary Fund Types

Internal Service Funds

Disability Income Plan of North Carolina (Budget Code 73421)
Death Benefit Fund (Budget Code 73429)
Information Technology (Budget Code 73410)

D. The Fixed Assets Account Group is a self-balancing set of accounts used to record the Department's stewardship of furniture and equipment purchased and utilized by the Department.

2. Summary of Significant Accounting Policies

A. Basis of Accounting - The governmental and expendable trusts are reported on the modified accrual basis of accounting. Under the modified accrual basis, revenues are recognized when they are both measurable and available to pay current period liabilities. Expenditures are recognized when incurred, except for expenditures for supply inventories, which are recorded at the time the supplies are received. During the year, expendable trust funds and governmental funds are accounted for on the cash basis of accounting, where revenues and expenditures are recorded at the time the cash is received or spent. Year-end adjustments are made for reporting purposes.

Pension trust funds are reported on the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recognized when incurred.

B. Budgetary Control - The Department exercises budgetary control over the transactions reported in the General Fund. The budget as adopted by the General Assembly and as modified in accordance with established statutory procedures is reported in the accompanying statements. All appropriations lapse at the end of the year.

C. Cash and Cash Equivalents consist of the moneys held by the State Treasurer in the short-term investment portfolio for the benefit of the various funds. Interest is earned on the balances.

D. Inventories - Inventories consist solely of postage and supplies and are recorded at estimated actual costs.

E. Fixed Assets Account Group - Fixed assets are recorded at acquisition costs. The account group includes only those assets purchased by the Department and currently in service in the Department. Since all assets are acquired through the General Fund and used in General Fund operations, no depreciation is recognized.

F. Trust Fund Assets and Equity - The net assets of each trust fund are held solely for the benefit of the lawful beneficiaries of the trust funds. Net assets of trust funds are reported in the financial statements as fund balance reserved for trust beneficiaries.

G. Investments and Investment Income - It is the policy of the State to treat investments in, and investment income from, the Investment Pool of the State Treasurer as quasi-external transactions. Consequently, the investments by the trust funds in the Investment Pool with medium-to long-term horizons are shown as investments, and allocations of income from the Investment Pool are shown as investment income. Allocations of investment income are made by the Investment Pool on a pro-rata basis from net income of each portfolio.

H. Management Fees - All administrative operations are accounted for in the General Fund. Each trust fund benefiting from the administration is charged a proportionate share of the administrative costs. Management fees are considered quasi-external transactions.

I. Interdepartmental Transfer/Receivable/Payable - The major elements are transfers of resources to carry out programmatic activities in the receiving fund.

J. Vacation and Sick Pay - Vacation and sick pay are recorded as expenditures only when taken or paid.

3. Deposits and Investments

Deposits and investments are reported in detail in the financial statements of the Investment Pool in the State Treasurer's Annual Report for June 30, 2000. As reported therein more fully, there are no material amounts of deposits which are not fully insured or collateralized. Total investments of the Department in the State Treasurer's Investment Pool have a market value of \$71,371,254,193.

4. Reconciliation of Budgetary Basis and GAAP Basis

The Combined Statement of Revenues and Expenditures - Budget and Actual for the General Fund presents the comparisons of the legally adopted budget with actual data recorded on the budgetary basis. Since there are substantial differences between the budgetary basis of accounting and the GAAP basis of accounting, the following provides the reconciliation between the two bases of accounting:

	<u>Revenues</u>	<u>Expenditures</u>	<u>Fund Balance</u>
Per budgetary basis, June 30, 2001	\$19,425,075	\$32,064,510	\$
Eliminate carry-forwards from receipts and expenditures	445,047	(7,264,475)	7,709,522
Net change in accruals at beginning and end of year	(877,167)	(103,700)	(980,867)
Adjustment to reserve fund balance			(3,048)
Fund balance at beginning of year			284,254
Fund Balance per GAAP basis, June 30, 2000	<u>\$18,992,955</u>	<u>\$24,903,735</u>	<u>\$ 7,009,861</u>

5. Vacation and Sick Leave

The Department, in accordance with State policy, records the cost of vacation and sick leave when taken and paid rather than when the leave is earned. State policy provides for a maximum accumulation of unused vacation leave of 30 days which can be carried forward each January 1st or paid upon termination of employment with the State. Under this policy, the accumulated vacation leave for each employee at each June 30th would equal the leave carried forward at the previous December 31 plus the leave earned and less the leave taken between January 1 and June 30. The accumulation of unused sick leave earned is unlimited, but the employee cannot be compensated for any unused sick leave upon termination of employment. Consequently, at June 30, 2000, the Department had an actual, but unrecorded, liability

for unused vacation leave in the amount of \$633,138. There is no liability in the accompanying financial statements for unpaid accumulated sick leave because the State has no obligation to pay sick leave upon employee termination or retirement.

6. General Fund - Departmental Surplus

The data shown for the General Fund in the financial statements is only that part of the General Fund operated through the Department. Figures shown are the accumulated differences in accruals between the budgetary basis and the GAAP basis. On the budgetary basis, there is a zero fund balance for the Department.

7. Fixed Assets

The breakdown by type of fixed assets at historical cost and the changes in fixed assets during the year are:

General Fixed Assets

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>Adjustments</u>	<u>Ending Balance</u>
Office Furniture	\$ 963,099	\$ 304,775	\$ (156,450)	\$ (366,894)	\$ 744,530
Office Equipment	<u>5,330,195</u>	<u>317,673</u>	<u>(1,364,928)</u>	<u>(1,995,704)</u>	<u>2,287,236</u>
Total Fixed Assets	<u>\$6,293,294</u>	<u>\$ 622,448</u>	<u>\$ (1,521,378)</u>	<u>\$ (2,362,598)</u>	<u>\$ 3,031,766</u>

Internal Service Funds

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>Adjustments</u>	<u>Ending Balance</u>
Office Furniture	\$ 0	\$ 7,355	\$ 0	\$ 355,209	\$ 362,564
Office Equipment	0	429,601	0	1,808,612	2,238,213
Account Depreciation	0	<u>(315,361)</u>	0	0	<u>(315,361)</u>
Total	<u>\$ 0</u>	<u>\$ 121,595</u>	<u>\$ 0</u>	<u>\$ 2,163,821</u>	<u>\$ 2,285,416</u>

8. Pensions

All full-time permanent personnel in the Department are members of the Teachers' and State Employees' Retirement System. Total pension expense recorded during the year was \$796,771. Information on the Retirement System may be found in the annual report of the Department.

9. Contingencies

Faulkenbury v. TSERS - As of June 30, 2000, \$83 million has been paid, and a liability for \$43 million is reported in the financial statements as a liability of the Teachers' and State Employees' Retirement System.

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**DEPARTMENT OF STATE TREASURER
COMBINING BALANCE SHEET
DEPARTMENTAL EXPENDABLE TRUST FUNDS
June 30, 2001**

ASSETS	Escheat Fund	Public Employees' Social Security Agency Fund	Legislative Retirement Fund	Reg. of Deeds Supplemental Pension Fund
Cash and cash equivalents	\$ 22,339,953	\$	\$3,952	\$ 314,146
Accounts receivable-contributions				185,319
Accounts receivable-other	26,756,852			
Accrued interest receivable	96,116		28	1,189
Investments	306,545,099			11,592,535
Total Assets	\$355,738,020		\$3,980	\$12,093,189
 LIABILITIES AND FUND EQUITY				
Liabilities				
Accounts payable	\$	\$	\$	\$ 150,000
Accounts payable-intergovernmental	18,644,820			
Escheat refunds payable	25,569,042			
Deferred income	5,281,647			
Total Liabilities	\$ 49,495,509	\$	\$	\$ 150,000
 Fund Equity				
Reserved for trust beneficiaries	\$306,242,511	\$	\$3,980	\$11,943,189
Total Fund Equity	306,242,511	\$	3,980	11,943,189
Total Liabilities and Fund Balance	\$355,738,020	\$	\$3,980	\$12,093,189

The accompanying Notes to the Financial Statements are an integral part of this Statement.

Schedule 1

Assurance of Land Title Fund	Absentee Insurance Fund	Pine Mountain Lakes Lot Purchase Fund	Educational Facilities Finance Agency	Total Expendable Trust Funds
\$62,334	\$312,157	\$669	\$123,112	\$ 23,156,323
				185,319
278	1,333	22		26,756,852
				98,966
				318,137,634
<u>\$62,612</u>	<u>\$313,490</u>	<u>\$691</u>	<u>\$123,112</u>	<u>\$368,335,094</u>
\$	\$	\$	\$	\$ 150,000
				18,644,820
				25,569,042
				5,281,647
<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$ 49,645,509</u>
62,612	313,490	691	123,112	318,689,585
<u>62,612</u>	<u>313,490</u>	<u>691</u>	<u>123,112</u>	<u>318,689,585</u>
<u>\$62,612</u>	<u>\$313,490</u>	<u>\$691</u>	<u>\$123,112</u>	<u>\$318,689,585</u>

**DEPARTMENT OF STATE TREASURER
COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE
DEPARTMENTAL EXPENDABLE TRUST FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2001**

	Escheat Fund	Public Employees' Social Security Agency Fund	Legislative Retirement Fund	Reg. of Deeds Supplemental Pension Fund
Revenues				
Investment income	\$ 31,308,664	\$ 38,241	\$ 499	\$ 1,150,874
Contributions (employer/employee)			41,344	1,781,206
Court fees				
Current year's escheats	47,432,083			
Miscellaneous	1,000	343,448		
Total Revenues	\$ 78,741,747	\$ 381,689	\$41,843	\$ 2,932,080
Expenditures				
Current administration				
General	\$	\$	\$ 1,148	\$ 26,000
Escheats	3,431,489			
Retirement and other benefits paid			43,600	701,997
Total Expenditures	\$ 3,431,489	\$	\$44,748	\$ 727,997
Revenues Over (Under) Expenditures	75,310,258	381,689	(2,905)	2,204,083
Other Financing Sources (Uses)				
Intergovernmental Transfer Out	\$(18,644,819)	\$(789,703)	\$	\$
Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses				
	\$ 56,665,439	\$(408,014)	\$(2,905)	\$ 2,204,083
Fund Balance: July 1, 2000	249,577,072	408,014	6,885	9,739,106
Adjust Reserve for Related Assets				
Fund Balance: June 30, 2001	\$306,242,511	\$	\$ 3,980	\$11,943,189

The accompanying Notes to the Financial Statements are an integral part of this Statement.

Schedule 2

Assurance of Land Title Fund	Absentee Insurance Fund	Pine Mountain Lakes Lot Purchase Fund	Educational Facilities Finance Agency	Total Expendable Trust Funds
\$ 5,023	\$ 20,585	\$ 1,482	\$	\$ 32,525,368 1,822,550
180				180 47,432,083
				344,448
<u>\$ 5,203</u>	<u>\$ 20,585</u>	<u>\$ 1,482</u>	<u>\$</u>	<u>\$ 82,124,629</u>
\$	\$	\$	\$	\$ 27,148 3,431,489 745,597
<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$ 4,204,234</u>
5,203	20,585	1,482		77,920,395
<u>\$(27,000)</u>	<u>\$(50,000)</u>	<u>\$(26,803)</u>	<u>\$(70,731)</u>	<u>\$(19,609,056)</u>
\$(21,797)	\$(29,415)	\$(25,321)	\$(70,731)	\$ 58,311,339
84,409	342,905	26,012	193,843	260,378,246
<u>\$ 62,612</u>	<u>\$313,490</u>	<u>\$ 691</u>	<u>\$123,112</u>	<u>\$318,689,585</u>

**DEPARTMENT OF STATE TREASURER
COMBINING BALANCE SHEET
DEPARTMENTAL PENSION FUNDS
JUNE 30, 2001**

ASSETS	Teachers' and State Employees' Retirement System	Local Governmental Employees' Retirement System	Consolidated Judicial Retirement System
Cash and cash equivalents	\$ 136,073,650	\$ 17,879,727	\$ 2,414,706
Accounts receivable-contributions	47,180,933	34,368,855	248,549
Accounts receivable-other	649,470	560,309	
Accrued interest receivable	638,139	125,882	12,162
Investments	44,511,519,248	11,434,671,574	332,162,455
Total Assets	<u>\$44,696,061,440</u>	<u>\$11,487,606,347</u>	<u>\$334,837,872</u>
 LIABILITIES AND FUND EQUITY			
Liabilities			
Accounts payable-benefits	\$ 32,220,931	\$ 111,283	\$
Accounts payable-other			
Total Liabilities	<u>32,220,931</u>	<u>111,283</u>	
Fund Balance			
Reserved for trust beneficiaries	44,663,840,509	11,487,495,064	334,837,872
Total Liabilities and Fund Balance	<u>\$44,696,061,440</u>	<u>\$11,487,606,347</u>	<u>\$334,837,872</u>

The accompanying Notes to the Financial Statements are an integral part of this Statement.

Schedule 3

National Guard Pension Fund	Legislative Retirement System	Firemen's Pension Fund	Rescue Squad Workers' Pension Fund	Total Pension Funds
\$ 322,934	\$ 196,473	\$ 292,344	\$ 198,673	\$ 157,378,507
	20,878			81,819,215
1,616	1,076	2,584	616	1,209,779
47,688,492	26,131,847	229,161,286	25,640,217	782,075
<u>\$48,013,042</u>	<u>\$26,350,274</u>	<u>\$229,456,214</u>	<u>\$25,839,506</u>	<u>\$56,848,164,695</u>
\$ 281	\$	\$	\$	\$ 32,332,495
		925	75	1,000
<u>281</u>		<u>925</u>	<u>75</u>	<u>32,333,495</u>
48,012,761	26,350,274	229,455,289	25,839,431	56,815,831,200
<u>\$48,013,042</u>	<u>\$26,350,274</u>	<u>\$229,456,214</u>	<u>\$25,839,506</u>	<u>\$56,848,164,695</u>

**DEPARTMENT OF STATE TREASURER
 COMBINING STATEMENT OF REVENUES, EXPENDITURES
 AND CHANGES IN FUND BALANCE
 DEPARTMENTAL PENSION FUNDS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2001**

	Teachers' and State Employees' Retirement System	Local Governmental Employees' Retirement System	Consolidated Judicial Retirement System
Revenues			
Investment income	\$(1,041,761,647)	\$ (238,112,262)	\$ (7,246,968)
Contributions (employer/employee)	907,528,540	403,930,446	9,375,569
Court fees			
Miscellaneous	2,724,669	26,855	
Total Revenues	\$ (131,508,438)	\$ 165,845,039	\$ 2,128,601
Expenditures			
Current administration	\$ 8,657,673	\$ 3,163,594	\$ 41,527
Retirement and other benefits paid	1,690,869,046	360,470,811	14,796,111
Refunds	79,135,230	55,485,560	36,741
Miscellaneous	46,559	1,497	
Management fees	36,082,036	9,157,890	269,613
Total Expenditures	\$ 1,814,790,544	\$ 428,279,352	\$ 15,143,992
Revenues Over(Under) Expenditures	\$(1,946,298,982)	\$ (262,434,313)	\$(13,015,391)
Fund Balance: July 1, 2000	46,610,139,491	11,749,929,377	347,853,263
Fund Balance: June 30, 2001	\$44,663,840,509	\$11,487,495,064	\$334,837,872

The accompanying Notes to the Financial Statements are an integral part of this Statement.

<u>National Guard Pension Fund</u>	<u>Legislative Retirement System</u>	<u>Firemen's Pension Fund</u>	<u>Rescue Squad Workers' Pension Fund</u>	<u>Total Pension Funds</u>
\$ (766,539)	\$ (454,823)	\$ (4,850,332)	\$ (552,164)	\$(1,293,744,735)
2,074,583	752,701	14,248,937	1,657,326	1,339,568,102
	100	125		2,751,749
<u>\$ 1,308,044</u>	<u>\$ 297,978</u>	<u>\$ 9,398,730</u>	<u>\$ 1,105,162</u>	<u>\$ 48,575,116</u>
\$ 35,656	\$ 8,916	\$ 682,944	\$ 72,855	\$ 12,663,165
1,954,989	1,090,539	13,081,338	1,341,860	2,083,604,694
	2,039	353,008	64,034	135,076,612
		180	25	48,261
37,967	21,346	180,290	20,189	45,769,331
<u>\$ 2,028,612</u>	<u>\$ 1,122,840</u>	<u>\$ 14,297,760</u>	<u>\$ 1,498,963</u>	<u>\$ 2,277,162,063</u>
\$ (720,568)	\$ (824,862)	\$ (4,899,030)	\$ (393,801)	\$(2,228,586,947)
48,733,329	27,175,136	234,354,319	26,233,232	59,044,418,147
<u>\$48,012,761</u>	<u>\$26,350,274</u>	<u>\$229,455,289</u>	<u>\$25,839,431</u>	<u>\$56,815,831,200</u>

**DEPARTMENT OF STATE TREASURER
COMBINING BALANCE SHEET
DEPARTMENTAL INTERNAL SERVICE FUNDS
June 30, 2001**

ASSETS	Disability Salary Plan of North Carolina	Information Technology Services	Teachers and State Employees' Benefit Fund	Total Internal Service Funds
Cash and cash equivalents	\$ 5,956,980	\$ 1,144,981	\$ 5,013,167	\$ 12,115,128
Accounts receivable-contributions	4,528,058		292,446	4,820,504
Accounts receivable-other	2,475,441		46,197	2,521,638
Accrued interest receivable	31,918		13,191	45,109
Investments	222,309,876		190,022,805	412,332,681
Fixed assets, (net)		1,922,115		1,922,115
Total Assets	\$235,302,273	\$3,067,096	\$195,387,806	\$433,757,175
 LIABILITIES AND FUND EQUITY				
Liabilities				
Accounts payable-Benefits	\$218,527,318	\$	\$ 1,570,319	\$220,097,637
Accounts payable-other		396,386	140,065	536,451
Total Liabilities	\$218,527,318	\$ 396,386	\$ 1,710,384	\$220,634,088
Fund Equity				
Retained Earnings				
Reserved for trust beneficiaries	\$ 16,774,955	\$2,670,710	\$193,677,422	\$213,123,087
Total Liabilities and Fund Equity	\$235,302,273	\$3,067,096	\$195,387,806	\$433,757,175

The accompanying Notes to the Financial Statements are an integral part of this Statement.

**DEPARTMENT OF STATE TREASURER
COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE
DEPARTMENTAL INTERNAL SERVICE FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2001**

	Disability Salary Plan of North Carolina	Information Technology Services	Teachers' State Employees' Benefit Fund	Total Internal Service Funds
Revenues				
Investment income	\$23,456,965	\$	\$ 21,186,761	\$ 44,643,726
Contributions (employer/employee)	54,258,090		11,087,566	65,345,656
Sales and service		7,594,887		7,594,887
Court fees			879,685	879,685
Total Revenues	\$77,715,055	\$7,594,887	\$ 33,154,012	\$118,463,954
Expenditures				
Retirement and other benefits paid	\$46,319,693		\$ 23,878,689	\$ 70,198,382
Personal and other services		4,125,606	84,864	4,210,470
Supplies and materials		100,592		100,592
Management fees	505,022		260,919	765,941
Capital outlay		1,097,093		1,097,093
Depreciation		315,361		315,361
Other expenditures		1,006,415		1,006,415
Total Expenditures	\$46,824,715	\$6,645,067	\$ 24,224,472	\$ 77,694,254
Revenues Over (Under) Expenditures	30,890,340	949,820	8,929,540	40,769,700
Residual Equity Transfer		1,720,890		1,720,890
Retained Earning: June 30, 2000	(14,115,386)		184,747,882	170,632,496
Retained Earning: June 30, 2001	\$16,774,954	\$2,670,710	\$193,677,422	\$213,123,086

The accompanying Notes to the Financial Statements are an integral part of this Statement.

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Statistical Tables

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COMPARATIVE SUMMARY OF THE TRUST FUND INVESTMENT PROGRAM

	<u>Long-Term Investment Fund Amount</u>
Retirement Trust Funds:	
Teachers' and State Employees' Retirement System:	
June 30, 2000	18,586,251,591
June 30, 2001	18,297,692,056
Local Governmental Employees' Retirement System:	
June 30, 2000	4,788,803,395
June 30, 2001	4,803,660,934
North Carolina Firemen's Pension Fund:	
June 30, 2000	96,503,662
June 30, 2001	96,552,159
Rescue Squad Workers' Pension Fund:	
June 30, 2000	10,726,972
June 30, 2001	10,772,209
Consolidated Judicial Retirement System:	
June 30, 2000	140,521,098
June 30, 2001	137,698,724
N.C. National Guard Pension Fund:	
June 30, 2000	20,944,757
June 30, 2001	20,769,664
Legislative Retirement System:	
June 30, 2000	11,449,984
June 30, 2001	11,281,124
Total Retirement Trust Funds:	
June 30, 2000	23,655,201,459
June 30, 2001	23,378,426,870

Percent of Total 40.12%

Total rate of return for the Retirement Trust Funds :

12 months	11.89%
24 months	8.11%
36 months	5.75%

Table 1

Equity Investment Fund Amount	Real Estate Investment Fund Amount	Venture Capital Investment Fund Amount	TOTAL Amount
27,057,637,677	703,491,315	125,502,887	46,472,883,470
25,304,800,082	829,330,135	79,696,975	44,511,519,248
6,705,910,814	183,039,020	31,576,164	11,709,329,393
6,393,532,774	217,426,337	20,051,529	11,434,671,574
133,643,388	3,482,563	578,130	234,207,743
128,058,100	4,183,901	367,125	229,161,285
15,033,722	387,648	66,941	26,215,283
14,361,041	464,458	42,509	25,640,217
199,056,816	5,335,058	862,251	345,775,223
187,573,308	6,342,876	547,548	332,162,456
26,685,268	793,953	112,203	48,536,181
25,895,703	951,874	71,251	47,688,492
14,933,633	440,887	96,864	26,921,368
14,266,468	522,744	61,511	26,131,847
34,152,901,318	896,970,444	158,795,440	58,863,868,661
32,068,487,476	1,059,222,325	100,838,448	56,606,975,119
57.92%	1.52%	0.27%	100.00%
-12.02%	11.30%	-35.90%	-2.26%
-0.06%	11.90%	15.60%	3.27%
5.74%	12.20%	19.20%	5.78%

	Long-Term Investment Fund Amount
Other Trust Funds:	
N.C. Teachers' and State Employees' Benefit Trust:	
June 30, 2000	182,026,497
June 30, 2001	190,022,805
Disability Income Plan of North Carolina:	
June 30, 2000	194,046,810
June 30, 2001	222,309,876
Register of Deeds' Supplemental Pension Fund:	
June 30, 2000	9,393,816
June 30, 2001	11,592,535
State Treasurer's Escheat Fund:	
June 30, 2000	224,363,344
June 30, 2001	286,462,283
Public Education Trust Fund:****	
June 30, 2000	13,711,944
June 30, 2001	15,319,148
State Property Fire Insurance Fund:	
June 30, 2000	37,545,236
June 30, 2001	31,883,405
UNC - Insured Student Loan Program:	
June 30, 2000	19,935,987
June 30, 2001	22,272,726
Wildlife Endowment Fund:	
June 30, 2000	41,707,847
June 30, 2001	46,756,642
Retirees' Health Premiums Fund:	
June 30, 2000	64,804,929
June 30, 2001	
Community Colleges:	
June 30, 2000	1,927,923
June 30, 2001	1,726,542
UNC Hospital Maintenance Reserve Fund:	
June 30, 2000	277,215,951
June 30, 2001	309,708,997
UNC Hospital Operation Reserve Fund:	
June 30, 2000	4,099,987
June 30, 2001	76,179,381
Global Transpark Authority Fund:	
June 30, 2000	20,475,482
June 30, 2001	21,273,143
N.C. Student Loan Fund:	
June 30, 2000	90,069,662
June 30, 2001	16,537,785
Total Other Trust Funds:	
June 30, 2000	1,181,325,415
June 30, 2001	1,252,045,268
Other Funds:	
Venture Capital Fund:	
June 30, 2000	21,319,493
June 30, 2001	23,818,393
Grand Total All Trust Funds:	
June 30, 2000	24,857,846,367
June 30, 2001	24,654,290,531

Total rate of return for the all Trust Funds :

12 months	11.67%
24 months	8.02%
36 months	5.65%

Table 1 (cont'd.)

Equity Investment Fund Amount	Real Estate Investment Fund Amount	Venture Capital Investment Fund Amount	TOTAL Amount
			182,026,497
			190,022,805
			194,046,810
			222,309,876
			9,393,816
			11,592,535
			224,363,344
			286,462,283
			13,711,944
			15,319,148
			37,545,236
			31,883,405
			19,935,987
			22,272,726
			41,707,847
			46,756,642
			64,804,929
			1,927,923
			1,726,542
			277,215,951
			309,708,997
			4,099,987
			76,179,381
			20,475,482
			21,273,143
			90,069,662
			16,537,785
			1,181,325,415
			1,252,045,268
			21,319,493
			23,818,393
34,152,901,318	896,970,444	158,795,440	60,066,513,569
32,068,487,476	1,059,222,325	100,838,448	57,882,838,780
-12.02%	11.30%	-35.90%	-2.03%
-0.61%	11.90%	15.60%	3.34%
5.74%	12.20%	19.20%	5.75%

TREASURER'S CASH BALANCES
June 30, 2000

Table 2

Central Collection and Clearing Accounts

Raleigh Branch Banking & Trust Co	\$ 5,332,095.18
Raleigh Central Carolina Bank & Trust Co	7,406,436.20
Raleigh Centura Bank	1,795,561.59
Raleigh First Citizens Bank & Trust Co	10,741,110.70
Raleigh First Union National Bank	9,145,501.88
Raleigh Bank of America N.C.	6,671,181.83
Unemployment Clearing Account	34,342.46
Raleigh Wachovia Bank N.A.	12,930,074.36
Total Clearing Accounts	<u>\$ 54,056,304.20</u>

Out of Town Agency Collection Accounts

Aberdeen, First Bank	\$ 25,403.76
Ahoskie, Southern Bank & Trust Co.	11,448.74
Asheboro, First National Bank and Trust Co.	12,168.70
Bath, Southern Bank & Trust Co.	4,572.60
Bryson City, Carolina Community Bank	9,874.69
Burnsville, First Western Bank	8,913.82
Camden, Bank of Currituck	8,640.66
Cary, The Fidelity Bank	8,091.25
Columbia, The East Carolina Bank	24,790.88
Creedmoor, Fidelity Bank	15,615.66
Creswell, The East Carolina Bank	7,498.02
Danbury, Old North State Bank	59,261.00
Durham, Mechanics & Farmers Bank	30,005.36
Durham, South Bank, FSB	99,578.21
Edenton, Southern Bank & Trust	5,535.41
Englehard, ECB	5,790.49
Fayetteville, United National Bank	38,907.21
Franklin, Macon Savings Bank	8,615.73
Gastonia, Fidelity Bank	8,265.78
Gatesville, Southern Bank & Trust Co.	8,832.30
Greensboro, Mutual Community Savings Bank	133,546.14
Hampstead, Carolina First Bank	8,147.90
Harrisburg, First Charter National Bank	9,014.56
High Point, High Point Bank & Trust Co.	10,728.32
Kernersville, Independence Bank	35,653.90
Kings Mountain, Fidelity Bank	4,971.18
Laurinburg, First Scotland Bank	9,899.44
Lenoir, Bank of Granite	12,998.81
Lewiston, Southern Bank & Trust Co.	1,587.76
Lexington, Lexington State Bank	18,213.06
Lumberton, Lumbee Guaranty Bank	8,664.89
Manteo, The East Carolina Bank	44,184.28
Moyock, Bank of Currituck	11,360.86
Mt. Airy, The Community Bank	9,632.05
Murphy, Carolina Community Bank	34,717.01
Murphy, Macon Savings Bank	8,874.00
Nags Head, The East Carolina Bank	15,877.28
Newland, Avery County Bank	13,727.79
Newton, Peoples Bank	9,821.57
North Wilkesboro, Yadkin Valley Bank & Trust Co.	10,311.51
Ocracoke, The East Carolina Bank	27,256.81
Pembroke, Lumbee Guaranty Bank	28,682.09
Plymouth, Southern Bank & Trust Co.	9,831.44
Polkton, First Bank	9,435.20
Raleigh, Mechanics & Farmers	6,916.97
Reidsville, First National Bank of Reidsville	8,626.75
Robbins, First Bank	11,218.49
Robbinsville, Carolina Community Bank	8,127.41
Salemburg, Southern Bank & Trust Co.	19,272.21
Seaboard, Capital Bank	5,663.66
Seven Springs, Southern Bank & Trust Co.	4,798.09
Shelby, Fidelity Bank	9,047.05
Spruce Pines, First Western Bank	8,319.22
St. Pauls, First Bank	4,115.28
Swan Quarter, The East Carolina Bank	25,083.11
Troy, The Fidelity Bank	8,051.29
Troy, First Bank	27,080.48
W. Jefferson, First Charter National Bank	26,107.92
Walnut Cove, The Community Bank	15,749.35
Wanchese, The East Carolina Bank	16,521.70
Waynesville, Carolina Community Bank	8,746.98
Wentworth, Fidelity Bank	9,635.53
West End, First Bank	6,065.12
Windsor, Southern Bank & Trust Co.	8,785.13
Winton, Southern Bank & Trust Co.	8,375.55
Total Out of Town Agency Collection Accounts	<u><u>1,135,255.41</u></u>

Treasurer's Cash Balances Before Adjustments	55,191,559.61
Transactions In Progress	52,484,980.89
Treasurer's Adjusted Cash Balances	<u>\$ 107,676,540.50</u>

Table 3**SECURITIES HELD IN TRUST
June 30, 2001**

<u>Description</u>	<u>Value</u>
Securities Held in Safekeeping:	
Department of Public Instruction Literacy Loan Notes	\$ 90,000
North Carolina Department of Revenue	732,000
North Carolina Department of the Secretary of State	50,000
Securities Held as Custodian:	
In Treasurer's Vault:	
Short-term Investment Fund*	139,946,000
By Contractual Custodian Agreement:	
Long-term Investment Fund	24,256,544,795
Short-term Investment Fund	7,498,332,119
Venture Capital Investment Fund**	31,456,349
By Contractual Management Agreement:	
Equity Investment Fund	31,716,223,263
Real Estate Investment Fund	1,016,714,332
Venture Capital Investment Fund	39,584,270
Bond Proceeds Fund	642,200,374
Securities Owned by the State:	
North Carolina Railroad Company - (317 Share common stock)	76,176,786
Securities Held by Escrow Agents to Secure Public Deposits	<u>3,600,960,119</u>
Total	<u>\$ 69,019,010,407</u>

**TREASURER'S INVESTMENT EARNINGS FOR THE
GENERAL FUND, HIGHWAY FUNDS, PENSION AND OTHER TRUST FUNDS
1942-2000 (Accrual Basis)**

Table 4

	General Fund	Highway Funds	Pension Trust Funds	All Other Funds	Total All Funds
1942	\$	\$	\$ 54,000	\$	\$ 54,000
1943			216,000		216,000
1944			255,000		255,000
1945			346,000		346,000
1946			1,173,000		1,173,000
1947			665,000		665,000
1948			807,000		807,000
1949	355,719		1,158,000		1,513,719
1950	1,565,365		1,572,000		3,137,365
1951	3,182,816		1,948,000		5,130,816
SUBTOTAL	5,103,900		8,194,000		13,297,900
1952	3,711,531		3,013,000		6,724,531
1953	3,383,701		3,482,000		6,865,701
1954	2,800,432		4,338,000		7,138,432
1955	2,069,388		5,674,000		7,743,388
1956	2,074,701		8,604,000		10,678,701
1957	3,124,661		4,445,000		7,569,661
1958	4,064,535		7,516,000		11,580,535
1959	3,361,306		8,620,000		11,981,306
1960	5,114,917		10,634,000		15,748,917
1961	6,906,906		12,141,000		19,047,906
SUBTOTAL	36,612,078		68,467,000		105,079,078
1962	4,802,527	1,907,373	13,701,000		20,410,900
1963	5,161,899	1,733,738	16,281,000		23,176,637
1964	6,003,139	1,968,853	18,388,000		26,359,992
1965	7,907,545	3,151,909	20,354,000		31,413,454
1966	10,322,713	3,708,759	23,324,000		37,355,472
1967	12,337,612	5,841,357	28,750,000		46,928,969
1968	19,266,180	9,420,810	36,265,000		64,951,990
1969	20,284,196	10,749,092	42,465,000		73,498,288
1970	22,624,169	13,201,633	53,136,000		88,961,802
1971	29,369,118	16,037,808	67,489,000		112,895,926
SUBTOTAL	138,079,098	67,721,332	320,153,000		525,953,430
1972	24,325,581	12,423,644	80,736,000		117,485,225
1973	26,816,266	11,054,759	93,524,000		131,395,025
1974	53,574,503	18,535,282	105,682,000		177,791,785
1975	73,317,870	23,923,734	133,334,000		230,575,604
1976	48,641,750	15,903,056	161,629,000		226,173,806
1977	43,129,022	11,901,171	189,494,000		244,524,193
1978	44,087,283	9,927,820	214,756,000		268,771,103
1979	56,224,976	21,627,907	287,833,000		365,685,883
1980	93,499,189	19,761,250	367,269,000		480,529,439
1981	102,900,589	13,224,698	413,352,149	40,104,470	569,581,906
SUBTOTAL	566,517,029	158,283,321	2,047,609,149	40,104,470	2,812,513,969
1982	115,671,991	21,107,338	510,466,462	48,208,056	695,453,847
1983	86,379,248	28,546,192	641,685,599	52,748,873	809,359,912
1984	98,885,947	30,160,751	692,538,245	64,072,603	885,657,546
1985	143,076,748	33,344,149	817,803,953	69,340,765	1,063,565,615
1986	151,346,427	26,485,263	1,025,760,949	74,941,795	1,278,534,434
1987	139,426,325	26,185,560	1,141,505,184	75,845,768	1,382,962,837
1988	164,540,208	33,925,222	1,418,274,104	67,069,014	1,683,808,548
1989	139,553,252	30,558,023	1,308,640,295	75,739,068	1,554,490,638
1990	115,933,013	34,002,597	1,429,948,919	114,440,211	1,694,324,740
1991	75,154,836	42,290,145	1,541,163,075	125,137,403	1,783,745,459
SUBTOTAL	1,229,967,995	306,605,240	10,527,786,785	767,543,556	12,831,903,576
1992	56,898,765	42,659,680	1,694,271,198	135,468,030	1,929,297,673
1993	77,910,893	42,826,103	1,904,054,068	147,295,214	2,172,086,278
1994	122,828,342	40,612,781	1,987,525,309	167,435,742	2,318,402,174
1995	168,058,790	47,828,273	2,107,410,017	212,487,626	2,535,784,706
1996	228,786,189	52,435,286	2,566,707,212	212,902,051	3,060,830,738
1997	228,941,575	49,179,057	2,600,063,695	259,263,129	3,137,447,456
1998	254,120,101	51,058,633	8,010,597,549	315,718,649	8,631,494,932
1999	252,793,821	54,867,217	5,365,218,177	203,729,701	5,876,608,916
2000	214,872,258	56,036,556	4,945,455,473	272,895,996	5,489,260,283
2001	167,885,715	56,843,100	(1,290,501,002)	297,079,116	(768,693,071)
SUBTOTAL	1,773,096,449	494,346,686	29,890,801,696	2,224,275,254	34,382,520,085
	\$ 3,749,376,549	\$ 1,026,956,579	\$42,863,011,630	\$ 3,031,923,280	\$ 50,671,268,038

Table 5

**GENERAL OBLIGATION BONDS
LOCAL GOVERNMENT
REFERENDA AND AUTHORIZATION
FISCAL YEAR JULY 1, 2000 THROUGH JUNE 30, 2001**

	Propositions			Bonds		
	# Proposed	# Approval	% Approved	Amount Proposed	Amount Approved	% Approved
COUNTIES						
Voted Propositions:						
Schools	5	3	60.00%	\$ 936,000,000	\$ 830,500,000	88.73%
Community College	3	2	66.67%	\$ 20,100,000	\$ 12,100,000	60.20%
Land Acquisition	1	1	100.00%	\$ 15,000,000	\$ 15,000,000	100.00%
Jail	1	1	100.00%	\$ 20,000,000	\$ 20,000,000	100.00%
Total	10	7	70.00%	\$ 991,100,000	\$ 877,600,000	88.55%
Nonvoted Propositions:						
Refunding	5	5	100.00%	\$ 346,600,000	\$ 346,600,000	100.00%
2/3rd issues	2	2	100.00%	\$ 9,820,000	\$ 9,820,000	100.00%
Total	7	7	100.00%	\$ 356,420,000	\$ 356,420,000	100.00%
Total Voted and Nonvoted Counties	17	14	82.35%	\$ 1,347,520,000	\$1,234,020,000	91.58%
DISTRICTS:						
Voted Propositions:						
Water	6	5	83.33%	\$ 37,118,000	\$ 31,413,000	84.63%
Total	6	5	83.33%	\$ 37,118,000	\$ 31,413,000	84.63%
MUNICIPALITIES:						
Voted Propositions:						
Streets	6	6	100.00%	\$ 271,850,000	\$ 271,850,000	100.00%
Parks & Recreation	4	4	100.00%	\$ 58,200,000	\$ 58,200,000	100.00%
Housing	2	2	100.00%	\$ 24,400,000	\$ 24,400,000	100.00%
Economic Devel.	1	1	100.00%	\$ 12,500,000	\$ 12,500,000	100.00%
Public Safety Fac.	1	1	100.00%	\$ 11,500,000	\$ 11,500,000	100.00%
Public Transp.	1	1	100.00%	\$ 2,000,000	\$ 2,000,000	100.00%
Neighborhood Redev.	1	1	100.00%	\$ 2,800,000	\$ 2,800,000	100.00%
Fire Station	1	1	100.00%	\$ 9,550,000	\$ 9,550,000	100.00%
Law Enforcement Fac.	1	1	100.00%	\$ 7,080,000	\$ 7,080,000	100.00%
Library Facilities	1	1	100.00%	\$ 5,020,000	\$ 5,020,000	100.00%
Millennium Centerpiece	1	0	0.00%	\$ 5,000,000	\$ -	0.00%
Natorium	1	0	0.00%	\$ 5,000,000	\$ -	0.00%
Natural Science	1	1	100.00%	\$ 3,500,000	\$ 3,500,000	100.00%
Civil Rights Museum	1	0	0.00%	\$ 3,055,000	\$ -	0.00%
Beach Erosion Control	2	2	100.00%	\$ 11,700,000	\$ 11,700,000	100.00%
Total	25	22	88.00%	\$ 433,155,000	\$ 420,100,000	96.99%
Nonvoted Propositions:						
Refunding	2	2	100.00%	\$ 15,400,000	\$ 15,400,000	100.00%
2/3rd issues	3	3	100.00%	\$ 8,980,000	\$ 8,980,000	100.00%
Total	5	5	100.00%	\$ 24,380,000	\$ 24,380,000	100.00%
Total Voted and Nonvoted Municipalities	30	27	90.00%	\$ 457,535,000	\$ 442,680,000	96.75%
Total Voted	41	34	82.93%	\$ 1,461,373,000	\$1,327,313,000	90.83%
Total Nonvoted	12	12	100.00%	\$ 380,800,000	\$ 380,800,000	100.00%
Grand Total	53	46	86.79%	\$ 1,842,173,000	\$1,708,113,000	92.72%

**INSTALLMENT PURCHASE AGREEMENTS
APPROVED BY PURPOSE
FISCAL YEAR JULY 1, 2000 THROUGH JUNE 30, 2001**

Table 6

MUNICIPALITIES:		Amount
Utilities		
Sanitary Sewer	\$ 13,373,170	
Water	\$ 14,736,792	
Electric	<u>\$ 1,000,000</u>	
		\$ 29,109,962
Public Buildings		
Convention Center	\$ 46,500,000	
Fire Station	\$ 15,105,479	
City, Town or Village Hall	\$ 22,603,763	
Public Safety	\$ 30,601,000	
Public Works	\$ 12,600,000	
Downtown Revitalization	<u>\$ 2,900,000</u>	
		\$ 130,310,242
Refunding		\$ 38,206,175
Land Acquisition		\$ 1,832,000
Recreation		\$ 11,368,691
Library		\$ 5,455,135
Parking		\$ 30,372,528
Streets & Sidewalks		\$ 8,650,135
Other		\$ 4,337,560
Equipment		<u>\$ 10,695,776</u>
		<u>\$ 270,338,204</u>
 COUNTIES:		
Schools		\$ 202,418,180
Public Buildings		
Administration/Office	\$ 34,487,739	
Emergency Medical Services	\$ 4,640,000	
Health & Social Services	\$ 13,030,000	
Community Center	\$ 5,727,000	
Animal Control	<u>\$ 700,000</u>	
		\$ 58,584,739
Courthouse/Law Enforcement/Jail		\$ 9,493,037
Hospital		\$ 1,500,000
Refunding		\$ 74,130,986
Utilities		
Water	\$ 7,975,000	
Sanitary Sewer	<u>\$ 13,219,000</u>	
		\$ 21,194,000
Equipment		\$ 972,000
Other		\$ 7,414,587
Community College		\$ 2,353,000
Recreation		\$ 13,000,000
Industrial Development		<u>\$ 2,715,000</u>
		<u>\$ 433,775,529</u>
 COMMUNITY COLLEGES:		
Guaranteed Energy Savings Contracts		<u>\$ 2,767,483</u>
 GRAND TOTAL		 <u><u>\$ 706,881,216</u></u>

Table 7

**INSTALLMENT AND LEASE AGREEMENTS
 APPROVED BY THE LOCAL GOVERNMENT COMMISSION
 FISCAL YEARS ENDED JUNE 30, 1999, 2000, AND 2001
 (In Millions of Dollars)**

	<u>FY</u> <u>No.</u>	<u>2000-01</u> <u>Amt.</u>	<u>FY</u> <u>No.</u>	<u>1999-00</u> <u>Amt.</u>	<u>FY</u> <u>No.</u>	<u>1998-99</u> <u>Amt.</u>
Counties	51	\$ 433.8	40	\$405.5	40	\$240.5
Municipalities	49	270.3	60	160.0	61	\$188.0
Authorities/Districts	0	-	4	77.5	5	\$ 5.6
Boards of Education	0	-	2	1.5	4	\$ 3.7
Community Colleges	2	2.8	0	-	1	\$ 0.1
TOTAL	<u>102</u>	<u>\$ 706.9</u>	<u>106</u>	<u>\$644.5</u>	<u>111</u>	<u>\$437.9</u>

Table 8

**SUMMARY OF STATE AND LOCAL GOVERNMENT
DEBT AND AUTHORIZATION
AT JUNE 30, 2001**

	<u>General Obligations</u>		<u>Total</u>	<u>Non-General</u>	<u>Industrial</u>	<u>Total</u>	<u>General</u>
	<u>Bonds</u>	<u>Other</u>		<u>Obligations</u>	<u>Revenue</u>		
				<u>Bonds</u>	<u>Bonds</u>		<u>and Unissued</u>
							<u>Bonds</u>
State	\$ 3,032,384,153	\$ -	\$ 3,032,384,153	\$ -	\$ -	\$ 3,032,384,153	\$ 4,370,000,000
State Authorities and Institutions	\$ -	\$ -	\$ -	\$ 13,291,411,690	\$ 5,100,000	\$ 13,296,511,690	\$ -
Totals	\$ 3,032,384,153	\$ -	\$ 3,032,384,153	\$ 13,291,411,690	\$ 5,100,000	\$ 16,328,895,843	\$ 4,370,000,000
Counties	\$ 4,520,054,532	\$ 10,915,000	\$ 4,530,969,532	\$ 2,178,137,742	\$ -	\$ 6,709,107,274	\$ 1,592,379,000
Municipalities	\$ 2,421,536,025	\$ 19,897,000	\$ 2,441,433,025	\$ 3,125,729,357	\$ -	\$ 5,567,162,382	\$ 887,912,100
Districts	\$ 261,687,050	\$ 23,099,300	\$ 284,786,350	\$ 142,113,332	\$ -	\$ 426,899,682	\$ 182,851,800
Authorities	\$ -	\$ -	\$ -	\$ 1,147,138,295	\$ 2,150,046,179	\$ 3,297,184,474	\$ -
Total	\$ 7,203,277,607	\$ 53,911,300	\$ 7,257,188,907	\$ 6,593,118,726	\$ 2,150,046,179	\$ 16,000,353,812	\$ 2,663,142,900
Grand Total	\$ 10,235,661,760	\$ 53,911,300	\$ 10,289,573,060	\$ 19,884,530,416	\$ 2,155,146,179	\$ 32,329,249,655	\$ 7,033,142,900

¹Outstanding bonded 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.

²Other General Obligations above includes Literary Fund Loans and Bond Anticipation Notes.

Table 9

ANNUAL DEBT SERVICE REQUIREMENTS FOR STATE BONDS ISSUED AND OUTSTANDING AT JUNE 30, 2001

Fiscal Year	General		Highway		Total	
	Existing Debt		Existing Debt		Existing Debt	
	Principal	Principal & Interest	Principal	Principal & Interest	Principal	Principal & Interest
2001-02	\$ 162,464,167.30	\$ 301,428,690	\$ 16,675,000	\$ 26,106,800	\$ 179,139,167.30	\$ 327,535,490.00
2002-03	162,447,158.00	293,416,860.00	16,675,000.00	25,356,425.00	179,122,158.00	318,773,285.00
2003-04	162,293,448.80	285,494,065.00	16,675,000.00	24,606,050.00	178,968,448.80	310,100,115.00
2004-05	162,652,952.60	278,071,420.00	16,675,000.00	23,855,675.00	179,327,952.60	301,927,095.00
2005-06	162,465,431.80	270,115,320.00	16,675,000.00	23,105,300.00	179,140,431.80	293,220,620.00
2006-07	162,310,722.90	262,178,510.00	16,675,000.00	22,354,925.00	178,985,722.90	284,533,435.00
2007-08	162,580,014.55	254,659,955.00	16,675,000.00	21,604,550.00	179,255,014.55	276,264,505.00
2008-09	162,395,257.30	246,676,045.00	16,675,000.00	20,837,500.00	179,070,257.30	267,513,545.00
2009-10	162,550,000.00	237,533,575.00	16,675,000.00	20,003,750.00	179,225,000.00	257,537,325.00
2010-11	162,525,000.00	229,601,425.00	16,675,000.00	19,170,000.00	179,200,000.00	248,771,425.00
2011-12	162,500,000.00	221,630,350.00	16,675,000.00	18,336,250.00	179,175,000.00	239,966,600.00
2012-13	162,480,000.00	213,637,350.00	16,550,000.00	17,377,500.00	179,030,000.00	231,014,850.00
2013-14	162,465,000.00	205,650,350.00			162,465,000.00	205,650,350.00
2014-15	162,450,000.00	197,664,100.00			162,450,000.00	197,664,100.00
2015-16	162,430,000.00	189,673,600.00			162,430,000.00	189,673,600.00
2016-17	162,500,000.00	180,956,850.00			162,500,000.00	180,956,850.00
2017-18	144,500,000.00	155,118,600.00			144,500,000.00	155,118,600.00
2018-19	88,400,000.00	92,297,600.00			88,400,000.00	92,297,600.00
	<u>\$ 2,832,409,153.25</u>	<u>\$ 4,115,804,665</u>	<u>\$ 199,975,000</u>	<u>\$ 262,714,725</u>	<u>\$ 3,032,384,153.25</u>	<u>\$ 4,378,519,390.00</u>

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Table 10

**REVENUE BONDS AND OTHER INDEBTEDNESS OF STATE
AUTHORITIES AND INSTITUTIONS
AT JUNE 30, 2001**

Appalachian State University	\$ 80,210,284
East Carolina University	64,020,000
Elizabeth City State University	5,415,000
Fayetteville State University	5,264,772
North Carolina A &T State University	18,050,000
North Carolina Central University	11,365,000
North Carolina School of the Arts	5,220,000
North Carolina State University	93,209,265
University of North Carolina at Asheville	20,705,000
University of North Carolina at Chapel Hill	396,804,326
University of North Carolina at Charlotte	67,276,000
University of North Carolina at Greensboro	70,968,000
University of North Carolina at Pembroke	4,800,000
University of North Carolina at Wilmington	30,639,653
Western Carolina University	11,520,171
Winston-Salem State University	12,530,000
North Carolina Capital Facilities Finance Agency	922,577,227
North Carolina Housing Finance Agency	1,253,567,000
North Carolina Medical Care Commission	3,905,797,749
North Carolina State Ports Authority	10,061,543
North Carolina Eastern Municipal Power Agency	3,204,444,000
North Carolina Municipal Power Agency No. 1	2,212,436,000
North Carolina State Education Assistance Authority	889,630,700
Total	<u>\$ 13,296,511,690</u>

Table 11

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

ASSETS	December 31, 2000	December 31, 1999
Current Assets:		
Annuity Savings Fund	\$ 6,078,884,844	\$ 5,755,037,691
Pension Accumulation Fund	33,694,862,321	29,128,223,764
Total Current Assets	39,773,747,165	34,883,261,455
Future Member Contributions to Annuity Savings Fund	5,256,054,210	5,488,208,412
Prospective Contributions to Pension Accumulation Fund		
Normal Contributions	5,781,659,631	6,219,969,534
Accrued liability contributions	(4,524,977,179)	(2,096,153,188)
Undistributed gain contributions	1,056,814,998	1,211,643,695
Total Prospective Contributions	2,313,497,450	5,335,460,041
Total Assets	\$ 47,343,298,825	\$ 45,706,929,908
LIABILITIES		
Annuity Savings Fund:		
Past member contributions	\$ 6,078,884,844	\$ 5,755,037,691
Future member contributions	5,256,054,210	5,488,208,412
Total Contributions to Annuity Savings Fund	11,334,939,054	11,243,246,103
Pension Accumulation Fund:		
Benefits currently in payment	14,943,297,371	13,569,519,913
Benefits to be paid to current active members	19,696,610,432	19,100,638,404
Reserve for increases in retirement allowances effective July 1, 2001 (July 1, 2000 for December 31, 1999 figures)	311,636,970	581,881,793
Reserve from undistributed gains	1,056,814,998	1,211,643,695
Total Benefits Payable from Pension Accumulation Fund	36,008,359,771	34,463,683,805
Total Liabilities	\$ 47,343,298,825	\$ 45,706,929,908

Table 12

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

ASSETS	December 31, 2000	December 31, 1999
Current Assets:		
Annuity Savings Fund	\$ 1,927,995,942	\$ 1,785,644,805
Pension Accumulation Fund	7,964,808,639	7,032,937,937
Total Current Assets	9,892,804,581	8,818,582,742
Future Member Contributions to Annuity Savings Fund	2,001,310,620	2,016,505,650
Prospective Contributions to Pension Accumulation Fund		
Normal Contributions	1,094,939,937	942,626,889
Accrued liability contributions	74,743,188	66,946,841
Undistributed gain contributions	482,338,338	647,135,925
Total Prospective Contributions	1,652,021,463	1,656,709,655
Total Assets	\$ 13,546,136,664	\$ 12,491,798,047
LIABILITIES		
Annuity Savings Fund:		
Past member contributions	\$ 1,927,995,942	\$ 1,785,644,805
Future member contributions	2,001,310,620	2,016,505,650
Total Contributions to Annuity Savings Fund	3,929,306,562	3,802,150,455
Pension Accumulation Fund:		
Benefits currently in payment	3,222,660,002	2,827,743,653
Benefits to be paid to current active members	5,788,831,040	5,086,529,058
Reserve for increases in retirement allowances effective July 1, 2001 (July 1, 2000 for December 31, 1999 figures)	123,000,722	128,238,956
Reserve from undistributed gains	482,338,338	647,135,925
Total Benefits Payable from Pension Accumulation Fund	9,616,830,102	8,689,647,592
Total Liabilities	\$ 13,546,136,664	\$ 12,491,798,047

Table 13

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

ASSETS	December 31, 2000	December 31, 1999
Current Assets:		
Annuity Savings Fund	\$ 30,073,458	\$ 27,337,909
Pension Accumulation Fund	261,733,340	232,368,369
Total Current Assets	291,806,798	259,706,278
Future Member Contributions to Annuity Savings Fund	<u>33,535,767</u>	<u>32,737,583</u>
Prospective Contributions to Pension Accumulation Fund		
Normal Contributions	92,428,675	98,893,948
Accrued liability contributions	(22,625,393)	(18,402,832)
Undistributed gain contributions	6,907,032	21,115,390
Total Prospective Contributions	76,710,314	101,606,506
Total Assets	\$ 402,052,879	\$ 394,050,367
LIABILITIES		
Annuity Savings Fund:		
Past member contributions	\$ 30,073,458	\$ 27,337,909
Future member contributions	33,535,767	32,737,583
Total Contributions to Annuity Savings Fund	<u>63,609,225</u>	<u>60,075,492</u>
Pension Accumulation Fund:		
Benefits currently in payment	128,416,867	114,266,759
Benefits to be paid to current active members	200,436,517	195,502,179
Reserve for increases in retirement allowances effective July 1, 2001 (July 1, 2000 for December 31, 1999 figures)	2,683,238	3,090,547
Reserve from undistributed gains	6,907,032	21,115,390
Total Benefits Payable from Pension Accumulation Fund	338,443,654	333,974,875
Total Liabilities	\$ 402,052,879	\$ 394,050,367

Table 14

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

ASSETS	June 30, 2000	June 30, 1999
Current Assets:		
Annuity Savings Fund	\$ 23,651,274	\$ 22,066,918
Pension Accumulation Fund	179,099,524	153,178,007
Total Current Assets	202,750,798	175,244,925
Future Member Contributions to Annuity Savings Fund	19,393,301	18,598,028
Prospective Contributions to Pension Accumulation Fund		
Normal Contributions	28,690,924	24,497,982
Accrued liability contributions	37,584,202	21,324,423
Total Prospective Contributions	66,275,126	45,822,405
Total Assets	\$ 288,419,225	\$ 239,665,358
LIABILITIES		
Annuity Savings Fund:		
Past member contributions	\$ 23,651,274	\$ 22,066,918
Future member contributions	19,393,301	18,598,028
Total Contributions to Annuity Savings Fund	43,044,575	40,664,946
Pension Accumulation Fund:		
Benefits currently in payment	110,109,857	103,283,878
Benefits to be paid to current active members	135,264,793	95,716,534
Total Benefits Payable from Pension Accumulation Fund	245,374,650	199,000,412
Total Liabilities	\$ 288,419,225	\$ 239,665,358

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