

THE STATE TREASURER'S
**ANNUAL
REPORT**

TO THE PEOPLE OF
NORTH CAROLINA



**North Carolina Department
of State Treasurer**

FISCAL YEAR 2003-2004

325 North Salisbury Street • Raleigh, North Carolina 27603-1375



NORTH CAROLINA DEPARTMENT OF STATE TREASURER

RICHARD H. MOORE
STATE TREASURER

325 NORTH SALISBURY STREET
RALEIGH, NORTH CAROLINA 27603-1385

To the People of North Carolina:

It is with pride that I submit to you the duties and responsibilities of the Department of the State Treasurer. I hope that this document can be used to develop a better understanding of the Department. I deeply appreciate the efforts of our staff to improve the efficiency and effectiveness of our operation on behalf of the taxpayers of North Carolina.



As the 13th popularly elected State Treasurer, it is a great privilege and challenge to follow a tradition of respected public-minded occupants of this essential office. While our agency's duties are diverse and complex, our mission is simple: to preserve and protect the fiscal integrity of our great State.

The Department of the State Treasurer is committed to maintaining North Carolina's hard-earned reputation for credit worthiness. The Department also plans to continue a conservative and prudent investment strategy for the \$70 billion in public funds entrusted to us. By continuing to honor the sacred trust made with North Carolina's public employees to safeguard the long-term financial standing of their retirement system, we will continue the tradition of making sure that "good government is indeed a habit" for the Old North State.

This report is available on our Web site www.nctreasurer.com and on disk. Please call (919) 508-5176 or write the Department to request a copy.

Sincerely,

A handwritten signature in black ink that reads "Richard H. Moore".

Richard H. Moore

Fax: (919) 508-5167

Phone: (919) 508-5176

web site: www.nctreasurer.com

The 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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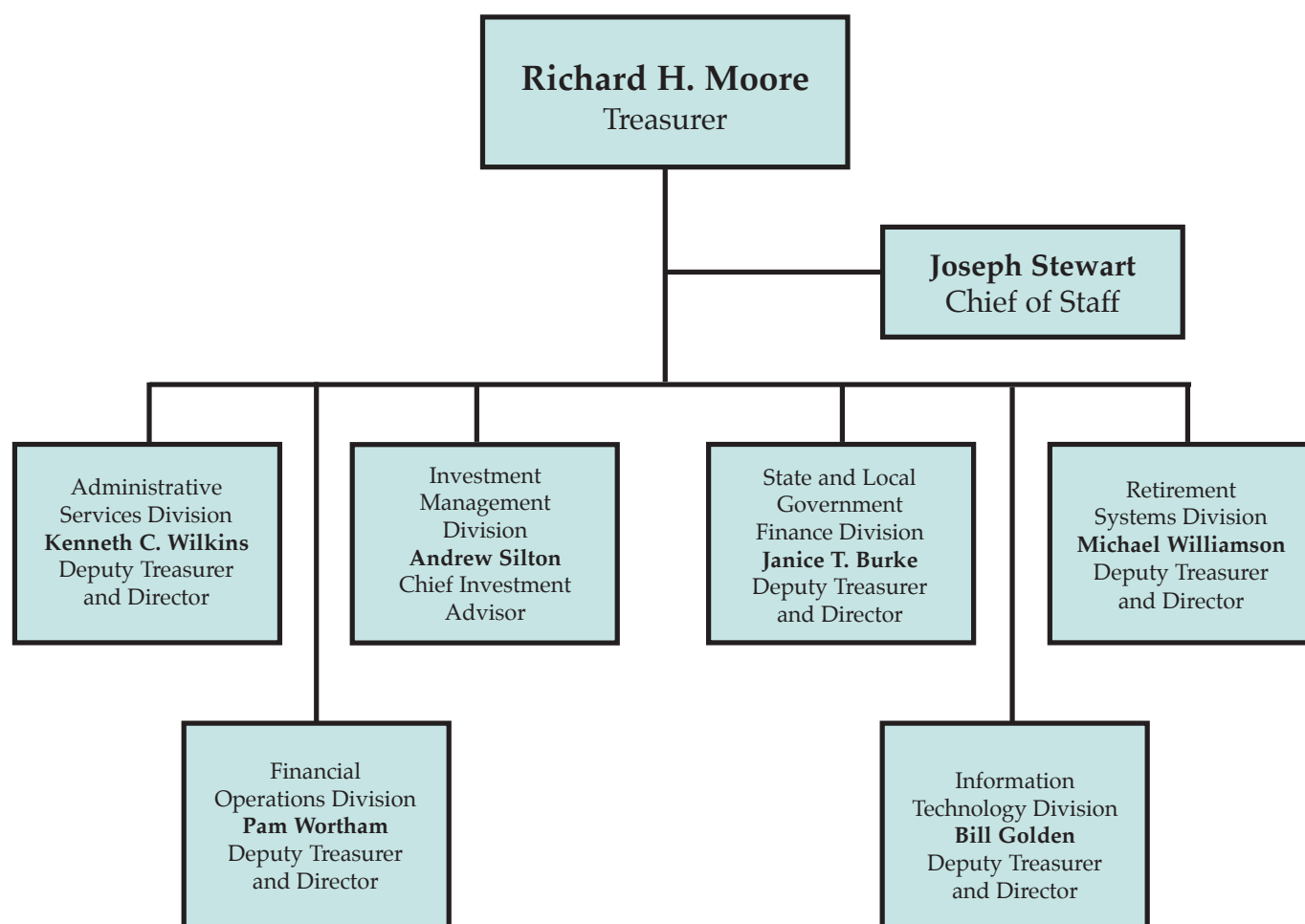
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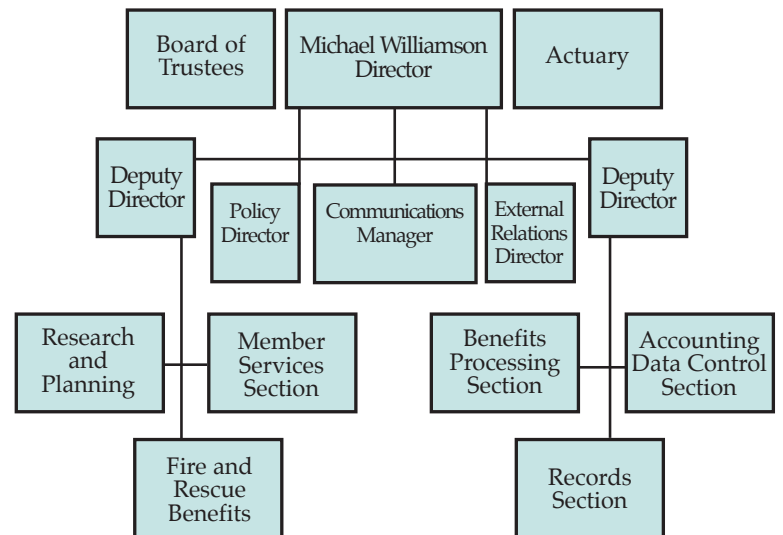
THE STATE TREASURER'S ANNUAL REPORT

RETIREMENT SYSTEMS DIVISION

RETIREMENT SYSTEMS DIVISION

The Retirement Systems Division of the Department of State Treasurer administers the statutory retirement and benefit plans, which cover public employees in North Carolina, as authorized by General Assembly of North Carolina. 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 purpose of the retirement systems and benefit plans is to recruit and retain skilled 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 2004 Session of the General Assembly which resulted in the enactment of laws to:
 - Provide cost-of-living adjustments equal to 1.7% to retirees of the Teachers' and State Employees' Retirement System (T.S.E.R.S.), Consolidated Judicial Retirement System (C.J.R.S.), and Legislative Retirement System (L.R.S.).
 - Provide partial funding to pay for the implementation phase ('04-'05) of replacing the multitude of outdated information technology systems in the Division with an integrated system for all retirement plans. This funding will cover the second year of a four-year project.
 - Convert 24 time-limited positions to permanent in order to continue making customer service enhancements and avoiding work backlogs.
 - Increase the monthly benefit payment to beneficiaries of the Fireman's and Rescue Squad Workers' Pension Fund from \$158.00 to \$161.00 per month.
 - Increase the Contributory Death Benefit for retired members of the Teachers' and State Employees' Retirement System, the Local Governmental Employees' Retirement System, the Legislative Retirement System and the Consolidated Judicial Retirement System from \$6000 to \$9000.
- Increase the death benefit payable to beneficiaries of the Local Governmental Employees' Retirement System to equal to the salary of the member but not less than \$25,000 and not more than \$50,000.
- Processed benefits for 11,924 new retirees.
- Processed refunds for 29,222 former public employees.
- Established approximately 51,580 new active member accounts.
- Increased utilization of direct deposit of monthly benefit payments from 156,000 to approximately 166,326 retirees.
- Updated the Retirement Systems Division Section of the State Treasurer's Web page (www.nctreasurer.com) to include the most currently revised editions of retirement forms, handbooks, and the Frequently Asked Questions.

THE BASIC FUNCTIONS

The four major 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 members of the public. 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 member

of the public.

In addition to the four major 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 are paid from the retirement trust funds.

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; action and administrative appeals by individual 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 a 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 2003 through June 2004, 11,924 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 5,680 disability claims were reviewed by the Medical Review Board during the 2003-2004 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 889 were issued from July 2003 through June 2004 totaling \$7,094,497.45.

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 6,600 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 29,222 refunds were processed for the period July 2003 through June 2004.

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 10,251 cost calculations were generated by the Benefits Processing Section for the period July 2003 through June 2004.

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 431,000 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 123,000 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. During 2003-2004 approximately 166,000 retirees' benefits were processed through EFT. Also, 9,236 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 employers' payroll reports is an important function of the Section. Errors totaling 36,364 were detected and corrected this past year.

Member Services Section

This Section handles written correspondence, telephone communications, and e-mail inquiries with members and employers participating in the retirement systems and other benefit programs, responding to a multitude of questions about benefits. Accordingly, during 2003-2004 approximately 15,126 letters and other information was generated in this Section, approximately 9,433 e-mail inquiries were addressed, and approximately 379,137 telephone communications were handled by personal contact with an additional 14,036 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 benefit conferences at the request of employers, and employ-

ee associations. All visitors to the Division requiring individual counseling about their benefits are referred to this Section. Members nearing retirement may call to schedule an appointment with a retirement counselor.

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 eli-

gible 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 2003-2004, 12 local government employers elected to become partici-

pants, 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 1,315,440 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 13.6 million images have been converted to the imaging system.

SIGNIFICANT ACCOMPLISHMENTS

Legislation

Prior to the convening of the 2004 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 2004 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, 45 actuarial notes disclosing the fiscal impact of every bill introduced 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, 2004, in the Teachers' and State Employees' Retirement System, a 1.7% cost of living adjustment (C.O.L.A.) for beneficiaries who commenced retirement on and before July 1, 2003, and for beneficiaries who commenced retirement with effective dates of August 1, 2003 to June 1, 2004, a prorated portion of the 1.7% C.O.L.A. based on the number of months a retirement allowance was paid; (2) provide, effective July 1, 2004, in the Consolidated Judicial Retirement System, a

1.7% C.O.L.A. for beneficiaries who commenced retirement on and before July 1, 2003, and for beneficiaries who commenced retirement with effective dates of August 1, 2003 to June 1, 2004, a prorated portion of the 1.7% postretirement increase in their allowances based on the number of months a retirement allowance was paid; (3) provide effective July 1, 2004, in the Legislative Retirement System, a 1.7% C.O.L.A. for beneficiaries who commenced retirement on or before January 1, 2004, and for beneficiaries who commenced retirement with effective dates of February 1, 2004 to June 1, 2004, a prorated portion of the 1.7% was paid; (4) increase, effective July 1, 2004, the monthly benefit payment to beneficiaries of the Firemen's and Rescue Squad Workers' Pension fund from \$158.00 to \$161.00 per month.

Communications

The Member Services Section established four new toll-free telephone lines in 2004 for use by members outside local calling distance to the Division's home in Raleigh. The Division has never before offered toll-free service to members. The Member Services Section also was reorganized to provide better service to members contacting the Division, a change that resulted in dramatically lower hold times for those contacting the Division by telephone. Also in 2004, this section established an Employer Educational Services Unit, which is composed of a group of retirement counselors dedicated to working exclusively with employer units.

In the spring of 2004, the Member Services staff conducted 34 pre-retirement meetings statewide with some 2,701 members in attendance. In addition, the staff also participated in 121 other meetings, seminars, benefit fairs and conferences relating to retirement benefits, including Benefits and Life Planning Workshops with 10,594 attendees.

The Division distributed a new, bi-annual newsletter to all retirees for the first time in 2004. This publication was created to inform retirees of legislative and administrative changes affecting benefits and service within the Systems. In addition, a monthly, electronic publication was established as an information tool for employers.

The Research and Planning Officer, in conjunction with other staff, revised forms for purposes of:

Enrollment in the System, change of beneficiary, application for refund, transfer between systems, election of benefits, application to use a rollover to purchase creditable service and applications for short-term and long-term disability under the Disability Income Plan. The forms for purchasing the following types of service were also revised: Workers' Compensation Leave, Part-Time State and Local Service, Military Service, Educational Leave, Omitted Service and Federal Government Service. The "Information Retirees Need to Know" pamphlet was also updated.

Seven brochures describing the plan provisions of the Teachers' and State Employees' Retirement System, Local Governmental Employees' Retirement System, Consolidated Judicial Retirement System, the Firemen's and Rescue Squad Workers' Pension Fund, and Legislative Retirement System were revised in January, 2004 and updated on the Web page.

In addition, Legislation Digests for the State and Local Systems were made available online. Subsequent to adjournment of the General Assembly, a digest of all legislative changes was provided to all employing units. 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.

Operational

In May 2004, the Division began work on the Integrated Retirement Systems Project. This three-year endeavor will combine the Division's six outdated main-frame systems to revolutionize the efficiency, accuracy and timeliness of work performed across the Division. Once completed, members of the system and employers will have 24 hour- seven day, secure Web access to retirement accounts. Basic functions, like changing addresses, enrolling in the Retirement Systems, and changing to direct deposit, all of which are done currently by calling, emailing, visiting or corresponding by mail with the Division now, will be performed online. Many additional processes, like payroll and benefit calculations will be automated for increased accuracy and efficiency.

The Division has continued to promote direct deposit of monthly benefit payments. Between July 1, 2003 and June 30, 2004, the benefit payments of approximately 10,000 retirees were added to the direct deposit

group, bringing the total number of monthly payments made by direct deposit to 166,326. This means that about 93% 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, 2004, is estimated to be approximately \$30,000.

The Firemen's and Rescue Squad Workers' Pension Fund began development of an advanced automated system which will assist in identifying delinquent accounts. This project is ongoing.

In the Local Governmental Employees' Retirement System, 12 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.

Effective October 14, 2002, the member services section converted to an appointment only policy for members visiting the Retirement System's office. This action has resulted in greatly reduced waiting times for members.

The Record Division continued the conversion of member withdrawn account records that were on microfilm to digital images.

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 implementation of the new imaging system in June, 2002 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 continues to provide 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.

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 different 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 experienced 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.

Funding 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 illustrated in Chart 1. When the ratio equals 100%, a system is considered to be "fully funded" on a current basis.

Chart 1

FUNDED RATIO OF THE RETIREMENT SYSTEMS

Teachers' and State Employees' Retirement System		Local Governmental Employees' Retirement System		Consolidated Judicial Retirement System	
1998	99.4%	1998	99.2%	1998	100.3%
1999	106.4%	1999	99.2%	1999	107.6%
2000	112.8%	2000	99.3%	2000	108.4%
2001	111.6%	2001	99.3%	2001	108.9%
2002	108.4%	2002	99.4%	2002	107.4%
2003	108.1%	2003	99.3%	2003	107.6%

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

Chart 2

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, 2003 was 356,535, and in addition there were 123,518 retired members and beneficiaries of deceased retired members. Invested assets at market value amounted to about \$46.3 billion.

The distribution of the investments of the assets of the State System as of December 31, 2003 was:

Long-Term Fixed Income Investment Fund	\$ 18,399,147,570
Short-Term Fixed Income Investment Fund	74,041,518
Real Estate Investment Fund	1,353,536,146
Equity Investment Fund	25,948,252,335
Venture Capital	534,404,318
Total	<u>\$ 46,309,381,887</u>

Operations of the State System during the calendar year 2003 resulted in total receipts of \$7,963,029,812 and total expenditures of \$2,197,331,235. Chart 2 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, 2003, is shown in Table 10. Based on the latest actuary's report, the General Assembly set the employer contribution rate at .22% of covered payroll, effective July 1, 2003, and at 2.17% of covered payroll, effective July 1, 2004. On this basis, the total of employee and employer rates of contribution is adequate to fund all future benefits presently authorized, based on current service, and to fund, over a period of nine years from January 1, 2004, the remaining accrued liability for past service.

Teachers' and State Employees' Retirement System of North Carolina Year Ended December 31, 2003

SOURCES OF FUNDS

Employee Contributions	\$ 663,114,104 (8.33 %)
Employer Contributions	\$ 28,129,053 (.35%)
Other Income	\$ 1,890,275 (.02%)
Investment Income	\$7,269,896,379 (91.30 %)

APPLICATIONS OF FUNDS

Retirement Benefits	\$ 2,102,235,339 (26.4 %)
Refunds	\$ 88,040,760 (1.11 %)
Administrative Expenses	\$ 7,026,867 (.09 %)
Other Expenses	\$ 28,269 (0.0 %)
Addition to Reserves For Future Benefits	\$5,765,698,577 (72.40 %)

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, 2003, a total of 867 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, 2003 was 136,419; in addition there were 35,119 retired members and beneficiaries of deceased members. Invested assets at market value amounted to about \$12.9 billion.

The distribution of investments of the assets of the Local System as of December 31, 2003 was:

Long-Term Fixed Income Investment Fund	\$ 5,128,483,323
Short-Term Fixed Income Investment Fund	26,119,958
Real Estate Investment Fund	377,269,023
Equity Investment Fund	7,231,967,412
Venture Capital	<u>148,953,745</u>
Total	<u><u>\$ 12,912,793,461</u></u>

Operations of the Local System during the calendar year 2003 resulted in total receipts of \$2,554,697,014 and total expenditures of \$522,266,416. Chart 3 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, 2003, is shown in Table 11.

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, 2004. 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 3

Local Governmental Employees' Retirement System of North Carolina Year Ended December 31, 2003

SOURCES OF FUNDS

Employee Contributions	\$ 275,980,953 (10.80 %)
Employer Contributions	\$ 245,984,870 (9.63 %)
Other Income	\$ 178,054 (.01 %)
Investment Income	\$2,032,553,137 (79.56 %)

APPLICATIONS OF FUNDS

Retirement Benefits	\$ 464,749,452 (18.19 %)
Refunds	\$ 55,025,491 (2.15 %)
Administrative Expenses	\$ 2,491,473 (.10 %)
Addition to Reserves For Future Benefits	\$2,032,430,598 (79.56 %)

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

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, 2003, there were 502 active members and 412 retired members and beneficiaries of deceased retired members. The invested assets at market value were about \$355.3 million.

The distribution of the investments of the Judicial System as of December 31, 2003, was:

Long-Term Fixed Income Investment Fund	\$141,145,947
Short-Term Fixed Investment Fund	20,264
Real Estate Investment Fund	10,383,389
Equity Investment Fund	199,055,765
Venture Capital	<u>4,099,583</u>
Total	<u>\$354,304,948</u>

Operations of the Judicial System during the calendar year 2003 resulted in total receipts of \$65,406,852 and total expenditures of \$18,949,638. Chart 4 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, 2003, is shown in Table 12. Based on the actuary's latest report, the General Assembly set the employer contribution rate at 12.59% of covered members' payroll, effective July 1, 2004. 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.

Chart 4

Consolidated Judicial Retirement System of North Carolina Year Ended December 31, 2003

SOURCES OF FUNDS

Employee Contributions	\$ 3,321,449 (5.08 %)
Employer Contributions	\$ 6,191,600 (9.47 %)
Investment Income	\$55,893,804 (85.45 %)

APPLICATIONS OF FUNDS

Retirement Benefits	\$ 18,909,404 (28.91 %)
Refunds	\$ 5,553 (.01 %)
Administrative Expenses	\$ 34,681 (.05 %)
Addition to Reserves For Future Benefits	\$46,457,215 (71.03 %)

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 on 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. In 2004, the employer contribution rate to fund this benefit for members of the Teachers' and State Employees' Retirement System was 0.0 % 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. This funding source ceased June 30, 2003.

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 5 presents the distribution of revenues by source and expenditures by purpose. The number of deaths and amounts of benefit payments, according to member group, during 2003 were:

Life Insurance Payments Calendar Year 2003

Retirement System Membership	Number of Payments	Payment Amount
Teachers' and State Employees'	480	\$16,348,998
Local Governmental Employees'	128	2,347,232

Chart 5

North Carolina Teachers' and State Employees' Benefit Trust Year Ended December 31, 2003

SOURCES OF FUNDS

Local Governmental Employees' Retirement System	\$3,503,554	11.35%
Separate Benefits Fund	\$639,118	2.07 %
Retirees' Death Benefit	\$8,520,828	27.6 %
Teachers' and State Employees' Retirement System	\$8,167,592	26.45 %
Investment Income	\$10,045,487	32.53 %

APPLICATIONS OF FUNDS

Local Death Benefits Paid	\$2,347,232	7.6 %
Death Benefits and Insurance Paid SIF	\$887,355	2.88 %
Administrative Expenses	\$275,996	.89 %
Retirees' Death Benefits Paid	\$5,313,445	17.21%
State Death Benefits Paid	\$16,348,998	52.95 %
Addition to Reserves for Future Benefits	\$5,703,553	18.47 %

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, 2004, the active membership of the fund was 32,962 while the number of retired members was 9,194. Invested assets at market value amounted to about \$274.9 million.

The distribution of the investments of the assets as of June 30, 2004, was:

Long-Term Fixed Income Investment Fund	\$ 103,784,861
Short-Term Fixed Income Investment Fund	509,527
Real Estate Investment Fund	8,208,174
Equity Investment Fund	158,989,148
Venture Capital	3,445,620
Total	<u><u>\$274,937,330</u></u>

Operations of the Pension Fund during the 2004 fiscal year resulted in total receipts of \$39,836,836 and total expenditures of \$18,444,807. Chart 6 presents the distribution of revenues by source and expenditures by purpose.

The latest Actuary's Valuation Balance Sheet, as of June 30, 2003, is shown in Table 13. Based on the latest actuary's report, the General Assembly appropriated \$6,856,179 for the 2003-04 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, 2003, the remaining accrued liabilities for past service.

Chart 6

Firemen's and Rescue Squad Workers' Pension Fund Year Ended June 30, 2004

SOURCES OF FUNDS	
Appropriation	\$6,856,179 (17.2 %)
Member Contributions	\$ 2,638,947 (6.6 %)
Investment Income	\$30,289,923 (76.0 %)
Other Income	\$ 51,787 (.2 %)

APPLICATIONS OF FUNDS	
Pension Benefits	\$17,180,817 (43.1 %)
Refunds	\$ 497,674 (1.3 %)
Administrative Expenses	\$ 766,316 (1.9 %)
Addition to Reserves For Future Benefits	\$21,392,028 (53.7%)

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 is under the State's health plan. 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 2003

Beginning Fund Balance	\$ 44,792,483
Additions:	
Employer Contributions	\$ 304,893,837
Investment Income	<u>0</u>
	<u>304,893,837</u>
Deductions:	
Health Premiums Paid	\$ 300,891,210
Administrative Expense	<u>134,548</u>
	<u>301,025,758</u>
Ending Fund Balance	<u><u>\$ 48,660,563</u></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 24 former members and officers of the General Assembly in receipt of allowances, with a cost in the year ended December 31, 2003, of some \$37,700. 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 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, 2003, the System had 170 active members, 90 inactive members, and 235 retired members.

Assets on that date totaled \$28,130,598. Operations of the System during calendar year 2003 resulted in total receipts of \$4,789,530 and disbursements of \$1,506,884.

Based on the latest actuarial report, the employer contribution rate was set by the General Assembly at .00% of covered payroll, effective July 1, 2004. 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 .00% of the covered payroll of members of the Teachers' and State Employees' Retirement System and

the Optional Retirement Program, effective July 1, 2003, and at .445% of covered payroll effective July 1, 2004.

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 2002 and 2003.

	<u>2002</u>	<u>2003</u>
Number of Disabled Members	4,767	5,154
New Claims During the Year	1,016	1,016
Employer Contributions	\$56,515,520	\$28,578,496
Investment Income	\$35,509,142	\$11,636,606
Amount of Benefit Payments	\$44,013,882	\$45,365,224

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 National Guard Pension 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, 2003, there were 2,324 beneficiaries in receipt of

monthly allowances from the Guard Plan at a cost that calendar year of \$2,175,572.

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 2003-04 was \$1,132,455.

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.

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

The Plan's number of participating members rose from 181,084 as of July 1, 2003, to 182,998 members as of June 30, 2004, for an increase of 1.1%. Contributions by employers during this fiscal year totaled \$115,113,456 while salary deferred contributions by members were \$169,219,259. The total assets at market value of the Plan increased by 12.13% to \$2,677,131,403.

Under the current contract, members may select from a stable value fund and eight mutual funds. As of June 30, 2003, 27.75% of the assets were invested in the Stable Value Fund and 72.25% were invested in the mutual funds. In addition, \$59,905,345 were invested in the mutual funds that were previously offered in the Plan and the outstanding loan balances totaled \$135,301,297.

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, 2004, court cost receipts of \$1,643,365.84 were transferred

and credited to the State and local law enforcement officers' accounts.

The Supplemental Retirement Income Plan of North Carolina is the largest State governmental 401(k) Plan in the nation.

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, 2003, the Fund had total assets in the amount of \$20,834,788.

Benefits from the Fund became payable beginning July 1, 1988. For the year ending December 31, 2003, the Fund paid total benefits in the amount of \$743,865 to 69 retired Registers of Deeds.



THE STATE TREASURER'S ANNUAL REPORT

INVESTMENT MANAGEMENT DIVISION

INVESTMENT MANAGEMENT DIVISION

STRUCTURE

The Investment Management Division serves as the investment arm for the Department of State Treasurer. Its functions can be categorized into two major areas of responsibility:

1. Management of the combined assets of the North Carolina Retirement Systems. This is referred to as the Trust Fund Investment Program.

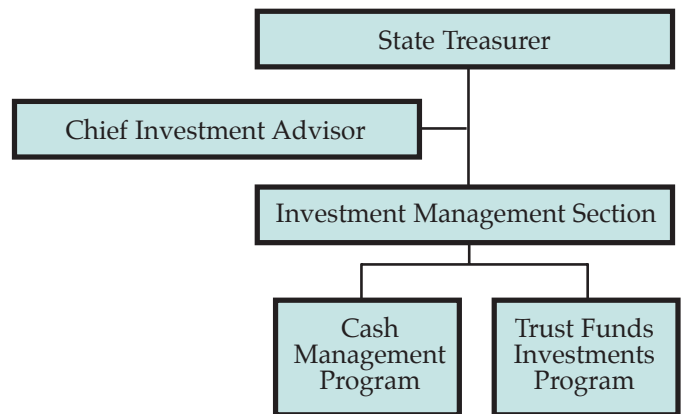
2. Management of the assets of the Cash Management Program.

The Division is designed so that the organizational structure is as flat as possible. This allows for stability in managing a complex investment program.

The State Treasurer administers both the Cash Management and Trust Funds Investment Program. The Treasurer is directed by statute to "establish, maintain, administer, manage and operate" investment programs for all funds on deposit, pursuant to the applicable statutes. In doing so, the Treasurer "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."

As of June 30, 2004, total assets under management were nearly \$71 billion. Of this amount, 12% was assets of the Cash Management Program and 88% was assets of the Trust Fund Investment Program. This total represents

the aggregate assets of 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.



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 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 system assets (the dominant 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.

INVESTMENT POOL

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

- A short-term fixed income portfolio that invests in highly liquid money market instruments such as treasuries, agencies and some liquid short-term corporate issues.
- A long-term fixed income portfolio that invests in longer term investment grade corporate securities as well as treasuries, agencies and GNMA's.
- 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.
- An alternative portfolio that invests in private equity as a limited partner in partnerships managed by experienced private equity firms. The portfolio also invests in hedge fund of funds.

In addition, there is a Bond Proceeds pool of approximately \$660 million within the Cash Management Program to hold and invest moneys subject to federal arbitrage regulations.

CASH MANAGEMENT REVIEW

Short-Term Investment Fund

The Short-Term Investment Fund (STIF) is an internally managed portfolio of highly liquid fixed income securities. These securities are primarily money market instruments and short to intermediate treasuries and agencies. All bank accounts of the State Treasurer are included in portfolios of the Cash Management Program. 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.

For the fiscal year 2003, the STIF generated a cash return of 3.22%. The benchmark for this portfolio is the U.S. Treasury Two-Year Constant Maturity Notes yield. This benchmark generated a return of 1.91% for the fiscal year.

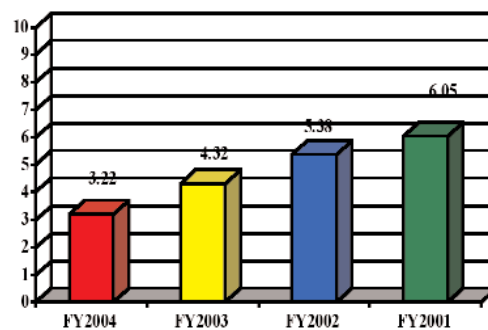
During the fiscal year, the portfolio continued to fight the downward shift in fixed income yields. As securities matured, the reinvestment rate typically proved to be much lower than the yield generated on the maturing security. The portfolio shifted more into U.S. Treasuries during the year because the incremental yield on other eligible fixed income securities tightened considerably relative to government issues.

While the portfolio will produce lower results in 2005, it is worthy to note that the average maturity of this portfolio is only 1.75 years. This short maturity should allow the portfolio to begin showing stronger results in 2006.

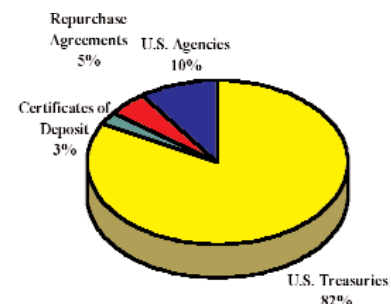
The Bond Proceeds Investment Pool was established in 1987 as a separate portfolio in order to comply with Internal Revenue Service regulations on bond arbitrage. Sterling Capital Management serves as the managing agent for this portfolio. In addition to asset management, it provides bond arbitrage tracking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

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

Short-Term Investment Fund Annualized Cash Return



Short-Term Investment Fund Asset Allocation as of 6/30/03



SUMMARY OF BROKERS USED DURING FY 2004

Bank of America	Legg Mason
Bear Stearns	Lehman Brothers
Bank of New York	McDonald Investments
Citigroup	Merrill Lynch
Deutsche Bank	Mizuho
A.G. Edwards	Southtrust
First Tennessee	UBS Warburg
Goldman Sachs	Wachovia
HSBC Securities	
J.P. Morgan Chase	

TOP 10 POSITIONS IN STIF AS OF JUNE 30, 2004

ISSUER	COUPON	MATURITY	
		DATE	PAR VALUE
US TREAS NOTE	5.875	11/15/04	250,000,000
US TREAS NOTE	1.625	1/31/05	250,000,000
US TREAS NOTE	1.500	2/28/05	250,000,000
US TREAS NOTE	1.625	3/31/05	250,000,000
US TREAS NOTE	1.625	4/30/05	250,000,000
US TREAS NOTE	1.250	5/31/05	250,000,000
US TREAS NOTE	1.113	6/30/05	250,000,000
US TREAS NOTE	1.500	7/31/05	250,000,000
US TREAS NOTE	1.625	9/30/05	250,000,000
US TREAS NOTE	5.875	11/15/05	250,000,000

PENSION FUND REVIEW

The results for fiscal year 2004 were very strong, especially given the conservative management of the pension assets. The pension fund assets generated a total return of 12.01% for the fiscal year, beating the actuarial assumption of 7.25%. What this means to members of the various retirement systems is that the pension fund achieved a return significantly higher than the required actuarial rate, thus allowing the pension fund to retain its fully funded status.

Our mission is to maintain the fully funded status of the pension plan, and in turbulent markets our portfolios are structured to perform well. This is what occurred in 2001-2003. In times of high returns, such as this year's equity markets, our portfolio should provide median results, but we are willing to accept this tradeoff for protecting assets in down markets and maintaining the funded status of the plan.

Looking back at the past year, the decision to expand the equity allocation and lower the fixed income exposure provided outstanding benefits to the performance of the overall pension portfolio. Our equity portfolio generated a total return of 23.73% for the fiscal year. Our fixed program, which had been a key performance driver in years past, generated a total return of (1.08)%. This shows the benefit of diversification and how this management style has helped the pension fund retain its fully funded status.

We experienced a recovery in our real estate returns during FY 2004, with this asset class generating a 7.56% total return. In our overall planning, we have always

looked to real estate to generate a return somewhere between fixed income and public equities. This was exactly what happened this past year and once again proves the importance of diversifying the asset base of the pension plan.

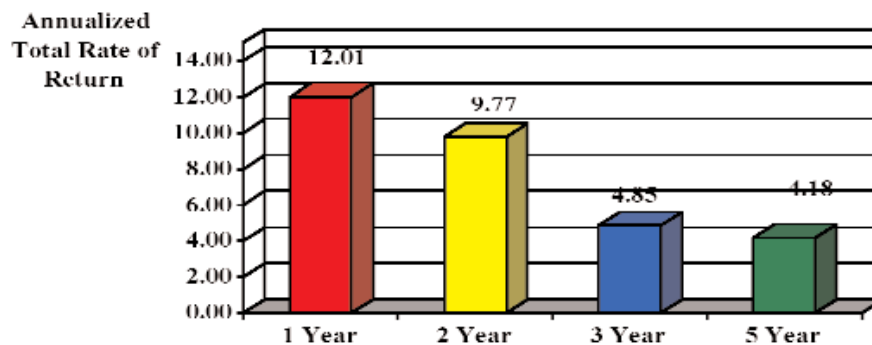
In the alternative asset class, this allocation generated a total return of 5.57%. We were pleased with these results for several reasons. First, this 5.57% return was generated while we continue to build up the private equity exposure. Normally when private equity is being funded, investors experience a significant negative return, commonly referred to as the J-curve effect. For our alternative program to post this type of positive return in the early stages of our private equity-funding program is a significant achievement. One of the main reasons for investing in this area is the low correlation it has to other asset classes. Our statistical analysis reveals that not only does this allocation have a low correlation with our fixed income and equity assets, but it is also helping us lower the volatility of the overall investment program.

Looking ahead to FY 2005, we continue to be comfortable with our overall asset allocation. There are a variety of risks that we are actively managing such as rising interest rates and equity valuations. We feel confident that our investment strategy will produce results that ensure the pension fund maintains its fully funded status. Our staff takes its fiduciary obligations very seriously and will move to invest the pension assets in a prudent fashion.

Pension Investment Summary as of June 30, 2004

Portfolio Type	Market Value (\$ in 000's)	% of Market Value
US Equities	\$32,072,706	51.17%
Non-US Equities	5,074,252	8.09%
Fixed Income	22,950,947	36.62%
Real Estate	1,815,114	2.90%
Alternatives	761,942	1.22%
Total Market Value	\$62,674,961	100.00%

Pension Investment Total Returns as of June 30, 2003



Investment Policy

The Investment Management Division conducts its activities in accordance with the Investment Policy approved by the State Treasurer. This policy covers fiduciary standards of care, asset allocation ranges,

rebalancing requirements and other issues that are important to the management of pension assets. During fiscal year 2004, there were no material changes to the Investment Policy.

Investment Objective

The primary objective of the Investment Division is to generate an annualized return that equals or exceeds the actuarial assumption, which is currently 7.25%.

In order to meet this actuarial requirement, the Investment Division models a policy portfolio that should, over time, produce a return that exceeds the actuarial requirement with prudent risk guidelines.

On June 30, 2003, the composition of the policy portfolio and its corresponding benchmark was as follows:

- 33.5% US Large Cap Equity – S&P 500
- 6.5% US Mid Cap Equity – S&P 400
- 6.5% US SmallCapEquity – Russell 2000
- 7.5% Non-US Equity – MSCI AC ex US
- 41% Fixed Income – Merrill Lynch Custom
- 3.5% Real Estate – NCREIF
- 1% Alternatives – 50% T-bills plus 300 basis points; 50% Venture Economics

Asset Allocation

During the fiscal year 2004, there were slight changes in the ranges maintained in the asset allocation model. Since most of the major rebalancing initiatives had been accomplished, it was decided that the ranges could be narrowed to more closely match the model portfolio. On June 30, 2004, the ranges were as follows:

■ US Large Cap Equity	31%-36%
■ US Mid Cap Equity	5.5%-7.5%
■ US Small Cap Equity	5.5%-7.5%
■ Non-US Equity	6%-9%
■ Fixed Income	36%-46%
■ Real Estate	3%-6%
■ Alternatives	1%-2.5%

During the year, there was no automatic rebalancing that the model dictated. However, the decision was

made to allow the fixed income exposure to drop and allow the equity exposure to move higher. This decision proved to be beneficial to the overall returns of the pension plan.

The Investment Division is constantly monitoring the overall pension fund in an effort to control risk. This is accomplished through the utilization of two tools: An optimizer and a risk budget. By simulating different market conditions, the staff can better understand how certain market movements can impact the portfolio both in terms of risk and return. During fiscal year 2004, these simulations allowed for a small change in the policy portfolio. There was a small adjustment to the ranges as mentioned before due to the major rebalancing initiatives being completed

Investment Performance

Because the size of the plan exceeds \$60 billion, the plan will always be subject to the absolute returns generated by the various markets in which the plan invests. However, while the Investment Division cannot control the absolute returns of certain markets, it can strive to obtain relative performance that exceeds

the market return. This is what occurred in fiscal year 2004. In addition to the strong relative performance recorded in the past year, it is noteworthy that the absolute returns for the pension fund are positive for all time periods measured.

Fiscal Year 2004 Results

For the fiscal year ending June 30, 2004, the pension plan generated a total return of 12.01%. This exceeded the actuarial assumption of 7.25%. The returns generated by the equity component of the overall portfolio drove the returns. The strong equity returns were a

result of the decision to increase the allocation to domestic small cap stocks and non-U.S. equities. Real estate and alternative returns were also stronger than the previous year.

Total Pension Plan Performance as of June 30, 2004

Asset Class	Portfolio Weight	1 Year	2 Year	3 Year	5 Year
Equity	57.93%	23.73%	11.52%	2.00%	.95%
Fixed	37.82%	-1.08%	6.96%	7.95%	7.98%
Real Estate	2.99%	7.56%	4.72%	3.33%	6.68%
Alternatives	1.26%	5.57%	-2.9%	-7.48%	1.15%
Total Portfolio	100.0%	12.01%	9.77%	4.85%	4.18%

*All returns are net of all fees

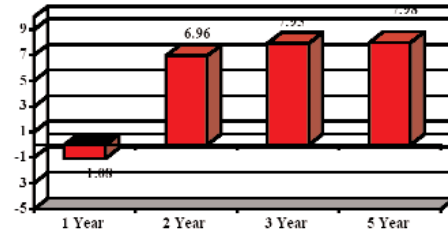
Fixed Income

The fixed income allocation of the pension plan is actively managed through the Long Term Investment Fund (LTIF). For the fiscal year 2004, the LTIF generated a total return of (1.08)% compared to a return of (1.01)% for the Merrill Lynch Custom Benchmark.

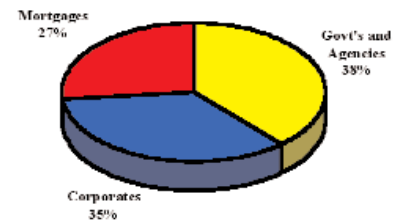
Given that interest rates began the fiscal year at historically low levels, it was a challenging year in the fixed income markets. While corporate spreads grinded tighter throughout the year, it was not enough to offset the fact that interest rates more than doubled on the short end of the yield curve and jumped more than 1% on the intermediate part. The Investment Division utilizes the LTIF to help match the liabilities of the overall pension plan. Because of this approach, the duration of the portfolio tends to be fairly long.

With the Federal Government poised to ease rates higher throughout the next fiscal year, the market environment limits expectations for fixed income returns during the next fiscal year.

Long Term Investment Fund Performance as of 6/30/03



Fixed Income Allocation



TOP 10 CORPORATE POSITIONS BY ISSUER (6/30/04)

Issuer	Market Value (\$mm)
General Electric	455
Bank Of America	367
HSBC	339
Verizon	316
Ford	312
Citigroup	292
J.P. Morgan	292
Wal-Mart	289
SBC	288
Target	243

Corporate Sector Ratings Exposure



Summary Schedule of Fixed Income Brokers Utilized by the Long-Term Investment Fund for Fiscal Year 2004

ABN AMRO	Goldman Sachs
Advest	HSBC Securities
BB&T	JP Morgan Chase
Banc One	Legg Mason
Bank of America	Lehman Brothers
Bear Stearns	McDonald Investment Inc.
Blaylock	Mellon
Citigroup	Merrill Lynch
Countrywide	Morgan Keegan
Dain Rauscher	Morgan Stanley
Deutsche Banc	NBC Capital
A.G. Edwards	UBS Warburg
Credit Suisse First Boston	Wachovia
First Tennessee Bank	William

Equities

The equity allocation of the pension fund is actively managed through the Equity Investment Fund (EIF). The State Treasurer and the Investment Division determine the overall asset allocation and select managers to implement those decisions. The Investment Division is charged with monitoring those managers to ensure compliance with the overall objectives of the EIF.

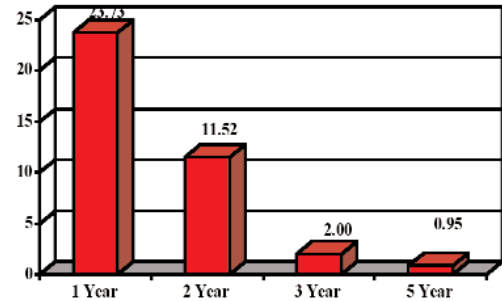
For the fiscal year ended June 30, 2004, the EIF produced a total return of 23.73% versus a 23.64% for the policy portfolio. This strong relative performance was due to the decision to maintain an overweight exposure to mid and small cap stocks in the U.S. and increases the international exposure.

Most of the major rebalancing work in the EIF had been accomplished going into FY 2004. As the need for major shifts within the EIF subsided, significant time and effort was spent to determine if the goals of the rebalancing program, greater risk control and increased alpha, were being realized. The tracking error of the EIF relative to its policy portfolio has declined over a rolling three year period and there is alpha being generated by the overall program.

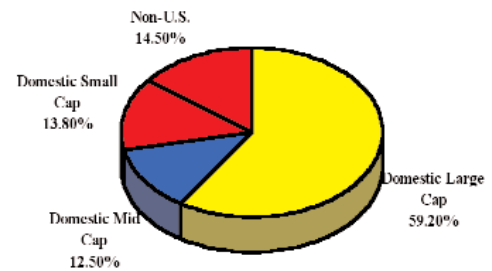
The cost of this program was \$46 million.

Note: Please see the exhibits for information on individual manager performance and fees paid. Information is also available on brokers used by the equity program.

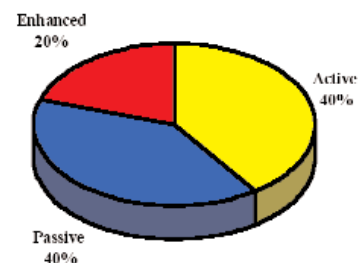
Equity Investment Fund Performance as of 6/30/04



Equity Allocation



Management Style Allocation



Real Estate

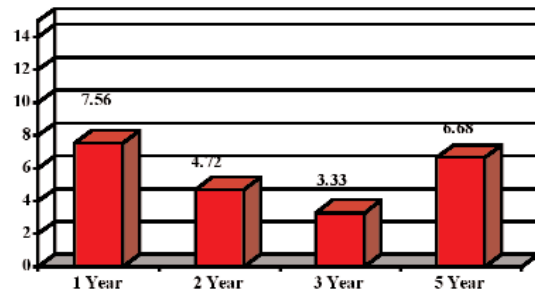
The real estate allocation of the pension fund is actively managed through the Real Estate Investment Fund (REIF). The State Treasurer and the Investment Division determine the overall asset allocation and select managers to implement those decisions. The Investment Division is charged with monitoring those managers to ensure compliance with the overall objectives of the REIF.

For the fiscal year ended June 30, 2004 the REIF generated a total return of 7.56% versus 9.59% for NCREIF. The absolute returns for FY 2004 were significantly higher than the prior year due to a strong market for selling select properties. The relative performance was hampered by new commitments to opportunity managers who are in the investment period and generate a J-curve impact similar to that in private equity.

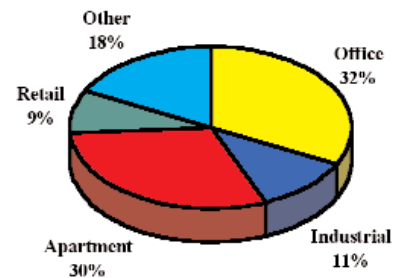
The pension plan has always owned real estate in order to provide diversification and produce returns that are between fixed income and equity. These objectives were met in 2004. In looking to FY 2005, there appears to be a variety of opportunities for prudent real estate investors and considerable time will be spent identifying and investing in those areas.

The cost of this program was \$15 million.

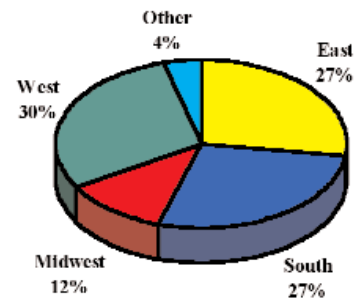
Real Estate Investment Fund Performance as of 6/30/04



Real Estate Property Allocation



Real Estate Geographic Allocation



Alternatives

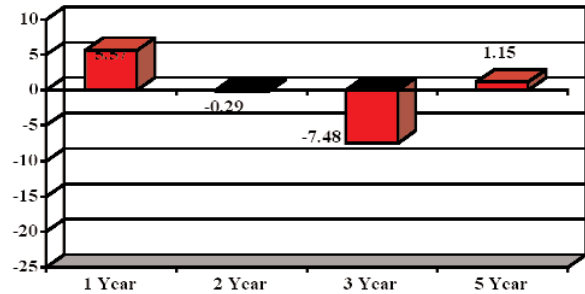
The alternative allocation of the pension fund is actively managed through the Alternative Investment Fund (AIF). Alternatives include private equity and hedge funds. The State Treasurer and the Investment Division determine the overall asset allocation and select managers to implement those decisions. The Investment Division is charged with monitoring those managers to ensure compliance with the overall objectives of the AIF.

For fiscal year 2004, the AIF generated a total return of 5.57%. This was surprisingly strong given the fact that the AIF has been investing significantly in private equity, which typically has low to negative returns during the first few years of the investment period. Several factors contributed to this positive return. Our hedge funds of fund exposure performed well in FY 2004, generating a total return of 7.07%. This return was generated with a minimal level of volatility and continues to offer strong risk adjusted returns as well as lowering the volatility of the overall pension fund. A significant amount of the private equity commitments over the last two years have been to either buyout or later stage private equity funds. These investments have begun to make distributions back to us and this has been the primary reason for our better than expected results.

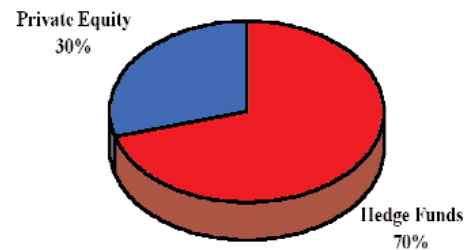
In looking at FY 2005, the opportunity exists to invest in earlier stage private equity, now that the buyout/ later stage investments are beginning to distribute cash back to the AIF. While we have not been active in the hedge fund area during FY 2004, we may selectively look to increase this allocation during the coming year.

The cost of the program was \$13.5 million.

Alternative Investment Fund Performance as of June 30, 2004



Alternative Allocation





THE STATE TREASURER'S ANNUAL REPORT

STATE AND LOCAL GOVERNMENT

STATE AND LOCAL GOVERNMENT FINANCE DIVISION

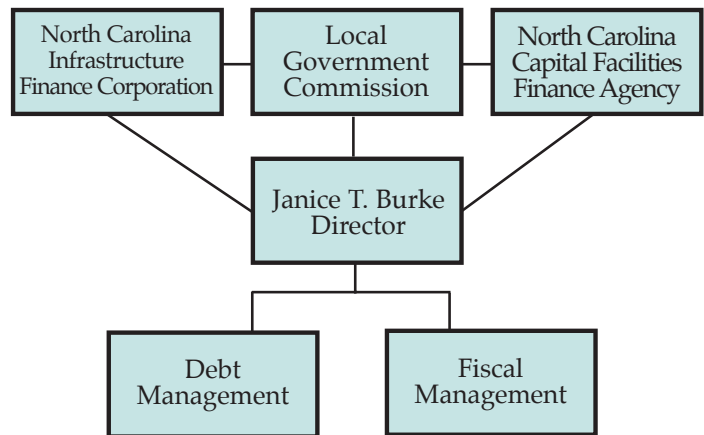
The State and Local Government Finance Division is organized to provide the State Treasurer, the Local Government Commission, the North Carolina Solid Waste Management Capital Projects Financing Agency, the North Carolina Infrastructure Finance Corporation and the North Carolina Capital Facilities Finance 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) provides 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. 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 Pro Tempore of the Senate and one by the Speaker of the House of Representatives). The

Department of State Treasurer provides the administrative staff for the Agency.

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

The State and Local Government Finance Division handles the sale and delivery of all State and local debt and monitors the repayment of State and local government debt.



OPERATIONAL HIGHLIGHTS

- During fiscal year 2003-04, the State sold general obligation bonds totaling \$1.486 billion. These sales included over \$326 million in refunding bonds that will save the State more than \$12.5 million in interest costs, and over \$1.159 billion in highway, clean water, natural gas and higher education bonds sold at interest rates that will result in interest savings of more than \$72 million over the life of the bonds when compared to the national Bond Buyer's Index.
- During the 2003-04 fiscal year, the State issued \$502.4 million in lease revenue/installment purchase debt through the North Carolina Infrastructure Finance Corporation to provide funds for the acquisition, construction and equipping of five correctional facilities and financing the repair and renovation of State facilities and related infrastructure.
- 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 all 100 counties and 431 municipalities.

- The State continued to retain its excellent bond rating of "Triple-A" from two of the three national rating agencies.
- General obligation bonds sold for local governments in 2003-04 totaled \$1.6 billion. These included \$500 million sold competitively for new money with rates averaging 82 basis points under the national Bond Buyer's Index resulting in savings of more than \$37 million over the life of these bonds; \$800 million in refunding bonds sold competitively resulting in cumulative savings of \$63 million; and \$300 million in negotiated sales.
- Nineteen revenue bond issues for more than \$688 million were sold for local governments, mainly for hospitals, airports, water and sewer and housing projects. In addition, the use of interest rate swaps on general obligation and revenue bonds increased significantly. Fifteen swaps associated with more than \$1.4 billion in indebtedness were approved during 2003-04.
- Other bond issues sold in 2003-04 included over \$190 million for the North Carolina Housing Finance Agency, increasing the supply of affordable housing for North Carolinians of moderate and low income; \$37.7 million in industrial revenue and pollution control bonds to finance or refinance seven projects creating about 102 new jobs; \$1.18 billion in installment purchase contracts (including refundings) typically for smaller projects; \$605 million in hospital revenue bonds through 15 bond issues for the North Carolina Medical Care Commission; and \$222.4 million for cap-

ital projects for private schools, colleges and other nonprofit corporations through 10 bond issues by the North Carolina Capital Facilities Finance Agency.

- Members of the staff worked with the School of Government to present the Third Annual State Treasurer's Conference on Local Government Accounting, Auditing and Financial Management for local government auditors and officials.
- Memorandums were issued to local governments and their auditors concerning GASB Statement No. 34, year-end recognition of sales tax and other revenues, allowable investments to qualify for in substance defeasance, GASB Technical Bulletin 2003-1, revised GAO Independence Standards and single audit and financial reporting issues.
- The staff reviewed the financial statements and reports of cash and investments of all local governments and public authorities. The staff also reviewed all secondary market disclosures of units as required by the Securities Exchange Commission.
- The fifteenth 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. For the third year, State Treasurer's Awards were also presented to nonprofit organizations that provide valuable services to the citizens of the State.
- In November, the Local Government Commission voted to assume control of the financial affairs of the South Brunswick Water and Sewer Authority. During the fiscal year the Authority's outstanding bonded debt was paid in full and Brunswick County began providing services to its customers.

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 continued to be favorable for the issuance of tax-exempt debt during the fiscal year

and the international pressures in the Middle East did not have an adverse effect in the market place. Issuers of new and refunded debt continued to enable governmental units to receive historically low interest rates for their bonds. During this period, The Bond Buyer's Index of 20 General Obligation Bonds ranged from a high of 5.18% in August 2003 to a low of 4.35% in March 2004.

The Basic Functions Debt Management

The Division issues and monitors all State debt, including debt secured by a pledge of the taxing power of the State and debt for which repayment is subject to appropriation. 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, 2004, the State had general obligation bonds outstanding of \$4.97 billion and Certificates of Participation and Lease-Purchase bonds outstanding of \$519.6 million. (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, structuring the issue and the underlying security documents and preparing the data that must be presented to the Local Government Commission for its approval.

The Division assists the State Treasurer in representing the State in all presentations to Moody's Investors Service, Inc., Standard and Poor's Corporation, and Fitch Ratings Inc., the three national bond rating agencies used by the State and local governmental units in North Carolina. At June 30, 2004, the State had a "Triple-A" rating, the highest rating attainable, from two of the three national rating agencies. These favorable ratings have 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, anticipated interest rates and 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 distributed electronically 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, 2004, authorized and unissued general obligation bonds for local governments amounted to \$2.9 billion; general obligation debt outstanding amounted to over \$8.5 billion. (See Table 8). Of the \$1.6 in general obligation bonds marketed for local units, in excess of \$500 million were sold competitively for new money at tax-exempt rates averaging approximately 82 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 \$37 million in interest costs. Over \$800 million in refundings were sold competitively, achieving savings in excess of \$63 million over the life of these bonds.

The Division's staff assists in the sale of revenue bonds, which must have the Commission's approval in order to be issued by municipalities, public authorities, 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.

The Division's staff also assists 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. This agreement obligates the unit to the extent of \$500,000 or a sum equal to one-tenth of one percent (.001) of the appraised value of property subject to taxation by the unit, whichever is less. Local Government Commission approval is also 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, 2004, the Local Government Commission approved contracts or other agreements (including refunding) totaling \$1.05 billion. (See Tables 5 and 6).

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 has 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.)

The Division also serves as staff to the North Carolina Infrastructure Corporation created by General Assembly to issue tax-exempt debt to finance the acquisition, construction, repair and renovation of State facilities and related infrastructure.

Fiscal Management

The Division is required to monitor 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 mandates 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 report 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 staff of the Fiscal Management Section annually reviews the audited financial statements of approximately 1,175 local governments and public authorities. The staff determines that all reports are prepared in accordance with generally accepted accounting principles and that applicable auditing standards have been followed. The staff also reviews the audit report to evaluate the financial condition of the unit, to determine if the unit complied with the Local Government Budget and Fiscal Control Act and other State

laws and to determine if the unit has an adequate system of internal controls in place. The staff also verifies that revenue bond covenants have been met and that required compliance statements have been issued. If a municipality is a member of a joint municipal power agency, the staff will also review the transfers between the municipality's General Fund and Electric Fund to determine if it complies with a transfer policy adopted by the unit.

When 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 assistance. A response detailing the unit's plans to take corrective action is requested.

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 School of Government, the North Carolina Association of School Business Officials, 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 staff also worked with the School of Government to present the Annual State Treasurer's Conference on Local Government Accounting, Auditing and Financial Management to provide training to local government auditors and officials.

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 School 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. The staff reviewed and compiled all compliance supplements from State agencies to be used by local government auditors. A member of the staff serves on the Governmental Accounting and Auditing Committee of the North Carolina Association of Certified Public Accountants. Staff members provide additional assistance to independent auditors by researching their questions concerning governmental accounting, auditing and budgeting, as well as North Carolina General Statutes. In addition, 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 2003-04 the State sold general obligation bonds totaling \$1.49 billion. In August, the State sold competitively \$91 million of general obligation refunding bonds at a true interest cost of 2.3396% and \$235.7 million general obligation refunding bonds at a true interest cost of 3.2991%, generating interest savings of more than \$12.5 million.

In November, the State sold \$400 million in general obligation highway bonds competitively at a true interest cost of 3.8298%. When compared to the national Bond Buyer's Index (the "BBI"), this sale resulted in savings over the life of these bonds of \$30.6 million. In March 2004, \$707.9 million in clean water and higher education bonds were sold competitively at a true interest cost of 3.9318%, resulting in interest savings of \$41.8 million over the life of the bonds when compared to the BBI. Natural gas bonds of \$36 million were also sold in March at a low true interest cost of 2.4768%, and \$15.255 million in clean water bonds were sold in March at a low interest cost of 2.3088%, due primarily to the short life of these bonds.

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

North Carolina Infrastructure Finance Corporation — In 2003-04, the State issued \$502.4 million in certificates of participation and lease purchase revenue bonds. In July 2003 and in February 2004, the State, through the North Carolina Infrastructure Finance

Corporation, issued respectively \$218.4 million in lease purchase revenue bonds with interest costs of 4.3219% and \$158.9 million in certificates of participation with interest costs of 4.0861% to provide funds for the acquisition, construction and equipping of five correctional facilities. In May 2004, the State issued \$125 million in certificates of participation at an interest rate of 4.3519% through the North Carolina Infrastructure Finance Corporation to finance the repair and renovation of State facilities and related infrastructure. The State is required to make the installment payments on the certificates of participation subject to its right of nonappropriation. No deficiency judgment may be rendered against the State and the taxing power of the State or any agency, department or commission of the State that is not pledged directly or indirectly to secure the certificates of participation.

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 increased from 118 to 158 and the dollar volume approved increased from \$883.1 million in FY 2002-03 to \$1.045 billion in FY 2003-04. The increase in volume in the past two years results from a significant number of refundings. (See Tables 5 and 6.)

Revenue Bonds — Interest in revenue bond financing and related derivative products (swaps, forwards,

swaptions — especially in hedging and refunding opportunities) continued. More than \$23.5 million in net present value savings were achieved as a result of four refundings, including over \$21 million in net present value savings for the North Carolina Eastern Municipal Power Agency associated with a \$208.1 million synthetic fixed rate refunding. While these synthetic products provide enhanced benefits, they also involve risks that have to be considered by each issuer. Revenue 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 2003-04, the Local Government Commission sold over \$465 million in revenue bonds in 18 issues for local governments. Economic growth, synthetic alternatives to traditional refundings, viable enterprise activities and the continued presence of extremely low market rates have been factors in the continued interest in this type of financing. However, revenue bonds are more costly than general obligation bonds because of both higher rates and greater issuance costs. Water and sewer, housing, hospital and airport issues continued to represent the majority of the revenue bond purposes.

Interest Rate Swaps — In addition to refundings, interest rate swap utilization on general obligation and revenue bonds as well as certificates of participation have increased in significance. Not including the two synthetic fixed rate refundings associated with revenue bonds, 15 swaps associated with over \$1.4 billion dollars in indebtedness were approved during the 2003-2004 year. By the end of the year swaps had been executed that were associated with over \$486.6 million dollars of indebtedness. Approvals included swaptions, variable to fixed interest rate swaps, fixed to variable interest rate swaps, caps, swaps associated with put bonds and forward starting swaps. While providing certain expected benefits, each of these transactions evaluated individually based on the cost/benefit and additional risks involved.

North Carolina Medical Care Commission Bonds — During 2003-04, the Local Government Commission approved and sold 15 separate issues of bonds and notes for the North Carolina Medical Care Commission totaling more than \$605 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 Novant Health, Inc. for \$164 million to provide for construction and refinancing of other indebtedness. In attempting to meet the needs of our aging population, eight revenue bond issues providing for the acquisition or financing of separate independent living/assisted care facilities were successfully completed during 2003-04, and hospital construction and/or refi-

ncings comprised six other issues. Diverse issue needs were met through fixed rate revenue bonds and variable rate demand revenue bonds. In attempting to better address the healthcare continuum, careful planning and evaluation will continue to be given to additional project risks and innovative techniques used in financings 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) that 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 \$6.2 billion in tax-exempt bonds and tax credits to produce and provide housing for greater than 161,000 households. In FY 2003-04, financing and tax credits were provided to support total development of \$84.9 million.

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 1,109 issues totaling more than \$6.188 billion. These issues have created over 98,500 jobs and saved approximately 39,200 jobs. In the fiscal year ended June 30, 2004, six issues of Industrial revenue and Pollution Control Facilities Bonds were issued for a total of \$28.2 million, resulting in the creation of 102 jobs. Additionally, \$9.5 million of special purpose bonds were issued by local industrial and pollution control authorities benefiting the public interest.

Volume Cap Allocation — The approved legislation 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 2004, the State was allotted \$673 million to use for private activity bonds.

Triple A General Obligation Bond Ratings — At June 30, 2004, the State had a "Triple A" bond rating, the highest rating obtainable, from two of the three rating

agencies. The rating from the third agency is Aa1, which is one grade below "Triple A."

North Carolina Capital Facilities Finance Agency — The North Carolina Capital Facilities Finance Agency (NCCFFA), created in 1986, was originally named the North Carolina Educational Facilities Finance Agency, and it 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 the 1998 session of the General Assembly to broaden its powers to permit financing facilities of kindergarten, elementary and secondary nonprofit private schools. The act was amended again in the 1999-2000 session to change its name to its present name and to allow it to finance additional types of capital projects in the public interest such as solid waste recycling activities and student-housing facilities owned or operated by an institution other than an institution of higher education or elementary or secondary education.

The NCCFFA has provided \$1.9 billion in tax-exempt capital financing through 130 issues. This amount includes \$23.6 million in tax-exempt financing originally issued by the North Carolina Industrial Facilities and Pollution Control Facilities Financing Authority in three issues on behalf of 13 corporations. There have been no defaults in bonds issued by the agency. At June 30, 2004, there were \$1.5 billion 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, 2004, the NCCFFA issued \$222.4 million for ten 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 1987 General Assembly established the North Carolina Clean Water Revolving Loan and Grant Fund to provide low-interest rate loans to local governments constructing or improving water and sewer operations. 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 and debt management policies, determining the feasibility of the project and coordinating the loan offers with the Department of Environment and Natural Resources. Staff prepares Maturity schedules for each loan, and it oversees the signing of the promissory notes.

In 2003-04, a total of 11 units received revolving loans ranging from \$620,377 to \$20,000,000. Additionally, one State bond loan was approved in the amount of \$1,125,350.

Fiscal Management

Monitoring the Financial Condition and Operations of Local Governments and Public Authorities — Approximately 300 audit letters were sent to units of local government during the fiscal year, expressing the staff's concerns about various matters and offering suggestions for improvements and assistance.

The staff also reviews the semi-annual Reports of Deposits and Investments June 30, 2003 and December 31, 2003 to determine strengths and weaknesses in the units' investment portfolios and to identify instances of noncompliance with the North Carolina General Statutes.

The staff continues to review the secondary market disclosures of units and prepare resource information to assist units that are subject to Rule 15c2-12 of the Securities and Exchange Commission. This rule requires units to make disclosures to the secondary market, both annually and possibly more frequently, for as long as it has outstanding applicable debt. For the fiscal year ended June 30, 2003, 220 units were required to make annual information filings by January 31, 2004.

Compliance Audit Reviews and Other Services — As a part of the audit review process the Division's staff reviewed approximately 632 Single audits and approximately 190 "Yellow Book" audits to ensure that audits were performed under Government Auditing Standards (the "Yellow Book") and the federal and State single audit acts meet all the federal and State requirements. Local governments and public authorities receiving a certain level of federal and/or State financial assistance must have a financial statement audit done in accordance with these standards. The staff also reviewed additional documentation of eligibility tests of major State programs performed by auditors for 104 local governments. The Office of State Auditor will rely upon these tests and this documentation when issuing its Single audit report on the state.

The staff reviewed external quality review reports received from 352 offices of CPA firms. Paragraph 3.36 of the Yellow Book contains a requirement that auditors have an external review of their quality control procedures once every three years and submit a copy of their

most recent peer review report to the party contracting for the audit. Before approving an audit contract, the staff must verify that all required peer reviews have been performed.

G.S. 159-34 assigns responsibility for reviewing and compiling compliance supplements prepared by State agencies to the staff. The supplements are used to perform the Single audit of federal and state monies passed on to local governments. The staff must verify that supplements for all programs have been prepared and that all are properly formatted. The staff reviewed and compiled over 336 compliance supplements from 15 State agencies.

State Treasurer's Conference on Local Government Accounting, Auditing and Financial Management, and Other Continuing Education Courses and Conferences — Staff members worked with the School of Government to present the third annual conference. The conference was intended for both local government auditors and officials. It was conducted on two sites and drew more than 350 participants. Topics covered included GASB Statement No. 34, amended Governmental Auditing Standards for independence, debt management, cash and investments reporting and audit issues.

Staff members spoke at 37 continuing education courses and conferences sponsored by organizations such as the School of Government, various North Carolina finance officers associations and the North Carolina Association of Certified Public Accountants.

Memoranda and Other Publications — staff provides significant service by preparation and distributing of memoranda informational, technical, or statistical to units of local government and their independent auditors. Each year staff issues memoranda are issued comparing the following topics among units: General Fund, fund balance available for appropriation, the collection of property taxes, the management of investments, the operations of municipal electric systems, the operation of municipal water and sewer systems, county spending for school capital outlay and the operation of public hospitals.

Additional topics of particular interest this year include the implementation of GASB Statement No. 34, year-end recognition of sales tax and other revenues, allowable investments to qualify for in substance defeasance, GASB Technical Bulletin 2003-1 and the revised GAO Independence Standards. Other topics include the collateralization of public deposits, Single audit and financial reporting issues and procedures for the approval of audit contracts and invoices.

The North Carolina Department of State Treasurer's Policy Manual provides guidance to local governments in such areas as budgeting, purchasing, payroll, internal controls and financial reporting. The

manual is updated annually for changes in General Statutes, other laws and regulations and accounting and financial reporting standards.

The audit manual available to auditors of local governments in North Carolina is updated annually. The manual is updated 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 also revised based upon experience and information from those units implementing GASB Statement 34 in Phase I and II.

State Treasurer's Accounting/Financial Management Awards Programs — The Department sponsored the 15 annual "State Treasurer's Governmental Accounting/Financial Management Awards Program" for local governments and public authorities who make significant improvements in their accounting or financial management systems. The Department also sponsored the third-annual awards program for nonprofit organizations to recognize the valuable work done by these organizations for the citizens of the State. Entries were received from private schools, private colleges nonprofit hospitals and other non-profit organizations.

These award programs are designed to recognize applicants who have enhanced their current operations through the implementation of new and improved accounting and financial management programs. The North Carolina Association of Certified Public Accountants (NCACPA) evaluated the applications. Publicity surrounding this program also caused an exchange of ideas between local governments and between nonprofit organizations

Arbitrage Rebate Requirements for State Bonds — In order to preserve the tax-exempt status of debt issues of the State that are currently outstanding, the staff continues to perform several tasks that 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 debt issue and preparing information for use by bond counsel and other outside professionals, who provide technical assistance to the staff.

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, Single audit resources, illustrative financial statements and the audit and policy manuals during the year. Data from municipal and county Annual Financial Information Reports for the fiscal years ended June 30, 1998 through June 30, 2003 are now available on the homepage. Users can download most of this information in Microsoft Word or Excel, which can assist in preparing audit reports and statistical information. Electronic formats have been added to the Web site. Local governments with Internet capability can download the LGC Form 203 — Report of Deposits and Investments, the Annual Financial Information Report (AFIR), and the Contract to Audit Accounts 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 its auditors by e-mail or fax of new materials and updates that are placed on the Department's home page. Currently, 1,171 units and 165 auditors are taking advantage of this service.

The New Financial Reporting Model — In June 1999, GASB issued Statement No. 34, Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments, that has greatly changed the financial statements of local governments and public authorities in the State.

Most counties and school boards implemented GASB Statement No. 34 for the fiscal year ended June 30, 2003. Most cities and public authorities will implement the Statement for the fiscal year ended June 30, 2004. The staff worked with the various councils of government in the State to provide training to municipalities that will be implementing GASB Statement No. 34 for the fiscal year ended June 30, 2004. Training was conducted at 13 different sites throughout the State and 460 municipal officials and auditors attended these training sessions.

Guidance on how to implement infrastructure reporting has been issued as well as changes to the chart of accounts, categorized revenue sources, revenue recognition criteria under the modified and full accrual basis of accounting and illustrative financial statements.

Guidance is available on the Web site to help units and auditors determine major funds, allocate internal service fund activities and prepare cash flow statements on the direct method. A conversion worksheet to adjust

from fund financial statements to government-wide financial statements has been developed. The staff will also be preparing an illustrative financial statement for a charter school and public housing authority that have implemented GASB Statement No. 34.

South Brunswick Water and Sewer Authority — In November 2003, the Local Government Commission voted to assume controls of the financial affairs of the South Brunswick Water and Sewer Authority (SBWASA). At that time SBWASA had an outstanding revenue bond that had been issued to construct sewer lines and purchase a site for a larger sewer plant. SBWASA also had outstanding payables to contractors for work done to prepare for construction of that plant.

During the summer of 2003, a court ruled that SBWASA could not take action to collect outstanding storm water management fees. SBWASA did not have sufficient uncommitted capacity to charge and collect any additional impact fees from developers. Without these revenue sources, the governing board of SBWASA realized it would not be able to continue to operate and make their debt service payments. It also realized that they did not have sufficient resources or community support to construct the larger sewage plant.

The Commission began to work with SBWASA to address its financial difficulties. The Commission determined that SBWASA would not be able to make future debt service payments, and took control of SBWASA's finances and worked with SBWASA to contract with Brunswick County to operate the current plant. SBWASA's budget was amended, all positions were eliminated and its offices were closed. Brunswick County, SBWASA and the Commission worked together to retire the outstanding revenue bonds and transfer the current sewer plant to the County. The County agreed to retire the outstanding bonds and to continue to provide services to the customers of SBWASA in exchange for the plant. This transaction was completed in April 2004, and the bonds were retired.

The Commission is still in control of SBWASA's finances and will work with the governing board of SBWASA to dispose of the land that had been purchased as a future plant site and pay the valid debts of SBWASA

Chart 7

Purposes For Which Local Governments Sold Bonds and Notes Fiscal year 2003-2004

	School	Utilities	Refunding	Other	No.	Total Amount
G.O. Bonds						
Counties	\$ 578,300,000	\$ 9,425,500	\$ 620,045,000	\$ 139,755,000	54	\$ 1,347,525,500
Municipalities	-	\$ 2,275,000	\$ 171,300,000	\$ 65,505,000	26	\$ 239,080,000
Districts and Authorities	-	\$ 17,898,000	\$ 37,450,000	-	15	\$ 55,348,000
Total G.O. Bonds	\$ 578,300,000	\$ 29,598,500	\$ 828,795,000	\$ 205,260,000	95	\$ 1,641,953,500
Revenue Bonds						
Counties	-	\$ 31,540,000	-	\$ 5,240,000	2	\$ 36,780,000
Municipalities	-	\$ 180,556,000	-	-	5	\$ 180,556,000
Districts and Authorities	-	\$ 362,234,000	-	\$ 109,335,000	12	\$ 471,569,000
Total Revenue Bonds	-	\$ 574,330,000	-	\$ 114,575,000	19	\$ 688,905,000
Special Obligation Bonds						
Solid Waste	-	-	-	\$ 3,000,000	1	\$ 3,000,000
Total Special Obligation Bonds	-	-	-	\$ 3,000,000	1	\$ 3,000,000
State Bond and Revolving Loans						
Counties	-	\$ 18,114,362	-	-	9	\$ 18,144,362
Municipalities	-	\$ 103,739,417	-	-	37	\$ 103,739,417
Districts	-	\$ 26,618,257	-	-	7	\$ 26,618,257
Total State Bond and Revolving Loans	-	\$ 148,472,036	-	-	53	\$ 148,472,036
Notes						
G.O. Bond Anticipation Notes	-	\$ 46,999,000	-	\$ 11,825,000	25	\$ 58,824,000
Revenue Notes	-	\$ 3,016,000	-	-	1	\$ 3,016,000
Total Notes	-	\$ 50,015,000	-	\$ 11,825,000	26	\$ 61,840,000
Total Bonds and Notes	\$ 578,300,000	\$ 802,415,536	\$ 828,795,000	\$ 334,660,000	194	\$ 2,544,170,536

Debt Management Activities – State and Local (In Millions)

	FY	2003-04	FY	2002-03	FY	2001-02
	No.	Amt.	No.	Amt.	No.	Amt.
Bonds Sold for State						
G.O. Bonds (General Fund)	4	\$ 1,085.9	7	\$ 1,268.0	4	\$ 605.0
G.O. Bonds (Highway Fund)	1	400.0	0	-	0	-
Certificates of Participation	3	502.4	1	17.5	0	-
Total	8	\$ 1,988.3	8	\$ 1,285.5	4	\$ 605.0
Bonds and Notes Sold for Local Government Units:						
G.O. Bonds	95	1,642.0	78	1,711.9	60	1,040.2
Revenue Bonds	18	465.9	26	856.2	23	611.8
State Bond and Revolving Loans	53	148.5	12	50.6	16	39.4
Special Obligation Bonds - Solid Waste	1	3.0	1	14.4	0	-
G.O. Notes	25	58.8	21	72.4	28	86.4
Revenue Notes	1	3.0	0	-	0	-
Total	193	\$ 2,321.2	138	\$ 2,705.5	127	\$ 1,777.8
Installment/Lease Contracts Sold for Local Units:						
Revenue Bonds sold for Power Agencies	1	223.0	4	1,517.5	0	-
Revenue Bonds Sold for:						
Medical Care Commission	15	605.5	12	769.0	13	497.1
Housing Finance Agency	4	190.4	2	58.1	3	302.8
Industrial Facilities and Pollution Control						
Financing Authorities	7	37.7	8	41.9	15	122.9
Capital Facilities Finance Agency	10	222.4	7	193.0	19	455.9
Total	36	\$ 1,056.0	29	\$ 1,062.0	50	\$ 1,378.7
Grand Total	405	\$ 6,768.7	243	\$ 7,227.2	251	\$ 4,223.4



THE STATE TREASURER'S ANNUAL REPORT

FINANCIAL OPERATIONS DIVISION

FINANCIAL OPERATIONS DIVISION

The Financial Operations Division is responsible for ensuring that efficient banking services are provided to all State agencies and institutions. It also ensures that all funds deposited, invested, and disbursed through the State Treasurer are properly accounted for and reported. The accounting functions include accounting for investments, pension funds, trust funds, and State debt. Departmental support functions include budget prepara-

tion and control, cash management, payroll, purchasing, and accounts payable for the various divisions. Reconciliation functions include reconciling depository bank account statements and reconciling budgetary accounts with the Office of State Controller. The Division is comprised of four sections: Banking Operations, Bank Reconciliation Unit, Statewide Operations and Departmental Operations.

OPERATIONS HIGHLIGHTS

- Converted the legacy banking systems into a fully integrated single Core Banking System (CB\$), an off-the-shelf banking product used by commercial banks.
- Expanded the positive pay program by enrolling a number of the larger agency accounts. More than 500 counterfeit warrants were detected during the year. In addition, some 1,500 forged warrants were discovered and resolved.
- Reached an all time high of \$68 million in the securities lending programs administered by the two custodians, Bank of New York and State Street Bank.
- Processed and reconciled approximately 250,000 bank deposits made by 775 different depositing agency locations.
- Funded vendor payments, payroll and governmental transfers by processing 6,700 electronic warrants totaling \$ 24.5 billion.
- Presented more than 16 million State warrants totaling \$24 billion through the Federal Reserve Bank and processed them against agencies' disbursing accounts.
- Facilitated the online Core Banking System so that an average of 1,000 images of paid State warrants could be viewed by agencies each business day.
- Recorded more than \$4.5 billion worth of securities pledged to the State Treasurer to secure public deposits in financial institutions.

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. 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 State funds through the commercial banking system in the course of conducting State business. The Banking Operations Section performs the State Treasurer's role of serving as the State's Banker.

Receiving State Moneys — All revenues collected by a State entity on behalf of the State must be deposited

with the State Treasurer. To facilitate this requirement, the section established correspondent depository relationships with various banks and savings institutions in order for those entities to have a convenient location to make their deposits. Relationships are maintained with the six major banking institutions having a statewide branch network, as well as 70 community banks across the state. Moneys deposited into these depository accounts are concentrated daily in order to fund the State's daily disbursement requirements, with any excess being made available to the Investment Management Division for investment purposes.

Disbursing State Moneys — State entities disburse funds from their disbursing accounts maintained with the State Treasurer either electronically or by the issuance of warrants (State checks). For funds disbursed electron-

ically, the section facilitates the funding of the electronic files submitted to the originating depository financial institutions. For funds disbursed by warrants, the section has an established arrangement with the Federal Reserve Bank in Charlotte for processing of items presented for payment. The warrants, which bear the State Treasurer's unique ABA transit-routing number, are processed and imaged, with the financial data and images being transmitted to the section for further validation processing. During fiscal year 2003-2004, more than 16 million warrants were processed.

Specialized Banking Functions — Other functions performed by the section are securities-processing related. As such, the section is involved in and monitors the activities of the Division's custodian bank, including securities delivery instructions, collection of income and maturities, and the securities lending program. Additionally, the section performs the accounting and monitoring process for the collateralization of public deposits program, which provides for the securing of funds deposited by the State and local units of governments with financial institutions, where the funds on deposit exceed the FDIC insurance coverage.

Bank Reconciliation Unit — The Bank Reconciliation Unit reports directly to the Director of the Financial Operations Division for internal control purposes. This unit is responsible for reconciling all of the State Treasurer's bank accounts. The central depository accounts, the Federal Reserve clearing account and cash concentration accounts located in Raleigh are reconciled daily. Other out of town community bank depository accounts are reconciled monthly. This unit also performs a monthly reconciliation of the State Treasurer's budgetary control records with those of the State Controller to ensure that an accurate system of checks and balances is maintained.

Statewide Operations — The Statewide Operations Section provides the accounting functions for the State Treasurer's banking, investments programs, the retirement trust funds and the Escheats Trust Fund.

Investment Accounting

The section manages the accounting for the State Treasurer's \$69 billion investment and banking programs. The accounting and reporting for the investment program is very similar to the accounting for mutual funds. The section maintains an accounting system that accounts for the asset balances, principal and income transactions of each investment fund, market valuations, participant units of ownership and earnings distributions.

Retirement and Escheat Fund Accounting

The section maintains the general ledgers for each pension fund, employee benefit trust funds and the Escheat Fund administered by the State Treasurer. All pension payments are handled in the Retirement Systems Division, with oversight by this section. The section reviews the transactions, posts entries to the general ledger and the North Carolina Accounting System (NCAS).

Departmental Operations

The Departmental Operations section manages all fiscal duties that relate to the administration of the programs of the Department of State Treasurer. These duties include developing and monitoring the operating budget for the department, preparing the payroll for our 300 employees, depositing funds received by the department for various activities, managing accounts payables, accounting for fixed assets, maintaining the general ledger for the Department and enforcing centralized purchasing. This section works closely with the Office of State Budget and Management and the Office of the State Controller to ensure that the Department is reporting accurately and timely according to all State requirements.



THE STATE TREASURER'S ANNUAL REPORT

ADMINISTRATIVE SERVICES DIVISION

ADMINISTRATIVE SERVICES DIVISION

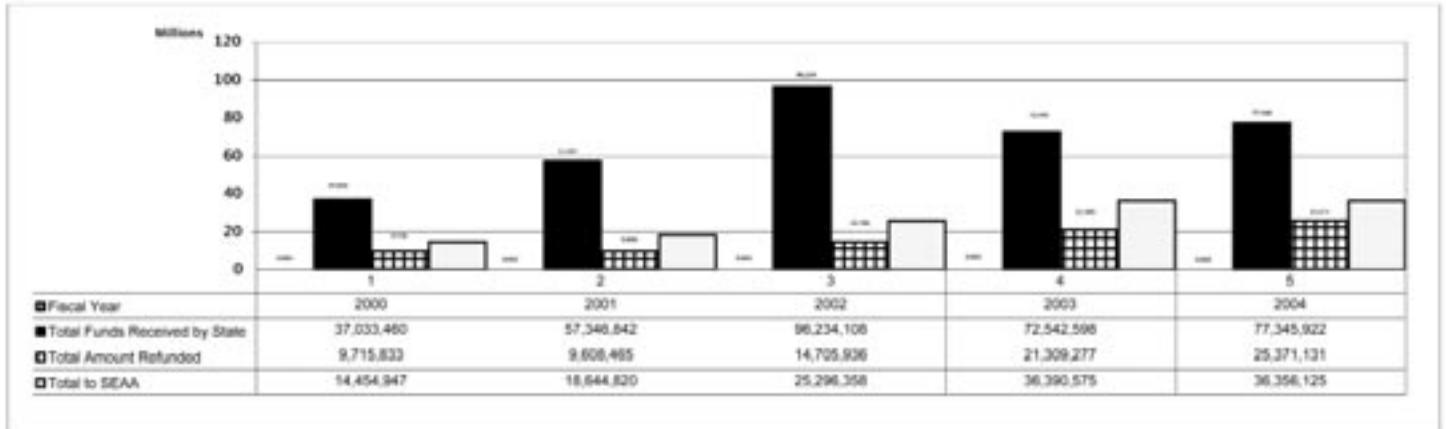
Escheat and Unclaimed Property Program —

The State Treasurer's Office maintains a database of the names and addresses of owners of unclaimed property and is responsible for recovering and returning such property to all rightful owners. These funds are invested while being held in trust until the owners are located. Interest earnings on those investments are given to the State Education Assistance Authority (SEAA) for student loans and grants. For fiscal year ending 2004, \$36,356,125 was earned and given to SEAA to aid approximately 22,350 students with loans and grants to North Carolina supported schools.

Property is considered unclaimed when the apparent owner fails to communicate interest in it for a period of time, called the dormancy holding period. Once property has met its dormancy period and the

holder has exhausted their resources in locating the owner, the names, addresses and any funds they are holding are escheated to the State Treasurer's Office. Upon receipt of this information, efforts are made to locate the owners by various means, including listing names on the Web site, earning media coverage through television and newspapers, mailing lists to Clerks of Court and attending outreach events, such as the North Carolina State Fair, and the Mountain State Fair. We also worked with AARP and legislators to return funds. We are currently matching data with Child Support Services in an effort to return unclaimed property to non-custodial parents. Data matches are also being performed with Department of Revenue and hopefully Employment Security Commission in the near future.

Escheat Unclaimed Property Program Facts



Fiscal Year	2000	2001	2002	2003	2004
Total Funds Received by State	37,033,460	57,346,842	96,234,108	72,542,598	77,345,922
Total Amount Refunded	9,715,833	9,608,465	14,705,936	21,309,277	25,371,131
Total to SEAA	14,454,947	18,644,820	25,296,358	36,390,575	36,356,125



THE STATE TREASURER'S ANNUAL REPORT

STATISTICAL TABLES

Treasurer's Cash Balances As of June 30, 2004

CONCENTRATION ACCOUNTS

Raleigh, Bank of America of North Carolina	\$ 9,910,335.03	Lexington, Lexington State Bank	90,026.98
Unemployment Clearing Account	686,100.49	Lumberton, Lumbee Guaranty Bank	57,938.45
Raleigh, Branch Banking & Trust Co.	1,686,610.40	Manteo, The East Carolina Bank	109,636.92
Raleigh, Central Carolina Bank & Trust Co.	1,327,054.47	Moyock, Bank of Currituck	61,504.01
Raleigh, RBC Centura Bank	578,880.84	Mt Airy, The Community Bank	59,720.72
Raleigh, First Citizens Bank & Trust Co.	1,546,758.68	Murphy, United Community Bank	179,163.75
Raleigh, Wachovia Bank of N.C.	<u>24,514,961.25</u>	Murphy, Macon Savings Bank	57,937.79
Total Concentration Accounts	\$ 40,250,692.16	Nags Head, The East Carolina Bank	77,547.59
		Newton, Peoples Bank	63,286.21
		North Wilkesboro, Yadkin Valley Bank & Trust Co.	57,937.82
		Ocracoke, The East Carolina Bank	155,987.96
		Pembroke, Lumbee Guaranty Bank	213,036.34
		Plymouth, Southern Bank & Trust Co.	59,720.86
		Polkton, First Bank	56,154.70
		Raleigh, Mechanics & Farmers	40,111.26
		Reidsville, First National Bank of Reidsville	59,721.31
		Robbins, First Bank	57,937.94
		Robbinsville, United Community Bank	56,154.73
		Salemburg, Southern Bank & Trust Co.	152,423.38
		Seven Springs, Southern Bank & Trust Co.	54,372.75
		Shelby, Fidelity Bank	56,154.55
		Shelby, First National Bank	57,938.14
		Spruce Pines, Carolina First Bank	57,937.50
		St Pauls, First Bank	56,155.75
		Swan Quarter, The East Carolina Bank	116,768.46
		Tarboro, The Heritage Bank	57,937.80
		Troy, The Fidelity Bank	57,938.41
		Troy, First Bank	120,334.43
		W Jefferson, 1st Charter Bank	139,944.17
		Walnut Cove, The Community Bank	63,286.14
		Wanchese, The East Carolina Bank	104,288.57
		Waynesville, United Community Bank	57,937.77
		Wentworth, Fidelity Bank	100,724.40
		West End, First Bank	25,849.47
		Windsor, Southern Bank & Trust Co.	57,937.64
		Winton, Southern Bank & Trust Co.	57,938.15
		Yanceyville, Fidelity Bank	<u>100,723.69</u>
		Total Community Banks Accounts	2,336,170.88
		Treasurer's Cash Balance before Adjustments	42,586,872.04
		Transactions in Process	30,568,497.57
		Treasurer's Adjusted Cash Balances	<u>\$ 73,155,369.61</u>

Table 2

Summary of Investment by Participants
For the Periods Ended
June 30, 2004 and June 30, 2003 (in thousands)

	June 30, 2004	June 30, 2003
Retirement Trust Funds:		
Teachers' and State Employees' Retirement System	\$ 46,799,809	\$ 43,258,594
Local Governmental Employees' Retirement System	13,238,107	11,887,613
North Carolina Firemen's Pension Fund	246,470	227,721
Rescue Squad Workers' Pension Fund	28,472	25,899
Consolidated Judicial Retirement System	361,954	330,862
North Carolina National Guard Pension Fund	52,844	46,502
Legislative Retirement System	28,249	26,401
Total Retirement Trust Funds:	60,755,905	55,803,592
Other Funds:		
General Fund	1,656,960	1,470,880
Other Funds Which Earn Interest for the General Fund	1,019,155	1,083,475
Highway Fund	389,743	430,248
Highway Trust Fund	269,636	188,940
University Funds	1,592,885	1,493,248
Other Independent Trust Funds	3,193,488	3,162,507
Local Political Subdivisions	476,595	463,214
Licensing Boards	28,144	5,926
Total Other Funds	8,626,606	8,298,438

Statement of Departmental Revenues and Expenditures
Budget and Actual (Budgetary Basis)
General Fund (Departmental Activities Only)
For the Fiscal year Ended June 30, 2004

	<u>Authorized Budget</u>	<u>Year-to-Date Actual</u>	<u>Variance Favorable (Unfavorable)</u>
Departmental Expenditures			
General Administration	\$ 1,024,757	\$ 1,017,653	\$ 7,104
Escheat Operations	1,945,107	1,943,064	2,043
Investment Management Operations	2,025,188	1,811,529	213,659
Local Government Operations	3,307,678	3,158,890	148,788
State Bond Issuance cost	838,644	838,644	-
Retirement Operations	11,825,244	11,124,566	700,678
Financial Operations:			
Banking	3,267,763	2,963,070	304,693
Accounting	1,221,442	1,140,279	81,163
Total Expenditures	<u>\$ 25,455,823</u>	<u>\$ 23,997,694</u>	<u>\$ 1,458,129</u>
Departmental Receipts			
General Administration	\$ 1,024,757	\$ 1,017,653	\$ (7,104)
Escheat Operations	1,945,107	1,943,064	(2,043)
Investment Management Operations	79,145	4,083	(75,062)
Local Government Operations	701,759	972,037	270,278
State Bond Issuance cost	838,644	838,644	-
Retirement Operations	11,825,244	11,124,566	(700,678)
Financial Operations:			
Banking	140,118	16,436	(123,682)
Accounting	1,221,442	1,140,279	(81,163)
Total Receipts	<u>17,776,216</u>	<u>17,056,761</u>	<u>(719,455)</u>
Appropriation	<u>\$ 7,679,607</u>	<u>\$ 6,940,933</u>	<u>\$ 738,674</u>

Table 4

General Obligation Bonds / Local Government / Referenda and Authorizations Fiscal Year July 1, 2003 Through June 30, 2004

	Propositions			Bonds		
	# Proposed	# Approved	% Approved	\$ Proposed	\$ Approved	% Approved
COUNTIES:						
Voted Propositions:						
Schools	5	4	80.00%	\$ 923,140,000	\$ 864,140,000	93.61%
Community College	1	1	100.00%	\$ 8,345,000	\$ 8,345,000	100.00%
Museum	1	1	100.00%	\$ 5,280,000	\$ 5,280,000	100.00%
Library	2	2	100.00%	\$ 39,725,000	\$ 39,725,000	100.00%
Total	9	8	88.89%	\$ 976,490,000	\$ 917,490,000	93.96%
Nonvoted Propositions:						
Refunding	30	30	100.00%	1,029,425,000	1,029,425,000	100.00%
2/3rd issues	1	1	100.00%	3,950,000	3,950,000	100.00%
Total	31	31	100.00%	\$ 1,033,375,000	\$ 1,033,375,000	100.00%
DISTRICTS:						
Voted Propositions:						
Sanitary Sewer	1	1	100.00%	\$ 1,335,152	\$ 1,335,152	100.00%
Water	8	8	100.00%	\$ 25,090,848	\$ 25,090,848	100.00%
Total	9	9	100.00%	\$ 26,426,000	\$ 26,426,000	100.00%
Nonvoted Propositions:						
Refunding	12	12	100.00%	\$ 51,200,000	\$ 51,200,000	100.00%
Total	12	12	100.00%	\$ 51,200,000	\$ 51,200,000	100.00%
MUNICIPALITIES:						
Voted Propositions:						
Water	3	3	100.00%	20,050,000	20,050,000	100.00%
Sewer	3	3	100.00%	15,580,000	15,580,000	100.00%
Streets	1	1	100.00%	8,500,000	8,500,000	100.00%
Recreation	4	4	100.00%	60,050,000	60,050,000	100.00%
Municipal Buildings	2	2	100.00%	6,000,000	6,000,000	100.00%
Sidewalk/Greenways	3	3	100.00%	12,300,000	12,300,000	100.00%
Open Space	1	1	100.00%	2,000,000	2,000,000	100.00%
Library	1	1	100.00%	16,260,000	16,260,000	100.00%
Total	18	18	100.00%	\$ 140,740,000	\$ 140,740,000	100.00%
Nonvoted Propositions:						
Refunding	18	18	100.00%	152,000,000	152,000,000	100.00%
2/3rd issues	3	3	100.00%	19,600,000	19,600,000	100.00%
Total	21	21	100.00%	\$ 171,600,000	\$ 171,600,000	100.00%
TOTAL VOTED	36	35	97.22%	\$ 1,143,656,000	\$ 1,084,656,000	94.84%
TOTAL NONVOTED	64	64	100.00%	\$ 1,256,175,000	\$ 1,256,175,000	100.00%
GRAND TOTALS	100	99	99.00%	\$ 2,399,831,000	\$ 2,340,831,000	97.54%

Installment Purchase Agreements Approved by Purpose Fiscal Year July 2, 2003 Through June 30, 2004

MUNICIPALITIES:		Amount
Utilities		
Sanitary Sewer	\$ 8,185,563	
Electric	\$ 3,264,000	
Water	<u>\$ 34,417,841</u>	
		\$ 45,867,404
Public Buildings		
Fire Station	\$ 6,573,956	
City, Town or Village Hall	\$ 12,857,765	
Public Works	\$ 5,974,806	
Arena	\$ 139,300,000	
Civic Center	<u>\$ 17,563,325</u>	
		\$ 182,269,852
Refunding		\$ 22,817,662
Land Acquisition		\$ 5,112,000
Recreation		\$ 76,135,837
Streets & Sidewalks		\$ 13,603,000
Other		\$ 14,305,212
Equipment		\$ 12,258,397
Transit System		\$ 89,500,000
Parking		<u>\$ 15,449,866</u>
		\$ 431,451,826
COUNTIES:		
Schools		\$ 191,547,704
Public Buildings		
Administration Building	\$ 14,979,499	
Health & Social Services	<u>\$ 19,296,264</u>	
		\$ 34,275,763
Courthouse/Law Enforcement/Jail		\$ 31,187,017
Hospital		\$ 5,000,000
Refunding		\$ 205,721,189
Utilities		
Water	\$ 4,004,565	
Sanitary Sewer	\$ 7,057,705	
Solid Waste	<u>\$ 1,500,000</u>	
		\$ 12,562,270
Other		\$ 9,684,286
Community College		\$ 11,818,051
Parking		\$ 15,000,000
Agri/Services Center		\$ 15,500,000
Library		\$ 1,959,359
Qualified Zone Academy Bonds		<u>\$ 13,950,885</u>
		\$ 548,206,524
COMMUNITY COLLEGES:		
Guaranteed Energy Savings Contracts		<u>\$ 10,988,869</u>
AUTHORITIES:		
Energy Conservation		\$ 5,413,449
Refunding		<u>\$ 3,260,910</u>
		\$ 8,674,359
GRAND TOTAL		<u><u>\$ 1,045,188,982</u></u>

Table 6

Installment and Lease Agreements
Approved by the Local Government Commission
Fiscal Years Ended June 30, 2004, 2003, and 2002

	FY	2003-04	FY	2002-03	FY	2001-02
	<u>No.</u>	<u>Amt.</u>	<u>No.</u>	<u>Amt.</u>	<u>No.</u>	<u>Amt.</u>
Counties	10	138.3	28	194.5	31	252.8
Municipalities	64	455.2	50	221.1	46	175.4
Authorities/Districts	1	5.5	2	0.9	2	2.3
Boards of Education	9	191.5	15	131.3	3	5.8
Community College/GESC	14	22.9	9	25.5	4	6.1
Subtotal	98	813.4	104	573.3	86	442.4
Refundings	26	231.7	21	309.8	6	51.5
Grand Total	124	1045.1*	125	883.1*	92	493.9*

*Total includes refundings.

Summary of State and Local Government Debt and Authorization at June 30, 2004

	General Obligation Debt ¹	Installment/ Lease Purchase Debt	Revenue Bond/ Revolving and State Bond Loan/Special Obligation Bond		Total	Industrial Revenue Bonds	General Obligation Bonds		Non-General Obligation Debt Authorized and Unissued
			Debt	Debt			Authorized and Unissued	Unissued	
State	\$ 4,976,149,379	\$ 519,570,000	\$ 9,325,000	\$ 5,505,044,379	\$ -	\$ -	\$ 1,894,245,000	\$ 421,770,000	
State Authorities and Institutions	\$ -	\$ -	\$ 15,461,876,806	\$ 15,461,876,806	\$ -	\$ -	\$ -	\$ -	
Totals	\$ 4,976,149,379	\$ 519,570,000	\$ 15,471,201,806	\$ 20,966,921,185	\$ -	\$ -	\$ 1,894,245,000	\$ 421,770,000	
Counties	\$ 5,864,443,801	\$ 2,109,893,156	\$ 616,868,967	\$ 8,591,205,924	\$ -	\$ -	\$ 1,913,732,500	\$ 30,159,499	
Municipalities	\$ 2,414,692,137	\$ 1,532,321,236	\$ 2,749,645,078	\$ 6,696,658,451	\$ -	\$ -	\$ 797,765,500	\$ 38,502,803	
Districts	\$ 338,324,869	\$ 5,400,613	\$ 146,878,978	\$ 490,604,460	\$ -	\$ -	\$ 1,147,107,000	\$ 1,125,350	
Authorities	\$ -	\$ 47,753,990	\$ 1,336,955,976	\$ 1,384,709,966	\$ 1,809,257,606	\$ -	\$ -	\$ 17,609,600	
Total	\$ 8,617,460,807	\$ 3,695,368,995	\$ 4,850,348,999	\$ 17,163,178,801	\$ 1,809,257,606	\$ -	\$ 2,826,208,700	\$ 87,397,252	
Grand Total	\$ 13,593,610,187	\$ 4,214,938,995	\$ 20,321,550,805	\$ 38,130,099,987	\$ 1,809,257,606	\$ -	\$ 4,720,453,700	\$ 509,167,252	

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

Obligation Debt above includes Literary Fund Loans and Bond Anticipation Notes.

Table 7

Table 8

Annual Debt Service Requirements for State Bonds Issued and Outstanding at June 30, 2004

	GENERAL OBLIGATION						Certificates of Participation/ Lease-Purchase Revenue Bonds						
	General Fund		Highway Fund		Total		Total General Obligation		Principal & Interest		Principal & Interest		Total
	Principal	Principal & Interest	Principal	Principal & Interest	Principal	Principal & Interest	Principal	Principal & Interest	Principal	Principal & Interest	Principal	Principal & Interest	
2004-05	238,452,952.60	432,316,019.86	34,675,000.00	60,964,925.00	273,127,952.60	493,280,944.86	273,127,952.60	493,280,944.86	21,380,000.00	45,056,845.56	294,507,952.60	538,337,790.42	
2005-06	245,420,431.80	439,190,629.86	34,675,000.00	59,674,550.00	280,095,431.80	498,865,179.86	280,095,431.80	498,865,179.86	22,600,000.00	45,469,048.76	302,695,431.80	544,334,228.62	
2006-07	245,150,722.90	428,293,169.86	34,675,000.00	58,024,175.00	279,825,722.90	486,317,344.86	279,825,722.90	486,317,344.86	22,615,000.00	44,710,923.76	302,440,722.90	531,028,268.62	
2007-08	245,180,014.55	417,363,147.36	34,675,000.00	56,373,800.00	279,855,014.55	473,736,947.36	279,855,014.55	473,736,947.36	22,640,000.00	43,928,698.76	302,495,014.55	517,665,646.12	
2008-09	244,180,257.30	404,790,943.60	34,675,000.00	54,706,750.00	278,855,257.30	459,497,693.60	278,855,257.30	459,497,693.60	22,670,000.00	43,096,523.76	301,525,257.30	502,594,217.36	
2009-10	245,550,000.00	393,043,083.60	34,675,000.00	52,973,000.00	280,225,000.00	446,016,083.60	280,225,000.00	446,016,083.60	22,690,000.00	42,116,898.76	302,915,000.00	488,132,982.36	
2010-11	245,955,000.00	381,289,258.60	34,675,000.00	51,239,250.00	280,630,000.00	432,528,508.60	280,630,000.00	432,528,508.60	22,715,000.00	41,205,336.26	303,345,000.00	473,733,844.86	
2011-12	246,685,000.00	369,643,756.10	34,675,000.00	49,505,500.00	281,360,000.00	419,149,256.10	281,360,000.00	419,149,256.10	22,745,000.00	40,202,194.38	304,105,000.00	459,351,450.48	
2012-13	247,810,000.00	358,526,972.78	34,500,000.00	47,646,750.00	282,360,000.00	406,173,722.78	282,360,000.00	406,173,722.78	22,775,000.00	39,188,555.00	305,135,000.00	445,362,277.78	
2013-14	247,315,000.00	346,543,322.94	34,600,000.00	45,969,250.00	281,915,000.00	392,512,572.94	281,915,000.00	392,512,572.94	22,810,000.00	38,112,290.00	304,725,000.00	430,624,862.94	
2014-15	246,715,000.00	334,557,573.06	34,600,000.00	44,239,250.00	281,315,000.00	378,796,823.06	281,315,000.00	378,796,823.06	22,835,000.00	37,027,362.50	304,170,000.00	415,824,185.56	
2015-16	246,585,000.00	323,031,254.02	34,600,000.00	42,509,250.00	281,185,000.00	365,540,504.02	281,185,000.00	365,540,504.02	22,900,000.00	35,929,412.51	304,085,000.00	401,469,916.53	
2016-17	244,115,000.00	308,569,941.68	34,600,000.00	40,779,250.00	278,715,000.00	349,349,191.68	278,715,000.00	349,349,191.68	22,945,000.00	34,831,912.52	301,660,000.00	384,181,104.20	
2017-18	247,265,000.00	301,555,429.30	34,600,000.00	39,049,250.00	281,865,000.00	340,604,679.30	281,865,000.00	340,604,679.30	23,000,000.00	33,765,675.01	304,865,000.00	374,370,354.31	
2018-19	246,465,000.00	290,054,012.34	34,600,000.00	37,449,000.00	281,065,000.00	327,503,012.34	281,065,000.00	327,503,012.34	23,055,000.00	32,730,300.00	304,120,000.00	360,233,312.34	
2019-20	186,500,000.00	219,663,612.34	30,400,000.00	31,692,000.00	216,900,000.00	251,355,612.34	216,900,000.00	251,355,612.34	35,110,000.00	43,390,150.00	252,010,000.00	294,745,762.34	
2020-21	130,500,000.00	155,275,279.02			130,500,000.00	155,275,279.02	130,500,000.00	155,275,279.02	35,175,000.00	41,697,112.50	165,675,000.00	196,972,391.52	
2021-22	111,500,000.00	130,478,612.50			111,500,000.00	130,478,612.50	111,500,000.00	130,478,612.50	35,235,000.00	40,019,662.50	146,735,000.00	170,498,275.00	
2022-23	104,455,000.00	117,948,612.50			104,455,000.00	117,948,612.50	104,455,000.00	117,948,612.50	35,305,000.00	38,377,812.50	139,760,000.00	156,326,425.00	
2023-24	81,500,000.00	90,153,250.00			81,500,000.00	90,153,250.00	81,500,000.00	90,153,250.00	38,350,000.00	39,605,893.75	119,850,000.00	129,759,143.75	
2024-25	79,400,000.00	84,548,250.00			79,400,000.00	84,548,250.00	79,400,000.00	84,548,250.00			79,400,000.00	84,548,250.00	
2025-26	16,500,000.00	18,232,500.00			16,500,000.00	18,232,500.00	16,500,000.00	18,232,500.00			16,500,000.00	18,232,500.00	
2026-27	16,500,000.00	17,490,000.00			16,500,000.00	17,490,000.00	16,500,000.00	17,490,000.00			16,500,000.00	17,490,000.00	
2027-28	16,500,000.00	16,995,000.00			16,500,000.00	16,995,000.00	16,500,000.00	16,995,000.00			16,500,000.00	16,995,000.00	
	4,426,199,379.15	6,379,553,631.32	549,950,000.00	772,795,950.00	4,976,149,379.15	7,152,349,581.32	4,976,149,379.15	7,152,349,581.32	519,570,000.00	800,462,608.79	5,495,719,379.15	7,952,812,190.11	

Revenue Bonds and Other Indebtedness of State Authorities and Institutions at June 30, 2004

The following chart outlines the revenue bonds and other indebtedness of State authorities and institutions at June 30, 2004. The State is not responsible for debt service on any of the revenue bonds and other indebtedness represented in this chart.

Appalachian State University	\$ 107,725,003
East Carolina University	66,590,000
Elizabeth City State University	6,530,000
Fayetteville State University	6,912,000
North Carolina A & T State University	15,640,000
North Carolina Central University	11,350,000
North Carolina School of the Arts	5,445,000
North Carolina State University at Raleigh.....	160,637,000
University of North Carolina at Asheville	28,775,000
University of North Carolina at Chapel Hill	474,824,431
University of North Carolina at Charlotte.....	89,868,000
University of North Carolina at Greensboro	75,530,000
University of North Carolina at Pembroke.....	5,025,000
University of North Carolina at Wilmington.....	70,189,474
Western Carolina University	29,514,239
Winston-Salem State University.....	13,270,000
North Carolina Capital Facilities Finance Agency	1,481,034,589
North Carolina Eastern Municipal Power Agency	2,972,539,000
North Carolina Housing Finance Agency	1,268,137,000
North Carolina Medical Care Commission.....	4,879,589,894
North Carolina Municipal Power Agency No. 1	1,985,665,000
North Carolina State Education Assistance Authority.....	1,685,968,000
North Carolina State Ports Authority.....	21,118,176
Total.....	\$15,461,876,806

Source: Chief fiscal officer of each authority or institution.

Table 10

Valuation Balance Sheet Showing the Assets and Liabilities of the North Carolina Teachers' and State Employees' Retirement System

ASSETS	December 31, 2003	December 31, 2002
Current actuarial value of assets:		
Annuity Savings Fund	\$7,129,851,440	\$6,767,321,423
Pension Accumulation Fund	<u>37,987,656,293</u>	<u>36,459,515,794</u>
Total Current Assets	45,117,507,733	43,226,837,217
 Future member contributions to Annuity Savings Fund	 5,898,080,946	 5,727,430,260
 Prospective contributions to Pension Accumulation Fund:		
Normal contributions	6,517,379,445	6,405,176,174
Unfunded accrued liability contributions	(3,383,806,385)	(3,362,853,828)
Undistributed gain contributions	<u>314,081,162</u>	<u>269,001,016</u>
Total Prospective Contributions	<u>3,447,654,222</u>	<u>3,311,323,362</u>
 Total Assets	 <u>\$54,463,242,901</u>	 <u>\$52,265,590,839</u>
 LIABILITIES		
Annuity Savings Fund:		
Past member contributions	\$7,129,851,440	\$6,767,321,423
Future member contributions	<u>5,898,080,946</u>	<u>5,727,430,260</u>
Total Contributions to Annuity Savings Fund	13,027,932,386	12,494,751,683
 Pension Accumulation Fund:		
Benefits currently in payment	19,273,002,725	17,993,715,435
Benefits to be paid to current active members	21,504,021,222	21,273,364,500
Reserve for increases in retirement allowances effective July 1, 2004 (July 1, 2003 for December 31, 2002 figure)	 344,205,406	 234,758,205
Reserve from undistributed gains	<u>314,081,162</u>	<u>269,001,016</u>
Total benefits payable from Pension Accumulation Fund	 <u>41,435,310,515</u>	 <u>39,770,839,156</u>
 Total Liabilities	 <u>\$54,463,242,901</u>	 <u>\$52,265,590,839</u>

Valuation Balance Sheet Showing the Assets and Liabilities of the North Carolina Local Governmental Employees' Retirement System

ASSETS	December 31, 2003	December 31, 2002
Current actuarial value of assets:		
Annuity Savings Fund	\$2,447,622,486	\$2,260,286,364
Pension Accumulation Fund	<u>9,916,757,493</u>	<u>9,133,173,848</u>
Total Current Assets	12,364,379,979	11,393,460,212
 Future member contributions to Annuity Savings Fund	 2,263,153,050	 2,190,528,300
 Prospective contributions to Pension Accumulation Fund:		
Normal contributions	1,589,711,268	1,722,611,829
Accrued liability contributions	91,123,512	69,245,642
Undistributed gain contributions	<u>194,850,492</u>	<u>4,324,305</u>
Total Prospective Contributions	<u>1,875,685,272</u>	<u>1,796,181,776</u>
 Total Assets	 <u>\$16,503,218,301</u>	 <u>\$15,380,170,288</u>
 LIABILITIES		
Annuity Savings Fund:		
Past member contributions	\$2,447,622,486	\$2,260,286,364
Future member contributions	<u>2,263,153,050</u>	<u>2,190,528,300</u>
Total Contributions to Annuity Savings Fund	4,710,775,536	4,450,814,664
 Pension Accumulation Fund:		
Benefits currently in payment	4,409,844,459	3,899,297,173
Benefits to be paid to current active members	7,187,747,814	6,862,389,785
Reserve for increases in retirement allowances effective July 1, 2004 (July 1, 2003 for December 31, 2002 figure)	 0	 163,344,361
Reserve from undistributed gains	<u>194,850,492</u>	<u>4,324,305</u>
Total Benefits Payable from Pension Accumulation Fund	<u>11,792,442,765</u>	<u>10,929,355,624</u>
 Total Liabilities	 <u>\$16,503,218,301</u>	 <u>\$15,380,170,288</u>

Table 12

Valuation Balance Sheet Showing the Assets and Liabilities of the North Carolina Consolidated Judicial Retirement System

ASSETS	December 31, 2003	December 31, 2002
Current actuarial value of assets:		
Annuity Savings Fund	\$34,672,969	\$32,674,936
Pension Accumulation Fund	<u>306,184,422</u>	<u>290,709,113</u>
Total Current Assets	340,857,391	323,384,049
 Future member contributions to Annuity Savings Fund	 37,268,568	 38,258,564
 Prospective contributions to Pension Accumulation Fund:		
Normal contributions	104,879,183	108,370,777
Unfunded accrued liability contributions	(24,207,901)	(22,352,690)
Undistributed gain contributions	<u>5,810,426</u>	<u>570,985</u>
Total Prospective Contributions	<u>86,481,708</u>	<u>86,589,072</u>
 Total Assets	 <u>\$464,607,667</u>	 <u>\$448,231,685</u>
 LIABILITIES		
Annuity Savings Fund:		
Past member contributions	\$34,672,969	\$32,674,936
Future member contributions	<u>37,268,568</u>	<u>38,258,564</u>
Total Contributions to Annuity Savings Fund	71,941,537	70,933,500
 Pension Accumulation Fund:		
Benefits currently in payment	172,558,266	161,966,659
Benefits to be paid to current active members	211,214,184	212,607,715
Reserve for increases in retirement allowances effective July 1, 2004 (July 1, 2003 for December 31, 2002 figure)	3,083,254	2,152,826
Reserve from undistributed gains	<u>5,810,426</u>	<u>570,985</u>
Total Benefits Payable from Pension Accumulation Fund	<u>392,666,130</u>	<u>377,298,185</u>
 Total Liabilities	 <u>\$464,607,667</u>	 <u>\$448,231,685</u>

Valuation Balance Sheet Showing the Assets and Liabilities of the North Carolina Firemen's and Rescue Squad Workers' Pension Fund

ASSETS	December 31, 2003	December 31, 2002
Current actuarial value of assets:		
Annuity Savings Fund	\$28,028,842	\$26,872,982
Pension Accumulation Fund	<u>206,108,897</u>	<u>197,602,160</u>
Total Current Assets	234,137,739	224,475,142
 Future member contributions to Annuity Savings Fund	 19,465,530	 19,129,176
 Prospective contributions to Pension Accumulation Fund:		
Normal contributions	31,935,020	30,485,905
Accrued liability contributions	<u>11,527,050</u>	<u>9,342,475</u>
Total Prospective Contributions	<u>43,462,070</u>	<u>39,828,380</u>
 Total Assets	 <u>\$297,065,339</u>	 <u>\$283,432,698</u>
 LIABILITIES		
Annuity Savings Fund:		
Past member contributions	\$28,028,842	\$26,872,982
Future member contributions	<u>19,465,530</u>	<u>19,129,176</u>
Total Contributions to Annuity Savings Fund	47,494,372	46,002,158
 Pension Accumulation Fund:		
Benefits currently in payment	129,905,215	123,838,312
Benefits to be paid to current active members	<u>119,665,752</u>	<u>113,592,228</u>
Total Benefits Payable from Pension Accumulation Fund	<u>249,570,967</u>	<u>237,430,540</u>
 Total Liabilities	 <u>\$297,065,339</u>	 <u>\$283,432,698</u>

