

THE STATE TREASURER'S

ANNUAL REPORT

TO THE PEOPLE OF
NORTH CAROLINA



Richard H. Moore,
State Treasurer

North Carolina Department
of State Treasurer
FISCAL YEAR 2004-2005

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





NORTH CAROLINA
DEPARTMENT OF STATE TREASURER

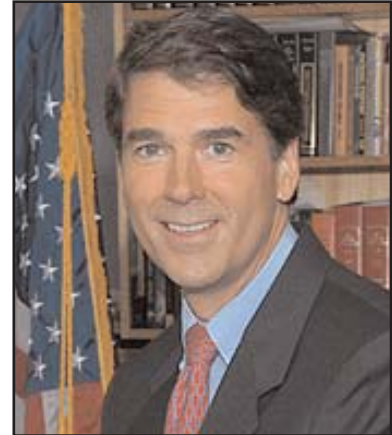
RICHARD H. MOORE
STATE TREASURER

325 NORTH SALISBURY STREET
RALEIGH, NORTH CAROLINA 27603-1385

Dear Fellow North Carolinians:

It is with pride that I present to you the Department of State Treasurer's 2004-2005 Annual Report. As the state's lead fiduciary, our agency oversees and protects assets valued at more than \$75 billion. Such work demands the highest levels of prudence, security and trust, and above all else, a commitment to excellence. These principles guide us as we carry out our responsibilities and are reflected in the many accomplishments listed in the enclosed report.

You will find within this document a performance record for our state's pension fund system, which remains one of the healthiest in the nation. In the face of national private pension uncertainty, our system continues to exceed the actuarial assumption, providing the 700,000 participants the security of a guaranteed retirement benefit. A solid state pension fund is the hallmark of strong fiscal health, and for this reason we take great pride in this accomplishment. We are equally proud of continued expansions in customer service that provide plan participants more information than ever through enhanced technology and outreach.



We also include a detailed report of this past year's debt and fiscal management activity. This past year, the state sold general obligation bonds totaling \$1.98 billion. These sales included \$959 million in refunding bonds to save the state nearly \$47 million in interest costs as well as \$1.02 billion in highway, clean water, natural gas and higher education bonds sold at interest rates that will result in savings of more than \$42 million. Throughout this time, we also retained our AAA rating from two of the nation's top credit agencies. This means that our state continues to be viewed as a robust environment for investors, a direct result of prudent financial stewardship. This report also provides an update on our unclaimed property program, which we've doubled in recent years through aggressive outreach and compliance activities. We're especially proud of how we've grown this fund because the interest earned provided educational assistance to more than 50,000 college students this year alone.

A new addition to this year's document is a report on our newly established Public Programs Unit, which I established for the purpose of educating our citizens about financial literacy. This past year, we hosted four financial conferences reaching about 1,400 people in the Triangle, Sandhills and Charlotte areas. We also developed and implemented the North Carolina Saves Campaign to encourage people to save money and build wealth, enrolling almost 1,000 participants. Helping citizens make smart decisions about personal finance strengthens the overall economy, enabling our state to continue to attract new jobs and afford needed improvements in education, healthcare and transportation.

This report is an annual document, and therefore we encourage all citizens to visit our website at www.nctreasurer.com throughout the year for updates on these activities and many other initiatives. Thank you for your interest in the Office of the State Treasurer.

Sincerely,

Richard H. Moore

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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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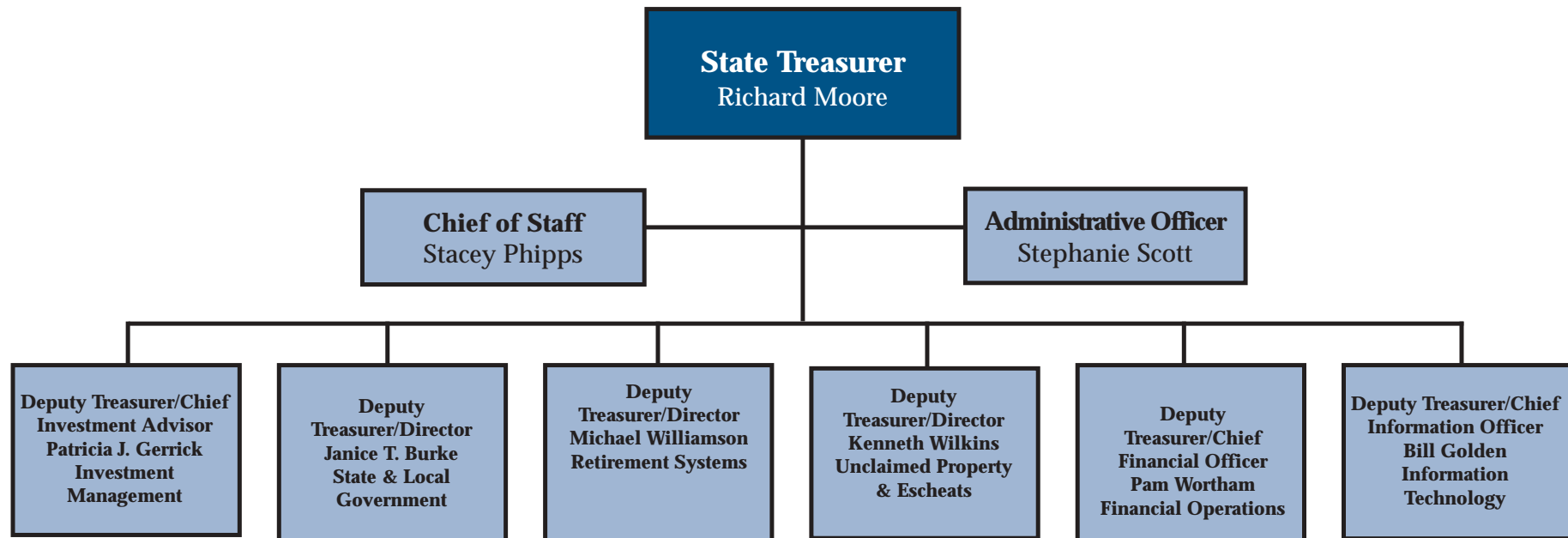
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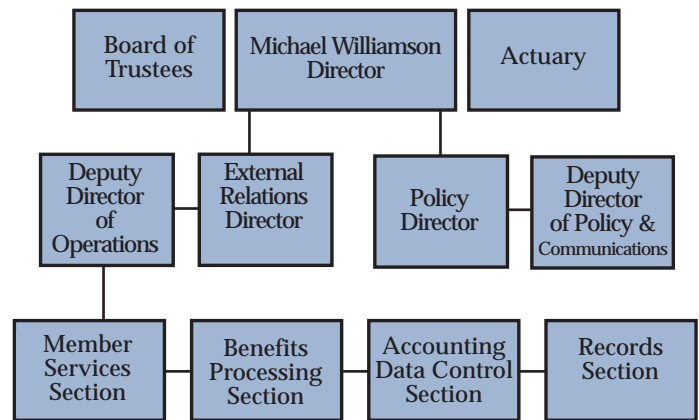
THE STATE TREASURER'S ANNUAL REPORT

RETIREMENT SYSTEMS DIVISION

RETIREMENT SYSTEMS DIVISION

The Retirement Systems Division of the Department of State Treasurer administers the statutory retirement and benefit plans, as authorized by the General Assembly of North Carolina, which cover public employees in the State. 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 2005 Session of the General Assembly which resulted in the enactment of laws to:
 - Provide cost-of-living adjustments equal to 2.0% to retirees of the Teachers' and State Employees' Retirement System (T.S.E.R.S.), Consolidated Judicial Retirement System (C.J.R.S.), and Legislative Retirement System (L.R.S.);
 - Provide cost-of-living adjustments equal to 2.5% to retirees of the Local Governmental Employees' Retirement System (L.G.E.R.S);
 - Provide partial funding to pay for the implementation phase ('05-'06) of ORBIT (Online Retirement Benefits through Integrated Technology), a project to replace the multitude of outdated information technology systems in the Division with an integrated system for all retirement plans.
- Increase the monthly benefit payment to beneficiaries of the Fireman's and Rescue Squad Workers' Pension Fund from \$161.00 to \$163.00 per month.
- Processed benefits for 11,989 new retirees.
- Processed refunds for 23,290 former public employees.
- Established approximately 47,242 new active member accounts.
- Increased utilization of direct deposit of monthly benefit payments from 166,326 to approximately 175,861 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 and handbooks.

THE BASIC FUNCTIONS

General Administration

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 three 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.

The Director and his immediate staff are responsible for the overall general operation of the Division, and carry out the policies and directives of the State Treasurer and the governing boards. They provide assistance to legislators and committees of the General Assembly, including the drafting of proposed legislation and the acquisition of actuarial notes for introduced bills; response to news media inquiries; action and administrative appeals by 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 2004 through June 2005, 11,989 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 7,323 disability claims were reviewed by the Medical Review Board during the 2004-2005 fiscal year. Responsibilities include the calculation and payment of monthly disabili-

ty benefits as well as the calculation and payment of reimbursements for short-term disability benefits paid by the various employers under the provisions of the Plan. Reimbursements numbering 1,156 were issued from July 2004 through June 2005 totaling \$8,682,011.

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 6,654 death reports were received and processed during this period.

This Section is also responsible for the calculation and the payment of returns of accumulated contributions to terminated employees. A total of 23,290 refunds were processed for the period July 2004 through June 2005.

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 8,937 cost calculations were generated by the Benefits Processing Section for the period July 2004 through June 2005.

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 467,053 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 13,681 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 2004-2005 approximately 175,861 retirees' benefits were processed through EFT. Also, over 22,690 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. Over 45,446 errors 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 2004-2005 approximately 22,671 letters and other information were generated in this Section, approximately 10,528 e-mail inquiries were addressed, and approximately 409,296 telephone communications were handled by personal contact with an additional 45,672 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

employee 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 2004-2005, 11 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 2005 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 2005 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, 70 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, 2005, in the Teachers' and State Employees' Retirement System, a 2.0% cost of living adjustment (C.O.L.A.) for beneficiaries who commenced retirement on and before July 1, 2004, and for beneficiaries who commenced retirement with effective dates of August 1, 2004 to July 1, 2005, a prorated portion of the 2.0% C.O.L.A. based on the number of months a retirement allowance was paid; (2) provide, effective July 1, 2005, in the Local Governmental Employees' Retirement

System, a 2.5% cost of living adjustment (C.O.L.A.) for beneficiaries who commenced retirement on and before July 1, 2004 and for beneficiaries who commenced retirement with effective dates of August 1, 2004 to July 1, 2005, a prorated portion of the 2.5% C.O.L.A. based on the number of months a retirement allowance was paid; (3) provide, effective July 1, 2005, in the Consolidated Judicial Retirement System, a 2.0% C.O.L.A. for beneficiaries who commenced retirement on and before July 1, 2004 and for beneficiaries who commenced retirement with effective dates of August 1, 2004 to June 1, 2005, a prorated portion of the 2.0% postretirement increase in their allowances based on the number of months a retirement allowance was paid; (4) provide, effective July 1, 2005, in the Legislative Retirement System, a 2.0% C.O.L.A. for beneficiaries who commenced retirement on or before January 1, 2005, and for beneficiaries who commenced retirement with effective dates of February 1, 2005 to June 1, 2005, a prorated portion of the 2.0% was paid; (5) increase, effective July 1, 2005, the monthly benefit payment to beneficiaries of the Firemen's and Rescue Squad Workers' Pension fund from \$161.00 to \$163.00 per month; (6) provide partial funding to pay for the implementation phase ('05-'06) of ORBIT (Online Retirement Benefits through Integrated Technology), a project to replace the multitude of outdated information technology systems in the Division with an integrated system for all retirement plans.

Communications

The Research and Planning Officer, in conjunction with other staff, revised forms for purposes of notice of enrollment in the Teachers' and State Employees' Retirement System and Local Government Employee's Retirement System, change of beneficiary, and retiree designation of beneficiaries for guaranteed refund. 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, 2005 and updated on the Web page.

In addition, Legislative 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.

During FY 2004-2005, the Member Services staff conducted 40 pre-retirement meetings statewide with some 3,580 members in attendance. In addition, the staff also participated in 352 other meetings, seminars, benefit

fairs, and conferences relating to retirement benefits, including Benefits and Life Planning Workshops with 24,366 attendees.

During 2004, the Division began distributing a bi-annual newsletter to retirees. The publication, named "The Retirement Report," delivers news regarding changes to retirement laws and policies, as well as information about the financial health of the retirement systems. In May 2005, the Division distributed the inaugural edition of "On the Horizon," an annual publication to active members.

Operational

The Division has continued to promote direct deposit of monthly benefit payments. Between July 1, 2004 and June 30, 2005, the benefit payments of 19,369 retirees were added to the direct deposit group, bringing the total number of monthly payments made by direct deposit to 175,861. 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, 2005, is estimated to be approximately \$66,964.

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

rate, and providing all legal documents and agreements for their execution.

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 Division continues to make progress in a four-year project to rebuild its technology infrastructure. The ORBIT (Online Retirement Benefits through Integrated Technology) project will dramatically improve the efficiency of the Division by integrating several outdated mainframe systems into a state-of-the-art technology platform. Once ORBIT is completed in May 2007, retirees, actives and employers will be able to conduct many transactions online, 24 hours a day. During January 2006, retirees will gain access to online services and retiree payroll will begin to be processed through ORBIT.

The Division continues to receive 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.

THE RETIREMENT SYSTEMS AND TRUST FUNDS

Actuarial Assumptions

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

needed to fund the uncovered liabilities in the time period originally established. Annual valuations are made to permit gradual changes in the contribution level and/or funding period and keep the funding on a proper course. The annual valuation is also used by the actuary to compare actual separation, compensation, and investment experience with the actuarial assumptions used in the valuation of the liabilities of the system. The actuarial valuation balance sheets for each retirement system are included with the tables that follow.

- Actuarial Assumptions
- Funding of the Systems
- Funding Status

Funded Ratio of the Retirement Systems

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. 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%
2004	108.1%	2004	99.3%	2004	108.6%

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

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

This System began operations with a membership of 42,878 teachers and State employees, and with appropriations from the State of \$1,838,000. The membership has grown over the years in proportion to the growth in size and complexity of the public schools and State government. The active membership at December 31, 2004 was 364,192, and in addition there were 128,577 retired members and beneficiaries of deceased retired members. Invested assets at market value amounted to about \$49.6 billion.

The distribution of the investments of the assets of the State System as of December 31, 2004 was:

Long-Term Fixed Income	
Investment Fund	\$ 17,999,011,074
Short-Term Fixed Income	
Investment Fund	80,551,640
Real Estate Investment Fund	1,418,329,896
Equity Investment Fund	29,490,152,568
Venture Capital	<u>659,606,508</u>
Total	<u>\$ 49,647,651,686</u>

Operations of the State System during the calendar year 2004 resulted in total receipts of \$5,727,483,512 and total expenditures of \$2,366,395,631. 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, 2004, is shown in Table 10. Based on the latest actuary's report, the General Assembly set the employer contribution rate at 2.17% of covered payroll, effective July 1, 2004, and at 2.34% of covered payroll, effective July 1, 2005. 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, 2005, the remaining accrued liability for past service.

Chart 2

Teachers' and State Employees' Retirement System of North Carolina Year Ended December 31, 2004

SOURCES OF FUNDS

Employee Contributions	\$ 672,041,702 (11.7%)
Employer Contributions	\$ 161,180,639 (2.8%)
Other Income	\$ 2,025,470 (0.04%)
Investment Income	\$4,892,235,701 (85.4%)

APPLICATIONS OF FUNDS

Retirement Benefits	\$ 2,262,767,186 (39.5%)
Refunds	\$ 93,842,290 (1.6%)
Administrative Expenses	\$ 9,744,671 (0.2%)
Other Expenses	\$ 41,484 (0.0%)
Addition to Reserves For Future Benefits	\$ 3,361,087,881 (58.7%)

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, 2004, a total of 878 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, 2004 was 137,765; in addition there were 36,728 retired members and beneficiaries of deceased members. Invested assets at market value amounted to about \$14.2 billion.

The distribution of investments of the assets of the Local System as of December 31, 2004 was:

Long-Term Fixed Income Investment Fund	\$ 5,147,183,563
Short-Term Fixed Income Investment Fund	25,101,724
Real Estate Investment Fund	405,587,603
Equity Investment Fund	8,432,032,261
Venture Capital	<u>188,617,790</u>
Total	<u>\$ 14,198,522,941</u>

Operations of the Local System during the calendar year 2004 resulted in total receipts of \$1,871,907,376 and total expenditures of \$582,460,990. 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, 2004, 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, 2005. 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, 2004

SOURCES OF FUNDS

Employee Contributions	\$ 268,278,329 (14.3%)
Employer Contributions	\$ 214,067,498 (11.4%)
Other Income	\$ 159,296 (0.01%)
Investment Income	\$ 1,389,402,253 (74.2%)

APPLICATIONS OF FUNDS

Retirement Benefits	\$ 512,472,983 (27.4%)
Refunds	\$ 66,507,005 (3.6%)
Administrative Expenses	\$ 3,481,002 (0.2%)
Addition to Reserves For Future Benefits	\$ 1,294,053,268 (69.1%)

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, 2004, there were 551 active members and 420 retired members and beneficiaries of deceased retired members. The invested assets at market value were about \$385.1 million.

The distribution of the investments of the Judicial System as of December 31, 2004, was:

Long-Term Fixed Income	
Investment Fund	\$139,406,805
Short-Term Fixed	
Investment Fund	1,255,833
Real Estate Investment Fund	10,985,117
Equity Investment Fund	228,388,979
Venture Capital	5,108,660
Total	<u>\$385,145,394</u>

Operations of the Judicial System during the calendar year 2004 resulted in total receipts of \$49,351,689 and total expenditures of \$19,460,291. 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, 2004, 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, 2005. 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, 2004

SOURCES OF FUNDS

Employee Contributions	\$ 4,362,477 (8.8%)
Employer Contributions	\$ 7,208,200 (14.6%)
Investment Income	\$ 37,781,012 (76.6%)

APPLICATIONS OF FUNDS

Retirement Benefits	\$ 19,427,007 (39.4%)
Refunds	\$ 0 (0.0%)
Administrative Expenses	\$ 33,284 (0.1%)
Addition to Reserves For Future Benefits	\$29,891,398 (60.6%)

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 2005, the employer contribution rate to fund this benefit for members of the Teachers' and State Employees' Retirement System was 0.6 % 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 2004 were:

Life Insurance Payments Calendar Year 2004

Retirement System Membership	Number of Payments	Payment Amount
Teachers' and State Employees'	486	\$16,394,148
Local Governmental Employees'	146	3,529,867

Chart 5

North Carolina Teachers' and State Employees' Benefit Trust Year Ended December 31, 2004

SOURCES OF FUNDS

Local Governmental Employees' Retirement System	\$ 3,696,323	11.8%
Separate Benefits Fund	\$ 3,190,182	10.2%
Retirees' Death Benefit	\$ 8,916,618	28.4%
Teachers' and State Employees' Retirement System	\$ 1,465,664	4.7%
Investment Income	\$ 14,160,239	45.1%

APPLICATIONS OF FUNDS

Local Death Benefits Paid	\$ 3,529,867	11.2%
Death Benefits and Insurance Paid SIF	\$ 819,155	2.6%
Administrative Expenses	\$273,330	0.9%
Retirees' Death Benefits Paid	\$7,589,093	24.1%
State Death Benefits Paid	\$16,394,148	52.2%
Addition to Reserves for Future Benefits	\$ 2,823,433	9.0%

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, 2005, the active membership of the fund was 33,520 while the number of retired members was 9,495. Invested assets at market value amounted to about \$292.2 million.

The distribution of the investments of the assets as of June 30, 2005, was:

Long-Term Fixed Income	
Investment Fund	\$ 109,131,847
Short-Term Fixed Income	
Investment Fund	60,337
Real Estate Investment Fund	7,465,385
Equity Investment Fund	170,489,280
Venture Capital	5,016,709
Total	<u>\$ 292,163,558</u>

Operations of the Pension Fund during the 2005 fiscal year resulted in total receipts of \$36,704,822 and total expenditures of \$20,024,084. Chart 6 presents the distribution of revenues by source and expenditures by purpose.

The latest Actuary's Valuation Balance Sheet, as of June 30, 2005, is shown in Table 13. Based on the latest actuary's report, the General Assembly appropriated \$7,521,179 for the 2004-05 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, 2004, the remaining accrued liabilities for past service.

Chart 6

Firemen's and Rescue Squad Workers' Pension Fund Year Ended June 30, 2005

SOURCES OF FUNDS	
Appropriation	\$ 7,521,179 (20.5%)
Member Contributions	\$ 2,694,024 (7.3%)
Investment Income	\$26,487,514 (72.2%)
Other Income	\$ 2,105 (0.01%)

APPLICATIONS OF FUNDS	
Pension Benefits	\$18,131,165 (49.4%)
Refunds	\$ 568,946 (1.6%)
Administrative Expenses	\$ 1,323,973 (3.6%)
Addition to Reserves For Future Benefits	\$16,680,738 (45.4%)

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 2004

Beginning Fund Balance	\$ 48,660,563
Additions:	
Employer Contributions	\$ 365,136,943
Investment Income	<u>0</u> <u>365,136,943</u>
Deductions:	
Health Premiums Paid	\$ 351,119,060
Administrative Expense	<u>138,987</u> <u>351,258,047</u>
Ending Fund Balance	<u>\$ 62,539,459</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, 2004, of \$36,504. 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, 2004, the System had 169 active members, 80 inactive members, and 236 retired members.

Assets on that date totaled \$27,477,818. Operations of the System during calendar year 2004 resulted in total receipts of \$257,188 and disbursements of \$1,544,680.

Based on the latest actuarial report, the employer contribution rate was set by the General Assembly at 0.0% of covered payroll, effective July 1, 2005. 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 .445% of the covered payroll of the members of the Teachers' and State Employees' Retirement System

and the Optional Retirement Program, effective July 1, 2004, and at .52% of covered payroll effective July 1, 2005.

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 2003 and 2004.

	<u>2003</u>	<u>2004</u>
Number of Disabled Members	5,154	5,246
New Claims During the Year	1,016	906
Employer Contributions	\$28,578,496	\$25,893,923
Investment Income	\$11,636,606	\$14,602,184
Amount of Benefit Payments	\$45,365,224	\$47,586,531

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, 2004, there were 2,461 beneficiaries in receipt of

monthly allowances from the Guard Plan at a cost that calendar year of \$2,334,480.

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 2004-05 was \$1,563,553.


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 182,998 as of July 1, 2004, to 189,245 members as of June 30, 2005, for an increase of 3.4%. Contributions by employees during this fiscal year totaled \$121,620,902 while salary deferred contributions by members were \$181,006,226. The total assets at market value of the Plan increased by 14.2% to \$3,057,344,300.

Under the current contract, members may select from a stable value fund and eight mutual funds. As of June 30, 2005, 27.48% of the assets were invested in the Stable Value Fund and 72.52% were invested in the mutual funds. In addition, \$51,169,109 were invested in the mutual funds that were previously offered in the Plan and the outstanding loan balances totaled \$152,183,454.



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, 2005, court cost receipts of \$1,820,907 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, 2004, the Fund had total assets in the amount of \$24,388,416.

Benefits from the Fund became payable beginning July 1, 1988. For the year ending December 31, 2004, the Fund paid total benefits in the amount of \$772,454 to 72 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:

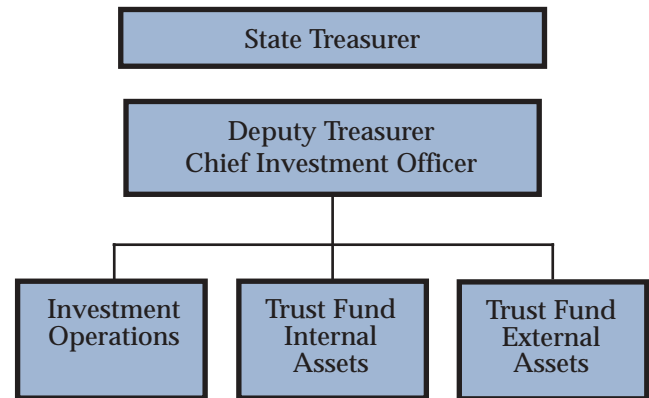
- 1 Management of the combined assets of the North Carolina Retirement Systems. This is referred to as the Trust Funds Investment Program.
- 2 Management of the assets of the Cash Management Program.

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

The State Treasurer administers both the Cash Management and Trust Funds Investment Program. As such, the Treasurer is directed by statute to "establish, maintain, administer, manage and operate" investment programs for all funds on deposit, pursuant to the applicable statutes. In 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, 2005, total assets under management were nearly \$73.5 billion. Of this amount, 12% was assets of the Cash Management Program and 88% was assets of the Trust Funds 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.

The 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 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 Portfolio

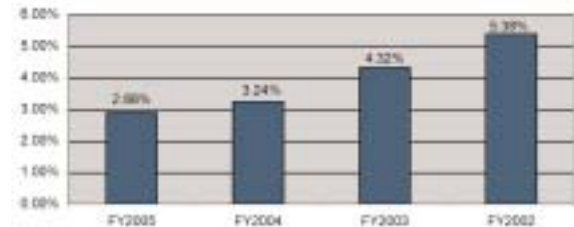
The Short-Term Investment Portfolio (STIP) is an internally managed portfolio of high quality fixed income securities. These securities are primarily money market instruments and short to intermediate treasuries and agencies. The STIP serves as a cash management tool for funds placed on deposit with the State Treasurer. Because the Treasurer's cash balances are ultimately subject to withdrawal upon presentation of valid warrants, the objective of the portfolio is to provide a high level of current income consistent with safety of principle and sufficient liquidity to meet daily cash flow requirements.

For the fiscal year 2005 the STIP generated a net cash return of 2.88%. This return compares with the two-year constant maturity US Treasury Note benchmark return of 2.47%. During the fiscal year the yield curve flattened considerably as the Federal Reserve raised short-term rates dramatically.

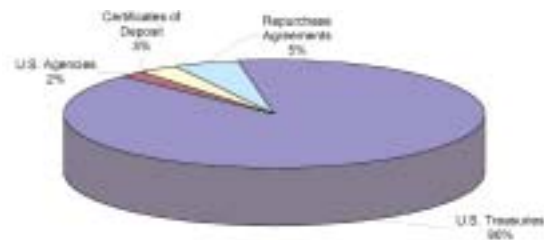
The Bond Proceeds Investment Pool was established in 1987 as a separate portfolio in order to comply with Internal Revenue Service regulations on bond arbitrage. Sterling Capital Management serves as the managing agent for this portfolio. In addition to asset management, they provide bond arbitrage tracking and record keeping for the State and Local Finance Division. The portfolio's market value was \$748 million as of June 30, 2005.

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

Annualized Cash Return as of June 30, 2005



Short-Term Investment Portfolio Asset Allocation



Short Term Holdings by Maturity as of June 30, 2005

Security Name	Interest Rate	Maturity Date	Fair Value	Security Name	Interest Rate	Maturity Date	Fair Value
WACHOIVA BANK REPO	2.65	7/1/05	420,000.00	NORTHWESTERN NATIONAL BANK	3.5	12/15/05	500,000.00
MUTUAL COMMUNITY SAVINGS BANK	2.75	7/7/05	100,000.00	FARMERS & MERC BK GRANITE QUAR	3.5	12/15/05	5,000,000.00
FOUR OAKS BK & TR	2.75	7/7/05	1,000,000.00	BANK OF GRANITE-GRANITE FALLS	3.5	12/15/05	200,000.00
FIRST NAT BK & TRUST (ASHBORO)	2.75	7/7/05	7,000,000.00	FIRST TRUST BANK	3.625	12/22/05	2,000,000.00
FIRST CHARTER NATIONAL BANK OF CONCORD	2.75	7/7/05	5,000,000.00	FIRST FEDERAL S&L LINCOLNTON	3.625	12/22/05	100,000.00
FARMERS & MERC BK GRANITE QUAR	2.75	7/7/05	1,300,000.00	FIRST CHARTER NATIONAL BANK OF CONCORD	3.625	12/22/05	100,000.00
CENTRAL CAROLINA BANK	2.75	7/7/05	6,000,000.00	BANK OF GRANITE-GRANITE FALLS	3.625	12/22/05	1,000,000.00
THE SCOTTISH BANK	2.75	7/14/05	1,000,000.00	TRINITY BANK	3.625	12/29/05	1,000,000.00
K S BANK KENLY	2.75	7/14/05	1,000,000.00	PARKWAY BANK	3.625	12/29/05	1,000,000.00
FIRST GASTON BANK, GASTON, NC	2.75	7/14/05	450,000.00	FIRST TRUST BANK	3.625	12/29/05	2,500,000.00
CENTRAL CAROLINA BANK	2.75	7/14/05	6,000,000.00	FIRST NAT BK & TRUST (ASHBORO)	3.625	12/29/05	7,000,000.00
BANK OF GRANITE-GRANITE FALLS	2.75	7/14/05	2,500,000.00	FIRST CHARTER NATIONAL BANK OF CONCORD	3.625	12/29/05	100,000.00
BANK OF ASHEVILLE	2.75	7/14/05	1,000,000.00	CENTRAL CAROLINA BANK	3.625	12/29/05	6,000,000.00
LIMBEE BANK-FERRISBORO	2.875	7/21/05	500,000.00	US TREAS NOTE	1.875	12/31/05	250,000,000.00
LEXINGTON STATE BANK LEXINGTON	2.875	7/21/05	5,000,000.00	US TREAS NOTE	1.875	1/11/06	250,000,000.00
FARMERS & MERC BK GRANITE QUAR	2.875	7/21/05	5,000,000.00	US TREAS NOTE	5.625	2/1/06	250,000,000.00
CENTRAL CAROLINA BANK	2.875	7/21/05	5,000,000.00	US TREAS NOTE	1.1	5/31/06	250,000,000.00
BANK OF GRANITE-GRANITE FALLS	2.875	7/21/05	4,800,000.00	US TREAS NOTE	2.25	4/25/06	250,000,000.00
LEXINGTON STATE BANK LEXINGTON	2.875	7/28/05	5,000,000.00	US TREAS NOTE	2	5/15/06	250,000,000.00
CENTRAL CAROLINA BANK	2.875	7/28/05	5,000,000.00	FHLB	2.25	5/15/06	100,000,000.00
CATAWBA VALLEY BANK	2.875	7/28/05	6,000,000.00	FHLB	1.875	6/15/06	100,000,000.00
MUTUAL COMMUNITY SAVINGS BANK	2.875	8/4/05	100,000.00	US TREAS NOTE	2.75	6/30/06	250,000,000.00
BANK OF GRANITE-GRANITE FALLS	2.875	8/4/05	5,000,000.00	US TREAS NOTE	2.75	7/13/06	250,000,000.00
UNITED COMMUNITY BANK	3	8/11/05	500,000.00	US TREAS NOTE	2.375	8/15/06	250,000,000.00
FIRST NAT BK & TRUST (ASHBORO)	3	8/11/05	7,000,000.00	US TREAS NOTE	2.5	9/30/06	250,000,000.00
PEOPLES BANK-NEWTON	3	8/18/05	3,000,000.00	US TREAS NOTE	2.5	10/31/06	250,000,000.00
FIRST CHARTER NATIONAL BANK OF CONCORD	3	8/18/05	10,000,000.00	US TREAS NOTE	3.5	1/11/06	250,000,000.00
CENTRAL CAROLINA BANK	3	8/18/05	100,000.00	US TREAS NOTE	2.625	1/11/06	250,000,000.00
TRINITY BANK	3	8/25/05	500,000.00	US TREAS NOTE	3	1/27/06	250,000,000.00
NORTHWESTERN NATIONAL BANK	3	8/25/05	500,000.00	US TREAS NOTE	3.125	1/27/06	250,000,000.00
BANK OF GRANITE-GRANITE FALLS	3	8/25/05	2,000,000.00	US TREAS NOTE	2.25	2/15/07	250,000,000.00
US TREAS NOTE	2	8/31/05	250,000,000.00	US TREAS NOTE	3.375	2/28/07	250,000,000.00
FIRST CHARTER NATIONAL BANK OF CONCORD	3.125	8/1/05	6,000,000.00	US TREAS NOTE	3.625	4/30/07	250,000,000.00
CAPITAL BANK	3.125	8/1/05	2,000,000.00	US TREAS NOTE	3.125	5/15/07	250,000,000.00
BANK OF GRANITE-GRANITE FALLS	3.125	8/1/05	2,000,000.00	US TREAS NOTE	5.25	8/15/07	100,000,000.00
SOUTHTRUST BANK NA	3.125	8/8/05	2,000,000.00	US TREAS NOTE	2.75	8/15/07	100,000,000.00
FIRST CHARTER NATIONAL BANK OF CONCORD	3.125	8/8/05	10,000,000.00	US TREAS NOTE	3	11/15/07	200,000,000.00
LEXINGTON STATE BANK LEXINGTON	3.25	8/15/05	5,000,000.00	US TREAS NOTE	3	2/15/08	100,000,000.00
FIRST CHARTER NATIONAL BANK OF CONCORD	3.25	8/15/05	10,000,000.00	US TREAS NOTE	2.825	5/15/08	250,000,000.00
CENTRAL CAROLINA BANK	3.25	8/15/05	500,000.00	US TREAS NOTE	3.25	8/15/08	100,000,000.00
TRINITY BANK	3.25	8/22/05	700,000.00	US TREAS NOTE	3.125	8/15/08	100,000,000.00
SOUTH TRUST BK OF CENTRAL CARO	3.25	8/22/05	700,000.00	US TREAS NOTE	3.125	10/15/08	100,000,000.00
PEOPLES BANK-NEWTON	3.25	8/22/05	2,000,000.00	US TREAS NOTE	3.375	11/15/08	100,000,000.00
CATAWBA VALLEY BANK	3.25	8/22/05	1,000,000.00	US TREAS NOTE	5.25	12/15/08	100,000,000.00
CAROLINA BANK	3.25	8/22/05	3,000,000.00	US TREAS NOTE	5.25	1/15/09	100,000,000.00
BANK OF GRANITE-GRANITE FALLS	3.25	8/22/05	600,000.00	US TREAS NOTE	3	2/15/09	100,000,000.00
CENTRAL CAROLINA BANK	3.25	8/28/05	500,000.00	US TREAS NOTE	2.825	3/15/09	100,000,000.00
US TREAS NOTE	1.625	9/30/05	250,000,000.00	US TREAS NOTE	3.125	4/15/09	100,000,000.00
SOUTH TRUST BK OF CENTRAL CARO	3.375	10/6/05	1,300,000.00				
LIMBEE BANK-FERRISBORO	3.375	10/6/05	500,000.00				
FIRST GASTON BANK, GASTON, NC	3.375	10/6/05	100,000.00				
CENTRAL CAROLINA BANK	3.375	10/6/05	5,000,000.00				
BANK OF NC	3.375	10/6/05	500,000.00				
BANK OF GRANITE-GRANITE FALLS	3.375	10/6/05	2,200,000.00				
UNITED COMMUNITY BANK	3.375	10/13/05	500,000.00				
FNB SOUTHEAST	3.375	10/13/05	500,000.00				
CATAWBA VALLEY BANK	3.375	10/13/05	1,000,000.00				
UNITED COMMUNITY BANK	3.375	10/20/05	2,000,000.00				
FOUR OAKS BK & TR	3.375	10/20/05	2,000,000.00				
CENTRAL CAROLINA BANK	3.375	10/20/05	5,000,000.00				
CATAWBA VALLEY BANK	3.375	10/20/05	1,500,000.00				
CAROLINA BANK	3.375	10/20/05	1,000,000.00				
BANK OF GRANITE-GRANITE FALLS	3.375	10/20/05	350,000.00				
UNITED COMMUNITY BANK	3.375	10/27/05	500,000.00				
LEXINGTON STATE BANK LEXINGTON	3.375	10/27/05	5,000,000.00				
HIGH POINT BANK & TRUST	3.375	10/27/05	10,000,000.00				
COASTAL FEDERAL BANK	3.375	10/27/05	1,000,000.00				
BANK OF THE CAROLINAS	3.375	10/27/05	1,000,000.00				
US TREAS NOTE	1.625	10/31/05	250,000,000.00				
FNB SOUTHEAST	3.375	11/3/05	1,000,000.00				
FIRST TRUST BANK	3.375	11/3/05	1,300,000.00				
FIRST CHARTER NATIONAL BANK OF CONCORD	3.375	11/3/05	5,000,000.00				
FIRST GASTON BANK, GASTON, NC	3.375	11/10/05	500,000.00				
FIRST CHARTER NATIONAL BANK OF CONCORD	3.375	11/10/05	6,000,000.00				
CENTRAL CAROLINA BANK	3.375	11/10/05	5,000,000.00				
BANK OF GRANITE-GRANITE FALLS	3.375	11/10/05	3,200,000.00				
US TREAS NOTE	0.875	11/15/05	250,000,000.00				
INDUSTRIAL FED S & L LEXINGTON	3.375	11/17/05	100,000.00				
FIRST CHARTER NATIONAL BANK OF CONCORD	3.375	11/17/05	100,000.00				
CENTRAL CAROLINA BANK	3.375	11/17/05	2,000,000.00				
BLUE RIDGE S & L ASHEVILLE	3.375	11/17/05	100,000.00				
STERLING SOUTH BANK & TRUST	3.375	11/23/05	2,000,000.00				
BANK OF GRANITE-GRANITE FALLS	3.375	11/23/05	2,000,000.00				
US TREAS NOTE	1.875	11/30/05	250,000,000.00				
HOME SAVINGS BK-THOMASVILLE	3.5	12/1/05	700,000.00				
BANK OF GRANITE-GRANITE FALLS	3.5	12/1/05	4,300,000.00				
WAKE FOREST S & L	3.5	12/6/05	100,000.00				
NORTHWESTERN NATIONAL BANK	3.5	12/6/05	1,000,000.00				
FARMERS & MERC BK GRANITE QUAR	3.5	12/6/05	5,000,000.00				
CENTRAL CAROLINA BANK	3.5	12/6/05	600,000.00				
BANK OF WILMINGTON	3.5	12/6/05	100,000.00				
BANK OF GRANITE-GRANITE FALLS	3.5	12/6/05	1,000,000.00				
THE SCOTTISH BANK	3.5	12/15/05	1,000,000.00				
PARKWAY BANK	3.5	12/15/05	500,000.00				
NORTHWESTERN NATIONAL BANK	3.5	12/15/05	500,000.00				
FARMERS & MERC BK GRANITE QUAR	3.5	12/15/05	5,000,000.00				
BANK OF GRANITE-GRANITE FALLS	3.5	12/15/05	250,000.00				
FIRST TRUST BANK	3.625	12/22/05	2,000,000.00				
FIRST FEDERAL S&L LINCOLNTON	3.625	12/22/05	100,000.00				
FIRST CHARTER NATIONAL BANK OF CONCORD	3.625	12/22/05	100,000.00				
BANK OF GRANITE-GRANITE FALLS	3.625	12/22/05	1,000,000.00				
TRINITY BANK	3.625	12/29/05	1,000,000.00				
PARKWAY BANK	3.625	12/29/05	1,000,000.00				

SUMMARY SCHEDULE OF FIXED INCOME BROKERS UTILIZED BY THE SHORT-TERM INVESTMENT PORTFOLIO FOR FISCAL YEAR 2005

Bank of America	Merrill Lynch
Bear Stearns	Mizuho Securities USA Inc.
Citigroup	Morgan Stanley Dean Witter
Deutsche Banc Alex Brown	UBS Warburg
First Tennessee Bank	Wachovia
Goldman Sachs	
HSBC Securities	
Lehman Brothers	
McDonald Investment Inc.	

TOP 10 POSITIONS HELD IN STIP AS OF JUNE 30, 2005

ISSUER	COUPON	MATURITY DATE	PAR VALUE
US TREAS NOTE	2.0%	08/31/05	250
US TREAS NOTE	1.625%	09/30/05	250
US TREAS NOTE	1.625%	10/31/05	250
US TREAS NOTE	5.875%	11/15/05	250
US TREAS NOTE	1.875%	11/30/05	250
US TREAS NOTE	1.875%	12/31/05	250
US TREAS NOTE	1.875%	01/31/06	250
US TREAS NOTE	5.625%	02/15/06	250
US TREAS NOTE	1.50%	03/31/06	250
US TREAS NOTE	2.25%	04/30/06	250

PENSION FUND REVIEW

North Carolina retirement assets returned 9.85% for the fiscal year ended June 30, 2005 beating the actuarial assumption of 7.25%. This has significant meaning to the members and sponsors of the various retirement systems. This means the pension fund achieved a return higher than the required actuarial rate which allows the pension fund to retain its fully funded status.

Our mission is to maintain the fully funded status of the pension plan. Our plan is diversified and designed to weather volatile markets over time. This is due to our focus on quality and risk control.

The returns generated by the fixed income portfolio totaling 10.26% drove portfolio returns with equity returns of 9.58% providing good secondary support. During the year we reduced our allocation to equity and increased exposure

to fixed income as allocations approached strategic thresholds.

The Alternatives program is in a building phase. The addition of staff has provided the resources needed to build relationships, and effectively execute the due diligence process required to continue increasing these assets.

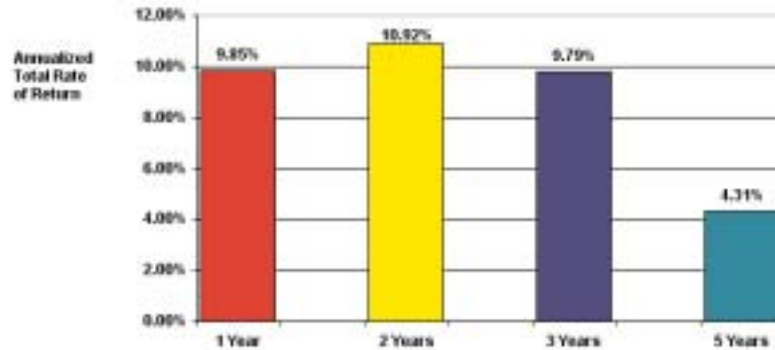
The Real Estate program also received the benefit of additional staff resources. During 2005, the staff evaluated and began restructuring the real estate portfolio to provide more efficient participation in the institutional markets.

We also evaluated the structure of the investment program and its effectiveness during various economic environments. Following a review of preliminary results, staff will make appropriate recommendations to the Treasurer for consideration and possible action during fiscal year 2006.

Pension Investment Summary as of June 30, 2005

Portfolio Type	Market Value (\$ in 000's)	% of Market Value
US Equities	\$32,060,399	49.28%
Non-US Equities	5,824,845	8.95%
Fixed Income	24,405,438	37.51%
Real Estate	1,658,848	2.55%
Alternatives	1,114,666	1.71%
Total Market Value	\$65,064,196	100.00%

Pension Investments Total Returns as of June 30, 2005



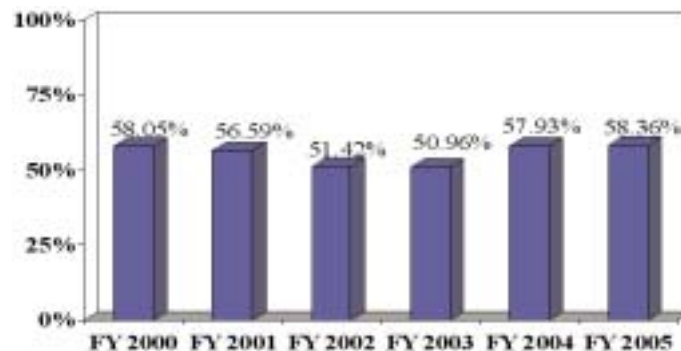
Investment Policy

The Investment Management Division conducts 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.

Investment Objective

Equities as a Percentage of Total Pension Plan



The investment philosophy is to achieve the maximum amount of return given a certain level of desired and appropriate risk. Risk will be controlled through diversification, signaling a need to invest across a broad array of asset classes. Setting defined ranges for each asset class and outlining procedures for rebalancing provides a solid foundation for controlling asset allocation risk.

The Investment Division is constantly monitoring the overall pension fund in an effort to control risk. By December 30, 2004, the fund's equity exposure climbed to 59.5% and approached the policy maximum of 60%. A rebalancing plan was executed which reduced the equity exposure to 58.8% by February, 2005. The rebalancing strategy also increased fixed income exposure to 37.0%.

Asset Allocation

During fiscal year 2005, there were no changes made to the asset allocation model. On June 30, 2005, the ranges were as follows:

■ US Large Cap Equity	31.5%-36.5%
■ US Mid Cap Equity	5.5%-7.5%
■ US Small Cap Equity	5.5%-7.5%
■ Non-US Equity	6.5%-9.5%
■ Fixed Income	35.0%-44.0%
■ Real Estate	3.0%-6.0%
■ Alternatives	1.0%-2.5%

During calendar year 2005, 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. During December 2004, equity exposure approached the

strategic maximum. In order to maintain the strategic profile, benefit payments and funds required for real estate and alternative investments were drawn down from the domestic equity portfolio. During the fiscal year, staff began an optimization study. The results of the study will be utilized as a basis for future strategic asset allocation recommendations.

Investment Performance/Fiscal Year 2005 Results

North Carolina retirement assets returned 9.85% for the fiscal year ended June 30, 2005. The investment environment was characterized by unexpected capital flows for all investment types. Stocks were also supported by the ongoing bond rally as long-term bond yields declined despite rising short-term interest rates. The Fed stayed the course with incremental interest rate increases, raising the federal funds rate from 2.75% to 3.25%, and market observers began anticipating an end to the monetary tightening cycle. Foreign buying, an accumulation of global savings, the possibility of much slower U.S. economic growth and moderating inflation trends were all put forth as reasons for the atypical long-term bond market rally in the face of tighter monetary policy.

The fiscal year return of 9.85% exceeded the actuarial assumption of 7.25% for one and three years ended June, 2005. The five-year return did not meet actuarial assumptions due to the returns experienced during the bear market of 2000-2003.

Total Pension Plan Performance as of June 30, 2005

Asset Class	Portfolio Weight	1 Year	2 Year	3 Year	5 Year
Equity	58.23%	9.58%	16.44%	10.87%	0.46%
Fixed	37.51%	10.26%	4.43%	8.05%	9.15%
Real Estate	2.55%	12.67%	10.09%	7.31%	6.71%
Alternatives	1.71%	3.59%	4.58%	0.99%	-12.06%
Total Portfolio	100.00%	9.85%	10.92%	9.79%	4.31%

*All returns are net of all fees

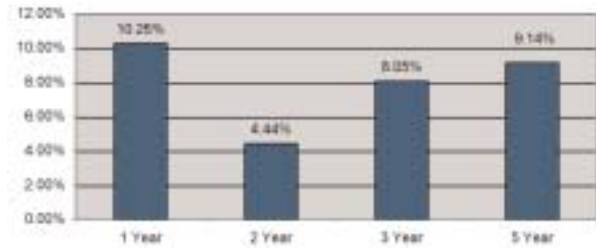
Fixed Income

The fixed income allocation of the pension plan is actively managed through the Long Term Investment Portfolio (LTIP). For the fiscal year, the LTIP generated a total return of 10.23%, compared to a return of 10.60% for the Merrill Lynch Custom Benchmark.

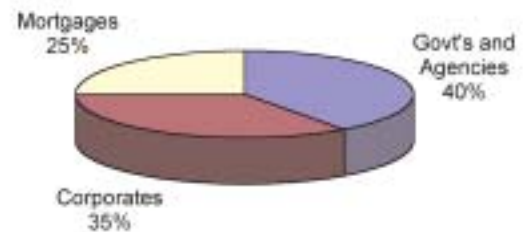
The fiscal year included an unexpected move in the Treasury yield curve by historical standards. While the Federal Reserve's Open Market Committee (FOMC) aggressively raised the Fed Funds target eight times to 3.75%, the moderately paced economic recovery included limited inflationary pressure on the long end. The result of this unique environment was a flatter yield curve that saw short-term rates rise more than 1.75% and long term rates fall more than 1%. Corporate spreads continued to experience below average volatility as a whole, with material spread widening limited to the auto sector. The Investment Division utilizes the LTIP 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 long-term rates at historically low levels to end the fiscal year, market pressures are biased toward stable or increasing rates. This environment should limit expectations for fixed income returns during the next fiscal year.

Long Term Investment Portfolio Performance as of June 30, 2005



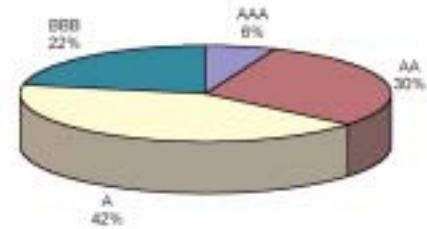
Fixed Income Allocation



TOP 10 CORPORATE POSITIONS BY ISSUER (6/30/05)

Issuer	Market Value (\$mm)
General Electric	385
Bank of America	337
J.P. Morgan	301
Citigroup	264
Goldman Sachs	252
SBC	248
Wal-Mart	237
Verizon	234
HBSC	205
UPS	192

Exposure by Moody's Rating



Summary Schedule of Fixed Income Brokers Utilized by the Long-Term Investment Portfolio for Fiscal Year 2005

ABN AMRO	Countrywide	HSBC Securities	Mizuho Securities USA Inc.
A.G. Edwards	Credit Suisse First Boston	JP Morgan Chase	Morgan Keegan
Advest	Dain Rauscher	Lehman Brothers	Morgan Stanley Dean Witter
Bank of America	Deutsche Bank Securities	Loop Capital Markets	UBS Securities
Bear Stearns	First Tennessee Bank	McDonald Investment Inc.	Wachovia
Blaylock & Partners	Goldman Sachs	Merrill Lynch	Williams Capital Group
Citigroup			

Long-Term Investment Portfolio Top 100 Positions as of June 30, 2005

Security	Coupon	Maturity Date
US TREAS BOND	8.125	8/15/19
US TREAS BOND	7.5	11/15/16
US TREAS BOND	8.5	2/15/20
US TREAS BOND	7.25	5/15/18
US TREAS BOND	8.125	5/15/21
US TREAS BOND	8.125	8/15/21
US TREAS BOND	7.25	8/15/22
US TREAS BOND	7.875	2/15/21
US TREAS BOND	7.125	2/15/23
FNMA	7.125	1/15/30
US TREAS NOTE	5	8/15/11
FNMA	4.375	7/17/13
US TREAS NOTE	5.75	8/15/10
GNMA I	5	6/15/33
US TREAS BOND	7.5	11/15/24
US TREAS NOTE	5	2/15/11
FNMA	4.75	3/21/13
UPS	8.375	4/1/20
FHLMC	6	6/15/11
US TREAS NOTE	3.875	2/15/13
US TREAS BOND	8	11/15/21
US TREAS NOTE	4.25	11/15/13
US TREAS NOTE	4.875	2/15/12
US TREAS BOND	6.875	8/15/25
US TREAS BOND	7.625	2/15/25
US TREAS BOND	6	2/15/26
US TREAS BOND	6.375	8/15/27
FHLMC	5.2	3/5/19
US TREAS NOTE	4.375	8/15/12
FHLMC	5.125	11/7/13
FHLMC	4.5	1/15/15
GNMA I	6	11/15/33
US BANK NA	6.3	2/4/14
US TREAS NOTE	4.75	5/15/14
COMCAST/AT&T BROADBAND	9.455	11/15/22
FHLB	4.5	9/18/13
US TREAS NOTE	4	2/15/15
FHLMC	5	1/30/14
FHLMC	4.65	10/10/13
WISC BELL INC	6.75	8/15/24
FHLMC	4.5	1/15/13
GNMA I	5	4/15/33
FHLMC	6.25	7/15/32
FNMA	4.625	10/15/13
WAL MART STORES	7.25	6/1/13
FNMA	4.625	5/1/13
WAL MART STORES	6.75	10/15/23
JP MORGAN CHASE & CO	5.125	9/15/14
PACIFIC BELL	6.625	10/15/34
FHLB	5.75	5/15/12
US TREAS BOND	8.875	2/15/19
NATIONSBANK CORP	7.8	9/15/16
FHLMC	4.75	10/1/12
GNMA I	6	12/15/32
GNMA I	5.5	8/15/33
FNMA	4.625	10/15/14
GEN ELEC CORP	4.75	9/15/14
FHLMC	4.125	2/24/11
GE INSURANCE	6.45	3/1/19
FNMA	5	4/26/17
BANKAMERICA CORP	5.125	11/15/14
WACHOVIA BANK	4.8	11/1/14
FHLMC	5	11/13/14
WYETH	7.25	3/1/23
UNITED TECH CORP	6.7	8/1/28
GOLDMAN SACHS	6.125	2/15/33
FHLB	4.5	11/15/12
Atlantic Richfield	5.9	4/15/09
SOUTHERN NE TEL	7.25	12/15/33
FHLB	5.25	6/18/14
TARGET CORP	6.35	1/15/11
GNMA I	5.5	1/15/34
GNMA I	6	11/15/33

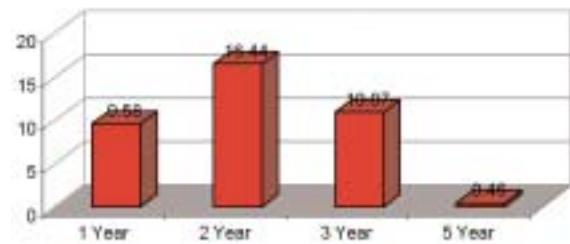
BANKAMERICA CORP	4.875	1/15/13
FNMA	4.375	9/15/12
ARCHER DANIELS	7.125	3/1/13
GEN ELEC CAP	8.125	2/22/11
NJ BELL TEL	6.8	12/15/24
US TREAS BOND	5.5	8/15/28
PEPSI BOTTLING HLDS INC	5.625	2/17/09
GNMA I	6	9/15/34
GNMA I	6	10/15/32
GNMA I	5.5	6/15/33
GNMA I	5.5	5/15/33
GNMA I	5.5	6/15/33
GNMA I	5	7/15/33
AOL TIME WARNER	6.875	5/1/12
FHLMC	4.5	7/15/13
SPRINT CAPITAL CORP	8.75	3/15/32
GNMA I	5	4/15/33
ONTARIO HYDRO	7.45	3/31/13
GEN ELEC CAP	6.75	3/15/32
FNMA	5.5	3/15/11
GNMA I	5.5	10/15/34
FIRST DATA CORP	5.625	11/1/11
COCA COLA ENTERP	8.5	2/1/22
FNMA	6.25	2/28/17
CHUBB CORP	6	11/15/11
FHLMC	5.5	8/20/19
AT&T WIRELESS SVCS INC	8.75	3/1/31

Equities

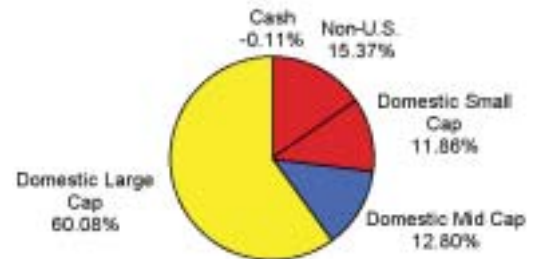
The equity allocation of the pension fund is actively managed through the Equity Investment Fund (EIF). The State Treasurer and the Investment Division determine the overall asset allocation and select managers to implement those decisions. The Investment Division is charged with monitoring those managers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

For the fiscal year ended June 30, 2005 the EIF produced a total return of 9.58% versus 9.14% for the policy portfolio. Performance was enhanced by exposure to mid and small cap domestic equity and the international exposure.

Equity Investment Fund Performance as of 6/30/05



Equity Allocation as of 6/30/05



EIF Management Style

Active Allocation as of June 30, 2005



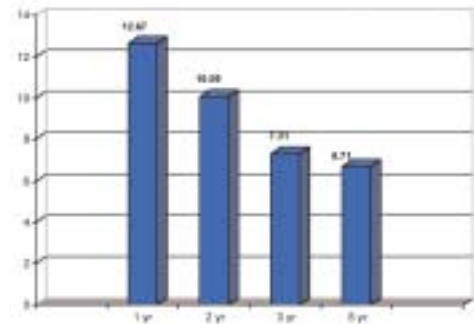
North Carolina Retirement Systems' Equity Investment Portfolio Top 100 Positions as of June 30, 2005

Security Name	Market Value	# Shares
GENERAL ELEC CO	\$710,051,348.18	30,722,874.00
EXXON MOBIL CORP	\$620,743,527.25	10,801,175.00
MICROSOFT CORP	\$541,287,122.89	21,790,795.00
CTRI GROUP INC	\$515,258,848.18	11,144,470.00
BANK AMER CORP	\$396,781,456.15	9,765,215.00
PFEIDER INC	\$344,928,442.89	12,508,470.00
INTEL CORP	\$313,349,974.44	12,024,174.00
AMERICAN INTL GROUP INC	\$299,285,891.48	5,322,894.00
JOHNSON + JOHNSON	\$283,954,635.00	4,622,379.00
ALTRIA GROUP INC	\$282,085,148.68	4,517,431.00
DISCO SYS INC	\$280,359,489.45	15,191,495.00
PROCTER AND GAMBLE CO	\$282,881,834.58	4,982,848.00
JPMORGAN CHASE + CO	\$256,644,498.88	7,237,853.00
DONOCOPHILLIPS	\$220,751,138.83	3,966,387.00
TIME WARNER INC NEW	\$212,610,806.58	12,738,536.00
CHEVRON CORP	\$209,954,498.44	3,753,857.00
DELL INC	\$205,034,338.79	5,188,429.00
PEPSICO INC	\$201,548,826.35	3,737,185.00
INTERNATIONAL BUSINESS MACHS	\$201,288,498.60	2,712,785.00
ABBOTT LABS	\$181,754,378.38	3,911,536.00
WAL MART STORES INC	\$185,179,898.43	3,808,412.00
VERIZON COMMUNICATIONS	\$182,367,462.85	5,278,827.00
HOME DEPOT INC	\$180,884,192.20	4,334,295.00
UNITED TECHNOLOGIES CORP	\$182,085,423.58	3,188,810.00
WELLS FARGO + CO NEW	\$156,917,534.29	2,548,986.00
VANGUARD INC	\$151,122,648.68	4,724,533.00
SPRINT CORP	\$138,122,482.29	3,508,081.00
COUNTRYWIDE FINL CORP	\$135,388,853.11	3,504,491.00
FEDERAL NATL MTS ASSN	\$134,158,757.88	2,260,239.00
WELLPOINT INC	\$121,791,481.88	1,862,487.00
LILLY ELI + CO	\$120,980,830.92	2,215,452.00
AMGEN INC	\$120,518,898.38	2,082,805.00
SBC COMMUNICATIONS INC	\$124,488,312.50	5,248,350.00
3M CO	\$124,442,837.60	1,721,180.00
COCA COLA CO	\$123,611,312.58	2,968,750.00
ORACLE CORP	\$121,582,238.00	9,204,715.00
METROPCS INC	\$120,581,578.47	2,327,893.00
MRNA CORP	\$118,519,845.69	4,561,180.00
UNITED PARCEL SVC INC	\$117,588,131.78	1,867,486.00
WYETH	\$116,868,261.50	2,628,827.00
SLM CORP	\$110,782,894.49	2,188,398.00
BAILETT CO	\$108,517,894.81	2,183,887.00
KIMBERLY CLARK CORP	\$109,488,212.91	1,748,449.00
ASTRAZENECA PLC	\$109,435,135.89	2,852,330.00
OCCIDENTAL PETE CORP	\$107,389,895.18	1,398,870.00
YAHOO INC	\$106,581,181.89	3,078,224.00
TEXAS INSTRS INC	\$106,261,467.64	3,793,452.00
TOTAL SA	\$105,171,902.37	447,104.00
TYCO INTL LTD	\$109,014,179.28	3,598,376.00
ROYAL BK SCOT GRP	\$103,182,708.78	3,414,357.00
INTEL CORP	\$101,348,834.58	5,558,325.00
MERCK + CO INC	\$100,621,392.43	3,258,938.00
ALLSTATE CORP	\$99,589,403.75	1,898,795.00
FEDERAL HOME LN MTS CORP	\$98,231,594.11	1,521,257.00
GOLDMAN SACHS GROUP INC	\$96,265,153.88	963,195.00
BOEING CO	\$97,928,248.08	1,482,731.00
MORGAN STANLEY	\$97,341,894.72	1,898,176.00
WACHOVA CORP IND NEW	\$95,518,390.48	1,928,774.00
UNITEDHEALTH GROUP INC	\$95,184,141.18	1,825,837.00
COMCAST CORP NEW	\$95,081,892.18	3,067,193.00
D R HORTON INC	\$93,294,428.02	2,478,182.00
FIRST DATA CORP	\$92,182,848.99	2,298,789.00
FOREST LABS INC	\$91,741,873.05	2,361,433.00
DUALDORR INC	\$91,419,878.45	2,768,345.00
AIR PRODS + CHEMS INC	\$91,148,515.20	1,511,584.00
EXELON CORP	\$90,793,238.58	1,798,876.00
TARGET CORP	\$88,368,137.34	1,687,174.00
CAPITAL ONE FINL CORP	\$85,323,704.13	1,068,413.00
GILEAD SCIENCES INC	\$83,115,145.90	1,888,410.00
MERRILL LYNOH + CO INC	\$80,912,503.89	1,478,899.00
SANOFI AVANTIS	\$80,781,898.88	982,701.00
ACE LTD	\$79,861,456.00	1,757,800.00
SCHLUMBERGER LTD	\$79,453,841.82	1,033,193.00
DISNEY WALT CO	\$77,884,818.52	3,093,114.00
NOVARTIS AG	\$77,687,718.89	1,838,443.00
LEHMAN BROTHERS HLDGS INC	\$77,485,836.18	1,778,872.00
EMERSON ELEC CO	\$77,081,392.85	1,228,485.00
HENLETT PACKARD CO	\$76,771,598.37	3,288,487.00
VERIZON GROUP	\$76,535,351.11	93,988,934.00
VALERO ENERGY CORP	\$75,088,702.73	948,143.00
LOWES COS INC	\$74,947,748.44	1,285,822.00
GENERAL DYNAMICS CORP	\$74,583,878.00	892,700.00
NEWS CORP	\$74,213,832.42	4,688,749.00
ELECTRONIC ARTS INC	\$73,923,486.18	1,305,839.00
BELLSOUTH CORP	\$73,055,234.68	2,748,536.00
DU PONT E I DE NEMOURS + CO	\$72,588,214.08	1,887,898.00
BOSTON SCIENTIFIC CORP	\$71,945,898.00	2,864,895.00
NEXTEL COMMUNICATIONS INC	\$71,688,778.68	2,218,716.00
AETNA INC	\$69,089,790.34	834,337.00
MCDONALDS CORP	\$68,288,254.50	2,482,826.00
INGERSOLL RAND COMPANY LIMITED	\$68,180,894.29	958,292.00
WEYERHAEUSER CO	\$67,937,886.15	1,087,211.00
WASHINGTON MUT INC	\$66,633,807.42	1,837,519.00
US BANCORP DEL	\$66,028,850.00	2,281,125.00
NATIONAL CITY CORP	\$64,898,398.08	1,893,584.00
HCA INC	\$64,888,818.86	1,142,885.00
GENZYME CORP	\$64,293,758.90	1,068,410.00
DEVON ENERGY CORPORATION NEW	\$63,059,846.64	1,258,898.00
DOW CHEM CO	\$62,913,394.43	1,412,891.00

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 managers to ensure compliance with the overall objectives of the REIF. Real Estate represents just over 2.5% of the overall pension plan. The asset class has underperformed its benchmark, the NCREIF Open Ended Fund Index, partially due to the underperformance of NCRS's open-ended funds. Recently, these funds have finally begun to have impressive returns helping to narrow the gap between NCRS performance and the indices. Real Estate adds diversification and in the long term produces returns that are between fixed income and equity. These objectives were exceeded in fiscal 2004 as real estate outperformed both the fixed income and equity allocations. The program is undergoing a major restructuring and the process will require a considerable amount of time during the next fiscal year.

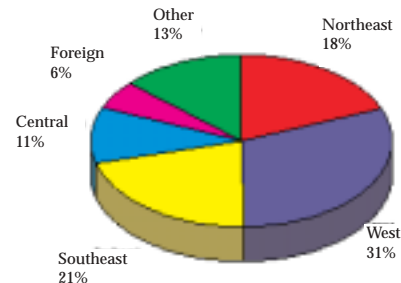
Real Estate Investment Fund Performance as of 6/30/05



Real Estate Property Allocation June 30, 2005



Real Estate Geographic Allocation June 30, 2005



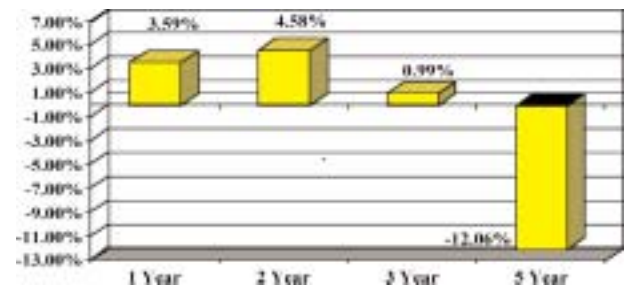
Alternatives

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.

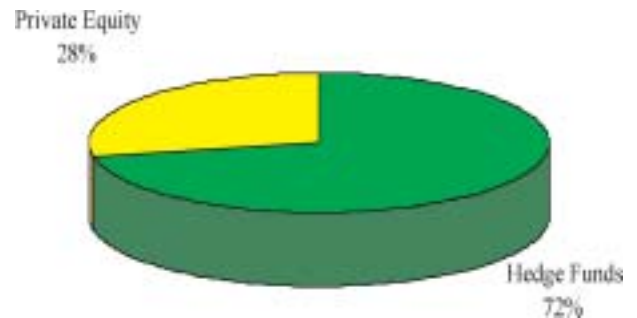
In the initial years, investment returns are negative due to management fees, which are drawn from committed capital, and under-performing investments that are identified early and written down. It can take several years for the portfolio valuations to reflect the efforts of the General Partners. Over time, progress is made by investee companies and justifies a value for the business that is higher than its original cost, resulting in unrealized gains. In the final years of the the fund, the higher valuations of the businesses are confirmed by the partial or complete sale of companies, resulting in cash flows to the partners. In practice, a private equity portfolio involves a series of J-Curves because funds are invested in at different times. However, not all funds will be profitable given the inherent risks of investing in private equity, including macroeconomic factors and the performance of underlying companies.

For fiscal year 2005, the AIF generated a total return of 3.59%. The AIF has been investing significantly in private equity, which typically has low or negative returns during the first few years of the investment period. Our hedge fund performance in FY 2005 generated a total return of 2.85%. This return was generated with a minimal level of volatility and continues to offer positive risk adjusted returns as well as lowering the volatility of the overall pension fund. A significant amount of private equity commitments over the last two years have been to either buyout or later stage private equity funds.

Alternative Investment Fund Performance as of June 30, 2005



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.

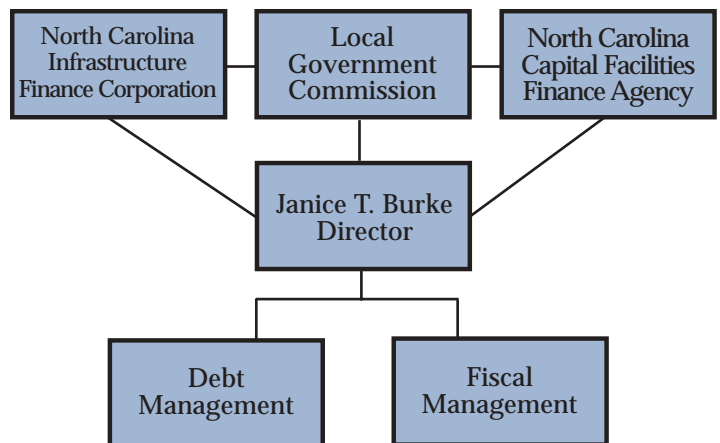
The Local Government Commission (LGC) provides assistance to local governments and public authorities in North Carolina. The LGC, staffed by the Department of State Treasurer, approves the issuance of debt for all units of local government and assists these units with fiscal management. The Commission 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 administrative staff for the Agency is provided by the Department of State Treasurer.

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 administrative staff for the Corporation is also provided by the Department of State Treasurer.

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 2004-05, the State sold general obligation bonds totaling \$1.98 billion. These sales included over \$959.7 million in refunding bonds that will save the State more than \$46.9 million in interest costs, and \$1.02 billion in highway, clean water, natural gas and higher education bonds sold at interest rates that will result in interest savings of more than \$42 million over the life of the bonds when compared to the national Bond Buyer's Index.
- During the 2004-05 fiscal year, the State issued \$242 million in lease revenue/installment purchase debt through the North Carolina Infrastructure Finance Corporation to provide funds for the acquisition, construction and equipping of three correctional facilities, financing a new State psychiatric hospital facility, and financing various other capital projects for health and higher education needs, juvenile detention and youth development facilities, parks, recreation, preservation

of natural heritage and clean water conservation.

- As a means of lowering its borrowing costs and synthetically refunding general obligation bonds, the State entered into three interest rate basis swap/swap-tion agreements in connection with a total notional amount of \$675.9 million of general obligation bonds for public improvements, resulting in estimated net present value savings of about \$44 million.
- 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 2004-05 totaled \$1.58 billion. These included \$0.29 billion sold competitively for new money with rates averaging 53 basis points under the national Bond Buyer's Index, resulting in savings of more than \$12.6 million over the life of these bonds; \$.8 billion in refunding bonds sold competitively, resulting in cumulative savings of over \$47.7 million; and \$0.52 billion in negotiated sales.
- Twenty-eight revenue bond issues for over \$950 million were sold for local governments, mainly for hospitals, airports, water and sewer and housing projects. The revenue bond sales included eighteen refundings resulting in net present value savings of over \$30.4 million for units of local government and power agencies. In addition, the use of interest rate swaps on general obligation and revenue bonds increased significantly. Sixteen swaps associated with over \$1.5 billion in indebtedness were approved during 2004-05.
- Other bond issues sold in 2004-05 included over \$1.12 billion in installment purchase contracts (including refundings); \$972.2 million in healthcare facility revenue bonds through 14 bond issues for the North

Carolina Medical Care Commission; \$535.6 million for capital projects for private schools, colleges and other nonprofit corporations through 12 bond issues by the North Carolina Capital Facilities Finance Agency; \$195 million for the North Carolina Housing Finance Agency increasing the supply of affordable housing for North Carolinians of moderate and low income and \$25.1 million in industrial revenue and pollution control bonds to finance or refinance five projects creating about 532 new jobs.

- Members of the staff worked with the School of Government to present the Fourth 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, a new electronic post office for secondary market disclosures 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 sixteenth 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 fourth year, State Treasurer's Awards were also presented to nonprofit organizations that provide valuable services to the citizens of the State.

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 continuing 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 4.88% in July, 2004 to a low of 4.18% in June, 2005.

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, 2005, the State had general obligation bonds outstanding of \$5.7 billion and Certificates of Participation and Lease-Purchase bonds outstanding of \$740.2 million. (See Tables 7 and 8.)

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

The Division assists the State Treasurer in representing the State in all presentations to Moody's Investors Service, Inc., Standard and Poor's Corporation, and Fitch Ratings Inc., the three national bond rating agencies used by the State and local governmental units in North Carolina. At June 30, 2005, 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, the anticipated interest rates and the favorable

times bonds can be sold with a minimum of competition. The staff strives to resolve all problems and to determine that all statutory requirements are met before applications are presented to the Local Government Commission for approval.

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, 2005, authorized and unissued general obligation bonds for local governments amounted to \$3.50 billion; and general obligation debt outstanding amounted to over \$8.6 billion. (See Table 7). Of the \$1.6 billion in general obligation bonds marketed for local units, over \$.29 billion were sold competitively for new money at tax-exempt rates averaging approximately 53 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 \$12.6 million in interest costs. Over \$.8 billion in refundings were sold competitively, achieving savings in excess of \$47.7 million over the life of the 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.

Another responsibility of the Division's staff is assisting units that desire to enter into agreements to finance the lease or installment purchase of capital assets.

Local Government Commission approval is required when the contract or agreement extends for five or more years and obligates the unit to pay sums of money to another, without regard to whether the payee is a party to the contract; and obligates the unit to the extent of \$500,000 or a sum equal to one tenth of one percent (.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, 2005, the Local Government Commission approved contracts or other agreements (including refundings) totaling \$1.21 billion. (See Tables 5 and 6.)

Fiscal Management

Another function of the Division involves monitoring certain fiscal and accounting standards prescribed for local governmental units by the Local Government Budget and Fiscal Control Act. As a part of its role in assisting local units and monitoring their fiscal programs, the Division provides guidance in following generally accepted accounting principles. The Local Government Budget and Fiscal Control Act requires each unit of local government to have its accounts audited annually by a Certified Public Accountant or by an accountant certified by the Commission as qualified to audit local government accounts. That audit must be performed in accordance with Generally Accepted Auditing Standards promulgated by the AICPA. If a governmental unit is required to have an expanded audit performed in accordance with Government Auditing Standards, the auditor is required to provide the unit and the Local Government Commission with a copy of the audit firm's most recent peer review 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 1,230 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

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.

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 N. C. Finance and

Reimbursement Officers Association, 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 2004-05, the State sold general obligation bonds totaling \$1.98 billion. In September 2004, the State sold competitively \$300 million general obligation highway bonds at a true interest cost of 3.5837%. When compared to the national Bond Buyer's Index (the "BBI"), this sale resulted in savings over the life of these bonds of \$22 million. The State also sold \$382.7 million general obligation refunding bonds in September 2004 at a true interest cost of 2.9429%, generating interest savings of more than \$20 million.

In December 2004, \$705.5 million in clean water and higher education bonds were sold competitively at a true interest cost of 3.9753%, resulting in interest savings of \$20 million over the life of the bonds when compared to the BBI. General obligation refunding bonds of \$106.9 million were sold competitively in December at a true interest cost of 3.49%, generating interest savings of more than \$5.9 million. General obligation natural gas bonds of \$16 million were also sold in December at a true interest cost of 3.5758%.

Additional general obligation refunding bonds of \$470.51 million were sold in June 2005 at a true interest cost of 3.5386%, generating interest savings of more than \$21 million. 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 2004-05, the State issued \$242 million in certificates of participation and lease purchase revenue bonds. In November 2004, the State, through the North Carolina Infrastructure Finance Corporation, issued \$53.64 million lease purchase revenue bonds with interest costs of 4.242% to provide funds for the

acquisition, construction and equipping of two correctional facilities as well as initial costs for youth development centers. In June 2005, the State issued \$188.4 million in certificates of participation with interest costs of 4.1756% through the North Carolina Infrastructure Finance Corporation to finance the acquisition, construction and equipping of a correctional facility, a new State psychiatric hospital facility and various other capital projects for health and higher education needs, juvenile detention and youth development facilities, parks, recreation, preservation of natural heritage and clean water conservation. The State is required to make 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 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 124 to 127 and the dollar volume approved increased from \$1.045 billion in 2003-2004 to \$1.206 billion in 2004-05. The higher volume in the past two years results from a significant number of refundings. (See Tables 5 and 6.)

Revenue Bonds — 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 2004-2005, the Local Government Commission approved 28 issues (including two special obligation bonds) totaling approximately \$1.1

billion for units of local governments, excluding about \$400 million in revenue bond anticipation notes/commercial paper authorized for the City of Charlotte and \$410 million in synthetic refundings for NCMPA #1). Of the \$1.1 billion approved, over \$950 million in sales were closed during the year. Economic growth, the continued presence of extremely low market rates, synthetic alternatives to traditional refundings, and viable enterprise activities 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, airport, hospital and housing continued to represent the majority of the revenue bond purposes.

Interest in revenue bond refundings continued due to the low interest rates available. Over \$30.4 million in net present value savings were achieved as a result of 18 refundings associated with revenue bond approvals/issuances.

Commercial Paper — Commercial paper activity (bond anticipation notes) for both general obligation bond and revenue bond purposes was evidenced by three approvals totaling over \$650 million during the year. The purpose of these programs is to allow interim funding of large ongoing programs until a sufficient amount of bonds or favorable market conditions justify the replacement of commercial paper with permanent financing.

Interest Rate Swaps — The use of interest rate swaps on general obligation bonds, revenue bonds and certificates of participation have increased over the prior year. While these synthetic products provide enhanced benefits, they also involve risks that have to be considered by each issuer.

Sixteen swaps associated with over \$1.5 billion dollars in indebtedness were approved during the 2004-05 year. Approvals included swaptions, variable to fixed interest rate swaps, fixed to variable interest rate swaps, caps, basis rate swaps and forward starting swaps. While providing certain expected benefits, each of these transactions has to be evaluated individually based on the cost/benefit and additional or unique risks involved.

Project Development Financing — In November, 2004, North Carolina voters approved a new method of financing known as Project Development Financing. This method of financing allows local governments to issue bonds without a referendum for a variety of public improvements in conjunction with private business developments in a community, and then pay the bonds with the increased tax revenues generated by the private development. Several seminars and presentations were made during the year to communicate these new opportunities to local governments and interested parties. Although several informal meetings were held with local government units and representatives, no formal applications for this method of financing were filed during 2004-05.

North Carolina Medical Care Commission Bonds — During 2004-05, the Local Government Commission approved and sold 14 separate issues of bonds and notes for the North Carolina Medical Care Commission totaling over \$979 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 \$322 million for Duke University Health System to provide for new construction and refinancing of other indebtedness. In attempting to meet the needs of our aging population, six revenue bond issues providing for the acquisition or financing of separate independent living/assisted care facilities were successfully completed during 2004-05, and hospital construction and/or refundings comprised eight other issues. Diverse issue needs were met through fixed rate revenue bonds and variable rate demand revenue bonds. In attempting to better address the continuum of health-care, careful planning and evaluation will continue to be given to additional project risks and innovative techniques used in 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 \$6.5 billion in tax-exempt bonds and tax credits to produce and provide housing for over 166,000 households. In FY 2004-2005, financing and tax credits were provided to support total development of \$264.5 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 1,114 issues totaling \$6.2 billion. These issues have created over 99,000 jobs and saved over 39,200 jobs. In the fiscal year ended June 30, 2005, five issues of Industrial Revenue and Pollution Control Financing Facilities Bonds were issued for a total of \$25.1 million, resulting in the creation of 532 jobs. In addition, \$4.5 million of special purpose bonds were issued by local industrial and pollution control authorities benefiting the public interest.

Volume Cap Allocation — Legislation was approved by the 1987 Session of the General Assembly to maintain a State pool of the federal volume cap from which projects for industry, low and moderate income housing, low-interest rate student loans, etc., could be approved, thus giving maximum flexibility in use of the volume cap. The volume cap allocation affords tax-exempt financing for projects of this type. For the calendar year 2005, the State was allotted \$683 million to use for private activity bonds.

Triple A General Obligation Bond Ratings — At June 30, 2005, 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."

State Liquidity Provider Contracts — In 2004-05, the staff re-negotiated all liquidity provider contracts that cover liquidity on the State's variable rate bond issues. The renegotiated contracts resulted in saving to the State of over \$1.17 million over the life of the contracts.

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 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 over \$2.3 billion in tax-exempt capital financing through 142 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, 2005, there were \$1.8 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, 2005, the NCCFFA issued \$535.6 million in bonds through 12 financings for nine institutions. The annual report of the NCCFFA is available from the Office of the State Treasurer.

North Carolina Clean Water Revolving Loan and Grant Funds — The North Carolina Clean Water Revolving Loan and Grant Fund was established by the 1987 General Assembly to provide low-interest rate loans to local governments constructing or improving water and sewer 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. Maturity schedules are prepared for each loan, and the staff oversees the signing of the promissory notes.

In 2004-2005, a total of 23 units were approved to receive new revolving loans ranging from \$463,000 to \$20 million. Additionally, one State bond loan was approved in the amount of \$1.76 million.

Fiscal Management

Monitoring the Financial Condition and Operations of Local Governments and Public Authorities

— Approximately 517 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. Greater emphasis was placed upon units whose auditor reported internal control weaknesses due to a lack of segregation of duties. Units were given copies of memorandums from the staff that suggested ways to segregate duties among staff and governing board members in order to strengthen internal controls. The assignment of some duties to governing board members is essential for smaller units that have a limited staff and can not afford to hire more staff.

The staff also reviews the semi-annual Reports of Deposits and Investments as of June 30, 2004 and December 31, 2004 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. The Rule requires units to make disclosures to the secondary market, both annually and possibly more frequently, for as long as its applicable debt is outstanding. For the fiscal year ended June 30, 2004, 223 units were required to make annual information filings by January 31, 2005.

Compliance Audit Reviews And Other Services

— As a part of the audit review process, the Division's staff reviewed approximately 544 Single audits and approximately 278 "Yellow Book" audits to ensure that audits performed under Government Auditing Standards (the "Yellow Book") and the federal and State single audit acts meet all the federal and State requirements. 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 test of major State programs performed by auditors for 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 205 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 fourth 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 at the two sites. Topics covered included GASB Statement No. 40 through 46, compliance and financial audit issues, debt financing and sales tax issues, and project development financing.

Staff members spoke at 25 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 — A significant service provided by the staff is the preparation and distribution of memoranda that are of an informational, technical, or statistical nature to units of local government and their independent auditors. Each year 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 and a new electronic post office for secondary market disclosures. 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 annu-

ally 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 to demonstrate the disclosure requirements of GASB Statement No. 40, the reporting of multiple county water and sewer districts, changes in the recognition period for sales tax revenues and installment financing for replacement school buses through the State.

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. The final phase of units implemented GASB Statement No. 34 during the fiscal year. The staff reviewed many drafts of financial statements and provided assistance to units and their auditors to help these smaller units implement the Statement.

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 website 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 has also prepared illustrative financial statements for a county, municipality, school board, charter school and a public housing authority that has implemented GASB Statement No. 34.

State Treasurer's Accounting/Financial Management Awards Programs —

The Department sponsored the sixteenth 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 fourth 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 nonprofit organizations. These award programs are designed to recognize applicants that have enhanced their current operations through the implementation of new and improved accounting and financial management programs. The applications were evaluated by the North Carolina Association of

Certified Public Accountants (NCACPA). Also, an exchange of ideas between local governments and between nonprofits occurs as a result of the publicity surrounding this program.

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 which are necessary to ensure compliance with arbitrage regulations of the Internal Revenue

Service. The projects involve monitoring investment yields, monitoring penalties in lieu of rebate requirements, preparing monthly status reports on each 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, 1999 through June 30, 2004 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, the AFIR and secondary market disclosure can be electronically filed with the Department.

In an attempt to deliver information as efficiently as possible, the staff has offered to notify units and their auditors by e-mail or fax of new updates that are placed on the Department's home page. Currently, 1,200 units and 205 auditors are taking advantage of this service.

Post Employment Benefits Other than Pensions — The GASB has issued Statements No. 43 and 45 that deal with reporting the costs and liabilities of local governments for post employment benefits other than pensions. These statements will initially become effective for the fiscal years ending June 30, 2007 and 2008. They will be phased in over a three year period as was done with GASB Statement No. 34. In addition to the technical financial reporting issues, these statements will require units to make decisions about the funding of benefits and the level of benefits that the unit can afford to offer.

Staff will work with units, auditors and other groups to compare the level and types of benefits offered, to assess

the impact of promised benefits upon the current and future periods and to fulfill auditing and financial reporting requirements of the new statements.

State Debt Policy — In 2004-05, work began on drafting an overall State Debt Policy that will provide guidelines on all major aspects of issuing State debt, including fixed and variable rate debt. The policy is expected to be finalized in early 2005-06.

State Debt Affordability Study — During 2004-05 year, the Debt Management Section completed an update of the State's Debt Affordability Study providing information on the amounts of net tax-supported State debt currently outstanding and amounts of authorized and unissued tax supported State debt at June 30, 2005. The report also provides estimates of the State's future tax-supported debt capacity over the next ten years using standard measures recognized by the national bond rating agencies. This report continues to be refined each year and will be updated again in 2005-06 and forwarded to the General Assembly to assist the Assembly and the Governor's office in planning and addressing the future capital needs of the State.

Additional Projects for 2005-06 — Based on final actions of the General Assembly in August of 2005, the State Treasurer's office will be working with the Department of Transportation in 2005-06 to develop a plan for the issuance of "GARVEE" bonds (Grant Anticipation Revenue Vehicles) or other debt financing instruments to finance federal-aid highways projects using a portion of federal highway funds to pay debt service on these bonds. In addition, new legislation provides for the State Treasurer's office to assist the State Departments of Budget and Management, Controller and Administration in monitoring and evaluating lease purchase and installment purchase activities of the State and reporting these expenditures to the General Assembly at the beginning of its 2006-07 session.

Purposes For Which Local Governments Sold Bonds and Notes Fiscal year 2004-2005

	School	Utilities	Refunding	Other	No.	Total Amount
G.O. Bonds						
Countries	\$ 548,555,000	\$ 1,630,000	\$ 575,720,000	\$ 111,280,000	37	\$ 1,237,185,000
Municipalities	\$ -	\$ 11,467,000	\$ 257,310,000	\$ -	24	\$ 268,777,000
Districts and Authorities	\$ -	\$ 22,531,000	\$ -	\$ 50,555,000	10	\$ 73,086,000
Total G.O. Bonds	\$ 548,555,000	\$ 35,628,000	\$ 833,030,000	\$ 161,835,000	71	\$ 1,579,048,000
Revenue Bonds						
Countries	\$ -	\$ 18,125,000	\$ -	\$ 26,200,000	5	\$ 44,325,000
Municipalities	\$ -	\$ 250,570,000	\$ 215,015,000	\$ 166,935,000	15	\$ 632,520,000
Districts and Authorities	\$ -	\$ 45,095,000	\$ 52,590,000	\$ 165,295,000	9	\$ 262,984,000
Total Revenue Bonds	\$ -	\$ 313,794,000	\$ 267,605,000	\$ 358,430,000	29	\$ 539,829,000
Special Obligation Bonds						
Solid Waste	\$ -	\$ -	\$ -	\$ -	-	\$ -
Total Special Obligation Bonds	\$ -	\$ -	\$ -	\$ -	-	\$ -
State Bond and Revolving Loans						
Countries	\$ -	\$ 40,316,552	\$ -	\$ -	11	\$ 40,316,552
Municipalities	\$ -	\$ 58,930,793	\$ -	\$ -	26	\$ 58,930,793
Districts	\$ -	\$ 28,563,978	\$ -	\$ -	8	\$ 28,563,978
Total State Bond and Revolving Loans	\$ -	\$ 127,811,363	\$ -	\$ -	45	\$ 127,811,363
Notes						
G.O. Bond Anticipation Notes	\$ -	\$ 56,112,000	\$ -	\$ 3,100,000	16	\$ 59,212,000
Revenue Notes	\$ -	\$ -	\$ -	\$ -	-	\$ -
Total	\$ -	\$ 56,112,000	\$ -	\$ 3,100,000	16	\$ 59,212,000
Total Bonds and Notes	\$ 548,555,000	\$ 477,233,363	\$ 1,100,635,000	\$ 520,265,000	161	\$ 2,646,688,363



Debt Management Activities – State and Local (In Millions)

	FY	2004-05	FY	2003-04	FY	2002-03
	No.	Amt.	No.	Amt.	No.	Amt.
Bonds Sold for State						
G.O. Bonds (General Fund)	5	\$ 1,582.8	4	\$ 1,085.9	7	\$ 1,268.0
G.O. Bonds (Highway Fund)	1	398.4	1	400.0	0	-
Certificates of Participation	2	242.0	3	502.4	1	17.50
Total	8	\$ 2,223.2	8	\$ 1,988.3	8	\$ 1,285.5
Bonds and Notes Sold for Local Government Units:						
G.O. Bonds	71	1,579.6	95	1,642.0	78	1,711.9
Revenue Bonds	29	939.8	18	465.9	26	856.2
State Bond and Revolving Loans	45	127.8	53	148.5	12	50.6
Special Obligation Bonds – Solid Waste	0	-	1	3.0	1	14.4
G.O. Notes	16	59.2	25	58.8	21	72.4
Revenue Notes	0	-	1	3.0	0	-
Total	161	\$ 2,705.4	193	\$ 2,321.2	138	\$ 2,705.5
Installment/Lease Contracts Sold for Local Units:						
	126	\$ 1,134.4	168	\$ 1,180.2	68	\$ 656.7
Revenue Bonds Sold for:						
Medical Care Commission	14	979.2	15	605.5	12	769.0
Housing Finance Agency	3	195.0	4	190.4	2	58.1
Power Agencies	1	33.4	1	223.0	4	1,517.5
Industrial Facilities and Pollution Control						
Financing Authorities	6	29.6	7	37.7	8	41.9
Capital Facilities Finance Agency	12	535.6	10	222.4	7	193.0
Total	36	\$ 1,772.8	37	\$ 1,279.0	33	\$ 2,579.5
Grand Total	331	\$ 7,836.8	406	\$ 6,768.7	247	\$ 7,227.2



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

- Continued the expansion of the positive pay program to 76% of accounts. More than 600 counterfeit warrants were detected during the year. In addition, some 1,300 forged warrants were discovered and resolved.
- Earned \$62 million in the securities lending programs administered by the two custodians, Bank of New York and State Street Bank.
- Recorded more than \$5.3 billion worth of securities pledged to the State Treasurer to secure public deposits in financial institutions.
- Funded vendor payments, payroll and governmental transfers by processing 10,200 electronic warrants totaling \$ 95.9 billion.
- Presented more than 15 million State warrants totaling \$25 billion through the Federal Reserve Bank and processed them against agencies' disbursing accounts.
- Facilitated the online Core Banking System so that an average of 2,000 images of paid State warrants could be viewed by agencies each business day.

BANKING OPERATIONS

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 78 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 electronically, 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 2004-2005, more than 15 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 \$74 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 and 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

UNCLAIMED PROPERTY & ESCHEATS DIVISION

UNCLAIMED PROPERTY & ESCHEATS DIVISION

The Department of State Treasurer oversees and maintains the state's database of unclaimed property. By law, these funds are escheated, or turned over, to the department for safekeeping. The Department is responsible for recovering and returning such property to all rightful owners.

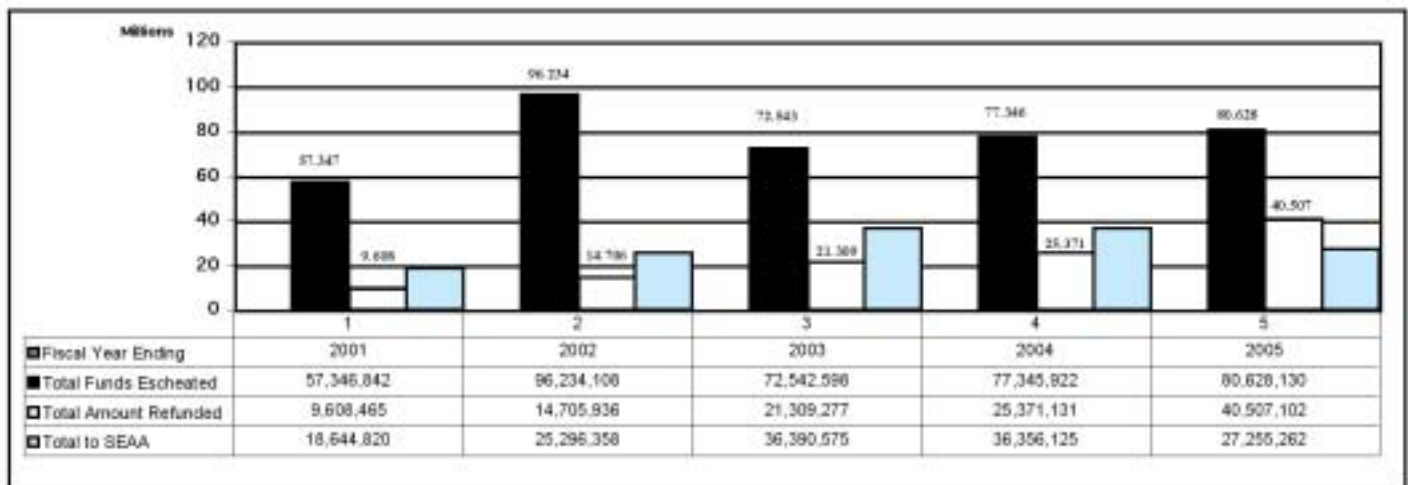
In recent years, the Department has increased compliance and outreach, doubling the amount of money coming into the fund. This new money, along with prudent investments, has increased the fund to more than \$500 million. The interest earned on these funds is sent to the State Education Assistance Authority for student loans and grants. In fiscal year 2005, a total of \$27,255,262 was earned and given to SEAA to help 50,000 North Carolinians afford college.

The funds in this program were previously held by financial institutions, insurance companies, businesses and other government agencies in the form of wages, utility deposits and insurance policy proceeds. Property is considered unclaimed when the apparent owner fails to communicate interest in it for a period of time called the dormancy period. Once the property has met its dormancy limit and the holder has 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, the Department works to locate the owners by var-

ious means, including listing names on the website, earning media coverage through television and newspapers, mailing lists to Clerks of Court, and attending outreach events, such as the North Carolina State Fair, Mountain State Fair and many other events throughout the State to promote public awareness about the program.

This past year we also participated in a pilot program with the Department of Health & Human Services' Child Support Services to return delinquent child support to North Carolina families. Through this program, we performed a search on our database for unclaimed property held by the state for non-custodial parents who owed child support. As a result of this effort, we were able to return thousands of dollars to North Carolina families.

In order to continue to expand efforts such as these, a special software package has been purchased to perform specialized data matches. In addition, a request for proposals is being issued for an Imaging System for our Program. This System will enhance our abilities to have documents readily available for review and processing. This project will hopefully be completed in September 2006.







THE STATE TREASURER'S ANNUAL REPORT

PUBLIC PROGRAMS

PUBLIC PROGRAMS

Under the leadership of State Treasurer Richard Moore, the Office of State Treasurer has broadened its mission to include outreach to citizens in financial literacy. Promoting responsible personal financial practices is not only good public policy, but it also serves the important benefit of strengthening our state's economy. In short, when people make better decisions about their own finances, the overall economy of the state improves. This means new business investment, more jobs, better schools and improved access to healthcare—all the things that matter the most to North Carolina families.

In 2004-2005, the Office of State Treasurer partnered with many organizations and programs from around our state to help promote the importance of personal financial literacy. These partnerships resulted in the following accomplishments:

- Four financial conferences reaching 1,400 people in the Triangle, Sandhills and Charlotte areas;
- Development of the North Carolina Saves Campaign to encourage people to save money and build wealth, enrolling almost 1,000 Savers during the pilot phase of the campaign; statewide and regional coalitions include several hundred organizations and businesses that share this common goal;
- Development and affiliation of the North Carolina Jumpstart Coalition for youth financial literacy; about

45 active individuals and organizations have joined the Coalition; NC Jumpstart Coalition affiliated with National Coalition in April 2005; NC Jumpstart website is now linked to the national Jumpstart Resource Clearinghouse;

- Partnered with the BizWorld Foundation to provide 200 North Carolina fifth grade teachers with BizWorld kits to teach their students about how small business works and to provide a contest with savings bond prizes for 15 of those classes;
- Partnered with the North Carolina Credit Union League and the North Carolina State Employee's Credit Union to offer the "Money Smart...From the Start" essay contest for high school students and teachers; received over 600 entries; issued three student prizes and one teacher prize;
- Partnered with the Center for Student Credit Card Education to offer North Carolina teachers free informational primers on credit card education for their students; received almost 150 requests for materials from teachers across the state; these materials reached over 10,000 high school students.

For the latest information on these and other initiatives, visit our website at www.nctreasurer.com.



THE STATE TREASURER'S ANNUAL REPORT

STATISTICAL TABLES

Treasurer's Cash Balances As of June 30, 2005

CONCENTRATION ACCOUNTS

Raleigh, Bank of America of North Carolina	\$ 8,889,101.00
Unemployment Clearing Account	565,881.98
Raleigh, Branch Banking & Trust Co.	1,742,519.84
Raleigh, Sun Trust	1,519,431.29
Raleigh, RBC Centura Bank	589,396.23
Raleigh, First Citizens Bank & Trust Co.	1,133,106.96
Raleigh, Wachovia Bank of N.C.	18,047,320.71
Total Concentration Accounts	\$ 33,465,557.81

COMMUNITY BANK ACCOUNTS

Alexander, First Bank	\$ 86,666.40
Alexis, Southern Bank & Trust Co.	44,242.34
Albemarle, Bank of Study	40,606.18
Ashboro, First Natl Bank & Trust Co.	69,665.72
Bah, Southern Bank & Trust Co.	18,788.65
Beyon City, Carolina Community Bank	33,332.66
Barnwell, Carolina First Bank	40,605.71
Candler, Bank of Carrick	40,606.34
Cary, The Fidelity Bank	45,453.88
Columbia, The East Carolina Bank	98,363.28
Columbus, Tryon Federal Savings	40,605.71
Crookston, Fidelity Bank	55,150.70
Crowell, The East Carolina Bank	17,574.91
Danbury, Lexington State Bank	28,059.85
Derham, Mechanics & Farmers Bank	74,545.32
Derham, SouthBank, FSB	66,059.78
Edenton, Southern Bank & Trust Co.	27,271.66
Englehard, The East Carolina Bank	40,605.89
Fayetteville, Ocum Bank	93,939.17
Franklin, Macon Savings Bank	40,606.33
Gaston, Fidelity Bank	40,605.90
Ontonville, Southern Bank & Trust Co.	40,606.14
Greensboro, Mutual Community Savings Bank	133,000.40
Hamstead, Carolina First	38,988.51
Hamstead, Bank of Wilmington	40,605.79
Hornsborg, First Charter National	93,939.34
High Point, High Point Bank & Trust Co.	40,606.17
Kannapolis, First Bank	40,605.89
Kernersville, Bank of North Carolina	40,608.22
Kings Mountain, Fidelity Bank	18,787.12
Lenoir, First Bank	40,606.42
Lenoir, Bank of Granite	52,728.75
Lewisville, Southern Bank & Trust Co.	18,382.53
Lexington, Lexington State Bank	86,090.16
Lumberton, Lumber Guaranty Bank	40,606.18
Manteo, The East Carolina Bank	103,635.84
Moyock, Bank of Carrick	40,606.14
Mt Airy, The Community Bank	40,605.97
Maple, United Community Bank	115,796.88
Maple, Macon Savings Bank	40,605.72
Nags Head, The East Carolina Bank	52,727.16
Newton, Peoples Bank	44,242.23
North Wilkesboro, Yadkin Valley Bank & Trust Co.	40,605.54
Ocracoke, The East Carolina Bank	127,878.05
Pembroke, Lumber Guaranty Bank	138,787.16
Plymouth, Southern Bank & Trust Co.	40,605.85
Polkton, First Bank	41,818.29
Raleigh, Mechanics & Farmers	28,060.26
Reidsville, First National Bank of Reidsville	38,181.49
Robbins, First Bank	40,605.71
Robbinsville, United Community Bank	38,180.88
Salemberg, Southern Bank & Trust Co.	67,272.24
Seven Springs, Southern Bank & Trust Co.	44,241.85
Shelby, Fidelity Bank	43,030.00
Shelby, First National Bank	40,606.01
Sparta, First Charter	40,605.78
Spencer Place, Carolina First Bank	38,382.80
St Pauls, First Bank	43,030.37
Swan Quarter, The East Carolina Bank	90,302.77

Tarboro, First South Bank	40,605.61
Tarboro, The Heritage Bank	40,605.85
Troy, The Fidelity Bank	41,817.95
Troy, First Bank	84,242.85
W Jefferson, 1st Charter Bank	96,382.61
Wahpet Cove, The Community Bank	45,454.26
Wadesboro, The East Carolina Bank	76,988.83
Waynesville, United Community Bank	81,211.60
Wentworth, Fidelity Bank	67,272.82
West End, First Bank	17,574.73
Windsor, Southern Bank & Trust Co.	40,605.60
Winton, Southern Bank & Trust Co.	40,606.07
Yanceyville, Fidelity Bank	85,454.78
Total Community Banks Accounts	\$ 3,879,640.66
Treasurer's Cash Balances before Adjustments	\$ 37,345,198.47
Transactions in Progress	14,738,145.91
Treasurer's Adjusted Cash Balances	\$ 72,083,344.38

Table 2

**Summary of Investment by Participants
For the Periods Ended
June 30, 2005 and June 30, 2004 (in thousands)**

	<u>June 30, 2005</u>	<u>June 30, 2004</u>
Retirement Trust Funds:		
Teachers' and State Employees' Retirement System	\$ 49,823,557	\$ 46,799,809
Local Governmental Employees' Retirement System	14,423,954	13,238,107
North Carolina Firemen's Pension Fund	261,838	246,470
Rescue Squad Workers' Pension Fund	30,334	28,472
Consolidated Judicial Retirement System	387,138	361,954
North Carolina National Guard Pension Fund	57,082	52,844
Legislative Retirement System	29,553	28,249
Total Retirement Trust Funds:	<u>65,013,456</u>	<u>60,755,905</u>
Other Funds:		
General Fund	2,067,803	1,656,960
Other Funds Which Earn Interest for the General Fund	1,247,983	1,019,155
Highway Fund	497,152	389,743
Highway Trust Fund	86,272	269,636
University Funds	1,556,197	1,592,885
Other Independent Trust Funds	3,394,804	3,193,488
Local Political Subdivisions	439,546	476,595
Licensing Boards	31,473	28,144
Total Other Funds	<u>9,321,230</u>	<u>8,626,606</u>
Grand Total All Funds	<u><u>\$ 74,334,686</u></u>	<u><u>\$ 69,382,511</u></u>

**Statement of Departmental Revenues and Expenditures
Budget and Actual (Budgetary Basis)
General Fund (Departmental Activities Only)
For the Fiscal Year Ended June 30, 2005**

	Authorized Budget	Year-to-Date Actual	Variance Favorable (Unfavorable)
Departmental Expenditures			
General Administration	\$ 1,115,107	\$ 1,097,569	\$ 17,538
Escheat Operations	2,243,365	2,118,979	124,386
Investment Management Operations	2,623,303	2,227,206	396,097
Local Government Operations	3,432,801	3,068,564	364,237
State Bond Issuance cost	1,140,319	1,140,319	0
Retirement Operations	12,425,370	11,808,712	616,658
Financial Operations:			
Banking	3,201,658	3,051,950	149,708
Accounting	1,251,675	1,160,047	91,628
Total Expenditures	\$ 27,433,598	\$ 25,673,346	\$ 1,760,252
Departmental Receipts			
General Administration	\$ 1,115,107	\$ 1,097,569	\$ (17,538)
Escheat Operations	2,243,365	2,118,979	(124,386)
Investment Management Operations	100	-	(100)
Local Government Operations	813,040	1,070,823	257,783
State Bond Issuance cost	1,140,319	1,140,319	(0)
Retirement Operations	12,425,370	11,808,712	(616,658)
Financial Operations:			
Banking	140,118	-	(140,118)
Accounting	1,251,675	1,160,047	(91,628)
Total Receipts	19,129,094	18,396,449	(732,645)
Appropriation	\$ 8,304,504	\$ 7,276,897	\$ 1,027,607

General Obligation Bonds / Local Government / Referenda and Authorizations Fiscal Year July 1, 2004 Through June 30, 2005

	Propositions			Bonds		
	# Proposed	# Approved	% Approved	\$ Proposed	\$ Approved	% Approved
COUNTIES:						
Voted Propositions:						
Schools	13	8	61.54%	\$ 609,605,000	\$ 592,705,000	97.20%
Community College	6	4	100.00%	157,100,000	150,100,000	82.81%
Water	2	2	100.00%	18,000,000	18,000,000	100.00%
Library	1	1	100.00%	2,600,000	2,600,000	100.00%
Parks and Recreation	2	2	100.00%	89,000,000	89,000,000	100.00%
Performing Arts Center	1	1	100.00%	4,400,000	4,400,000	100.00%
Open Space	1	1	100.00%	26,000,000	26,000,000	100.00%
Total	28	19	72.08%	\$ 906,905,000	\$ 862,805,000	95.14%
Nonvoted Propositions:						
Refunding	14	14	100.00%	\$ 518,450,000	\$ 518,450,000	100.00%
23rd Issues	5	5	100.00%	24,796,000	24,796,000	100.00%
Total	19	19	100.00%	\$ 543,246,000	\$ 543,246,000	100.00%
DISTRICTS:						
Voted Propositions:						
Water	3	2	66.67%	\$ 20,000,000	\$ 15,700,000	78.50%
Total	3	2	66.67%	\$ 20,000,000	\$ 15,700,000	78.50%
Nonvoted Propositions:						
Refunding	0	0	0.00%	\$ -	\$ -	0.00%
Total	0	0	0.00%	\$ -	\$ -	0.00%
MUNICIPALITIES:						
Voted Propositions:						
Water	1	0	0.00%	\$ 11,000,000	\$ -	0.00%
Sanitary Sewer	5	5	100.00%	164,550,000	164,550,000	100.00%
Streets	8	8	100.00%	173,740,000	173,750,000	100.00%
Parks & Recreation	5	5	100.00%	32,000,000	32,000,000	100.00%
Municipal Buildings	1	1	100.00%	5,700,000	5,700,000	100.00%
Housing	1	1	100.00%	15,000,000	15,000,000	100.00%
Firefighting Facilities	1	1	100.00%	6,500,000	6,500,000	100.00%
Library	1	1	100.00%	6,000,000	6,000,000	100.00%
Storm Water & Flood	2	2	100.00%	20,500,000	20,500,000	100.00%
Community Development	3	3	100.00%	23,800,000	23,800,000	100.00%
Open Space	2	2	100.00%	15,000,000	15,000,000	100.00%
Total	30	29	96.67%	\$ 414,500,000	\$ 408,500,000	97.83%
Nonvoted Propositions:						
Refunding	6	6	100.00%	\$ 252,320,000	\$ 252,320,000	100.00%
23rd Issues	1	1	100.00%	8,450,000	8,450,000	100.00%
Total	7	7	100.00%	\$ 260,770,000	\$ 260,770,000	100.00%
TOTAL VOTED	59	50	84.75%	\$ 1,341,405,000	\$ 1,277,065,000	95.20%
TOTAL NONVOTED	26	26	100.00%	1,104,016,000	1,104,016,000	100.00%
GRAND TOTALS	85	76	89.41%	\$ 2,445,421,000	\$ 2,381,081,000	97.37%

Installment Purchase Agreements Approved by Purpose Fiscal Year July 1, 2004 Through June 30, 2005

MUNICIPALITIES:		Amount
Utilities		
Sanitary Sewer	\$ 34,492,840	
Electric	2,154,144	
Water	<u>26,099,048</u>	
		\$ 62,745,032
Public Buildings		
Fire Station	\$ 14,527,020	
City, Town or Village Hall	58,829,073	
Public Works	1,076,000	
Civic Center	205,900,000	
Community Center	805,000	
Operations Center	35,944,057	
Library	3,380,600	
Youth Center	<u>146,808</u>	
		\$ 313,017,558
Refundings	\$ 143,298,229	
Land Acquisition	6,552,345	
Recreation	22,667,050	
Streets & Sidewalks	18,054,985	
Equipment	4,461,001	
Stormwater	2,848,545	
Parking	44,840,000	
Office Space	20,811,200	
Historic Properties	17,679,770	
Airport	7,800,000	
Other	<u>4,000,000</u>	
		\$ 233,613,205
	Subtotal	<u>\$ 689,375,795</u>
 COUNTIES:		
Schools		\$ 224,211,595
Public Buildings		
Administration Building	\$ 12,398,187	
Courthouse/Law Enforcement/Jail	84,387,047	
Health & Social Services	<u>23,469,903</u>	
		\$ 120,255,137
Utilities		
Water	\$ 5,900,000	
Sanitary Sewer	1,900,000	
Solid Waste	<u>1,850,000</u>	
		\$ 7,650,000
Community Colleges	\$ 24,208,840	
Industrial Facilities	2,450,000	
Recreation	6,360,125	
Library	11,909,889	
Land Acquisition	7,240,000	
Qualified Zone Academy Bonds	7,970,400	
Hospitals	\$ 1,245,821	
Refundings	82,344,179	
Other	<u>10,028,000</u>	
		\$ 153,166,254
COMMUNITY COLLEGES:		
Guaranteed Energy Savings Contracts		\$ 14,764,979
AUTHORITIES:		
Land Acquisition	\$ 15,000,000	
Equipment	585,000	
Sanitary Sewer	<u>500,000</u>	
		\$ 16,085,000
	Subtotal	<u>\$ 538,492,905</u>
 GRAND TOTAL		<u>\$ 1,225,868,700</u>

Table 6

Installment and Lease Agreements Approved by the Local Government Commission Fiscal Years Ended June 30, 2005, 2004, and 2003

(in millions)

	FY No.	2004-05 Amt.	FY No.	2003-04 Amt.	FY No.	2002-03 Amt.
Counties	40	\$ 398.8	24	\$ 161.2	37	\$ 220.0
Municipalities	64	526.1	64	455.2	50	221.1
Authorities/Districts	3	15.5	1	5.5	2	0.9
Community College/GESC	11	38.1	9	191.5	15	131.3
Subtotal	118	\$ 978.5	98	\$ 813.4	104	\$ 573.3
Refundings	9	\$ 226.7	26	\$ 231.7	21	\$ 309.8
Grand Total	127	\$ 1,205.2 *	124	\$ 1,045.1 *	125	\$ 883.1 *

*Total includes refundings.

Summary of State and Local Government Debt and Authorization at June 30, 2005

	General Obligation Debt ¹	Installment/ Lease Purchase Debt	Revenue Bond/ Revolving and State Bond Loan/Special Obligation Bond Debt	Total	Industrial Revenue Bonds	Total Indebtedness	General Obligation Bonds Authorized and Unused	Non-General Obligation Debt Authorized and Unused
State	\$ 5,999,081,427	\$ 740,216,000	\$ 9,070,000	\$ 6,442,986,427	\$ -	\$ 6,442,986,427	\$ 872,748,000	\$ 709,290,000
State Authorities and Institutions	\$ -	\$ -	\$ 16,478,484,898	\$ 16,478,484,898	\$ -	\$ 16,478,484,898	\$ -	\$ -
Total	\$ 5,999,081,427	\$ 740,216,000	\$ 16,488,474,898	\$ 23,918,771,325		\$ 23,918,771,325	\$ 872,748,000	\$ 709,290,000
Cities	\$ 6,014,990,401	\$ 2,389,877,606	\$ 606,636,871	\$ 8,991,394,877	\$ -	\$ 8,991,394,877	\$ 1,148,792,000	\$ 19,006,878
Municipalities	\$ 2,267,100,167	\$ 1,942,206,878	\$ 8,078,429,996	\$ 7,377,921,197	\$ -	\$ 7,377,921,197	\$ 1,596,988,800	\$ 320,031,378
Districts	\$ 987,986,698	\$ 6,712,827	\$ 176,094,979	\$ 630,634,288	\$ -	\$ 630,634,288	\$ 114,787,100	\$ 4,643,648
Authorities	\$ -	\$ 88,006,699	\$ 1,420,090,399	\$ 1,498,097,098	\$ 1,894,894,878	\$ 3,070,991,976	\$ -	\$ 82,488,810
Total	\$ 9,610,077,145	\$ 4,354,896,435	\$ 8,283,136,165	\$ 13,948,109,739	\$ 1,894,894,878	\$ 19,830,903,417	\$ 3,860,568,700	\$ 396,169,311
Grand Total	\$ 14,309,158,572	\$ 5,095,112,435	\$ 23,766,610,921	\$ 41,194,879,828	\$ 1,894,894,878	\$ 43,749,874,496	\$ 4,973,653,700	\$ 1,102,459,311

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

¹General Obligation Debt above includes Literary Fund Loans and Bond Anticipation Notes.

Table 7

Annual Debt Service Requirements for State Bonds Issued and Outstanding at June 30, 2005

GENERAL OBLIGATION												
	General Fund		Highway Fund		Total		Total General Obligation		Certificates of Participation/ Lease-Purchase Revenue Bonds		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
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	34,550,000.00	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	22,855,000.00	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	196,972,391.02
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, 2005

The following chart outlines the revenue bonds and other indebtedness of State authorities and institutions at June 30, 2005. The State is not responsible for debt service on any of the revenue bonds and other indebtedness represented in this chart.

Appalachian State University.....	\$ 132,217,057
East Carolina University	103,634,803
Elizabeth City State University.....	6,235,000
Fayetteville State University	6,377,000
North Carolina A & T State University.....	14,760,000
North Carolina Central University.....	10,900,000
North Carolina School of the Arts	4,885,000
North Carolina State University at Raleigh.....	215,795,000
University of North Carolina at Asheville.....	27,470,000
University of North Carolina at Chapel Hill.....	591,746,027
University of North Carolina at Charlotte	85,727,000
University of North Carolina at Greensboro	88,765,000
University of North Carolina at Pembroke	9,720,000
University of North Carolina at Wilmington	66,734,211
Western Carolina University	28,325,808
Winston-Salem State University	12,565,000
North Carolina Capital Facilities Finance Agency.....	1,792,070,081
North Carolina Eastern Municipal Power Agency.....	2,882,543,000
North Carolina Housing Finance Agency.....	1,292,151,121
North Carolina Medical Care Commission.....	5,253,384,651
North Carolina Municipal Power Agency No. 1	1,914,715,000
North Carolina State Education Assistance Authority.....	1,921,562,000
North Carolina State Ports Authority	14,121,897
Total.....	<u>\$16,476,404,656</u>

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

	DECEMBER 31, 2004	DECEMBER 31, 2003
ASSETS		
Current actuarial value of assets:		
Annuity Savings Fund	\$ 7,469,590,963	\$ 7,129,851,440
Pension Accumulation Fund	<u>39,913,918,434</u>	<u>37,987,656,293</u>
Total current assets	\$ 47,383,509,397	\$ 45,117,507,733
Future member contributions to Annuity Savings Fund	\$ 6,044,472,900	\$ 5,898,080,946
Prospective contributions to Pension Accumulation Fund:		
Normal contributions	\$ 6,689,216,676	\$ 6,517,379,445
Unfunded accrued liability contributions	(3,555,655,121)	(3,383,806,385)
Undistributed gain contributions	<u>510,208,590</u>	<u>314,081,162</u>
Total prospective contributions	\$ 3,643,770,145	\$ 3,447,654,222
Total Assets	<u>\$ 57,071,752,442</u>	<u>\$ 54,463,242,901</u>
LIABILITIES		
Annuity Savings Fund:		
Past member contributions	\$ 7,469,590,963	\$ 7,129,851,440
Future member contributions	<u>6,044,472,900</u>	<u>5,898,080,946</u>
Total contributions to Annuity Savings Fund	\$ 13,514,063,863	\$ 13,027,932,386
Pension Accumulation Fund:		
Benefits currently in payment	\$ 20,788,257,882	\$ 19,273,002,725
Benefits to be paid to current active members	21,830,816,339	21,504,021,222
Reserve for increases in retirement allowances effective July 1, 2005 (July 1, 2004 for December 31, 2003 figure)	428,405,768	344,205,406
Reserve from undistributed gains	<u>510,208,590</u>	<u>314,081,162</u>
Total benefits payable from Pension Accumulation Fund	\$ 43,557,688,579	\$ 41,435,310,515
Total Liabilities	<u>\$ 57,071,752,442</u>	<u>\$ 54,463,242,901</u>

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

	DECEMBER 31, 2004	DECEMBER 31, 2003
ASSETS		
Current actuarial value of assets:		
Annuity Savings Fund	\$ 2,611,975,442	\$ 2,447,622,486
Pension Accumulation Fund	<u>10,765,321,629</u>	<u>9,916,757,493</u>
Total current assets:	\$ 13,377,297,071	\$ 12,364,379,979
Future member contributions to Annuity Savings Fund	\$ 2,353,909,308	\$ 2,263,153,050
Prospective contributions to Pension Accumulation Fund:		
Normal contributions	\$ 1,674,519,059	\$ 1,589,711,268
Accrued liability contributions	88,892,117	91,123,512
Undistributed gain contributions	<u>182,219,310</u>	<u>194,850,492</u>
Total prospective contributions	\$ 1,945,630,486	\$ 1,875,685,272
Total Assets	<u>\$ 17,676,836,865</u>	<u>\$ 16,503,218,301</u>
LIABILITIES		
Annuity Savings Fund:		
Past member contributions	\$ 2,611,975,442	\$ 2,447,622,486
Future member contributions	<u>2,353,909,308</u>	<u>2,263,153,050</u>
Total contributions to Annuity Savings Fund	\$ 4,965,884,750	\$ 4,710,775,536
Pension Accumulation Fund:		
Benefits currently in payment	\$ 4,759,942,868	\$ 4,409,844,459
Benefits to be paid to current active members	7,647,060,957	7,187,747,814
Reserve for increases in retirement allowances effective July 1, 2005 (July 1, 2004 for December 31, 2003 figure)	121,728,980	0
Reserve from undistributed gains	<u>182,219,310</u>	<u>194,850,492</u>
Total benefits payable from Pension Accumulation Fund	\$ 12,710,952,115	\$ 11,792,442,765
Total Liabilities	<u>\$ 17,676,836,865</u>	<u>\$ 16,503,218,301</u>

Table 12

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

	DECEMBER 31, 2004	DECEMBER 31, 2003
ASSETS		
Current Actuarial Value of Assets:		
Annuity Savings Fund	\$ 37,640,350	\$ 34,672,969
Pension Accumulation Fund	<u>325,469,891</u>	<u>306,184,422</u>
Total current assets	\$ 363,110,241	\$ 340,857,391
Future member contributions to Annuity Savings Fund	\$ 36,637,237	\$ 37,268,568
Prospective contributions to Pension Accumulation Fund:		
Normal contributions	\$ 102,689,513	\$ 104,879,183
Unfunded accrued liability contributions	(28,838,102)	(24,207,901)
Undistributed gain contributions	<u>10,822,188</u>	<u>5,810,426</u>
Total prospective contributions	\$ 84,673,599	\$ 86,481,708
Total Assets	<u>\$ 484,421,077</u>	<u>\$ 464,607,667</u>
LIABILITIES		
Annuity Savings Fund:		
Past member contributions	\$ 37,640,350	\$ 34,672,969
Future member contributions	<u>36,637,237</u>	<u>37,268,568</u>
Total contributions to Annuity Savings Fund	\$ 74,277,587	\$ 71,941,537
Pension Accumulation Fund:		
Benefits currently in payment	\$ 183,856,275	\$ 172,558,266
Benefits to be paid to current active members	211,659,017	211,214,184
Reserve for increases in retirement allowances effective July 1, 2005 (July 1, 2004 for December 31, 2003 figure)	3,806,010	3,083,254
Reserve from undistributed gains	<u>10,822,188</u>	<u>5,810,426</u>
Total benefits payable from Pension Accumulation Fund	\$ 410,143,490	\$ 392,666,130
Total Liabilities	<u>\$ 484,421,077</u>	<u>\$ 464,607,667</u>

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

The following valuation balance sheet shows the assets and liabilities of the Pension Fund as of the current valuation date of June 30, 2005 and, for comparison purposes, as of the previous valuation date of June 30, 2004. The development of the actuarial value of assets is presented in Schedule A.

	June 30, 2005	June 30, 2004
ASSETS		
Current assets:		
Annuity Savings Fund	\$ 29,046,174	\$ 28,028,842
Pension Accumulation Fund	<u>216,759,534</u>	<u>206,108,897</u>
Total current assets	\$ 245,805,708	\$ 234,137,739
Future member contributions to Annuity Savings Fund	\$ 19,891,159	\$ 19,465,530
Prospective contributions to Pension Accumulation Fund:		
Normal contributions	\$ 33,186,605	\$ 31,935,020
Accrued liability contributions	<u>10,200,875</u>	<u>11,527,050</u>
Total prospective contributions	<u>\$ 43,387,480</u>	<u>\$ 43,462,070</u>
Total Assets	<u>\$ 309,084,347</u>	<u>\$ 297,065,339</u>
LIABILITIES		
Annuity Savings Fund:		
Past member contributions	\$ 29,046,174	\$ 28,028,842
Future member contributions	<u>19,891,159</u>	<u>19,465,530</u>
Total contributions to Annuity Savings Fund	\$ 48,937,333	\$ 47,494,372
Pension Accumulation Fund:		
Benefits currently in payment	\$ 135,606,390	\$ 129,905,215
Benefits to be paid to current active members	<u>124,540,624</u>	<u>119,665,752</u>
Total benefits payable from Pension Accumulation Fund	<u>\$ 260,147,014</u>	<u>\$ 249,570,967</u>
Total Liabilities	<u>\$ 309,084,347</u>	<u>\$ 297,065,339</u>

