



North Carolina Department of State Treasurer
FISCAL YEAR 2005-2006

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

THE STATE TREASURER'S
**ANNUAL
REPORT**

TO THE PEOPLE OF NORTH CAROLINA



Richard H. Moore
State Treasurer



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 2005-2006 Annual Report. The people of North Carolina entrust great responsibility to this Department and to me, from overseeing the retirement system for 700,000 North Carolinians and managing and investing more than \$75 billion in assets to returning unclaimed property to our citizens. Throughout these many duties, our commitment to excellence remains steadfast, and it is evident in the accomplishments contained in this report. Across the Department, we are using the latest technology, innovation and common-sense ideas to make a difference for the people of North Carolina.



Within this annual report, you will find a performance record for our state's pension fund, which remains one of the healthiest in the nation. In the face of pension uncertainty around the country, our system continues to be fully funded, meaning that it can keep its promises to employees and retirees around the state. In fact, *The Wall Street Journal* ranked North Carolina's pension fund as the second-best in the nation. With smart investments and innovative management, we are ensuring that North Carolina's public employees are secure in their retirement.

Also included is a detailed report of this year's debt and fiscal management activity. Our commitment to prudent stewardship is evident in the secure standing of our state's finances. North Carolina has retained the AAA rating from two of the nation's top rating agencies, and we are maintaining a manageable level of debt. These are strong indicators of our state's fiscal health and make North Carolina a robust environment for investors.

This report also contains an update on NC Cash, our unclaimed property fund, 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 helps worthy students attend public colleges and universities.

I encourage you to visit our website at www.nctreasurer.com to learn more about these activities and many other initiatives. Thank you for your interest in the Department of the State Treasurer.

Sincerely,

A handwritten signature in cursive script that reads "Richard H. Moore".

Richard H. Moore



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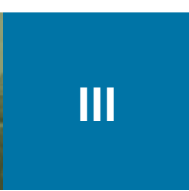
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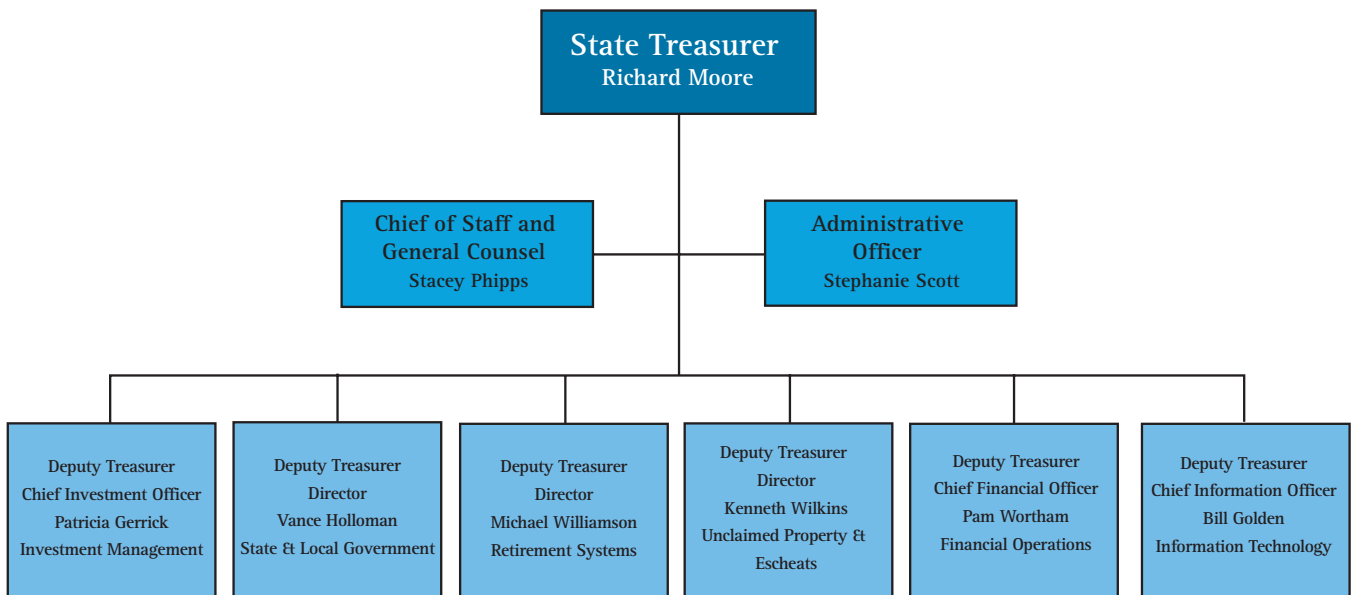
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NORTH CAROLINA DEPARTMENT OF STATE TREASURER

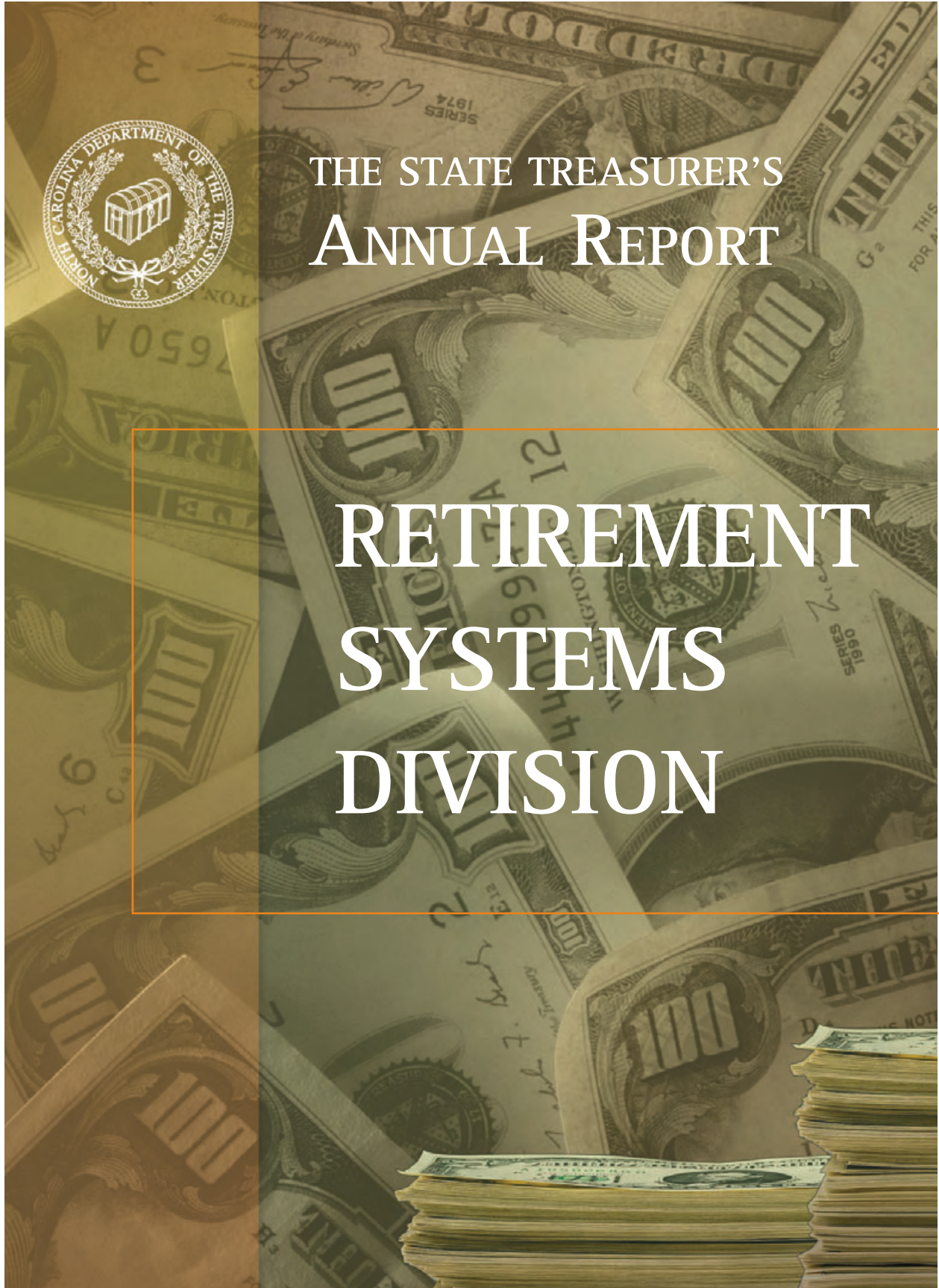
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THE STATE TREASURER'S ANNUAL REPORT

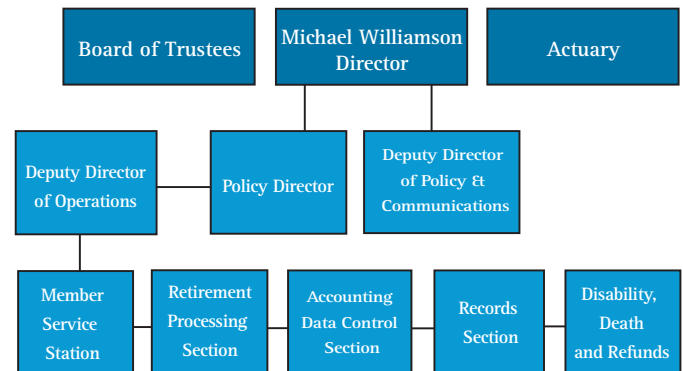
RETIREMENT SYSTEMS DIVISION



RETIREMENT SYSTEMS DIVISION

The Retirement Systems Division of the Department of State Treasurer administers the statutory retirement and benefit plans, as authorized by 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 2006 Session of the General Assembly that resulted in the enactment of laws to:
 - Provide cost-of-living adjustments equal to 3.0% 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.);
 - Increase the monthly benefit payment to beneficiaries of the Fireman's and Rescue Squad Workers' Pension Fund from \$163.00 to \$165.00 per month.
- The Board of Trustees of the Local Governmental Employees' Retirement System (L.G.E.R.S.) approved a cost-of-living increase equal to 2.8% to retirees of the L.G.E.R.S. based on the actuarial gains in the System.
- Processed benefits for 10,824 new retirees.
- Processed refunds for 18,506 former public employees.
- Established approximately 54,665 new active member accounts.
- Increased utilization of direct deposit of monthly benefit payments from 175,861 to 184,715 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 three boards of trustees. The State Treasurer is ex-officio chairman of each board. The board of the Teachers' and State Employees' Retirement System (T.S.E.R.S.) is composed of 14 members, including actively working employees, retirees and members of the public. The Local Governmental Employees' Retirement System (L.G.E.R.S.) Board, while legally separate, is composed of seven members of the T.S.E.R.S. Board, including the State Treasurer and the Superintendent of Public Instruction and the five members who are not teachers or State employees, plus seven 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 and the NC Public Employee Deferred Compensation Fund. The Fire and Rescue Squad Workers' Pension 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. The NC Public Employee Deferred Compensation Fund is governed by a Board of Trustees, of which the State Treasurer is ex-officio chairman and is composed of seven members, including financial professionals, working and retired state employees.

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
- Public Employee Deferred Compensation 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 financial data shown for the Division is for the captioned year ending December 31. Administrative figures, however, are generally collected on a fiscal year basis and are shown here as such. 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; respond to news media inquiries; manage action and administrative appeals by individual members of the retirement systems; maintain a working relationship with associations and organizations of employees and employers; and provide information to State departments, agencies, institutions, and local governments. The staff provides assistance to local governments for Social Security coverage and acts as liaison between the State and the Social Security Administration. The staff also performs planning and research functions and directs special projects.

Retirements 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 2005 through June 2006, 10,824 retirements were processed for payment.

The calculation of service purchase costs under the provisions of the various retirement systems administered by the Division is performed by this Section. In excess of 7,159 cost calculations were generated by the Retirements Processing Section for the period July 2005 through June 2006.

Death, Disability and Refunds Processing Section

This section handles disability benefits, refunds and death claims. 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 4,071 disability claims were reviewed by the Medical Review Board during the 2005-2006 fiscal year. Responsibilities include the calculation and payment of monthly disability benefits as well as the calculation and payment of reimbursements for short-term disability benefits paid by the various employers under the provisions of the Plan. Reimbursements numbering 621 were issued from July 2005 through June 2006 totaling \$4,681,171.42.

The various death benefit programs related to the Retirement Systems and the Separate Insurance Benefits Fund are managed by this Section. Responsibilities include the calculation and payment of death benefits, return of members' contributions, survivor's alternate benefits and other lump sum payments. Beneficiary changes for deceased retired members who selected an optional payment plan at retirement that provides for a beneficiary after the death of the member are handled in this Section. Approximately 4,978 death reports were received and processed during fiscal year 2005-2006.

This Section is also responsible for the calculation and the payment of returns of accumulated contributions, known as refunds, to terminated employees. A total of 18,506 refunds were processed for the period July 2005 through June 2006.

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 456,155 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 for more than 24,345 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 2005-2006 approximately 184,715 retirees' benefits were processed through EFT. Also, over 24,704 EFT 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 57,361 errors were detected and corrected this past year.

Member Services Section

This Section handles written correspondence and telephone communications inquiries with members and employers participating in the retirement systems and other benefit programs, responding to a multitude of questions about benefits. Accordingly, during 2005-2006 approximately 30,943 letters and email responses were generated in this Section. Approximately 207,123 telephone communications were handled by personal contact with an additional 35,185 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 meeting with local governing bodies, collecting data for transmission to the Systems' consulting actuary, enrollment of eligible employees and explanation of monthly reporting procedures. Ancillary to this function is assistance to local governments in the adoption of tax shelter and death benefit coverage agreements. During 2005-2006, 4 local government employers elected to become participants, and consequently their employees were enrolled in the Local Governmental Employees' Retirement System.

Records Section

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

The Records Section currently maintains approximately 1,423,884 records in an electronic document imaging system. All active and retired member jacketed microfiche records

have now been converted to the imaging system, while all new records plus updates to existing files are now automatically processed as digital images. During 2005-2006, 882,523 images were committed to the system.



SIGNIFICANT ACCOMPLISHMENTS

Legislation

Prior to the convening of the 2006 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 2006 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, 65 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 that were acted upon favorably by the General Assembly were to:

(1) provide, effective July 1, 2006, in the Teachers' and State Employees' Retirement System, a 3.0% cost of living adjustment (C.O.L.A.) for beneficiaries who commenced retirement on and before July 1, 2005, and for beneficiaries who commenced retirement with effective dates of August 1, 2005 to June 1, 2006, a prorated portion of the 3.0% C.O.L.A. based on the number of months a retirement allowance was paid;

(2) provide, effective July 1, 2006, in the Consolidated Judicial Retirement System, a 3.0% C.O.L.A. for beneficiaries who commenced retirement on and before July 1, 2005, and for beneficiaries who commenced retirement with effective dates of August 1, 2005 to June 1, 2006, a prorated portion of the 3.0% postretirement increase in their allowances based on the number of months a retirement allowance was paid;

(3) provide effective July 1, 2006, in the Legislative Retirement System, a 3.0% C.O.L.A. for beneficiaries who commenced retirement on or before January 1, 2006, and for beneficiaries who commenced retirement with effective dates of February 1, 2006 to June 1, 2006, a prorated portion of the 3.0% was paid and; (4) increase, effective July 1, 2006, the monthly benefit payment to beneficiaries of the Firemen's and Rescue Squad Workers' Pension fund from \$163.00 to \$165.00 per month.

The Board of Trustees governing the Local Governmental Employees' Retirement System enacted a policy to provide, effective July 1, 2006, in the Local Governmental Employees' Retirement System, a 2.8% cost of living adjustment (C.O.L.A.) for beneficiaries who commenced retirement on and before July 1, 2006, and for beneficiaries who commenced retirement with effective dates of August 1, 2005 to July 1, 2006, a prorated portion of the 2.8% C.O.L.A. based on the number of months a retirement allowance was paid.

Communications

The Retirement Systems Division Manager for Process Communications, in conjunction with other staff, revised forms for the purpose of assisting retirees in changing an address, change tax withholdings, implement direct deposit and enroll in health insurance.

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 2006 and updated on the Web page. The "Information Retirees Need to Know" pamphlet was also updated.

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. Newsletters including news about the legislative session and other retirement-related matters were distributed to retirees, active employees and employers throughout the year.

During fiscal year 2005-2006, the Member Services staff conducted 64 pre-retirement meetings statewide with some 6,235 members in attendance. In addition, the staff also participated in 194 other meetings, seminars, benefit fairs and conferences relating to retirement benefits with 11,831 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. Editions of both publications were distributed during 2006.

Operational

In January 2006, the Division launched the first phase of ORBIT (Online Retirement Benefits through Integrated Technology). The records and benefit payments of all benefit recipients now reside in the state-of-the-art technology infrastructure provided by ORBIT. As of January, benefit recipients have online access to their account information and the option to perform some transactions, like requesting income verification and changing tax withholding, online.

The ORBIT project will continue to 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 October 2007, active employees and employers will also be able to conduct transactions online 24 hours a day.

The Division has continued to promote direct deposit of monthly benefit payments. Between July 1, 2005 and June 30, 2006, the benefit payments of 8,854 retirees were added to the direct deposit group, bringing the total number of monthly payments made by direct deposit to 184,715. This means that about 94% 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, 2006, is estimated to be approximately \$36,846.

In the Local Governmental Employees' Retirement System, 4 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.

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 Valuation

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

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.

Funding of the Systems

All retirement systems are joint contributory, defined benefit plans with contributions made by both employees and employers. Each active member contributes 6.00% 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 7.00% 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 of Systems

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	
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%
2005	106.5%	2005	99.4%	2005	107.6%



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 as of December 31, 2005 was 375,516 and in addition there were 134,719 retired members and beneficiaries of deceased retired members. Invested assets at market value amounted to about \$51.5 billion.

The distribution of investments of the assets of the State System as of December 31, 2005 was:

Long-Term Fixed Income Investment Fund:	\$18,367,001,470
Short-Term Fixed Income Investment Fund:	75,217,679
Real Estate Investment Fund:	1,528,458,057
Equity Investment Fund:	30,510,101,418
Alternative Investment Fund:	1,008,365,797
Total:	<u>\$ 51,489,144,421</u>

Operations of the State System during calendar year 2005 resulted in total receipts of \$4,392,940,583 and total expenditures of \$2,545,757,962. 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, 2005, is shown in Table 10. Based on the latest actuary's report, the General Assembly set the employer contribution rate at 2.34% of covered payroll, effective July 1, 2005, and at 2.66% of covered payroll, effective July 1, 2006. 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, 2006, the remaining accrued liability for past service.

Teachers' and State Employees' Retirement System of North Carolina Year Ended December 31, 2005

Chart 2

SOURCES OF FUNDS		
Employee Contributions:	\$705,506,783	(16.06%)
Employer Contributions:	\$274,325,098	(6.25%)
Other Income:	\$1,826,572	(0.04%)
Investment Income:	\$3,410,928,521	(77.65%)

APPLICATIONS OF FUNDS		
Retiree Benefits:	\$2,451,477,693	(55.80%)
Refunds:	\$79,541,489	(1.81%)
Administrative Expenses:	\$14,679,987	(0.33%)
Other Expenses:	\$58,792	(0.00%)
Addition to Reserves for Future Benefits:	\$1,847,182,621	(42.05%)

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, 2005, a total of 924 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, 2005, was 141,255. In addition, there were 38,448 retired members and beneficiaries of deceased members. Invested assets at market value amounted to about \$15.1 billion.

The distribution of investments of the assets of the Local System as of December 31, 2005 was:

Long-Term Fixed Income Investment Fund:	\$5,372,869,103
Short-Term Fixed Income Investment Fund:	\$26,242,601
Real Estate Investment Fund:	\$447,139,435
Equity Investment Fund:	\$8,924,366,836
Alternative Investment Fund:	\$294,974,025
Total:	<u>\$15,065,592,000</u>

Operations of the Local System during the calendar year 2005 resulted in total receipts of \$1,485,061,039 and total expenditures of \$621,619,748. 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, 2005, 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.

Local Governmental Employees' Retirement System of North Carolina Year Ended December 31, 2005

Chart 3

SOURCES OF FUNDS		
Employee Contributions:	\$271,905,157	(18.31%)
Employer Contributions:	\$220,409,505	(14.84%)
Other Income:	\$47,107	(0.00%)
Investment Income:	\$992,699,270	(66.85%)

APPLICATIONS OF FUNDS		
Retirement Benefits:	\$556,298,127	(37.34%)
Refunds:	\$60,046,761	(4.03%)
Administrative Expenses:	\$5,274,849	(0.35%)
Addition to Reserves for Future Benefits:	\$868,195,270	(58.28%)

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, 2005 there were 541 active members and 449 retired members and beneficiaries of deceased members. The invested assets at market value were about \$400.3 million.

The distribution of the investments of the Judicial System as of December 31, 2005 was:

Long-Term Fixed Income Investment Fund:	\$142,338,943
Short-Term Fixed Income Investment Fund:	\$1,864,752
Real Estate Investment Fund:	\$11,845,112
Equity Investment Fund:	\$236,444,234
Alternative Investment Fund:	\$7,814,546
Total:	<u>\$400,307,587</u>

Operations of the Judicial System during the calendar year 2005 resulted in total receipts of \$36,902,443 and total expenditures of \$21,701,079. 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, 2005, 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, 2006. On this basis, the total number of member and employer rates of contribution is more than adequate to fund all future benefits present authorized based on current service.

Consolidated Judicial Retirement System of North Carolina Year Ended December 31, 2005

Chart 4

SOURCES OF FUNDS		
Employee Contributions:	\$3,507,430	(9.50%)
Employer Contributions:	\$6,910,643	(18.73%)
Investment Income:	\$26,484,344	(71.77%)

APPLICATIONS OF FUNDS		
Retirement Benefits:	\$21,568,673	(58.45%)
Refunds:	\$84,935	(0.23%)
Administrative Expenses:	\$47,469	(0.13%)
Addition to Reserves for Future Benefits:	\$15,201,364	(41.19%)

Teachers' and State Employees' Benefit Trust (Benefit Trust) N.C.G.S. 135-5(l); 128-27(l); 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 to the Trust by the State and the local governments participating in one of the two retirement systems, and they are held separate and apart from any pension or retirement funds. The funding method adopted for the Benefit Trust is one year term cost. In 2006, the employer contribution rate to fund this benefit for members of the Teachers' and State Employees' Retirement System was 0.16% of covered payroll. The employer contribution rate for members of the Local Governmental Employees' Retirement System is actuarially determined and varies among employers.

The Benefit Trust further includes the Separate Insurance Benefits Plan for State and Local Governmental Law Enforcement Officers. The Plan provides additional life insurance benefits to active and retired law enforcement officers and additional accident and sickness insurance coverage for law enforcement officers. These benefits are funded by a \$1.00 cost-of-court assessment in each criminal case conviction in the State. 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 \$9,000 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 2005 were:

Life Insurance Payments Calendar Year 2005

<u>Retirement System Membership</u>	<u>Number of Payments</u>	<u>Payment Amount</u>
Teachers' and State Employees'	443	\$16,461,920
Local Governmental Employees'	129	\$4,179,506

North Carolina Teachers' and State Employees' Benefit Trust Year Ended December 31, 2005

Chart 5

SOURCES OF FUNDS		
Local Governmental Employees' Retirement System:	\$3,755,092	(12.54%)
Legislative Death Benefit Paid:	\$15,000	(0.05%)
Retirees' Death Benefit:	\$9,425,969	(31.47%)
Teachers' and State Employees' Retirement System:	\$8,213,512	(27.42%)
Investment Income:	\$8,544,383	(28.53%)

APPLICATIONS OF FUNDS		
Local Death Benefits Paid:	\$4,179,506	(13.35%)
Death Benefits and Insurance Paid SIF:	\$855,953	(2.73%)
Administrative Expenses:	\$282,255	(0.90%)
Retirees' Death Benefits Paid:	\$9,509,3283	(0.38%)
State Death Benefits Paid:	\$16,461,920	(52.59%)
Legislative Death Benefit Paid:	\$15,000	(0.05%)
Addition to Reserves for Future Benefits:	\$1,354,206	

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 1962 to cover all benefits due and payable since July 1, 1961. As of June 30, 2006, the active membership of the fund was 34,112 while the number of retired members was 9,659. Invested assets at market value amounted to about \$296.0 million.

The distribution of the investments of the assets as of June 30, 2006 was:

Long-Term Fixed Income Investment Fund:	\$105,073,673
Short-Term Fixed Income Investment Fund:	\$1,221,617
Real Estate Investment Fund:	\$8,837,173
Equity Investment Fund:	\$175,045,477
Alternative Investment Fund:	\$5,824,960
Total:	\$296,002,900

Operations of the Pension Fund during the 2006 fiscal year resulted in total receipts of \$20,251,372 and total expenditures of \$9,924,871. Chart 6 presents the distribution of revenues by source and expenditures by purpose.

The latest Actuary's Valuation Balance Sheet, as of June 30, 2006, is shown in Table 13. Based on the latest actuary's report, the General Assembly appropriated \$7,926,000 for the 2005-2006 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, 2005, the remaining accrued liabilities for past service.

Firemen's and Rescue Squad Workers' Pension Fund Year Ended June 30, 2006

Chart 6

SOURCES OF FUNDS		
Appropriation:	\$7,926,000	(39.14%)
Member Contributions:	\$1,277,417	(6.31%)
Investment Income:	\$11,047,955	(54.55%)

APPLICATIONS OF FUNDS		
Pension Benefits:	\$9,405,827	(64.40%)
Refunds:	\$293,094	(2.01%)
Administrative Expenses:	\$225,950	(1.55%)
Addition to Reserves for Future Benefits:	\$4,679,796	(32.04%)

Retirees' Health Premiums Funds

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 2005

Beginning Fund Balance:	\$62,539,459
Additions:	
Employer Contributions:	\$457,668,542
Investment Income:	<u>\$2,787,133</u>
Deductions:	
Health Premiums Paid:	\$379,783,276
Administrative Expense:	<u>\$141,371</u>
Ending Fund Balance:	<u><u>\$143,070,487</u></u>

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

The Fund was created by the 1969 Session of the General Assembly as a retirement plan for members and elected officers of the North Carolina General Assembly. The Fund was abolished, prospectively, by the 1973 Session (Second Session 1974). The abolishing act preserved the vested and inchoate rights of the members in the Fund so that all members and former members of the General Assembly, who had qualified by virtue of service as of 1974, are still in receipt of monthly allowances or may apply for and receive monthly allowances at age 65.

In the year ended December 31, 2005, there were 22 former members and officers of the General Assembly in receipt of allowances with a cost of \$32,600. 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; 2) those retirees receiving a benefit from the Legislative Fund who elect to transfer to the Legislative Retirement System.

As of December 31, 2005, the System had 170 active members, 86 inactive members and 250 retired members.

Assets on that date totaled \$30,286,284. Operations of the System during calendar year 2005 resulted in total receipts of \$2,267,816 and disbursements of \$1,766,498.

Based on the latest actuarial report, the employer contribution rate was set by the General Assembly at 0.00% of covered payroll effective July 1, 2006. 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 0.52% of the covered payroll of the members of the Teachers' and State Employees' Retirement System and the Optional Retirement Program,

effective July 1, 2005 and 0.52% of covered payroll effective July 1, 2006.

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 2004 and 2005.

	<u>2004</u>	<u>2005</u>
Number of Disabled Members	5,246	5,507
New Claims During the Year	906	718
Employer Contributions	\$25,893,923	\$58,990,608
Investment Income	\$14,602,184	\$8,903,271
Amount of Benefit Payments	\$47,586,531	\$46,408,306

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 act as a 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, 2005, there were 2,640 beneficiaries in receipt of monthly allowances from the Guard Plan at a cost that calendar year of \$3,075,303.

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 2005-2006 was \$6,042,443.

Registers of Deeds' Supplemental Pension Fund N.C.G.S. 161-50 Through 161-50.5

The Registers of Deeds' Supplemental Pension Fund was created by the 1987 Session of the General Assembly for the purpose of providing a supplement to the Local Governmental Employees' Retirement System benefits for Registers of Deeds. The stated purpose of the Act was to attract the most highly qualified talent available within the State to that county office.

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

an amount equal to 4.5% 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, 2005, the Fund had total assets in the amount of \$27,573,642.

Benefits from the Fund became payable beginning July 1, 1988. For the year ending December 31, 2005, the Fund paid total benefits in the amount of \$856,226 to retired Registers of Deeds.



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 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 189,245 members as of June 30, 2005 to 196,870 members as of June 30, 2006 for an increase of 4%. Contributions by employees during this fiscal year totaled \$131,802,437 while salary deferred contributions by members were \$196,146,060. The total assets at market value of the Plan increased by 14.8% to \$3,508,773,315.

Under the current contract, members may select from a stable value fund and eight mutual funds. As of June 30, 2006, 26.52% of the assets were invested in the Stable Value Fund and 73.48% were invested in the mutual funds. In addition, \$44,520,953 was invested in the mutual funds that were previously offered in the Plan and the outstanding loan balances totaled \$169,214,595.

North Carolina Public Employee Deferred Compensation Plan N.C.G.S. 143B-426.24

The North Carolina Public Employee Deferred Compensation Plan was established by its Board of Trustees on Executive Order from the Governor in 1974. The Plan is a voluntary tax-deferred savings/investment program designed to supplement members' replacement income in retirement. The Plan is governed by its Board of Trustees; the State Treasurer is the chairperson of the Board. In 2006, administration of the Plan was transferred from the North Carolina Department of Administration to the North Carolina Department of State Treasurer.

Great-West Retirement Services is the Plan's third-party administrator and is responsible under the Plan document adopted by the Board and the terms of the contract with the

Board, for most aspects of operating the Plan, including communications and record keeping.

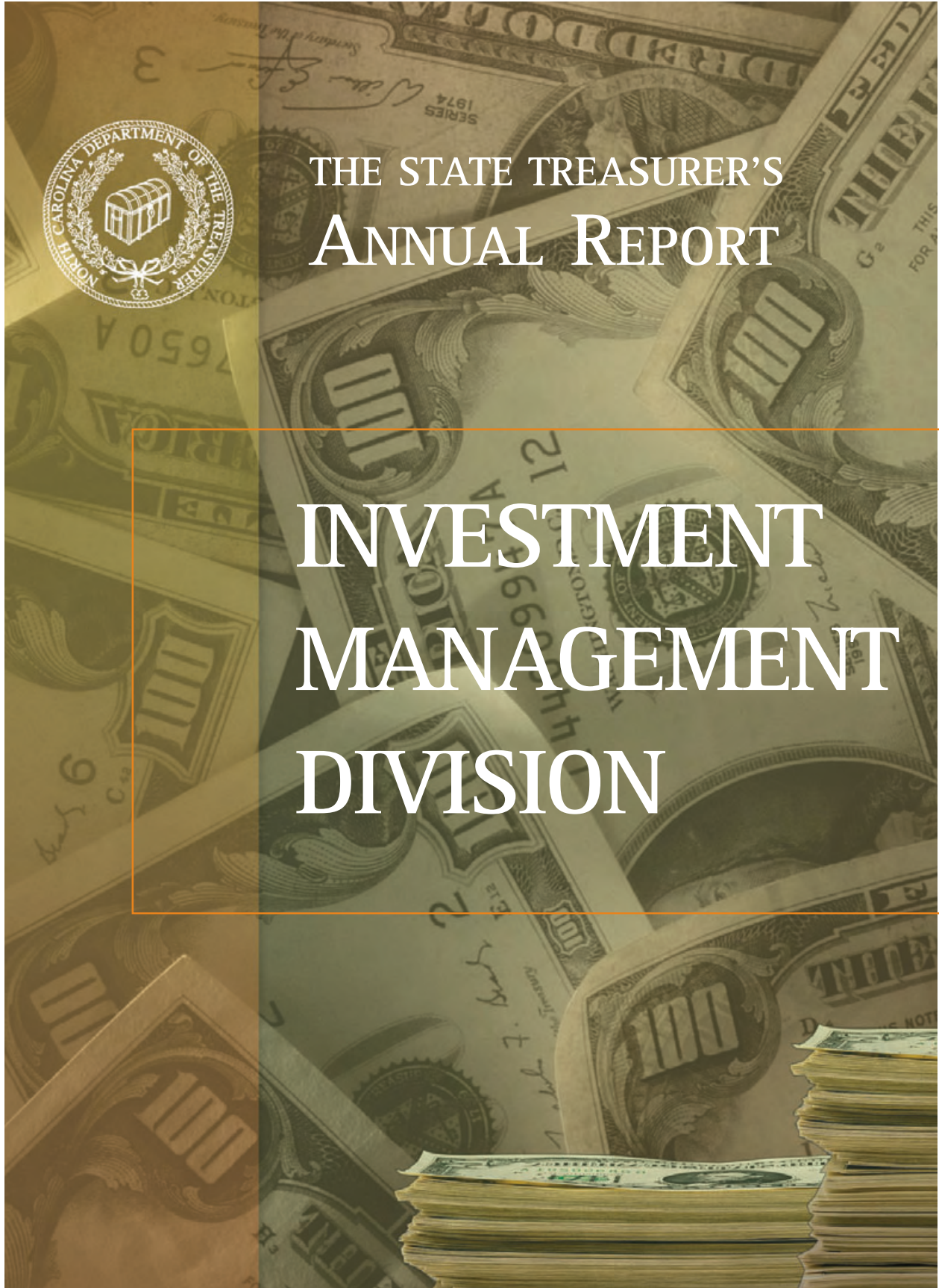
As of June 30, 2006, the Plan's number of participating members was 28,759. Contributions during this fiscal year totaled \$34,790,561, and the total assets at market value of the Plan were \$637,698,579.

Under the current contract, members may select from 23 investment options. As of June 30, 2006, 5.8% of the assets were invested in one of the five fund-of-funds options, 39.5% were invested in the fixed and bond funds and 54.7% were invested in the mutual funds. The outstanding loan balances as of June 30, 2006 totaled \$4,738,987.51.



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.

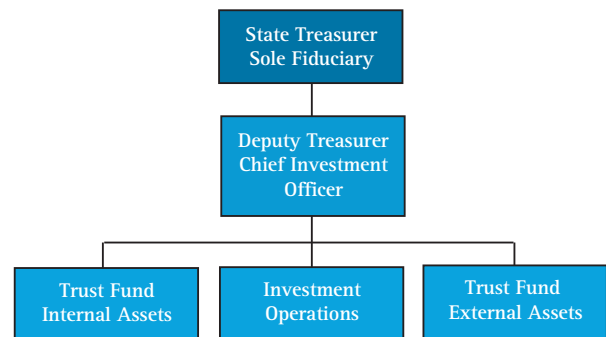
The Division is designed so that the organizational structure is as flat as possible. This allows for stability in managing a complex investment program.

The State Treasurer administers both the Cash Management and Trust Funds Investment Program. The Treasurer is directed by statute to “establish, maintain, administer, manage and operate” investment programs for all funds on deposit, pursuant to the applicable statutes. In doing so, the Treasurer “shall have full power as a fiduciary” and shall manage the investment programs so that the assets “may be readily converted into cash as needed.”

As of June 30, 2006, total assets under management were nearly \$73 billion. Of this amount, 13% was assets of the

Cash Management Program and 87% was assets of the Trust Fund Investment Program.

This total represents the aggregate assets of several retirement systems, various other trust funds and the General and Highway Funds. In establishing the comprehensive management program, the State Treasurer, utilizing a professional investment staff, has developed an investment strategy for each portfolio that recognizes the guidelines of the governing General Statutes and provides diversification as appropriate for the participants.



Investment Objectives

Cash Management Program

To generate maximum income consistent with the principles of safety and liquidity.

Prudence in discharging this fiduciary obligation requires that all investments be reviewed continuously, so that opportunities in the secondary markets to improve the quality and/or income stream are not overlooked.

Trust Funds Investment Program

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

Operating Policy

In all transactions executed for either investment program managed by the State Treasurer, the objective is to transact

such business in the best interest of the beneficial owners of the trusts' assets.

The Investment Pool

Portfolio	Invested In:	Examples:	Managed:
Short-term Fixed Income Portfolio	highly liquid money market instruments	treasuries, agencies, some liquid short-term corporate issues	Internally
Long-term Fixed Income Portfolio	longer term investments	investment grade corporate securities, treasuries, agencies and GNMA's	Internally
Equity Portfolio	equity securities	invested through fiduciary relationships with experienced money managers	Externally
Real Estate Portfolio	real estate	invests as a limited partner in partnerships managed by experienced real estate firms	Externally
Alternative Portfolio	private equity; hedge funds	invests as a limited partner in partnerships managed by experienced private equity firms; hedge fund	Externally

CASH MANAGEMENT REVIEW

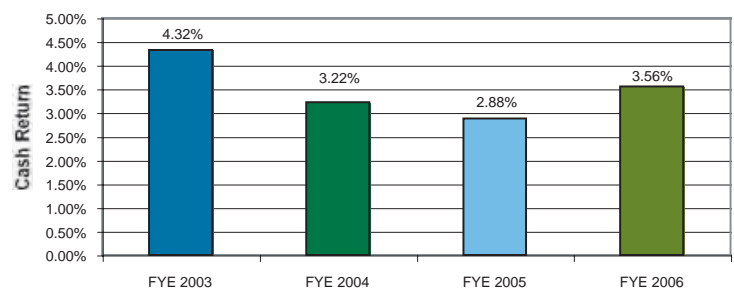
Short-Term Investment Fund

The Short-Term Investment Fund (STIF) is an internally managed portfolio of highly liquid fixed income securities. These securities are primarily money market instruments and short to intermediate treasuries and agencies. All bank accounts of the State Treasurer are included in portfolio of the Cash Management Program. Because the Treasurer's cash balances are ultimately subject to disbursement upon presentation of valid warrants, the primary considerations in making investment are safety and liquidity; the secondary consideration is income.

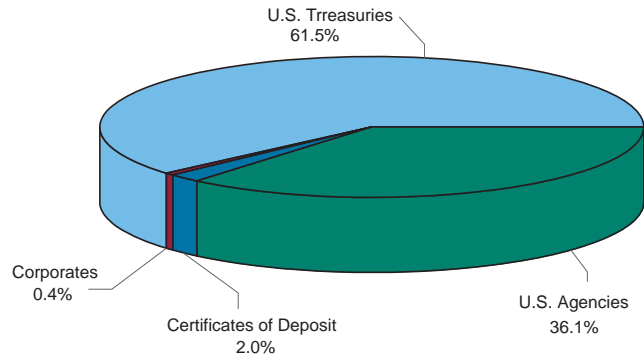
For the Fiscal year 2006, the STIF generated a cash return of 3.56%. This return compares with the U.S. Treasury Two-Year Constant Maturity Notes yield.

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

STIF Annualized Cash Returns by Fiscal Year



Short-Term Investment Fund Asset Allocation as of 6/30/06



SUMMARY OF BROKERS USED DURING FY 2006

Bank of America	Lehman Brothers
Bear Stearns	Loop Capital
Blaylock & Co	McDonald Investment Inc
Citigroup	Merrill Lynch
RBC Capital Markets	Mizuho Securities
Deutsche Bank Securities	Morgan Keegan
Credit Suisse	Morgan Stanley
First Tennessee Bank	UBS Securities
Goldman Sachs	Wachovia Capital Markets
HSBC Securities	Williams Capital Group
J.P. Morgan Chase	

TOP 10 POSITIONS IN STIF AS OF JUNE 30, 2006

ISSUER	COUPON	MATURITY DATE	PAR VALUE
FHLB DISCOUNT NOTES		7/3/2006	700,000,000
US TREAS NOTE	2.750	7/31/2006	250,000,000
US TREAS NOTE	2.375	8/15/2006	250,000,000
US TREAS NOTE	3.500	11/15/2006	250,000,000
US TREAS NOTE	2.500	9/30/2006	250,000,000
US TREAS NOTE	2.500	10/31/2006	250,000,000
US TREAS NOTE	2.625	11/15/2006	250,000,000
US TREAS NOTE	3.000	12/31/2006	250,000,000
US TREAS NOTE	3.125	1/31/2007	250,000,000
US TREAS NOTE	3.375	2/28/2007	250,000,000

PENSION FUND REVIEW

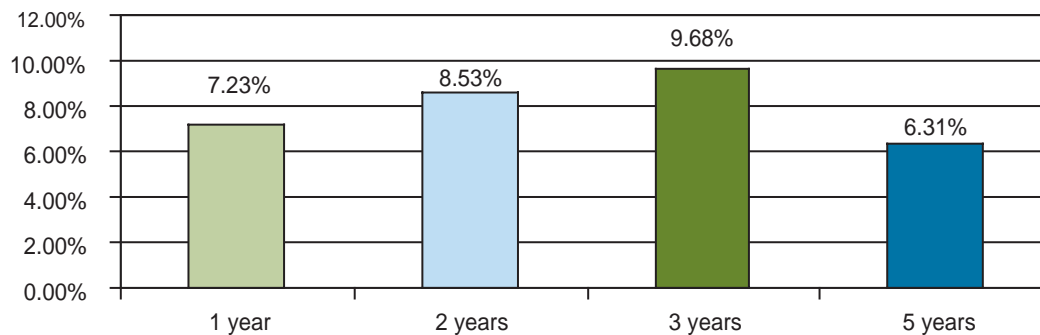
Our mission is to maintain the fully funded status of the pension plan, and in turbulent markets our portfolios are structured to perform well. The primary objective of the Investment Management Division is to generate an annualized return that meets or exceeds the actuarial assumption,

which is currently 7.25%. In order to meet this actuarial requirement, the Investment Division models a policy portfolio that should, over time, produce a return that exceeds the actuarial requirement with prudent risk guidelines.

Pension Investment Summary as of June 30, 2006

Portfolio Type	Market Value (\$ in 000's)	% of Market Value
US Equities	\$ 30,572	45%
Non-US Equities	\$ 7,476	11%
Fixed Income	\$ 25,801	38%
Real Estate	\$ 2,467	4%
Alternatives	\$ 1,506	2%
Total Market Value	\$ 67,822	100%

Pension Fund Returns as of 6/30/06



Investment Policy

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

other issues that are important to the management of pension assets. During fiscal year 2006, there were no material changes to the Investment Policy.

Asset Allocation

The Investment Division is constantly monitoring the overall pension fund in an effort to control risk.

On June 30, 2006, the composition of the portfolio was as follows:

Portfolio Type	Target Allocation Ranges
Global Equity	50.0% – 60.0%
US Large Cap Equity	31.5% – 36.5%
US Mid Cap Equity	4.0% – 6.0%
US Small Cap Equity	2.5% – 6.0%
Non-US Equity	10.5% – 15.5%
Fixed Income	35.0% – 44.0%
Real Estate	3.0% – 6.0%
Alternatives	2.0% – 4.5%

Annualized Total Pension Plan Performance as of June 30, 2006

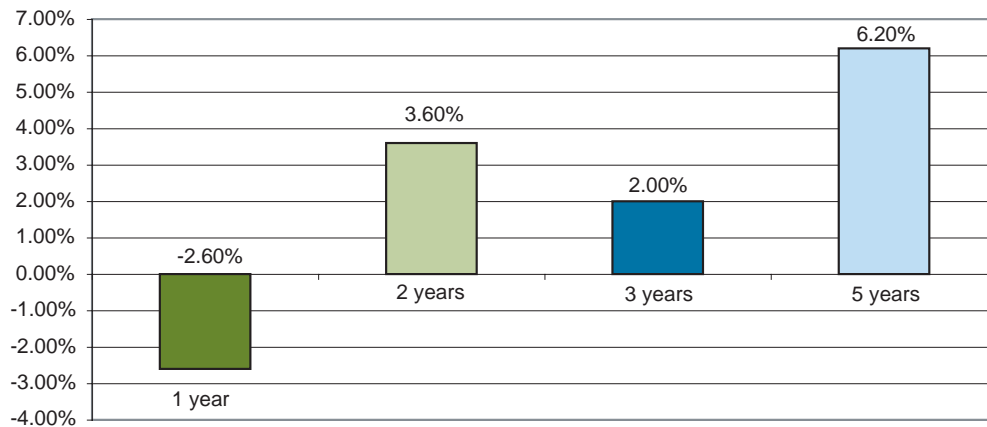
Asset Class	Portfolio Weight	1 year	2 years	3 years	5 years
Equity	56.1%	12.6%	11.1%	15.1%	5.53%
Fixed Income (LTIF & STIF)	38.0%	-2.6%	3.6%	2.0%	6.19%
Real Estate	3.6%	25.6%	18.4%	14.7%	9.12%
Alternatives	2.2%	14.1%	8.7%	7.7%	-1.31%
TOTAL FUND	100.00%	7.2%	8.5%	9.7%	6.3%

Fixed Income

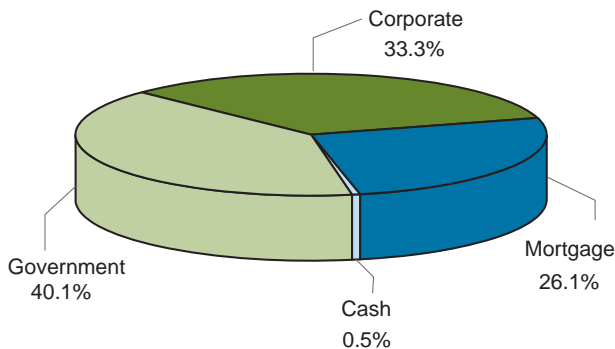
The fixed income allocation of the pension plan is actively managed through the Long Term Investment Fund (LTIF). The Investment Management Division utilizes the LTIF to help match the liabilities of the overall pension plan. Because of this approach, the duration of the portfolio tends to be fairly long. Duration is a measure of a bond's price sensitivity to

changes in interest rates. The rapid rise in interest rates produced negative returns for intermediate to long duration fixed income products. While it was a difficult year for the bond market, this environment was anticipated and the portfolio was structured to weather this type of rate move.

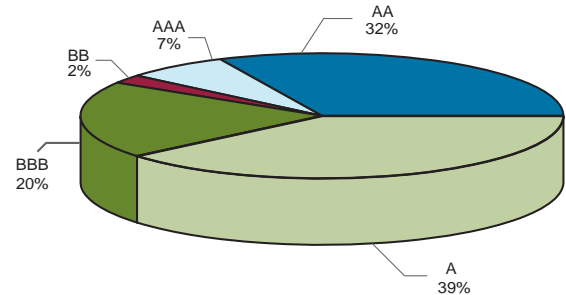
Long Term Investment Fund Performance Fiscal Year 2006

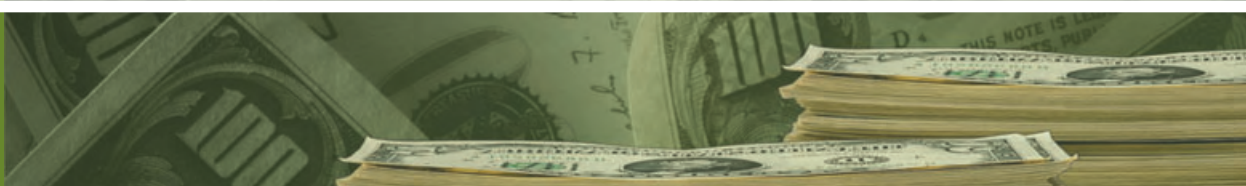


Fixed Income Allocations



Corporate Sector Rating Exposure




TOP 10 CORPORATE POSITIONS IN LTIF AS OF 6/30/06

Name	Market Value	% of LTIF Fund
BANK of AMERICA	330,111,318	1.4%
GENERAL ELECTRIC	310,256,091	1.3%
JP MORGAN CHASE	283,551,575	1.2%
GOLDMAN SACHS	236,976,555	1.0%
CITIGROUP	232,660,251	1.0%
WAL-MART	223,582,642	1.0%
VERIZON	196,253,526	0.8%
HSBC	195,246,128	0.8%
UPS	172,055,793	0.7%
US BANK	165,058,821	0.7%

LONG-TERM INVESTMENT FUND 07/01/2005 - 06/30/2006
BROKERS

A G Edwards	Credit Suisse	LaSalle Financial	Morgan Keegan
Bank of America	Deutsche Bank Securities	Lehman Brothers	Morgan Stanley
BB&T Capital Markets	First Tennessee Bank	Loop Capital	RBC Capital Markets
Bear Stearns	Goldman Sachs	McDonald Investment Inc	UBS Securities
Blaylock & Co	HSBC Securities	Merrill Lynch	Wachovia Capital Markets
Citigroup	J.P. Morgan Chase	Mizuho Securities	Williams Capital Group
Countrywide Securities			

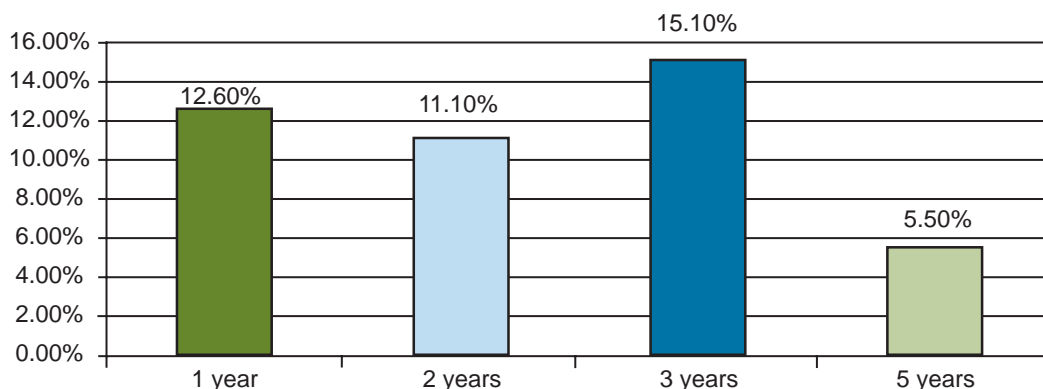
Equities

The equity allocation of the pension fund is managed through the Equity Investment Portfolio (EIP). The State Treasurer and the Investment Management Division determine the overall asset allocation and select managers to implement those decisions. The Investment Management Division is

charged with monitoring those managers to ensure compliance with the overall objectives of the Equity Investment Portfolio.

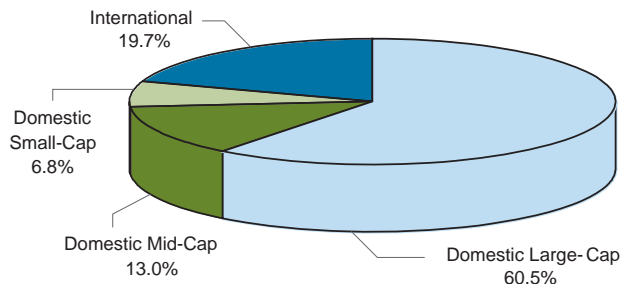
During the fiscal year, the global equity markets continued their recovery from the 3-year bear market ending in 2002.

EIF Returns, Fiscal Year 2006

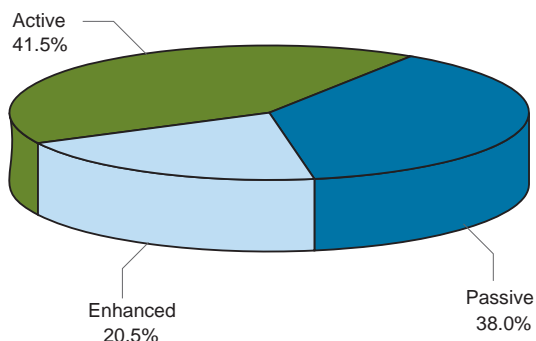


The portfolio is managed in three different styles: Passive, Enhanced Index and Active. It is the Fund's policy to employ active management in the more inefficient sectors of the equity markets and to employ passive indexing primarily in the more efficient sectors. Enhanced indexing is used in relatively efficient sectors to add value on the margin while controlling portfolio market risk.

Equity Allocation



Management Style Allocation



The Equity Investment Portfolio (EIP) represents 56.1% of total plan assets. The EIP is primarily invested in U.S. equity securities diversified across market capitalization sectors. In addition, the portfolio is further diversified with 19.7% of the EIP invested in non-U.S. equity securities, primarily in developed markets.

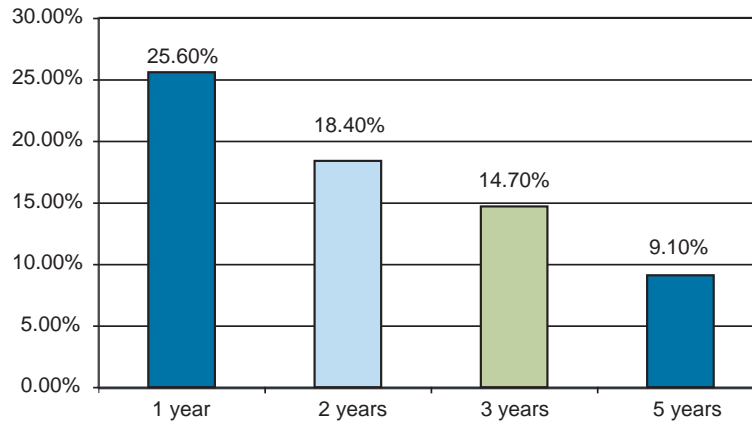


Real Estate

The Real Estate Investment Fund (REIF) is an actively managed portfolio of open-end and closed-end investment funds. The Investment Management Division is responsible for: researching and recommending strategy; identifying and recommending new investments/managers; monitoring the performance of existing managers; and ensuring existing managers' activities are in compliance with REIF objectives. The analysis of new investments focuses on location, property-type, and level of risk. Overall, nearly 90% of investments are within the five main property types (Office, Residential, Retail, Industrial, and Lodging), and employs a moderate level of risk.

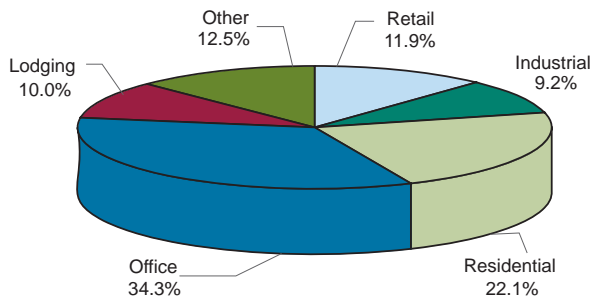
During Fiscal Year 2006, the REIF produced a total return of 25.6%. Performance is attributable to the market's high demand for Core assets and REIF managers in the Value-add and Opportunistic space realizing gains during the year. Market fundamentals have improved in all major property types over the past 12 months, which would normally signal the beginnings of a new development cycle, but steep land prices and rising construction costs are containing supply, allowing those with product to sell to reap impressive gains.

REIF Returns, Fiscal Year 2006

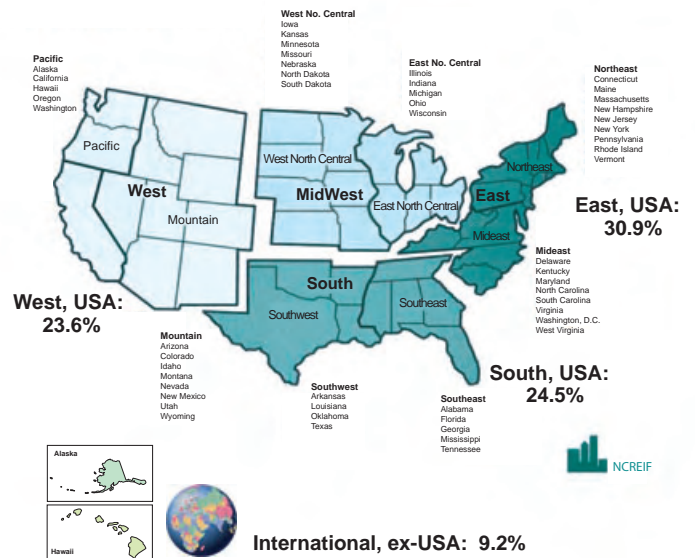


Domestically, the REIF has a coastal focus with the greatest exposure to the major cities in the Northeast followed closely by the Southeast and West Coast exposure with the remainder in the Midwest. International investments are split nearly equally between Europe and Asia.

Real Estate Sector Allocation



Geographic Regions and Divisions



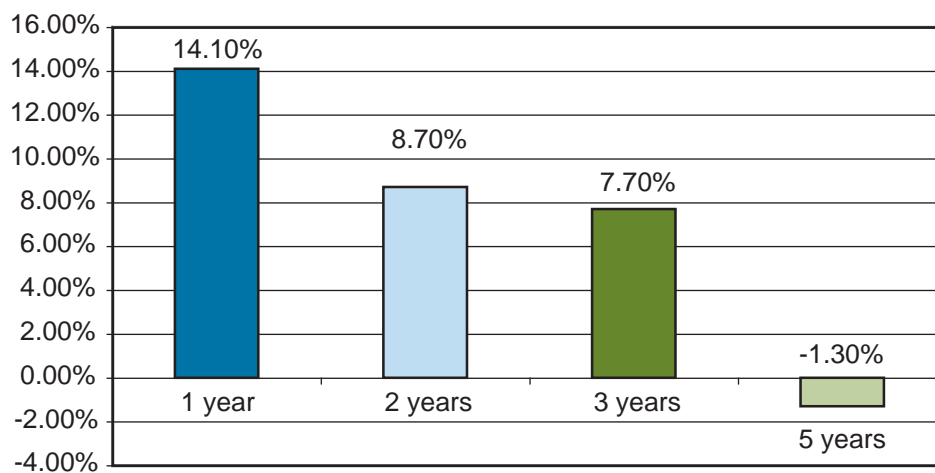
Alternatives

The Alternative Investment Fund (AIF) actively manages private equity and hedge fund investments. The Investment Management Division recommends managers, monitors relationships and ensures compliance.

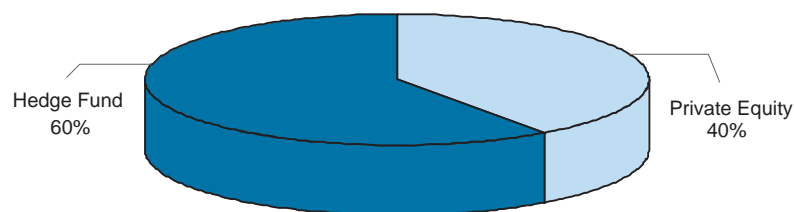
The AIF program consists of two investment categories: private equity, which invests in interests of private

corporations (not listed on the stock exchanges) and hedge funds, in which the program makes investments by entering into commitments through specialized funds. For Fiscal Year 2006, the Alternative Investment Fund had a total return of 14.09%, comprised of Private Equity funds returns of 21.35% and Hedge Fund returns of 11.12%.

AIF Returns, Fiscal Year 2006



AIF Portfolio Structure



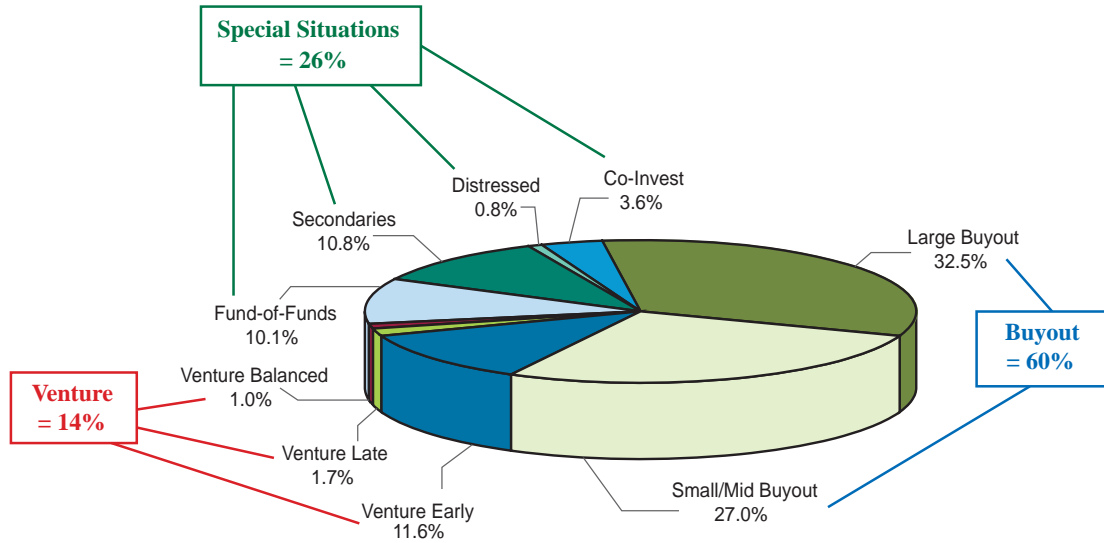
The AIF made its first commitment in Private Equity in October 1988, with its first international fund investment dated 2002. The AIF made its first Hedge Fund commitment in September 2002. Since inception, the AIF has committed approximately \$3.42 billion through Fiscal 2006. Prior to Fiscal Year 2001, commitments totaled less than \$50 million.

Relative performance has improved on a yearly basis, illustrating the success of the AIF program. Hedge Fund investment returns are similar to public market securities where investments are capable of positive performance

from inception. However, as illustrated in the “J-Curve” Effect, Private Equity can take several years to reflect positive valuations. In light of this and the amount of capital the AIF has contributed in recent years to Private Equity, performance is healthy. Investing in Private Equity is a long-term process, requiring specialized skills to select managers and manage the program. To maintain the positive momentum, success requires the further development of relationships to gain access to the best funds, which are and will continue to be in high demand.



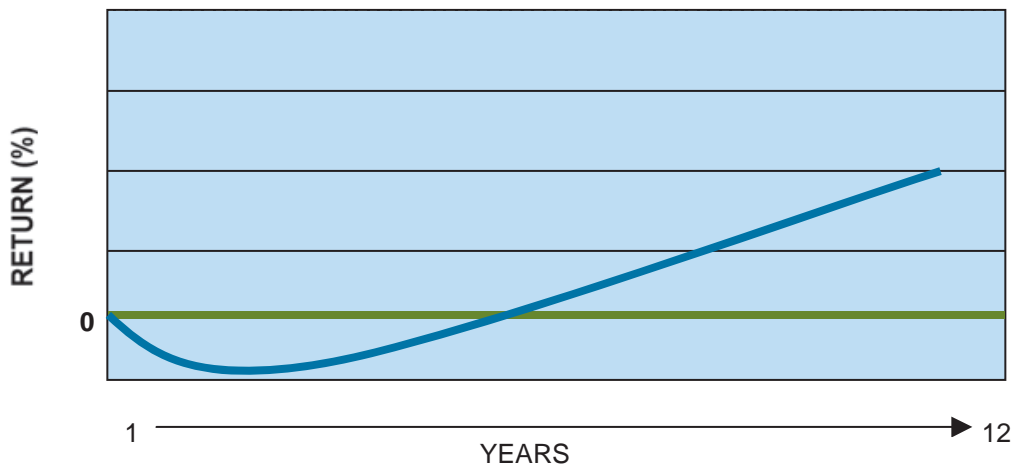
Private Equity Allocation as of June 30, 2006



VENTURE RETURN CHARACTERISTICS Performance – The J-Curve

In general, private equity investment returns are negative in their early years due to management fees and start up costs. Investments are valued at initial cost until the General Partner's efforts to increase value justifies an increased valuation. It can take several years for portfolio valuations to

reflect these efforts. The effect of this timing is known as the "J-Curve" Effect. As illustrated in the "J-Curve" Effect, private equity can take several years to reflect positive valuations. Results for investments made in Fiscal 2006 are expected to show meaningful performance in the future.





THE STATE TREASURER'S ANNUAL REPORT

STATE AND LOCAL GOVERNMENT

STATE AND LOCAL GOVERNMENT FINANCE DIVISION

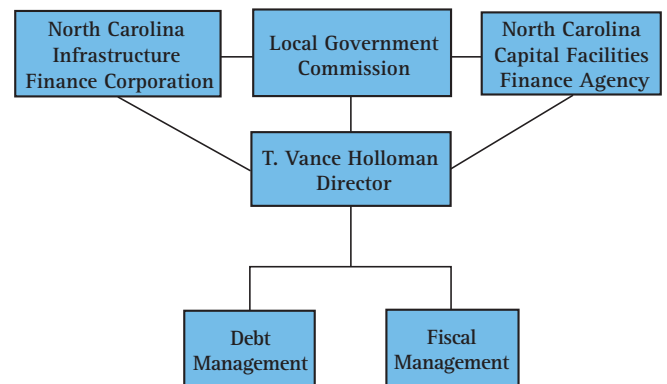
The State and Local Government Finance Division assists the State Treasurer, the Local Government Commission, the North Carolina Infrastructure Finance Corporation and the North Carolina Capital Facilities Finance Agency in fulfilling their respective statutory functions. The Division is organized along 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 2005-06, the State sold general obligation bonds totaling \$370 million. These sales included \$70 million in clean water bonds and \$300 million in higher education bonds sold at interest rates that were approximately 35 basis points below the national bond buyer's index.
- 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 2005-06 totaled \$935.6 million. These included \$612.4 million sold competitively for new money; \$181.2 million

in refunding bonds sold competitively (resulting in cumulative savings of over \$10.3 million); and \$142 million in negotiated sales.

- Nineteen revenue bond issues and two revenue bond anticipation notes for over \$1.2 billion were sold for local governments, mainly for hospitals, water and sewer improvements and housing projects. The revenue bond sales included ten refundings resulting in net present value savings of over \$23.1 million for units of local government. In addition, two sales totaling over \$139.8 million of bonds were completed for the power agencies. The use of interest rate swaps to hedge interest rates or accomplish synthetic refundings continued with 11 swaps executed for units of local government. The swaps hedged or refunded over \$1.2 billion of bonds and resulted in \$9.6 million in net present value savings to units of local government. In addition, seven forward refunding swaps totaling \$566.2 million were completed for the power agencies resulting in \$55.5 million in net present value savings.
- Other bond issues sold in 2005-06 included over \$1.05 billion in installment purchase contracts (including refundings); \$1.1 billion in healthcare facility revenue bonds through 10 bond issues for the North Carolina Medical Care Commission; \$133.6 million for capital projects for private schools, colleges and other nonprofit corporations through 10 bond issues by the North Carolina Capital Facilities Finance Agency; \$250 million for the North Carolina Housing Finance Agency increasing the supply of affordable housing for North Carolinians of moderate and low income; and \$3 million in industrial revenue and pollution control bonds to finance one project creating about 12 new jobs.
- Members of the staff worked with the School of Government to present the Fifth Annual State Treasurer's Conference on Local Government Accounting, Auditing and Financial Management for local government auditors and officials.
- Memoranda were issued to local governments and their auditors on flood insurance, Medicare D issues, changes to the continuing professional education requirements set by Government Auditing Standards, implementation of House Bill 1779, deposit and investment disclosure requirements and vendor gifts. In addition, annual reports on fund balance, school funding and various financial and single audit reporting issues were issued to local governments. Memoranda are available online.
- The staff reviewed the financial statements and reports of cash and investments of all local governments and public authorities. The staff also reviewed secondary market disclosures of units as required by the Securities and Exchange Commission.
- The seventeenth 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 fifth 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. 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-Year General Obligation Bonds ranged from a high of 4.63 % in November, 2005 to a low of 4.18% in December, 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, 2006, the State had general obligation bonds outstanding of \$5.7 billion and Certificates of Participation and Lease-Purchase bonds outstanding of \$709.1 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 for payment 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, 2006, 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 unit's tax rate and the unit's compliance with The Local Government Budget and Fiscal Control Act. Sale dates are scheduled based on the need for the money, the anticipated interest rates and the most favorable times bonds can be sold with a minimum of competition. The staff strives to resolve all problems and to determine that all statutory requirements are met before applications are presented to the 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 true 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, 2006, authorized and unissued general obligation bonds for local governments amounted to \$4.16 billion, and general obligation debt outstanding amounted to over \$8.8 billion. (See Table 7). Of the \$935.6 million in general obligation bonds marketed for local units, over \$612.4 million were sold competitively for new money at tax-exempt rates. Over \$181.2 million in refundings were sold competitively, achieving savings in excess of \$10.3 million over the life of the bonds.

The Division's staff also assists in the sale of revenue bonds, which must have the Commission's approval in order to

be issued by municipalities, 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, that the proposed undertaking cannot be economically financed by a bond issue and that the contract will not require an excessive increase in taxes. During the

fiscal year ended June 30, 2006, the Local Government Commission approved contracts or other agreements (including refundings) totaling \$1.09 billion. (See Tables 5 and 6).

The Division also serves as staff to the North Carolina Capital Facilities Finance Agency, an agency established by the General Assembly in 1986. Originally named the North Carolina Educational Facilities Finance Agency, the act creating the Agency has been amended several times and its ability to finance capital projects 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 Finance Corporation, which was created by General Assembly to issue tax-exempt debt to finance the acquisition, construction, repair and renovation of State facilities and related infrastructure.

Fiscal Management

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 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 also will 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. 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 continues to maintain 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 2005-06, the State sold general obligation bonds totaling \$370 million. In March 2006, the State sold competitively \$70 million in general obligation clean water bonds at a true interest cost of 4.0859%. This rate compares to a national bond buyer's index of 4.45 % on that date. The State also sold \$300 million in general obligation higher education bonds in June, 2006 at a true interest cost of 4.2434%. This rate compares to a national bond buyer's index of 4.58% on that same date.

Installment and Lease Purchase Agreements – The installment and lease-purchase method of financing continues to be used by local governments, typically for smaller projects for which a bond referendum is not cost effective and for essential projects for which units of government face mandates. The number of installment and lease purchase agreements approved decreased from 127 to 117 and the dollar volume approved decreased slightly from \$1.2 billion in 2004-2005 to \$1.1 billion in 2005-06. The higher volume

in the past 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 2005-2006, the Local Government Commission approved 21 issues totaling approximately \$1.2 billion for units of local governments. Economic growth, the continued presence of extremely low market rates, refunding opportunities 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 \$23.1 million in net present value savings was achieved as a result of 19 refundings for units of local government, and \$55.5 million in net present value savings for power agencies was achieved through seven forward synthetic refunding swaps during 2005-06.

Commercial Paper – Commercial paper activity (bond anticipation notes) for both general obligation bond and revenue bond purposes was evidenced by three approvals totaling over \$419.7 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. Much of the activity this year involved hedging through forward swaps on the future issuance of bonds replacing the commercial paper.

Interest Rate Swaps – The use of interest rate swaps on general obligation bonds, revenue bonds and certificates of participation continues at a sustained pace primarily due to hedges to lock in low interest rates available in the market. While these synthetic products provide enhanced benefits, they also involve risks that have to be considered by each issuer.

Eleven swaps associated with over \$1.24 billion in indebtedness were approved during the 2005-06 year. Approvals included swaptions, variable to fixed interest rate swaps, fixed to variable interest rate swaps, caps, basis rate swaps and forward starting swaps.

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. This legislation was amended in 2005-06 to allow cities to pledge sales tax revenues toward these projects where necessary. In March, 2006, the first project development financing was approved by the Local Government Commission for the City of Roanoke Rapids (City of Roanoke Rapids Music and Entertainment District). The City plans to purchase a 1,500-seat entertainment theater to be located in a development financing district created by the City, with the theater serving as the anchor for the Entertainment District. Special Revenue Bond Anticipation Notes were issued totaling \$3,785,000 for the project start-up costs and special revenue bonds not to exceed \$21,500,000 are expected to be issued in 2007 to fund the purchase of the theater. Longer-term development studies envision up to four hotels, food and service space, mixed retail uses, additional theaters, an aquarium and other entertainment and cultural space to be added to the district in the next few years.

North Carolina Medical Care Commission Bonds – During 2005-06, the Local Government Commission approved and sold 10 separate issues of bonds and notes for the North Carolina Medical Care Commission totaling over \$1.05 billion. 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 \$299.7 million for Cape Fear Valley Health System to provide for new construction and refinancing of other indebtedness that had been previously issued by Cumberland County. In attempting to meet the needs of our aging population, four revenue bond issues providing for the acquisition or financing of separate independent living/assisted care facilities were successfully completed during 2005-06, and hospital construction and/or refinancings comprised six other issues. Diverse issue needs were met through fixed rate revenue bonds and variable rate demand revenue bonds. In attempting to better address the 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 \$7.9 billion in tax-exempt bonds and tax credits to produce and provide housing for over 175,000 households. In 2005-06, financing and tax credits were provided to support total housing development of more than \$600 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 1,115 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, 2006, one issue of Industrial Revenue and Pollution Control Financing Facilities Bonds was approved for \$3 million resulting in the creation of 12 jobs. In addition, \$140 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 2006, the State was allotted \$694.7 million to use for private activity bonds.

Triple A General Obligation Bond Ratings – At June 30, 2006, the State had a "Triple A" bond rating, the highest rating obtainable, from two of the three rating agencies. The rating from the third agency is Aa1, which is one grade below "Triple A."

North Carolina Capital Facilities Finance Agency – The North Carolina Capital Facilities Finance Agency (NCCFFA) created in 1986 was originally named the North Carolina Educational Facilities Finance Agency, and 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 billion in tax-exempt capital financing. There have been no defaults in bonds issued by the agency. At June 30, 2006, there were \$1.7 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, 2006, the NCCFFA issued \$133.6 million in bonds through 10 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 2005-2006, a total of 21 units were approved to receive new revolving loans ranging from \$28,440 to \$27 million.

Fiscal Management

Monitoring the Financial Condition and Operations of Local Governments and Public Authorities – Approximately 436 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. No single area of emphasis was noted in the review process. Units primarily were contacted regarding overall fiscal health, including fund balance levels, compliance with the adopted budget and with various statutory requirements. The staff provided unit assistance via telephone and on-site visits to several governments and continues follow-up work with those units until the issues are improved or resolved.

The staff also reviewed the semi-annual Reports of Deposits and Investments as of June 30, 2006 and December 31, 2005 to determine strengths and weaknesses in the units' investment portfolios and to identify instances of non-compliance 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, 2005, 252 units were required to make annual information filings by January 31, 2006.

Compliance Audit Reviews And Other Services – As a part of the audit review process, the Division's staff reviewed approximately 586 Single audits and approximately 282 "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 140 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 346 compliance supplements from 19 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 fifth annual conference. The conference was intended for both local government auditors and officials. It was conducted at two sites, and drew more than 330 participants. Topics covered included GASB Statement No. 42 through 49, compliance and financial audit issues, practical implications of implementing GASB Statements Nos. 43 and 45 and disaster and recovery management.

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 included sales tax refunds on school construction, implementation of



HB 1779 and Medicare Part D issues. Other topics included in various memoranda were single audit and financial reporting issues, new voting machine equipment purchases, the income status of group term life insurance premiums and approval of audit contracts and invoices.

The North Carolina Department of State Treasurer's Policy Manual provides guidance to local governments in such areas as budgeting, purchasing, payroll, internal controls and financial reporting. The Manual is updated annually for changes in General Statutes, other laws and regulations and accounting and financial reporting standards.

The audit manual available to auditors of local governments in North Carolina is updated annually. The manual is updated to reflect the pronouncements of the GASB, Statements of Position of the AICPA, circulars issued by the Federal Office of Management and Budget and other newly available information. During the past year, the illustrative financial statements also were revised to further demonstrate the disclosure requirements of GASB Statement No. 40, the reporting requirements for GASB Statement No. 42 on asset impairment and the requirement for comparative data to be included in the management discussion and analysis section of the statements.

State Treasurer's Accounting/Financial Management Awards Programs – The Department sponsored the seventeenth 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 fifth annual awards program for nonprofit organizations to recognize the valuable work done by these organizations for the citizens of the State.

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 memoranda, 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, 2001 through June 30, 2006 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, 1,160 units and 171 auditors are taking advantage of this service.

Post Employment Benefits Other than Pensions – The GASB has issued Statement Nos. 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 continued its research on how best to advise local governments regarding implementation of GASB Statements No. 43 and 45. Staff will continue to work with units, auditors and other groups to compare the level and types of benefits offered, to assess the impact of promised benefits and funding decisions on the current and future periods, and to fulfill auditing and financial reporting requirements of the new statements.

State Debt Policy – In 2005-06, the Division completed a comprehensive State Debt Policy that provide guidelines on all major aspects of issuing State debt. Subjects covered include fixed and variable rate debt, refunding guidelines, negotiated versus competitive sale methods, use of professionals and other policy guidance.

State Debt Affordability Study – During 2005-2006, the Division assumed responsibility for updating and enhancing the State's Debt Affordability Study. The Study provides estimates of the State's future tax-supported debt capacity over the next ten years using standard measurers

recognized by the national bond rating agencies. Significant enhancements were provided in the areas of annual smoothed solutions and sensitivity analysis.

The report continues to be refined yearly, and will be updated again in 2006-2007 and forwarded to the General Assembly and Governor's office to assist in planning and addressing the future capital needs of the State.

Grant Anticipation Revenue Vehicles – The State Treasurer's office began working with the Department of Transportation in 2005-2006 to plan for the issuance of "GARVEE" bonds to provide funding for various transportation projects. The bonds will be secured by federal highway reimbursement funds and will allow construction of such projects to be accelerated. This project will continue into 2006-2007 with the first issuance tentatively planned for 2007.

Lease Purchase and Installment Financing Analysis – As provided for in legislation passed by the General Assembly in 2005, the State Treasurer's office assisted the State Departments of Budget and Management, Controller and Administration in evaluating the lease purchase and installment purchase activities of the State with the first issuance tentatively planned for 2007.

**Purposes for which Local Governments
Sold Bonds and Notes
Fiscal Year 2005-06**

Chart 7

	School	Utilities	Refunding	Other	No.	Total Amount
G.O. Bonds						
Counties	\$ 483,787,000	\$ 1,520,000	\$ 80,075,000	\$ 70,698,000	27	\$ 636,080,000
Municipalities	\$ -	\$ 23,080,000	\$ 91,852,000	\$ 155,825,000	22	\$ 270,757,000
Districts and Authorities	\$ -	\$ 16,384,000	\$ 12,380,000	\$ -	5	\$ 28,764,000
Total G.O. Bonds	\$ 483,787,000	\$ 40,984,000	\$ 184,307,000	\$ 226,523,000	54	\$ 935,601,000
Revenue Bonds						
Counties	\$ -	\$ -	\$ 79,070,000	\$ 4,110,000	2	\$ 83,180,000
Municipalities	\$ -	\$ 101,694,138	\$ 236,955,862	\$ -	8	\$ 338,650,000
Districts and Authorities	\$ -	\$ -	\$ 146,810,000	\$ 545,115,000	9	\$ 691,925,000
Total Revenue Bonds	\$ -	\$ 101,694,138	\$ 462,835,862	\$ 549,225,000	19	\$ 1,113,755,000
Special Obligation Bonds						
Solid Waste	\$ -	\$ -	\$ -	\$ 10,595,000	1	\$ 10,595,000
Other	\$ -	\$ -	\$ 24,540,000	\$ -	2	\$ 24,540,000
Total Special Obligation Bonds	\$ -	\$ -	\$ 24,540,000	\$ 10,595,000	3	\$ 35,135,000
State Bond and Revolving Loans						
Counties	\$ -	\$ 41,775,932	\$ -	\$ -	8	\$ 41,775,932
Municipalities	\$ -	\$ 90,602,273	\$ -	\$ -	24	\$ 90,602,273
Districts	\$ -	\$ 51,802,681	\$ -	\$ -	12	\$ 51,802,681
Total State Bond and Revolving Loans	\$ -	\$ 184,180,886	\$ -	\$ -	44	\$ 184,180,886
Notes						
G.O. Bond Anticipation						
Notes	\$ -	\$ 40,135,000	\$ -	\$ 133,875,000	15	\$ 174,010,000
Revenue Notes	\$ -	\$ 70,750,000	\$ -	\$ 3,785,000	2	\$ 74,535,000
Total	\$ -	\$ 110,885,000	\$ -	\$ 137,660,000	17	\$ 248,545,000
Total Bonds and Notes	\$ 483,787,000	\$ 437,744,024	\$ 671,682,862	\$ 924,003,000	137	\$ 2,517,216,886

Debt Management Activities – State and Local (In Millions)

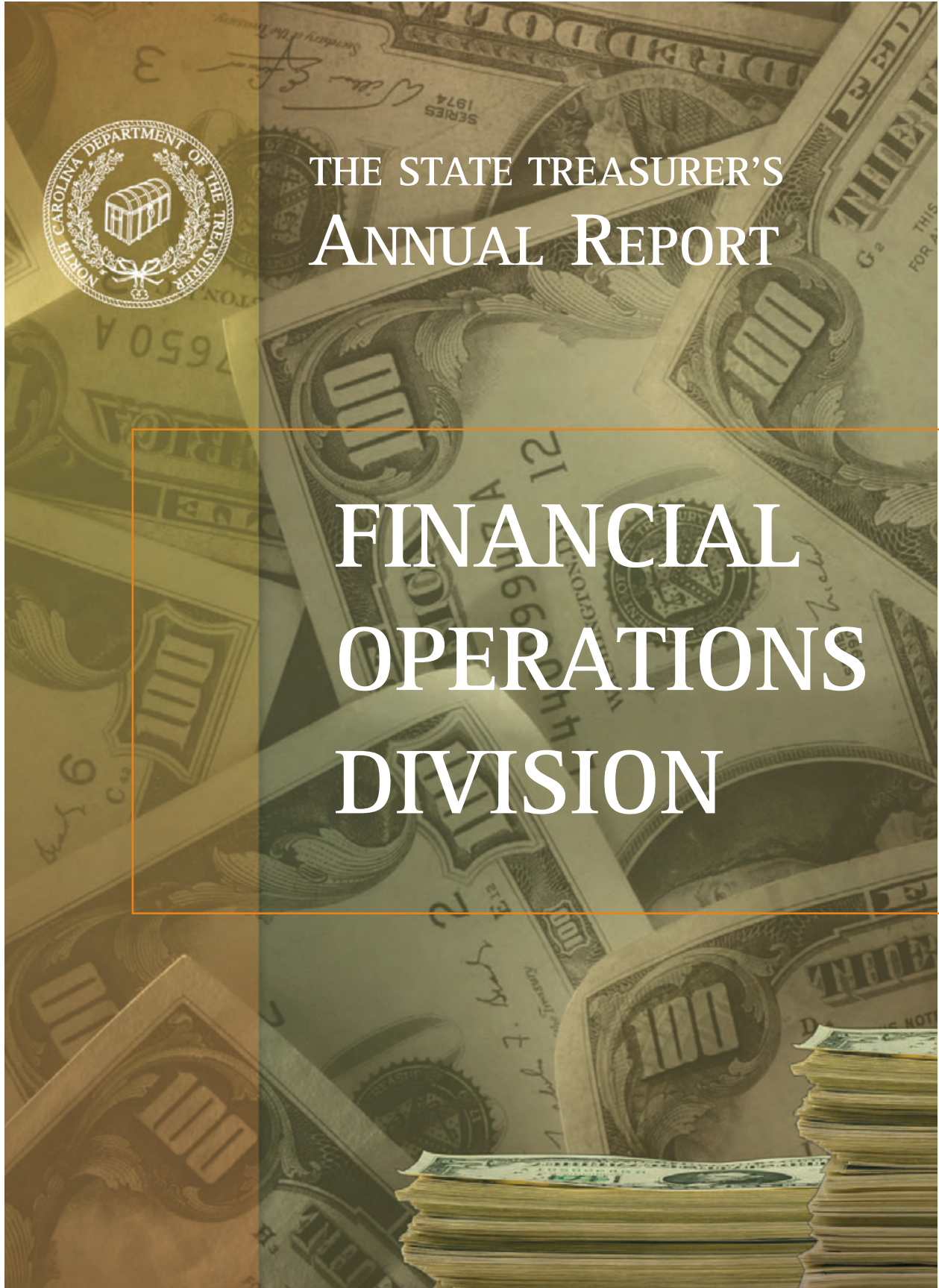
Chart 8

					FY	2005-06	FY	2004-05	FY	2003-04
					No.	Amt.	No.	Amt.	No.	Amt.
Bonds Sold for State										
G.O. Bonds (General Fund)					2	370.0	5	\$ 1,582.8	4	\$ 1,085.9
G.O. Bonds (Highway Fund)					0	-	1	398.4	1	400.0
Certificates of Participation					0	-	2	242.0	3	502.4
Total					2	370.0	8	\$ 2,223.2	8	\$ 1,988.3
Bonds and Notes Sold for Local Government Units:										
G.O. Bonds					54	935.7	71	1,579.6	95	1,642.0
Revenue Bonds					19	1,113.8	29	939.8	18	465.9
State Bond and Revolving Loans					44	184.2	45	127.8	53	148.5
Special Obligation Bonds - Solid Waste					3	35.1	0	-	1	3.0
G.O. Notes					15	174.0	16	59.2	25	58.8
Revenue Notes					2	74.5	0	-	1	3.0
Total					137	2,517.3	161	\$ 2,706.4	193	\$ 2,321.2
Installment/Lease Contracts Sold for Local Units:										
Revenue Bonds Sold for:					129	1,045.3	126	\$ 1,134.4	168	\$ 1,180.2
Medical Care Commission					10	1,055.8	14	979.2	15	605.5
Housing Finance Agency					4	250.0	3	195.0	4	190.4
Power Agencies					2	139.8	1	33.4	1	223.0
Industrial Facilities and Pollution Control										
Financing Authorities					3	143.0	6	29.6	7	37.7
Capital Facilities Finance Agency					10	133.6	12	535.6	10	222.4
Total					29	1,722.2	36	\$ 1,772.8	37	\$ 1,279.0
Grand Total					297	5,654.8	331	\$ 7,836.8	406	\$ 6,768.7



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 preparation 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 99.6% of accounts. More than 900 counterfeit warrants were detected during the year. In addition, some 1,600 forged warrants were discovered and resolved.
- Earned \$63.4 million in the securities lending programs administered by the two custodians, Bank of New York and State Street Bank.
- Recorded more than \$5.5 billion worth of securities pledged to the State Treasurer to secure public deposits in financial institutions.
- Presented more than 14 million State warrants totaling \$25 billion through the Federal Reserve Bank and processed them against agencies' disbursing accounts.

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 76 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 2005-2006, more than 14 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 \$78 billion investment and banking programs. The accounting and reporting for the investment program is very similar to the accounting for mutual funds. The section maintains an accounting system that accounts for the asset balances, principal and income

transactions of each investment fund, market valuations, participant units of ownership and earnings distributions.

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

DEPARTMENTAL OPERATIONS

The Departmental Operations section manages all fiscal duties that relate to the administration of the programs of the Department of State Treasurer. These duties include developing and monitoring the operating budget for the department, preparing the payroll for our 300 employees, depositing funds received by the department for various activities, managing accounts payables, accounting for fixed

assets, maintaining the general ledger for the Department and enforcing centralized purchasing. This section works closely with the Office of State Budget and Management and the Office of the State Controller to ensure that the Department is reporting accurately and timely according to all State requirements.



THE STATE TREASURER'S
ANNUAL REPORT

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.

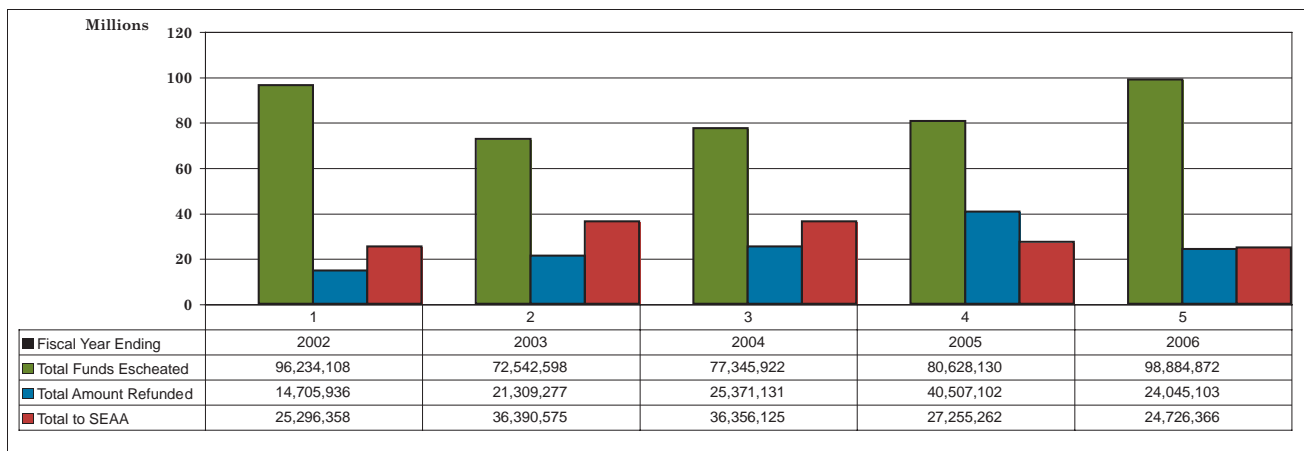
In recent years, the Department has increased compliance and outreach, doubling the amount of money coming into the fund. This new money, along with prudent investments, has increased the fund to more than \$500 million. The interest earned on these funds is sent to the State Education Assistance Authority for student loans and grants. In fiscal year 2006, a total of \$24,726,366 from interest earned was awarded to the State Education Assistance Authority to help 50,000 North Carolinians afford college. The General Assembly also mandated that the amount of \$4,297,544 be transferred from the Principal to the DOA Veterans Scholarship Fund, \$13,981,202 from the Principal be transmitted to the Community Colleges, and \$39,992,754 from the Principal to the State Education Assistance Authority.

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, insurance policy proceeds, and other sources of funds. Property is considered unclaimed when the apparent owner

fails to communicate interest in it for a period of time called the dormancy period. Once the property has met its dormancy limit and the holder has 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 various means, including listing names on the website, earning media coverage through television and newspapers, mailing lists to Clerk of Court, and attending outreach events, such as the North Carolina State Fair, Mountain State Fair, various civic organizations and many other events throughout the State to promote public awareness about the program. Some of our State legislators also assist with promoting the Program in their Districts by contacting their constituents and advising them of unclaimed property belonging to them or their 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 purchase order for our Imaging System was issued in June 2006 and the design phase for this system is in process. This system will increase our ability to have documents readily available for review and processing. We expect to go live with this in June 2007.

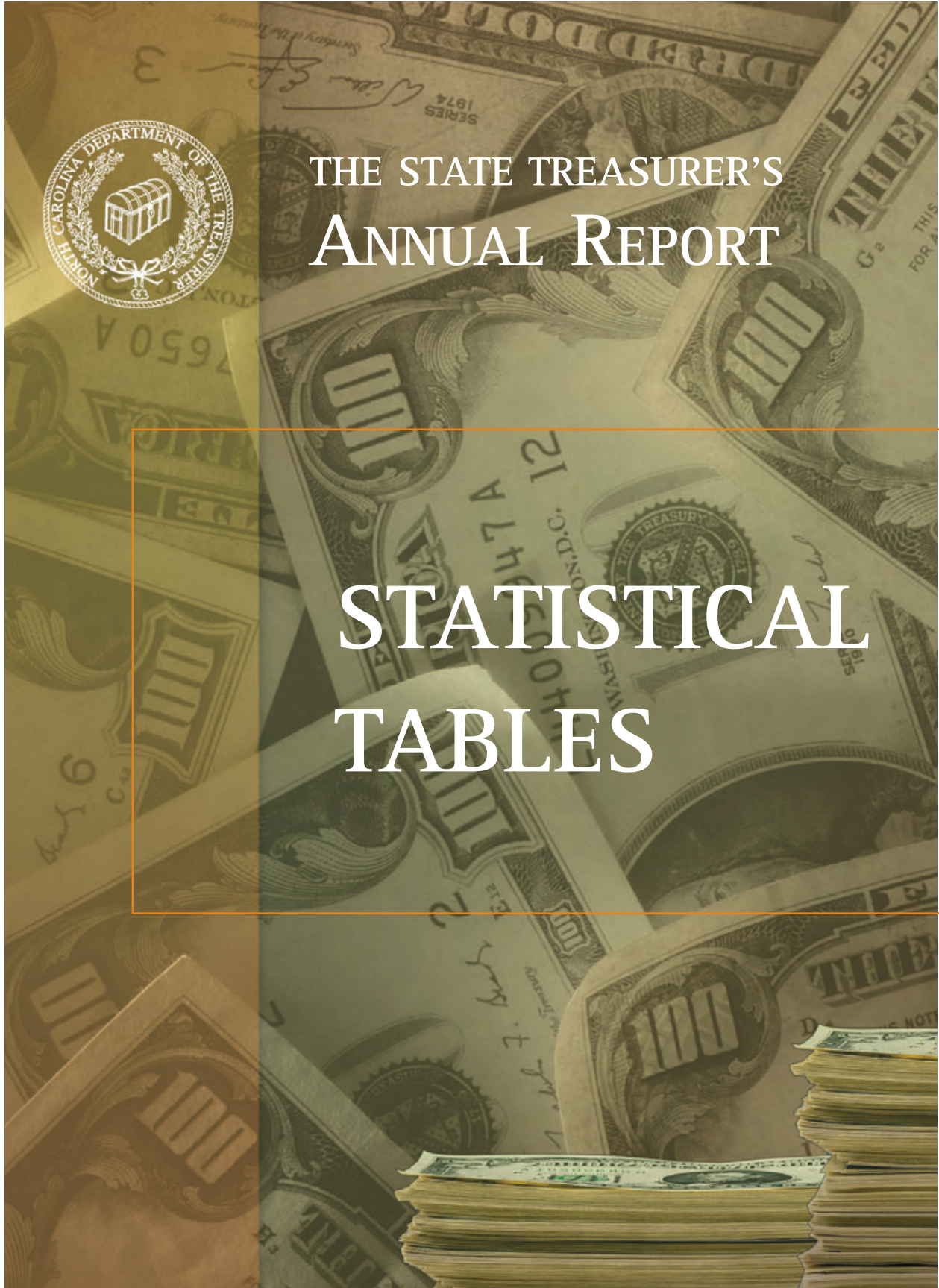
NC Unclaimed Property Facts





THE STATE TREASURER'S ANNUAL REPORT

STATISTICAL TABLES



Treasurer's Cash Balances As of June 30, 2006

CONCENTRATION ACCOUNTS

Raleigh, Bank of America of North Carolina	\$ 13,606,691.73	Mt Airy, The Southern Community Bank	\$ 12,101.01
Unemployment Clearing Account	\$ 436,966.02	Murphy, United Community Bank	\$ 28,120.96
Raleigh, Branch Banking & Trust Co.	\$ 1,962,131.12	Murphy, Macon Savings Bank	\$ 11,760.05
Raleigh, SunTrust Bank & Trust Co.	\$ 1,859,669.71	Nags Head, The East Carolina Bank	\$ 16,190.61
Raleigh, RBC Centura Bank	\$ 544,718.57	Newton, Peoples Bank	\$ 11,759.63
Raleigh, First Citizens Bank & Trust Co.	\$ 1,151,219.70	North Wilkesboro, Yadkin Valley Bk & Trust Co.	\$ 11,759.97
Raleigh, Wachovia Bank of N.C.	<u>\$ 43,341,764.18</u>	Oeracoke, The East Carolina Bank	\$ 39,369.85
Total Concentration Accounts	\$ 62,903,161.03	Pembroke, Lumbee Guaranty Bank	\$ 33,915.39

COMMUNITY BANK ACCOUNTS

Aberdeen, First Bank	\$ 12,781.87	Raleigh, Mechanics & Farmers	\$ 9,714.77
Ahoskie, Southern Bank & Trust Co.	\$ 11,760.03	Reidsville, First National Bank of Reidsville	\$ 11,760.02
Albemarle, Bank of Stanley	\$ 11,759.48	Robbins, First Bank	\$ 1,200.50
Asheboro, First Natl Bank & Trust Co.	\$ 20,281.55	Robbinsville, United Community Bank	\$ 11,078.32
UCB, Bakersville	\$ 11,759.38	Salemberg, Southern Bank & Trust Co.	\$ 17,894.84
Bath, Southern Bank & Trust Co.	\$ 5,964.60	Sanford, First Bank	\$ 13,464.09
Bryson City, Carolina Community Bank	\$ 11,759.96	Seven Springs, Southern Bank & Trust Co.	\$ 11,760.13
Burnsville, Carolina First Bank	\$ 11,759.51	Shelby, Fidelity Bank	\$ 12,100.88
Camden, Bank of Currituck	\$ 11,759.98	Shelby, First National Bank	\$ 11,760.08
Cary, The Fidelity Bank	\$ 12,441.63	Sparta, First Charter	\$ 14,827.33
Columbia, The East Carolina Bank	\$ 26,076.24	Spruce Pines, Carolina First Bank	\$ 12,100.06
Columbus, Tryon Federal Savings	\$ 11,759.86	St Pauls, First Bank	\$ 11,759.24
Creedmoor, Fidelity Bank	\$ 14,649.06	Swan Quarter, The East Carolina Bank	\$ 26,076.03
Creswell, The East Carolina Bank	\$ 5,964.91	Tarboro, The Heritage Bank	\$ 11,759.86
Danbury, Lexington State Bank	\$ 6,305.46	Tarboro, First South Bank	\$ 12,782.29
Durham, Mechanics & Farmers Bank	\$ 24,712.45	Troy, The Fidelity Bank	\$ 11,759.38
Durham, Mutual Community Savings Bk	\$ 18,288.37	Troy, First Bank	\$ 25,734.54
Englehard, The East Carolina Bank	\$ 5,624.15	W Jefferson, 1st Charter Bank	\$ 23,348.58
Fayetteville, Omni Bank	\$ 25,734.82	Walnut Cove, The Southern Community Bank	\$ 12,441.74
Franklin, Macon Savings Bank	\$ 11,759.51	Wanchese, The East Carolina Bank	\$ 19,599.92
Gastonia, Fidelity Bank	\$ 11,759.47	Washington, Co-operative Bank	\$ 11,759.20
Gatesville, Southern Bank & Trust Co.	\$ 11,760.04	Waynesville, United Community Bank	\$ 11,759.28
Greensboro, Mutual Community Savings Bk	\$ 100,000.01	Waynesville, United Community Bank	\$ 12,782.62
Hampstead, Bank of Wilmington	\$ 12,100.80	Wentworth, Fidelity Bank	\$ 19,258.80
Harrisburg, First Charter National	\$ 26,757.87	West End, First Bank	\$ 4,601.93
High Point, High Point Bank & Trust Co.	\$ 14,487.05	Williamston, East Carolina Bank	\$ 12,100.31
Kenansville, First Bank	\$ 11,759.94	Windsor, Southern Bank & Trust Co.	\$ 11,760.09
Kernersville, Bank of North Carolina	\$ 11,759.53	Winton, Southern Bank & Trust Co.	\$ 11,759.24
Kings Mountain, Fidelity Bank	\$ 5,965.12	Yanceyville, Fidelity Bank	<u>\$ 23,689.70</u>
Laurinburg, First Bank	\$ 11,759.33	Total Community Banks Accounts	\$ 1,197,281.86
Lenoir, Bank of Granite	\$ 15,508.90		
Lewiston, Southern Bank & Trust Co.	\$ 4,260.66	Treasurer's Cash Balance	\$ 64,100,442.89
Lexington, Lexington State Bank	\$ 23,348.47		
Lumberton, Lumbee Guaranty Bank	\$ 11,759.65		
Manteo, The East Carolina Bank	\$ 38,005.50		
Moyock, Bank of Currituck	\$ 11,759.35		
Mt Airy, The Southern Community Bank	\$ 11,759.22		

**Summary of Investment by Participants
For the Periods Ended
June 30, 2006 and June 30, 2005 (in thousands)**

	June 30, 2006	June 30, 2005
Retirement Trust Funds:		
Teachers' and State Employees' Retirement System	\$ 51,799,695	\$ 49,823,557
Local Governmental Employees' Retirement System	15,325,778	14,423,954
North Carolina Firemen's Pension Fund	271,088	261,838
Rescue Squad Workers' Pension Fund	31,799	30,334
Consolidated Judicial Retirement System	403,157	387,138
North Carolina National Guard Pension Fund	63,411	57,082
Legislative Retirement System	30,178	29,553
Total Retirement Trust Funds:	67,925,106	65,013,456
Other Funds:		
General Fund	2,839,432	2,067,803
Other Funds Which Earn Interest for the General Fund	1,464,197	1,247,983
Highway Fund	620,168	497,152
Highway Trust Fund	26,900	86,272
University Funds	1,342,967	1,556,197
Other Independent Trust Funds	2,552,536	3,394,804
Local Political Subdivisions	185,472	439,546
Licensing Boards	30,919	31,473
Total Other Funds:	9,062,591	9,321,230
Gran Total All Funds	\$ 76,987,697	\$ 74,334,686

**Statement of Departmental Revenues and Expenditures
Budget and Actual (Budgetary Basis)
General Fund (Departmental Activities Only)
For the Fiscal Year Ended June 30, 2006**

	<u>Authorized Budget</u>	<u>Year-to-Date Actual</u>	<u>Variance Favorable (Unfavorable)</u>
Departmental Expenditures			
General Administration	\$ 1,241,054	\$ 1,170,366	\$ 70,688
Escheat Operations	2,550,831	2,208,198	342,633
Information Services	6,031,129	5,946,405	84,724
Investment Management Operations	3,017,381	2,887,298	130,083
Local Government Operations	4,241,351	3,754,255	487,096
State Bond Issuance Cost	593,490	593,490	0
Retirement Operations	14,279,840	13,120,823	1,159,017
Financial Operations:			
Banking	2,837,348	2,697,171	140,177
Accounting	1,345,134	1,160,165	184,969
Total Expenditures	\$ 36,137,558	\$ 33,538,171	\$ 2,599,387
Departmental Receipts			
General Administration	\$ 1,241,054	\$ 1,170,366	\$ (70,688)
Escheat Operations	2,550,831	2,208,198	(342,633)
Information Services	6,031,129	5,946,405	(84,724)
Investment Management Operations	114,723	114,623	(100)
Local Government Operations	900,360	1,012,489	112,129
State Bond Issuance cost	593,490	593,490	(0)
Retirement Operations	14,279,840	13,120,823	(1,159,017)
Financial Operations:			
Banking	140,118	-	(140,118)
Accounting	1,345,134	1,160,165	(184,969)
Total Receipts	27,196,679	25,326,559	(1,870,120)
Appropriation	\$ 8,940,879	\$ 8,211,612	\$ 729,267

**General Obligation Bonds
Local Government
Referenda and Authorizations
Fiscal Year July 1, 2005 Through June 30, 2006**

	Propositions			Bonds		
	# Proposed	# Approved	% Approved	\$ Proposed	\$ Approved	% Approved
COUNTIES:						
Voted Propositions:						
Schools	9	8	88.89%	\$ 815,448,000	\$ 326,040,000	39.98%
Community College	4	4	100.00%	\$ 65,200,000	\$ 65,200,000	100.00%
Parks and Recreation	1	1	100.00%	\$ 35,000,000	\$ 35,000,000	100.00%
County Buildings	1	1	100.00%	\$ 14,216,000	\$ 14,216,000	100.00%
Land	1	0	0.00%	\$ 120,000,000	\$ -	0.00%
Total	16	14	87.50%	\$ 1,049,864,000	\$ 440,456,000	41.95%
Nonvoted Propositions:						
Refunding	4	4	100.00%	77,500,000	77,500,000	100.00%
2/3rd issues	6	6	100.00%	69,745,000	69,745,000	100.00%
Total	10	10	100.00%	\$ 147,245,000	\$ 147,245,000	100.00%
Voted Propositions:						
Sanitary Sewer	1	1	100.00%	\$ 2,979,000	\$ 2,979,000	100.00%
Water	2	2	100.00%	\$ 15,825,000	\$ 15,825,000	100.00%
Total	3	3	100.00%	\$ 18,804,000	\$ 18,804,000	100.00%
Nonvoted Propositions:						
Refunding	1	1	100.00%	\$ 13,500,000	\$ 13,500,000	100.00%
Total	1	1	100.00%	\$ 13,500,000	\$ 13,500,000	100.00%
Voted Propositions:						
Water	2	2	100.00%	11,651,000	11,651,000	100.00%
Sanitary Sewer	2	2	100.00%	10,000,000	10,000,000	100.00%
Streets	6	6	100.00%	112,317,000	112,317,000	100.00%
Parks & Recreation	4	3	75.00%	70,753,000	64,753,000	91.52%
Parking	1	1	100.00%	7,342,000	7,342,000	100.00%
Housing	1	1	100.00%	20,000,000	20,000,000	100.00%
Neighborhood Imprv.	1	1	100.00%	1,500,000	1,500,000	100.00%
Public Safety	2	2	100.00%	6,695,000	6,695,000	100.00%
Cultural Resources	1	1	100.00%	11,005,000	11,005,000	100.00%
Public Improvements	1	1	100.00%	7,113,000	7,113,000	100.00%
Total	21	20	95.24%	\$ 258,376,000	\$ 252,376,000	97.68%
Nonvoted Propositions:						
Refunding	6	6	100.00%	162,700,000	162,700,000	100.00%
2/3rd issues	3	3	100.00%	25,025,000	25,025,000	100.00%
Total	9	9	100.00%	\$ 187,725,000	\$ 187,725,000	100.00%
TOTAL VOTED	40	37	92.50%	\$ 1,327,044,000	\$ 711,636,000	53.63%
TOTAL NONVOTED	20	20	100.00%	\$ 348,470,000	\$ 348,470,000	100.00%
GRAND TOTALS	60	57	95.00%	\$ 1,675,514,000	\$ 1,060,106,000	63.27%

G:\share\Auth & Unissued\2005\June 2006

Table 5

Installment Purchase Agreements Approved July 1, 2005 - June 30, 2006

MUNICIPALITIES:		Amount
Utilities		
Sanitary Sewer	\$ 23,844,120	
Electric	8,664,637	
Water	<u>20,578,285</u>	
		\$ 53,087,042
Public Buildings		
Fire Station	\$ 7,756,698	
City, Town or Village Hall	11,769,093	
Public Works	12,480,216	
Civic Center	7,908,708	
Community Center	7,549,760	
Operations Center	141,121	
Library	<u>330,000</u>	
		\$ 47,935,596
Refunding	\$ 31,588,695	
Land Acquisition	12,670,000	
Recreation	21,159,115	
Streets & Sidewalks	7,075,382	
Equipment	21,136,141	
Stormwater	2,500,000	
Parking	150,300	
Office Space	10,303,811	
Public Transit Authority	200,000,000	
Tax Increment Financing	4,000,000	
Other	<u>11,056,250</u>	
		\$ 321,639,694
	Subtotal	<u>\$ 422,662,332</u>
COUNTIES:		
Schools		\$ 448,213,232
Public Buildings		
Administration Building	\$ 7,360,227	
Courthouse/Law Enforcement/Jail	56,574,500	
Public Works	3,891,000	
Health & Social Services	<u>15,365,658</u>	
		\$ 83,191,385
Utilities		
Water	\$ 11,952,177	
Sanitary Sewer	<u>6,120,986</u>	
		\$ 18,073,163
Community College	\$ 32,718,100	
Industrial Facility	7,437,045	
Recreation	13,586,364	
Library	16,960,200	
Land Acquisition	2,955,312	
Qualified Zone Academy Bonds	10,407,500	
Refunding	12,800,000	
Other	<u>2,628,545</u>	
		\$ 99,493,066
COMMUNITY COLLEGES:		
Guaranteed Energy Savings Contracts		\$ 15,026,589
AUTHORITIES:		
Water	\$ <u>524,040</u>	
		\$ 524,040
	Subtotal	<u>\$ 664,521,475</u>
GRAND TOTAL		<u>\$ 1,087,183,807</u>

Installment and Lease Agreements Approved
Fiscal Years Ended June 30, 2006, 2005 and 2004
(in millions)

	FY	2005-06	FY	2004-05	FY	2003-04
	No.	Amt.	No.	Amt.	No.	Amt.
Counties	43	\$ 603.4	40	\$ 398.8	24	\$ 161.2
Municipalities	55	391.0	64	526.1	64	455.2
Authorities/Districts	1	0.7	3	15.5	1	5.5
Community College/GESC	12	47.7	11	38.1	9	191.5
Subtotal	111	\$ 1,042.8	118	\$ 978.5	98	\$ 813.4
Refundings	6	\$ 44.3	9	\$ 226.7	26	\$ 231.7
Grand Total	117	\$ 1,087.1 *	127	\$ 1,205.2 *	124	\$ 1,045.1 *

*Total includes refundings.

Summary of State and Local Government Debt and Authorizations At June 30, 2006

	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 Unissued	Non-General Obligation Debt Authorized and Unissued
State	\$ 5,734,665,995	\$ 709,105,000	\$ 8,800,000	\$ 6,452,570,995	\$ -	\$ 6,452,570,995	\$ 502,745,000	\$ 682,390,000
State Authorities and Institutions	\$ -	\$ -	\$ 17,728,526,448	\$ 17,728,526,448	\$ -	\$ 17,728,526,448	\$ -	\$ -
Totals	<u>\$ 5,734,665,995</u>	<u>\$ 709,105,000</u>	<u>\$ 17,737,326,448</u>	<u>\$ 24,181,097,443</u>	<u>\$ -</u>	<u>\$ 24,181,097,443</u>	<u>\$ 502,745,000</u>	<u>\$ 682,390,000</u>
Counties	\$ 6,229,302,901	\$ 2,721,602,984	\$ 519,476,242	\$ 9,470,382,127	\$ -	\$ 9,470,382,127		\$ 36,959,090
Municipalities	\$ 2,303,465,937	\$ 2,177,383,075	\$ 3,228,979,876	\$ 7,709,828,888	\$ -	\$ 7,709,828,888	\$ 1,463,254,500	\$ 72,064,268
Districts	\$ 343,501,571	\$ 6,410,422	\$ 176,725,925	\$ 526,637,918	\$ -	\$ 526,637,918	\$ 2,572,033,000	\$ -
Authorities	\$ -	\$ 72,637,202	\$ 1,965,762,380	\$ 2,038,399,582	\$ 1,546,127,668	\$ 3,584,527,250	\$ 123,195,700	\$ 16,424,924
Total	<u>\$ 8,876,270,409</u>	<u>\$ 4,978,033,683</u>	<u>\$ 5,890,944,423</u>	<u>\$ 19,745,248,515</u>	<u>\$ 1,546,127,668</u>	<u>\$ 21,291,376,183</u>	<u>\$ 4,158,483,200</u>	<u>\$ 125,448,282</u>
Grand Total	<u>\$ 14,610,936,404</u>	<u>\$ 5,687,138,683</u>	<u>\$ 23,628,270,871</u>	<u>\$ 43,926,345,958</u>	<u>\$ 1,546,127,668</u>	<u>\$ 45,472,473,626</u>	<u>\$ 4,661,228,200</u>	<u>\$ 807,838,282</u>

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

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

Annual Debt Service Requirements for State Bonds Issued and Outstanding at June 30, 2006

GENERAL OBLIGATION										
	General Fund		Highway Fund		Total		Certificates of Participation/ Lease-Purchase Revenue Bonds		Total	
	Principal	Principal & Interest	Principal	Principal & Interest	Principal	Principal & Interest	Principal	Principal & Interest	Principal	Principal & Interest
2006-07	287,595,722.90	521,691,479.58	54,675,000.00	91,198,625.00	342,270,722.90	612,890,104.58	31,420,000.00	64,779,942.52	373,690,722.90	677,670,047.10
2007-08	287,275,014.55	508,610,922.36	54,055,000.00	88,128,250.00	341,330,014.55	596,739,172.36	31,760,000.00	63,958,042.52	373,090,014.55	660,697,214.88
2008-09	283,810,257.30	491,599,468.60	54,090,000.00	85,460,500.00	337,900,257.30	577,059,968.60	32,110,000.00	63,076,167.52	370,010,257.30	640,136,136.12
2009-10	285,135,000.00	477,925,108.60	54,065,000.00	82,731,000.00	339,200,000.00	560,656,108.60	32,470,000.00	62,047,142.52	371,670,000.00	622,703,251.12
2010-11	285,330,000.00	464,073,033.60	54,030,000.00	79,992,750.00	339,360,000.00	544,065,783.60	32,880,000.00	61,059,455.02	372,240,000.00	605,125,238.62
2011-12	286,380,000.00	450,742,968.60	54,000,000.00	77,261,250.00	340,380,000.00	528,004,218.60	33,325,000.00	59,979,613.14	373,705,000.00	587,983,831.74
2012-13	288,465,000.00	438,544,422.78	53,840,000.00	74,401,250.00	342,305,000.00	512,945,672.78	33,780,000.00	58,876,389.38	376,085,000.00	571,822,062.16
2013-14	287,870,000.00	424,314,122.94	54,600,000.00	72,469,250.00	342,470,000.00	496,783,372.94	34,265,000.00	57,709,990.00	376,735,000.00	554,493,362.94
2014-15	287,115,000.00	410,074,223.06	54,600,000.00	69,739,250.00	341,715,000.00	479,813,473.06	34,780,000.00	56,529,781.25	376,495,000.00	536,343,254.31
2015-16	287,140,000.00	396,550,004.02	54,600,000.00	67,009,250.00	341,740,000.00	463,559,254.02	35,325,000.00	55,337,825.01	377,065,000.00	518,897,079.03
2016-17	284,795,000.00	379,919,566.68	54,600,000.00	64,279,250.00	339,395,000.00	444,198,816.68	35,890,000.00	54,142,693.77	375,285,000.00	498,341,510.45
2017-18	288,580,000.00	371,222,929.30	54,600,000.00	61,549,250.00	343,180,000.00	432,772,179.30	36,495,000.00	52,986,800.01	379,675,000.00	485,758,979.31
2018-19	289,665,000.00	359,572,762.34	54,600,000.00	59,099,000.00	344,265,000.00	418,671,762.34	37,120,000.00	51,849,800.00	381,385,000.00	470,521,562.34
2019-20	259,500,000.00	316,854,362.34	50,400,000.00	52,492,000.00	309,900,000.00	369,346,362.34	52,780,000.00	65,336,400.00	362,680,000.00	434,682,762.34
2020-21	229,500,000.00	274,856,029.02			229,500,000.00	274,856,029.02	50,175,000.00	60,089,862.50	279,675,000.00	334,945,891.52
2021-22	210,500,000.00	245,224,362.50			210,500,000.00	245,224,362.50	50,235,000.00	57,662,412.50	260,735,000.00	302,886,775.00
2022-23	203,455,000.00	227,849,362.50			203,455,000.00	227,849,362.50	50,305,000.00	55,270,562.50	253,760,000.00	283,119,925.00
2023-24	178,000,000.00	192,439,000.00			178,000,000.00	192,439,000.00	51,170,000.00	53,625,018.75	229,170,000.00	246,064,018.75
2024-25	98,400,000.00	105,314,000.00			98,400,000.00	105,314,000.00	12,820,000.00	13,385,250.00	111,220,000.00	118,699,250.00
2025-26	36,400,000.00	38,978,250.00			36,400,000.00	38,978,250.00			36,400,000.00	38,978,250.00
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
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
	<u>\$ 4,977,910,994.75</u>	<u>\$ 7,130,841,378.82</u>	<u>\$ 756,755,000.00</u>	<u>\$ 1,025,810,875.00</u>	<u>\$ 5,734,665,994.75</u>	<u>\$ 8,156,652,253.82</u>	<u>\$ 709,105,000.00</u>	<u>\$ 1,067,703,148.91</u>	<u>\$ 6,443,770,994.75</u>	<u>\$ 9,224,355,402.73</u>

Revenue Bonds and Other Indebtedness of State Authorities and Institutions at June 30, 2006

The following chart outlines the revenue bonds and other indebtedness of State authorities and institutions at June 30, 2006. The State is not responsible for debt service on any of the revenue bonds and other indebtedness represented in this chart.

Appalachian State University	\$ 127,279,661
East Carolina University	107,077,040
Elizabeth City State University	20,131,609
Fayetteville State University	6,075,000
North Carolina A & T State University	19,993,000
North Carolina Central University	10,982,929
North Carolina School of the Arts	11,490,000
North Carolina State University at Raleigh	219,360,000
University of North Carolina at Asheville	26,010,000
University of North Carolina at Chapel Hill	897,631,204
University of North Carolina at Charlotte	103,564,000
University of North Carolina at Greensboro	116,480,000
University of North Carolina at Pembroke	19,982,354
University of North Carolina at Wilmington	91,558,948
Western Carolina University	48,708,892
Winston-Salem State University	47,030,000
North Carolina Capital Facilities Finance Agency	1,732,707,411
North Carolina Eastern Municipal Power Agency	2,784,785,000
North Carolina Housing Finance Agency	1,545,732,000
North Carolina Medical Care Commission	5,914,115,294
North Carolina Municipal Power Agency No. 1	1,902,990,000
North Carolina State Education Assistance Authority	1,921,562,000
North Carolina State Ports Authority	53,280,106
Total	\$ <u>17,728,526,448</u>

Source: Chief fiscal officer of each authority or institution.

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

ASSETS	December 31, 2005	December 31, 2004
Current Actuarial Value of Assets:		
Annuity Savings Fund	\$ 7,807,735,473.00	\$ 7,469,590,963.00
Pension Accumulation Fund	<u>41,862,446,733.00</u>	<u>39,913,918,434.00</u>
Total Current assets	\$ 49,670,182,206.00	\$ 47,383,509,397.00
Future member contributions to Annuity Savings Fund	\$ 6,652,279,194.00	\$ 6,044,472,900.00
Prospective contributions to Pension Accumulation fund:		
Normal contributions	\$ 6,707,714,854.00	\$ 6,689,216,676.00
Unfunded accrued liability contributions	(3,045,514,417.00)	(3,555,655,121.00)
Undistributed gain contributions	<u>266,747,475.00</u>	<u>510,208,590.00</u>
Total prospective contributions	\$ 3,928,947,912.00	\$ 3,643,770,145.00
Total Assets	\$ 60,251,409,312.00	\$ 57,071,752,442.00
LIABILITIES		
Annuity Savings Fund:		
Past member contributions	\$ 7,807,735,473.00	\$ 7,469,590,963.00
Future member contributions	<u>6,652,279,194.00</u>	<u>6,044,472,900.00</u>
Total contributions to Annuity Savings Fund	\$ 14,460,014,667.00	\$ 13,514,063,863.00
Pension Accumulation Fund:		
Benefits currently in payment	\$ 23,048,139,224.00	\$ 20,788,257,882.00
Benefits to be paid to current active members	21,769,438,603.00	21,830,816,339.00
Reserve for increases in retirement allowances effective July 1, 2006 (July 1, 2005 for December 31, 2004 figure)	707,069,343.00	428,405,768.00
Reserve from undistributed gains	<u>266,747,475.00</u>	<u>510,208,590.00</u>
Total benefits payable from Pension Accumulation Fund	\$ 45,791,394,645.00	\$ 43,557,688,579.00
Total Liabilities	\$ 60,251,409,312.00	\$ 57,071,752,442.00

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

ASSETS	December 31, 2005	December 31, 2004
Current Actuarial Value of Assets:		
Annuity Savings Fund	\$ 2,792,769,042.00	\$ 2,611,975,442.00
Pension Accumulation Fund	<u>11,603,080,439.00</u>	<u>10,765,321,629.00</u>
Total Current assets	\$ 14,395,849,481.00	\$ 13,377,297,071.00
Future member contributions to Annuity Savings Fund	\$ 2,415,604,290.00	\$ 2,353,909,308.00
Prospective contributions to Pension Accumulation fund:		
Normal contributions	\$ 1,769,068,953.00	\$ 1,674,519,059.00
Accrued liability contributions	84,359,007.00	88,892,117.00
Undistributed gain contributions	<u>134,584,839.00</u>	<u>182,219,310.00</u>
Total prospective contributions	\$ 1,988,012,799.00	\$ 1,945,630,486.00
Total Assets	\$ 18,799,466,570.00	\$ 17,676,836,865.00
LIABILITIES		
Annuity Savings Fund:		
Past member contributions	\$ 2,792,769,042.00	\$ 2,611,975,442.00
Future member contributions	<u>2,415,604,290.00</u>	<u>2,353,909,308.00</u>
Total contributions to Annuity Savings Fund	\$ 5,208,373,332.00	\$ 4,965,884,750.00
Pension Accumulation Fund:		
Benefits currently in payment	\$ 5,320,394,051.00	\$ 4,759,942,868.00
Benefits to be paid to current active members	7,981,098,276.00	7,647,060,957.00
Reserve for increases in retirement allowances effective July 1, 2006 (July 1, 2005 for December 31, 2004 figure)	155,016,072.00	121,728,980.00
Reserve from undistributed gains	<u>134,584,839.00</u>	<u>182,219,310.00</u>
Total benefits payable from Pension Accumulation Fund	\$ 13,591,093,238.00	\$ 12,710,952,115.00
Total Liabilities	\$ 18,799,466,570.00	\$ 17,676,836,865.00

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

ASSETS	December 31, 2005	December 31, 2004
Current Actuarial Value of Assets:		
Annuity Savings Fund	\$ 39,081,420.00	\$ 37,640,350.00
Pension Accumulation Fund	<u>343,419,350.00</u>	<u>325,469,891.00</u>
Total Current assets	\$ 382,500,770.00	\$ 363,110,241.00
Future member contributions to Annuity Savings Fund	\$ 37,499,373.00	\$ 36,637,237.00
Prospective contributions to Pension Accumulation fund:		
Normal contributions	\$ 109,867,253.00	\$ 102,689,513.00
Unfunded accrued liability contributions	(27,002,723.00)	(28,838,102.00)
Undistributed gain contributions	<u>7,061,943.00</u>	<u>10,822,188.00</u>
Total prospective contributions	\$ 89,926,473.00	\$ 84,673,599.00
Total Assets	\$ <u>509,926,616.00</u>	\$ <u>484,421,077.00</u>
LIABILITIES		
Annuity Savings Fund:		
Past member contributions	\$ 39,081,420.00	\$ 37,640,350.00
Future member contributions	<u>37,499,373.00</u>	<u>36,637,237.00</u>
Total contributions to Annuity Savings Fund	\$ 76,580,793.00	\$ 74,277,587.00
Pension Accumulation Fund:		
Benefits currently in payment	\$ 198,947,167.00	\$ 183,856,275.00
Benefits to be paid to current active members	221,142,217.00	211,659,017.00
Reserve for increases in retirement allowances effective July 1, 2006 (July 1, 2005 for December 31, 2004 figure)	6,194,496.00	3,806,010.00
Reserve from undistributed gains	<u>\$7,061,943.00</u>	<u>10,822,188.00</u>
Total benefits payable from Pension Accumulation Fund	\$ <u>433,345,823.00</u>	\$ <u>410,143,490.00</u>
Total Liabilities	\$ <u>509,926,616.00</u>	\$ <u>484,421,077.00</u>

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

ASSETS	June 30, 2006	June 30, 2005
Current Assets:		
Annuity Savings Fund	\$ 33,120,974.00	\$ 32,142,201.00
Pension Accumulation Fund	254,812,082.00	242,122,840.00
Total Current assets	\$ 287,933,056.00	\$ 274,265,041.00
Future member contributions to Annuity Savings Fund	\$ 22,359,000.00	\$ 21,978,427.00
Prospective contributions to Pension Accumulation fund:		
Normal contributions	\$ 37,784,704.00	\$ 36,493,126.00
Accrued liability contributions	16,406,150.00	11,090,894.00
Total prospective contributions	\$ 54,190,854.00	\$ 47,584,020.00
Total Assets	\$ 364,482,910.00	\$ 343,827,488.00
LIABILITIES		
Annuity Savings Fund:		
Past member contributions	\$ 33,120,974.00	\$ 32,142,201.00
Future member contributions	22,359,000.00	21,978,427.00
Total contributions to Annuity Savings Fund	\$ 55,479,974.00	\$ 54,120,628.00
Pension Accumulation Fund:		
Benefits currently in payment	\$ 154,804,950.00	\$ 150,601,498.00
Benefits to be paid to current active members	154,197,986.00	139,105,362.00
Total benefits payable from Pension Accumulation Fund	\$ 309,002,936.00	\$ 289,706,860.00
Total Liabilities	\$ 364,482,910.00	\$ 343,827,488.00

