



THE STATE TREASURER'S

# Annual Report

TO THE PEOPLE OF NORTH CAROLINA



**RICHARD H. MOORE**  
State Treasurer

North Carolina Department of State Treasurer  
**Fiscal Year 2006-2007**

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



**RICHARD H. MOORE**  
*Treasurer*  
*State of North Carolina*

Dear Fellow North Carolinians:

I am proud to present to you the Department of State Treasurer's 2006-2007 Annual Report. The people of North Carolina entrust great responsibility to this Department and to me, from overseeing the retirement system for more than 750,000 North Carolinians and managing and investing more than \$75 billion in assets to returning unclaimed property to our citizens. Such work demands the highest levels of prudence, security and trust. These principles guide us as we carry out our responsibilities and are reflected in the many accomplishments listed in the enclosed report.



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. I am especially proud of the nearly 15 percent return this year, well over our benchmark of 7.25 percent. With a fully funded pension system, 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. This year, the State regained the "Triple-A" rating from Moody's Investor Service and maintained its "Triple-A" status with the other two national rating agencies. North Carolina is one of only 7 states to enjoy top-tier rankings from all three of the rating agencies. These are very 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 nearly tripled 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 all citizens to visit our website at [www.nctreasurer.com](http://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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The background of the top half of the image is a dense, overlapping pattern of US dollar bills, including \$100, \$50, and \$20 denominations. The bills are rendered in a light blue, semi-transparent style, creating a textured, monochromatic effect.

THE STATE TREASURER'S ANNUAL REPORT

# Retirement Systems Division



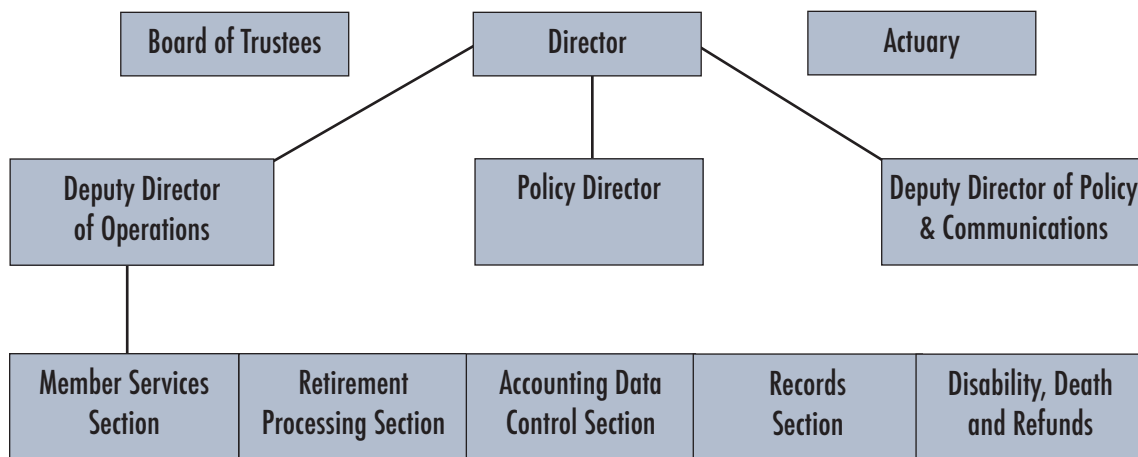


# Retirement Systems Division

The Retirement Systems Division of the Department of State Treasurer administers the statutory retirement and benefit plans, as authorized by the General Assembly of North Carolina, that 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 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 2007 Session of the General Assembly that resulted in the enactment of laws to:
  - Provide cost-of-living adjustments equal to 2.2 percent to retirees of the Teachers' and State Employees' Retirement System (TSERS), Consolidated Judicial Retirement System (CJRS) and Legislative Retirement System (LRS); and
  - Increase the monthly benefit payment to beneficiaries of the Fireman's and Rescue Squad Workers' Pension Fund from \$165.00 to \$167.00 per month.
- Provide cost-of-living adjustments equal to 2.2 percent to retirees of the Local Governmental Employees' Retirement System (LGERS);
- Processed benefits for 13,310 new retirees.
- Processed refunds for 17,191 former public employees.
- Established approximately 56,714 new active member accounts.
- Increased use of direct deposit of monthly benefit payments from 184,715 to 193,893 retirees.
- Updated the Retirement Systems Division Section of the State Treasurer's Web page ([www.nctreasurer.com](http://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 is composed of 14 members, including actively working employees, retirees and members of the public. The Local Governmental Employees' Retirement System Board, while legally separate, is composed of the same 14 members plus 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 six-member board of trustees, 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 composed of seven members, including financial professionals, working and retired state employees. The State Treasurer is ex-officio chairman of both boards.

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 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; 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 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 2006 through June 2007, 13,310 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. More than 5,262 cost calculations and 8,063 benefit estimates were generated by the Retirements Processing Section for the period July 2006 through June 2007.

## 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 as well as the determination of eligibility for disability benefits from the other retirement systems are incumbent upon this Section. Approximately 4,479 disability claims were reviewed by the Medical Review Board during the 2006-2007 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. From July 2006 through June 2007, 427 reimbursements were issued, totaling \$3,623,454.66.

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. Approximately 5,272 death reports were received and processed during fiscal year 2006-2007.

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 17,191 refunds were processed for the period July 2006 through June 2007.

## 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 more than 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 455,000 members.

This Section is responsible for the administration of the Contributory Death Benefit Plan, 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 51,873 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 2006-2007, approximately 193,893 retirees' benefits were processed through EFT. Also, more than 24,808 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 61,202 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 2006-2007 approximately 24,025 letters and email responses were generated in this Section. Approximately 227,870 telephone communications were handled by personal contact with an additional 33,836 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. During 2006-2007, 15,558 members attended 249 employee retirement information sessions, and 1,300 employers attended 61 employer training sessions. 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. During 2006-2007, there were 3,801 visitors with 1,487 members seen by Benefit Counselors.

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 2006-2007, five 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 2,276,637 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 2006-2007, 852,753 images were committed to the system.

## SIGNIFICANT ACCOMPLISHMENTS

### Legislation

Prior to the convening of the 2007 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 2007 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, 87 actuarial notes disclosing the fiscal impact of every bill that affected a State-administered retirement system or pension plan.

In its 2007 legislative recommendations, Treasurer Moore and the Board of Trustees advocated a 2.5 percent cost-of-living adjustment for Retirees of the Teachers' and State Employees' Retirement System, the Consolidated Judicial Retirement System, and the Legislative Retirement System. The General Assembly modified the recommendation of cost-of-living benefits and also addressed other administrative enhancements recommended by the board, including:

(1) provide, effective July 1, 2007, in the Teachers' and State Employees' Retirement System, a 2.2 percent cost-of-living adjustment (COLA) for beneficiaries who commenced retirement on and before July 1, 2006, and for beneficiaries who commenced retirement with effective dates of August 1, 2006 to July 1, 2007, a prorated portion of the 2.2 percent COLA based on the number of months a retirement allowance was paid;

(2) provide, effective July 1, 2007, in the Consolidated Judicial Retirement System, a 2.2 percent COLA for beneficiaries who commenced retirement on and before July 1, 2006, and for beneficiaries who commenced retirement with effective dates of August 1, 2006 to June 1, 2007, a prorated portion of the 2.2 percent postretirement increase in their allowances based on the number of months a retirement allowance was paid;

(3) provide effective July 1, 2007, in the Legislative Retirement System, a 2.2 percent COLA for beneficiaries who commenced retirement on or before January 1, 2007, and for beneficiaries who commenced retirement with effective dates of February 1, 2007 to June 1, 2007, a prorated portion of the 2.2 percent was paid;

(4) increase, effective July 1, 2007, the monthly benefit payment to beneficiaries of the Firemen's and Rescue Squad Workers' Pension fund from \$165.00 to \$167.00 per month;

(5) increase, effective July 1, 2007, the Contributory Death Benefit for Retirees from \$9,000 to \$10,000 with no increase in premiums; and

(6) allow, effective September 1, 2007, law enforcement officers, at retirement, to transfer their eligible contributions from the NC401(k) Plan into the Retirement System to be added to the officers monthly retirement benefit.

The Board of Trustees governing the Local Governmental Employees' Retirement System enacted policies to: (1) provide, effective July 1, 2007, in the Local Governmental Employees' Retirement System, a 2.2 percent COLA adjustment for beneficiaries who commenced retirement on and before July 1, 2007, and for beneficiaries who commenced retirement with effective dates of August 1, 2006 to July 1, 2007, a prorated portion of the 2.2 percent COLA based on the number of months a retirement allowance was paid.

## Communications

The Division revised all Retirement forms to have a uniform structure and design as well as to assist members in providing the necessary information to process retirement requests, refunds, disability, benefits and estimates.

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 2007 and updated on the Web page. The "Things Retirees Need to Know" pamphlet and the "Frequently Asked Questions" were 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. *The Retirement Report*, a bi-annual newsletter to retirees that delivers news regarding changes to retirement laws and policies as well as information about the financial health of the retirement systems, was distributed during 2006-2007. *On the Horizon*, an annual publication to active members was also distributed.

## 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 2006, benefit recipients have had online access to their account information and the option to perform 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. During 2006-2007, progress continued in the development and testing of the active employee and employer phases of the ORBIT system. When completed, retirees, active employees and employers will 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, 2006 and June 30, 2007, the benefit payments of 9,178 retirees were added to the direct deposit group, bringing the total number of monthly payments made by direct deposit to 193,893. This means that about 95 percent 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, 2007, is estimated to be approximately \$45,156.

In the Local Governmental Employees' Retirement System, five 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 percent per year and average rates of salary increase of about 6 percent 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 and Consolidated Judicial 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 and Consolidated Judicial Retirement System are also being funded on a full actuarial reserve basis but use the projected unit credit cost method with unfunded accrued liability as the actuarial cost approach.

### Funding of the Systems

All retirement systems are joint contributory, defined benefit plans with contributions made by both employees and employers. Each active member contributes 6 percent 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 percent 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." In fact, North Carolina's pension fund was named the second strongest in the nation for the second year in a row in February 2007. 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 percent, a system is considered to be "fully funded" on a current basis.

### Funded Ratio of the Retirement Systems

Chart 1

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%
2006 - 106.1%	2006 - 99.5%	2006 - 107.3%

## Teachers' and State Employees' Retirement System of North Carolina (TSERS) 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, TSERS provides benefits to all full-time teachers and State employees in all public school systems, universities, departments, institutions and agencies of the State.

This System began operations with a membership of 42,878 teachers and State employees and with appropriations from the State of \$1,838,000. The membership has grown over the years in proportion to the growth in size and complexity of the public schools and State government. The active membership at December 31, 2006 was 330,117, and in addition there were 59,934 inactive members, and 140,292 retired members and beneficiaries of deceased retired members. Invested assets at market value amounted to about \$55.6 billion.

The distribution of investments of the assets of TSERS as of December 31, 2006 was:

Long-Term Investment Fund:	\$18,971,360,018
Short-Term Investment Fund:	\$76,427,431
Real Estate Investment Portfolio:	\$2,294,109,275
Equity Investment Portfolio:	\$32,923,475,904
Alternative Investment Portfolio:	\$1,380,733,949
<b>Total:</b>	<b>\$55,646,106,577</b>

Operations of TSERS during calendar year 2006 resulted in total receipts of \$6,895,525,586 and total expenditures of \$2,724,758,401. Chart 2 presents the distribution of revenues by source and expenditures by purpose.

The latest Actuary's Valuation Balance Sheet for TSERS, as of December 31, 2006, is shown in Table 10. Based on the latest actuary's report, the General Assembly set the employer contribution rate at 2.66 percent of covered payroll, effective July 1, 2006 and at 3.05 percent of covered payroll, effective July 1, 2007. 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, 2007, the remaining accrued liability for past service.

### Teachers' and State Employees' Retirement System of North Carolina Year Ended December 31, 2006

Chart 2

SOURCES OF FUNDS		
Employee Contributions:	\$745,166,248	(10.81%)
Employer Contributions:	\$363,596,312	(5.27%)
Other Income:	\$1,904,895	(0.03%)
Investment Income:	\$5,784,858,131	(83.89%)
APPLICATIONS OF FUNDS		
Retiree Benefits:	\$2,632,447,637	(38.18%)
Refunds:	\$83,233,639	(1.21%)
Administrative Expenses:	\$9,040,756	(0.13%)
Other Expenses:	\$36,369	(0.00%)
Addition to Reserves for Future Benefits:	\$4,170,767,185	(60.48%)



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

The Local Governmental Employees' Retirement 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 LGERS 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, 2006, a total of 872 cities, towns, counties and local commissions were participating in LGERS.

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, 2006, was 124,844. In addition, there were 20,762 inactive members, and 40,574 retired members and beneficiaries of deceased members. Invested assets at market value amounted to about \$16.6 billion.

The distribution of investments of the assets of LGERS as of December 31, 2006 was:

Long-Term Investment Fund:	\$5,668,680,028
Short-Term Investment Fund:	\$26,783,119
Real Estate Investment Portfolio:	\$685,482,307
Equity Investment Portfolio:	\$9,837,326,615
Alternative Investment Portfolio:	\$412,555,440

Total:	\$16,630,827,509
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Operations of LGERS during the calendar year 2006 resulted in total receipts of \$2,241,751,583 and total expenditures of \$673,748,952. Chart 3 presents the distribution of revenues by source and expenditures by purpose.

The latest Actuary's Valuation Balance Sheet for LGERS, as of December 31, 2006, 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 percent of covered payroll for general employees and at 5.27 percent of covered payroll for law enforcement officers, effective July 1, 2007. 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, 2006

Chart 3

SOURCES OF FUNDS		
Employee Contributions:	\$285,667,446	(11.54%)
Employer Contributions:	\$241,139,558	(10.76%)
Other Income:	\$68,416	(0.00%)
Investment Income:	\$1,714,876,163	(76.50%)
APPLICATIONS OF FUNDS		
Retiree Benefits:	\$613,113,570	(27.35%)
Refunds:	\$57,305,980	(2.56%)
Administrative Expenses:	\$3,328,402	(0.15%)
Addition to Reserves for Future Benefits:	\$1,568,002,631	(69.94%)

## 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 comprised of the elected judges and justices, district attorneys, clerks of superior court of the General Court of Justice, and public defenders. As of December 31, 2006, there were 512 active members, 46 inactive members and 460 retired members and beneficiaries of deceased members. The invested assets at market value were about \$434.1 million.

The distribution of the investments of the Judicial System as of December 31, 2006, was:

Long-Term Investment Fund:	\$147,373,808
Short-Term Investment Fund:	\$2,459,106
Real Estate Investment Portfolio:	\$17,821,145
Equity Investment Portfolio:	\$255,755,794
Alternative Investment Portfolio:	\$10,725,833
	<hr/>
Total:	<u>\$434,135,686</u>

Operations of the Judicial System during the calendar year 2006 resulted in total receipts of \$56,761,027 and total expenditures of \$22,912,530. 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, 2006, is shown in Table 12. Based on the actuary's latest report, the General Assembly set the employer contribution rate at 12.59 percent of covered members' payroll, effective July 1, 2007. 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, 2006

Chart 4

SOURCES OF FUNDS		
Employee Contributions:	\$4,185,929	(7.37%)
Employer Contributions:	\$7,626,004	(13.44%)
Investment Income:	\$44,949,094	(79.19%)
APPLICATIONS OF FUNDS		
Retiree Benefits:	\$22,841,734	(40.24%)
Refunds:	\$31,843	(0.06%)
Administrative Expenses:	\$38,953	(0.07%)
Addition to Reserves for Future Benefits:	\$33,848,497	(59.63%)

## Teachers' and State Employees' Benefit Trust (Benefit Trust)

N.C.G.S. 135-5(I); 143-166.20; and 143-166.60

The Benefit Trust was established January 1, 1980, by the Board of Trustees of the Teachers' and State Employees' Retirement System after enabling legislation was enacted in the 1979 Session of the General Assembly. The Board of Trustees of the Local Governmental Employees' Retirement System elected to become a participating affiliate in the Trust on the same date. The purpose of the Benefit Trust is to provide group life insurance benefits for members of these two retirement systems. Formerly, identical type death benefits were provided directly by these retirement systems.

All contributions to fund life insurance benefits are paid by the State and the local governments participating in one of the two retirement systems to the Trust 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 percent 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 were 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. Effective July 1, 2007, the benefit is \$10,000 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 2006 were:

### Life Insurance Payments Calendar Year 2006

Retirement System Membership	Number of Payments	Payment Amount
Teachers' and State Employees'	433	\$15,744,040
Local Governmental Employees'	125	\$5,051,411

### North Carolina Teachers' and State Employees' Benefit Trust

Year Ended December 31, 2006

Chart 5

SOURCES OF FUNDS		
Local Governmental Employees Retirement System:	\$4,110,855	(9.38%)
Legislative DB:	\$30,000	(0.07%)
Retirees' Death Benefit:	\$9,978,600	(22.77%)
Teachers' and State Employees' Retirement System:	\$19,529,474	(44.58%)
Investment Income:	\$10,167,368	(23.20%)
APPLICATIONS OF FUNDS		
Local Death Benefits Paid:	\$5,051,411	(11.53%)
Death Benefits and Insurance Paid SIF:	\$760,955	(1.74%)
Administrative Expenses:	\$318,880	(0.73%)
Retirees' Death Benefits Paid:	\$9,164,651	(20.92%)
State Death Benefits Paid:	\$15,744,040	(35.93%)
Legislative DB:	\$30,000	(0.07%)
Addition to Reserves for Future Benefits:	\$12,746,360	(29.08%)

## 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. At June 30, 2007, the active membership of the fund was 34,948, while the number of retired members was 10,170. Invested assets at market value amounted to about \$336.7 million.

The distribution of the investments of the assets as of June 30, 2007 was:

Long-Term Investment Fund:	\$110,422,901
Short-Term Investment Fund:	\$1,027,784
Real Estate Investment Portfolio:	\$15,250,671
Equity Investment Portfolio:	\$200,356,107
Alternative Investment Portfolio:	\$9,655,690
<b>Total:</b>	<b>\$336,713,153</b>

Operations of the Pension Fund during the 2007 fiscal year resulted in total receipts of \$55,431,482 and total expenditures of \$21,511,900. Chart 6 presents the distribution of revenues by source and expenditures by purpose.

The latest Actuary's Valuation Balance Sheet, as of June 30, 2007, is shown in Table 13. Based on the latest actuary's report, the General Assembly appropriated \$8,440,457 for the 2006-2007 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, 2007, the remaining accrued liabilities for past service.

### Firemen's and Rescue Squad Workers' Pension Fund Year Ended June 30, 2007

Chart 6

SOURCES OF FUNDS		
Appropriation:	\$8,440,457	(15.23%)
Member Contributions:	\$2,792,901	(5.04%)
Investment Income:	\$44,198,124	(79.73%)
APPLICATIONS OF FUNDS		
Pension Benefits:	\$19,911,721	(35.92%)
Refunds:	\$595,993	(1.08%)
Administrative Expenses:	\$1,004,186	(1.81%)
Addition to Reserves for Future Benefits:	\$33,919,581	(61.19%)

## 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. Legislation has allowed selected employers in the Local Governmental Employees Retirement System to participate in the Retiree Health Premiums Fund. The method of collecting the employers' payments is a surcharge on active members' payroll payable with the employer contribution rate to the affected retirement system.

### Financial Information for 2006

Beginning Fund Balance:	\$143,070,487
Additions:	
Employer Contributions:	\$505,193,845
Investment Income:	\$5,349,769
Deductions:	
Health Premiums Paid:	\$431,038,154
Administrative Expense:	\$156,053
Ending Fund Balance:	\$222,419,894

## 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, 2006, there were 20 former members and officers of the General Assembly in receipt of allowances with a cost of \$30,425. The cost is funded by a contribution of 5 percent 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, 2006, the System had 170 active members, 87 inactive members and 245 retired

members. Assets on that date totaled \$32,198,948. Operations of the System during calendar year 2006 resulted in total receipts of \$3,617,855 and disbursements of \$1,705,192.

Based on the latest actuarial report, the employer contribution rate was set by the General Assembly at 0.00 percent of covered payroll effective July 1, 2007. 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 percent of the covered payroll of the members of the Teachers' and State Employees'

Retirement System and the Optional Retirement Program, effective July 1, 2007.

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 2005 and 2006.

	<b>2005</b>	<b>2006</b>
Number of Disabled Members	5,507	5,902
New Claims During the Year	718	923
Employer Contributions	\$58,990,608	\$68,824,262
Investment Income	\$8,903,271	\$10,822,041
Amount of Benefit Payments	\$46,408,306	\$58,004,719

## 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, 2006, there were 2,842 beneficiaries in receipt of monthly allowances from the Guard Plan at a cost that calendar year of \$4,060,054.

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 2006-2007 was \$6,481,079.

## 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. Effective July 1, 2007 this funding was reduced to 1.5%. As of December 31, 2006, the Fund had total assets in the amount of \$31,077,300.

Benefits from the Fund became payable beginning July 1, 1988. For the year ending December 31, 2006, the Fund paid total benefits in the amount of \$814,253.

## 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 196,870 members as of June 30, 2006, to 204,735 members as of June 30, 2007, for an increase of 4 percent. Contributions by employers during this fiscal year totaled \$143,698,301 while salary deferred contributions by members were \$215,869,504. The total assets at market value of the Plan increased by 19.44% to \$4,220,396,071.

Under the current contract, members may select from a stable value fund and eight mutual funds. As of June 30, 2007, 25.3 percent of the assets were invested in the Stable Value Fund and 74.7 percent were invested in the mutual funds. In addition, \$42,937,773 was invested in the mutual funds that were previously offered in the Plan and the outstanding loan balances totaled \$175,480,462.

## 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, 2007, the Plan's number of participating members was 30,101. Contributions during this fiscal year totaled \$42,157,128, and the total assets at market value of the Plan were \$726,130,637.

Under the current contract, members may select from 23 investment options. As of June 30, 2007, 7.2 percent of the assets were invested in one of the five fund of funds options, 36.4 percent were invested in the fixed and bond funds and 56.4 percent were invested in the mutual funds.

The outstanding loan balances as of June 30, 2007 totaled \$5,843,650.

The background of the top half of the page is a dense, overlapping collage of various US dollar bills, including \$100, \$50, and \$20 bills, all rendered in a light blue color. The bills are scattered across the frame, creating a textured, financial backdrop.

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 three major areas of responsibility:

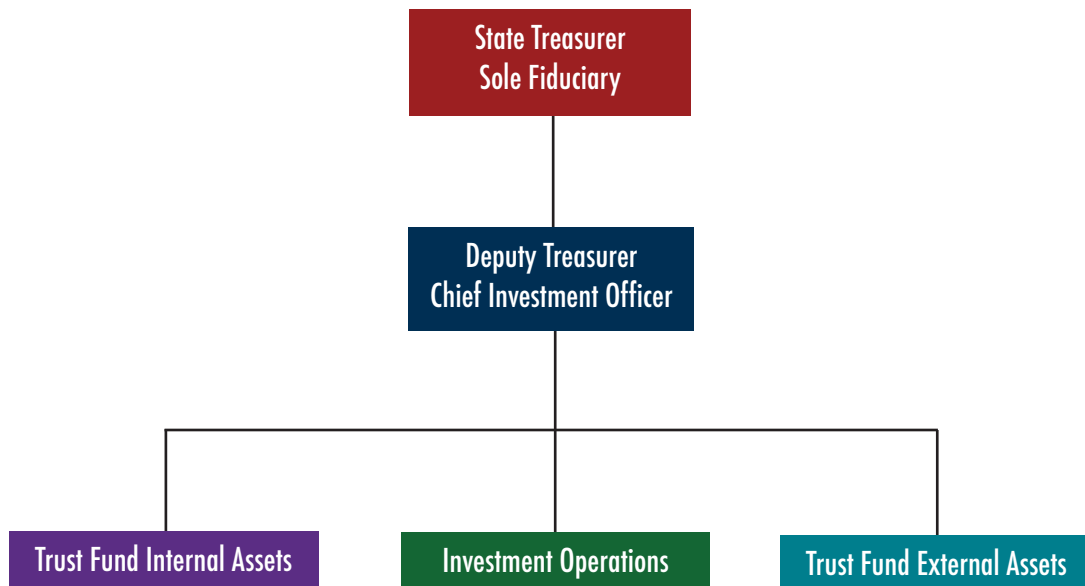
1. Management of combined assets of the North Carolina Retirement Systems. This is referred to as the Trust Fund Investment Program.
2. Management of the assets of the Cash Management Program.
3. Management of ancillary investment programs as authorized by the General Assembly.

The State Treasurer administers both the Cash Management and Trust Funds Investment programs. 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 assets “may be readily converted into cash as needed.”

As of June 30, 2007, total assets under management were over \$88 billion. Assets of the Cash Management Program accounted for 14 percent of this amount, and the assets of the Trust Fund Investment Program accounted for 86 percent. Ancillary programs made up less than 1 percent.

This total represents the aggregate assets of seven retirement systems, various other trust funds and the State’s 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 appropriate diversification.



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

## CASH MANAGEMENT PROGRAM REVIEW

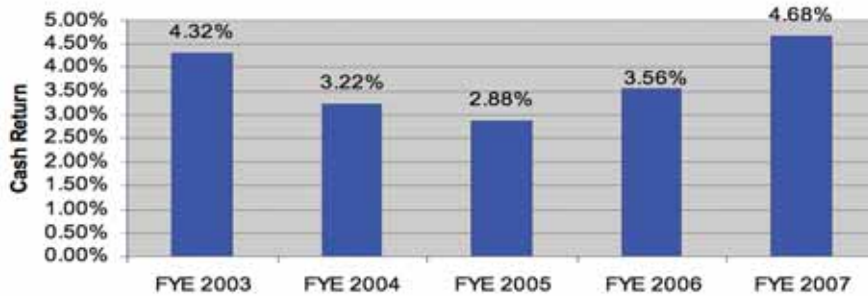
### Short-Term Investment Fund

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-term treasuries and agencies. All bank accounts of the State Treasurer are included in this portfolio, which serves as the main operating account for state agencies. Because the Treasurer's cash balances are ultimately subject to disbursement upon presentation of valid warrants, the

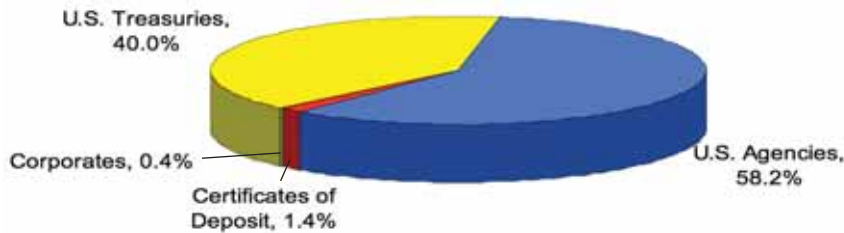
primary considerations in making investments are safety and liquidity; the secondary consideration is income.

For the Fiscal Year 2007, the STIF generated a cash return of 4.68 percent. This return compares with the U.S. Treasury Two-Year Constant Maturity Notes yield. The objective 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 6/30/07



**Top 10 Positions in STIF as of June 30, 2007**

ISSUER	COUPON	MATURITY DATE	PAR VALUE
FHLB Discount Notes		7/2/2007	490,000,000
FHLB Discount Notes		7/13/2007	300,000,000
US Treas Note	4.375	12/31/2007	300,000,000
US Treas Note	3.875	7/31/2007	250,000,000
US Treas Note	4.000	9/30/2007	250,000,000
US Treas Note	4.250	10/31/2007	250,000,000
US Treas Note	3.000	11/15/2007	250,000,000
US Treas Note	2.625	5/15/2008	250,000,000
US Treas Note	4.625	3/31/2008	250,000,000
US Treas Note	4.875	4/30/2008	250,000,000

**Summary of Brokers Used  
During Fiscal Year 2007 for STIF**

Bank of America	LaSalle Financial
Bear Stearns	Lehman Brothers
Blaylock & Co	Loop Capital
Citigroup	Merrill Lynch
Countrywide	Mizuho Securities
Credit Suisse	Morgan Keegan
Deutsche Bank	Morgan Stanley
First Tennessee Bank	RBC Capital Markets
Goldman Sachs	SBK Brooks
HSBC Securities	UBS Securities
JP Morgan Chase	Wachovia Capital Markets
KeyBanc Capital	Williams Capital Group

## TRUST FUNDS INVESTMENT PROGRAM REVIEW

Our objective is to maintain the fully funded status of the pension plan by generating an annualized return that meets or exceeds the actuarial assumption, which is currently 7.25 percent. The fund's conservative investment strategy, which is designed to be among the best performers in bear markets and to provide solid returns during bull markets, protects the benefits of workers and retirees for the long term. This conservative strategy is supported by investing a high percentage – compared to other state pension funds – of assets in bonds, which provide a high level of stability but typically lower returns.

Changes have been made to modernize the fund, restructuring asset allocation and reducing overall risk. These changes have added approximately \$6.5 billion in

extra earnings to the pension fund since 2001. The changes to the fund's asset allocation, especially the increased exposure to international equity, yielded positive results this fiscal year. In addition, the fund is well positioned to weather the mortgage crisis that has affected the financial markets.

At June 30, 2007, the system was within the strategic parameters for all asset classes. Strategic targets were adjusted to reflect results of an Asset Optimization Study.

These revised targets were adopted to improve the probability that the system will meet return objectives with less volatility and maintain its fully funded status through shifting economic environments.

### Asset Allocation

The Investment Management Division is constantly monitoring the overall pension fund in an effort to control risk. The following chart highlights revisions to strategic asset allocation targets.

Strategic Target

	June 2006	June 2007	Percent Change
<b>Fixed Income</b>	39.5%	39.5%	—
<b>Total Equity</b>	54.5%	52.0%	(2.5)%
<b>Domestic</b>	41.5%	36.0%	(5.5)%
<b>International</b>	13.0%	16.0%	3.0%
<b>Real Estate</b>	3.5%	5.0%	1.5%
<b>Alternatives</b>	2.5%	3.5%	1.0%
<b>Total</b>	100%	100%	—

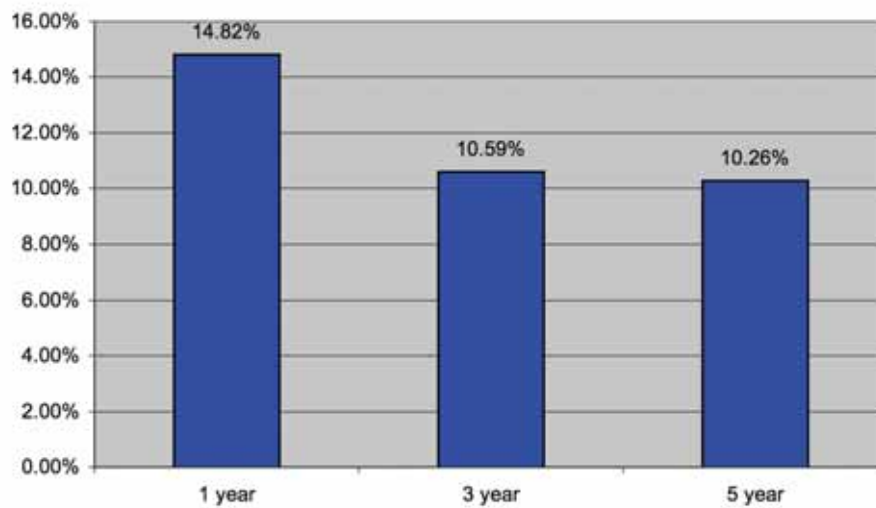
## Fiscal Year 2007 Results

For the Fiscal Year ending June 30, 2007 the pension fund generated an overall return of 14.82 percent.

### Annualized Total Pension Fund Performance as of June 30, 2007

Asset Class	Portfolio Weight	1 Year	3 Year	5 Year
Equity	57.1%	19.9%	13.9%	13.0%
Fixed Income	35.5%	6.5%	4.6%	5.5%
Real Estate	4.5%	15.9%	17.6%	12.3%
Alternatives	2.9%	13.7%	10.4%	6.0%
<b>Total Fund</b>	<b>100.0%</b>	<b>14.8%</b>	<b>10.6%</b>	<b>10.3%</b>

### Pension Fund Returns 2007



## Pension Investment Summary as of June 30, 2007

Portfolio Type	Market Value (\$ in 000,000's)	% of Market Value
US Equities	30,407	40.03%
Non-US Equities	12,924	17.02%
Fixed Income	26,986	35.53%
Real Estate	3,451	4.54%
Alternatives	2,185	2.88%
<b>Total Market Value</b>	<b>75,953</b>	<b>100.00%</b>



## INVESTMENT POLICY

The Division conducts its activities in accordance with the Statement of Investment Policy approved by the Treasurer in consultation with the Investment Advisory Committee. This policy covers fiduciary standards of care, asset allocation ranges, rebalancing requirements and other issues. During Fiscal Year 2007 strategies were revised to increase long-term exposure to international equity, real estate and alternatives. In addition, policies were developed and approved to formalize prohibitions on investments in payday lenders and companies doing business in Sudan.

The Division models a policy portfolio that should, over time, produce a return that exceeds the actuarial requirements with prudent risk guidelines. The composition of the policy portfolio, on June 30, 2007, is indicated in the chart to the right:

Portfolio Type	Target Allocation Ranges
Global Equity	48.0% - 58.0%
US Large Cap Equity	20.0% - 32.0%
US Mid Cap Equity	4.0% - 8.0%
US Small Cap Equity	2.0% - 6.0%
Non-US Equity	12.0% - 20.0%
Fixed Income	35.0% - 44.0%
Real Estate	4.0% - 6.0%
Alternatives	2.5% - 4.5%

## CORPORATE GOVERNANCE

The Investment Management Division maintains a robust corporate governance program. The corporate governance movement followed on the heels of highly-publicized scandals at companies like Enron, WorldCom and Tyco, when investors saw the clear results of poor governance standards. The pension plan works through proxy voting, shareholder resolutions, dialogue with corporate leaders and regulatory agencies and collaboration with other institutional investors to create positive change within portfolio companies.

Some of the primary issues addressed by the pension plan include:

- Ensuring greater transparency in executive compensation packages and stronger rights for shareholders to provide advisory votes on pay plans
- Tying executive pay to performance
- Creating stronger Board independence
- Ensuring investor rights to nominate director candidates
- Protecting the legitimacy of director elections by working to eliminate uninstructed broker votes from director election tallies
- Ensuring that companies develop sustainable environmental business practices

### Sudan

The Pension Fund has developed a policy related to investments in companies that may be doing business with the government of Sudan. The policy incorporates engagement with companies to encourage positive change, with the possibility that non-responsive companies may be excluded from the Pension Fund portfolio. On November 1, 2006, the Pension Fund announced that it had divested from, or prohibited future investment in, nine companies that were shown to be providing military or monetary support to the Sudanese government, but who had taken little or no interest in the humanitarian crisis.

These companies are:

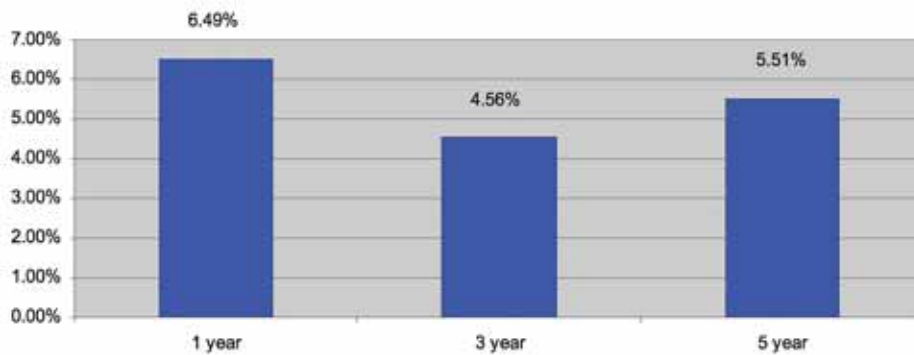
- Bharat Heavy Electricals
- China Petroleum and Chemical Corp.
- Nam Fatt
- Oil & Natural Gas Company
- PECD Berhad
- PetroChina Company
- Sudan Telecom Company
- Tatneft OAO
- Videocon Industries Limited

## FIXED INCOME

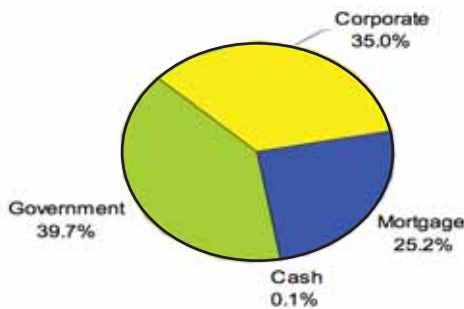
The fixed income allocation of the pension plan is actively managed through the Long Term Investment Fund (LTIF). The Investment Management Division utilizes the LTIF to help match the liabilities of the overall pension plan. Because of this approach, the duration of the portfolio tends to be fairly long. Duration is a measure of a bond's price sensitivity to changes in interest rates. With rates and spreads holding fairly steady, the fixed income portfolio return of 6.49 percent was within expectations for the fiscal year.

The Federal Reserve's Open Market Committee (FOMC) stayed on the sidelines the entire fiscal year, leaving the Federal Funds Rate at 5.25 percent for the last twelve months. While the Fed continued to keep a close eye on inflation, benign economic data never forced them to move rates higher. Short-term interest rates were down roughly 25 basis points, while long term rates were fairly flat. Corporate spreads continued to remain at historically tight levels.

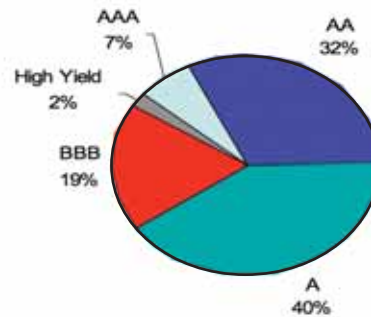
LTIF Returns, FY 2007



Fixed Income Allocations



Corporate Sector Rating Exposure



**Summary of Brokers Used  
During Fiscal Year 2007 for LTIF**

AG Edwards	KeyBanc Capital
Bank of America	LaSalle Financial
BB&T Capital Markets	Lehman Brothers
Bear Stearns	Loop Capital
Blaylock & Co	Merrill Lynch
Citigroup	Mizuho Securities
Countrywide Securities	Morgan Keegan
Credit Suisse	Morgan Stanley
Deutsche Bank Securities	RBC Capital Markets
First Tennessee Bank	UBS Securities
Goldman Sachs	Wachovia Capital Markets
HSBC Securities	Williams Capital Group
JP Morgan Chase	

**Top 10 Corporate Bond Positions in LTIF as of 6/30/07**

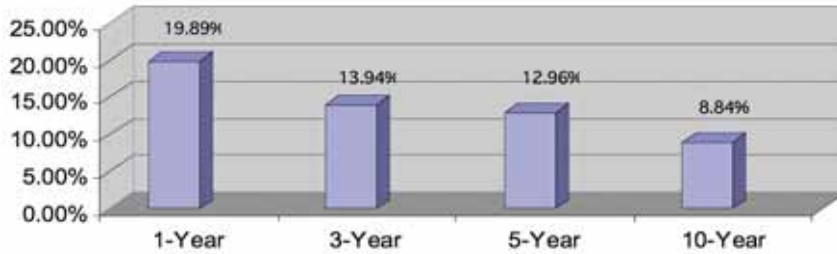
Name	Market Value	% of LTIF Fund
General Electric	351,621,346	1.4%
Bank of America	344,840,242	1.3%
AT&T	288,115,670	1.1%
JP Morgan Chase	281,997,711	1.1%
Wal-Mart	242,602,242	0.9%
Citigroup	241,795,251	0.9%
Goldman Sachs	239,369,960	0.9%
HSBC	212,026,963	0.8%
Verizon	208,687,435	0.8%
Wachovia	177,272,595	0.7%

## EQUITIES

Based on the implementation of an independent asset optimization analysis, strategic targets for equity remained the same but shifts within the asset class were made to improve return as related to risk. As a result,

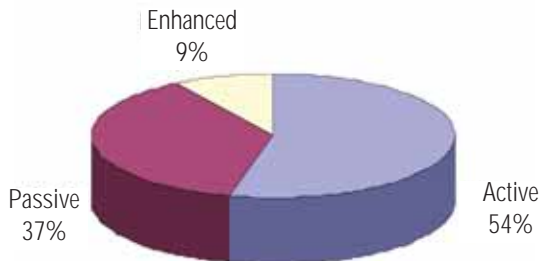
the Equity Investment Portfolio (EIP) moved toward the use of more concentrated, style-specific mandates and incorporated global strategies.

EIP Returns, FY 2007

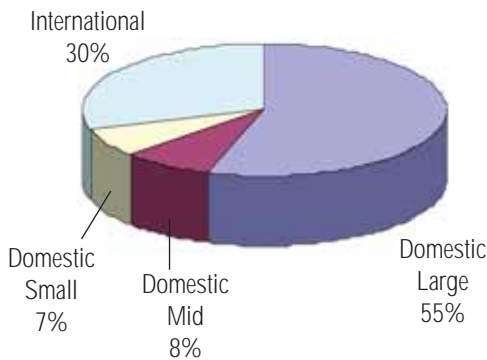


The portfolio is managed in three different styles: passive, enhanced index and active. It is the Fund's policy to employ active management in the more inefficient sectors of the equity markets and to employ passive indexing primarily in the more efficient sectors. Enhanced indexing is used in relatively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

Equity Allocation



Management Style Allocation



The EIP represents 57 percent 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 17 percent of the EIP invested in non-U.S. equity securities, primarily in developed markets.

**EIP Top 10 Holdings**  
*(FY ending 2007)*

Exxon Mobil  
General Electric Corp.  
Microsoft Corp.  
AT&T  
Cisco  
JP Morgan Chase & Co.  
Citigroup Inc.  
Google Inc.  
American Intl Group Inc.  
Bank of America Corp.

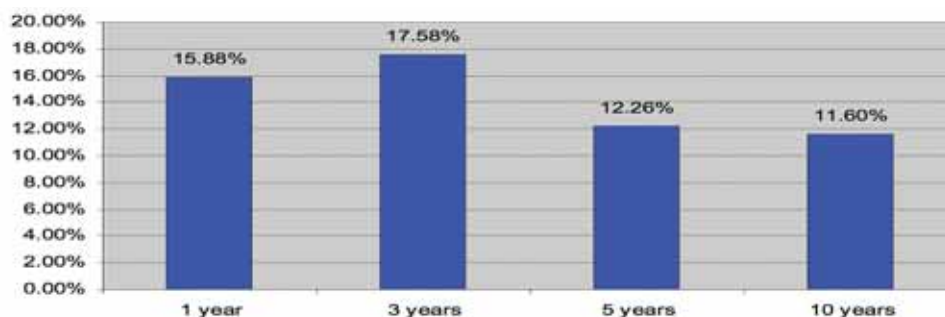
## Investment Management Division

## REAL ESTATE

The Real Estate Investment Portfolio (REIP) is an actively managed portfolio of open and closed-end funds sponsored by leading management firms. REIP also includes a limited number of separate accounts representing specific strategies such as timber, and real estate investment trusts (REITs). Overall asset allocation and investment manager selections are approved by the State Treasurer. The Division is responsible for researching and recommending strategy, evaluating new investments/managers, monitoring the performance of existing managers and ensuring existing managers' activities are in compliance with REIP objectives. The analysis of new investments focuses on location and property types (office, residential, retail, industrial and lodging) and employs a moderate level of risk.

During Fiscal Year 2007, the REIP produced a total return of 15.88 percent and represented 4.5 percent of the overall pension fund. Performance is attributable to increases in real estate prices driven by market demand for assets. Market fundamentals were strong in all major property types over the past 12 months. This would normally signal the beginning of a new development cycle, but steep land prices and rising construction costs contained supply, allowing those with properties for sale to reap impressive gains.

REIP Returns, FY 2007



Domestically, the REIP has a coastal focus with the greatest exposure to major cities on the West Coast, followed closely by Eastern and Southern markets with the remainder in the Midwest. International investment exposure is now greater than 20 percent with the majority in Europe. Over half of this European exposure is in France and almost two-thirds of the Asian exposure is in Japan – a deep real estate market now in recovery due to major Central Bank reforms.

The pension fund began investing in Real Estate on a limited basis in the early 1990's with investments in passive open-end core real estate funds. In the early 2000's, it was determined a more active real estate strategy could add considerable value over time. The portfolio has grown from \$1.8 billion in assets and \$640 million in outstanding commitments in 2004 to \$3.5 billion in assets and \$2.7 billion in outstanding commitments today.

Real Estate Sector Allocation





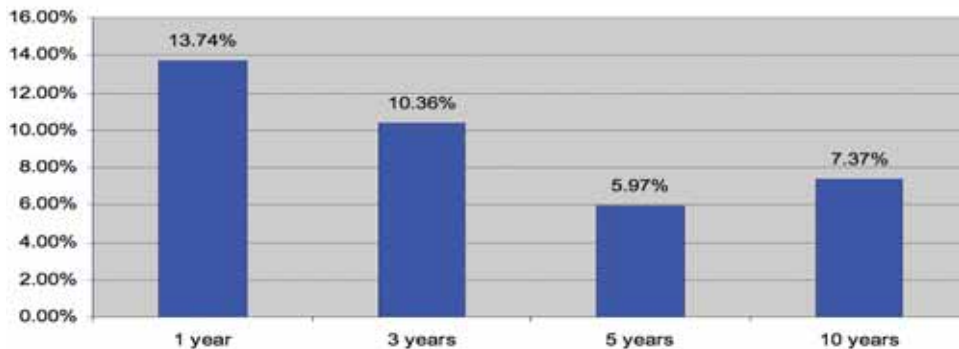
## ALTERNATIVES

The Alternative Investment Portfolio (AIP) actively manages Private Equity and Absolute Return Investments. Overall asset allocation and managers are approved by the Treasurer. The Division evaluates managers, monitors relationships and ensures compliance.

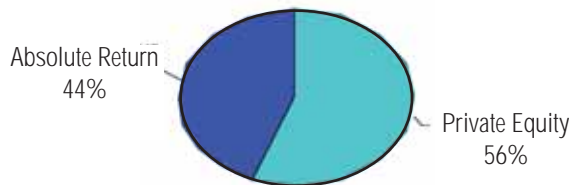
The AIP consists of two investment categories: Private Equity, which invests in interests of private

corporations (not listed on the stock exchanges) and Absolute Returns, in which the program makes investments by entering into commitments through specialized funds. For Fiscal Year 2007, the Alternative Investments had a total return of 13.74 percent, comprised of Private Equity fund returns of 16.95 percent and Absolute Return returns of 11.16 percent.

AIP Returns, FY 2007



AIP Structure

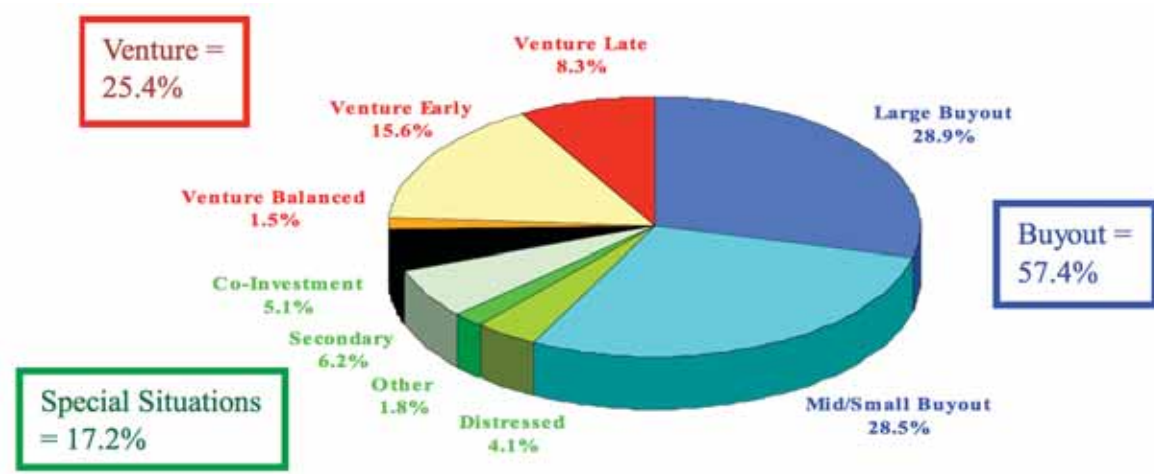


The AIP made its first commitment in Private Equity in October 1988, with its first international fund investment dated 2002. The AIP made its first Absolute Return commitment in September 2002. Since inception, the AIP has committed approximately \$4.41 billion through Fiscal 2007. Prior to Fiscal Year 2001, commitments totaled less than \$50 million.

Relative performance has continued to improve, illustrating the success of the AIP program. Absolute Return investment returns are similar to public market securities, where investments are capable of positive performance from inception. However, Private Equity

can take several years to yield meaningful returns due to start up costs. Results for Private Equity investments made in Fiscal 2007 are expected to show meaningful performance in 2012. In light of this and the amount of capital the AIP 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, 2007



The Private Equity portfolio has generated positive returns earlier than is typical of the asset class, which is a result of manager execution and portfolio construction incorporating Secondaries, Co-Investments and Special

Situations. Moreover, the North Carolina portfolio is more heavily weighted toward buyout investments, which typically have a shorter overall holding period and generate returns faster than venture capital funds.



## ANCILLARY INVESTMENT PROGRAMS

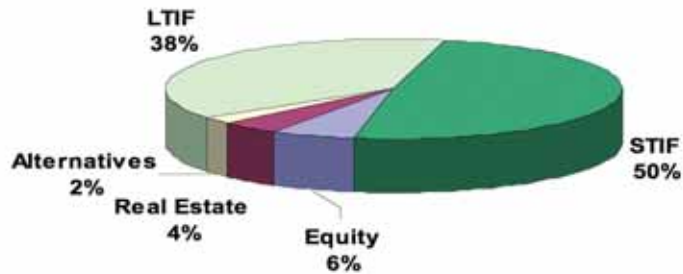
### Escheat Investment Program

Pursuant to G.S. 147-69.2(b)(12), up to 20 percent of the Escheat Fund's assets can be invested in authorized Equity, Real Estate, and Alternative Investments. For the

Fiscal Year ending June 30, 2007, \$30 million was invested in equity; \$20 million was invested in real estate; and \$12.3 million in private equity.

Investment Type	Target Allocation Ranges	Current Value (\$000)
Fixed income	80.0% - 90.0%	507,707
Equity	10.0% - 14.0%	36,041
Real Estate	0% - 6.0%	23,475
Alternatives	0% - 6.0%	12,632

Escheat Investment Fund Asset Allocation as of June 30, 2007



A background of various US dollar bills, including \$100, \$50, and \$20 bills, overlaid with a semi-transparent blue filter.

THE STATE TREASURER'S ANNUAL REPORT

# State and Local Government Division





# State and Local Government Finance Division

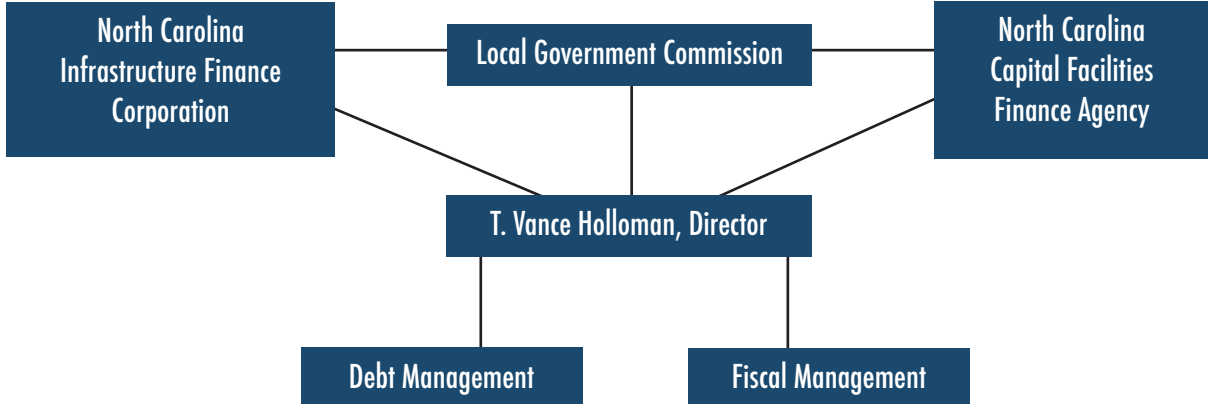
The State and Local Government Finance Division is organized to provide the State Treasurer, the Local Government Commission, the North Carolina Infrastructure Finance Corporation and the North Carolina Capital Facilities Finance Agency with staff assistance in fulfilling their respective statutory functions.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

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

Private colleges and universities and 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

■ This year, the State regained its “Triple-A” rating from Moody’s Investors Service and maintained its “Triple-A” status with the other two national rating agencies. North Carolina is one of only 7 states to enjoy top-tier rankings from all three of the rating agencies.

■ During fiscal year 2006-2007, the State sold general obligation bonds totaling \$587 million. These sales included \$403.5 million in higher education bonds, \$99.2 million in clean water bonds and \$84 million in refunding bonds. The State also sold \$300 million in Certificates of Participation which included \$200 million for capital improvements and \$100 million for repairs and renovations.

■ General obligation bonds sold for local governments in 2006-2007 totaled \$1.5 billion.

■ Revenue Bond activity increased substantially with 27 revenue bond issues for more than \$1.4 billion sold for local governments, mainly for hospitals, water and sewer, airports and housing projects. The revenue bond sales included five refundings resulting in net present value savings of approximately \$5.5 million for units of local government. In addition, one sale totaling over \$146.6 million in bonds was executed for the power agencies to complete a synthetic fixed rate refunding saving the agency \$10.8 million. The use of interest rate swaps to hedge interest rates or accomplish synthetic refundings was greatly reduced. The City of Charlotte did synthetically fix most of one water and sewer bond issuance replacing water and sewer commercial paper executing a hedge for \$300 million.

■ Other bond issues sold in 2006-2007 included over \$1.2 billion in installment purchase contracts (including refundings); \$1.14 billion in healthcare facility revenue bonds through 17 bond issues for the North Carolina Medical Care Commission; \$922.4 million for capital projects for private schools, colleges and other nonprofit

corporations through 16 bond issues by the North Carolina Capital Facilities Finance Agency; \$360 million for the North Carolina Housing Finance Agency increasing the supply of affordable housing for North Carolinians of moderate and low income; and \$126.8 million in industrial revenue and pollution control bonds to finance 15 projects creating about 500 new jobs.

■ Members of the staff worked with the School of Government to present the Sixth 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 guidelines for using State lottery proceeds for school construction, GASB Statement Nos. 43 and 45 regarding Other Post Employment Benefits, payroll issues surrounding volunteer firefighters, guidelines for determining if a worker is a contractor or an employee, and the impact of Statement on Auditing Standards 112 – Communicating Internal Related Matters Identified in an Audit. In addition, annual reports on fund balance, school funding and various financial and single audit reporting issues were issued to local governments.

■ The staff reviewed the financial statements and reports of cash and investments of all local governments and public authorities. The staff also reviewed all secondary market disclosures of units as required by the Securities & Exchange Commission.

■ The 18th 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 sixth 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 low of 4.03 percent in December 2006 to a high of 4.64 percent in June 2007.

## 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, 2007, the State had General Obligation bonds outstanding of \$5.9 billion and Certificates of Participation and Lease-Purchase bonds outstanding of \$972.7 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 the personnel of these agencies in determining the feasibility and scheduling of the bond offerings, in structuring the issues and the underlying security documents and in preparing the data that must be presented to the 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, 2007, the State had a "Triple-A" rating, the highest rating attainable, from all three national rating agencies, having regained a Triple A rating from Moody's Investor Service during the year. These highest ratings attainable 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. This includes the sale of revenue bonds, which are secured only by specific revenue pledged in payment of the bonds. The Division staff counsels and assists local governmental units in determining the necessity of a project, the size of the issue and the most expedient form of financing. A review is made of the debt management policies of the unit, the effect of the financing on the unit's tax rate and the unit's compliance with The Local Government Budget and Fiscal Control Act. Sale dates are scheduled depending on the need for the money, the anticipated interest rates and the most favorable times bonds can be sold with a minimum of competition. The staff strives to resolve all problems and to determine that all statutory requirements are met before applications are presented to the 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 that is distributed electronically to a large group of potential bidders nationwide. General obligation bonds are awarded through a 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, 2007, authorized and unissued general obligation bonds for local governments amounted to \$4.2 billion and general obligation debt outstanding amounted to over \$9.6 billion. (See Table 7).

Another responsibility of the Division's staff is assisting units that desire to enter into agreements to finance the lease or installment purchase of capital assets. Local Government Commission approval is required when the contract or agreement extends for five or more years and obligates the unit to pay sums of money to another, without regard to whether the payee is a party to the contract and obligates the unit to the extent of \$500,000 or a sum equal to one tenth of one percent (.001) of the appraised value of property subject to taxation by the unit, whichever is less. Local Government Commission approval is also required when the contract or agreement involves the construction or repair of fixtures or improvements on real property and it is not exempted in G.S. 159-148(b).

Before approving such agreements, the Local Government Commission must find that the proposed project is necessary and expedient, the proposed undertaking cannot be economically financed by a bond issue and that the contract will not require an excessive increase in taxes. During the fiscal year ended June 30, 2007, the Local Government Commission approved contracts or other agreements (including refundings) totaling \$1.6 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, 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 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 audit 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 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 continued 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 2006-2007, the State sold general obligation bonds totaling \$587 million. In March 2007, the State sold competitively \$503 million in General Obligation Public Improvement bonds at a true interest cost of 4.0824 percent. This rate compares to a national bond buyer's index of 4.21 percent on that date. The State also sold \$84 million in General Obligation refunding bonds in May 2007, at a true interest cost of 4.3520 percent. The General Obligation refunding yielded a net present value cash flow savings of \$3.27 million.

**North Carolina Certificates of Participation** - In 2006-2007, the State sold certificates of participation totaling \$300 million. These certificates included \$100 million for repairs and renovations sold in August 2006, at a true interest cost of 4.4378 percent (compared to the national Bond Buyer Index of 4.59 percent on that date), and \$200 million for capital improvements sold in October 2006, at a true interest cost of 4.1676 percent (compared to the national Bond Buyer Index of 4.21 percent on that 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 during the year increased from 117 to 157 and the dollar volume approved increased from \$1.1 billion in 2005-2006 to \$1.6 billion in 2006-2007. (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 2006-2007, the Local Government Commission approved 37 issues totaling approximately \$2.1 billion and issued \$1.4 billion for units of local government. 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.

**Commercial Paper** - Commercial paper activity (bond anticipation notes) for both general obligation bond and revenue bond purposes was evidenced by three approvals totaling over \$550 million during the year. The purpose of these programs is to allow interim funding of large ongoing programs until a sufficient amount of bonds or favorable market conditions justify the replacement of commercial paper with permanent financing.

**Interest Rate Swaps** - The use of interest rate swaps on general obligation bonds, revenue bonds and certificates of participation was substantially reduced and used primarily to hedge interest rate risk through forward contracts. While these synthetic products provide enhanced benefits, they also involve risks that have to be considered by each issuer. Only three swaps associated with \$125 million of indebtedness was approved for local government in 2006-2007.

**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 2005-2006 to allow cities to pledge sales tax revenues toward these projects where necessary. The first project development financing was approved by the Local Government Commission for the City of Roanoke Rapids in 2006 for the purchase of a 1,500-seat entertainment theater, and the final bonds for this project were approved in February 2007. In addition, the Commission approved the issuance of \$26.5 million in project development financing bonds for public improvements in the Town of Woodfin in conjunction with a mixed-used housing, office and retail development project. The bonds will be issued by Buncombe County under an interlocal agreement between the County and the Town of Woodfin.

## State and Local Government Division

### **North Carolina Medical Care Commission Bonds**

- During 2006-2007, the Local Government Commission approved and sold 17 separate issues of bonds and notes for the North Carolina Medical Care Commission totaling over \$1.14 billion. The largest issue was \$260.4 million for Mission Health System to provide for new construction and refinancing of other indebtedness. In attempting to meet the needs of our aging population, nine revenue bond issues providing for the acquisition or financing of separate independent living/assisted care facilities were successfully completed during 2006-2007, and hospital construction and/or refinancings comprised eight other issues. Diverse issue needs were met through fixed rate revenue bonds and variable rate demand revenue bonds.

**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 and State tax credit program, the HOME Investment Partnership Program and the State's Housing Trust Fund. It operates the State's Home Protection Pilot Program to help homeowners who have lost their jobs due to plant closings, to avoid foreclosure on their homes. In 2006-2007, financing and tax credits were provided to support total housing development of more than \$600 million.

**Industrial Revenue Bonds** - Industrial revenue bonds provide tax-exempt financing and are used to attract manufacturing industries to the State. Since 1976, there have been 1,132 issues totaling \$6.3 billion. These issues have created over 99,690 jobs and saved over 39,425 jobs. In the fiscal year ended June 30, 2007, Industrial Revenue and Pollution Control Financing Facilities Bonds were approved for \$112.8 million resulting in the creation of 692 jobs. In addition, \$14 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 2007, the State was allotted \$752.8 million to use for private activity bonds.

**Triple A General Obligation Bond Ratings** - At June 30, 2007, the State had a "Triple A" bond rating, the highest rating obtainable, from all three of the rating agencies, having regained a "Triple A" rating from Moody's Investor Service during the year.

**North Carolina Capital Facilities Finance Agency** - The North Carolina Capital Facilities Finance Agency (NCCFFA) has provided over \$3 billion in tax-exempt capital financing. There have been no defaults in bonds issued by the Agency. At June 30, 2007, there were \$2.3 billion in outstanding obligations. Each issue is payable solely from revenues derived from each entity financed, is separately secured, and is separate and independent from all other series of bonds as to source of payment and security. During the fiscal year ended June 30, 2006, the NCCFFA issued \$922.4 million in bonds for 16 institutions. The annual report of the NCCFFA is available from the Department 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 2006-2007, a total of 24 units were approved to receive new revolving loans ranging from \$228,000 to \$40 million.

## SIGNIFICANT ACCOMPLISHMENTS

### Fiscal Management

**Monitoring the Financial Condition and Operations of Local Governments and Public Authorities** - Approximately 407 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, low working capital in water and/or sewer funds 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, 2007 and December 31, 2006 to determine strengths and weaknesses in the units' investment portfolios and to identify instances of noncompliance with the North Carolina General Statutes.

The staff continues to review the secondary market disclosures of units and prepare resource information to assist units that are subject to Rule 15c2-12 of the Securities and Exchange Commission. The Rule requires units to make disclosures to the secondary market, both annually and possibly more frequently, for as long as their applicable debt is outstanding. For the fiscal year ended June 30, 2006, 209 units were required to make annual information filings by January 31, 2007.

**Compliance Audit Reviews And Other Services** - As a part of the audit review process, the Division's staff reviewed approximately 570 Single audits and approximately 278 "Yellow Book" audits to ensure that audits performed under Government Auditing Standards (the "Yellow Book") and the federal and State single audit acts meet all the federal and State requirements. Local governments and public authorities receiving a certain level of federal and/or State financial assistance must have a financial statement audit done in accordance with these standards. The staff also reviewed additional documentation of eligibility test of major State programs performed by auditors for local governments. The Office of State Auditor will rely upon these tests and this documentation when issuing its Single audit report on the State.

The staff reviewed external quality review reports received from 147 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 365 compliance supplements from 15 State agencies.

**State Treasurer's Conference on Local Government Accounting, Auditing and Financial Management, and Other Continuing Education Courses and Conferences** - Staff members worked with the School of Government to present the sixth annual conference. The conference was intended for both local government auditors and officials. It was conducted on two sites, and drew more than 382 participants at the two sites. Topics covered included GASB Statement No. 43 through 51, compliance and financial audit issues, practical implications of implementing Statement on Auditing Standards 103 and 112, e-commerce issues, payroll issues and school construction financing with lottery proceeds and public/private financing.

Staff members spoke at 17 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** - The staff prepares and distributes 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

## State and Local Government Division

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 the issuance of guidelines for using State lottery proceeds for school construction, GASB Statement Nos. 43 and 45 regarding Other Post Employment Benefits, payroll issues surrounding volunteer firefighters, guidelines on determining if a worker is a contractor or an employee and the impact of Statement on Auditing Standards 112 – Communicating Internal Related Matters Identified in an Audit.

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 regularly 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 use of lottery funds for school construction financing to clarify several disclosures including risk management and debt financing.

**State Treasurer's Accounting/Financial Management Awards Programs** - The Department sponsored the 18th 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 sixth annual awards program for nonprofit organizations to recognize the valuable work done by these organizations for the citizens of the State. Entries were received from private schools, private colleges, nonprofit hospitals and other non-profit organizations.

These award programs are designed to recognize applicants 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 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.

## 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. Local governments with Internet capability can download the LGC Form 203 — Report of Deposits and Investments, the Annual Financial Information Report (AFIR) and the Contract to Audit Accounts and complete them using the unit's computer. The LGC Form 203, the AFIR and secondary market disclosure can be electronically filed with the Department.

In an attempt to deliver information as efficiently as possible, the staff has offered to notify units and their auditors by e-mail or fax of new updates that are placed on the Department's home page. Currently, 1,200 units and 155 auditors are taking advantage of this service.

**Other Post Employment Benefits (OPEB)** - 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 Affordability Study** - During 2005-2006, the Division assumed responsibility for updating and enhancing the State's Debt Affordability Study. The 2006-2007 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 2007-2008 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 Grant Anticipation Revenue Vehicle bonds (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 2007-08 with the first issuance tentatively planned for fall of 2007.

**Lease Purchase and Installment Financing Analysis** - Following legislation passed by the General Assembly in 2005, the Department of State Treasurer assisted the Office of State Budget and Management, the Office of the State Controller and the Department of Administration in evaluating the lease purchase and installment purchase activities of the State.

## State and Local Government Division

**Purposes for which Local Governments  
Sold Bonds and Notes  
Fiscal Year 2007**

	School	Utilities	Refunding	Other	No.	Total Amount
<b>G.O. Bonds</b>						
Counties	\$ 1,077,530,000	\$ 675,000	\$ -	\$ 157,165,000	20	\$ 1,235,370,000
Municipalities	\$ -	\$ 5,035,000	\$ 35,240,000	\$ 200,895,000	8	\$ 241,170,000
Districts and Authorities	\$ -	\$ 16,928,000	\$ -	\$ -	3	\$ 16,928,000
<b>Total G.O. Bonds</b>	<b>\$ 1,077,530,000</b>	<b>\$ 22,638,000</b>	<b>\$ 35,240,000</b>	<b>\$ 358,060,000</b>	<b>31</b>	<b>\$ 1,493,468,000</b>
<b>Revenue Bonds</b>						
Counties	\$ -	\$ -	\$ -	\$ 140,810,000	5	\$ 140,810,000
Municipalities	\$ -	\$ -	\$ 242,065,000	\$ 761,430,000	17	\$ 1,003,495,000
Districts and Authorities	\$ -	\$ 257,935,000	\$ -	\$ -	5	\$ 257,935,000
<b>Total Revenue Bonds</b>	<b>\$ -</b>	<b>\$ 257,935,000</b>	<b>\$ 242,065,000</b>	<b>\$ 902,240,000</b>	<b>27</b>	<b>\$ 1,402,240,000</b>
<b>Special Obligation Bonds</b>						
Solid Waste	\$ -	\$ -	\$ -	\$ -	-	\$ -
<b>Total Special Obligation Bonds</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>-</b>	<b>\$ -</b>
<b>State Bond and Revolving Loans</b>						
Counties	\$ -	\$ 70,265,458	\$ -	\$ -	13	\$ 70,265,458
Municipalities	\$ -	\$ 113,195,414	\$ -	\$ -	37	\$ 113,195,414
Districts	\$ -	\$ 20,351,949	\$ -	\$ -	5	\$ 20,351,949
<b>Total State Bond and Revolving Loans</b>	<b>\$ -</b>	<b>\$ 203,812,821</b>	<b>\$ -</b>	<b>\$ -</b>	<b>55</b>	<b>\$ 203,812,821</b>
<b>Notes</b>						
<b>G.O. Bond Anticipation</b>						
Notes	\$ -	\$ 46,050,000	\$ -	\$ 567,149,000	73	\$ 613,199,000
Revenue Notes	\$ -	\$ 99,499,000	\$ -	\$ 860,000	10	\$ 100,359,000
<b>Total</b>	<b>\$ -</b>	<b>\$ 145,549,000</b>	<b>\$ -</b>	<b>\$ 568,009,000</b>	<b>83</b>	<b>\$ 713,558,000</b>
<b>Total Bonds and Notes</b>	<b>\$ 1,077,530,000</b>	<b>\$ 629,934,821</b>	<b>\$ 277,305,000</b>	<b>\$ 1,828,309,000</b>	<b>196</b>	<b>\$ 3,813,078,821</b>

## Debt Management Activities - State and Local (in millions) FY 2007

	FY	2006-07	FY	2005-06	FY	2004-05
	No.	Amt.	No.	Amt.	No.	Amt.
<u>Bonds Sold for State</u>						
G.O. Bonds (General Fund)	2	587.1	2	370.0	5	\$ 1,582.8
G.O. Bonds (Highway Fund)	0	-	0	-	1	398.4
Certificates of Participation	2	300.0	0	-	2	242.0
Total	4	887.1	2	370.0	8	\$ 2,223.2
<u>Bonds and Notes Sold for Local Government Units:</u>						
G.O. Bonds	31	1,493.5	54	935.7	71	1,579.6
Revenue Bonds	27	1,402.2	19	1,113.8	29	939.8
State Bond and Revolving Loans	55	203.8	44	184.2	45	127.8
Special Obligation Bonds - Solid Waste	0	-	3	35.1	0	-
G.O. Notes	73	613.2	15	174.0	16	59.2
Revenue Notes	10	100.4	2	74.5	0	-
Total	196	3,813.1	137	2,517.3	161	\$ 2,706.4
<u>Installment/Lease Contracts Sold for Local Units:</u>	143	1,202.1	129	1,045.3	126	\$ 1,134.4
<u>Revenue Bonds Sold for:</u>						
Medical Care Commission	17	1,140.8	10	1,055.8	14	979.2
Housing Finance Agency	5	360.0	4	250.0	3	195.0
Power Agencies	1	146.6	2	139.8	1	33.4
<u>Industrial Facilities and Pollution Control</u>						
Financing Authorities	20	126.8	3	143.0	6	29.6
Capital Facilities Finance Agency	19	922.4	10	133.6	12	535.6
Total	62	2,696.6	29	1,722.2	36	\$ 1,772.8
Grand Total	405	8,598.9	297	5,654.8	331	\$ 7,836.8



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, accounts receivable 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 three sections: Banking Operations, Bank Reconciliation Unit and Accounting Operations.

## OPERATIONS HIGHLIGHTS

- Continued the expansion of the positive pay program to 99.9 percent of accounts. More than 2,100 counterfeit warrants were discovered and resolved during the year.
- Earned \$53.7 million in the securities lending programs administered by the two custodians, Bank of New York and State Street Bank.
- Recorded more than \$25 billion worth of securities pledged to the State Treasurer to secure public deposits in financial institutions.
- Funded vendor payments, payroll and governmental transfers by processing 12,922 electronic warrants totaling \$108.4 billion.
- Presented more than 13.3 million State warrants totaling \$24.4 billion through the Federal Reserve Bank and processed them against agencies' disbursing accounts.
- Completed a search for the State Treasurer's Master Custodian and converted the assets from the two previous custodians to Mellon Trust of New England, N.A.

## 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 80 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 2006-2007, more than 13 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.

## ACCOUNTING OPERATIONS

The Accounting Operations Section provides the accounting functions for the State Treasurer's banking, investments programs, the retirement trust funds and the Escheats Trust Fund. The Accounting Operations Section also manages all fiscal duties that relate to the administration of the programs of the Department of State Treasurer.

**Investment Accounting** - The section manages the accounting for the State Treasurer's \$87 billion investment and banking programs. 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 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 more than 350 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 background of the top half of the page is a dense, overlapping pattern of various US dollar bills, including \$100, \$50, and \$20 bills, all rendered in a light blue color. The bills are scattered across the entire area, creating a textured, financial backdrop.

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# 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.

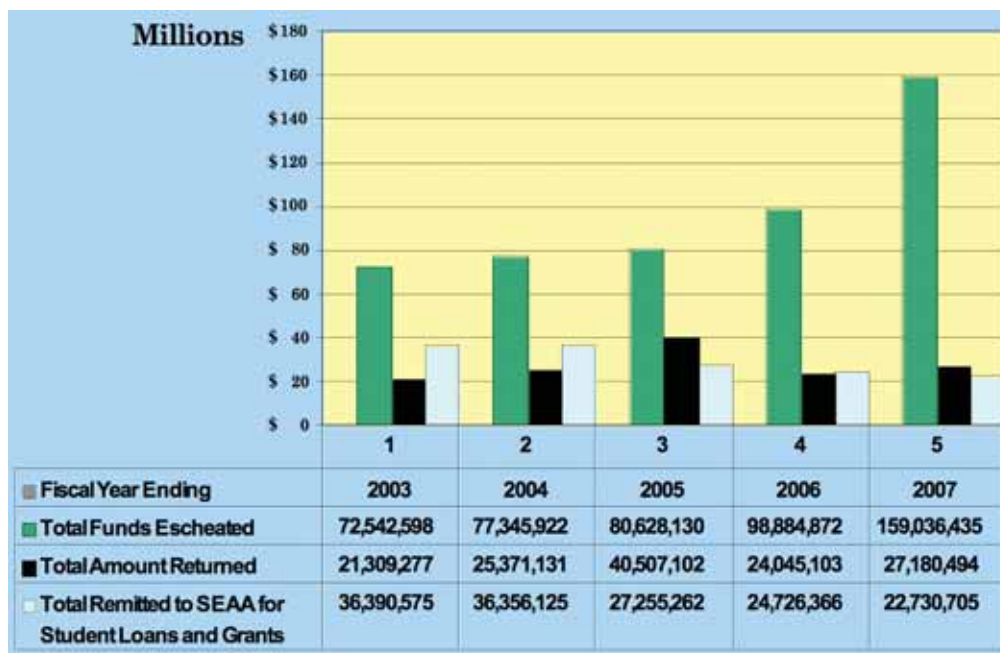
In recent years, the Department has increased efforts to get businesses to comply with the unclaimed property statutes, doubling the amount of money coming into the fund. This new money, along with prudent investments, has increased the fund to more than \$680 million. The interest earned on these funds is sent to the State Education Assistance Authority for student loans and grants. In fiscal year 2007, a total of \$22,730,705 from interest was awarded to the State Education Assistance Authority to help 52,000 North Carolinians afford college. The General Assembly also mandated that the amount of \$5,568,222 be transferred from the Principal to the DOA Veterans Scholarship Fund, \$13,981,202 from the Principal be transmitted to the Community Colleges, and \$42,911,650 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 made a good faith effort to locate an apparent owner, any funds they are holding are escheated to the Department of State Treasurer. 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 Clerks 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.

In order to expand efforts to return unclaimed property to North Carolinians, the Division is utilizing a special software package that allows the NC Cash database to be matched against other lists and databases.

The Division has also implemented an e-mail subscription feature to help connect North Carolinians with unclaimed property. Users provide their email address and basic search criteria via the website, and the feature regularly searches the NC Cash database for them, notifying them if a match is found. More than 13,000 people have registered for this service.







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# Statistical Tables





# Statistical Tables

## Treasurer's Cash Balances as of June 30, 2007

### CONCENTRATION ACCOUNTS

Raleigh, Bk. of America	\$ 19,684,868.49
Unemployment Clearing Acct.	455,297.57
Raleigh, Branch Banking & Trust Co.	2,606,317.69
Raleigh, 1st Citizens Bk. & Trust Co.	1,509,100.29
Raleigh, RBC Centura Bk.	695,701.40
Raleigh, Suntrust Bk.	2,247,629.23
Raleigh, Wachovia Bk.	48,139,556.24
Total Concentration Accounts	\$ 75,338,470.91

### COMMUNITY BANK ACCOUNTS

Aberdeen, First Bk.	12,781.89	Mt. Olive, Southern Bk. & Trust Co.	39,999.79
Ahoskie, Southern Bk. & Trust Co.	11,759.23	Murphy, Macon Savings Bk.	11,759.73
Albemarle, Bk. of Stanley	11,759.83	Murphy, United Comm. Bk.	28,121.12
Asheboro, First Natl. Bk. & Trust	20,281.68	Nags Head, E. Carolina Bk.	16,191.14
Bakersville, United Comm. Bk.	11,759.82	Newton, Peoples Bk.	11,759.89
Bath, Southern Bk. & Trust Co.	5,965.10	Trust	11,759.63
Boone, Bk. of Granite	25,000.18	Ocracoke, East Carolina Bk.	39,369.83
Bryson, United Comm. Bk.	11,759.24	Pembroke, Lumbee Guaranty Bk.	50,000.26
Burnsville, Carolina First	11,759.78	Plymouth, Southern Bk. & Trust Co.	10,396.53
Camden, Bk. of Currituck	11,760.13	Polkton, First Bk.	12,100.39
Cary, Fidelity Bk.	12,441.63	Raleigh, Mechanics & Farmers Bk.	9,714.55
Columbia, East Carolina Bk.	26,076.04	Reidsville, First National Bk.	11,759.39
Columbus, Tryon Federal Bk.	11,760.03	Robbinsville, United Comm. Bk.	11,078.22
Creedmoor, Fidelity Bk.	17,895.21	Salemburg, Southern Bk. & Trust	17,894.91
Creswell, East Carolina Bk.	5,964.91	Sanford, First Bk.	13,463.60
Danbury, Lexington State Bk.	6,305.58	Seven Springs, Southern Bk. & Trust	11,759.30
Durham, Mechanics & Farmers Bk.	24,712.54	Shelby, Fidelity Bk.	12,100.52
Durham, Mutual Comm. Sav. Bk.	18,287.71	Shelby, First National Bk.	11,759.40
Engelhard, East Carolina Bk.	5,624.04	Sparta, First Charter	14,827.76
Fayetteville, Omni Bk.	25,734.77	Spruce Pines, Carolina 1st	12,100.93
Fcn: First Charter	25,000.15	St. Pauls, First Bk.	11,759.68
Franklin, Macon Savings Bk.	11,759.38	Swan Quarter, E. Carolina Bk.	26,075.73
Gastonia, Fidelity Bk.	11,759.93	Tarboro, First South Bk.	12,781.96
Gatesville, Southern Bk. & Trust Co.	11,759.58	Tarboro, The Heritage Bk.	11,760.07
Greensboro, Mutual Comm. Sav. Bk.	99,999.92	Troy, Fidelity Bk.	11,759.54
Hampstead, Bk. of Wilmington	12,100.53	Troy, First Bk.	50,000.20
Harrisburg, 1st Charter National	26,757.14	W. Jefferson, 1st Charter National	23,349.23
High Point, High Point Bk. & Trust	14,487.07	Walnut Cove, Southern Comm. Bk.	12,440.98
Jefferson, First Charter	25,000.28	Wanchese, East Carolina Bk.	19,599.47
Kenansville, First Bk.	11,759.19	Washington, Cooperative Bk.	11,760.06
Kernersville, Bk. of NC	11,759.23	Waynesville, United Comm. Bk.	11,759.46
Kings Mountain, Fidelity Bk.	5,965.14	Waynesville, United Comm. Bk.	12,782.31
Laurinburg, First Bk.	11,759.70	Wentworth, Fidelity Bk.	19,258.49
Lenoir, Bk. of Granite	15,508.68	West End, First Bk.	4,601.94
Lewiston, Southern Bk. & Trust Co.	4,260.45	Williamston, E. Carolina Bk.	12,100.71
Lexington, Lexington State Bk.	23,349.29	Windsor, Southern Bk. & Trust Co.	11,759.88
Lillington, Fidelity	25,000.40	Winton, Southern Bk. & Trust Co.	11,759.38
Lumberton, Lumbee Guaranty Bk.	11,760.14	Yancyville, Fidelity Bk.	23,690.10
Manteo, East Carolina Bk.	38,006.46	Total Community Banks	\$ 1,392,918.26
Moyock, Gateway Bk. & Trust	24,999.99		
Mt Airy, The Community Bk.	11,760.13		
Mt. Airy, Southern Community Bk.	12,100.06	Treasurer's Cash Balance	\$ 76,731,389.17

**Summary of Investments by Participants  
for the Periods Ended  
June 30, 2007 and June 30, 2006 (in thousands)**

	<u>June 30, 2007</u>	<u>June 30, 2006</u>
<b>Retirement Trust Funds:</b>		
Teachers' and State Employees' Retirement System	\$ 57,663,713	\$ 51,799,695
Local Governmental Employees' Retirement System	17,398,662	15,325,778
North Carolina Firemen's Pension Fund	300,204	271,088
Rescue Squad Workers' Pension Fund	35,482	31,799
Consolidated Judicial Retirement System	448,203	403,157
North Carolina National Guard Pension Fund	74,105	63,411
Legislative Retirement System	32,965	30,178
<b>Total Retirement Trust Funds:</b>	<b><u>75,953,334</u></b>	<b><u>67,925,106</u></b>
<b>Other Funds:</b>		
General Fund	3,981,373	2,839,432
Other Funds Which Earn Interest for the General Fund	1,313,537	1,464,197
Highway Fund	634,163	620,168
Highway Trust Fund	197,435	26,900
University Funds	1,673,212	1,342,967
Other Independent Trust Funds	2,792,838	2,552,536
Local Political Subdivisions	167,436	185,472
Licensing Boards	14,442	30,919
<b>Total Other Funds</b>	<b><u>10,774,436</u></b>	<b><u>9,062,591</u></b>
<b>Grand Total All Funds</b>	<b><u>\$ 86,727,770</u></b>	<b><u>\$ 76,987,697</u></b>

**Statement of Departmental Revenues and Expenditures**  
**Budget and Actual (Budgetary Basis)**  
**General Fund (Departmental Activities only)**  
**for the Fiscal Year Ended June 30, 2007**

	<u>Authorized Budget</u>	<u>Year-to-Date Actual</u>	<u>Variance Favorable (Unfavorable)</u>
<b>Departmental Expenditures</b>			
General Administration	\$ 1,365,493	\$ 1,341,229	\$ 24,264
Escheat Operations	2,878,955	2,581,470	297,485
Information Services	6,503,479	6,493,218	10,261
Investment Management Operations	3,111,686	3,016,997	94,689
Local Government Operations	4,402,928	4,172,471	230,457
State Bond Issuance Cost	527,399	527,397	2
Retirement Operations	15,706,228	15,037,272	668,956
Financial Operations:			
Banking	3,017,551	2,992,399	25,152
Accounting	1,418,881	1,415,931	2,950
<b>Total Expenditures</b>	<b>\$ 38,932,600</b>	<b>\$ 37,578,384</b>	<b>\$ 1,354,216</b>
<b>Departmental Receipts</b>			
General Administration	\$ 1,365,493	\$ 1,341,229	\$ (24,264)
Escheat Operations	2,878,955	2,581,470	(297,485)
Information Services	6,503,479	6,493,218	(10,261)
Investment Management Operations	3,139	3,139	-
Local Government Operations	1,316,658	1,636,692	320,034
State Bond Issuance cost	527,399	527,397	(2)
Retirement Operations	15,706,228	15,037,272	(668,956)
Financial Operations:			
Banking	16,939	16,939	-
Accounting	1,418,881	1,415,931	(2,950)
<b>Total Receipts</b>	<b>29,737,171</b>	<b>29,053,287</b>	<b>(683,884)</b>
<b>Appropriation</b>	<b>\$ 9,195,429</b>	<b>\$ 8,525,097</b>	<b>\$ 670,332</b>

## Statistical Tables

**General Obligation Bonds**  
**Local Government**  
**Referenda and Authorizations**  
**Fiscal Year July 1, 2006 through June 30, 2007**

	Propositions			Bonds		
	# Proposed	# Approved	% Approved	\$ Proposed	\$ Approved	% Approved
<b>COUNTIES:</b>						
<b>Voted Propositions:</b>						
School	6	5	83.33%	\$ 1,550,500,000	\$ 1,513,500,000	97.61%
Community College	2	2	100.00%	\$ 59,900,000	\$ 59,900,000	100.00%
Parks & Recreation	1	1	100.00%	\$ 3,700,000	\$ 3,700,000	100.00%
Library	1	0	0.00%	\$ 2,000,000	\$ -	0.00%
Water	1	1	100.00%	\$ 17,500,000	\$ 17,500,000	100.00%
<b>Total</b>	<b>11</b>	<b>9</b>	<b>81.82%</b>	<b>\$ 1,633,600,000</b>	<b>\$ 1,594,600,000</b>	<b>97.61%</b>
<b>Nonvoted Propositions:</b>						
2/3rd issues	1	1	100.00%	\$ 12,940,000	\$ 12,940,000	100.00%
<b>Total</b>	<b>1</b>	<b>1</b>	<b>100.00%</b>	<b>\$ 12,940,000</b>	<b>\$ 12,940,000</b>	<b>100.00%</b>
<b>DISTRICTS:</b>						
<b>Voted Propositions:</b>						
Water	5	4	80.00%	\$ 131,000,000	\$ 87,000,000	66.41%
<b>Total</b>	<b>5</b>	<b>4</b>	<b>80.00%</b>	<b>\$ 131,000,000</b>	<b>\$ 87,000,000</b>	<b>66.41%</b>
<b>MUNICIPALITIES:</b>						
<b>Voted Propositions:</b>						
Sanitary Sewer	1	1	100.00%	\$ 4,500,000	\$ 4,500,000	100.00%
Water	1	1	100.00%	\$ 2,000,000	\$ 2,000,000	100.00%
Housing	1	1	100.00%	\$ 10,000,000	\$ 10,000,000	100.00%
Streets	3	3	100.00%	\$ 93,700,000	\$ 93,700,000	100.00%
Neighborhood	2	1	50.00%	\$ 25,850,000	\$ 25,000,000	96.71%
Auditorium	1	0	0.00%	\$ 36,000,000	\$ -	0.00%
Fire Station	1	1	100.00%	\$ 24,500,000	\$ 24,500,000	100.00%
Economic Development	1	1	100.00%	\$ 10,000,000	\$ 10,000,000	100.00%
Aquatic Center	1	0	0.00%	\$ 9,000,000	\$ -	0.00%
Library	1	1	100.00%	\$ 8,600,000	\$ 8,600,000	100.00%
Stadium	1	0	0.00%	\$ 5,500,000	\$ -	0.00%
Museum	2	1	50.00%	\$ 10,300,000	\$ 5,300,000	51.46%
Municipal Building	2	1	50.00%	\$ 10,200,000	\$ 5,000,000	49.02%
Parks and Recreation	2	2	100.00%	\$ 7,000,000	\$ 7,000,000	100.00%
Beach Improvements	1	0	0.00%	\$ 34,000,000	\$ -	0.00%
Community Development	1	1	100.00%	\$ 2,000,000	\$ 2,000,000	100.00%
Flood & Erosion Control	1	0	0.00%	\$ 24,000,000	\$ -	0.00%
<b>Total</b>	<b>23</b>	<b>15</b>	<b>65.22%</b>	<b>\$ 317,150,000</b>	<b>\$ 197,600,000</b>	<b>62.30%</b>
<b>Nonvoted Propositions:</b>						
Refunding	1	1	100.00%	\$ 54,955,000	\$ 54,955,000	100.00%
<b>Total</b>	<b>1</b>	<b>1</b>	<b>100.00%</b>	<b>\$ 54,955,000</b>	<b>\$ 54,955,000</b>	<b>100.00%</b>
<b>TOTAL VOTED</b>	<b>39</b>	<b>28</b>	<b>71.79%</b>	<b>\$ 2,081,750,000</b>	<b>\$ 1,879,200,000</b>	<b>90.27%</b>
<b>TOTAL NONVOTED</b>	<b>2</b>	<b>2</b>	<b>100.00%</b>	<b>\$ 67,895,000</b>	<b>\$ 67,895,000</b>	<b>100.00%</b>
<b>GRAND TOTALS</b>	<b>41</b>	<b>30</b>	<b>73.17%</b>	<b>\$ 2,149,645,000</b>	<b>\$ 1,947,095,000</b>	<b>90.58%</b>

## Statistical Tables

**Installment Purchase Agreements**  
**Approved by Purpose**  
**Fiscal Year July 1, 2006 through June 30, 2007**

<b>MUNICIPALITIES:</b>		<b>Amount</b>
Utilities		
Sanitary Sewer	\$ 19,218,556	
Electric	22,786,000	
Water	<u>49,023,437</u>	
		\$ 91,027,993
Public Buildings		
Fire Station	\$ 23,536,154	
Administration	\$ 9,246,000	
Public Works	7,809,335	
Community Center	35,000,000	
Jail	16,489,000	
Library	<u>911,000</u>	
		\$ 92,991,489
Museum	\$ 164,000,000	
Land Acquisition	7,424,059	
Recreation	18,638,307	
Streets & Sidewalks	4,400,000	
Equipment	12,000,000	
Stormwater	1,681,250	
Industrial Facility	7,080,941	
Visitor's Center	160,000,000	
Public Transit Authority	4,200,000	
Highway	160,000	
Tax Increment Financing	26,500,000	
Other (Infrastructure Improvements)	<u>19,814,000</u>	
		\$ 425,898,557
	Subtotal	<u>\$ 609,918,039</u>
<b>COUNTIES:</b>		
Schools		\$ 545,649,159
Public Buildings		
Administration Building	\$ 19,469,863	
Courthouse/Law Enforcement/Jail	137,062,883	
EMS Building	1,333,800	
Hospital Facility	14,500,000	
Health & Social Services	<u>23,859,645</u>	
		\$ 196,226,191
Utilities		
Water	\$ 11,692,625	
Sanitary Sewer	<u>7,303,519</u>	
		\$ 18,996,144
Community College	\$ 28,542,118	
Industrial Facility	8,005,000	
Recreation	12,152,061	
Solid Waste	2,200,000	
Library	10,448,000	
Land Acquisition	15,912,707	
Qualified Zone Academy Bonds	9,300,000	
Refunding	94,459,738	
Equipment	16,984,780	
Agriculture Center	15,000,000	
Office Space	4,115,000	
Other (Civic Ctr., Community Ctr., Sr. Citizens Bldg., Animal Shelter)	<u>6,013,452</u>	
		\$ 223,132,856
<b>COMMUNITY COLLEGES:</b>		
Guaranteed Energy Savings Contracts		\$ 15,026,589
<b>AUTHORITIES:</b>		
Municipal Building	\$ 421,000	
Hospital Facilities	<u>1,253,804</u>	
		\$ 1,674,804
	Subtotal	<u>\$ 1,000,705,743</u>
<b>GRAND TOTAL</b>		<u>\$ 1,610,623,782</u>

### Installment and Lease Agreements

Approved by the Local Government Commission  
Fiscal Years Ended June 30, 2007, 2006, and 2005  
(in millions)

	<u>FY</u>	<u>2006-07</u>	<u>FY</u>	<u>2005-06</u>	<u>FY</u>	<u>2004-05</u>
	<u>No.</u>	<u>Amt.</u>	<u>No.</u>	<u>Amt.</u>	<u>No.</u>	<u>Amt.</u>
Counties	63	\$ 861.0	43	\$ 603.4	40	\$ 398.8
Municipalities	77	610.0	55	391.0	64	526.1
Authorities/Districts	2	1.6	1	0.7	3	15.5
Community College/GESC	9	43.5	12	47.7	11	38.1
Subtotal	151	\$1,516.1	111	\$ 1,042.8	118	\$ 978.5
Refundings	6	\$ 94.5	6	\$ 44.3	9	\$ 226.7
Grand Total	157	\$1,610.6 *	117	\$ 1,087.1 *	127	\$ 1,205.2 *

\*Total includes refundings.

## Statistical Tables

**Summary of State and Local Government  
Debt and Authorizations  
at June 30, 2007**

	General Obligation Debt <sup>1</sup>	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	\$ 5,899,525,272	\$ 972,685,000	\$ -	\$ 6,872,210,272	\$ -	\$ 6,872,210,272	\$ -	\$ 1,828,719,961
State Authorities and Institutions	\$ -	\$ -	\$ 19,642,060,182	\$ 19,642,060,182	\$ -	\$ 19,642,060,182	\$ -	\$ -
Totals	\$ 5,899,525,272	\$ 972,685,000	\$ 19,642,060,182	\$ 26,514,270,454		\$ 26,514,270,454	\$ -	\$ 1,828,719,961
Counties	\$ 7,052,898,415	\$ 3,361,879,781	\$ 633,195,029	\$ 11,047,973,225	\$ -	\$ 11,047,973,225	\$ 2,435,108,500	\$ 26,818,000
Municipalities	\$ 2,278,291,834	\$ 2,293,406,068	\$ 4,050,319,649	\$ 8,622,017,551	\$ -	\$ 8,622,017,551	\$ 1,559,474,500	\$ 249,191,943
Districts	\$ 339,159,469	\$ 5,532,762	\$ 170,526,928	\$ 515,219,159	\$ -	\$ 515,219,159	\$ 205,267,700	\$ -
Authorities	\$ -	\$ 77,072,743	\$ 2,227,809,649	\$ 2,304,882,392	\$ 1,505,728,340	\$ 3,810,610,732	\$ -	\$ -
Total	\$ 9,670,349,718	\$ 5,737,891,354	\$ 7,081,851,255	\$ 22,490,092,327	\$ 1,505,728,340	\$ 23,995,820,667	\$ 4,199,850,700	\$ 276,009,943
Grand Total	\$ 15,569,874,990	\$ 6,710,576,354	\$ 26,723,911,437	\$ 49,004,362,781	\$ 1,505,728,340	\$ 50,510,091,121	\$ 4,199,850,700	\$ 2,104,729,904

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.

<sup>1</sup>General Obligation Debt above includes Literary Fund Loans and Bond Anticipation Notes.



### Annual Debt Service Requirements for State Bonds Issued and Outstanding at June 30, 2007

	General Obligation						Certificates of Participation / Lease - Purchase Revenue Bonds		Total	
	General Fund		Highway		Total		Principal	Principal & Interest	Principal	Principal & Interest
	Principal	Principal & Interest	Principal	Principal & Interest	Principal	Principal & Interest				
2007-08	\$ 313,130,014.55	\$ 557,229,185.97	\$ 54,055,000.00	\$ 88,128,250.00	\$ 367,185,014.55	\$ 645,357,435.97	\$ 46,760,000.00	\$ 93,283,042.52	\$ 413,945,014.55	\$ 738,640,478.49
2008-09	308,985,257.30	538,967,381.10	54,090,000.00	85,460,500.00	363,075,257.30	624,427,881.10	47,110,000.00	91,651,167.52	410,185,257.30	716,079,048.62
2009-10	310,320,000.00	524,046,021.10	54,065,000.00	82,731,000.00	364,385,000.00	606,777,021.10	47,470,000.00	89,922,142.52	411,855,000.00	696,699,163.62
2010-11	310,520,000.00	508,941,546.10	54,030,000.00	79,992,750.00	364,550,000.00	588,934,296.10	47,880,000.00	88,184,455.02	412,430,000.00	677,118,751.12
2011-12	311,575,000.00	494,358,881.10	54,000,000.00	77,261,250.00	365,575,000.00	571,620,131.10	48,325,000.00	86,354,613.14	413,900,000.00	657,974,744.24
2012-13	313,670,000.00	480,912,535.28	53,840,000.00	74,401,250.00	367,510,000.00	555,313,785.28	48,780,000.00	84,651,389.38	416,290,000.00	639,965,174.66
2013-14	313,085,000.00	465,434,035.44	54,600,000.00	72,469,250.00	367,685,000.00	537,903,285.44	49,265,000.00	82,784,990.00	416,950,000.00	620,688,275.44
2014-15	312,340,000.00	449,944,998.06	54,600,000.00	69,739,250.00	366,940,000.00	519,684,248.06	49,780,000.00	80,904,781.25	416,720,000.00	600,589,029.31
2015-16	312,370,000.00	435,166,216.52	54,600,000.00	67,009,250.00	366,970,000.00	502,175,466.52	50,325,000.00	78,962,825.01	417,295,000.00	581,138,291.53
2016-17	310,035,000.00	417,286,004.18	54,600,000.00	64,279,250.00	364,635,000.00	481,565,254.18	50,890,000.00	77,017,693.77	415,525,000.00	558,582,947.95
2017-18	313,830,000.00	407,339,166.80	54,600,000.00	61,549,250.00	368,430,000.00	468,888,416.80	51,495,000.00	75,111,800.01	419,925,000.00	544,000,216.81
2018-19	314,925,000.00	394,438,999.84	54,600,000.00	59,099,000.00	369,525,000.00	453,537,999.84	52,120,000.00	73,224,800.00	421,645,000.00	526,762,799.84
2019-20	284,775,000.00	350,475,199.84	50,400,000.00	52,492,000.00	335,175,000.00	402,967,199.84	67,780,000.00	85,961,400.00	402,955,000.00	488,928,599.84
2020-21	254,785,000.00	307,225,866.52	-	-	254,785,000.00	307,225,866.52	65,175,000.00	79,964,862.50	319,960,000.00	387,190,729.02
2021-22	235,795,000.00	276,561,550.00	-	-	235,795,000.00	276,561,550.00	65,235,000.00	76,787,412.50	301,030,000.00	353,348,962.50
2022-23	228,760,000.00	258,134,750.00	-	-	228,760,000.00	258,134,750.00	65,305,000.00	73,645,562.50	294,065,000.00	331,780,312.50
2023-24	203,000,000.00	221,943,162.50	-	-	203,000,000.00	221,943,162.50	66,170,000.00	71,250,018.75	269,170,000.00	293,193,181.25
2024-25	123,400,000.00	133,743,162.50	-	-	123,400,000.00	133,743,162.50	27,820,000.00	30,260,250.00	151,220,000.00	164,003,412.50
2025-26	61,400,000.00	66,282,412.50	-	-	61,400,000.00	66,282,412.50	15,000,000.00	16,150,000.00	76,400,000.00	82,432,412.50
2026-27	44,245,000.00	46,414,162.50	-	-	44,245,000.00	46,414,162.50	10,000,000.00	10,425,000.00	54,245,000.00	56,839,162.50
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
	\$ 5,197,445,271.85	\$ 7,351,840,237.85	\$ 702,080,000.00	\$ 934,612,250.00	\$ 5,899,525,271.85	\$ 8,286,452,487.85	\$ 972,685,000.00	\$ 1,446,498,206.39	\$ 6,872,210,271.85	\$ 9,732,950,694.24

**Revenue Bonds and Other Indebtedness of State  
Authorities and Institutions  
at June 30, 2007**

The following chart outlines the revenue bonds and other indebtedness of the State authorities and institutions at June 30, 2007. The State is not responsible for debt service on any of the revenue bonds and other indebtedness represented in this chart.

Appalachian State University	\$152,198,154
East Carolina University	104,240,013
Elizabeth City State University	19,581,439
Fayetteville State University	7,529,668
North Carolina A & T State University	18,805,000
North Carolina Central University	10,405,569
North Carolina School of the Arts	10,805,000
North Carolina State University at Raleigh	273,365,000
University of North Carolina at Asheville	24,495,000
University of North Carolina at Chapel Hill	955,854,764
University of North Carolina at Charlotte	162,919,000
University of North Carolina at Greensboro	118,168,994
University of North Carolina at Pembroke	19,964,354
University of North Carolina at Wilmington	143,980,000
Western Carolina University	47,004,789
Winston-Salem State University	52,750,000
North Carolina Capital Facilities Finance Agency	2,271,143,437
North Carolina Eastern Municipal Power Agency	2,666,315,000
North Carolina Housing Finance Agency	1,656,115,000
North Carolina Medical Care Commission	6,478,760,663
North Carolina Municipal Power Agency No. 1	1,805,825,000
North Carolina State Education Assistance Authority	2,558,654,000
North Carolina State Ports Authority	<u>83,180,338</u>
Total	<u>\$19,642,060,182</u>

Source: Chief fiscal officer of each authority or institution.

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

	DECEMBER 31, 2006	DECEMBER 31, 2005
<b>ASSETS</b>		
Current Actuarial Value of Assets:		
Annuity Savings Fund	\$ 42,008,381	\$ 39,081,420
Pension Accumulation Fund	<u>364,006,345</u>	<u>343,419,350</u>
Total current assets	\$ 406,014,726	\$ 382,500,770
Future member contributions to Annuity Savings Fund	\$ 40,680,269	\$ 37,499,373
Prospective contributions to Pension Accumulation Fund:		
Normal contributions	\$ 118,534,350	\$ 109,867,253
Unfunded accrued liability contributions	(27,524,762)	(27,002,723)
Undistributed gain contributions	<u>8,391,106</u>	<u>7,061,943</u>
Total prospective contributions	\$ 99,400,694	\$ 89,926,473
Total Assets	<u>\$ 546,095,689</u>	<u>\$ 509,926,616</u>
<b>LIABILITIES</b>		
Annuity Savings Fund:		
Past member contributions	\$ 42,008,381	\$ 39,081,420
Future member contributions	<u>40,680,269</u>	<u>37,499,373</u>
Total contributions to Annuity Savings Fund	\$ 82,688,650	\$ 76,580,793
Pension Accumulation Fund:		
Benefits currently in payment	\$ 210,134,245	\$ 198,947,167
Benefits to be paid to current active members	239,908,999	221,142,217
Reserve for increases in retirement allowances effective July 1, 2007 (July 1, 2006 for December 31, 2005 figure)	4,972,689	6,194,496
Reserve from undistributed gains	<u>8,391,106</u>	<u>7,061,943</u>
Total benefits payable from Pension Accumulation Fund	\$ 463,407,039	\$ 433,345,823
Total Liabilities	<u>\$ 546,095,689</u>	<u>\$ 509,926,616</u>

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

	DECEMBER 31, 2006	DECEMBER 31, 2005
<b>ASSETS</b>		
Current actuarial value of assets:		
Annuity Savings Fund	\$ 2,970,808,998	\$ 2,792,769,042
Pension Accumulation Fund	<u>12,593,979,944</u>	<u>11,603,080,439</u>
Total current assets	\$ 15,564,788,942	\$ 14,395,849,481
Future member contributions to Annuity Savings Fund	\$ 2,529,644,886	\$ 2,415,604,290
Prospective contributions to Pension Accumulation Fund:		
Normal contributions	\$ 1,850,157,071	\$ 1,769,068,953
Accrued liability contributions	78,588,295	84,359,007
Undistributed gain contributions	<u>144,066,623</u>	<u>134,584,839</u>
Total prospective contributions	\$ <u>2,072,811,989</u>	\$ <u>1,988,012,799</u>
Total Assets	\$ <u>20,167,245,817</u>	\$ <u>18,799,466,570</u>
<b>LIABILITIES</b>		
Annuity Savings Fund:		
Past member contributions	\$ 2,970,808,998	\$ 2,792,769,042
Future member contributions	<u>2,529,644,886</u>	<u>2,415,604,290</u>
Total contributions to Annuity Savings Fund	\$ 5,500,453,884	\$ 5,208,373,332
Pension Accumulation Fund:		
Benefits currently in payment	\$ 5,928,280,543	\$ 5,320,394,051
Benefits to be paid to current active members	8,461,912,593	7,981,098,276
Reserve for increases in retirement allowances effective July 1, 2007 (July 1, 2006 for December 31, 2005 figure)	132,532,174	155,016,072
Reserve from undistributed gains	<u>144,066,623</u>	<u>134,584,839</u>
Total benefits payable from Pension Accumulation Fund	\$ <u>14,666,791,933</u>	\$ <u>13,591,093,238</u>
Total Liabilities	\$ <u>20,167,245,817</u>	\$ <u>18,799,466,570</u>

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

	DECEMBER 31, 2006	DECEMBER 31, 2005
<b>ASSETS</b>		
Current actuarial value of assets:		
Annuity Savings Fund	\$ 8,257,710,349	\$ 7,807,735,473
Pension Accumulation Fund	<u>44,163,097,375</u>	<u>41,862,446,733</u>
Total current assets	\$ 52,420,807,724	\$ 49,670,182,206
Future member contributions to Annuity Savings Fund	\$ 7,089,000,960	\$ 6,652,279,194
Prospective contributions to Pension Accumulation Fund:		
Normal contributions	\$ 7,195,335,974	\$ 6,707,714,854
Unfunded accrued liability contributions	(3,028,900,728)	(3,045,514,417)
Undistributed gain contributions	<u>358,727,344</u>	<u>266,747,475</u>
Total prospective contributions	\$ 4,525,162,590	\$ 3,928,947,912
Total Assets	<u>\$ 64,034,971,274</u>	<u>\$ 60,251,409,312</u>
<b>LIABILITIES</b>		
Annuity Savings Fund:		
Past member contributions	\$ 8,257,710,349	\$ 7,807,735,473
Future member contributions	<u>7,089,000,960</u>	<u>6,652,279,194</u>
Total contributions to Annuity Savings Fund	\$ 15,346,711,309	\$ 14,460,014,667
Pension Accumulation Fund:		
Benefits currently in payment	\$ 24,675,461,122	\$ 23,048,139,224
Benefits to be paid to current active members	23,080,656,884	21,769,438,603
Reserve for increases in retirement allowances effective July 1, 2007 (July 1, 2006 for December 31, 2005 figure)	573,414,615	707,069,343
Reserve from undistributed gains	<u>358,727,344</u>	<u>266,747,475</u>
Total benefits payable from Pension Accumulation Fund	\$ 48,688,259,965	\$ 45,791,394,645
Total Liabilities	<u>\$ 64,034,971,274</u>	<u>\$ 60,251,409,312</u>

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

**TOTAL**

	June 30, 2007	June 30, 2006
<b>ASSETS</b>		
Current assets:		
Annuity Savings Fund	\$ 34,122,795	\$ 33,120,974
Pension Accumulation Fund	<u>271,746,639</u>	<u>254,812,082</u>
Total current assets	\$ 305,869,434	\$ 287,933,056
Future member contributions to Annuity Savings Fund	\$ 22,933,350	\$ 22,359,000
Prospective contributions to Pension Accumulation Fund:		
Normal contributions	\$ 39,316,029	\$ 37,784,704
Accrued liability contributions	<u>16,584,539</u>	<u>16,406,150</u>
Total prospective contributions	\$ 55,900,568	\$ 54,190,854
Total Assets	<u>\$ 384,703,352</u>	<u>\$ 364,482,910</u>
<b>LIABILITIES</b>		
Annuity Savings Fund:		
Past member contributions	\$ 34,122,795	\$ 33,120,974
Future member contributions	<u>22,933,350</u>	<u>22,359,000</u>
Total contributions to Annuity Savings Fund	\$ 57,056,145	\$ 55,479,974
Pension Accumulation Fund:		
Benefits currently in payment	\$ 166,624,361	\$ 154,804,950
Benefits to be paid to current active members	<u>161,022,846</u>	<u>154,197,986</u>
Total benefits payable from Pension Accumulation Fund	\$ 327,647,207	\$ 309,002,936
Total Liabilities	<u>\$ 384,703,352</u>	<u>\$ 364,482,910</u>

