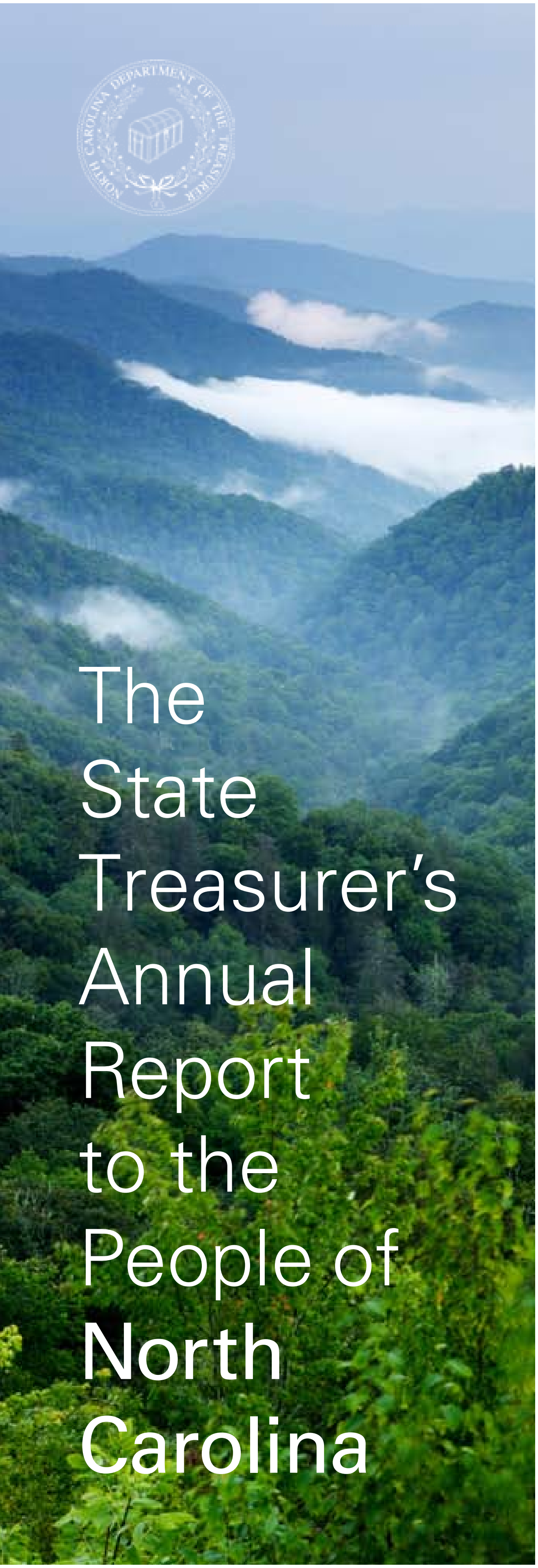
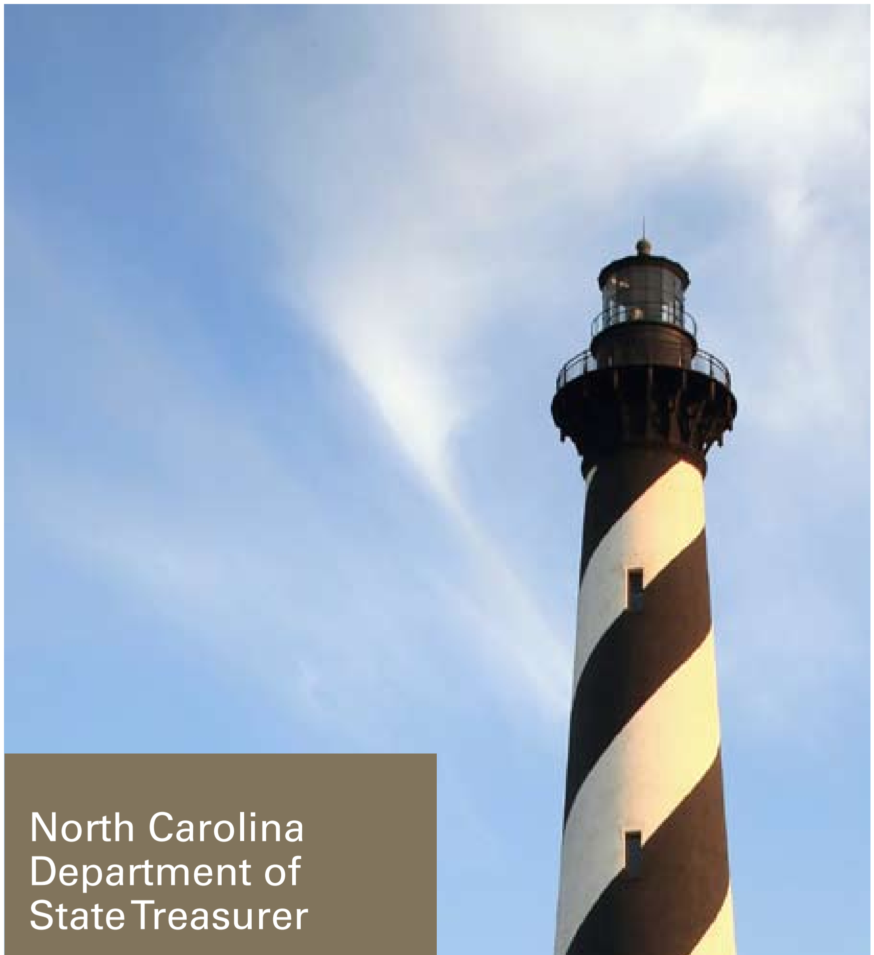
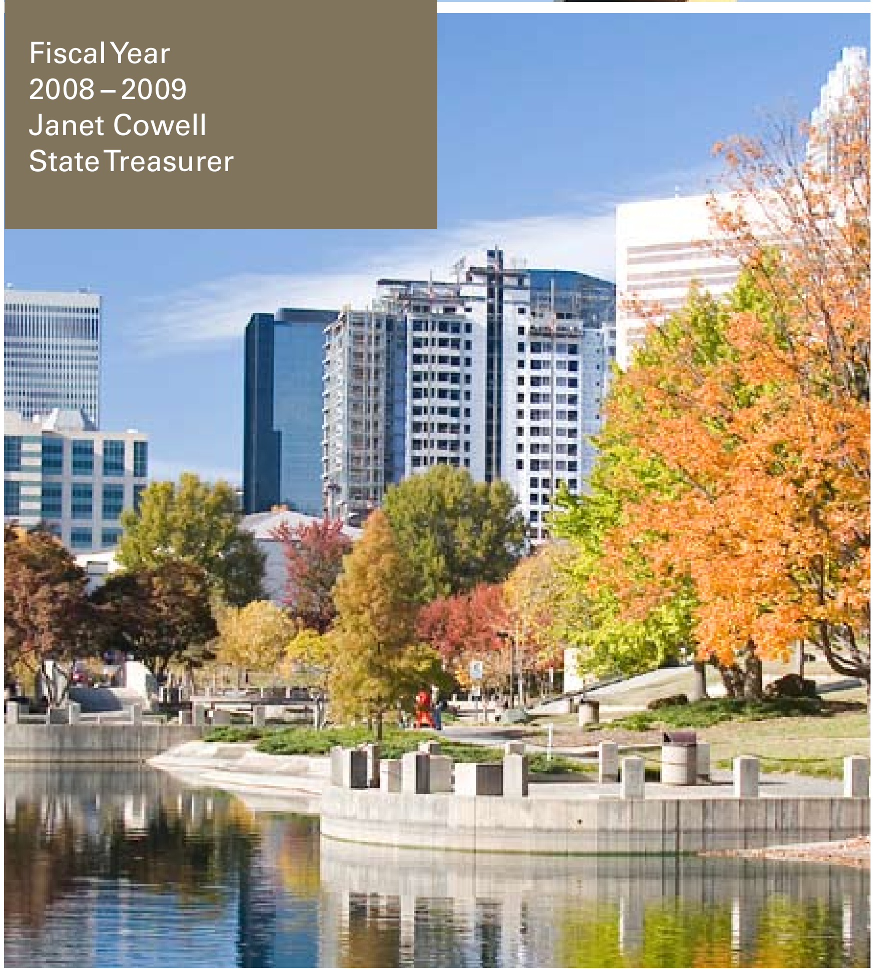


The State Treasurer's Annual Report to the People of North Carolina



North Carolina
Department of
State Treasurer

Fiscal Year
2008 – 2009
Janet Cowell
State Treasurer



JANET COWELL

Treasurer

State of North Carolina

Dear Fellow Citizens,

As the 27th popularly-elected Treasurer of the State of North Carolina, I am proud to present to you the 2008 – 2009 Department of State Treasurer's Annual Report.

This year's report is somewhat unique in that it captures the 2008 financial crisis and a change in administration between Treasurer Richard Moore (2001 – 2008) and myself (2009 – present). The report outlines activities undertaken by both administrations to manage through the financial crisis, and accompanying economic recession, towards our vision of a fiscally stable and economically prosperous North Carolina.

While the financial crisis and recession were and remain challenging, the Department of State Treasurer is, by its very nature, focused on the long-term. The overriding objectives of the Department have remained the same through these trying times; namely protecting the Pension Fund and maintaining the State's AAA bond rating.

To those enduring objectives, I have added others that respond to current conditions; namely restoring public confidence in the financial services sector and government – through ethics reform and transparency efforts – and fostering financial literacy. The role of each Department in achieving these objectives, and thereby having a positive impact on the lives of North Carolinians, is outlined on the pages that follow.

You will note that in an effort to better measure our impact, we have added a performance dashboard for each division for the first time. In order to put more of a face to the Department, we have also added portraits of senior managers and team members.

Thank you for taking an interest in the Department of the State Treasurer. I look forward to working with you to achieve a fiscally stable and economically prosperous North Carolina.

Sincerely,

Janet Cowell

Janet Cowell
Treasurer, State of North Carolina

325 North Salisbury Street, Raleigh, North Carolina, 27603-1385 ● (919) 508-5176 ● Fax (919) 508-5167
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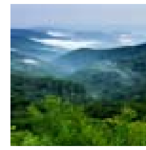

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Introduction

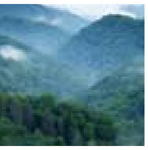
Introduction

Standing, left to right:
Jay Chaudhuri
Heather Franco
Nick Byrne

Seated, left to right:
Korey Stanton
Ron Ottavio *Center*
Melissa Waller

Standing, left to right:
Karishma Bhatt
Derwin Dubose
Anthony Solari

Seated, left to right:
Stephanie Scott
Sandra Johnson



Introduction

The North Carolina Department of State Treasurer has broad authority over the finances of the state.

The following table details key responsibilities and divisions within the Department responsible for carrying them out.

Key Responsibilities	Division within the Department of State Treasurer (DST)
Manage $60.2 billion Pension Fund	Investment Management Division (IMD)
Administer Teacher & State Employee and Local Government pension plans	Retirement Systems Division (RSD)
Operate $12 billion State Bank	Financial Operations Division (FOD)
Manage state and local debt issuance and interface with bond rating agencies	Local Government Commission (LGC)
Oversee Local Government Finance	Local Government Commission (LGC)
Act as fiscal advisor to the State	All Divisions
Manage Unclaimed Property Program	Unclaimed Property Division (UPP)
Administer $4 billion 401(k)/457 plans	Retirement Systems Division (RSD)
Administer State Disability Program	Retirement Systems Division (RSD)

Having outlined the key responsibilities of this Department, the introduction will cover the following key objectives:

- Protecting the Pension Fund
- Maintaining the State's AAA Bond Rating and Strong Local Government Finances
- Restoring public confidence in the Financial Services Sector and government
- Fostering Financial Literacy

These objectives are achieved across divisions within the Department. This annual report is organized by Division, but you will see these key objectives repeated throughout the rest of this report.

Finally, the fiscal crisis of 2008 and recession created challenges in achieving our objectives and for each division in different ways. Those challenges will be discussed as another theme throughout this report.

Protecting the Pension Fund

One of the Department's primary responsibilities is protecting the $60.2 billion pension fund that provides a safe and secure retirement for 820,000 North Carolinians, including teachers, state employees, firefighters, and police officers.

The North Carolina Pension Fund (Fund) fared in the top quartile among public funds during the economic downturn of 2008 with a return of -14.2 percent for the year ending June 30, 2009, compared to an average return of -18.76 percent for public pension funds over $5 billion. The Fund also remained one of the best funded plans, ranking second in the country in a report issued by Standard and Poor's in February of 2009. Funded status is the amount by which a pension plan's assets exceed the projected benefit obligations that will have to be paid in the future. Despite our relative positive performance, the challenges facing the state's retirement system should not be underestimated.

The downturn of 2008 presented challenges to public and private retirement systems across the country. Funding the North Carolina Retirement Systems is a shared responsibility between employers through employer contributions, employees through 6 percent contributions, and the investment staff through investment earnings. With the investment losses of 2008, state and local governments will need to plan for significant increased contributions to the fund. It is almost inevitable that the Systems' funded status will continue to decline as losses from the 2008 downturn are factored in over the coming years.

During a time when the stock market is volatile, real estate is down, and low interest rates are affecting the bond market, it is a challenge to earn targeted returns of 7.25 percent. Since the Fund is ultimately governed by statute with the State Treasurer acting as sole fiduciary, the Department worked to gain additional flexibility from the General Assembly and increase oversight in order to better manage risk, take advantage of market opportunities, and increase investment oversight.

As we enter into an era that will present fundamental challenges to the entire pension system – both public and private – it is imperative to develop a vision for what retirement will look like in America going forward. By convening a *Future of Retirement Study Commission* in the next year, we will engage stakeholders to do just that.

The Department continues to work to ensure sound governance and appropriate use of resources, especially during these tough economic times. During the 2008–2009 fiscal year, several initiatives were put into place in order to ensure that every effort was being made to protect the pension fund and the benefits of North Carolina's public employees:

- Increased education and outreach efforts to communicate to legislators and local leaders the need for increased contributions to the Pension Fund for the next several years in order to maintain the North Carolina Retirement Systems' funded status.
- Hired an outside firm to conduct a comprehensive and independent evaluation of current policies and practices to ensure that the North Carolina Retirement Systems are operating under best practices.
- Sought and received legislative authority to expand the Investment Advisory Committee that advises the Treasurer regarding pension fund investments. In the future, the Committee will be comprised of four finance investment professionals and two members of the Teachers and State Employees and Local Government Employees Retirement Systems Boards.
- Established the Future of Retirement Study Commission that is charged with evaluating and making recommendations for the retirement benefits of North Carolina state and local government employees hired in the future.

Maintaining the State's AAA Bond Rating and Strong Local Government Finances

Standard and Poor's, Moody's Investors Service and Fitch Ratings – the three primary bond rating agencies – all reaffirmed the "AAA" rating for North Carolina in the 2008–2009 fiscal year. A triple-A bond rating means that North Carolina has followed well-defined financial management policies and has demonstrated strong debt management practices. North Carolina remains one of only seven states to enjoy top-tier rankings from all three of the rating agencies.

While maintaining this strong rating is a good sign of the state's fiscal health, it will be a challenge to sustain the triple-A rating as we face financial and budgetary pressure caused by the economic recession. Bond ratings are largely dependent on the economic stability and diversity of revenues, conservative debt management, administrative capabilities and fiscal performance, and financial condition including funding of long-term benefit programs such as the retirement system and healthcare.

Each year the State's Debt Affordability Committee makes recommendations to the Governor and General Assembly concerning the debt capacity of the General Fund, Highway Fund and Highway Trust Fund for the next ten year period. While a number of factors are considered, the main factor determining each funds' debt capacity is the percentage of State tax revenues that are dedicated to debt service. The Committee recommends debt service not exceed 4 percent of State tax revenues in the General Fund and not exceed 6 percent of State revenues in the Highway Fund and Highway Trust Fund.

During the 2009 fiscal year, local governments in North Carolina and throughout the nation faced many challenges in managing their debt such as: the down grade of insurers and liquidity providers, skyrocketing rates for variable and auction rate debt and lack of demand for the debt of high quality issuers. The staff worked with local governments and the financial industry to help units convert auction and variable rate debt to other modes of debt, issue short term financing for on-going projects until the debt markets stabilized and secure alternative credit enhancements. The staff also helped local governments understand and take advantage of the various debt programs offered by the American Recovery and Reinvestment Act of 2009.

Outlined in the 2009 Debt Affordability Study, the state had over $2 billion of already authorized but unissued debt that will provide a significant opportunity for economic stimulus. The report also found that while there is some availability for new debt authorizations, it will be increasingly important to hold the line in the coming years as revenues have declined and there will be little or no additional debt capacity.

Below are a few of the achievements in financial oversight:

- Oversaw the issuance of $5 billion in local debt ($5.7 in 2008), $2.5 billion in revenue bonds for State and regional authorities ($2 billion in 2008), and $600 million in state debt ($275 million in 2008)
- Completed the conversion, refunding or modification of over $2.4 billion in debt due to problems in the national debt market
- Approved over $86 million in stimulus funds for local governments to use for water and sewer projects as of June 30, 2009, following the passing the American Recovery and Reinvestment Act in February

Restoring Public Confidence

Reforms to increase transparency and strengthen oversight are especially important in a time of financial crisis when there is an erosion of public confidence in the financial services sector and government. The Treasurer created a number of reforms to restore confidence, including:

- Implemented a series of policy reforms including, but not limited to:
  - A two-year revolving door policy prohibiting employees from doing business with the Department for two years after leaving employment.
  - A Department-wide gift ban prohibiting employees from accepting gifts or favors from contractors working or seeking to work with the agency.
  - A charitable contribution policy setting restrictions for covered employees for soliciting charitable donations for more than $150 from vendors and contractors.
  - A placement agent disclosure policy that requires full disclosure of external managers to disclose the retention of placement agents.
  - A travel policy that institutes three major changes to the prior policy around third-party reimbursements.
- Sought legislation to include the State Treasurer in the state public financing campaign program in order to avoid perceived conflict of interest. The bill crossed over and is eligible for consideration in the 2010 short session.
- Created the *Treasurer's Transparency Section* on the Department's website that includes Department budget information, policies, public meetings, and requests for proposals.

Fostering Financial Literacy

This Department cares about the financial well-being of all North Carolina citizens. With unemployment at 11 percent at the end of June 2009, financial literacy is more important than ever. The Department is engaged in a number of programs that offer financial counseling and education for all age groups, with a focus on adult financial literacy.

Below are a few of the efforts that we began work on in early 2009:

- Created a fulltime position for a Director of Financial Literacy to focus on efforts aimed at providing North Carolinians with the financial knowledge necessary to build a stable future.
- Collaborated with the NC Bankers' Association and the NC Banking Commission on the *Bank On North Carolina* program aimed at providing the tools for the unbanked population to develop relationships with financial institutions.
- Hosted a Student Debt Tour to listen to college students discuss the issues they are facing with financing education and dealing with debt.

The
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Retirement Systems Division

Retirement Systems Division

Standing, left to right:
Joshua Dillon
Joyce Rutledge
Roscoe Perry
David Starling
Leslie West
Michael Kaess

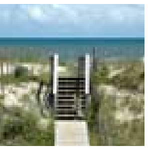
Seated, left to right:
Michael Williamson
Ellen Richardson
Debra Bryan
Meredith Rouse-Davis

- For the 2008 – 2009 fiscal year, the Retirement Systems Division (RSD) delivered over $3.9 billion to 222,000 retirees.

- The RSD call center cut hold times in half from an average wait time of 5.27 minutes to 2.16 minutes during the fiscal year for the 261,502 members that contacted the Division.

- The number of new retirements processed during the year increased from 13,009 during fiscal year 2008 to 14,318 in fiscal year 2009.

- As of June 30, 2009, the 401(k) Plan membership was 217,847, representing 22.81 percent of the total number of eligible participants. The 457 Plan membership was 29,155, representing 9.59 percent of the total number of eligible participants.



Retirement Systems Division

The Retirement Systems Division of the Department of State Treasurer administers the retirement and benefit plans that cover public employees in the State.

The Retirement Systems Division (RSD) manages several retirement systems and has the fiduciary responsibility, or manages the flow of funds in and out of the systems, for the employees' trust funds. Staff continuously review features and options within the defined benefit programs to ensure that plans and benefits are sustainable over time and making efficient use of employees' and taxpayers' contributions.

A key purpose of the retirement systems and benefit plans is to assist the State in recruiting and retaining skilled employees for a career in public service by providing valuable post-employment benefits, including replacement income at retirement, as well as disability or survivor benefits.

The North Carolina Retirement Systems (Systems) is currently the tenth largest public pension fund in the country. Serving more employees than General Motors, the Systems provide retirement benefits and savings for more than 820,000 North Carolinians, including teachers, state employees, firefighters, police officers and other public workers. The System's assets, referred to as the North Carolina Pension Fund, were valued at $60.2 billion at the end of 2009 fiscal year.

The Basic Functions

The four major retirement systems administered by this Division are the:

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

The Systems are governed by boards of trustees. The State Treasurer is ex officio chairperson of each board. The Board of the Teachers' and State Employees' Retirement System is composed of 14 members, including seven actively working employees or retirees, as well as seven public and appointed members who also serve on the Local Governmental Employees' Retirement System Board. The Local Governmental Employees' Retirement System Board, while legally separate, is composed of the same seven ex officio or public Teachers' and State Employees' Retirement System Board members, plus seven members representing local governments.

The Board of Trustees of the Teachers' and State Employees' Retirement System also is the governing body of the Consolidated Judicial Retirement System. The Firemen's and Rescue Squad Workers' Pension Fund is governed by a five-member board of trustees, including actively working employees, volunteers and a member of the public.

The Supplemental Retirement Board of Trustees is a nine-member board that was newly consolidated in 2008 after the General Assembly voted to have one board administer the NC 401(k) Plan and the NC Public Employee Deferred Compensation (457) Plan. The State Treasurer is the ex officio chairperson of this board also.

In addition to the four major retirement systems, the Division also is responsible for the administration of the following programs:

- 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

Funding the Systems

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 the active (both in-service and terminated) members and all the retired members and other beneficiaries who are receiving benefit payments. 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 also is 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.

Funding the Systems continued

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 5 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 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 the Systems

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

The total accrued liabilities are found by adding the assets and the unfunded accrued liabilities. For purposes of comparison, the funded ratios for the major Retirement Systems are illustrated in Chart 1.

The annual actuarial study of the Teachers' and State Employees' Retirement System (TSERS) reports a funding status of 99.3 percent. The annual actuarial study is based on data collected through December 31, 2008 and, as expected, shows a drop from the previously reported overfunded status of 104.7 percent.

Even if we achieve investment target returns as the economy recovers, it is very likely that the funding status will continue to decline as losses from the 2008 downturn are distributed over the next several years.

Though TSERS has fallen below a fully funded status, it continues to rank within the top five systems nationally. Based on asset value, North Carolina is the 10th largest U.S. public pension fund and ranked 32 globally in a list of the largest retirement funds recently released by Pension and Investments and Wyatt Watson.

Chart 1: Funded Ratio of the North Carolina Retirement Systems

TEACHERS' AND STATE EMPLOYEES' RETIREMENT SYSTEM	LOCAL GOVERNMENTAL EMPLOYEES' RETIREMENT SYSTEM	CONSOLIDATED JUDICIAL RETIREMENT SYSTEM
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%
2007 – 104.7%	2007 – 99.5%	2007 – 102.9%
2008 – 99.3%	2008 – 99.6%	2008 – 98.1%

Division Structure

The Systems 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:

- Drafting proposed legislation and acquiring actuarial notes for introduced bills
- Managing action and administrative appeals by individual members of the retirement systems
- Maintaining a working relationship with associations and organizations of employees and employers
- Providing information to State agencies, institutions and local governments

The overall Division operations include processing applications for retirement; processing applications to receive benefits such as contribution refunds, disability or death benefits; maintaining retirement accounts and data; and providing customer service to all active and retired employees.

Retirement Processing Section

The mission of the Retirement Processing Section is to process applications for benefits in a prompt, accurate and efficient manner.

This Retirement Processing Section is responsible for:

- Determining eligibility for monthly retirement allowances
- Processing payment of benefits for all retirement systems governed by the boards of trustees and administered by this Department
- Performing service purchase cost calculations for the various retirement systems

For the period July 2008 through June 2009, the Retirement Processing Section calculated:

- 11,750 retirements for payment
- 6,751 service purchase cost calculations
- 5,229 benefit estimates
- 1,929 other requests, such as earnable allowance requests and calculations for divorce proceedings

The request for benefit estimates continues to decline as members use the Benefit Estimator on the Department of State Treasurer website. During this past fiscal year, more than 220,000 benefit estimates were conducted using the online Benefits Estimator.

Benefits Processing Section

The mission of the Benefits Processing Section is to ensure prompt delivery of contribution refunds, disability and death benefits to employees, retirees and their beneficiaries in an effective and efficient manner.

The Benefits Processing Section works closely with the Retirement System's Medical Review Board to:

- Determine and administer disability benefits under the provisions of the Disability Income Plan for teachers and State employees
- Determine eligibility for disability benefits from the other retirement systems

Additional responsibilities of this Section 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.

The various death benefit programs related to the 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.

This Section also is responsible for the calculation and the payment of returns of accumulated contributions, known as refunds, to terminated employees. For the period of July 2008 through June 2009, the Benefits Processing Section processed:

- 725 short-term disability reimbursements to employers totaling $6,035,978
- 11,083 death reports
- 17,367 payments for return of accumulated contributions, known as refunds, to terminated employees

Accounting Section

The mission of the Accounting Section is to provide accurate financial data and on-time benefit payment services in a customer driven environment.

This Section is responsible for maintaining accounting records for the Systems and receiving and processing payroll contribution reports from more than 1,120 participating State and local units of government. Contribution information from the payroll reports is electronically posted to the individual accounts for more than 455,000 members.

During the 2008–2009 fiscal year, the Accounting Section also:

- Received and processed 72,123 health insurance enrollment applications for retirees
- Processed Electronic Funds Transfer (EFT) account applications and changes to direct deposit accounts for 210,700 payees

Member Services Section

The mission of the Member Services Section is to provide public service employees and employers accurate and timely information and education in a manner intended to advance partnerships and relationships.

This Section handles written correspondence, and telephone and face-to-face inquiries with members and employers participating in the Systems and other benefit programs. The staff responds to a large number of questions about benefits.

Accordingly, during 2008–2009 the Section received:

- 17,031 letters and e-mails
- 261,502 telephone calls through the call center with a reduction in hold-time from 5.27 minutes in August 2008 down to 2.16 in June 2009
- 14,663 phone calls handled by the Interactive Voice Response Unit (IVR)
- 3,227 visitors to the Visitor's Office

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 the period from July 2008 through June 2009, almost 10,000 members attended 201 employee retirement information sessions held across the state. The Division conducted a successful test pilot of a retirement planning webinar (seminar, presentation, lecture or workshop that is transmitted over the web) and hopes to integrate the online sessions into their conference schedules in the future.

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 Division 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.

Guidance documents on Domestic Relations Orders were added to the Active Employee and Benefit Recipients sections of the Retirement Systems Division web pages.

Division Structure continued

Another important function of the Member Services Section is to coordinate 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, enrolling eligible employees, and explaining monthly reporting procedures. Ancillary to this function is assistance to local governments in the adoption of tax shelter and death benefit coverage agreements. During 2008–2009, eight local government employers became participants, enrolling 380 new members in the Local Governmental Employees' Retirement System.

Records Section

The mission of the Records Section is to ensure timely and accurate processing, internal distribution, storage and protection of personal member information for the purpose of delivering benefits.

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
- For the administration of the optional $10,000 Contributory Death Benefit (CDB), including the notification of eligibility under the Plan, enrollment of members electing coverage and collection of the required contributions

During fiscal year 2008–2009, a total of 8,608 CDB enrollments were processed from July 2008 to June 2009.

The Records Section maintains 18.6 million records in an electronic document imaging system. All active and retired member jacketed microfiche records were converted to the imaging system, while all new records, plus updates to existing files, are now automatically processed as digital images.

The Systems and Plans

Teachers' and State Employees' Retirement System of North Carolina

N.C.G.S. 135-1 Through 135-1 8.5

The Teachers' and State Employees' Retirement System (TSERS) has the most assets and largest 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.

TSERS 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, 2008, was 325,618. Additionally, there were 95,175 inactive members and 151,353 retired members and beneficiaries of deceased retired members. Invested assets at market value amounted to $45.5 billion.

The distribution of investments for the assets of TSERS as of December 31, 2008, was:

Long-Term Investment Fund . . .	$20,993,472,330
Short-Term Investment Fund. . .	$ 117,834,250
Real Estate Investment Portfolio.	$ 3,028,423,952
Equity Investment Portfolio	$18,735,544,679
Alternative Investment Portfolio.	$ 2,666,329,748
TOTAL	$45,541,604,959

Operations of TSERS during calendar year 2008 resulted in total receipts of ($9,907,560,785) and total expenditures of $3,082,864,113. Chart 2 below presents the distribution of revenues by source and expenditures by purpose.

The latest Actuary's Valuation Balance Sheet for TSERS, as of December 31, 2008, is shown in Table T10 in the Statistical Tables Section. Based on the latest actuary's report, the General Assembly set the employer contribution rate at 3.36 percent of covered payroll, effective July 1, 2008, and at 3.57 percent of covered payroll, effective July 1, 2009. 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, 2009, the remaining accrued liability for past service.

Chart 2: Teachers' and State Employees' Retirement System of North Carolina
Year Ended December 31, 2008

SOURCES OF FUNDS		
Employee Contributions	$849,059,662	(8.57%)
Employer Contributions	$504,445,196	(5.09%)
Other Income	$3,035,885	(.03%)
Investment Income	($11,264,101,528)	113.69%
APPLICATIONS OF FUNDS		
Retiree Benefits	$2,994,439,724	(30.22%)
Refunds	$74,435,051	(.75%)
Administrative Expenses	$13,911,266	(.14%)
Other Expenses	$78,072	(–)
Addition to Reserves for Future Benefits	($12,990,424,898)	131.11%

The Systems and Plans continued

Local Governmental Employees' Retirement System of North Carolina

N.C.G.S. 128-21 Through 128-38

The Local Governmental Employees' Retirement System (LGERS) 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, 2008, a total of 880 cities, towns, counties, and local commissions were participating in LGERS.

LGERS began operations in 1945 with 18 participating local governments, 2,102 members and assets of $178,053. The active membership, as of December 31, 2008, was 123,524. In addition, there were 35,276 inactive members and 44,311 retired members and beneficiaries of deceased members. Invested assets at market value amounted to $14.2 billion.

The distribution of investments of the assets of LGERS as of December 31, 2008 was:

Long-Term Investment Fund	$ 6,513,882,716
Short-Term Investment Fund	$ 102,478,025
Real Estate Investment Portfolio	$ 939,814,494
Equity Investment Portfolio	$ 5,814,617,318
Alternative Investment Portfolio	$ 827,455,182
TOTAL	$ 14,198,247,735

Operations of LGERS during the calendar year 2008 resulted in total receipts of ($2,874,878,601) and total expenditures of $776,918,572. 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, 2008, is shown in Table T11 in the Statistical Tables Section. 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, 2009. The accrued liability rate, if any, varies with each employing unit depending on the amount of prior service that was awarded to the members.

In accordance with the provisions of the legislation that caused the merger of the Law Enforcement Officers' Retirement System and the Local Governmental Employees' Retirement System on January 1, 1986, the normal contribution rates are separate for each of the two groups of employees while the accrued liability rate is the same.

Chart 3: Local Governmental Employees' Retirement System of North Carolina Year Ended December 31, 2008

SOURCES OF FUNDS		
Employee Contributions	$319,245,519	(11.10%)
Employer Contributions	$266,103,363	(9.26)
Other Income	$5,029,994	(.17%)
Investment Income	($3,465,257,477)	120.53%
APPLICATIONS OF FUNDS		
Retiree Benefits	$726,217,815	(25.26%)
Refunds	$45,575,756	(1.59%)
Administrative Expenses	$5,097,279	(.17%)
Other Expenses	$27,722	(--)
Addition to Reserves for Future Benefits	($3,651,797,173)	127.02%

Consolidated Judicial Retirement System of North Carolina

N.C.G.S. 135-50 Through 135-72

The Consolidated Judicial Retirement System (Judicial System) was created by the 1983 session (Regular Session, 1984) of the General Assembly, effective January 1, 1985. The Judicial 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, 2008, there were 551 active members, 51 inactive members and 488 retired members and beneficiaries of deceased members. The invested assets at market value were about $361 million.

The distribution of the investments of the Judicial System as of December 31, 2008, was:

Long-Term Investment Fund	$ 165,471,807
Short-Term Investment Fund	$ 2,954,475
Real Estate Investment Portfolio	$ 23,871,769
Equity Investment Portfolio	$ 147,708,006
Alternative Investment Portfolio	$ 21,018,023
TOTAL	$ 361,024,080

Operations of the Judicial System during the calendar year 2008 resulted in total receipts of ($71,032,612) and total expenditures of $26,633,216. 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, 2008, is shown in Table T12 in the Statistical Tables Section. Based on the actuary's latest report, the General Assembly set the employer contribution rate at 15.11 percent of covered members' payroll, effective July 1, 2009. On this basis, the total number of member and employer rates of contribution is adequate to fund all future benefits presently authorized based on current service.

Chart 4: Consolidated Judicial Retirement System of North Carolina Year Ended December 31, 2008

SOURCES OF FUNDS		
Employee Contributions	$4,394,878	(6.19%)
Employer Contributions	$12,627,217	(17.78%)
Other Income	$3,306	(–)
Investment Income	($88,058,013)	123.97%
APPLICATIONS OF FUNDS		
Retiree Benefits	$26,488,949	(37.29%)
Refunds	$100,757	(.14%)
Administrative Expenses	$43,510	(.06%)
Other Expenses	$0	(–)
Addition to Reserves for Future Benefits	($97,665,828)	137.49%

The Systems and Plans continued

Teachers' and State Employees' Benefit Trust

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

The Teachers' and State Employees' Benefit Trust (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 death benefits for members of these two retirement systems. Formerly, identical type death benefits were provided directly by these retirement systems.

All contributions to fund the death benefits plans 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 2008, 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 death 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.

Death Benefit Payments Calendar Year 2008

RETIREMENT SYSTEM MEMBERSHIP	NUMBER OF PAYMENTS	PAYMENT AMOUNT
Teachers' and State Employees'	571	$20,723,415
Local Governmental Employees'	126	$4,600,878

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 plus interest.

Chart 5 below 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 2008 are also provided in the chart below.

Chart 5: North Carolina Teachers' and State Employees' Benefit Trust
Year Ended December 31, 2008

SOURCES OF FUNDS		
Local Governmental Employees Retirement System Death Benefit	$4,597,706	7.23%
Retirees' Death Benefit	$16,678,157	26.21%
Teachers' and State Employees' Retirement System Death Benefit	$22,083,977	34.71%
Investment Income	$20,266,774	31.85%
APPLICATIONS OF FUNDS		
Local Death Benefits Paid	$4,587,155	7.21%
Death Benefits and Insurance Paid SIF	$966,355	1.52%
Administrative Expenses	$399,000	0.63%
Retiree Death Benefits Paid	$12,928,188	20.32%
State Death Benefits Paid	$20,459,966	32.15%
Addition to Reserves for Future Benefits	$24,285,950	38.17%

The Systems and Plans continued

Firemen's and Rescue Squad Workers' Pension Fund

N.C.G.S. 58-86-1 Through 58-86-90

The Firemen's and Rescue Squad Workers' Pension Fund was created by the General Assembly in 1959 to provide benefits for certified firemen. The statutes were amended to include certified rescue squad workers beginning January 1, 1982.

Both volunteer and paid personnel are included in the membership. Funded by an initial appropriation of $235,000, retroactive benefit payments amounting to $210,700 were made to 362 retirees during August 1962 to cover all benefits due and payable since July 1, 1961.

As of June 30, 2009, the active membership of the fund was 37,288, while the number of retired members was 10,911. Invested assets at market value amounted to about $263.84 million.

The distribution of the investment of the assets as of June 30, 2009 was:

Long-Term Investment Fund . . .	$	108,338,191
Short-Term Investment Fund . .	$	727,879
Real Estate Investment Portfolio .	$	16,587,004
Equity Investment Portfolio	$	123,898,484
Alternative Investment Portfolio .	$	14,289,315
TOTAL	$	263,840,873

Operations of the Firemen's and Rescue Squad Workers' Pension Fund during the 2008 fiscal year resulted in total receipts of $32,099,253 and total expenditures of $23,182,125. Chart 6 presents the distribution of revenues by source and expenditures by purpose.

The latest Actuary's Valuation Balance Sheet, as of June 30, 2009, is shown in Table T13 in the Statistical Tables Section. Based on the latest actuary's report, the General Assembly appropriated $9,761,808 for the 2008–2009 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, 2009, the remaining accrued liabilities for past service.

Chart 6: Firemen's and Rescue Squad Workers' Pension Fund Year Ended June 30, 2009

SOURCES OF FUNDS		
Appropriation	$9,761,808	(30.41%)
Member Contributions	$2,516,201	(7.84%)
Investment Income	($44,378,777)	138.25%
Miscellaneous Income	$1,515	–
APPLICATIONS OF FUNDS		
Pension Benefits	$21,789,399	(67.88%)
Refunds	$316,541	(.99%)
Administrative Expenses	$1,076,184	(3.35%)
Addition to Reserves for Future Benefits	($55,281,379)	172.22%

Retirees' Health Premiums Funds

These funds are used as a conduit to transfer money from employers to pay individual coverage costs 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 allows selected employers in the Local Governmental Employees' Retirement System to participate in the Retiree's 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 2008

Beginning Fund Balance . . . . . . $	297,177,074
ADDITIONS:	
Employer Contributions . . . . $	621,223,425
Investment Income . . . . $	15,079,302
DEDUCTIONS:	
Health Premiums Paid . . . . $	498,509,837
Administrative Expense . . . . $	201,444
ENDING FUND BALANCE . . . . $	434,768,521

Legislative Retirement Fund

N.C.G.S. 120-4.1 Through 120-4.2

The Legislative Retirement 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 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 that ended December 31, 2008, there were 17 former members and officers of the General Assembly in receipt of allowances with a cost of $24,900. This 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. This fund is not operated as a retirement fund, but as an expendable trust fund.

The Systems and Plans continued

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:

- Members who were vested or had maintained contributions in the Legislative Retirement Fund
- Those retirees receiving a benefit from the Legislative Fund who elect to transfer to the Legislative Retirement System

As of December 31, 2008, the Legislative Retirement System had 169 active members, 76 inactive members and 261 retired members. Assets on that date totaled $25,323,859. Operations of this system during calendar year 2008 resulted in total receipts of ($5,865,273) and disbursements of $2,037,644.

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, 2009. 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, 2009.

The following are Disability Income Plan 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 2007 and 2008.

Disability Income Plan Statistics
Calendar Years 2007 and 2008

	2007	2008
Number of Disabled Members	6,072	6,214
New Claims During the Year	897	958
Employer Contributions	$73,342,244	$78,258,993
Investment Income	$20,944,888	$23,775,572
Amount of Benefit Payments	$66,462,928	$75,963,467

Public Employees' Social Security Agency

N.C.G.S. 135-19 Through 135-26

The Public Employees' 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

N.C.G.S. 127A-40

The National Guard Pension Plan (Guard Plan) was transferred to the Department of State Treasurer for payment of monthly benefits by the 1979 session of the General Assembly, effective July 1, 1979. This Division pays allowances based on the certification of eligibility of former National Guardsmen by the Secretary of the Department of Crime Control and Public Safety. Benefit payments are funded by State General Fund appropriations by the General Assembly. As of December 31, 2008, there were 3,415 beneficiaries in receipt of monthly allowances from the Guard Plan at a cost that calendar year of $5,845,376.

The 1983 session of the General Assembly enacted legislation, effective July 1, 1983, creating a trust fund for financing 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 after mid-year budget cuts was $5,891,793.

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 percent of the receipts collected pursuant to Article 1 of Chapter 161 of the General Statutes for deposit to the credit of the Registers of Deeds' Supplemental Pension Fund. Effective July 1, 2007, this funding was reduced to 1.5 percent. As of December 31, 2008, this fund had total assets in the amount of $36,375,752.

Benefits from the Registers of Deeds' Supplemental Pension Fund became payable beginning July 1, 1988. For the year ending December 31, 2008, the Fund paid total benefits in the amount of $ 1,361,201.

The Systems and Plans continued

Supplemental Retirement Income Plan of North Carolina

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 (401(k) Plan) effective as of January 1, 1985. The 401(k) Plan is a voluntary savings/ investment program designed to supplement members' replacement income in retirement. This Plan is governed jointly by the State Treasurer and the Supplemental Retirement Board of Trustees.

Prudential Retirement, the 401(k) 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 and record-keeping.

The 401(k) Plan's number of participating members rose from 213,400 members as of June 30, 2008, to 217,847 members as of June 30, 2009, for an increase of 2.08 percent. Contributions by employers during this fiscal year totaled $41,632,417 while salary deferred contributions by members were $64,647,089. The total assets at market value of the 401(k) Plan decreased by 8.3 percent over the previous year to $3,804,948,101.

Under the current contract, members may select from 11 separate account investment options including a stable value fund. As of June 30, 2009, 36.39 percent of the assets were invested in the North Carolina Stable Value Fund, 8.20 percent of the assets were invested in the North Carolina Fixed Income Fund and 53.15 percent were invested in the nine equity funds. In addition, 2.26 percent was invested in the frozen mutual funds that were previously offered in the 401(k) Plan and the outstanding loan balances totaled $189,394,483.

The North Carolina Public Employee Deferred Compensation Plan

N.C.G.S. 143B-426.24

The North Carolina Public Employee Deferred Compensation Plan (457 Plan) was established by its Board of Trustees on Executive Order from the Governor in 1974. The 457 Plan is a voluntary tax-deferred savings/investment program designed to supplement members' replacement income in retirement. This Plan is also governed by the Supplemental Retirement Board of Trustees; the State Treasurer is the chairperson of the Board.

Prudential Retirement took over as the 457 Plan's third-party administrator in December of 2008 and is responsible, under the 457 Plan document adopted by the Board and the terms of the contract with the Board, for all aspects of operating the 457 Plan, including communications and record-keeping.

As of June 30, 2009, the 457 Plan's number of participating members was 29,155. Contributions during this fiscal year totaled $10,293,220, and the total assets at market value of the Plan were $633,929,740.

Under the current contract, members may select from the same lineup of 11 separate account investment options as the 457 Plan offers. As of June 30, 2009, 50.34 percent of the assets were invested in the North Carolina Stable Value Fund, 5.37 percent of the assets were invested in the North Carolina Fixed Income Fund and 39.87 percent were invested in the nine equity funds. In addition, 4.42 percent was invested in the frozen mutual funds that were previously offered in the Plan and the outstanding loan balances totaled $7,284,551.

The Year's Highlights

Providing Customer Information Online

During the past year, RSD has worked to increase the registration of Retirement Systems members to Online Retirement Benefits through Integrated Technology (ORBIT). These efforts will allow members to access account information immediately, provide self-service for customers, and eliminate the amount of paper generated by RSD. During the last fiscal year these improvements have:

- Obtained registrations for 76,969 active members and benefit recipients, bringing the total number of members registered to more than 100,000 since launch of the Web portal in 2007.
- Enhanced members' personal security and reduced costs. The Retirement Systems eliminated the mailing of benefit recipients' direct deposit notification statements, making them available only through ORBIT. Special exceptions were granted for those without access to a computer or Internet.

Legislation

Prior to the convening of the 2009 session of the General Assembly, the Retirement Systems 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 assisted the State Treasurer and the Retirement Systems' Boards of Trustees in forming their legislative recommendations.

During the 2009 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, 49 actuarial notes disclosing the fiscal impact of every bill that affected a State-administered retirement system or pension plan, and took a proactive approach to the decline in asset values during 2008 by preparing projections for decision-makers, informing them of future contribution implications early in the legislative session.

Administrative enhancements recommended by Retirement Systems' staff include: The introduction of a technical corrections bill that passed into law. The technical corrections extend certain benefits to those on military leave, requires employers to report any retirees that they hire, and allows the Retirement Systems to accept certain beneficiary designations and retirement applications electronically, along with other minor improvements and clarifications.

The Board of Trustees governing the Local Governmental Employees' Retirement System enacted the policy under North Carolina General Statute 128-28(a), to provide an adjustment equal to the Consumer Price Index (CPI) from the year prior, if funds are available. Because these gains were available in the Local Governmental Employees Retirement System, the Board awarded a cost-of-living adjustment equal to the CPI of 0.1 percent effective July 1, 2009.

The Year's Highlights continued

Communications and Customer Service

The communication goals of the North Carolina Retirement Systems Division are to:

- Enhance members' understanding of their retirement benefits by meeting expectations in a customer-focused, timely and accurate manner
- Engage and empower employees by providing them with the communication resources they need to make informed decisions and address customer requests for information

During early 2009, the RSD placed greater emphasis on the availability of information through ORBIT, and the usefulness of the system for members. The 2008 Annual Benefits Statement was available in members' personal ORBIT accounts one month prior to being mailed to members' homes. This was the first time the entire Annual Statement was made available to members in ORBIT.

To provide better customer service and improve turn-around time for processing disability forms, the Retirement Systems Division made significant changes to existing disability forms, created a new Form 700 – *Requesting Employers Information Required for Member Disability Income Plan Benefits*, and created a training web page to help members and employers better understand what is needed in applying for disability.

In addition to the disability training pages, the Retirement Systems Division pages were enhanced to include:

- Retirement planning presentations for members of Teachers' and State Employees' Retirement System and Local Governmental Employees' Retirement System
- *Highlights of Your Retirement Benefits* – a two-page synopsis of benefit handbooks for general members and members of law enforcement in the Teachers' and State Employees' Retirement System and Local Governmental Employees' Retirement System Retirees and active employees also received newsletters communicating retirement system highlights and other retirement-related matters
- Newsletters issued during the 2008–2009 fiscal year were:
  - *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 system
  - *On the Horizon* – an annual publication to active members that provides updates to retirement laws and policies, and helpful tips for retirement planning

Employer manuals and member handbooks describing plan provisions in all the retirement systems were revised and updated on the Division's web pages in February 2009. RSD continued to issue employer communications, including:

- *Retirement Monitor* – a monthly newsletter for the more than 5,000 public sector human resources and payroll specialists
- *Legislative Digest* – a synopsis of legislative changes made in the previous session of the General Assembly

The
State
Treasurer's
Annual
Report

Investment Management Division

Investment Management Division

Standing, left to right:

Rodney Overcash
Wilbert Lewis
Jeff Smith
Christopher Morris

Seated, left to right:

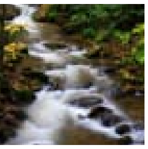
Craig Demko
Michael Williamson *Center*
Susan Carter

- The North Carolina Retirement Systems, the formal name for the Pension Fund, is the tenth largest public pension fund in the country with $60.2 billion in assets.

- In the fiscal year ending June 30, 2009, the investment performance for the North Carolina Pension Fund (Pension Fund) declined 14.2 percent. This performance for the 2009 fiscal year is ranked in the top quartile in comparison to other public funds.

- For the fiscal year ending June 30, 2009, each asset class with the Total Pension Fund produced the following returns:
    - Fixed Income – return of 7.63 percent
    - Global Equity – return of -27.8 percent
    - Private Equity – return of -21.5 percent
    - Real Estate – return of -31.43 percent

- An actuarial valuation completed in October 2008, concluded that the funded status of the Teachers and State Employees Retirement System (TSERS) was 104.7 percent. Funded status is the amount by which a pension plan's assets exceed the projected benefit obligations that will have to be paid in the future.

Investment Management Division

The Investment Management Division serves as the investment arm for the Department of State Treasurer. This Division employs over 20 investment professionals that provide the expertise for state government investing.

The Investment Management Division (IMD) is responsible for the management of:

- **The Cash Management Program** – responsible for managing the operating funds of the State. The main participants in this program are the State's General Fund and Highway Funds.
- **The Pension Fund Investment Program (Pension Fund)** – responsible for managing assets of the Teachers' and State Employees' Retirement System, the Consolidated Judicial Retirement System, the Firemen's and Rescue Workers' Pension Fund, the Local Governmental Employees' Retirement System, the Legislative Retirement System, and the North Carolina National Guard Pension Fund. Collectively, these systems and funds are referred to as the North Carolina Retirement Systems (Systems) and each has a proportionate share of the Equity Fund, Fixed Income Fund, Real Estate Fund, and Alternative Fund (see the Pension Investment Program Review for definitions on page 44).
- **The Ancillary Investment Programs** – as authorized by the General Assembly, responsible for managing assets for the Escheats Fund, UNC and Public Hospital Funds, the Local Government Other Post-Employment Benefits Fund, and other non-Pension assets invested in the core fixed income portfolio.

At the end of the fiscal year closing June 30, 2009, total assets of the Cash Management Program, the Pension Fund Investment Program, and Ancillary Investment Programs were $71.5 billion.

Program	Percentage of Total Assets in 2009
Cash Management Program	13.49%
Pension Fund Investment Program	84.28%
Ancillary Investment Program	2.23%

The Treasurer and Investment Team are responsible for establishing, maintaining, administering, managing, and operating investment programs for all funds on deposit. In doing so, the Treasurer has full powers as a sole fiduciary and shall manage the investment programs so assets may be readily converted into cash when needed for purposes such as paying the benefits of state retirees.

The total of these programs represents the aggregate assets of seven retirement systems, various 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. In addition to the Treasurer and the Investment team managing these programs, the Investment Advisory Committee (IAC) provides opinion on policies and general strategy for achieving investment of the Pension Fund, including asset allocation, in consultation with IMD staff.

Cash Management Program Review

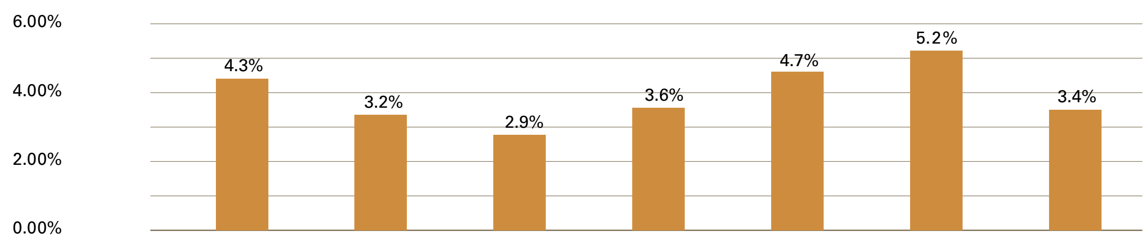
The Cash Management Program's objective is to maximize income consistent with the principals of preservation of capital and liquidity. These investments include short-term money market accounts and bonds that typically get the best interest rates. Additionally, this program included state bank deposits overseen by the Department of State Treasurer as the State's banker.

Short Term Investment Fund

The Short-Term Investment Fund (STIF) comprises 98.6 percent of the Cash Management Program. The Bond Proceeds Fund, managed by Sterling Capital, accounts for 1.4 percent of the Program.

The STIF is an internally managed portfolio of highly liquid fixed income securities. These securities are primarily money market instruments and short to intermediate term U.S. Treasuries and Agencies, such as Fannie Mae or Freddie Mac. 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 (or state checks), the primary consideration in making investments is safety and liquidity; the secondary consideration is income. For the fiscal year 2009, the STIF generated a return of 3.4 percent. The following chart provides historic returns for the fund performance as of June 30, 2009.

STIF Fiscal Year Performance

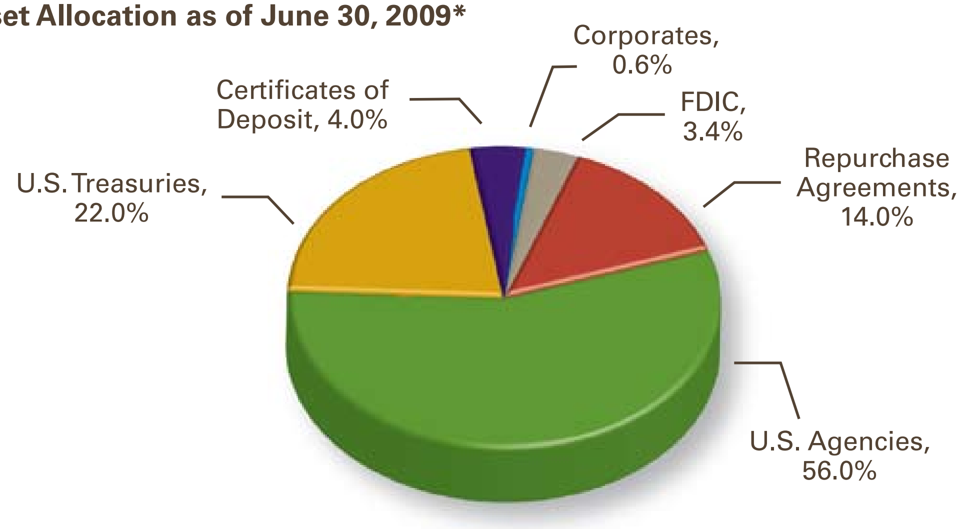


Fiscal Year Ending	2003	2004	2005	2006	2007	2008	2009

Cash Management Program Review continued

The following graph provides STIF Asset Allocation as of June 30, 2009.

STIF Asset Allocation as of June 30, 2009*



* Definitions:

U.S. Treasuries – government debt issued by the United States Department of the Treasury

Certificates of Deposit – financial product commonly offered to consumers by banks, thrift institutions and credit unions

Corporates – debt from a company or corporation

FDIC – FDIC-guaranteed notes

Repurchase Agreements – short-term collateralized loan

U.S. Agencies – debt from a federal government agency or government sponsored enterprise such as the Government National Mortgage Association (GNMA or Ginnie Mae), the Federal National Mortgage Association (FNMA or Fannie Mae), the Federal Home Loan Mortgage Corporation (FHLMC or Freddie Mac), Federal Home Loan Banks and Federal Farm Credit Banks

Short Term Investment Fund Top Ten Positions

The chart below shows the top ten positions for the fiscal year for the Short Term Investment Fund as of June 30, 2009.

STIF Top 10 Positions as of June 30, 2009
Largest investments within the fund and the maturity date and value

ISSUER (SECURITY NAME)	COUPON	MATURITY DATE	PAR VALUE ($)
FHLB Discount Notes	---	07/01/2009	1,200,000,000
Mizuho Securities Repo	---	07/01/2009	1,000,000,000
HSBC Securities Repo	---	07/01/2009	420,000,000
U.S. Treasury Note	3.625%	10/31/2009	350,000,000
Federal Home Loan Mortgage Corp.	3.030%	05/05/2014	250,000,000
Federal Home Loan Mortgage Corp.	3.125%	11/05/2014	250,000,000
Federal Home Loan Mortgage Corp.	3.020%	09/25/2013	250,000,000
Federal Home Loan Mortgage Corp.	3.140%	05/12/2014	250,000,000
Federal Home Loan Mortgage Corp.	2.125%	07/29/2011	250,000,000
Federal Home Loan Mortgage Corp.	3.310%	06/03/2014	250,000,000

Summary of Brokers Utilized to Trade Fixed Income Securities during Fiscal Year 2009

Brokers are used to execute buy and sell orders on behalf of the fund, adding the benefit of experience in the field to investment decisions. Below is a list of Brokers used to facilitate trades of securities during the 2009 fiscal year.

STIF Summary of Brokers Utilized During Fiscal Year 2009

Bank of America	Goldman Sachs	Morgan Stanley
Barclays Capital	HSBC Securities	RBC Capital Markets
Citigroup	JPMorgan Chase	RBS Greenwich Capital
Credit Suisse Securities	Loop Capital	UBS Securities
Deutsche Bank Securities	Merrill Lynch	Wachovia Capital Markets
First Tennessee Bank	Mizuho Securities	

Pension Fund Investment Program Review

The Pension Fund Investment Program's objective is to generate returns that match or exceed those of the appropriate benchmarks over a three to five year basis, maintaining the long-term strength of the Systems by providing a consistent long-term actuarial rate of return while simultaneously minimizing risk in the portfolio. These are long-term investments in stocks, bonds and real estate.

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 processes, and other issues.

Operating Policy

In all transactions executed for any investment program managed by the State Treasurer, the objective is to perform such business in the best interest of the beneficial owners of the trusts' assets, which are North Carolina's public employees, teachers, firefighters, police officers, and other public workers.

Within the Pension Fund, assets are divided into various classes of investments defined in the chart below.

Portfolio	Investment Mandate	Definitions
Fixed Income Investment Portfolio	Longer Term Investments	Investment Grade Corporate Securities, Treasuries, Agencies, MBS
Equity Investment Portfolio	Equity Securities	Separate Accounts and Funds with experienced public equity investment advisors
Real Estate Investment Portfolio	Real Estate	Limited Partnerships* managed by experienced real estate advisors
Private Equity Investment Portfolio	Private Equity	Limited Partnerships* managed by experienced private equity advisors
Hedged Strategies Investment Portfolio	Hedge Funds	A diversified mix of funds managed by experienced advisors

*Limited Partnerships are the standard vehicle for investment in private equity and real estate funds with a main purpose of buying interests in investments that, in general, are not publicly traded. The partnership has a General Partner whose responsibilities include making and monitoring investments, ultimately exiting investments to generate returns on behalf the investors. The investors are known as Limited Partners.

Pension Fund Strategy

The tradition of conservative fiscal management has served North Carolina's public workers and taxpayers well throughout the years. The Pension Fund continues that tradition with a significant allocation in fixed income assets (bonds). The result of this strategy is a fund that is a top performer in turbulent economic and financial market environments, and steady in bull markets.

Recent Standard & Poor's reports and rankings demonstrate the strength of North Carolina's long-term strategy as it consistently ranks in the top five of state retirement funding ratios. More recently, Wilshire, the most widely accepted benchmark for the performance of institutional assets, reported that North Carolina was one of the top performers for the fiscal year ending June 30, 2009. In a year when the median public fund with assets greater than $5 billion lost 18.8 percent and the S&P 500 lost more than 26 percent, the North Carolina Retirement Systems lost 14.2 percent.

Fiscal Year Review

The fiscal year ending June 30, 2009 saw significant turmoil and losses in markets across the globe. The mortgage crisis and tightening credit, investment bank failures, and declines across the financial markets made it a difficult year for investors. Although the Pension Fund experienced negative performance for the fiscal year, its conservative asset allocation discipline and investment strategy mitigated the extreme losses experienced by peer investors and helped the Pension Fund outperform its benchmark.

Many investors were hit particularly hard by collapses in structured securities and other credit instruments. The Pension Fund avoided these pitfalls and took no direct losses from instruments such as Collateralized Debt Obligations (CDOs) and Structured Investment Vehicles (SIVs). In addition, the Investment Management Division was able to identify and capitalize on the crisis-induced opportunities presented in the credit markets. For example, a selection of investments made to the significantly distressed residential mortgage-backed securities (RMBS), commercial mortgage-backed securities (CMBS), and senior secured loan markets provided an immediate and positive impact on the portfolio throughout the second half of the fiscal year.

The year did see the Pension Fund make a number of significant new investments and continue its effort to diversify the portfolio and maintain liquidity. Liquidity refers to an asset's ability to be sold without causing a significant movement in the price and with minimum loss of value. The decision to not fully rebalance assets back, meaning that assets were not reallocated to the original desired ratio, into an enduring highly volatile equity market throughout the first half of the fiscal year provided positive results to the Pension Fund. Throughout one of the most challenging fiscal years, the fixed income portfolio maintained ample liquidity to satisfy cash demands and posted strong gains. During the first half of the fiscal year, the Pension Fund accessed strong opportunities in alternative investments to help boost performance and reduce risk; however, activity in 2009 was limited as the Pension Fund reached its asset allocation limits that are determined by North Carolina General Statutes near the end of 2008.

Pension Fund Investment Program Review continued

Total Pension Fund Structure

As of June 30, 2009, the Pension Fund maintained a market value of $60.2 billion. The Investment Management Division is constantly monitoring the overall Pension Fund in an effort to control risk. The following chart highlights the strategic asset allocation targets over the past four years.

Current and Historical Strategic Targets

	JUNE 2004	JUNE 2005	JUNE 2006	JUNE 2007	JUNE 2008	JUNE 2009
Fixed Income	41.0%	39.5%	39.5%	39.5%	39.5%	39.5%
Global Equity	54.0%	54.5%	54.5%	52.0%	50.0%	50.0%
U.S.	46.5%	46.8%	41.5%	36.0%	34.0%	34.0%
Non-U.S.	7.5%	8.0%	13.0%	16.0%	16.0%	16.0%
Real Estate	3.5%	3.5%	3.5%	5.0%	6.0%	6.0%
Private Equity	0.75%	1.10%	1.25%	1.75%	3.15%	3.15%
Hedged Strategies	0.75%	1.10%	12.5%	1.75%	1.35%	1.35%

The Investment Management Division utilizes rebalancing to ensure the overall portfolio weights stay in line with the target ranges. Asset allocation and a disciplined approach to rebalancing ultimately controls the level of risk that an investment portfolio experiences.

Pension Fund Asset Allocation as of June 30, 2009

	MARKET VALUE	PORTFOLIO WEIGHT	TARGET WEIGHT	TARGET RANGE
Fixed Income	$25,353,050,201	42.1%	39.5%	35.0% – 44.0%
Global Equity	$28,355,391,185	47.1%	50.0%	45.0% – 55.0%
Real Estate	$3,244,341,605	5.4%	6.0%	5.0% – 7.0%
Private Equity	$2,622,467,948	4.4%	3.15%	3.5% – 5.0%
Hedged Strategies	$648,794,822	1.1%	1.35%	3.5% – 5.0%
TOTAL PENSION FUND	$60,224,045,821	100.0%	---	---

Total Pension Fund Performance

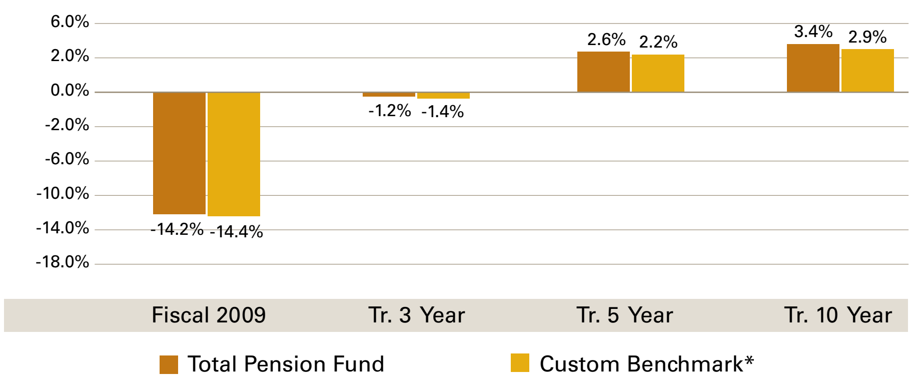
The Pension Fund has outperformed its custom benchmark over the past fiscal year, attributable to the selection of investments and its emphasis on downside protection. The following chart provides fiscal year returns for each asset class within the total Pension Fund.

2009 Fiscal Year Returns Total Pension Fund

Fixed Income	7.6%
Equity	-27.8%
Real Estate	-31.4%
Private Equity	-21.5%
Hedged Strategies	-16.8%
TOTAL PENSION FUND	-14.2%

For the fiscal year 2009, the Pension Fund returned -14.2 percent, net of fees, outperforming its custom benchmark return of -14.4 percent. Over longer time periods, the Pension Fund outperformed its benchmark for the annualized three-, five- and ten-year periods ending June 30, 2009. Compared to its peer group plans, the Pension Fund also outperformed the median public plan with greater than $5 billion across the one-, three- and five-year time periods, according to Wilshire. The below charts provide a snapshot for the total pension fund's annualized performance and performance by asset class for one-, three-, five-, and ten-year periods.

Total Pension Fund Annualized Performance



* 50% Custom Global Equity Benchmark, 39.5% Custom Fixed Income Benchmark, 6% Custom Real Estate Benchmark and 4.5% Custom Alternatives Benchmark (70 percent Custom Private Equity Benchmark and 30 percent Custom Hedge Fund Benchmark).

Pension Fund Investment Program Review continued

The following chart details performance by asset class and also provides the benchmarks or target returns.

Annualized Performance as of June 30, 2009

	1-YEAR	3-YEAR	5-YEAR	10-YEAR
Total Pension Fund	**-14.2%**	**-1.2%**	**2.6%**	**3.4%**
Total Pension Custom Benchmark[1]	-14.4%	-1.4%	2.2%	2.9%
Fixed Income Portfolio	**7.6%**	**7.4%**	**5.8%**	**6.9%**
Custom Fixed Income Benchmark[2]	6.2%	6.7%	5.4%	6.6%
Global Equity Investment Portfolio	**-27.8%**	**-8.1%**	**0.9%**	**0.0%**
Custom Global Equity Benchmark[3]	-27.9%	-8.2%	-1.2%	-1.0%
Real Estate Investment Portfolio	**-31.4%**	**-4.8%**	**3.9%**	**5.3%**
Custom Real Estate Benchmark[4]	-23.8%	-0.9%	6.2%	7.8%
Private Equity Investment Portfolio	**-21.5%**	**1.2%**	**5.8%**	**2.5%**
Custom Private Equity Benchmark[5]	-35.7%	-11.0%	-2.0%	0.3%
Hedged Strategies Investment Portfolio	**-16.8%**	**-2.9%**	**0.9%**	**–**
Custom Hedged Strategies Benchmark[6]	5.0%	7.2%	7.2%	7.2%

[1] 50 percent Custom Global Equity Benchmark, 39.5 percent Custom Fixed Income Benchmark, 6 percent Custom Real Estate Benchmark, and 4.5 percent Custom Alternatives Benchmark (70 percent Custom Private Equity Benchmark and 30 percent Custom Hedge Fund Benchmark)

[2] 40 percent Govt 5+Yr, 35 percent Corp (Investment Grade – BBB Max 25 percent) 5+Yr, and 25 percent Mortgage Master

[3] 68 percent Russell 3000 Index and 32 percent Custom International Equity Benchmark (90 percent MSCI EAFE Index/10 percent MSCI EM Index)

[4] 90 percent NCREIF Open End Funds Index and 10 percent FTSE EPRA/NAREIT Global Securities Index

[5] Russell 3000 Index lagged 3 months + 250 basis points

[6] U.S. T-Bill + 400 basis points

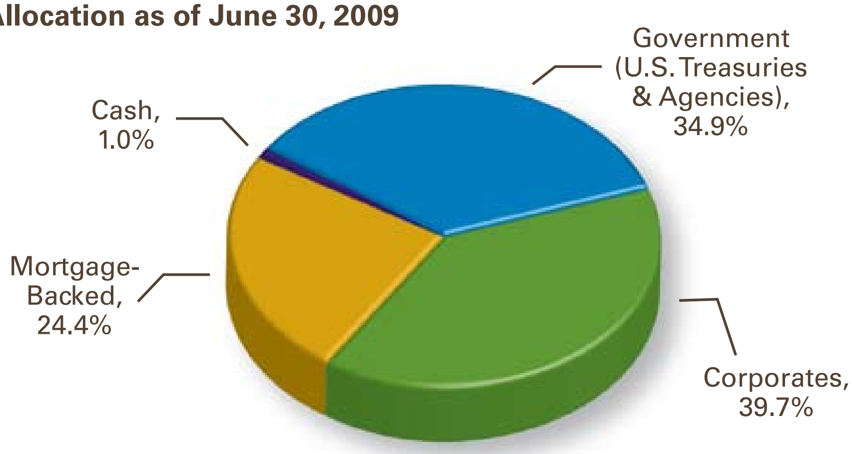
Fixed Income

As of June 30, 2009, the fixed income allocation maintained a market value of $25.4 billion, representing 42.1 percent of the Pension Fund. The Pension Fund's core Long-Term Investment Portfolio (LTIP) represents the bulk of the fixed income assets with a market value of $23.2 billion. The balance of the fixed income assets are in non-core strategies.

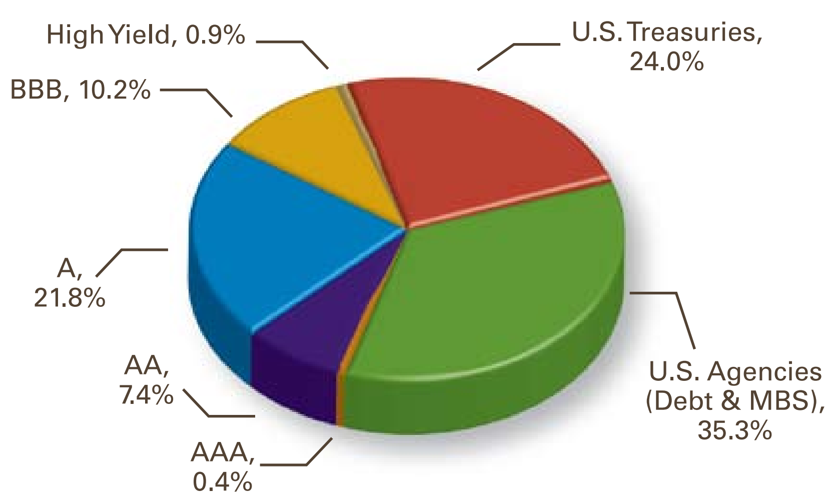
Core Fixed Income Structure

The LTIP is an internally managed investment grade fixed income portfolio that takes an enhanced approach of generating excess returns versus an assigned benchmark. The portfolio is structured to provide an intermediate duration profile that better matches the Pension Fund's longer duration liability stream versus a short duration fixed income portfolio. Because of this approach, the duration of the portfolio tends to be relatively long. Duration is a measure of a bond's price sensitivity to changes in interest rates. The portfolio is comprised of U.S. Treasuries, Agencies, Corporate Bonds, and GNMA mortgage-backed securities. The following charts display the allocation of the LTIP by investment and by quality, or credit rating, of investments.

LTIP Sector Allocation as of June 30, 2009



LTIP Quality* Allocation as of June 30, 2009



*Credit Quality based on Moody's Ratings

Fixed Income continued

Fixed Income Market Overview

The fiscal year began in an environment where the credit crisis was intensifying, providing a sudden tightening of the conditions required to obtain a loan from the banks, and cash flow conditions were deteriorating rapidly. Investors began to sell what they perceived to be higher-risk investments and purchase safer investments, as liquidity and event risk fears gripped the market. Before the end of the calendar year, the Treasury Department and Federal Reserve were compelled to inject massive amounts of liquidity into the system in an effort to stabilize the markets. The Federal Open Markets Committee cut rates three times during the fourth quarter, down from 2.0 percent to between 0.0 percent and 0.25 percent. U.S. Treasury yields declined roughly 175 basis points across the curve during the last six months of 2008. While rates fell and the government took unprecedented actions, the consumer retrenched on a bleak economic outlook and rapidly deteriorating housing market. Markets began to stabilize in the second quarter of 2009 as liquidity began to improve and government intervention added a level of stability to the credit markets. While rates on the short end remained low, intermediate and long U.S. Treasury rates bounced off their historical lows from late 2008. It was a tale of two halves for corporate bonds, with credit spreads hitting record wide levels during 2008, before tightening significantly during the second quarter of 2009. Below are lists of the top ten corporations within the LTIP and a summary of brokers utilized to trade securities for the portfolio.

LTIP Top 10 Corporate Positions as of June 30, 2009

CORPORATE ISSUER	% OF LTIP
Bank of America	2.1%
JPMorgan Chase	1.5%
Wells Fargo	1.2%
AT&T Inc.	1.2%
General Electric	1.2%
Citigroup	1.1%
Goldman Sachs	1.0%
Verizon Communications	0.9%
Wal-Mart	0.9%
Morgan Stanley	0.9%

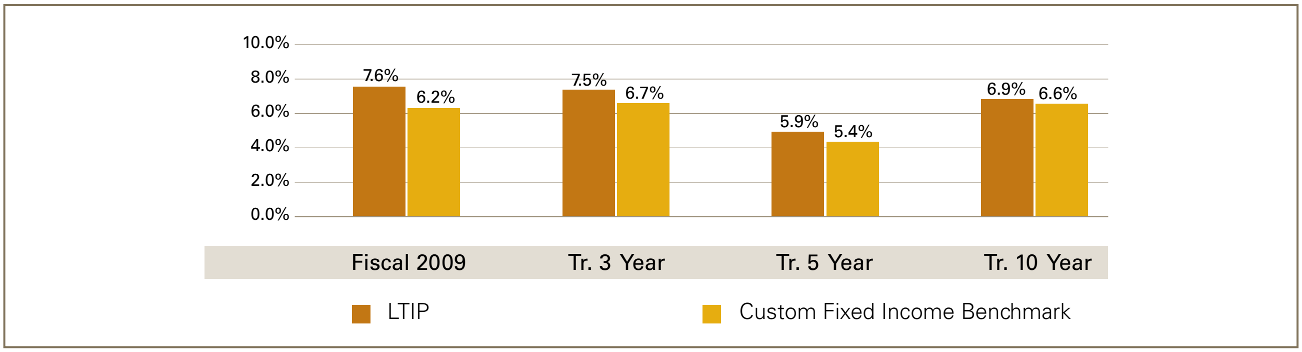
LTIP Summary of Brokers Utilized During Fiscal Year 2009

Bank of America	HSBC Securities	RBC Capital Markets
Barclays Capital	JPMorgan Chase	RBS Greenwich Capital
Carolina Capital Markets	Jefferies & Company	Stifel Nicolaus
Castle Oak Securities	Lehman Brothers	Suntrust Capital Markets
Citigroup	KeyBanc Capital Markets	UBS Securities
Credit Suisse Securities	Merrill Lynch	Wachovia Capital Markets
Deutsche Bank Securities	Mizuho Securities	Williams Capital Group
First Tennessee Bank	Morgan Keegan	
Goldman Sachs	Morgan Stanley	

Core Fixed Income Performance

For the fiscal year, the LTIP returned 7.6 percent, net of fees, outperforming the benchmark return of 6.2 percent performance. The record excess returns for the fiscal year built upon the portfolio's history of strong performance across all respective time periods. The quality bias in corporate bond exposure was a driving factor in the relative performance of the portfolio in the first half of the fiscal year. Once credit spreads spiked to record levels, moving to an overweight on corporate bonds provided significant value in the second quarter of 2009.

Long Term Investment Portfolio Annualized Performance



Non-Core Fixed Income Structure

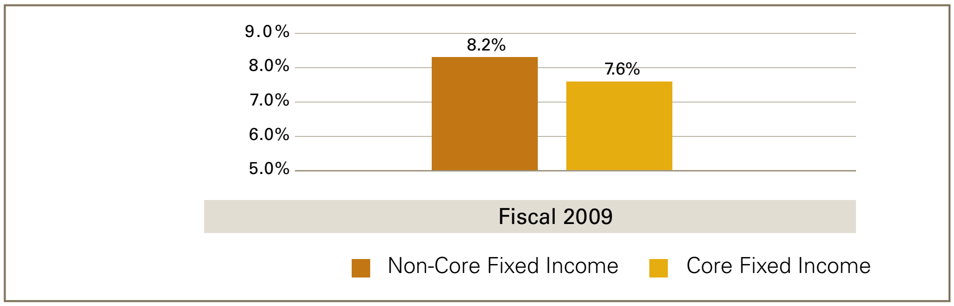
There were several modest tactical changes made in response to the financial market turmoil of the last twelve months. To protect liquidity and hedge against rate increases, a small portion of the core fixed income assets was allocated to the Short-Term Investment Fund. In addition, opportunistic allocations to externally managed high quality investment grade RMBS and AAA-rated CMBS strategies were executed in response to historically cheap valuations in those markets. The strategy was designed to take advantage of temporary dislocations that provide attractive risk/return opportunities in high quality mortgage debt.

The non-core strategies include allocations to STIF ($0.3 billion), Timber ($0.6 billion), and investment grade RMBS ($1.0 billion) and CMBS ($0.3 billion).

Non-Core Fixed Income Performance

The non-core fixed income composite posted a return of 8.2 percent for the fiscal year. The new mortgage-backed securities strategies produced strong results since their inception, with the RMBS and CMBS portfolios producing returns of 19.2 percent and 22.6 percent, respectively, over the first six months of 2009.

Non-Core Relative to Core Fixed Income Performance



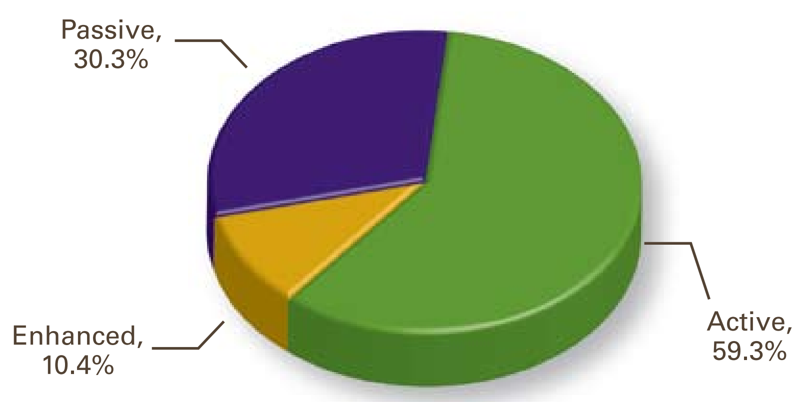
Global Equity

Global Equity Structure

The Global Equity portfolio ended fiscal year June 30, 2009 at $28.4 billion, with $19.6 billion in U.S. equity and $8.7 billion in non-U.S. equity. As a percentage of the Pension Fund's assets, the Global Equity allocation was 47.1 percent on June 30, 2009 versus 49.9 percent on June 30, 2008. However, these endpoints do not reflect the significant movement of markets and the reallocation of funds throughout the year. The fiscal year of 2009 provided massive market volatility and was additionally marked by internal movements in the Global Equity portfolio weighting. By September 30, 2008, the Global Equity portfolio had dropped to 47.3 percent of the Pension Fund. Continued market movements brought the portfolio down to 41.2 percent by calendar year end 2008. Intraday market volatility hit a high in October 2008. The CBOE Volatility Index (VIX), a measure of U.S. equity market volatility, hit an astonishing high of 89.5 on October 24, 2008 versus a daily average of 18.3 for the prior five years. During the first quarter of 2009, the Global Equity portfolio held relatively steady at a 41.1 percent weight. However, during the final fiscal quarter of the year, through a combination of rebalancing and market reinflation the portfolio arrived at the 47.1 percent weight. The manager composition of the portfolio during the year remained relatively constant. During the final fiscal quarter, allocations were made both in U.S. and international segments of the portfolio.

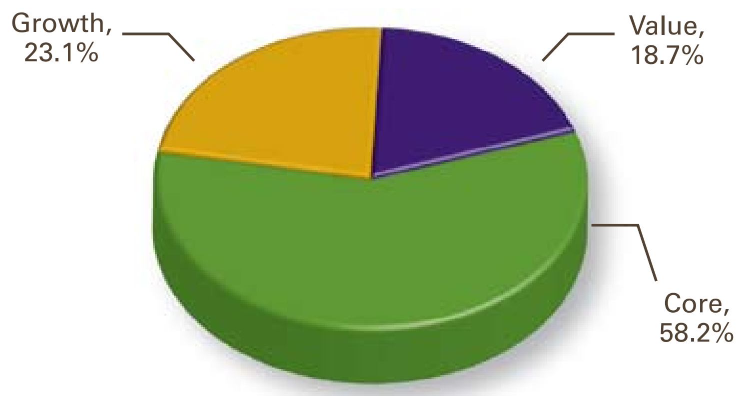
All investments of the Global Equity portfolio are managed externally according to one of three different strategies: passive, enhanced or active. Passive investments track existing indexes in relatively efficient markets. Enhanced indexes allow managers some flexibility to make decisions that deviate from the index, but maintain more control of market risk than active management. Actively managed portfolios give the manager discretion to make investment decisions within the parameters of the portfolio's mandate. The following chart provides percentage of distribution between these types of strategies.

Global Equity Strategy Allocation

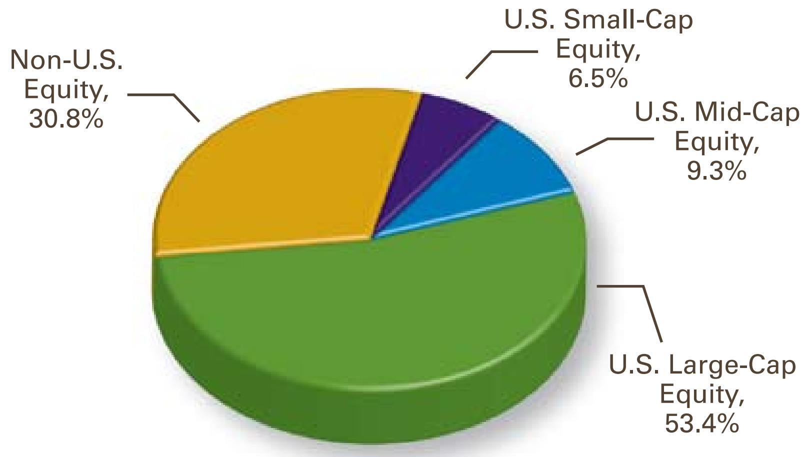


The Global Equity portfolio maintains prudent diversification within the broad equity market. The Global Equity portfolio is also categorized into U.S. Large-Cap, U.S. Mid-Cap, U.S. Small-Cap, and Non-U.S. investments. Companies are usually classified as either large cap, medium cap, small cap, or micro cap, depending on the value of a company or stock. U.S. investments make up the large majority of equity investments, though the international investments have grown in recent years. The charts below provide equity style and size allocations within the overall diversification model for the global equity portfolio.

Global Equity Style Allocation



Global Equity Size Allocation



Global Equity continued

Global Equity Market Overview

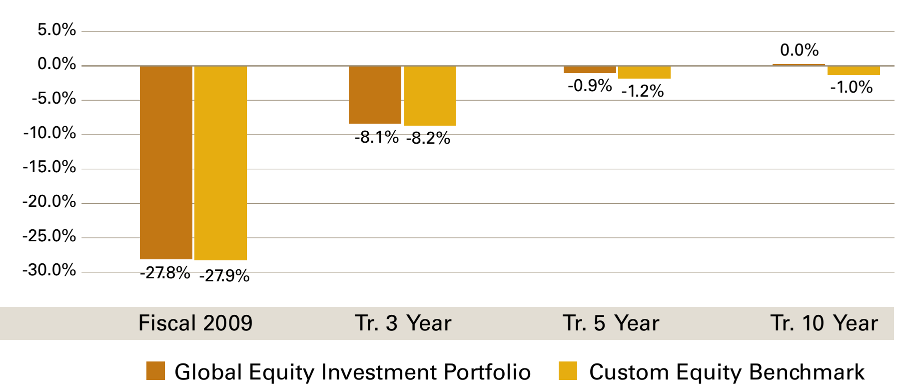
To offer perspective on the fiscal year's events, investors experienced the collapse of multiple major financial institutions (Lehman Brothers, AIG, Fannie Mae, Freddie Mac), the absorption of financial institutions in distress (Wachovia, Merrill Lynch, Washington Mutual), the collapse of credit markets, a Presidential election, and economic stimulus not seen since the Great Depression. Market volatility, liquidity and structure were all challenged throughout the year, often simultaneously.

Global equity markets saw their worst performance in a generation, with the U.S. equity market down 26.6 percent (S&P 500) and international markets down -30.9 percent (MSCI ACWI Ex-U.S.) for the fiscal year end. While working through that environment, portfolio managers were faced with a number of daunting decisions. Defensive positions and high quality bias securities provided relative, but not absolute, protection in the third and fourth quarters of 2008 and for a portion of the first quarter of 2009. As global government stimulus packages were enacted, the markets began a rally off the bottom, beginning the first week of March 2009. Both developed and emerging market nations stepped in with stimulus to protect against a potential global market collapse. A segment of global market participants assessed that the world's governments were going to do "anything necessary" to prevent a collapse. Consequently, the risk appetite for equity securities improved in the second quarter of 2009. The types of securities that benefitted the most from this perceived floor in the market were those that had been damaged the most in the prior quarters. The rally during this short period was evidenced by companies with little to no earnings significantly outperforming companies with better fundamentals. Additionally, companies affected by higher degrees of volatility outperformed their peers. As the fiscal year drew to a close, the global equity markets had reinflated to their "pre-Lehman" levels and valuations had returned from cataclysmic levels. Both of these levels, however, were well below the prior year's numbers.

Global Equity Performance

For the fiscal year, the Global Equity investment portfolio returned -27.8 percent, net of fees, outperforming its benchmark return of -27.9 percent. The attribution of the performance can be further dissected as the international segment of the portfolio outperformed its benchmark by 27 basis points while the U.S. portfolio lagged its benchmark by 4 basis points. The below graph illustrates the fiscal year performance against the benchmark, as well as the three-, five- and ten-year trailing returns.

Global Equity Investment Portfolio Annualized Performance



Global Equity Portfolio Investment Advisors (FY ending 2009)

Below is a list of the Global Equity investment advisor relationships and top ten holdings as of June 30, 2009.

Global Equity Portfolio Investment Advisors (FY ending 2009)

U.S. EQUITY INVESTMENT ADVISORS	STYLE	MARKET VALUE
Wellington Biotechnology	Small-Cap Active	467,089,957
Earnest Partners Small-Cap Value	Small-Cap Active	301,516,686
Sterling Small-Cap Value	Small-Cap Active	234,367,120
Brown Small-Cap Growth	Small-Cap Active	149,413,607
Numeric Small-Cap Value	Small-Cap Active	144,127,454
Turner Quant Micro-Cap	Small-Cap Active	126,940,796
Numeric Small-Cap Growth	Small-Cap Active	51,194,063
SSGA S&P 600	Small-Cap Passive	366,975,346
Wellington Mid-Cap Intersection	Mid-Cap Active	559,527,873
Hotchkis Mid-Cap Value	Mid-Cap Active	275,711,525
TimesSquare Mid-Cap Growth	Mid-Cap Active	166,224,479
TimesSquare Mid-Cap Focused	Mid-Cap Active	152,633,446
Evergreen Mid-Cap	Mid-Cap Passive	1,029,266,308
Columbia Mid-Cap	Mid-Cap Passive	442,064,491
BGI Russell 3000 Alpha Tilts	Large-Cap Active	1,457,687,892
Alliance Relative Value	Large-Cap Active	1,348,826,700
Hotchkis Large-Cap Value	Large-Cap Active	1,130,083,006
Wellington Growth	Large-Cap Active	980,191,856
Wellington Technical Equity	Large-Cap Active	890,614,306
Evergreen Russell 200 Enhanced	Large-Cap Active	637,742,507
Sands Large-Cap Growth	Large-Cap Active	609,954,554
Turner Large-Cap Growth	Large-Cap Active	518,184,126
Piedmont Strategic Core	Large-Cap Active	437,396,495
Relational Investors Large-Cap	Large-Cap Active	434,245,851
First Citizens Large-Cap	Large-Cap Passive	2,218,873,563

Global Equity continued

Non-U.S. Global Equity Portfolio Investment Advisors

The list below includes investment style and market value. Active investing is highly involved, while passive investing focuses more on the potential for long-term appreciation. The second list details the top holdings in the portfolio and the percentage of each.

Non-U.S. Equity Investment Advisors

NON-U.S. EQUITY INVESTMENT ADVISORS	STYLE	MARKET VALUE
GMO Int'l	Non-U.S. Active	1,062,308,767
Capital Guardian Int'l	Non-U.S. Active	867,229,331
Wellington Int'l	Non-U.S. Active	857,878,879
BGI Non-US Alpha Tilts	Non-U.S. Active	852,931,409
Alliance ACWI ex-US	Non-U.S. Active	801,787,993
Baillie Gifford EAFE	Non-U.S. Active	691,820,672
Oeschle EAFE Growth	Non-U.S. Active	525,818,028
Invesco Int'l	Non-U.S. Active	521,829,578
Mondrian EAFE Value	Non-U.S. Active	508,899,002
Alliance Emerging Markets	Non-U.S. Active	397,706,211
Walter Scott Int'l	Non-U.S. Active	367,616,546
Baillie Gifford Emerging Markets	Non-U.S. Active	217,911,119
BGI Frontier Markets	Non-U.S. Active	70,531,191
BGI Emerging Markets	Non-U.S. Active	50,040,928
BGI EAFE Index Fund	Non-U.S. Passive	498,318,952
Brandes Global Equity	Global Active	518,077,218
AGA Global Strategy	Global Active	178,355,300

Global Equity Top 10 Holdings (FY ending 2009)

COMPANY	% of EIP
Exxon Mobil	1.4%
Microsoft	1.0%
Apple	0.9%
Google	0.9%
JPMorgan Chase	0.7%
Chevron	0.6%
Qualcomm	0.6%
Wells Fargo	0.6%
Bank of America	0.6%
Philip Morris Int'l	0.6%

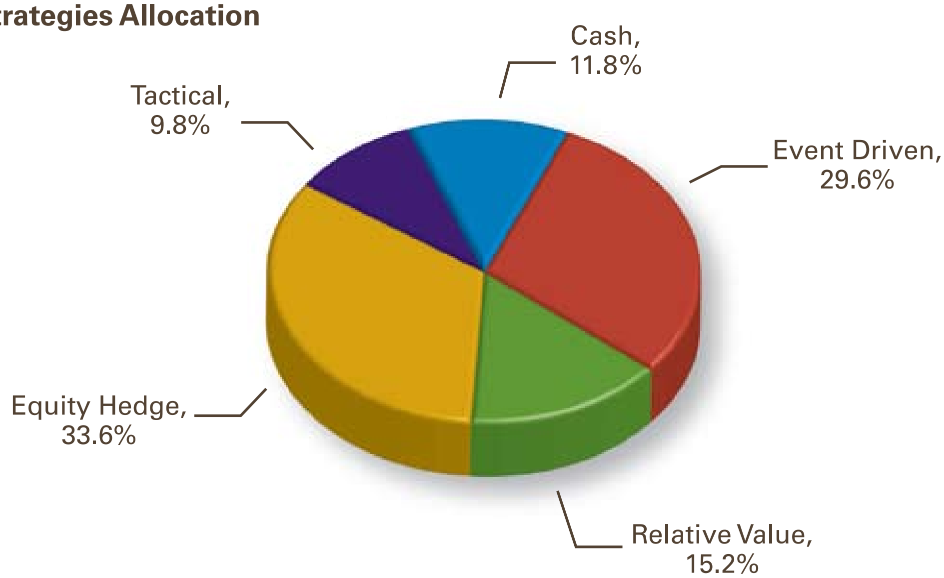
Hedged Strategies

Hedging techniques are used to reduce exposure to various risks. Hedging against investment risk means strategically using instruments in the market to offset the risk of any adverse price movements. In other words, investors hedge one investment by making another.

Hedged Strategies Structure

The market value of the Hedged Strategies portfolio at fiscal year end was $648 million, representing 1.1 percent of the Pension Fund. As of June 30, 2009, the allocation of the hedge portfolio was dominated by a 33.6 percent weight to long/short equity hedge strategies, a 29.6 percent weight to event driven strategies (predominantly credit), and a 15.2 percent weight to relative value strategies. The following chart displays these allocations.

Hedged Strategies Allocation

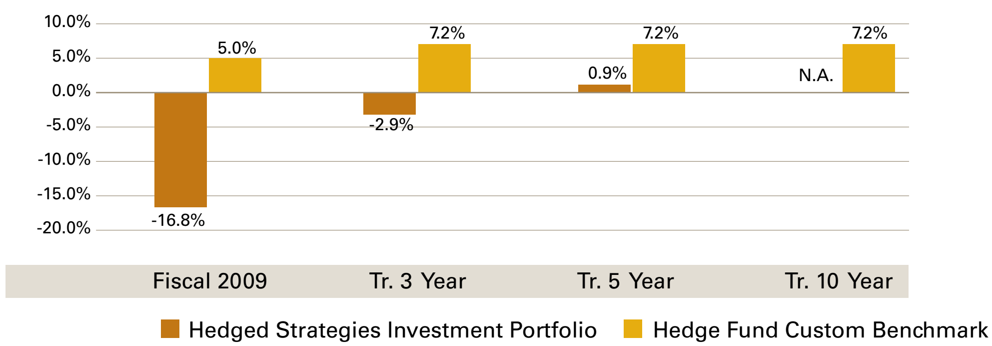


Hedged Strategies continued

Hedged Strategies Performance

For the fiscal year, the Hedged Strategies investment portfolio returned -16.8 percent, net of fees, underperforming its custom benchmark, the 90-Day U.S. Treasury Bill + 400 basis points, by 21.7 percent; however, the portfolio outperformed the HFRX Investable Global Hedge Fund Index by 1.4 percent. In evaluating the attribution of portfolio performance, net long exposures in the equity portion of the portfolio were not offset by the short side of the portfolio. Event driven managers began to layer in credit exposure and establish positions in senior credit structures as the opportunity set expanded and valuations moved to favorable levels. During the second quarter of 2009, credit managers benefited from tightening credit spreads in these positions. The chart below illustrates returns and benchmarks for the fiscal and trailing years.

Hedged Strategies Investment Portfolio Annualized Performance



Hedged Strategies Investment Advisors (FY ending 2009)

Below is a list of the Hedged Strategies investment advisor relationships as of June 30, 2009.

Hedged Strategies Investment Advisors (FY ending 2009)

HEDGED STRATEGY ADVISORS AND FUNDS	MARKET VALUE ($)
Franklin Street Partners	396,233,600
BlackRock	123,285,728
SCS Global Series I	107,015,100
DKR Relative Value	11,022,892
Broyhill Fund	10,974,447
Taconic	263,115

Real Estate

Real Estate Structure

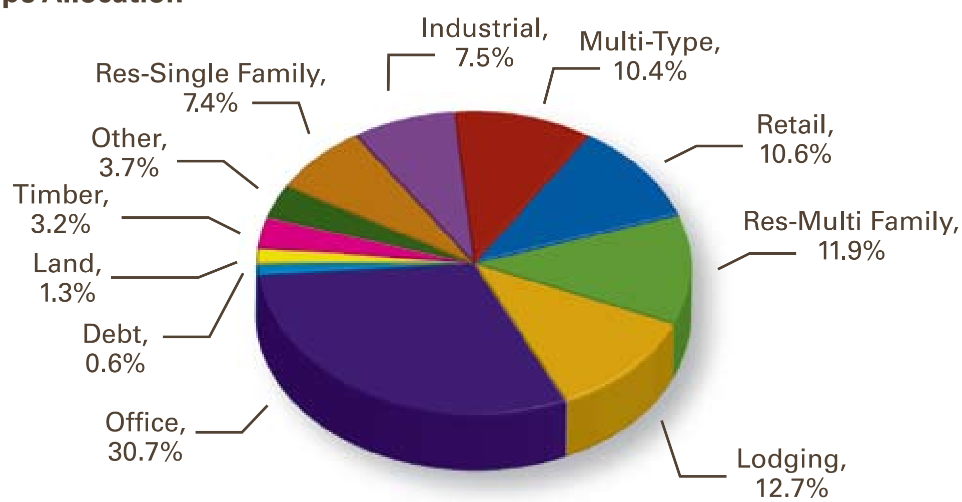
As of June 30, 2009, the Real Estate Investment Portfolio (REIP) was valued at $3.2 billion. The REIP is an actively managed portfolio of both open-end and closed-end commingled funds as well as separate account mandates. The REIP allocation as a percent of Pension Fund assets has grown to 5.4 percent at fiscal year end, compared to 1.9 percent at the 2001 fiscal year end. The target allocation is 6.0 percent of Pension Fund assets, in line with the peer universe as corporate defined benefit plans average a 4.1 percent allocation to real estate and endowments a 6.5 percent allocation, according to the National Association of College and University Business Officers.

The REIP maintains a "Core Plus" strategy, seeking the majority of returns from income as opposed to capital appreciation. Core real estate is represented by well-located, stable properties with high occupancy levels. Core investment returns are primarily driven by property income with debt levels typically at 0 percent to 50 percent of property value.

Value-Add real estate generally requires some additional leasing and moderate tenant improvements to improve value before the properties are sold. Returns are derived from both income and capital appreciation with debt levels ranging from 50 percent to 65 percent of property value. Opportunistic real estate investments require significant capital expenditures and returns are derived from capital appreciation due to the lack of "going-in" cash flows. These investments have high debt levels typically between 65 percent and 80 percent of property value. At fiscal year end, the REIP's exposure to Core and Value-Add strategies was 66 percent versus 34 percent in Opportunistic funds.

In addition, the analysis of new investments focuses on location and property types and employs a moderate level of risk. The REIP continues its objective by expanding into a variety of property types including debt, industrial, land, lodging, multi-type, office, multi-family residential, single-family residential, retail, and timber. The chart below displays the percentage of each property type allocation as of June 30, 2009.

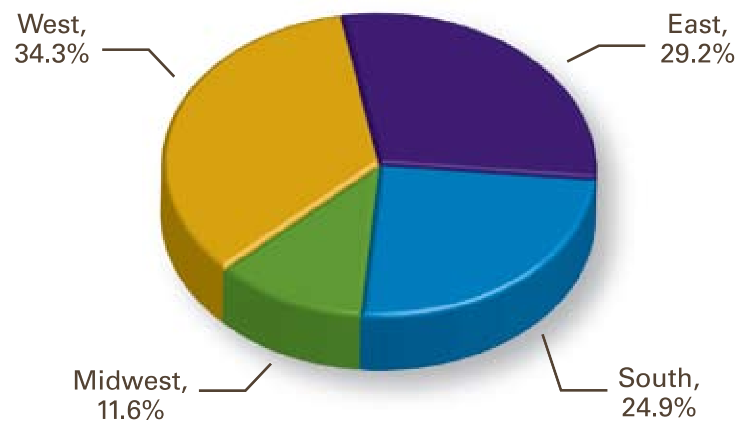
Property Type Allocation



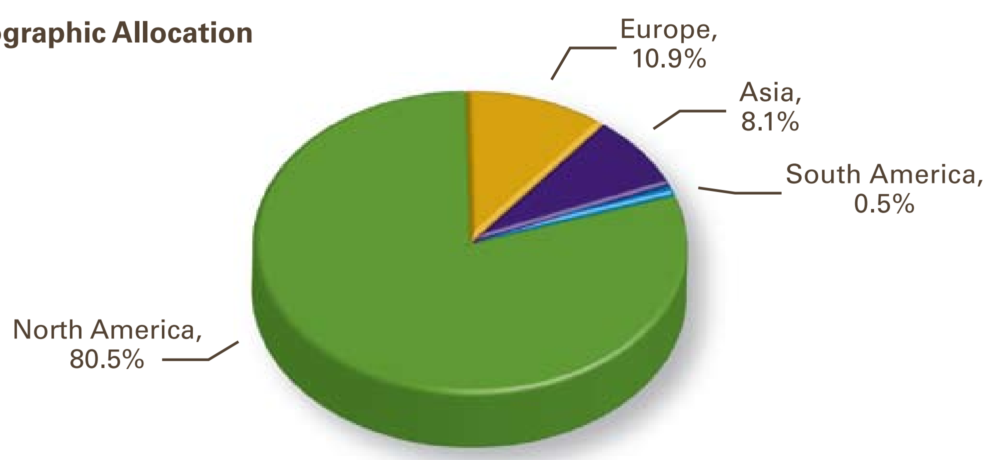
Real Estate continued

Geographically, the REIP has a North American focus, yet is diversified among the South, East, West, and Midwest regions. International investment exposure is approximately 19.0 percent with the majority in Europe. The following charts show the U.S. and global geographic allocations as of June 30, 2009.

U.S. Geographic Allocation



Global Geographic Allocation



Real Estate Market Overview

As the fiscal year began, market consensus forecasts for a shallow recession remained, despite the Federal Government's efforts to rescue Bear Stearns. These hopes were soon shattered following the government aid to Fannie Mae and Freddie Mac, the collapse of Lehman Brothers, and the AIG bailout in late 2008. Commercial real estate was not immune to the subsequent global repricing of risk, evidenced by rapid cap rate expansion (price declines). The magnitude of prospective real estate asset value declines was difficult to determine since transactional evidence was limited due to wide bid-ask spreads between buyers and sellers and/or a lack of available financing. Lenders to the asset class were showing a propensity to modify terms rather than foreclose, further delaying price discovery.

Throughout the fiscal year, commercial real estate was caught in a downward spiral. Bank balance sheet issues reduced lending volumes; reduction in lending caused a dearth of transactions except for distressed "fire-sales"; distressed pricing served as the only market comparables. These declines further impaired bank balance sheets and the spiral continued. With the massive amount of loan maturities through 2012 at over $1 trillion (for the banks alone), banks are seeking to enhance their capitalization ratios rather than originate new loans.

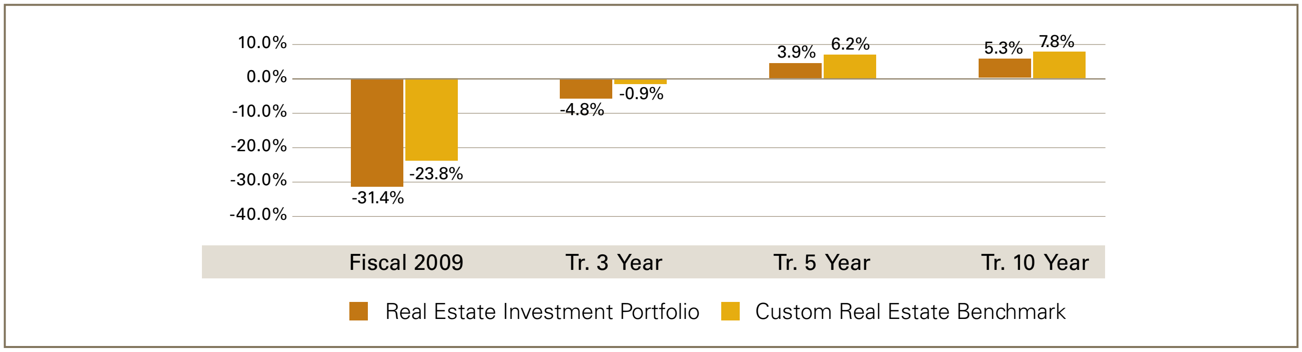
There was a precipitous decline of transactions in commercial real estate throughout the fiscal year. Sellers were hesitant to transact as buyers sought to ensure that future rent declines and rising vacancy levels had been adequately factored into the purchase price. These buyers were also weighing higher interest rates, larger equity requirements and longer hold periods.

On a positive note, the battered U.S. REIT market posted a 49 percent gain (as measured by the FTSE EPRA/NAREIT Index) from its early March bottom through June 30, 2009. However, the implied REIT cap rate, which indicates the required return for REIT-owned properties, stood at 8.8 percent at the end of the fiscal year versus the private sector cap rate of 8.1 percent, per NCREIF.

Real Estate Performance

For the fiscal year 2009, the REIP returned -31.4 percent, net of fees, underperforming its custom benchmark return of -23.8 percent. The majority of the REIP's growth as a percent of the Pension Fund occurred during fiscal years 2006 through 2008. Private equity real estate investments of such vintages have few realizations this soon after commencement and most are still in their investment period. These commitments and their corresponding management fees translate to large capital outflows until realizations occur and sale proceeds are distributed, causing returns to be negative in early years to produce a J-shaped series of returns. This is known as the "J-curve effect." Underperformance relative to the benchmark can be further attributed to leverage. At the beginning of the fiscal year, benchmark leverage was 25 percent versus the Real Estate portfolio leverage level of 45 percent, consistent with the portfolio's Core Plus strategy. By fiscal year end, property value declines increased benchmark leverage to 34 percent versus the REIP leverage of 60 percent. Leverage magnifies returns in both up and down markets and negatively impacted the Real Estate Investment Portfolio performance for the fiscal year. The chart below illustrates returns and benchmarks for the fiscal and trailing years.

Real Estate Investment Portfolio Annualized Performance



Real Estate continued

Real Estate Investment Advisors (FY ending 2009)

Below is a list of the real estate investment advisors and fund relationships as of June 30, 2009.

REIP Investment Advisors and Fund Relationships as of June 30, 2009

REIP ADVISORS AND FUNDS	MARKET VALUE ($)	REIP ADVISORS AND FUNDS	MARKET VALUE ($)
Timberland Inv Res – Nahele	234,126,800	DB RE Global Opportunity	22,446,470
MS Global RE Securities	208,035,629	Angelo Gordon Core Plus	20,080,928
JPMorgan Strategic Property	143,274,252	CBRE Strategic V	18,594,000
MSREF VI INTL	123,511,446	DLJ RECP IV	18,072,948
RREEF Global Opp II	122,750,906	Shorenstein IX	17,842,189
CBRE Strategic IV	116,008,000	Penwood CSIP I	17,440,939
Starwood SOF VII Co-Inv	108,575,997	DRA Growth & Income VI	16,504,461
Sentinel RE Fund	105,314,352	LEM RE Mezzanine II	15,477,624
DLJ RECP III	103,718,048	Crow Holdings Realty IV-A	15,083,950
Prudential PRISA	101,851,968	Rockpoint RE I	13,879,736
USB Trumbull Ppty	100,690,074	Security Cap Focus Select	13,035,287
Starwood SOF VII	99,568,757	Value Enhancement II	12,928,075
DRA Growth & Income V	89,151,399	Paladin Realty Latin Am Inv III	9,048,789
UBS Trumbull Ppty Income	88,005,503	American Value Partners	8,879,584
Shorenstein VII	84,698,116	Cherokee III	8,553,910
Keystone Industrial Fund	75,614,202	RMK Emerging Timberland	7,477,897
Warburg Pincus RE I	72,469,917	Rockpoint RE III	6,922,141
CIM URBAN REIT	66,091,424	DLJ RECP II	6,828,379
Rockpoint RE II	65,881,459	DRA Growth & Income III	6,301,201
Blackstone RE V	65,814,659	Westbrook RE III	4,456,771
Rockwood VI	63,065,551	Frogmore RE Fund 1	4,166,287
Crow Holdings Realty IV	60,483,100	Hawkeye Scout I-A	2,641,113
Stag II	59,520,437	Penwood PSIP II	1,800,028
Terra Firma Deutsche	56,481,295	Westbrook RE IV	1,762,377
Shorenstein VIII	53,727,321	Westbrook RE II	1,556,290
Blackstone RE VI	51,391,778	RLJ RE Fund III	1,196,695
Value Enhancement IV	50,735,397	Crow Holdings Realty V	535,146
JER REP III	46,228,390	Rockwood VIII	367,240
Rockwood VII	44,558,907	CIGNA Open End Fund	296,941
DRA Growth & Income IV	42,657,888	DLJ RECP	281,787
JER REP IV	41,176,233	Westbrook RE I	158,687
MSREV V INTL	40,316,855	Cherokee IV	1
RLJ RE Fund II	37,920,829	RLJ Urban Lodging I	1
Angelo Gordon Core Plus II	31,328,052	Benson Elliot RE Fund III	–
Sentinel Realty V	29,410,644	Frogmore RE Fun II	–
Crossharbor Instl PT	25,996,622	Keystone Industrial Fund II	–

Private Equity

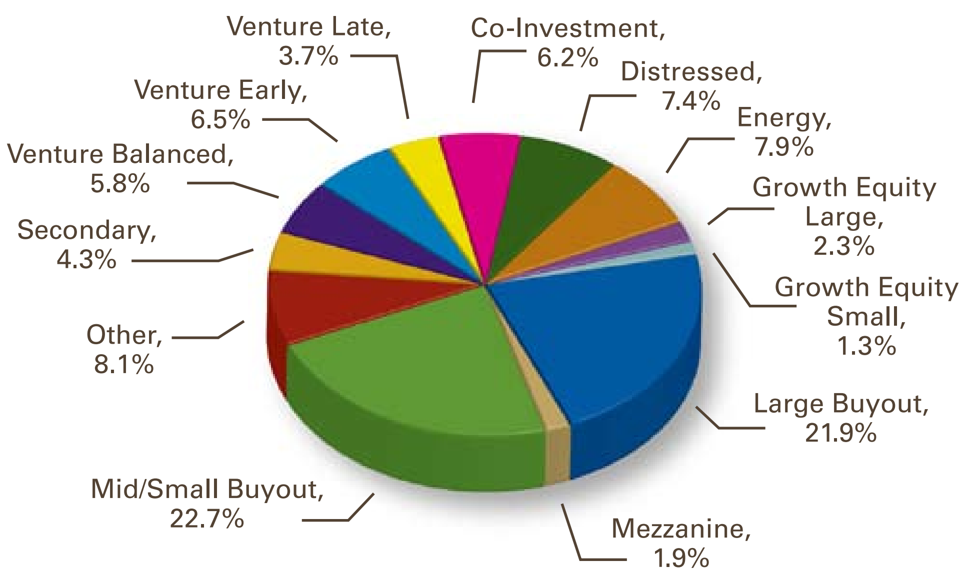
Private Equity Structure

As of June 30, 2009, the Private Equity investment portfolio maintained a market value of approximately $2.6 billion, representing 4.4 percent of the Pension Fund. The portfolio invests in limited partnerships which are externally managed by experienced private equity investment professionals.

During the course of fiscal year 2009, the combination of new accounting initiatives instituted by the Financial Accounting Standards Board (FASB) and the turmoil witnessed in the credit markets has had a direct impact on the allocation of the Private Equity portfolio. The global financial crisis and worldwide economic slowdown resulted in a dramatic decline in equity values.

Private equity investments are unlikely to provide positive returns in early years. Investment gains in private equity are typically realized in later years as assets of funds mature and increase in value due to the efforts of the management company. The effect of this timing on fund returns is referred to as the "J-Curve" effect. Specifically, the cost of management fees and write-downs of underperforming assets are borne by funds early, while the realization of gains comes with the eventual sale of assets after their value has increased. Private equity investments may be categorized into various sub-strategies. The Private Equity investment portfolio's allocation to these sub-strategies is displayed below.

Property Type Allocation



Private Equity Market Overview

Throughout the fiscal year 2009, the enduring credit crunch continued to hinder the ability for private equity buyout investors to borrow. Venture capital firms turned away from new deals and focused on keeping their portfolio companies afloat during the economic slowdown. As mergers and acquisition activity slowed dramatically, private equity investors saw limited returns as exit opportunities lessened. Buyout purchase multiples dropped significantly throughout the year as access to credit was considerably more difficult to achieve. Capital called for investment was down significantly year-over-year, and realizations (sales of portfolio investments) were minimal.

Private Equity continued

The number of investment transactions completed by private equity funds significantly declined throughout the fiscal year. Despite the drop in purchase prices, private equity funds grew more conservative and refrained from potentially stepping into investments still on the decline. The assumption for investors was that better entry prices were on the horizon. The lack of available credit also caused a decrease in investment transactions, as private equity funds were no longer able to rely on borrowing and financial engineering to create investor returns.

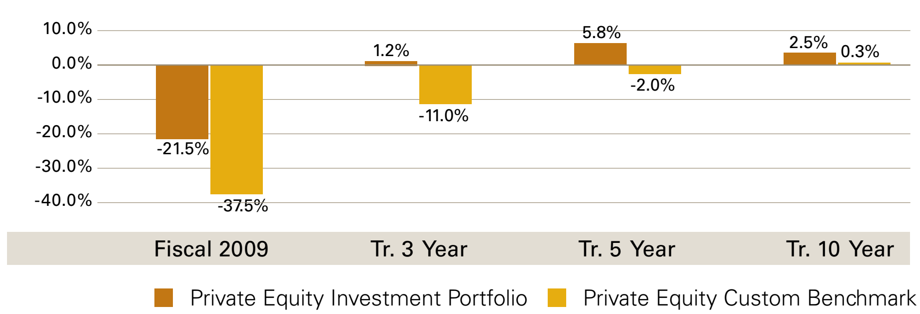
Realizations were weak as a result of the recession restricting strategic investors from making capital outlays, a severely limited Initial Public Offering market, and low amount of sales to other private equity investors. The focus of private equity funds shifted to the operations of existing portfolio companies, the preservation of capital, recruiting strong management teams and restructuring outstanding debt.

Liquidity constraints and disappointing fund performance for recent vintage years combined to dampen investor appetite for new buyout and venture capital funds. At the same time, these factors led to a dramatic increase in private equity interests available for sale in the secondary market as investors attempted to rebalance their asset allocations and address liquidity issues. The combination of greater supply of interests and more modest available capital contributed to discounts in the secondary market. The shortage of liquidity in the system compounded by the weakened economy created significant financial distress for many companies. These companies are now looking for capital to remain viable or to pursue strategic acquisitions and related growth opportunities.

Private Equity Performance

For the fiscal year, the Private Equity investment portfolio returned -21.5 percent, outperforming its benchmark return of -35.7 percent. The overall performance can be attributed to the deteriorating comparable valuations (FAS No. 157 – Fair Value Measurement) and the weakening economy. However, in terms of the stronger than benchmark performance, private companies are normally purchased below public company comparable prices to account for their illiquid nature. Though the public companies traded lower, the Private Equity portfolio was already being carried at a cost below market peers. Thus, it had further to decline than the public comparables to reach a market valuation. The chart below illustrates returns and benchmarks for the fiscal and trailing years.

Private Equity Investment Portfolio Annualized Performance



Private Equity Investment Advisors (FY ending 2009)

Following is a list of the Private Equity investment advisors and fund relationships as of June 30, 2009.

Private Equity Advisors and Fund Relationships as of June 30, 2009

PRIVATE EQUITY FUNDS	MARKET VALUE ($)	PRIVATE EQUITY FUNDS	MARKET VALUE ($)
AG Cap Recovery VI	149,933,532	TPG Biotech II	13,838,225
Credit Suisse NC Fund 2006	136,492,503	Quintana Energy II	13,448,611
AG Global Debt Strategy	110,336,849	Synergy Life Science	13,272,739
WLR Recovery Fund IV	93,466,709	Tudor Ventures III	12,223,652
Parish Capital I	92,446,054	KRG Capital IV	11,517,318
LG & Bessemer II	79,598,962	CVE Kauffman I	11,059,370
Terra Firma III	77,282,267	Apollo Investment VII	9,649,891
Apollo Investment Fund VI	75,179,712	Novak Biddle III	8,695,010
AG TALF Partners	73,214,286	Lexington Middle Mkt II	8,471,912
Parish Capital Europe I	71,709,995	Catterton Growth Partners	8,272,469
Terra Firma II	69,741,085	Robeco Clean Tech II	8,008,985
TPG Partners IV	67,149,139	Halifax Capital Partners II	7,533,888
GSO Capital Opportunity Fund	63,600,903	Pappas Ventures III	7,118,790
Warburg Pincus X	63,125,917	Highland Consumer I	6,391,982
TPG Partners V	58,110,305	Harvest Partners IV	6,283,543
Quintana Energy I	56,567,054	AG Private Equity IV	6,244,175
CVC Euro Eq IV	55,885,522	Aurora Ventures IV	6,074,255
Avista Capital Partners	53,760,563	Highland Capital VII	5,724,499
KRG Capital III	53,723,724	NCEF Liquidating Trust	5,724,146
Lexington Middle Market	51,794,862	KRG Capital II	5,527,239
Parish Capital II	51,581,729	TPG Biotech III	5,287,625
Elevation Partners	42,907,365	Novak Biddle IV	4,994,644
Warburg Pincus IX	42,533,812	Aurora Ventures V	4,961,982
WLR AHM Co-Inv	39,900,232	Horsley Bridge IX	4,612,068
Longreach Capital I	37,689,837	Intersouth Partners VI	4,417,667
Coller International IV	36,607,451	Hatteras Venture Partners III	3,815,558
Castle Harlan Partners IV	34,475,622	ARCH Fund VII	3,573,990
Francisco Partners II	33,388,785	Lindsay Goldberg III	3,534,408
Sheridan Partners	32,622,047	NC Economic Opp Fund	3,505,467
Matlin Patterson Global Opp III	32,504,877	Starvest Partners II	3,227,149
Markstone Capital Partners	30,213,307	Harvest Partners V	2,712,924
Perseus Market Opp Fund	29,575,074	Novak Biddle V	2,525,918
Perseus Partners VII	29,190,670	WLR AGO Co-Inv	2,091,032
Chapter IV Special Situations	28,456,694	AV Mgmt IV	2,059,074
Avista Capital Partners II	27,834,350	Highland Capital VI	2,006,468
Access Capital II	21,959,404	Pappas Ventures II	1,600,874
Credit Suisse NC Fund 2008	21,188,036	Pappas Ventures IV	1,546,363
Burrill Life Sciences	20,760,548	DLJ Merchant Banking II	1,503,454
Angeleno Inv II	19,960,625	Charterhouse Capital IX	1,158,677
Carousel Capital III	18,372,668	TPG Partners IV	961,645
PCA SYN Investments	18,022,523	Horsley Bridge Intl V	784,238
AG Commercial RE Debt Fund	17,837,006	Franklin Fairview I	211,310
Quaker Bioventures II	17,438,564	Sprout Capital VI	108,140
Ampersand 2006	17,192,714	Intersouth Partners III	97,369
Quintana Energy I Co-Inv	16,946,636	Sprout Capital II	88,419
Robeco Clean Tech II Co-Inv	16,673,979	Kitty Hawk Capital III	47,605
Horsley Bridge Int'l IV	16,411,790	Academy Venture Fund	43,420
AG Capital Recovery V	16,167,214	Crestview Partners Fund II	–

Ancillary Investment Programs Review

The Ancillary Funds Investment Program's objective is to generate returns that match or exceed those of the appropriate benchmarks over a three to five year basis for the Escheats Fund, UNC and Public Hospital Funds, the Local Government Other Post-Employment Benefits Fund, and other non-Pension assets invested in the core fixed income portfolio.

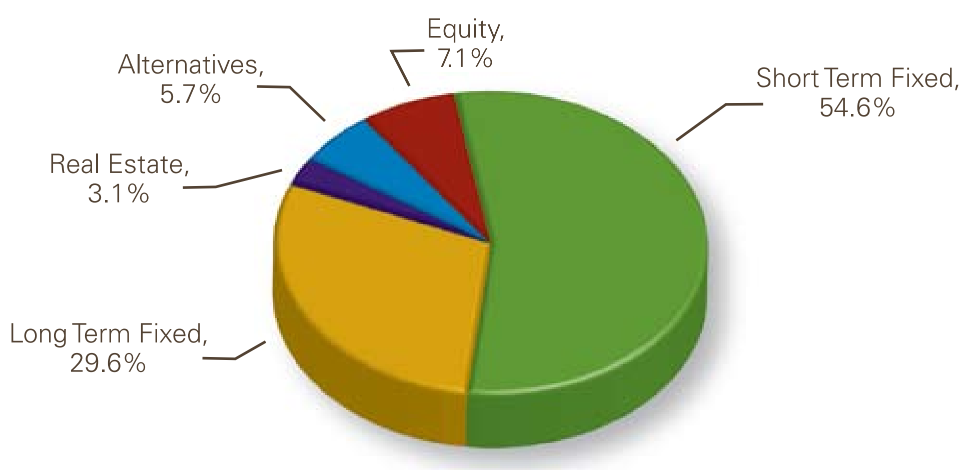
Escheats Investment Fund

Pursuant to G.S. 147-69.2(b)(12), up to 20 percent of the Escheats Fund's assets can be invested in authorized equity, real estate and alternative investments. For the fiscal year ending June 30, 2009, the Escheats Fund maintained a total portfolio market value of $429.0 million with $361.1 million invested in fixed income, $30.3 million invested in equity, $13.4 million invested in real estate, and $24.2 million in private equity. The following table and chart provide the Escheats asset allocation and percentage of total fund as of June 30, 2009.

Escheats Asset Allocation as of June 30, 2009

	MARKET VALUE	PORTFOLIO WEIGHT	TARGET WEIGHT
Fixed Income	$361,059,223	84.2%	80.0%
Total Equity	$30,275,831	7.1%	12.0%
Real Estate	$13,384,531	3.1%	4.0%
Alternatives	$24,240,533	5.7%	4.0%
ESCHEATS FUND	**$428,960,118**	**100.0%**	---

Escheats Asset Allocation

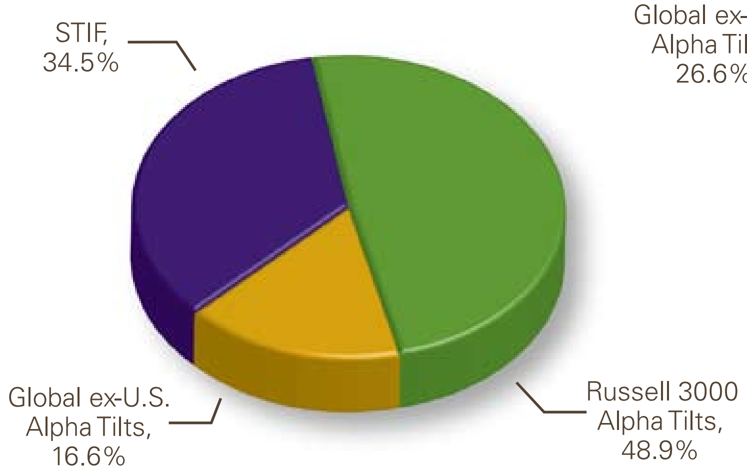


UNC and Public Hospitals

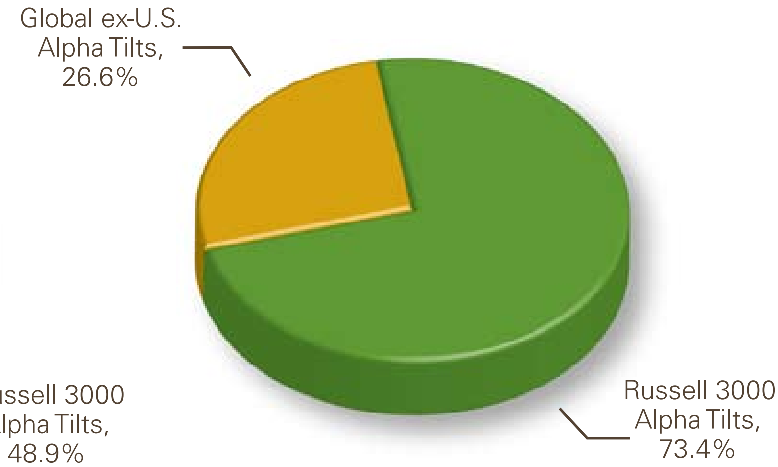
North Carolina Public Hospitals and UNC Hospital are allowed to invest funds with the State Treasurer according to G.S. 147-69.2(b2) and G.S. 147-69.2(b3).

As of June 30, 2009, the UNC Hospital's portfolio maintained a market value of $359,603,292. The market value for the New Hanover Hospital portfolio was $39,058,403, and the market value for the Margaret R. Pardee Hospital plan was $3,707,841. The percentage allocation of funds to the hospital plans are displayed below.

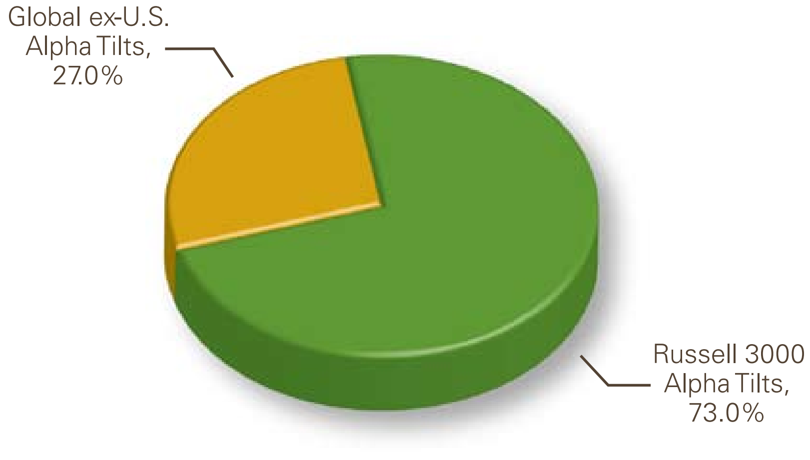
UNC Hospital



New Hanover Hospital



Margaret R. Pardee Hospital



Ancillary Investment Programs Review continued

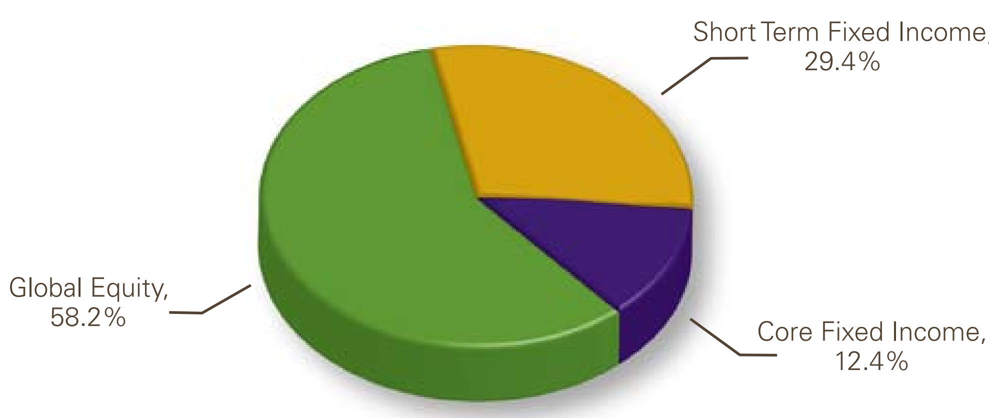
Other Post-Employment Benefits Fund

G.S. 147-69.2(b4) allows the State Treasurer to invest funds deposited in the Local Government Other Post-Employment Benefits Fund (OPEB) into a diversified portfolio. An initial contribution to the OPEB Fund was made on July 1, 2008. As of June 30, 2009, the OPEB portfolio maintained a market value of $23,881,209. The chart below provides an overview of the OPEB asset classes as of June 30, 2009.

OPEB Asset Allocation as of June 30, 2009

	MARKET VALUE	PORTFOLIO WEIGHT	TARGET WEIGHT
Short Term Fixed Income	$7,009,255	29.4%	25.0%
Core Fixed Income	$2,976,054	12.4%	10.0%
Global Equity	$13,895,900	58.2%	65.0%
OPEB FUND	**$23,881,209**	**100.0%**	---

OPEB Asset Allocation



Other Non-Pension Long-Term Investment Portfolio Participants

As of June 30, 2009, the aggregate market value of other Non-Pension participants invested in the Long-Term Investment Portfolio was $861,765,577.

The State Treasurer's Annual Report

State and Local Government Finance Division

State and Local Government Finance Division

Standing, left to right:
James Baker
Dora Fazzini
Timothy Romocki
James Burke
Robert Newman

Seated, left to right:
Sharon Edmundson
Thomas V. Holloman *Center*
Sara Shippee

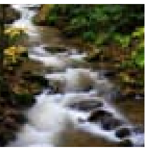
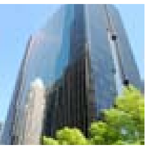
- The State and Local Government Finance Division (SLG) helped maintain the AAA rating for the State for 2009.

- As a result of the liquidity crisis that developed after the Lehman Brothers bankruptcy in September 2008, there were 34 approvals by the Local Government Commission (LGC) for refinancings, changes in remarketing or liquidity providers for variable rate debt issues, and/or swap terminations totaling almost $2.9 billion for local governments and public authorities.

- SLG staff contacted approximately 475 units of government regarding their financial health or compliance with General Statutes. While there was no one area of emphasis, most of the letters dealt with low levels of fund balance available, low working capital in enterprise funds, or lack of compliance with various components of the Local Budget and Fiscal Control Act, including budgetary compliance.

- SLG developed a new financing program Limited Obligation Bonds (LOBs) for the State of North Carolina achieving lower interest costs, increased efficiencies in issuance and widespread investor acceptance. $600 million of LOBs were issued in the 2008 – 2009 fiscal year.

- The North Carolina Capital Facilities Finance Agency (NCCFFA) approved nearly $500 million of tax-exempt financing for private institutions of higher education and other qualified entities. NCFFAA provides the benefits of tax-exempt financing to institutions that would otherwise have to borrow in the taxable markets, which provides substantial interest rate savings.

State and Local Government Finance Division

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. Staff counsel and assist local governments in determining the feasibility of projects, the size of the financing and the most expedient form of financing. Additionally, this Division monitors and analyzes the fiscal and accounting practices of all local governments.

2008–09 FISCAL YEAR
SUMMARY OF DEBT (in millions)

Total State	$	600.0
Total Local Governments	$	5,198.1
TOTAL	$	5,798.1

In 1931, the North Carolina General Assembly established the Local Government Commission (LGC), staffed by the State and Local Government Finance Division (SLG), to help address the problems in local government finance caused by the depression. In 1933, 62 North Carolina counties, 152 cities and towns, and some 200 special districts were in default on the principal or the interest or both of outstanding obligations. Currently, the State of North Carolina has a larger number of AAA rated units than any other state, and the debt of its local governments in general finds a significantly better reception on the national bond markets than the national average.

Many attribute this favored credit status, in part, to the work of the Local Government Commission. The LGC is unique nationally and is often referred to as a model for local government financial oversight.

The Division is organized to provide the State Treasurer, the Local Government Commission, the North Carolina Capital Facilities Finance Agency, and the North Carolina Infrastructure Finance Corporation with staff assistance in fulfilling their respective statutory functions.

The Local Government Commission

The Local Government Commission (LGC) provides assistance to local governments and public authorities in North Carolina. The LGC approves the issuance of debt for all units of local government and assists these units with fiscal management. The LGC 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 of the Senate and one by the General Assembly upon the recommendation of the Speaker of the House of Representatives). The State Treasurer serves as Chairman and selects the Secretary of the Commission, who heads the administrative staff serving the Commission.

The North Carolina Capital Facilities Finance Agency

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 (NCFFAA). 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 and one by the Speaker of the House). The administrative staff for the Agency is provided by the Department of State Treasurer.

The North Carolina Infrastructure Finance Corporation

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 or payment 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 Corporation, used in past years to finance State construction, repair and renovation, was inactive during this fiscal year because it is no longer being used as the preferred method for issuing this type of State debt.

Debt Management Section

SLG 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. With the assistance of other State agencies, SLG determines the cash needs, plans for the repayment of debt (maturity schedules) and schedules the sale at the most appropriate time. An official statement describing the issue and other required disclosures about the State is prepared with the advice and cooperation of bond counsel. Finally, the LGC handles the actual sale and delivery of the debt, maintains the State bond records and register of bonds, and monitors the debt service payments. At June 30, 2009, the State had General Obligation bonds outstanding of $5.2 billion and Certificates of Participation and Lease-Purchase bonds outstanding of $1.7 billion. (See T7 and T8 in the Statistical Tables Section.)

The SLG is also 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 SLG 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, 2009, the State had a "Triple-A" rating, the highest rating attainable from all three national rating agencies. These ratings have enabled the State to sell its bonds at interest rates considerably below the Bond Buyer's Index, thereby providing tremendous savings to North Carolina's taxpayers.

Another important function of SLG 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. SLG 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.

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, 2009, authorized and unissued general obligation bonds for local governments amounted to $5.1 billion and general obligation debt outstanding amounted to over $9.7 billion. (See T7 in the Statistical Tables Section.)

Another responsibility of SLG's staff is assisting units that desire to enter into agreements to finance the lease or installment purchase of capital assets. 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, 2008, the Local Government Commission approved contracts or other agreements (including refundings) totaling $2.14 billion. (See T5 and T6 in the Statistical Tables Section.)

The State and Local Government Finance Division also serves as staff to the seven-member North Carolina Capital Facilities Finance Agency, an agency established by the General Assembly in 1986. 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 NCCFFA and subsequently to the Local Government Commission for approval. Since its creation, NCCFFA has provided over $4.5 billion in tax-exempt capital financing. There have been no defaults in bonds issued by the Agency. At June 30, 2009, there were $2.9 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, 2009, the NCCFFA issued $509.5 million in bonds for eight institutions. The annual report of the NCCFFA is available from the Department of the State Treasurer.

SLG 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 Section

Another function of the State and Local Government Finance Division involves monitoring certain fiscal and accounting standards prescribed for local governmental units by the Local Government Budget and Fiscal Control Act. The 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 Local Government Commission as qualified to audit local government accounts. As a part of its role in assisting local units and monitoring their fiscal programs, the SLG provides guidance in following generally accepted accounting principles. 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.

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. 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:

- School of Government
- North Carolina Association of School Business Officials
- North Carolina Government Finance Officers Association
- North Carolina Association of County Finance Officers
- North Carolina Local Government Investment Association
- North Carolina Rural Economic Development Center, Inc.
- North Carolina Finance and Reimbursement Officers

Additionally, 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.

The Year's Highlights

Federal Stimulus Legislation

In response to the economic crisis and recession that developed in 2008–09, the U. S. Congress adopted the American Recovery and Reinvestment Act in February, 2009 that created several types of new bonds that can be issued by local governments and authorities. New bonds authorized under this act include taxable bonds with a direct subsidy to the issuer by the federal government, and tax credit bonds that allow bond purchasers to receive a tax credit against their taxable income. The taxable bonds include Build America Bonds and Recovery Zone Economic Development Bonds. The new tax credit bonds include Clean Renewable Energy Bonds, Qualified Energy Conservation Bonds, Qualified School Construction Bonds and a renewal of the Qualified Zone Academy Bonds. It is anticipated that substantial amounts of several categories of the new bonds, particularly the Qualified School Constructions Bonds, will be issued in the upcoming fiscal year. In addition to authorization of new bonds, the federal stimulus legislation provided additional funding for water and sewer system infrastructure improvements for local governments and authorities. Since May 2009, a total of 70 governmental units have been approved to receive loans ranging from $34,834 to $5,075,000. The loans are interest free and offer immediate principal forgiveness for one half the loan amount.

Debt Affordability Study

The State's annual Debt Affordability Study was updated in 2008–09 and projected that the State's General Fund could authorize and issue approximately $50.2 million in bonds annually in each of the next ten fiscal years without exceeding the State's established debt targets. The 2008–09 Study also provided an estimate of the annual debt capacity for the Transportation Funds (the State Highway Fund and Highway Trust Fund). The 2008–09 study projected that there is currently no new Transportation debt capacity.

State Bond Rating

The State maintained its "Triple-A" rating from all three national rating agencies. North Carolina is one of only seven states to enjoy top-tier rankings from all three of the rating agencies.

Bonds Issuances for Fiscal Year 2008-2009

Limited Obligation Bonds – In 2008–09, a new financing vehicle, Limited Obligation Bonds, was developed to provide funding for projects authorized for Special Indebtedness financing. The advantages include a simplified issuance procedure, homogeneous structure and more favorable market acceptance. During the fiscal year, the State sold $600 million of appropriation supported Limited Obligation Bonds for capital improvements.

General Obligation Bonds – General obligation bonds sold for local governments in 2008–09 totaled $1.7 billion.

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 2008–09, the Local Government Commission approved 26 issues totaling approximately $3.2 billion (excluding the power agencies and State issues) and issued $1.1 billion for units of local government. Only two refundings for savings were completed in 2008–09 resulting in Net Present Value savings of over $2.2 million.

ElectriCities – In September, 2008, $290 million in revenue bonds were approved by the LGC for the North Carolina Eastern Municipal Power Agency (NCEMPA) to accomplish a planned refunding for savings, and $60 million in taxable revenue bonds were approved to provide funds for the termination of three forward swaps associated with the refunding and to satisfy the funding requirements of a debt service reserve fund.

The Year's Highlights continued

North Carolina Medical Care Commission Bonds – During 2008–09, the Local Government Commission approved and sold 13 separate issues of bonds and notes for the North Carolina Medical Care Commission totaling over $1.98 billion. The largest issue was $508.6 million for University Health Systems of Eastern Carolina to provide for new construction and refinancing of other indebtedness. In attempting to meet the needs of our aging population, two revenue bond issues providing for the acquisition or financing of separate independent living/assisted/hospice care facilities were successfully completed during 2008–09, and hospital construction and/or refinancings comprised 11 other issues. Diverse issue needs were met through fixed rate revenue bonds and variable rate demand revenue bonds.

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 1,139 issues totaling $6.3 billion. These issues have created over 100,118 jobs and saved over 39,527 jobs. In the fiscal year ended June 30, 2009, no Industrial Revenue and Pollution Control Financing Facilities Bonds were issued; however, $3.5 million of special purpose bonds were issued by one local industrial and pollution control authority benefiting the public interest. No new jobs were created from this financing.

Other bond issues sold in 2008–09 included:

- Over $1.5 billion in installment purchase contracts (including refundings).
- $1.98 billion in healthcare facility revenue bonds through 13 bond issues for the North Carolina Medical Care Commission.
- $509.5 million for capital projects for private schools, colleges and other nonprofit corporations through 8 bond issues by the North Carolina Capital Facilities Finance Agency, including one issue of $20 million for solid waste disposal.

Commercial Paper

In 2008–09, commercial paper for projects to be permanently funded totaled $400 million through revenue bonds, $119 million through GO bonds, and $174 million through Certificates of Participation. 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. These are on-going programs for both general obligation and revenue bonds and certificates of participation involving more than a year in duration.

Project Development Financing

In April 2008, the Commission gave final approval for the issuance of $13.5 million in bonds for the first phase of a Woodfin/Buncombe County mixed-use housing, office and retail project and $95 million in bonds for the first phase of the N. C. Research Campus project in the City of Kannapolis. Bonds for the Woodfin/Buncombe County project were issued in August 2008 in the amount of $13.9 million. Bonds for the N. C. Research Campus project in Kannapolis have not yet been issued.

Interest Rate Swaps

The use of interest rate swaps on general obligation bonds, revenue bonds and certificates of participation used primarily to hedge interest rate risk was almost non-existent, with actions mostly to address problems where the swaps were associated with variable rate debt to produce synthetic fixed rates. Only one new swap not addressing short-term problems with a notional amount of approximately $93 million was approved for a unit of local government in 2008–09.

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 decreased from 149 to 146 but the dollar volume approved increased from $1.5 billion in 2007–08 to $2.1 billion in 2008–09. (See T5 and T6 in the Statistical Tables Section.)

Communications to Local Governments

Memorandums were issued to local governments and their auditors on the impact on local governments of the federal stimulus programs; accounting for other post employment benefits, the impact of GASB Statement No. 47 (Accounting for Termination Benefits); on local government's federal "red flag" rules and how those apply to local governments; current issues in deposits and investments; and various changes in legislation that affect local governments.

Variable Rate Markets

During fiscal 2009, conversions, refundings and modifications, or actions addressing issues in the Variable Rate Market resulted in at least 14 units replacing remarketing or liquidity providers, three units converting or refunding their issues totaling $330.5 million to fixed rate issues. Six swaps for units of local government and the power agencies were terminated in connection with the disruptions in the variable rate markets – several of which required LGC approval with a notional amount of over $251 million. In addition, the North Carolina Eastern Municipal Power Agency terminated three swaps with a notional amount of over $270 million.

Toll Roads

The North Carolina Turnpike Authority received authorization for $1.15 billion towards North Carolina's first toll road projects. With others in the planning stages, this represents an expanded effort to meet the needs of transportation in North Carolina where warranted and feasible in an expedited manner.

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. In 2008–09, a total of 11 units were approved to receive new revolving loans ranging from $1,030,617 to $17.5 million.

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 2009, the State was allotted $830 million to use for private activity bonds.

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

Approximately 477 audit letters were sent to units of local government during the fiscal year, expressing the staff's concerns about various matters and offering suggestions for improvements and assistance.

The Year's Highlights continued

■ Compliance Audit Reviews and Other Services

As a part of the audit review process, the SLG staff reviewed approximately 554 single audits and approximately 266 "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.

■ 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 eighth annual conference in August 2009. The conference was intended for both local government auditors and officials. It was conducted at two sites, and drew more than 283 participants. Topics covered included GASB Statements No. 43 through 54, compliance and financial audit issues, current issues in the debt and investment markets, implementation of federal "red flag" rules, the federal stimulus program, and risk assessment auditing standards. Staff members spoke at 27 continuing education courses and conferences sponsored by organizations such as the School of Government, various North Carolina finance officers associations, the League of Municipalities and the North Carolina Association of Certified Public Accountants.

■ State Treasurer's Accounting/Financial Management Awards Programs

The Department of State Treasurer sponsored the 19th 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. This award program is 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 occurred 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.

The following tables detail purposes for which local government sold bonds and notes and outlines debt management activities.

Purposes for Which Local Governments Sold Bonds and Notes Fiscal Year 2009

	SCHOOL	UTILITIES	REFUNDING	OTHER	NO.	TOTAL AMOUNT
G.O. BONDS						
Counties	$ 952,250,000	$ 1,060,000	$ 455,385,000	$ 40,620,000	11	$ 1,449,315,000
Municipalities	-	40,249,000	72,758,250	146,925,000	16	259,932,250
Districts and Authorities	-	25,088,000	-	-	5	25,088,000
TOTAL G.O. BONDS	**$ 952,250,000**	**$ 66,397,000**	**$ 528,143,250**	**$ 187,545,000**	**32**	**$ 1,734,335,250**
REVENUE BONDS						
Counties	$ -	$ -	$ -	$ 79,430,000	3	$ 79,430,000
Municipalities	-	-	136,325,000	592,920,000	15	729,245,000
Districts and Authorities	-	205,280,000	-	-	4	205,280,000
TOTAL REVENUE BONDS	**$ -**	**$ 205,280,000**	**$ 136,325,000**	**$ 672,350,000**	**22**	**$ 1,013,955,000**
SPECIAL OBLIGATION BONDS						
Solid Waste	$ -	$ -	$ -	$ -	0	$ -
TOTAL SPECIAL OBLIGATION BONDS	**$ -**	**$ -**	**$ -**	**$ -**	**0**	**$ -**
STATE BOND AND REVOLVING LOANS						
Counties	$ -	$ 50,059,118	$ -	$ -	7	$ 50,059,118
Municipalities	-	188,807,914	-	-	33	188,807,914
Districts	-	28,802,087	-	-	3	28,802,087
TOTAL STATE BOND AND REVOLVING LOANS	**$ -**	**$ 267,669,119**	**$ -**	**$ -**	**43**	**$ 267,669,119**
NOTES						
G.O. Bond Anticipation Notes	$ -	$ 357,249,000	$ -	$ 5,180,000	12	$ 362,429,000
Revenue Notes	-	88,733,000	-	-	6	88,733,000
TOTAL NOTES	**$ -**	**$ 445,982,000**	**$ -**	**$ 5,180,000**	**18**	**$ 451,162,000**
TOTAL BONDS AND NOTES	**$ 952,250,000**	**$ 985,328,119**	**$ 664,468,250**	**$ 865,075,000**	**115**	**$ 3,467,121,369**

Debt Management Activities
State and Local (in millions)
Fiscal Year 2009

	FY 2008-09 NO.	FY 2008-09 AMT.	FY 2007-08 NO.	FY 2007-08 AMT.	FY 2006-07 NO.	FY 2006-07 AMT.
BONDS SOLD FOR STATE						
G.O. Bonds (General Fund)	-	-	-	-	2	587.1
G.O. Bonds (Highway Fund)	-	-	-	-	0	-
Special Indebtedness	2	600.0	2	275.0	2	300.0
TOTAL	2	$ 600.0	2	$ 275.0	4	$ 887.1
BONDS AND NOTES SOLD FOR LOCAL GOVERNMENT UNITS						
G.O. Bonds	33	1,734.0	42	957.0	31	1,493.5
Revenue Bonds	22	1,014.0	42	2,814.5	27	1,402.2
State Bond and Revolving Loans	43	267.7	63	311.8	55	203.8
Special Obligation Bonds – Solid Waste	-	-	2	12.5	0	-
G.O. Notes	12	362.4	17	63.0	73	613.2
Revenue Notes	6	88.7	3	3.9	10	100.4
TOTAL	116	$ 3,466.8	169	$ 4,162.7	196	$ 3,813
INSTALLMENT/LEASE CONTRACTS SOLD FOR LOCAL UNITS	141	$ 1,557.1	155	$ 1,537.5	143	$ 1,202
REVENUE BONDS SOLD FOR						
Medical Care Commission	13	1,975.5	11	473.5	17	1,140.8
Housing Finance Agency	-	-	2	75.0	5	360.0
Power Agencies	-	-	5	880.8	1	146.6
Industrial Facilities and Pollution Control Financing Authorities	1	3.5	11	111.6	20	126.8
Capital Facilities Finance Agency	5	509.5	17	509.5	19	922.4
TOTAL	19	$ 2,488.5	46	$ 2,050.4	62	$ 2,697
GRAND TOTAL	278	$ 8,112.4	372	$ 8,025.6	405	$ 8,599

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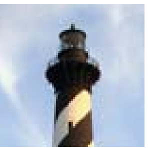
Unclaimed Property and Escheats Division

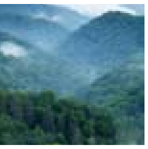
Unclaimed Property and Escheats Division

Standing, left to right:
Leon Hobbs
Dania Pumariga
Vickie Garner
Holly King

Seated, left to right:
Rosalie Littleton
Shirley Fowler *Center*
Valerie Gooding
Allen Martin *Missing*

- The Unclaimed Property and Escheats Division (UPP) saw a 39 percent increase in the amount of claims paid from $28,340,521 during the 2008 fiscal year to $39,372,068 in the 2009 fiscal year.
- The total number of claims paid increased by 58 percent from 24,608 during the 2008 fiscal year to 38,862 during the 2009 fiscal year.
- The total number of phone calls increased 5 percent from 120,858 during the 2008 fiscal year to 126,639 during the 2009 fiscal year.
- The amount of principal transferred out of the Escheats Fund for student scholarships increased to $175,916,446 in the 2009 fiscal year from $128,193,168 in fiscal year 2008. This represents $6,365,997 from interest earnings and $169,550,449 from the principal.





Unclaimed Property and Escheats Division

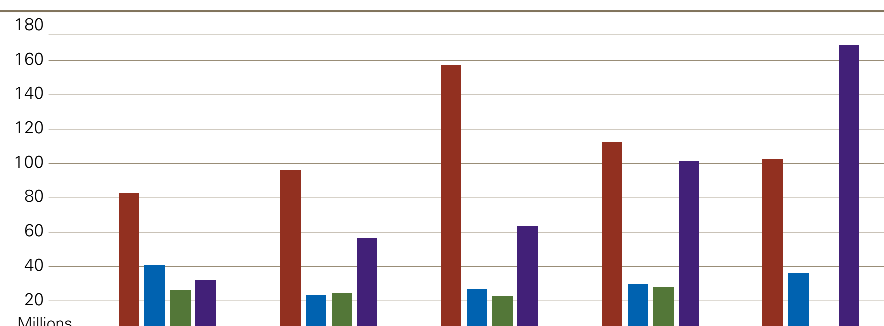
The Department of State Treasurer oversees and maintains the State's database of unclaimed property. By law, these funds are escheated, or turned over, to the department for safekeeping. The Unclaimed Property and Escheats Division is responsible for recovering and returning such property to all rightful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

Currently the unclaimed property fund is valued at nearly $600 million. This is a combination of unclaimed property collected from businesses and interest earnings from the investment of the fund. The interest earned on these funds is sent to the State Education Assistance Authority (SEAA) for student loans and grants. At the end of the 2009 fiscal year, ending June 30, a total amount of $6,365,997 from interest earned and $147,334,404 from the principal was sent to SEAA to be used for needy and worthy students. A total of 88,367 students were assisted through State Education Assistance Authority. The General Assembly has mandated additional funds from the principal to be sent to the Department of Administration Veterans Scholarship Fund in the amount of $6,918,633, Community Colleges in the amount of $13,981,202, and DHHS – Child Welfare in the amount of $1,316,210.

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 State Treasurer's Office. Upon receipt of this information, the Unclaimed Property and Escheats Division works to locate the owners by various means, including listing names on the website, earning media coverage through television and newspapers, and mailing lists to Clerks of Court. Additionally the Unclaimed Property Division staff attends outreach events, such as the North Carolina State Fair, various civic organizations and many other events throughout the State to promote public awareness about the program.

The total number of claims paid for year ending June 30, 2009 was 38,882, totaling $39,372,068. Additionally, the NCCash.com, a searchable online database of unclaimed property, now has over 57,000 subscribers that are automatically notified if they have property.

Unclaimed Property Facts



Fiscal Year Ending	2005	2006	2007	2008	2009
Total Funds Escheated	$ 80,628,130	$ 98,884,872	$ 159,036,435	$ 111,952,092	$ 101,236,002
Total Amount Returned	$ 40,507,102	$ 24,045,103	$ 27,180,494	$ 28,340,521	$ 39,372,068
Total Remitted to SEAA for Student Loans and Grants	$ 27,255,262	$ 24,726,366	$ 22,730,705	$ 27,483,812	$ 6,365,997
Total Principal Transferred For Scholarship Programs	$ 31,278,641	$ 58,271,500	$ 62,461,074	$ 100,709,356	$ 169,550,449

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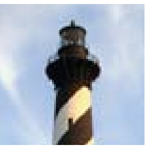
Financial Operations Division

Financial Operations Division

Standing, left to right:
Spencer Phillips
Chandler Francis
Jody Joyner
Amy Bowman

Seated, left to right:
Malinda Peters
Pamela Wortham

- The total dollar amount for processed checks through the State Bank was worth $25 trillion, an increase of 2.2 percent over the 2007 – 2008 fiscal year.
- The total dollar amount for wire transfers processed was 14,595 wires (an increase of 7.2 percent from fiscal year 2008) for a total dollar amount of over $122.7 billion (an increase of 4.9 percent from fiscal year 2008).
- Financial Operation Division (FOD) increased the number of Community Bank accounts by 7.14 percent from 84 to 90.
- FOD increased deposited balances in North Carolina Community Banks by 6.88 percent.



Financial Operations Division

The Financial Operations Division performs the State Treasurer's role of serving as the State's Banker and 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 Financial Operations Division (FOD) is comprised of four sections:

- Banking Operations
- Bank Reconciliation Unit
- Statewide Accounting Operations
- Departmental Accounting

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. 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.

All revenues collected by a State entity on behalf of the State must be deposited with the State Treasurer. This Banking Operations Section maintains correspondent depository relationships with various North Carolina 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 more than 90 community banks across the state. The Section also 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 government with financial institutions. State entities disburse funds from their accounts maintained with the State Treasurer either electronically or by the issuance of warrants or checks. During fiscal year 2008-2009, more than 9.1 million warrants were processed.

The Banking Operations Section is also responsible for activities of the Division's custodian bank, including securities delivery instructions, and collection of income and maturities.

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.

Statewide Accounting Operations

This group manages the accounting for the State Treasurer's $69 billion investment and banking programs and maintains the general ledgers for each pension fund, employee benefit trust funds and the Escheats Fund administered by the State Treasurer. All pension payments are handled in the Retirement Systems Division with oversight by this section.

Departmental Accounting

The Departmental Accounting 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 payroll for more than 300 employees, managing accounts payable, and enforcing centralized purchasing.

The Year's Highlights

- More than 340 counterfeit warrants (checks) were detected during the year; in addition, 356 cases of fraudulent warrants were discovered and closed
- Presented more than 9 million State warrants totaling more than $25 billion through the Federal Reserve Bank and processed them against agencies' disbursing accounts
- Recorded more than $6.5 billion worth of securities pledged to the State Treasurer to secure public deposits in financial institutions

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Treasurer's Cash Balances as of June 30, 2009

CONCENTRATION ACCOUNTS	AMOUNT
Raleigh, Bank of America	$ 1,290,165.21
Unemployment Clearing Account	937,511.82
Raleigh, Branch Banking & Trust Co.	2,868,416.68
Raleigh, First Citizens Bank & Trust Co.	1,429,242.58
Raleigh, RBC Centura Bank	808,139.01
Raleigh, SunTrust Bank & Trust Co.	5,644,261.72
Raleigh, Wachovia Bank of N.C.	21,072,277.92
TOTAL CONCENTRATION ACCOUNTS	$ 34,050,014.94

COMMUNITY BANK ACCOUNTS	AMOUNT
Aberdeen, First Bank	$ 32,955.43
Ahoskie, Southern Bank & Trust	32,955.50
Albemarle, Bank of Stanley	32,000.37
Angier, First Bank	32,000.05
Asheboro, First Bank	30,000.21
Asheboro, First National Bank & Trust	55,880.51
Bakersville, United Community Bank	31,999.76
Bath, Southern Bank & Trust	9,808.10
Boone, Bank of Granite	32,955.56
Bryson City, United Community Bank	31,044.58
Burnsville, Carolina First	32,000.45
Camden, Bank of Currituck	32,000.35
Cary, Fidelity Bank	32,000.28
Columbia, East Carolina Bank	77,850.59
Columbus, Tryon Federal Bank	32,000.36
Creedmoor, Fidelity Bank	26,268.40
Creswell, East Carolina Bank	15,761.56
Currituck, East Carolina Bank	24,999.79
Danbury, Newbridge Bank	17,671.45
Durham, Mechanics & Farmers Bank	58,745.91
Engelhard, East Carolina Bank	31,045.02
Fayetteville, Capital Bank	111,283.71
Franklin, Macon Savings Bank	32,000.16
Gastonia, Fidelity Bank	31,999.63
Gatesville, Southern Bank & Trust	31,999.52
Greensboro, Mutual Community Savings Bank	484,776.18
Hampstead, First Federal Bank	32,955.09
Harrisburg, Bank of the Carolinas	32,955.51
Harrisburg, Fifth Third Bank	52,059.98
High Point, High Point Bank	19,999.97
High Point, High Point Bank & Trust	31,996.61
Jefferson, Fifth Third Bank	31,999.89
Kenansville, First Bank	31,999.80
Kernersville, Bank of North Carolina	32,000.36
Kings Mountain, Fidelity Bank	14,805.94
Lake Lure, Carolina First Bank	30,000.00
Laurinburg, First Bank	31,999.51
Lenoir, Bank of Granite	48,238.63
Lewiston, Southern Bank & Trust	12,895.24
Lexington, Newbridge Bank	53,015.37
Lillington, Fidelity Bank	32,000.10
Lumberton, Lumbee Guaranty Bank	32,000.19
Manteo, East Carolina Bank	91,223.91
Marion, Fifth Third Bank	44,999.78
Mayodan, First Bank	1,231.40
Mt. Airy, Southern Community Bank	31,999.90
Mt. Airy, Surrey Bank	25,000.03
Mt. Airy, The Community Bank	31,999.73
Mt. Olive, Southern Bank & Trust	32,955.34
Murphy, United Community Bank	80,716.46
Nags Head, East Carolina Bank	40,597.06
Newland, United Community Bank	29,999.95
Newton, Peoples Bank	31,999.95
North Wilkesboro, Yadkin Valley Bank & Trust	33,910.52
Ocracoke, East Carolina Bank	92,179.54
Pembroke, Lumbee Guaranty Bank	85,492.60
Plymouth, Southern Bank & Trust	31,044.63
Polkton, First Bank	31,044.89
Raleigh, Mechanics & Farmers Bank	23,402.83
Reidsville, First National Bank	33,910.09
Robbins, Fidelity Bank	32,000.25
Robbins, First Bank	8,329.25
Robbinsville, United Community Bank	31,045.05
Salemburg, Southern Bank & Trust	51,104.48
Salisbury, Fidelity Bank	94,315.00
Sanford, First Bank	32,000.49
Seven Springs, Southern Bank & Trust	30,089.79
Shelby, Fidelity Bank	32,954.73
Shelby, First National Bank	32,000.01
Siler City, Fidelity	1,071.45
Sparta, Fifth Third	20,537.74
Spruce Pine, Carolina First Bank	31,044.77
St. Pauls, First Bank	32,000.33
Swan Quarter, East Carolina Bank	60,656.74
Tarboro, Heritage Bank	32,000.07
Troy, Fidelity Bank	32,000.03
Troy, First Bank	70,209.43
Walnut Cove, Southern Community Bank	34,865.24
Wanchese, East Carolina Bank	56,835.59
Washington, First Bank	32,000.26
Waynesville, United Community Bank	32,000.39
Wentworth, Fidelity Bank	51,103.82
West End, First Bank	8,405.74
West Jefferson, Fifth Third Bank	200,000.39
Whiteville, Security Savings Bank	32,000.12
Williamston, East Carolina Bank	31,044.21
Windsor, Southern Bank & Trust	32,000.22
Winton, Southern Bank & Trust	32,000.09
Yanceyville, Fidelity Bank	42,507.23
TOTAL COMMUNITY BANK ACCOUNTS	$ 3,896,757.14

TREASURER'S CASH BALANCE 6/30/2009 $37,946,772.08

Summary of Investments by Participants for the Periods Ended June 30, 2009 and June 30, 2008 (in thousands)

	JUNE 30, 2009	JUNE 30, 2008
RETIREMENT TRUST FUNDS		
Teachers' and State Employees' Retirement System	$ 45,256,207	$ 54,703,729
Local Governmental Employees' Retirement System	14,258,397	16,752,590
North Carolina Firemen's Pension Fund	234,814	282,830
Rescue Squad Workers' Pension Fund	28,299	33,922
Consolidated Judicial Retirement System	357,737	428,331
North Carolina National Guard Pension Plan	63,877	72,281
Legislative Retirement System	24,715	30,844
TOTAL RETIREMENT TRUST FUNDS:	$ 60,224,046	$ 72,304,527
OTHER FUNDS:		
General Fund	$ 1,568,120	$ 3,408,125
Other Funds Which Earn Interest for the General Fund	1,359,084	1,493,095
Highway Fund	875,399	859,459
Highway Trust Fund	43,062	38,170
University Funds	1,879,491	1,917,596
Other Independent Trust Funds	3,302,005	3,565,417
Local Political Subdivisions	516,086	448,752
Licensing Boards	33,461	32,164
TOTAL OTHER FUNDS	9,576,708	11,762,778
GRAND TOTAL ALL FUNDS	$ 69,800,754	$ 84,067,305

Statement of Departmental Revenues and Expenditures
Budget and Actual (Budgetary Basis)
General Fund (Departmental Activities Only)
For the Fiscal Year Ended June 30, 2009

	AUTHORIZED BUDGET	YEAR-TO-DATE ACTUAL	VARIANCE FAVORABLE (UNFAVORABLE)
DEPARTMENTAL EXPENDITURES			
General Administration	$ 1,539,492	$ 1,500,112	$ 39,380
Escheats Operations	3,368,021	3,255,651	112,370
Information Services	7,394,138	7,275,821	118,317
Investment Management Operations	5,723,001	3,859,829	1,863,172
Local Government Operations	4,259,567	4,058,408	201,159
State Bond Issuance Cost	89,434	89,432	2
Retirement Operations	24,592,916	21,615,431	2,977,485
Financial Operations:			
Banking	3,178,062	3,050,179	127,883
Accounting	1,840,785	1,674,816	165,969
TOTAL EXPENDITURES	$ 51,985,416	$ 46,379,678	$ 5,605,738
DEPARTMENTAL RECEIPTS			
General Administration	$ 1,539,492	$ 1,500,112	$ (39,380)
Escheats Operations	3,368,021	3,255,651	(112,370)
Information Services	7,394,138	7,275,821	(118,317)
Investment Management Operations	1,308,652	1,058,837	(249,815)
Local Government Operations	1,037,807	849,986	(187,822)
State Bond Issuance cost	89,434	89,432	(2)
Retirement Operations	24,592,916	21,615,431	(2,977,485)
Financial Operations:			
Banking	214,281	214,401	120
Accounting	1,626,504	1,460,415	(166,089)
TOTAL RECEIPTS	41,171,245	37,320,085	(3,851,160)
APPROPRIATION	**$ 10,814,171**	**$ 9,059,593**	**$ 1,754,578**

General Obligation Bonds
Local Government
Referenda and Authorizations
Fiscal Year July 1, 2008 through June 30, 2009

	PROPOSITIONS			BONDS		
	# PROPOSED	# APPROVED	% APPROVED	$ PROPOSED	$ APPROVED	% APPROVED
COUNTIES						
Voted Propositions:						
School	2	2	100.00%	$ 45,950,000	$ 45,950,000	100.00%
Community College	2	2	100.00%	187,500,000	187,500,000	100.00%
Parks & Recreation	3	3	100.00%	258,400,000	258,400,000	100.00%
Library	1	1	100.00%	8,000,000	8,000,000	100.00%
Public Building	1	1	100.00%	220,000	220,000	100.00%
Jail	1	1	100.00%	1,200,000	1,200,000	100.00%
TOTAL	10	10	100.00%	$ 501,270,000	$ 501,270,000	100.00%
Nonvoted Propositions:						
2/3rd issues	2	2	100.00%	$ 5,260,000	$ 5,260,000	100.00%
Refunding	10	10	100.00%	611,100,000	611,100,000	100.00%
TOTAL	12	12	100.00%	616,360,000	616,360,000	100.00%
DISTRICTS						
Voted Propositions:						
Water	6	5	100.00%	$ 102,313,000	$ 52,313,000	100.00%
Sewer						
TOTAL	6	5	83.33%	$ 102,313,000	$ 52,313,000	51.13%
MUNICIPALITIES						
Voted Propositions:						
Sanitary Sewer	2	2	100.00%	$ 1,022,000	$ 1,022,000	100.00%
Water	2	2	100.00%	25,498,000	25,498,000	100.00%
Streets	2	2	100.00%	304,200,000	304,200,000	100.00%
Housing	2	2	100.00%	11,000,000	11,000,000	100.00%
Redevelopment	1	1	100.00%	47,000,000	47,000,000	100.00%
Auditorium	1	0		50,000,000	-	
Recreation	1	1	100.00%	20,000,000	20,000,000	100.00%
Wastewater	1	1	100.00%	110,000,000	110,000,000	100.00%
Land Acquisition	1	1	100.00%	10,000,000	10,000,000	100.00%
TOTAL	13	12	92.31%	$ 578,720,000	$ 528,720,000	91.36%
Nonvoted Propositions:						
Refunding	6	6	100.00%	$ 77,765,000	$ 77,765,000	100.00%
2/3rds	2	2	100.00%	16,735,000	16,735,000	100.00%
TOTAL	8	8	100.00%	$ 94,500,000	$ 94,500,000	100.00%
TOTAL VOTED	29	27	93.10%	$ 1,182,303,000	$ 1,082,303,000	91.54%
TOTAL NONVOTED	20	20	100.00%	710,860,000	710,860,000	100.00%
GRAND TOTALS	49	47	95.92%	$ 1,893,163,000	$ 1,793,163,000	94.72%

Installment Purchase Agreements Approved by Purpose Fiscal Year July 1, 2008 through June 30, 2009

		AMOUNT
MUNICIPALITIES		
Utilities		
Sanitary Sewer	$ 22,627,570	
Electric	31,878,900	
Gas	36,200,000	
Water	19,551,903	$ 110,258,373
Public Buildings		
Fire Station	$ 11,396,773	
Administration	310,194,237	
Public Works	1,175,000	
Civic Center	31,624,000	
Jail	19,390,215	
Library	26,679,653	$ 400,459,878
Parking	$ 14,015,000	
Land Acquisition	5,921,410	
Recreation	8,013,443	
Streets & Sidewalks	10,584,390	
Equipment	58,364,930	
Performing Arts Theatre	4,500,000	
Fiber Optic Communications	46,765,000	
Public Safety	234,030,297	
Museum	147,638,577	
Economic Development	1,500,000	
Airport	1,500,000	
Refunding	15,011,185	
Infrastructure Improvements	14,385,000	
Office Space	11,883,628	
Other (Historic Properties)	250,000	$ 574,362,860
SUBTOTAL		$ 1,085,081,111
COUNTIES		
Schools		$ 385,674,086
Public Buildings	$ 5,165,785	
Courthouse/Law Enforcement/Jail	200,610,694	
EMS Building	8,103,144	
County Buildings	30,673,460	
Health & Social Services	92,109,670	$ 336,662,753
Utilities		
Water	$ 10,000,000	
Sanitary Sewer	1,841,822	$ 11,841,822
Community College	$ 16,585,957	
Economic Development	2,600,000	
Recreation	1,700,000	
Solid Waste	7,717,000	
Library	19,211,451	
Land Acquisition	15,507,658	
Refunding	147,841,000	
Equipment	17,640,000	
YMCA	8,356,417	
Stadium	8,312,693	
Animal Shelter	8,000,000	
Telecommunications	14,734,056	
Senior Citizens Building	7,775,460	
Other (Industrial Facility & Parking)	1,519,338	
Qualified Zone Academy Bonds	11,056,084	$ 288,557,114
AUTHORITIES		
Municipal Building	$ 1,500,000	
Water	2,300,000	
Sewer	1,300,000	
GESC	31,416,403	$ 36,516,403
SUBTOTAL		$ 1,059,252,178
GRAND TOTAL		$ 2,144,333,289

Installment and Lease Agreements
Approved by the Local Government Commission
Fiscal Years Ended June 30, 2009, 2008, and 2007
(in millions)

	FY 2008-09		FY 2007-08		FY 2006-07	
	NO.	AMT.	NO.	AMT.	NO.	AMT.
Counties	49	$ 858.4	45	$ 939.1	63	$ 861.0
Municipalities	77	1,085.0	88	496.2	77	610.0
Authorities/Districts	3	5.1	3	3.8	2	1.6
Community College/GESC	11	48.0	8	23.1	9	43.5
SUBTOTAL	140	$1,996.5	144	$ 1,462.2	151	$ 1,516.1
Refundings	6	$ 147.8	5	$ 57.1	6	$ 94.5
GRAND TOTAL	146	$2,144.3*	149	$1,519.3*	157	$1,610.6*

*Total includes refundings.

Summary of State and Local Government Debt and Authorizations at June 30, 2009

	GENERAL OBLIGATION DEBT[1]	INSTALLMENT/ LEASE PURCHASE DEBT	REVENUE BOND/ REVOLVING AND STATE BOND LOAN/ SPECIAL OBLIGATION BOND DEBT	TOTAL	INDUSTRIAL REVENUE BONDS	TOTAL INDEBTEDNESS	GENERAL OBLIGATION BONDS AUTHORIZED AND UNISSUED	NON-GENERAL OBLIGATION DEBT AUTHORIZED AND UNISSUED
State	$ 5,169,265,000	$ 1,744,630,000	$ -	$ 6,913,895,000	$ -	$ 6,913,895,000	$ 487,700,000	$ 1,413,265,041
State Authorities and Institutions	$ -	$ -	$ 21,838,148,484	$ 21,838,148,484	$ -	$ 21,838,148,484	$ -	$ -
TOTALS	**$ 5,169,265,000**	**$ 1,744,630,000**	**$ 21,838,148,484**	**$ 28,752,043,484**	**$ -**	**$ 28,752,043,484**	**$ 487,700,000**	**$ 1,413,265,041**
Counties	$ 7,052,898,414	$ 3,361,879,781	$ 635,490,096	$ 11,050,268,291	$ -	$ 11,050,268,291	$ 3,095,499,000	$ 32,064,080
Municipalities	$ 2,294,423,834	$ 2,284,615,014	$ 4,099,348,430	$ 8,678,387,278	$ -	$ 8,678,387,278	$ 1,863,707,750	$ 522,077,921
Districts	$ 339,159,469	$ 5,532,762	$ 170,526,928	$ 515,219,159	$ -	$ 515,219,159	$ 185,796,700	$ -
Authorities	$ 9,410,000	$ 67,662,743	$ 2,227,809,649	$ 2,304,882,392	$ 1,436,908,157	$ 3,741,790,549	$ -	$ -
TOTAL	**$ 9,695,891,717**	**$ 5,719,690,300**	**$ 7,133,175,103**	**$ 22,548,757,120**	**$ 1,436,908,157**	**$ 23,985,665,277**	**$ 5,145,003,450**	**$ 554,142,001**
GRAND TOTAL	**$ 14,865,156,717**	**$ 7,464,320,300**	**$ 28,971,323,587**	**$ 51,300,800,604**	**$ 1,436,908,157**	**$ 52,737,708,761**	**$ 5,632,703,450**	**$ 1,967,407,042**

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.

[1] General Obligation Debt above includes Literary Fund Loads and Bond Anticipation Notes.

Annual Debt Service Requirements for State Bonds Issued and Outstanding at June 30, 2009

FISCAL YEAR	GENERAL OBLIGATION PRINCIPAL	GENERAL OBLIGATION PRINCIPAL & INTEREST	HIGHWAY GENERAL OBLIGATION PRINCIPAL	HIGHWAY GENERAL OBLIGATION PRINCIPAL & INTEREST	SPECIAL INDEBTEDNESS[1] PRINCIPAL	SPECIAL INDEBTEDNESS[1] PRINCIPAL & INTEREST	TOTAL INDEBTEDNESS PRINCIPAL	TOTAL INDEBTEDNESS PRINCIPAL & INTEREST
2009-10	$ 310,320,000.00	$ 524,046,021.10	$ 54,065,000.00	$ 82,731,000.00	$ 76,280,000.00	$ 159,084,209.57	$440,665,000.00	$ 765,861,230.67
2010-11	310,520,000.00	508,941,546.10	54,030,000.00	79,992,750.00	77,700,000.00	157,213,311.28	442,250,000.00	746,147,607.38
2011-12	311,575,000.00	494,358,881.10	54,000,000.00	77,261,250.00	79,260,000.00	155,257,669.40	444,835,000.00	726,877,800.50
2012-13	313,670,000.00	480,912,535.28	53,840,000.00	74,401,250.00	80,960,000.00	153,494,595.64	448,470,000.00	708,808,380.92
2013-14	313,085,000.00	465,434,035.44	54,600,000.00	72,469,250.00	82,730,000.00	151,546,933.76	450,415,000.00	689,450,219.20
2014-15	312,340,000.00	449,944,998.06	54,600,000.00	69,739,250.00	84,635,000.00	149,584,550.01	451,575,000.00	669,268,798.07
2015-16	312,370,000.00	435,166,216.52	54,600,000.00	67,009,250.00	86,715,000.00	147,529,681.27	453,685,000.00	649,705,147.79
2016-17	310,035,000.00	417,286,004.18	54,600,000.00	64,279,250.00	88,875,000.00	145,474,600.03	453,510,000.00	627,039,854.21
2017-18	313,830,000.00	407,339,166.80	54,600,000.00	61,549,250.00	91,200,000.00	143,448,481.27	459,630,000.00	612,336,898.07
2018-19	314,925,000.00	394,438,999.84	54,600,000.00	59,099,000.00	93,600,000.00	141,442,768.76	463,125,000.00	594,980,768.60
2019-20	284,775,000.00	350,475,199.84	50,400,000.00	52,492,000.00	111,160,000.00	154,128,893.76	446,335,000.00	557,096,093.60
2020-21	254,785,000.00	307,225,866.52	-	-	110,625,000.00	148,147,156.26	365,410,000.00	455,373,022.78
2021-22	235,795,000.00	276,561,550.00	-	-	112,875,000.00	145,028,156.26	348,670,000.00	421,589,706.26
2022-23	228,760,000.00	258,134,750.00	-	-	115,225,000.00	141,822,106.26	343,985,000.00	399,956,856.26
2023-24	203,000,000.00	221,943,162.50	-	-	118,515,000.00	139,441,100.01	321,515,000.00	361,384,262.51
2024-25	123,400,000.00	133,743,162.50	-	-	82,725,000.00	98,512,018.76	206,125,000.00	232,255,181.26
2025-26	61,400,000.00	66,282,412.50	-	-	72,605,000.00	84,375,268.76	134,005,000.00	150,657,681.26
2026-27	44,245,000.00	46,414,162.50	-	-	70,390,000.00	78,638,543.76	114,635,000.00	125,052,706.26
2027-28	16,500,000.00	16,995,000.00	-	-	63,320,000.00	68,347,993.76	79,820,000.00	85,342,993.76
2028-29	-	-	-	-	45,235,000.00	47,327,943.76	45,235,000.00	47,327,943.76
TOTALS	$4,575,330,000.00	$6,255,643,670.78	$ 593,935,000.00	$ 761,023,500.00	$1,744,630,000.00	$2,609,845,982.34	$6,913,895,000.00	$ 9,626,513,153.12

[1] Special Indebtedness currently includes: Lease Purchase Revenue Bonds, Certificates of Participation and Limited Obligation Bonds.

Revenue Bonds and Other Indebtedness of State Authorities and Institutions At June 30, 2009

The following chart outlines the revenue bonds and other indebtedness of State authorities and institutions at June 30, 2009. The State is not responsible for debt service on any of the revenue bonds and other indebtedness represented in this chart.

Appalachian State University	$ 172,070,000
East Carolina University	96,133,924
Elizabeth City State University	17,016,440
Fayetteville State University	7,431,578
North Carolina A & T State University	16,085,000
North Carolina Central University	31,832,536
North Carolina School of the Arts	9,655,000
North Carolina State University at Raleigh	266,300,000
University of North Carolina at Asheville	21,280,000
University of North Carolina at Chapel Hill	1,172,414,343
University of North Carolina at Charlotte	153,196,550
University of North Carolina at Greensboro	110,273,685
University of North Carolina at Pembroke	44,994,011
University of North Carolina at Wilmington	196,676,141
Western Carolina University	65,884,239
Winston-Salem State University	71,802,417
North Carolina Capital Facilities Finance Agency	2,923,190,621
North Carolina Eastern Municipal Power Agency	2,536,965,000
North Carolina Housing Finance Agency	1,499,775,000
North Carolina Medical Care Commission	6,691,721,301
North Carolina Municipal Power Agency No. 1	1,641,900,000
North Carolina State Education Assistance Authority	3,994,462,000
North Carolina State Ports Authority	97,088,698
Total	$ 21,838,148,484

Source: Chief fiscal officer of each authority or institution.

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

	DECEMBER 31, 2008	DECEMBER 31, 2007
ASSETS		
Current actuarial value of assets		
Annuity Savings Fund	$ 9,330,710,086	$ 8,756,422,950
Pension Accumulation Fund	45,796,948,097	46,526,697,863
TOTAL CURRENT ASSETS	$ 55,127,658,183	$ 55,283,120,813
FUTURE MEMBER CONTRIBUTIONS to Annuity Savings Fund	$ 7,905,452,496	$ 7,666,167,078
Prospective contributions to Pension Accumulation Fund		
Normal contributions	$ 8,168,967,579	$ 7,870,598,200
Unfunded accrued liability contributions	391,086,516	(2,468,031,336)
Undistributed gain contributions	(2,977,283,363)	(193,102,829)
TOTAL PROSPECTIVE CONTRIBUTIONS	$ 5,582,770,732	$ 5,209,464,035
TOTAL ASSETS	$ 68,615,881,411	$ 68,158,751,926
LIABILITIES		
Annuity Savings Fund		
Past member contributions	$ 9,330,710,086	$ 8,756,422,950
Future member contributions	7,905,452,496	7,666,167,078
TOTAL CONTRIBUTIONS to Annuity Savings Fund	$ 17,236,162,582	$ 16,422,590,028
Pension Accumulation Fund		
Benefits currently in payment	$ 27,858,790,243	$ 26,200,906,236
Benefits to be paid to current active members	26,498,211,949	25,130,370,619
Reserve for increases in retirement allowances	-	597,987,872
Reserve for undistributed gains / (losses)	(2,977,283,363)	(193,102,829)
TOTAL BENEFITS PAYABLE FROM PAF	$ 51,379,718,829	$ 51,736,161,898
TOTAL LIABILITIES	$ 68,615,881,411	$ 68,158,751,926

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

	DECEMBER 31, 2007	DECEMBER 31, 2006
ASSETS		
Current actuarial value of assets		
Annuity Savings Fund	$ 3,415,134,814	$ 3,177,238,043
Pension Accumulation Fund	13,685,604,088	13,614,745,653
TOTAL CURRENT ASSETS	$ 17,100,738,902	$ 16,791,983,696
FUTURE MEMBER CONTRIBUTIONS to Annuity Savings Fund	$ 2,742,530,142	$ 2,659,827,060
Prospective contributions to Pension Accumulation Fund		
Normal contributions	$ 2,871,380,595	$ 1,837,958,003
Accrued liability contributions	73,235,885	6,163,736
Undistributed gain contributions	(708,693,094)	259,042,241
TOTAL PROSPECTIVE CONTRIBUTIONS	$ 2,235,923,386	$ 2,173,163,980
TOTAL ASSETS	$ 22,079,192,430	$ 21,624,974,736
LIABILITIES		
Annuity Savings Fund		
Past member contributions	$ 3,415,134,814	$ 3,177,238,043
Future member contributions	2,742,530,142	2,659,827,060
TOTAL CONTRIBUTIONS to Annuity Savings Fund	$ 6,157,664,956	$ 5,837,065,103
Pension Accumulation Fund		
Benefits currently in payment	$ 6,938,436,388	$ 6,359,783,062
Benefits to be paid to current active members	9,684,698,388	9,025,338,196
Reserve for increases in retirement allowances	7,085,792	143,746,134
Reserve for undistributed gains	(708,693,094)	259,042,241
TOTAL BENEFITS PAYABLE FROM PAF	$ 15,921,527,474	$ 15,787,909,633
TOTAL LIABILITIES	$ 22,079,192,430	$ 21,624,974,736

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

	DECEMBER 31, 2008	DECEMBER 31, 2007
ASSETS		
Current Actuarial Value of Assets		
Annuity Savings Fund	$ 49,826,906	$ 45,517,630
Pension Accumulation Fund	383,725,854	384,838,429
TOTAL CURRENT ASSETS	$ 433,552,760	$ 430,356,059
FUTURE MEMBER CONTRIBUTIONS to Annuity Savings Fund	$ 45,608,946	$ 44,732,620
Prospective contributions to Pension Accumulation Fund		
Normal contributions	$ 133,861,392	$ 130,528,370
Unfunded accrued liability contributions	8,379,846	(12,218,630)
Undistributed gain contributions	(21,679,951)	(9,386,499)
Total prospective contributions	120,561,287	108,923,241
TOTAL ASSETS	$ 599,722,993	$ 584,011,920
LIABILITIES		
Annuity Savings Fund		
Past member contributions	$ 49,826,906	$ 45,517,630
Future member contributions	45,608,946	44,732,620
TOTAL CONTRIBUTIONS to Annuity Savings Fund	$ 95,435,852	$ 90,250,250
Pension Accumulation Fund		
Benefits currently in payment	$ 237,268,096	$ 228,962,827
Benefits to be paid to current active members	288,698,996	269,143,182
Reserve for increases in retirement allowances	-	5,042,160
Reserve for undistributed gains / (losses)	(21,679,951)	(9,386,499)
TOTAL BENEFITS PAYABLE FROM PAF	$ 504,287,141	$ 493,761,670
TOTAL LIABILITIES	$ 599,722,993	$ 584,011,920

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

	JUNE 30, 2009	JUNE 30, 2008
ASSETS		
Annuity Savings Fund	$ 35,834,122	$ 35,037,341
Pension Accumulation Fund	279,863,137	281,935,955
CURRENT ACTUARIAL VALUE OF ASSETS	$ 315,697,259	$ 316,973,296
FUTURE MEMBER CONTRIBUTIONS to Annuity Savings Fund	$ 25,076,669	$ 24,206,247
Prospective contributions to Pension Accumulation Fund		
Normal contributions	$ 43,032,411	$ 41,742,163
Unfunded accrued liability contributions	35,627,327	22,048,851
TOTAL PROSPECTIVE CONTRIBUTIONS	$ 78,659,738	$ 63,791,014
TOTAL ASSETS	$ 419,433,666	$ 404,970,557
LIABILITIES		
Annuity Savings Fund		
Past member contributions	$ 35,834,122	$ 35,037,341
Future member contributions	25,076,669	24,206,247
TOTAL CONTRIBUTIONS	$ 60,910,791	$ 59,243,588
Pension Accumulation Fund		
Benefits currently in payment	$ 183,870,268	$ 176,519,989
Benefits to be paid to current active members	174,652,607	169,206,980
TOTAL BENEFITS	$ 358,522,875	$ 345,726,969
TOTAL LIABILITIES	$ 419,433,666	$ 404,970,557

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