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

Fiscal Year 2009-2010

North Carolina
Department of
State Treasurer

State Treasurer
Janet Cowell

Dear Fellow Citizens:

As the 27th popularly-elected Treasurer of the State of North Carolina, I am pleased to provide you with the 2009-2010 Annual Report, which summarizes key activities and outcomes for the Department of State Treasurer.

The 2009-2010 fiscal year was characterized by continued financial turbulence following the stock market crises of 2008. Stock markets rebounded during the fiscal year, recovering some of the State pension fund value that was lost in 2008. Our Investment team worked to navigate difficult financial markets by seeking and obtaining additional investment authority from the General Assembly.

Our State and Local Government Finance Division staff worked with state and local governments to take advantage of the American Reinvestment and Recovery Act (ARRA) or federal stimulus program. Some $1.3 billion of stimulus monies were injected into the State's economy since the inception of the program late in the 2009 fiscal year. This included $114 million in Qualified School Construction Bonds, $80 million for Recovery Zone Facility Bonds, and $232 million for Recovery Zone Economic Development Bonds. The State maintained its AAA bond rating by all three major bond rating houses during this time.

While busy managing external challenges, the Department staff still dedicated much time and effort to improving operations and controlling risk within the Department. We established a number of new ethics rules, expanded our internal audit program, and completed a fiduciary review of our Investment Division.

We also initiated innovative new programs such as the Innovation Fund, a $230 million fund dedicated to investing in businesses with a base in North Carolina. The Innovation Fund must achieve a market, risk-adjusted rate of return in order to fulfill our fiduciary responsibility to pensioners and the State, but we also saw the opportunity to earn good returns by investing in growing businesses within our State.

I recognize the tremendous responsibility vested in me as State Treasurer, and am grateful to the citizens of this state for placing their trust and confidence in me. I am also grateful to the many financial and other expert partners who helped me and my staff execute our responsibilities. Last, but not least, I am thankful for the professional staff within the Department of State Treasurer that are dedicated to public service.

Thank you for your interest in the Department of the State Treasurer and for taking the time to read our Annual Report. I look forward to working with you to maintain a fiscally sound and prosperous North Carolina.

Sincerely,

Janet Cowell
*North Carolina State Treasurer*

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# Introduction

# Introduction

The vision of the North Carolina Department of State Treasurer is to create and maintain a fiscally sound and economically prosperous North Carolina. The Department of State Treasurer has broad state financial authority with which to achieve this vision. The following table details key responsibilities and Divisions within the Department responsible for carrying them out.

| Key Responsibilities | Division with the Department of State Treasurer |
|---|---|
| Act as fiscal advisor to the State and local governments | All divisions |
| Administer retirement plans and other benefit programs for public employees | Retirement Systems Division (RSD) |
| Invest and oversee short-term funds for government entities and long-term funds primarily for the pension fund | Investment Management Division (IMD) |
| Oversee local government finance, manage state and local debt issuance, and interface with bond rating agencies | State and Local Government Finance Division (SLGFD) |
| Operate the State Bank and provide internal accounting and financial reporting | Financial Operations Division (FOD) |
| Manage Unclaimed Property Program | Unclaimed Property Division (UPP) |

At the heart of the Department's work are its core values, which are implemented consistently at all levels and across all Divisions. These include:

- Accountability
- Customer service
- Diversity
- Expertise
- Integrity and ethics
- A long-term view

In the interest of promoting these core values, the Department identified its highest priorities and outlined detailed plans for their achievement. The Department took decisive steps toward accomplishing these goals during the 2009-2010 fiscal year, and continues to incorporate them into its work for the State of North Carolina.

- Protecting the pension fund
- Maintaining the State's AAA bond rating
- Ensuring transparency, ethics, and accountability
- Increasing customer service
- Increasing operational efficiencies and improving risk management
- Contributing to State innovation and economic development
- Advancing financial literacy across North Carolina

## Protecting the Pension Fund

One of the primary responsibilities of the Department of State Treasurer is to administer the retirement plans for North Carolina's 820,000 public employees, including teachers, police officers, firefighters, and public servants from all over the state.

The North Carolina pension fund is conservatively invested for the long term. This keeps our State prepared to pay out obligatory pension benefits.

Below are a few of the initiatives undertaken during the fiscal year to help ensure the fiscal health of our pension fund.

- Expanded the Investment Advisory Committee (IAC) from five to seven members, increasing the financial expertise available to the Treasurer for investment decisions. The Department also established a new charter and code of ethics for the IAC to preserve integrity and maintain high ethical standards in conducting business.
- Released the findings of a year-long fiduciary review conducted by EnnisKnupp, a consulting firm, designed to analyze and make recommendations to improve investment operations and strategy. Recommendations included filling vacant positions, including the Chief Investment Officer, and hiring an internal auditor and risk manager to better asses and manage risk.
- Sought and gained additional investment flexibility during the 2009-2010 legislative session, creating the credit and inflation asset allocations within the portfolio.
- Convened the Future of Retirement Study Commission, a diverse group of citizens and experts dedicated to evaluating the retirement benefit design for future North Carolina state and local government employees.

## Maintaining the State's AAA Bond Rating

A triple-A bond rating indicates that North Carolina has followed well-defined financial management policies and demonstrated strong debt management practices. 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 2009–2010 fiscal year. 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 substantial budget deficits following the economic recession. Bond ratings are dependent on the economic stability and diversity of revenues, debt management practices, reserve levels, and funding of long-term benefit programs such as the retirement systems and health care.

Below are a few of the achievements in maintaining the triple-A bond rating:

- Oversaw the issuance of $6.5 billion in local debt ($4.9 billion in 2009), $2.5 billion in revenue bonds for special State and Local Authorities and Agencies ($2.5 billion in 2009), and $1.73 billion in State debt ($600 million in 2009).
- Released 2010 Debt Affordability Study, which provides the Governor and General Assembly with a basis for assessing the impact of future debt issuance on the State's fiscal position as well as enabling informed decision-making regarding both financing proposals and capital spending priorities.
- In conjunction with UNC School of Government, began development of a free, web-based County and Municipal Fiscal Analysis tool to enable finance officers, public officials, and citizens to better understand the fiscal health of North Carolina's cities, towns, and counties.

## Ensuring Transparency, Ethics, and Accountability

Access to government meetings and documents is enshrined in the State's constitution and is one of the pillars of a strong democracy.

In the interest of promoting ethics and transparency, the Department aims to institute and comply with transparent and ethical practices, increase accountability through performance measurement/management, reduce the risk of fraud and abuse in all Department activities, and strengthen board oversight.

During the fiscal year, the Department introduced a number of reforms:

- Implemented reforms and policies to: create safeguards against misuse of insider information; provided employees with guidelines for reporting unethical or improper government activities; outlined restrictions during the procurement process when firms are bidding on contracts with the Department; outlined restrictions on soliciting charitable contributions; and put into place a Department-wide gift ban.
- Began process of replacing Internet and Intranet infrastructure to support transparency as well as centralize electronic document management for the Department.

## Increasing Customer Service

Customer service is included in the list of core values for the Department and continuous improvement of customer service is a strategic goal. In 2010–2012, we will be improving technology for self-service, responsiveness, and quality, as well as processes that aim to provide each North Carolina citizen time savings and solid customer service when accessing or inquiring about Department of State Treasurer services.

The Department introduced the following initiatives to improve customer service:

- Improved self-service capabilities in the Online Retirement Benefits through Integrated Technology portal (ORBIT), allowing retirement plan members to access information and conduct business 24 hours a day.
- Sought and achieved the passage of legislation to regulate businesses and individuals that charge consumers for retrieving unclaimed property being held by the State. The law, passed in July 2009, protects consumers from being charged unfair fees for services provided free of charge by the Department's Unclaimed Property Division.
- Began a full Internet redesign project to offer wider range of services, improve customer experience, and support call center.

## Increasing Operational Efficiencies and Improving Risk Management

The Department of State Treasurer is consistently looking for ways to increase efficiencies and reduce risks. We assessed and identified operational areas for efficiency gains in 2009-2010. As a result, we implemented new technologies, as well as improvements in personnel and project management, that will produce time and cost savings for the Department while allowing us to maintain a high level of service to the citizens of North Carolina.

In the interest of boosting operational efficiency, the Department took the following steps:

- Centralized core functions, including Internal Audit, Communications, Legal, Training, and Human Resources staff to provide a more consistent level of support.
- Negotiated investment manager fee reductions that resulted in an annual cost savings of millions of dollars for North Carolina's pension fund. The request for lower fees was the result of a fiduciary review of the Investment Management Division conducted by EnnisKnupp.

## Contributing to State Innovation and Economic Development

Treasurer Cowell recognizes the importance of economic development in building and maintaining a financially strong and prosperous North Carolina.

In order to encourage innovation and economic development throughout North Carolina, the Department:

- Created a $230 million North Carolina Innovation Fund to support and invest in businesses with significant operations in the State while maintaining a market rate of return consistent with the overall fiduciary responsibilities of the Department. The Treasurer spoke about the Fund to over 40 companies at CED's Venture conference in Pinehurst in April.
- Established Diversity Council to promote diversity in race, culture, and ideas throughout the Department. The Council seeks to recruit and retain ethnic minorities for employment and internships, as well as ensure that diverse perspectives are considered in Departmental decision-making.

## Advancing Financial Literacy

The Department of State Treasurer is committed to helping North Carolinians' families increase their understanding of finances and ability to grow personal wealth. Financial literacy helps provide citizens of all ages with the information and resources to manage their finances and make important financial decisions.

Below are a few of the efforts that we engaged in during the 2009-2010 fiscal year.

- Embarked on Student Debt Tour to educate college students throughout North Carolina on credit card use and student debt.
- Hosted North Carolina bus tour to provide citizens in Raleigh and Greensboro one-on-one consultation with financial advisors to discuss budgeting, saving, reducing debt, investing, and other financial topics.
- Participated in the Military Saves Month financial fair to encourage military personnel and their spouses to save money, reduce debt, and focus on building wealth over time. At the fair, the Treasurer also promoted several programs that can help military families with tax preparation, debt assistance, budgeting, and financial crisis management.
- In partnership with State Superintendent of Public Instruction June Atkinson, conducted a School Financial Literacy Tour to promote financial literacy education in elementary and high schools throughout the state.
- Launched a Financial Literacy Tour for local government officials across North Carolina. During the tour, the Treasurer discussed the need for Financial Literacy in the workplace, resources offered by the Department, and ways to enhance employee preparation for retirement.

# Retirement Systems Division

## Retirement Systems Divisions Statistics

| | 2007-2008 | 2008-2009 | 2009-2010 |
|---|---|---|---|
| Amount Delivered to Retirees | $3.7 billion | $3.9 billion | $4.2 billion |
| Number of Retirees Receiving Benefits | 211,000 | 220,000 | 229,000 |
| Average Hold Times for RSD Call Center | 5:27 minutes (327 seconds) | 2:16 minutes (136 seconds) | 1:20 minutes (80 seconds) |
| Number of New Retirements Processed During the Year | 13,009 | 14,318 | 13,472 |
| Number of 401(k) Plan Members | 213,400 | 217,847 | 221,052 |
| Number of 457 Plan Members | 29,968 | 29,155 | 30,692 |

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

The North Carolina public pensions include more than 820,000 North Carolinians, including:

- Teachers
- State employees
- Firefighters
- Police officers
- Other public workers

The North Carolina Retirement Systems (Systems) is the 32nd largest in the world and the 10th largest pension fund in the U.S.

RSD manages the flow of funds in and out of the systems, for the employees' trust funds. Staff continuously reviews features and options within the defined benefit programs to ensure that plans and benefits are sustainable over time and are an efficient use of employees' and taxpayers' contributions. RSD also administers benefit plans including the NC 401(k) and Deferred Compensation (457) Plans, Disability, Death and certain benefits unique to law enforcement officers.

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

The Systems' assets, referred to as the North Carolina Pension Fund, were valued at $66.4 billion at the end of the 2009 calendar year, an increase of $6.6 billion from the previous fiscal year.

## History of North Carolina Retirement Systems

The North Carolina Retirement Systems Division was established in 1941. Prior to establishing RSD, the only pension system that was established in the State was for Confederate soldiers.

The first pension law went into effect in 1885 and granted a pension of $30 annually to Confederate veterans who were unable to work due to the loss of an eye, leg, or arm. These benefits were also available to soldiers' widows as long as they did not remarry. The system expanded later in 1885 to include widows of soldiers who had died of disease while in active service.

By 1901 the pension became available to all widows, soldiers, and sailors who were unable to perform manual labor due to injuries sustained while serving on behalf of the State of North Carolina or the Confederate States of America. Pension benefits to members of the Confederate military were:

- First class: totally disabled – $72 annually
- Second class: loss of leg or arm – $60 annually
- Third class: loss of hand or foot – $48 annually
- Fourth class: widows, those who had lost an eye, and those who were disabled due to other wounds not classified in the prior categories – $30 annually

In 1927, pensioners were reclassified to include slaves that had been servants to soldiers or slaves that had served in a role for soldier support.

Today, public pensions have expanded to include many more North Carolinians under the management of the Department of the State Treasurer. More currently:

- In 1939, the Local Governmental Employees' Retirement System was established. The System framework was in place; however, the System did not begin acquiring members until 1945.
- In 1941, the Teachers' and State Employees' Retirement System was established. Parts of the Division were under the State Auditor, and parts were under the State Treasurer.
- In the 1970s, the General Assembly created the Disability Salary Continuation Program for members of the Teachers' and State Employees' Retirement System. The program designed as a temporary disability program was discontinued, and reestablished in 1988 as two separate programs, one for LGERS members and one for TSERS members.

Today, the Retirement Systems also processes death benefits and return of contributions to its members, far beyond the services provided in the late 1800s.

## The Basic Functions

The Retirement Systems administers four major retirement systems and 11 smaller systems and pension funds:

| System | No. of Members | Value |
|---|---|---|
| Teachers' and State Employees' Retirement System (TSERS) | 577,845 | $50.3 billion |
| Local Governmental Employees' Retirement System (LGERS) | 208,031 | $16.1 billion |
| Consolidated Judicial Retirement System (CJRS) | 1,140 | $398 million |
| Legislative Retirement System (LRS) | 522 | $27 million |
| Firemen's and Rescue Squad Workers' Pension Fund | 49,903 | $284 million* |
| National Guard Pension Plan | 14,505 | $74 million |
| Legislative Retirement Fund | 522 | N/A |
| Registers of Deeds' Supplemental Pension Fund | 184 | $38 million |

* Population as of June 30, 2010, all other values as of December 31, 2009.

The Division also offers a number of supplemental plans and benefit programs:

| Program/Plan | Service |
|---|---|
| Disability Income Plan | Provides equitable replacement income for eligible members temporarily or permanently disabled |
| Public Employees' Social Security Agency | Administers the State's responsibility under the Social Security Agreement of July 16, 1951 |
| Teachers' and State Employees' Benefit Trust | Provides group death benefits for members of TSERS and LGERS. The Trust also includes the Separate Insurance Benefits Plan for state and local governmental law enforcement officers. |
| Supplemental Retirement Income Plan – NC 401(k) | Provides members with voluntary savings/investment program to supplement retirement income |
| Public Employee Deferred Compensation Plan – NC 457 | Provides members with voluntary tax-deferred savings/ investment program to supplement retirement income |
| Contributory Death Benefit for Retired Members | Offers an optional benefit that gives retirees a one-time death benefit, up to the amount of $10,000 |
| Supplemental Insurance | Provides retired members with optional supplemental insurance, i.e., dental, vision or life |
| Health Trust Fund | Managed trust fund for retired members who receive health insurance through the State Health Plan of North Carolina |

## Retirement Systems' Boards of Trustees Structure

The four largest systems and the Supplemental Retirement Plans are overseen by boards that maintain the administration and responsibility for the proper operation of each system or plan. Below are the responsibilities and structures of each.

| Teachers' and State Employees' Retirement System Board of Trustees | Local Governmental Employees' Retirement System Board of Trustees | Firemen's and Rescue Squad Workers' Pension Fund | Consolidated Judicial Retirement System and the Legislative Retirement System | Supplemental Retirement |
|---|---|---|---|---|
| State Treasurer is ex-officio chairperson | State Treasurer is ex-officio chairperson | State Treasurer is ex-officio chairperson | State Treasurer is ex-officio chairperson | State Treasurer is ex-officio chairperson |
| 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 | 14 members, including the same seven ex-officio or public Teachers' and State Employees' Retirement System Board members, plus seven members representing local governments | Five members, including actively working employees, volunteers, and a member of the public | 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. CJRS and LRS topics are included during the TSERS and LGERS Board of Trustees meetings | Nine members, including six members appointed by the Governor (experience in finance and investments; One shall be a State employee), one member appointed by the General Assembly upon recommendation of the Speaker of the House of Representatives, one member appointed by the General Assembly upon recommendation of the President Pro Tempore of the Senate |

## Division Structure

Staff efforts are devoted to accurate and timely benefit distribution in the most efficient and cost-effective manner possible. In order to optimize its administration efforts, the Retirement Systems Division is divided into six working groups:

- The Director's Office
- The Accounting Section
- The Benefits Processing Section
- The Member Services Section
- The Records Section
- The Retirement Section

### Director's Office

The Systems Director and his 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.

### 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 1,200 participating State and local units of government. This Section is also responsible for the distribution of retiree, disability, and beneficiary monthly payrolls.

During the 2009 – 2010 fiscal year, the Accounting Section:

- Processed and balanced contribution information from employers' payroll reports submitted each month to individual accounts in ORBIT. The employer payroll information identifies the 6 percent each employee contributes to their retirement every pay period. By the end of the fiscal year, 420,318 members' accounts were posted.
- Enrolled 39,678 new members during the fiscal year
- Distributed a total of $4.2 billion in benefits for the fiscal year

### 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.

Staff in this section is responsible for the calculation and the payment of returns of accumulated contributions, known as refunds, to terminated employees. Members who terminate employment with their public sector employer can apply to have their 6 percent of contributions made to the Retirement System refunded 60 days after termination of employment.

The Benefits Processing Section also manages the various death benefit programs related to the Systems and the Separate Insurance Benefits Fund. Responsibilities include the calculation and payment of death benefits, survivors' alternate benefits, and other lump sum payments.

The staff 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.

For the period of July 2009 through June 2010, the Benefits Processing Section processed:

- 2,619 short-term disability reimbursements to employers totaling $22,802,786
- 6,781 death notifications
- 15,899 payments for return of accumulated contributions, known as refunds, to terminated employees
- 3,185 new disability applications to the medical board, a 9 percent increase from the previous fiscal year
- 1,719 re-examinations for determination of continued disability benefits by the medical board

## 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 the 2009 – 2010 fiscal year, Member Services:

- Responded to 17,669 letters, e-mails, and faxes
- Answered 256,281 telephone calls through the Call Center, with an average hold time of 1.20 minutes, down .50 minutes from the previous fiscal year. The improved customer service represents a 38 percent decrease in hold-time for the average caller.
- Met with 3,148 members in the Visitors' Office
- Conducted more than 180 retirement planning conferences reaching over 10,500 members
- Provided 18 employer education seminars, many of which included a newly developed employer disability curriculum
- Enrolled local government employers with 261 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 was primarily responsible for:

- Processing 80,800 membership support documents, a 21 percent increase over last fiscal year
- Processing 46,917 new beneficiary designation forms
- Electronic distribution of more than 790,000 pages to operational staff
- The creation, maintenance and storage of electronic files for individuals who are currently, or have been at one time, members of any of the State-administered retirement systems
- Maintaining 19.2 million documents in an electronic document imaging system

## 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 credit purchase cost calculations for the various retirement systems

For the period July 2009 through June 2010, the Retirement Processing Section:

- Set up 13,472 new retirements for payment, a 15 percent increase from the previous fiscal year
- Calculated 5,762 service purchase cost calculations with a 53 percent improvement in processing time and a corresponding 15 percent decrease in the volume of requests for manual cost calculations
- Estimated 6,606 benefits with a 21 percent improvement in processing time
- Monitored more than 338,898 benefit estimates through the online Benefits Estimators on the Department of State Treasurer's website, and in the members' personal ORBIT accounts. This represents a 51 percent increase from the previous fiscal year. Despite the use of the online estimator, requests for manually calculated benefit estimates continued to increase by 19 percent from the previous year.

## Funding the Systems

### Actuarial Valuation

An actuarial valuation is prepared by an actuary to assess the funding progress of each 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.

### Actuarial Assumptions

Actuarial assumptions are estimates made for the purposes of calculating benefits. Possible variables include life expectancy, return on investments, interest rates, and compensation. By calculating the possible payout of benefits, the actuary can determine what premium to charge and what amount the insurance company should set aside as readily available cash or liquid securities.

| Economic Assumptions | Asset Valuation | Normal Contribution Percentage Rate | Experienced Gains and Losses |
|---|---|---|---|
| ▪ Economic assumptions used for the actuarial valuation of all retirement systems based on an interest rate of 7.25 percent per year.<br>▪ Average rates of salary increase of about 5 percent per year, based on inflation assumptions, varying at different ages.<br>▪ Assumed rates for mortality, withdrawals, disabilities, and service retirements based on actual past experience and projected future changes. | ▪ Asset valuation: 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. | ▪ Normal contribution percentage rate under the entry age normal cost method is calculated on the basis of the adopted actuarial assumptions as the level percentage of the compensation of the average new member.<br>▪ If contributed throughout the entire period of active service, then this would be sufficient, together with contributions, to support all the benefits payable on an account.<br>▪ Accrued liability is the difference between total liabilities and the present value of future normal cost contributions and the members' future contributions. | ▪ TSERS: Experienced gains and losses are reflected in the amount of the unfunded accrued liability and thereby affect the period of liquidation.<br>▪ LGERS: Experienced gains and losses are reflected in the normal contribution rate.<br>▪ CJRS and LRS: are funded on a full actuarial reserve basis but use the projected unit credit cost method with unfunded accrued liability as the actuarial cost approach. |

## Funding of the Systems

All retirement systems are joint contributory, defined benefit plans with contributions made by both employees and employers. Each active member contributes 6 percent of his/her compensation for creditable service by monthly payroll deduction. The only exception to this member contribution rate is the Legislative Retirement System to which each active member contributes 7 percent of his/her compensation. Employers make monthly contributions based on a percentage rate of the members' compensation for the month. Employer contribution rates were actuarially calculated for the year ending June 30, 2010. As of July 1, 2010, only the Local Governmental Employees' Retirement System, Legislative Retirement System, and Registers of Deeds' Supplemental Pension Fund have actuarially calculated employer contribution rates. The rates for all other systems are set by the General Assembly at a rate below the actuarially calculated rate.

## 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 have a high funded status relative to other public pension funds.

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 95.9 percent. The annual actuarial study is based on data collected through December 31, 2009 and, as expected, shows a drop from the previously reported status of 99 percent.

Even if we achieve investment target returns as the economy recovers, the funding status will continue to decline as losses from the 2008 downturn are distributed over the next several years and as contributions continue to fall short of the actuarial requirement. If funding contributions are met, funding status will fall to 90 percent.

Though TSERS has fallen below a fully funded status, it continues to rank within the top five systems nationally.

Chart 1: Funded Ratio of the 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% |
| 2009 – 95.9% | 2009 – 99.5% | 2009 – 92.6% |

## 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) 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.

| TSERS membership at December 31, 2009 | |
|---|---|
| Active Members | 323,580 |
| Inactive Members | 97,474 |
| Retired Members and Beneficiaries of Deceased Members | 156,791 |

Invested assets at market value amounted to $50.3 billion. For more information about investments for the NC Retirement Systems, please see the Investments Management Division section of this Annual Report.

Operations of TSERS during calendar year 2009 resulted in:

- Total receipts of $7,972,020,894
- Total expenditures of $3,218,782,378

The latest Actuary's Valuation Balance Sheet for TSERS, as of December 31, 2009, 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 3.57 percent of covered payroll, effective July 1, 2009, and at 4.93 percent of covered payroll, effective July 1, 2010. 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, 2010, the remaining accrued liability for past service.

Chart 2: Teachers' and State Employees' Retirement System of North Carolina
Year Ended December 31, 2009

| Sources of Funds | | |
|---|---|---|
| Employee Contributions | $ 846,000,000 | 10.61% |
| Employer Contributions | $ 491,000,000 | 6.17% |
| Other Income* | $ 1,600,000 | .02% |
| Investment Income | $ 6,632,000,000 | 83.20% |
| **Applications of Funds** | | |
| Retiree Benefits | $ 3,137,900,000 | 39.36% |
| Refunds** | $ 68,900,000 | .86% |
| Administrative Expenses | $ 11,700,000 | .15% |
| Other Expenses*** | $ 174,000 | .01% |
| Addition to Reserves for Future Benefits | $ 4,753,200,000 | 59.62% |

* Includes Miscellaneous Income and Restore Inactive Accounts
** Return of contributions
*** Transfer to Restore Inactive Accounts

## 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, 2009, a total of 884 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.

| LGERS Membership at December 31, 2009 | |
|---|---|
| Active Members | 123,398 |
| Inactive Members | 38,076 |
| Retired Members and Beneficiaries of Deceased Members | 46,557 |

Invested assets at market value amounted to $16.1 billion. For more information about investments for the NC Retirement Systems, please see the Investments Management Division section of this report.

Operations of LGERS during the calendar year 2009 resulted in:

- Total receipts of $2,721,137,343
- Total expenditures of $823,054,745

The latest Actuary's Valuation Balance Sheet for LGERS, as of December 31, 2009, 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 6.35 percent of covered payroll for general employees and at 6.82 percent of covered payroll for law enforcement officers, effective July 1, 2010. 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, 2009

| Sources of Funds | | | |
|---|---|---|---|
| Employee Contributions | $ | 330,900,000 | 12.16% |
| Employer Contributions | $ | 274,300,000 | 10.08% |
| Other Income* | $ | 4,700,000 | .17% |
| Investment Income | $ | 2,111,000,000 | 77.58% |
| **Applications of Funds** | | | |
| Retiree Benefits | $ | 778,900,000 | 28.63% |
| Refunds** | $ | 39,000,000 | 1.44% |
| Administrative Expenses | $ | 4,900,000 | .18% |
| Other Expenses*** | $ | 36,000 | – |
| Addition to Reserves for Future Benefits | $ | 1,898,000,000 | 69.75% |

* Fee, Licenses and Fines Court Costs, Miscellaneous Income and Restore Inactive Accounts
** Return of contributions
*** Transfer to Restore Inactive Accounts

## 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 System was formed by combining the previously existing Uniform Judicial, Uniform Solicitorial, and Uniform Clerks of Superior Court Retirement Systems. The Courts Commission was responsible for the design of the benefit structure of the previous systems, which was carried forward to the new consolidated system.

The membership of the Judicial System is comprised of the elected judges and justices, district attorneys, clerks of superior court of the General Court of Justice, and public defenders.

| CJRS membership at December 31, 2009 | |
|---|---|
| Active Members | 559 |
| Inactive Members | 52 |
| Retired Members and Beneficiaries of Deceased Members | 529 |

The invested assets at market value were about $398 million. For more information about investments for the NC Retirement Systems, please see the Investments Management Division section of this report.

Operations of the Judicial System during the calendar year 2009 resulted in:

- Total receipts of $67,281,020
- Total expenditures of $29,129,744

The latest Actuary's Valuation Balance Sheet for the Judicial System, as of December 31, 2009, 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, 2010. 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, 2009

| Sources of Funds | | |
|---|---|---|
| Employee Contributions | $ 4,800,000 | 7.19% |
| Employer Contributions | $ 9,900,000 | 14.76% |
| Other Income* | $ 1,000 | – |
| Investment Income | $ 52,500,000 | 78.05% |
| **Applications of Funds** | | |
| Retiree Benefits | $ 28,900,000 | 43.07% |
| Refunds | $ 114,000 | .17% |
| Administrative Expenses | $ 34,000 | .06% |
| Other Expenses | $ 0 | – |
| Addition to Reserves for Future Benefits | $ 38,100,000 | 56.70% |

* Miscellaneous Income

## 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

| LRS membership at December 31, 2009 | |
|---|---|
| Active Members | 169 |
| Inactive Members | 83 |
| Retired Members | 270 |

As of December 31, 2009, assets totaled $27,152,167. For more information about investments for the NC Retirement Systems, please see the Investments Management Division section of this report.

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, 2010. On this basis, the total of employee and employer rates of contribution is adequate to fund all future benefits presently authorized.

## Supplemental Retirement Income Plan of North Carolina (401(k) Plan)

**N.C.G.S. 135-90 through 135-95; 143-166.30; and 143-166.50**

The 1983 Session (Regular Session, 1984) enacted enabling-type legislation creating the State's Internal Revenue Code Section 401(k) Plan effective as of January 1, 1985. The Plan is a voluntary savings/investment program designed to supplement members' replacement income in retirement. The Plan is governed jointly by the State Treasurer and the Supplemental Retirement Board of Trustees.

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

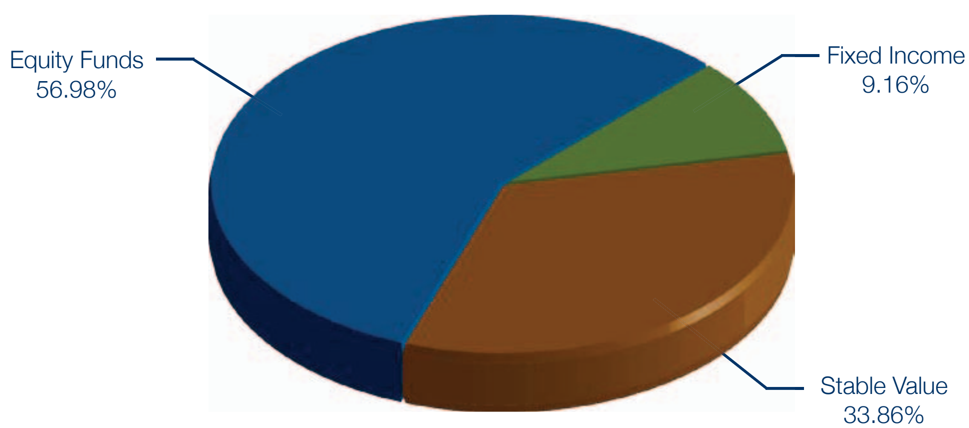
| NC 401(k) Plan membership at June 30, 2010 | |
|---|---|
| Plan Membership | 221,052 |
| Employer Contributions* | $135,481,150 |
| Member Contributions | $240,443,147 |

*Many local government employers contribute to employee plans. State government employers do not contribute to employee plans.

The total assets at market value of the Plan increased by 16.3 percent over the previous year to $4,423,983,205.

Under the current contract, members may select from 11 separate account investment options including a stable value fund. Some members also have assets invested in the frozen mutual funds that were previously offered in the Plan. As of June 30, 2010, 33.86 percent of the assets were invested in Stable Value, 9.16 percent of the assets were invested in fixed income and 56.98 percent were invested in equity funds. In addition, the outstanding loan balances totaled $222,194,750.

Members' 401(k) Investment Choices



## The North Carolina Public Employee Deferred Compensation Plan

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

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

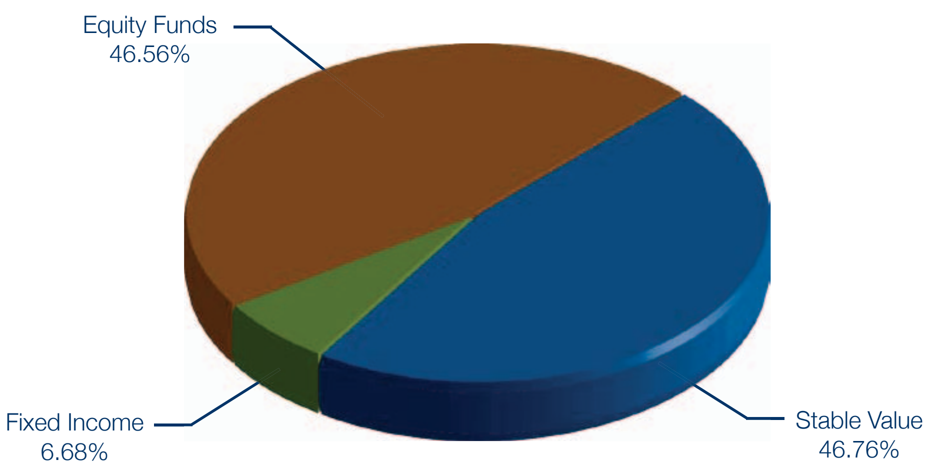
Prudential Retirement, the Plan's third-party administrator, is responsible under the Plan document adopted by the Board and the terms of the contract with the Board for all aspects of operating the Plan, including communications and record-keeping.

| NC Deferred Compensation Plan membership at June 30, 2010 | |
|---|---|
| Plan Membership | 30,692 |
| Member Contributions | $41,404,927 |

The total assets at market value of the Plan increased by 11 percent over the previous year to $703,960,506.

Under the current contract, members may select from 11 separate account investment options including a stable value fund. Some members also have assets invested in the frozen mutual funds that were previously offered in the Plan. As of June 30, 2010, 46.76 percent of the assets were invested in Stable Value, 6.68 percent of the assets were invested in fixed income and 46.56 percent were invested in equity funds. In addition, the outstanding loan balances totaled $10,268,956.

Members' Deferred Compensation Investment Choices



## 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. The Contributory Death Benefit, Retiree Death Benefit Plan, and the active member death benefit are included in the Benefit Trust.

All contributions to fund the death benefits plans are held separate and apart from any pension or retirement funds.

In 2009, 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 are funded through employer contributions. TSERS employers' submit .16% of their contribution rate. LGERS employers' rate is determined by actuary valuation and is adjusted for each agency annually.

| Death Benefit Payments Calendar Year 2009 | | |
|---|---|---|
| Retirement System Members | Number of Payments | Payment Amount |
| Teachers' and State Employees' | 534 | $19,900,000 |
| Local Governmental Employees' | 124 | $4,700,000 |

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 2009 are also provided in the chart below.

Chart 5: North Carolina Teachers' and State Employees' Benefit Trust
Year Ended December 31, 2009

| Sources of Funds | | |
|---|---|---|
| Local Governmental Employees' Retirement System Death Benefit | $4,600,000 | 7.12% |
| Retirees' Death Benefit | $18,800,000 | 28.64% |
| Teachers' and State Employees' Retirement System Death Benefit | $22,000,000 | 33.57% |
| Investment Income | $20,100,000 | 30.67% |
| **Applications of Funds** | | |
| Local Death Benefits Paid | $5,000,000 | 7.68% |
| Death Benefits and Insurance Paid SIF | $822,000 | 1.25% |
| Administrative Expenses | $750,000 | 1.14% |
| Retiree Death Benefits Paid | $13,400,000 | 20.46% |
| State Death Benefits Paid | $19,900,000 | 30.35% |
| Addition to Reserves for Future Benefits | $25,700,000 | 39.12% |

## 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.

| Firemen's and Rescue Squad Workers' membership at June 30, 2010 | |
|---|---|
| Active Members | 38,484 |
| Retired Members | 11,298 |

Invested assets at market value amounted to about $283.78 million. For more information about investments for the NC Retirement Systems, please see the Investments Management Division section of this report.

Operations of the Firemen's and Rescue Squad Workers' Pension Fund during the 2009 fiscal year resulted in:

- Total receipts of $43,935,908
- Total expenditures of $23,991,647

The latest Actuary's Valuation Balance Sheet, as of June 30, 2010, is shown in Table T13 in the Statistical Tables Section. Based on the latest actuary's report, the General Assembly appropriated $10,079,671 for the 2009–2010 fiscal year. The annual appropriations will fund all future benefits, based on current service, and will fund, over a period of nine years from June 30, 2010, the remaining accrued liabilities for past service.

Chart 6 presents the distribution of revenues by source and expenditures by purpose.

Chart 6: Firemen's and Rescue Squad Workers' Pension Fund
Year Ended December 31, 2009

| Sources of Funds | | |
|---|---|---|
| Appropriation | $10,000,000 | 22.94% |
| Member Contributions | $2,600,000 | 5.96% |
| Investment Income | $31,200,000 | 71.08% |
| Miscellaneous Income | $5,000 | .02% |
| **Applications of Funds** | | |
| Pension Benefits | $22,600,000 | 51.59% |
| Refunds | $431,000 | .98% |
| Administrative Expenses | $894,000 | 2.04% |
| Addition to Reserves for Future Benefits | $19,900,000 | 45.39% |

## Retirees' Health Premiums Funds

Funds are remitted from employers through their monthly ORBIT payroll reporting process 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 Retirees' 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 2009 | |
|---|---|
| Beginning Fund Balance | $434,768,521 |
| **Additions** | |
| Employer Contributions | $654,908,753 |
| Investment Income | $10,511,518 |
| **Deductions** | |
| Health Premiums Paid | $543,514,274 |
| Administrative Expense | $371,479 |
| **ENDING FUND BALANCE** | **$556,303,039** |

## 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, 2009, there were 13 former members and officers of the General Assembly in receipt of allowances with a cost of $18,900. 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. In this expendable trust, money is not added to the fund. Only the 13 members who applied for retirement during the years of operation are covered in this fund.

## 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. 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, 2010.

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 2008 and 2009.

Disability Income Plan Statistics
Calendar Years 2008 and 2009

| | 2008 | 2009 |
|---|---|---|
| Number of Disabled Members | 6,214 | 6,089 |
| New Claims During the Year | 958 | 824 |
| Employer Contributions | $78,200,000 | $78,600,000 |
| Investment Income | $23,700,000 | $21,500,000 |
| Amount of Benefit Payments | $75,900,000 | $72,500,000 |

## 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.

| Guard Plan membership at December 31, 2009 | |
|---|---|
| Beneficiaries in receipt of monthly allowances | 3,677 |
| Monthly allowances | $6,275,428 |

The 1983 session of the General Assembly enacted legislation 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. Benefits from the Registers of Deeds' Supplemental Pension Fund became payable beginning July 1, 1988.

Effective July 1, 2007, this funding was reduced to 1.5 percent.

- As of December 31, 2009, this fund had total assets in the amount of $38,043,269.
- For the year ending December 31, 2009, the Fund paid total benefits in the amount of $1,513,935.

## The Year's Highlights

### Established the Future of Retirement Study Commission

The TSERS and LGERS Boards of Trustees voted to initiate a Future of Retirement Study Commission. The Commission was created to deliberate on the design of the retirement system for future public employees in response to the changing economy and help the State attract, retain and manage its workforce.

The 13-member Commission, composed of government employees, retirees, human resource experts, and private sector leaders, met throughout 2010 to review major aspects of benefit design, taking into account both the needs of public employees as well as fiscal impacts.

At a January 2011 meeting, the Boards will decide which of the Commission's recommendations should be presented to the General Assembly for consideration.

### Increased Membership in NC 401(k)/NC 457 Plans

The Supplemental Retirement Income plans continued to experience an increase in membership during the fiscal year.

- Membership in the NC 401(k) plan increased from 213,400 in the 2008-2009 fiscal year to 221,052 in the 2009-2010 fiscal year.
- Membership in the NC 457 plan increased from 29,155 in the 2008-2009 fiscal year to 30,692 in the 2009-2010 fiscal year.

### Providing Customer Information Online

Retirement Systems members' registration to Online Retirement Benefits through Integrated Technology (ORBIT) increased from 100,000 in 2008-09 to more than 147,000 in 2009-10 since the launch of the web portal in 2007.

ORBIT enables members to access account information immediately, provides self-service for customers, and has helped eliminate the amount of paper generated and mailed by the Division. It has provided our members with more than 338,898 estimates of benefits, a newly improved service credit purchase calculator, and the ability to designate or change beneficiaries.

- For the first time, members were able to access their 2009 Annual Benefits Statements online. Statements were not mailed. This allowed members to access statements anywhere, at any time.
- Retirement System members with less than 10 years of service can designate beneficiaries through ORBIT for the employee death benefit or for a return of contributions in the event of the member's death.
- Electronic "Welcome" Packets. The "Welcome" packet process for newly hired, first-time employees was modified to enable Retirement System members to complete their beneficiary designations, and to learn about the retirement system to which they belong and the benefits available to them.

### Legislation

This was the first year the Board of Trustees governing the Teachers' and State Employees' Retirement System and the Local Governmental Employees' Retirement System could neither recommend nor provide a cost-of-living adjustment.

### Communications

- The Retirement Systems Division launched its first electronic newsletter to active public sector employees. The e-version of *On the Horizon* newsletter was sent to active members who provided e-mail addresses when registering for ORBIT. The e-news supplements the one printed newsletter mailed annually to active members.
- Targeted communications were created to inform members of their benefits based on where they are in their public sector career. The segmented messages target newly vested members, members within five years of retirement, and members eligible to retire.
- For the first time in its 68-year history, the Division conducted a survey to better understand members' needs and expectations, and identify areas for process improvement. More than 25,000 members provided valuable feedback that will help shape the Division's short-term and long-term plans.
- Customer service surveys were created to measure members' experiences when calling or e-mailing the Division, or when completing the process for a retirement benefit, a refund of contributions or a new level of disability benefit. Beneficiaries also receive a survey when they complete the process to receive a death benefit.

# Investment Management Division

## Investment Management Division Statistics

| | 2007-2008 | 2008-2009 | 2009-2010 |
|---|---|---|---|
| Total assets of NC Retirement Systems | $72.3 billion | $60.2 billion | $65.3 billion |
| Investment Performance for the NC Pension Fund | 2.1% decrease | 14.2% decrease | 12.0% increase |
| **Returns from Each Asset Class with the Total Pension Fund** | | | |
| Fixed Income | 7.94% | 7.62% | 13.22% |
| Global Equity | -10.45% | -27.76% | 14.31% |
| Private Equity | 12.92% | -21.53% | 12.88% |
| Hedge Funds | -0.93% | -16.77% | 10.25% |
| Real Estate | 8.74% | -31.43% | -16.74% |
| **Funded Status** | | | |
| Funded Status of the Teachers' and State Employees' Retirement System (TSERS) | 104.7% | 99.3% | 95.9% |

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, Alternative Fund, Credit Fund and Inflation Fund. (See the Pension Investment Program Review for definitions on page 39).
- **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, 2010, total assets of the Cash Management Program, the Pension Fund Investment Program, and Ancillary Investment Programs were $78.0 billion.

| Program Percentage of Total Assets in 2010 | |
|---|---|
| Cash Management Program | 14.4% |
| Pension Fund Investment Program | 83.7% |
| Ancillary Investment Program | 1.9% |

The Treasurer is directed by statute to establish, maintain, administer, manage, and operate investment programs for all funds on deposit, pursuant to the applicable statutes. In doing so, the Treasurer has full powers as a fiduciary and, with the Investment Team, shall manage the investment programs so assets may be readily converted into cash when needed.

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

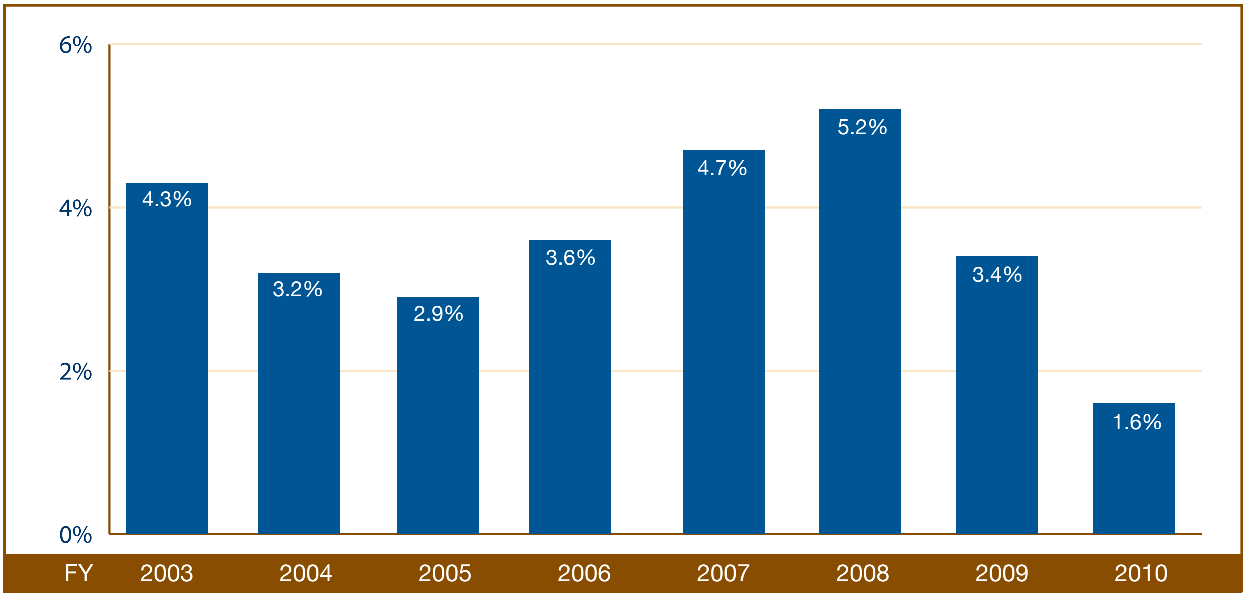
The Cash Management Program's objective is to maximize income consistent with the principals of preservation of capital and liquidity. Prudence in discharging this fiduciary obligation requires that all investments be reviewed continuously to ensure recognition of opportunities in the secondary markets that may improve the quality and/or income stream. 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 95.6 percent of the Cash Management Program. The Bond Proceeds Fund, managed by Sterling Capital, accounts for 4.4 percent of the Program.

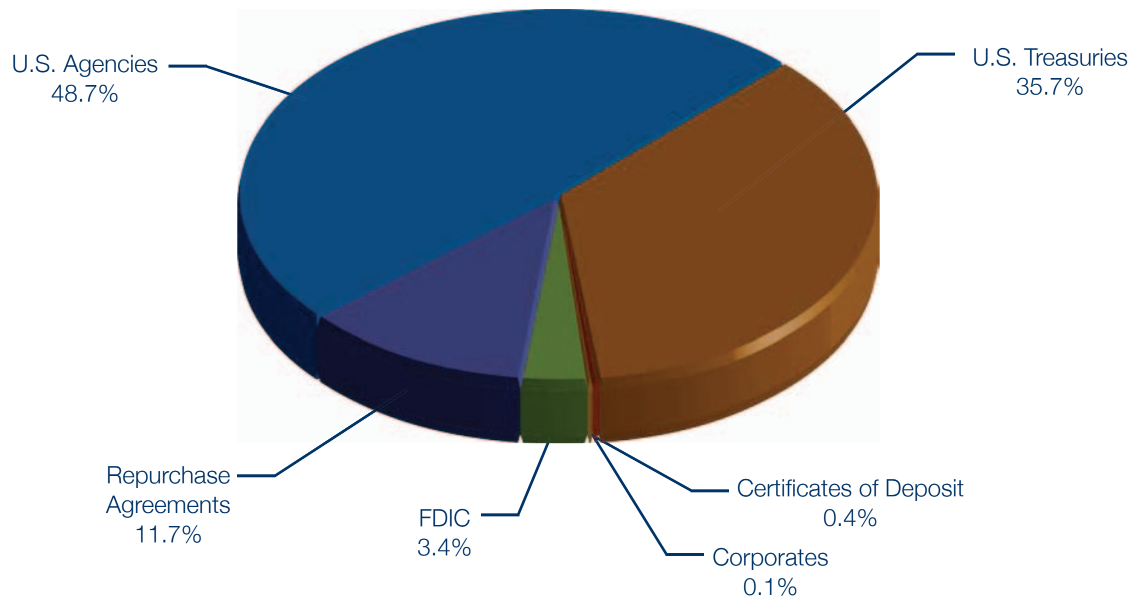
The STIF is an internally managed portfolio of highly liquid fixed income securities. These securities are primarily money market instruments and short to intermediate term U.S. Treasuries and Agencies. All bank accounts of the State Treasurer are included in this portfolio, which serves as the main operating account for state agencies. Because the Treasurer's cash balances are ultimately subject to disbursement upon presentation of valid warrants, the primary consideration in making investments is safety and liquidity; the secondary consideration is income. For the fiscal year 2010, the STIF generated a cash return of 1.6 percent. The following chart provides historic returns for the fund performance as of June 30, 2010.

STIF Fiscal Year Performance



The following graph provides STIF Asset Allocation as of June 30, 2010.

STIF Asset Allocation as of June 30, 2010




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

## STIF Top Ten Positions as of June 30, 2010

The chart below shows the top ten positions for the fiscal year for the Short Term Investment Fund as of June 30, 2010.

### STIF Top Ten Positions as of June 30, 2010

| Issuer | Coupon | Maturity Date | Par Value ($) |
|---|---|---|---|
| HSBC Securities Repo | 0.100% | 07/01/2010 | 500,000,000 |
| UBS Warburg Repo | 0.070% | 07/01/2010 | 500,000,000 |
| Wachovia Repo | 0.050% | 07/01/2010 | 350,000,000 |
| U.S. Treasury Note | 1.250% | 11/30/2010 | 350,000,000 |
| U.S. Treasury Note | 0.875% | 12/31/2010 | 350,000,000 |
| U.S. Treasury Note | 0.875% | 01/31/2011 | 350,000,000 |
| U.S. Treasury Note | 0.875% | 02/28/2011 | 350,000,000 |
| U.S. Treasury Note | 0.875% | 03/31/2011 | 350,000,000 |
| U.S. Treasury Note | 0.875% | 04/30/2011 | 350,000,000 |
| U.S. Treasury Note | 0.875% | 05/31/2011 | 350,000,000 |

## STIF Summary of Brokers Utilized During Fiscal Year 2009 - 2010

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 2010 fiscal year.

### STIF Summary of Brokers Utilized During Fiscal Year 2009 - 2010

| | | |
|---|---|---|
| Bank of America | Jefferies | RBC Capital Markets |
| Citigroup | JPMorgan Chase | RBS Greenwich Capital |
| Credit Suisse Securities | Loop Capital | UBS Warburg |
| Deutsche Bank Securities | Mizuho Securities | Wachovia Capital Markets |
| First Tennessee Bank | Morgan Keegan | Williams Capital |
| Goldman Sachs | Morgan Stanley | |
| HSBC Securities | Raymond James | |

# Pension Fund Investment Program Review

## 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, real estate, private equity, hedged strategies, credit strategies, and inflation protection. 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.

PENSION FUND ASSET CLASSES

| PORTFOLIO | INVESTMENT MANDATE | EXAMPLES |
|---|---|---|
| Fixed Income Investment Portfolio | Longer Term Investments | Investment Grade Corporate Securities, Treasuries, Agencies, MBS |
| Global Equity Investment Portfolio | Equity Securities | Fiduciary Relationships with experienced 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 hedged strategies managed by experienced hedge fund of funds |
| Credit Strategies Investment Portfolio | Credit Oriented Investments | A diversified mix of credit focused investment vehicles managed by experienced investment advisors |
| Inflation Protection Investment Portfolio | Inflation-linked Investments | A diversified mix of inflation-linked investment vehicles managed by experienced investment 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) combined with minimal exposure to high-risk assets and an increasingly diversified portfolio. 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. The chart below outlines the one-, three-, five-, and ten-year average returns and exposure to risk within the different percentiles of public funds in comparison to the performance and exposure to risk of the North Carolina Pension Fund.

## National Average Returns and Exposure to Risk

National Average Returns and Exposure to Risk

| | 1 Year | 3 Year | 5 Year | 10 Year |
|---|---|---|---|---|
| **Returns** | | | | |
| 25th Percentile | 14.86% | -2.54% | 3.79% | 3.99% |
| Median | 13.52% | -3.51% | 3.01% | 3.44% |
| 75th Percentile | 11.82% | -4.99% | 2.38% | 2.90% |
| **NC Pension Fund** | **12.42%** | **-1.65%** | **3.29%** | **3.83%** |
| **Risk** | | | | |
| 25th Percentile | 10.69 | 14.37 | 11.89 | 10.81 |
| Median | 9.50 | 13.49 | 11.27 | 10.27 |
| 75th Percentile | 8.28 | 12.31 | 10.27 | 8.96 |
| **NC Pension Fund** | **8.37** | **11.49** | **9.46** | **8.77** |

Source: BNY Mellon Total Funds – Public Funds $1+ Billion (Gross of Fees)

The Investment Management Division's (IMD) goal is to maintain the long-term strength of the retirement systems by providing a consistent long-term actuarial rate of return while simultaneously minimizing risk in the portfolio.

North Carolina is consistently ranked in the top five of state retirement funding ratios.

## Fiscal Year Review

The fiscal year ending June 30, 2010 saw a significant rebound in almost all asset classes from the lows of 2009, although much economic uncertainty remains. The Pension Fund was able to successfully participate in this rally, outperforming its actuarial rate of return for the fiscal year.

To offer perspective on the fiscal year's events, investors experienced: numerous monetary and fiscal stimulus measures; the evolution of the sovereign debt crisis; the rapid spread of the credit crisis; government backed private equity Dubai World's failure to meet debt obligations resulting in the perceived collapse of commercial real estate; the BP oil spill in the Gulf of Mexico; and the "flash crash" of May 6.

The rally from March 2009 through April 2010 was characterized by a sharp degree of uncertainty in investor's "risk on, risk off" behavior throughout the fiscal year. Volatility mirrored the market's risk sentiment as the VIX "fear index" dropped below 16 in April and rose sharply in May to a peak of 45 before ending the quarter at 35, well below its 2008 peak of 80.

The fiscal year did see the Pension Fund make a number of significant new investments and continue its effort to diversify the portfolio and enhance returns. Two new asset classes, the Credit Strategies investment portfolio and the Inflation Protection investment portfolio, were created at the beginning of the calendar year to continue to diversify the portfolio to mitigate risks and take advantage of opportunistic markets which will help enhance returns. Authority for these allocations was received in the 2009 legislative session.

## Total Pension Fund Structure

As of June 30, 2010, the Pension Fund maintained a market value of $65.3 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 seven years.

## Current and Historical Strategic Targets

### Current and Historical Strategic Targets

| | June 2004 | June 2005 | June 2006 | June 2007 | June 2008 | June 2009 | June 2010 |
|---|---|---|---|---|---|---|---|
| Fixed Income | 41.0% | 39.5% | 39.5% | 39.5% | 39.5% | 39.5% | 38.0% |
| Global Equity | 54.0% | 54.5% | 54.5% | 52.0% | 50.0% | 50.0% | 48.0% |
| U.S. | 46.5% | 46.8% | 41.5% | 36.0% | 34.0% | 34.0% | 33.0% |
| Non-U.S. | 7.5% | 8.0% | 13.0% | 16.0% | 16.0% | 16.0% | 15.5% |
| Real Estate | 3.5% | 3.5% | 3.5% | 5.0% | 6.0% | 6.0% | 6.0% |
| Private Equity | 0.75% | 1.1% | 1.25% | 1.75% | 3.15% | 3.15% | 3.15% |
| Hedged Strategies | 0.75% | 1.1% | 1.25% | 1.75% | 1.35% | 1.35% | 1.35% |
| Credit Strategies | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 1.5% |
| Inflation Portfolio | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 1.5% |

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, 2010

| | Market Value | Portfolio Weight | Target Weight | Target Range |
|---|---|---|---|---|
| Fixed Income | $26,182,168,585 | 40.1% | 39.5% | 35.0% - 44.0% |
| Global Equity | 31,242,202,610 | 47.9% | 50.0% | 45.0% - 55.0% |
| Real Estate | 2,914,523,551 | 4.5% | 6.0% | 5.0% - 55.0% |
| Private Equity | 2,737,956,231 | 4.2% | 3.15% | 3.5% - 5.0% |
| Hedged Strategies | 621,944,512 | 1.0% | 1.35% | 3.5% - 5.0% |
| Credit Strategies | 839,898,539 | 1.3% | 1.5% | 0% - 5.0% |
| Inflation Portfolio | 714,748,390 | 1.1% | 1.5% | 0% - 5.0% |
| **TOTAL FUND** | **$65,253,442,418** | **100%** | – | – |

## Total Fund Performance

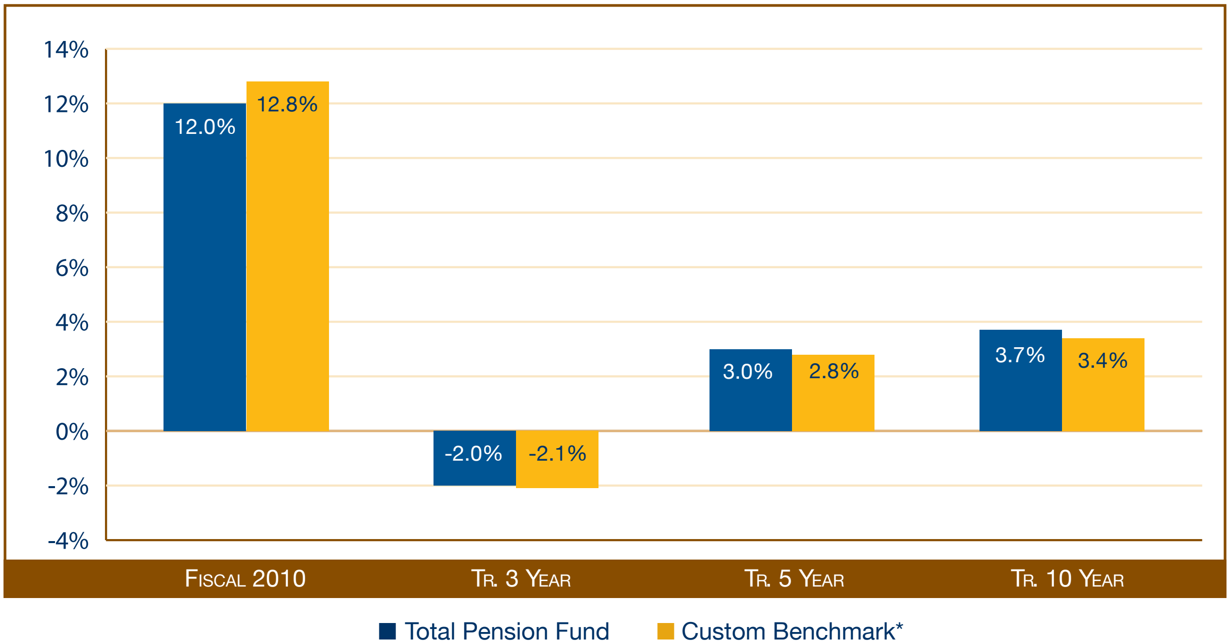
The Pension Fund has outperformed its custom benchmark over the past fiscal year, attributable to the selection of investments and its emphasis on downside protection. The following chart provides fiscal year returns for each asset class within the total Pension Fund.

| 2010 Fiscal Year Returns Total Pension Fund | |
|---|---|
| Fixed Income | 13.2% |
| Global Equity | 14.3% |
| Real Estate | -16.7% |
| Private Equity | 12.9% |
| Hedged Strategies | 10.3% |
| Credit Strategies* | 8.4% |
| Inflation* | 0.8% |
| **TOTAL PENSION FUND** | **12%** |

*Investments began in January 2010 and represent only two quarters of performance.

For the fiscal year 2010, the Fund returned 12.0 percent, net of fees. Over longer time periods, the Pension Fund outperformed its benchmark for the annualized three, five and ten year periods ending June 30, 2010. Compared to its peer group plans, the Fund also outperformed the median public plan with greater than $1 Billion across the three, five and ten year time periods, according to BNY Mellon. The charts below 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




*48.5 percent Custom Global Equity Benchmark, 38% Custom Fixed Income Benchmark, 6% Custom Real Estate Benchmark, 4.5% Custom Alternatives Benchmark (70% Custom Private Equity Benchmark and 30% Custom Hedge Fund Benchmark), 1.5% Custom Credit Benchmark, and 1.5% Custom Inflation Benchmark. The following chart details performance by asset class and also provides the benchmarks or target returns.

ANNUALIZED PERFORMANCE AS OF JUNE 30, 2010

| | 1-YEAR | 3-YEAR | 5-YEAR | 10-YEAR |
|---|---|---|---|---|
| Total Pension Plan | 12.0% | -2.0% | 3.0% | 3.7% |
| Total Pension Custom Benchmark[1] | 12.8% | -2.1% | 2.8% | 3.4% |
| Fixed Income Portfolio | 13.2% | 9.6% | 6.4% | 7.8% |
| Custom Fixed Income Benchmark[2] | 12.8% | 8.8% | 5.8% | 7.4% |
| Global Equity Investment Portfolio | 14.3% | -9.6% | 0.0% | 0.2% |
| Custom Global Equity Benchmark[3] | 13.2% | -10.5% | -0.4% | -0.8% |
| Real Estate Investment Portfolio | -16.7% | -14.7% | -2.2% | 2.2% |
| Custom Real Estate Benchmark[4] | -14.2% | -10.5% | 0.1% | 4.9% |
| Private Equity Investment Portfolio | 12.9% | 0.0% | 7.4% | -3.6% |
| Custom Real Estate Benchmark[5] | 54.9% | -1.3% | 5.0% | 2.5% |
| Hedge Strategies Investment Portfolio | 10.3% | -3.1% | 2.4% | – |
| Custom Hedge Strategies Benchmark[6] | 4.2% | 5.6% | 6.8% | 6.7% |
| Credit Strategies Portfolio | – | – | – | – |
| Custom Credit Strategies Benchmark[7] | – | – | – | – |
| Inflation Protection Investment Portfolio | – | – | – | – |
| Custom Real Estate Benchmark[8] | – | – | – | – |

[1] 48.5% Custom Global Equity Benchmark, 38.0% Custom Fixed Income Benchmark, 6% Custom Real Estate Benchmark, 4.5% Custom Alternatives Benchmark (70% Custom Private Equity Benchmark and 30% Custom Hedge Fund Benchmark), 1.5% Custom Credit Benchmark, and 1.5% Custom Inflation Benchmark.

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

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

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

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

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

[7] 7.5% annualized return.

[8] Consumer Price Index + 300 basis points.

## Corporate Governance

The Department of State Treasurer maintains a corporate governance program. The pension fund works through proxy voting, shareholders resolutions, dialogue with corporate leaders and regulatory agencies, and collaboration with other institutional investors to create long term value for portfolio companies. For fiscal year 2009-2010, the North Carolina Retirement Systems (the formal name of the pension fund) began to pursue formal corporate governance initiatives. These initiatives are designed to enhance long-term shareowner value. They include the following strategic objectives:

- Financial regulatory reform
- Board diversity
- Sustainability
- Company engagement

### Financial Regulatory Reform

During congressional debate of the Dodd-Frank Wall Street Reform and Consumer Protection Act, the North Carolina Retirement Systems signed a letter, along with 19 other pension funds, urging United States Senator Christopher Dodd and United State House of Representatives Barney Frank to reaffirm the authority of the Securities and Exchange Commission to give shareowners “proxy access.” Proxy access gives a group of shareowners the right to put candidates on a corporate ballot. Such access provides investors a necessary tool to ensure transparency, accountability and management risk at the board level. The June 2010 letter represented more than seven million active and retired employees with assets in excess of $1 trillion.

### Diversity

In May 2010, the Department partnered with Director Diversity Initiative (DDI), a joint project with the Center of Banking and Finance and the Center for Civil Rights at the University of North Carolina at Chapel Hill School of Law. The partnership includes identifying and encouraging potential directors to attend the one day board training as well as encouraging them to register with DDI Database.

### Company Engagement – Massey Energy

Following the tragedy at the West Virginia Upper Big Branch mine, the North Carolina Retirement Systems, along with eight other public pension funds, sent an April 2010 letter to Admiral Bobby Inman, Lead Director of Massey Energy Company, expressing concern about poor corporate governance practices and requesting that Don Blankenship step down as Chair of the Board, and Director Lady Barbara Thomas Judge, Chair of the Nominating and Governance Committee, resign. Judge was asked to resign because she serves as a director on nine public companies and the Chair of the United Kingdom Atomic Energy Authority. Subsequently, Director Judge stepped down from Massey’s board.

In addition, the coalition of funds urged shareholders to withhold votes from Directors Dan Moore, Baxter Philips, Jr., and Richard Gabrys at the annual meeting in May 2010. Shareholders cast between 48 to 49 percent of their shares against all three Directors, some of the highest opposition votes against any S&P 500 company in 2010.

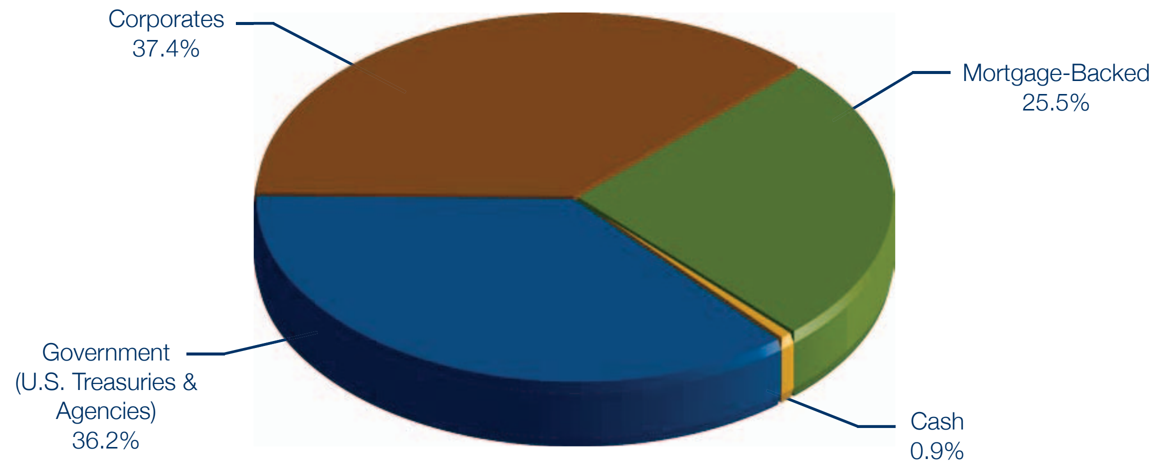
## Fixed Income

As of June 30, 2010, the fixed income allocation maintained a market value of $26.2 billion, representing 40.1 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 $24.1 billion. The balance of the fixed income assets are in non-core strategies.

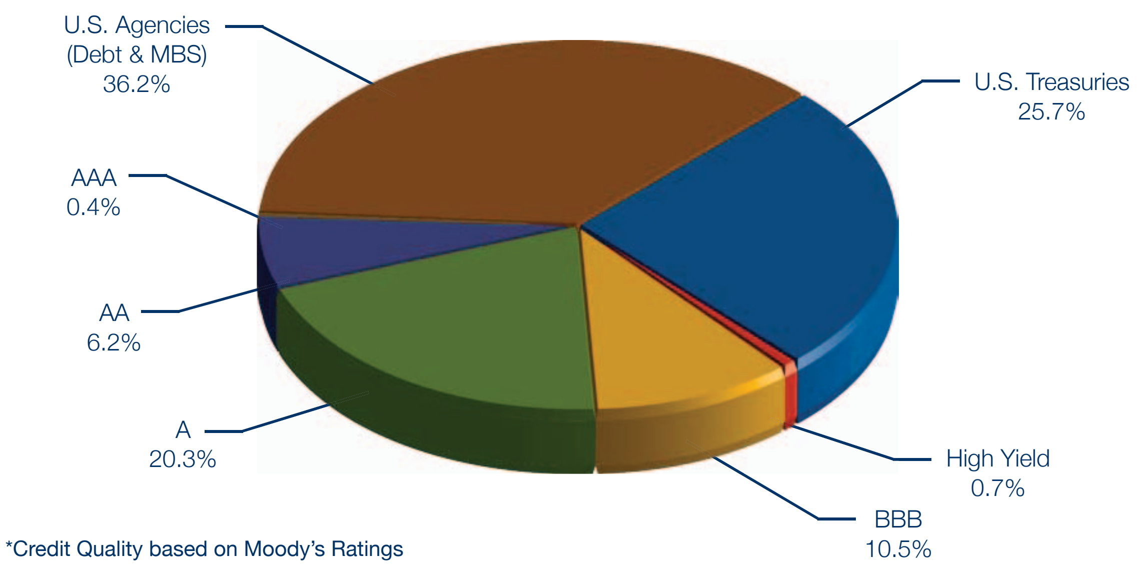
### Core Fixed Income Structure

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 chart displays the allocation of the LTIP by investment and by quality, or credit rating, of investment.

LTIP Sector Allocation as of June 30, 2010




LTIP Quality* Allocation as of June 30, 2010




*Credit Quality based on Moody's Ratings

## Fixed Income Market Overview

The fiscal year began with positive economic signals and an accommodative Federal Government that was focused on supporting the market. By year end, the optimism over the recovery had waned as concerns mounted over elevated unemployment and a European debt crisis that was hampering global growth expectations. The results of the economic uncertainty and subdued inflation to possible deflation were lower rates across the Treasury curve. U.S.Treasury yields were down 60-80 basis points across the intermediate part of the yield curve and 45 basis points lower on the 30 year Treasury. Investment grade corporate bonds continued their strong rally from early 2009, rallying back to levels not seen since before the credit crisis of 2008. Below are the 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, 2010

| Corporate Issuer | % of LTIP |
|---|---|
| Bank of America | 1.7% |
| General Electric | 1.2% |
| AT&T Inc. | 1.2% |
| JPMorgan Chase | 1.1% |
| Citigroup | 1.0% |
| Wells Fargo | 1.0% |
| Goldman Sachs | 1.0% |
| Verizon Communications | 0.8% |
| Morgan Stanley | 0.8% |
| Wal-Mart | 0.7% |

### LTIP Summary of Brokers Utilized During Fiscal Year 2010

| | | |
|---|---|---|
| Bank of America | Goldman Sachs | Morgan Stanley |
| Barclays Capital | HSBC Securities | Raymond James |
| Cantor Fitzgerald | JPMorgan Chase | RBC Capital Markets |
| Carolina Capital Markets | Jefferies & Company | RBS Greenwich Capital |
| Citigroup | KeyBank Cap Mkts | Stifel Nicolaus |
| Credit Suisse Securities | Loop Capital | Suntrust Capital Markets |
| Deutsche Bank Securities | Mizuho Securities | UBS Securities |
| First Tennessee Bank | Morgan Keegan | Wachovia Capital Markets |

## Core Fixed Income Performance

For the fiscal year, the LTIP returned 13.3 percent net of fees, outperforming the benchmark return of 12.8 percent performance. The excess returns for the fiscal year continued to build upon the portfolio's history of strong performance across all respective time periods. The portfolio's overweight to an improving corporate bond market had the biggest impact on positive relative performance for the fiscal year.

## Non-Core Fixed Income Structure

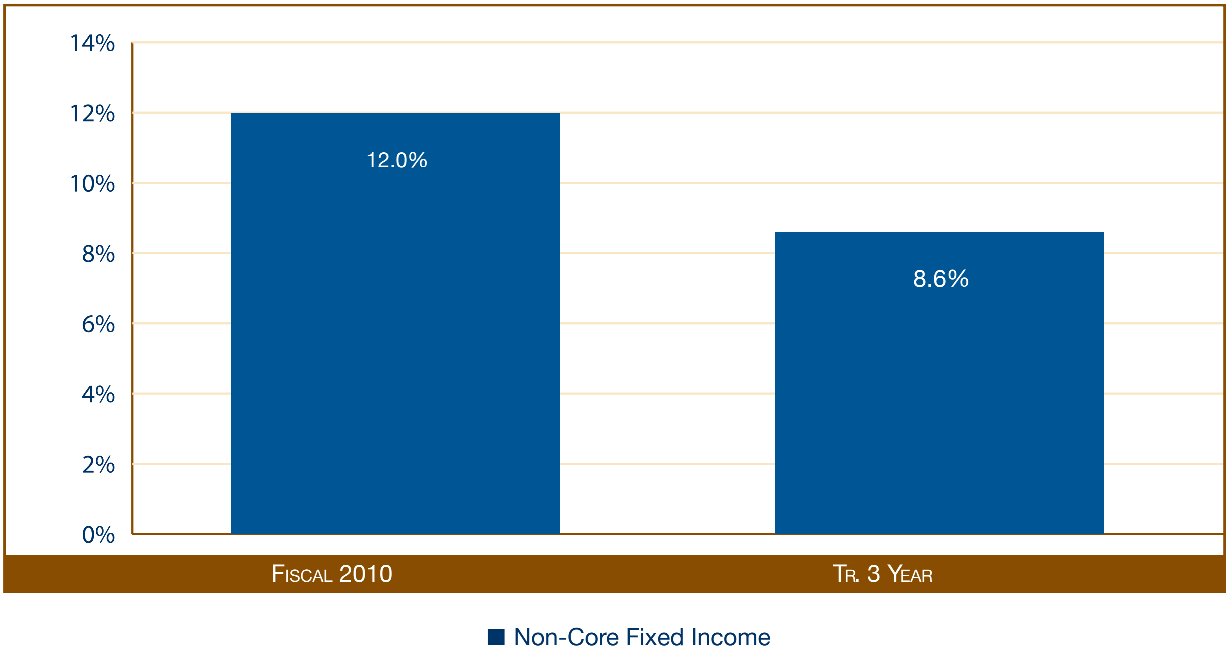
The non-core component consists of a liquidity allocation to the Short-Term Investment Fund (STIF) and two opportunistic allocations to externally managed high quality Residential Mortgage-Backed Securities (RMBS) and Commercial Mortgage-Backed Securities (CMBS) strategies. The RMBS and CMBS strategies were executed in response to market dislocations during the credit crisis and were structured to take advantage of attractive risk/return opportunities in high quality mortgage debt.

The non-core strategies include allocations to STIF ($0.6 billion), and investment grade RMBS ($1.1 billion) and CMBS ($0.5 billion).

## Non-Core Fixed Income Performance

The non-core fixed income composite posted a return of 12.0 percent for the fiscal year. The mortgage-backed securities strategies produced strong results, with the RMBS and CMBS portfolios producing returns of 19.2 percent and 33.6 percent, respectively, for the fiscal year ending June 30, 2010.

Non-Core Fixed Income Performance



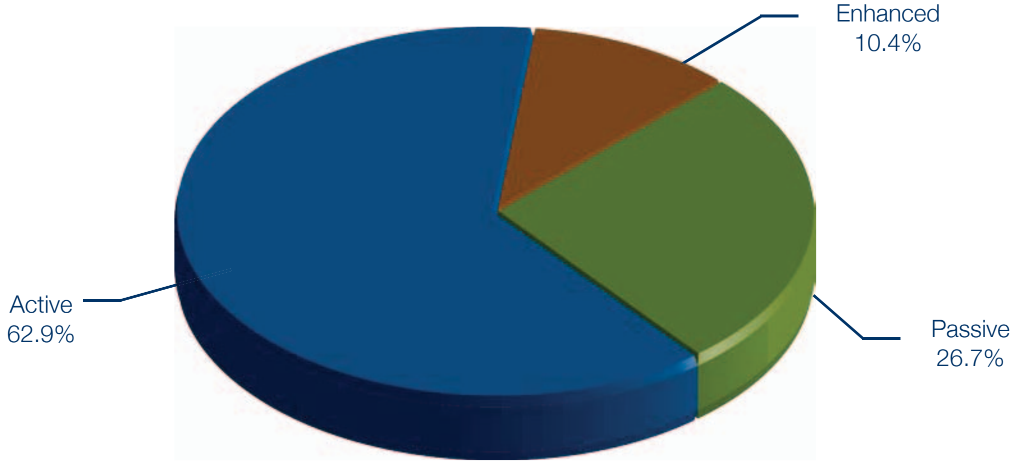
## Global Equity

### Global Equity Structure

The Global Equity portfolio ended fiscal year June 30, 2010 at $31.2 billion, with $21.5 billion in U.S. equity and $9.7 billion in non-U.S. equity. As a percentage of the Pension Fund's assets, the Global Equity allocation was 47.9 percent on June 30, 2010 versus 47.1 percent on June 30, 2009.

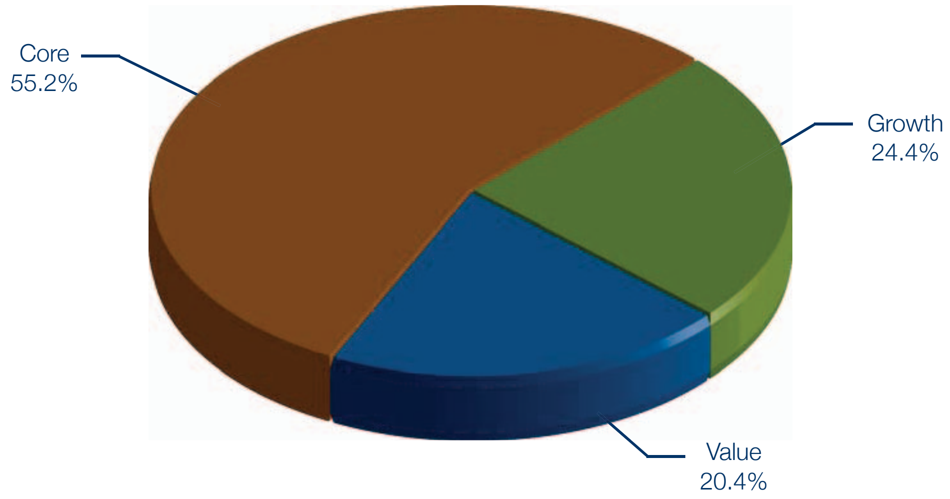
All investments of the Global Equity portfolio are managed externally according to one of three different strategies: passive, enhanced or active. Passive investments track existing indexes in relatively efficient markets. Enhanced indexes allow managers some flexibility to make decisions that deviate 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

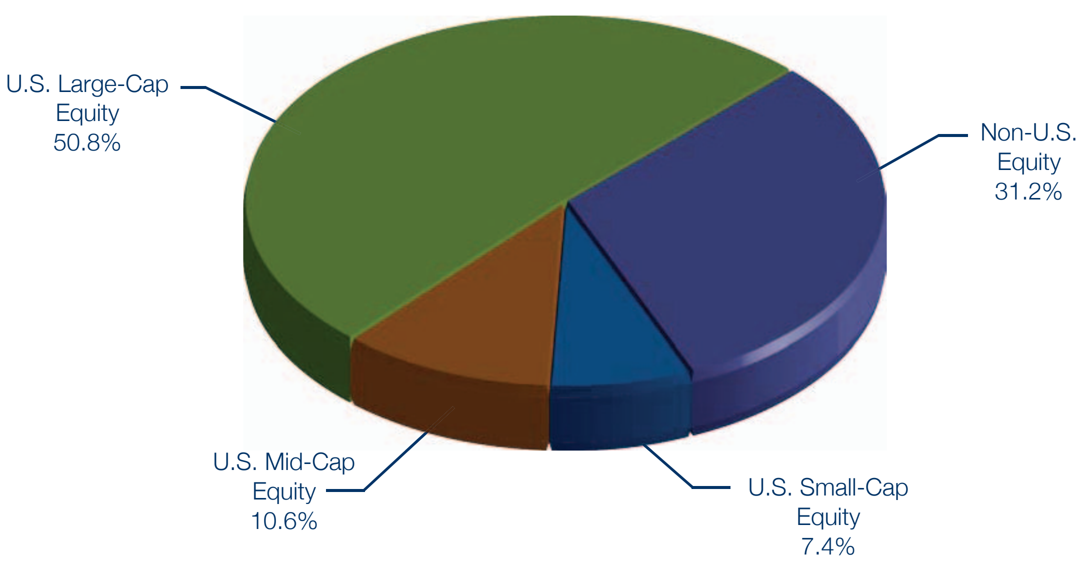


The Global Equity portfolio maintains prudent diversification within the broad equity market. The Global Equity portfolio is also categorized into U.S. Large-Cap, U.S. Mid-Cap, U.S. Small-Cap, and Non-U.S. investments. U.S. investments make up the large majority of equity investments, though the international investments have grown in recent years.

### Global Equity Style Allocation




### Global Equity Size Allocation



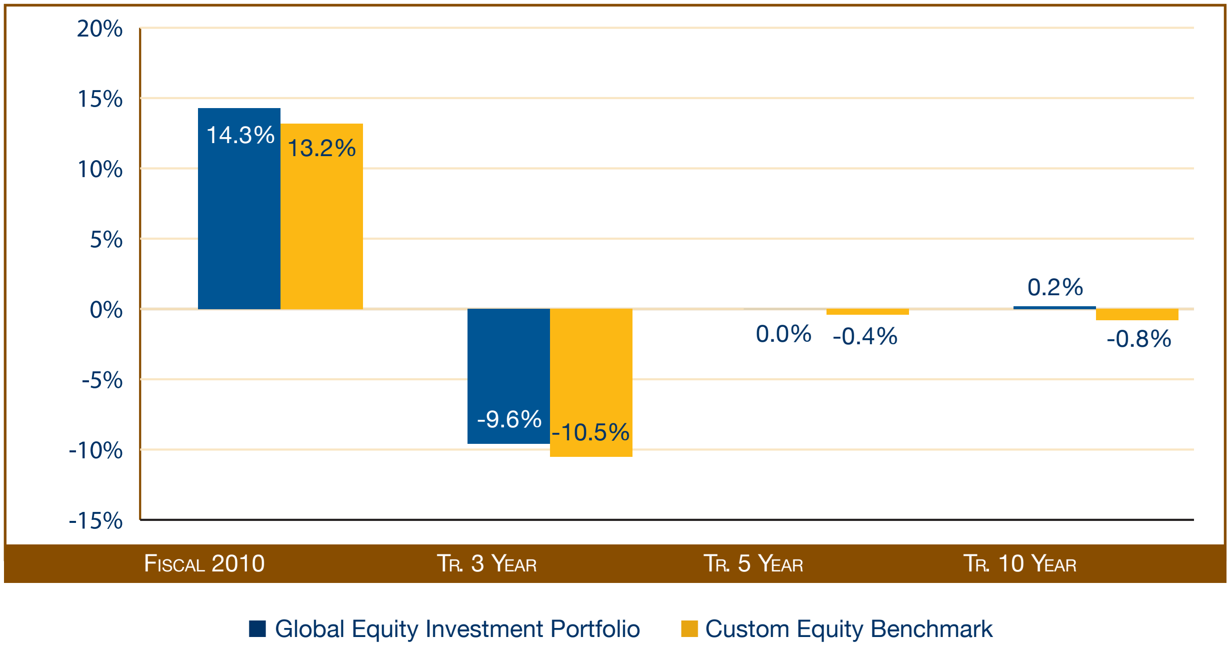
## Global Equity Market Overview

Global equity markets rallied strongly and largely erased losses from the previous fiscal year in the 12 months ending June 30, 2010. Macroeconomic concerns about Greek debt problems spreading throughout Europe and signs of a potential slowing of the economic recovery worldwide fueled the flight to safer assets and risk aversion. The S&P 500 returned 14.4 percent for the year ending June 30, 2010, compared to -26.2 percent for fiscal 2009. Small-capitalization stocks, as measured by the Russell 2000 Index, returned 21.5 percent versus -25.0 percent for the 2009 fiscal year. The Nasdaq Index performed in line with broad domestic indexes in fiscal 2010, returning 14.9 percent versus -20.0 percent in 2009 and the Dow Jones Industrial Index returned 18.9 percent and -23.0 percent, respectively. Non-U.S. equities underperformed those in the U.S. as reflected by the Morgan Stanley All Country World (ACW) Index ex-U.S. return of 10.9 percent for the 12-month period ending June 30, 2010, but easily surpassed Non-U.S. performance of -30.5 percent for the previous fiscal year.

## Global Equity Performance

For the fiscal year, the Global Equity investment portfolio returned 14.3 percent, net of fees, outperforming its benchmark return of 13.2 percent. The attribution of the performance can be further dissected as the international segment of the portfolio outperformed its benchmark by 213 basis points, while the U.S. portfolio outperformed its benchmark by 56 basis points. The graphic below 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 2010)

Below is a list of the Global Equity investment advisor relationships and top ten holdings as of June 30, 2010.

| U.S. Equity Investment Advisors | Style | Market Value ($) |
|---|---|---|
| Wellington Biotechnology | Small-Cap Active | 611,340,254 |
| Earnest Partners Small-Cap Value | Small-Cap Active | 367,679,258 |
| Sterling Small-Cap Value | Small-Cap Active | 300,971,374 |
| Numeric Small-Cap Value | Small-Cap Active | 189,253,624 |
| Brown Small-Cap Growth | Small-Cap Active | 183,252,112 |
| Turner Quant Micro-Cap | Small-Cap Active | 142,553,904 |
| Numeric Small-Cap Growth | Small-Cap Active | 61,259,939 |
| SSGA S&P 600 | Small-Cap Passive | 453,603,653 |
| Wellington Mid-Cap Opportunities | Mid-Cap Active | 710,175,428 |
| Hotchkis Mid-Cap Value | Mid-Cap Active | 366,901,971 |
| TimesSquare Mid-Cap Growth | Mid-Cap Active | 200,336,112 |
| TimesSquare Mid-Cap Focused | Mid-Cap Active | 190,354,145 |
| Wells Capital Mid-Cap | Mid-Cap Passive | 1,285,371,557 |
| MCM Mid-Cap | Mid-Cap Passive | 551,845,109 |
| BlackRock Russell 3000 Alpha Tilts | Large-Cap Active | 1,628,733,626 |
| Alliance Relative Value | Large-Cap Active | 1,456,984,214 |
| Hotchkis Large-Cap Value | Large-Cap Active | 1,365,753,451 |
| Wellington Growth | Large-Cap Active | 1,134,995,173 |
| Wellington Technical Equity | Large-Cap Active | 913,198,087 |
| Sands Large-Cap Growth | Large-Cap Active | 766,267,857 |
| Wells Capital Russell 200 Enhanced | Large-Cap Active | 711,889,485 |
| Turner Large-Cap Growth | Large-Cap Active | 598,566,127 |
| Relational Investors Large-Cap | Large-Cap Active | 507,786,679 |
| Piedmont Strategic Core | Large-Cap Active | 498,232,239 |
| Wells Capital Large-Cap | Large-Cap Passive | 2,031,076,172 |
| First Citizens Large-Cap | Large-Cap Passive | 1,852,543,693 |
| MCM Large-Cap | Large-Cap Passive | 1,615,609,515 |

## 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 | Style | Market Value ($) |
|---|---|---|
| Baillie Gifford EAFE | Non-U.S. Active | 1,137,019,543 |
| GMO Intl | Non-U.S. Active | 1,110,305,219 |
| Wellington Intl | Non-U.S. Active | 961,227,245 |
| BlackRock Non-U.S. Alpha Tilts | Non-U.S. Active | 905,156,097 |
| Oeschle EAFE Growth | Non-U.S. Active | 803,845,829 |
| Invesco Intl | Non-U.S. Active | 689,010,210 |
| Alliance ACWI ex-U.S. | Non-U.S. Active | 582,273,103 |
| Mondrian EAFE Value | Non-U.S. Active | 530,656,071 |
| Alliance Emerging Markets | Non-U.S. Active | 493,182,209 |
| Walter Scott Intl | Non-U.S. Active | 408,308,463 |
| Baillie Gifford Emerging Markets | Non-U.S. Active | 281,784,595 |
| BlackRock Emerging Markets | Non-U.S. Active | 232,326,980 |
| BlackRock Frontier Markets | Non-U.S. Active | 157,811,750 |
| Mondrian Emerging Markets | Non-U.S. Active | 151,536,817 |
| BlackRock EAFE Index Fund | Non-U.S. Passive | 529,782,096 |
| Longview Global Equity | Global Active | 767,545,756 |
| Brandes Global Equity | Global Active | 568,885,194 |
| AGA Global Strategy | Global Active | 213,998,410 |

Global Equity Top 10 Holdings (FY ending 2010)

| Company | % of EIP |
|---|---|
| Apple | 1.2% |
| Exxon Mobil | 1.1% |
| Microsoft | 0.9% |
| JPMorgan Chase | 0.8% |
| Bank of America | 0.8% |
| Cisco | 0.6% |
| Wells Fargo | 0.6% |
| AT&T | 0.6% |
| Google | 0.6% |
| Pfizer | 0.5% |

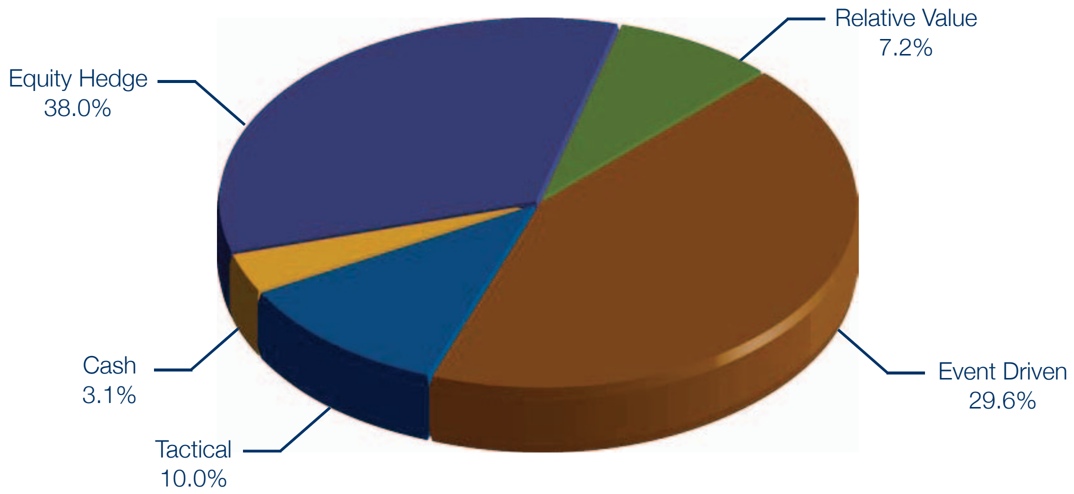
## Hedged Strategies

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 $622 million, representing 0.9 percent of the Pension Fund. As of June 30, 2010, the allocation of the hedge portfolio was dominated by a 38.0 percent weight to long/short equity hedge strategies, a 29.6 percent weight to event driven strategies, a 10.0 percent weight to tactical strategies, and a 7.2 percent weight to relative value strategies. The following chart displays these allocations.

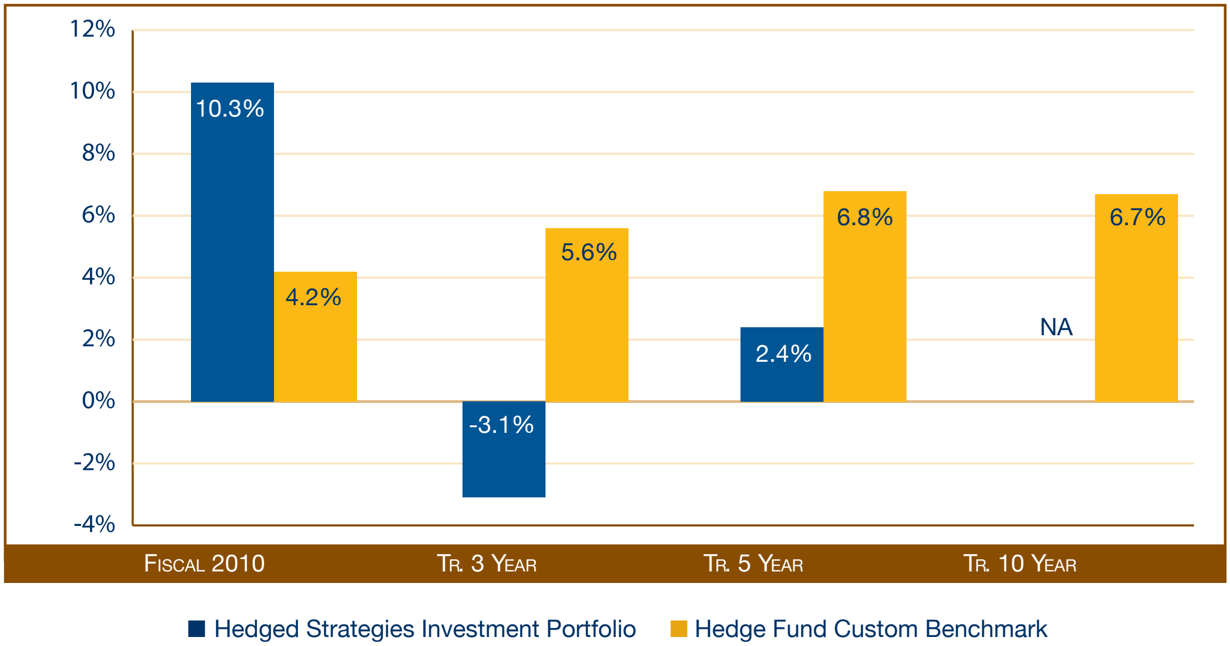
Hedged Strategies Allocation



## Hedged Strategies Performance

For the fiscal year, the Hedged Strategies investment portfolio returned 10.3 percent, net of fees, outperforming its custom benchmark, the 90-Day U.S. Treasury Bill + 400 basis points, by 6.1 percent. 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 2010)

Below is a list of the Hedged Strategies investment advisor relationships as of June 30, 2010.

| HEDGED STRATEGY ADVISORS AND FUNDS | MARKET VALUE ($) |
|---|---|
| Franklin Street Partners | 444,291,604 |
| SCS Global Series I | 115,943,865 |
| BlackRock | 49,492,258 |
| Broyhill Fund | 10,371,041 |
| DKR Relative Value | 1,588,624 |
| Taconic | 257,119 |

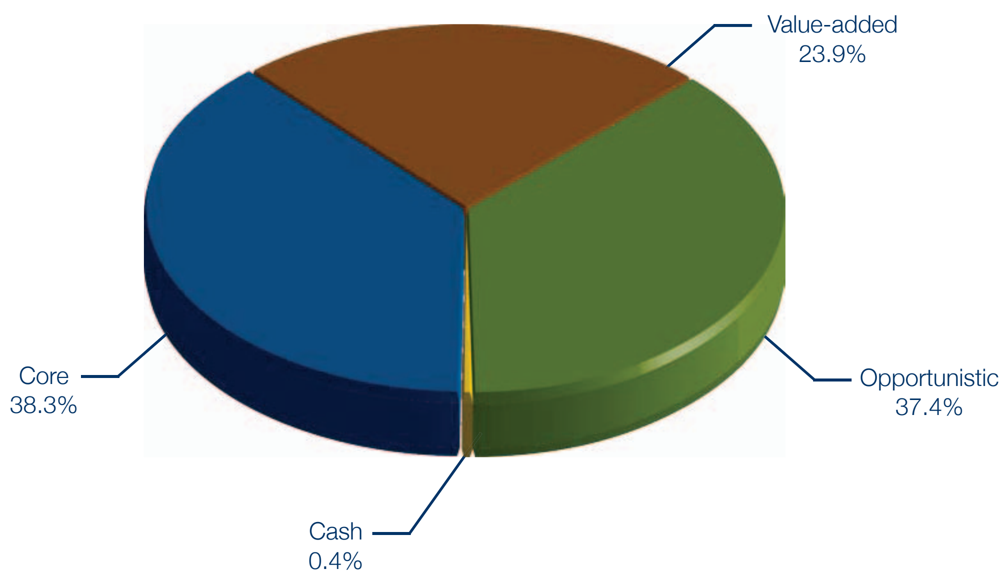
# Real Estate

## Real Estate Structure

As of June 30, 2010, the Real Estate Investment Portfolio (REIP) was valued at $2.9 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 4.5 percent at fiscal year end, compared to 1.9 percent at the 2001 fiscal year end.

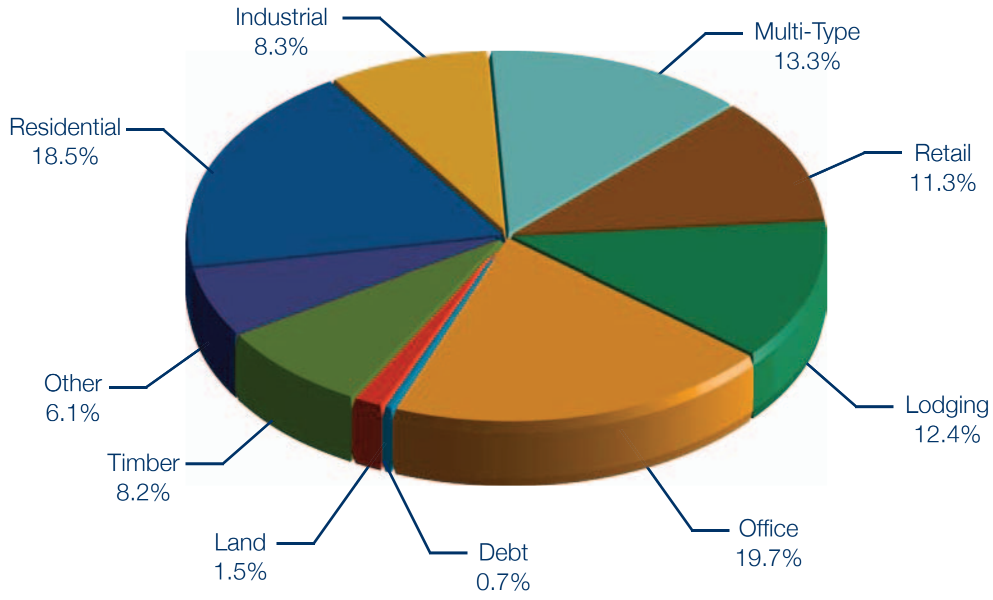
The REIP maintains a "Core Plus" strategy, seeking the majority of returns from income as opposed to capital appreciation. Core real estate is represented by well-located, stable properties with high occupancy levels. Core investment returns are primarily driven by property income with debt levels typically at 0 percent - 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 62 percent versus 38 percent in Opportunistic funds. The chart below outlines these allocations.

STRATEGY ALLOCATION



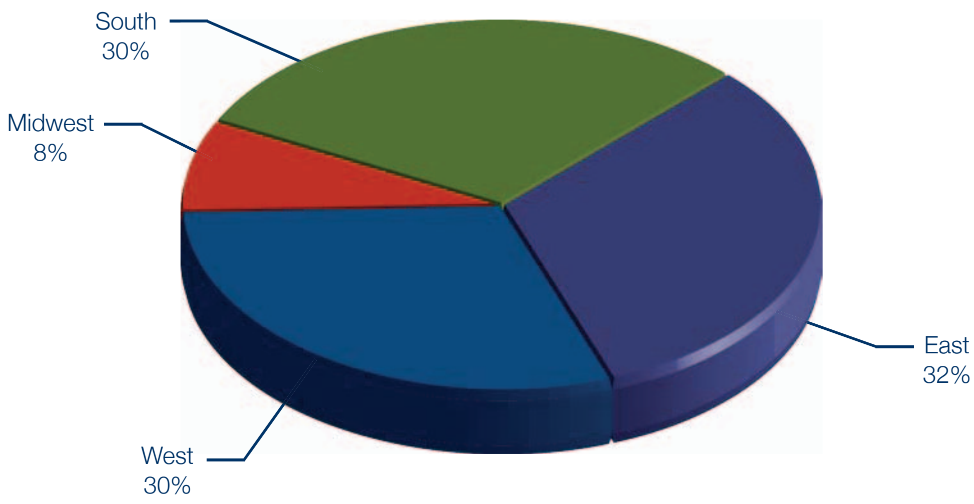
In addition, the analysis of new investments focuses on location and property types, and employs a moderate level of risk. The REIP continues its objective by expanding into a variety of property types including debt, industrial, land, lodging, multi-type, office, multi-family residential, single-family residential, retail, and timber. The below chart displays the percentage of each property type allocation as of June 30, 2010.

### Property Type Allocation

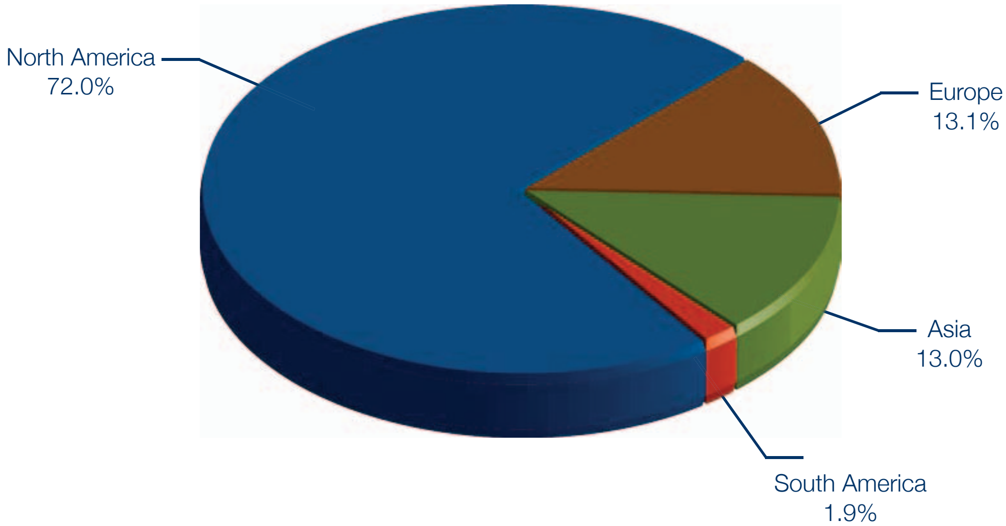



Geographically, the REIP has a North American focus, yet is diversified among the South, East, West, and Midwest regions. International investment exposure is approximately 18.0 percent, with the majority split between Europe and Asia. The following charts show the U.S. and global geographic allocations as of June 30, 2010.

### U.S. Geographic Allocation



GLOBAL GEOGRAPHIC ALLOCATION




## Real Estate Market Overview

During the fiscal year, the commercial real estate market continued to struggle with price discovery due to a lack of transaction volume and a propensity among lenders to continue to extend underwater loans. The global REIT market gained over 25 percent during the fiscal year, evidenced by gains in the FTSE/EPRA/NAREIT Global Securities index (a Global Real Estate Index Series designed to represent general trends in eligible real estate equities worldwide). REITs raised nearly $20 billion in new equity issuances and over $12 billion of unsecured debt during the fiscal year. This capital has been used to address balance sheet issues and rebuild acquisitions platforms. In comparison, private equity real estate funds found investor demand much weaker and those that were able to raise third-party capital paid interest in the range of 15 percent to 20 percent.

As fiscal year 2010 began, U.S. GDP growth resumed on the heels of unprecedented government spending. Unfortunately, this growth did not translate into meaningful employment improvements critical for real estate recovery with 15 million Americans still unemployed and the unemployment rate stubbornly remaining over 9.5 percent. High unemployment impacts leasing markets, leading to declining cash flows and real estate values so returns continue to falter, although less than fiscal 2009. While the commercial real estate market certainly improved during the latter half of the fiscal year, challenges remain with hundreds of billions in underwater loans maturing next year and weak NOI growth prospects. The forward outlook parallels broader economic forecasts of a slow recovery as real estate fundamentals are closely tied to economic activity.

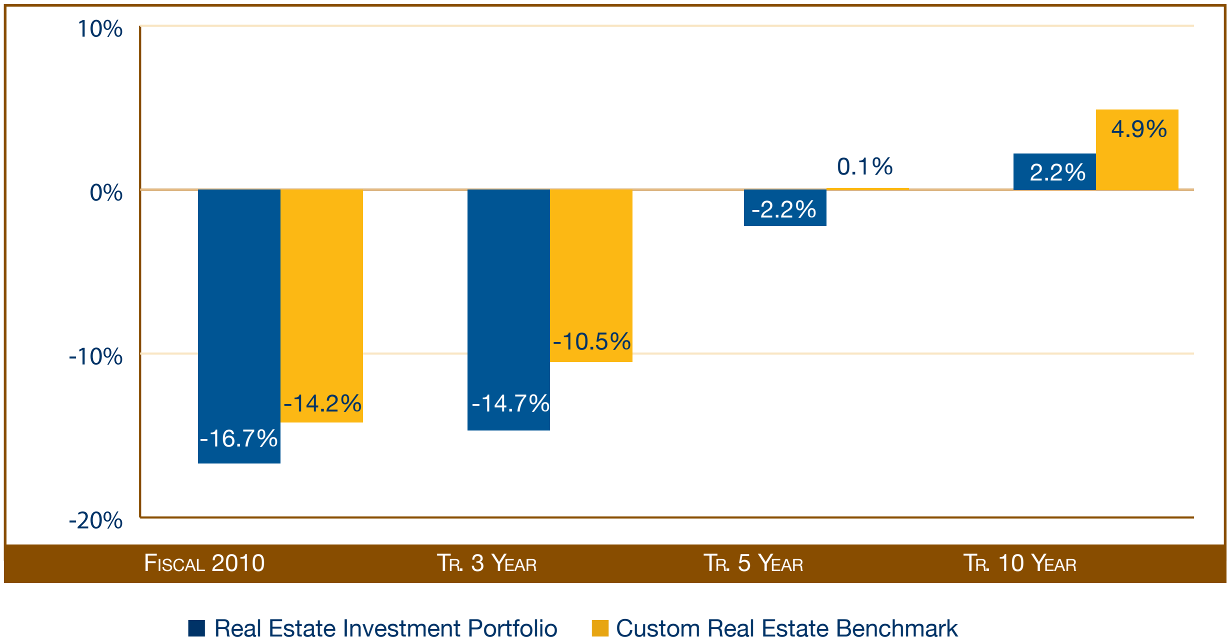
The second half of fiscal year 2010 improvements in commercial real estate were attributable to loosening capital markets, accommodative monetary policy (low interest rates), and a global search for yield. Lending to core properties located in primary markets such as New York and D.C. became increasingly competitive. A global search for yield caused investors such as REITs, hedge funds, institutional investors seeking current cash flow, and sovereigns taking advantage of a weak dollar to all focus on core real estate. Transaction levels in secondary markets or for properties needing leasing or capital improvements were anemic during the year due to wide bid and ask spreads. A significant disparity between core and non-core property valuations arose during fiscal 2010 and continues today.

Strength among the REITs, core properties, and capital markets caused commercial real estate to appear to bottom out late in the fiscal year. However, looming debt maturities will be an ongoing commercial real estate issue as well as an opportunity.

## Real Estate Performance

For the fiscal year 2010, the REIP returned -16.7 percent, net of fees, underperforming its custom benchmark return of -14.2 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." The chart below illustrates returns and benchmarks for the fiscal and trailing years.

Real Estate Investment Portfolio Annualized Performance



## Real Estate Investment Advisors (FY ending 2010)

Below is a list of the real estate investment advisors and fund relationships as of June 30, 2010.

| REIP Advisors and Funds | Market Value ($) | REIP Advisors and Funds | Market Value ($) |
|---|---|---|---|
| MS Global RE Securities | 253,833,070 | DRA Growth & Income VI | 21,202,416 |
| Timberland Inv Res - Nahele | 232,082,688 | DB RE Global Opportunity | 20,204,839 |
| JPMorgan Strategic Property | 130,437,559 | Security Cap Focus Select | 20,164,641 |
| UBS Trumbull Ppty | 98,999,993 | DRA Growth & Income IV | 18,365,145 |
| Starwood SOF VII | 95,260,060 | Benson Elliot RE Fund II | 17,464,225 |
| Starwood SOF VII Co-Inv | 93,852,406 | Rockwood VII | 17,434,006 |
| Warburg Pincus REI | 91,830,334 | Angelo Gordon Core Plus | 17,280,253 |
| DLJ RECP III | 91,558,142 | Hawkeye Scout I-A | 17,066,976 |
| RREEF Global Opp II | 91,012,981 | Paladin Realty Latin Am Inv III | 15,708,070 |
| CIM URBAN REIT | 89,094,343 | American Value Partners | 13,844,101 |
| UBS Trumbull Ppty Income | 88,083,607 | Rockpoint RE I | 12,562,213 |
| Sentinel RE Fund | 81,877,119 | Penwood CSIP I | 12,420,950 |
| Prudential PRISA | 77,202,296 | Value Enhancement II | 11,479,268 |
| MSREF VI INTL | 74,633,202 | Shorenstein IX | 9,827,116 |
| DRA Growth & Income V | 72,942,349 | Crow Holdings Realty IV-A | 9,093,815 |
| Keystone Industrial Fund | 71,314,259 | RLJ RE Fund III | 8,346,908 |
| Shorenstein VII | 70,099,582 | Frogmore RE Fund II | 8,224,660 |
| Blackstone RE VI | 61,956,759 | Crow Holdings Realty V | 7,816,535 |
| Blackstone RE V | 54,974,263 | Rockwood VIII | 6,860,200 |
| Angelo Gordon Core Plus II | 53,336,798 | Frogmore RE Fund I | 6,630,566 |
| Terra Firma Deutsche | 52,086,141 | Penwood PSIP II | 6,197,226 |
| Rockpoint RE II | 50,086,699 | RMK Emerging Timberland | 5,873,592 |
| Rockwood VI | 44,618,130 | DLJ RECP II | 5,307,188 |
| CBRE Strategic IV | 43,932,299 | Cherokee III | 4,973,853 |
| Shorenstein VIII | 41,068,889 | CBRE Strategic V | 4,303,000 |
| JER REP III | 40,201,058 | Westbrook RE III | 3,772,759 |
| MSREV V INTL | 38,270,820 | Westbrook RE II | 1,461,677 |
| JER REP IV | 36,675,639 | Cherokee IV | 939,009 |
| Stag II | 36,613,154 | Westbrook RE IV | 638,997 |
| Value Enhancement IV | 36,547,616 | DRA Growth & Income III | 408,853 |
| Crow Holdings Realty IV | 36,493,169 | CIGNA Open End Fund | 296,572 |
| Crossharbor Instl PT | 29,231,813 | DLJ RECP | 281,536 |
| RLJ RE Fund II | 28,806,162 | Westbrook RE I | 154,166 |
| DRA Fund V Co-Inv | 25,205,240 | Benson Elliott RE Fund III | – |
| Rockpoint RE III | 28,410,871 | Keystone Industrial Fund II | – |
| DLJ RECP IV | 27,312,307 | NorthRock Core Fund | – |
| LEM RE Mezzanine II | 25,237,164 | | |

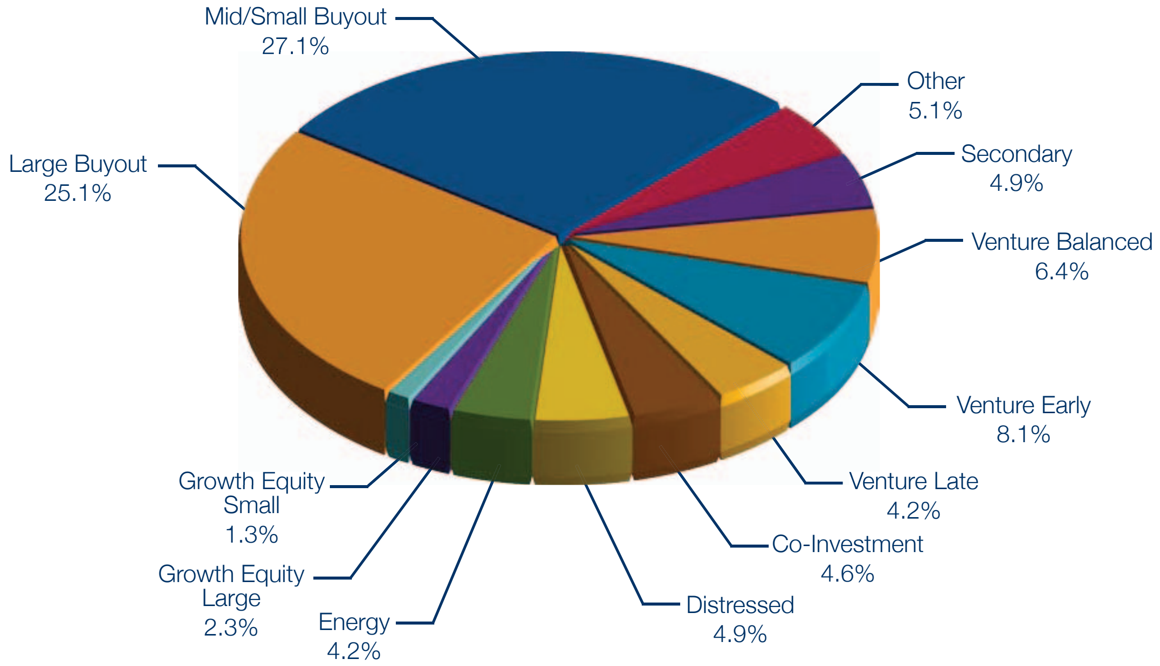
## Private Equity

### Private Equity Structure

As of June 30, 2010, the Private Equity investment portfolio maintained a market value of approximately $2.7 billion, representing 4.2 percent of the Pension Fund. The portfolio invests in limited partnerships which are externally managed by experienced private equity investment professionals.

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.

PRIVATE EQUITY SUB-STRATEGY ALLOCATION



## Private Equity Market Overview

The Private Equity Industry has experienced three significant downturns:1990, 2000 and 2007/2008.  For buyout strategies, transaction volume is largely driven by the availability and cost of debt. As lending requirements tightened, transactions became uneconomic and deal volumes declined. This was the case recently through the first half of 2009, as the credit crunch continued to hinder the ability of buyout investors to borrow. Also, in response to the worsening economic conditions, venture capital firms turned away from new deals and focused on keeping their portfolio companies afloat during the economic slowdown.

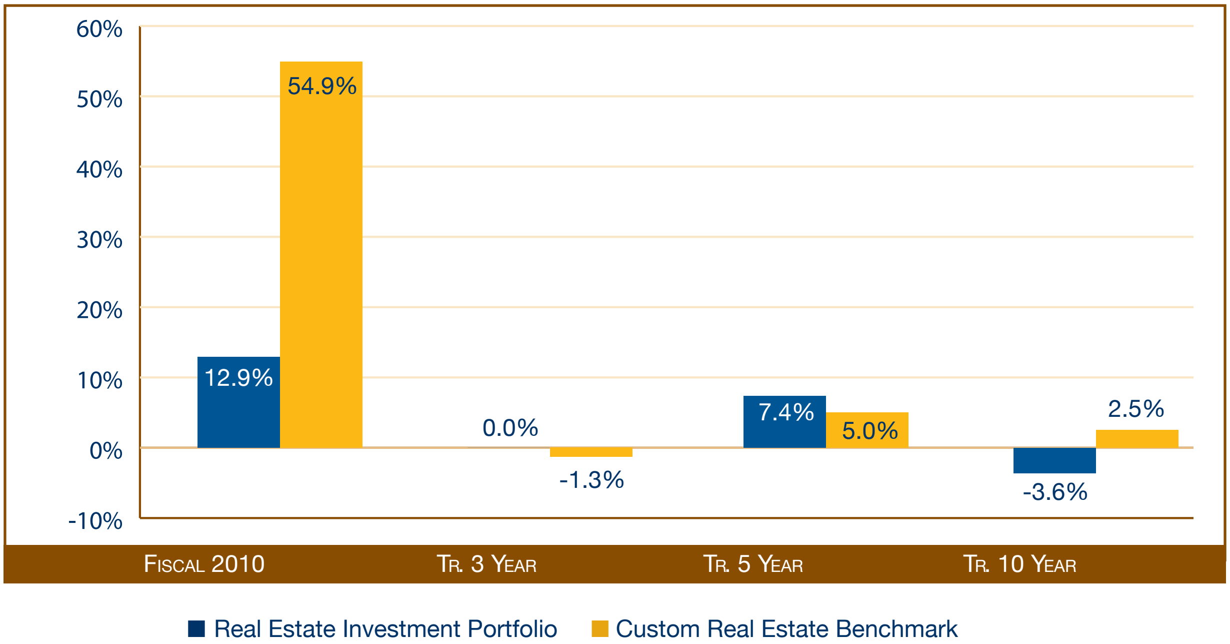
The two prior Private Equity downturns have been followed by a five to six year period of steadily increasing deal volume. While the large volume of maturing debt held by Private Equity funds suggests that a greater focus will be placed on existing portfolios, new deal volume appears to have turned a corner. Managers have indicated deal flow is improving in both quantity and quality. This is a function of various factors. First, managers appear more optimistic about the current risk-return profile for new investments and believe they can deliver the targeted returns as outlined to investors. Companies that have managed their way through the downturn have generally done so with healthier financials, potentially making them more attractive acquisition candidates. Purchase price multiples have increased, likely the result of better corporate capital structures and improved visibility. Second, managers are able to again access the debt markets (leverage), though this is accompanied by more conservative capital structures and a higher cost of capital. Third, active fundraising from prior years has left fund managers with a significant amount of capital (dry powder) to deploy prior to the expiration of their investment periods.

In terms of realizations, activity has noticeably increased. Strategic investors have begun deploying capital and are expected to continue doing so. Sponsor-to-sponsor transactions (one fund selling a portfolio holding to another fund) have become a greater portion of realizations. While mergers and acquisition (M&A) activity is expected to remain the primary exit avenue for venture capital, the IPO market has witnessed more transactions both in the U.S. and globally, through the first half of 2010 vs. full year 2009. In addition, the U.S. IPO backlog is increasing.

## Private Equity Performance

For the fiscal year, the Private Equity investment portfolio returned 12.88 percent, underperforming its benchmark return of 54.94 percent. The Private Equity investment portfolio is benchmarked against a public equity index. This can lead to a significant short-term difference between portfolio performance and benchmark performance. The portfolio significantly underperformed the strong equity bull market for the year ending June 2010, but has outperformed on a 3-year and 5-year timeframe. 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 2010)

Below is a list of the Private Equity investment advisors and fund relationships as of June 30, 2010.

| Private Equity Funds | Market Value ($) | Private Equity Funds | Market Value ($) |
|---|---|---|---|
| Apollo Investment Fund VI | 143,491,299 | Robeco Clean Tech II Co-Inv | 17,800,847 |
| Credit Suisse NC Fund 2006 | 141,879,149 | Lexington Middle Market II | 17,460,548 |
| WLR Recovery Fund IV | 111,985,285 | TCV VI | 17,096,573 |
| Warburg Pincus X | 110,850,662 | TPB Biotech Partners II | 16,229,886 |
| Parish Capital I | 96,066,249 | Catterton Growth Partners | 16,178,930 |
| Parish Cap Europe I | 93,829,988 | TPG Biotech Partners III | 15,888,884 |
| TPG Partners V | 84,622,734 | Access Capital II | 15,240,332 |
| LG & Bessemer II | 83,610,126 | Synergy Life Science | 14,686,406 |
| Longreach Capital I | 76,569,448 | Carousel Capital III | 14,260,555 |
| Terra Firma III | 75,131,657 | TPG Partners VI | 12,517,452 |
| Parish Capital II | 74,757,952 | Horsley Bridge IX | 11,636,807 |
| TPG Partners IV | 70,940,489 | Pappas Ventures III, L.P. | 10,124,453 |
| Matlin Patterson Global Opp III | 61,089,753 | AG Private Equity IV | 10,053,781 |
| Terra Firma II | 58,157,131 | ARCH Venture Fund VII | 9,109,295 |
| Lexington Middle Market | 57,638,521 | Harvest Partners IV | 8,634,392 |
| Avista Capital Partners II | 54,810,705 | Highland Consumer Fund I | 8,569,027 |
| CVC Europe Equity IV | 54,492,038 | Novak Biddle III | 7,900,305 |
| Avista Capital Partners | 51,263,874 | Starvest Partners II | 7,835,063 |
| Elevation Partners | 49,824,280 | Halifax Capital Partners II | 7,349,833 |
| Warburg Pincus IX | 49,219,726 | Highland Capital VII | 7,317,760 |
| Francisco Partners II | 46,509,185 | Castle Harlan Partners V | 7,266,290 |
| Perseus Partners VII | 45,412,624 | WLR AGO Co-Inv | 6,401, 963 |
| KRG Capital Fund III | 42,212,828 | Hatteras Venture Partners III | 5,770,697 |
| Coller International IV | 42,163,761 | Aurora Ventures IV | 5,575,724 |
| Credit Suisse NC Fund 2008 | 41,105,305 | Lindsay Goldberg III | 5,552,538 |
| WLR AHM Co-Inv | 68,819,255 | Aurora Ventures V | 5,393,562 |
| Chapter IV Special Situations | 38,654,125 | Novak Biddle IV | 5,000,945 |
| KRG Capital Fund IV | 34,724,051 | Intersouth Partners VI | 4,935,509 |
| Apollo Investment Fund VII | 31,515,611 | KRG Capital Fund II | 4,885,006 |
| Markstone Capital Partners | 31,193,727 | NCEF Liquidating Trust | 4,056,931 |
| Perseus Market Opportunity | 29,874,421 | NC Economic Opp Fund | 3,710,381 |
| Quaker Bioventures II | 29,499,278 | Pappas Ventures IV | 3,406,950 |
| Robeco Clean Tech II | 28,177,602 | Credit Suisse NC Fund 2008 – Series II | 3,2000,000 |
| Crestview Partners Fund II | 27,926,730 | Novak Biddles Venture Partners V | 3,155,937 |
| Burrill Life Sciences | 27,226,576 | Highland Capital Partners VI | 1,923,343 |
| Tenaya Capital Fund V | 27,093,996 | AV Management IV | 1,892,895 |
| Horsley Bridge Int'l IV | 26,516,280 | Horsley Bridge Int'l V | 1,673,793 |
| Harvest Partners V | 26,200,268 | DLJ Merchant Banking II | 1,299,469 |
| Burrill Life Sciences III | 26,156,349 | Pappas Ventures II | 1,141,073 |
| Ampersand 2006 | 25,823,081 | Franklin Fairview I | 945,733 |
| Castle Harlan Partners IV | 24,304,987 | Sprout Growth II | 98,056 |
| Angeleno Investors II | 22,536,491 | Intersouth Partners III | 55,976 |
| Tudor Ventures III | 22,072,274 | Kitty Hawk Capital III | 46,550 |
| PCA-SYN Investments | 20,671,839 | Academy Venture Fund | 23,042 |
| Charterhouse Capital IX | 19,611,578 | AG Private Equity IV – Reserve | – |
| CVE Kauffman I | 19,463,473 | Credit Suisse Innovation Fund | – |

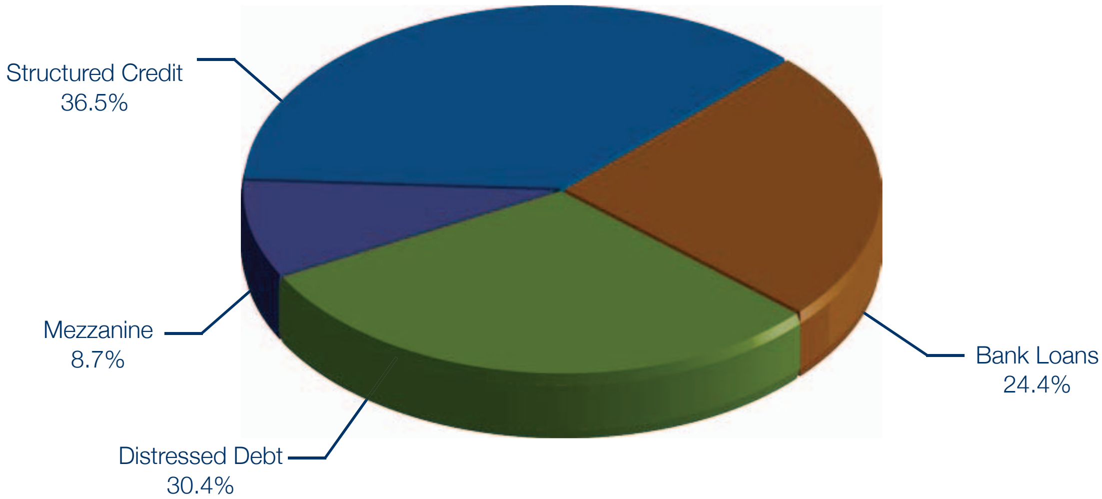
## Credit Strategies

During the 2009 legislative session, the Investment Management Division gained the ability to utilize inflation and credit asset classes within the portfolio. The goal of this legislation is to provide the investment team the flexibility and tools to increase portfolio return and better manage risk.

### Credit Structure

As of June 30, 2010, the Credit Strategies investment portfolio maintained a market value of approximately $840 million, representing 1.3 percent of the Pension Fund. The portfolio invests in a diversified mix of credit focused investment vehicles managed by experienced investment advisors.

STRATEGY ALLOCATION




### Credit Market Overview

The recent credit crisis continues to leave its mark on the U.S. and global economies. The amount of fiscal and monetary stimulus in response to the credit crisis has been unprecedented. The programs that were launched in order to stabilize the credit markets appear to be working. However, with the unprecedented amount of stimulus that occurred globally, the long term impact is still uncertain. Throughout the second half of 2009, record issuance in the credit markets and an apparent increase in risk appetite drove credit spreads to significantly tight levels. By the end of the 2010 fiscal year, the aversion to risk and volatility in the public equity markets coupled with the search for incrementally higher yields in the fixed income markets continued to tighten spreads and push yields lower. The indication from the Federal Reserve to keep interest rates low over the foreseeable future resulted in no existing upward pressure for these yields through the end of the fiscal year. Overall, credit performed significantly well throughout the year. High yield issues returned over 26 percent for the fiscal year, as measured by the Barclays High Yield Index. Bank loans also produced strong performance, with the Credit Suisse Leveraged Loan Index returning 17.7 percent for the fiscal year. The mortgage-backed securities market continued its rally in conjunction with the jumpstart from the U.S. Treasury's Public-Private Investment Program. Although the credit markets have rallied and experienced record level debt issuance, viable small and middle-sized corporations are still experiencing difficulty accessing the credit markets.

### Credit Strategies Performance

The Credit Strategies investment portfolio was formed on January 1, 2010. Since inception, the portfolio has returned 8.43 percent, outperforming its benchmark of 3.68 percent.

### Credit Strategies Investment Advisors (FY ending 2010)

Below is a list of the Credit Strategies investment advisors and fund relationships as of June 30, 2010.

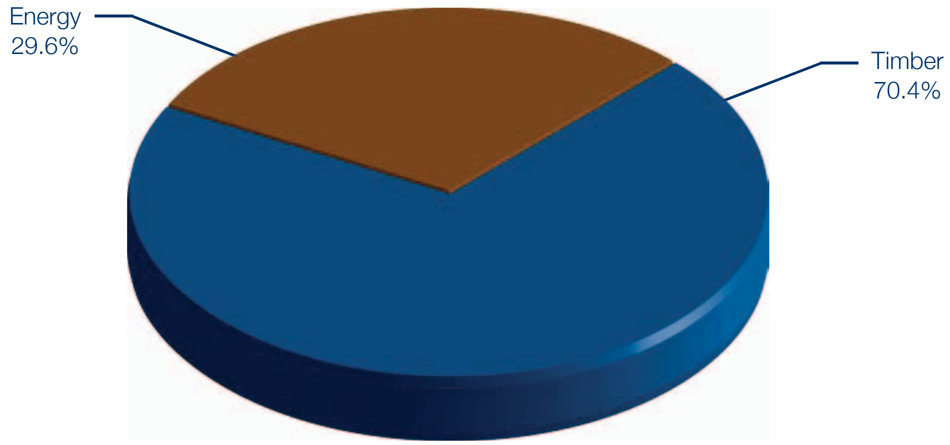
| CREDIT FUNDS | MARKET VALUE ($) |
|---|---|
| AG Capital Recovery VI | 235,933,658 |
| AG Global Debt Strategy | 202,981,769 |
| AG GECC-PPIF | 132,322,969 |
| AG TALF | 76,113,334 |
| GSO Capital Opportunities | 72,317,348 |
| WLR PPIF | 61,270,839 |
| AG Commercial Real Estate Debt | 33,983,678 |
| AG Capital Recovery V | 17,18,167 |

# Inflation Protection Portfolio

## Inflation Protection Structure

As of June 30, 2010, the Inflation investment portfolio maintained a market value of approximately $715 million, representing 1.1 percent of the Pension Fund. The portfolio invests in a diversified mix of inflation-linked investment vehicles managed by experienced investment advisors.

### Strategy Allocation




## Inflation Market Overview

For the fiscal year ending June 30, 2010, the U.S. economy experienced a low level of inflation. Despite the indication from the Federal Reserve to keep interest rates low and induce lending and consumption, the year-over-year percentage increase in the Consumer Price Index (CPI) was 1.1 percent. The core CPI, CPI excluding food and energy, was 0.9 percent for the fiscal year. The marginal levels in the data coupled with uncertainty in the financial markets and global economy have led investors to raise concerns over a possible deflationary environment. In May, crude oil hit an 18-month high of $87 a barrel, but declined through the end of the fiscal year as growing concerns about the economic recovery hurt demand. Approaching the end of the fiscal year, the energy component of the CPI declined three consecutive months as prices in gasoline and household fuels and utilities dropped. However, gold prices hit an all-time high in June 2010 and closed at $1,245 per ounce at fiscal year end.

## Inflation Protection Portfolio Performance

The Inflation investment portfolio was formed on January 1, 2010. Since inception, the portfolio has returned 0.82 percent, underperforming its benchmark of 1.35 percent.

## Inflation Protection Portfolio Investment Advisors (FY ending 2010)

Below is a list of the Inflation Portfolio investment advisors and fund relationships as of June 30, 2010.

| Inflation Portfolio Funds | Market Value ($) |
|---|---|
| Campbell Timber Fund III | 499,012,381 |
| Sheridan Production Partners I | 98,928,000 |
| Quintana Energy I | 67,740,014 |
| Quintana Energy II | 22,887,468 |
| Quintana Energy I Co-Inv | 20,213,973 |
| Quintana Energy II Co-Inv | – |

## 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.

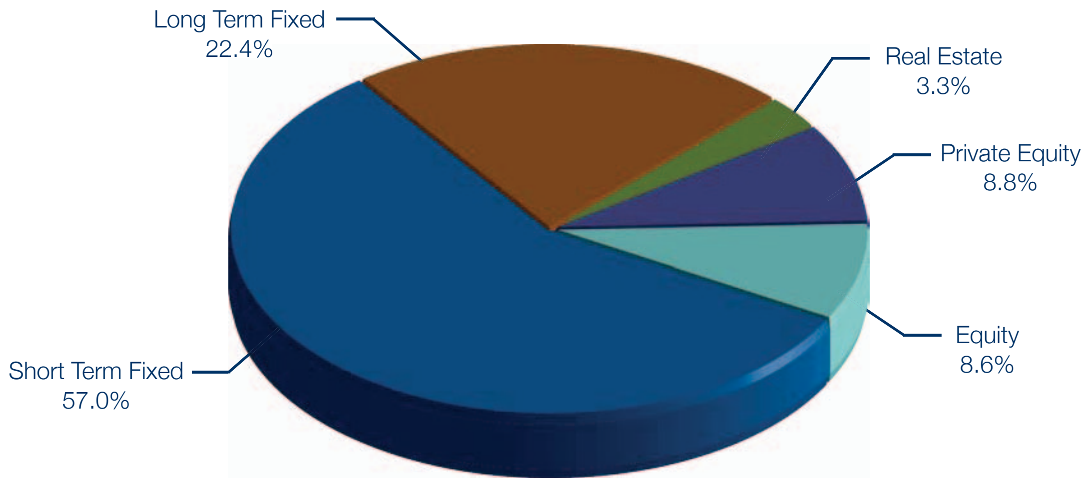
### Escheat Investment Program

Pursuant to G.S. 147-69.2(b)(12), up to 20 percent of the Escheat Investment Fund's assets can be invested in authorized equity, real estate and alternative investments. For the fiscal year ending June 30, 2010, the Escheat Fund maintained a total portfolio market value of $394.9 million, with $313.4 million invested in fixed income, $33.8 million invested in equity, $13.0 million invested in real estate, and $34.2 million in private equity. The following table and chart provides the Escheats asset allocation and the percentage of total fund as of June 30, 2010.

Escheat Investment Fund Asset Allocation as of June 30, 2010

| | Market Value | Portfolio Weight | Target Weight |
|---|---|---|---|
| Fixed Income | $313,422,419 | 79.4% | 80.0% |
| Global Equity | $33,847,359 | 8.6% | 12.0% |
| Real Estate | $12,982,365 | 3.3% | 4.0% |
| Private Equity | $34,642,115 | 8.8% | 4.0% |
| **ESCHEAT FUND** | **$394,894,257** | **100%** | **–** |

Escheat Investment Fund Asset Allocation

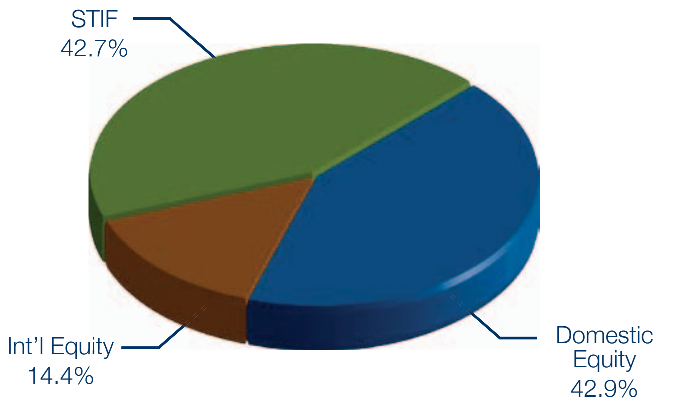


## UNC and Public Hospitals

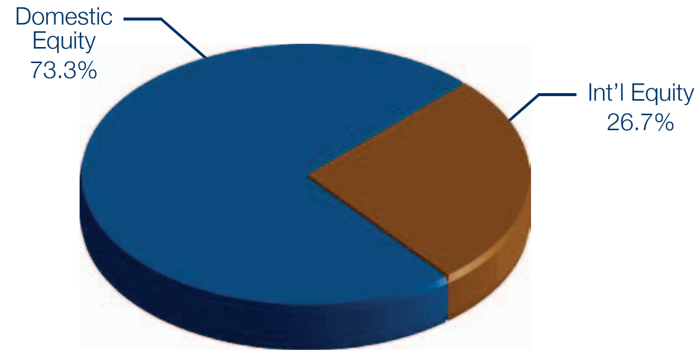
G.S. 147-69.2(b2) & G.S. 147-69.2(b3) allows North Carolina Public Hospitals and UNC Hospital to invest funds with the State Treasurer.

As of June 30, 2010, the UNC Hospital's portfolio maintained a market value of $457,528,206. The market value for the New Hanover Hospital portfolio was $43,522,478, the market value for Columbus Regional Healthcare System was $5,136,528, and the market value for the Margaret R. Pardee Hospital plan was $4,126,837. The allocations to the hospital plans are displayed below.

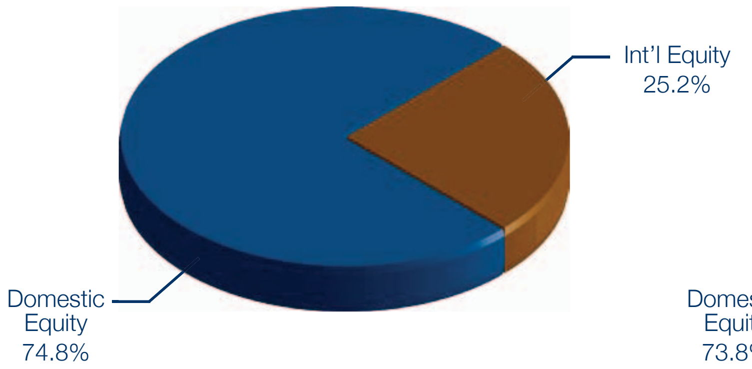
### UNC Hospital



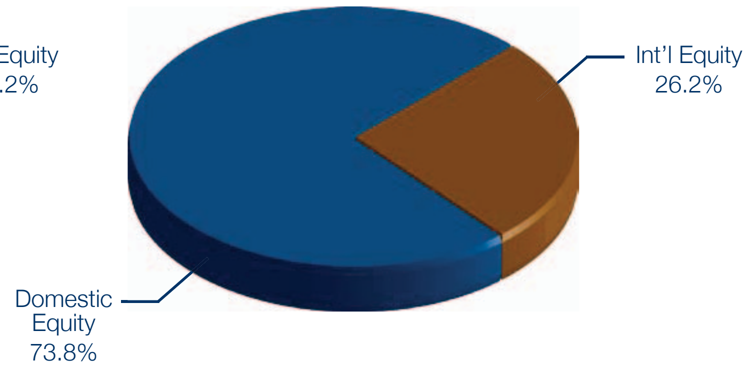

### New Hanover Hospital




### Columbus Regional Healthcare System




### Margaret R. Pardee Hospital



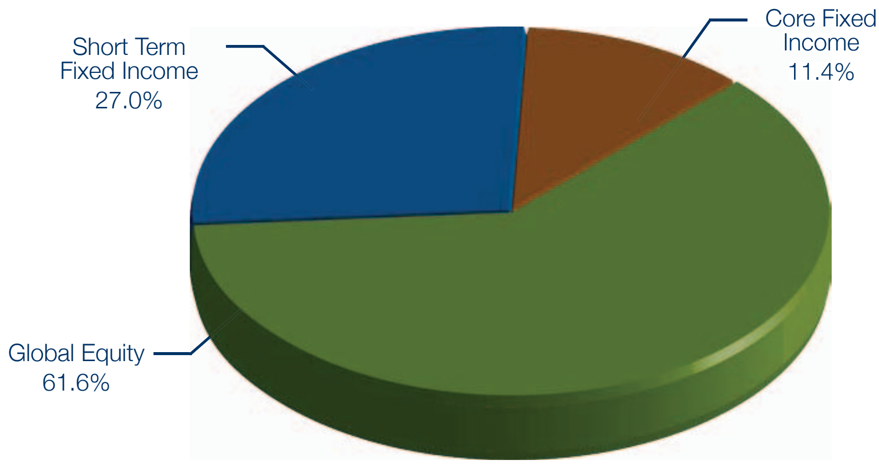
## Other Post-Employment Benefits Fund

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, 2010, the OPEB portfolio maintained a market value of $40,585,803. The chart below provides an overview of the OPEB asset classes as of June 30, 2010.

OPEB Asset Allocation as of June 30, 2010

| | Market Value | Portfolio Weight | Target Weight |
|---|---|---|---|
| Short Term Fixed Income | $10,976,175 | 27.0% | 25.0% |
| Core Fixed Income | $4,616,945 | 11.4% | 10.0% |
| Global Equity | $24,992,683 | 61.6% | 65.0% |
| **OPEB FUND** | **$40,585,803** | **100%** | **–** |

OPEB Asset Allocation




### Other Non-Pension Long-Term Investment Portfolio Participants

As of June 30, 2010, the aggregate market value of other Non-Pension participants invested in the Long-Term Investment Portfolio was $935,485,601.

# State & Local Government Finance Division

## State & Local Government Finance Division Statistics

| | 2007-2008 | 2008-2009 | 2009-2010 |
|---|---|---|---|
| Maintained the AAA Bond Rating | Yes | Yes | Yes |
| Number of Local Government Units Contacted Regarding their Fiscal Health or Compliance with General Statutes | 475 | 475 | 510 |
| Total State Issued by Local Governments | $5.5 billion | $4.9 billion | $6.5 billion |
| Debt Issued for Special State and Local Authorities and Agencies | $2.0 billion | $2.6 billion | $2.5 billion |
| Total State Debt Issued | $563 million | $600 million | $1.7 billion |

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 assists 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.

| 2009-10 Fiscal Year Summary of Debt Issued | |
|---|---|
| Total State | $1.73 billion |
| Total Local Governments | $6.48 billion |
| **TOTAL** | **$8.21 billion** |

In 1931 the North Carolina General Assembly established the Local Government Commission (LGC), staffed by this Division, 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. This Commission 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 LGC, established by G.S. 159-3, provides assistance to local governments and public authorities in North Carolina. It is staffed by the Department of State Treasurer and approves the issuance of debt for all units of local government and assists these units with fiscal management. The Commission is composed of nine members: the State Treasurer, the Secretary of State, the State Auditor, the Secretary of Revenue, and five others by appointment (three by the Governor, one by the General Assembly upon the recommendation of the President Pro Tempore, and one by the General Assembly upon the recommendation of the Speaker of the House). The State Treasurer serves as Chairman and selects the Secretary of the Commission, who heads the administrative staff serving the Commission. The General Statutes require the Commission to meet quarterly. As a matter of practice, the Commission's executive committee meets in the intervening months.

## The North Carolina Capital Facilities Finance Agency

Private colleges, universities, nonprofit and for-profit corporations providing certain services may receive financing assistance through bonds issued by the North Carolina Capital Facilities Finance Agency (Agency). The Agency Board of Directors is composed of seven members: the State Treasurer, the State Auditor, and five others by appointment (three by the Governor, one by the President Pro Tempore of the Senate, and one by the Speaker of the House of Representatives). The administrative staff for the Agency is provided by the Department of State Treasurer. The Agency meets monthly.

## 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

The Division issues and monitors all State debt, including debt secured by a pledge of the taxing power of the State and debt for which repayment is subject to appropriation. With the assistance of other State agencies, the Division 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 Division 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, 2010, the State had General Obligation bonds outstanding of $5.3 billion and Certificates of Participation, Limited Obligation Bonds, and Lease-Purchase bonds outstanding of $1.7 billion. (See Tables 7 and 8.)

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

The Division assists the State Treasurer in representing the State in all presentations to Moody's Investors Service, Inc., Standard and Poor's Corporation, and Fitch Ratings, Inc., the three national bond rating agencies used by the State and local governmental units in North Carolina. At June 30, 2010, the State had a "Triple-A" rating, the highest rating attainable, from all three national rating agencies. Only six other states enjoyed this distinction. 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.

In addition, the Division staffs the State's Debt Affordability Committee and drafts an annual Debt Affordability Study, which provides the General Assembly with an overview of the State' debt load and borrowing capacity. In 2009-10, the Study projected that the State's General Fund could authorize and issue approximately $9.1 million in bonds annually in each of the next ten fiscal years without exceeding the State's established debt targets. The Study also provided an estimate of the annual debt capacity for the Transportation Funds (the State Highway Fund and Highway Trust Fund) and projected that there is currently no new Transportation debt capacity.

The other primary function of the Division is the approval, sale and delivery of all North Carolina local government bonds and notes. This includes the sale of revenue bonds, which are secured only by specific revenue pledged in payment of the bonds. The Division staff counsels and assists local governmental units in determining the necessity of a project, the size of the issue, and the most expedient form of financing. A review is made of the debt management policies of the unit, the effect of the financing on the unit's tax rate and the unit's compliance with The Local Government Budget and Fiscal Control Act. Sale dates are scheduled depending on the need for the money, the anticipated interest rates and the most favorable times bonds can be sold with a minimum of competition. The staff strives to resolve all problems and to determine that all statutory requirements are met before applications are presented to the Local Government Commission for approval.

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, 2010, authorized and unissued general obligation bonds for local governments amounted to $5.0 billion and general obligation debt outstanding amounted to over $10.6 billion. (See Table 7.)

Another responsibility of the Division's staff is assisting units that desire to enter into agreements to finance the lease or installment purchase of capital assets. 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, 2010, the Local Government Commission approved contracts or other agreements (including refundings) totaling $1.7 billion. (See Tables 5 and 6.)

The Division also serves as staff to the seven-member North Carolina Capital Facilities Finance Agency (NCCFFA), 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 $4.7 billion in tax-exempt capital financing. There have been no defaults in bonds issued by the Agency. At June 30, 2010, there was $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, 2010, the NCCFFA issued $195.0 million in bonds for ten institutions. The annual report of the NCCFFA is available from the Department of the State Treasurer.

The Division also serves as the 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.

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.

Bond Issuances for 2009-2010[1]

| | FY NO. | 2009-10 AMOUNT (IN MILLIONS) |
|---|---|---|
| **Bonds Sold for State** | | |
| G.O. Bonds (General Fund) | 2 | $ 859.6 |
| Grant Anticipation Revenue Vehicle Bonds (GARVEEs)[2] | 1 | 242.5 |
| NC Turnpike Authority Revenue Bonds | 1 | 622.8 |
| TOTAL ISSUED | 4 | $ 1,724.9 |
| **Bonds and Notes Sold for Local Government Units** | | |
| G.O. Bonds | 88 | $ 2,563.2 |
| Revenue Bonds | 41 | 1,489.7 |
| Special Obligation Bonds - Solid Waste | 2 | 18.4 |
| G.O. Notes[3] | 36 | 381.1 |
| Revenue Notes[3] | 27 | 301.3 |
| TOTAL ISSUED | 194 | $ 4,753.7 |
| Installment/Lease Contracts Sold for Local Units | 122 | $ 1,557.1 |
| Water & Sewer Revolving Loans[4] | 30 | 79.3 |
| Water & Sewer Revolving Loans (Stimulus)[4] | 73 | 88.6 |
| TOTAL FOR LOCAL GOVERNMENT UNITS | 419 | $ 6,478.7 |
| **Revenue Bonds Sold for** | | |
| Medical Care Commission | 18 | $ 1,100.4 |
| Housing Finance Agency | 3 | 217.1 |
| Power Agencies[5] | 5 | 846.5 |
| Industrial Facilities & Pollution Control Financing Authorities[6] | 11 | 93.5 |
| Capital Facilities Finance Agency | 10 | 195.0 |
| Centennial Authority[7] | 1 | 37.9 |
| TOTAL ISSUED | 48 | $ 2,490.4 |
| **GRAND TOTAL ISSUED** | **471** | **$ 10,694.0** |

[1]These totals include approximately $1.3 billion in bonds issued as part of the 2009 American Recovery and Reinvestment Act. A specific summary of these federal stimulus bonds is discussed in the Other Highlights section.

[2]The GARVEES are bonds issued for the State Department of Transportation for transportation construction and improvement costs. They are payable solely from certain federal transportation revenues received on behalf of the State and do not create a liability or obligation of the State or any political subdivision.

[3]These are ongoing programs involving more than a year in duration. The purpose of these projects is to allow interim funding of large ongoing programs until a sufficient amount of bonds or favorable market conditions justify replacing the notes with permanent financing.

[4]Represents amounts of Water and Sewer Revolving Loans approved for issuance by the Commission during the fiscal year.

[5]These bonds were issued for North Carolina Eastern Municipal Power Agency and for North Carolina Municipal Power Agency # 1. In addition, these two agencies terminated five swaps totaling $233 million.

[6]Bonds issued by these authorities are commonly referred to as Industrial Revenue Bonds and are used to attract and retain manufacturing industries to the State. These issuance numbers include Recovery Zone Facility Bonds, a form of industrial revenue bond created by the 2009 American Recovery and Reinvestment Act.

[7]The Centennial Authority was established in 1995 and oversees and operates the RBC Center in Raleigh, N.C.

## Fiscal Management

Another function of the Division involves monitoring certain fiscal and accounting standards prescribed for local governmental units by the Local Government Budget and Fiscal Control Act. 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 Commission as qualified to audit local government accounts. As a part of its role in assisting local units and monitoring their fiscal programs, the Division provides guidance in following generally accepted accounting principles. 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 1,250 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. As a part of the audit review process, staff reviewed approximately 558 single audits and approximately 264 “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.

When Division staff notes problems, 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. On behalf of the Local Government Commission, staff requests a response detailing the unit’s plans to take corrective action. In fiscal year 2009-10, staff sent approximately 510 audit letters to units of local government.

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:

- UNC 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
- Government Finance Officers Association of the United States and Canada
- North Carolina League of Municipalities
- South Carolina Municipal Association
- North Carolina American Water Works Association

## Outreach and Communication

In fiscal year 2009-10, staff issued 40 public memoranda directed to local governments, auditors and the State's public finance community. Topics included: the implementation of GASB Statement Nos. 51 on intangible assets, 53 on Accounting for Derivatives, and 54 on Reporting Fund Balance, as well as the Unauthorized Substance Tax Revenue, accounting for interest rebate debt, reporting requirements for American Recovery and Reinvestment Act funds, continuing disclosure requirements, and international ACH regulations. For a complete index of Division memos, visit www.nctreasurer.com/DSTHome/StateAndLocalGov/AuditingAndReporting/Memos.htm. In addition, interested parties may subscribe to the LGC News listserv, launched in the spring of 2010. Staff provides updates of public memoranda, as well as other pertinent information about public finance issues. The listserv currently has over 700 subscribers.

- Staff members worked with the School of Government to present the ninth annual ***State Treasurer's Conference on Local Government Accounting, Auditing and Financial Management*** in May, 2010. The conference was intended for both local government auditors and officials. It was conducted at two sites, and drew more than 319 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. In addition, staff members spoke at 35 continuing education courses and conferences sponsored by organizations such as the School of Government, various North Carolina finance officers associations, the national Government Finance Officers Association conference, the League of Municipalities and the North Carolina Association of Certified Public Accountants.

- The Department sponsored the 20th 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.

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, a member of the staff serves on the Governmental Accounting Standards Advisory Council. 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.

## Other Highlights

### Federal Stimulus Legislation and Bonds

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 included 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 included 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. A significant amendment by Congress to the stimulus bill in 2010 allowed the Qualified School Construction Bonds to be issued with a direct subsidy to the issuer, a change intended to result in a 0% interest cost for issuers of these bonds.

In addition to authorization of new bonds shown below, the federal stimulus legislation provided additional funding in the form of loans for water and sewer system infrastructure improvements for local governments and authorities. Since the initial authorization of these loans in 2009, a total of 144 governmental units were approved to receive loans that totaled $87.8 million for water and $86.9 million for sewer. These loans were interest free and offered immediate principal forgiveness for one half the loan amount.

Since the initial authorization of ARRA bonds in February 2009 through June 30, 2010, the Commission approved the issuance of the stimulus designated bonds as follows:

| Type | Amount |
|---|---|
| Qualified School Construction Bonds | $113,993,917 |
| Qualified Zone Academy Bonds | 9,170,770 |
| Build America Bonds | 857,265,615 |
| Recovery Zone Economic Development Bonds | 231,800,055 |
| Recovery Zone Facility Bonds | 80,510,000 |
| **GRAND TOTAL** | **$1,292,740,357** |

These bonds are included in the issuance totals chart above.

### Fiscal Analysis Dashboard Project

In July 2010, the Department rolled out a new analysis tool available for approximately 550 cities and 100 counties. The Fiscal Analysis Dashboard allows these governments to very quickly benchmark themselves against up to five of their peers in four different areas – governmental activities, the General Fund, Water and Sewer operations, and Electric operations. The benchmarking data is drawn from the previous five years of audited financial statements and provides up to 20 different analytical ratios and calculations by which a government can measure its financial well-being. Further, the data is presented in graph form that very easily and very quickly shows the results in an understandable format. This tool was developed as a joint project with the UNC School of Government, the State and Local Finance Division staff, and the Department's Information Technology staff. To learn more, visit www.nctreasurer.com/dsthome/StateAndLocalGov/lgcreport.

### Interest Rate Swaps & Variable Rate Markets

Liquidity concerns and variable rate debt led to at least 10 units replacing remarketing or liquidity providers in 2009-10. In addition, at least six local units terminated 10 swaps due to short-term concerns, including six units with nine swaps that were refunded from synthetic fixed rates to fixed rate debt when the costs of termination justified the risk reduction. Only one new swap, with a notational amount of approximately $60.5 million, was approved for a local government unit. Additionally, in reaction to the lack of liquidity and legislative changes with bank-qualification and treatment, the marketplace began to see increased bank purchases and the development of bank purchases with put features (for private/non-profit organizations) as an alternative to Variable Rate Demand Bonds carrying liquidity risks and cost concerns.

Purposes for Which Local Governments Sold Bonds and Notes
Fiscal Year 2010

| | School | Utilities | Refunding | Other | No. | Total Amount |
|---|---|---|---|---|---|---|
| **G.O. Bonds** | | | | | | |
| Counties | $ 149,125,000 | $ 12,697,000 | $ 1,336,645,000 | $ 498,530,000 | 50 | $ 1,996,997,000 |
| Municipalities | – | 16,145,000 | 375,865,000 | 160,345,000 | 34 | 552,355,000 |
| Districts and Authorities | – | 13,862,000 | – | – | 4 | 13,862,000 |
| TOTAL G.O. BONDS | $ 149,125,000 | $ 42,704,000 | $ 1,712,510,000 | $ 658,875,000 | 88 | $ 2,563,214,000 |
| **Revenue Bonds** | | | | | | |
| Counties | $ – | $ – | $ – | $ 95,319,500 | 8 | $ 95,319,500 |
| Municipalities | – | – | 413,285,000 | 625,447,439 | 22 | 1,038,732,439 |
| Districts and Authorities | – | 340,644,564 | 15,000,000 | – | 11 | 355,644,564 |
| TOTAL REVENUE BONDS | $ – | $ 340,644,564 | $ 428,285,000 | $ 720,766,939 | 41 | $ 1,489,696,503 |
| **Special Obligation Bonds** | | | | | | |
| Solid Waste | $ – | $ – | $ 5,720,000 | $ 12,700,000 | 2 | $ 18,420,000 |
| TOTAL SPECIAL OBLIGATION BONDS | $ – | $ – | $ 5,720,000 | $ 12,700,000 | 2 | $ 18,420,000 |
| **Water and Sewer Revolving Loans** | | | | | | |
| Counties | $ – | $ 18,584,000 | $ – | $ – | 21 | $ 18,584,000 |
| Municipalities | – | 132,096,000 | – | – | 131 | 132,096,000 |
| Districts | – | 17,193,000 | – | – | 28 | 17,193,000 |
| TOTAL WATER AND SEWER REVOLVING LOANS | $ – | $ 167,873,000 | $ – | $ – | 180 | $ 167,873,000 |
| **Notes** | | | | | | |
| G.O. Bonds Anticipation Notes | $ – | $ 378,462,366 | $ – | $ 2,590,000 | 36 | $ 381,052,366 |
| Revenue Notes | – | 301,274,128 | – | – | 27 | 301,274,128 |
| TOTAL | $ – | $ 679,736,494 | $ – | $ 2,590,000 | 63 | $ 682,326,494 |
| **TOTAL BONDS AND NOTES** | **$ 149,125,000** | **$ 1,491,597,224** | **$ 2,146,515,000** | **$ 1,394,931,939** | **374** | **$ 4,921,529,997** |

Debt Management Activities State and Local (in millions)
Fiscal Year 2010

| | FY 2009-10 | | FY 2008-09 | | FY 2007-08 | |
|---|---|---|---|---|---|---|
| | NO. | AMT. | NO. | AMT. | NO. | AMT. |
| **Bonds Sold for State** | | | | | | |
| G.O. Bonds (General Fund) | 2 | $ 859.6 | – | $ – | – | $ – |
| G.O. Bonds (Highway Fund) | – | – | – | – | – | – |
| Special Indebtedness | – | – | 2 | 600.0 | 2 | 275.0 |
| Grant Anticipation Revenue Vehicle Bonds | 1 | 242.5 | 1 | – | 1 | 287.6 |
| NC Turnpike Authority Revenue Bonds | 1 | 622.8 | – | – | – | – |
| TOTAL ISSUED | 4 | $ 1,724.9 | 3 | $ 600.0 | 3 | $ 562.6 |
| **Bonds and Notes Sold for Local Government Units** | | | | | | |
| G.O. Bonds | 88 | $ 2,563.2 | 33 | $ 1,734.0 | 42 | $ 957.0 |
| Revenue Bonds | 41 | 1,489.7 | 22 | 1,014.0 | 42 | 2,814.5 |
| Special Obligation Bonds - Solid Waste | 2 | 18.4 | – | – | 2 | 12.5 |
| G.O. Notes | 36 | 381.1 | 12 | 362.4 | 17 | 63.0 |
| Revenue Notes | 27 | 301.3 | 6 | 88.7 | 3 | 3.9 |
| TOTAL ISSUED | 194 | $ 4,753.7 | 73 | $ 3,199.1 | 106 | $ 3,850.9 |
| Installment/Lease Contracts Sold for Local Units | 122 | $ 1,557.1 | 141 | $ 1,557.1 | 155 | $ 1,537.5 |
| Water & Sewer Revolving Loans* | 30 | 79.3 | 11 | 81.6 | 15 | 68.9 |
| Water & Sewer Revolving Loans (Stimulus)* | 73 | 88.6 | 72 | 84.0 | - | - |
| TOTAL FOR LOCAL GOVERNMENT UNITS | 419 | $6,478.7 | 297 | $4,921.8 | 276 | $5,457.3 |
| **Revenue Bonds Sold for** | | | | | | |
| Medical Care Commission | 18 | $ 1,100.4 | 13 | $ 1,975.5 | 11 | $ 473.5 |
| Housing Finance Agency | 3 | 217.1 | – | – | 2 | 75.0 |
| Power Agencies | 5 | 846.5 | 2 | 107.4 | 5 | 880.8 |
| Industrial Facilities and Pollution Control Financing Authorities | 11 | 93.5 | 1 | 3.5 | 11 | 111.6 |
| Capital Facilities Finance Agency | 10 | 195.0 | 5 | 509.5 | 17 | 509.5 |
| Centennial Authority | 1 | 37.9 | – | – | – | – |
| TOTAL ISSUED | 48 | $ 2,490.4 | 21 | $ 2,595.9 | 46 | $ 2,050.4 |
| **GRAND TOTAL ISSUED** | **471** | **$ 10,694.0** | **321** | **$ 8,117.7** | **325** | **$ 8,070.3** |

* Represents amounts of Water and Sewer Revolving Loans approved for issuance by the Commission during the fiscal year.

# Unclaimed Property and Escheats Division

## Unclaimed Property and Escheats Division Statistics

| | 2007-2008 | 2008-2009 | 2009-2010 |
|---|---|---|---|
| Amount of Funds Deposited | $111,952,092 | $101,236,002 | $163,293,449 |
| Amount Paid to Rightful Owners | $28,340,521 | $39,372,068 | $48,365,264 |
| Amount of Principal Transferred for Scholarships out of the Escheat Fund | $100,709,356 | $169,550,449 | $165,576,562 |
| Amount of Interest Sent to SEAA for Scholarships | $27,483,812 | $6,365,997 | $7,343,987 |
| **Inquiries Regarding Unclaimed Property** | | | |
| Number of Phone Calls | 120,858 | 126,639 | 88,625 |
| Number of Web Searches | 4,001,840 | 4,502,625 | 4,345,909 |
| Total Number of Claims Paid | 24,608 | 38,862 | 38,583 |

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

The principle of escheat originated in England during the Middle Ages. The basic premise was that property which remained without an owner or upon failure to make claim by a descendant's heirs, reverted to the Sovereign from whom all property rights were derived. This concept was brought to the American colonies by the English settlers.

Upon the conclusion of the Revolutionary War, the State of North Carolina succeeded to the rights previously held by the Crown, including the right of escheat. The North Carolina Legislature adopted the University Act of 1789 which gave the newly formed University "all the property that has heretofore or shall hereafter escheat to the state." Throughout the early decades of the University, the escheat collections, though often minimal, provided a vital source of funds for the Institution. The Treasurer of the University was responsible for the collection of escheat property under the law. For the period through June 30, 1971, the University of North Carolina had collected and was maintaining a fund of $4,946,191.02.

Effective July 1, 1971, the State Treasurer was designated the Escheat Officer for the State of North Carolina with the responsibility for collection, management, and investment of moneys in the Escheat Fund.

Currently the unclaimed property fund is valued at more than $418 million. The fund's income comes from 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 fiscal year, ending June 30, 2010, a total amount of $7,343,987 from interest earned and $144,649,786 from the Principal was sent to SEAA to be used for student loans and grants. A total of 100,559 students were assisted through SEAA.

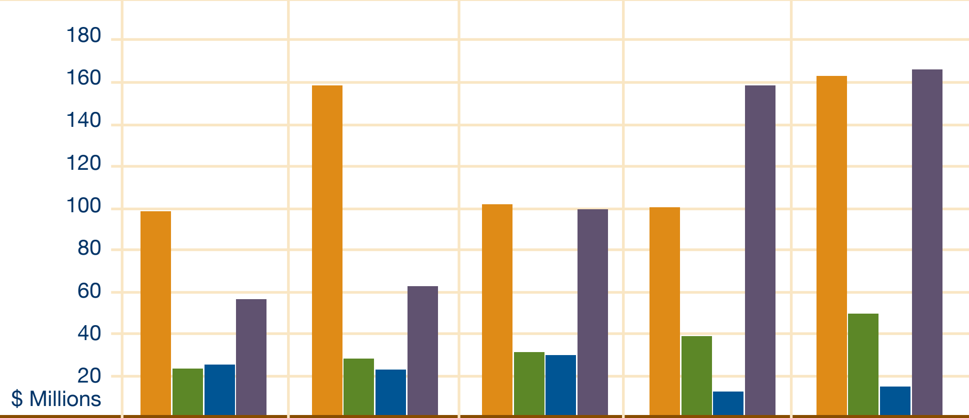
The General Assembly has mandated additional funds from the Principal to be sent to the Department of Administration Veterans Scholarship Fund in the amount of $6,520,964, Community Colleges in the amount of $13,981,202, and DHHS – Child Welfare in the amount of $777,267.

During the past year, the Department worked to raise awareness about the depletion of the Escheats Fund, a primary source of student scholarships. At the current rate of withdrawal, the Fund will have a negative balance by 2012. Interest earned on the Fund's investments underwrites college scholarships. Over time, however, the number and size of programs dependent on the Fund grew and now the state is using the Fund's principal to meet obligations. The Department has urged the General Assembly to keep a minimum balance of $200 million in the Escheats Fund and to revisit the Fund's overall structure and sustainability.

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 Department works to locate the owners by various means, including listing names on the website, earning media coverage through television and newspapers, mailing lists to Clerks of Court, and attending outreach events, such as the North Carolina State Fair, various civic organizations, and many other events throughout the State to promote public awareness about the program. Some of our State legislators also assist with promoting the Program in their Districts by contacting their constituents and advising them of unclaimed property belonging to them or their families.

The total number of claims paid for year ending June 30, 2010 was 38,583, totaling $48,365,264. The number of holder reports received was 11,866, totaling $163,293,449.

### Unclaimed Property Facts




| Fiscal Year Ending | 2006 | 2007 | 2008 | 2009 | 2010 |
|---|---|---|---|---|---|
| Total Funds Escheated | $98,884,872 | $159,036,435 | $111,952,092 | $101,236,002 | $163,293,449 |
| Total Amount Returned | $24,045,103 | $27,180,494 | $28,340,521 | $39,372,068 | $48,365,264 |
| Total Interest Earnings Remitted to SEAA for Student Loans and Grants | $24,726,366 | $22,730,705 | $27,483,812 | $6,365,997 | $7,343,987 |
| Total Principal Transferred for Scholarship Programs | $58,271,500 | $62,461,074 | $100,709,356 | $169,550,449 | $165,576,562 |

The increase in Total Funds Escheated last year was primarily due to the sale of demutualized stock that was received three years ago. In accordance with NCGS 116B-65(b), securities may be sold three years after receipt.

# Financial Operations Division

## Financial Operations Division Statistics

| | 2007-2008 | 2008-2009 | 2009-2010 |
|---|---|---|---|
| Amount in Checks Processed by State Bank | $24.5 billion | $25 billion | $22 billion |
| Total Dollar Amount for Wire Transfers Processed | $116.9 billion | $122.7 billion | $123.9 billion |
| Total Number of Wire Transfers | 13,608 | 14,595 | 16,120 |
| Cash Balances in the State Treasurer's Depository Accounts at the 6 Concentration Banks and 86 Community Banks | $67.7 million | $40 million | $50.9 million |

The Financial Operations Division (FOD) is charged with properly accounting for and reporting on all funds that are deposited, invested, and disbursed through the State Treasurer. The Division also performs the State Treasurer's role of serving as the State's Banker, and to ensure that efficient banking services are provided to all State agencies and institutions.

The Division comprises four sections:

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

## History of Financial Operations

In 1925, the General Assembly passed a law stating that all deposits received by the state must be deposited into centralized accounts in the name of the State Treasurer at banks approved by the Treasurer. In 1929, it designated the State Treasurer's office as the centralized office of deposits and disbursements. As such, the position of Treasurer for each state agency and department was eliminated. This centralized system for managing the flow of moneys collected and disbursed by all State departments, agencies, institutions, and universities ensures 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.

In 1986, State agencies located in Raleigh were allowed to make their daily deposits at a teller window established in the Department of State Treasurer, and the Division operated a reader-sorter which was used to clear the items and post to the respective agency accounts. By 1998, 35 agencies were taking advantage of this service. Not long after that, the encodings and clearings were outsourced to the Federal Reserve. In 2009, the Department began issuing warrants electronically to vendors, employees, and retirees.

FOD was first formed in its current setup with the four sections that comprise the Division in 2001. Prior to that time, the Departmental Accounting section was part of the Administrative Services Division, while the Banking and Statewide Accounting sections were part of the Investment and Banking Division. Before that, Banking Operations was under the Administrative Services Division until 1977. The 2001 redesign was intended to make the workflow more efficient and cleaner for internal controls.

## Banking Operations

All revenues collected by a State entity on behalf of the State must be deposited with the State Treasurer. This Division 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 that have a statewide branch network (Wachovia, Bank of America, RBC, First Citizens, BB&T, and SunTrust), as well as more than 90 community banks across the state. The Division 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 2009-2010, more than 7.6 million warrants were processed, representing almost $22 billion in payments.

The Banking Operations Division 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 $75 billion investment and banking programs. It also maintains the general ledgers for the pension fund, employee benefit trust funds, and the Escheats Fund, also known as the unclaimed property fund, administered by the State Treasurer. All pension payments to public sector retirees are handled in the Retirement Systems Division, with oversight by this section.

## Departmental Accounting

The Departmental Operations section manages all fiscal duties that relate to the administration of the programs of the Department of State Treasurer. These duties include developing and monitoring the operating budget for the Department, preparing payroll for more than 400 employees and contractors, managing accounts payable, and enforcing centralized purchasing.

## The Year's Highlights

- Detected more than 2,600 counterfeit warrants (checks) during the year. In addition, 406 cases of fraudulent warrants were discovered and resolved, meaning that the agencies did not lose money as a result.
- Presented more than 7.6 million State warrants totaling almost $22 billion through the Federal Reserve Bank and processed them against agencies' disbursing accounts.
- Recorded more than $7.6 billion worth of securities pledged to the State Treasurer to secure public deposits in financial institutions.
- Enacted reviews of internal controls to ensure compliance with audit findings, and reduced the agency's findings through these measures.

# Statistical Tables


Treasurer's Cash Balances as of June 30, 2010

| **Concentration Accounts** | |
|---|---|
| Raleigh, Bank of America | $ 3,303,915.91 |
| Unemployment Clearing Account | 522,745.29 |
| Raleigh, Branch Banking & Trust Co. | 2,164,880.82 |
| Raleigh, First Citizens Bank & Trust Co. | 2,240,169.77 |
| Raleigh, RBC Centura Bank | 642,653.41 |
| Raleigh, SunTrust Bank & Trust Co. | 2,423,255.95 |
| Raleigh, Wachovia Bank of N.C. | 35,622,435.46 |
| TOTAL CONCENTRATION ACCOUNTS | $ 46,920,056.61 |

| **Community Bank Accounts** | |
|---|---|
| Aberdeen, First Bank | $ 32,954.99 |
| Ahoskie, Southern Bank & Trust | 32,955.25 |
| Albemarle, Bank of Stanley | 32,000.47 |
| Angier, First Bank | 31,999.83 |
| Asheboro, Community One Bank | 55,880.56 |
| Asheboro, First Bank | 30,000.24 |
| Bakersville, United Community Bank | 32,000.44 |
| Bath, Southern Bank & Trust | 12,502.60 |
| Boone, Bank of Granite | 32,955.40 |
| Boone, High Country Bank | 9,999.74 |
| Bryson City, United Community Bank | 31,044.85 |
| Burnsville, Carolina First | 32,000.09 |
| Camden, Bank of Currituck | 31,999.71 |
| Cary, Fidelity Bank | 32,000.28 |
| Columbia, East Carolina Bank | 77,850.84 |
| Columbus, Tryon Federal Bank | 32,000.20 |
| Creedmoor, Fidelity Bank | 26,115.12 |
| Creswell, East Carolina Bank | 15,760.81 |
| Currituck, East Carolina Bank | 25,000.20 |
| Danbury, Newbridge Bank | 17,672.09 |
| Durham, Mechanics & Farmers Bank | 58,746.51 |
| Engelhard, East Carolina Bank | 31,044.63 |
| Fayetteville, Capital Bank | 111,283.70 |
| Franklin, Macon Savings Bank | 31,999.99 |
| Gastonia, Fidelity Bank | 31,999.50 |
| Gatesville, Southern Bank & Trust | 32,000.05 |
| Greensboro, Mechanics and Farmers Bank | 484,776.29 |
| Hampstead, First Federal Bank | 24,999.67 |
| Harrisburg, Bank of the Carolinas | 32,954.87 |
| Harrisburg, Fifth Third Bank | 52,059.55 |
| High Point, High Point Bank & Trust | 20,000.34 |
| Jefferson, Fifth Third Bank | 32,000.40 |
| Kenansville, First Bank | 31,999.77 |
| Kernersville, Bank of North Carolina | 32,000.40 |
| Kings Mountain, Fidelity Bank | 14,805.81 |
| Lake Lure, Carolina First Bank | 30,000.23 |
| Laurinburg, First Bank | 32,000.41 |
| Lenoir, Bank of Granite | 48,238.81 |
| Lewiston, Southern Bank & Trust | 12,895.22 |
| Lexington, Newbridge Bank | $ 53,015.11 |
| Lillington, Fidelity Bank | 32,000.25 |
| Lumberton, Lumbee Guaranty Bank | 31,999.70 |
| Manteo, East Carolina Bank | 91,223.79 |
| Marion, Fifth Third Bank | 44,999.52 |
| Mayodan, First Bank | 2,259.95 |
| Mt. Airy, Southern Community Bank | 31,999.77 |
| Mt. Airy, Surrey Bank | 24,999.52 |
| Mt. Olive, Southern Bank & Trust | 32,955.38 |
| Murphy, United Community Bank | 80,715.96 |
| Nags Head, East Carolina Bank | 40,597.08 |
| Newland, United Community Bank | 29,999.91 |
| Newton, Peoples Bank | 31,999.84 |
| North Wilkesboro, Yadkin Valley Bank & Trust | 33,910.39 |
| Ocracoke, East Carolina Bank | 92,179.33 |
| Pembroke, Lumbee Guaranty Bank | 85,492.41 |
| Plymouth, Southern Bank & Trust | 31,044.67 |
| Polkton, First Bank | 31,044.64 |
| Raleigh, Mechanics & Farmers Bank | 23,403.10 |
| Reidsville, NewBridge Bank | 33,910.28 |
| Robbins, Fidelity Bank | 31,999.53 |
| Robbinsville, United Community Bank | 31,044.95 |
| Salemburg, Southern Bank & Trust | 51,104.17 |
| Salisbury, Fidelity Bank | 24,999.50 |
| Sanford, First Bank | 31,627.34 |
| Seven Springs, Southern Bank & Trust | 30,089.61 |
| Shelby, Fidelity Bank | 32,955.03 |
| Shelby, First National Bank | 32,000.14 |
| Siler City, Fidelity | 1,946.45 |
| Sparta, Fifth Third | 20,536.99 |
| Spruce Pine, Carolina First Bank | 31,044.40 |
| St. Pauls, First Bank | 32,000.32 |
| Swan Quarter, East Carolina Bank | 60,656.31 |
| Tarboro, Heritage Bank | 32,000.00 |
| Troy, Fidelity Bank | 31,999.82 |
| Troy, First Bank | 70,209.02 |
| Walnut Cove, Southern Community Bank | 249,999.71 |
| Wanchese, East Carolina Bank | 56,836.18 |
| Washington, First Bank | 32,000.22 |
| Waynesville, United Community Bank | 32,000.48 |
| Wentworth, Fidelity Bank | 51,103.54 |
| West End, First Bank | 12,895.84 |
| West Jefferson, Fifth Third Bank | 199,999.76 |
| Whiteville, Security Savings Bank | 32,000.39 |
| Windsor, Southern Bank & Trust | 31,999.92 |
| Winton, Southern Bank & Trust | 32,000.12 |
| Yanceyville, Fidelity Bank | 42,507.70 |
| TOTAL COMMUNITY BANKS ACCOUNTS | $ 3,949,807.90 |
| **TREASURER'S CASH BALANCE 6/30/2010** | **$ 50,869,864.51** |

Summary of Investments by Participants
for the Periods Ended June 30, 2010 and June 30, 2009 (in thousands)

| | June 30, 2010 | June 30, 2009 |
|---|---|---|
| **Retirement Trust Funds** | | |
| Teachers' and State Employees' Retirement System | $ 48,725,147 | $ 45,256,207 |
| Local Governmental Employee's Retirement System | 15,760,910 | 14,258,397 |
| North Carolina Firemen's Pension Fund | 252,748 | 234,814 |
| Rescue Squad Workers' Pension Fund | 30,737 | 28,299 |
| Consolidated Judicial Retirement System | 386,382 | 357,737 |
| North Carolina National Guard Pension Plan | 71,553 | 63,877 |
| Legislative Retirement System | 25,965 | 24,715 |
| TOTAL RETIREMENT TRUST FUNDS: | $ 65,253,442 | $ 60,224,046 |
| **Other Funds** | | |
| General Fund | $ 1,549,856 | $ 1,568,120 |
| Other Funds Which Earn Interest for the General Fund | 1,438,615 | 1,359,084 |
| Highway Fund | 782,036 | 875,399 |
| Highway Trust Fund | 154,682 | 43,062 |
| University Funds | 2,313,547 | 1,879,491 |
| Other Independent Trust Funds | 3,683,165 | 3,302,005 |
| Local Political Subdivisions | 598,957 | 516,086 |
| Licensing Boards | 31,828 | 33,461 |
| TOTAL OTHER FUNDS | $ 10,552,686 | $ 9,576,708 |
| **GRAND TOTAL ALL FUNDS** | **$ 75,806,128** | **$ 69,800,754** |

Statement of Departmental Revenues and Expenditures
Budget and Actual (Budgetary Basis)
General Fund (Departmental Activities Only)
For the Fiscal Year Ended June 30, 2010

| | Authorized Budget | Year-to-Date Actual | Variance Favorable (Unfavorable) |
|---|---|---|---|
| **Departmental Expenditures** | | | |
| General Administration | $ 1,553,273 | $ 1,553,250 | $ 23 |
| Escheat Operations | 3,118,343 | 3,117,553 | 790 |
| Information Services | 8,131,419 | 7,912,000 | 219,419 |
| Investment Management Operations | 5,571,116 | 4,718,977 | 852,139 |
| Local Government Operations | 4,348,561 | 4,234,453 | 114,108 |
| State Bond Issuance Cost | 622,817 | 622,817 | 0 |
| Retirement Operations | 20,066,034 | 18,249,838 | 1,816,196 |
| Financial Operations: | | | |
| Banking | 3,158,355 | 3,095,324 | 63,031 |
| Accounting | 1,521,692 | 1,428,823 | 92,869 |
| TOTAL EXPENDITURES | $ 48,091,610 | $ 44,933,034 | $ 3,158,576 |
| **Departmental Receipts** | | | |
| General Administration | $ 1,553,273 | $ 1,553,250 | $ (23) |
| Escheat Operations | 3,118,343 | 3,117,553 | (790) |
| Information Services | 8,131,419 | 7,912,000 | (219,419) |
| Investment Management Operations | 1,282,731 | 735,752 | (546,979) |
| Local Government Operations | 980,505 | 854,032 | (126,473) |
| State Bond Issuance cost | 622,817 | 622,817 | (0) |
| Retirement Operations | 20,066,034 | 18,249,838 | (1,816,196) |
| Financial Operations: | | | |
| Banking | - | - | - |
| Accounting | 1,521,692 | 1,521,677 | (15) |
| TOTAL RECEIPTS | $ 37,276,814 | $ 34,566,919 | $ (2,709,895) |
| **APPROPRIATION** | **$ 10,814,796** | **$ 10,366,115** | **$ 448,681** |

General Obligation Bonds Local Government Referenda and Authorizations
Fiscal Year July 1, 2009 through June 30, 2010

| | Propositions | | | Bonds | | |
|---|---|---|---|---|---|---|
| **Counties** | # PROPOSED | # APPROVED | % APPROVED | $ PROPOSED | $ APPROVED | % APPROVED |
| *Voted Propositions* | | | | | | |
| Water | 1 | 1 | 100.00% | $ 4,450,000 | $ 4,450,000 | 100.00% |
| TOTAL | 1 | 1 | 100.00% | $ 4,450,000 | $ 4,450,000 | 100.00% |
| *Nonvoted Propositions* | | | | | | |
| 2/3rd issues | 4 | 4 | 100.00% | $ 9,936,666 | $ 9,936,666 | 100.00% |
| Refunding | 24 | 24 | 100.00% | 1,972,050,000 | 1,972,050,000 | 100.00% |
| TOTAL | 28 | 28 | 100.00% | $ 1,981,986,666 | $ 1,981,986,666 | 100.00% |
| **Districts** | | | | | | |
| *Voted Propositions* | | | | | | |
| Water | 1 | 1 | 100.00% | $ 5,986,000 | $ 5,986,000 | 100.00% |
| TOTAL | 1 | 1 | 100.00% | $ 5,986,000 | $ 5,986,000 | 100.00% |
| **Municipalities** | | | | | | |
| *Voted Propositions* | | | | | | |
| Streets | 1 | 1 | 100.00% | $ 32,000,000 | $ 32,000,000 | 100.00% |
| Flood Control & Erosion | 1 | 1 | 100.00% | 17,000,000 | 17,000,000 | 100.00% |
| Natural Science Center | 1 | 1 | 100.00% | 20,000,000 | 20,000,000 | 100.00% |
| Parks & Recreation | 1 | 0 | 0.00% | 4,635,000 | - | 0.00% |
| TOTAL | 4 | 3 | 100.00% | $ 73,635,000 | $ 69,000,000 | 93.71% |
| *Nonvoted Propositions* | | | | | | |
| Refunding | 14 | 14 | 100.00% | $ 466,510,000 | $ 466,510,000 | 100.00% |
| 2/3rds | 3 | 3 | 100.00% | 11,736,000 | 11,736,000 | 100.00% |
| TOTAL | 17 | 17 | 100.00% | $ 478,246,000 | $ 478,246,000 | 100.00% |
| TOTAL VOTED | 6 | 5 | 83.33% | $ 84,071,000 | $ 79,436,000 | 94.49% |
| TOTAL NONVOTED | 45 | 45 | 100.00% | 1,993,722,666 | 1,993,722,666 | 100.00% |
| **GRAND TOTALS** | **51** | **50** | **100.00%** | **$ 2,544,303,666** | **$ 2,539,668,666** | **99.82%** |

Installment Purchase Agreements Approved by Purpose
Fiscal Year July 1, 2009 through June 30, 2010

| **Municipalities** | | AMOUNT |
|---|---|---|
| Utilities | | |
| Sanitary Sewer | $ 7,023,037 | |
| Electric | 1,312,240 | |
| Gas | 2,168,567 | |
| Water | 2,820,793 | |
| | | $ 13,324,637 |
| Public Buildings | | |
| Fire Station | $ 5,197,000 | |
| Administration | 26,680,628 | |
| Public Works | 14,311,500 | |
| Town Hall | 14,072,873 | |
| Jail | 10,155,688 | |
| Library | 200,000 | |
| | | $ 70,617,689 |
| Parking | $ 27,000,000 | |
| Land Acquisition | 7,621,417 | |
| Recreation | 23,884,995 | |
| Streets & Sidewalks | 13,603,109 | |
| Equipment | 30,992,238 | |
| Performing Arts Theatre | 160,000,000 | |
| Fiber Optic Communications | 1,926,800 | |
| Refunding | 93,073,719 | |
| Stormwater | 5,685,000 | |
| Public Transit Authority | 407,327 | |
| Flood & Erosion | 210,000 | |
| Office Space | 65,000 | |
| Other (Vehicles) | 343,976 | |
| | | $ 364,813,581 |
| SUBTOTAL | | $ 448,755,907 |
| **Counties** | | |
| Schools | | $ 255,281,546 |
| Public Buildings | | |
| Auditorium | $ 4,325,000 | |
| Courthouse/Law Enforcement/Jail | 472,926,566 | |
| County Buildings | 66,776,761 | |
| | | $ 544,028,327 |
| Utilities | | |
| Water | $ 1,156,112 | |
| Sanitary Sewer | 4,137,348 | |
| Electric | 5,800,000 | |
| | | $ 11,093,460 |
| Community College | $ 26,129,304 | |
| Economic Development | 1,600,000 | |
| Solid Waste | 6,237,453 | |
| Library | 18,146,154 | |
| Refunding | 351,984,531 | |
| Equipment | 2,701,813 | |
| Telecommunications | 12,961,863 | |
| Parking | 2,236,085 | |
| Stormwater | 2,100,000 | |
| Storage Facility | 5,100,000 | |
| Airport | 2,363,007 | |
| Recreation | 4,713,012 | |
| Qualified Zone Academy | 3,607,500 | |
| Other | 800,000 | |
| | | $ 440,680,722 |
| **Community Colleges** | | |
| Guaranteed Energy Savings Contract | | $ 4,439,776 |
| **Authorities** | | |
| Municipal Building | | $ 4,000,000 |
| SUBTOTAL | | $ 1,259,523,831 |
| **GRAND TOTAL** | | **$ 1,708,279,738** |

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

| | FY 2009-10 | | FY 2008-09 | | FY 2007-08 | |
|---|---|---|---|---|---|---|
| | NO. | AMT. | NO. | AMT. | NO. | AMT. |
| Counties | 50 | $ 904.0 | 49 | $ 858.4 | 45 | $ 939.1 |
| Municipalities | 54 | 354.0 | 77 | 1,085.0 | 88 | 496.2 |
| Authorities/Districts | 1 | 4.0 | 3 | 5.1 | 3 | 3.8 |
| Community College/GESC | 2 | 2.2 | 11 | 48.0 | 8 | 23.1 |
| SUBTOTAL | 107 | $ 1,264.2 | 140 | $ 1,996.5 | 144 | $ 1,462.2 |
| Refundings | 11 | $ 444.0 | 6 | $ 147.8 | 5 | $ 57.1 |
| **GRAND TOTAL** | **118** | **$ 1,708.2*** | **146** | **$ 2,144.3*** | **149** | **$ 1,519.3*** |

*Total includes refundings.

## Summary of State and Local Government Debt and Authorizations at June 30, 2010

| | General Obligation Debt[1] | Special Indebtedness/ 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 | $ 5,270,660,000 | $ 1,668,350,000 | $ – | $ 6,939,010,000 | $ – | $ 6,939,010,000 | $ – | $ 1,588,265,041 |
| GARVEE[1] | – | – | 434,825,000 | 434,825,000 | – | 434,825,000 | – | 825,000,000[2] |
| State Authorities and Institutions | – | – | 22,944,357,002 | 22,944,357,002 | – | 22,944,357,002 | – | – |
| TOTALS | $ 5,270,660,000 | $ 1,668,350,000 | $ 23,379,182,002 | $ 30,318,192,002 | $ – | $ 30,318,192,002 | $ – | $ 2,413,265,041 |
| Counties | $ 7,851,740,366 | $ 4,910,691,036 | $ 808,400,797 | $ 13,570,832,199 | $ – | $ 13,570,832,199 | $ 3,124,515,665 | $ 31,471,036 |
| Municipalities | 2,355,614,983 | 2,980,902,573 | 5,284,272,608 | 10,620,790,164 | – | 10,620,790,164 | 1,685,139,750 | 513,867 |
| Districts | 353,493,825 | 5,883,052 | 231,737,790 | 591,114,667 | – | 591,114,667 | 181,120,700 | – |
| Authorities | 14,517,000 | 70,698,499 | 4,027,521,271 | 4,112,736,770 | 1,478,087,181 | 5,590,823,951 | – | – |
| TOTAL | $ 10,575,366,174 | $ 7,968,175,160 | $ 10,351,932,466 | $ 28,895,473,800 | $ 1,478,087,181 | $ 30,373,560,981 | $ 4,990,776,115 | $ 31,984,903 |
| **GRAND TOTAL** | **$ 15,846,026,174** | **$ 9,636,525,160** | **$ 33,731,114,468** | **$ 59,213,665,802** | **$ 1,478,087,181** | **$ 60,691,752,983** | **$ 4,990,776,115** | **$ 2,445,249,944** |

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]Grant Anticipation Revenue Vehicle Bonds.

[2]Estimated as of January 2010.

## Annual Debt Service Requirements for State Bonds Issued and Outstanding at June 30, 2010

| | General Obligation | | Highway General Obligation | | Special Indebtedness[1] | | Total Indebtedness[2] | |
|---|---|---|---|---|---|---|---|---|
| Fiscal Year | Principal | Principal & Interest | Principal | Principal & Interest | Principal | Principal & Interest | Principal | Principal & Interest |
| 2010-11 | $ 320,451,728.00 | $ 543,467,692.97 | $ 58,873,272.00 | $ 84,541,421.60 | $ 77,700,000.00 | $ 157,213,311.28 | $ 457,025,000.00 | $ 785,222,425.85 |
| 2011-12 | 323,371,268.00 | 529,305,863.10 | 56,568,732.00 | 79,293,218.00 | 79,260,000.00 | 155,257,669.40 | 459,200,000.00 | 763,856,750.50 |
| 2012-13 | 329,843,016.00 | 519,609,614.38 | 61,646,984.00 | 81,543,033.40 | 80,960,000.00 | 153,494,595.64 | 472,450,000.00 | 754,647,243.42 |
| 2013-14 | 329,267,120.00 | 503,294,730.24 | 62,417,880.00 | 79,231,580.20 | 82,730,000.00 | 151,546,933.76 | 474,415,000.00 | 734,073,244.20 |
| 2014-15 | 344,278,868.00 | 502,716,497.36 | 46,676,132.00 | 60,368,938.20 | 84,635,000.00 | 149,584,550.01 | 475,590,000.00 | 712,669,985.57 |
| 2015-16 | 353,421,972.00 | 495,417,038.92 | 37,583,028.00 | 48,942,027.60 | 86,715,000.00 | 147,529,681.27 | 477,720,000.00 | 691,888,747.79 |
| 2016-17 | 336,904,036.00 | 461,264,454.48 | 51,785,964.00 | 61,265,812.20 | 88,875,000.00 | 145,474,600.03 | 477,565,000.00 | 668,004,866.71 |
| 2017-18 | 345,663,188.00 | 454,873,854.80 | 46,866,812.00 | 53,737,362.00 | 91,200,000.00 | 143,448,481.27 | 483,730,000.00 | 652,059,698.07 |
| 2018-19 | 346,812,812.00 | 440,436,652.44 | 46,932,188.00 | 51,629,397.40 | 93,600,000.00 | 141,442,768.76 | 487,345,000.00 | 633,508,818.60 |
| 2019-20 | 300,988,000.00 | 379,203,649.84 | 58,572,000.00 | 61,072,600.00 | 111,160,000.00 | 154,128,893.76 | 470,720,000.00 | 594,405,143.60 |
| 2020-21 | 279,170,000.00 | 343,315,666.52 | – | – | 110,625,000.00 | 148,147,156.26 | 389,795,000.00 | 491,462,822.78 |
| 2021-22 | 260,180,000.00 | 311,432,100.00 | – | – | 112,875,000.00 | 145,028,156.26 | 373,055,000.00 | 456,460,256.26 |
| 2022-23 | 253,145,000.00 | 291,786,050.00 | – | – | 115,225,000.00 | 141,822,106.26 | 368,370,000.00 | 433,608,156.26 |
| 2023-24 | 227,385,000.00 | 254,375,212.50 | – | – | 118,515,000.00 | 139,441,100.01 | 345,900,000.00 | 393,816,312.51 |
| 2024-25 | 147,785,000.00 | 164,955,962.50 | – | – | 82,725,000.00 | 98,512,018.76 | 230,510,000.00 | 263,467,981.26 |
| 2025-26 | 85,785,000.00 | 96,519,812.50 | – | – | 72,605,000.00 | 84,375,268.76 | 158,390,000.00 | 180,895,081.26 |
| 2026-27 | 68,630,000.00 | 75,676,162.50 | – | – | 70,390,000.00 | 78,638,543.76 | 139,020,000.00 | 154,314,706.26 |
| 2027-28 | 40,885,000.00 | 45,037,750.00 | – | – | 63,320,000.00 | 68,347,993.76 | 104,205,000.00 | 113,385,743.76 |
| 2028-29 | 24,385,000.00 | 26,823,500.00 | – | – | 45,235,000.00 | 47,327,943.76 | 69,620,000.00 | 74,151,443.76 |
| 2029-30 | 24,385,000.00 | 25,604,250.00 | – | – | – | – | 24,385,000.00 | 25,604,250.00 |
| **TOTALS** | **$ 4,742,737,008.00** | **$ 6,465,116,515.05** | **$ 527,922,992.00** | **$ 661,625,390.60** | **$ 1,668,350,000.00** | **$ 2,450,761,772.77** | **$ 6,939,010,000.00** | **$ 9,577,503,678.42** |

[1]Special Indebtedness currently includes: Lease Purchase Revenue Bonds, Certificates of Participation and Limited Obligation Bonds.
[2]Total does not include Grant Anticipation Revenue Bonds (GARVEE) or North Carolina Turnpike Authority Obligations.

## Revenue Bonds and Other Indebtedness of State Authorities and Institutions at June 30, 2010

The following chart outlines the revenue bonds and other indebtedness of state authorities and institutions at June 30, 2010. The state is not responsible for debt service on any of the revenue bonds and other indebtedness represented in this chart.

| | |
|---|---|
| Appalachian State University | $ 202,310,596 |
| East Carolina University | 179,783,443 |
| Elizabeth City State University | 17,771,449 |
| Fayetteville State University | 6,518,527 |
| North Carolina A&T State University | 14,845,000 |
| North Carolina Central University | 88,056,173 |
| North Carolina School of the Arts | 9,215,000 |
| North Carolina State University at Raleigh | 334,550,703 |
| University of North Carolina at Asheville | 19,740,000 |
| University of North Carolina at Chapel Hill | 1,305,929,932 |
| University of North Carolina at Charlotte | 201,125,874 |
| University of North Carolina at Greensboro | 137,863,539 |
| University of North Carolina at Pembroke | 32,966,682 |
| University of North Carolina at Wilmington | 231,327,089 |
| Western Carolina University | 63,297,881 |
| Winston-Salem State University | 69,439,919 |
| North Carolina Capital Facilities Finance Agency | 2,922,760,281 |
| North Carolina Eastern Municipal Power Agency | 2,441,345,000 |
| North Carolina Housing Finance Agency | 1,470,170,000 |
| North Carolina Medical Care Commission | 6,989,322,431 |
| North Carolina Municipal Power Agency No. 1 | 1,606,455,000 |
| North Carolina State Education Assistance Authority | 4,494,804,923 |
| North Carolina State Ports Authority | 104,757,560 |
| **TOTAL** | **$ 22,944,357,002** |

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, 2009 | December 31, 2008 |
|---|---|---|
| **Assets** | | |
| Current actuarial value of assets | | |
| Annuity Savings Fund | $ 9,907,133,268 | $ 9,330,710,086 |
| Pension Savings Fund | 45,910,965,849 | 45,796,948,097 |
| TOTAL CURRENT ASSETS | $ 55,818,099,117 | $ 55,127,658,183 |
| Future member contributions to Annuity Fund | $ 7,067,975,174 | $ 7,905,452,496 |
| Prospective contributions to Pension Accumulation Fund | | |
| Normal contributions | $ 5,913,539,229 | $ 8,168,967,579 |
| Unfunded accrued liability contributions | 2,360,173,025 | 391,086,516 |
| Undistributed gain contributions | (2,519,386,465) | (2,977,283,363) |
| TOTAL PROSPECTIVE CONTRIBUTIONS | $ 5,754,325,789 | $ 5,582,770,732 |
| **TOTAL ASSETS** | **$ 68,640,400,080** | **$ 68,615,881,411** |
| **Liabilities** | | |
| Annuity Savings Fund | | |
| Past member contributions | $ 9,907,133,268 | $ 9,330,710,086 |
| Future member contributions | 7,067,975,174 | 7,905,452,496 |
| TOTAL CONTRIBUTIONS TO ANNUITY SAVINGS FUND | $ 16,975,108,442 | $ 17,236,162,582 |
| Pension Accumulation Fund | | |
| Benefits currently in payment | $ 28,751,924,527 | $ 27,858,790,243 |
| Benefits to be paid to current active members | 25,432,753,576 | 26,498,211,949 |
| Reserve for increases in retirement allowances effective July 1, 2010 (July 1, 2009 for December 31, 2008 figure) | 0 | 0 |
| Reserve from undistributed gains/(losses) | (2,519,386,465) | (2,977,283,363) |
| TOTAL BENEFITS PAYABLE FROM PENSION ACCUMULATION FUND | $ 51,665,291,638 | $ 51,379,718,829 |
| **TOTAL LIABILITIES** | **$ 68,640,400,080** | **$ 68,615,881,411** |

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

| | December 31, 2009 | December 31, 2008 |
|---|---|---|
| **Assets** | | |
| Current actuarial value of assets | | |
| Annuity Savings Fund | $ 3,648,588,129 | $ 3,415,134,814 |
| Pension Accumulation Fund | 14,074,665,367 | 13,685,604,088 |
| TOTAL CURRENT ASSETS | $ 17,723,253,496 | $ 17,100,738,902 |
| Future member contributions to Annuity Savings Fund | $ 2,775,074,506 | $ 2,742,530,142 |
| Prospective contributions to Pension Accumulation Fund | | |
| Normal contributions | $ 3,150,965,492 | $ 2,871,380,595 |
| Unfunded accrued liability contributions | 81,538,254 | 73,235,885 |
| Undistributed gain contributions | (246,009,998) | (708,693,094) |
| TOTAL PROSPECTIVE CONTRIBUTIONS | $ 2,986,493,748 | $ 2,235,923,386 |
| **TOTAL ASSETS** | **$ 23,484,821,750** | **$ 22,079,192,430** |
| **Liabilities** | | |
| Annuity Savings Fund | | |
| Past member contributions | $ 3,648,588,129 | $ 3,415,134,814 |
| Future member contributions | 2,775,074,506 | 2,742,530,142 |
| TOTAL CONTRIBUTIONS TO ANNUITY SAVINGS FUND | $ 6,423,662,635 | $ 6,157,664,956 |
| Pension Accumulation Fund | | |
| Benefits currently in payment | $ 7,471,675,919 | $ 6,938,436,388 |
| Benefits to be paid to current active members | 9,835,493,194 | 9,684,698,388 |
| Reserve for increases in retirement allowances effective July 1, 2010 (July 1, 2009 for December 31, 2008 figure) | 0 | 7,085,792 |
| Reserve from undistributed gains/(losses) | (246,009,998) | (708,693,094) |
| TOTAL BENEFITS PAYABLE FROM PENSION ACCUMULATION FUND | $ 17,061,159,115 | $ 15,921,527,474 |
| **TOTAL LIABILITIES** | **$ 23,484,821,750** | **$ 22,079,192,430** |

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

| | December 31, 2009 | December 31, 2008 |
|---|---|---|
| **Assets** | | |
| Current actuarial value of assets | | |
| Annuity Savings Fund | $ 49,222,622 | $ 49,826,906 |
| Pension Accumulation Fund | 390,764,682 | 383,725,854 |
| TOTAL CURRENT ASSETS | $ 439,987,304 | $ 433,552,760 |
| Future member contributions to Annuity Fund | $ 41,551,909 | $ 45,608,946 |
| Prospective contributions to Pension Accumulation Fund | | |
| Normal contributions | $ 130,431,846 | $ 133,861,392 |
| Unfunded accrued liability contributions | 34,962,037 | 8,379,846 |
| Undistributed gain contributions | (47,510,380) | (21,679,951) |
| TOTAL PROSPECTIVE CONTRIBUTIONS | $ 117,883,503 | $ 120,561,287 |
| **TOTAL ASSETS** | **$ 599,422,716** | **$ 599,722,993** |
| **Liabilities** | | |
| Annuity Savings Fund | | |
| Past member contributions | $ 49,222,622 | $ 49,826,906 |
| Future member contributions | 41,551,909 | 45,608,946 |
| TOTAL CONTRIBUTIONS TO ANNUITY SAVINGS FUND | $ 90,774,531 | $ 95,435,852 |
| Pension Accumulation Fund | | |
| Benefits currently in payment | $ 265,506,533 | $ 237,268,096 |
| Benefits to be paid to current active members | 290,652,032 | 288,698,996 |
| Reserve for increases in retirement allowances effective July 1, 2010 (July 1, 2009 for December 31, 2008 figure) | 0 | 0 |
| Reserve from undistributed gains/(losses) | (47,510,380) | (21,679,951) |
| TOTAL BENEFITS PAYABLE FROM PENSION ACCUMULATION FUND | $ 508,648,185 | $ 504,287,141 |
| **TOTAL LIABILITIES** | **$ 599,422,716** | **$ 599,722,993** |

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

| | June 30, 2010 | June 30, 2009 |
|---|---|---|
| **Assets** | | |
| Annuity Savings Fund | $ 36,647,816 | $ 35,834,122 |
| Pension Savings Fund | 281,624,800 | 279,863,137 |
| TOTAL CURRENT ASSETS | $ 318,272,616 | $ 315,697,259 |
| Future member contributions to Annuity Savings Fund | $ 27,630,079 | $ 25,076,669 |
| Prospective contributions to Pension Accumulation Fund | | |
| Normal contributions | $ 51,524,218 | $ 43,032,411 |
| Accrued liability contributions | 51,963,371 | 35,627,327 |
| TOTAL PROSPECTIVE CONTRIBUTIONS | $ 103,487,589 | $ 78,659,738 |
| **TOTAL ASSETS** | **$ 449,390,284** | **$ 419,433,666** |
| **Liabilities** | | |
| Annuity Savings Fund | | |
| Past member contributions | $ 36,647,816 | $ 35,834,122 |
| Future member contributions | 27,630,079 | 25,076,669 |
| TOTAL CONTRIBUTIONS TO ANNUITY SAVINGS FUND | $ 64,277,895 | $ 60,910,791 |
| Pension Accumulation Fund | | |
| Benefits currently in payment | $ 193,467,842 | $ 183,870,268 |
| Benefits to be paid to current active members | 191,644,547 | 174,652,607 |
| TOTAL BENEFITS PAYABLE FROM PENSION ACCUMULATION FUND | $ 385,112,389 | $ 358,522,875 |
| **TOTAL LIABILITIES** | **$ 449,390,284** | **$ 419,433,666** |

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