



North Carolina Department of State Treasurer



THE STATE TREASURER'S
ANNUAL REPORT
TO THE PEOPLE OF NORTH CAROLINA

STATE TREASURER
JANET COWELL

FISCAL YEAR

2013-2014

DEAR FELLOW CITIZENS,



I am pleased to provide you with the 2013-2014 Annual Report, which summarizes key activities and outcomes for the Department of State Treasurer. Our vision is to

create and maintain a healthy, fiscally-sound and prosperous North Carolina.

In December of 2014, the nationwide blog, 24/7 Wall St, surveyed the best and worst run states in the United States. North Carolina fared well and ranked 19th on the list being described as having the “perfect credit ratings from both major agencies, one of the highest pension funded ratios in the nation, and very low levels of debt.” We at the Department work closely with all of those issues.

The pension fund reached a new milestone of \$90 billion and returned 15.88 percent for the fiscal year, beating the fund’s 7.25 percent long-term target rate of return. The fund has increased by 50 percent since I took office, from \$60 billion in January 2009 at the height of the financial crisis to what is now the second best-funded in the nation according to a recent study conducted by the Competitive Enterprise Institute in Washington D.C. The pension fund is strong and well-positioned for the long-term. Our strategic, incremental diversification efforts are showing results.

Our conservative debt management and strong oversight of state agencies and local governments have led North Carolina to maintain its AAA

bond rating. We remained one of only ten states in the country with AAA bond rating from all three rating agencies. That rating keeps financing costs low and it signals to businesses looking to locate here that we are a state that’s solid. I appreciate the strong partnership we have with the Governor’s administration and General Assembly in continuing conservative debt management and in funding our pension obligations, which are key to this top rating.

Our Retirement Systems Division continued to enhance customer service while remaining one of the most cost-efficient operations in the nation. As part of our legislative agenda, the Department successfully sought a measure to that returns the teacher and state employee retirement vesting period to five years. House Bill 1195, which was taken into effect on January 1, 2015, also cracks down on the practice of pension spiking.

The State Health Plan now covers more than 680,000 teachers and state employees. This year, the Plan’s Board of Trustees voted unanimously to offer a leading treatment for autism spectrum disorder, known as applied behavioral analysis, to Plan member families. The treatment offers the opportunity to change the lives of children, young adults and families living with autism spectrum disorder. The benefit fulfills the mission of the State Health Plan to be a leader on health issues in the state.

The Unclaimed Property Division returned a record \$59 million to its rightful owners this year. We continued modernizing operations--key components were enhanced online outreach at NCCash.com and a larger

presence at events across the state, including our TV Cash-a-thons.

As a Department, we remain focused on a core value of increasing financial education across the state, from pre-K through retirement readiness. This year, we championed six North Carolina schools competing in the Stock Market Game and played the Financial Football game with high school students and members of the Carolina Panthers.

I am proud to report that North Carolina remains on a solid financial foundation. I and my staff will continue to focus on you, the people we serve, and improving your lives. My commitment remains strong, as we work together to ensure a fiscally strong and prosperous state for all who call North Carolina home.

Sincerely,
Janet Cowell
North Carolina Treasurer

A handwritten signature in black ink that reads "Janet Cowell".

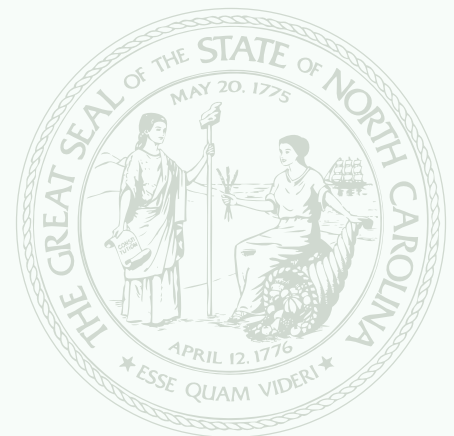


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INTRODUCTION



INTRODUCTION

The vision of the Department of State Treasurer is to create and maintain a fiscally sound and prosperous North Carolina. We work to achieve this goal by taking utmost care in overseeing the finances of the State. By striving for excellence in our day-to-day work at the Department, we hope to instill confidence in the state’s citizens, customers and financial community.

KEY RESPONSIBILITIES	DIVISION WITH THE DEPARTMENT OF STATE TREASURER
Act as fiscal adviser to the State and local governments	All Divisions
Administer retirement plans and other benefit programs for public employees	Retirement Systems Division (RSD)
Administer health care coverage for public employees	State Health Plan Division (SHP)
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 (SLG)
Operate the State Bank and provide internal accounting and financial reporting	Financial Operations Division (FOD)
Manage Unclaimed Property Program	Unclaimed Property Division (UPD)

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

- Integrity
- Accountability
- Transparency
- Expertise
- Customer service
- Long-term view

In the interest of promoting these core values, the Department continues to work on its highest priorities and detailed plans for their achievement. The Department has realized many of these goals and continues to build on them.

- Protecting the Pension Fund
- Maintaining the State’s AAA Bond Rating
- Improving Health Outcomes for Public Employees while Promoting the Fiscal Stability of the State Health Plan
- Ensuring Transparency, Ethics and Accountability
- Advancing Financial Education across North Carolina

INTRODUCTION

PROTECTING THE PENSION

One of the primary responsibilities of the Department of State Treasurer is to provide a safe and secure retirement for North Carolina's 900,000 public employees, including teachers, police officers, firefighters and public servants. These individuals rely on the integrity, knowledge and judgment of the Department of State Treasurer.

The North Carolina pension fund is invested for the long term, and is conservatively managed to protect the full funding status. 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 a secure retirement for public employees:

- Treasurer Cowell announced the establishment of the Investment Fiduciary Governance Commission, an independent, bipartisan commission to examine and consider governance reforms of the North Carolina pension fund's investment program.
- Championed and received bipartisan support for House Bill 1195 to return the teacher and state employee retirement vesting period back to five years. Employees who leave state service voluntarily before 5 years will now be paid interest along with a return of their contribution to the retirement system. Prior to this legislation employees in this situation only got a return of their contribution.
- Achieved a 15.88 percent return in the pension fund portfolio during the 2013-2014 fiscal year, outperforming the 7.25 percent long-term target rate of return and the market benchmark of 15.37 percent. As of June 30, 2014, pension assets were valued at \$90.1 billion.

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 – three primary bond rating agencies – all reaffirmed the "AAA" rating for North Carolina in the 2013-14 fiscal year.

While maintaining this strong rating is a good sign of the state's fiscal health, federal budget deficits may present a challenge to sustaining the triple-A rating. Bond ratings are largely dependent on the economic stability and diversity

of revenues, conservative debt management, administrative capabilities, fiscal performance and financial condition, including funding of long-term benefit programs such as the retirement systems and health care.

Each year, the State's Debt Affordability Advisory Committee makes recommendations to the Governor and General Assembly concerning the debt capacity of the General Fund, Highway Fund and Highway Trust Fund for the next 10-year period.

While a number of factors are considered, the main factor determining each fund's debt capacity is the percentage of State tax revenues that are dedicated to debt service. The Committee recommends debt service not exceed 4 percent of State tax revenues in the General Fund and not exceed 6 percent of State revenues in the Highway Fund and Highway Trust Fund.

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

- Oversaw the issuance of \$1.9 billion in local debt (\$3.9 billion in the previous fiscal year), \$1.2 billion in revenue bonds for state and regional authorities (\$2.3 billion in the previous fiscal year), and \$1.6 billion in state debt (\$1.3 billion in the previous fiscal year).
- At the end of the fiscal year, North Carolina had a "Triple-A" rating, the highest rating attainable, from all three national rating agencies. Only nine other states enjoyed this distinction.
- The 2014 Debt Affordability Study was released in February, providing a basis for assessing the impact of future debt issuance on the State's fiscal position. The annual study, approved by the Debt Affordability Advisory Committee, showed improvement in debt capacity from last year. The General Fund has capacity of \$570 million for each of the next 10 years. The combined debt capacity of the Highway Fund and the Highway Trust Fund is approximately \$805 million for this year.

INTRODUCTION

IMPROVING THE HEALTH OF PUBLIC EMPLOYEES WHILE PROMOTING THE FISCAL STABILITY OF THE STATE HEALTH PLAN

The Department has managed the day-to-day operations of the State Health Plan since January 2012. The Plan is governed by a Board of Trustees, who adopted a strategic plan to improve members' health, improve members' experience, and ensure a financially stable State Health Plan. Since its transition, the Plan has successfully reduced the unfunded liability associated with retiree health benefits by nearly \$10 billion, without reducing benefits for members. For the 2014 benefit year, the Plan successfully introduced several new and enhanced health plan features and options for all members. For active employees and non-Medicare retirees, the Enhanced 80/20 Plan was introduced as well as a new high deductible health plan, the Consumer-Directed Health Plan.

- In May 2014, the State Treasurer, in consultation with the Board, recommended forgoing scheduled increases in employer and employee premiums for the 2015 benefit year. Forgoing the premium increase will save \$22 million in the General Fund and \$1.05 million in the Highway Fund Appropriation. The savings were included in the State Budget that was passed in August 2014.
- The State Health Plan Board of Trustees voted unanimously to offer a leading treatment for autism spectrum disorder to State Health Plan member families. The treatment, known as applied behavioral analysis (ABA), is a systematic and structured strategy for addressing challenging behavior problems often found in individuals with autism spectrum disorder.
- Beginning September 1, 2013, nicotine replacement therapies were expanded to include nicotine gum and combination therapy when participants enroll in the multi-call program. This service is available 24 hours a day, seven days a week in English and Spanish.

ENSURING TRANSPARENCY, ETHICS AND ACCOUNTABILITY

Treasurer Cowell continues to recognize that restoring public confidence in financial markets, banks and government is necessary in the successful execution of the office. Access to government meetings and documents is enshrined in the state's constitution and is one of the pillars of a strong democracy.

- House Bill 1195 addressed the issue of pension spiking, the practice of retirement system employers raising individuals' pensions through large late-career pay raises. An outside review on fraud, waste and abuse showed that this problem is limited, but that the Department needed additional tools to control this unfair practice.
- Received and fulfilled over 84 large public records requests, making tens of thousands of pages of documents available to the public.

PROMOTING FINANCIAL EDUCATION ACROSS NORTH CAROLINA

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

- In 2014, Treasurer Cowell cut the ribbon on the Student Bank Training Center, a partnership between Durham Hillside High School's Business & Finance Academy and Woodforest National Bank. It is the Houston-based financial institution's first partnership with a North Carolina public school. The training center will provide hands-on bank skills training.
- Carolina Panthers running back DeAngelo Williams and tight end Greg Olsen joined Treasurer Cowell to announce the rollout of Financial Football. The program is aimed at the issue of improving financial education among North Carolina teens. They announced a statewide effort to improve the money management skills of high school and middle school students with the program, a free educational video game and classroom curriculum developed by Visa Inc. The game is being distributed to every public middle school and high school in the Tar Heel State.
- Additionally, Treasurer Cowell continued presenting the story of Patches the Pig, a pink piggy bank, to help explain the importance of saving money and tips for smart financial habits for children.

RETIREMENT SYSTEMS DIVISION



RETIREMENT SYSTEMS DIVISION

RETIREMENT SYSTEMS DIVISION STATISTICS DEFINED BENEFIT PLANS ¹			
	2011-12	2012-13	2013-14
Total Assets in N.C. Retirement Systems	\$74.5 Billion	\$80 Billion	\$90.1 Billion
Amount of Retirement Benefits Paid	\$4.6 Billion	\$4.8 Billion	\$5.1 Billion
Number of Retirees Receiving Benefits	254,000	259,387	276,162

RETIREMENT SYSTEMS DIVISION STATISTICS DEFINED CONTRIBUTION PLANS			
	2011-12	2012-13	2013-14
Total Assets in NC 401(k)/457 Plans	\$6.5 Billion	\$7.3 Billion	\$8.7 Billion
Number of 401(k) Plan Participants	227,711	231,000	243,000
Number of 457 Plan Participants	38,268	41,200	48,400

¹ Funds from all defined benefit retirement systems administered by RSD are commingled for investment purposes.

RETIREMENT SYSTEMS DIVISION

The Retirement Systems Division (RSD) of the Department of State Treasurer administers the North Carolina Retirement Systems, death benefit plans, disability plans, and the NC Supplemental Retirement Plans (voluntary defined contribution plans) created under state law. These plans and programs cover the vast majority of active and retired public employees in the state.

The North Carolina Retirement Systems Division provides benefits to more than 900,000¹ members, including:

- Teachers
- State Government Employees
- Local Government Employees
- Firefighters
- Rescue Squad Workers
- Judges
- Law Enforcement Officers

- State Legislators
- Registers of Deeds
- Other public workers

A key purpose of the retirement systems and benefit plans is to assist public employers in the state in attracting and retaining high quality employees by providing valuable post-employment benefits, including replacement income at retirement, as well as death, disability, and survivor benefits. RSD staff members continuously review features and options within the benefit plans to ensure that all promised benefits are sustainable over time and are an efficient use of employees' and taxpayers' contributions.

The total assets of all State-administered pension funds were valued at \$90.1 billion² as of June 30, 2014.

The Retirement Systems Division administers four major retirement systems and several smaller systems and supplemental pension funds:

SYSTEM	NUMBER OF MEMBERS*	ASSETS AS OF 6/30/14
Teachers' And State Employees' Retirement System (TSERS)	630,970	\$64.8 Billion
Local Governmental Employees' Retirement System (LGERS)	231,858	\$22.6 Billion
Consolidated Judicial Retirement System (CJRS)	1,203	\$531.9 Million
Legislative Retirement System (LRS)	575	\$29.7 Million
Firefighters' And Rescue Squad Workers' Pension Fund (FRSWPF)	55,065	\$384.8 Million
National Guard Pension Fund (NGPF)	15,006	\$107.7 Million
Legislative Retirement Fund (LRF)	7	\$0.0 Million
Registers Of Deeds' Supplemental Pension Fund (RDSPF)	197	\$46.7 Million

*Member counts reflect 2013 calendar year values as of valuation date (12/31/2013).

¹ Actual member counts can be found in the actuarial valuations for each retirement system. All valuations are posted on the State Treasurer's website here: <https://www.nctreasurer.com/inside-the-department/News-Room/press-releases/Pages/Treasurer-Cowell-Announces-NC-Pension-Fund-90-Billion.aspx>

² Source: <https://www.nctreasurer.com/inside-the-department/News-Room/press-releases/Pages/Treasurer-Cowell-Announces-NC-Pension-Fund-90-Billion.aspx>

RETIREMENT SYSTEMS DIVISION

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

TYPES OF SUPPLEMENTAL PLANS/PROGRAMS	BENEFIT/SERVICE
Disability Benefits	Provides equitable replacement income for eligible members of TSERS who are temporarily or permanently disabled, as well as for LGERS members who are permanently disabled.
Social Security Benefits	Administers the state's responsibility under the Social Security Agreement of July 16, 1951, which is an agreement between the federal government and the state government allowing local governments and other instrumentalities of the state to participate in Social Security.
Employee Death Benefits	Provides group death benefits for members of TSERS, CJRS and LGERS. These benefits include: death benefits for active employees in TSERS, CJRS, LRS and LGERS; the Separate Insurance Benefits Plan for active and retired state and local governmental law enforcement officers; and the line of duty death benefit for certain civil service and emergency services workers.
Supplemental Retirement Income Plan – NC 401(k)	Provides members with voluntary retirement savings plan to supplement retirement income.
Public Employee Deferred Compensation Plan – NC 457	Provides members with voluntary retirement savings plan to supplement retirement income.
Teachers' and Professional Educators' Investment Plan – NC 403(b)	Provides teachers and school employees a voluntary retirement savings plan to supplement retirement income.
NC 401(k)/NC 457 Transfer Benefit	Enables members to receive an additional monthly benefit that they are eligible to receive under TSERS or LGERS by transferring all or a portion of the balance in their NC 401(k) and/or NC 457.
Contributory Death Benefit for Retired Members	Offers an optional benefit that gives retirees a one-time death benefit of up to \$10,000.
Supplemental Insurance	Provides retired members with optional supplemental insurance, i.e., dental, vision, accident or life.
Retiree Health Benefits	Acts as the Health Benefits Representative for retired members covered under the State Health Plan of North Carolina.

LEGISLATION

The 2014 Session of the North Carolina General Assembly enacted legislation to:

- Fully fund all NC Retirement Systems by making the annual required contribution for each system.
- Fund a Cost of Living Adjustment (COLA) of 1 percent for members of TSERS, the Consolidated Judicial Retirement System, and the Legislative Retirement System. Benefit amounts were also increased for members of the National Guard Pension Fund and recipients of the Disability Income Plan.
- Fund two compliance positions in the retirement division. These positions will be associated with a departmental "waste fraud and abuse" prevention effort.
- Fund \$150,000 for start-up costs associated with the 403(b) supplemental retirement plan.

The General Assembly also passed the Fiscal Integrity and Anti-Pension Spiking legislation to:

- Help prevent pension spiking among highly paid state and local employees by creating a contribution-based benefits cap.
- Return state employees to five-year vesting for a retirement benefit. Five-year vesting will apply to all employees, even those who were hired under the ten-year vesting requirement.
- Allow employees who leave state service voluntarily before five years to be paid interest along with a return of their contribution to the retirement system. Prior to this legislation, employees in this situation only received a return of their contributions.
- Change the administration of the fire and rescue squad pension plan and allow all qualifying members to draw their pension at age 55 with 20 years of service, regardless of their employment status.

RETIREMENT SYSTEMS DIVISION

RETIREMENT SYSTEMS' BOARD OF TRUSTEES STRUCTURE

Every retirement system and benefit plan administered by the state is governed by one of three Boards of Trustees. The board members are responsible for overseeing the general administration and proper operation of each system or plan. The State Treasurer is the chairperson of these boards. The table below describes the structure and responsibilities of each:

TEACHERS' & STATE EMPLOYEES' RETIREMENT SYSTEM	LOCAL GOVERNMENTAL EMPLOYEES' RETIREMENT SYSTEM	SUPPLEMENTAL RETIREMENT PLANS
State Treasurer is ex-officio chairperson	State Treasurer is chairperson	State Treasurer is ex-officio chairperson
<p>Thirteen members, including actively working and retired teachers and state employees, as well as members of the general public.³ This board oversees the following retirement systems:</p> <ul style="list-style-type: none"> · TSERS · CJRS · LRS · NGPF 	<p>Thirteen members, including members representing local governments and members from the Teachers' and State Employees' Retirement System Board. This board oversees the following retirement systems:</p> <ul style="list-style-type: none"> · LGERS · RDSPF · FRSWPF 	<p>Nine members, six of whom must have experience in finance and investments. This board oversees the following retirement plans and programs:</p> <ul style="list-style-type: none"> · NC 401(k) · NC 457 · NC 403(b)

³ The board includes appointed members who also serve on the Local Governmental Employees' Retirement System Board.

RETIREMENT SYSTEMS DIVISION

DIVISION STRUCTURE AND RESPONSIBILITIES

Staff efforts are devoted to accurate and timely benefit distribution in the most efficient and cost-effective manner possible. 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.

In order to optimize its administration efforts, the Retirement Systems Division is divided into seven working groups:

- The Director's Office
- The Payroll Services Section
- The Benefits Processing Section
- The Member Services Section
- The Retirement Processing Section
- The Marketing and Communications Section
- The Supplemental Retirement Plans Section

Director's Office

The Director's staff is responsible for oversight of the overall operation of the Division, carrying out the policies and directives of the State Treasurer and the governing boards, and implementing legislation that is enacted by the General Assembly.

These responsibilities include:

- Day-to-day management of the NC Retirement Systems
- Developing overall strategy for the Retirement Systems Division
- Board of Trustee relations
- Ensuring the fiscal integrity of the Retirement Systems through the establishment of sound policy
- Compliance and legal matters relating to the administration of the Retirement Systems
- Program and project management of all IT efforts, including prioritization
- Managing 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 Director's staff also provides assistance to legislators and committees of the General Assembly, including:

- Establishing RSD annual legislative agenda based on the status and needs of RSD
- Developing language for proposed legislation
- Providing subject-matter expertise to legislators and staff
- Acquiring actuarial notes for introduced bills

Payroll Services Section

The main function of the Payroll Services Section is to provide timely benefit payment services to qualified payees of the retirement systems in a customer service-driven environment. This section processes beneficiary changes and performs retiree maintenance functions such as tax, direct deposit, deductions, and address changes. In addition, the section is responsible for maintaining accurate financial records for all payees, tracking records and balancing payroll contribution reports from more than 1,200 participating public sector employers.

The Payroll Services Section is responsible for:

- Processing and balancing contribution information from employers' payroll reports submitted each month to individual accounts through RSD's web-based portal, ORBIT (Online Retirement Benefits through Integrated Technology).
- Enrolling new members during the fiscal year
- Distributed \$5.1 billion in benefits for the fiscal year

Benefits Processing Section

The main function of the Benefits Processing Section is to ensure prompt delivery of disability and death benefits for qualified employees, retirees, and their beneficiaries in an effective and efficient manner.

The Benefits Processing Section is primarily responsible for:

- Managing the various death and disability benefit programs administered by the Retirement Systems Division
- Calculating and processing death benefits
- Calculating and processing refund payments for return of accumulated contributions for members who have terminated employment (equivalent to 6% of their compensation refunded to them, plus 4% annual interest)
- Calculating and paying reimbursements for short-term disability benefits paid by the various employers under the provisions of the Disability Income Plan

RETIREMENT SYSTEMS DIVISION

- Coordinating with the Retirement Systems' Medical Review Board to determine and administer disability retirement benefits under TSERS, LGERS and other retirement systems-related programs
- Reviewing re-examinations for determination of continued disability benefits by the Medical Board

Member Services Section

The main function of the Member Services Section is to provide public service employees and employers with accurate and timely information and to provide education about retirement provisions, benefits and available services within the Systems in a manner intended to advance partnerships and relationships.

The staff provides these services by:

- Replying to letters and emails from members and beneficiaries inquiring about retirement issues
- Responding to incoming member phone calls
- Providing onsite face-to-face retirement counseling
- Conducting retirement planning conferences across the state to educate employees about retirement
- Securing incoming mail, which involves scanning, indexing and routing documents to the appropriate RSD staff members
- Storing and protecting member information electronically for the purpose of delivering benefits in a timely and accurate manner
- Enrolling and providing ongoing support for new and existing employers in the retirement systems

Retirement Processing Section

The main function of the Retirement Processing Section is to calculate retirement estimates for eligible members and process retirement applications for continuing benefits in a prompt, accurate and efficient manner.

The 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 the department
- Performing service credit purchase cost calculations for the various retirement systems
- Processing applications for a lifetime monthly benefit (annuity) through the NC 401(k)/NC 457 Transfer Benefit option for retiring members
- Conducting service purchase estimates through the Service Purchase Estimator in members' ORBIT accounts

- Performing service purchase cost calculations
- Calculating preliminary benefit estimates through the online Benefits Estimators on the Department of State Treasurer's website and in members' ORBIT accounts
- Providing comprehensive manual retirement benefit estimates

Marketing And Communications Section

The main function of the Marketing and Communications Section is to enhance the understanding of North Carolina's retirement benefits, and communicate current information about the various state plans so that members, beneficiaries and human resource personnel can make informed decisions.

The Marketing and Communications Section is primarily responsible for:

- Ensuring timely and easy access to accurate and appropriate information using a wide variety of communications vehicles (e.g., events, newsletters, electronic communication)
- Providing user-friendly tools to assist members in making informed retirement-related decisions
- Addressing requests for information from plan members, employers and beneficiaries
- Expanding the relationship with state partners and employers to help facilitate financial literacy and retirement readiness

Supplemental Retirement Plans Section

The main function of the Supplemental Retirement Plans Section is to promote creative solutions that assist North Carolina's public employees in achieving retirement readiness through multiple savings and investment programs. This section strives to build confidence in both the pension system and its supplemental retirement plans through education, strong customer service, accountability and oversight, as well as a consistent evaluation of retirement solutions.

The Supplemental Retirement Plans Section is primarily responsible for:

- Working with the Board of Trustees to provide retirement plans that offer sound investment solutions that are competitively priced
- Strengthening plan member understanding and competence in investing for retirement
- Addressing requests for information from plan members, employers and beneficiaries
- Expanding the relationship with state partners and employers to help facilitate financial literacy and retirement readiness

RETIREMENT SYSTEMS DIVISION

FUNDING THE SYSTEMS

Actuarial Valuation

An actuarial valuation is prepared by 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 time. Information collected covers all the active (both in-service and terminated) members, retired members, and other beneficiaries who are receiving benefit payments. Everyone promised a benefit from the system is included in the actuarial calculations to determine the present value of the system's liabilities.

Calculations are then made to determine the contribution rate needed to fund the unfunded liabilities for an established time

period. Annual valuations are made to permit gradual changes in the contribution level to keep the funding on a proper course.

The actuary also uses the annual valuation to compare actual separation, compensation and investment experience with the actuarial assumptions used in the previous valuation of the liabilities of the system.

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 the contribution rates and what amounts should be set aside as readily available cash or liquid securities.

	Teachers' & State Employees' Retirement System	Local Governmental Employees' Retirement System	Consolidated Judicial Retirement System	Legislative Retirement System	National Guard Pension Fund	Registers of Deeds' Supplemental Pension Fund	Firefighters' and Rescue Squad Workers' Pension Fund
Actuarial Cost Method	Entry age	Frozen entry age	Projected unit credit	Projected unit credit	Entry age	Entry age	Entry age
Amortization Method	Level dollar closed	Level percent closed	Level dollar closed	Level dollar open	Level dollar closed	Level dollar closed	Level dollar closed
Amortization Period	12 years	Varies	12 years	8 years+	12 years	N/A++	12 years
Asset Valuation Method	20% of market value plus 80% of expected actuarial value (not greater than 120% of market value and not less than 80% of market value)	20% of market value plus 80% of expected actuarial value (not greater than 120% of market value and not less than 80% of market value)	20% of market value plus 80% of expected actuarial value (not greater than 120% of market value and not less than 80% of market value)	20% of market value plus 80% of expected actuarial value (not greater than 120% of market value and not less than 80% of market value)	20% of market value plus 80% of expected actuarial value (not greater than 120% of market value and not less than 80% of market value)	20% of market value plus 80% of expected actuarial value (not greater than 120% of market value and not less than 80% of market value)	20% of market value plus 80% of expected actuarial value (not greater than 120% of market value and not less than 80% of market value)
Actuarial Assumptions							
Investment Rate of Return (IRR)	7.25%	7.25%	7.25%	7.25%	7.25%	5.75%	7.25%
Projected Salary Increases (PSI)	4.25% - 9.10%	4.25% - 8.55%	5.00% - 5.95%	N/A	N/A	4.25% - 7.75%	N/A
IRR Includes inflation of	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.50%
PSI Includes inflation and productivity of	3.50%	3.50%	3.50%	0.50 per anum	N/A	3.50%	N/A
Cost-of-living Adjustments	N/A	N/A	N/A	N/A	N/A	N/A	N/A

+ If the annual required employer contribution (ARC) is based on 8-year amortization of the unfunded accrued liability, the ARC is less than \$0, which is not allowed under the funding policy. Therefore, the accrued liability contribution has been set such that the total employer ARC equals \$0

++ If the annual required employer contribution (ARC) is based on 30-year amortization of the unfunded accrued liability, the ARC is less than \$0, which is not allowed under the funding policy. Therefore, the accrued liability contribution has been set such that the total employer ARC equals \$0

RETIREMENT SYSTEMS DIVISION

Funding of the Systems

TSERS, LGERS, CJRS and LRS are joint contributory, defined benefit plans with contributions made by both employees and employers.⁴ For TSERS, LGERS, and CJRS, each active member contributes six percent (6%) of his or her compensation for creditable service by monthly payroll deduction. The member contribution rates differ for the Legislative Retirement System, to which each active member contributes seven percent (7%) of his or her compensation, and for the Firefighters' and Rescue Squad Workers' Pension Fund, to which each active member contributes \$120 per year. Members do not contribute to the National Guard Pension Fund or the Registers of Deeds' Supplemental Pension Fund. Employers make monthly contributions based on a percentage rate of the members' compensation for the month.

Funding Status of the Systems

The North Carolina Retirement Systems have a high funded status relative to other public pension funds. This is attributable to consistent annual funding from the North Carolina General Assembly, consistent use of conservative actuarial assumptions and an approved actuarial cost

method since the establishment of the systems, and the recognition of all promised benefits in the actuarial liabilities. 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 actuarial valuation of assets less the actuarial accrued liabilities is equivalent to the unfunded actuarial accrued liabilities. The funded ratio of the retirement systems represents the ratio of assets to liabilities. For purposes of comparison, the chart below provides a high-level overview of the North Carolina Retirement Systems, including the funded ratios for each system. The annual actuarial study of TSERS reports a funded status of 94.8 percent.⁵ The annual actuarial study is based on data collected through December 31, 2013, and shows a slight increase from the previously reported status of 94.2 percent as of December 31, 2012.⁶

While stock markets are at all-time highs and interest rates at record lows, the fund is unlikely to see the same strong returns seen during the past few years, which will impact the future funding status.

-- CHART 1 --

FUNDED RATIO OF THE RETIREMENT SYSTEMS		
Teachers' and State Employees' Retirement System	Local Governmental Employees' Retirement System	Consolidated Judicial Retirement System
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%
2010 – 95.4%	2010 – 99.6%	2010 – 91.6%
2011 – 94%	2011 – 99.8%	2011 – 89.9%
2012 – 94.2%	2012 – 99.8%	2012 – 91.2%
2013 – 94.8%	2013 – 99.8%	2013 – 92.3%

⁴ The Firefighters' and Rescue Squad Workers' Pension Fund, Register of Deeds and National Guard Pension Fund are funded differently.

⁵ The Principal Results of Actuarial Valuations as of December 31st, 2013, were presented by Buck Consultants to the TSERS Board of Trustees on October 23rd, 2014 (see meeting minutes here: https://www.nctreasurer.com/ret/Board%20of%20Trustees/October23_2014_BOT_Agenda.pdf). All actuarial valuations for the retirement systems may be found on the State Treasurer's website at the following link: <https://www.nctreasurer.com/ret/Pages/Valuation-Reports.aspx>

⁶ The Principal Results of the Actuarial Valuations as of December 31st, 2012, were presented by Buck Consultants to the TSERS Board of Trustees on October 17th, 2013 (see meeting minutes here: <https://www.nctreasurer.com/ret/Board%20of%20Trustees/October%2017%202013%20BOT%20Agenda.pdf>).

RETIREMENT SYSTEMS DIVISION

TEACHERS' AND STATE EMPLOYEES' RETIREMENT SYSTEM OF NORTH CAROLINA N.C.G.S. § 135-1 THROUGH 135-18.5

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

TSERS MEMBERSHIP AS OF DECEMBER 31, 2013

ACTIVE MEMBERS	318,009
INACTIVE MEMBERS	125,513
RETIRED MEMBERS AND BENEFICIARIES OF DECEASED MEMBERS	187,448

Invested assets at market value amounted to \$64.8 billion as of June 30, 2014. For more information about investments for the North Carolina Retirement Systems, please see the Investment Management Division section of this Annual Report.

Operations of TSERS during fiscal year ended June 30, 2014, resulted in:

- Total contributions of \$2.0 billion
- Total expenditures of \$4.0 billion

The latest Actuary's Valuation Balance Sheet for TSERS, as of December 31, 2013, is shown in Table 10 in the Statistical Tables section. Based on the latest actuary's report, the General Assembly set the employer contribution rate at 8.69 percent of covered payroll effective July 1, 2013, and at 9.15% of covered payroll effective July 1, 2014.

-- CHART 2 --

TEACHERS' AND STATE EMPLOYEES' RETIREMENT SYSTEM OF NORTH CAROLINA FISCAL YEAR ENDED JUNE 30, 2014

Sources of Funds		
Employee Contributions	\$ 825,548,184	7.4 %
Employer Contributions	\$ 1,177,340,961	10.6 %
Investment Income	\$ 9,106,306,015	82.0 %

Applications of Funds		
Retiree Benefits	\$ 3,881,333,116	97.0 %
Refunds (Return of Contributions)	\$ 108,063,926	2.7 %
Administrative and Other Expenses	\$ 10,768,359	0.3 %

RETIREMENT SYSTEMS DIVISION

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.

Initial participation by local governments is voluntary and is subject to approval by the LGERS Board of Trustees. Thereafter, continued participation is mandatory, and the annual employer contribution rate is set by the LGERS Board. In 1948, the initial membership of LGERS consisted of 18 participating local governments, 2,102 members and assets of \$178,053. As of December 31, 2013, a total of 889 cities, towns, counties and local commissions were participating in LGERS.

LGERS MEMBERSHIP AS OF DECEMBER 31, 2013

ACTIVE MEMBERS	123,455
INACTIVE MEMBERS	50,998
RETIRED MEMBERS AND BENEFICIARIES OF DECEASED MEMBERS	57,405

Invested assets at market value amounted to \$22.6 billion as of June 30, 2014. For more information about investments for the North Carolina Retirement Systems, please see the Investment Management Division section of this report.

Operations of LGERS during the fiscal year ended June 30, 2014, resulted in:

- Total contributions of approximately \$760.1 million
- Total expenditures of approximately \$1.1 billion

The latest Actuary's Valuation Balance Sheet for LGERS, as of December 31, 2013, is shown in Table 11 in the Statistical Tables section.⁷ Based on the actuary's latest report, the Board of Trustees set the employer normal contribution rate at 6.95 percent of covered payroll for general employees and at 7.43 percent of covered payroll for law enforcement officers, effective July 1, 2014. The accrued liability rate, if any, varies with each employing unit depending on the amount of prior service that was awarded to the members.

-- CHART 3 --

LOCAL GOVERNMENTAL EMPLOYEES' RETIREMENT SYSTEM OF NORTH CAROLINA FISCAL YEAR ENDED JUNE 30, 2014

Sources of Funds		
Employee Contributions	\$ 346,961,248	8.9 %
Employer Contributions	\$ 413,174,771	10.5 %
Other Income*	\$ 3,296,417	0.1 %
Investment Income	\$ 3,157,562,127	80.5 %

Applications of Funds		
Retiree Benefits	\$ 1,047,765,571	94.3 %
Refunds (Return of Contributions)	\$ 59,033,062	5.3 %
Administrative and Other Expenses	\$ 3,974,032	0.4 %

⁷ The Principal Results of Actuarial Valuations as of December 31st, 2013, were presented by Buck Consultants to the LGERS Board of Trustees on October 23rd, 2014 (see meeting minutes here: https://www.nctreasurer.com/ret/Board%20of%20Trustees/October23_2014_BOT_Agenda.pdf)

RETIREMENT SYSTEMS DIVISION

CONSOLIDATED JUDICIAL RETIREMENT SYSTEM OF NORTH CAROLINA N.C.G.S §§ 135-50 THROUGH 135-72

The Consolidated Judicial Retirement System (CJRS) 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 comprises 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, 2013

ACTIVE MEMBERS	566
INACTIVE MEMBERS	53
RETIRED MEMBERS AND SURVIVORS	584

The invested assets at market value were \$531.9 million as of June 30, 2014. For more information about investments for the North Carolina Retirement Systems, please see the Investment Management Division section of this report.

Operations of the Judicial System during fiscal year ended June 30, 2014, resulted in:

- Total contributions of approximately \$27.0 million
- Total expenditures of approximately \$35.5 million

The latest Actuary's Valuation Balance Sheet for the Judicial System, as of December 31, 2013, is shown in Table 12 in the Statistical Tables section.⁸ Based on the actuary's latest report, the General Assembly set the employer contribution rate at 27.21 percent of covered members' payroll, effective July 1, 2014. 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 FISCAL YEAR ENDED JUNE 30, 2014

Sources of Funds		
Employee Contributions	\$ 5,598,498	5.5 %
Employer Contributions	\$ 21,390,354	21.2 %
Investment Income	\$ 74,189,292	73.3 %

Applications of Funds		
Retiree Benefits (Including Death Benefits)	\$ 35,380,966	99.8 %
Refunds (Return of Contributions)	\$ 46,766	0.1 %
Administrative Expenses	\$ 47,825	0.1 %

⁸ The Principal Results of Actuarial Valuations as of December 31st, 2013, were presented by Buck Consultants to the TSERS Board of Trustees on October 23rd, 2014 (see meeting minutes here: https://www.nctreasurer.com/ret/Board%20of%20Trustees/October23_2014_BOT_Agenda.pdf)

RETIREMENT SYSTEMS DIVISION

LEGISLATIVE RETIREMENT SYSTEM N.C.G.S §§ 120-4.8 THROUGH 120-4.29

The Legislative Retirement System was created by the 1983 legislative session 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, 2013

ACTIVE MEMBERS	170
INACTIVE MEMBERS	94
RETIRED MEMBERS	311

As of June 30, 2014, the investment assets totaled \$29.7 million. For more information about investments for the North Carolina Retirement Systems, please see the Investment Management Division section of this report.

Based on the latest actuarial report, the employer contribution rate was set by the General Assembly at 0 percent of covered payroll effective July 1, 2014. On this basis, the total of employee and employer rates of contribution is adequate to fund all future benefits presently authorized.

NC TOTAL RETIREMENT PLANS

NC Total Retirement Plans Branding

In an effort to more accurately describe what the Supplemental Retirement Plans mean for members, a new “NC Total Retirement Plans” logo and brand was developed. The idea is to communicate that the defined benefit plan is just one piece of a member’s total financial retirement package, and the NC 401(k), NC 457, and NC 403(b) should not be supplements or add-ons to a savings plan, but essential parts of it.

2014 Leadership Recognition Awards

The NC Total Retirement Plans was honored with two awards from the National Association of Governmental Defined Contribution Administrators (NAGDCA).

The Increasing Contribution Campaign was designed to help NC 401(k) and NC 457 Plan members who were not taking full advantage of employer matching contributions

to take their “next best savings step” by increasing their savings to the level that would allow them to capture every employer-matching dollar. The results were impressive: 5 percent of targeted members increased their savings by an average of 2.5 percent. Of those who increased their contributions, 70 percent are now taking full advantage of their employer’s “money on the table.”

NC 401(K) PLAN: SUPPLEMENTAL RETIREMENT INCOME PLAN OF NORTH CAROLINA N.C.G.S §§ 135-90 THROUGH 135-95, 143-166.30; AND 143-66.50

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 many aspects of operating the plan. This responsibility includes education, communications and record-keeping.

NC 401(K) PLAN MEMBERSHIP AT DECEMBER 31, 2013

PLAN MEMBERSHIP	243,010
EMPLOYER CONTRIBUTIONS* <i>(in thousands of dollars)</i>	\$58,246
MEMBER CONTRIBUTIONS** <i>(in thousands of dollars)</i>	\$243,645

*Many local government employers contribute to employee plans. Also, Law Enforcement Officers (LEOs) are statutorily required to receive a 5 percent employer contribution to their NC 401(k) account. State government employers do not make a contribution for non-LEO members. Amounts for calendar year 2013.

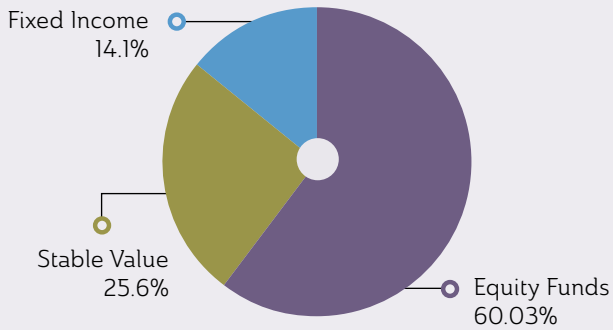
**Members may choose to contribute pre-tax or post-tax (Roth) deferrals into the plan. Amounts include rollovers.

The total plan assets at market value increased by twenty percent (20%) over the previous year to \$7.6 billion.

Under the current contract, members may select from 13 separate account investment options including a stable value fund. As of December 31, 2013, 25.6% percent of the assets were invested in Stable Value, 14.1% percent were invested in fixed income, and 60.3% percent were invested in equity funds. Outstanding loan balances totaled \$273 million.

RETIREMENT SYSTEMS DIVISION

MEMBERS' 401 (K) INVESTMENT CHOICES



THE NORTH CAROLINA PUBLIC EMPLOYEE DEFERRED COMPENSATION PLAN (NC 457 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 many aspects of operating the plan, including communications and record-keeping.

NC DEFERRED COMPENSATION PLAN MEMBERSHIP AT DECEMBER 31, 2013

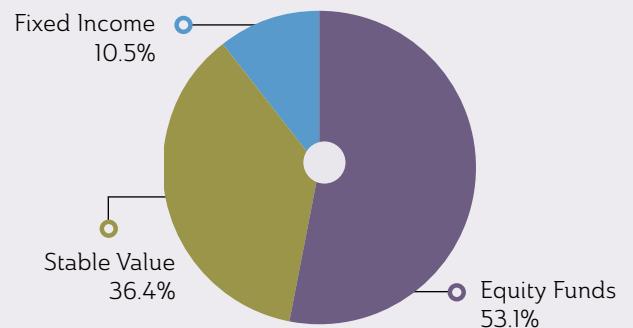
PLAN MEMBERSHIP	48,400
MEMBERSHIP CONTRIBUTIONS	\$66,849,000

**Members may choose to contribute pre-tax or post-tax (Roth) deferrals into the plan. Amounts include rollovers.*

The total plan assets at market value increased by 17% percent over the previous year to \$1.1 billion.

Under the current contract, members may select from 13 separate account investment options including a stable value fund. As of December 31, 2013, 36.4% percent of the assets were invested in Stable Value, 10.5% percent were invested in fixed income, and 53.1% percent were invested in equity funds. Outstanding loan balances from participants totaled \$16.6 million.

MEMBERS' DEFERRED COMPENSATION INVESTMENT CHOICES



NC 403(B)

In March 2014, the Department launched the North Carolina Public School Teachers' and Professional Educators' Investment Plan, a statewide, supplemental 403(b) retirement Program for the state's public K-12 educators.

The program features 27 well-diversified, low-cost investment choices, and a variety of services designed to help teachers prepare for retirement. All of North Carolina's 115 school districts will have the option to participate in the new program. Participating districts will be able to take advantage of centralized program management, relieving them of significant administrative burdens. Also, districts will be able to take advantage of institutional pricing through the purchasing power of the state.

The 403(b) program was authorized by the General Assembly in 2011 and is governed by the Supplemental Retirement Board of Trustees. The Department of State Treasurer is the program administrator. TIAA-CREF was appointed record-keeper for the program, and is responsible under the terms of the contract with the board for all aspects of operating the program, including communications, education, and record-keeping.

RETIREMENT SYSTEMS DIVISION

DEATH BENEFITS FOR ACTIVE AND RETIRED MEMBERS N.C.G.S §§ 135-5(l); 143-166.2; AND 143-166.60

The Teachers' and State Employees' Benefit Trust (Benefit Trust) is a fund that serves as a vehicle for providing death benefits for members of Teachers' and State Employees' Retirement System and Local Governmental Employees' Retirement System. The Benefit Trust was established January 1, 1980, by the Board of Trustees of the TSERS after enabling legislation was enacted in the 1979 session of the General Assembly. The Board of Trustees of the LGERS elected to become a participating affiliate in the Benefit Trust on the same date.

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

In 2014, the employer contribution rate to fund this benefit for members of TSERS was 0.16 percent of covered payroll.

The employer contribution rate for members of LGERS is actuarially determined and varies among employers.

The Benefit Trust further includes the Separate Insurance Benefits Plan (SIBP) 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.

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 full months of contributions. If a participant's death occurs before 24 full 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 amounts of benefit payments, according to member group, during the fiscal year ended June 30, 2014, are also provided in the chart below.

-- CHART 5 --

NORTH CAROLINA TEACHERS' AND STATE EMPLOYEES' BENEFIT TRUST FISCAL YEAR ENDED JUNE 30, 2014		
Sources of Funds		
Local Governmental Employees' Retirement System Death Benefit (LGERS)	\$0.2 million	0.30%
Retirees' Death Benefit	\$23.0 million	33.60%
Teachers' And State Employees' Retirement System Death Benefit (TSERS)	\$21.3 million	31.10%
Legislative Death Benefit	\$0.0 million	0.00%
Investment Income	\$24.0 million	35.00%
Applications of Funds		
Local Death Benefits Paid (Lgers)	\$4.7 million	1.10%
Death Benefits and Insurance Paid Sibp (Law Enforcement) Officers)	0.7 million	7.60%
Administrative Expenses	16.9 million	27.4%
Retiree Death Benefits Paid	20.1 million	32.60%
State Death Benefits Paid (TSERS)	19.3 million	31.30%
Legislative Death Benefits	0.0 million	0.00%

RETIREMENT SYSTEMS DIVISION

FIREFIGHTERS' AND RESCUE SQUAD WORKERS' PENSION FUND N.C.G.S §§ 58-86-1 THROUGH 58-86-90

The Firefighters' and Rescue Squad Workers' Pension Fund was created by the General Assembly in 1959 to provide benefits for certified firefighters. 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. In 2013, the name of the plan changed to North Carolina Firefighters' and Rescue Squad Workers' Pension Fund.

FIREFIGHTERS' AND RESCUE SQUAD WORKERS' PENSION FUND MEMBERSHIP AS OF DECEMBER 31, 2013

ACTIVE MEMBERS	42,464
RETIRED MEMBERS	12,445

Invested assets at market value amounted to about \$384.8 million as of June 30, 2014. For more information about investments for the North Carolina Retirement Systems, please see the Investment Management Division section of this report.

Operations of the Firefighters' and Rescue Squad Workers' Pension Fund during the 2013-2014 fiscal year resulted in:

- Total contributions of approximately \$17.4 million
- Total expenditures of approximately \$26.7 million

The latest Actuary's Valuation Balance Sheet, as of December 31, 2013, is shown in Table 13 in the Statistical Tables section. Based on the latest financial report, the General Assembly appropriated \$15.4 million for the fiscal year ended June 30, 2013. The annual appropriations will fund all future benefits, based on current service, and will fund, over a period of 12 years from June 30, 2012, the remaining accrued liabilities for past service.

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

-- CHART 6 --

FIREFIGHTERS' AND RESCUE SQUAD WORKERS' PENSION FUND FISCAL YEAR ENDED JUNE 30, 2014		
Sources of Funds		
Appropriation	\$14,626,599	20.6%
Member Contributions	\$2,781,416	3.9%
Investment Income	\$3,752,053	75.5%
Miscellaneous Income	\$2,565	0.0%
Applications of Funds		
Pension Benefits	\$25,264,429	94.8%
Refunds	350,294	1.3%
Administrative Expenses	1,044,723	3.9%

RETIREMENT SYSTEMS DIVISION

RETIREE HEALTH BENEFITS

RSD acts as the Health Benefits Representative for retired members covered under the State Health Plan of North Carolina. Funds are remitted from employers through their monthly ORBIT payroll reporting process to pay individual coverage costs of retirees' health insurance under the State Health Plan. Retirees from the Teachers' and State Employees', Consolidated Judicial, and Legislative Retirement Systems are eligible for coverage. The method of collecting the employers' payments is a surcharge on active members' payroll payable with the employer contribution rate to the affected retirement system.

FINANCIAL INFORMATION FOR FISCAL YEAR ENDED JUNE 30, 2014	
BEGINNING FUND BALANCE	\$812,078,952
ADDITIONS:	
EMPLOYER CONTRIBUTIONS	\$815,156,810
INVESTMENT INCOME	\$114,904,181
DEDUCTIONS:	
HEALTH PREMIUMS PAID	\$795,649,925
ADMINISTRATIVE EXPENSE	\$3,667,783
ENDING FUND BALANCE	\$942,822,235

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 fiscal year ended June 30, 2014, there were seven former members and officers of the General Assembly in receipt of allowances with a cost of \$23,000. This cost is funded by a contribution of 5 percent of compensation paid by members at retirement and an annual general fund appropriation made by the General Assembly. This fund is not operated as a retirement fund, but as an expendable trust fund in which money is not added to the fund. Only the seven members who applied for retirement during the years of operation are covered in this fund.

DISABILITY INCOME PLAN OF NORTH CAROLINA 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. 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. 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.

Based on the latest actuarial report, the General Assembly set the employer contribution rate to fund this benefit at 0.44 percent of the covered payroll of the members of the Teachers' and State Employees' Retirement System, and the Optional Retirement Program, effective July 1, 2013.⁹

DISABILITY INCOME PLAN STATISTICS FISCAL YEAR ENDED JUNE 30, 2014	
NUMBER OF DISABLED MEMBERS	7,012
EMPLOYER CONTRIBUTIONS	\$65,878,072
INVESTMENT INCOME	\$23,235,919
AMOUNT OF BENEFIT PAYMENTS	\$76,753,080

⁹ The Principal Results of Actuarial Valuations as of December 31st, 2013, were presented by Buck Consultants to the TSERS Board of Trustees on October 23rd, 2014 (see meeting minutes here: https://www.nctreasurer.com/ret/Board%20of%20Trustees/October23_2014_BOT_Agenda.pdf)

RETIREMENT SYSTEMS DIVISION

NATIONAL GUARD PENSION FUND N.C.G.S §§ 127A-40

The National Guard Pension Fund (NGPF) provides benefits to members and former members of the North Carolina National Guard who meet the statutory requirements. RSD administers the pension fund and pays benefits based on the certification of eligibility by the Department of Public Safety. The National Guard Pension Fund receives an annual appropriation from the General Assembly to cover the cost of providing this benefit program.

- As of June 30, 2014, there were 4,354 beneficiaries in receipt of a monthly benefit
- For the fiscal year ending June 30, 2014, the Fund paid total benefits in the amount of \$7,502,170

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 General Assembly in 1987. As set forth in the North Carolina General Statutes, the purpose of this pension fund is to provide a supplement to the benefits provided under the Local Governmental Employees' Retirement System for Registers of Deeds in order to attract the most highly qualified talent available within the state to that county office.

- As of June 30, 2014, this fund had total assets in the amount of \$46,878,564
- For the fiscal year ended June 30, 2014, the Fund paid total benefits in the amount of \$1,665,917

SOCIAL SECURITY BENEFITS N.C.G.S §§ 135-19 THROUGH 135-26

The Division 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, which allows local governments and other instrumentalities of the state to participate in Social Security. 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.

INVESTMENT MANAGEMENT



INVESTMENT MANAGEMENT DIVISION

The Investment Management Division (IMD) serves as the investment arm for the Department of State Treasurer. This Division employs over 20 investment professionals who provide the expertise for state government investing. IMD is responsible for the management of the Short Term Investment Fund, the Pension Fund Investment Program (Pension Fund), and the Ancillary Investment Programs. At the end of the fiscal year ending June 30, 2014, total assets of these 31 programs were \$104.01 billion.

INVESTMENT PROGRAMS ¹		
Pension Fund Investment Program	Assets of the North Carolina Retirement Systems ² defined in N.C.G.S. 147-69.2(b)(8) (the Retirement Systems).	86.66%
Short-Term Investment Fund (STIF)	An internally managed portfolio of highly liquid fixed income securities. Investors include the State's General Fund, Highway Trust Fund, certain Retirement Systems funds, ³ and other investors.	11.82%
Ancillary Investment Program	Assets invested in programs other than the Short-Term Investment Fund for the Escheat Fund, Public Hospital Funds, Local Government Other Post-Employment Benefits Funds, and other non-Retirement Systems investors.	1.52%

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 IMD staff, manages the investment programs so assets may be readily converted into cash when needed.

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 IMD staff 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.

¹ See Statistical Tables, Table 2 (Summary of Investments by Participants) and its attached footnote for further details and an explanation of the differences in terminology between different reports.

² The Retirement Systems are the Teachers' and State Employees' Retirement System, the Consolidated Judicial Retirement System, the Firefighters' and Rescue Squad Workers' Pension Fund, the Local Governmental Employees' Retirement System, the Legislative Retirement System, the North Carolina National Guard Pension Fund, and the Retiree Health Benefit Fund.

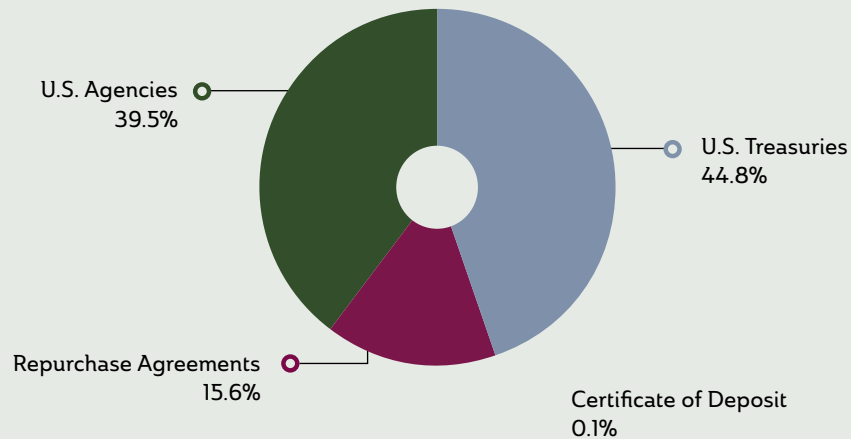
³ In this table and in Table 2 of the Statistical Tables, Retirement Systems assets in the STIF are listed within the "Short-Term Investment Fund" row only if held in the operating accounts used to meet cash needs for payment of items such as member benefits and administrative expenses. All other Retirement Systems assets in the STIF are listed under "Pension Fund Investment Program."

INVESTMENT MANAGEMENT DIVISION

SHORT -TERM INVESTMENT FUND

The objective of the Short-Term Investment Fund (STIF) is to maximize income consistent with the principles of preservation of capital and liquidity. 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 considerations in making investments are safety and liquidity; the secondary consideration is income. For the fiscal year 2014, the STIF generated a cash return of 0.45 percent. The following graph¹ provides the STIF's asset allocation as of June 30, 2014.

STIF ASSET ALLOCATION AS OF 6/30/14



* 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

Repurchase Agreements – short-term collateralized loan

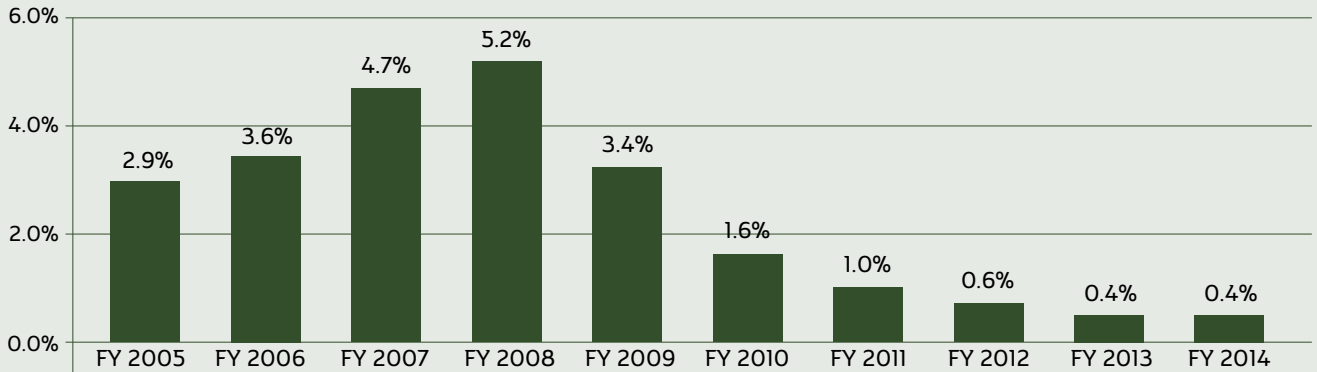
U.S. Agencies – debt from a federal government agency or government sponsored enterprise such as the Government National Mortgage Association (GNMA or Ginnie Mae), the Federal National Mortgage Association (FNMA or Fannie Mae), the Federal Home Loan Mortgage Corporation (FHLMC or Freddie Mac), Federal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

¹ This STIF asset allocation does not include cash in bank.

INVESTMENT MANAGEMENT DIVISION

The following chart provides historic returns for STIF as of June 30, 2014.

STIF FISCAL YEAR PERFORMANCE



STIF TOP TEN POSITIONS AS OF JUNE 30, 2014

Issuer	Coupon	Maturity Date	Par Value (\$)
HSBC SECURITIES REPO	0.05	7/1/2014	1,000,000,000.00
SOUTH STREET REPO	0.2	7/1/2014	750,000,000.00
U S TREASURY NOTE	0.125	7/31/2014	500,000,000.00
U S TREASURY NOTE	0.25	8/31/2014	500,000,000.00
U S TREASURY NOTE	0.25	9/30/2014	500,000,000.00
U S TREASURY NOTE	0.5	10/15/2014	500,000,000.00
U S TREASURY NOTE	0.125	12/31/2014	500,000,000.00
U S TREASURY NOTE	0.25	1/31/2015	500,000,000.00
U S TREASURY NOTE	0.25	2/28/2015	500,000,000.00
U S TREASURY NOTE	0.25	3/31/2015	500,000,000.00

INVESTMENT MANAGEMENT DIVISION

STIF Summary of Brokers Utilized During Fiscal Year 2013-14

Brokers are used to execute buy and sell orders on behalf of the fund. Below is a list of brokers used to facilitate trades of securities during the fiscal year ending June 30, 2014.

Bank of America	Credit Suisse Securities	JPMorgan Chase	RBS Greenwich Capital
Barclays Capital	Deutsche Bank Securities	Loop Capital	Scotia Capital
BNP Paribas	Goldman Sachs	Mizuho Securities	Stifel Nicolaus
CastleOak	HSBC Securities	Morgan Stanley	Wells Fargo Securities
Citigroup	Jefferies & Company	Raymond James	Williams Capital

PENSION FUND INVESTMENT PROGRAM REVIEW

The Investment Management Division's goal is to maintain the long-term strength of the Retirement Systems by providing a long-term rate of return that approximates the actuarial rate of return while simultaneously managing risk in the portfolio. The Pension Fund Investment Program portfolio contains 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 Investment Policy Statement for North Carolina Retirement Systems, which is approved by the Treasurer in consultation with the Investment Advisory Committee. This policy covers investment objectives, asset allocation ranges, rebalancing processes and other issues.

It is the policy of the Treasurer to invest consistent with the following objectives:

A. Provide investment returns sufficient for the Fund to make timely payment of statutory benefits to current and future members and keep contribution rates at a reasonable level over the long term. To achieve this, long-term projected investment returns should be generally consistent with the actuarial assumed rate of return, unless otherwise determined by the Treasurer.²

B. Avoid excessive volatility in contribution rates over the intermediate term by maintaining a moderate risk profile and diversifying with respect to economic and financial risk factors. It is acceptable to limit the use of return-seeking strategies in order to avoid excessive volatility.

C. Additionally, goals include the ability to:

1. Achieve cost-efficiency in the overall investment program
2. Exceed composite benchmark returns for the Fund and broad categories of investments within reasonable risk limits and over market cycles
3. Ensure sufficient liquidity to meet the Fund's obligations over all time periods
4. Comply with all governing statutes as consistent with fiduciary obligations

North Carolina's defined benefit plans are consistently ranked in the top five of state retirement funding ratios.

² The Retirement Systems' actuary advises each applicable Retirement System's Board of Trustees (or in the case of the Retiree Health Benefit Fund, the Committee on Actuarial Valuation of Retired Employees' Health Benefits) with respect to setting the actuarial assumed rate of return and annual required contributions. These boards and the committee have been granted the authority by the legislature to set the actuarial assumed rate of return for the Fund, which is currently 7.25% for the Retirement Systems other than the Retiree Health Benefit Fund and 4.25% for the Retiree Health Benefit Fund.

INVESTMENT MANAGEMENT DIVISION

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 for the Pension Fund are North Carolina's participating public employees, teachers, firefighters, police officers and other public workers. Within the Pension Fund, assets are divided into various classes of investments defined in the chart below.

Portfolio	Investment Mandate	Examples
Fixed Income Investment Portfolio	Longer Term Investments	Investment Grade Corporate Securities, Treasuries, Agencies, MBS
Global Equity Investment Portfolio	Equity Securities	Relationships with experienced U.S. and foreign stock investment advisers
Real Estate Investment Portfolio	Real Estate	Limited Partnerships ³ managed by experienced real estate advisers
Private Equity Investment Portfolio	Private Equity	Limited Partnerships ⁵ managed by experienced private equity advisers
Hedged Strategies Investment Portfolio	Multi Strategy Hedge Funds	A diversified mix of legacy hedged strategies managed by experienced hedge fund of funds ⁴
Credit Strategies Investment Portfolio	Credit Oriented Investments	A diversified mix of credit-focused investment vehicles managed by experienced investment advisers
Inflation Protection Investment Portfolio	Inflation-linked Investments	A diversified mix of inflation-sensitive investment vehicles managed by experienced investment advisers
Cash Management Investment Portfolio	Preservation of capital and liquidity	Highly diversified liquid money market instruments and short to intermediate Treasuries, Agencies, and AAA-rated corporate obligations

³ Limited Partnerships are the standard vehicle for investment in private equity, credit strategies, inflation protection, 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 of the investors. The investors are known as Limited Partners. Other types of legal entities, including without limitation limited liability companies and limited liability limited partnerships, are also utilized.

⁴ Hedge fund vehicles are utilized in multiple asset classes, not just the Hedged Strategies Investment Portfolio. The Hedged Strategies Investment Portfolio contains one active fund (Franklin Street Partners) comprising 92% of its market value. The remainder is in liquidating funds.

INVESTMENT MANAGEMENT DIVISION

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 reasonable exposure to more volatile growth-oriented 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, but obtains lower returns than the typical large public fund peer in bull markets. The below chart outlines the one-, three-, five- and 10-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 GROSS OF FEES RETURNS AND EXPOSURE TO RISK				
Returns	1 Year	3 Year	5 Year	10 Year
25th Percentile	18.02%	10.64%	13.84%	8.04%
Median	17.13%	10.12%	13.12%	7.65%
75th Percentile	15.52%	9.13%	12.12%	7.16%
NC Pension Fund	16.55%	9.60%	11.98%	7.31%
Risk*				
25th Percentile	5.98	8.56	8.98	10.38
Median	5.36	7.72	8.15	9.75
75th Percentile	4.49	6.78	7.36	8.95
NC Pension Fund	4.43	6.48	6.97	8.13

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

* Volatility of returns (Standard Deviation)

Fiscal Year Review

The fiscal year ending June 30, 2014, resulted in strong performance for the Pension Fund. Investment returns net of fees were 8.63 percent greater than the 7.25 percent actuarial return assumption. The Pension Fund benefited significantly from surging global equity markets, while fixed income returns struggled as the market prepared for the end of monetary stimulus and interest rates began to modestly rise.

In the U.S., the first half of the fiscal year was focused on the Federal Reserve tapering their bond repurchase program. The announcement of tapering came in December 2013, and the Federal Reserve continued to trim purchases throughout the first half of 2014. The global economy

continued to strengthen throughout the year as world GDP ended the fiscal year up 2.4%. As a result, all major asset types produced positive returns for the year.

As mentioned in last year's Annual Report, Senate Bill 558 granted the Investment Management Division greater investment authority and flexibility by increasing the percentage limitations on various individual alternative investment asset classes as well as in the aggregate. As a result, the IMD has continued to diversify the portfolio to help achieve its long-term return objectives while prudently managing risk.

INVESTMENT MANAGEMENT DIVISION

Total Pension Fund Structure

As of June 30, 2014, the pension fund maintained a market value of \$90.1 billion. IMD is constantly monitoring the overall pension fund in an effort to manage risk. The following chart highlights the strategic asset allocation targets over the past seven years.

CURRENT AND HISTORICAL STRATEGIC TARGETS							
	June 2008	June 2009	June 2010	June 2011	June 2012	June 2013	June 2014
Fixed Income	39.5%	39.5%	38.0%	38.0%	36.0%	36.0%	36.0%
Global Equity	50.0%	50.0%	48.5%	40.5%	40.5%	40.5%	40.5%
Real Estate	6.0%	6.0%	6.0%	8.0%	8.0%	8.0%	8.0%
Alternatives*	4.5%	4.5%	4.5%	4.5%	6.5%	6.5%	6.5%
Credit Strategies	0.0%	0.0%	1.5%	4.5%	4.5%	4.5%	4.5%
Inflation Portfolio	0.0%	0.0%	1.5%	4.5%	4.5%	4.5%	4.5%
Cash Portfolio	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%

*Alternatives includes the Private Equity Investment Portfolio and the Hedged Strategies Investment Portfolio

IMD utilizes rebalancing to ensure the overall portfolio weights stay in line with the target ranges. Asset allocation and a disciplined approach to rebalancing are important tools to help control the level of risk that an investment portfolio experiences.

PENSION FUND ASSET ALLOCATION AS OF JUNE 30, 2014				
	Market Value	Portfolio Weight	Target Weight	Target Range
Fixed Income	\$27,410,932,668	30.41%	36.0%	30.0% - 42.0%
Global Equity	\$42,221,069,866	46.84%	40.5%	35.0% - 50.0%
Real Estate	\$7,558,972,372	8.39%	8.0%	6.0% - 10.0%
Private Equity	\$4,004,166,744	4.44%	6.50%	3.5% - 7.5%
Hedged Strategies	\$284,326,215	0.32%		
Credit Strategies	\$4,768,746,712	5.29%	4.5%	2.0% - 5.0%
Inflation Portfolio	\$3,050,735,902	3.38%	4.5%	2.0% - 5.0%
Cash Portfolio	\$841,360,514	0.93%	0.0%	0.0% - 2.0%
TOTAL FUND	\$90,140,310,993	100%	100%	---

INVESTMENT MANAGEMENT DIVISION

Total Fund Performance

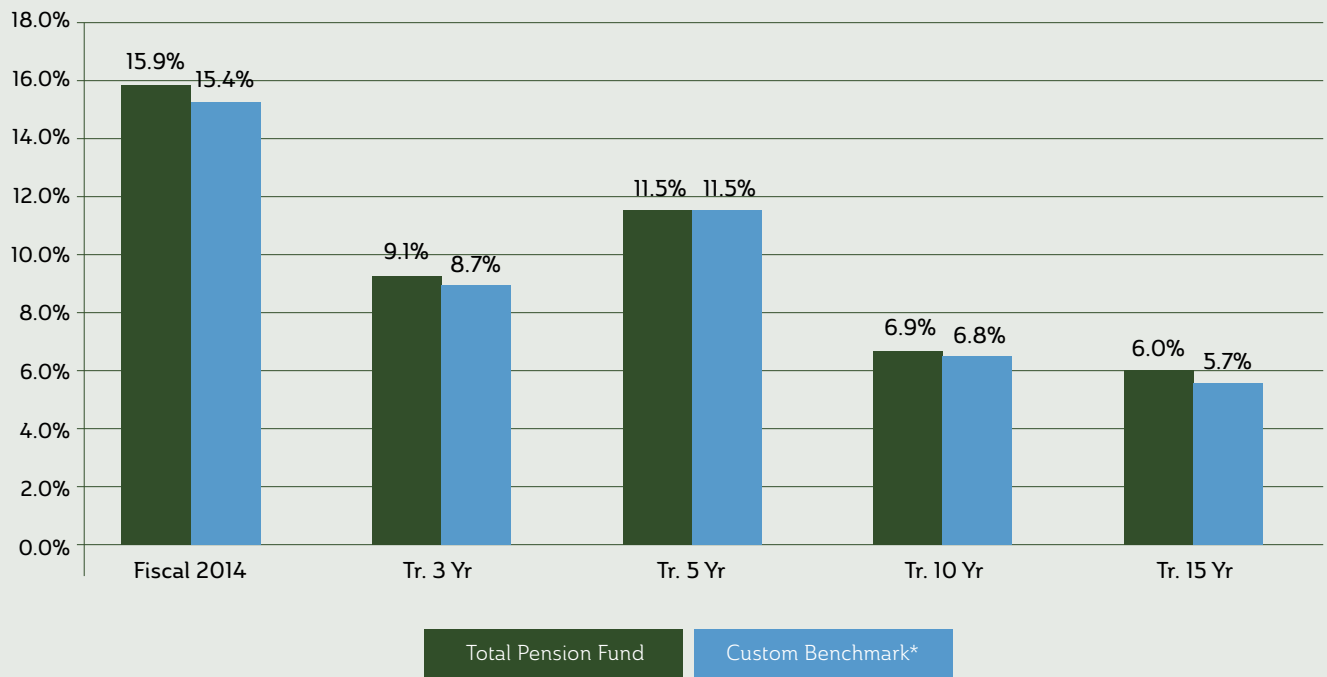
The Pension Fund has outperformed its custom benchmark over the past fiscal year. The following chart provides fiscal year returns for each asset class within the total Pension Fund.

For the fiscal year 2014, the fund returned 15.88 percent, net of fees. The charts below provide a snapshot for the total Pension Fund's annualized performance and performance by asset class for one-, three-, five- and 10-year periods.

2014 FISCAL YEAR RETURNS

FIXED INCOME	6.04%
GLOBAL EQUITY	24.66%
REAL ESTATE	12.03%
PRIVATE EQUITY	18.27%
HEDGED STRATEGIES	6.58%
CREDIT STRATEGIES	12.90%
INFLATION	8.21%
CASH	0.46%
TOTAL PENSION FUND	15.88%

TOTAL PENSION FUND ANNUALIZED PERFORMANCE



**As of June 30, 2014, the Total Pension Custom Benchmark consists of the dynamically weighted return of the Fixed Income Benchmark, Custom Equity Benchmark, Custom Real Estate Benchmark, Custom Alternatives Benchmark, Custom Credit Benchmark, & Custom Inflation Benchmark*

INVESTMENT MANAGEMENT DIVISION

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

ANNUALIZED PERFORMANCE AS OF JUNE 30, 2014, NET OF FEES					
	1-Year	3-Year	5-Year	10-Year	15-Year
Total Pension Plan	15.9%	9.1%	11.5%	6.9%	6.0%
Total Pension Custom Benchmark ⁵	15.4%	8.7%	11.5%	6.8%	5.7%
Fixed Income Portfolio	6.0%	5.5%	7.0%	6.4%	6.9%
Custom Fixed Income Benchmark ⁶	6.2%	5.5%	6.7%	6.1%	6.6%
Global Equity Investment Portfolio	24.7%	11.7%	15.8%	7.1%	5.0%
Custom Global Equity Benchmark ⁷	23.4%	10.9%	15.2%	6.7%	4.1%
Real Estate Investment Portfolio	12.0%	10.3%	5.7%	4.8%	5.5%
Custom Real Estate Benchmark ⁸	13.8%	12.9%	8.5%	7.3%	8.0%
Private Equity Investment Portfolio	18.3%	10.1%	11.6%	8.7%	5.5%
Custom Private Equity Benchmark ⁹	20.2%	12.4%	21.4%	9.1%	6.9%
Hedged Strategies Investment Portfolio	6.6%	2.0%	4.6%	2.7%	-
Custom Hedged Strategies Benchmark ¹⁰	6.0%	2.9%	3.4%	5.3%	-
Credit Strategies Investment Portfolio	12.9%	10.0%	-	-	-
Custom Credit Strategies Benchmark ¹¹	8.1%	3.0%	-	-	-
Inflation Protection Investment Portfolio	8.2%	-2.1%	-	-	-
Custom Inflation Portfolio Benchmark ¹²	7.5%	-2.3%	-	-	-
Cash Portfolio	0.5%	-	-	-	-
Custom Cash Benchmark ¹³	0.0%	-	-	-	-

⁵ The Total Pension Custom Benchmark consists of the dynamically weighted return of the Fixed Income Benchmark, Custom Equity Benchmark, Custom Real Estate Benchmark, Custom Alternatives Benchmark, Custom Credit Benchmark, & Custom Inflation Benchmark

⁶ The ML Custom Benchmark consists of 40% Gov't 5+yr / 35% Corp. (Inv. Grade - BBB Max 25%) 5+yr / 25% Mtg. Master.

⁷ The Global Equity Benchmark is the dynamically weighted return of the Domestic Benchmark, the Non-US Benchmark, the Global Benchmark, the Rebalance Benchmark, and the Equity Hedge Benchmark

⁸ The Custom Real Estate Benchmark consists of 90% NCREIF ODCE Index / 10% FTSE EPRA/NAREIT Global Securities Index

⁹ The Custom Private Equity Benchmark is a custom Cambridge Associates benchmark

¹⁰ The Custom Hedge Fund Benchmark is the HFRI FOF Conservative Index

¹¹ The Custom Credit Benchmark consists of 50% HFRX Distressed / 20% HFRX Relative Value / 15% CS Leveraged Loan / 15% BOA High Yield

¹² The Custom Inflation Benchmark is the dynamically weighted return of the Private Energy benchmark (Cambridge Energy) and the Commodities benchmark (DJ-UBS Commodities Index)

¹³ The Custom Cash Benchmark is the iMoneyNet First Tier Institutional Money Market Fund Net Index

INVESTMENT MANAGEMENT DIVISION

Cost

In order to best maximize returns with limited internal resources, the Investment Management Division utilizes external managers for a portion of the fund.

Over time, the Department, with the advice and counsel of the Investment Advisory Committee, has used a lower risk and lower cost approach to investing the North Carolina Retirement System trust funds. While costs have risen somewhat over time as more diverse external investment strategies were pursued, the all-in cost of investing the retirement trust fund remains modest and IMD continues to actively seek out cost-efficiencies in their operations.

During the fiscal year, the Department engaged CEM Benchmarking, a leading independent cost and performance analysis firm, to review the cost structure for calendar year 2013. The report showed that the cost structure was below those of most institutional peers. This leads to savings of about \$115 million per year compared to the median peer. Importantly, after deducting all fees, incentives, and expenses for the trust fund IMD exceeded performance benchmarks, which is a positive for plan beneficiaries, employers, and taxpayers. At the same time, IMD continues to proactively target improvements in cost-efficiency, transparency, risk management, and compliance.

TABLE X: CALENDAR YEAR 2013 NCRS COSTS OF INVESTMENT OPERATIONS COMPARED TO PEERS
(EXPRESSED IN BASIS POINTS WHERE 50 BASIS POINTS EQUALS 0.50%)

	TOTAL (bps)
MEDIAN PEER	58.8
NCRS	45.9
PERCENTILE	33%

Source: CEM [Cost Effectiveness Measurement] Benchmarking Inc., The peer group consists of 16 U.S. public pension funds managing from \$41 billion to \$150 billion. The median peer managed \$68 billion versus NCRS' \$82 billion average size during 2013. CEM Benchmarking's methodology incorporates default average expenses for underlying investment managers held within fund-of-fund vehicles, but excludes carry/performance fees for private investments because most peers do not provide such data. All such fees and expenses have been deducted from all reported investment returns.

Table Y provides further detail on fees and incentives paid to external investment managers for the fiscal year. Additional detail is available upon request.

TABLE Y: TOTAL NCRS EXTERNAL FEES PAID FY 2013-2014

	Management Fees	Incentive Fees	Total Fees	Portfolio Market Value	Ratio of Fees to Market Value
Global Equity	\$107,449,722	\$1,653,537	\$109,103,259	\$42,221,069,866	0.26%
Private Equity	\$49,449,252	\$22,009,426	\$71,458,678	\$4,004,166,744	1.78%
Real Estate	\$84,649,588	\$40,037,400	\$124,686,988	\$7,558,972,372	1.65%
Hedge Strategies	\$2,058,546	\$845,431	\$2,903,977	\$284,326,215	1.02%
External Fixed Income	\$386,254	\$7,230,684	\$7,616,938	\$278,186,693	2.74%
Credit	\$50,675,378	\$78,408,224	\$129,083,602	\$4,768,746,712	2.71%
Inflation	\$26,782,099	\$18,611,367	\$45,393,466	\$3,050,735,902	1.49%
Internally Managed	N/A	N/A	N/A	\$27,974,106,489	N/A
TOTAL	\$321,450,839	\$168,796,069	\$490,246,908	\$90,140,310,993	0.54%

* Total management fees previously reported differ from the above data due to accrual and timing issues. This includes either accruals of management fees owed but not paid at year end or the timing difference between the actual charge and the booking of actual costs that occurs in certain other investments.

** Consistent with industry convention, cost figures do not include the fees and expenses of investment managers that are held within fund-of-fund vehicles. Such fees and expenses have been deducted from all reported investment returns.

INVESTMENT MANAGEMENT DIVISION

Table Z provides additional transparency into the compensation collected by investment managers within fund of fund structures. This compensation is determined by the fund of fund manager through contracts with the underlying manager. This compensation is deducted from all reported returns. They are not included in the compensation disclosed in Table Y.

TABLE Z: TOTAL NCRS FUND OF FUND FEES PAID FY 2013-2014				
	Management Fees	Incentive Fees	Market Value	Ratio of Fees to Market Value
NCRS Fund of Funds	\$22,521,185	\$26,935,515	\$2,355,194,710	2.10%

Note: Some legacy fund of funds do not disclose the compensation to underlying funds and are, therefore, not reported in the above table.

INVESTMENT MANAGEMENT DIVISION

FIXED INCOME

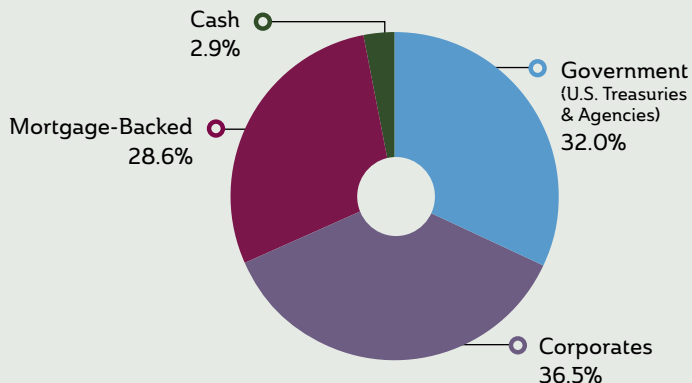
As of June 30, 2014, the fixed income allocation maintained a market value of \$27.4 billion, representing 30.4 percent of the Pension Fund. The Pension Fund's core Long-Term Investment Portfolio (LTIP) represented the bulk of the fixed income assets with a market value of \$26.6 billion. The balance of the fixed income assets was in non-core strategies.

Core Fixed Income Structure

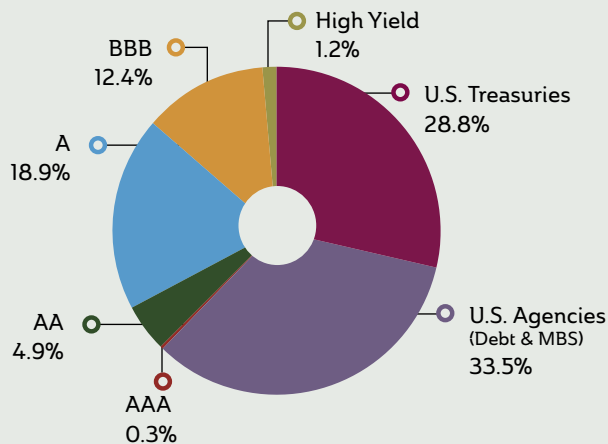
The LTIP is an internally managed investment grade fixed income portfolio that takes an enhanced approach to generating excess returns versus an assigned benchmark.

The portfolio is structured to provide a long duration profile that better matches the pension fund's longer duration liability stream. Because of this approach, the duration of the portfolio tends to be relatively long versus an intermediate duration fixed income portfolio. Duration is a measure of a bond's price sensitivity to changes in interest rates. The portfolio comprises U.S. Treasuries, Agencies, Corporate Bonds, and Governmental National Mortgage Association (GNMA) mortgage-backed securities. The following charts display the allocation of the LTIP by investment and by quality, or credit rating, of investment.

LTIP SECTOR ALLOCATION
(AS OF 6/30/14)



LTIP QUALITY* ALLOCATION
(AS OF 6/30/14)



**Credit Quality based on Moody's Ratings*

Fixed Income Market Overview

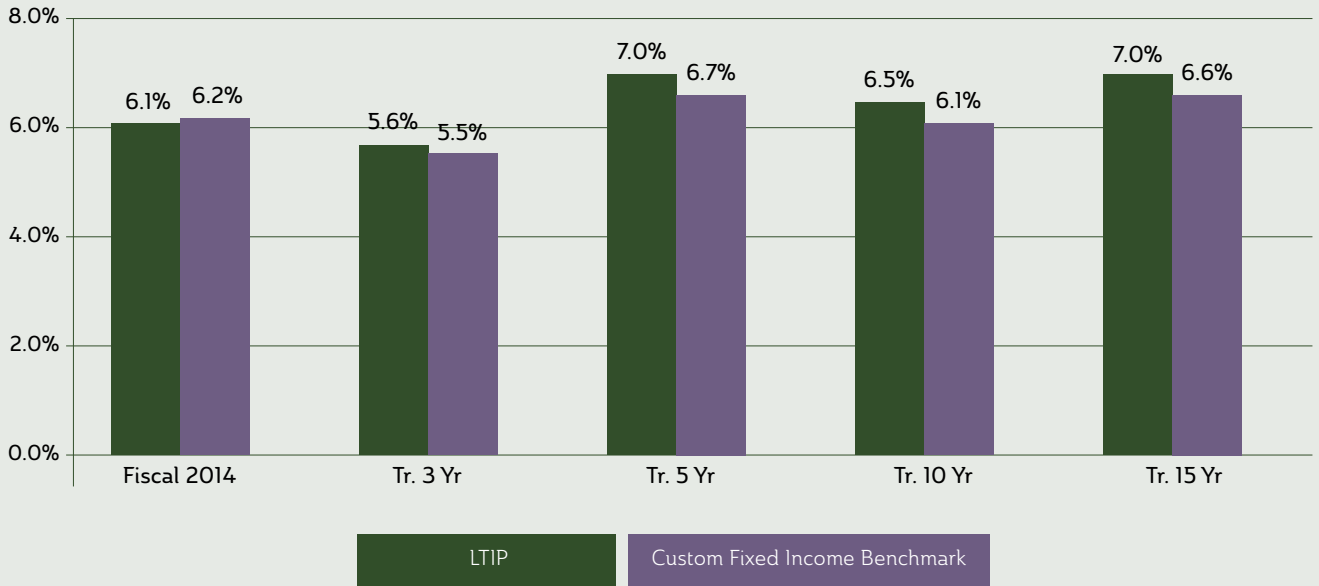
The fiscal year in the bond market was focused on the Federal Reserve tapering their bond repurchase program. After much speculation, the formal announcement of tapering came in December 2013, and the Federal Reserve continued to trim purchases throughout the first half of 2014. With inflation benign and the jobs market improving, the Federal Reserve chair indicated that they were in no hurry to increase the Fed Funds rate in the near term. The net result for the year was a Treasury curve that was flatter on moderate rate changes. Investment Grade bonds continued to outperform Treasury debt on credit spreads that moved tighter throughout the year. For the fiscal year, 5-year U.S. Treasury (UST) yields were up roughly 20 basis points, 10-year UST yields were close to unchanged and the 30-year UST was down roughly 15 basis points.

INVESTMENT MANAGEMENT DIVISION

Core Fixed Income Performance

For the fiscal year, the LTIP return was 6.05% net of fees versus a benchmark return of 6.23%. The slight underperformance to the benchmark was due to drag from cash exposures and the short duration position relative to the benchmark.

LONG TERM INVESTMENT PORTFOLIO ANNUALIZED PERFORMANCE



INVESTMENT MANAGEMENT DIVISION

Below are the lists of the top 10 corporate exposures within the LTIP and a summary of brokers utilized to trade securities in the portfolio.

LTIP TOP 10 CORPORATE POSITIONS AS OF JUNE 30, 2014	
Corporate Issuer	% of LTIP
General Electric	1.1%
Bank of America	1.1%
JP Morgan	1.0%
Goldman Sachs	0.8%
Wal-Mart	0.7%
Morgan Stanley	0.7%
Wells Fargo	0.7%
Citigroup	0.6%
AT&T	0.6%
HSBC	0.6%

LTIP SUMMARY OF BROKERS UTILIZED DURING FISCAL YEAR 2014

Bank of America	Cross Point	Mizuho Securities	Suntrust Capital Markets
Barclays Capital	Deutsche Bank Securities	Morgan Stanley	US Bancorp
BNP Paribas	First Tennessee Bank	Raymond James	Wells Fargo Securities
BNY Mellon	Goldman Sachs	RBC Capital Markets	Williams Capital
Cantor Fitzgerald	HSBC Securities	RBS Greenwich Capital	
Citigroup	JPMorgan Chase	Scotia Capital	
Credit Suisse Securities	KeyBanc Cap Mkts	Stifel Nicolaus	

INVESTMENT MANAGEMENT DIVISION

Non-Core Fixed Income Structure

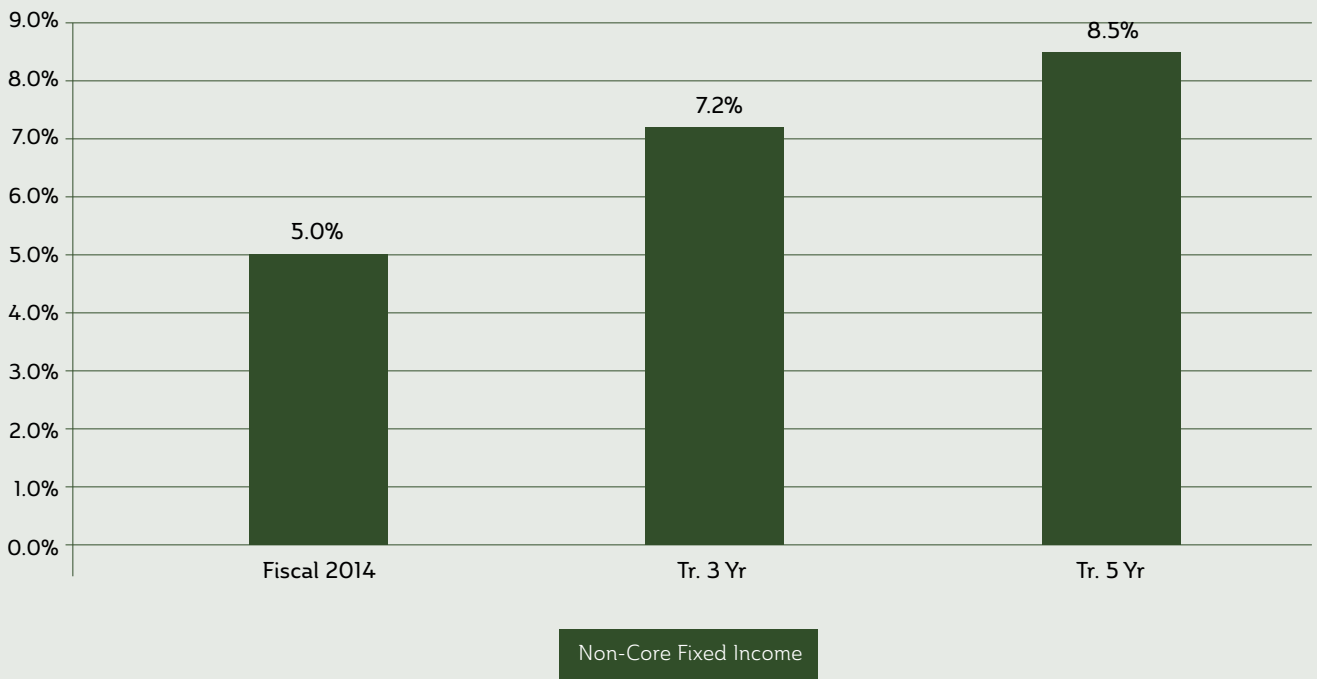
The non-core component consists of a liquidity allocation to the Short-Term Investment Fund and an opportunistic allocation to an externally managed high quality Residential Mortgage-Backed Securities (RMBS) strategy. The RMBS strategy was executed in response to market dislocations during the credit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

As of June 30, 2014, the allocations to STIF and RMBS were \$0.56 billion and \$0.28 billion, respectively.

Non-Core Fixed Income Performance

The non-core fixed income composite posted a return of 5.0 percent for the fiscal year.

NON-CORE FIXED INCOME PERFORMANCE



INVESTMENT MANAGEMENT DIVISION

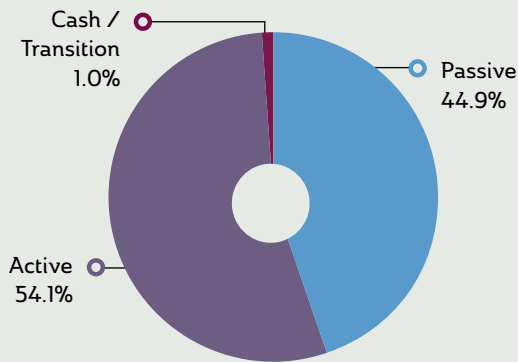
GLOBAL EQUITY

The Global Equity portfolio ended fiscal year June 30, 2014, at \$42.2 billion, with \$20.6 billion in U.S. equity and \$21.6 billion in non-U.S. As a percentage of the pension fund's assets, the Global Equity allocation was 46.8 percent on June 30, 2014.

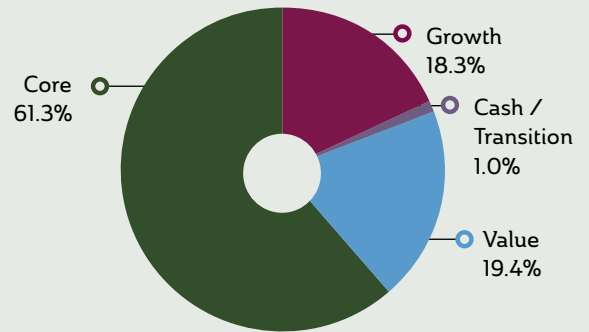
The Global Equity portfolio maintains prudent diversification within the broad equity market across size and valuation style. Valuation style divides stocks into value, growth, and core. Value stocks are characterized by low valuation multiples such as price to book (P/B) and price to earnings (P/E). Growth stocks typically have higher-than-average sales and earnings growth prospects. Core is a blend between value and growth. The portfolio is also categorized into U.S. Large-Cap, U.S. Mid-Cap, U.S. Small-Cap and Non-U.S. investments.

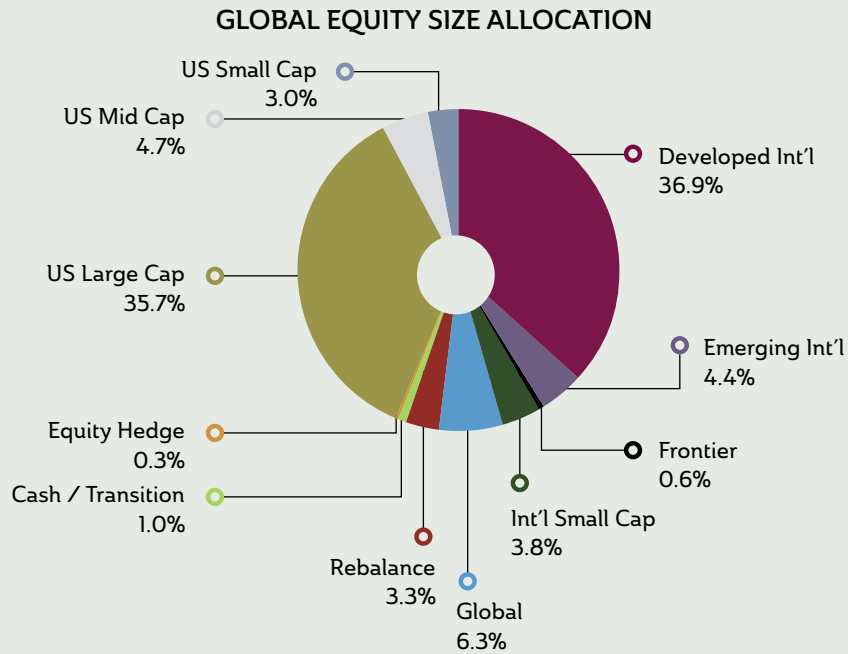
All investments of the Global Equity portfolio are managed externally according to one of two different strategies: passive or active. Passive investments track existing indexes in relatively efficient markets. Actively managed portfolios give the manager discretion to make investment decisions within the parameters of the portfolio's mandate with intent to outperform the benchmark over time. The following charts provide percentage of distribution between type, style, and strategy.

GLOBAL EQUITY ACTIVE & PASSIVE ALLOCATION



GLOBAL EQUITY STYLE ALLOCATION





Global Equity Market Overview

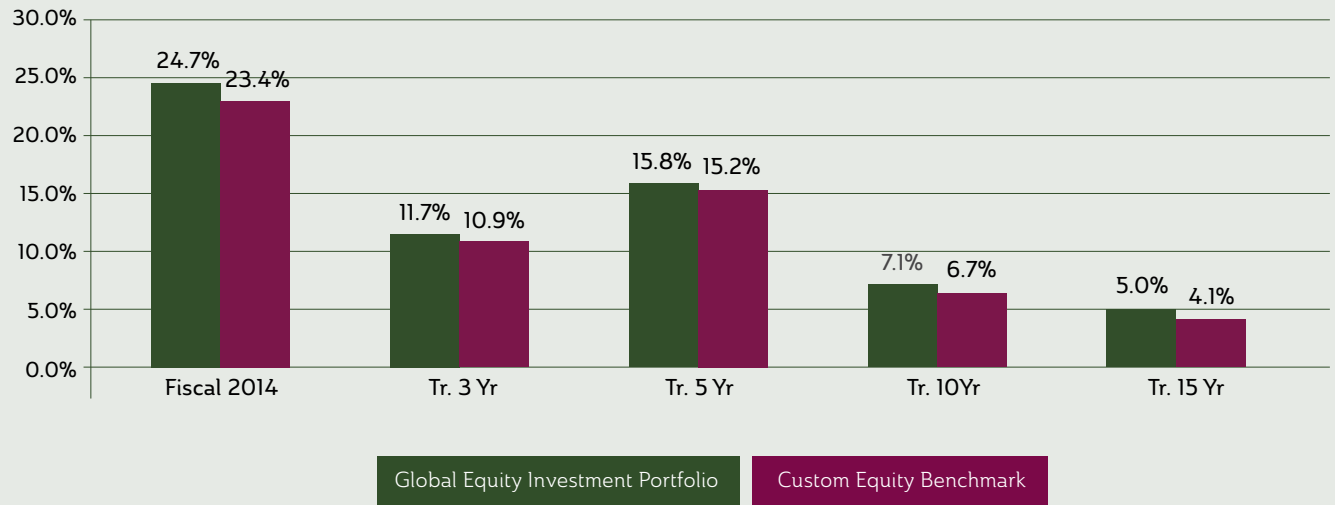
The 2013-14 fiscal year stock prices were buoyed by continued accommodative policies. In the U.S., stock performance did not skip a beat when in December 2013 the Federal Reserve finally initiated the long awaited taper of its \$85 billion monthly bond purchase program. The S&P 500 experienced its longest positive streak since 1998. The broader Russell 3000 Index rose 25.2% for the fiscal year. The Eurozone and Japan also had accommodative policies and the MSCI All Country World Index excluding the United States rose 22.8%.

Global Equity Performance

For the fiscal year, the aggregate of all asset class portfolios managed as Global Equity gained 24.66 percent, net of fees, outperforming its benchmark return by 125 basis points (bps). The outperformance was across most composite portfolios: U.S. equity was ahead by 136 bps, non-U.S. equity by 124 bps, global equities by 466 bps, and equity rebalance by 26 bps. Hedged equity underperformed by 256 bps. The graph below illustrates the fiscal year performance against the benchmark, as well as the three-, five-, 10- and 15-year trailing returns.

INVESTMENT MANAGEMENT DIVISION

GLOBAL EQUITY INVESTMENT PORTFOLIO ANNUALIZED PERFORMANCE



Global Equity Portfolio Investment Advisors (FY ending 2014)

Below is a list of the Global Equity investment adviser relationships¹⁴ as of June 30, 2014. 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.

U.S. Equity Investment Advisors	Style	Market Value (\$)
Brown Small-Cap Growth	Small-Cap Active	376,414,973
Earnest Partners Small-Cap Value	Small-Cap Active	376,049,703
Numeric Small-Cap Value	Small-Cap Active	370,545,989
Numeric Small-Cap Growth	Small-Cap Active	150,885,910
BlackRock Mid-Cap	Mid-Cap Passive	967,199,643
TimesSquare Mid-Cap Growth	Mid-Cap Active	410,141,242
Wellington Mid-Cap Opportunities	Mid-Cap Active	402,266,077
TimesSquare Mid-Cap Focused	Mid-Cap Active	212,495,197
BlackRock R1000	Large-Cap Passive	5,123,299,489
Rhumblin Russell 200 Passive	Large-Cap Passive	3,949,087,264
Hotchkis Large-Cap Value	Large-Cap Active	1,253,852,175
Relational Investors Large-Cap	Large-Cap Active	1,132,749,946
Wellington Large Cap Value	Large-Cap Active	1,094,622,282
Sands Large-Cap Growth	Large-Cap Active	950,280,446
Wellington Growth	Large-Cap Active	923,000,889
Piedmont Strategic Core	Large-Cap Active	438,756,042
Leading Edge Large-Cap	Large-Cap Active	194,701,346
Brown Small-Cap Growth	Small-Cap Active	376,414,973

¹⁴ The above table does not include transition and/or liquidating accounts.

INVESTMENT MANAGEMENT DIVISION

NON- U.S. AND GLOBAL EQUITIES INVESTMENT ADVISORS

Investment Advisors	Style	Market Value (\$)
Baillie Gifford EAFE Plus	Non-U.S. Active	1,692,855,442
GMO International	Non-U.S. Active	1,692,274,398
Wellington International	Non-U.S. Active	1,373,897,504
Walter Scott EAFE	Non-U.S. Active	1,356,572,156
Mondrian EAFE	Non-U.S. Active	1,312,147,728
Oechsle Select	Non-U.S. Active	1,079,943,959
BlackRock Emerging	Non-U.S. Active	713,395,446
Mondrian Emerging	Non-U.S. Active	570,112,650
Baillie Gifford Emerging	Non-U.S. Active	567,218,439
Franklin Temp. International SC	Non-U.S. Active	511,067,845
Mondrian International SC	Non-U.S. Active	465,681,822
BlackRock Frontier	Non-U.S. Active	236,374,618
FIS Group	Non-U.S. Active	181,632,392
BlackRock MSCI ACWI ex-US IMI	Non-U.S. Passive	4,415,118,263
BlackRock MSCI EAFE IMI	Non-U.S. Passive	1,702,583,830
BlackRock MSCI Canada IMI	Non-U.S. Passive	791,681,570
BlackRock MSCI ACWI ex-US SC	Non-U.S. Passive	641,242,575
Longview Global Equity	Global-Active	1,594,466,313
Brandes Global Equity	Global-Active	1,049,569,647
Tiger Tar Heel Partners	Equity Hedge-Active	146,547,480

GLOBAL EQUITY TOP 10 HOLDINGS (FY ENDING 2014)

Company	% of Global Equity
Apple	0.8%
Wells Fargo	0.7%
Microsoft	0.7%
Exxon Mobil	0.7%
Hewlett Packard	0.5%
Pfizer	0.5%
JP Morgan	0.5%
Johnson & Johnson	0.5%
Oracle	0.4%
Mondelez International	0.4%

INVESTMENT MANAGEMENT DIVISION

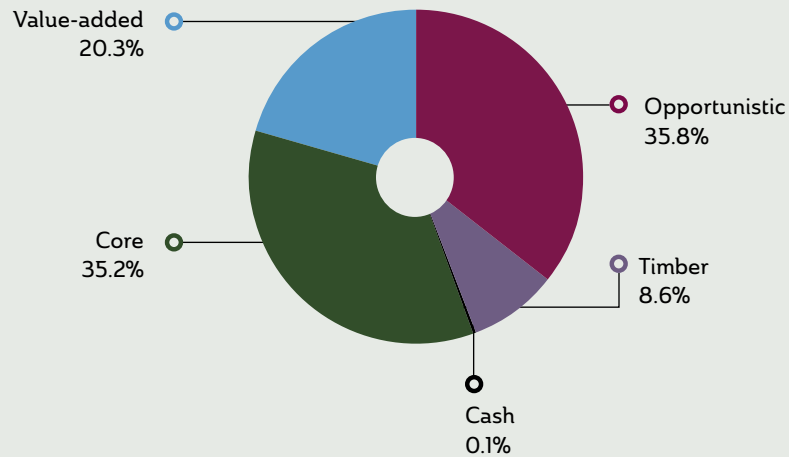
REAL ESTATE

As of June 30, 2014, the Real Estate Investment Portfolio (REIP) was valued at \$7.6 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 percentage of pension fund assets has grown to 8.4 percent at fiscal year-end.

The REIP seeks returns from income and capital appreciation by investing in core, value-added, opportunistic and timberland strategies. 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 0-50 percent of property value. Value-added real

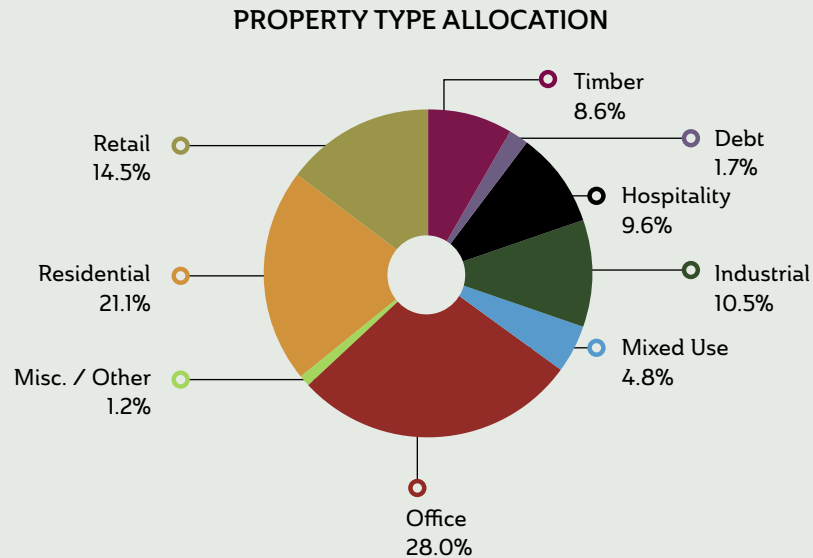
estate generally requires some additional leasing and moderate tenant improvements before the properties are sold. Returns are derived from both income and capital appreciation with debt levels ranging from 50 percent to 65 percent of property value. Upon completion of value-added strategies, assets become core and can be sold at premium valuations. Opportunistic real estate investments require significant capital expenditures. Returns are derived from capital appreciation due to the lack of "going-in" cash flows. Opportunistic strategies include development, redevelopment, restructuring, land and distressed properties. These investments have high debt levels typically between 65 percent and 80 percent of property value. The chart below outlines these allocations:

STRATEGY ALLOCATION

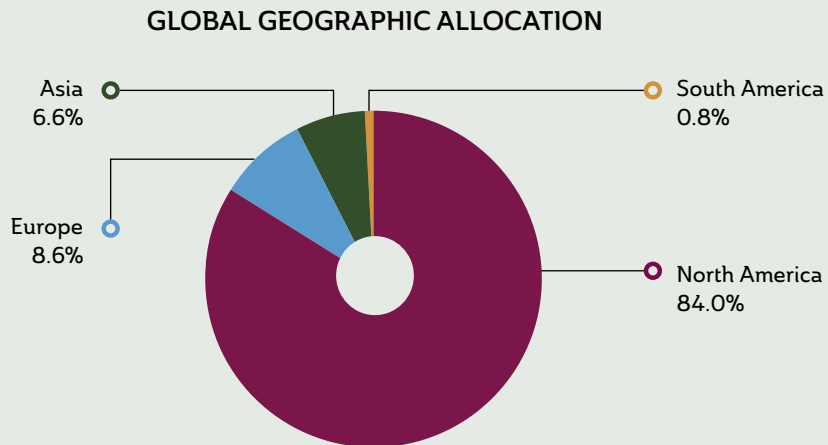


INVESTMENT MANAGEMENT DIVISION

In addition, the analysis of new investments focuses on location and property types. The REIP has invested in a variety of property types including debt, industrial, land, lodging, multi-type, office, multi-family residential, single-family residential, retail and timber. The chart below displays the percentage of each property type allocation as of June 30, 2014.



Geographically, the REIP has a U.S. focus, and is diversified among the South, East, West and Midwest regions. Investment exposure outside of North America is approximately 16 percent, with the majority split between Europe and Asia. The following chart shows global geographic allocations as of June 30, 2014.



INVESTMENT MANAGEMENT DIVISION

Real Estate Market Overview

U.S. real estate is in the middle of a fundamentally driven recovery. While job growth has not been robust, it has been good enough to spur tenant demand. New construction has been at a multi-generational low. Low supply growth has been the defining positive attribute of this recovery. Market fundamentals improved appreciably during the first half of 2014, particularly in markets driven by technology and energy. Vacancies continued to improve in every sector and income continued to increase, although at a slower pace compared to historical averages. Economic and political turmoil in the rest of world continued to drive capital into U.S. real estate, an attractive option for both security and good risk-adjusted returns. During the first half of 2014, cap rates stabilized and asset appreciation tracked along with net operating income growth.

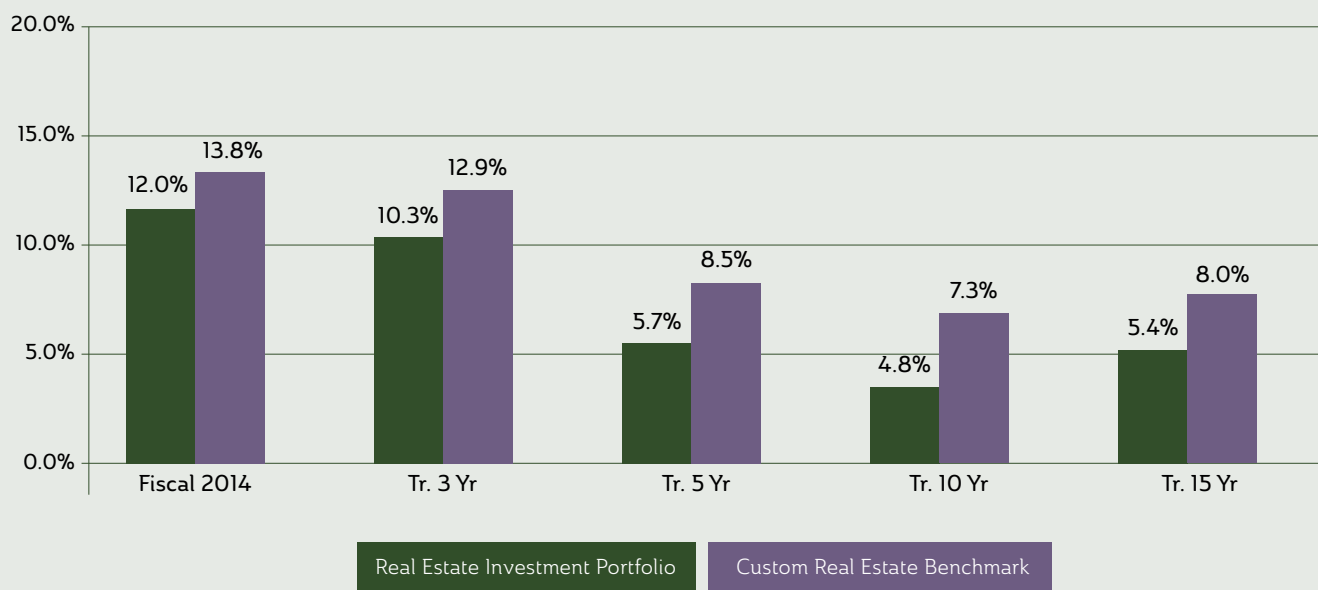
The Eurozone economy has been characterized as a “managed depression.” Extraordinary monetary policy and low inflation have kept continental Europe from sinking further. The U.K. is the lone exception and has continued to improve. The London real estate market, in particular, has benefited the most and is currently the most expensive real estate market in the world. The ongoing malaise in Europe has created attractive investment opportunities as banks have begun to clean up their balance sheets by selling assets.

Real estate opportunities across Asia remain mixed. In China, the government’s tightening of the lending environment has negatively affected asset prices. Valuations in China have been further tempered by the expectation of slowing GDP growth. In Japan, the momentum provided by the recent fiscal and monetary policies (“Abenomics”) has injected liquidity into the real estate market and boosted overall investment sentiment.

Real Estate Performance

For the fiscal year 2014, the REIP returned 12.03 percent, net of fees, underperforming its custom benchmark return of 13.82 percent. The custom benchmark consists of 10% public real estate investment trusts (REITs) and 90% private real estate. The REIT component of the REIP performed favorably at 16.5% against benchmark returns of 14.4% for the same period. The private component of the REIP returned 11.7% relative to its benchmark of 13.7%. Timber accounts for 8.6% of the REIP and is not represented in the blended benchmark for the asset class. Timber prices continued to suffer over the past year due to little demand for new housing as new household formations continued to lag their historical mean. Consequently, timber returns of only 0.9% for the year were a drag on overall REIP returns.

REAL ESTATE INVESTMENT PORTFOLIO ANNUALIZED PERFORMANCE



INVESTMENT MANAGEMENT DIVISION

Below is a list of the real estate investment advisers and fund relationships as of June 30, 2014.

REAL ESTATE INVESTMENT ADVISORS (FY ENDING 2014)				
REIP Advisors and Funds	Market Value (\$)		REIP Advisors and Funds	Market Value (\$)
NorthRock Core Fund, L.P.	693,399,038		Benson Elliot RE Partners III, L.P.	35,518,590
JP Morgan Strategic Property Fund	468,841,611		Rockwood Capital RE Partners VIII, L.P.	33,159,823
MS Global RE Securities	436,649,744		DRA G&I Fund V Co-Investment, LLC	32,723,132
Campbell Timber Fund III	423,888,141		Rockpoint Real Estate Fund IV, L.P.	30,541,607
BREP Edens Inv Partners	358,626,679		Paladin Latin American Partners III, L.P.	28,203,651
Blackstone RE Partners VI, L.P.	287,527,676		Frogmore Real Estate Partners I, L.P.	27,876,539
NorthCreek Fund LP	285,516,046		Mesa West Fund III	26,113,505
Blackstone RE Partners VII	251,407,524		Frogmore Real Estate Partners II, L.P.	26,059,653
UBS Trumbull Property Fund	247,160,751		Stag Investments II, LLC	25,939,282
Timberland Inv Res - Nahele	225,300,809		DRA Growth & Income Fund VI, LLC	25,913,733
Lone Star Real Estate Fund II	167,682,737		Crow Holdings Realty Partners IV, L.P.	25,744,873
DRA Growth & Income Fund VII, LLC	157,042,320		Crow Holdings VI	25,116,367
Keystone Industrial Fund II, L.P.	150,822,384		Benson Elliot RE Partners II, L.P.	24,917,221
NorthRock II, LP	146,938,209		Hawkeye (Scout) Fund I-A, L.P.	23,366,679
UBS Trumbull Property Income Fund	135,098,226		American Value Partners Fund I, L.P.	22,280,114
CIM URBAN REIT, LLC	122,407,939		AG Asia Realty Fund II, L.P.	20,660,614
Prudential PRISA	115,949,785		Crossharbor Instl Partners, L.P.	20,484,113
MSREF VI, L.P.	112,251,958		Penwood CSIP I, L.P.	20,073,767
Starwood Opportunity Fund VII, L.P.	109,501,886		LaSalle RE Debt Strategies II	19,896,595
Blackstone RE Partners V, L.P.	104,450,279		CBRE Strategic Partners IV, L.P.	19,549,633
Keystone Industrial Fund I, L.P.	98,871,137		Rockpoint Real Estate Fund III, L.P.	19,380,589
DLJ Real Estate Capital Partners III, L.P.	98,796,826		Rockwood Capital RE Partners IX, L.P.	18,286,883
Terra Firma Deutsche Annington, L.P.	97,170,215		LEM RE Mezzanine Fund II, L.P.	17,891,724
AG Net Lease Realty Fund II, L.P.	96,512,800		RLJ Lodging	17,809,862
Rockpoint NYC CIP Investors	92,422,268		Patria Brazil Real Estate Fund II	17,762,290
Starwood SDL/SOF VII Co-Inv	87,217,711		Cherokee Investments Partners IV, L.P.	16,917,520
DRA Growth & Income Fund V, LLC	84,648,289		AG Core Plus Realty Fund II, L.P.	16,353,701
WCP RE Fund III	79,818,549		Rockpoint Real Estate Fund I, L.P.	14,574,167
DLJ Real Estate Capital Partners IV, L.P.	78,534,472		RREEF Global Opp Fund II, LLC	13,913,876
Crossharbor Inst Investors II	76,042,932		MSREF V International, L.P.	8,591,112
CBRE Strategic Partners V, L.P.	74,052,926		Crow Holdings Realty Partners IV-A, L.P.	6,365,864
Warburg Pincus Real Estate I, L.P.	66,525,966		AG Core Plus Realty Fund I, L.P.	4,893,351
Meadow RE Fund II LP	63,029,774		JER Real Estate Partners III, L.P.	4,835,544
Penwood PSIP II, L.P.	61,377,519		DLJ Real Estate Capital Partners II, L.P.	4,652,419
Crow Holdings Realty Partners V, L.P.	59,013,496		M&G RE Debt Fund III	4,255,388
Brookfield RE Fin Fund III	57,698,885		AG Net Lease Fund III	3,400,000
SRI Ten REIT	55,879,900		DB Real Estate Global Opps I-A/I-B, L.P.	2,474,159
Rockwood Capital RE Partners VII, L.P.	55,316,571		DRA Growth & Income Fund IV, LLC	2,437,766
Rockpoint Real Estate Fund II, L.P.	54,854,426		Value Enhancement Fund II	2,185,245
Harrison Street RE Partners IV	54,345,504		Cherokee Investments Partners III, L.P.	1,886,944
SRI Eight REIT	53,854,019		Westbrook Real Estate Fund IV, L.P.	477,412
Harrison Street RE Partners III	50,617,771		CIGNA Realty Open-End Fund	6,835
Rockwood Capital RE Partners VI, L.P.	46,116,378		DLJ Real Estate Capital Partners I, L.P.	1
Blackstone RE Part Europe IV	44,769,867		DRA Growth & Income Fund III, LLC	1
SRI Nine REIT	42,908,754		JER Real Estate Partners IV, L.P.	1
KTR Industrial Fund III	39,391,820		Westbrook Real Estate Fund I, L.P.	1
SRI Seven REIT	38,114,778		Westbrook Real Estate Fund III, L.P.	1
Security Cap Focus Select	37,112,929			

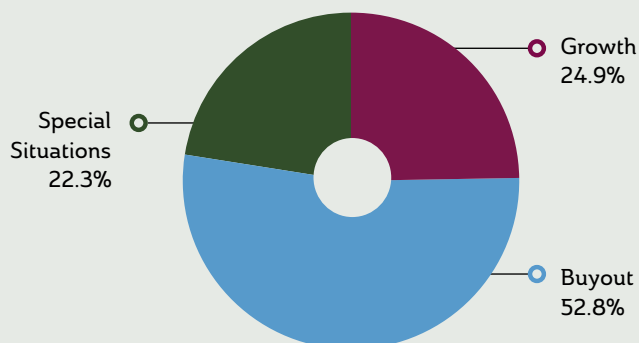
INVESTMENT MANAGEMENT DIVISION

PRIVATE EQUITY

As of June 30, 2014, the Private Equity investment portfolio maintained a market value of approximately \$4.0 billion, representing 4.4 percent of the pension fund. The portfolio invests in limited partnerships and other limited liability entities, which are externally managed by experienced private equity investment professionals. The Private Equity investment portfolio has three major subcomponents: Growth, Buyout, and Special Situations. Growth includes venture capital and growth equity strategies. Growth equity investments, most often minority investments, are in relatively mature companies that are looking for capital to expand or restructure operations, enter new markets or finance a major acquisition without a change of control of the business. Venture capital refers to equity investments made, typically in less mature companies, for the launch of a seed or start-up company, early stage development, or expansion of a less mature business. Buyout refers to a strategy of making control investments as part of a transaction in which a company, business unit, or business assets are acquired from the current owners typically with the use of financial leverage. Special Situations includes a broad set of strategies such as distressed for control, secondary strategies, co-investment, and other strategies not classified into buyout or growth.

The Private Equity portfolio's allocation to these subcomponents is displayed below.

**PRIVATE EQUITY STRATEGY ALLOCATION
(BASED ON COMMITMENTS)**



Private Equity Market Overview

Following the recession, 2014 was the second most active U.S. Private Equity fund-raising year in terms of capital amounts. A sequential decline from 2013 reflects fewer mega-funds in the market this year, as well as a LP focus on smaller funds. While the average time to complete a fundraising has increased, Private Equity firms that performed well through the recession are experiencing an abbreviated process. Of note, over 80 percent of funds are able to raise larger funds than their predecessor vehicles, with a median increase of more than a third. In terms of the capital overhang, the availability of debt has resulted in a smaller percentage of equity capital requirements for completed transactions. As a result, the level of dry powder (capital to be invested) will be higher than that seen in a more normal lending environment.

The current Private Equity environment can be described as a sellers' market. Strength in the public markets has resulted in increased private equity portfolio valuations, whereby managers are able to explore the sale of companies at more attractive levels. Corporate acquisitions, the IPO market and secondary buyouts (sale to another Private Equity firm) are all active exit alternatives. According to data sources, corporate acquisitions are on pace for another solid year. In all, approximately 350 strategic sales were completed worldwide in the first half of 2014, accounting for 49 percent of exit activity. Worldwide, 13 percent of all exits occurred through IPO through June, leaving the year on pace to be a record setting period. Secondary buyouts accounted for 38 percent of all exits in the first half, somewhat lower than the recent past. The Pension Fund is witnessing a substantial return of capital from its Private Equity investments as a result of this.

From the buyers' perspective, it follows suit that purchase price multiples are trending higher. As discussed in last year's Annual Report, and as is the case today, buyers can utilize the availability of debt at attractive interest rates and covenants to underwrite to acceptable return profiles. However, debt is a tool that can boost performance when used correctly, but can rapidly take away from returns when business fundamentals deteriorate, as was witnessed during the economic downturn. The current level of debt availability does pose a reason for concern. Manager discipline is critical when it comes to debt implementation in the capital structure. As a result of this, IMD is more focused on managers that are less reliant on leverage to create value and managers that can create change through operational initiatives.

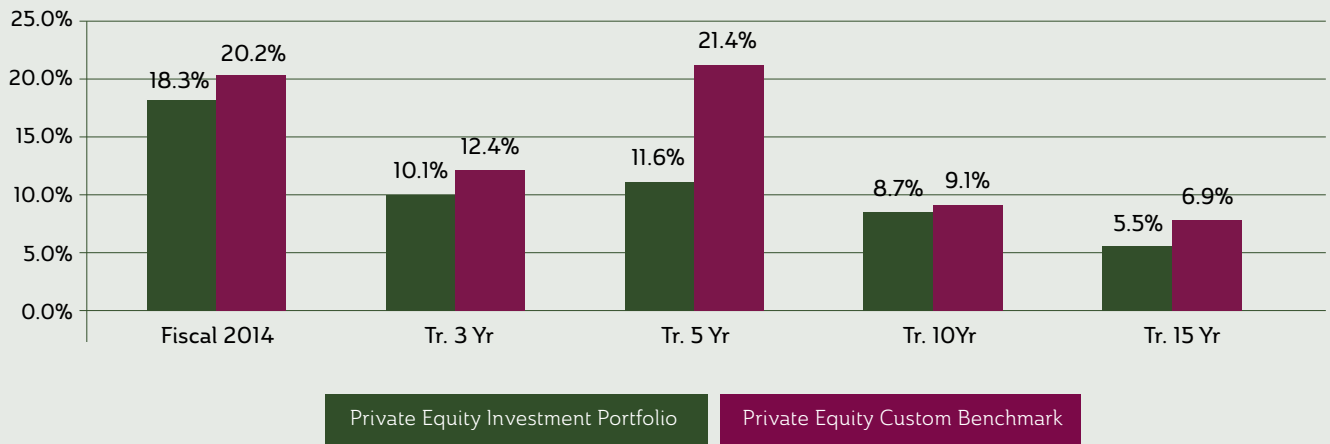
INVESTMENT MANAGEMENT DIVISION

Private Equity Performance

For the fiscal year, the Private Equity investment portfolio returned 18.27 percent, underperforming its benchmark return of 20.15 percent. The Private Equity portfolio is beginning to mature, as can be seen in the performance figures. However, it is being compared to a benchmark that contains more mature funds that are increasingly benefiting from the earlier work performed on investments. Approximately 23.3 percent of NCRS Private Equity commitments since inception were completed during the 24-month period ending June 30, 2014. Not until more time has passed, allowing investments to mature, will a more accurate depiction of the overall health of the portfolio be seen.

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, producing a “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 INVESTMENT PORTFOLIO ANNUALIZED PERFORMANCE



INVESTMENT MANAGEMENT DIVISION

Below is a list of the Private Equity investment advisers and fund relationships¹⁵ as of June 30, 2014.

PRIVATE EQUITY INVESTMENT ADVISORS (FY ENDING 2014)				
Private Equity Advisors & Funds	Market Value (\$)		Private Equity Advisors & Funds	Market Value (\$)
GCM/NC Investment Fund 2006	168,776,799		Markstone Capital Partners, L.P.	26,174,588
StepStone Pioneer Cap Europe I, L.P.	153,351,549		New Enterprise Assoc 14	23,647,378
GCM Grosvenor NC Innovation Fund	137,794,196		Catterton Partners VII	22,053,318
Terra Firma Capital Partners III, L.P.	131,721,358		Synergy Life Science Partners, L.P.	21,061,993
StepStone Pioneer Capital II, L.P.	118,461,777		TPG Biotech Partners II, L.P.	20,623,692
GCM/NC Investment Fund 2008	114,758,988		Tudor Ventures III, L.P.	19,385,578
Avista Capital Partners III, L.P.	113,751,388		Pappas Ventures IV, L.P.	19,222,864
Avista Capital Partners II, L.P.	112,255,956		Highland Consumer Fund I, L.P.	18,720,200
KRG Capital Fund IV, L.P.	111,703,263		Starvest Partners II	17,230,750
Charterhouse Capital Partners IX, L.P.	95,722,194		Perseus Market Opportunity Fund, L.P.	16,897,423
Crestview Partners Fund II, L.P.	93,246,799		Levine Leichtman V, L.P.	16,634,558
StepStone Pioneer Capital I, L.P.	91,236,048		KRG Capital Fund III, L.P.	16,384,802
WLR Recovery Fund IV, L.P.	90,958,456		Castle Harlan Partners IV, L.P.	15,548,281
Horsley Bridge IX, L.P.	80,320,854		Hatteras Venture Partners III, L.P.	14,910,190
Tenaya Capital Fund V, L.P.	77,187,643		Angeleno Investors II, L.P.	14,719,437
Matlin Patterson Global Opp III, L.P.	73,626,532		HG Capital 7	14,376,761
Lindsay Goldberg III, L.P.	69,573,760		Elevation Partners, L.P.	12,558,037
Chapter IV Special Situations Fund, L.P.	69,389,077		Perseus Partners VII, L.P.	12,097,496
Terra Firma Capital Partners II, L.P.	68,969,714		Highland Capital Partners VII, L.P.	12,012,576
Warburg Pincus XI	68,070,235		Novak Biddle Venture Partners V, L.P.	10,617,034
Quaker Bioventures II, L.P.	67,824,834		Pappas Ventures III, L.P.	10,571,008
Lexington Middle Market Investors II, L.P.	67,763,319		Coller International Partners IV, L.P.	9,934,575
Horsley Bridge International IV, L.P.	66,910,970		Halifax Capital Partners III, L.P.	9,177,081
Robeco Clean Tech II, L.P.	66,523,697		Halifax Capital Partners II, L.P.	9,134,830
Harvest Partners VI	62,475,206		TCV VI, L.P.	8,675,337
Harvest Partners V, L.P.	61,823,303		Aurora Ventures V, LLC	8,124,741
CVE Kauffman I	60,111,971		Harvest Partners IV, L.P.	8,040,298
ARCH Venture Fund VII, L.P.	60,013,470		Carousel Capital Partners IV	8,038,926
Longreach Capital Partners I, L.P.	58,918,357		Apollo Invest Fund VIII	7,666,546
TPG Biotech Partners III, L.P.	58,790,389		TCV VIII	7,039,574
Lindsay Goldberg & Bessemer II, L.P.	55,727,177		Carousel Capital Partners III, L.P.	6,551,864
Mt. Kellet Cap Partners II	53,035,127		GCM Grosvenor NC Innov Fund - 2013	6,321,783
Burrill Life Sciences Capital Fund III, L.P.	51,951,294		Aurora Ventures IV, LLC	6,117,369
Vista Equity Part Fund IV	48,514,060		Access Capital II, L.P.	5,922,960
Lexington Middle Market Investors, L.P.	47,446,003		Marlin Equity IV	5,546,553
Tenaya Capital Fund VI	47,337,111		Intersouth Partners VI, L.P.	4,923,067
Robeco Clean Tech II Co-Inv	45,462,206		Novak Biddle Venture Partners IV, L.P.	4,912,869
AG Private Equity Partners IV, L.P.	43,841,348		WLR AGO Co-Inv, L.P.	4,609,526
StepStone-SYN Investments, L.L.P.	43,395,073		KRG Capital Fund II, L.P.	3,985,422
AG Private Equity Partners IV - R, L.P.	39,827,502		WLR AHM Co-Inv, L.P.	3,496,174
Catterton Growth Partners, L.P.	38,150,116		AV Management IV, LLC	2,237,474
Horsley Bridge International V, L.P.	37,131,019		Novak Biddle Venture Partners III, L.P.	2,121,044
Castle Harlan Partners V, L.P.	36,663,403		Burrill Life Sciences Capital Fund, L.P.	1,905,549
Avista Capital Partners, L.P.	36,412,375		Highland Capital Partners VI, L.P.	1,193,268
CVC Europe Equity Partners IV, L.P.	32,276,378		Accel-KKR	1,055,097
Francisco Partners II, L.P.	32,140,178		CVC Capital Partners VI	358,791
GCM/NC Investment Fund 2008 - Series II	31,304,818		Pappas Ventures II, L.P.	314,492
Milestone Partners IV	28,559,569		NC Economic Opportunity Fund	301,752
Catterton Growth Partners II, L.P.	29,596,371		Franklin Fairview I, L.P.	196,635
Ampersand 2006, L.P.	27,878,820		DLJ Merchant Banking II, L.P.	89,036
Oaktree Euro Prin Fund III	26,637,423		Intersouth Partners III, L.P.	4,407

¹⁵ The above table does not include the stock distribution account.

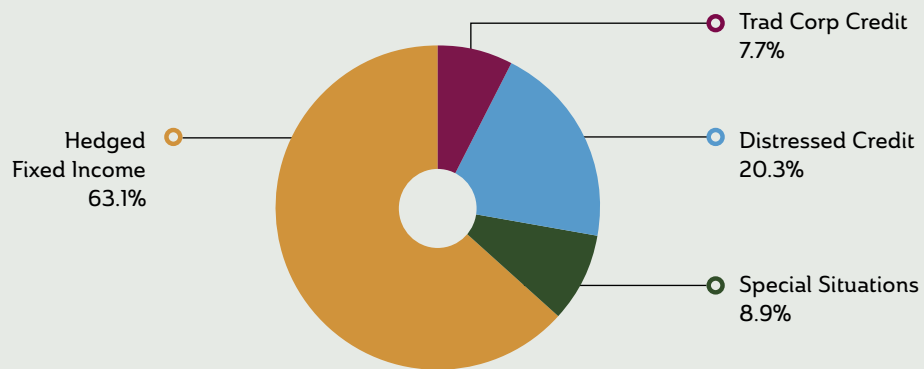
INVESTMENT MANAGEMENT DIVISION

CREDIT STRATEGIES

As of June 30, 2014, the Credit Strategies investment portfolio maintained a market value of approximately \$4.8 billion, representing 5.3 percent of the pension fund. The portfolio has a target weight of 4.5 percent and invests in a diversified mix of credit-focused investment vehicles managed by experienced investment advisers. The vehicles include hedge funds, capital drawn down, and hybrid vehicles. The Credit Strategies investment portfolio has four major subcomponents: Traditional Corporate Credit, Distressed Debt, Hedged Fixed Income, and Special

Situations. Traditional Corporate Credit are strategies that invest in high yield bonds and bank loans. Distressed Debt are predominantly strategies that trade distressed debt, but occasionally actively participate in restructurings and seek control post-reorganization of target issuers. Hedged Fixed Income includes hedged implementations of market neutral strategies, relative value strategies, and multi-strategy (i.e., predominantly fixed income) utilizing non-investment grade instruments. Special Situations includes mezzanine, direct lending, and structured credit. The latter can include mortgage- and other asset-backed securities and financings.

STRATEGY ALLOCATION



Credit Market Overview

Due to the continued investor search for yield, credit markets saw record inflows for the fiscal year, including a 21 month stretch of leveraged loan inflows that began in July 2012 and continued through May 2014. Approximately \$400 billion and \$700 billion of high yield bonds and leveraged loans, respectively, were issued in U.S. markets. Europe saw approximately EU 70 billion in the high yield bond issuance and EU 67 billion in bank loans. The LTM (Last Twelve Months) default rate stayed below 2% in both geographies. U.S. CLO (Collateralized Loan Obligation) issuance remained robust and is set to overtake pre-crisis levels for calendar year 2014. The Credit Suisse Leveraged Loan Index showed 6.06 % returns while the S&P European Leveraged Loan Index returned 8.67% during the fiscal year.

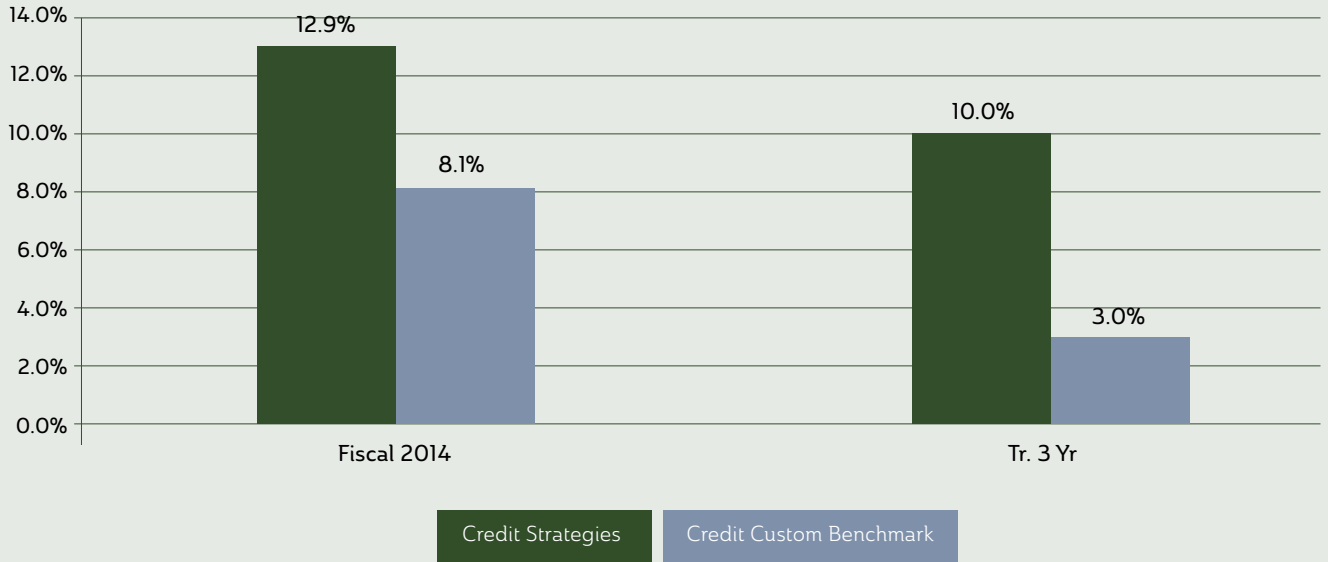
Overvaluation, risk mispricing, tight spreads and record covenant lite issuance were dominant global credit market themes. This dynamic set the stage for a market correction and \$7.1 billion of outflows seen from U.S. high yield market from July to August 2014.

Credit Strategies Performance

For the fiscal year, the Credit Investment Portfolio returned 12.90 percent, outperforming its benchmark return of 8.11 percent. The Credit Investment Portfolio's outperformance is attributable to a diversified and conservative investment approach that has served the plan well during periods of increased uncertainty and during periods of economic recovery.

INVESTMENT MANAGEMENT DIVISION

CREDIT STRATEGIES ANNUALIZED PERFORMANCE



CREDIT STRATEGIES INVESTMENT ADVISORS (FY ENDING 2014)

Credit Advisors & Funds	Market Value (\$)	Credit Advisors & Funds	Market Value (\$)
PAAMCO	851,764,147	Highbridge Specialty Loan	95,116,314
Anchorage Capital Partners	477,142,863	Magnetar Constellation IV	78,754,620
Monarch Debt Recovery Fund	425,000,000	AG Capital Recovery VI, L.P.	67,633,107
Brigade LCS Fund	390,335,509	Providence Debt Fund III	51,885,642
AG Global Debt Strategy Partners, L.P.	367,481,563	WLR PPIF	50,431,081
Marathon Currituck F	287,667,407	Benefit St Part Cap Opp Fund	50,000,000
Oaktree Value Opportunities	254,599,000	GSO Capital Opportunities Fund	46,980,056
CVI Credit Value Fund	234,400,000	Fortress Credit Opps Fund III	44,328,396
CVI Credit Value Fund II	225,700,000	GSO Capital Opportunities Fund II	29,905,494
Silverback Arbitrage Fund	168,284,823	AG Commercial Real Estate Debt Fund, L.P.	18,120,277
Claren Road Credit Fund	164,350,678	AG Capital Recovery V, L.P.	4,876,872
Claren Road Credit Opp Fund	138,124,780	GSO Capital Solutions Fund II	1,793,070
Varde X Fund	138,123,554	AG GECC-PPIF	110,526
Saba Capital Mgmt	105,836,933		

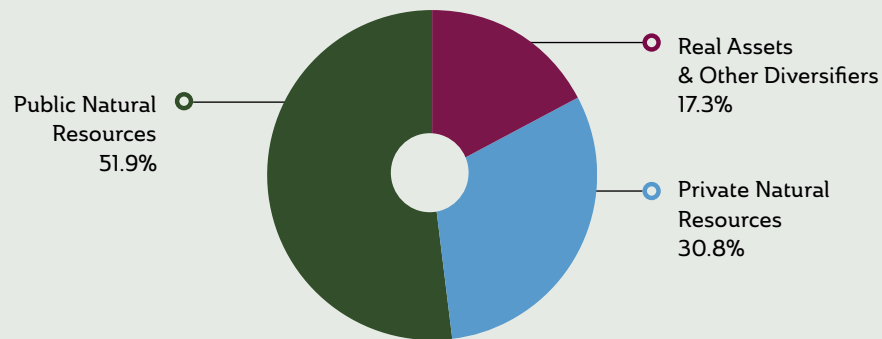
INVESTMENT MANAGEMENT DIVISION

INFLATION PROTECTION

As of June 30, 2014, the Inflation Protection Portfolio maintained a market value of \$3.1 billion, representing 3.4 percent of the pension fund. The portfolio invests in a diversified mix of inflation-linked investment vehicles managed by experienced investment advisers. The portfolio is divided into three subcomponents: Publicly Trade Natural Resources, Private Natural Resources, and Real Assets and Other Diversifiers. Publicly Traded Natural Resources are strategies that invest in commodity and natural resource

public equity and public debt using long-only or hedged implementations. Private Natural Resources are strategies making non-public market equity or debt investments in energy, agriculture, and other natural resources implementations. Real Assets and Other Diversifiers are strategies including infrastructure, real assets (e.g., ships, airplanes, rail cars, mines, real estate, etc.), royalties, and combinations of any of this and the other subcomponents whose primary purpose is providing protection against risks associated with inflation.

STRATEGY ALLOCATION



Inflation Market Overview

For the fiscal year ending June 30, 2014, the U.S. economy experienced low levels of inflation with a year-over-year percentage increase in the Consumer Price Index (CPI) of 2.1 percent. The core CPI (excluding food and energy) was 1.9 percent year over year at the end of June 2014. The difference between CPI and core CPI is attributable to higher energy and food prices; the index for energy rose 3.2 percent and the food index rose 2.3 percent over the span. The price of many commodities experienced range bound markets, e.g., crude oil traded between \$103 and \$112, and gold between \$1,200 and \$1,450 during the year. There were some clear winners in commodities such as hogs and coffee, mostly affected by epidemic and/or weather. Despite close to zero interest rate policy from the Federal Reserve since December 2008 and over \$3 trillion of asset purchases, the U.S. experienced inflation below the

Federal Reserve's target of 2 percent¹⁶ for 25 consecutive months in June 30, 2014. While the U.S. economy has been slowly strengthening since the recession in 2008, inflation worries are currently minimal with more concerns around deflationary pressures.

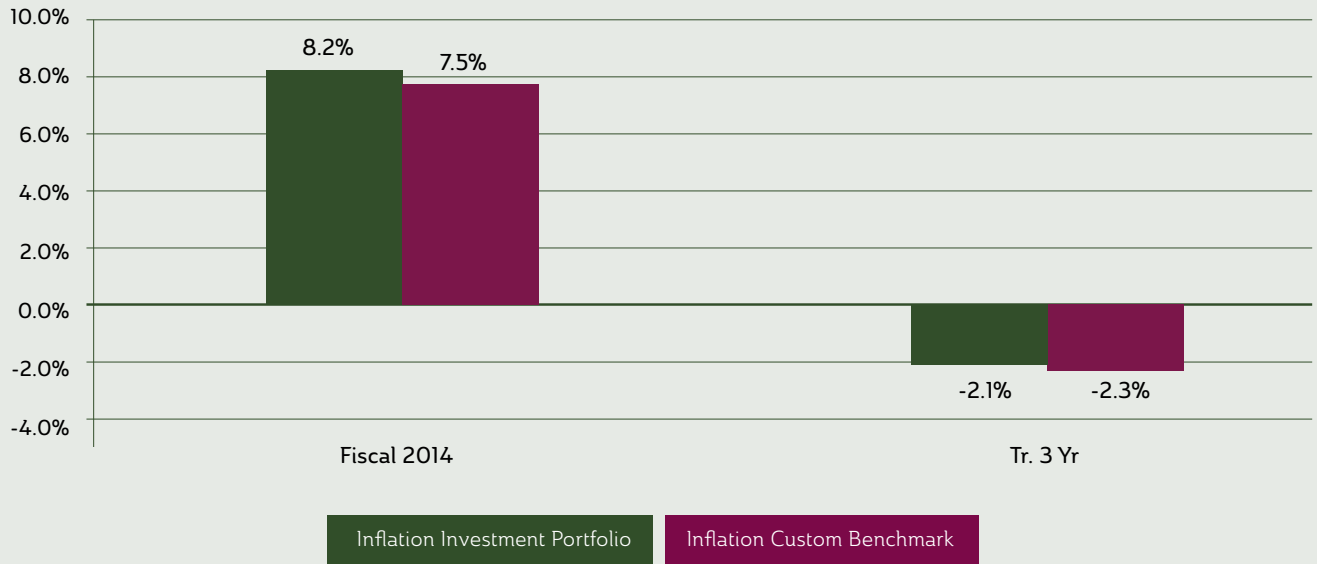
Inflation Protection Performance

For the fiscal year, the Inflation Protection Portfolio returned 8.21 percent, outperforming its benchmark return of 7.47 percent by 74 basis points. The portfolio's relative outperformance is attributable to both components of the portfolio performing well. The energy component outperformed its benchmark by 107 bps and the liquid commodities component outperformed its benchmark by 66 bps.

¹⁶ Federal Reserve's target inflation is based on Personal Consumption Expenditure index (PCE)

INVESTMENT MANAGEMENT DIVISION

INFLATION INVESTMENT PORTFOLIO ANNUALIZED PERFORMANCE



INFLATION PROTECTION INVESTMENT ADVISORS (FY ENDING 2014)

Inflation Portfolio Advisors & Funds	Market Value (\$)	Inflation Portfolio Advisors & Funds	Market Value (\$)
Gresham TAP Flex	713,808,309	Quintana Energy II, L.P.	28,925,565
Blackstone Resources Select	456,479,493	Wood Creek North Star Co-Inv	28,601,916
Credit Suisse Enhanced	412,875,811	Denham Capital VI	27,014,566
MTP Energy Fund	198,625,035	EIF US Power Fund IV	25,292,842
Wood Creek North Star	136,514,362	EIG Fund 16	23,032,268
PWP ABVO III	127,410,338	EnCap VIII - Co-Invest	19,032,379
Sheridan Production Partners II-B	98,445,000	Capital Dynamics US Solar Energy	17,808,883
Varde Fund XI	87,500,000	Jade Real Asset	17,497,774
Quintana Energy I, L.P.	83,060,043	Orion Mine Finance	12,741,999
Sheridan Production Partners I, L.P.	78,866,000	GSO Energy SMA	10,496,291
ArcLight Energy Partners V	71,484,340	GSO Zavanna Co-Inv	10,387,085
Blackstone Energy Partners I	65,024,087	Lindsay Goldberg Formation	5,993,778
Brookfield Infrastructure Fund II	52,042,856	Denham VI Oil and Gas	4,512,739
Energy Capital Partners II	51,899,419	Energy Capital Part Fund III	4,086,534
Orion Mine Finance II	38,872,848	Arclight Shore Co-Inv	3,836,262
EnCap Energy Fund VIII	36,278,690	Quintana Energy I Co-Inv	453,440
MTP Energy Opp Fund	34,442,172	GSO Co-Invest I	35,102
Intervale Capital Fund II	33,915,938	Quintana Energy II Co-Inv	-
Energy Capital Part II (Co-Inv)	33,441,736		

INVESTMENT MANAGEMENT DIVISION

ANCILLARY INVESTMENT PROGRAM REVIEW

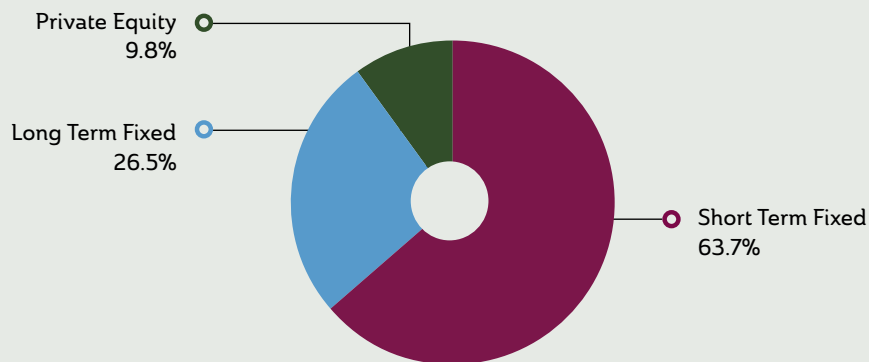
The Ancillary Investment Program’s objective is to generate returns that match or exceed those of the appropriate benchmarks over a three- to five-year basis for the Escheats Fund, Public Hospital Funds, the Local Government Other Post-Employment Benefits Program, and other non-pension assets.

Escheat Fund

Pursuant to G.S. 147-69.2(b)(12), up to 20 percent of the Escheat Investment (unclaimed property) Fund’s assets can be invested in the authorized Global Equity, Real Estate and Private Equity asset classes discussed previously. For the fiscal year ending June 30, 2014, the Escheat Fund maintained a total portfolio market value of \$412.4 million, with \$372.2 million invested in fixed income, and \$40.3 million invested in private equity. The following table and chart provide the Escheat Fund’s asset allocation and each allocation’s percentage of the total Escheat Fund as of June 30, 2014. Actual allocations versus target weights reflect the relatively large appropriations out of the fund in recent years. The policy is expected to be revisited in the upcoming fiscal year.

ESCHEAT INVESTMENT FUND ASSET ALLOCATION AS OF JUNE 30, 2014			
	Market Value	Portfolio Weight	Target Weight
Fixed Income	\$372,162,258	90.2%	80.0%
Global Equity	\$0	0%	12.0%
Real Estate	\$0	0%	4.0%
Private Equity	\$40,284,545	9.8%	4.0%
Escheat Fund	\$412,446,803	100%	100%

ESCHEAT INVESTMENT FUND ASSET ALLOCATION



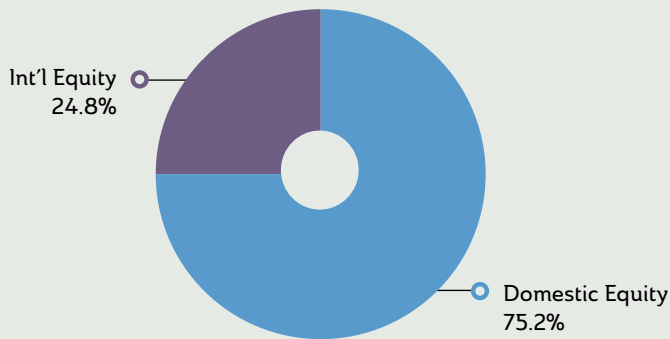
INVESTMENT MANAGEMENT DIVISION

PUBLIC HOSPITALS

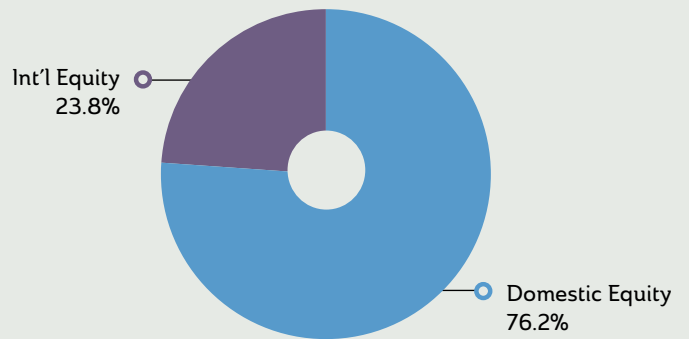
Pursuant to G.S. 147-69.2(b2), North Carolina public hospitals are allowed to invest assets in the authorized Global Equity and Fixed Income asset classes discussed above.

As of June 30, 2014, the market value for the New Hanover Hospital portfolio was \$105.2 million, the market value for Columbus Regional Healthcare System was \$9.7 million, the market value for the Margaret R. Pardee Hospital was \$9.6 million, and the market value for the Watauga Medical Center was \$21.1 million. The allocations to the hospital plans are displayed below.

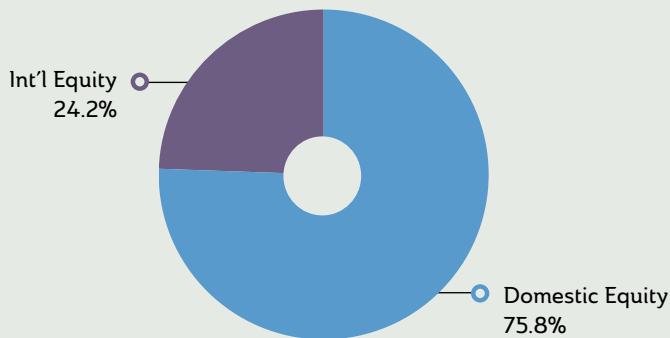
NEW HANOVER HOSPITAL



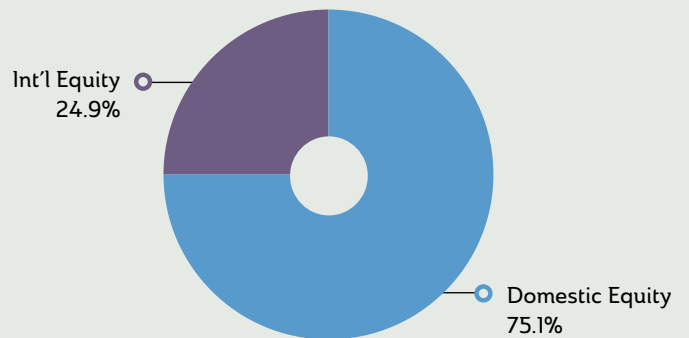
COLUMBUS REGIONAL HEALTHCARE SYSTEM



MARGARET R. PARDEE HOSPITAL



WATAUGA MEDICAL CENTER



INVESTMENT MANAGEMENT DIVISION

OTHER POST-EMPLOYMENT BENEFITS FUND

Pursuant to G.S. 159-30.1(b), the assets of Other Post-Employment Benefits (OPEB) Trusts can be deposited with the State Treasurer for investment according to G.S. 147-69.2(b4). The assets are allocated as follows: STIF, LTIP and authorized Equity funds. As of June 30, 2014, there were a total of 16 participants with assets totaling \$159.5 million.

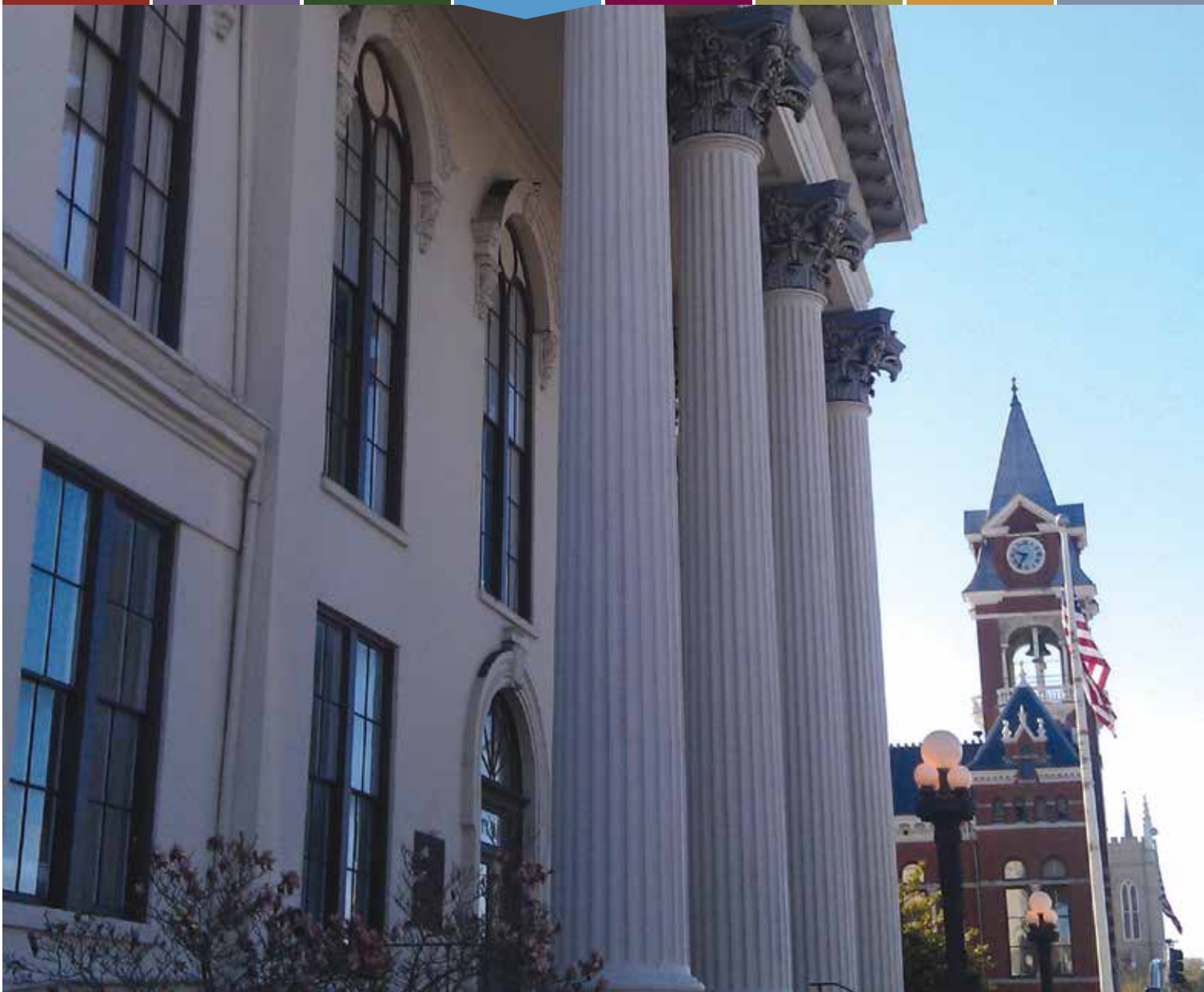
OTHER NON-PENSION LONG-TERM INVESTMENT PORTFOLIO PARTICIPANTS

As of June 30, 2014, the aggregate market value of other non-pension participants invested in the Long-Term Investment Portfolio was \$1.2 billion.

BOND PROCEEDS FUND

The assets of the Bond Proceeds Fund, managed by Sterling Capital, totaled \$38.4 million as of June 30, 2014.

STATE & LOCAL GOVERNMENT FINANCE DIVISION



STATE & LOCAL GOVERNMENT FINANCE DIVISION

STATE & LOCAL GOVERNMENT FINANCE DIVISION STATISTICS			
	2011-12	2012-13	2013-14
Maintained the AAA Bond Rating	Yes	Yes	Yes
Number of Local Government Units Contacted Regarding their Fiscal Health or Compliance with General Statutes	283	348	333
Total Debt Issued by Local Governments	\$4.2 Billion	\$3.8 Billion	\$1.9 Billion
Debt Issued for Special State and Local Authorities and Agencies	\$1.3 Billion	\$2.3 Billion	\$1.2 Billion
Total State Debt Issued	\$1.3 Billion	\$1.6 Billion	\$0.5 Billion

STATE & LOCAL GOVERNMENT FINANCE DIVISION

The State and Local Government Finance Division (Division) handles the sale and delivery of all State and local debt and monitors the repayment of State and local government debt. Staff 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.

The Division is composed of the Debt Management section, which issues and monitors all State and local debt, and the Fiscal Management section, which monitors fiscal and accounting standards for local governments. The Division also provides the State Treasurer, the Local Government Commission (LGC), the North Carolina Capital Facilities Finance Agency (Agency), and the North Carolina Infrastructure Finance Corporation (Corporation) with staff assistance in fulfilling their respective statutory functions.

2013-14 FISCAL YEAR SUMMARY OF DEBT ISSUED

Total State	\$ 0.51 Billion
Total Local Governments	\$ 1.95 Billion
TOTAL	\$ 2.46 Billion

HISTORY

In 1931, the North Carolina General Assembly established the LGC to help address the problems in local government finance caused by the Great 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. Today, the debt of North Carolina's 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 LGC. The LGC is unique nationally and is often referred to as a model for local government financial oversight.

THE LOCAL GOVERNMENT COMMISSION

The LGC, established by N.C. 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 LGC is composed of nine members: the State Treasurer, the Secretary of State, the State Auditor, the Secretary of Revenue, and five others by appointment (three by the Governor, one by the General Assembly upon the recommendation of the President Pro Tempore of the Senate, and one by the General Assembly upon the recommendation of the Speaker of the House of Representatives). The State Treasurer serves as Chair and selects the Secretary of the LGC, who heads the administrative staff serving the LGC. The North Carolina General Statutes require the LGC to meet at least quarterly. As a matter of practice, the LGC meets in the even months, and its Executive Committee meets in the odd 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 Agency, established by the North Carolina General Assembly in 1986. 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 Agency meets monthly and its administrative staff is provided by the Division.

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 Agency board and subsequently to the LGC for approval. Since its creation, the Agency has provided over \$6.1 billion in tax-exempt capital financing. At June 30, 2014, there were \$3.1 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, 2014, the Agency issued \$150.1 million in bonds for eleven institutions. The Agency's annual report is available from the Department of the State Treasurer.

THE NORTH CAROLINA INFRASTRUCTURE FINANCE CORPORATION

The North Carolina Infrastructure Finance Corporation (Corporation) was created by the General Assembly and organized as a separate not-for-profit corporation. It is managed by a three-member board appointed by the State Treasurer. The Corporation is authorized to issue tax-exempt debt to finance the acquisition, construction, repair and renovation of State facilities and related infrastructure. The debt obligations are secured by lease or payment agreements with the State, with the State being financially responsible for the debt payments. The administrative staff for the Corporation is also provided by the Division. The Corporation has been inactive since 2007.

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's bond records and register of bonds, and monitors the debt service payments. At June 30, 2014, the State had General Obligation bonds outstanding of approximately \$3.6 billion and certificates of participation, limited obligation bonds and lease-purchase bonds outstanding of approximately \$2.38 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 LGC for its approval.

The Division assists the State Treasurer in representing the State in all presentations to Moody's Investors Service, Inc., Standard & 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, 2014, the State had a "Triple-A" rating, the highest rating attainable, from all three national rating agencies. Only nine 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 Advisory Committee and drafts an annual Debt Affordability Study (Study), which provides the General Assembly with an overview of the State's debt load and borrowing capacity. The February 1, 2014, Study determined that the State's annual General Fund debt capacity was approximately \$570 million in fiscal year 2014. 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 approximately \$209 million of 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, N.C.G.S. Chapter 159, Article 3 (the 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 LGC 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, 2014, authorized and unissued general obligation bonds for local governments and authorities amounted to \$3.7 billion and general obligation debt outstanding amounted to \$9.5 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 LGC 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, 2014, the LGC approved contracts or other agreements (including refundings) totaling \$954.3 million. (See Tables 5 and 6.)

STATE & LOCAL GOVERNMENT FINANCE DIVISION

Staff continues to perform several tasks to ensure compliance with the Internal Revenue Service, Securities and Exchange Commission and other regulatory requirements relating to the ongoing management of tax exempt debt, which includes monitoring, arbitrage rebate compliance, preparing and filing secondary market

disclosures information and other post issuance compliance duties. Staff also prepares information for use by the General Assembly, bond counsel and other outside finance and legal professionals.

BOND ISSUANCES FOR 2013-14		
	FY No.	2013-2014 (Amount in Millions)
BONDS SOLD FOR THE STATE		
G.O. Bonds (General Fund)	1	\$ 306.7
North Carolina Turnpike Authority Revenue Bonds	-	-
Grant Anticipation Revenue Vehicle Bonds ¹	-	-
Special Indebtedness	1	199.6
Total Issued	2	\$ 506.3
BONDS AND NOTES SOLD FOR LOCAL GOVERNMENT UNITS		
G.O. Bonds	53	\$ 689.9
Revenue Bonds	27	201.4
Water and Sewer Revolving Loans	40	60.0
Water and Sewer Loans (Stimulus)	0	0.0
Special Obligation Bonds - Solid Waste	0	0.0
G.O. Notes ²	20	51.6
Revenue Notes ²	10	59.8
Total Issued	150	\$ 1,062.7
Installment/Lease Contracts Sold for Local Units	134	\$ 886.1
Total for Local Government	284	\$ 1,948.8
REVENUE BONDS SOLD FOR		
Medical Care Commission	16	762.9
Housing Finance Agency	1	54.3
Power Agencies	1	175.0
Industrial Facilities & Pollution Control Financing Authorities ³	3	12.6
Capital Facilities Finance Agency	11	150.1
Total Issued	32	\$ 1,154.9
GRAND TOTAL ISSUED	318	\$ 3,610.0

¹ 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. The State issued no new GARVEE bonds in fiscal year 2014.

² 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.

³ 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.

A comparison of bond issuances by the categories above in fiscal year 2013-14 with issuances in the past two fiscal years is shown below in Chart 8.

FISCAL MANAGEMENT

Another function of the Division involves monitoring certain fiscal and accounting standards prescribed for local governmental units by the 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 LGC 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 1,251 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 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 572 single audits and approximately 261 "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 LGC, staff requests a response detailing the unit's plans to take corrective action. In fiscal year 2013-2014, staff sent approximately 333 audit letters to units of local government. Letters typically discussed such issues as over expenditures in the budget, fiscal weaknesses in the water and sewer systems, internal control problems with the accounting system, credit cards or deposits, late delivery of audits or problems with the unit's level of fund balance. 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 are also provided in order to accomplish these

tasks. Staff members make presentations throughout the year at various workshops sponsored by:

- North Carolina Association of School Business Officials
- North Carolina Government Finance Officers Association
- North Carolina Local Government Investment Association
- North Carolina League of Municipalities
- North Carolina State University MPA Program
- UNC School of Government
- Cherry, Bekaert, LLP

OUTREACH AND COMMUNICATION

- In fiscal year 2013-2014, staff issued 23 public memoranda directed to local governments, auditors and the State's public finance community. Topics included the implementation of the new reporting standards for GASB Statements 67 and 68, the reporting of School Local Current Expense in County and Board of Education Financial Statements, Operation and Accounting for Tourism Development Authorities, Budgeting for Tag and Tax Together System, and the annual statistical reports. For a complete index of Division memos, visit www.nctreasurer.com/slg/Pages/Memos.aspx. In addition, interested parties may subscribe to the LGC News e-communication, launched in the spring of 2010. Staff provides updates of public memoranda, as well as other pertinent information about public finance issues. The LGC News e-communication currently has more than 1,719 subscribers.
- Staff members worked with the University of North Carolina (UNC) School of Government to present the 13th annual State Treasurer's Conference on Local Government Accounting, Auditing and Financial Management held in May 2014. The conference is intended for both local government auditors and officials. It was conducted at two sites and drew more than 283 participants. Topics covered included a current Governmental Accounting Standards Board (GASB) update, current financial reporting issues in local governments in the State, discussions of upcoming reporting standards on Pensions and Other Post-employment Benefits, federal and state grant compliance auditing, and general topics of interest to local governments. In addition, staff members spoke at 11 continuing education courses and conferences sponsored by organizations such as the UNC School of Government, various North Carolina finance officers associations, the North Carolina Association of Certified Public Accountants, and North Carolina State University.

- A Continuing Professional Education class for governmental auditors was offered again in 2014 in collaboration with the UNC School of Government. Held at the UNC campus, the class covered revised auditing standards, the statutory requirements that cover debt approval by the LGC, quality review of audits by the Office of State Auditor, financial reporting issues for local governments, and new GASB standards. It was well received with 94 attendees.
- The Department sponsored the 24th 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.
- A member of the staff serves on the Governmental Accounting and Auditing Committee of the NCACPA. 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. A staff member also serves on the Committee on Accounting, Auditing and Financial Reporting for the Government Finance Officers’ Association of the United States and Canada. In addition, a member of the staff serves on the Governmental Accounting Standards Advisory Council. GASB exposure drafts are analyzed, and any comments and recommendations that staff may have on these drafts are submitted to GASB.

OTHER HIGHLIGHTS

- Audit Review and Invoice Approval Process – During 2013-2014, the staff, with the help of the Information Technology Division, continued to enhance the process to more efficiently process contracts, audits and invoices. Through the use of an Internet portal, staff members are now making local government audited financial reports available to State agencies via the web with a long term goal of making them available to the general public.
- Town of Princeville – In July 2012, the LGC voted to assume control of the financial affairs of the Town of Princeville (Town) pursuant to authority granted by N.C.G.S. §159-181(c). The Town had received an adverse opinion on its 2011 audited financial statements as a result of a poor accounting system and a systemic lack of

internal controls. The Town also was at risk of default on loans from the United States Department of Agriculture and the North Carolina Department of Environment and Natural Resources. The staff to the LGC had been monitoring the Town’s finances for several years and determined that the Town was likely in violation of numerous provisions of the Act. Moreover, the overall financial and operational condition of the Town had deteriorated in 2011 and 2012 to the point that action by the LGC was necessary. After stepping in, staff determined that the finances were in a more precarious position than had been originally estimated. Staff continues to work to produce accurate accounting records and develop a sound system of internal and operational controls for the Town. The LGC is still in control of the Town’s finances and is working with the Town to return it to fiscal health. The Town has recently hired a full time manager and is making progress towards getting its financial affairs in order and resuming control of its finances.

- Town of Spencer Mountain – In December, 2013 the LGC voted to assume control of the financial affairs of the Town of Spencer Mountain (Town) pursuant to N.C.G.S. §159-181(c). The Town consists almost exclusively of property owned by a private textile company located in a nearby town. As a result of changes at the company, the Town no longer has any residents and therefore no one qualified to serve on the elected board. However, there were still public funds being held in two bank accounts in the name of the Town. The LGC appointed a Division staff member as finance officer and in January 2014, adopted a budget for the Town for the 2013-2014 fiscal year. Powell Bill funds that had accumulated to the Town were returned to the Department of Transportation as required. The staff to the LGC has compiled financial statements for the fiscal years ended June 30, 2012, 2013 and 2014, and has entered into an audit contract with a CPA firm to complete the audits for those three years, bringing the Town current on that requirement.
- GASB Statements 67 and 68 on the Financial Reporting of Pensions are being addressed with a cross-function team at the State level to prepare for implementation as of June 2014 and 2015. This group has included representation from the Department of State Treasurer, the Office of the State Auditor, the Office of the State Controller and the State’s contracted actuarial consultant. Implementation plans include communication and training plans for employer participants in the State’s defined benefit pension plans and their independent auditors. GASB Statement 67 was implemented at the State level as of June 30, 2014, and GASB Statement 68 will be implemented for employer participants in the plans as of June 30, 2015, and later.

STATE & LOCAL GOVERNMENT FINANCE DIVISION

-- CHART 7--

PURPOSES FOR WHICH LOCAL GOVERNMENTS SOLD BONDS & NOTES FISCAL YEAR 2014						
	School	Utilities	Refunding	Other	NO.	Total Amount
G.O. BONDS						
Counties	\$55,960,013	\$4,876,000	\$103,689,904	\$16,984,987	14	\$181,510,904
Municipalities	-	44,771,000	283,342,503	120,300,000	21	448,413,503
Districts and Authorities	-	8,688,000	51,310,000	-	18	59,998,000
Total G.O. Bonds	\$55,960,013	\$58,335,000	\$438,342,407	\$137,284,987	53	\$689,922,407
REVENUE BONDS						
Counties	-	\$3,687,000	-	\$56,745,000	3	\$60,432,000
Municipalities	-	86,505,000	3,259,000	4,630,000	17	94,394,000
Districts and Authorities	-	46,594,000	-	-	7	46,594,000
Total Revenue Bonds	-	\$136,786,000	\$3,259,000	\$61,375,000	27	\$201,420,000
SPECIAL OBLIGATION BONDS						
Solid Waste	-	-	-	-	0	-
Total Special Obligation Bonds	-	-	-	-	0	-
WATER & SEWER REVOLVING LOANS						
Counties	-	\$27,542,633	-	-	11	\$27,542,633
Municipalities	-	31,835,916	-	-	1	31,835,916
Districts and Authorities	-	646,200	-	-	28	646,200
Total Water & Sewer Revolving Loans	-	\$60,024,749	-	-	40	\$60,024,749
NOTES						
G.O. Bond Anticipation Notes	\$19,946,268	\$17,807,000	-	\$13,888,135	20	\$51,641,403
Revenue Notes	-	59,828,362	-	-	10	59,828,362
Total	\$19,946,268	\$77,635,362	-	\$13,888,135	30	\$111,469,765
TOTAL BONDS & NOTES	\$75,906,281	\$332,781,111	\$441,601,407	\$212,548,122	150	\$1,062,836,921

STATE & LOCAL GOVERNMENT FINANCE DIVISION

-- CHART 8--

DEBT MANAGEMENT ACTIVITIES - STATE & LOCAL (IN MILLIONS) FISCAL YEAR 2013						
	NO.	Amount	NO.	Amount	NO.	Amount
BONDS SOLD FOR STATE						
G.O. Bonds (General Fund)	1	\$306.7	4	\$1,321.0	-	\$-
G.O. Bonds (Highway Fund)	-	-	-	-	-	-
Special Indebtedness	1	199.6	1	250.0	2	767.4
Grant Anticipation Revenue Vehicle Bonds	-	-	-	-	2	325.1
NC Turnpike Authority Revenue Bonds	-	-	-	-	2	224.5
Total Issued	2	506.3	5	1,571.0	6	1,317.0
BONDS AND NOTES SOLD FOR LOCAL GOVERNMENT UNITS						
G.O. Bonds	53	689.9	84	1,285.0	52	1,401.4
Revenue Bonds	27	201.4	37	648.5	48	1,046.8
Special Obligation Bonds - Solid Waste	-	-	2	4.6	2	16.5
G.O. Notes	20	51.6	40	242.7	50	424.8
Revenue Notes	10	59.8	14	66.6	15	38.2
Subtotal Bonds & Notes Issued	110	1,002.7	177	2,247.4	167	2,927.7
Installment/Lease Contracts Sold for Local Units	134	886.1	173	1,546.4	132	1,197.2
Water & Sewer Revolving Loans *	40	60.0	24	103.4	21	80.9
Water & Sewer Revolving Loans (Stimulus) *	-	-	33	49.2	45	23.9
Total for Local Government Units	284	\$1,948.8	407	\$3,946.4	365	\$4,229.7
REVENUE BONDS SOLD FOR						
Medical Care Commission	16	762.9	13	1,154.0	11	765.4
Housing Finance Agency	1	54.3	3	157.0	1	14.2
Power Agencies	1	175.0	3	605.0	1	424.0
Industrial Facilities and Pollution Control						
Financing Authorities	3	12.6	4	71.6	2	7.9
Capital Facilities Finance Agency	11	150.1	13	263.8	6	128.8
Total Issued	32	1,154.9	36	2,251.4	21	\$1,340.3
GRAND TOTAL ISSUED	318	\$3,610.0	448	\$7,768.8	392	6,887.0

* Represents amounts of Water and Sewer Revolving Loans issued (closed) during the fiscal year.

STATE HEALTH PLAN DIVISION



North Carolina **State Health Plan**

FOR TEACHERS AND STATE EMPLOYEES

A Division of the Department of State Treasurer

STATE HEALTH PLAN DIVISION

The State Health Plan for Teachers and State Employees (Plan) provides health care coverage to approximately 680,000 teachers and school personnel, state employees, retirees, current and former lawmakers, state university and community college personnel, state hospital staff and their dependents.

The mission of the State Health Plan is to improve the health and health care of North Carolina teachers, state employees, retirees, and their dependents, in a financially sustainable manner, thereby serving as a model to the people of North Carolina for improving their health and well-being.

The Plan's vision is to be a health plan that is a North Carolina leader in providing access to cost-effective, quality health care and wellness programs for our membership.

In fulfilling its mission and vision, the Plan seeks to follow these values:

Focus on Members –

Keeping the member at the forefront of our actions

Collaboration – Partnering

with individuals and other stakeholders on behalf of our members

Transparency – Acting in

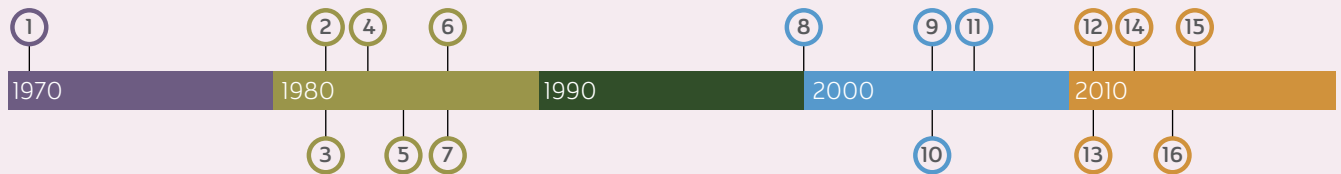
an open manner with the highest possible degree of integrity in all we do

Quality – Striving for the

best quality of care and service for our members

The Plan's strategic priorities are to (1) improve members' health, (2) enhance members' experience and (3) ensure a financially stable State Health Plan.

HISTORY OF THE STATE HEALTH PLAN



1. July 1971 – Legislation is passed directing the Teachers' and State Employees' Retirement System Board to establish health benefits for active employees and appropriating employer contributions of up to \$10 per month starting July 1, 1972.

2. October 1982 – The State of N.C. creates a Comprehensive Major Medical Plan for employees, retirees and certain dependents, under a Board of Trustees within the Office of State Budget and Management.

3. 1982 – The State Health Plan becomes self-funded and Electronic Data Systems wins the contract for Plan services.

4. July 1983 – Legislation is passed removing the Board from the Office of State Budget and Management and giving the Board additional independent authority.

5. July 1985 – Legislation is passed creating an Executive Administrator position for the Plan, which is appointed by the Commissioner of Insurance upon advice of the Committee on Employee Hospital and Medical Benefits and subject to confirmation by the General Assembly.

6. 1987 – Blue Cross and Blue Shield of North Carolina is awarded a contract for claims processing and customer service.

7. August 1987 – Legislation is passed removing General Assembly confirmation of the Executive Administrator and directing the Committee to review programs, rather than recommend them.

8. October 2000 – State Health Plan membership surpasses 500,000.

9. April 2005 – State Health Plan partners with Medco (now Express Scripts) to provide pharmacy services.

10. October 2005 – State Health Plan launches NC HealthSmart healthy living initiative. (See page 87 for more information.)

11. 2006 – State Health Plan membership surpasses 600,000.

12. May 2011 – Senate Bill 323 and House Bill 578 become law, transferring the State Health Plan to the Department of State Treasurer.

13. December 2011 – Plan's new Board of Trustees is established.

14. January 2012 – The State Health Plan officially transfers to the Department of State Treasurer.

15. February 2013 – Board of Trustees approves new health plan options that reward a range of healthy activities, including smoking cessation, taking an online Health Assessment and naming a primary care provider. The new plans become effective January 2014. The Board also approved new Group Medicare Advantage (PPO) Plan options for retirees, with coverage provided through Humana and UnitedHealthcare. May 2013: Plan unveils new branding and logo.

16. May 2014 – Board of Trustees approves health plan coverage for Applied Behavior Analysis (ABA), a treatment for Autism Spectrum Disorder.

STATE HEALTH PLAN DIVISION

The Treasurer, Executive Administrator and Board of Trustees are designated as fiduciaries for the Plan, with ultimate decision-making entrusted to the Treasurer.

STATE HEALTH PLAN BOARD OF TRUSTEES STRUCTURE

The Plan is governed by a 10-member Board of Trustees with fiduciary responsibility. The Board of Trustees is tasked with making significant decisions regarding the State Health Plan, such as approving large contracts, designing Plan benefit programs, and setting premium rates, copays and deductibles. The legislature still determines member eligibility rules and provides state funding for the Plan.

The Board of Trustees is composed of: an employee of a State department, agency or institution; a teacher employed by a North Carolina public school system; a retired employee of a State department, agency or institution; and a retired teacher from a North Carolina public school system. The board is also to be made up of experts with relevant skills such as health economics, health benefits and administration, and health law.

MEMBERS OF THE BOARD OF TRUSTEES ARE APPOINTED OR SERVE IN THE FOLLOWING WAY					
State Treasurer is an ex officio member of the Board and serves as its Chair, but only votes in the event of a tie.	Director of State Budget serves as an ex officio non-voting member.	Two members are appointed by the Governor.	Two members are appointed by the State Treasurer	Two members are appointed by the General Assembly upon the recommendation of the Speaker of the House of Representatives.	Two members are appointed by the General Assembly upon the recommendation of the President Pro Tempore of the Senate.

STATE HEALTH PLAN DIVISION

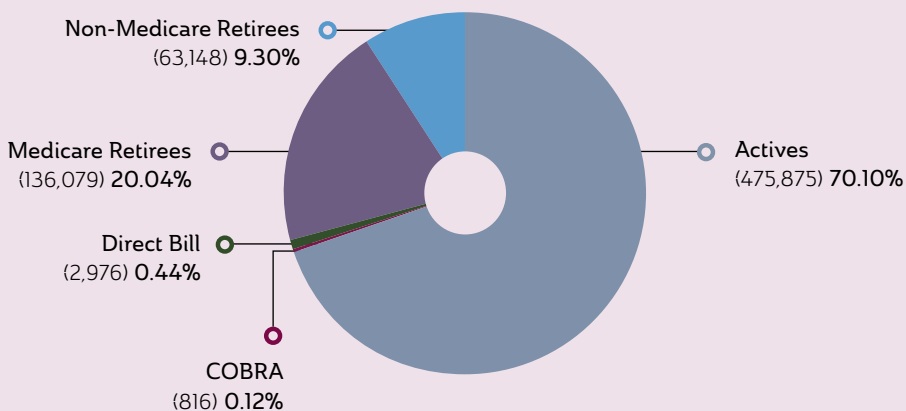
STATE HEALTH PLAN STRUCTURE

The State Health Plan provides health care coverage to approximately 680,000 teachers, state employees, retirees, current and former lawmakers, state university and community college personnel, state hospital staff and their dependents.

Among total membership, there are:

- More than 475,000 active employees and dependents. Dependents include spouses and children up to age 26.
- More than 800 COBRA participants and their dependents. The Consolidated Omnibus Budget Reconciliation Act of 1985 (“COBRA”) requires most employers with group health plans to offer employees the opportunity to continue their group health care coverage temporarily under their employer’s plan if their coverage otherwise would cease due to termination, layoff or other change in employment status.
- More than 199,000 retirees and their dependents.

AVERAGE MEMBERSHIP BY EMPLOYEE STATUS
(APRIL-JUNE 2014)



STATE HEALTH PLAN DIVISION

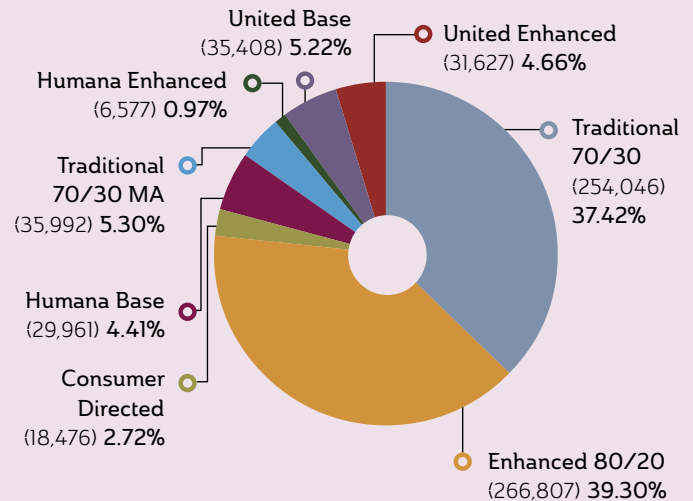
The Plan offers three Preferred Provider Organization (PPO) plans, described below, using the Blue OptionsSM network. These plans offer freedom of choice among in-network providers, lower out-of-pocket costs and a strong emphasis on preventive health. Two of the plans, the Consumer-Directed Health Plan and the Enhanced 80/20 Plan, offer financial incentives for taking steps to improve one's health.

- The Consumer-Directed Health Plan (CDHP) is a high deductible health plan that is accompanied by a Health Reimbursement Account (HRA), which is set up for members by the State Health Plan. This plan includes the ability to lower monthly premiums by completing wellness activities. In June 2014, the CDHP accounted for 18,476 members, or 2.72 percent of total membership.
- The Enhanced 80/20 PPO Plan has higher premiums in exchange for lower copays, coinsurance and deductibles. This plan also includes the ability to lower monthly premiums by completing wellness activities. In June 2014, the 80/20 Plan accounted for 266,807 members, or 39.30 percent of total membership.
- The Traditional 70/30 PPO Plan has lower premiums in exchange for higher copays, coinsurance and deductibles. In June 2014, the 70/30 Plan accounted for 254,046 members, or 37.42 percent of total membership.

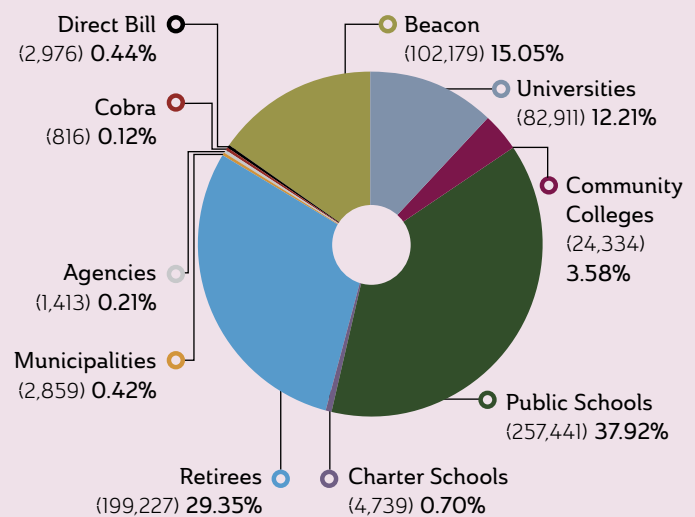
The State Health Plan offers five health plan options for Medicare Primary members. These plans include the Traditional 70/30 Plan, which is administered through Blue Cross and Blue Shield of North Carolina, and Group Medicare Advantage Plan options — offered through Humana and UnitedHealthcare — which include benefits and services such as access to the SilverSneakers® Fitness Program, a nurse help line and disease and case management services. As of June 2014, the Medicare Primary membership breakdown was as follows:

- Humana Group Medicare Advantage (PPO) Base Plan – 29,961, or 4.41 percent
- Humana Group Medicare Advantage (PPO) Enhanced Plan – 6,577, or 0.97 percent
- UnitedHealthcare Group Medicare Advantage (PPO) Base Plan – 35,408, or 5.22 percent
- UnitedHealthcare Group Medicare Advantage (PPO) Enhanced Plan – 31,627, or 4.66 percent
- Traditional 70/30 Plan – 35,992, or 5.30 percent

AVERAGE MEMBERSHIP BY PLAN
(APRIL-JUNE 2014)



AVERAGE MEMBERSHIP BY ENTITY
(APRIL-JUNE 2014)

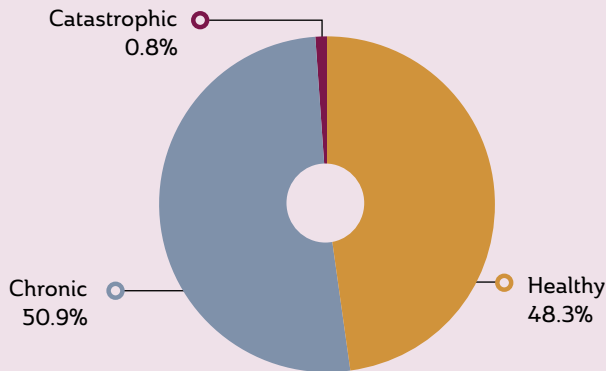


STATE HEALTH PLAN DIVISION

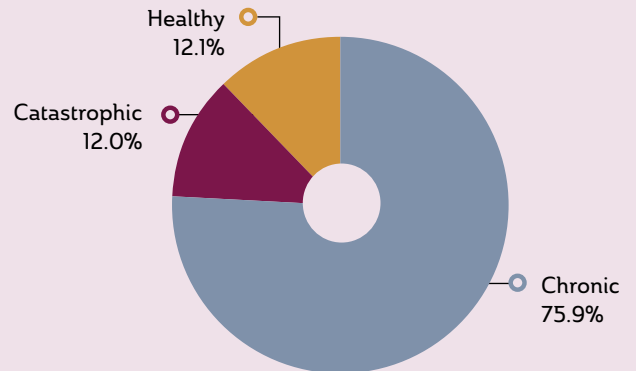
MEMBERSHIP HEALTH SNAPSHOT

The State Health Plan monitors the general health of its member population to identify and address health-related trends.

HEALTH SNAPSHOT OF PLAN MEMBERS
(AS OF SEPTEMBER 2013)



TOTAL CLAIMS BY MEMBER HEALTH STATUS



The Plan also tracks member health trends from year to year. Within the total non-Medicare population, between fiscal year 2010 and fiscal year 2013, major findings from the Clinical Risk Group* analysis found that over the three-year period:

- Forty-eight percent of members had no medical claims related to a health risk 2013, which is slightly higher than 47 percent in fiscal year 2010.
- Members having a primary diagnosis of mental health had the highest net increase, 982, from 2010 to 2013. This means there were 982 more members who received a primary diagnosis of "mental health" from FY 2010 (28,786) to FY 2013 (29,768).

- A 10-year projection by Segal shows a 2.8 percent decrease in the percentage of members who are healthy if no further actions are taken to improve the health of the covered Plan population.
- A 5- and 10-year projection shows diabetes and oncology as the primary diseases that will have the highest net member increase.

**Clinical Risk Group analysis is a management tool that performs analysis of claims and clinical data to assign individual members to a specific clinical group based on their diagnoses. The analysis helps to identify the prevalent health risks within the Plan's population, predict the financial impact of those risks, and find opportunities for the Plan to better control cost and improve the health of their members. (Segal Consulting, 2013.)*

STATE HEALTH PLAN DIVISION

DIVISION STRUCTURE

The State Health Plan is dedicated to providing members with an excellent customer experience and convenient access to health and wellness programs. The Plan is self-insured and exempt from the Employee Retirement Income Security Act (ERISA) as a government-sponsored plan.

The Plan is organized into several core sections to most effectively administer member benefits and costs. These sections are:

- Policy, Planning and Analysis
- Health Plan Operations
- Integrated Health Management
- Contracting and Legal Compliance
- Pharmacy
- Data Reporting and Analytics

Policy, Planning and Analysis

The Policy, Planning and Analysis section is primarily responsible for the development of Plan benefit design and product options, including:

- The development of financial projections
- Analysis of financial performance of the Plan as a whole and individual products/benefit design options
- Review of overall Plan financial forecasts related to benefit design, option selection and member attributes

In addition, the section serves as primary contact for external requests and relationships with the North Carolina General Assembly, other governmental bodies, and various stakeholder organizations. The section serves the Plan and the Department of State Treasurer as health care and health plan policy experts and analysts, conducting research and providing information as needed for the Plan, the Department, the General Assembly and other external bodies.

Health Plan Operations

Health Plan Operations is primarily responsible for the State Health Plan's third party administrative services agreement, including: customer service, member eligibility, enrollment, claims and related services.

In conjunction with the Department of State Treasurer, the Operations team is responsible for all internal, external and member communications for the Plan.

Integrated Health Management

Integrated Health Management (IHM) is responsible for the management of the Plan's healthy living initiative, NC HealthSmart. This program provides a continuum of health and wellness supports and services for Plan members, including: health promotion, worksite wellness, health coaching, and disease and case management. For more information on NC HealthSmart, see page 82.

Contracting and Legal Compliance

The Contracting and Legal Compliance section is responsible for all State Health Plan contract procurement, contract monitoring, regulatory compliance and legal compliance. Nearly all the Plan's expenditures, nearly \$2.7 billion for fiscal year 2013-14, are made through contractual agreements. These agreements enable the Plan to provide comprehensive health benefits for the more than 680,000 teachers, state employees, retirees, and dependents covered by the Plan.

Pharmacy

The Pharmacy section is responsible for the management, development and enhancement of all aspects of the Plan's pharmacy contracts and programs. This includes implementing strategic pharmacy initiatives, overseeing the Plan's pharmacy benefit manager contract to ensure maximum economic value, and managing the Plan's Medicare Part D program.

Data Reporting and Analytics

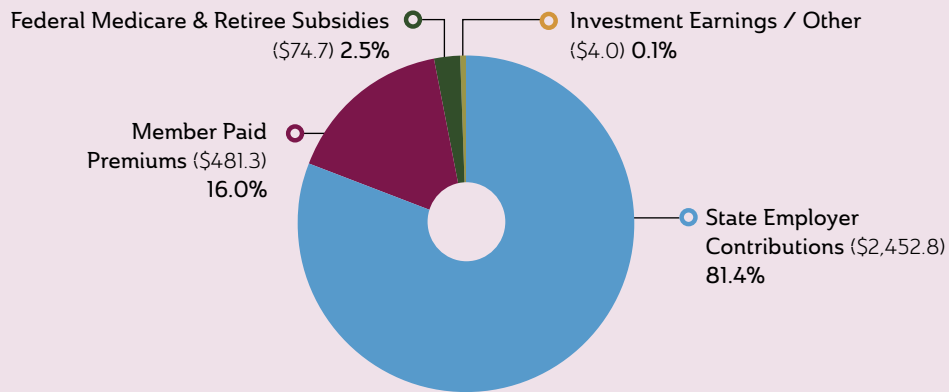
The Data Reporting and Analytics section collects, analyzes and summarizes data in order to generate statistical, financial and analytic reports to assist the Plan in making data-driven business decisions.

STATE HEALTH PLAN DIVISION

FUNDING THE STATE HEALTH PLAN

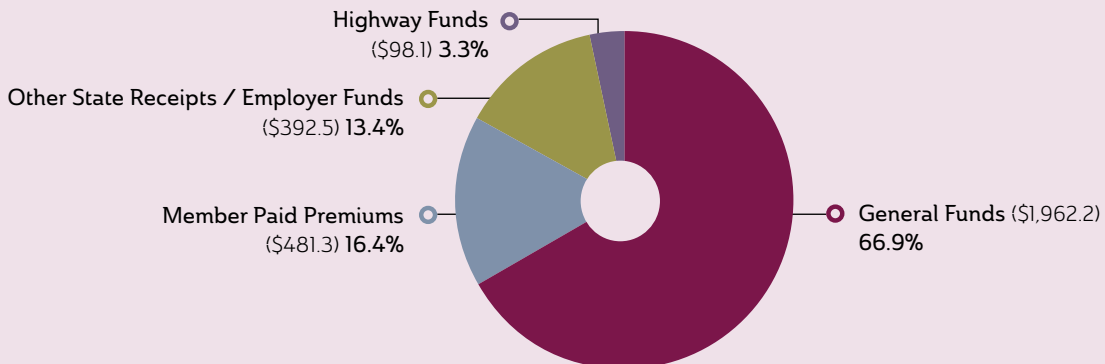
The General Assembly does not appropriate funds directly to the State Health Plan. Instead, it provides funds to State agencies, universities, community colleges, local school systems and the retirement system to pay an “employer contribution” or monthly premium on behalf of employees and retirees. As such, the State Health Plan is 100 percent receipt-supported, with premium receipts, including employer contributions and amounts paid by employees and retirees for their own and dependent coverage, representing approximately 97 percent of total revenues in fiscal year 2013-14.

FY 2013-14 PLAN REVENUES
(\$ MILLIONS)



While the General Assembly does not appropriate funds directly to the State Health Plan, the State’s General Fund is the primary source of funding for employer contributions.

FY 2013-14 PREMIUM CONTRIBUTIONS
(\$ MILLIONS)



STATE HEALTH PLAN DIVISION

Traditionally the State has offered employee-only and retiree-only coverage on a “non-contributory” basis, meaning the State paid the full premium cost on behalf of employees and retirees through the employer contribution. Since 2011, contributions have been required to enroll in certain Plan offerings (“partially-contributory” coverage), although the State continues to pay the large majority of the total premium cost for employee coverage.

Currently, employees and retirees may enroll their eligible dependents in the plan on a “fully contributory” basis, meaning the member is responsible for paying the full premium cost of dependent coverage.

Premium rates are established for each State biennium based on an actuarially based forecast prepared by the Plan’s consulting actuary. Historical claims experience is trended forward to cover anticipated increases in cost and utilization and any required or proposed benefit changes. The forecasting methodology also assumes the build-up and maintenance of an adequate reserve to cover fluctuating claims costs and cash flows.

The forecast model produces a projected premium increase that is required to cover the Plan’s expenses during the upcoming forecast period or fiscal biennium, and that premium increase is applied to all rates across the board. If a 5 percent increase is required according to the model, the General Assembly is asked to increase the employer contribution by 5 percent and the employee-only, retiree-only and dependent premium rates are also increased by 5 percent.

Future premium rates are impacted by the Plan’s actual financial performance. If claims experience is less than projected, the Plan’s cash reserves increase over the year and the required premium increase in the next year will be lower than originally projected. Conversely, if claims experience is higher than projected, the Plan will spend down or use its reserve to cover the increased cost, and the required premium increase in the next year will be higher than originally projected.

STATE HEALTH PLAN FINANCIAL SUMMARY

	FY 2013-2014	FY 2012-13	FY 2011-2012	FY 2010-2011
Premium Contributions	2,934,170,040.63	2,904,569,825.21	2,740,814,168.42	2,680,693,467.99
Other Receipts	78,704,160.1	63,139,306.48	102,184,442.84	106,412,798.00
Total Revenues	3,012,874,200.73	2,967,709,131.69	2,842,998,611.26	2,787,106,265.99
Medical Claims	1,958,967,484.49	1,834,681,439.03	1,852,382,843.06	1,789,071,132.79
Pharmacy Claims	648,029,368.37	657,275,438.58	654,259,637.97	660,757,275.51
Total Claims	2,606,996,852.86	2,491,956,877.61	2,506,624,481.03	2,449,828,408.30
Administrative Expenses	224,107,981.56	162,022,998.72	160,372,011.17	163,246,486.60
Total Expenditures	2,831,104,834.42	2,653,979,876.33	2,667,014,492.20	2,613,074,894.90
Plain Income/ (Loss)	181,769,366.31	313,729,255.36	175,984,119.06	174,031,371.09

NC HEALTHSMART

NC HealthSmart, the Plan's healthy living initiative, provides members with tools and services to help them manage their weight, quit tobacco, exercise more, reduce stress, and take easy preventive steps to maintain their health. Resources include healthy lifestyle, maternity and behavioral health coaches, as well as disease and case managers. Many programs are offered to members at no extra cost.

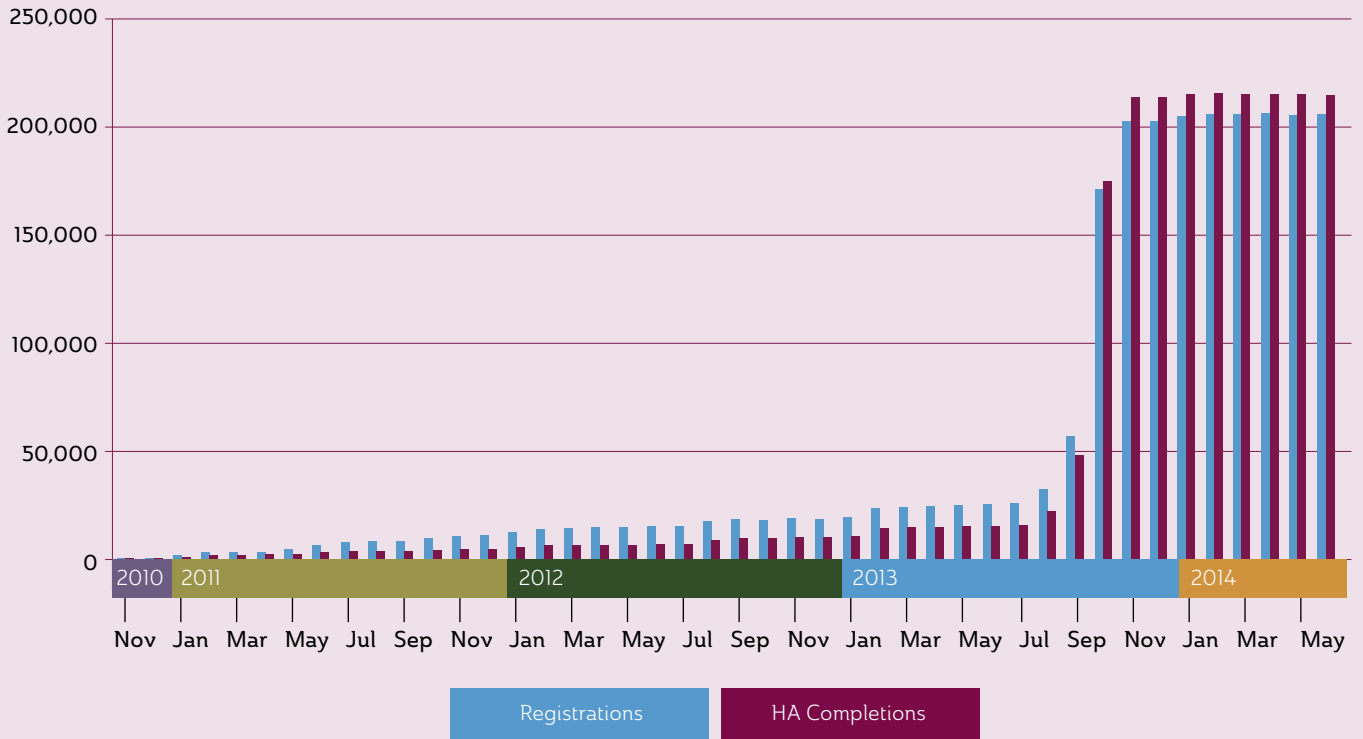
NC HealthSmart services include:

- Preventive services, from flu shots to routine physicals
- A 24-hour nurse line to help provide quick answers to medical concerns
 - 3,643 members called the 24-hour nurse line from July 1, 2013 – June 30, 2014
- Specialty Case Managers to help members with Chronic Kidney Disease and End Stage Renal Disease
- Maternity coaches who offer support and answer questions about mother and baby health. On October 1, 2011, the Plan implemented the Stork Rewards Program to incent members to engage with a maternity coach. The goal of the program is to decrease avoidable maternal complications, preterm deliveries, low birth weight babies, and neonatal intensive care unit admissions. Members who are eligible and meet the Stork Rewards participation requirements do not have the labor and delivery inpatient copay applied (\$233 for 80/20, \$291 for 70/30; \$250 added to the HRA for CDHP). As a result:
 - 4,100 members were managed by a maternity nurse between July 1, 2013, and June 30, 2014
 - 1,598 members completed the Stork Rewards program between July 1, 2013, and June 30, 2014
- An online Personal Health Portal featuring:
 - A Health Assessment to help members learn about their health status
 - Digital Health Coaching with automated counseling to help participants eat healthier, be more active, deal with stress and more
 - A secure Personal Health Record to keep health information in one place
- Help quitting tobacco through QuitlineNC. QuitlineNC services include support by phone, web, and free nicotine replacement therapies. Nicotine patches have been available at no cost to the member since December 2009. Beginning September 1, 2013, nicotine replacement therapies were expanded to include nicotine gum and combination therapy when participants enroll in the multi-call program. This service is available 24 hours a day, seven days a week in English and Spanish. Between July 1, 2013, and June 30, 2014:
 - 925 members utilized the multiple call program
 - 1,316 nicotine replacement therapies were sent to members
 - Patches = 323
 - Gum = 308
 - Combination therapy = 685
- Eat Smart, Move More, Weigh Less, a 15-week, live, interactive online and on-site weight management program. Between July 1, 2013, and June 30, 2014:
 - 102 classes were held, with 70 online and 32 on-site
 - 2,015 members enrolled in the program
 - 1,162 members completed the course
- Nurses, health coaches, and case managers to help members manage chronic diseases like diabetes, high blood pressure and depression, as well as other serious conditions such as cancer and severe injuries. Between July 1, 2013, and June 30, 2014:
 - 21,125 members engaged with a disease or case management health coach
 - 5,673 members engaged with an active lifestyle health coach

STATE HEALTH PLAN DIVISION

Through June 30, 2014, among members who logged on to the Personal Health Portal, 206,210 members registered as a new user and 215,105 completed a Health Assessment.

STATE HEALTH PLAN PORTAL REGISTRATIONS AND HEALTH ASSESSMENT COMPLETIONS



NC HEALTHSMART PILOT PROGRAMS

The Plan oversees three pilot programs to measure the effectiveness of incentives designed to encourage members to access the online Personal Health Portal and take a Health Assessment. Pilot programs are offered to employees in the following partner agencies:

- Charlotte Mecklenburg Schools – Wellness Wins Program- CMS employees who are Plan members could receive a \$15 reduced copay for primary care visits. To receive the reduced copay for themselves, spouses and dependents, eligible Plan subscribers had to complete a Health Assessment, a health screening, and one health action step. The reduced primary care copay incentive ended on March 31, 2014. A total of 3,437 members have participated during the two-year program.

- Department of Health and Human Services agencies in Butner – Employees at Central Regional Hospital, R.J. Blackley Alcohol and Drug Abuse Treatment Center, and Whitaker Psychiatric Residential Treatment Facility received a \$15 reduced copay for primary care visits after completing a Health Assessment, a health screening, and one health action step. This program ended on November 30, 2013. A total of 1,136 members participated during the two-year program.

STATE HEALTH PLAN DIVISION

THE YEAR'S HIGHLIGHTS

Health Assessments

Health Assessments through the NC HealthSmart online Personal Health Portal offer members the chance to gain a full perspective of their current health status. In addition, members who completed an assessment receive a free Health Action Plan to guide their health and wellness activities.

- 215,105 members completed a Health Assessment through June 30, 2014. That compares with 15,575 who completed an assessment through June 30, 2013.

New Health Plan Features and Options for 2014

For the 2014 benefit year, the Plan successfully introduced several new and enhanced health plan features and options for all members. For active employees and non-Medicare retirees, the Enhanced 80/20 Plan was introduced as well as a new high deductible health plan, the Consumer-Directed Health Plan. Both plans include a premium but allow members to reduce their employee-only premium and out-of-pocket costs by completing healthy activities including attesting to not being a smoker, taking an online Health Assessment and naming a primary care provider. Both of these plans also offered additional incentives for seeking care by certain providers to reduce out-of-pocket expenses throughout the year. In addition, the Plan offered new Group Medicare Advantage (PPO) Plan options for Medicare-eligible retirees, with coverage provided through Humana and UnitedHealthcare. The Traditional 70/30 Plan still remained an option for active and retired members.

An overwhelming majority of members in the two plans took advantage of the wellness activities to reduce their employee-only premiums.

- As of April 2014, of those members enrolled in the Enhanced 80/20 Plan, 191,024, or 91.9 percent, completed all three premium credit activities to reduce their employee-only premium.
- As of April 2014, of those members enrolled in the Consumer-Directed Health Plan, 9,298, or 94 percent, completed all three premium credit activities to reduce their employee-only premium.

State Health Plan Board of Trustees Actions

The Board of Trustees approved a proposal to offer new health coverage for Applied Behavior Analysis (ABA), a treatment for autism. ABA relies on analysis and intervention to modify behavior. The benefit covers treatment for members under age 26 and became effective Jan. 1, 2015.

The Board also adopted a strategic plan as required by G.S. 135-48.22. The Board's initial plan includes three strategic priorities for 2014-2018: 1) improve members' health; 2) enhance members' experience; and 3) ensure a financially stable State Health Plan.

The Board also agreed with the Treasurer's recommendation that there be no premium increase for the 2015 benefit year.

Legislation

In May 2014, the State Treasurer, in consultation with the Board, recommended forgoing scheduled increases in employer and employee premiums for the 2015 benefit year. Forgoing the premium increase will save \$22 million in the General Fund and \$1.05 million in the Highway Fund Appropriation. The savings were included in the State Budget that was passed in August 2014.

The State Budget also included legislation directing the Treasurer and Board to create a new eligibility category for non-permanent full-time employees to comply with the Affordable Care Act (ACA).

Legislation also passed to allow active employees and their dependents of the cities of Matthews and Elizabethtown and Montgomery County to enroll in the State Health Plan.

Communications

In support of the new plan options for 2014, the State Health Plan successfully produced an extensive training effort for Health Benefit Representatives (HBRs) within employing units across the state. HBRs are the main avenue through which members (active and retired) receive benefit information. HBRs serve as ambassadors for the Plan. It is critical that they are well educated and knowledgeable about Plan changes prior to enrollment to create a better member experience.

- The Plan visited 53 counties in 4 weeks to offer multiple training opportunities for HBRs in state agencies, school systems, universities and community colleges.

Communication efforts to active and Medicare Primary members included a direct mail campaign, webinars, onsite enrollment education sessions, online tutorials and other online resources.

- More than 1,800 active or non-Medicare retirees attended 38 information sessions in 22 counties to learn more about the new plan options.
- More than 25,000 Medicare Primary members attended 141 Medicare Primary outreach events which were held in 54 counties including locations in Florida, South Carolina and Virginia.

UNCLAIMED PROPERTY AND ESCHEATS DIVISION



UNCLAIMED PROPERTY AND ESCHEATS DIVISION

UNCLAIMED PROPERTY AND ESCHEATS DIVISION STATISTICS				
	2013-14	2012-13	2011-12	2010-2011
Amount of Funds Deposited	\$ 157.4 M	162.45 M	\$ 115.67 M	\$144.79 M
Amount Paid to Rightful owners	\$59.3 M	\$50.69 M	\$41.34 M	\$46.96 M
Amount of Principal transferred for scholarships of the Escheat Fund	\$64.28 M	\$50.31 M	152.12 M	\$136.79 M
Amount of Interest sent to SEAA for Scholarships	\$2.88 M	2.48 M	\$9.83 M	\$9.83 M
Inquiries regarding unclaimed Property				
NCCash.com Page Views	4.18 M	5.75 M	5.36 M	4.78 M
Total number of Claims Paid	30,770	38,100	31,192	28,211

UNCLAIMED PROPERTY AND ESCHEATS DIVISION

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

The unclaimed property which is turned over to the Department was previously held by financial institutions, insurance companies, government agencies and other businesses in the form of wages, utility deposits, insurance policy proceeds, and other sources of funds. Property is considered unclaimed when the apparent owner fails to communicate interest in it for a period of time called the dormancy period. Once the property has met its dormancy limit and the holder has made a good faith effort to locate an apparent owner, any funds they are holding are escheated to the Department and maintained in the Escheat Fund by directive of a 1971 state law. Upon receipt of this information, the Unclaimed Property Division works to locate the owners by various means, including listing names on the website, earning media coverage through television and newspapers, and sending lists to Clerks of Court.

The interest earned on these funds pays for the operations of the Division, and the remaining interest is sent to the State Education Assistance Authority (SEAA) for student loans and grants by August 15 of each fiscal year for interest earned from the previous year. At the end of the 2014 fiscal year, ending June 30, a total amount of \$2.88 million from interest earned and \$64.28 million from the principal was sent to SEAA to be used for needy and worthy students. A total of 82,840 students were assisted through SEAA with scholarships from the Escheat Fund during the 2013-2014 academic year. Additionally, an annual amount comes from the principal and is established in statute for the transfer to the Department of Administration for the veterans scholarship program and the Department of Community Colleges for Community College scholarships. The amount transferred in the 2014 fiscal year for veterans scholarships was \$7.60 million. The amount transferred in 2014 fiscal year to the Department of Community College was \$15.2 million.

As of June 30, 2014, the Escheat Fund was valued at approximately \$438 million. This is a combination of unclaimed property collected from businesses and interest earnings from the investment of the fund. As the custodian of these funds, North Carolina remains liable to the rightful owners for the full amount of unclaimed property reported to the Department. This includes an additional \$1.01 billion which has been reported to the Department since June 1971, but has been appropriated by the legislature from the Escheat Fund principal over the last 11 years.

The total number of reports received from businesses for the fiscal year was 12,272, totaling \$157.4 million.

Additionally, Division staff attends outreach events such as the North Carolina State Fair, Mountain State Fair, various civic organizations' events and many others throughout the State to promote public awareness about the program.

The total number of claims paid for year ending June 30, 2014, was 30,770, totaling \$59.3 million, up from \$50.7 million in the previous fiscal year.

RENOVATING NC CASH

As part of Treasurer Cowell's efforts to renovate and modernize the Department of State Treasurer, the Unclaimed Property Division underwent an outside, independent review beginning in 2011. The goal was to create a strategic plan with specific recommendations for the improvement. The review found the program to be sound, but with potential growth, positive change, enhancement and improvement. The focus areas for renovation were: Operations and Program Management; Compliance; Communication and Outreach; and Statutes, Rules & Regulations, Policies and User Manuals. A significant phase of implementing these reforms took place during the 2013-2014 fiscal year and the results are showing.

Improved Holder Education and Reporting: The Unclaimed Property Division held its second Holder Education seminar in 2014. Holder Reporting provides education and resources to business holders of unclaimed property to help ensure compliance with North Carolina's unclaimed property laws and requirements. More than 200 attendees from across the state filled the Guilford Technical Community College auditorium to learn more about North Carolina's reporting laws and guidelines.

Improved NC Cash outreach: Utilizing the "Bill the Bill" mascot and Unclaimed Property Division staff, the Department partnered with television stations to hold "Cash-a-thons" for viewers on WRAL-TV in Raleigh and WECT-TV in Wilmington. In addition, staff attended 25 outreach events across the state resulting in 34,351 lookups, 4,366 matches and over \$1 million found.

Improved online outreach: The Unclaimed Property Division continues to improve online access through NCCash.com, which allows individuals to search for unclaimed property and generate their own claim forms. In 2009, the website had 751,494 page views. In 2014, it had 4,179,688 page views—a 456% increase.

UNCLAIMED PROPERTY AND ESCHEATS DIVISION

Modernizing laws: The General Assembly, at the urging of the Department, enacted legislation allowing for the redemption of unclaimed U.S. savings bonds belonging to North Carolinians. After a legal process, the proceeds from the redemption of the savings bonds will be deposited into the Escheat Savings Bond Trust Fund, a separate fund within the Escheat Fund. The Unclaimed Property Division will continue its outreach efforts in order to return the proceeds of the redeemed bonds to the rightful owners.

Giving back: Every dollar of unclaimed property has a story that goes along with it. In April 2014, Treasurer Cowell presented an Unclaimed Property check for \$12,334.01 to a 65-year-old widow in Wilmington. She and her husband, a Vietnam veteran, moved to North Carolina 12 years ago from New Jersey in search of a better job and milder climate. Soon after moving, her husband was diagnosed with cancer. He was unable to work and made countless trips to Raleigh to see VA specialists. He passed away 10 years ago. It was not until the Unclaimed Property Division called with news that she learned of the life insurance policy her husband had maintained. The grandmother of three was overwhelmed with the news and plans to repair the roof on her brick home and fix rotting columns on her front porch.

FINANCIAL OPERATIONS DIVISION



FINANCIAL OPERATIONS DIVISION

FINANCIAL OPERATIONS DIVISION STATISTICS					
	2009-10	2010-11	2011-12	2012-13	2013-14
Amount in Checks	\$22 Billion	\$22.6 Billion	\$20 Billion	\$19.9 Billion	\$19.7 Billion
Total Dollar Amount of Wire Transfers Processed	\$123.9 Billion	\$132.9 Billion	\$155.8 Billion	\$153.6 Billion	\$157.2 Billion
Total Number Wire Transfers	16,120	18,324	21,000	21,675	22,762
Cash Balances in the State Treasurer's Depository Account at Concentration and Community Banks	\$50.9 Million	\$ 27.8 Million	\$100.4 Million	\$95.5 Million	\$196 Million

FINANCIAL OPERATIONS DIVISION

The Financial Operations Division (FOD) performs the State Treasurer's role of serving as the State's Banker and ensures that efficient banking services are provided to all State agencies and institutions. FOD is charged with properly accounting for and reporting on all funds that are deposited, invested and disbursed through the Department of State Treasurer (DST). There is a centralized Procurement and Contracting function in FOD that is responsible for managing the procurement cycle - from the early stages of a Request For Proposal to contract compliance.

The Division comprises five areas:

- Banking Operations
- Bank Reconciliation Unit
- Statewide Accounting Operations
- Departmental Accounting
- Procurement & Contracting

HISTORY

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 continues to be the prime beneficiary of the flow of State funds through the commercial banking system in the course of conducting State business.

By 2009, the Department began issuing warrants electronically to vendors, employees, and retirees.

FOD was formed in its current setup in 2001 for the Banking Services and accounting functions. In December 2013, a new centralized Procurement and Contracting section was created to support all of DST's purchasing and contracting.

BANKING OPERATIONS

All revenues collected by a State entity on behalf of the State must be deposited with the State Treasurer. Banking Operations maintains correspondent depository relationships with various North Carolina banks and savings institutions in order for State entities to have a convenient location to make their deposits. Relationships are maintained with six major banking institutions that have a statewide branch network (Wells Fargo, Bank of America, PNC, First Citizens, BB&T, and SunTrust), as well as more than 90 other bank accounts across the state. State funds are deposited both at branch locations as well as electronically through Automated Clearing House (ACH) and wires. Banking Operations reviews all incoming electronic payments and ensures that the funds are credited to the account of the agency expecting the funds.

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 2013-2014, more than 5 million warrants were processed, representing approximately \$19 billion in payments. In addition, Banking Operations initiated approximately 22,000 wires in the amount of \$157 billion. Banking Operations is also responsible for activities of the Division's custodian bank, including securities delivery instructions, as well as collection of income and maturities.

Banking Operations 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 over and above what is provided by the FDIC. As of June 30, 2014, Banking Operations oversaw \$9.1 billion in pledged securities and collateral for \$7.1 billion in deposits not otherwise covered by the Federal Deposit Insurance Corporation (FDIC) insurance.

FINANCIAL OPERATIONS DIVISION

BANK RECONCILIATION UNIT

The Bank Reconciliation Unit is responsible for reconciling all of the State Treasurer's bank accounts as well as reconciling budget code balances between the Office of State Controller and DST.

STATEWIDE ACCOUNTING OPERATIONS

This area manages the accounting for all funds that are deposited, invested and disbursed through the Department of State Treasurer including the \$103 billion investment pool and banking programs. It also maintains the general ledgers for the pension funds, employee benefit trust funds, State Health Plan, and the Escheats Fund, also known as the Unclaimed Property Fund, administered by the State Treasurer. The accounts for the outstanding General Obligation and Special Indebtedness of the State are maintained by the Statewide Accounting Operations area. Functions include the recording of new debt and the timely payment of principal and interest for the State's debt. The area is also responsible for the financial statements of the NC Supplemental Retirement Income Plan and the North Carolina Public Employee Deferred Compensation Plan.

DEPARTMENTAL ACCOUNTING

The Departmental Operations area 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 approximately 400 employees and contractors, fixed assets, accounts receivable and managing accounts payable.

PROCUREMENT & CONTRACTING

Procurement and Contracting is a centralized function that ensures compliance and consistency in purchasing and contracting for DST. Procurement is a specific set of activities performed in the acquisition of a good or service. Basic purchasing, procurement by solicitation (quotes, request for proposals, etc.), leasing and general contracting activity, including personal and consultant service contracts is at the core of an agency's fiscal responsibilities. The fundamental responsibility of the Procurement and Contracting section is the acquisition of goods and services essential to meet the business needs of the Department in accordance with North Carolina law.

STATISTICAL TABLES



STATISTICAL TABLES

BANK BALANCES REPORT

G.S. 147-68(d) - "The Treasurer shall report to the Governor annually and to the General Assembly at the beginning of each biennial session the exact balance in the treasury to the credit of the State, with a summary of the receipts and payments of the treasury during the preceding fiscal year, and so far as practicable an account of the same down to the termination of the current calendar year."

-- TABLE 1 --

DEPARTMENT OF STATE TREASURER BANK BALANCES AS OF JUNE 30, 2014			
Summary of Bank Balances		Bank, continued	Bank Balance, continued
Balance as of 6/30/2013	\$199,951,793.68	Fifth Third Bank	\$3,757,793.27
Total Receipts FY 13-14	\$176,974,420,015.22	First Bank	\$11,037,368.96
Total Payments FY 13-14	\$176,978,310,291.33	First South Bank	\$999,999.75
Balance as of 6/30/2014*	\$196,061,517.57	High Point Bank	\$999,999.99
BANK BALANCES AS OF DECEMBER 31, 2014		HomeTrust Bank	\$999,999.81
Bank	Bank Balance	Lumbee Guaranty Bank	\$2,000,000.87
Wells Fargo	\$40,515,287.20	Macon Savings Bank	\$1,000,000.06
Bank of America	\$63,240,402.93	Mechanics & Farmers Bank	\$3,000,000.33
SunTrust	\$4,265,196.87	NewBridge Bank	\$2,437,931.91
PNC	\$408,689.08	Peoples Bank	\$1,000,000.28
First Citizens	\$6,778,558.63	South State Bank	\$1,052,867.05
BB&T	\$6,827,391.22	Southern Bank & Trust	\$10,847,594.60
Bank of North Carolina	\$100,000.23	Surrey Bank	\$999,999.86
Bank of Tennessee	\$732.72	TD Bank	\$1,499,999.80
Bank of the Carolinas	\$999,999.52	The Little Bank	\$84,811.55
Bank of the Ozarks	\$1,000,000.39	Townebank	\$999,999.99
Capital Bank	\$3,099,970.96	United Community Bank	\$5,780,693.42
CommunityOne Bank	\$2,099,999.88	Uwharrie Bank	\$1,999,999.68
Fidelity Bank	\$8,946,833.96	VantageSouth Bank	\$6,279,392.53
		Yadkin Bank	\$999,999.87
		TOTAL*	\$196,061,517.17

*This number reflects the balance in the State treasury credited to all State funds, including not only the General Fund but also other funds.

STATISTICAL TABLES

-- TABLE 2 --

SUMMARY OF INVESTMENTS BY PARTICIPANTS FOR THE PERIODS ENDED JUNE 30, 2014 AND JUNE 30, 2013 (IN THOUSANDS)		
	June 30, 2014	June 30, 2013
RETIREMENT TRUST INVESTMENT FUNDS		
Teachers' and State Employees' Retirement System	\$65,410,227	\$58,305,289
Local Governmental Employees' Retirement System	22,831,512	20,034,359
North Carolina Firefighters' and Rescue Squad Workers' Pension Fund	388,455	341,390
Consolidated Judicial Retirement System	536,951	471,172
North Carolina National Guard Pension Plan	108,732	93,820
Legislative Retirement System	30,000	28,078
Retiree Health Benefits Trust	834,433	719,997
Total Retirement Trust Funds	90,140,310	\$79,994,105
SHORT TERM INVESTMENT FUND		
Short Term Investment Fund	11,981,223	12,030,995
Retirement Trust Short Term Investment Fund - Operating	311,273	295,832
Total Short Term Investment Fund*	12,292,496	\$12,326,827
ANCILLARY INVESTMENT PROGRAMS		
G.O. Bond Proceeds	38,414	43,152
Escheats External	40,285	37,680
OPEB External	103,081	75,562
Public Hospital External	145,603	96,416
Long Term Investment Fund Non Pension Participants	1,249,886	1,201,250
Total Ancillary Investment Programs	\$1,577,269	\$1,454,060
GRAND TOTAL ALL FUNDS	\$104,010,075	\$93,774,992

* Short Term Investment Fund does not reflect \$2, 215,320 and \$1,199,892 (in thousands) held by the Retirement Trust Funds at June 30, 2014 and June 30, 2013, respectively.

STATISTICAL TABLES

-- TABLE 3 --

STATEMENT OF DEPARTMENTAL REVENUES AND EXPENDITURES BUDGET AND ACTUAL (BUDGETARY BASIS) GENERAL FUND (DEPARTMENTAL ACTIVITIES ONLY) FOR THE FISCAL YEAR ENDED JUNE 30, 2014			
	Authorized Budget	Year-to-Date Actual	Variance Favorable (Unfavorable)
DEPARTMENTAL EXPENDITURES			
General Administration	\$1,908,430	\$1,871,295	\$37,135
Escheat Operations	3,483,666	2,840,239	643,427
Information Services	8,329,837	7,427,018	902,819
Investment Management Operations	5,830,183	4,947,163	883,020
Local Government Operations	4,679,160	4,209,678	469,482
Retirement Operations	19,350,525	17,658,118	1,692,407
Financial Operations:			
Banking	4,659,575	4,219,470	440,105
Accounting	1,408,632	1,392,760	15,872
State Health Plan	182,695,256	148,158,056	34,537,200
Total Expenditures	\$232,345,264	\$192,723,797	\$39,621,467
DEPARTMENTAL RECEIPTS			
General Administration	\$1,908,430	\$1,871,295	\$(37,135)
Escheat Operations	3,483,666	2,840,239	(643,427)
Information Services	8,329,837	7,427,018	(902,819)
Investment Management Operations	2,293,534	1,615,985	(677,549)
Local Government Operations	4,679,160	4,209,678	(469,482)
Retirement Operations	19,350,525	17,658,118	(1,692,407)
Financial Operations:			
Banking	-	-	-
Accounting	1,408,632	1,392,760	(15,872)
State Health Plan	182,695,256	148,158,056	(34,537,200)
Total Receipts	224,149,040	185,173,148	(38,975,892)
APPROPRIATION	\$8,196,224	\$7,550,648	\$645,576

STATISTICAL TABLES

-- TABLE 4 --

GENERAL OBLIGATION BONDS LOCAL GOVERNMENT REFERENDA & AUTHORIZATIONS						
FISCAL YEAR JULY 1, 2013 - JUNE 20, 2014						
	Propositions			Bonds		
	# Proposed	# Approved	% Approved	\$ Proposed	\$ Approved	% Approved
COUNTIES						
VOTED PROPOSITIONS						
School	5	5	100.00%	\$1,286,500,000	\$1,286,500,000	100.00%
Community College	3	3	100.00%	\$236,900,000	\$236,900,000	100.00%
Parks & Recreation	1	1	100.00%	\$5,000,000	\$5,000,000	100.00%
Total	8	8	100.00%	\$1,528,400,000	\$1,528,400,000	100.00%
NONVOTED PROPOSITIONS						
Refunding	7	7	100.00%	111,500,000	111,500,000	100.00%
Total	7	7	100.00%	\$111,500,000	\$111,500,000	100.00%
DISTRICTS						
VOTED PROPOSITIONS						
Water	1	1	100.00%	\$6,133,000	\$6,133,000	100.00%
Total	1	1	100.00%	\$6,133,000	\$6,133,000	100.00%
NONVOTED PROPOSITIONS						
Refunding	1	100.00%	100.00%	\$64,767,600	\$64,767,600	100.00%
Total	1	100.00%	100.00%	\$64,767,600	\$64,767,600	100.00%
MUNICIPALITIES						
VOTED PROPOSITIONS						
Public Safety	1	1	100.00%	200,000	200,000	100.00%
Transportation	1	1	100.00%	75,000,000	75,000,000	100.00%
Sewer	1	1	100.00%	2,947,000	2,947,000	100.00%
Beach Renourishment	1	1	100.00%	18,000,000	18,000,000	100.00%
Community Art Center	1	1	100.00%	4,000,000	4,000,000	100.00%
Convention Ctr. - Ext.	1	1	100.00%	3,050,000	3,050,000	100.00%
Fire Station	2	2	100.00%	3,450,000	3,450,000	100.00%
Greenway, Streetscape	1	1	100.00%	10,500,000	10,500,000	100.00%
Parks & Recreation	8	7	87.50%	58,565,000	39,665,000	67.73%
Streets & Sidewalks	5	5	100.00%	38,445,000	38,445,000	100.00%
Total	22	21	95.45%	\$214,157,000	\$195,257,000	91.17%
NONVOTED PROPOSITIONS						
Refunding	7	7	100.00%	303,570,000	303,570,000	100.00%
2/3rds	1	1	100.00%	6,115,000	6,115,000	100.00%
Total	8	8	100.00%	\$309,685,000	\$309,685,000	100.00%
TOTAL VOTED	31	30	96.77%	\$1,748,690,000	\$1,729,790,000	100.00%
TOTAL NONVOTED	16	16	100.00%	\$485,952,600	\$485,952,600	100.00%
GRAND TOTALS	47	46	97.87%	\$2,234,642,600	\$2,215,742,600	99.15%

STATISTICAL TABLES

-- TABLE 5 --

INSTALLMENT PURCHASE AGREEMENTS APPROVED BY PURPOSE FISCAL YEAR JULY 1, 2013 THROUGH JUNE 30, 2014

MUNICIPALITIES:	Amount
UTILITIES	
Sanitary Sewer	\$4,352,500
Electric	200,000
Gas	630,000
Water	35,172,500
	\$40,355,000
PUBLIC BUILDINGS	
Fire Station	\$2,600,000
Municipal Buildings	111,892,549
Library	400,000
Stadium Complex	28,205,000
Public Safety	1,545,610
	\$144,643,159
Land	\$12,568,057
Industrial Development	8,400,000
Communications	5,226,565
Recreation	7,865,000
Streets & Sidewalks	2,000,000
Equipment	26,945,435
Flood & Erosion	3,200,000
Refunding	125,373,249
Stormwater	1,341,330
Economic Development	1,967,000
Parking	5,300,000
Solid Waste	3,360,000
Pension System	30,000,000
Community Development	405,000
Vehicles	8,274,707
	\$242,226,343
SUBTOTAL	\$427,224,502

COUNTIES:	Amount
SCHOOLS	\$102,379,216
PUBLIC BUILDINGS	
Recreation Center	\$786,467
Airport	4,578,068
Animal Shelter	
Courthouse/Law Enforcement/Jail	28,023,573
County Buildings	23,236,442
Civic Center	614,538
Library	120,925
	\$57,360,013
UTILITIES	
Water	2,956,250
Sanitary Sewer	4,456,250
	\$7,412,500
Community College	\$80,905,600
Industrial Development	30,469,607
Refunding	201,095,970
Equipment	12,969,045
Telecommunications	6,369,774
Economic Development	1,688,055
Vehicles	1,690,503
Land Acquisition	1,230,114
Streets	600,000
	\$337,018,668
COMMUNITY COLLEGES	
Guaranteed Energy Savings Contract	10,929,909
DISTRICTS/AUTHORITIES:	
Hospital Facility	\$9,500,000
Sewer	930,000
Water	1,565,000
	\$11,995,000
SUBTOTAL	\$527,095,306
GRAND TOTAL	\$954,319,808

STATISTICAL TABLES

-- TABLE 6 --

INSTALLMENT AND LEASE AGREEMENTS APPROVED BY THE LOCAL GOVERNMENT COMMISSION FISCAL YEARS ENDED JUNE 30, 2014, 2013 AND 2012 (IN MILLIONS)						
	FY 2013-14		FY 2012-13		FY 2011-12	
	NO.	Amount	NO.	Amount	NO.	Amount
Counties	17	\$303.3	34	\$360.0	38	\$391.1
Municipalities	49	301.7	59	819.8	53	248.6
Authorities/Districts	4	12.0	5	15.8	1	3.0
Community College/GESC	3	11.0	5	21.9	11	68.4
Subtotal	73	\$628.0	103	\$1,217.5	103	\$711.1
Refunding	17	\$326.3	26	\$632.0	16	\$346.8
GRAND TOTAL	90	\$954.3*	129	\$1,849.5*	119	\$1,057.9

*Total includes refundings.

-- TABLE 7 --

SUMMARY OF STATE AND LOCAL GOVERNMENT DEBT AND AUTHORIZATIONS AT JUNE 30, 2014								
	General Obligation Debt	Special Indebtedness/ Installment/ Lease Purchase Debt	Revenue Bond/ Revolving & 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 of NC	\$3,607,100,000	\$2,383,825,000	\$-	\$5,990,925,000	\$-	\$5,990,925,000	\$-	\$205,827,041
GARVEE ¹	-	-	540,810,000	540,810,000	-	540,810,000	-	-
NC Turnpike	-	-	1,039,308,109	1,039,308,109	-	1,039,308,109	-	-
State Authorities & Institutions	-	-	20,458,431,027	20,458,431,027	-	20,458,431,027	-	-
Totals	\$3,607,100,000	\$2,383,825,000	\$22,038,549,136	\$28,029,474,136	\$-	\$28,029,474,136	\$-	\$205,827,041
Counties	\$6,734,566,176	\$5,084,995,686	\$812,567,207	\$12,632,129,069	\$-	\$12,632,129,069	\$2,573,475,000	\$-
Municipalities	2,431,810,646	3,050,250,555	5,505,280,312	10,987,341,513	-	10,987,341,513	854,023,046	-
Districts	340,329,934	11,150,689	1,317,217,696	1,668,698,319	-	1,668,698,319	119,026,000	201,990,163
Authorities	-	17,193,168	2,187,395,994	2,204,589,162	1,406,419,936	3,611,009,098	-	-
Total	\$9,506,706,756	\$8,163,590,098	\$9,822,461,209	\$27,492,758,063	\$1,406,419,936	\$28,899,177,999	\$3,546,524,046	\$201,990,163
GRAND TOTAL	\$13,113,806,756	\$10,547,415,098	\$31,861,010,345	\$55,522,232,199	\$1,406,419,936	\$56,928,652,135	\$3,546,524,046	\$407,817,204

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.

STATISTICAL TABLES

-- TABLE 8 --

STATE OF NORTH CAROLINA ANNUAL DEBT SERVICE REQUIREMENTS FOR GENERAL OBLIGATION BONDS AND SPECIAL INDEBTEDNESS								
Fiscal Year	General Obligation Existing Debt		Highway Existing Debt		Special Indebtedness Existing Debt		Total Existing Debt ^{2,3}	
	Principal	Principal & Interest	Principal	Principal & Interest	Principal	Principal & Interest	Principal	Principal & Interest
2014-15	322,973,868	480,622,126.42	46,266,132	59,614,816.65	124,175,000	236,588,236.82	493,415,000	776,825,179.89
2015-16	332,986,972	473,524,262.21	37,583,028	48,619,700.29	127,750,000	233,830,743.76	498,320,000	755,974,706.26
2016-17	316,549,036	439,957,996.22	51,785,964	61,012,228.78	131,260,000	230,925,618.76	499,595,000	731,895,843.76
2017-18	334,093,188	443,453,919.66	45,331,812	52,160,867.84	135,230,000	228,373,768.76	514,655,000	723,988,556.26
2018-19	336,582,812	430,079,387.04	45,387,188	50,036,450.46	139,950,000	226,395,556.26	521,920,000	706,511,393.76
2019-20	294,863,000	371,035,123.31	55,877,000	59,774,014.19	159,005,000	238,185,081.26	509,745,000	668,994,218.76
2020-21	271,790,000	335,505,187.50	-	-	159,945,000	231,357,631.26	431,735,000	566,862,818.76
2021-22	253,680,000	304,978,637.50	-	-	164,450,000	228,006,331.26	418,130,000	532,984,968.76
2022-23	249,230,000	289,001,887.50	-	-	169,425,000	224,795,881.26	418,655,000	513,797,768.76
2023-24	223,240,000	252,030,962.50	-	-	172,910,000	220,578,243.76	396,150,000	472,609,206.26
2024-25	144,945,000	162,603,962.50	-	-	142,050,000	182,340,056.26	286,995,000	344,944,018.76
2025-26	85,650,000	96,460,562.50	-	-	136,595,000	170,284,706.26	222,245,000	266,745,268.76
2026-27	68,630,000	75,676,162.50	-	-	139,440,000	166,766,281.26	208,070,000	242,442,443.76
2027-28	40,885,000	45,037,750.00	-	-	135,465,000	156,474,706.26	176,350,000	201,512,456.26
2028-29	24,385,000	26,823,500.00	-	-	120,690,000	135,619,331.26	145,075,000	162,442,831.26
2029-30	24,385,000	25,604,250.00	-	-	79,000,000	88,371,537.50	103,385,000	113,975,787.50
2030-31	-	-	-	-	82,730,000	88,558,712.50	82,730,000	88,558,712.50
2031-32	-	-	-	-	46,430,000	48,638,750.00	46,430,000	48,638,750.00
2032-33	-	-	-	-	17,325,000	17,844,750.00	17,325,000.00	17,844,750.00
2033-34	-	-	-	-	-	-	-	-
	\$3,324,868,876	\$4,252,395,677.36	\$282,231,124	\$331,218,078.21	\$2,383,825,000	\$3,353,935,924.46	\$5,990,925,000	\$7,937,549,680.03

² Table includes refunding debt but not refunded debt since sufficient funds have been placed with an escrow agent to pay all principal and interest and any premium on the debt refunded to and including their respective maturities or dates of redemption.

³ Does not include North Carolina Turnpike Bonds (which are payable from the Highway Trust Fund).

STATISTICAL TABLES

The following chart outlines the revenue bonds and other indebtedness of State authorities and institutions at June 30, 2014. The State is not responsible for debt service on any of the revenue bonds and other indebtedness represented in this chart.

-- TABLE 9 --

REVENUE BONDS AND OTHER INDEBTEDNESS OF STATE AUTHORITIES AND INSTITUTIONS AT JUNE 30, 2014	
Appalachian State University	\$ 265,147,926
East Carolina University	198,736,547
Elizabeth City State University	34,866,979
Fayetteville State University	35,371,485
North Carolina A & T State University	26,673,985
North Carolina Central University	86,340,187
North Carolina School of the Arts	7,260,000
North Carolina State University at Raleigh	575,147,119
University of North Carolina at Asheville	45,279,974
University of North Carolina at Chapel Hill	1,380,726,032
University of North Carolina at Charlotte	478,632,775
University of North Carolina at Greensboro	326,208,418
University of North Carolina at Pembroke	52,330,000
University of North Carolina at Wilmington	230,899,673
Western Carolina University	110,087,362
Winston-Salem State University	96,151,269
North Carolina Capital Facilities Finance Agency	3,090,489,470
North Carolina Eastern Municipal Power Agency	1,869,455,000
North Carolina Housing Finance Agency	893,750,000
North Carolina Medical Care Commission	7,079,499,431
North Carolina Municipal Power Agency No. 1	1,314,455,000
North Carolina State Education Assistance Authority	2,167,566,952
North Carolina State Ports Authority	93,355,443
TOTAL	\$ 20,458,431,027

Source: Chief fiscal officer of each authority or institution.

STATISTICAL TABLES

-- TABLE 10 --

VALUATION BALANCE SHEET SHOWING THE ASSETS AND LIABILITIES OF THE TEACHERS' AND STATE EMPLOYEES' RETIREMENT SYSTEM OF NORTH CAROLINA		
	December 31, 2013	December 31, 2012
ASSETS		
Current actuarial value of assets:		
Annuity Savings Fund	\$ 11,476,585,329	\$ 11,116,379,969
Pension Accumulation Fund	50,887,221,839	48,795,453,059
TOTAL CURRENT ASSETS	\$ 62,363,807,168	\$ 59,911,833,028
Future member contributions to Annuity Savings Fund	6,806,431,685	6,819,493,041
Prospective contributions to Pension Accumulation Fund:		
Normal contributions	5,774,122,879	5,739,739,976
Unfunded accrued liability contributions	3,441,748,323	3,718,445,444
Undistributed gain contributions	455,297,096	(76,897,567)
TOTAL PROSPECTIVE CONTRIBUTIONS	\$ 9,671,168,298	\$ 9,381,287,853
TOTAL ASSETS	\$ 78,841,407,151	\$ 76,112,613,922
LIABILITIES		
Annuity Savings Fund:		
Past member contributions	\$ 11,476,585,329	\$ 11,116,379,969
Future member contributions	6,806,431,685	6,819,493,041
TOTAL CONTRIBUTIONS TO ANNUITY SAVINGS FUND	\$ 18,283,017,014	\$ 17,935,873,010
Pension Accumulation Fund:		
Benefits currently in payment	34,929,957,617	33,504,462,705
Benefits to be paid to current active members	24,811,849,375	24,749,175,774
Reserve for increases in retirement allowances effective July 1, 2014 (July 1, 2013 for December 31, 2012 figure)	361,286,049	0
Reserve from undistributed gains/(losses)	455,297,096	(76,897,567)
TOTAL BENEFITS PAYABLE FROM PENSION ACCUMULATION FUND	\$ 60,558,390,137	\$ 58,176,740,912
TOTAL LIABILITIES	\$ 78,841,407,151	\$ 76,112,613,922

STATISTICAL TABLES

-- TABLE 11 --

VALUATION BALANCE SHEET SHOWING THE ASSETS AND LIABILITIES OF THE NORTH CAROLINA LOCAL GOVERNMENTAL EMPLOYEES' RETIREMENT SYSTEM		
	December 31, 2013	December 31, 2012
ASSETS		
Current actuarial value of assets:		
Annuity Savings Fund	\$ 4,431,514,114	\$ 4,249,859,016
Pension Accumulation Fund	17,066,632,918	16,045,379,829
TOTAL CURRENT ASSETS	\$ 21,498,147,032	\$ 20,295,238,845
Future member contributions to Annuity Savings Fund	2,752,353,888	2,704,399,469
Prospective contributions to Pension Accumulation Fund:		
Normal contributions	2,963,902,243	3,098,049,897
Unfunded accrued liability contributions	39,666,249	43,545,946
Undistributed gain contributions	250,211,950	60,340,225
TOTAL PROSPECTIVE CONTRIBUTIONS	\$ 3,253,780,442	\$ 3,201,936,068
TOTAL ASSETS	\$ 27,504,281,362	\$ 26,201,574,382
LIABILITIES		
Annuity Savings Fund:		
Past member contributions	\$ 4,431,514,114	\$ 4,249,859,016
Future member contributions	2,752,353,888	2,704,399,469
TOTAL CONTRIBUTIONS TO ANNUITY SAVINGS FUND	\$ 7,183,868,002	\$ 6,954,258,485
Pension Accumulation Fund:		
Benefits currently in payment	9,814,267,515	9,160,205,841
Benefits to be paid to current active members	10,255,933,895	10,026,769,831
Reserve for increases in retirement allowances effective July 1, 2014 (July 1, 2013 for December 31, 2012 figure)	0	0
Reserve from undistributed gains/(losses)	250,211,950	60,340,225
TOTAL BENEFITS PAYABLE FROM PENSION ACCUMULATION FUND	\$ 20,320,413,360	\$ 19,247,315,897
TOTAL LIABILITIES	\$ 27,504,281,362	\$ 26,201,574,382

STATISTICAL TABLES

-- TABLE 12 --

VALUATION BALANCE SHEET SHOWING THE ASSETS AND LIABILITIES OF THE CONSOLIDATED JUDICIAL RETIREMENT SYSTEM OF NORTH CAROLINA		
	December 31, 2013	December 31, 2012
ASSETS		
Current actuarial value of assets:		
Annuity Savings Fund	\$ 59,221,482	\$ 58,602,290
Pension Accumulation Fund	447,566,417	422,683,318
TOTAL CURRENT ASSETS	\$ 506,787,899	\$ 481,285,608
Future member contributions to Annuity Savings Fund	38,109,595	37,791,818
Prospective contributions to Pension Accumulation Fund:		
Normal contributions	121,251,356	119,682,660
Unfunded accrued liability contributions	42,557,169	46,299,486
Undistributed gain contributions	4,228,380	7,827,545
TOTAL PROSPECTIVE CONTRIBUTIONS	\$ 168,036,905	\$ 173,809,691
TOTAL ASSETS	\$ 712,934,399	\$ 692,887,117
LIABILITIES		
Annuity Savings Fund:		
Past member contributions	\$ 59,221,482	\$ 58,602,290
Future member contributions	38,109,595	37,791,818
TOTAL CONTRIBUTIONS TO ANNUITY SAVINGS FUND	\$ 97,331,077	\$ 96,394,108
Pension Accumulation Fund:		
Benefits currently in payment	310,129,370	292,281,547
Benefits to be paid to current active members	298,206,702	296,383,917
Reserve for increases in retirement allowances effective July 1, 2014 (July 1, 2013 for December 31, 2012 figure)	3,038,870	0
Reserve from undistributed gains/(losses)	4,228,380	7,827,545
TOTAL BENEFITS PAYABLE FROM PENSION ACCUMULATION FUND	\$ 615,603,322	\$ 596,493,009
TOTAL LIABILITIES	\$ 712,934,399	\$ 692,887,117

STATISTICAL TABLES

-- TABLE 13 --

VALUATION BALANCE SHEET SHOWING THE ASSETS AND LIABILITIES OF THE NORTH CAROLINA FIREFIGHTERS' AND RESCUE SQUAD WORKERS' PENSION FUND		
	June 30, 2013	June 30, 2012
ASSETS		
Current assets:		
Annuity Savings Fund	\$ 40,526,406	\$ 38,594,195
Pension Accumulation Fund	324,309,854	300,290,892
TOTAL CURRENT ASSETS	\$ 364,836,260	\$ 338,885,087*
Future member contributions to Annuity Savings Fund	27,560,503	29,985,726
Prospective contributions to Pension Accumulation Fund:		
Normal contributions	42,388,390	41,923,622
Accrued liability contributions	48,217,253	64,931,816
TOTAL PROSPECTIVE CONTRIBUTIONS	\$ 90,605,643	\$ 106,855,438
TOTAL ASSETS	\$ 483,002,406	\$ 475,726,251
LIABILITIES		
Annuity Savings Fund:		
Past member contributions	\$ 40,526,406	\$ 38,594,195
Future member contributions	27,560,503	29,985,726
TOTAL CONTRIBUTIONS TO ANNUITY SAVINGS FUND	\$ 68,086,909	\$ 68,579,921
Pension Accumulation Fund:		
Benefits currently in payment	215,560,754	206,343,408
Benefits to be paid to current active members	199,354,743	200,802,922
TOTAL BENEFITS PAYABLE FROM PENSION ACCUMULATION FUND	\$ 414,915,497	\$ 407,146,330
TOTAL LIABILITIES	\$ 483,002,406	\$ 475,726,251

* The June 30, 2012 assets include employer contributions receivable of \$4,318,042 as appropriated for fiscal year ending June 30, 2012 but received after such date.

The valuation balance sheet gives the following information with respect to the funds of the system as of June 30, 2013.