
NOTES TO THE FINANCIAL STATEMENTS

NOTE 3: DEPOSITS AND INVESTMENTS

A. Deposits and Investments with State Treasurer

Unless specifically exempt, every agency of the State and certain component units are required by General Statute 147-77 to deposit moneys received with the State Treasurer or with a depository institution in the name of the State Treasurer. Certain local governmental units that are not part of the reporting entity are also allowed to deposit money with the State Treasurer. Expenditures for the primary government and certain component units are made by warrants issued by the agencies and drawn on the State Treasurer. The State Treasurer processes these warrants each day when presented by the Federal Reserve Bank. General Statute 147-69.1 authorizes the State Treasurer to invest all deposits in obligations of or fully guaranteed by the United States; obligations of certain federal agencies; specified repurchase agreements; obligations of the State of North Carolina; time deposits with specified financial institutions; prime quality commercial paper with specified ratings; specified bills of exchange or time drafts; asset-backed securities with specified ratings; and corporate bonds and notes with specified ratings.

General Statute 147-69.2 authorizes the State Treasurer to invest the deposits of certain special funds, including the pension trust funds, the State Health Plan, the Disability Income Plan of N.C., the Escheat Fund, the Public School Insurance Fund, the State Education Assistance Authority, and trust funds of the University of North Carolina System, in the investments authorized in General Statute 147-69.1; general obligations of other states; general obligations of North Carolina local governments; asset-backed securities bearing specific ratings; and obligations of any company incorporated within or outside the United States bearing specific ratings. The deposits of the pension trust funds may be invested in all of the above plus certain insurance contracts; group trusts; individual, common or collective trusts of banks and trust companies; real estate investment trusts; limited partnership interest in limited liability partnerships or limited liability companies; and certain stocks and mutual funds.

External Investment Pool

To ensure that these and other legal and regulatory limitations are met, all cash deposited with the State Treasurer, except for the UNC Hospitals, Public Hospitals, Escheat Fund, and bond proceeds investment accounts and the Local Government Other Post-Employment Benefits Fund, is maintained in the Investment Pool. This pool, a governmental external investment pool, consists of the following individual investment portfolios:

Short-term Investment – This portfolio may hold any of the investments authorized by General Statute 147-69.1. The Short-term Investment portfolio is the primary cash

management account for the State and is managed in such a manner as to be readily convertible into cash. The primary participants of this portfolio are the General Fund and the Highway Funds. Other participants include the remaining portfolios listed below, universities and various boards, commissions, community colleges, and school administrative units that make voluntary deposits with the State Treasurer.

Long-term Investment – This portfolio may hold the fixed-income investments authorized by General Statutes 147-69.1 and 147-69.2. Since the deposits in this fund are typically not needed for day-to-day operations, the investment vehicles used generally have a longer term and higher return than those held in the Short-term Investment portfolio. The primary participants of the portfolio are the pension trust funds.

Fixed Income Investment – This portfolio holds collateralized mortgage obligations, asset-backed and commercial mortgage-backed securities. The State's pension trust funds are the sole participants in the portfolio.

Equity Investment – This portfolio holds an equity-based trust. The State's pension trust funds are the sole participants in the portfolio.

Real Estate Investment – This portfolio holds investments in real estate-based trust funds and group annuity contracts. The State's pension trust funds are the sole participants in the portfolio.

Alternative Investment – This portfolio holds investments in limited partnerships and equities received in the form of distributions from its primary investments. The State's pension trust funds are the sole participants in the portfolio.

All of the above investment portfolios operate like individual investment pools, except that an investment portfolio may hold shares in other investment portfolios at the discretion of the State Treasurer and subject to the legal limitations discussed above. To this extent, the deposits are commingled; and therefore, the State Treasurer considers all investment portfolios to be part of a single pool, the Investment Pool. The Investment Pool contains deposits from funds and component units of the reporting entity (internal portion) as well as deposits from certain legally separate organizations outside the reporting entity (external portion). This pool is not registered with the Securities and Exchange Commission and is not subject to any formal oversight other than that of the legislative body.

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At year-end, the condensed financial statements for the Investment Pool maintained by the State Treasurer were as follows (dollars in thousands):

Statement of Net Assets
June 30, 2009

Assets:	
Cash and cash equivalents.....	\$ 122,656
Other assets.....	414,548
Investments.....	82,371,167
Total assets.....	<u>82,908,371</u>
Liabilities:	
Distributions payable.....	7,647
Other payables.....	164,250
Obligations under securities lending.....	11,783,834
Total liabilities.....	<u>11,955,731</u>
Net Assets:	
Internal:	
Primary government.....	67,558,730
Component units.....	2,860,399
External.....	533,511
Total net assets.....	<u>\$ 70,952,640</u>

Statement of Operations and Changes in Net Assets
For the Fiscal Year Ended June 30, 2009

Revenues:	
Investment income.....	\$ (9,356,959)
Expenses:	
Securities lending.....	194,028
Investment management.....	277,472
Total expenses.....	<u>471,500</u>
Net increase in net assets resulting from operations.....	(9,828,459)
Distributions to participants:	
Distributions paid and payable.....	9,828,459
Share transactions:	
Reinvestment of distributions.....	(9,824,914)
Net share redemptions.....	<u>(4,304,457)</u>
Total increase in net assets.....	(14,129,371)
Net assets:	
Beginning of year.....	85,082,011
End of year.....	<u>\$ 70,952,640</u>

The external portion of the Investment Pool is presented in the State's financial statements as an investment trust fund. Each fund and component unit's share of the internal equity in the Investment Pool is reported in the State's financial statements as an asset of those funds or component units. Equity in the Short-term Investment portfolio is reported as cash and cash equivalents while equity in the Long-term Investment, Equity Investment, Real Estate Investment, and Alternative Investment portfolios is reported as investments. The internal equity of the pool differs from the amount of assets reported by the funds and component units due to the typical banker/customer outstanding and in-transit items. Additionally,

each fund reports its share of the assets and liabilities arising from securities lending transactions. The State reports the assets and liabilities arising from securities lending transactions for component units as part of the State's agency funds, rather than allocate them to the component units.

Investments in nonparticipating contracts, such as nonnegotiable certificates of deposit, are reported at cost. Other investments held in the Short-term Investment portfolio are reported at amortized cost, which approximates fair value. All other investments are reported at fair value. Fair values are determined daily for the Long-term Investment and Equity Investment portfolios and quarterly for the Real Estate Investment and Alternative Investment portfolios. The fair value of fixed income securities is based on future principal and interest payments discounted using current yields for similar instruments. Investments in real estate trusts, limited partnerships, and the equity trust are valued using market prices provided by the third party professionals. Participants' shares sold and redeemed are determined in the same manner as is used to report investments, and the State Treasurer does not provide or obtain legally binding guarantees to support share values.

Net investment income earned by the Investment Pool is generally distributed on a pro rata basis. However, in accordance with legal requirements, the General Fund receives all investment income earned by funds created for purposes of meeting appropriations. For the fiscal year ended June 30, 2009, \$21.5 million of investment income associated with other funds was credited to the General Fund.

Deposits

Custodial Credit Risk. For deposits, custodial credit risk is the risk that in the event of a bank failure, the State's deposits may not be recovered. At year-end, the Investment Pool's deposits were not exposed to custodial credit risk.

The State Treasurer's deposit policy for custodial credit risk is limited to complying with the collateralization rules of the North Carolina Administrative Code (Chapter 20 NCAC 7). Deposits to the Investment Pool may be made in any bank, savings and loan association or trust company in the State as approved by the State Treasurer. The North Carolina Administrative Code requires depositories to collateralize all balances that are not insured. The depositories must maintain specified security types in a third party escrow account established by the State Treasurer. The securities collateral must be governmental in origin (e.g., U.S. Treasury, U.S. agency, or state and local government obligations) or the highest grade commercial paper and bankers' acceptances. The market value of the collateral must not be less than the value of the uninsured deposits. The depositories may elect to collateralize deposits separately (dedicated method) or include deposits of the North Carolina local government units in a collateral pool with the State and certain component units (pooling method).

NOTES TO THE FINANCIAL STATEMENTS

Investments

At year-end, the Investment Pool maintained by the State Treasurer had the following investments and maturities (dollars in thousands):

Investment Type	Carrying Amount	Investment Maturities (in Years)			
		Less Than 1	1 to 5	6 to 10	More Than 10
Debt securities:					
U.S. Treasuries	\$ 7,932,575	\$ 2,271,069	\$ 55,125	\$ 2,054,683	\$ 3,551,698
U.S. agencies	8,435,293	1,629,985	4,183,660	1,888,882	732,766
Mortgage pass-throughs	5,867,036	—	—	3,225	5,863,811
Collateralized mortgage obligations	588,192	135,672	—	—	452,520
Asset-backed securities	605,148	436,108	118,854	17,112	33,074
Repurchase agreements	1,420,000	1,420,000	—	—	—
Commercial mortgage-backed securities	41,127	2,135	—	—	38,992
Domestic corporate bonds	9,912,657	113,293	971,026	4,955,453	3,872,885
Foreign government bonds	9,927	—	—	9,927	—
Securities purchased with cash collateral under securities lending program:					
Asset-backed securities	4,367,163	1,703,013	2,441,791	—	222,359
Repurchase agreements	863,133	863,133	—	—	—
Domestic corporate bonds	6,553,538	6,553,538	—	—	—
	<u>46,595,789</u>	<u>\$ 15,127,946</u>	<u>\$ 7,770,456</u>	<u>\$ 8,929,282</u>	<u>\$ 14,768,105</u>
Other securities:					
Equity based trust - domestic	18,575,629				
Equity based trust - international	9,734,253				
Alternative investments:					
Hedge funds	648,795				
Private equity investment partnerships	2,605,792				
Stock distributions	5,785				
Real estate trust funds	3,787,124				
Total investment securities	\$ 81,953,167				

In addition to the above amount, certificates of deposit in the amount of \$418 million are reported as investments in the Condensed Statement of Net Assets presented previously.

Also, the major investment classifications of the Investment Pool had the following attributes at year-end (dollars in thousands):

Investment Classification	Principal Amount	Range of Interest Rates
U.S. Treasuries	\$ 6,774,269	1.62%-8.87%
U.S. agencies	8,264,857	0.00%-7.12%
Mortgage pass-throughs	5,639,767	4.5%-9.0%
Collateralized mortgage obligations	1,309,837	0.11%-7.52%
Commercial mortgage-backed securities	2,096,105	0.01%-7.99%
Asset-backed securities	1,092,896	.21%-7.13%
Domestic corporate bonds	10,109,986	1.63%-12.0%
Foreign government bonds	10,000	5.12%
Repurchase agreements	1,420,000	0%-0.01%
Securities purchased with cash collateral under securities lending program:		
Asset-backed securities	4,960,661	.30%-1.42%
Repurchase agreements	863,133	.01%-.49%
Domestic corporate bonds	6,731,275	0%-1.61%
Equity-based trust - domestic	n/a	n/a
Equity-based trust - international	n/a	n/a

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Equity-based Trust - The State Treasurer has contracted with an external party (Trustee) to create the "Treasurer of the State of North Carolina Equity Investment Fund Pooled Trust" (the Trust). The State's pension trust funds are the only depositors in the Trust. The State Treasurer employs investment managers to manage the assets, primarily in equity and equity-based securities in accordance with the General Statutes and parameters provided by the State Treasurer. The Trustee maintains custody of the underlying securities in the name of the Trust, services the securities, engages in securities lending transactions, and maintains all related accounting records. The Trustee also invests residual cash in a cash sweep fund and may be temporarily employed as an investment manager. The State Treasurer maintains beneficial interest in the Trust and no direct ownership of the securities.

Interest Rate Risk. Although there is no formally adopted investment policy, as a means of managing interest rate risk, fixed income assets of the Short-term Investment portfolio are invested in a laddered maturity approach that focuses on short maturity securities with ample liquidity. The Short-term Investment portfolio had a weighted average maturity of 1.8 years as of June 30, 2009. Most of the cash and cash equivalents of the major governmental and enterprise funds are invested in this portfolio.

The assets of the Long-term Investment portfolio are primarily invested in securities with maturities longer than five years. The longer maturity range is more sensitive to interest rate changes; however, the longer duration structure of the portfolio provides a better match to the long duration characteristics of the retirement systems' liabilities. At year-end, pensions and other employee benefit plans owned 99% of the Long-term Investment portfolio.

The Long-term Investment portfolio holds investments in Government National Mortgage Association (GNMA) mortgage pass-through pools. Critical to the pricing of these securities are the specific features of the cash flows from the interest and principal payments of the underlying mortgages. Therefore, these valuations are very sensitive to the potential of principal prepayments by mortgagees in periods of declining interest rates. Also, included within the Long-term Investment portfolio are U.S. government agencies and corporate bonds which carry call options in which the issuer has the option to prepay the principal at certain dates over the life of the security. As such, these types of securities are more sensitive to the decline in long-term interest rates as similar securities without call options.

In addition to the corporate bonds with call options mentioned in the preceding paragraph, there are corporate

bonds with variable coupon rates that reset on specific dates. Also, the cash collateral received from securities lending has also been invested in corporate bonds with floating rates. Critical to the pricing of these securities are the changes in interest rates. The State Treasurer considers the maturity for interest rate risk purposes to be the length of time to the next reset date rather than the stated maturity.

The externally managed Fixed Income Investment portfolio holds investments in asset-backed securities and collateralized mortgage obligations. The focus is on fixed and floating rate, short duration securities with an average duration of less than 2.5 years. Securities must carry an investment grade rating to be purchased for the portfolio. The short duration nature of the assets limits interest rate risk. For the asset-backed securities with floating rate, the State Treasurer considers the maturity for interest rate risk purposes to be the length of time to the next reset date rather than stated maturity.

Also, included within the Fixed Income portfolio are commercial mortgage-backed securities with a focus on structures with fixed rates and average life of less than six years. Securities must carry an investment grade rating of AAA at the time of purchase.

Critical to the pricing of asset-backed and mortgage-backed securities are the specific features of cash flows from the interest and principal payments of the underlying assets. Therefore, valuations are very sensitive to the potential of principal prepayments by mortgagees in periods of declining interest rates.

Credit Risk. General Statute 147-69.1 specifies the cash investment options for the Short-term Investment portfolio. The statute limits credit risk by restricting the portfolio's corporate obligations, asset-backed securities, and commercial paper to securities that bear the highest rating of at least one nationally recognized rating service and do not bear a rating below the highest by any nationally recognized rating service. General Statute 147-69.2 specifies the cash investment options for the Long-term Investment portfolio. The statute limits credit risk by restricting the portfolio's asset-backed securities and corporate obligations to securities that bear one of the four highest ratings of at least one nationally recognized rating service and do not bear a rating below one of the four highest ratings by any nationally recognized rating service. In the Long-term Investment portfolio, all holdings were rated BBB (or equivalent) or higher at the time of purchase by all three nationally recognized rating agencies.

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At year-end, the Investment Pool had the following credit quality distribution for securities with credit exposure (dollars in thousands):

Investment Type	Carrying Amount by Credit Rating - Moody's/S&P/Fitch				
	Aaa/AAA	Aa/AA	A	Baa/BBB	Ba/BB and Below
U.S. agencies	\$ 8,310,120	\$ —	\$ 125,173	\$ —	\$ —
Collateralized mortgage obligations	509,146	9,788	25,729	10,691	32,838
Commercial mortgage-backed securities	41,127	—	—	—	—
Asset-backed securities	290,749	75,346	45,021	194,032	—
Repurchase agreements	1,420,000	—	—	—	—
Domestic corporate bonds	551,394	2,092,615	4,994,248	2,113,057	161,343
Foreign government bonds	—	—	9,927	—	—
Securities purchased with cash collateral under securities lending program:					
Asset-backed securities	4,001,911	237,891	22,726	8,307	96,328
Repurchase agreements	863,133	—	—	—	—
Domestic corporate bonds	887,156	1,338,095	4,124,775	—	203,512
Total	<u>\$ 16,874,736</u>	<u>\$ 3,753,735</u>	<u>\$ 9,347,599</u>	<u>\$ 2,326,087</u>	<u>\$ 494,021</u>

Custodial Credit Risk. For an investment, custodial credit risk is the risk that in the event of the failure of the counterparty, the State Treasurer will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. At year-end, the investments purchased with cash collateral under the securities lending program of \$11.8 billion were exposed to custodial credit risk since the securities were held by the counterparty and were not registered in the name of the State Treasurer. As required by contractual agreements, a third party agent holds these assets for the benefit of a dedicated Treasurer's account. This agreement fully indemnifies the Treasurer for any third party defaults or losses. All other investments of the Investment Pool were not exposed to custodial credit risk at year-end and no custodial credit risk policy has been adopted for these investment types.

Foreign Currency Risk. At year-end, the Investment Pool's exposure to foreign currency risk was as follows (dollars in thousands):

Currency	Carrying Value by Investment Type			
	Equity Based Trust - International	Alternative Investment - Private Equity Investment Partnerships	Real-Estate Trust Fund Investment Partnerships	Total
Euro	\$ 2,320,553	\$ 297,737	\$ 99,015	\$ 2,717,305
Japanese Yen	1,521,805	—	37,142	1,558,947
Pound Sterling	1,192,236	—	17,099	1,209,335
Hong Kong Dollar	561,968	—	41,568	603,536
Swiss Franc	417,153	—	1,457	418,610
Australian Dollar	280,764	—	15,391	296,155
Swedish Krona	136,505	—	1,198	137,703
New Taiwan Dollar	127,910	—	—	127,910
Canadian Dollar	122,764	—	1,010	123,774
South Korean Won	117,756	—	—	117,756
Other Currencies	610,254	—	6,612	616,866
Total	<u>\$ 7,409,668</u>	<u>\$ 297,737</u>	<u>\$ 220,492</u>	<u>\$ 7,927,897</u>

Although there is no formally adopted investment policy, the State Treasurer's investment policy permits up to 20% of the retirement systems' invested assets to be in international securities. At year-end, the retirement systems had approximately 13.2% invested in international securities.

Securities Lending

Based on the authority provided in General Statute 147-69.3(e), the State Treasurer lends securities from its Investment

Pool to broker-dealers and other entities (borrowers) for collateral that will be returned for the same securities in the future. The Treasurer's securities custodian manages the securities lending program. During the year the custodian lent U.S. government and agency securities, GNMA's, corporate bonds and notes for collateral. The custodian is permitted to receive cash, U.S. government and agency securities, or irrevocable letters of credit as collateral for the securities lent. The collateral is initially pledged at 102% of the market value of the securities lent, and additional collateral is required if its value falls to less than 100% of the market value of the

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securities lent. There are no restrictions on the amount of loans that can be made. Substantially all security loans can be terminated on demand by either the State Treasurer or the borrower. The State Treasurer cannot pledge or sell the collateral securities received unless the borrower defaults.

The cash collateral received is invested by the custodian agent and held in a separate account in the name of the State Treasurer. The weighted average maturities of the cash collateral investments are less than the weighted average maturities of the securities lent. While cash can be invested in securities ranging from overnight to five years, the custodian agent is not permitted to make investments where the weighted average maturity of all investments exceeds 30 days. At year-end, the weighted average maturity of investments was approximately 25 days.

At year-end, the State Treasurer had no credit risk exposure to borrowers because the amounts the Treasurer owed the borrowers exceeded the amounts the borrowers owed the State. The securities custodian is contractually obligated to indemnify the Treasurer for certain conditions, the two most important are default on the part of the borrowers and failure to maintain the daily mark-to-market on the loans.

Interest Rate Risk and Credit Risk. The policies for investments purchased with cash collateral under the securities lending program are set forth in the contract with the securities custodian. Contractually, asset-backed securities must bear the highest rating of at least one nationally recognized rating service. The expected maturity shall not exceed five years and securities having a final maturity greater than two years will be in floating rate instruments with interest rate resets occurring at no greater than 90-day intervals to minimize the effect of interest rate fluctuations on their valuations. The securities pledged as collateral for repurchase agreements are limited to securities issued or guaranteed by the U.S. government or its agencies, or specified bank or corporate obligations. As directed by the State Treasurer, repurchase counterparties are limited to specific counterparties with specific dollar limits per counterparty. Corporate bonds and notes, including bank holding company obligations, rated AA must have a final maturity no greater than three years. Securities rated A must have a final maturity no greater than two years. No more than five percent of the cash collateral may be invested in a single issue.

Bond Proceeds Investment Accounts

The State Treasurer has established separate investment accounts for each State bond issue to comply with Internal Revenue Service regulations on bond arbitrage. A private investment company under contract with the State Treasurer manages these separate accounts. The investments are valued at amortized cost, which approximates fair value. In the State's financial statements, each fund's equity in these accounts is reported as investments.

At year-end, the bond proceeds investment accounts had the following investments and maturities (dollars in thousands):

<u>Investment Type</u>	<u>Carrying Amount</u>	<u>Weighted Average Maturity (Days)</u>
Debt securities:		
State and local government	\$ 7,205	7
Repurchase agreements	134,539	2
Total investments	<u>\$ 141,744</u>	

Interest Rate Risk and Credit Risk. As established in the contract with the private investment company, all bond proceeds are managed in compliance with General Statute 147-69.1, which limits credit risk as described above, and can only be invested in short-term maturities with the average maturity ranging between overnight to six months based on the liquidity needs of the investment accounts. At year-end, Standard and Poor's rated investments in state and local government bonds as A-1.

Custodial Credit Risk. Investments purchased with bond proceeds were exposed to custodial credit risk since the securities were held by the counterparty and were not registered in the name of the State Treasurer. There is no custodial policy related to these securities.

University of North Carolina (UNC) Hospitals Investment Account

The State Treasurer has contracted with an external party (Trustee) to create the University of North Carolina Hospitals at Chapel Hill Trust (Trust). The UNC Hospitals are the only depositor in the Trust. However, the Trust is a participant of a commingled equity investment fund. The Trustee manages the assets, primarily in equity and equity-based securities in accordance with the General Statutes. The Trustee maintains custody of the underlying securities in the name of the Trust, services the securities, and maintains all related accounting records. The investments are valued at fair market value using market prices provided by third party professionals.

At year-end, the UNC Hospitals investment account maintained by the State Treasurer had the following investments (settled transactions) (dollars in thousands):

<u>Investment Type</u>	<u>Carrying Amount</u>
Other securities:	
Equity based trust - domestic	\$ 175,684
Equity based trust - international	59,685
Total investment securities	<u>\$ 235,369</u>

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Foreign Currency Risk. There is no formally adopted investment policy to limit foreign currency exposure. At year-end, the UNC Hospitals investment account's exposure to foreign currency was as follows (dollars in thousands):

Currency	Carrying Value by Investment Type	
	Equity Based Trust- International	
Euro	\$	13,907
Japanese Yen		9,893
Pound Sterling		8,741
Canadian Dollar		4,244
Hong Kong Dollar		3,702
Swiss Franc		3,239
Australian Dollar		3,155
South Korean Won		1,680
Brazil Cruzeiro Real		1,492
New Taiwan Dollar		1,088
Swedish Krona		914
Russian Rouble		851
South African Rand		633
Singapore Dollar		589
Other Currencies		4,567
Total	\$	<u>58,695</u>

Note: The totals in this table do not agree to the totals disclosed in the investment table above because this foreign currency table includes equities based on trade date while the investment table is reported on settle date.

Public Hospitals Investment Account

The State Treasurer has contracted with an external party (Trustee) to create the Public Hospitals investment account. The investment account currently consists of Margaret R. Pardee Hospital Trust and New Hanover Regional Medical Center Trust. These Trusts are part of a commingled equity investment fund. The Trustee manages the assets, primarily in equity and equity-based securities in accordance with the General Statutes. The Trustee maintains custody of the underlying securities in the name of the Trust, services the securities, and maintains all related accounting records. The investments are valued at fair market value using market prices provided by third party professionals.

At year-end, the Public Hospitals investment accounts maintained by the State Treasurer had the following investments (settled transactions) (dollars in thousands):

Investment Type	Carrying Amount
Other securities:	
Equity based trust - domestic	\$ 31,232
Equity based trust - international	11,534
Total investment securities	<u>\$ 42,766</u>

Foreign Currency Risk. There is no formally adopted investment policy to limit foreign currency exposure. At year-end, the Public Hospitals investment account's exposure to foreign currency was as follows (dollars in thousands):

Currency	Carrying Value by Investment Type	
	Equity Based Trust- International	
Euro	\$	2,688
Japanese Yen		1,912
Pound Sterling		1,689
Canadian Dollar		820
Hong Kong Dollar		716
Swiss Franc		626
Australian Dollar		610
South Korean Won		325
Brazil Cruzeiro Real		288
New Taiwan Dollar		210
Swedish Krona		177
Russian Rouble		164
South African Rand		122
Singapore Dollar		114
Other Currencies		882
Total	\$	<u>11,343</u>

Note: The totals in this table do not agree to the totals disclosed in the investment table above because this foreign currency table includes equities based on trade date while the investment table is reported on settle date.

Escheat Investment Account

Pursuant to General Statute 147-69.2(b)(12), the State Treasurer has established a separate investment account on behalf of the Escheat Fund. The investments are valued at fair market value using market prices provided by third party professionals. At year-end, the Escheat investment account maintained by the State Treasurer had the following investments (dollars in thousands):

Investment Type	Carrying Amount
Other securities:	
Real estate trust funds	\$ 13,385
Private equity investment partnerships	24,241
Public equities - domestic	26,394
Public equities - international	3,882
Total investment securities	<u>\$ 67,902</u>

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Foreign Currency Risk. There is no formally adopted investment policy to limit foreign currency exposure. At year-end, the Escheat investment account's exposure to foreign currency was as follows (dollars in thousands):

Currency	Carrying Value by Investment Type	
	Public Equities - International	
Euro	\$	711
Japanese Yen		559
Hong Kong Dollar		440
Pound Sterling		394
Brazil Cruzeiro Real		215
Swiss Franc		203
South Korean Won		175
New Taiwan Dollar		151
Singapore Dollar		99
Canadian Dollar		97
Mexican New Peso		77
Australian Dollar		58
South African Rand		53
Russian Rouble		43
Swedish Krona		40
Other Currencies		567
Total	\$	<u>3,882</u>

At year-end, the trust maintained by the State Treasurer had the following investments (settled transactions)(dollars in thousands):

Investment Type	Carrying Amount
Short-term investment	\$ 7,009
Long-term investment	2,976
Other securities:	
Equity based trust - domestic	10,456
Equity based trust - international	3,440
Total investment securities	<u>\$ 23,881</u>

The short-term and long-term investments listed above represent holdings in the State Treasurer's Investment Pool's Short-term Investment and Long-term Investment portfolios.

Foreign Currency Risk. There is no formally adopted investment policy to limit foreign currency exposure. At year-end, the trust's exposure to foreign currency risk was as follows (dollars in thousands):

Local Government Other Post-Employment Benefits (OPEB) Fund

Pursuant to General Statute 147-69.4, the State Treasurer manages the Local Government OPEB Fund. This is a trust fund established for local governments, public authorities, any entity eligible to participate in the State's Local Government Employee's Retirement System, and local school administrative units. Eligible participants make voluntary contributions to the trust for the purpose of depositing and investing all or part of the contributions from their other post-employment benefit plans. As of June 30, 2009, the trust fund had twelve participants.

General Statute 147-69.2 authorizes the State Treasurer to invest the Local Government OPEB Fund in the investments authorized in General Statute 147-69.1; general obligations of other states; general obligations of North Carolina local governments; asset-backed securities bearing specific ratings; obligations of any company incorporated within or outside the United States bearing specific ratings; and directly in certain stocks or indirectly through individual, common or collective trusts of banks and trust companies. The State Treasurer manages the trust's assets and is responsible for making all investment decisions.

Currency	Carrying Value by Investment Type	
	Equity Based Trust-International	
Euro	\$	801
Japanese Yen		570
Pound Sterling		504
Canadian Dollar		245
Hong Kong Dollar		213
Swiss Franc		187
Australian Dollar		182
South Korean Won		97
Brazil Cruzeiro Real		86
New Taiwan Dollar		63
Swedish Krona		53
Russian Rouble		49
South African Rand		36
Singapore Dollar		34
Indian Rupee		33
Mexican Peso		31
Turkish Lira		24
Danish Krone		24
Malaysian Ringgit		22
Norwegian Krone		20
Other Currencies		108
Total	\$	<u>3,382</u>

Note: The totals in this table do not agree to the totals disclosed in the investment table above because this foreign currency table includes equities based on trade date while the investment table is reported on settle date.

NOTES TO THE FINANCIAL STATEMENTS**B. Deposits Outside the State Treasurer**

In addition to the pooled deposits maintained by the State Treasurer, other deposits are maintained outside the State Treasurer by the primary government and certain component units. As a general rule, these deposits are not covered by the rules in Chapter 20 NCAC 7 requiring collateralization of uninsured deposits.

Primary Government

The majority of deposits held outside the State Treasurer were maintained by the various clerks of superior court. The clerks of superior court do not have a deposit policy for custodial credit risk. At year-end, the bank balances maintained outside the State Treasurer by the primary government were exposed to custodial credit risk as follows (dollars in thousands):

Uninsured and uncollateralized	\$	3,675
Uninsured and collateral held by pledging bank's trust department but not in State's name		57,783
Total	\$	<u>61,458</u>

Component Units**(University of North Carolina System, The Golden LEAF, Inc. and State Education Assistance Authority)**

The University of North Carolina (UNC) System does not have a deposit policy for custodial credit risk. At year-end, the bank balances maintained outside the State Treasurer by the UNC System were exposed to custodial credit risk as follows (dollars in thousands):

Uninsured and uncollateralized	\$	208,671
Uninsured and collateral held by pledging bank's trust department or agent but not in State's name		180
Total	\$	<u>208,851</u>

The Golden LEAF, Inc. does not have a deposit policy for custodial credit risk. At year-end, the bank balances maintained outside the State Treasurer by the Golden LEAF, Inc. were

exposed to custodial credit risk as follows (dollars in thousands):

Uninsured and uncollateralized	\$	3,205
Total	\$	<u>3,205</u>

The State Education Assistance Authority does not have a deposit policy for custodial credit risk. At year-end, the bank balances maintained outside the State Treasurer by the State Education Assistance Authority were exposed to custodial credit risk as follows (dollars in thousands):

Uninsured and collateral held by pledging bank	\$	5,110
Total	\$	<u>5,110</u>

C. Investments Outside the State Treasurer

Investments in participating investment contracts, external investment pools, open-end mutual funds, debt securities, equity securities, and all investments of the Deferred Compensation Plan are reported at fair value. Investments in certificates of deposit, investment agreements, bank investment contracts, real estate, real estate investment trusts, and limited partnerships are reported at cost. Detailed disclosures about investments held outside the State Treasurer are presented below.

Primary Government

At year-end, 73% of investments held outside the State Treasurer were maintained by the Supplemental Retirement Income Plan of North Carolina.

Supplemental Retirement Income Plan of North Carolina

The General Statutes place no specific investment restrictions on the Supplemental Retirement Income Plan of North Carolina (the Plan). However, in the absence of specific legislation, the form of governance over the investments would be the prudent-person or prudent-expert rule. These rules are broad statements of intent, generally requiring investment selection and management to be made with prudent, discreet, and intelligent judgment and care. The Plan does not have formal investment policies that address interest rate risk, custodial credit risk, concentration of credit risk, or foreign currency risk.

NOTES TO THE FINANCIAL STATEMENTS

At December 31, 2008, the Supplemental Retirement Income Plan of North Carolina had the following investments and maturities that were maintained outside the State Treasurer (dollars in thousands):

Investment Type	Carrying Amount	Investment Maturities (in Years)			
		Less Than 1	1 to 5	6 to 10	More Than 10
Debt securities:					
Fidelity Intermediate Bond Fund	\$ 213,813	\$ —	\$ 213,813	\$ —	\$ —
U.S. Treasuries	269,793	10,641	120,250	51,703	87,199
U.S. agencies	106,256	6,086	73,509	21,361	5,300
Mortgage pass-throughs	53,116	9,096	—	—	44,020
Collateralized mortgage obligations	512,068	72,880	1,034	16,621	421,533
Asset-backed securities	10,704	1,211	8,093	428	972
Domestic corporate bonds	242,978	11,610	99,893	91,308	40,167
Foreign corporate bonds	43,690	5,463	19,405	8,642	10,180
Foreign government bonds	10,379	733	2,703	3,097	3,846
	<u>1,462,797</u>	<u>\$ 117,720</u>	<u>\$ 538,700</u>	<u>\$ 193,160</u>	<u>\$ 613,217</u>
Other securities:					
State Street Securities Lending Quality Trust	326,607				
Balanced mutual funds	204,122				
International mutual funds	239,040				
Other mutual funds	1,574,940				
Total investment securities	<u>\$ 3,807,506</u>				

Interest Rate Risk. The Fidelity Intermediate Bond Fund, which is rated AA, had a weighted average maturity of 4.1 years as of August 31, 2008. In the above table, it is disclosed as an investment with a maturity of one to five years. Collateralized mortgage obligation securities generate a return based upon either the payment of interest or principal on mortgages in an underlying pool. The relationship between interest rates and prepayments make the fair value highly sensitive to changes in interest rates. In falling interest rate environments, the underlying mortgages are subject to a higher propensity of prepayments. In a rising interest rate environment, the opposite is true.

Credit Risk. The Plan's investment policy requires that debt securities, at the time of purchase, shall have a minimum Standard & Poor's rating of BBB-. Any security downgraded below BBB- by Standard & Poor's will be liquidated within six months. At year-end, the Plan investments maintained outside the State Treasurer had the following credit quality distribution for securities with credit exposure (dollars in thousands):

Investment Type	Carrying Amount by Credit Rating - Moody's/S&P/Fitch				
	Aaa/AAA	Aa/AA	A	Baa/BBB	Unrated
U.S. agencies	\$ 106,256	\$ —	\$ —	\$ —	\$ —
Mortgage pass-throughs	47,145	—	—	—	5,971
Collateralized mortgage obligations	—	—	—	—	512,068
Asset-backed securities	9,997	—	707	—	—
Domestic corporate bonds	13,424	16,118	136,480	76,956	—
Foreign corporate bonds	—	4,616	20,755	18,319	—
Foreign government bonds	—	—	2,943	7,436	—
Total	<u>\$ 176,822</u>	<u>\$ 20,734</u>	<u>\$ 160,885</u>	<u>\$ 102,711</u>	<u>\$ 518,039</u>

Custodial Credit Risk. For an investment, custodial credit risk is the risk that in the event of the failure of the counterparty, the Plan will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Plan does not have a formal policy to limit custodial credit risk. At December 31, 2008, the investments of the Supplemental Retirement Income Plan of North Carolina maintained outside the State Treasurer were

exposed to custodial credit risk as follows (dollars in thousands):

NOTES TO THE FINANCIAL STATEMENTS

Investment Type	Carrying Amount Held by Counterparty
U.S. Treasuries	\$ 269,793
U.S. agencies	106,256
Mortgage pass-throughs	53,116
Collateralized mortgage obligations	512,068
Asset-backed securities	10,704
Domestic corporate bonds	242,978
Foreign corporate bonds	43,690
Foreign government bonds	10,379
Total	\$ 1,248,984

Concentration of Credit Risk. Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. The Plan places no limit on the amount that may be invested in any one issuer. More than 5% of the Plan's investments are in Federal National Mortgage Association and Federal Home Loan Mortgage Corporation. These investments totaled \$344.685 million and \$184.525 million and comprise 9.9% and 5.3%, respectively, of the Plan's investments. The majority of these investments are classified as collateralized mortgage obligations.

Securities Lending

The Plan has a securities lending contract with State Street Bank and Trust Company ("State Street") as agent to lend available securities to broker-dealers and other entities (borrowers) in accordance with the agreement. State Street enters into loan contracts with borrowers on behalf of the Plan whereby the borrowers of the securities agree to transfer to State Street either cash collateral or securities issued or guaranteed by the U. S. government or its agencies with a fair value of 102% of the value of the securities lent. The borrowers

of the securities simultaneously agree to return the borrowed securities in exchange for the collateral at a later date.

As of December 2008, State Street lent U.S. Treasuries, U.S. agencies, collateralized mortgage obligations, domestic corporate bonds, foreign corporate bonds, and foreign governmental bonds. Cash collateral is invested in the State Street Securities Lending pooled fund, which at December 2008 had a weighted average maturity of 37 days.

The Plan has no credit risk exposure to borrowers because the amounts the Plan owes the borrowers exceed the amounts the borrowers owe the system. The contract with State Street requires State Street to indemnify the Plan if borrowers fail to return securities.

Other Primary Government Investments

The other primary government investments held outside the State Treasurer consisted almost entirely of balances maintained by the North Carolina Public Employee Deferred Compensation Plan (the Plan) and separate investment accounts held by trustees for special obligation debt issues to comply with IRS regulations on bond arbitrage.

General Statute 143B-426.24(j) allows the Deferred Compensation Plan Board to acquire investment vehicles from any company authorized to conduct such business in this State or may establish, alter, amend and modify, to the extent it deems necessary or desirable, a trust for the purpose of facilitating the administration, investment and maintenance of assets acquired by the investment of deferred funds. All assets of the Plan, including all deferred amounts, property and rights purchased with deferred amounts, and all income attributed thereto shall be held in trust for the exclusive benefit of the Plan participants and their beneficiaries.

At year-end, the other primary government investments maintained outside the State Treasurer had the following investments and maturities (dollars in thousands):

Investment Type	Carrying Amount	Investment Maturities (in Years)			
		Less Than 1	1 to 5	6 to 10	More Than 10
Debt securities:					
U.S. Treasuries	\$ 962	\$ 583	\$ 83	\$ 296	\$ —
U.S. Treasury STRIPS	1,259	548	600	111	—
U.S. agencies	156,473	12	5,614	29,575	121,272
Mortgage pass-throughs	275	—	172	103	—
State and local government	74	5	35	34	—
Asset-backed securities	14,751	—	3,568	7,401	3,782
Repurchase agreements	453,649	451,234	2,415	—	—
Annuity contracts	23,780	—	23,780	—	—
Money market mutual funds	3,383	3,383	—	—	—
Domestic corporate bonds	10,626	3,529	5,761	873	463
Total	665,232	\$ 459,294	\$ 42,028	\$ 38,393	\$ 125,517
Other securities:					
Balanced mutual funds	12,834				
International mutual funds	35,766				
Other mutual funds	367,370				
Domestic stocks	85,786				
Total investment securities	\$ 1,166,988				

NOTES TO THE FINANCIAL STATEMENTS

Interest Rate Risk and Credit Risk. The special obligation debt proceeds are generally invested in repurchase agreements. As established in the debt covenants, repurchase agreements with respect to government obligations can only be entered into with 1) a dealer recognized as a primary dealer by a Federal Reserve Bank with a short-term rating not less than P-1 from Moody's Investors Service (Moody's) and not less than A-1 from Standard & Poor's (S&P) and Fitch Ratings (Fitch); or 2) any commercial bank, trust company, or national banking association rated A or better by Moody's, S&P and Fitch, the deposits of which are insured by the Federal Deposit Insurance Corporation. There are no formally adopted investment policies or debt covenants for special obligation debt proceeds that address interest rate risk.

At year-end, the other primary government investments maintained outside the State Treasurer had the following credit quality distribution for securities with credit exposure (dollars in thousands):

Investment Type	Carrying Amount by Credit Rating - Moody's/S&P/Fitch				
	Aaa/AAA	Aa/AA	A	Baa/BBB	Unrated
U.S. agencies	\$ 156,461	\$ —	\$ —	\$ 12	\$ —
Mortgage pass-throughs	275	—	—	—	—
State and local government	53	—	—	21	—
Asset-backed securities	11,648	2,555	—	548	—
Repurchase agreements	54,403	—	—	—	6,700
Annuity contracts	—	—	—	—	23,780
Money market mutual funds	214	—	—	216	2,953
Domestic corporate bonds	3,648	2,604	4,335	39	—
Total	<u>\$ 226,702</u>	<u>\$ 5,159</u>	<u>\$ 4,335</u>	<u>\$ 836</u>	<u>\$ 33,433</u>

Custodial Credit Risk. For an investment, custodial credit risk is the risk that in the event of the failure of the counterparty, the primary government will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. There were no formally adopted policies that address custodial credit risk of other primary government investments outside the State Treasurer. At year-end, the other primary government investments maintained outside the State Treasurer were exposed to custodial credit risk as follows (dollars in thousands):

Investment Type	Carrying Amount	
	Held by Counterparty	Held by Counterparty's Trust Dept. or Agent but not in State's Name
U.S. Treasuries	\$ 511	\$ —
U.S. agencies	53	154,133
Mortgage pass-throughs	275	—
State and local government	53	—
Asset-backed securities	—	14,751
Repurchase agreements	—	6,700
Domestic corporate bonds	107	10,519
Total	<u>\$ 999</u>	<u>\$ 186,103</u>

Foreign Currency Risk. Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair market value of an investment. At year-end, there were no formally adopted policies that address foreign currency risk of other primary government investments outside the State Treasurer.

Concentration of Credit Risk. The North Carolina Public Employee Deferred Compensation Plan (the Plan) places no limit on the amount that may be invested in any one issuer. More than 5% of the Plan's investments are in Federal National Mortgage Association and Federal Home Loan Mortgage Corporation. These investments totaled \$64.871 million and \$69.014 million and comprise 10.4% and 11.1%, respectively, of the Plan's investments.

NOTES TO THE FINANCIAL STATEMENTS

Component Units

(University of North Carolina System, State Education Assistance Authority and The Golden LEAF, Inc.)

University of North Carolina System

The General Statutes place no specific investment restrictions on the University of North Carolina System (the UNC System). However, in the absence of specific legislation, the form of governance over these investments would be the prudent-person or prudent-expert rule. These rules are broad statements of intent, generally requiring investment selection and management to be made with prudent, discreet, and intelligent judgment and care. The University of North Carolina at Chapel Hill (the University) operates an Investment Fund, which is a governmental external investment pool. The University operates the Investment Fund for charitable, nonprofit foundations, associations, trusts, endowments and funds that are organized and operated primarily to support the University. Separate financial statements for the Investment Fund may be obtained from the University.

At year-end, the UNC System had the following investments and maturities that were maintained outside the State Treasurer (dollars in thousands):

Investment Type	Carrying Amount	Investment Maturities (in Years)			
		Less Than 1	1 to 5	6 to 10	More Than 10
Debt securities:					
U.S. Treasuries	\$ 128,010	\$ 11,377	\$ 90,240	\$ 1,163	\$ 25,230
U.S. agencies	177,883	14,023	70,291	12,885	80,684
Mortgage pass-throughs	13,005	—	34	3,077	9,894
Collateralized mortgage obligations	59,031	—	—	498	58,533
State and local government	273	60	—	38	175
Asset-backed securities	5,582	—	67	208	5,307
Repurchase agreements	7,295	7,295	—	—	—
Annuity contracts	102	—	—	—	102
Money market mutual funds	156,823	156,823	—	—	—
Mutual bond funds	81,432	—	35,450	44,804	1,178
Domestic corporate bonds	33,379	1,799	8,446	3,989	19,145
Foreign corporate bonds	284	1	42	74	167
Foreign government bonds	10,315	—	—	10,286	29
	<u>673,414</u>	<u>\$ 191,378</u>	<u>\$ 204,570</u>	<u>\$ 77,022</u>	<u>\$ 200,444</u>
Other securities:					
International mutual funds	201,310				
Other mutual funds	167,167				
Investments in real estate	34,996				
Real estate investment trusts	1,249				
Hedge funds	1,017,661				
Limited partnerships	873,065				
Pooled investments	272				
Domestic stocks	152,308				
Foreign stocks	3,321				
Other	49,751				
Total investment securities	\$ 3,174,514				

Limited Partnerships – The limited partnership positions are primarily held by the University of North Carolina at Chapel Hill. The University uses various external money managers to identify specific investment funds and limited partnerships that meet asset allocation and investment management objectives. The University invests in these funds and partnerships to increase the yield and return on its investment portfolio given the available alternative investment opportunities and to diversify its asset holdings. These investments generally include equity and bond funds. Certain investment funds expose the University to significant amounts of market risk by trading or holding derivative securities and by leveraging the securities in the fund. The University limits the amount of funds managed by any single asset manager and also limits the amount of funds to be invested in particular security classes.

NOTES TO THE FINANCIAL STATEMENTS

Interest Rate Risk and Credit Risk. The constituent institutions of the UNC System generally do not have formal investment policies that address interest rate risk or credit risk. At year-end, the UNC System's investments maintained outside the State Treasurer had the following credit quality distribution for securities with credit exposure (dollars in thousands):

Investment Type	Carrying Amount by Credit Rating - Moody's/S&P/Fitch					
	Aaa/AAA	Aa/AA	A	Baa/BBB	Ba/BB and Below	Unrated
U.S. agencies	\$ 1,565	\$ —	\$ —	\$ —	\$ —	\$ 160,740
Mortgage pass-throughs	1,721	—	36	—	—	11,223
Collateralized mortgage obligations	13,087	4,917	12,759	6,592	17,364	4,312
State and local government	—	—	118	85	—	70
Asset-backed securities	544	2,514	516	172	1,836	—
Annuity contracts	—	—	—	—	—	102
Money market mutual funds	155,349	—	337	—	—	1,137
Mutual bond funds	15,160	50,500	4,184	592	550	10,446
Domestic corporate bonds	1,789	5,441	15,547	8,807	1,773	22
Foreign corporate bonds	—	158	15	32	79	—
Foreign government bonds	—	10,286	29	—	—	—
Total	<u>\$ 189,215</u>	<u>\$ 73,816</u>	<u>\$ 33,541</u>	<u>\$ 16,280</u>	<u>\$ 21,602</u>	<u>\$ 188,052</u>

Custodial Credit Risk. The constituent institutions of the UNC System generally do not have formal investment policies that address custodial credit risk. At year-end, the UNC System's investments maintained outside the State Treasurer were exposed to custodial credit risk as follows (dollars in thousands):

Foreign Currency Risk. The constituent institutions of the UNC System do not have formal investment policies that address foreign currency risk. At year-end, the UNC System's investments maintained outside the State Treasurer were exposed to foreign currency risk as follows (dollars in thousands):

Investment Type	Carrying Amount	
	Held by	
	Held by Counterparty	Counterparty's Trust Dept. or Agent but not in State's Name
U.S. Treasuries	\$ 14,566	\$ 770
U.S. agencies	15,612	—
Mortgage pass-throughs	11,223	—
Collateralized mortgage obligations ...	5,723	—
Domestic corporate bonds	8,268	—
Domestic stocks	36,494	—
Total	<u>\$ 91,886</u>	<u>\$ 770</u>

Currency	Carrying Amount	
	Foreign Stocks	Limited Partnerships
Euro	\$ —	\$ 52,516
Pound Sterling	—	4,996
Australian Dollar	—	1,428
Canadian Dollar	175	305
Total	<u>\$ 175</u>	<u>\$ 59,245</u>

NOTES TO THE FINANCIAL STATEMENTS**The State Education Assistance Authority**

The State Education Assistance Authority (the Authority) is authorized by the University of North Carolina Board of Governors pursuant to General Statute 116-36.2 to invest its special funds in the same manner as the State Treasurer is required to invest, as discussed in Section A of this note.

Investments. In accordance with bond resolutions, bond proceeds and debt service funds are invested in obligations that will by their terms mature on or before the date funds are expected to be required for expenditure or withdrawal.

Interest Rate Risk. The Authority does not have a formal investment policy that addresses interest rate risk. The following table presents the fair value of investments by type and investments subject to interest rate risk at June 30, 2009, for the Authority's investments (dollars in thousands):

Investment Type	Carrying Amount	Investment Maturities (in Years)			
		Less Than 1	1 to 5	6 to 10	More Than 10
Debt securities:					
Money market mutual funds	\$ 270,034	\$ 270,034	\$ —	\$ —	\$ —
Annuity contracts	4,874	4,874	—	—	—
	<u>274,908</u>	<u>\$ 274,908</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>
Other securities:					
Investment agreements	129,256				
Other mutual funds	306,281				
Domestic stocks	28,994				
Total investment securities	<u>\$ 739,439</u>				

Credit Risk. The Authority has formally adopted investment policies for credit risk stating that certain investment obligations shall bear one of the two highest ratings by nationally recognized rating services. As of June 30, 2009, the Authority's investments were rated as follows (dollars in thousands):

Investment Type	Carrying Amount by Credit Rating - S&P	
	Unrated	
Money market mutual funds	\$ 270,034	
Annuity contracts	4,874	
Total	<u>\$ 274,908</u>	

Custodial Credit Risk. The Authority does not have a formal policy that addresses custodial credit risk. The Authority's investments were exposed to custodial credit risk as follows (dollars in thousands):

Investment Type	Carrying Amount
	Held by Counterparty's Trust Dept. or Agent but not in State's Name
Domestic stocks	28,994
Total	<u>\$ 28,994</u>

Concentration of Credit Risk. The Authority places no limit on the amount that may be invested in any one issuer. More than 5% of the Authority's investments are in Pallas Capital Funding Corporation. These investments are 12.8% of the Authority's investments.

NOTES TO THE FINANCIAL STATEMENTS**The Golden LEAF, Inc.**

The General Statutes place no specific investment restrictions on The Golden LEAF, Inc (Foundation). The Foundation is authorized by its Board of Directors to invest in any of the following broad asset classes: domestic equities, real estate, mutual funds, foreign equities, fixed income securities, cash equivalents, and alternatives.

Interest Rate Risk. Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The Foundation monitors the interest rate risk inherent in its portfolio by measuring the effective duration of its portfolio. The Foundation has no specific limitations with respect to duration. At year-end, the Foundation had the following investments and durations that were maintained outside the State Treasurer (dollars in thousands):

Investment Type	Carrying Amount	Effective Duration (in years)
Debt securities:		
Money market mutual funds	\$ 14,373	0.08
Mutual bond funds	58,530	4.64
	72,903	
Other securities:		
International mutual funds	82,388	
Other mutual funds	60,573	
Real estate investment trusts ...	25,911	
Hedge funds	131,697	
Limited partnerships	105,594	
Domestic stocks	76,704	
Total investment securities	\$ 555,770	

Credit Risk. Credit risk is the risk that an issuer of an investment will not fulfill its obligation. Credit risk is measured by the assignment of a rating by a nationally recognized statistical rating organization. The Foundation investment policy has no specific limitations with respect to credit quality, but provides that approximately 50% of the fixed income allocation will be allocated to U.S. Treasury strategies. As of June 30, 2009, the Foundation's investments were rated as follows (dollars in thousands):

Investment Type	Carrying Amount by Credit Rating - Moody's/S&P/Fitch		
	Aaa/AAA	Aa/AA	A
Money market mutual funds	\$ 14,373	\$ —	\$ —
Mutual bond funds	21,065	22,531	14,934
Total	\$ 35,438	\$ 22,531	\$ 14,934

Foreign Currency Risk. Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair market value of an investment. At year-end the Foundation has no formally adopted policies that address foreign currency risk.