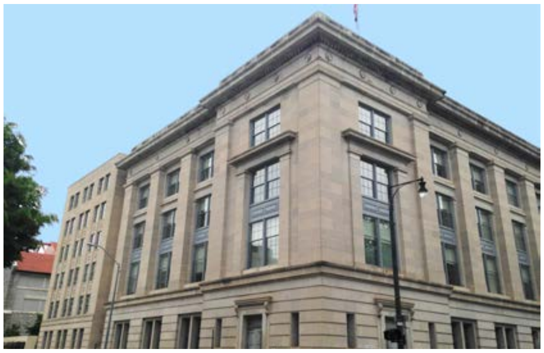
State of North Carolina

Office of The State Auditor

Beth A. Wood, CPA



North Carolina Department of State Treasurer

Raleigh, North Carolina

Financial Statement Audit Report

As of June 30, 2016 and 2015 and

For the Fiscal Year Ended June 30, 2016

A Department of the State of North Carolina

NCOSA

The Taxpayers' Watchdog

STATE OF NORTH CAROLINA

Office of the State Auditor

Beth A. Wood, CPA
State Auditor

2 S. Salisbury Street
20601 Mail Service Center
Raleigh, NC 27699-0600
Telephone: (919) 807-7500
Fax: (919) 807-7647
http://www.ncauditor.net

AUDITOR'S TRANSMITTAL

The Honorable Roy Cooper, Governor
Members of the General Assembly of North Carolina
The Honorable Dale R. Folwell, State Treasurer
Department of State Treasurer

We have completed a financial statement audit of the North Carolina Department of State Treasurer as of June 30, 2016 and 2015 and for the year ended June 30, 2016, and our audit results are included in this report. You will note from the independent auditor's report that we determined that the financial statements are presented fairly in all material respects.

The results of our tests disclosed no deficiencies in internal control over financial reporting that we consider to be material weaknesses in relation to the audit scope or any instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

North Carolina General Statutes require the State Auditor to make audit reports available to the public. Copies of audit reports issued by the Office of the State Auditor may be obtained through one of the options listed in the back of this report.

Beth A. Wood, CPA
State Auditor

AN OVERVIEW OF HOW TO USE THIS REPORT

This report provides audited financial information on the Department of State Treasurer (Department) and is designed to provide the information at a summarized level in the beginning and in more detail further into the report. This report is made up of various components as listed in the Table of Contents.

The Department of State Treasurer reports financial activities in three major governmental funds, fifteen fiduciary funds, and one component unit. The governmental funds are used to report most of the activity of the Department including retirement plan operations, external investment pool operations and banking activity, and the State's debt service activity. The Department provides administrative services for bond issuance and bond payments, such as payment of debt services, issuing debt, recording initial bond issuance premiums and discounts as well as payments to debt escrow agents. The fiduciary funds include Pension and Other Employee Benefit Trust Funds, Investment Trust Funds, and a Departmental Trust Fund. The component unit is the North Carolina State Health Plan.

The financial information in the report is presented at a summarized, departmental and component unit level initially. Where some numbers need further explanation, additional detail is provided in supplementary schedules or "Notes to the Financial Statements" which are referenced next to the line item caption.

<u>Required Information</u> (Information required to be reported by a state agency per Governmental Reporting Standards):

The **Independent Auditor's Report** presents the auditor's opinion on the financial statements, which is that the financial statements, as presented, are materially correct.

The **Management's Discussion and Analysis** presents a discussion of the reasons for significant financial changes between years that is prepared by the agency and has not been audited.

"A" Exhibits present the Balance Sheets as of June 30, 2016 and 2015 and the Statements of Revenues, Expenditures, and Changes in Fund Balances for fiscal year ended June 30, 2016 and unaudited 2015 for the Department's **governmental funds as a whole**.

"B" Exhibits present the Statements of Fiduciary Net Position as of June 30, 2016 and 2015, the Statements of Changes in Fiduciary Net Position for fiscal years ended June 30, 2016 and unaudited 2015 for the Departments' f**iduciary funds as a whole.**

"C" Exhibits present the Statements of Net Position as of June 30, 2016 (with comparative totals as of June 30, 2015), the Statements of Revenues, Expense, and Changes in Net Position for the fiscal year ended June 30, 2016 (with unaudited comparative totals for the year ended June 30, 2015), and the Statement of Cash Flows for the fiscal years ended June 30, 2016 (with unaudited comparative totals for the fiscal year ended June 30, 2015) for the **component unit**.

Notes to the Financial Statements are designed to give the reader additional information concerning the Department and the component unit, and further support the financial statements.

<u>Required Supplementary Information</u>: (This information is tabbed by topic in the report)

“D” Exhibits present the Schedule of Revenues, Expenditures, and Changes in Fund Balance Budget and Actual (Budgetary Basis-Non-GAAP) comparisons for the **general fund** for the fiscal year ended June 30, 2016.

“E” Exhibits present the pension information on the Schedule of the Changes in the Net Pension Liability and Related Ratios for each of the **defined benefit pension plans** (for the last three fiscal years).

“F” Exhibits present the Schedule of Employer and Nonemployer Contributions for the last ten fiscal years and the Schedule of Investment Returns for each of the **defined benefit pension plans** for the last three fiscal years.

“G” Exhibits present the Schedule of the Proportionate Net Pension Liability and Schedule of Component Unit Contributions for the Department as a whole.

“H” Exhibits present the Schedule of Funding Progress and Schedule of Employer Contributions for **other postemployment benefits**.

<u>Supplementary Information</u>: (This information is tabbed by topic in the report and is audited in relation to the financial statements)

“I” Exhibits present the Combining Balance Sheets as of June 30, 2016 and 2015 and the Combing Statements of Revenues, Expenditures, and Changes in Fund Balance for the fiscal years ended June 30, 2016 and unaudited 2015 for the Department’s **other governmental funds**.

“J” Exhibits present the Combining Statements of Fiduciary Net Position as of June 30, 2016 and 2015 and the Combining Statements of Changes in Fiduciary Net Position for the fiscal years ended June 30, 2016 and unaudited 2015 for the **fiduciary funds.**

For the purposes of these schedules, the Department is reporting governmental fund information by division in the following manner:

- **“K-1 & K-2” Exhibits** present the Combining Statement of Revenues and Expenditures **Governmental Funds** for fiscal years ended June 30, 2016 and unaudited 2015.
- **“K-3 & K-4” Exhibits** present a further breakdown of the Statement of Revenues and Expenditures **Governmental Funds - General Operations** for the fiscal years ended June 30, 2016 and unaudited 2015.

“L” Exhibits present the Schedule of Allocated Net Position for the **External Investment Pool** as of June 30, 2016 and 2015.

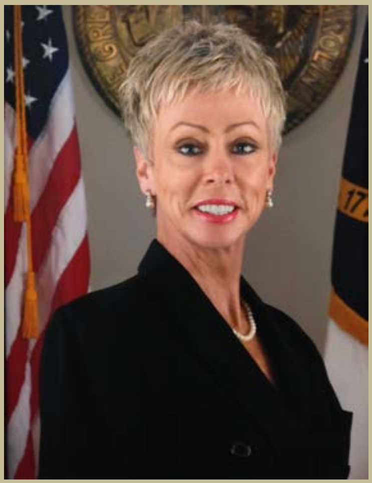
“M” Exhibit presents the Schedule of Deductions by Investment Portfolio for the **External Investment Pool** for the fiscal year ended June 30, 2016.

“N” Exhibit presents the Investment Performance Schedule for the **External Investment Pool** as of June 30, 2016.

"O" Exhibits present the Investment Pool Fee Schedule in Total Fees by Basis Point and Asset Class and Total Fees by Contract Fee Type and Asset Class for the **External Investment Pool** as of June 30, 2016.

Required Information:

The Independent Auditor's Report on Internal Control and Compliance – this report is not an opinion on internal control or compliance but rather a report on the matters related to internal control and compliance that were noted as a part of the audit of the financial statements.



Beth A. Wood, CPA
State Auditor

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INDEPENDENT AUDITOR'S REPORT

STATE OF NORTH CAROLINA

Office of the State Auditor

Beth A. Wood, CPA
State Auditor

2 S. Salisbury Street
20601 Mail Service Center
Raleigh, NC 27699-0600
Telephone: (919) 807-7500
Fax: (919) 807-7647
http://www.ncauditor.net

INDEPENDENT AUDITOR'S REPORT

The Honorable Dale R. Folwell, State Treasurer
and Management of the North Carolina Department of State Treasurer

Report on the Financial Statements

We have audited the accompanying financial statements of each major governmental fund, the discretely presented component unit, and the aggregate remaining fund information of the North Carolina Department of State Treasurer (Department) as of June 30, 2016 and 2015, and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Department's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the following:

- The financial statements of the Supplemental Retirement Income Plan of North Carolina, which represent 8 percent, 8 percent, and 10 percent, respectively, of the assets, net position, and revenues of the aggregate remaining fund information.

- The financial statements of the North Carolina Public Employee Deferred Compensation Plan, which represent 1 percent, 1 percent, and 2 percent, respectively, of the assets, net position, and revenues of the aggregate remaining fund information.

- The financial statements of the North Carolina Department of State Treasurer External Investment Pool, which represent 91 percent, 90 percent, and 88 percent, respectively, of the assets, net position, and revenues of the aggregate remaining fund information.

- Cash basis claims and benefits of the State Health Plan, which represent 88 percent of the expenses of the discretely presented component unit.

We did not audit the following as of June 30, 2015:

- The financial statements of the Supplemental Retirement Income Plan of North Carolina, which represent 8 percent and 8 percent, respectively, of the assets and net position of the aggregate remaining fund information.

- The financial statements of the North Carolina Public Employee Deferred Compensation Plan, which represent 1 percent and 1 percent, respectively, of the assets and net position of the aggregate remaining fund information.

- The financial statements of the North Carolina Department of State Treasurer External Investment Pool, which represent 91 percent and 91 percent, respectively, of the assets and net position of the aggregate remaining fund information.

The financial statements and transactions listed above were audited by other auditors whose reports have been furnished to us, and our opinions, insofar as they relate to these amounts are based on the reports of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Department's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Department's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

<u>Opinions</u>

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of each major governmental fund, the discretely presented component unit, and the aggregate remaining fund information of the North Carolina Department of State Treasurer as of June 30, 2016 and 2015, and the respective changes in financial position and, where applicable, cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

<u>Emphasis of Matter</u>

As discussed in Note 1, the financial statements of the North Carolina Department of State Treasurer are intended to present the financial position, changes in financial position and, where applicable, cash flows of only that portion of each fund that is attributable to the transactions of the North Carolina Department of State Treasurer. They do no purport to, and do not, present fairly the financial position of the State of North Carolina as of June 30, 2016 and 2015, or the changes in its financial position, or, where applicable, its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

As discussed in Note 19, during the year ended June 30, 2015, the North Carolina Department of State Treasurer adopted new accounting guidance, Governmental Accounting Standards Board Statement No. 68. – Accounting and Financial Reporting for Pensions – An Amendment of GASB Statement No. 27, Statement No. 71 – Pension Transition for Contributions Made Subsequent to the Measurement Date – An Amendment of GASB Statement No. 68, Governmental Accounting Standards Board Statement No. 69 – Government Combinations and Disposals of Government Operations.

During the year ended June 30, 2016, the North Carolina Department of State Treasurer adopted Governmental Accounting Standards Board Statement No. 72. – Fair Value Measurement and Application, and Governmental Accounting Standards Board Statement No. 76. – The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments. Our opinions are not modified with respect to these matters.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis and other required supplementary information, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We and other auditors have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Department's basic financial statements for its major funds, discretely presented component unit and aggregate remaining fund information. The accompanying supplementary schedules, as listed in the table of contents, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The accompanying supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied by us and other auditors in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the accompanying supplementary schedules are fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

<u>Other Reporting Required by *Government Auditing Standards*</u>

In accordance with *Government Auditing Standards*, we have also issued our report dated October 16, 2017 on our consideration of the Department's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit preformed in accordance with *Government Auditing Standards* in considering the Department's internal control over financial reporting and compliance.

Beth A. Wood, CPA
State Auditor

Raleigh, North Carolina

October 16, 2017

MANAGEMENT'S DISCUSSION AND ANALYSIS

Introduction

The Management's Discussion and Analysis section of the North Carolina Department of State Treasurer's (Department) financial report is provided as an overview of the financial performance of the governmental funds, fiduciary funds, and component unit for the fiscal year ended June 30, 2016. This discussion and analysis should be read in conjunction with the financial statements and related notes which follow this section.

Overview of the Financial Statements

The Department's financial statements are comprised of the governmental funds (General Fund, Special Revenue and Debt Proceeds and Interest Fund), the fiduciary funds (Teachers' and State Employees' Retirement System, Local Governmental Employees' Retirement System, Retiree Health Benefit, and others) and the Component Unit (North Carolina State Health Plan). The governmental funds basic financial statements consist of the Balance Sheet and Statement of Revenues, Expenditures, and Changes in Fund Balances whereas the fiduciary funds' financial statements consist of the Statement of Fiduciary Net Position and a Statement of Changes in Fiduciary Net Position. The Statement of Net Position; Statement of Revenues, Expenses, and Changes in Net Position; and Statement of Cash Flows are presented for the component unit of the State of North Carolina.

Governmental Funds:

- The Balance Sheet presents the governmental funds' assets and liabilities that are considered relevant to an assessment of near-term liquidity. The differences between assets and liabilities are reported as fund balances.
- The Statement of Revenues, Expenditures, and Changes in Fund Balance reports the resource flows (revenues and expenditures) of the governmental funds.

Fiduciary Funds:

- The Statement of Fiduciary Net Position shows the amount of assets and liabilities held for the benefit of parties outside of the Department.
- The Statement of Changes in Fiduciary Net Position reflects the additions and deductions of funds held to and from parties outside of the Department.

Discretely Presented Component Unit:

- A component unit is a legally separate organization for which the elected officials of the primary government are financially accountable. A description of the component unit can be found in Note 1 in the notes to the financial statements.

Notes to the financial statements are designed to give the reader additional information concerning the Department and further support the statements noted above.

Required Supplementary Information (RSI) follows the basic financial statements and notes to the financial statements. The RSI is mandated by the Governmental Accounting Standards Board (GASB) and includes General Fund budgetary comparison schedule reconciling the statutory to the generally accepted accounting principles fund balances at fiscal year-end, and pension-related disclosures pursuant to GASB Statement 68 for the Department, which include the governmental funds and fiduciary funds.

Other supplementary information includes the combining statements for Other Governmental Funds, Pension and Other Employee Benefit Trust Funds, Investment Trust Funds, Statement of Revenues and Expenditures for the Governmental Funds, Schedule of Allocated Net Position, Investment Performance Schedule, and Investment Pool Fee Schedules.

Governmental Funds

Condensed Balance Sheet

The following condensed balance sheet shows the governmental funds' financial position at June 30, 2016 and 2015.

	2016	2015	Change
Assets	$ 769,040,445	$ 711,818,600	$ 57,221,845
Deferred Outflows of Resources	37,287,242	78,990,290	(41,703,048)
Total Assets and Deferred Outflows of Resources	$ 806,327,687	$ 790,808,890	$ 15,518,797
Liabilities	$ 94,061,065	$ 84,436,402	$ 9,624,663
Deferred Inflows of Resources	0	0	0
Fund Balances			
Nonspendable	113,646	13,157	100,489
Restricted	707,016,072	701,365,759	5,650,313
Committed	4,235,139	4,387,497	(152,358)
Unassigned	901,765	606,075	295,690
Total Fund Balances	712,266,622	706,372,488	5,894,134
Total Liabilities, Deferred Inflows and Fund Balances	$ 806,327,687	$ 790,808,890	$ 15,518,797

Analysis of Governmental Funds Condensed Balance Sheet

Total assets increased by $57.2 million compared to the prior year. The increase was primarily due to a net increase of $87.0 million in cash and cash equivalents in the Escheat Fund. This is offset by a decrease in Escheats Fund investments of $19.4 million as well as a decrease in Debt Proceeds and Interest Fund investments of $9.4 million. The increase in Escheat Fund cash and cash equivalents was primarily due to an increase of approximately $44.6 million of cash receipts which increased from $155.7 million in fiscal year 2015 to $200.3 million in fiscal year 2016. This increase in cash receipts was due to local and national media attention on life insurance companies that may be holding unpaid death benefits. As a result, state and federal legislative changes were made requiring life insurance companies to identify and report unpaid death benefits. The Escheat Fund also received larger payments from Clerks of Courts as a result of educational efforts. The decrease in Escheat Fund investments was due to a reduction in the escheated stock value held by a third party custodian. The decrease of $9.4 million in Debt Proceeds and Interest Fund investments was due to transfers out to the General Fund.

The Deferred Outflows of Resources amount represents the Escheat Fund's forwarded funded State Aid. Each year's balance represents amounts owed per North Carolina General Statute 116B. This general statute requires the Department to distribute a portion of the income derived from the investments or deposits of the Escheat Fund to the State Education Assistance Authority (SEAA), North Carolina Community College System, and the Department of Military Veteran's Affairs. The SEAA uses these funds to provide grants, loans and scholarships for North Carolina students attending public universities. Additionally, the SEAA uses the funds distributed in the previous fiscal year to provide grants, loans, and scholarships in the current fiscal year. Annually, the Department is directed by the Office of the State Controller to record this amount at fiscal year-end.

The $9.6 million increase in total liabilities was primarily due to a $9.8 million increase in total liabilities for the Escheat Fund. This was primarily due to an increase of $10.3 million in escheat claims payable. The increase in escheat claims payable is because of the projection of increased claims activity due to fully implementing the E-claims program and increasing limit of online claims processing from $250 to $500. The Department planned to implement more outreach programs to inform citizens of unclaimed property.

Total fund balance increased $6.0 million compared to prior year. This increase was primarily due to an increase in restricted fund balance of $5.7 million, consisting of an increase in Escheat Fund restricted fund balance of $15.8 million and a decrease in Debt Proceeds and Interest Fund restricted fund balance of $9.4 million. The increase in the Escheat Fund restricted fund balance was a result of $123.3 million of revenue exceeding $107.4 million of expenditures. The decrease in Debt Proceeds and Interest Fund restricted fund balance of $9.4 million was a result of the decrease in investments noted above.

Condensed Statements of Revenues, Expenditures, and Changes in Fund Balances

The following condensed statement shows the governmental funds' resource flows at June 30, 2016 and 2015.

	2016	2015	Change
Revenues:			
Funds Escheated	$ 108,437,030	$ 165,062,750	$ (56,625,720)
Fees	6,919,890	6,516,059	403,831
Services	6,399,125	5,802,913	596,212
Investment Earnings	15,423,815	7,176,937	8,246,878
Revenues from Other State Agencies and Funds	23,472,523	24,695,574	(1,223,051)
Loan Collection of Principal	6,777,533	6,421,050	356,483
Reimbursement of Expenditures from Investment Pool	7,707,942	2,451,364	5,256,578
Other	4,125,077	4,590,022	(464,945)
Total Revenues	179,262,935	222,716,669	(43,453,734)
Expenditures:			
State Aid	100,056,113	57,226,516	42,829,597
Contracted Personal Services	10,538,597	14,248,420	(3,709,823)
Personal Services	21,935,947	18,744,213	3,191,734
Employee Benefits	7,121,174	5,958,388	1,162,786
Debt Service	727,960,611	719,306,233	8,654,378
Other Fixed Charges	2,561,232	1,590,512	970,720
Capital Outlay	1,452,744	3,304,651	(1,851,907)
Other	5,357,600	4,089,994	1,267,606
Expenditures to Other State Agencies and Funds	30,206,774	266,913,504	(236,706,730)
Total Expenditures	907,190,792	1,091,382,431	(184,191,639)
Excess Revenues Under Expenditures	(727,927,857)	(868,665,762)	140,737,905
Other Financing Sources (Uses)			
State Appropriations	733,275,212	725,310,771	7,964,441
Sale of Capital Assets	1,586		1,586
General Obligation Bonds Issued		231,360,000	(231,360,000)
Refunding on Bonds Issued	329,360,000	299,020,000	30,340,000
Premiums on Bonds Issued	88,065,635	81,894,946	6,170,689
Pay to Refunded Debt Escrow Agent	(416,509,303)	(349,828,159)	(66,681,144)
Transfers to State Reserve	(371,139)		(371,139)
Transfers In	10,075,064	10,451,903	(376,839)
Transfers Out	(10,075,064)	(10,451,903)	376,839
Total Other Financing Sources	733,821,991	987,757,558	(253,935,567)
Net Change in Fund Balance	5,894,134	119,091,796	(113,197,662)
Fund Balance July 1, as Restated (Note 25)	706,372,488	587,280,692	119,091,796
Fund Balance June 30	$ 712,266,622	$ 706,372,488	$ 5,894,134

Analysis of Governmental Funds Condensed Statements of Revenues, Expenditures, and Changes in Fund Balances

The $43.5 million decrease in revenues was primarily due to a decrease in funds escheated of $56.6 million offset by an increase in investment earnings of $8.2 million and reimbursement of expenditures from investment pool of $5.3 million. The funds escheated line item in the Escheat Fund represents the net of cash escheated from holders, cash claims paid out, and accounting entries at year end for accruals to be in accordance with generally accepted accounting principles. While cash basis collections increased, the claims paid estimate true up at year end adjustment was larger than the prior year due to larger than expected claims in fiscal year 2016 and an increase in projected claims for fiscal year 2017. In addition, the line item includes an adjustment of $33.3 million for the reduction in escheated stock value held by a third party custodian. The increase in investment earnings of $8.2 million was due primarily to Escheat Fund investment earnings increasing by $7.9 million. Market conditions improved for fixed income resulting in an unrealized gain. The increase of reimbursement of expenditures from investment pool of $5.3 million is due primarily to a change from appropriations to receipts funded for salary and administrative expenses for the Departmental operations in fiscal year 2016.

Total expenditures decreased by $184.2 million compared to prior year. This decrease was due to a decrease in expenditures to other state agencies of $236.7 million offset by an increase in state aid of $42.8 million. The decrease in expenditures to other state agencies of $236.7 million primarily consists of a decrease in Debt Proceeds and Interest Fund of $231.4 million. The decrease was due to no general obligation bonds in fiscal year 2016 and $231.0 million being issued in fiscal year 2015. The increase in state aid was primarily due to the increase in deferred outflows of resources for forward funded state aid.

Total other financing sources (uses) decreased by $253.9 million compared to prior year. This was due to decreases in general obligations bonds issued of $231.4 million and pay to refunded debt escrow agent of $66.7 million offset by an increase in refunding on bonds issued of $30.3 million. As noted above, there were no general obligation bonds issued in fiscal year 2016. This was consistent with the $231.4 million change in other financing sources (uses) general obligation bonds issued line item. The decrease (increase in use of funds) in pay to refunded debt escrow agent of $66.7 million in the General Fund was due to amounts paid to the escrow agent for the refunding of $329.4 million of various general obligation bonds (2003A-2010A). The $329.4 million refunding was reflected in the 2016's refunding of bonds issued line item and the $30.3 million change was the difference in the total amount of refunding bonds in 2016 and 2015.

Budget Variations

Data for the budget variances is presented in Exhibit D-1: Schedule of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual (Budgetary Basis – Non-GAAP) of this report.

Variances – Original and Final Budget:

The final budgeted revenues were $19.8 million more than the original budget. The increase was primarily due to increases in the budgeted revenues for services, contributions, revenues from other state agencies or funds, loan collections of principal and reimbursement of expenditures from the investment pool.

The final budgeted revenues for services were $2.0 million more than the original budget. The original budget for the services revenue was submitted during the Worksheet I budget process at the beginning of each biennium and occurs across multiple budget codes for the same revenue source. For services revenue, the volume was unpredictable and thus the original budget has not been adjusted each biennium to reflect anticipated activity. Further, the final budget was based upon budget revisions (changes in the final budget) that in turn are based upon anticipated revenues needed from these sources to fund various activities and projects. Therefore in any one year there could be a mismatch between the original and final budgets as occurred during fiscal year 2016.

The final budgeted revenues for contributions were $2.0 million more than the original budget. The Contributions to the Qualified Excess Benefits Arrangement are not budgeted in the original budget given the nature of these contributions that are a percentage of payroll similar to that contributed to the Retirement Plans which was likewise not budgeted. Therefore, an adjustment at year end to the final budget was made and approved by the Office of State Budget and Management to match the actual number.

The final budgeted revenues for revenues from other state agencies and funds were $1.2 million more than the original budget. These increases represent the increases in contributions from the Retirement Systems to the operations of each of these divisions at the Department.

The final budgeted revenue for loan collection of principal was $6.8 million more than the original budget because these amounts are not budgeted in the original budget given the nature of these collections. The Department of State Treasurer collects loan principal balances related to Clean Water Loans managed by the Department of Environmental Quality. The ending balances of collections are transferred to the General Fund to assist with the repayment of State debt. An adjustment at year end to the final budget was made and approved by the Office of State Budget and Management to match the actual number.

The majority of the $6.7 million difference between the original and final budget for reimbursement of expenditures from the investment pool was due to a change in the final budget in the Investment Management Division. The Investment Management Division began using receipts for all personal services and for reimbursement of core services operating expenses to the Department of State Treasurer core service divisions. This change was approved by the Office of State Budget and Management.

The final budgeted expenditures decreased $398.3 million from the original budget. The decrease was primarily due to the decrease in the final budgets for debt service principal retirement, offset by increases in debt service interest and fees, state aid, and contracted personal services.

The proposed original budget for the debt service (both principal and interest payments) codes are submitted during the Worksheet I budget process at the beginning of each biennium. However, these codes have not been adjusted by the Department to reflect anticipated activity for the upcoming biennium based on approved debt activity, as debt payments are primarily tracked through a separate appropriated budget code. The practice has been to adjust the special debt service budget codes primarily used for accounting, to match actual or projected activity using budget revisions if needed at fiscal year-end (changes in the final budget). Thus in these accounts, there could be a mismatch between original and final budgets given the changes over time to debt service requirements. If the actual amounts do not exceed the final budget for debt payments, it has not been the Department's practice to work with the Office of State Budget and Management to adjust the final down to the actual amount, as payments vary each year depending upon actual payments needed. As with the above, the actual amount of proceeds from refunded debt and premium on this debt was unknown at the beginning of each year. If such amount in the accounting budget codes does not exceed the final budget, no change to the final budget via budget revision is done. If the final budget is too high, then the budget is simply overstated based on expected activity. This applies as well to the investment income in debt related budget codes. If there are no earnings, it has not been Department's practice to adjust or decrease the final budget to reduce it to zero.

The budget codes used for new debt issuance activities are used to track amounts for accounting purposes. The amount and timing of new debt issuances is not known; therefore, original budgets are not set up at the beginning of a biennium. For the pay to refunded debt escrow agent account, there would need to be budget revisions to the final budget to match actual activity in a particular budget code. While no further adjustment may be made to another budget code not used for a debt issuance in that year, there could be mismatches between the original, final and actual amounts.

The final budgeted expenditures for state aid were $6.0 million more than the original budget. Statutory transfers required to be made from state appropriations to both Firefighters' and Rescue Squad Workers' Pension Fund and to the North Carolina National Guard Pension Fund were made during the year out of only one account but were originally budgeted to two different accounts. Thus, the final budget was adjusted to match the account used for actual expenditures. No adjustment to the original budget was necessary.

The final budgeted expenditures for contracted personal services were $4.1 million more than the original budget due to expected increases in temporary services for turnover of staff and expected increases in information technology project related costs to move to new office location and other information technology costs.

Variances – Final Budget and Actual Results:

Actual total revenue was $17.3 million below final budgeted revenue amounts. This result occurred due to less than budgeted investment earnings and services offset by unbudgeted fees.

For the investment earnings and services explanation, see discussion above about debt service. The variance for fees was due to a final budget not being recorded for these funds. These are pass through accounts and the revenue equals the expenditures.

Actual total expenditures were $192.4 million less than final budgeted expenditures. Final budgeted expenditures were unrealized primarily because $189.9 million less was spent on debt service, including principal retirement, interest and fees, and debt issuance costs, contracted personal services and personal services.

See discussion on the previous page about debt service variances for debt service: principal retirement, interest and fees, and debt issuance costs.

The Department of State Treasurer and the Office of State Budget and Management work together to manage debt service payments. There is no budget in a formal process through the budget codes used to make payments, but through another flow through budget codes for the State Appropriations used for this purpose.

The actual expenditures for contracted personal services came in $2.9 million less than budgeted, because additional budget dollars for information technology projects were not spent.

Lower than budgeted expenditures for personal services were the result of vacancies throughout the year in salaried positions.

Actual total other financing sources (uses) were $136.5 million below budgeted amounts due to less than expected refunding and premiums on bonds issued, as well as less than expected transfers in. For these variances, see discussion above about debt service.

Fiduciary Funds

Condensed Statement of Fiduciary Net Position

	2016	2015	Change
Assets			
Cash and Cash Equivalents	$ 385,642,539	$ 400,773,459	$ (15,130,920)
Investments	98,652,422,003	100,516,339,763	(1,863,917,760)
Securities Lending Collateral	2,787,203,149	4,184,426,278	(1,397,223,129)
Other Assets	571,708,860	564,743,936	6,964,924
Total Assets	102,396,976,551	105,666,283,436	(3,269,306,885)
Liabilities			
Accounts Payable and Accrued Liabilities	5,715,683	5,835,216	(119,533)
Obligations under Securities Lending	2,787,203,149	4,184,426,278	(1,397,223,129)
Funds Held For Others	7,303,090	6,976,900	326,190
Total Liabilities	2,800,221,922	4,197,238,394	(1,397,016,472)
Net Position			
Restricted for:			
Pension Benefits	95,314,132,225	97,293,824,296	(1,979,692,071)
Postemployment Benefits	1,522,956,152	1,479,480,990	43,475,162
Pool Participants	913,237,055	880,843,980	32,393,075
Individuals, Organizations, and Other Governments	243,229,213	251,724,315	(8,495,102)
Other Employment Benefits	1,603,199,984	1,563,171,461	40,028,523
Total Net Position	$ 99,596,754,629	$ 101,469,045,042	$ (1,872,290,413)

Analysis of Fiduciary Funds Condensed Statement of Net Position

Total assets decreased by $3.3 billion compared to prior year. The decrease was primarily due to a decrease of investments by $1.9 billion as well as a decrease in securities lending collateral of $1.4 billion. The decrease of investments was due to withdrawals for benefit payments. The decrease in securities lending collateral resulted from a decrease in demand for lendable securities due to changing capital requirements for borrowers and the low interest rate environment.

The North Carolina pension funds are appropriately diversified and invested with a conservative strategy. The pension fund returned 0.81% for the fiscal year ended June 30, 2016. This is down from the 2.25% returned in the fiscal year ended June 30, 2015.

In July 2013, the General Assembly passed Senate Bill 558. Under this bill, the Investment Management Division (IMD) was granted greater authority and flexibility with respect to investments by increasing the percentage limitations on various individual alternative investment asset classes as well as in the aggregate. During the year ended June 30, 2014, the IMD conducted an asset liability study to develop a new asset allocation policy that would utilize some of the additional investment flexibility. A new investment policy statement (IPS) was finalized during fiscal year 2014 and became effective July 1, 2014. During the year ended June 30, 2016, IMD revised the asset liability study utilizing updated capital market assumptions. After reviewing the updated report, it was determined through deliberations with the Investment Advisory Committee that no changes were needed to the current asset allocation policy given current statutory limits on several asset classes.

During the fiscal year ended June 30, 2016, the IMD continued to diversify the pension fund investments by reducing public equity and increasing the real estate, private equity, and inflation sensitive asset classes.

Total liabilities decreased by $1.4 billion mostly due to the decrease in obligations under securities lending. See explanation above about securities lending.

Overall net position decreased by $1.9 billion as of fiscal year end 2016 with most of the decrease in restricted pension benefits attributable to the overall current year activity. See further details on the following Condensed Statements of Changes in Net Position.

Condensed Statements of Changes in Fiduciary Net Position

	2016	2015	Change
Additions			
Contributions	$ 4,543,508,423	$ 4,442,870,788	$ 100,637,635
Net Investment Income	732,708,603	2,594,630,071	(1,861,921,468)
Other Addditions	42,608,022	89,717,458	(47,109,436)
Total Additions	5,318,825,048	7,127,218,317	(1,808,393,269)
Deductions			
Claims and Benefits	6,134,485,132	5,858,633,291	275,851,841
Medical Insurance Premiums	855,948,277	825,533,640	30,414,637
Other Deductions	200,682,052	235,533,788	(34,851,736)
Total Deductions	7,191,115,461	6,919,700,719	271,414,742
Change in Net Position	(1,872,290,413)	207,517,598	(2,079,808,011)
Net Position - July 1	101,469,045,042	101,261,527,444	207,517,598
Net Position - June 30	$ 99,596,754,629	$ 101,469,045,042	$ (1,872,290,413)

Total additions decreased $1.8 billion from the prior year mostly due to the $1.9 billion decrease in net investment income. The decline in net investment income was primarily due to unrealized losses on equities caused by general stock market declines. Additionally, the decline was driven by lower coupon rates within the Long Term Investment Fund, driven by the low interest rate environment.

Total deductions increased by $271 million primarily due to an increase of $275 million in claims and benefits paid. During the fiscal year ended June 30, 2016, the North Carolina Retirement Systems and Other Post Employment Benefit funds paid out over $6.1 billion as compared to $5.9 billion dollars in the prior year. The increase in claims and benefits paid is due to an increase in the number of people retiring in fiscal year 2016. The NC Retirement Systems pays retirement and other benefits to approximately 278,000 retirees and beneficiaries. The North Carolina Retirement Systems and Division administers seven defined benefit pension plans, three supplemental retirement saving plans, and several death, disability, and other benefit plans and programs. The largest of the defined benefit pension plans is the Teachers' and State Employees' Retirement System (TSERS).

Funding the Retirement Systems is a shared responsibility among employees, employers, and the Department through investment earnings. North Carolina is consistently ranked among the top five states for pension funding. A September 2016 report by Standard &

Poor's ratings services, using data collected through June 30, 2015, listed North Carolina's pension funding level as 94.6 percent , the fourth highest out of the 50 states.

Component Unit - State Health Plan

Condensed Statement of Net Position

	2016	2015	Change
Assets			
Current Assets	$ 1,031,740,929	$ 1,074,948,502	$ (43,207,573)
Capital Assets, Depreciable (Net)	24,138	32,268	(8,130)
Total Assets	1,031,765,067	1,074,980,770	(43,215,703)
Deferred Outflows of Resources			
Deferred Outflows for Pensions	263,126	267,584	(4,458)
Liabilities			
Current Liabilities	334,686,622	333,238,701	1,447,921
Noncurrent Liabilities:			
Accrued Vacation Leave	354,730	351,203	3,527
Net Pension Liability	686,795	259,619	427,176
Total Liabilities	335,728,147	333,849,523	1,878,624
Deferred Inflows of Resources			
Deferred Inflows for Pensions	159,179	948,609	(789,430)
Net Position			
Net Investment in Capital Assets	24,138	32,268	(8,130)
Unrestricted	696,116,729	740,417,954	(44,301,225)
Total Net Position	$ 696,140,867	$ 740,450,222	$ (44,309,355)

Total assets decreased by $43.2 million compared to the prior year due to the change in current assets. Current assets decrease of $43.2 million was primarily the result of a $70.6 million decrease in cash and cash equivalents because the costs of claims and other expenditures exceeded premium rates charged to members. Due to the availability of excess cash reserves, premiums were intentionally set to generate revenue below expected costs. The decrease in cash and cash equivalents was offset by an increase in receivables of $27.4 million, which was driven by increases in membership, premiums, pharmacy rebates owed to the State Health Plan, and Medicare Part D pharmacy payments.

The deferred outflows for pensions reflect the State Health Plan's allocated portion of deferred outflows for the TSERS cost-sharing pension plan. Amounts in this account are amortized over time as pension expense. The $4.5 thousand decrease was due to changes in the pension contributions and the State Health Plan's proportionate share of contributions to the plan.

Liabilities totaled $335.7 million, an increase of $1.9 million over the prior year, primarily due to the change in current liabilities. Current Liabilities totaled $334.7 million which was an increase of $1.4 million from the prior year. Accounts payable increased by $2.1 million due to increased administrative fees and membership. Intergovernmental Payables increased by $5.9 million because of the accrual for Affordable Care Act transitional insurance due to the Federal Government. Unearned Revenue increased by $13.9 million because more groups paid July premiums in June of fiscal year 2016. These increases were offset by a

$20.4 million decrease in medical claims payable. This was due to the decrease of the projection of medical claims incurred but not received.

The deferred inflows for pensions are another allocation of the TSERS cost-sharing pension plan balances. The decrease of $789.4 thousand was driven by the higher pension liability related to the difference between projected and actual investment earning. These deferred inflows for pensions are amortized over time as pension expense.

Overall net position decreased by $44.3 million as of fiscal year end 2016 with most of the decrease in unrestricted net position attributable to the overall current year activity. See further details on the following - Statements of Revenues, Expenses, and Changes in Net Position below.

Condensed Statements of Revenues, Expenses, and Changes in Net Position

	2016	2015	Change
Revenues			
Operating Revenues			
Insurance Premiums	$ 3,075,791,037	$ 2,982,000,909	$ 93,790,128
Total Revenues	3,075,791,037	2,982,000,909	93,790,128
Expenses			
Operating Expenses:			
Contracted Personal Services	151,429,368	138,712,141	12,717,227
Affordable Care Act	30,616,769	29,432,416	1,184,352
Claims	2,777,912,508	2,715,826,179	62,086,329
Insurance	183,857,884	162,400,579	21,457,305
Other	5,595,139	5,146,649	448,490
Total Operating Expenses	3,149,411,668	3,051,517,964	97,893,703
Operating Loss	(73,620,631)	(69,517,055)	(4,103,575)
Nonoperating Revenues			
Pharmacy Subsidies and Rebates	21,533,756	68,070,527	(46,536,771)
Investment Earnings	7,578,460	5,175,510	2,402,950
Miscellaneous	199,060		199,060
Total Nonoperating Revenues	29,311,276	73,246,037	(43,934,761)
Increase (Decrease) in Net Position	(44,309,355)	3,728,982	(48,038,336)
Net Position - July 1	740,450,222	736,721,240	3,728,982
Net Position - June 30	$ 696,140,867	$ 740,450,222	$ (44,309,355)

Operating revenues from insurance premiums increased by $93.8 million due to an increase in membership and an increase in premium rates.

Total operating expenses increased $97.9 million due to increases in contracted personal services, claims, and insurance. Contracted personal services increased by $12.7 million because of increases in medical benefit administrative costs. Claims increased by $62.1 million due to an increase in costs for medical services and pharmacy rates. Insurance increased by $21.5 million due to increased participation and premium rates for Medicare Advantage plans.

Nonoperating revenues decreased, by $43.9 million, due to a decrease in pharmacy subsidies and rebates. Pharmacy subsidies and rebates decreased by $46.5 million because Employer Group Waiver Plans ended in state fiscal year 2015. Employer Group Waiver Plan is a group Medicare Part D prescription drug plan option that is offered to retirees for one year. Only residual funds were received in fiscal year 2016.

Future Outlook

Governmental Funds

Establishment of Achieving a Better Life Experience (ABLE) Program Trust

Session Law 2015-203 established the North Carolina Achieving a Better Life Experience (ABLE) Program Trust in response to the passage of federal legislation, known as the ABLE Act, which authorizes the creation of tax-advantaged, state-administered savings programs offering economic advantages to individuals with qualified disabilities. Under the NC ABLE Act, up to $100,000 saved in an ABLE account will not be considered as part of "countable resources" when determining eligibility for most federal means-tested programs. Any funds placed into an ABLE account (and earnings on the investments in the account) could be used to defray qualified disability expenses (QDEs), such as medical costs not covered by Medicaid, educational needs, and more.

The Department is coordinating the implementation, administration, and outreach of this new program.

North Carolina's AAA Rating

In February 2016, North Carolina presented its annual Debt Affordability Study to the Governor and the General Assembly. The State's General Fund has annual debt capacity of $209 million through 2025 according to the study using its conservative standard. North Carolina's debt is considered manageable at current levels when compared with its peer group composed of other states rated "triple-A" by all three rating agencies. The calculation of the State's General Fund debt capacity is based on the Debt Affordability Advisory Committee's recommendation that debt service should be targeted at no more than 4.0% of general fund tax revenues and should not exceed 4.75%.

In March 2016, the State issued $329.4 million of General Obligation Refunding Bonds to refinance general obligation bonds that were previously issued at higher rates. The refunding will save the State approximately $54.8 million in debt service costs.

In connection with the General Obligation Bonds, Standard & Poor's, Moody's Investors Service, and Fitch Ratings, the top three rating agencies, all affirmed the triple-A bond rating for the State. A triple-A bond rating means that North Carolina has followed well-defined financial management policies and has demonstrated strong debt management practices. The rating agencies recognized the State's historically conservative budgeting, financial management and debt issuance practices. North Carolina remains one of only twelve states with a triple-A rating from all three rating agencies.

Connect NC Bond Act of 2015

North Carolina Session Law 2015-280, the Connect NC Bond Act of 2015, authorized the issuance of two billion dollars of general obligation bonds of the State to be secured by a pledge of the faith and credit and taxing power of the State. The proceeds of the bonds will be used to fund the construction and furnishing of new facilities and the renovation and rehabilitation of existing facilities for the University of North Carolina System, the North Carolina Community College System water and sewer systems, the State's National Guard, the Department of Agriculture and Consumer Services attractions and parks, and the Department of Public Safety. The Act was ratified on September 30, 2015 and signed into law on October 21, 2015. The Connect NC Bonds were later approved by a statewide voter referendum held on March 15, 2016 (1,420,072 for and 745,295 against). On August 10, 2016, the State issued the first series of the Connect NC Bonds in the par amount of $200 million with a 20 year maturity and an all-in true interest cost of approximately 2.1%.

The Role of the Local Government Commission

The Local Government Commission (LGC) has an ongoing program of providing fiscal and debt management assistance to local governments and other units in the State. Prior to approval, sale, and delivery of all North Carolina local government general obligation bonds and other debt instruments, counseling and assistance is given to local units to determine the size of the issue and the most expedient form of financing and the feasibility of servicing the debt. The LGC approved approximately $4.4 billion in bonds and notes issued by local government units to finance capital needs during the fiscal year ended June 30, 2016.

In addition, the staff of the LGC closely examine audited financial reports annually to detect errors, identify problems, and recommend solutions for implementation. Due to the unequal and lingering impacts of the "Great Recession," the staff has seen a rise in issues, most notably in smaller rural units of government. In response, a local government intervention unit has been created to provide special assistance to those governmental units identified as failing to meet fiscal standards or best practices. Two new positions were filled during the last month of the fiscal year to create the local government intervention team, which began working with numerous local governments in July 2016.

Banking Operations

As the State's banker, the Department manages the deposits and disbursements for the State. Deposits are kept at main and non-main banks in communities across the State. At fiscal year-end, total deposits of $80.4 million were held in more than 90 accounts in 28 non-main banks across the state. In addition, another $221.1 million was held in deposits with the six main concentration banks. During fiscal year ended June 30, 2016, more than 4 million warrants were processed, representing approximately $19.7 billion in payments. In addition, Banking Operations initiated approximately 24,700 wires in the amount of $160.8 billion on behalf of the State. Banking Operations also monitors the Collateralization of Public Deposits program, which requires that public funds have securities pledged against them to ensure that public funds on deposit across the State that belong to the State and local governments are made whole in the event of a bank failure. As of June 30, 2016, Banking Operations oversaw $9.2 billion in pledged securities and collateral for $7.2 billion in deposits not otherwise covered by the Federal Deposit Insurance Corporation (FDIC) insurance.

Escheat Fund

The Department 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 (UPD) is responsible for recovering and returning such property to all rightful owners. Property escheated to the State is maintained in the Escheat Fund by rightful owners. Property escheated to the State is maintained in the Escheat Fund by directive of a 1971 state law. The interest earned on these funds pays for the operating costs of the UPD, and all remaining interest is sent to the SEAA to provide grants, loans and scholarships for North Carolina students attending public universities. In addition, since 2003 the State has used the Escheat Fund's principal to fund student financial aid.

Per Session Law 2015-241, $60.14 million was appropriated from the Escheat Fund principal in total to the Board of Governors of the University of North Carolina, the State Board of Community Colleges, and the Department of Military and Veterans Affairs for the 2016-2017 fiscal year. As the interest income generated from the Escheat Fund was less than the total amount appropriated in the session law, the difference was taken from the Escheat Fund principal. This funding provided more than $37.29 million in educational assistance to those in the University system, $16.33 million to those in the Community College system, and $6.52 million to the Veterans Scholarship Program in the 2016-2017 fiscal year. While the Department appreciates the importance of the student financial aid programs, it has cautioned the legislature that continued withdrawals will have a negative impact on the fund. As of the fiscal year ending June 30, 2016, the Escheat Fund carried a fund balance of $587 million. However, 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 $1.12 billion which has been reported since June 1971, but has been appropriated by the legislature from the Escheat Fund principal over the last 13 years.

Award of Major Contracts

Securities Custodian: Securities escheated to the Department are held by a fiscal agent until reregistered to the rightful owner, or sold at the request of the owner or the Department. Proceeds from the sale of the securities are held in the Escheat Fund until claimed by the rightful owner. In May 2016, the contract for custody services was awarded to a new vendor under a significantly different pricing structure. The pricing on the previous contract was based on monthly fees per position held, as well as fees per transaction (receipt in, receipt out, liquidations, etc.). The fees charged were also based on whether the transaction was a physical certificate or through the depository trust company. The UPD incurred the full cost of these services, which were primarily based on holder and claimant activity. With the new pricing structure, the fee is solely based on the liquidation of securities and for those sold at the direction of the claimant; the fee for the liquidation is netted against the proceeds. UPD only incurs those fees where the State has directed the custodian to liquidate a security.

Claims Processing and Call Center Support: The Department outsources a portion of its claims processing and call center support services. Due to the significant increase in volume of claims and incoming calls, the projected annual cost of the 2016-17 Claims Processing and Call Center Support contract was increased from $540,000 to $850,000.

Unclaimed Property Management System: The proposed request for proposal for a new fully integrated unclaimed property management system will replace the current contracts for UPS2000, Automated Claims Processing (E-claims), and Application Extender (AX), as well as the in-house Workflow system managed and maintained by DST Information Technology personnel. The net financial cost is projected to be fairly equal, with the majority of the savings to be in operational efficiencies.

The following statutory changes took place in the 2015 legislative session. The impact on the balance of the Escheat Fund has not yet been determined.

Insurance Company Death Benefits

Senate Bill 665 referenced the Unclaimed Property Act, Article 4 of Chapter 116B. It amended Article 58 of Chapter 58 – Insurance Law. The new provision requires insurance companies to check their policies or other products issued on or after October 1, 2015, against a death master file on a semiannual basis, to determine if any of their insureds, annuity owners, etc., have died. If an insured, annuity owner, etc., has died, the company must take steps to locate the beneficiary; and, if after some period of time the company is unable to locate the beneficiary, the company will submit the death benefits to the Unclaimed Property Division, pursuant to Chapter 116B. Additionally, if an insurance company has engaged in asymmetric conduct, as defined in General Statute 58-58-380(4), or other actions as set out in General Statute 58-58-390(b)(2), it will be required to conduct the semiannual search on policies or other products issued before October 1, 2015. Several audits of large life insurance companies have been on hold pending litigation related to issues including use of the death master file and access to records. As court actions are resolved with one or more of these cases and/or companies voluntarily implement processes to comply with Senate Bill 665, the Department may experience increases in reporting of unclaimed death benefits.

Venture Capital Multiplier Fund

The 2015 Appropriations Act amended the Treasurer's Investment Authority with respect to the Escheat Fund. Subsection (b)(12) of General Statute 147-69.2 now contains an express statement that "it is the intent of the General Assembly that the Escheat Fund provides a perpetual and sustainable source of funding for the purposes authorized by the State Constitution." General Statute 147-69.2A(d) now contains a provision requiring DST to annually engage a third-party professional to conduct an assessment and projection of the financial status of the Escheat Fund (Annual Report) in order to assess the utilization of the Escheat Fund as an educational endowment fund. From the findings of the Annual Report, the Treasurer shall recommend to the Governor and Legislative Leadership an annual amount available for the funding of scholarships, loans, and grants from the Escheat Fund. The Department has retained a third-party professional firm and they are in the process of conducting this analysis.

With this legislative change stating the intentions to treat the Escheat Fund as an educational endowment fund, it is the goal of the Department that the annual amount utilized from the Escheat Fund for financial aid will be limited to, or in close proximity to, the annual amount of interest earned on the Escheat Fund and will not continue to involve substantial appropriations from the principal. To help achieve this goal, General Statute 147-69.2(b)(12) and 147-69.2A now require the Treasurer to invest 10% of the Escheat Fund in a new investment fund, which is expected to be named the Venture Capital Multiplier Fund. Under this requirement and pre-existing investment authority, approximately 10% to 20% of the Escheat Fund could be invested over the long-term in private equities and other illiquid investments which will not be viable for short-term liquidation and will potentially generate a greater return on assets for the use of financial aid. However, because the Department's recommendation of the annual amount which should be utilized from the Escheat Fund is just that – a recommendation – it is unknown at this point if this new legislation will in fact achieve the goal of allowing the Escheat Fund principal to grow such that financial aid can be funded solely from the interest earned on the Escheat Fund. Presumably with the express statement that the General Assembly intends to use the Escheat Fund as a perpetual and sustainable source of financial aid funding, this goal should be attainable; but the Department cannot make a definitive statement at the present time regarding the likelihood of achieving the stated legislative intent.

The costs incurred in retaining a third-party professional to prepare the Annual Report will be paid directly from the Escheat Fund. See General Statute 147-69.2A(d). Also, funds may be expended from the Escheat Fund for the costs of the Venture Capital Multiplier Fund. Subsection (a) of General Statute 147-69.2A states that the costs of running the new fund shall be borne in accordance with General Statute 147-69.3(f). Section 147-69.3(f) states that the cost of the administration of investment programs shall be apportioned equitably among the programs in such manner as may be prescribed by the Department.

The Appropriations Act of 2015 was passed on September 18, 2015. An Invitation to Bid seeking third-party investment management firms to meet the Act's requirements was issued on December 22, 2015. Several bids were received and discussed with the designees of the Governor, Treasurer, Speaker of the House, and President Pro Tem of the Senate (Selection Group). Contract negotiations were completed with the firm approved by the Selection Group and investments were made from the Venture Capital Multiplier Fund after June 30, 2016.

Fiduciary Funds

North Carolina Retirement Systems

Effective July 1, 2016, the State established an employer contribution rate of 9.98% of compensation for TSERS, of which 0.48% was to pay for a one-time pension supplement provided by the General Assembly. This contribution rate exceeds or matches the Actuarially Determined Contribution (ADC) of 9.48% determined under the core funding policy and the minimum employer contribution rate of 9.50% recommended by the TSERS Board of Trustees under the Board's Employer Contribution Rate Stabilization Policy. Maintaining this pattern of setting the contribution rate at or above the Board's recommendation is the most significant action the General Assembly can take to ensure the long-term fiscal health of the pension plan. In January 2016, the Local Government Employees' Retirement System (LGERS) Board of Trustees approved a 0.105% cost of living adjustment (COLA) for LGERS retirees effective July 1, 2016.

Funding Policy: Employer Contribution Rate Stabilization Policies – TSERS

The TSERS Board adopted the Employer Contribution Rate Stabilization Policy (ECRSP) on January 21, 2016. This policy established a mechanism for the Board of Trustees to use in determining what it will recommend to the General Assembly regarding employer contribution rates for TSERS for the next five years. This mechanism and its counterpart for the local system are tools to mitigate the risk that average investment returns earned on the TSERS assets are below the actuarial assumed investment return over the short-term and medium-term.

Under the TSERS ECRSP, the Board will recommend to the General Assembly an employer contribution rate that is equal to the maximum of (1) and (2) but not greater than (3) described below:

(1) Current fiscal year's Actuarially Determined Contribution (ADC) rate determined under the Board's core funding policy and adopted assumptions, including a discount rate of 7.25%;

(2) A rate 0.35% greater than the prior fiscal year's appropriated contribution rate;

(3) A rate determined using a discount rate indexed by the 30-year Treasury rate as of the actuarial valuation date.

The TSERS ECRSP resulted in a minimum recommended contribution rate of 9.50% of payroll for the fiscal year ending June 30, 2017, this is an increase of 0.35% to the prior fiscal year's appropriated contribution rate of 9.15%. The ECRSP recommended rate of 9.50% is greater than the 9.48% ADC determined using the core funding policy and the Board's adopted assumptions from an experience investigation prepared as of December 31, 2014. The upper bound on the ECRSP rate for the fiscal year ending June 30, 2017 was determined to be 53.48%, which represents the ADC that would be calculated using the 30-year Treasury Rate as the discount rate and investment return assumption.

The Board elected to recommend the minimum employer contribution rate generated under the ECRSP of 9.50% of payroll. The Board's recommendation is not binding on the General Assembly. The employer contribution rate is typically set by the General Assembly in the annual appropriations act. In the appropriations act for the fiscal year ending June 30, 2017, the State established an employer contribution rate of 9.98% of compensation for TSERS, of which 0.48% was to pay for a one-time pension supplement provided by the General Assembly.

Funding Policy: Employer Contribution Rate Stabilization Policies – LGERS

The LGERS Board adopted an ECRSP on January 21, 2016. Following adoption of that policy, the Board set LGERS employer contribution rates for the next 5 years in accordance with the policy. The LGERS ECRSP will require an increase in the employer contribution rate for the fiscal year ending June 30, 2017 to 7.25% for general employees and 8.0% for law enforcement officers. Both rates will increase by 0.25% annually through FY 2020-21, with the following bounds: (1) if the underlying ADC for a given fiscal year is 50% higher than the scheduled employer contribution rate for that fiscal year, the scheduled employer contribution rate for the current and future fiscal years increases 0.50%; (2) if the underlying ADC for a given fiscal year is 50% lower than the scheduled employer contribution rate for that fiscal year, the scheduled employer contribution rate for the current and future fiscal year decreases 0.50%; (3) Law Enforcement rates will be 0.75% higher than General Employee rates; and (4) if the General Assembly grants any additional COLA beyond the amount of COLA approved by the Board, increases the multiplier for active employees, or changes the benefit structure in a way that has a cost to the system, the schedule of contributions for the current and future fiscal years will be increased by the cost of the additional COLA, increased multiplier or other benefit enhancement. Additionally, the LGERS ECRSP allows for retiree COLAs to be granted based on investment gains without adjusting the contribution rate, and the LGERS ECRSP includes a mechanism to automatically increase or decrease the contribution rate if circumstances change and the ECRSP results in significant over-funding or under-funding of the system.

Economic & Portfolio Discussion

Roughly seven years into its recovery, the U.S. economy continues to grow, albeit modestly, with falling unemployment rates and relatively low inflation. For the year ended June 30, 2016, Gross Domestic Product (GDP) adjusted for inflation and seasonality increased at a moderated rate of 1.2%; the unemployment rate dropped further to 4.9%; consumer price inflation was a modest 1.0% year over year; and core consumer price inflation (i.e., removing the volatile food and energy sectors) was 2.3% year over year. In December 2015, the Federal Reserve increased the target federal funds rate from a range of

0.00-0.25% to a range of 0.25-0.50%, which served as the first change in the key interest rate since the "Great Recession" of 2007-2009. This move was widely expected by the financial markets, which since have continued to closely track and anticipate further moves from the Federal Reserve. Internationally, the Bank of Japan joined the European Central Bank in implementing negative short-term interest rates in January 2016. Also closely observed by the financial markets was the price of oil, which continued to exhibit volatility throughout the year. The price of Brent Crude fell from roughly $60 per barrel in June 2015 to just under $30 per barrel in January 2016, then rebounded again to nearly $50 per barrel to end the fiscal year. Further uncertainty was also introduced to the markets by an unexpected vote by the United Kingdom to leave the European Union on June 23, 2016. Given moderating economic growth, global uncertainty and limited inflation concerns, U.S. interest rates, with the exception of very short-term bill yields, ended the fiscal year lower. Specifically, the benchmark 10-year Treasury rate fell 86 basis points, from 2.35% to 1.49%. Both investment grade and high-yield corporate bonds (i.e., credit quality ratings) experienced volatility in their yield premiums compared to similar duration U.S. Treasury bonds during the year, with both ending the year slightly higher (wider yield spreads being negative for performance). For investment-grade bonds, falling interest rates across the yield curve acted as an offset to increasing spreads, and resulted in strong returns overall. High-yield bonds, however, struggled, given their lower duration and higher exposure to the energy market. Corporate default rates trended slightly higher throughout the year, driven largely by companies in the Energy sector and, to a lesser degree, by Metals and Mining.

The discussion below refers to classifications in the Investment Policy Statement for the North Carolina Retirement Systems. The Supplementary Information contains a mapping of the Investment Policy Statement's classifications to the statutory classifications.

The Investment Grade Fixed Income asset class returned 7.3% for the fiscal year versus a benchmark return of 8.2%. This relative underperformance was driven mainly by an underweight duration position, which caused performance to lag as interest rates fell across the curve. Given widening credit spreads and falling interest rates, the Opportunistic Fixed Income asset class struggled, returning -4.4% versus the benchmark return of -3.6%. Within the Opportunistic Fixed Income asset class, special situations (including private direct lending funds) and distressed managers were able to generate positive returns overall, while long/short credit-oriented funds experienced disappointing absolute and relative performance. Several of the latter funds were terminated during the fiscal year.

Global equity markets, as measured by the benchmark, returned -3.8% for the fiscal year. Stock returns were better in the U.S. than elsewhere in the world, with domestic Large Cap sectors faring the best. Overall, the Russell 3000 Index returned a positive 2.1%. Internationally, the MSCI ACWI ex-U.S. IMI index fell, with a return of -9.6%. The emerging markets were a particularly weak spot, as the MSCI Emerging Markets index posted an annual return of -12.1%. Several factors contributed to the underperformance of international equity market indices, including a lack of progress of the Japanese economy paired with a rallying Yen (pushing exporters' earnings even lower), growth concerns in Europe, and Chinese equities continuing to struggle throughout the year. In the emerging markets as a whole, slowing growth and fluctuating prices in the energy and materials sectors contributed to the volatility. Despite an environment that was generally difficult for active investing, the Public Equity Investment portfolio lagged its benchmark by just 5 basis points for the fiscal year overall. The U.S. Equity and Global Equity composites underperformed their benchmarks by 154 and 75 basis points, respectively. This was largely offset, however, by the Non-U.S. and Hedged Equity composites outperforming their benchmarks by 107 and 31 basis points, respectively. The Non-U.S. asset class returned -8.5% and the Hedged Equity asset class returned -1.3% for the fiscal year.

Commercial real estate fundamentals remained supportive throughout the year. Vacancy rates remained low as demand for space outpaced new supply and rents increased at a rate above inflation which provided healthy net operating income growth. Overall, property appreciation, while slowing, was additive to returns. Demographic trends, specifically population growth and the propensity of millennials to rent longer, also supported strong demand for multifamily housing units. The Non-Core Real Estate asset class had a 12.4% return for the fiscal year, handily beating the 6.5% return of the benchmark. The Core Real Estate asset class had an 8.5% annual return, lagging the 12.4% return of the benchmark, in part, due to a significant amount of new investments made over the past several years.

For the fiscal year, returns from Private Equity were somewhat muted after several strong years, with the strongest absolute results coming from the Buyout and Fund of Funds categories. While returns were not as robust as they had been over the past few years, managers were still able to add value through sector focused, distressed, and other specialized opportunities. Economy-wide private equity deal volume overall trended slightly downward over the course of the year, as companies faced both domestic and international headwinds. Reliance on leverage by Private Equity funds has continued to decline which is viewed positively from a risk standpoint, although potentially at the expense of higher future returns. For the fiscal year, the Private Equity asset class had a 4.3% annual return, which was roughly in line with the return of the benchmark.

Declines in commodity prices, notably energy, created a challenging environment for the Inflation Sensitive asset class. The asset class had a -5.8% return for the fiscal year, lagging the -3.1% return of its benchmark. The weakest subcomponents of the asset class were Private Energy with a return of -27.5% and Liquid Diversifiers with a return of -15.1%. The strongest subcomponents of the asset class were Infrastructure with a return of 7.9% and Real Assets with a return of 7.8%.

The Department invests the Short-term Investment Fund (STIF) with the objectives of preservation of capital, liquidity, and competitive relative returns. The portfolio is managed with a laddering strategy out to one year that is designed to provide consistent liquidity for short-term cash needs, but allows the portfolio manager to take advantage of investing out the yield curve with a portion of the assets. The STIF return for the year ended June 30, 2016 was 0.75%.

Looking forward, the major initiatives of the Department's investment programs for the next several years include: implementing a managed account platform to improve control, transparency, and cost of hedge funds; implementing an internally-managed equity index fund; codifying investment beliefs and updating related policies; restructuring/exiting certain fund of funds and legacy low-conviction funds; strategically reviewing the Core Real Estate asset class; and finalizing a custom risk system and related processes.

North Carolina Defined Contribution Plans

The Supplemental Retirement Income Plan of North Carolina (401(k)) and the North Carolina Public Employee Deferred Compensation Plan (457(b)) also support the retirement of State and local public employees that elect to participate. The 401(k) and 457(b) plans are voluntary and members can choose to begin or discontinue participation at any time. Members of these plans may receive their benefits upon retirement, disability, termination, hardship or death. As of December 31, 2015, the 401(k) had approximately 257,600 members and $8.2 billion in assets, while the 457(b) had approximately 55,600 members and $1.2 billion in assets. Member participation had decreased to approximately 243,000 and 51,500 for the 401(k) and 457(b) respectively by June 30, 2016.

Supplemental Retirement Plan for Teachers

The N.C. 403(b) Program was launched early second quarter 2014. As of June 30, 2016, 50 of North Carolina's 115 local school districts have adopted the Program. The Program allows teachers to invest in an institutional 403(b) supplemental retirement program with pricing that will help them achieve retirement security. Members of this program may receive their benefits upon retirement, disability, termination, hardship or death. As of June 30, 2016, assets under management were approximately $8.0 million.

Component Unit

The State Health Plan for Teachers and State Employees

Benefit Plan Options

Under the Treasurer's leadership, the Board of Trustees of the State Health Plan for Teachers and State Employees (SHP Board of Trustees) adopted 2017 benefit changes that continue the Board's commitment to value-based benefit design and approved new contractual agreements that will reduce costs for pharmacy benefits and retiree coverage under the fully-insured Group Medicare Advantage plans. The changes will also help the Plan meet the requirements set by the NC General Assembly to reduce future growth in the State's employer contributions as well as retain a strong set of benefits for employees and retirees with affordable individual premiums. The new benefits are effective January 1, 2017.

In 2017, active employees and pre-65 retirees will continue to have three benefit options from which to choose, including the Consumer-Directed Health Plan 85/15 (CDHP 85/15) with a Health Reimbursement Account (HRA), the Enhanced 80/20 PPO Plan (Enhanced 80/20) and the Traditional 70/30 PPO Plan (Traditional 70/30).

The CDHP 85/15 and Enhanced 80/20 plans employ a premium structure that encourages member engagement by offering premium credits for completion of healthy activities. Premiums will be reduced for members who complete a health assessment, select a primary care provider (PCP), and attest to being a non-tobacco user or participating in a tobacco cessation program. Effective January 1, 2017, members of the Traditional 70/30 plan will be subject to the same tobacco attestation program and corresponding premium credit as members in the CDHP 85/15 and Enhanced 80/20 plans.

The CDHP 85/15 and Enhanced 80/20 options continue to provide coverage for preventive treatments with no member cost sharing, as well as opportunities for members to reduce out-of-pocket expenses by visiting their selected PCP and using designated "better value" health care providers who meet certain quality, cost, and accessibility benchmarks.

The SHP Board of Trustees approved changes to member cost sharing requirements under two of the three options for active employees and pre-65 retirees. The CDHP 85/15 will not change in 2017.

Substantive changes were made to the Enhanced 80/20 PPO Plan, where the Plan opted to emphasize value-based benefits by lowering the copays for routine care, such as PCP office visits and prescription costs for Tier 1 drugs. Copays for inpatient hospitalizations will also be reduced to $0 for members who use the Plan's designated "better value" hospitals and will increase to $450 for hospitalizations in the non-designated hospitals. The Plan also further differentiated copayments for specialists office visits with members paying $45 for designated and $85 for non-designated specialists. In addition, the deductible was increased and the out-of-pocket maximums were aligned with requirements under the federal Patient Protection and Affordable Care Act (ACA). With the changes, the Plan forfeited "grandfather status" on the Enhanced 80/20 Plan, meaning that it must comply with ACA's benefit design requirements.

Member cost sharing was increased across the board in the Traditional 70/30 to the legal limits allowed for it to retain grandfathered status prescribed under ACA.

For Medicare retirees, the State Health Plan will continue to offer fully-insured Medicare Advantage products with integrated prescription drug plans (MA-PDP) in 2017 through an agreement with United Healthcare. Unlike prior years when the Plan contracted with two carriers, Humana and United Healthcare, the Board approved offering MA-PDP options though only one carrier in 2017 to improve pricing. United Healthcare will offer a standard "base" MA-PDP (for a $0 "retiree only" premium) and an "enhanced" MA-PDP customized in consultation with the State Health Plan that members may select for an additional monthly premium charge. The benefit design for the 2017 base and enhanced MA-PDP offerings will be the same as the 2016 United Healthcare plans. Medicare retirees will continue to have the option to enroll in the Traditional 70/30 Plan as an alternate to the MA-PDP offerings.

2017 Premium Increases

In August 2016, the Board approved a 3.43% premium increase for most employee/non-Medicare retiree and dependent coverage tiers effective January 1, 2017, matching increases in the employer contribution for the State's 2016-17 Fiscal Year. Premium rates for the High Deductible Health Plan (HDHP), which is available to nonpermanent full-time employees to comply with the ACA, will also increase by 3.43%. MA-PDP dependent rates and enhanced plan rates will decrease slightly to reflect the pricing advantage the Plan received by moving to a single MA-PDP carrier for 2017.

The Appropriations Act of 2016, Session Law 2016-94, was signed by the Governor in July 2016 and modifies the "Reserve for Future Benefits Needs" that was established by the General Assembly in 2015. The Reserve holds $71 million, representing the additional amount State agencies would need to cover the cost of a 3.43% increase to the State's employer contribution for 2017. The Appropriations Act authorizes the Director of the Budget to release the reserve funds if the Plan adopts measures sufficient to reduce projected employer premium increases to 4% in calendar years 2018 and 2019. The Plan provided a forecast that met this requirement to the Office of State Budget and Management in late July, and Office of State Budget and Management has confirmed that the reserve funds will be released.

Recently Enacted Legislation

Session Law 2016-104 (Senate Bill 865) made administrative and technical changes to the statutes that apply to the State Health Plan. The legislation included several provisions that were intended to enhance Plan operations and revise rules governing participation in the Plan by local units of government:

- The legislation requires that third-party claims processors provide the Plan with an enhanced range of data elements. The Plan previously received claims data from these third-party administrators, but it has traditionally been reported without provider indicators. Under SL 2016-104, claims processors will be required to provide the Plan with claims data that includes provider information in addition to the payment details. This information allows the Plan to conduct additional data analytics and reviews of provider performance.
- The legislation clarifies the premium flexibility available to local government units, while also expanding the cap on participation by local governments. Although the legislation does not change the existing parameters for participation, it does require that local units participating in the Plan adhere to the premium structure and rates approved by the Board of Trustees for employee-only coverage.
- The legislation also delegates responsibilities related to reporting requirements under sections 6055 and 6056 of the Internal Revenue Code. Under the ACA, employers must annually certify offers of qualifying health coverage to the IRS. SL 2016-104 clarifies that employing units will be responsible for compliance with this reporting requirement for active state employees; the Plan will be responsible for compliance with regards to state retirees and direct bill members.

Changes in Major Contracts

In March 2016, the SHP Board of Trustees approved a contract with CVS/Caremark to provide Pharmacy Benefit Management (PBM) Services beginning January 1, 2017. The Plan's PBM contract, which has been most recently held by Express Scripts (formerly Medco Health Solutions), is one of the Plan's largest and most important contracts. Implementation with CVS/Caremark began immediately after approval of the contract in order to prepare for the transition from Express Scripts to CVS/Caremark.

FINANCIAL STATEMENTS

North Carolina Department of State Treasurer
Balance Sheet
Governmental Funds
June 30, 2016 ***Exhibit A-1***

	General Fund	Escheat Fund	Debt Proceeds and Interest Fund	Other Governmental Funds	Total
ASSETS					
Cash and Cash Equivalents (Note 2)	$ 5,439,938	$ 379,659,091	$ 0	$ 490,842	$ 385,589,871
Investments (Note 2)		232,830,450	115,607,958	3,821,317	352,259,725
Securities Lending Collateral	37,977	30,387,232		15,635	30,440,844
Receivables:					
Intergovernmental Receivables (Note 4)	151,455				151,455
Interest Receivable	2,485	251,947	65,397	2,732	322,561
Contributions Receivable	76,172				76,172
Inventories	113,646				113,646
Notes Receivable				49,095	49,095
Due from Other Funds	28,582				28,582
Due from Component Unit	8,494				8,494
Total Assets	5,858,749	643,128,720	115,673,355	4,379,621	769,040,445
DEFERRED OUTFLOWS OF RESOURCES					
Forward Funded State Aid	0	37,287,242	0	0	37,287,242
Total Assets and Deferred Outflows	$ 5,858,749	$ 680,415,962	$ 115,673,355	$ 4,379,621	$ 806,327,687
LIABILITIES					
Accounts Payable	$ 570,332	$ 189,035	$ 0	$ 0	$ 759,367
Obligations under Securities Lending	37,977	30,387,232		15,635	30,440,844
Due to Other Funds	65,850				65,850
Escheat Claims Payable		62,795,004			62,795,004
Total Liabilities	674,159	93,371,271	0	15,635	94,061,065
DEFERRED INFLOWS OF RESOURCES					
Total Deferred Inflows of Resources	0	0	0	0	0
FUND BALANCE (Note 8)					
Nonspendable	113,646				113,646
Restricted	474,046	587,044,691	115,673,355	3,823,980	707,016,072
Committed	3,695,133			540,006	4,235,139
Unassigned	901,765				901,765
Total Fund Balances	5,184,590	587,044,691	115,673,355	4,363,986	712,266,622
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	$ 5,858,749	$ 680,415,962	$ 115,673,355	$ 4,379,621	$ 806,327,687

The accompanying notes to the financial statements are an integral part of this statement.

North Carolina Department of State Treasurer
Balance Sheet
Governmental Funds
June 30, 2015 ***Exhibit A-2***

	General Fund		Escheat Fund		Debt Proceeds and Interest Fund		Other Governmental Funds		Total
ASSETS									
Cash and Cash Equivalents (Note 2)	$	5,422,767	$	292,652,381	$	0	$	476,816	$	298,551,964
Investments (Note 2)		14,953		252,225,431		125,046,296		4,618,833		381,905,513
Securities Lending Collateral		124,156		30,746,020				19,243		30,889,419
Receivables:										
Intergovernmental Receivables (Note 4)		130,342								130,342
Interest Receivable		3,710		129,955		20,542		757		154,964
Contributions Receivable		77,892								77,892
Inventories		13,157								13,157
Notes Receivable								60,787		60,787
Due from Other Funds		27,029								27,029
Due from Component Unit		7,533								7,533
Total Assets		5,821,539		575,753,787		125,066,838		5,176,436		711,818,600
DEFERRED OUTFLOWS OF RESOURCES										
Forward Funded State Aid		0		78,990,290		0		0		78,990,290
Total Assets and Deferred Outflows	$	5,821,539	$	654,744,077	$	125,066,838	$	5,176,436	$	790,808,890
LIABILITIES										
Accounts Payable	$	719,901	$	288,551	$	0	$	33	$	1,008,485
Obligations under Securities Lending		124,156		30,746,020				19,243		30,889,419
Due to Other Funds		38,498								38,498
Escheat Claims Payable				52,500,000						52,500,000
Total Liabilities		882,555		83,534,571		0		19,276		84,436,402
DEFERRED INFLOWS OF RESOURCES										
Total Deferred Inflows of Resources		0		0		0		0		0
FUND BALANCE (Note 8)										
Nonspendable		13,157								13,157
Restricted		469,950		571,209,506		125,066,838		4,619,465		701,365,759
Committed		3,849,802						537,695		4,387,497
Unassigned		606,075								606,075
Total Fund Balances		4,938,984		571,209,506		125,066,838		5,157,160		706,372,488
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	$	5,821,539	$	654,744,077	$	125,066,838	$	5,176,436	$	790,808,890

The accompanying notes to the financial statements are an integral part of this statement.

North Carolina Department of State Treasurer
Statement of Revenues, Expenditures, and Changes in Fund Balance
Governmental Funds
For the Fiscal Year Ended June 30, 2016 — *Exhibit A-3*

	General Fund	Escheat Fund	Debt Proceeds and Interest Fund	Other Governmental Funds	Total
REVENUES					
Funds Escheated	$ 0	$ 108,437,030	$ 0	$ 0	$ 108,437,030
Fees	6,919,640			250	6,919,890
Services	6,398,885	240			6,399,125
Contributions	1,978,569			7,737	1,986,306
Investment Earnings	24,350	14,875,194	503,388	20,883	15,423,815
Interest Earnings on Loans	518,386				518,386
Rental and Lease of Property	125				125
Revenues from Other State Agencies and Funds (Note 9)	23,467,495		5,028		23,472,523
Loan Collection of Principal	6,777,533				6,777,533
Reimbursement of Core Banking Upgrade Expenditures	1,588,840				1,588,840
Reimbursement of Expenditures from Investment Pool	7,707,942				7,707,942
Miscellaneous Revenue	31,420				31,420
Total Revenues	55,413,185	123,312,464	508,416	28,870	179,262,935
EXPENDITURES					
State Aid	20,966,299	79,089,814			100,056,113
Contracted Personal Services	4,996,369	5,449,963	84,086	8,179	10,538,597
Personal Services	21,935,947				21,935,947
Employee Benefits	7,121,174				7,121,174
Supplies and Materials	147,123				147,123
Travel	172,003				172,003
Communication	357,853				357,853
Utilities	215,018				215,018
Data Processing Services	224,643				224,643
Other Services	765,762				765,762
Claims and Benefits	370,000			7,425	377,425
Debt Service					
Principal Retirement	471,961,972				471,961,972
Interest and Fees	255,128,279		33,489	680	255,162,448
Debt Issuance Costs	833,012		3,179		836,191
Other Fixed Charges	2,479,794	81,438			2,561,232
Capital Outlay	1,452,744				1,452,744
Insurance	12,060				12,060
Other Expenditures	3,085,713				3,085,713
Expenditures to Other State Agencies and Funds (Note 9)	6,838,869	22,856,064	335	511,506	30,206,774
Total Expenditures	799,064,634	107,477,279	121,089	527,790	907,190,792
Excess Revenues Over (Under) Expenditures	(743,651,449)	15,835,185	387,327	(498,920)	(727,927,857)
OTHER FINANCING SOURCES (USES)					
State Appropriations	733,275,212				733,275,212
Sale of Capital Assets	1,586				1,586
Refunding on Bonds Issued	329,360,000				329,360,000
Premiums on Bonds Issued	88,065,635				88,065,635
Pay to Refunded Debt Escrow Agent	(416,509,303)				(416,509,303)
Transfers to State Reserve Fund	(371,139)				(371,139)
Transfers In (Note 10)	10,075,064				10,075,064
Transfers Out (Note 10)			(9,780,810)	(294,254)	(10,075,064)
Total Other Financing Sources (Uses)	743,897,055	0	(9,780,810)	(294,254)	733,821,991
Net Change in Fund Balance	245,606	15,835,185	(9,393,483)	(793,174)	5,894,134
Fund Balance - July 1 (As Restated, Note 18)	4,938,984	571,209,506	125,066,838	5,157,160	706,372,488
Fund Balance - June 30	$ 5,184,590	$ 587,044,691	$ 115,673,355	$ 4,363,986	$ 712,266,622

The accompanying notes to the financial statements are an integral part of this statement.

North Carolina Department of State Treasurer
Statement of Revenues, Expenditures, and Changes in Fund Balance
Governmental Funds
For the Fiscal Year Ended June 30, 2015 *Exhibit A-4*

	Unaudited				
	General Fund	Escheat Fund	Debt Proceeds and Interest Fund	Other Governmental Funds	Total
REVENUES					
Funds Escheated	$ 0	$ 165,062,750	$ 0	$ 0	$ 165,062,750
Fees	6,515,786			273	6,516,059
Services	5,802,673	240			5,802,913
Contributions	2,871,406			9,802	2,881,208
Investment Earnings	16,494	7,022,041	125,026	13,376	7,176,937
Interest Earnings on Loans	814,031				814,031
Rental and Lease of Property	1,500				1,500
Revenues from Other State Agencies and Funds	24,695,574				24,695,574
Loan Collection of Principal	6,421,050				6,421,050
Reimbursement of Core Banking Upgrade Expenditures	893,000				893,000
Reimbursement of Expenditures from Investment Pool	2,451,364				2,451,364
Miscellaneous Revenue	283				283
Total Revenues	50,483,161	172,085,031	125,026	23,451	222,716,669
EXPENDITURES					
State Aid	19,939,274	37,287,242			57,226,516
Contracted Personal Services	8,058,901	6,166,157	10,301	13,061	14,248,420
Personal Services	18,744,213				18,744,213
Employee Benefits	5,958,388				5,958,388
Supplies and Materials	141,382				141,382
Travel	208,016				208,016
Communication	643,836				643,836
Utilities	1,781				1,781
Data Processing Services	174,276				174,276
Other Services	825,039				825,039
Claims and Benefits	725,000			9,600	734,600
Debt Service					
Principal Retirement	447,328,868				447,328,868
Interest and Fees	268,873,199		55,022	908	268,929,129
Debt Issuance Costs	2,580,889		467,347		3,048,236
Other Fixed Charges	1,513,613	76,899			1,590,512
Capital Outlay	3,304,651				3,304,651
Insurance	17,782	23			17,805
Other Expenditures	1,159,100			184,159	1,343,259
Expenditures to Other State Agencies and Funds	12,053,005	22,855,864	231,360,000	644,635	266,913,504
Total Expenditures	792,251,213	66,386,185	231,892,670	852,363	1,091,382,431
Excess Revenues Over (Under) Expenditures	(741,768,052)	105,698,846	(231,767,644)	(828,912)	(868,665,762)
OTHER FINANCING SOURCES (USES)					
State Appropriations	725,310,771				725,310,771
General Obligation Bonds Issued			231,360,000		231,360,000
Refunding on Bonds Issued	299,020,000				299,020,000
Premiums on Bonds Issued	52,514,226		29,380,720		81,894,946
Pay to Refunded Debt Escrow Agent	(349,828,159)				(349,828,159)
Transfers In	10,451,903				10,451,903
Transfers Out			(6,732,575)	(3,719,328)	(10,451,903)
Total Other Financing Sources (Uses)	737,468,741	0	254,008,145	(3,719,328)	987,757,558
Net Change in Fund Balances	(4,299,311)	105,698,846	22,240,501	(4,548,240)	119,091,796
Fund Balance - July 1 (As Restated, Note 18)	9,238,295	465,510,660	102,826,337	9,705,400	587,280,692
Fund Balance - June 30	$ 4,938,984	$ 571,209,506	$ 125,066,838	$ 5,157,160	$ 706,372,488

The accompanying notes to the financial statements are an integral part of this statement.

North Carolina Department of State Treasurer
Statements of Fiduciary Net Position
Fiduciary Funds
June 30, 2016 — *Exhibit B-1*

	Pension and Other Employee Benefit Trust Funds (1)	Investment Trust Funds (2)	Private-Purpose Trust Fund	Total
ASSETS				
Cash and Cash Equivalents	$ 366,210,731	$ 12,334,371	$ 7,097,437	$ 385,642,539
Investments:				
Collective Investment Funds	231,185,564			231,185,564
Unallocated Insurance Contracts	780,873,665			780,873,665
Synthetic Guaranteed Investment Contracts	1,333,666,227			1,333,666,227
State Treasurer Investment Pool	88,464,006,077	1,128,919,348	7,338,867	89,600,264,292
Non-State Treasurer Pooled Investments	6,706,432,255			6,706,432,255
Securities Lending Collateral	2,744,094,036	42,716,219	392,894	2,787,203,149
Receivables:				
Accounts Receivable	30,127,411			30,127,411
Interest Receivable	403,189	771,547	4,698	1,179,434
Contributions Receivable	145,167,909			145,167,909
Due from Other Funds	63,162,826			63,162,826
Due from Component Units	20,393,239			20,393,239
Notes Receivable	311,678,041			311,678,041
Total Assets	101,197,401,170	1,184,741,485	14,833,896	102,396,976,551
LIABILITIES				
Accounts Payable and Accrued Liabilities:				
Accounts Payable	1,464,096			1,464,096
Benefits Payable	4,251,587			4,251,587
Obligations Under Securities Lending	2,744,094,036	42,716,219	392,894	2,787,203,149
Funds Held for Others	7,303,090			7,303,090
Total Liabilities	2,757,112,809	42,716,219	392,894	2,800,221,922
NET POSITION				
Restricted for:				
Pension Benefits	95,314,132,225			95,314,132,225
Postemployment Benefits	1,522,956,152			1,522,956,152
Pool Participants		913,237,055		913,237,055
Individuals, Organizations, and Other Governments		228,788,211	14,441,002	243,229,213
Other Employment Benefits	1,603,199,984			1,603,199,984
Total Net Position	$ 98,440,288,361	$ 1,142,025,266	$ 14,441,002	$ 99,596,754,629

The accompanying notes to the financial statements are an integral part of this statement.

(1) See supplementary Exhibit J-1 for detailed information of each Pension and Other Employee Benefit Trust Fund
(2) See supplementary Exhibit J-5 for detailed information of each Investment Trust Fund

North Carolina Department of State Treasurer
Statements of Fiduciary Net Position
Fiduciary Funds
June 30, 2015 ***Exhibit B-2***

		Pension and Other Employee Benefit Trust Funds (1)		Investment Trust Funds (2)		Private-Purpose Trust Fund		Total
ASSETS								
Cash and Cash Equivalents	$	384,719,176	$	8,847,706	$	7,206,577	$	400,773,459
Investments:								
Collective Investment Funds		228,407,499						228,407,499
Unallocated Insurance Contracts		762,218,743						762,218,743
Synthetic Guaranteed Investment Contracts		1,308,770,818						1,308,770,818
State Treasurer Investment Pool		90,415,680,655		1,108,148,058		6,978,031		91,530,806,744
Non-State Treasurer Pooled Investments		6,686,135,959						6,686,135,959
Securities Lending Collateral		4,132,126,591		51,102,822		1,196,865		4,184,426,278
Receivables:								
Accounts Receivable		30,792,470						30,792,470
Interest Receivable		311,156		1,384,705		3,218		1,699,079
Contributions Receivable		149,579,293						149,579,293
Due from Other Funds		59,549,843						59,549,843
Due from Component Units		18,835,835						18,835,835
Notes Receivable		304,287,416						304,287,416
Total Assets		104,481,415,454		1,169,483,291		15,384,691		105,666,283,436
LIABILITIES								
Accounts Payable and Accrued Liabilities:								
Accounts Payable		1,581,492						1,581,492
Benefits Payable		4,253,724						4,253,724
Obligations Under Securities Lending		4,132,126,591		51,102,822		1,196,865		4,184,426,278
Funds Held For Others		6,976,900						6,976,900
Total Liabilities		4,144,938,707		51,102,822		1,196,865		4,197,238,394
NET POSITION								
Restricted for:								
Pension Benefits		97,293,824,296						97,293,824,296
Postemployment Benefits		1,479,480,990						1,479,480,990
Pool Participants				880,843,980				880,843,980
Individuals, Organizations, and Other Governments				237,536,489		14,187,826		251,724,315
Other Employment Benefits		1,563,171,461						1,563,171,461
Total Net Position	$	100,336,476,747	$	1,118,380,469	$	14,187,826	$	101,469,045,042

The accompanying notes to the financial statements are an integral part of this statement.

(1) See supplementary Exhibit J-2 for detailed information of each Pension and Other Employee Benefit Trust Fund
(2) See supplementary Exhibit J-6 for detailed information of each Investment Trust Fund

North Carolina Department of State Treasurer
Statements of Changes in Fiduciary Net Position
Fiduciary Funds
For the Fiscal Year Ended June 30, 2016 — *Exhibit B-3*

	Pension and Other Employee Benefit Trust Funds (1)	Investment Trust Funds (2)	Private-Purpose Trust Fund	Total
ADDITIONS				
Contributions:				
Employer	$ 2,863,356,670	$ 0	$ 0	$ 2,863,356,670
Members	1,634,554,373			1,634,554,373
Trustee Deposits			3,779	3,779
Other Contributions	45,593,601			45,593,601
Total Contributions	4,543,504,644		3,779	4,543,508,423
Investment Income:				
Investment Earnings	1,318,174,331	(2,631,065)	601,836	1,316,145,102
Less Investment Expenses	(582,071,893)	(1,362,167)	(2,439)	(583,436,499)
Net Investment Income	736,102,438	(3,993,232)	599,397	732,708,603
Pool Share Transactions:				
Reinvestment of Dividends		(3,634,336)		(3,634,336)
Net Share Purchases		27,638,029		27,638,029
Net Pool Share Transactions		24,003,693		24,003,693
Other Additions:				
Fees	3,150,427			3,150,427
Interest Earnings on Loans	12,904,557			12,904,557
Miscellaneous	2,549,345			2,549,345
Total Other Additions	18,604,329			18,604,329
Total Additions	5,298,211,411	20,010,461	603,176	5,318,825,048
DEDUCTIONS				
Claims and Benefits	6,134,485,132			6,134,485,132
Medical Insurance Premiums	855,948,277			855,948,277
Refund of Contributions	175,268,365			175,268,365
Distributions Paid and Payable		(3,634,336)		(3,634,336)
Payments in Accordance with Trust Arrangements			350,000	350,000
Administrative Expenses	20,300,557			20,300,557
Other Deductions	8,397,466			8,397,466
Total Deductions	7,194,399,797	(3,634,336)	350,000	7,191,115,461
Change in Net Position	(1,896,188,386)	23,644,797	253,176	(1,872,290,413)
Net Position - July 1	100,336,476,747	1,118,380,469	14,187,826	101,469,045,042
Net Position - June 30	$ 98,440,288,361	$ 1,142,025,266	$ 14,441,002	$ 99,596,754,629

The accompanying notes to the financial statements are an integral part of this statement.

(1) See supplementary Exhibit J-3 for detailed information of each Pension and Other Employee Benefit Trust Fund

(2) See supplementary Exhibit J-7 for detailed information of each Investment Trust Fund

North Carolina Department of State Treasurer
Statements of Changes in Fiduciary Net Position
Fiduciary Funds
For the Fiscal Year Ended June 30, 2015 *Exhibit B-4*

	Unaudited			
	Pension and Other Employee Benefit Trust Funds (1)	**Investment Trust Funds (2)**	**Private-Purpose Trust Fund**	**Total**
ADDITIONS				
Contributions:				
Employer	$ 2,805,153,804	$ 0	$ 0	$ 2,805,153,804
Members	1,593,945,368			1,593,945,368
Trustee Deposits			34,378	34,378
Other Contributions	43,737,238			43,737,238
Total Contributions	4,442,836,410		34,378	4,442,870,788
Investment Income:				
Investment Earnings	3,122,237,249	26,406,253	194,451	3,148,837,953
Less Investment Expenses	(552,960,316)	(1,245,549)	(2,017)	(554,207,882)
Net Investment Income	2,569,276,933	25,160,704	192,434	2,594,630,071
Pool Share Transactions:				
Reinvestment of Dividends		24,987,182		24,987,182
Net Share Purchases		46,763,163		46,763,163
Net Pool Share Transactions		71,750,345		71,750,345
Other Additions:				
Fees	3,218,180			3,218,180
Interest Earnings on Loans	12,308,697			12,308,697
Miscellaneous	2,440,236			2,440,236
Total Other Additions	17,967,113			17,967,113
Total Additions	7,030,080,456	96,911,049	226,812	7,127,218,317
DEDUCTIONS				
Claims and Benefits	5,858,633,291			5,858,633,291
Medical Insurance Premiums	825,533,640			825,533,640
Refund of Contributions	164,835,075			164,835,075
Distributions Paid and Payable		24,987,182		24,987,182
Payments in Accordance with Trust Arrangements			250,000	250,000
Administrative Expenses	36,929,983			36,929,983
Other Deductions	8,531,548			8,531,548
Total Deductions	6,894,463,537	24,987,182	250,000	6,919,700,719
Change in Net Position	135,616,919	71,923,867	(23,188)	207,517,598
Net Position - July 1	100,200,859,828	1,046,456,602	14,211,014	101,261,527,444
Net Position - June 30	$ 100,336,476,747	$ 1,118,380,469	$ 14,187,826	$ 101,469,045,042

The accompanying notes to the financial statements are an integral part of this statement.

(1) See supplementary Exhibit J-4 for detailed information of each Pension and Other Employee Benefit Trust Fund
(2) See supplementary Exhibit J-8 for detailed information of each Investment Trust Fund

North Carolina Department of State Treasurer
Statements of Net Position
Component Unit - State Health Plan
June 30, 2016 (With Comparative Totals for June 30, 2015) ***Exhibit C-1***

	2016	2015
ASSETS		
Current Assets		
Cash and Cash Equivalents	$ 953,478,156	$ 1,024,119,618
Receivables		
Rebates Receivable	62,740,390	42,746,428
Accounts Receivable	8,367,640	4,184,620
Intergovernmental Receivables (Note 4)	5,006,319	1,697,744
Interest Receivable	677,721	492,446
Premiums Receivable	1,434,068	62,092
Other Receivables	36,635	1,645,554
Total Current Assets	1,031,740,929	1,074,948,502
Noncurrent Assets		
Capital Assets, Depreciable, Net (Note 5)	24,138	32,268
Total Assets	1,031,765,067	1,074,980,770
DEFERRED OUTFLOWS OF RESOURCES		
Deferred Outflows for Pensions	263,126	267,584
LIABILITIES		
Current Liabilities		
Accounts Payable	28,768,134	26,703,028
Intergovernmental Payables (Note 4)	5,911,880	
Due to Primary Government	5,617	7,200
Medical Claims Payable	264,635,748	285,033,403
Accrued Vacation Leave (Note 6)	32,065	42,920
Unearned Revenue	35,333,178	21,452,150
Total Current Liabilities	334,686,622	333,238,701
Noncurrent Liabilities		
Accrued Vacation Leave (Note 6)	354,730	351,203
Net Pension Liability (Note 6)	686,795	259,619
Total Non-Current Liabilities	1,041,525	610,822
Total Liabilities	335,728,147	333,849,523
DEFERRED INFLOWS OF RESOURCES		
Deferred Inflows for Pensions	159,179	948,609
NET POSITION		
Net Investment in Capital Assets	24,138	32,268
Unrestricted	696,116,729	740,417,954
Total Net Position	$ 696,140,867	$ 740,450,222

The accompanying notes to the financial statements are an integral part of this statement.

North Carolina Department of State Treasurer
Statements of Revenues, Expenses, and Changes in Net Position
Component Unit - State Health Plan
For the Fiscal Year Ended June 30, 2016
(With Comparative Totals for June 30, 2015) *Exhibit C-2*

	2016	2015 (Unaudited)
REVENUES		
Operating Revenues		
Insurance Premiums [1]	$ 3,075,791,037	$ 2,982,000,909
EXPENSES		
Operating Expenses		
Personal Services	2,694,824	2,980,274
Employee Benefits	689,592	669,119
Supplies and Materials	312,768	53,565
Contracted Personal Services	151,429,368	138,712,141
Utilities	27,979	82
Travel	39,038	34,262
Communication	25,981	96,481
Data Processing Services	33,259	24,112
Affordable Care Act Expenditures	30,616,769	29,432,416
Other Services	1,466,661	950,656
Claims	2,777,912,508	2,715,826,179
Depreciation	1,606	3,252
Insurance	183,857,884	162,400,579
Other Fixed Charges	154,302	166,674
Other Expenses	149,129	168,172
Total Operating Expenses	3,149,411,668	3,051,517,964
Operating Loss	(73,620,631)	(69,517,055)
NONOPERATING REVENUES		
Pharmacy Subsidies and Rebates	21,533,756	68,070,527
Investment Earnings	7,578,460	5,175,510
Miscellaneous	199,060	
Total Nonoperating Revenues	29,311,276	73,246,037
Increase (Decrease) in Net Position	(44,309,355)	3,728,982
Net Position - July 1 (As Restated, Note 18)	740,450,222	736,721,240
Net Position - June 30	$ 696,140,867	$ 740,450,222

The accompanying notes to the financial statements are an integral part of this statement.

[1] The State Health Plan's Insurance Premium revenue includes $1.23 billion and $1.21 billion from the primary Government for fiscal years ended 2016 and 2015, respectively.

North Carolina Department of State Treasurer
Statement of Cash Flows
Component Unit - State Health Plan
June 30, 2016 (With Comparative Totals for June 30, 2015) Exhibit C-3

	2016	2015 (Unaudited)
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from Customers	$ 3,084,117,069	$ 2,987,603,862
Payments to Suppliers	(359,988,606)	(326,848,492)
Payments to Employees	(3,575,413)	(3,800,375)
Payments for Claims	(2,816,695,206)	(2,667,030,433)
Other Payments	(117,671)	(168,172)
Net Cash Used for Operating Activities	(96,259,827)	(10,243,610)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Grant Receipts	18,225,181	70,739,456
CASH FLOWS FROM INVESTING ACTIVITIES		
Investment Earnings	7,393,185	5,065,734
Net Decrease in Cash and Cash Equivalents	(70,641,461)	65,561,580
Cash and Cash Equivalents at July 1	1,024,119,618	958,558,038
Cash and Cash Equivalents at June 30	$ 953,478,157	$ 1,024,119,618
RECONCILIATION OF NET OPERATING LOSS USED FOR OPERATING ACTIVITIES		
Operating Loss	$ (73,620,631)	$ (69,517,055)
Adjustments to Reconcile Operating Loss		
To Net Cash Used for Operating Activities:		
Depreciation	1,606	3,252
Pension Expense	67,765	108,245
Miscellaneous Pension Adjustments	31,457	
Change in Assets and Deferred Outflows:		
Receivables	(23,940,037)	(3,352,142)
Deferred Outflows for Pensions	(251,434)	(267,584)
Change in Liabilities:		
Accounts Payable and Accrued Liabilities	7,975,402	5,023,332
Due to Primary Government		(856)
Compensated Absences	(7,328)	8,358
Unearned Revenue	13,881,028	5,393,245
Medical Claims Payable	(20,397,655)	52,357,595
Net Cash Used for Operating Activities	$ (96,259,827)	$ (10,243,610)

The accompanying notes to the financial statements are an integral part of this statement.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

A. Organization – The North Carolina Department of State Treasurer (Department) is a part of the State of North Carolina and is not a separate legal or reporting entity. The Department serves the people of North Carolina through a variety of functions related to the financial health of the state and its citizenry. The State Treasurer serves as the state's banker and chief investment officer. The Department administers the public employee retirement systems, as well as the 401(k) and 457 plans for public employees. The Department provides financial assistance and expertise to local government units by assisting them in the sale of local government debt obligations and in maintaining good budgeting, accounting, reporting, and other fiscal procedures. The Department oversees the State Health Plan, which provides health care coverage to teachers, state employees, retirees, current and former lawmakers, state university and community college personnel and their dependents. It also administers NC Cash, the unclaimed property database. Through the North Carolina Capital Facilities Finance Agency, the Department issues conduit debt for qualified entities.

B. Financial Reporting Entity – The concept underlying the definition of the financial reporting entity is that elected officials are accountable to their constituents for their actions. As required by accounting principles generally accepted in the United States of America (GAAP), the financial reporting entity includes both the primary government and all of its component units. An organization other than a primary government serves as a nucleus for a reporting entity when it issues separate financial statements. The Department is a part of the State of North Carolina and an integral part of the State's *Comprehensive Annual Financial Report.*

The accompanying financial statements present all funds belonging to or under the stewardship of the Department. The Department's accounts and transactions are included in the State's *Comprehensive Annual Financial Report* as part of the State's governmental funds, fiduciary funds, and component unit.

Discretely Presented Component Unit – The State Health Plan (Plan) is a legally separate entity and is reported as a discretely presented component unit based on the nature and significance of its relationship to the Department.

The Plan is a legally separate organization established to provide medical and pharmacy benefits to employees and retirees of the State, most of the State's component units, and local boards of education that are not part of the reporting entity. The Plan is governed by a ten-member board of trustees including the State Treasurer, an ex officio member who serves as chair and votes only in the event of a tie; the Director of the Office of State Budget and Management, a non-voting, ex officio member; two members appointed by the Governor; two members appointed by the State Treasurer; and four members appointed by the General Assembly. Health benefit programs and premium rates are determined by the State Treasurer upon approval of the board of trustees. The State of North Carolina makes significant contributions to the Plan as an employer and through its funding of local boards of education.

The State Health Plan does not issue separate financial statements. The statement of net position, statement of changes in net position, and the statement of cash flows of the Plan are included in these statements but shown separately as it is considered to be a legally separate entity.

C. **Basis of Presentation** – The Department's records are maintained on a cash basis throughout the year, but adjustments are made at the end of the fiscal year to convert to GAAP for government entities. The financial statements are prepared according to GAAP as follows:

The accompany financial statements are presented in accordance with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Boards (GASB). GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments* requires the presentation of both government-wide and fund level financial statements. The financial statements presented are governmental fund and fiduciary fund financial statements of the Department. Because the Department is not a separate entity, government-wide financial statements are not prepared.

The financial statements are presented as of June 30, 2016 and 2015 and for the fiscal year ended June 30, 2016, except for the North Carolina Deferred Compensation Plan and the 401(k) Supplemental Retirement Income Plan whose statements are as of December 31, 2015 and 2014 and for the fiscal year ended December 31, 2015.

The fund financial statements provide information about the Department's funds, including the State's fiduciary funds. Separate statements for each fund category governmental and fiduciary are presented. The emphasis of fund financial statements is on major governmental funds, each displayed in a separate column. All remaining governmental funds are aggregated and reported as other funds.

The Department's financial statements consist of the following major governmental funds:

General Fund – This fund is the Department's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

Escheats Fund – General Statute 116B established the escheats fund, which accounts for all funds received by the Department as escheated or abandoned property and which were transferred to the State under a 1971 state law.

Debt Proceeds and Interest Fund – This fund accounts for all the funds received from debt transactions and any interest earned on those debt transactions prior to being expended.

Additionally, the Department's financial statements consist of the following fiduciary fund types:

Pension and Other Employee Benefits Trust Funds – These funds account for resources held in trust for the members and beneficiaries of the State's defined benefit pension plans, defined contribution pension plans, Internal Revenue Code Section 457 plan, death benefit plan, disability income plan, and retiree health benefit fund.

Investment Trust Funds – These funds account for the external portion of the Investment Pool sponsored by the Department and individual investment accounts held by the Department for public hospitals that are not part of the State reporting entity.

Private-Purpose Trust Fund – These funds account for resources held in trust for other departmental trust funds in which the principal and income benefit individuals, private organizations, or other governments.

D. Measurement Focus and Basis of Accounting

Governmental Funds – Governmental fund financial statements are prepared using the current financial resources measurement focus and the modified accrual basis of accounting. With this measurement focus, only current assets and liabilities are generally included on the balance sheet. The operating statement presents increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in spendable resources. General capital asset acquisitions are reported as expenditures and proceeds of general long-term debt are reported as other financing sources.

Under the modified accrual basis of accounting, revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Department considers revenues to be available if they are collected within 31 days of the end of the current fiscal period. Expenditures are recorded when a liability is incurred, except for compensated absences, workers' compensation, and financing agreements, which are recognized as expenditures when payment is due. Pension contributions to cost-sharing plans are recognized as expenditures in the period in which the payment relates, even if payment is not due until the subsequent period.

Since capital asset and long-term liability accounts relating to governmental funds are reported only at the statewide level, these amounts are not included in the Department's governmental fund financial statements. However, these amounts are reported in the Notes to the Financial Statements.

Fiduciary Funds – Fiduciary fund financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting. Under this method, additions are recorded when earned and deductions are recorded at the time liabilities are incurred, regardless of the timing of related cash flows. These assets do not belong to the Department and are not considered to be assets or liabilities of the Department.

Component Unit – The State Health Plan financial statements are prepared using the economic resource measurement focus and the accrual basis of accounting. Under the accrual basis, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of the timing of related cash flows.

Nonexchange transactions, in which the Department receives (or gives) value without directly giving (or receiving) equal value in exchange, includes investment earnings (or losses), state appropriations, and escheated property. Revenues are recognized, net of estimated uncollectible amounts, as soon as all eligibility requirements imposed by the provider have been met, if probable of collection.

The preparation of financial statements, in conformity with GAAP, requires management of the Department to make estimates and judgments that affect the reported amounts of assets, deferred outflows of resources, liabilities and deferred inflows of resources, and the disclosures and contingencies at the date of the financial statements and revenues and expenditures recognized during the reporting period. Actual results could differ from those estimates. Should actual results differ from those estimates, changes will flowthrough the financial statements during the year of change and will be disclosed, if material.

E. **Cash and Cash Equivalents** – This classification includes undeposited receipts and deposits held by the State Treasurer in the Short-term Investment Fund (STIF), a portfolio within the North Carolina Department of State Treasurer External Investment Pool (External Investment Pool); and demand and time deposits with private financial institutions, excluding certificates of deposit. The STIF maintained by the State Treasurer has the general characteristics of a demand deposit account in that participants may deposit and withdraw cash at any time without prior notice or penalty.

F. **Investments** – This classification includes deposits held by the State Treasurer in certain investment portfolios as well as investments held separately by a fiscal agent for the Escheats Fund. Investments are generally reported at fair value, with significant exceptions for repurchase agreements and certain money market mutual funds reported at cost. Fully benefit responsive synthetic guaranteed investment contracts and unallocated insurance contracts that are nonparticipating interest-earning investment contracts are reported at contract value.

The net increase (decrease) in the fair value of investments is recognized as a component of investment income. Additional information regarding investments is provided in Note 2.

G. **Securities Lending** – Cash received as collateral on securities lending transactions is used to purchase investments. These investments are reported as assets in the accompanying financial statements and are generally measured at fair value with the exception of repurchase agreements and money market mutual funds, which are reported at cost. A corresponding liability is also reported for the amount owed to the broker at the termination of the lending agreement.

H. **Receivables** – Accounts receivable represent amounts that have arisen in the ordinary course of business and are reported at book value with no provision for doubtful accounts considered necessary.

Contributions receivable for governmental funds include amounts to be collected for the Qualified Excess Benefit Arrangement (QEBA). The QEBA was established to provide the part of a retirement allowance or benefit that would otherwise have been payable by the Teachers' and State Employees' Retirement System (TSERS) and the Local Governmental Employees' Retirement System (LGERS) except for the limitations under section 415(b) of the Internal Revenue code, which limits the amount of annual retirement benefits that an individual can receive from a pension plan. All amounts are considered collectible and therefore, no allowance for doubtful accounts is recorded.

Intergovernmental receivables include amounts due from the federal government and county and local governments with no provision for doubtful accounts.

Rebates receivable for the Plan include the drug manufacturer rebates earned from drug sales which occurred during the year. The Plan contracts with a pharmacy benefit manager to collect the drug manufacturer rebates.

I. **Escheat Claims Payable** – For the governmental funds, escheat claims payable represent the amount of escheated property the Department expects to return to owners in the current year. The Department's policy to estimate the escheat claims payable each year is based on payment trends for the past two to three years, anticipated changes in staffing, program outreach or other operational changes that would impact the number of claims presented for payment, and how quickly the Department can pay those claims.

For fiduciary funds, funds held for others represent the amount of pension payments the Department expects to pay to eligible recipients.

J. **Medical Claims Payable** – The Plan annually estimates medical and pharmacy claims payable representing medical services incurred by eligible participants in the current fiscal year but were not yet submitted for reimbursement by the provider and therefore still considered a payable to providers as of June 30th. This liability is also known as Incurred But Not Reported (IBNR).

K. **Inventories** – Inventories, consisting of postage and general office supplies and materials, are valued at cost using the first-in, first-out (FIFO) method. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased.

L. **Capital Assets** – Capital assets, which include property, plant, and equipment, are reported as expenditures in the governmental funds. Consequently, capital asset balances are not reported on the face of the governmental fund financial statements.

Generally, capital assets are defined as assets with an initial value or cost greater than or equal to $5,000 and an estimated useful life of two or more years, except for internally generated computer software and other intangible assets, which are capitalized when the value or cost is greater than or equal to $1 million and $100 thousand, respectively.

Depreciation, which is recorded at the statewide level, is computed using the straight-line method over the estimated useful lives of the assets, generally 2 to 30 years for machinery and equipment and 2 to 30 years for computer software.

Capital assets are reported on the face of the financial statements for the Plan.

Depreciable Capital Assets include leasehold improvements and equipment. The assets are stated at cost at the date of acquisition or fair value at the date of donation in the case of gifts. Depreciation is calculated for the State Health Plan using the straight-line method over an estimated useful life of two or more years. Capital assets are carried at cost less accumulated depreciation.

Additional information regarding capital assets is disclosed in Note 5.

M. **Long-Term Liabilities** – General long-term liabilities for the governmental funds are not recognized in the governmental fund until they become due. Consequently, general long-term liabilities not yet due are not reported on the face of the financial statements. The noncurrent portion represents amounts that will not be paid within the next fiscal year. The Department’s death benefits payable, compensated absences, net pension liability, and bond activity are the only significant general liabilities of the Department. For the Plan, long-term liabilities, which include compensated absences and net pension liability, are reported as liabilities on the face of the Plan’s financial statements.

Death Benefits Payable – The death benefits payable represents the Department’s obligation to pay for law-enforcement officers’, firemen’s, rescue squad workers’, and civil air patrol members’ line of duty death benefits to applicable beneficiaries.

Net Pension Liability – The net pension liability represents the Department's and Plan's proportionate shares of the collective net pension liability reported in the State of North Carolina's 2015 *Comprehensive Annual Financial Report.* These liabilities represent the Department's and Plan's portions of the collective total pension liability less the fiduciary net position of the Teachers' and State Employees' Retirement System. See Note 11 for further information regarding the Department's and Plan's policies for recognizing liabilities, expenses, and deferred outflows and inflows related to pensions.

Compensated Absences – Employees of the Department and Plan are permitted to accumulate earned but unused vacation pay benefits. In the governmental fund, a liability for these amounts is reported only as payments come due each period upon the occurrence of relevant events such as employee resignations and retirements. Consequently, compensated absence balances are not reported on the face of the governmental fund financial statements but are reported in the Notes to the Financial Statements.

When determining the vacation pay liability due within one year, leave is considered taken on a last-in, first-out (LIFO) basis. The Department's and Plan's policy provides for a maximum accumulation of unused vacation leave of 30 days which can be carried forward each January 1 or for which an employee can be paid upon termination of employment. Also, any accumulated vacation leave in excess of 30 days at calendar year-end is converted to sick leave. Under this policy, the accumulated vacation leave for each employee at June 30 equals the leave carried forward at the previous December 31 plus the leave earned, less the leave taken between January 1 and June 30.

In addition to the vacation leave described above, compensated absences include the accumulated unused portion of the special annual leave bonuses awarded by the North Carolina General Assembly. The bonus leave balance on December 31 is retained by employees and transferred into the next calendar year. It is not part of the 30 day maximum applicable to regular vacation leave and is not subject to conversion to sick leave.

There is no liability for unpaid accumulated sick leave because the Department and Plan have no obligation to pay sick leave upon employee termination or retirement. However, additional service credit for retirement pension benefits is given for accumulated sick leave upon retirement.

Bonds – The Department provides administrative services for bond issuance and bond payments. The Department receives no direct benefit from the proceeds which are distributed at the discretion of the Office of State Budget and Management or through legislation for the benefit of the State and its component units. The administrative functions include payment of debt services, issuing debt, recording initial bond issuance premiums and discounts as well as payments to debt escrow agents.

N. **Deferred Outflows/Inflows of Resources** – In addition to assets, the balance sheet and statement of financial position reports a separate section for deferred outflow of resources. This separate financial statement element, deferred outflow of resources, represents a consumption of fund balance and net position that applies to a future period and will not be recognized as an outflow of resources (expense) until then. The Department and Plan have two items that qualify for reporting in this category. They are Forward Funded State Aid (i.e., State aid transmitted to the State Education Assistance Authority that cannot be spent until a future period) and Deferred Outflows for Pensions (i.e., difference between actual and expected experience, change in proportion, differences between employer's contributions and proportional share or contributions, and contributions subsequent to the measurement date).

In addition to liabilities, the statement of financial position reports a separate section for deferred inflow of resources. This separate financial statement element, deferred inflow of resources, represents an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (revenue) until then. The Department has none of these items that meet this criterion. The Plan has one item that meets this criterion – Deferred Inflows for Pensions. This represents the difference between actual and expected experiences, changes of assumptions, net difference between projected and actual earnings on pension plan investments, change in proportion, and differences between employer's contributions and proportionate share of contributions.

O. **Net Position / Fund Balance**

Net Position – Net position is reported as restricted when constraints placed on net position use are either externally imposed by creditors, grantors, contributors, or laws or regulations of other governments or are imposed by law through constitutional provisions. Constraints placed on net position use by enabling legislation are not reported as net position restrictions since such constraints are not legally enforceable. Legal enforceability means that the Plan can be compelled by an external party, such as citizens, public interest groups, or the judiciary to use resources created by enabling legislation only for the purposes specified by the legislation. Situations where the State's internal governing body (General Assembly) places restrictions on existing resources or earmarks existing revenue sources are considered to be constraints that are internally imposed. Such internally dedicated net position is presented as unrestricted.

Restricted and unrestricted resources are tracked separately. When both restricted and unrestricted funds are available for expenditure, the decision for funding is determined by management on a case-by-case basis.

Net position for the fiduciary funds represents the total amount restricted to pay retirement allowances and other postemployment benefits to retired teachers and State employees of the State of North Carolina.

Net position for the Plan is classified as follows:

Net Investment in Capital Assets – This represents the total investment in capital assets, net of the corresponding debt.

Unrestricted – This represents the funds received through premiums, fees, charges, rebates, refunds or any other receipts which will be used for the payment of hospital and medical benefits.

Fund Balance – Fund balance for the governmental funds are reported in the following classifications depicting the relative strength of the constraints that control how specific amounts can be spent.

The nonspendable fund balance classification includes amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact.

Restricted fund balances have constraints placed on the use of resources that are either (a) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments or (b) imposed by law through constitutional provisions.

Committed fund balances can only be used for specific purposes pursuant to constraints imposed by formal action of the North Carolina General Assembly, the State's highest level of decision-making authority. The North Carolina General Assembly establishes commitments through the passage of legislation that becomes State law. Commitments may be changed or lifted only by taking the same formal action that imposed the constraint originally.

Assigned fund balances are constrained by an intent to be used for specific purposes, but are neither restricted nor committed. The Office of State Budget and Management (OSBM) is authorized to assign unexpended funds at year-end as a carryforward of budget authority to the subsequent fiscal year. The North Carolina Constitution (Article III, Sec. 5(3)) provides that the "budget as enacted by the North Carolina General Assembly shall be administered by the Governor." The Governor has delegated the authority to perform certain powers and duties of this role as the Director of the Budget to OSBM.

Unassigned fund balance is the residual classification for the General Fund. Other governmental funds cannot report positive unassigned fund balance, but can report negative unassigned fund balance if expenditures incurred for specific purposes exceeded the amounts restricted, committed, or assigned to those purposes.

Expenditures are considered to be made from the most restrictive resource (i.e., restricted, committed, assigned, and unassigned in that order) when more than one fund balance classification is available for use.

P. Revenues and Expenditures from/to Other State Agencies – Revenues and Expenditures from/to Other State Agencies for the governmental funds represent funds that the Department obtains from or transfers to other agencies, institutions, or entities within the State of North Carolina. These transfers are not considered other financing sources or uses per GAAP, nor are they considered interfund transfers. These revenues and expenditures are eliminated at the statewide reporting level in the State's *Comprehensive Annual Financial Report*.

Q. Revenues and Expenses – The Plan distinguishes operating revenues and expenses from nonoperating items. Operating expenses generally result from providing services and producing and delivering goods in connection with the Plan's principal ongoing operations. Operating revenues result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. These revenues include insurance premiums. Nonoperating revenues, such as pharmacy subsidies and rebates and investment earnings, result from nonexchange transactions. Operating expenses are all expense transactions incurred other than those related to capital and noncapital financing or investing activities as defined by GASB Statement No. 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting.*

NOTE 2 - 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 wire transfers, ACH transactions, and warrants issued by the agencies and drawn on the State Treasurer. The State Treasurer processes these transactions each day. 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 Disability Income Plan of N.C., the Escheat Fund, the Public School

Insurance Fund, Local Government Other Post–Employment Benefits (OPEB) Trust, and deposits of certain component units including trust funds of the University of North Carolina System, and funds of the State Health Plan and State Education Assistance Authority 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 Public Hospitals, certain investments of the Escheat Fund, and bond proceeds investment accounts, is maintained in the External 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 State’s General Fund, Highway Fund, and Highway Trust Fund. Other participants can include universities and various boards, commissions, community colleges, and school administrative units that make voluntary deposits with the State Treasurer as well as the remaining portfolios listed below.

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 yield than those held in the Short-term Investment portfolio. The primary participants of the portfolio are the pension trust funds.

External Fixed Income Investment - This portfolio holds a portion of the Short-term Investment portfolio pursuant to General Statute 147-69.2. The State's pension trust funds are the sole participants in the portfolio.

Equity Investment - This portfolio is managed pursuant to General Statute 147-69.2(b)(8) and primarily 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, which is managed pursuant to General Statute 147-69.2(b)(7). The State's pension trust funds are the sole participants in the portfolio.

Alternative Investment - This portfolio holds investments in limited partnerships, hedge funds, U.S. Treasuries, and equities received in the form of distributions from its primary investments, which is managed pursuant to General Statute 147-69.2(b)(9). The State's pension trust funds are the sole participants in the portfolio.

Credit Investment - This portfolio may hold investments in debt-related strategies as defined by General Statutes 147-69.2(b)(6c). The State's pension trust funds are the sole participants in the portfolio.

Inflation Protection Investment - This portfolio may hold investments in assets that are acquired for the primary purpose of providing protection against risks associated with inflation, managed pursuant to General Statute 147-69.2(b)(9a). The State's pension trust funds are the sole participants in the portfolio.

OPEB Equity Investment - This portfolio holds equity-based trusts. Pursuant to General Statute 159-30.1, the State Treasurer manages the trusts' assets. These trusts are established for local governments, public authorities, any entity eligible to participate in the State's Local Governmental Employees' Retirement System, and local school administrative units. Eligible participants make voluntary contributions to the trusts for the purpose of depositing and investing all or part of the contribution from their other postemployment benefit plans. As of June 30, 2016, and June 30, 2015, there were seventeen and sixteen participants, respectively. Each participant is responsible for making its own investment decision. However, through signed agreements with the State Treasurer, most participants have delegated their investment authority to the State Treasurer.

All of the preceding 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 previously. To this extent, the deposits are commingled; and therefore, the State Treasurer considers all investment portfolios to be part of a single pool, the External Investment Pool. The External 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.

At year-end, the condensed financial statements for the External Investment Pool maintained by the State Treasurer were as follows:

Statements of Fiduciary Net Position
As of June 30

	2016	2015
Assets		
Cash and Cash Equivalents	$ 399,043,000	$ 482,906,000
Securities Lending Collateral	3,596,867,000	4,858,507,000
Investments, at Fair Value	103,625,981,000	103,557,628,000
Receivables	492,823,000	737,912,000
Total Assets	108,114,714,000	109,636,953,000
Liabilities		
Other Payables	199,056,000	479,451,000
Obligations under Securities Lending	3,596,867,000	5,048,143,000
Total Liabilities	3,795,923,000	5,527,594,000
Net Position		
Net Position Held in Trust *	$ 104,318,791,000	$ 104,109,359,000

*The Condensed Financial Statements for the External Investment Pool contains deposits from internal and external participants, including the State's defined benefit pension plans maintained by the Department. For more information on the equity ownership of the External Investment Pool, see supplementary schedules L-1 and L-2.

Statement of Changes in Fiduciary Net Position
Fiscal Year Ended June 30, 2016

Additions	
Investment Income:	
Interest and Dividend Income	$ 1,688,550,000
Net Depreciation in Fair Value of Investments	(460,338,000)
Other Investment Income	218,612,000
Securities Lending Income	50,823,000
Total Investment Income	1,497,647,000
Deductions	
Investment Management Expenses	513,697,000
Administrative and Other Expenses	90,963,000
Securities Lending Expense	11,634,000
Total Deductions	616,294,000
Net Increase in Net Position Resulting from Operations	881,353,000
Distributions to Participants	
Distributions Paid and Payable	(881,353,000)
Share Transactions	
Reinvestment of Distributions	878,643,000
Net Share Redemptions	(669,211,000)
Change in Net Position	209,432,000
Net Position Held in Trust:	
Beginning of Year	104,109,359,000
End of Year	$ 104,318,791,000

See Exhibit M-1 Schedule of Deductions by Investment Portfolio for detailed information on Investment Management Expenses and Administrative and Other Expenses.

The external portion of the External 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 External 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, External Fixed Income Investment, Credit Investment, Inflation Protection Investment, Alternative Investment, and OPEB Equity 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.

For most investment holdings, fair values are determined daily for the Long-term Investment, Equity Investment, and OPEB Equity Investment portfolios and quarterly for the Real Estate Investment portfolio. The Alternative Investment and Credit Investment portfolios are valued quarterly except hedge fund investments, which are valued monthly. The Inflation Protection Investment portfolio consists of limited partnerships that are valued quarterly and futures that may be valued daily or monthly. In the Long-term Investment portfolio, the fair value of fixed income securities is calculated by a third party pricing vendor based on future principal and interest payments discounted using market yields.

For the Alternative Investment portfolio (private equity investment partnerships and hedge funds), the Real Estate Investment portfolio (limited partnerships and other investments), the Credit Investment and Inflation Protection Investment portfolios (limited partnerships, hedge funds, and other non-publicly traded investments), the methodology for determining an estimated fair value is established by the general partner, which may utilize a third party pricing source or an independent real estate appraiser. Contracts with these partnerships, hedge funds, and other investments require an annual audit, except for certain older investments that are immaterial to the financial statements. The general partners' estimated fair values are based on the partnerships and funds respective net asset values (NAV). The most significant input into the NAV of such an entity is the fair value of its holdings. These non-publicly traded assets are valued at current fair value, taking into consideration the financial performance of the issuer, cash flow analysis, recent sales prices, market comparable transactions, a new round of financing, a change in economic conditions, and other pertinent information. The fair values of certain investments may require significant management judgment or estimation. Fair value is determined using the best information available for a hypothetical transaction at the measurement date, not using forced sale or fire sale pricing. 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. Additional investment valuation information is provided in Note 1.

Net investment income earned by the External Investment Pool is generally distributed on a pro rata basis. However, in accordance with legal requirements, the State's General Fund receives all investment income earned by funds created for purposes of meeting appropriations. For the fiscal years ended June 30, 2016, and June 30, 2015, $9.07 million and $3.78 million of investment income, respectively, was credited to the State's 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. As of June 30, 2016, and June 30, 2015, the External Investment Pool's deposits were exposed to custodial credit risk for nonnegotiable certificates of deposit in the amount of $10.6 million and $13.6 million, respectively. The nonnegotiable certificates of deposit were uninsured and were collateralized with securities not in the name of the State and held by an agent.

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 External 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 by the Federal Deposit Insurance Corporation (FDIC). 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).

At June 30, 2016 and 2015, the amounts shown on the governmental funds' Balance Sheets as cash and cash equivalents include $385,589,871 and $298,551,964, respectively. At June 30, 2016 and 2015, the component unit's Statement of Net Position reported cash and cash equivalents of $953,478,156 and $1,024,119,618, respectively. These amounts represent the Department's and the component unit's equity positions in the Short-term Investment portfolio.

Investments

The following schedule discloses the investments, by investment type, as of June 30, 2016 and June 30, 2015. Other Investment Portfolios in the following schedule consist of all portfolios previously defined in the External Investment Pool section, excluding the Short-term and Long-term investment funds.

	2016	2015
Short-term Investment Fund		
U.S. Treasuries	$ 7,347,150,000	$ 7,504,289,000
U.S. Agencies	8,063,962,000	7,119,159,000
Domestic Corporate Bonds	54,990,000	54,955,000
Certificates of Deposit	10,600,000	13,600,000
Repurchase Agreements	2,850,000,000	2,188,000,000
Collective Investment Funds		41,750,000
Subtotal	18,326,702,000	16,921,753,000
Securities Purchased with Cash Collateral under Securities Lending Program:		
Asset-Backed Securities		77,774,000
Negotiable Certificates of Deposit		135,503,000
Time Deposits	41,080,000	
Repurchase Agreements	405,355,000	97,732,000
Money Market Mutual Fund	73,129,000	40,360,000
Commercial Paper	10,408,000	47,122,000
Domestic Corporate Bonds	490,370,000	729,964,000
Subtotal Securities Lending	1,020,342,000	1,128,455,000
Total Short-term Investment Fund	$ 19,347,044,000	$ 18,050,208,000
Long-term Investment Fund		
U.S. Treasuries	$ 6,028,229,000	$ 5,383,084,000
U.S. Agencies	828,764,000	928,799,000
Mortgage Pass-Through	8,008,830,000	8,681,196,000
Domestic Corporate Bonds	8,387,148,000	8,547,381,000
Foreign Government Bonds	26,161,000	25,021,000
Collective Investment Funds		145,660,000
Subtotal	23,279,132,000	23,711,141,000
Securities Purchased with Cash Collateral under Securities Lending Program:		
Asset-Backed Securities		107,093,000
Negotiable Certificates of Deposit		193,093,000
Time Deposits	23,660,000	
Repurchase Agreements	556,822,000	533,732,000
Money Market Mutual Fund	157,405,000	92,425,000
Commercial Paper	39,350,000	20,380,000
Domestic Corporate Bonds	1,036,399,000	1,212,648,000
Subtotal Securities Lending	1,813,636,000	2,159,371,000
Total Long-term Investment Fund	$ 25,092,768,000	$ 25,870,512,000

Investments by Type (continued)

	2016	2015
Other Investment Portfolios		
U.S. Treasuries	$ 576,191,000	$ 1,314,409,000
U.S. Agencies		776,231,000
Collateralized Mortgage Obligations	48,562,000	
Commercial Mortgage-Based Securities	16,991,000	
Collective Investment Funds	1,247,895,000	16,316,000
Domestic Corporate Bonds	96,963,000	
Equity Securities	8,893,000	
Futures Contracts	12,912,000	
Securities Purchased with Cash Collateral Under Securities Lending Program:		
U.S. Agencies		22,000,000
U.S. Treasuries		14,800,000
Asset-Backed Securities	71,936,000	269,232,000
Negotiable Certificates of Deposit	90,026,000	65,998,000
Euro Certificate of Deposit		65,000,000
Time Deposits	64,929,000	
Yankee Certificate of Deposit	263,003,000	782,055,000
Bank Notes	40,004,000	39,997,000
Commercial Paper	104,991,000	54,972,000
Repurchase Agreements	128,000,000	256,628,000
Equity Based Trust-Domestic	19,176,008,000	24,961,634,000
Equity Based Trust-International	16,910,774,000	14,188,493,000
OPEB Equity Based Trust-Domestic	97,431,000	90,197,000
OPEB Equity Based Trust-International	30,318,000	28,758,000
Alternative Investments		
Multi-Strategy Investments	1,617,324,000	
Hedge Funds		277,024,000
Private Equity Investment Partnerships	4,351,006,000	4,726,969,000
Stock Distributions		20,074,000
Real Estate Trust Funds	8,333,645,000	7,246,950,000
Credit Investments	5,175,458,000	5,438,220,000
Inflation Protection Investments	4,319,776,000	3,904,891,000
Total Other Investment Portfolios	62,783,036,000	64,560,848,000
Total Investments	$ 107,222,848,000	$ 108,481,568,000
Reconciliation to Investments on Net Position	$ 107,222,848,000	$ 108,481,568,000
Securities Lending Collateral	(3,596,867,000)	(4,858,507,000)
Investments On Statement Of Net Position (within Note 2)	$ 103,625,981,000	$ 103,623,061,000

The External Investment Pool maintained by the Treasurer had the following investments and maturities in the Short-term Investment Fund as of June 30, 2016:

	Investment Maturities (in Years)				
	Carry Amount	Less Than 1	1 to 5	6 to 10	More Than 10
U.S. Treasuries	$ 7,347,150,000	$ 7,147,116,000	$ 200,034,000	$ 0	$ 0
U.S. Agencies	8,063,962,000	250,000,000	7,813,962,000		
Domestic Corporate Bonds	54,990,000	54,990,000			
Securities Purchased with Cash Collateral under					
Securities Lending Program :					
Time Deposits	41,080,000	41,080,000			
Repurchase Agreements	405,355,000	405,355,000			
Money Market Mutual Funds	73,129,000	73,129,000			
Commercial Paper	10,408,000	10,408,000			
Domestic Corporate Bonds	490,370,000	490,370,000			
Repurchase Agreements	2,850,000,000	2,850,000,000			
Total Short-term Investment Fund Assets	$ 19,336,444,000	$ 11,322,448,000	$ 8,013,996,000	$ 0	$ 0

In addition to the investments above, nonnegotiable certificates of deposit of $10.6 million are reported as investments in the Statement of Fiduciary Net Position presented previously.

The External Investment Pool maintained by the Treasurer had the following investments and maturities in the Short-term Investment Fund as of June 30, 2015:

	Investment Maturities (in Years)				
	Carrying Amount	Less Than 1	1 to 5	6 to 10	More Than 10
U.S. Treasuries	$ 7,504,289,000	$ 7,203,867,000	$ 300,422,000	$ 0	$ 0
U.S. Agencies	7,119,159,000	250,039,000	6,869,120,000		
Domestic Corporate Bonds	54,955,000		54,955,000		
Securities Purchased with Cash Collateral under					
Securities Lending Program:					
Asset-Backed Securities	77,774,000	77,774,000			
Negotiable Certificates of Deposit	135,503,000	135,503,000			
Repurchase Agreements	97,732,000	97,732,000			
Money Market Mutual Funds	40,360,000	40,360,000			
Commercial Paper	47,122,000	47,122,000			
Domestic Corporate Bonds	729,964,000	729,964,000			
Collective Investment Funds	41,750,000	41,750,000			
Repurchase Agreements	2,188,000,000	$ 2,188,000,000			
Total Short-term Investment Fund Assets	$ 18,036,608,000	$ 10,812,111,000	$ 7,224,497,000	$ 0	$ 0

In addition to the investments above, nonnegotiable certificates of deposit of $13.6 million are reported as investments in the Statement of Fiduciary Net Position presented previously.

The External Investment Pool maintained by the Treasurer had the following investments and maturities in the Long-term Investment Fund as of June 30, 2016:

		Investment Maturities (in Years)			
	Carrying Amount	Less Than 1	1 to 5	6 to 10	More Than 10
U.S. Treasuries	$ 6,028,229,000	$ 0	$ 99,754,000	$ 2,825,441,000	$ 3,103,034,000
U.S. Agencies	828,764,000			31,775,000	796,989,000
Mortgage Pass-Through	8,008,830,000	78,000	223,000	19,419,000	7,989,110,000
Securities Purchased with Cash Collateral Under Securities Lending Program:					
Time Deposits	23,660,000	23,660,000			
Repurchase Agreements	556,822,000	556,822,000			
Commercial Paper	39,350,000	39,350,000			
Money Market Mutual Funds	157,405,000	157,405,000			
Domestic Corporate Bonds	1,036,399,000	1,036,399,000			
Domestic Corporate Bonds	8,387,148,000	25,348,000	669,216,000	3,931,748,000	3,760,836,000
Foreign Government Bonds	26,161,000			26,161,000	
Total Long-term Investment Fund Assets	$ 25,092,768,000	$ 1,839,062,000	$ 769,193,000	$ 6,834,544,000	$ 15,649,969,000

The External Investment Pool maintained by the Treasurer had the following investments and maturities in the Long-term Investment Fund as of June 30, 2015:

		Investment Maturities (in Years)			
	Carrying Amount	Less Than 1	1 to 5	6 to 10	More Than 10
U.S. Treasuries	$ 5,383,084,000	$ 0	$ 175,473,000	$ 2,624,394,000	$ 2,583,217,000
U.S. Agencies	928,799,000			152,325,000	776,474,000
Mortgage Pass-Through	8,681,196,000		293,000	17,686,000	8,663,217,000
Securities Purchased with Cash Collateral Under Securities Lending Program:					
Asset-Backed Securities	107,093,000	107,093,000			
Negotiable Certificates Of Deposit	193,093,000	193,093,000			
Repurchase Agreements	533,732,000	533,732,000			
Commercial Paper	20,380,000	20,380,000			
Money Market Mutual Funds	92,425,000	92,425,000			
Domestic Corporate Bonds	1,212,648,000	1,212,648,000			
Collective Investment Funds	145,660,000	145,660,000			
Domestic Corporate Bonds	8,547,381,000	4,975,000	617,087,000	4,297,749,000	3,627,570,000
Foreign Government Bonds	25,021,000			25,021,000	
Total Long-term Investment Fund Assets	$ 25,870,512,000	$ 2,310,006,000	$ 792,853,000	$ 7,117,175,000	$ 15,650,478,000

The External Investment Pool maintained by the Treasurer had the following investments and maturities in the other investment portfolios as of June 30, 2016:

		Investment Maturities (in Years)			
	Carrying Amount	Less Than 1	1 to 5	6 to 10	More Than 10
U.S. Treasuries	$ 576,191,000	$ 346,811,000	$ 229,380,000	$ 0	$ 0
Commercial Mortgage Backed Securities	16,991,000			527,000	16,464,000
Collateralized Mortgage Obligations	48,562,000	10,885,000			37,677,000
Collective Investment Funds	1,247,895,000	1,247,895,000			
Domestic Corporate Bonds	96,963,000	23,262,000	17,489,000	40,868,000	15,344,000
Securities Purchased with Cash Collateral under Securities Lending Program:					
Asset-Backed Securities	71,936,000	71,936,000			
Negotiable Certificates of Deposit	90,026,000	90,026,000			
Time Deposits	64,929,000	64,929,000			
Yankee Certificate of Deposit	263,003,000	263,003,000			
Bank Notes	40,004,000	40,004,000			
Commercial Paper	104,991,000	104,991,000			
Repurchase Agreements	128,000,000	128,000,000			
Total Other Investment Portfolios Assets	$ 2,749,491,000	$ 2,391,742,000	$ 246,869,000	$ 41,395,000	$ 69,485,000

The External Investment Pool maintained by the Treasurer had the following investments and maturities in the other investment portfolios as of June 30, 2015:

		Investment Maturities (in Years)			
	Carry Amount	Less Than 1	1 to 5	6 to 10	More Than 10
U.S. Treasuries	$ 1,314,409,000	$ 1,280,650,000	$ 33,759,000	$ 0	$ 0
Commercial Mortgage Backed Securities	776,231,000	631,416,000	144,815,000		
Collateralized Mortgage Obligations	16,316,000	16,316,000			
Securities Purchased with Cash Collateral under Securities Lending Program:					
U.S. Agencies	22,000,000	22,000,000			
U.S. Treasuries	14,800,000	14,800,000			
Asset-Backed Securities	269,232,000	269,232,000			
Negotiable Certificates of Deposit	65,998,000	65,998,000			
Time Deposits	65,000,000	65,000,000			
Yankee Certificate of Deposit	782,055,000	782,055,000			
Bank Notes	39,997,000	39,997,000			
Commercial Paper	54,972,000	54,972,000			
Repurchase Agreements	256,628,000	256,628,000			
Total Other Investment Portfolios Assets	$ 3,677,638,000	$ 3,499,064,000	$ 178,574,000	$ 0	$ 0

The major investment classifications of the External Investment Pool had the following attributes as of June 30, 2016:

Investment Classification		Principal Amount	Range of Interest Rates
Short-term Investment Fund			
U.S. Treasuries	$	7,350,000,000	0.38%-0.75%
U.S. Agencies		8,064,000,000	0.65%-1.63%
Domestic Bonds		55,000,000	0.63%
Securities Purchased with Cash Collateral under Securities Lending Program:			
Time Deposits		41,080,000	0.25%-0.28%
Repurchase Agreements		405,355,000	0.39%-0.42%
Money Market Mutual Funds		73,129,000	0.51%-0.53%
Commercial Paper		10,410,000	0.35%
Domestic Corporate Bonds		490,265,000	0.62%-1.07%
Repurchase Agreements		2,850,000,000	0.52%-0.75%
Long-term Investment Fund			
U.S. Treasuries		4,616,795,000	1.63%-8.13%
U.S Agencies		560,786,000	2.38%-7.13%
Mortgage Pass Throughs		7,434,021,000	3.00%-9.00%
Securities Purchased with Cash Collateral under Securities Lending Program:			
Time Deposits		23,660,000	0.25%-0.30%
Repurchase Agreements		556,822,000	0.38%-0.42%
Money Market Mutual Funds		157,405,000	0.51%-0.53%
Commercial Paper		39,356,000	0.35%
Domestic Corporate Bonds		1,036,141,000	0.62%-1.07%
Domestic Corporate Bonds		7,417,556,000	1.88%-10.50%
Foreign Government Bonds		25,000,000	2.45%
Other Investment Portfolios			
U.S. Treasuries		569,679,000	0.00%-2.63%
Commerical Mortgage-Backed Securities		38,279,000	1.31%-6.09%
Collateralized Mortgage Obligations		58,630,000	0.93%-6.00%
Collective Investment Funds		1,247,895,000	0.22%-0.46%
Domestic Corporate Bonds		102,635,000	0.00%-10.50%
Securities Purchased with Cash Collateral under Securities Lending Program:			
Asset-Backed Securities		75,617,000	0.58%-1.39%
Negotiable Certificates of Deposit		90,000,000	0.40%-0.91%
Time Deposits		64,929,000	0.31%-0.37%
Yankee Certificate of Deposit		260,000,000	0.36%-0.95%
Bank Notes		40,000,000	0.75%-0.78%
Commercial Paper		105,000,000	0.00%
Repurchase Agreements		128,000,000	0.40%-0.42%

The major investment classifications of the External Investment Pool had the following attributes as of June 30, 2015:

Investment Classification	Principal Amount	Range of Interest Rates
Short-term Investment Fund		
U.S. Treasuries	$ 7,500,000,000	0.25% - 0.50%
U.S Agencies	7,120,000,000	0.50% - 2.01%
Domestic Bonds	55,000,000	0.63%
Securities Purchased with Cash Collateral under Securities Lending Program:		
Asset-Backed Securities	117,295,000	0.24% - 0.28%
Negotiable Certificates of Deposit	135,497,000	0.17% - 0.26%
Repurchase Agreements	97,732,000	0.1% - 0.14%
Money Market Mutual Funds	40,360,000	0.16%
Commercial Paper	47,130,000	0.18% - 0.32%
Domestic Corporate Bonds	730,040,000	0.23% - 0.46%
Collective Investment Funds	41,750,000	0.19%
Repurchase Agreements	2,188,000,000	0.20% - 0.25%
Long-term Investment Fund		
U.S. Treasuries	4,313,057,000	1.63% - 8.75%
U.S. Agencies	725,786,000	2.38% - 7.13%
Mortgage Pass Throughs	8,148,736,000	3.00% - 9.00%
Securities Purchased with Cash Collateral under Securities Lending Program:		
Asset-Backed Securities	188,309,000	0.24% - 0.28%
Negotiable Certificates of Deposit	193,088,000	0.17% - 0.26%
Repurchase Agreements	533,732,000	0.07% - 0.14%
Money Market Mutual Funds	92,425,000	0.16%
Commercial Paper	20,383,000	0.18% - 0.32%
Domestic Corporate Bonds	1,212,792,000	0.23% - 0.46%
Collective Investment Funds	145,660,000	0.19%
Domestic Corporate Bonds	7,889,364,000	1.63% - 10.50%
Foreign Government Bonds	25,000,000	2.45%
Other Investment Portfolios		
U.S. Treasuries	1,314,772,000	0.00% - 0.75%
U.S. Agencies	776,170,000	0.00% - 1.63%
Collective Investment Funds	16,316,000	0.19%
Securities Purchased with Cash Collateral under Securities Lending Program:		
U.S. Agencies	22,000,000	0.00%
U.S. Treasuries	14,800,000	0.00%
Asset-Backed Securities	271,828,000	0.00% - 1.03%
Negotiable Certificates of Deposit	66,000,000	0.29% - 0.30%
Euro Certificate of Deposit	65,000,000	0.30%
Yankee Certificate of Deposit	779,500,000	0.09% - 0.59%
Bank Notes	40,000,000	0.36% - 0.37%
Commercial Paper	55,000,000	0.00% - 0.37%
Repurchase Agreements	256,628,000	0.02% - 0.16%

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. Derivative instruments are also held within the Trust consisting primarily of U.S. dollar and foreign equity futures (see Note 3). The Trustee maintains custody of the underlying securities in the name of the Trust, services the securities, engages in securities lending transactions with a third party lender, 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.

OPEB Individual Equity-based Trusts – The State Treasurer has contracted with an external party to provide an equity based investment vehicle for local governments, public authorities, or any entity eligible to participate in the State's Local Governmental Employees' Retirement System and the local school administrative units. Each entity has an individual trust agreement with the Trustee and is a participant in a commingled equity investment trust. The State Treasurer employs an investment manager to manage the assets, 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 Trusts, engages in securities lending transactions, and maintains all related accounting records.

Interest Rate Risk. Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of debt instruments. 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 1.5 years as of June 30, 2015 and June 30, 2016. 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. The 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 LTIF had a weighted average maturity of 17.9 years as of June 30, 2016. As of June 30, 2016, and June 30, 2015, pensions and other employee benefit plans owned 93.3% and 93.9% of the Long-term Investment portfolio, respectively.

The Long-term Investment portfolio holds investments in Government National Mortgage Association (GNMA) mortgage pass-through securities. 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 sensitive to the potential of principal prepayments by mortgagees in periods of changing interest rates. Also, included within the Long-term Investment portfolio are U.S. government agencies and corporate bonds which may 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 than 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. The cash collateral received from securities lending has also been invested in corporate bonds and asset-backed securities with floating rates. Critical to the cash flows and 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.

Credit Risk. Credit risk is the risk an issuer or other counterparty to an investment will not fulfil its obligations such as the chance that a bond issuer will fail to pay interest or principal in a timely manner, or that negative perceptions of the issuer's ability to make these payments will cause security prices to decline. These circumstances may arise due to a variety of factors such as financial weakness, bankruptcy, litigation and/or adverse political developments. Certain fixed income securities, including obligations of the U.S. government or those explicitly guaranteed by the U.S. government, are not considered to have 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 Short-term Investment 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 Long-term Investment 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. In the Long-term Investment portfolio, all holdings were rated BBB (or equivalent) or higher at the time of purchase by at least one of the nationally recognized rating agencies.

General Statute 147-86.58, effective October 1, 2015, requires the State Treasurer to develop a list of entities engaging in investment activities in Iran, refrain from making investments in companies on the list, and divest within 180 days any existing investment in companies on the list. Indirect investments through structures such as index funds, commingled funds, limited partnerships, or derivative instruments are exempt from the statute under General Statute 147-86.57(3).

The Short-term Investment Fund had the following credit quality distribution for securities with credit exposure as of June 30, 2016:

	Aaa/AAA	Aa/AA	A	Baa/BBB	Less than Investment Grade	Unrated
U.S. Agencies	$ 0	$ 8,063,962,000	$ 0	$ 0	$ 0	$ 0
Domestic Corporate Bonds	54,990,000					
Securities Purchased with Cash Collateral under Securities Lending Program:						
Time Deposits			41,080,000			
Repurchase Agreements		405,355,000				
Money Market Mutual Funds	73,129,000					
Commercial Paper			10,408,000			
Domestic Corporate Bonds		167,310,000	323,060,000			
Repurchase Agreements		2,850,000,000				
Total Short-term Investment Fund Assets	$ 128,119,000	$ 11,486,627,000	$ 374,548,000	$ 0	$ 0	$ 0

The Short-term Investment Fund had the following credit quality distribution for securities with credit exposure as of June 30, 2015:

	Aaa/AAA	Aa/AA	A	Baa/BBB	Less than Investment Grade	Unrated
U.S. Agencies	$ 0	$ 7,119,159,000	$ 0	$ 0	$ 0	$ 0
Domestic Bonds	54,955,000					
Securities Purchased with Cash Collateral under Securities Lending Program:						
Asset-Backed Securities					77,774,000	
Negotiable Certificates of Deposit			135,503,000			
Repurchase Agreements		97,732,000				
Money Market Mutual Funds	40,360,000					
Commercial Paper			47,122,000			
Domestic Corporate Bonds		205,320,000	524,644,000			
Collective Investment Funds						41,750,000
Repurchase Agreements		2,188,000,000				
Total Short-Term Investment Fund Assets	$ 95,315,000	$ 9,610,211,000	$ 707,269,000	$ 0	$ 77,774,000	$ 41,750,000

The Long-term Investment Fund had the following credit quality distribution for securities with credit exposure as of June 30, 2016:

	Aaa/AAA	Aa/AA	A	Baa/BBB	Less than Investment Grade	Unrated
U.S. Agencies	$ 0	$ 828,764,000	$ 0	$ 0	$ 0	$ 0
Domestic Corporate Bonds	54,866,000	500,806,000	3,829,528,000	3,599,344,000	402,604,000	
Foreign Government Bonds			26,161,000			
Securities Purchased with Cash Collateral under Securities Lending Program:						
Time Deposits			23,660,000			
Repurchase Agreements		556,822,000				
Money Market Mutual Fund	157,405,000					
Commercial Paper			39,350,000			
Domestic Corporate Bonds		317,210,000	719,189,000			
Total Long-Term Investment Fund Assets	$ 212,271,000	$ 2,203,602,000	$ 4,637,888,000	$ 3,599,344,000	$ 402,604,000	$ 0

The Long-term Investment Fund had the following credit quality distribution for securities with credit exposure as of June 30, 2015:

	Aaa/AAA	Aa/AA	A	Baa/BBB	Less than Investment Grade	Unrated
U.S. Agencies	$ 0	$ 928,799,000	$ 0	$ 0	$ 0	$ 0
Collective Investment Funds						145,660,000
Domestic Corporate Bonds	70,388,000	598,769,000	4,145,716,000	3,428,539,000	303,969,000	
Foreign Government Bonds			25,021,000			
Securities Purchased with Cash Collateral under Securities Lending Program:						
Asset-Backed Securities					107,093,000	
Negotiable Certificates of Deposit			193,093,000			
Repurchase Agreements		533,732,000				
Money Market Mutual Fund	92,425,000					
Commercial Paper			20,380,000			
Domestic Corporate Bonds		332,806,000	879,842,000			
Total Long-term Investment Fund Assets	$ 162,813,000	$ 2,394,106,000	$ 5,264,052,000	$ 3,428,539,000	$ 411,062,000	$ 145,660,000

The other investment portfolios had the following credit quality distribution for securities with credit exposure as of June 30, 2016:

	Aaa/AAA	Aa/AA	A	Baa/BBB	Less than Investment Grade	Unrated
Commercial Mortgage-Backed Securities	$ 3,729,000	$ 2,469,000	$ 0	$ 3,298,000	$ 7,495,000	$ 0
Collateralized Mortgage Obligations		6,126,000			42,436,000	
Collective Investment Funds	144,150,000					1,103,745,000
Domestic Corporate Bonds	11,392,000	3,985,000	3,784,000	19,432,000	44,044,000	14,326,000
Securities Purchased with Cash Collateral under Securities Lending Program:						
Asset-Backed Securities	2,280,000	22,352,000	43,738,000		3,566,000	
Negotiable Certificates of Deposit		45,015,000	45,011,000			
Time Deposits			64,929,000			
Yankee Certificate of Deposit			263,003,000			
Bank Notes		40,004,000				
Commercial Paper			104,991,000			
Repurchase Agreements			128,000,000			
Total Other Investment Portfolios Assets	$ 161,551,000	$ 119,951,000	$ 653,456,000	$ 22,730,000	$ 97,541,000	$ 1,118,071,000

The other investment portfolios had the following credit quality distribution for securities with credit exposure as of June 30, 2015:

	Aaa/AAA	Aa/AA	A	Baa/BBB	Less than Investment Grade	Unrated
U.S. Agencies	$ 0	$ 776,231,000	$ 0	$ 0	$ 0	$ 0
Collective Investment Funds						16,316,000
Securities Purchased with Cash Collateral under Securities Lending Program:						
U.S. Agencies		22,000,000				
Asset-Backed Securities	7,691,000	25,620,000	230,983,000	641,000	4,297,000	
Negotiable Certificates of Deposit		65,998,000				
Euro Certificate of Deposit			65,000,000			
Yankee Certificate of Deposit		26,495,000	755,560,000			
Bank Notes		39,997,000				
Commercial Paper			54,972,000			
Repurchase Agreements			256,628,000			
Total Other Investment Portfolios Assets	$ 7,691,000	$ 956,341,000	$ 1,363,143,000	$ 641,000	$ 4,297,000	$ 16,316,000

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. As of June 30, 2016 and 2015, the investments purchased with cash collateral under the securities lending programs of $3.6 billion and $4.9 billion, respectively, were not exposed to custodial credit risk since the securities were held by the counterparty in separate accounts in the name of the State Treasurer. The investments of the External Investment Pool were not exposed to custodial credit risk as of June 30, 2016, or June 30, 2015, and no custodial credit risk policy has been adopted for these investment types.

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. Mutual funds, money market funds, and external pooled accounts are excluded from this disclosure requirement. Obligations explicitly guaranteed by the U.S. Government are not considered to have credit risk. The State Treasurer's investment policy places no limit on the amount that may be invested in any one issuer other than the General Statute 147-69.2(b)(8) that limits the market value of an investment in the stock of a single corporation to one and one-half percent of the Retirement Systems' assets. As of June 30, 2016 and 2015, there were no stocks of a single corporation that exceeded this limit. However, as of June 30, 2016, more than 5% of the Pool's securities were invested in the Federal Home Loan Mortgage Corporation. These investments totaled $7.930 billion and comprised 7.65% of the Pool's total investments. These investments are held by the Short-term and Long-term investment portfolios and are classified as U.S. agencies. Effective June 30, 2016, there is no formal policy regarding concentration of credit risk.

Foreign Currency Risk. Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or a deposit. There is no formally adopted investment policy to limit foreign currency exposure.

As of June 30, 2016, the External Investment Pool's exposure to foreign currency risk was as follows:

	Carrying Value by Investment Type					
Currency	Equity Based Trust - International	Alternative Investment - Private Equity Investment Partnerships	Real-Estate Trust Funds	OPEB Equity Based Trust - International	Credit Investment Partnerships	Total
Euro	$ 3,270,580,000	$ 354,660,000	$ 69,598,000	$ 6,919,000	$ 18,560,000	$ 3,720,317,000
British Pound Sterling	2,173,830,000	64,348,000	314,419,000	3,722,000		2,556,319,000
Japanese Yen	2,330,532,000		27,922,000	4,781,000		2,363,235,000
Swiss Franc	979,702,000		2,080,000	1,651,000		983,433,000
Hong Kong Dollar	908,709,000		36,457,000	2,262,000		947,428,000
Australian Dollar	539,785,000		15,093,000	1,886,000		556,764,000
Swedish Krona	383,628,000		2,973,000	538,000		387,139,000
South Korean Won	315,329,000			708,000		316,037,000
New Taiwan Dollar	258,441,000		59,000	1,051,000		259,551,000
Danish Krone	241,982,000			497,000		242,479,000
Indian Rupee	220,088,000		573,000	680,000		221,341,000
Canadian Dollar	210,846,000		7,139,000	1,795,000		219,780,000
Singapore Dollar	172,441,000		8,658,000	247,000		181,346,000
Brazil Cruzeiro Real	77,619,000		3,084,000	356,000		81,059,000
Mexican Peso	61,437,000		3,493,000	183,000		65,113,000
South African Rand	61,015,000		6,498,000	550,000		68,063,000
Norwegian Krone	60,070,000		224,000	240,000		60,534,000
Malaysian Ringgit	49,339,000		2,540,000	233,000		52,112,000
Israeli Shekel	38,556,000		237,000			38,793,000
Thai Baht	24,979,000		2,049,000	314,000		27,342,000
Phillipines Peso	23,070,000		5,409,000	74,000		28,553,000
Indonesian Rupiah	21,125,000		2,328,000	314,000		23,767,000
New Zealand Dollar	17,837,000		216,000	3,000		18,056,000
Turkish Lira	15,545,000		894,000	359,000		16,798,000
Other Currencies	27,939,000		2,531,000	617,000		31,087,000
Total	$ 12,484,424,000	$ 419,008,000	$ 514,474,000	$ 29,980,000	$ 18,560,000	$ 13,466,446,000

As of June 30, 2015, the External Investment Pool's exposure to foreign currency risk was as follows:

	Carrying Value by Investment Type					
Currency	Equity Based Trust - International	Alternative Investment - Private Equity Investment Partnerships	Real-Estate Trust Funds	OPEB Equity Based Trust- International	Credit Investment Partnerships	Total
Euro	$ 3,984,700,000	$ 605,035,000	$ 179,696,000	$ 6,055,000	$ 7,376,000	$ 4,782,862,000
British Pound Sterling	2,742,448,000	58,866,000	310,551,000	3,000,000		3,114,865,000
Japanese Yen	2,419,981,000	143,335,000	49,182,000	4,913,000		2,617,411,000
Hong Kong Dollar	1,050,978,000		40,542,000	2,362,000		1,093,882,000
Swiss Franc	1,002,047,000	58,800,000	3,674,000	1,683,000		1,066,204,000
Australian Dollar	561,716,000	6,704,000	23,590,000	1,277,000		593,287,000
Swedish Krona	381,002,000		3,710,000	341,000		385,053,000
South Korean Won	376,404,000			147,000		376,551,000
Canadian Dollar	261,090,000		9,189,000	1,535,000		271,814,000
New Taiwan Dollar	268,769,000			1,449,000		270,218,000
Danish Krone	219,981,000			610,000		220,591,000
Singapore Dollar	207,621,000		8,652,000	652,000		216,925,000
Indian Rupee	175,186,000					175,186,000
Brazil Cruzeiro Real	94,989,000		2,155,000	1,065,000		98,209,000
Norwegian Krone	86,116,000		1,329,000	288,000		87,733,000
South African Rand	56,842,000			689,000		57,531,000
Thailand Baht	30,162,000			627,000		30,789,000
Other Currencies	268,461,000			1,535,000		269,996,000
Total	$ 14,188,493,000	$ 872,740,000	$ 632,270,000	$ 28,228,000	$ 7,376,000	$ 15,729,107,000

The State Treasurer has no formal policy regarding the maximum amount of investments in international securities. As of June 30, 2016 and 2015, the retirement systems had approximately 18% invested in international securities. The External Investment Pool recognized an aggregate foreign currency transaction losses of $474.4 million and $834 million for the fiscal year ended June 30, 2016 and 2015, respectively, as part of net depreciation in fair value of investments. Transaction gains or losses result from a change in exchange rates between the U.S. dollar and the currency in which a foreign currency transaction is denominated.

Note: The OPEB Equity Based Trust-International total in this table does not agree to the carrying amount disclosed in the investments by type table because the investments and maturities table includes American Depositary Receipts and cash collateral held for the daily settlement of derivatives. In addition, the OPEB Equity Based Trust-International equity market values in the foreign currency risk table are based on trade date while the carrying amount for this portfolio is reported on settle date in the investments and maturities table.

Fair Value Measurement

The External Investment Pool categorizes fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The External Investment Pool had the following recurring fair value measurements as of June 30, 2016:

Investments and Deriviative Instruments at Fair Value		Fair Value Measurments Using		
	Total	Quoted Prices in Markets for Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable (Level 3)
Short-term Investment Fund				
U.S. Treasuries	$ 7,347,150,000	$ 0	$ 7,347,150,000	$ 0
U.S. Agencies	8,063,962,000		8,063,962,000	
Domestic Corporate Bonds	54,990,000		54,990,000	
Securities Purchased with Cash Collateral under Securities Lending Program:				
Commercial Paper	10,408,000		10,408,000	
Domestic Corporate Bonds	490,370,000		479,872,000	10,498,000
Subtotal	15,966,880,000	0	15,956,382,000	10,498,000
Long-term Investment Fund				
U.S. Treasuries	6,028,229,000	404,891,000	5,623,338,000	
U.S. Agencies	828,764,000		828,764,000	
Mortgage Pass-Throughs	8,008,830,000		8,008,830,000	
Securities Purchased with Cash Collateral under Fixed Income Securities Lending Program:				
Commercial Paper	39,350,000		39,350,000	
Domestic Corporate Bonds	1,036,399,000		989,706,000	46,693,000
Domestic Corporate Bonds	8,387,148,000		8,387,148,000	
Foreign Government Bonds	26,161,000		26,161,000	
Subtotal	24,354,881,000	404,891,000	23,903,297,000	46,693,000
Other Investment Portfolios				
U.S. Treasuries-Inflation	576,191,000		576,191,000	
Collateralized Mortgage Obligations	48,562,000		48,562,000	
Commercial Mortgage-Backed Securities	16,991,000		16,991,000	
Securities Purchased with Cash Collateral under Equity Securities Lending Program:				
Asset-Backed Securities	71,936,000		71,936,000	
Yankee Certificates of Deposit	263,003,000		263,003,000	
Bank Notes	40,004,000		40,004,000	
Commercial Paper	104,991,000		104,991,000	
Equity Securities - Domestic	16,358,163,000	16,329,076,000		29,087,000
Equity Securities - Foreign	14,116,502,000	14,116,334,000		168,000
Domestic Corporate Bonds	96,963,000	239,000	83,374,000	13,350,000
Subtotal	31,693,306,000	30,445,649,000	1,205,052,000	42,605,000
Investment Derivative Instruments				
Futures Contracts	22,480,000	22,480,000		
Futures Contracts (Liability)	(9,568,000)	(9,568,000)		
Total Investment Derivative Instruments	12,912,000	12,912,000		
Total Investments by Fair Value Level	$ 72,027,979,000	$ 30,863,452,000	$ 41,064,731,000	$ 99,796,000

Fair Value Measurement (Continued)

Investments Measured at the Net Asset Value (NAV)		Unfunded Commitments [19]	Redemption Frequency	Redemption Notice
Commingled Real Estate Funds [1]	$ 1,536,591,000	$ 0	Daily, Quarterly	1 - 60
Core Real Estate Funds [2]	2,607,405,000	900,607,000	Illiquid	N/A
Hedge Funds				
Opportunistic Fixed Income - Hedged Fixed Income [3]	2,985,956,000	396,000,000	Annually	15 - 90
Inflation Sensitive - Real Assets and Other Diversifiers [4]	231,266,000		Quarterly	60
Multi-Strategy Funds [5]	1,522,042,000		Daily, Quarterly	1 - 90
Global Public Equity - Hedged [6]	2,618,597,000		Daily, Annually	3 - 180
Global Public Equity - Long-Only [7]	344,782,000		Illiquid	N/A
Non-Core Real Estate Funds [8]	3,906,419,000	2,344,984,000	Illiquid	N/A
Private Credit Funds [9]	2,189,502,000	428,111,000	Illiquid	N/A
Private Equity Funds [10]	4,351,006,000	2,843,446,000	Illiquid	N/A
Private Multi-Strategy Funds [11]	95,281,000	110,000,000	Illiquid	N/A
Private Infrastructure Funds [12]	541,901,000	70,890,000	Illiquid	N/A
Private Natural Resources Funds [13]	1,669,292,000	1,043,972,000	Illiquid	N/A
Private Real Asset Funds [14]	1,345,472,000	882,259,000	Illiquid	N/A
Publicly Traded Natural Resources [15]	531,844,000		Monthly	35
Commingled International Equity Funds [16]	2,940,862,000		Daily	1 - 30
Commingled Equity Funds - OPEB [17]	127,750,000		Monthly	5
Collective Investment Funds [18]	1,247,895,000		Daily	1
Total Investments at the NAV	30,793,863,000			
Total Investments at Fair Value	102,821,842,000			
Investments Measured at Cost				
Certificates of Deposit (Non-Negotiable)	10,600,000			
Negotiable Certificates of Deposit	90,026,000			
Time Deposits	129,669,000			
Money Market Mutual Funds	230,534,000			
Repurchase Agreements	3,940,177,000			
Total Investments at Cost	4,401,006,000			
Securities Lending Collateral	(3,596,867,000)			
Total Investments	$ 103,625,981,000			

(1.) *Commingled Real Estate Funds* Five funds. Each is valued at the net asset value of units held at the end of the period based upon the fair value of the underlying investments.

(2.) *Core Real Estate Funds* Thirteen funds. These investments are valued at net asset value using the most recent available financial information. These investments include a mix of predominately U.S. domiciled equity and debt investments in core commercial real estate. These funds are not eligible for redemption. Distributions are received as underlying investments within the funds are liquidated, which on average can occur over the span of 5-10 years.

(3.) *Opportunistic Fixed Income - Hedged Fixed Income* Eight funds. These investments are valued at NAV per share. These investments include hedged implementations of market neutral strategies, relative value strategies, and multi-strategy (i.e., predominantly fixed income) utilizing noninvestment grade instruments.

(4.) *Inflation Sensitive - Other Real Assets and Diversifiers* One fund. This investment is valued at NAV per share. This investment may include infrastructure, real assets (e.g. ships, airplanes, rail cars, mines, real estate, etc.), royalties, and combinations of any of this and other investments whose primary purpose is providing protection against risks associated with inflation. Currently, the strategy represented in this category is one which invests in a combination of equity and debt instruments of companies which derive at a minimum 50% of their revenues from energy infrastructure and natural resources.

(5.) *Multi-Strategy Funds* Six funds. These investments are valued at NAV per share. These investments have the flexibility to invest across markets, asset classes, commodities, and currencies, including hedging. Strategies may include opportunistic, event-driven, relative value, global macro, rebalancing, tail hedging and overlays.

(6.) *Global Public Equity - Hedged* Two funds. These investments are valued at NAV per share. These investments may include various equity-based hedge fund strategies. Currently, the strategies represented in this category include one which aims to target a specific beta relative to the MSCI ACWI Total Return Index, and one which seeks to profit by purchasing securities trading at a discount to their intrinsic value * *One strategy was entered in February 2016, from which time $125 million of the funds were subject to a 1-year lockup, and the remaining $25 million to a 2-year lockup. After this time, the assets may be redeemed quarterly, with a 180 day notice.*

(7.) *Global Public Equity – Long Only* One fund. This investment is valued at NAV per share. This investment may include publicly traded U.S. equity, non-U.S. equity, and global equity securities held in long-only vehicles. Currently, the strategy represented in this category is one with a North American-focus, which takes an activist role in investing. As such, its portfolio will tend to be concentrated in its positioning. ** *The strategy was entered in December 2015, from which time the funds were subject to an initial 5-year lockup. Funds may be withdrawn as of the last day of each calendar year following the expiration of this initial lockup period, provided that 90 days written notice is given.*

(8.) *Non-Core Real Estate Funds* 83 funds. These investments are valued at net asset value using the most recent available financial information. These investments include a mix of global equity and debt investments in commercial and residential real estate, and each strategy falls into one of three major categories: Value (with a target allocation of 50%), Opportunistic (with a target allocation of 50%) and Special Situations (with a target allocation of 0%). These funds are not eligible for redemption. Distributions are received as underlying investments within the funds are liquidated, which on average can occur over the span of 5-10 years.

(9.) *Private Credit Funds* 21 funds. These investments are valued at net asset value using the most recent available financial information. These investments include a mix of non-investment grade or unrated obligations, debt securities and asset-backed securities, including but not limited to bank loans, high yield, mortgage-backed securities, convertibles, whole loans, mezzanine debt, credit default swaps, collateralized debt obligations and sovereign debt. These funds are not eligible for redemption. Distributions are received as underlying investments within the funds are liquidated, which on average can occur over the span of 5-10 years.

(10.) *Private Equity Funds* 108 funds. These investments are valued at net asset value using the most recent available financial information. These investments include a mix of buyout, venture capital, growth equity, and private special situations vehicles. All investments fall into one of three major categories: Growth (with a target allocation of 20%), Buyout (with a target allocation of 50%) and Special Situations (with a target allocation of 30%). These funds are not eligible for redemption. Distributions are received as underlying investments within the funds are liquidated, which on average can occur over the span of 5-10 years.

(11.) *Private Multi-Strategy Funds* One fund. This investment is valued at net asset value using the most recent available financial information. This investment has the flexibility to invest across markets, asset classes, commodities, and currencies, including hedging. Strategies may include opportunistic, event-driven, relative value, global macro, rebalancing, tail hedging and overlays. Currently the strategy represented in this category is considered opportunistic, and will tactically invest across a broad range of investible assets. This fund is not eligible for redemption. Distributions are received as underlying investments within the fund are liquidated, which on average can occur over the span of 5-10 years.

(12.) *Private Infrastructure Funds* Four funds. These investments are valued at net asset value using the most recent available financial information. These strategies invest in various infrastructure-related markets including but not limited to utilities, transportation, energy and communication. These funds are not eligible for redemption. Distributions are received as underlying investments within the funds are liquidated, which on average can occur over the span of 5-10 years.

(13.) *Private Natural Resources Funds* 33 funds. These investments are valued using net assets valued as of the previous quarter end, plus current quarter cash flows. These strategies make non-public equity or debt investments in timberland, energy, agriculture, and other natural resources implementations. These funds are not eligible for redemption. Distributions are received as underlying investments within the funds are liquidated, which on average can occur over the span of 5-10 years.

(14.) *Private Real Asset Funds* Nine funds. These investments are valued using net assets valued as of the previous quarter end, plus current quarter cash flows. These investments represent a mix of strategies including ships, airplanes, rail cars, mines, real estate and other markets whose primary purpose is providing protection against risks associated with inflation. These funds are not eligible for redemption. Distributions are received as underlying investments within the funds are liquidated, which on average can occur over the span of 5-10 years.

(15.) *Publicly Traded Natural Resources* Three funds. These investments are valued at NAV per share. These strategies invest in commodity and natural resource public equity and public debt using long-only or hedged implementations.

(16.) *Commingled International Equity Funds* Six funds. Each are valued at the net asset value of units held at the end of the period based upon the fair value of the underlying investments.

(17.) *Commingled Equity Funds-OPEB Two funds*. These investments are valued at the net asset value of units held at the end of the period based upon the fair value of the underlying investments.

(18.) *Collective investment funds Two funds*. These funds are invested in the BNY Mellon EB Temporary Investment Fund and the BlackRock T-Fund. These funds primarily invest in instruments issued by the U.S. Government and Federal agencies, short-term corporate obligations, commercial paper, and certificates of deposit. The average weighted maturity of these funds does not exceed 60 days.

(19.) At June 30, 2016, unfunded commitments included 321 million Euros, and 108 million pounds sterling, converted to the U.S. dollar equivalent.

Valuation Methodologies and Inputs

On-the-run U.S. Treasuries, bonds, and equity securities classified in Level 1 of the fair value hierarchy are valued using prices quoted in active markets for those securities. Futures contracts are marked to market and settled on a daily basis in an actively traded market.

Level 2 U.S. Treasuries are evaluated by using data from several live feeds which include active market makers and inter-dealer brokers. Sources are reviewed on the basis of their historical accuracy for individual issues and maturity ranges.

Level 2 U.S. Agencies, which are primarily mortgage pass-through securities, use a dealer derived to-be-announced (TBA) security as a benchmark, plus a dollar (or pay up) adjustment which is based on market data for the underlying collateral. When the underlying TBA is not applicable or observable, a discounted cash flow is calculated using a spread to the treasury curve based on applicable market data and internally generated long-term speed.

Level 2 bonds are priced using both spread-based and priced-based evaluations. For spread-based evaluations, an option adjusted spread model is developed incorporating credit risk and based on the new issue market, secondary trading, and dealer quotes. For priced-based evaluations, evaluators use recently executed transactions of similar securities and dealer quotes to arrive at appropriate pricing. These methods also are used to value Canadian government bonds, which make up foreign government bonds classified as Level 2.

Level 2 certificates of deposit, commercial paper, bank notes, and asset-backed securities are priced using a model which considers days to final maturity to generate a yield based on the relevant curve for the security. Adjustments to the yield can be made as market conditions warrant. Days are counted from settlement to final maturity using the relevant settlement convention for each market. A bid evaluation is calculated from these inputs.

Level 2 collateralized mortgage obligations and commercial mortgage-backed securities are evaluated using predicted cash flows, adjusted by an applicable spread/yield/price adjustment incorporating benchmark yields, collateral performance, and prevailing market conditions.

Level 3 bonds and commercial paper are priced using broker quotes. Level 3 equity securities are priced using manager pricing.

Securities Lending

Based on the authority provided in General Statute 147-69.3(e), the State Treasurer lends securities from its External Investment Pool to broker-dealers and other entities (borrowers) for collateral that will be returned for the same securities in the future. The State Treasurer's custodian manages the securities lending program for the internally managed fixed income portfolios and a third party lending agent (both are "lending providers") manages the securities lending program for the equity based trust. During the year, the securities lending program lent U.S. government and agency securities, corporate bonds, notes, and equity securities for collateral. The lending programs are permitted to receive cash, U.S. government and agency securities as collateral for the securities lent. In addition, the securities lending program in the internally managed fixed income portfolios may receive irrevocable letters of credit.

The collateral is initially pledged at 102% of the market value of the domestic securities lent in both the fixed income portfolios and the equity based trust and 105% of the market value of foreign securities lent in the equity based trust program. Additional collateral is required if its value falls to less than 100% of the market value of the 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 lending providers and held in separate accounts in the name of the State Treasurer. The policies for investments purchased with cash collateral under the securities lending program are set forth in the contracts with the lending providers. The weighted average maturities of the cash collateral investments are more than the weighted average maturities of the securities loans.

At June 30, 2016 and June 30, 2015, 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 Treasurer. The lending providers are contractually obligated to indemnify the Treasurer for certain conditions, the most important is default on the part of the borrowers.

<u>Securities Lending Internally Managed Fixed Income Portfolios</u>

Interest Rate Risk and Credit Risk. Under the prior securities lending guidelines for the internally managed fixed income portfolios, 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. 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.

Securities purchased under the current securities lending program in the internally managed fixed income portfolios will not have a final maturity greater than 397 days. The custodian is not permitted to make investments where the weighted average maturity of all investments exceeds 60 days. As of June 30, 2016, and June 30, 2015, the weighted average maturity of investments was approximately 13 days and 25 days, respectively. The securities pledged as collateral for repurchase agreements are limited to securities issued or guaranteed by the U.S. government or its agencies. At the time of purchase, asset-backed securities are required to have an AAA rating by at least two of the rating agencies. All other eligible securities must have a minimum short-term rating of A-1/P-1 or a long-term rating of A/A2. No more than 5% of the collateral account's total assets may be invested in a corporate or bank obligation, or asset-backed securities of a single issuer or sponsor.

As of June 30, 2016, the fair value of loaned securities in the internally managed fixed income program was $7.2 billion; the fair value of the associated collateral was $7.3 billion of which $2.8 billion was cash. As of June 30, 2015, the fair value of loaned securities in the internally managed fixed income program was $6.5 billion; the fair value of the associated collateral was $6.5 billion of which $3.3 billion was cash.

During the market crisis of late 2008, there was a default in a Lehman Brothers floating rate note in which securities lending collateral had been invested in the fixed income securities lending program. Since that time, several other investments with potential losses were identified. The State Treasurer directed that all securities lending revenues would be deposited into a separate account. These funds are invested into a collective investment trust fund, and are included in the External Investment Pool's Statement of Fiduciary Net Position. The purpose of the separate account was to provide a reserve account to offset expected losses. At June 30, 2015, the State Treasurer had an unrealized loss in the Securities Lending Collateral pool of $189.2 million, and had accumulated $187.4 million in the separate account. These assets were liquidated during the 2016 fiscal year and the loss was extinguished as of June 30, 2016.

Securities Lending Equity Based Trust

Interest Rate Risk and Credit Risk. Under the prior securities lending guidelines, cash collateral was invested by the lending provider in a variety of permitted investments including asset backed securities, U.S. Treasuries and commingled or mutual funds. These investments had certain credit and concentration restrictions and were managed to ensure that the average effective duration of the fund would not exceed 120 days. In 2010, when the current guidelines were adopted, the remaining balance of these assets was transferred in kind to a separate account in the name of the State Treasurer with the remainder in a legacy portfolio. As of June 30, 2016, the average duration of these investments was approximately 46 days and an average weighted final maturity of 2,291 days. As of June 30, 2015, the average duration of these investments was approximately 43 days and an average weighted final maturity of 2,126 days.

Under the current securities lending guidelines for the equity based trust adopted in 2010, all eligible investments must be rated at least A1, P1 or F1 by at least two nationally recognized rating organizations, except for repurchase agreements which require the counterparty to have a short-term rating of at least A2, P2 or F2 by at least one of Standard and Poor's, Moody's or Fitch, respectively. The dollar-weighted average maturity of the cash collateral account should not exceed 60 days and should not have a dollar-weighted average maturity to final in excess of 120 days. As of June 30, 2016, the average weighted duration of the investments was approximately 13 days and an average weighted final maturity of approximately 35 days. As of June 30, 2015, the average weighted duration of the investments was approximately 23 days and an average weighted final maturity of approximately 89 days. The securities pledged as collateral for repurchase agreements are limited to securities issued or guaranteed by the U.S. government or its agencies. No more than five percent of the cash collateral may be invested in a single issue.

As of June 30, 2016, the fair value of loaned securities in the equity based trust program was $1.2 billion; the fair value of the associated collateral was $1.2 billion of which $763 million was cash. As of June 30, 2016, noncash collateral of $420 million was invested in U.S. government guaranteed securities and government agency securities which are not subject to credit risk. As of June 30, 2015, the fair value of loaned securities in the equity based trust program was $1.7 billion; the fair value of the associated collateral was $1.8 billion of which $1.6 billion was cash. As of June 30, 2015, noncash collateral of $227.0 million was invested in U.S. government guaranteed securities and government agency securities which are not subject to credit risk.

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. In the State's financial statements, each fund's equity in these accounts is reported as investments.

As of June 30, 2016, the bond proceeds investment accounts had the following investments and maturities:

Investment Type	Carrying Amount	Weighted Average Maturity (Days)
Repurchase Agreements	$ 205,453,000	8
Asset-Backed Securities	1,280,000	542
Total Investments	$ 206,733,000	

As of June 30, 2015, the bond proceeds investment accounts had the following investments and maturities:

Investment Type	Carrying Amount	Weighted Average Maturity (Days)
Repurchase Agreements	$ 265,543,000	2
Asset-Backed Securities	15,884,000	877
Total Investments	$ 281,427,000	

Repurchase agreements are reported at cost. See Note 1 for additional information.

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 and are invested in short-term maturities and/or securities that bear the highest rating of a least one nationally recognized rating service and do not bear a rating below the highest by any nationally recognized rating service.

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 investments.

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, New Hanover Regional Medical Center Trust, Columbus Regional Healthcare Trust and Watauga 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. One public hospital is a participant in the External Investment Pool's Long-term Investment portfolio.

The fair value measurements of the Public Hospitals investment accounts are categorized within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

As of June 30, 2016, the Public Hospitals investment accounts maintained by the State Treasurer had the following investments and recurring fair value measurements (settled transactions):

Investment Type	Fair Value
External Investment Pool - Long-Term	$ 8,631,000
Investments Measured at Net Asset Value (NAV):	
Commingled Equity Fund - Domestic	170,125,000
Commingled Equity Fund - International	50,032,000
Total Investments Measured at NAV	220,157,000
Total Investments Measured at Fair Value	$ 228,788,000

Investment in the External Investment Pool – Long Term Investment Fund portfolio (LTIF) are classified in Level 2 of the fair value hierarchy. Ownership interest in the Long-term Investment Fund are determined monthly at fair market value based upon units of participation. Units of participation are calculated monthly based upon inflows and outflows as well as allocation of net earnings. As of June 30, 2016, the LTIF had a weighted average maturity of 17.9 years and did not have a credit rating.

Investments measured at the net asset value (NAV) per share as of June 30, 2016, are presented on the following table (settled transactions):

Investment Measured at the NAV	Fair Value	Redemption Frequency (if Currently Eligible	Redemption Notice Period
Commingled Equity Fund - Domestic	$ 170,125,000	Monthly	5 business days
Commingled Equity Fund - International	50,032,000	Monthly	5 business days
Total Investments Measured at the NAV	$ 220,157,000		

The commingled equity funds include one domestic equity fund and one international equity fund that are considered to be commingled in nature. Each is valued at the net asset value of units held at the end of the period based upon the fair value of the underlying investments.

As of June 30, 2015, the Public Hospitals investment accounts maintained by the State Treasurer had the following investments (settled transactions):

Investment Type	Carrying Amount
Other Investments:	
Equity Based Trust - Domestic	$ 174,125,000
Equity Based Trust - International	55,424,000
External Investment Pool - Long-term	7,987,000
Total Investments	$ 237,536,000

As of June 30, 2016, the Public Hospitals investment account's exposure to foreign currency risk was as follows:

Currency	Carrying Value by Investment Type Equity Based Trust-International
Euro	$ 11,417,000
Japanese Yen	7,890,000
British Pound Sterling	6,143,000
Hong Kong Dollar	3,733,000
Australian Dollar	3,112,000
Canadian Dollar	2,962,000
Swiss Franc	2,725,000
Taiwan Dollar	1,734,000
South Korean Won	1,169,000
Indian Rupee	1,122,000
South African Rand	908,000
Swedish Krona	888,000
Danish Krone	820,000
Turkish Lira	592,000
Brazilian Real	587,000
Thai Baht	518,000
Indonesian Rupiah	517,000
Other Currencies	2,635,000
Total	$ 49,472,000

As of June 30, 2015, the Public Hospitals investment account's exposure to foreign currency risk was as follows:

Currency	Carrying Value by Investment Type Equity Based Trust-International
Euro	$ 11,669,000
Japanese Yen	9,469,000
British Pound Sterling	5,782,000
Hong Kong Dollar	4,552,000
Swiss Franc	3,244,000
Canadian Dollar	2,959,000
Taiwan Dollar	2,792,000
Australian Dollar	2,462,000
Brazilian Real	2,053,000
South African Rand	1,327,000
Singapore Dollar	1,257,000
Thai Baht	1,208,000
Danish Krone	1,176,000
Turkish Lira	728,000
Poland Zloty	710,000
Swedish Krona	657,000
Norwegian Krone	555,000
Other Currencies	1,805,000
Total	$ 54,405,000

Note: The totals in the foreign currency risk tables do not agree to the totals disclosed in the investment tables above because the investment tables include American Depositary Receipts and cash collateral held for the daily settlement of derivatives. In addition, the equity market values in the foreign currency risk tables are based on trade date while the investment tables are 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. As of June 30, 2016, the Escheat investment account maintained by the State Treasurer had the following investments and recurring fair value measurements:

Investment Measured at the NAV	Fair Value	Unfunded Commitments
Private Credit Limited Partnership	$ 8,457,000	$ 314,000
Private Equity Investment Partnerships	20,772,000	3,827,000
Private Natural Resources Limited Partnership	3,198,000	
Total Investments Measured at the NAV	$ 32,427,000	

Private Credit Limited Partnership. This type includes three private credit funds. These investments are valued at net asset value using the most recent available financial information. These investments include a mix of non-investment grade or unrated obligations, debt securities and asset-backed securities, including but not limited to bank loans, high yield, mortgage-backed securities, convertibles, whole loans, mezzanine debt, credit default swaps, collateralized debt obligations and sovereign debt. These funds are not eligible for redemption. Distributions are received as underlying investments within the funds are liquidated, which on average can occur over the span of 5-10 years.

Private Equity Investment Partnership. This type incudes eight private equity funds. These investments are valued at net asset value using the most recent available financial information. These investments include a mix of buyout, venture capital, growth equity, and private special situations vehicles. These funds are not eligible for redemption. Distributions are received as underlying investments within the funds are liquidated, which on average can occur over the span of 5-10 years.

Private Natural Resources Limited Partnership. This type includes one private natural resources fund. These investments are valued at net asset value using the most recent available financial information. These strategies may make non-public equity or debt investments in timberland, energy, agriculture, and other natural resources implementations. Currently, the strategy represented in this category is one which invests in oil and gas properties within the U.S. These funds are not eligible for redemption. Distributions are received as underlying investments within the funds are liquidated, which on average can occur over the span of 5-10 years.

As of June 30, 2015, the Escheat investment account maintained by the State Treasurer had investments in Private Equity Investment Partnerships of $35.5 million.

B. Investments Outside the State Treasurer

Supplemental Retirement Income Plan of North Carolina and North Carolina Public Employee Deferred Compensation Plan

North Carolina General Statutes sections 147-86.55 through 147-86.63 place investment restrictions on the Supplemental Retirement Income Plan of North Carolina (the 401(k) Plan) and the North Carolina Public Employee Deferred Compensation Plan (the 457 Plan). Specifically, pursuant to the North Carolina Department of State Treasurer's "Iran Divestment Policy" effective October 30, 2015, and adopted in compliance with the statute, the Department of State Treasurer, including the Supplemental Retirement Plans, shall refrain from making investments in companies on the State Treasurer's list of entities engaging in investment activities in Iran, and the Department shall divest within 180 days any existing investment in companies on the list. 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.

Investments include managed assets of the Pooled Separate Account SA-NC with Prudential Retirement Insurance and Annuity Company as owner and the Plans as beneficial owners. Investments in this Pooled Separate Account totaled $6.71 billion as of December 31, 2015 and $6.69 billion as of December 31, 2014. The remainder of the investments is the Stable Value Fund, which consists of three synthetic guaranteed investment contracts, two separate account guaranteed investment contracts, five wrap contracts, a pooled stable value fund, and a government money market fund.

As of December 31, 2015, the 401(k) and 457 Plans of North Carolina had the following investments and maturities that were maintained outside the State Treasurer.

		Investment Maturities (in Years)			
Investment Type	Carrying Amount	Less Than 1	1 to 5	6 to 10	More Than 10
Debt Investments:					
U.S. Treasuries	$ 98,569,000	$ 0	$ 92,986,000	$ 4,642,000	$ 941,000
U.S. Treasury STRIPS	52,890,000	2,490,000	18,870,000	17,708,000	13,822,000
U.S. Agencies	13,596,000		12,453,000		1,143,000
Mortgage Pass-Throughs	63,360,000	3,480,000	10,869,000	17,716,000	31,295,000
Collateralized Mortgage Obligations	83,437,000	8,688,000	3,751,000	21,716,000	49,282,000
State and Local Government	5,390,000	2,915,000	1,133,000		1,342,000
Asset-Backed Securities	66,729,000	760,000	49,206,000	11,459,000	5,304,000
Collective Investment Funds	1,612,707,000	58,294,000	853,452,000	700,961,000	
Money Market Mutual Funds	3,095,000	3,095,000			
Pooled Debt Funds	293,564,000			293,564,000	
Domestic Corporate Bonds	148,384,000	17,108,000	100,637,000	20,951,000	9,688,000
Foreign Corporate Bonds	60,132,000	14,224,000	39,921,000	4,306,000	1,681,000
Foreign Government Bonds	30,088,000	15,235,000	13,597,000	875,000	381,000
	2,531,941,000	$ 126,289,000	$ 1,196,875,000	$ 1,093,898,000	$ 114,879,000
Other Investments:					
Equity Mutual Funds	1,541,875,000				
Unallocated Insurance Contracts	780,873,000				
Domestic Stocks	3,074,662,000				
Foreign Stocks	689,453,000				
Hedge/Debt Mutual Fund	343,948,000				
Other	104,706,000				
Total Investments	$ 9,067,458,000				

As of December 31, 2014, the 401(k) and 457 Plans of North Carolina had the following investments and maturities that were maintained outside the State Treasurer.

		Investment Maturities (in Years)			
Investment Type	Carrying Amount	Less Than 1	1 to 5	6 to 10	More Than 10
Debt investments:					
U.S. Treasuries	$ 304,534,000	$ 7,957,000	$ 125,469,000	$ 131,074,000	$ 40,034,000
U.S. Treasury STRIPS	48,924,000		11,399,000	25,928,000	11,597,000
U.S. Agencies	20,817,000		11,377,000	3,263,000	6,177,000
Mortgage Pass-Throughs	66,518,000	4,176,000	11,651,000	14,683,000	36,008,000
Collateralized Mortgage Obligations	91,891,000	7,072,000	3,476,000	20,738,000	60,605,000
State and Local Government	6,428,000	827,000	4,098,000		1,503,000
Asset-Backed Securities	48,283,000	1,826,000	33,421,000	7,495,000	5,541,000
Collective Investment Funds	1,576,767,000	78,288,000	826,243,000	672,236,000	
Money Market Mutual Funds	76,511,000	76,511,000			
Pooled Debt Funds	287,086,000			287,086,000	
Domestic Corporate Bonds	162,686,000	32,240,000	101,335,000	19,429,000	9,682,000
Foreign Corporate Bonds	87,812,000	22,388,000	58,764,000	4,330,000	2,330,000
Foreign Government Bonds	83,299,000	6,868,000	37,212,000	25,873,000	13,346,000
	2,861,556,000	$ 238,153,000	$ 1,224,445,000	$ 1,212,135,000	$ 186,823,000
Other Investments:					
Equity Mutual Funds	1,561,518,000				
Unallocated Insurance Contracts	762,219,000				
Domestic Stocks	3,052,626,000				
Foreign Stocks	779,331,000				
Other	663,000				
Total Investments	$ 9,017,913,000				

In the above tables, the underlying investments of fully benefit-responsive synthetic guaranteed investment contracts (SGICs) are disclosed at contract value, which approximates fair value. On the Combining Statements of Fiduciary Net Position (see Exhibits J-1 and J-2), SGICs are reported at contract value. As of December 31, 2015, and December 31, 2014, the fair value of the underlying investments of fully benefit-responsive SGICs exceeded contract value by $14.4 million and $30.3 million, respectively. The Plans' investment in the Pooled Separate Account SA-NC is stated at fair value. Units of the Pooled Separate Account SA-NC are reported at fair value, based on the net asset value of the units held by the Plan. Units of common/commingled funds are valued at the net asset value of shares held by the Plan. Investments in fixed income securities (U.S. Treasuries and agency securities, asset-backed securities, collateralized mortgage obligations, commercial mortgage-backed securities, domestic corporate bonds, foreign government bonds, foreign corporate bonds, state and local government bonds, and mortgage pass-throughs) are valued on the basis of valuations furnished by independent pricing services. These services determine valuations for normal institutional-size trading units of such securities using models or matrix pricing, which incorporates yield and/or price with respect to bonds that are considered comparable in characteristics such as rating, interest rate, maturity date and quotations from bond dealers to determine current value. If these valuations are deemed to be either not reliable or not readily available, the fair value will be determined in good faith by the custodian. Purchases and sales of securities are recorded on a trade-date basis. Interest income is recorded on the accrual basis. Dividends are recorded on the ex-dividend date. Contributions to the collective trust and Pooled Separate Account are credited to participant accounts as units. The value of a unit changes each day based on the current fair value of the investment portfolio. Earnings of the Pooled Separate Account, as well as market fluctuations, are reflected in unit values. Common stock is valued at the closing price reported on the active market on which the individual securities are traded.

Interest Rate Risk. The 401(k) and 457 Plans have a formal investment policy that limits duration as a means of managing their exposure to fair value losses arising from increasing interest rates. The overall duration of the underlying securities in the Stable Value Fund will be between 2 and 3.5 years. The average duration of the Pooled Separate Account's fixed income fund is targeted to be within plus or minus 25% of the Barclay's Capital Aggregate Bond Index. The average duration of the Pooled Separate Account's inflation responsive fund is not limited by the plans' investment policy. Asset-backed securities are securities that are primarily serviced by the cash flows of a discrete pool of receivables or other financial assets, either fixed or revolving, that by their terms convert into cash within a finite time period, plus any rights or other assets designed to assure the servicing or timely distribution of proceeds to the security holders. Collective investment funds include units in the various funds. The interest rate risk in each of the funds is dependent upon the weighted average maturity of each of the collective investment funds which hold securities with maturities ranging from short to intermediate in duration. As a result, the collective investments funds are sensitive to changes in interest rates. Collateralized mortgage obligations 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 sensitive to changes in interest rates. Investments consist of units in various commingled funds, each with an investment objective relative to maturity and liquidity with interest rate risk dependent upon the weighted average maturity of each of the funds.

Credit Risk. The 401(k) and 457 Plans have a formal investment policy on credit risk. The Plans’ investment policy for the Stable Value Fund requires that debt securities, at the time of purchase, shall have a minimum Standard & Poor's (S&P) or Fitch Ratings (Fitch) rating of BBB- or Moody's Investors Service (Moody's) rating of Baa3. The average credit quality of the underlying fixed income investments in the Stable Value Fund will be S&P AA or Moody's Aa2. The Plans' investment policy for the Pooled Separate Account's fixed income fund requires that debt securities are intended to have an average quality rating of A- or better. The Plans' investment policy for the Pooled Separate Account's fixed income fund permits investments in issues rated below investment grade, but those securities should not exceed 20% of the fixed income assets.

As of December 31, 2015, the 401(k) and 457 Plan investments maintained outside the State Treasurer had the following credit quality distribution for securities with credit exposure:

	Carrying Amount by Credit Rating - Moody's/S&P/Fitch					
Investment Type	Aaa/AAA	Aa/AA	A	Baa/BBB	Less than Investment Grade	Unrated
U.S. Agencies	$ 0	$ 12,028,000	$ 0	$ 0	$ 0	$ 0
Mortgage Pass-Throughs		61,214,000				
Collateralized Mortgage Obligations	6,690,000	63,326,000	1,420,000	3,966,000	3,546,000	4,226,000
State and Local Government		2,446,000	2,778,000	166,000		
Asset-Backed Securities	57,471,000	2,058,000	4,097,000	307,000	84,000	2,712,000
Collective Investment Funds						1,612,707,000
Money Market Mutual Funds						3,095,000
Pooled Debt Funds						293,564,000
Domestic Corporate Bonds	1,301,000	8,752,000	47,061,000	91,097,000	173,000	
Foreign Corporate Bonds	2,722,000	11,114,000	32,879,000	13,135,000	282,000	
Foreign Government Bonds	26,490,000	2,342,000	104,000	1,152,000		
Total	$ 94,674,000	$ 163,280,000	$ 88,339,000	$ 109,823,000	$ 4,085,000	$ 1,916,304,000

As of December 31, 2014, the 401(k) and 457 Plan investments maintained outside the State Treasurer had the following credit quality distribution for securities with credit exposure:

	Carrying Amount by Credit Rating - Moody's/S&P/Fitch					
Investment Type	Aaa/AAA	Aa/AA	A	Baa/BBB	Less than Investment Grade	Unrated
U.S. Agencies	$ 0	$ 18,955,000	$ 0	$ 0	$ 0	$ 0
Mortgage Pass-Throughs		63,872,000				
Collateralized Mortgage Obligations	7,095,000	66,415,000	2,130,000	4,860,000	5,192,000	3,485,000
State and Local Government		3,387,000	3,041,000			
Asset-Backed Securities	36,789,000	2,199,000	5,353,000	1,496,000	47,000	2,399,000
Collective Investment Funds						1,576,767,000
Money Market Mutual Funds						76,511,000
Pooled Debt Funds						287,086,000
Domestic Corporate Bonds	295,000	5,085,000	55,236,000	99,385,000	2,685,000	
Foreign Corporate Bonds	3,281,000	8,862,000	42,025,000	25,846,000	254,000	7,544,000
Foreign Government Bonds	20,382,000	10,103,000	10,438,000	19,857,000	18,429,000	4,090,000
Total	$ 67,842,000	$ 178,878,000	$ 118,223,000	$ 151,444,000	$ 26,607,000	$ 1,957,882,000

Custodial Credit Risk. The 401(k) and 457 Plans do not have formal investment policies that address custodial credit risk. As of December 31, 2015, the investments of these Plans maintained outside the State Treasurer were exposed to custodial credit risk as follows:

Investment Type	Carrying Amount Held by Counterparty
U.S. Treasuries	$ 98,569,000
U.S. Treasury STRIPS	52,890,000
U.S. Agencies	13,596,000
Mortgage Pass-Throughs	63,360,000
Collateralized Mortgage Obligations	83,437,000
State and Local Government	5,390,000
Asset-Backed Securities	66,729,000
Domestic Corporate Bonds	148,384,000
Foreign Government Bonds	60,132,000
Mortgage Pass-Throughs	30,088,000
Domestic Stocks	3,074,662,000
Foreign Stocks	689,453,000
Total	$ 4,386,690,000

As of December 31, 2014, the investments of these Plans maintained outside the State Treasurer were exposed to custodial credit risk as follows:

Investment Type		Carrying Amount Held by Counterparty
U.S. Treasuries	$	304,534,000
U.S. Treasury STRIPS		48,924,000
U.S. Agencies		20,817,000
Mortgage Pass-Throughs		66,518,000
Collateralized Mortgage Obligations		91,891,000
State and Local Government		6,428,000
Asset-Backed Securities		48,283,000
Dorrestic Corporate Bonds		162,686,000
Foreign Corporate Bonds		87,812,000
Foreign Government Bonds		83,299,000
Domestic Stocks		3,052,626,000
Foreign Stocks		779,331,000
Total	$	4,753,149,000

Foreign Currency Risk. Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair market value of an investment. The 401(k) and 457 Plans do not have formal investment policies that address foreign currency risk. As of December 31, 2015, the Plans' exposure to foreign currency risk was as follows:

Currency		Carrying Amount Foreign Stocks
Euro	$	220,721,000
Japanese Yen		145,503,000
British Pound Sterling		110,394,000
Swiss Franc		55,763,000
Swedish Krona		31,797,000
Hong Kong Dollar		30,839,000
Danish Krone		21,283,000
Canadian Dollar		15,944,000
Australian Dollar		14,265,000
Singapore Dollar		14,119,000
South African Rand		12,076,000
Mexican Pesos		8,593,000
Other Currencies		6,914,000
Total	$	688,211,000

As of December 31, 2014, the Plans' exposure to foreign currency risk was as follows:

Currency	Carrying Amount Foreign stocks
Euro	$ 221,872,000
Japanese Yen	149,860,000
British Pound Sterling	117,497,000
Swiss Franc	48,666,000
Canadian Dollar	35,340,000
Hong Kong Dollar	34,901,000
Swedish Krona	29,784,000
New Taiwan Dollar	21,421,000
South Korean Won	19,866,000
Danish Krone	15,831,000
Singapore Dollar	15,591,000
South African Rand	13,958,000
Indian Rupee	13,817,000
Australian Dollar	12,128,000
Turkish Lira	9,956,000
Other Currencies	18,843,000
	$ 779,331,000

Note: The totals in the foreign currency risk tables may not agree to the totals disclosed in the investment maturities tables because the investment maturities tables include foreign stocks that are denominated in U.S. currency.

NOTE 3 - DERIVATIVE INSTRUMENTS

A. Summary Information

The following table is a summary of derivative instrument activity during the fiscal year and balances at year-end, classified by type with notional amount for the year ending June 30, 2016.

	Change in Fair Value		Fair Value at June 30, 2016		
Type	Classification	Increase (Decrease)	Classification	Debit (Credit)	Notional
U.S. Dollar Equity Futures	Investment Earnings	$ 1,299,000	State Treasurer Investment Pool	$ 1,299,000	524,885,000
Foreign Equity Futures[1]	Investment Earnings	972,000	State Treasurer Investment Pool	972,000	243,351,000
Commodity Futures[2]	Investment Earnings	10,641,000	State Treasurer Investment Pool	10,641,000	367,084,000
Forward Currency Contracts	Investment Earnings	(293,000)	State Treasurer Investment Pool	(293,000)	526,767,000
Spot Currency Contracts	Investment Earnings	555,000	State Treasurer Investment Pool	555,000	230,363,000
Total		$ 13,174,000		$ 13,174,000	

[1] 5.1 billion Japanese Yen, 81.2 million Euro, 66 million Hong Kong Dollar
[2] 773,000 barrels of brent crude oil; 334,000 barrels crude oil; 3,650,000 pounds copper; 3,320,000 bushels of corn; 2,385,000 bushels of wheat; 18,600,000 pounds live cattle.

The following table is a summary of derivative instrument activity during the fiscal year and balances at year-end, classified by type with notional amount for the year ending June 30, 2015:

	Change in Fair Value		Fair Value at June 30, 2015		
Type	Classification	Increase (Decrease)	Classification	Debit (Credit)	Notional
U.S. Dollar Equity Futures	Investment Earnings	$ (16,254,000)	State Treasurer Investment Pool	$ (16,254,000)	1,263,527,000
Foreign Equity Futures	Investment Earnings	(14,567,000)	State Treasurer Investment Pool	(14,567,000)	941,764,000
Commodity Futures	Investment Earnings	3,690,000	State Treasurer Investment Pool	3,690,000	861,448,000
Foreign Currency Futures	Investment Earnings	2,501,000	State Treasurer Investment Pool	2,501,000	144,334,000
Forward Currency Contracts	Investment Earnings	7,663,000	State Treasurer Investment Pool	7,663,000	993,313,000
U.S. Dollar Options	Investment Earnings	(1,032,000)	State Treasurer Investment Pool	(1,032,000)	138,500,000
Foreign Currency Options	Investment Earnings	(3,119,000)	State Treasurer Investment Pool	(3,119,000)	516,980,000
Spot Currency Contracts	Investment Earnings	709,000	State Treasurer Investment Pool	709,000	457,010,000
Total		$ (20,409,000)		$ (20,409,000)	

A schedule of all foreign derivatives outstanding at June 30, 2016, is presented below by currency:

	Fair value of foreign currency contracts, Assets (Liabilities)			
Currency	Forwards Currency Contracts	Spot Currency Contracts	Foreign Equity Futures	Total
Australian Dollar	$ 361,000	$ 10,000	$ 73,000	$ 444,000
Brazilian Real	27,000	3,000		30,000
British Pound Sterling	(2,414,000)	389,000	2,952,000	927,000
Canadian Dollar	(290,000)	(19,000)	192,000	(117,000)
Chinese Yuan	85,000			85,000
Euro	(247,000)	98,000	534,000	385,000
Hong Kong Dollar	(8,000)		352,000	344,000
Hungarian Forint		(1,000)		(1,000)
Indian Rupee	(2,000)			(2,000)
Indonesian Rupiah	(70,000)	(2,000)		(72,000)
Israeli Shekel	(5,000)			(5,000)
Japanese Yen	2,870,000	(53,000)	(3,131,000)	(314,000)
Malaysian Ringgit	30,000	(3,000)		27,000
Mexican Peso	6,000			6,000
New Taiwan Dollar		(1,000)		(1,000)
New Zealand Dollar	(597,000)			(597,000)
Norwegian Krone	17,000			17,000
Philippine Peso	33,000			33,000
Polish Zloty	10,000			10,000
Singapore Dollar	31,000			31,000
South African Rand	(84,000)	109,000		25,000
Swedish Krona	(35,000)	6,000		(29,000)
Swiss Franc	(21,000)	19,000		(2,000)
Thai Baht	10,000			10,000
Total	$ (293,000)	$ 555,000	$ 972,000	$ 1,234,000

A schedule of all foreign derivatives outstanding at June 30, 2015, is presented below by currency:

Currency	Foreign Currency Futures	Forwards Currency Contracts	Spot Currency Contracts	Foreign Equity Futures	Total
	Fair value of foreign currency contracts, Assets (Liabilities)				
Australian Dollar	$ 62,000	$ 163,000	$ (7,000)	$ (803,000)	$ 218,000
British Pound Sterling	2,439,000	2,456,000	(37,000)	(6,561,000)	4,858,000
Canadian Dollar		(532,000)	274,000	(802,000)	(258,000)
Euro		3,711,000	549,000	(3,372,000)	4,260,000
Hong Kong Dollar		3,000		(630,000)	3,000
Indian Rupee			2,000		2,000
Japanese Yen		1,141,000	(38,000)	(2,399,000)	1,103,000
Mexican Peso			2,000		2,000
New Taiwan Dollar			(12,000)		(12,000)
South Korean Won			(6,000)		(6,000)
Swiss Franc			(5,000)		(5,000)
New Zealand Dollar		741,000			741,000
Swedish Krona		(20,000)	(13,000)		(33,000)
Total	$ 2,501,000	$ 7,663,000	$ 709,000	$ (14,567,000)	$ (3,694,000)

B. Investment Derivative Instruments

Derivative instruments are securities that derive value from another asset and are in the form of a contract between two or more parties. Common derivatives are futures contracts, forward contracts, options and swaps.

The Pool maintained by the Treasurer has investments in equity and commodity futures, foreign currency forward and spot currency contracts. All of these derivative instruments are designated as investment derivatives; they are used to implement portfolio strategies, capture valuation opportunities, and to exploit market inefficiencies. The primary risks managed by using these derivative instruments include foreign exchange rate and market price risks.

Futures contracts are standardized, exchange-traded contracts to purchase or sell a specific financial instrument at a predetermined price. Gains and losses on futures contracts are settled daily based on underlying principal value and do not involve an actual transfer of the specific instrument. The exchange assumes the risk that the counterparty will not pay and generally requires margin payments to minimize such risk. Futures are generally used to achieve the desired market exposure of a security or index or to rebalance the total portfolio.

Forward currency contracts are agreements to exchange the currency of one country for the currency of another currency at an agreed-upon price and settlement date. These forward commitments are not standardized and carry credit risk due to the possible non-performance of one of the counterparties. The maximum potential loss is the aggregate face value in U.S. dollars at the time the contract was opened; however, the likelihood of such a loss is remote. In addition to forward currency contracts, the Pool also utilizes spot currency contracts. Spot currency contracts are used primarily for trade settlement and currency repatriation.

As of June 30, 2016, the counterparties' credit ratings for forward currency contracts that are subject to credit risk had a rating of no less than A by one of the nationally recognized ratings agencies or were not rated.

C. Synthetic Guaranteed Investment Contracts

In the Supplemental Retirement Income Plan of North Carolina, 401(k) Plan, there are synthetic guaranteed investment contracts (SGICs) within the North Carolina Stable Value Fund. SGICs are unallocated insurance contracts. There is a SGIC with The Prudential Insurance Company of America (Prudential), one SGIC with Nationwide Life Insurance Company (Nationwide Life), and one SGIC with American General Life Insurance Company (American General) which are all fully benefit responsive. The SGICs provided an average credit rating yield of 2.48%, 1.76%, and 1.21%, respectively. The fair value of the securities covered by the contracts as of December 31, 2015, is $1.118 billion and the contract value is $1.106 billion. The contracts are unrated and have a maturity of less than one year. The fair value of the securities covered by the contracts as of December 31, 2014, is $1.11 billion and the contract value is $1.08 billion. The contracts are unrated and have a maturity of less than one year.

In the North Carolina Public Employee Deferred Compensation Plan, 457 Plan, there are SGICs within the North Carolina Stable Value Fund. SGICs are unallocated insurance contracts. There is a SGIC with Prudential, one SGIC with Nationwide Life, and one SGIC with American General which are fully benefit responsive. The SGICs provided an average credit rating yield of 2.58%, 1.74%, 1.16% and 1.19%, respectively. The fair value of the securities covered by the contracts as of December 31, 2015, is $230 million and the contract value is $228 million. The fair value of the securities covered by the contracts as of December 31, 2014, is $232 million and the contract value is $227 million. The contracts are unrated and have a maturity of less than one year.

Both the Supplemental Retirement Income Plan of North Carolina and the North Carolina Public Employee Deferred Compensation Plan have entered into wrap contracts with Prudential, Nationwide Life, and American General to assure that the crediting rate on participant investments will not be less than zero. The wrap contracts with Prudential, Nationwide Life, and American General were determined to have no value.

NOTE 4 - INTERGOVERNMENTAL RECEIVABLES AND PAYABLES

Intergovernmental receivables and payables at June 30, 2016 and 2015, were as follows:

	General Fund 2016	General Fund 2015
Intergovernmental Receivables		
Local Governments Bond Approval and Annual Service Fees	$ 106,241	$ 123,043
Other	45,214	7,299
Total Intergovernmental Receivables	$ 151,455	$ 130,342

	State Health Plan 2016	State Health Plan 2015
Intergovernmental Receivables		
Federal Government Medicare Part D	$ 5,006,319	$ 1,697,744
Total Intergovernmental Receivables	$ 5,006,319	$ 1,697,744
Intergovernmental Payables		
Federal Government Affordable Care Act Reimbursements	$ 5,911,880	$ 0
Total Intergovernmental Payables	$ 5,911,880	$ 0

NOTE 5 - CAPITAL ASSETS

A. Governmental Activities

A summary of changes in the Department's capital assets for the year ended June 30, 2016, is presented as follows:

	Balance July 1, 2015 (As Restated)	Additions	Disposals	Balance June 30, 2016
Capital Assets, Depreciable:				
Equipment	$ 5,648,384	$ 961,852	$ (1,518,421)	$ 5,091,815
Computer Software	17,000,000	3,922,163		20,922,163
Total Capital Assets, Depreciable	22,648,384	4,884,015	(1,518,421)	26,013,978
Less Accumulated Depreciation for:				
Equipment	1,870,654	312,954	(898,888)	1,284,720
Computer Software	7,600,000	948,054		8,548,054
Total Accumulated Depreciation	9,470,654	1,261,008	(898,888)	9,832,774
Total Capital Assets, Depreciable, Net	$ 13,177,730	$ 3,623,007	$ (619,533)	$ 16,181,204

B. Component Unit

A summary of changes in the Plan's capital assets for the year ended June 30, 2016, is presented as follows:

	Balance July 1, 2015	Additions	Disposals	Balance June 30, 2016
Capital Assets, Depreciable:				
Leasehold Improvements	$ 8,029	$ 0	$ (8,029)	$ 0
Equipment	141,052			141,052
Total Capital Assets, Depreciable	149,081		(8,029)	141,052
Less Accumulated Depreciation for:				
Leasehold improvements	1,505		(1,505)	
Equipment	115,308	1,606		116,914
Total Accumulated Depreciation	116,813	1,606	(1,505)	116,914
Total Capital Assets, Depreciable, Net	$ 32,268	$ 1,606	$ (6,524)	$ 24,138

NOTE 6 - LONG-TERM LIABILITIES

Long-term liability activity for the year ended June 30, 2016, is presented as follows:

Governmental Fund - General Fund	Balance July 1, 2015	Additions	Reductions	Balance June 30, 2016	Due Within One Year
Death Benefits Payable	$ 420,000	$	$ (380,000)	$ 40,000	$ 40,000
Compensated Absences	2,579,677	1,784,854	(1,492,355)	2,872,176	238,103
Net Pension Liability[1]	1,550,834	3,533,760		5,084,594	
Total Long-Term Liabilities	$ 4,550,511	$ 5,318,614	$ (1,872,355)	$ 7,996,770	$ 278,103

Component Unit - State Health Plan	Balance July 1, 2015	Additions	Reductions	Balance June 30, 2016	Due Within One Year
Compensated Absences	$ 394,123	$ 199,378	$ (206,706)	$ 386,795	$ 32,065
Net Pension Liability[1]	259,619	427,176		686,795	
Total Long-Term Liabilities	$ 653,742	$ 626,554	$ (206,706)	$ 1,073,590	$ 32,065

[1] Additional information regarding net pension liability is included in Note 12.

NOTE 7 - OPERATING LEASE OBLIGATIONS

The Department entered into operating leases for copiers, equipment, and facilities. The governmental funds future minimum lease payments under noncancellable operating leases consist of the following at June 30, 2016:

Fiscal Year	Amount
2017	$ 1,338,008
2018	1,364,569
2019	1,392,299
2020	1,422,659
2021	1,465,784
2022-2026	5,967,487
Total Minimum Lease Payments	$ 12,950,806

Rental expense for all governmental funds operating leases during the year ended June 30, 2016, was $ 723,601.

NOTE 8 - FUND BALANCE

The details of the fund balance classifications for the governmental fund at June 30, 2016, are as follows:

	General Fund	Escheat Fund	Debt Proceeds and Interest Fund	Other Governmental Funds	Total
Fund Balance:					
Nonspendable:					
Inventory of Supplies	$ 113,646	$ 0	$ 0	$ 0	$ 113,646
Restricted for:					
General Government	474,046			1,307,728	1,781,774
Debt Service			115,673,355	2,516,252	118,189,607
Higher Education		587,044,691			587,044,691
Committed to:					
General Government	3,694,457			361,518	4,055,975
Environment and Natural Resources	676				676
Transportation				178,488	178,488
Unassigned	901,765				901,765
Total Fund Balance	$ 5,184,590	$ 587,044,691	$ 115,673,355	$ 4,363,985	$ 712,266,621

The details of the fund balance classifications for the governmental fund at June 30, 2015, are as follows:

	General Fund	Escheat Fund	Debt Proceeds and Interest Fund	Other Governmental Funds	Total
Fund Balance:					
Nonspendable:					
Inventory of Supplies	$ 13,157	$ 0	$ 0	$ 0	$ 13,157
Restricted for:					
General Government	469,950			1,817,792	2,287,742
Debt Service			125,066,838	2,801,673	127,868,511
Higher Education		571,209,506			571,209,506
Committed to:					
General Government	3,846,885			360,358	4,207,243
Environment and Natural Resources	2,917				2,917
Transportation				177,337	177,337
Unassigned	606,075				606,075
Total Fund Balance	$ 4,938,984	$ 571,209,506	$ 125,066,838	$ 5,157,160	$ 706,372,488

NOTE 9 - REVENUES AND EXPENDITURES FROM/TO OTHER STATE AGENCIES AND FUNDS

The governmental funds' revenues and expenditures from/to other state agencies and funds by entity and purpose at June 30, 2016, are as follows:

	Purpose	Amount
General Fund:		
Revenues from Other State Agencies:		
N.C. Wildlife Resources Commission	Debt Service for Wildlife Certificates of Participation	$ 2,684,580
N.C. State University	Reimbursement for Dual Employment	18,166
Total Revenues from Other State Agencies		$ 2,702,746

	Purpose	Amount
Revenues from Other Funds:		
Fiduciary Retirement Funds	Reimbursement of Retirement Services Division Operating Expenses	$ 17,674,952
Escheat Fund	Reimbursement of Unclaimed Property Division Operating Expenses	3,089,797
Total Revenues from Other Funds		20,764,749
Total Revenues from Other State Agencies/Funds		$ 23,467,495

	Purpose	Amount
Expenditures to Other State Agencies:		
Department of Public Safety	Floodplain Map Register of Deeds	$ 3,805,802
Department of Natural and Cultural Resources	Register of Deeds Proceeds to Cultural Resources	1,729,910
Office of the State Controller	Residual Register of Deeds Proceeds to be Used by General Fund	1,303,157
Total Expenditures to Other State Agencies		$ 6,838,869

	Purpose	Amount
Escheats Fund:		
Expenditures to Other State Agencies:		
N.C. Community Colleges System	Statutory Scholarship Transfer to Community College System	$ 16,335,000
Department of Military and Veteran's Affairs	Statutory Scholarship Transfer to DOA for Veteran's Scholarship Fund	6,520,964
Office of the State Controller	Transfer Property Finder Program Fees to General Fund	100
Total Expenditures to Other State Agencies		$ 22,856,064

	Purpose	Amount
Debt Proceeds and Interest Fund:		
Revenues from Other State Agencies:		
Office of State Budget and Management	Transfer Remaining Project Account to Premium Account	$ 5,028
Total Revenues from Other State Agencies		$ 5,028

	Purpose	Amount
Expenditures to Other State Agencies:		
Office of State Budget and Management	Transfer Premium Acccount Balance Held by DST to OSBM Projects Account	$ 335
Total Expenditures to Other State Agencies		$ 335

	Purpose	Amount
Other Governmental Funds:		
Expenditures to Other State Agencies:		
Office of State Budget and Management	Transfer Premium Acccount Balance Held by DST to OSBM Projects Account	$ 511,506
Total Expenditures to Other State Agencies		$ 511,506

NOTE 10 - INTERFUND TRANSFERS

Transfers in/out of other funds for the fiscal year ended June 30, 2016, consisted of the following:

Transfers Out	Transfers In General Fund
Debt Proceeds and Interest Fund	$ 9,780,810
Other Governmental Funds	294,254
Total	$ 10,075,064

Transfers are primarily used to (1) transfer revenues and bond proceeds from the fund required by State statute or budget to collect the revenue to the fund required by State statute or budget to expend them, (2) to provide unrestricted revenues collected in the General Fund to finance operating and capital programs accounted for in other funds in accordance with budgetary authorizations, and (3) reflect reversions of State funds from other funds to the General Fund in accordance with Office of State Budget and Management or legislative requirements.

The Department also had intrafund transfers within the General Fund for fiscal year ended June 30, 2016, in the amount of $735,204,840, which has been eliminated on the governmental funds financial statements. These General Fund transfers primarily consist of transfers for debt service appropriated from the State General Fund which the DST transfers to the fund authorized to incur the expenditures.

The Department requested to carry forward $371,139 in unspent appropriations for specifically identified expenditures that will be paid in the next fiscal year. This is accomplished by the Department requesting the carryforward amount through the Office of State Budget and Management (OSBM) and making required entries to the North Carolina Accounting System (NCAS) in the current year expensing the funds from the agency budget codes. The Office of the State Controller (OSC) then transfers the funds to the Carryforward Reserve Fund. The funds are held by OSC pending approval from OSBM to return the funds to the agencies. Upon OSBM approval, the funds are transferred back to the agency budget codes. The agency then makes an entry to NCAS recording the revenue in the subsequent fiscal year.

NOTE 11 - THE STATE'S RETIREMENT PLANS ADMINISTERED BY THE DEPARTMENT

The Department administers eight retirement plans as pension trust funds, seven defined benefit public employee retirement plans, as well as a defined contribution plan, which is administered by a third party under the auspices of the Department. Although the assets of the plans directly administered by the Department are commingled for investment purposes, each plan's assets may be used only for payment of benefits to the members of that plan and for the administrative costs in accordance with the terms of each plan. Seven of the plans in this note do not issue separate financial statements, nor are they reported as part of other entities. The financial statements and other required disclosures are presented in Exhibits J-1 through J-4 and in the Required Supplementary Information (RSI) section of this report. The Supplemental Retirement Income Plan of North Carolina (401(k) Plan) issues separately audited financial statements. Information on how to obtain the 401(k) Plan financial statements is found in Section B.8.

A. Summary of Significant Accounting Policies and Plan Asset Matters

The financial statements of these plans are prepared using the accrual basis of accounting. Plan member contributions are recognized in the period in which the contributions are due. Employer contributions are recognized when due and the employer has a legal requirement to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of each plan.

Pursuant to North Carolina General Statutes, the State Treasurer is the custodian and administrator of the retirement systems. The State Treasurer maintains various investment portfolios in its External Investment Pool. The pension trust funds are the primary participants in the Long-term Investment portfolio and the sole participants in the External Fixed Income Investment, Equity Investment, Real Estate Investment, Alternative Investment, Credit Investment, and Inflation Protection Investment portfolios. The Fixed Income Asset Class includes the Long-term Investment and External Fixed Income Investment portfolios. The Global Equity Asset Class includes the Equity Investment portfolio.

The investment balance of each pension trust fund represents its share of the fair market value of the net position of the various portfolios within the pool. Additionally, the securities lending balance represents assets occurring from securities lending transactions that result from the systems' participation in the pool. The investments of the State Treasurer are discussed in Note 2 of this report.

B. Plan Descriptions

Cost-Sharing, Multiple-Employer, Defined Benefit Plans

1. Teachers' and State Employees' Retirement System

Plan Administration: The State of North Carolina administers the Teachers' and State Employees' Retirement System (TSERS) plan. This plan is a cost-sharing, multiple-employer, defined benefit pension plan established by the State to provide pension benefits for general employees and law enforcement officers (LEOs) of the State, general employees and LEOs of its component units, and employees of Local Education Agencies (LEAs) and charter schools not in the reporting entity. Membership is comprised of employees of the State (state agencies and institutions), universities, community colleges, and certain proprietary component units along with the LEAs and charter schools that elect to join the Retirement System. Benefit provisions are established by General Statute 135-5 and may be amended only by the North Carolina

General Assembly. At June 30, 2016 and 2015, the number of participating employers was as follows:

	2016	2015
State of North Carolina	1	1
LEAs	116	116
Charter Schools	61	62
Community Colleges	58	58
University of North Carolina System	19	19
Other Component Units	5	5
	260	261

Management of the plan is vested in the TSERS Board of Trustees, which consists of 13 members – eight appointed by the Governor, one appointed by the state Senate, one appointed by the state House of Representatives, and the State Treasurer, the State Superintendent and the Director of the Office of State Human Resources who serve as ex-officio members.

Benefits Provided: TSERS provides retirement and survivor benefits. Retirement benefits are determined as 1.82% of the member's average final compensation times the member's years of creditable service. A member's average final compensation is calculated as the average of a member's four highest consecutive years of compensation. General employee plan members are eligible to retire with full retirement benefits at age 65 with five years of membership service, at age 60 with 25 years of creditable service, or at any age with 30 years of creditable service. General employee plan members are eligible to retire with partial retirement benefits at age 50 with 20 years of creditable service or at age 60 with five years of membership service. Survivor benefits are available to eligible beneficiaries of general members who die while in active service or within 180 days of their last day of service and who also have either completed 20 years of creditable service regardless of age, or have completed five years of service and have reached age 60. Eligible beneficiaries may elect to receive a monthly Survivor's Alternate Benefit for life or a return of the member's contributions. The plan does not provide for automatic post-retirement benefit increases.

TSERS plan members who are LEOs are eligible to retire with full retirement benefits at age 55 with five years of creditable service as an officer, or at any age with 30 years of creditable service. LEO plan members are eligible to retire with partial retirement benefits at age 50 with 15 years of creditable service as an officer. Survivor benefits are available to eligible beneficiaries of LEO members who die while in active service or within 180 days of their last day of service and who also have either completed 20 years of creditable service (not including sick leave) regardless of age, or have completed 15 years of creditable service as an LEO and have reached age 50, or have completed five years of creditable service as an LEO and have reached age 55, or have completed 15 years of creditable service as an LEO if killed in the line of duty. Eligible beneficiaries may elect to receive a monthly Survivor's Alternate Benefit for life or a return of the member's contributions.

Contributions: Contribution provisions are established by General Statute 135-8 and may be amended only by the North Carolina General Assembly. Plan members are required to contribute 6% of their annual pay. The contribution rate for employers is set each year by the North Carolina General Assembly in the Appropriations Act based on the actuarially determined rate recommended by the actuary. The State and other participating employers' contractually required contribution rate for the year ended June 30, 2016 was 9.15% of covered payroll. This was greater than the actuarially determined contribution of 8.69%. This amount, combined with plan member contributions and investment income fund the benefits earned by plan members during the year and administrative expenses.

Refunds of Contributions: Members, who have terminated service as a contributing member, may file an application for a refund of their contributions. By state law, prior to January 1, 2015, refunds to members with at least five years of service included 4% interest. Effective January 1, 2015, refunds to members include interest (currently 4%) regardless of the number of years of retirement service credit or of the reason for separation from service. State law requires a 60 day waiting period after service termination before the refund may be paid. The acceptance of a refund payment cancels the individual's right to the employer contributions or any other benefit provided by TSERS.

2. Local Governmental Employees' Retirement System

Plan Administration: The State of North Carolina administers the Local Governmental Employees' Retirement System (LGERS) plan. This plan is a cost-sharing, multiple-employer, defined benefit pension plan established by the State to provide benefits for employees of local governments. Membership is comprised of general employees and local law enforcement officers of participating local governmental entities. Benefit provisions are established by General Statute 128-27 and may be amended only by the North Carolina General Assembly. At June 30, 2016 and 2015, the number of participating local governments was as follows:

	2016	2015
Cities	425	425
Counties	100	100
Special Districts	359	363
	884	888

Management of the plan is vested in the LGERS Board of Trustees, which consists of 13 members – nine appointed by the Governor, one appointed by the state Senate, one appointed by the state House of Representatives, and the State Treasurer and State Superintendent, who serve as ex-officio members.

Benefits Provided: LGERS provides retirement and survivor benefits. Retirement benefits are determined as 1.85% of the member's average final compensation times the member's years of creditable service. A member's average final compensation is calculated as the average of a member's four highest consecutive years of compensation. Plan members are eligible to retire with full retirement benefits at age 65 with five years of creditable service, at age 60 with 25 years of creditable service, or at any age with 30 years of creditable service. Plan members are eligible to retire with partial retirement benefits at age 50 with 20 years of creditable service or at age 60 with five years of creditable service (age 55 for firefighters). Survivor benefits are available to eligible beneficiaries of members who die while in active service or within 180 days of their last day of service and who have either completed 20 years of creditable service regardless of age (15 years of creditable service for firefighters and rescue squad members who are killed in the line of duty) or have completed five years of service and have reached age 60. Eligible beneficiaries may elect to receive a monthly Survivor's Alternate Benefit for life or a return of the member's contributions. The plan does not provide for automatic post-retirement benefit increases. Cost of living benefit increases are contingent upon investment gains of the plan at the discretion of the LGERS Board of Trustees, except as authorized by the General Assembly.

LGERS plan members who are LEOs are eligible to retire with full retirement benefits at age 55 with five years of creditable service as an officer, or at any age with 30 years of creditable service. LEO plan members are eligible to retire with partial retirement benefits at age 50 with 15 years of creditable service as an officer. Survivor benefits are available to eligible beneficiaries of LEO members who die while in active service or within 180 days of their last day of service and who also have either completed 20 years of creditable service regardless of age, or have completed 15 years of creditable service as an LEO and have reached age 50, or have completed five years of creditable service as an LEO and have reached age 55, or have completed 15 years of creditable service as an LEO if killed in the line of duty. Eligible beneficiaries may elect to receive a monthly Survivor's Alternate Benefit for life or a return of the member's contributions.

Contributions: Contribution provisions are established by General Statute 128-30 and may be amended only by the North Carolina General Assembly. Plan members are required to contribute 6% of their annual pay. The actuarially determined contribution rate for employers is set annually by the LGERS Board of Trustees. For the fiscal year ended June 30, 2016, all employers made contributions of 7.15% of covered payroll for law enforcement officers and 6.67% for general employees and firefighters. This was equal to the actuarially determined contribution. This amount, combined with member contributions and investment income fund the benefits earned by plan members during the year and administrative expenses. In addition, employers with an unfunded liability, established when the government initially enters the system, must make additional contributions towards that liability. The State's responsibility is administrative only.

Refunds of Contributions: Members who have terminated service as a contributing member, may file an application for a refund of their contributions. By state law, prior to January 1, 2015, refunds to members with at least five years of service included 4% interest. Effective January 1, 2015, refunds to members include interest (currently 4%) regardless of the number of years of retirement service credit or of the reason for separation from service. State law requires a 60 day waiting period after service termination before the refund may be paid. The acceptance of a refund payment cancels the individual's right to employer contributions or any other benefit provided by LGERS.

3. Firefighters' and Rescue Squad Workers' Pension Fund

Plan Administration: The Firefighters' and Rescue Squad Workers' Pension Fund (FRSWPF) is a cost sharing, defined benefit pension plan with a special funding situation in that the State of North Carolina is not the employer but is legally obligated to contribute to the plan. The State established the plan to provide pension benefits for all eligible firefighters and rescue squad workers. Membership is comprised of both volunteer and locally employed firefighters and emergency medical personnel who elect membership. Benefit provisions are established by General Statute 58-86 and may be amended only by the North Carolina General Assembly. At June 30, 2016, there were 1,698 participating fire and rescue units.

Management of the plan is vested in the LGERS Board of Trustees, which consists of 13 members – nine appointed by the Governor, one appointed by the state Senate, one appointed by the state House of Representatives, and the State Treasurer and State Superintendent, who serve as ex-officio members.

Benefits Provided: FRSWPF provides retirement and survivor benefits. The present retirement benefit is $170 per month. Plan members are eligible to receive the monthly benefit at age 55 with 20 years of fully credited service as a firefighter or rescue squad worker regardless of whether the member has terminated paid employment. Eligible beneficiaries of members who die before beginning to receive the benefit will receive the amount paid by the member and contributions paid on the member's behalf into the plan. Eligible beneficiaries of members who die after beginning to receive benefits will be paid the amount the member contributed minus the benefits collected. A survivorship benefit for members was added effective June 1, 2016 and provides that beneficiaries will receive the same benefit the deceased member would have received beginning when the deceased would have reached age 55.

Contributions: Contribution provisions are established by General Statute 58-86 and may be amended only by the North Carolina General Assembly. Plan member benefits and administrative expenses are funded by a $10 monthly contribution by the member, investment income and an actuarially based state appropriation.

Refunds of Contributions: Members who are no longer eligible or choose not to participate in the fund may file an application for a refund of their contributions. Refunds include the member's contributions and contributions paid by others on the member's behalf. No interest will be paid on the amount of the refund. The acceptance of a refund payment cancels the individual's right to employer contributions or any other benefit provided by FRSWPF.

4. Registers of Deeds' Supplemental Pension Fund

Plan Administration: The State of North Carolina administers the Registers of Deeds' Supplemental Pension Fund (RODSPF) which is a cost-sharing, multiple-employer, defined benefit pension plan established by the State of North Carolina to provide supplemental pension benefits for all eligible, retired county registers of deeds. Membership is comprised of registers of deeds who are retired from the Local Governmental Employees' Retirement System or an equivalent locally sponsored plan and have met the statutory eligibility requirements. At June 30, 2016, there were 97 individuals receiving benefits in the plan with 100 counties participating. Benefit provisions are established by General Statute 161-50 and may be amended only by the North Carolina General Assembly. The State's only cost in the plan is administration.

Management of the plan is vested in the LGERS Board of Trustees, which consists of 13 members – nine appointed by the Governor, one appointed by the state Senate, one appointed by the state House of Representatives, and the State Treasurer and State Superintendent, who serve as ex-officio members.

Benefits Provided: An individual's eligibility to receive benefits under the RODSPF is based on at least 10 years of service as a register of deeds. An individual's benefit amount in a given year is limited to the lesser of the following:

1. the member's years of service multiplied by the value of one share of accumulated contributions available for benefits for that year, as specified in G.S. 161-50.3; and
2. when the benefit amount is combined with the individual's maximum retirement allowance upon retirement under the LGERS or equivalent locally sponsored retirement plan, the benefit amount is limited to the lesser of the following:
    a. seventy-five percent (75%) of a member's annual compensation, computed on the latest monthly rate (including any and all supplements); or
    b. one thousand five hundred dollars ($1,500).

Because of the statutory limits noted above, not all contributions available for benefits are distributed.

Contributions: Contribution provisions are established by General Statute 161-50 and may be amended only by the North Carolina General

Assembly. Benefits and administrative expenses are funded by investment income and 1.5% of the receipts collected by each County Commission under Article 1 of Chapter 161 of the North Carolina General Statutes. The statutory contribution currently has no relationship to the actuary's required contribution. The actuarially determined contribution this year and in the foreseeable future is zero. Registers of Deeds do not contribute.

Single-Employer Defined Benefit Plans

5. Consolidated Judicial Retirement System

Plan Administration: The State of North Carolina administers the Consolidated Judicial Retirement System (CJRS). This plan is a single-employer, defined benefit pension plan established by the State of North Carolina to provide pension benefits for employees of the State Judicial System. Membership is comprised of judges, district attorneys, public defenders and clerks of court. Benefit provisions are established by General Statute 135-58 and may be amended only by the North Carolina General Assembly.

Management of the plan is vested in the TSERS Board of Trustees, which consists of 13 members – eight appointed by the Governor, one appointed by the state Senate, one appointed by the state House of Representatives, and the State Treasurer, the State Superintendent and the Director of the Office of State Human Resources who serve as ex-officio members.

Benefits Provided: The plan provides retirement, disability and death benefits. Retirement benefits are determined as a percentage of the member's final compensation times the member's years of creditable service. The percentage used is determined by the position held by the member. A member's final compensation is the annual equivalent of the rate of compensation most recently applicable to the retiree as a member of the Retirement System. Plan members are eligible to retire with full retirement benefits at age 65 with five years of membership service, or at age 50 with 24 years of creditable service. Plan members are eligible to retire with partial retirement benefits at age 50 with five years of membership service. The reduced benefit is calculated using the same formula as a service retirement benefit, multiplied by a reduction percentage based on the member's age and/or service at early retirement. Survivor benefits are available to spouses of members who die while in active service after reaching age 50 with five years of service. The plan does not provide for automatic post-retirement benefit increases.

Contributions: Contribution provisions are established by General Statutes 135-68 and 135-69 and may be amended only by the North Carolina General Assembly. Plan members are required to contribute 6% of their annual pay. The contribution rate for the State is set each year by the North Carolina General Assembly in the Appropriations Act based on the actuarially determined rate recommended by the actuary. The State's contractually required contribution for the year ended June 30, 2016 was 27.21% of covered payroll. This was greater than the actuarially determined contribution of 26.37%. This amount, combined with member contributions and investment income fund the benefits earned by plan members during the year and administrative expenses.

Refund of Contributions: Members who have terminated service as a contributing member may file an application for a refund of their contributions. By state law, prior to January 1, 2015, refunds to members with at least five years of service included 4% interest. Effective January 1, 2015, refunds to members include interest (currently 4%) regardless of the number of years of retirement service credit or of the reason for separation from service. State law requires a 60 day waiting period after service termination before the refund may be paid. The acceptance of a refund payment cancels the individual’s right to employer contributions or any other benefit provided by CJRS.

6. Legislative Retirement System

Plan Administration: The State of North Carolina administers the Legislative Retirement System (LRS). This plan is a single-employer, defined benefit pension plan established by the State of North Carolina to provide retirement and disability benefits for members of the General Assembly. The benefit will not be payable while the retiree is employed in a position making him eligible to participate in either the TSERS or CJRS. Benefit provisions are established by General Statute 120-4.21 and may be amended only by the North Carolina General Assembly.

Management of the plan is vested in the TSERS Board of Trustees, which consists of 13 members – eight appointed by the Governor, one appointed by the state Senate, one appointed by the state House of Representatives, and the State Treasurer, the State Superintendent and the Director of the Office of State Human Resources who serve as ex-officio members.

Benefits Provided: LRS provides retirement, disability and survivor benefits. Retirement benefits are determined as 4.02% of the highest annual compensation as a member of the General Assembly times years of creditable service. A member’s highest annual compensation is the 12 consecutive months of salary authorized during the member’s final legislative term for the highest position ever held as a member of the General Assembly. Plan members are eligible to retire with full retirement benefits at age 65 after five years of service. Plan members are eligible to retire with partial retirement benefits at age 60 after five years of service or at age 50 with 20 years of service. Survivor benefits are available to eligible beneficiaries of contributing members of the General Assembly who die while in active service. The beneficiary will receive a return of the member’s contributions with interest. If the member dies while in active service after 12 years of creditable service or after reaching age 60 with five years of service, the surviving beneficiary may choose to receive a lifetime monthly benefit instead of a return of contributions with interest.

Contributions: Contribution provisions are established by General Statutes 120-4.19 and 120-4.20 and may be amended only by the North Carolina General Assembly. Plan members are required to contribute 7% of their annual pay. The contribution rate for the State is set each year by the North Carolina General Assembly in the Appropriations Act based on the actuarially determined rate recommended by the actuary. For the fiscal year ended June 30, 2016, the State's contractually required contribution was 1.8% of covered payroll. This was equal to the actuarially determined contribution. This amount, combined with member contributions and investment income fund the benefits earned by plan members during the year and administrative expenses.

Refunds of Contributions: Members who have terminated service as a contributing member may file an application for a refund of their contributions. By state law, prior to January 1, 2015, refunds to members with at least five years of service included 4% interest. Effective January 1, 2015, refunds to members include interest (currently 4%) regardless of the number of years of retirement service credit or of the reason for separation from service. State law requires a 60 day waiting period after service termination before the refund may be paid. The acceptance of a refund payment cancels the individual's right to employer contributions or any other benefit provided by LRS.

7. North Carolina National Guard Pension Fund

Plan Administration: The North Carolina National Guard Pension Fund (NGPF) is a single-employer, defined benefit pension plan established by the State of North Carolina to provide pension benefits for members of the North Carolina National Guard (NCNG). Membership is comprised of members and former members of the NCNG who have served and qualified for at least 20 years of creditable military service, have at least 15 years of aforementioned service as a member of the NCNG, and have received an honorable discharge from the NCNG. This is a special funding situation because the State is not the employer, but is legally obligated to contribute to the plan. Benefit provisions are established by General Statute 127A-40 and may be amended only by the North Carolina General Assembly.

Management of the plan is vested in the TSERS Board of Trustees, which consists of 13 members – eight appointed by the Governor, one appointed by the state Senate, one appointed by the state House of Representatives, and the State Treasurer, the State Superintendent and the Director of the Office of State Human Resources who serve as ex-officio members.

Benefits Provided: NGPF provides a pension of $105 per month for 20 years of creditable military service with an additional $10.50 per month for each additional year of such service; provided, however that the total pension shall not exceed $210 per month.

Contributions: Contribution provisions are established by General Statute 127A-40 and may be amended only by the North Carolina

General Assembly. Plan member benefits and administrative expenses are funded by investment income and an actuarially determined state appropriation.

Defined Contribution Plan

8. IRC Section 401(K) Plan

Effective January 1, 1985, Chapter 135, Article 5 of the General Statutes authorized the creation of the Supplemental Retirement Income Plan of North Carolina (the 401(k) Plan) in accordance with Internal Revenue Code (IRC) Section 401(k). Effective July 1, 2008, the Board of Trustees of the North Carolina Public Employee Deferred Compensation Plan was consolidated with the Supplemental Retirement Income Plan's Board to form the North Carolina Supplemental Retirement Board of Trustees (the Board). At that time, the Board began administering these independent plans. All members of the Teachers' and State Employees' Retirement System, Consolidated Judicial Retirement System, Legislative Retirement System, Local Governmental Employees' Retirement System and University Optional Retirement Program and retirement and pension plans sponsored by political subdivisions of the State that qualify under Section 401(a) of the IRC are eligible to enroll in the 401(k) Plan and may contribute up to 80% (limited to an Internal Revenue maximum dollar amount) of their compensation during the plan fiscal year. All contributions and costs of administering the 401(k) Plan are the responsibility of the participants. All contributions are immediately vested in the name of each participant. At December 31, 2015, there were approximately 257,600 employees enrolled with 996 participating employers. Benefit and contribution provisions are established by Chapter 135, Article 5 of the North Carolina General Statutes and may be amended only by the North Carolina General Assembly.

Benefits of the 401(k) Plan depend solely on amounts contributed to the plan plus investment earnings. Members of the 401(k) Plan may receive their benefits upon retirement, disability, termination, hardship, or death. Participants may choose from several options, including systematic withdrawals, full or partial lump-sum withdrawals, or transfer of their balance to an eligible employer-sponsored retirement plan or IRA.

The 401(k) Plan is a defined contribution pension plan with direct administration delegated to a third party contractor. Financial statements are based on the Plan's fiscal year. The audited statements for the year ended December 31, 2015, are presented in this financial report as a pension and other employee benefit trust fund. The 401(k) Plan's financial statements are prepared using the accrual basis of accounting. Notes receivable represent loans to participants and are reported at outstanding principal balances. Prudential Retirement Services (a subsidiary of Prudential) provides third party administration of the 401(k) Plan. The 401(k) Plan's financial statements are available by contacting the N.C. Department of State Treasurer, 3200 Atlantic Avenue, Raleigh, NC 27604-1668.

In addition to the voluntary contribution criteria above, General Statute 143-166.30 requires state contributions to the 401(k) Plan to provide benefits for all law enforcement officers employed by the State and its component units. General Statute 143-166.50 requires local governmental units with law enforcement officers to also contribute at least as much as the State. Participation begins at the date of employment. State agencies and component units are required to contribute monthly to the individual accounts of participants an amount equal to 5% of each officer's monthly salary. The State is also required to contribute to the individual accounts of all officers on a per capita basis in equal shares. State law enforcement officers receive $.50 for each court cost assessed and collected under General Statute 7A- 304, while $1.25 of this assessment goes to local law enforcement officers. General Statutes allow law enforcement officers to voluntarily contribute up to 10% of their compensation within any calendar year, but current IRC provisions define the actual voluntary contribution a law enforcement officer can make. All contributions are immediately vested in the name of each participant. At December 31, 2015, 52 state agencies and component units along with 455 local governmental units outside of the State reporting entity contributed the required 5%. In addition, eight state agencies and 459 local government employers contributed to the 401(k) Plan on a voluntary basis. There were approximately 13,700 LEOs actively contributing to the 401(k) Plan and approximately 24,700 LEOs receiving employer contributions as of December 31, 2015. All LEO benefit and contribution provisions are established by North Carolina General Statutes 143-166.30 and 143-166.50 and may be amended only by the North Carolina General Assembly.

The 401(k) Plan reported total member contributions of $307.820 million. The payrolls for law enforcement officers, on which the required contributions were based for the year ended December 31, 2015, amounted to $161.531 million for the State, $25.974 million for universities, and $6.283 million for community colleges, public schools and other miscellaneous component units. The required 5% employer's contribution was made by the State for $8.077 million, by universities for $1.299 million, and by the remaining component units, public schools and community colleges for $314 thousand. In addition, the State contributed $350 thousand for required court cost assessments. The amount of pension expense recognized in the current fiscal year is equal to the employer contributions.

The 401(k) Plan (Supplemental Retirement Plan) discloses a related party transaction in Note 16 of this report. Through an agreement with the Supplemental Plan, as directed by the Board, Prudential Retirement Services provides investment management services along with the third party administration referred to above. The Supplemental Retirement Plan's investment risks are described in Note 2.

C. Plan Membership

The following table summarizes membership information by plan at the actuarial valuation date of December 31, 2015:

	Cost-Sharing, Multiple-Employer				Single-Employer		
	Teachers' and State Employees'	Local Governmental	Firefighters' and Rescue Squad	Registers of Deeds'	Consolidated Judicial	Legislative	North Carolina National Guard
Inactive Plan Members or Beneficiaries Currently Receiving Benefits	201,522	63,110	13,463	96	647	300	4,484
Inactive Plan Members Entitled to but not yet Recieivng Benefits	143,214	59,289	146		45	90	5,512
Active Plan Members	312,822	124,974	42,821	100	561	170	5,756
	657,558	247,373	56,430	196	1,253	560	15,752

The following table summarizes membership information by plan at the actuarial valuation date of December 31, 2014:

	Cost-Sharing, Multiple-Employer				Single-Employer		
	Teachers' and State Employees'	Local Governmental	Firefighters' and Rescue Squad	Registers of Deeds'	Consolidated Judicial	Legislative	North Carolina National Guard
Inactive Plan Members or Beneficiaries Currently Receiving Benefits	194,607	60,408	12,730	95	610	300	4,421
Inactive Plan Members Entitled to but not yet Recieivng Benefits	134,871	55,298	153		50	93	5,317
Active Plan Members	314,956	123,184	43,134	100	566	170	5,661
	644,434	238,890	56,017	195	1,226	563	15,399

D. Investments

Investment Policy: The pension plans' policy in regard to the allocation of invested assets is established and may be amended by the State Treasurer. Plan assets are managed by the Investment Management Division of the North Carolina Department of the State Treasurer (IMD) under the direction of the State Treasurer. It is the policy of the State Treasurer to invest plan assets with a focus on protection through diversification, achievement of stable and consistent returns that meet or exceed benchmarks and actuarial assumptions over a long-term projection, with a primary objective of ensuring that all liability payments and obligations are met. The target asset allocation is developed based upon analysis of optimized portfolios, utilizing risk and return characteristics of eligible asset classes, and selecting the most efficient portfolio for a given level of risk.

The adopted asset allocation policy for the RODSPF is 100% in the Fixed Income asset class as of June 30, 2016 and 2015. For all plans other than the RODSPF, the following table displays the adopted asset allocation policy as of June 30, 2016 and 2015:

Asset Class	Target Allocation*
Fixed Income	29%
Global Equity	42%
Real Estate	8%
Alternatives	8%
Credit	7%
Inflation Protection	6%
Total	100%

* Target Allocation percentages apply to both 2015 and 2016

The preceding table reflects an asset allocation policy which became effective July 1, 2014.

Rate of Return: For the years ended June 30, 2016 and 2015, the annual money-weighted rate of return on pension plan investments, net of pension plan investment expenses were:

	Cost-Sharing, Multiple-Employer				Single-Employer		
	Teachers' and State Employees'	Local Governmental	Firefighters' and Rescue Squad	Registers of Deeds'	Consolidated Judicial	Legislative	North Carolina National Guard
2016 Money-weighted Rate of Return	0.74%	0.77%	0.75%	8.04%	0.75%	0.66%	0.77%
2015 Money-weighted Rate of Return	2.27%	2.27%	2.26%	2.26%	2.27%	2.25%	2.25%

The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

E. Net Pension Liability of Participating Employers

The components of the net pension liability of the participating employers at June 30, 2016, were as follows (dollars in thousands):

	Cost-Sharing, Multiple-Employer				Single-Employer		
	Teachers' and State Employees'	Local Governmental	Firefighters' and Rescue Squad	Registers of Deeds'	Consolidated Judicial	Legislative	North Carolina National Guard
Total Pension Liability	$ 72,459,862	$ 24,882,010	$ 443,832	$ 31,072	$ 623,842	$ 28,705	$ 169,210
Plan Fiduciary Net Position	63,268,829	22,759,675	377,013	49,768	528,440	26,472	109,829
Net Pension Liability (Asset)	$ 9,191,033	$ 2,122,335	$ 66,819	$ (18,696)	$ 95,402	$ 2,233	$ 59,381
Plan Fiduciary Net Position as a percentage of the Total Pension Liability	87.32%	91.47%	84.94%	160.17%	84.71%	92.22%	64.91%

The components of the net pension liability of the participating employers at June 30, 2015, were as follows (dollars in thousands):

	Cost-Sharing, Multiple-Employer				Single-Employer		
	Teachers' and State Employees'	Local Governmental	Firefighters' and Rescue Squad	Registers of Deeds'	Consolidated Judicial	Legislative	North Carolina National Guard
Total Pension Liability	$ 68,692,228	$ 23,496,136	$ 422,667	$ 23,820	$ 582,766	$ 23,952	$ 151,250
Plan Fiduciary Net Position	65,007,030	23,047,342	386,308	46,994	538,534	28,456	110,529
Net Pension Liability (Asset)	$ 3,685,198	$ 448,794	$ 36,359	$ (23,174)	$ 44,232	$ (4,504)	$ 40,721
Plan Fiduciary Net Position as a percentage of the Total Pension Liability	94.64%	98.09%	91.40%	197.29%	92.41%	118.80%	73.08%

Actuarial Assumptions: The total pension liability for the year ended June 30, 2016, was determined by actuarial valuations as of December 31, 2015, using the following actuarial assumptions, applied to all prior periods included in the measurement. The total pension liability was then rolled forward to June 30, 2016, utilizing update procedures incorporating the actuarial assumptions.

	Cost-Sharing, Multiple-Employer				Single-Employer		
	Teachers' and State Employees'	Local Governmental	Firefighters' and Rescue Squad	Registers of Deeds'	Consolidated Judicial	Legislative	North Carolina National Guard
Valuation Date	12/31/15	12/31/15	12/31/15	12/31/15	12/31/15	12/31/15	12/31/15
Inflation	3%	3%	3.50%	3%	3%	3%	3%
Salary Increases[1]	3.50% - 8.10%	3.50% - 7.75%	N/A	3.50% - 7.75%	3.50% - 5.50%	5.50%	N/A
Investment Rate of Return[2]	7.25%	7.25%	7.25%	3.75%	7.25%	7.25%	7.25%

Actuarial Assumptions: The total pension liability for the year ended June 30, 2015, was determined by actuarial valuations as of December 31, 2014, using the following actuarial assumptions, applied to all prior periods included in the measurement. The total pension liability was then rolled forward to June 30, 2015, utilizing update procedures incorporating the actuarial assumptions.

	Cost-Sharing, Multiple-Employer				Single-Employer		
	Teachers' and State Employees'	Local Governmental	Firefighters' and Rescue Squad	Registers of Deeds'	Consolidated Judicial	Legislative	North Carolina National Guard
Valuation Date	12/31/14	12/31/14	12/31/14	12/31/14	12/31/14	12/31/14	12/31/14
Inflation	3%	3%	3.50%	3%	3%	3%	3%
Salary Increases[1]	4.25% - 9.10%	4.25% - 8.55%	N/A	4.25% -7.75%	5.00% - 5.95%	7.50%	N/A
Investment Rate of Return[2]	7.25%	7.25%	7.25%	5.75%	7.25%	7.25%	7.25%

For the fiscal year ended June 30, 2016, retirees in the LGERS received a 0.625% cost of living adjustment if their retirement began on or before July 1, 2014. Members with retirement effective dates between August 1, 2014, and June 1, 2015, received a prorated amount. This cost of living adjustment was granted by the LGERS Board of Trustees.

[1] Salary increases include 3.5% inflation and productivity factor
[2] Investment rate of return is net of pension plan investment expense, including inflation
N/A Not applicable

The NGPF increased the monthly benefit from $99 to $105, the monthly additional benefit from $9.90 to $10.50 and the maximum benefit from $198 to $210. These benefit enhancements reflect legislation enacted by the North Carolina General Assembly effective July 1, 2015. These enhancements were reflected as liabilities in the year ended June 30, 2016, valuations above.

For the fiscal year ended June 30, 2015, retirees in the TSERS and the CJRS received a 1% cost of living adjustment for retirees whose retirement began on or before July 1, 2013. Members with retirement effective dates between August 1, 2013, and June 1, 2014, received a prorated amount. For the fiscal year ended June 30, 2015, retirees in the LRS received a 1% cost of living adjustment for retirees whose retirement began on or before January 1, 2014. Members with effective dates between February 1, 2014, and June 1, 2014, received a prorated amount. The NGPF increased the monthly benefit from $95 to $99, the monthly additional benefit from $9.50 to $9.90 and the maximum monthly benefit from $190 to $198. The FRSWPF made a change in benefit terms to allow for in-service distributions to members who are at least 55 years of age and have at least 20 years of creditable service. These benefit enhancements reflect legislation enacted by the North Carolina General Assembly effective July 1, 2014. These enhancements were reflected as liabilities in the year ended June 30, 2015, valuations described above.

The retirement plans currently use mortality tables that vary by age, gender, employee group (i.e. teacher, general, law enforcement officer) and health status (i.e. disabled and healthy). The current mortality rates are based on published tables and based on studies that cover significant portions of the U.S. population. The healthy mortality rates also contain a provision to reflect future mortality improvements.

The actuarial assumptions used in the December 31, 2015, valuations were based on the results of an actuarial experience review for the period January 1, 2010, through December 31, 2014. The actuarial assumptions used in the December 31, 2014 valuations were based on the results of an actuarial experience review for the period January 1, 2005 through December 31, 2009.

Future ad hoc COLA amounts are not considered to be substantively automatic and are therefore not included in the measurement.

The projected long-term investment returns and inflation assumptions are developed through review of current and historical capital markets data, sell-side investment research, consultant whitepapers, and historical performance of investment strategies. Fixed income return projections reflect current yields across the U.S. Treasury yield curve and market expectations of forward yields projected and interpolated for multiple tenors and over multiple year horizons. Global public equity return projections are established through analysis of the equity risk premium and the fixed income return projections. Other asset categories and strategies' return projections reflect the foregoing and historical data analysis. These projections are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2016 and 2015 (see the discussion of the pension plan's investment policy in Section D), are summarized in the following table:

Asset Class	Long-Term Expected Real Rate of Return	
	2016	2015
Fixed Income	1.4%	2.2%
Global Equity	5.3%	5.8%
Real Estate	4.3%	5.2%
Alternatives	8.9%	9.8%
Credit	6.0%	6.8%
Inflation Protection	4.0%	3.4%

The information in the preceding table is based on 30 year expectations developed with the consulting actuary and is part of the asset liability and investment policy of the North Carolina Retirement Systems. The long-term nominal rates of return underlying the real rates of return are arithmetic annualized figures. The real rates of return are calculated from nominal rates by multiplicatively subtracting a long-term inflation assumption of 3.05% and 3.19% for 2016 and 2015, respectively. Return projections do not include any excess return expectations over benchmark averages. All rates of return and inflation are annualized.

Discount Rate: The discount rate used to measure the total pension liability was 7.25% except for RODSPF which was 3.75% and 5.75% for 2016 and 2015, respectively. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current contribution rate and that contributions from employers will be made at statutorily required rates, actuarially determined. Based on those assumptions, the pension plans' fiduciary net position was projected to be available to make all projected future benefit payments of the current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the Plans' Net Pension Liability to Changes in the Discount Rate: The following presents the net pension liability of the plans at June 30, 2016, calculated using the discount rate of 7.25% (3.75% for RODSPF), as well as what the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.25%; RODSPF 2.75%) or 1-percentage-point higher (8.25%; RODSPF 4.75%) than the current rate (dollars in thousands):

	1% Decrease (6.25%)	Current Discount Rate (7.25%)	1% Increase (8.25%)
Cost Sharing, Multiple-Employer			
TSERS' Net Pension Liability	$ 17,286,557	$ 9,191,033	$ 2,383,807
LGERS' Net Pension Liability (Asset)	5,037,291	2,122,335	(312,453)
FRSWPF's Net Pension Liability	122,146	66,819	21,335
Single-Employer			
CJRS' Net Pension Liability	$ 158,863	$ 95,402	$ 41,098
LRS' Net Pension Liability	4,827	2,233	5,000
NCNGs' Net Pension Liability	80,176	59,381	42,267

	1% Decrease (2.75%)	Current Discount Rate (3.75%)	1% Increase (4.75%)
Cost Sharing, Mulitple-Employer			
RODs' Net Pension Asset	$ (15,075)	$ (18,696)	$ (21,738)

The following presents the net pension liability of the plans at June 30, 2015, calculated using the discount rate of 7.25% (5.75% for RODSPF), as well as what the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.25%; RODSPF 4.75%) or 1-percentage-point higher (8.25%; RODSPF 6.75%) than the current rate (dollars in thousands):

	1% Decrease (6.25%)	Current Discount Rate (7.25%)	1% Increase (8.25%)
Cost Sharing, Multiple-Employer			
TSERS' Net Pension Liability (Asset)	$ 11,091,429	$ 3,685,198	$ (2,599,843)
LGERS' Net Pension Liability (Asset)	3,129,503	448,794	(1,809,644)
FRSWPF's Net PensionLliability (Asset)	86,337	36,359	(5,502)
Single-Employer			
CJRS' Net Pension Liabiility (Asset)	$ 99,695	$ 44,232	$ (3,843)
LRS' Net Pension Asset	(2,756)	(4,504)	(6,040)
NCNGs' Net Pension Liability	58,365	40,721	26,090

	1% Decrease (4.75%)	Current Discount Rate (5.75%)	1% Increase (6.75%)
Cost Sharing, Mulitple-Employer			
RODs' Net Pension Asset	$ (20,908)	$ (23,174)	$ (25,124)

NOTE 12 - PENSION PLANS: EMPLOYER REPORTING

The Teachers' and State Employees' Retirement System (TSERS) Plan's financial information, including all information about the plan's administration, benefits provided, basis of accounting, methods used to value TSERS, assets, deferred outflows of resources, liabilities, deferred inflows of resources, and fiduciary net position is discussed in Note 11 of this report.

Contributions: Contribution provisions are established by General Statute 135-8 and may be amended only by the North Carolina General Assembly. Plan Members are required to contribute 6% of their annual pay. The contribution rate for employers is set each year by the NC General Assembly in the Appropriations Act based on the actuarially-determined rate recommended by the actuary. The Department's and State Health Plan's contractually-required contribution rate for the year ended June 30, 2016 was 9.15% of covered payroll. The Department's contributions to the pension plan were $1,748,143, and employee contributions were $1,308,906 for the year ended June 30, 2016. The State Health Plan's contributions to the pension plan were $236,128 and employee contributions were $176,799 for the year ended June 30, 2016.

Net Pension Liability: At June 30, 2016, the Department reported a liability of $5,084,594 and the State Health Plan reported a liability of $686,795, for their proportionate shares of the collective net pension liability. The net pension liability was measured as of June 30, 2015. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2014, and update procedures were used to roll forward the total pension liability to June 30, 2015. The Department's and State Health Plan's proportion of the net pension liability was based on the present value of future salaries for the Department (including the State Health Plan) relative to the present value of future salaries for all participating employers, actuarially-determined. As of June 30, 2015, the Department's proportion was 0.13797% and the State Health Plan's proportion was 0.01864%, which was a total increase of 0.00219% from its proportion measured as of June 30, 2014.

At June 30, 2015, the Department reported a liability of $1,550,834 and the State Health Plan reported a liability of $259,619, for their proportionate shares of the collective net pension liability. The net pension liability was measured as of June 30, 2014. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2013, and update procedures were used to roll forward the total pension liability to June 30, 2014. The Department's and State Health Plan's proportion of the net pension liability was based on the present value of future salaries for the Department (including the State Health Plan) relative to the present value of future salaries for all participating employers, actuarially-determined. As of June 30, 2014, the Department's proportion was 0.13228% and the State Health Plan's proportion was 0.02214%, which was a decrease of 0.00188% from its proportion measured as of June 30, 2013.

Actuarial Assumptions: The following table presents the actuarial assumptions used to determine the total pension liability for the TSERS plan at the actuarial valuation dates:

Valuation Date	12/31/2014	12/31/2013
Inflation	3%	3%
Salary Increase*	4.25% - 9.10%	4.25% - 9.10%
Investment Rate of Return**	7.25%	7.25%

*Salary increases include 3.5% inflation and productivity factor.
** Investment rate of return is net of pension plan investment expense, including inflation.

TSERS currently uses mortality tables that vary by age, gender, employee group (i.e. teacher, general, law enforcement officer) and health status (i.e. disabled and healthy). The current mortality rates are based on published tables and based on studies that cover significant portions of the U.S. population. The healthy mortality rates also contain a provision to reflect future mortality improvements.

The actuarial assumptions used in the December 31, 2014 and 2013, valuations were based on the results of an actuarial experience study for the period January 1, 2005 through December 31, 2009.

Future ad hoc Cost of Living Adjustment (COLA) amounts are not considered to be substantively automatic and are therefore not included in the measurement.

The projected long-term investment returns and inflation assumptions are developed through review of current and historical capital markets data, sell- side investment research, consultant whitepapers, and historical performance of investment strategies. Fixed income return projections reflect current yields across the U.S. Treasury yield curve and market expectations of forward yields projected and interpolated for multiple tenors and over multiple year horizons. Global public equity return projections are established through analysis of the equity risk premium and the fixed income return projections. Other asset categories and strategies' return projections reflect the foregoing and historical data analysis. These projections are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2015, (the valuation date) are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Fixed Income	29%	2.2%
Global Equity	42%	5.8%
Real Estate	8%	5.2%
Alternatives	8%	9.8%
Credit	7%	6.8%
Inflation Protection	6%	3.4%
	100%	

Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2014, are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Fixed Income	36.0%	2.5%
Global Equity	40.5%	6.1%
Real Estate	8.0%	5.7%
Alternatives	6.5%	10.5%
Credit	4.5%	6.8%
Inflation Protection	4.5%	3.7%
	100%	

The information above is based on 30-year expectations developed with the consulting actuary for the 2014 and 2013 asset, liability, and investment policy studies for the North Carolina Retirement Systems, respectively. The long-term nominal rates of return underlying the real rates of return are arithmetic annualized figures. The real rates of return are calculated from nominal rates by multiplicatively subtracting a long-term inflation assumption of 3.19%. All rates of return and inflation are annualized.

Discount Rate: The discount rate used to measure the total pension liability was 7.25%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current contribution rate and that contributions from employers will be made at statutorily required rates, actuarially determined. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of the current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the Net Pension Liability to Changes in the Discount Rate: The following presents the net pension liability of the plan as calculated for the Department's and the State Health Plan's proportionate shares using the discount rate of 7.25%, as well as what the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower (6.25%) or 1-percentage point higher (8.25%) than the current rate:

	Department's Proportionate Share of the Net Pension Liability (Asset)		
	1% Decrease 6.25%	Current Discount Rate 7.25%	1% Increase 8.25%
Department			
June 30, 2016	$ 15,303,223	$ 5,084,593	$ (3,587,092)
June 30, 2015	11,132,959	1,550,834	(6,539,875)
State Health Plan			
June 30, 2016	$ 2,067,064	$ 686,795	$ (484,522)
June 30, 2015	1,863,724	259,619	(1,094,815)

Deferred Inflows of Resources and Deferred Outflows of Resources Related to Pensions: For the year ended June 30, 2016, the Department's proportionate share of the collective pension expense was $501,692. The State Health Plan recognized a pension expense of $67,795. At June 30, 2016, the Department and the State Health Plan reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

Employer Balances of Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions by Classification

	Department		State Health Plan	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences Between Actual and Expected Experience	$ 0	$ 578,118	$ 0	$ 78,089
Change of Assumptions				
Net Difference between Projected and Actual Earnings on Pension Plan Investments		550,873		74,409
Changes in Proportion and Differences Between Agency's Contributions and Proportionate Share of Contributions	86,559	49,460	11,692	6,681
Contributions Subsequent to the Measurement Date	1,725,557		233,077	
Total	$ 1,812,116	$ 1,178,451	$ 244,769	$ 159,179

At June 30, 2015, the Department and the State Health Plan reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

Employer Balances of Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions by Classification

	Department		State Health Plan	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences Between Actual and Expected Experience	$ 0	$ 361,491	$ 0	$ 60,516
Change of Assumptions				
Net Difference Between Projected and Actual Earnings on Pension Plan Investments		5,239,700		877,157
Changes in Proportion and Differences Between Agency's Contributions and Proportionate Share of Contributions		65,328		10,936
Contributions Subsequent to the Measurement Date	1,621,397		271,432	
Total	$ 1,621,397	$ 5,666,519	$ 271,432	$ 948,609

Deferred outflows of resources related to pensions for the Department's proportionate share in the amount of $1,725,557 for the fiscal year ended June 30, 2016, and $1,621,397 for the fiscal year ended June 30, 2015 will be included as a reduction of the net pension liability in fiscal year ended June 30, 2017.

Deferred outflows of resources related to pensions for the State Health Plan's proportionate share in the amount of $263,126 for the fiscal year ended June 30, 2016, and $267,584 for the fiscal year ended June 30, 2015, will be included as a reduction in the State Health Plan's proportionate share of the net pension liability in fiscal year ending June 30, 2017.

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Schedule of the Net Amount of the Employer's Balances of
Deferred Outflows of Resources and Deferred Inflows of Resources
that will be included in Pension Expense:

Year Ending June 30,	Department	State Health Plan
2017	$ (655,798)	$ (88,581)
2018	(655,798)	(88,581)
2019	(631,178)	(85,256)
2020	850,882	114,932
2021		
Total	$ (1,091,892)	$ (147,486)

Schedule of the Net Amount of the Employer's Balances of
Deferred Outflows of Resources and Deferred Inflows of Resources
that will be included in Pension Expense:

Year Ending June 30,	Department	State Health Plan
2016	$ (1,422,543)	$ (238,142)
2017	(1,422,543)	(238,142)
2018	(1,422,543)	(238,142)
2019	(1,398,890)	(234,183)
2020		
Total	$ (5,666,519)	$ (948,609)

NOTE 13 - DEFERRED COMPENSATION PLANS

A. IRC Section 457 Plan

General Statute 143B-426.24 authorized the creation of the Board of Trustees of the North Carolina Public Employee Deferred Compensation Plan which was established as an agency of the State to offer the State's permanent employees, university employees, and the employees of certain other component units, a uniform Deferred Compensation Plan (the 457 Plan) in accordance with Internal Revenue Code (IRC) Section 457. At December 31, 2015 and 2014, there were approximately 55,600 and 51,900 plan members with 395 and 331 employers adopting the 457 Plan, respectively.

Effective July 1, 2008, the Board of Trustees of the North Carolina Public Employee Deferred Compensation Plan was consolidated with the Supplemental Retirement Income Plan's Board to form the North Carolina Supplemental Retirement Board of Trustees (the Board). At that time, the Board began administering these independent plans. The 457 Plan permits each participating employee to defer a portion of his or her salary until future years by having the funds invested in various instruments that make up the North Carolina Public Employee Deferred Compensation Trust Fund. This fund is held in trust by the 457 Plan for the exclusive benefit of participating employees and their beneficiaries. The deferred compensation is available to employees upon separation from service, death, disability, retirement or financial hardships if approved by the Board. The Board has delegated the general administration of the Plan to a third party but has retained all statutory authority and fiduciary responsibility for major decisions of the 457 Plan. The audited statements for the years ended December 31, 2015 and 2014, are presented in this financial report as a pension and other employee benefit trust fund (See Exhibits J-1 through J-4). All costs of administering and funding the 457 Plan are the responsibility of the plan participants. Prudential Retirement Services (a subsidiary of Prudential) provides third party administration of the 457 Plan. The 457 Plan's financial statements are available by contacting the N.C. Department of State Treasurer, 3200 Atlantic Avenue, Raleigh, NC 27604-1668.

The 457 Plan discloses a related party transaction in Note 16 of this report. Through an agreement with the Supplemental Plan, as directed by the Board, Prudential Retirement Services provides investment management services along with the third party administration referred to above. The 457 Plan's investment risks are described in Note 2.

B. IRC Section 403(B) Plans

Employees of the University of North Carolina System and community colleges can participate in tax-sheltered annuity contracts and custodial accounts created under IRC Section 403(b). Generally all employees are eligible, but the IRC does allow the establishment of a minimum contribution of $200 and the exclusion from participation of certain classes of employees. Each institution may exclude one or more of these classes if every employee within the institution meeting the class criteria is excluded from participation. The employees' eligible contributions, made through salary reduction agreements, are exempt from federal and state income taxes until the accumulated balances are received or the contributions are withdrawn. Effective January 1, 1989, contributions may be withdrawn by employees only upon separation from service, death, disability, reaching age 59 1/2 or age 55 with qualifying retirement, or due to certain financial hardships. Currently, there is no restriction on the withdrawal of the value of annuity contracts. Custodial accounts established as of December 31, 1988 can be withdrawn only in respect to hardship established as of December 31, 1988. These plans are exclusively for employees of public educational organizations and certain charitable and other non-profit institutions as defined by the IRC. Since all contributions are made voluntarily by employees, all costs are borne by the plans' participants. No direct costs are incurred by the State.

Effective July 1, 2011, the Department of State Treasurer was granted authority by General Statute 115C-341.2 to establish a State sponsored 403(b) Plan entitled the North Carolina Public School Teachers' and Professional Educators' Investment Plan. The State sponsored 403(b) Plan (NC 403(b) Plan) is available to all local school Boards of Education across the State. Each individual Board of Education has the discretion to adopt the NC 403(b) Plan. The N.C. Department of State Treasurer administers the NC 403(b) Plan and the Teachers' Insurance and Annuity Association (TIAA), serves as the record keeper. The NC 403(b) Plan is designed to provide a low-cost supplemental retirement savings option to public school employees. At June 30, 2016 and 2015, there were 50 and 41 school districts enrolled in the Plan with 1,172 and 910 public school employees participating, respectively.

NOTE 14 - OTHER POSTEMPLOYMENT BENEFITS – ADMINISTERED BY THE STATE HEALTH PLAN

The Department of State Treasurer administers two postemployment benefit plans, the Retiree Health Benefit Fund and the Disability Income Plan, as pension and other employee benefit trust funds. Although the assets of the administered plans are commingled for investment purposes, each plan's assets may be used only for payment of benefits to members of that plan and for administrative costs in accordance with the terms of the plan. The plans in this note do not issue separate financial statements. The financial statements and other required disclosures are presented in Exhibits J-1 through J-4 and in the *Required Supplementary Information* section of this financial report.

A. Summary of Significant Accounting Policies and Plan Asset Matters

BASIS OF ACCOUNTING

The financial statements of these plans are prepared using the accrual basis of accounting. Employer contributions are recognized when due and the employer has made a formal commitment to provide the contributions.

Benefits are recognized when due and payable in accordance with the terms of each plan.

INVESTMENTS AND SECURITIES LENDING

Pursuant to North Carolina General Statutes, the Department of the State Treasurer is the custodian and administrator of the other postemployment benefits funds. The State Treasurer maintains various investment portfolios in its External Investment Pool. Detailed descriptions of the methods and significant assumptions used to estimate the fair value of investments when fair value is based on other than quoted market prices are provided in Note 2. The investment balance of the Disability Income Plan and the Retiree Health Benefit Fund are invested in the State Treasurer External Investment Pool.

Additionally, the securities lending balance represents assets occurring from securities lending transactions that result from the funds' participation in the pool. The investments of the State Treasurer are discussed in Note 2.

B. Plan Descriptions and Contribution Information

1. Health Benefits

Pursuant to North Carolina General Statutes, the State makes available the North Carolina State Health Plan for Teachers and State Employees, referred to as the State Health Plan (the Plan), a cost-sharing, multiple-employer, defined benefit healthcare plan, exclusively for the benefit of employees and former employees of the State, the University of North Carolina System, community colleges, and certain other component units. In addition, LEAs, charter schools, and some select local governments that are not part of the financial reporting entity also participate. As of June 30, 2016 and 2015, the number of participating employers were as follows:

	2016	2015
State of North Carolina	1	1
LEAs	116	116
Charter Schools	86	80
Community Colleges	58	58
University of North Carolina System	19	19
Other Component Units	4	5
Local Governments	80	18
Total	364	297

The Plan is reported as a major component unit of the State. It is administered by the State Treasurer, the State Health Plan Board of Trustees, and the Executive Administrator. Health benefit programs and premium rates are determined by the State Treasurer upon approval of the Board of Trustees. Plan benefits received by retired employees and disabled employees are other postemployment benefits (OPEB). The healthcare benefits for retired and disabled employees who are not eligible for Medicare are the same as for active employees as described in Note 15. The plan options change when former employees become eligible for Medicare. Medicare retirees have the option of selecting one of four fully-insured Medicare Advantage/Prescription Drug Plan (MA-PDP) options or the self-funded Traditional 70/30 Preferred Provider Organization (PPO) plan option that is also offered to non-Medicare members. If the Traditional 70/30 Plan is selected by a Medicare retiree, the self-funded State Health Plan coverage is secondary to Medicare.

Those former employees who are eligible to receive medical benefits are long-term disability beneficiaries of the Disability Income Plan of North Carolina (DIPNC) and retirees of the Teachers' and State Employees' Retirement System (TSERS), the Consolidated Judicial Retirement System (CJRS), the Legislative Retirement System (LRS), the University Employees' Optional Retirement Program (ORP), and a small number of local governments, with five or more years of contributory membership service in their retirement system prior to disability or retirement, with the following exceptions: for employees first hired on or after October 1, 2006, and members of the General Assembly first taking office on or after February 1, 2007, future coverage as retired employees and retired members of the General Assembly is subject to the requirement that the future retiree have 20 or more years of retirement service credit in order to receive coverage on a noncontributory basis. Employees first hired on or after October 1, 2006 and members of the General Assembly first taking office on or after February 1, 2007 with 10 but less than 20 years of retirement service credit are eligible for coverage on a partially contributory basis. For such future retirees, the State will pay 50% of the State Health Plan’s total noncontributory premium.

The Plan’s benefit and contribution provisions are established by Chapter 135-7, Article 1, and Chapter 135, Article 3B of the General Statutes and may be amended only by the North Carolina General Assembly. The plan does not provide for automatic post-retirement benefit increases.

By General Statute, a Retiree Health Benefit Fund (the Fund) has been established as a fund in which accumulated contributions from employers and any earnings on those contributions shall be used to provide health benefits to retired and disabled employees and their applicable beneficiaries. By statute, the Fund is administered by the Board of Trustees of the TSERS and contributions to the Fund are irrevocable. Also by law, Fund assets are dedicated to providing benefits to retired and disabled employees and their applicable beneficiaries and are not subject to the claims of creditors of the employers making contributions to the Fund. However, Fund assets may be used for reasonable expenses to administer the Fund, including costs to conduct required actuarial valuations of state-supported retired employees’ health benefits. Contribution rates to the Fund, which are intended to finance benefits and administrative expenses on a pay-as-you-go basis, are determined by the General Assembly in the Appropriations Bill.

For the current fiscal year the Department of State Treasurer and State Health Plan contributed 5.60% of the covered payroll to the Fund. Required contribution rates for the years ended June 30, 2015, and 2014, were 5.49% and 5.40%, respectively. The Department's and the Plan's total payments to the fund are shown in the Required Contributions as an Employer table on page 122 of this report.

The State Treasurer assumes no liability for retiree health care benefits provided by the programs other than its required contribution.

Additional detailed information about these programs can be located in the State of North Carolina's *Comprehensive Annual Financial Report*. An electronic version of this report is available on the North Carolina Office of the State Controller's website at http://www.osc.nc.gov/ or by calling the State Controller's Financial Reporting Section at (919) 707-0500.

2. Disability Income

By statute, the DIPNC is administered by the Department of State Treasurer and the Board of Trustees of the TSERS. As discussed in Note 15, short-term and long-term disability benefits are provided through the DIPNC, a cost-sharing, multiple-employer defined benefit plan, to the eligible members of the TSERS which includes employees of the State, the University of North Carolina system, community colleges, certain participating proprietary component units and LEAs which are not part of the reporting entity, and the University Employees' ORP. Long-term disability benefits are payable as another postemployment benefit from the DIPNC after the conclusion of the short-term disability period or after salary continuation payments cease, whichever is later, for as long as an employee is disabled. An employee is eligible to receive long-term disability benefits provided the following requirements are met: (1) the employee has five or more years of contributing membership service in the TSERS or the University Employees' ORP, earned within 96 months prior to the end of the short-term disability period or cessation of salary continuation payments, whichever is later; (2) the employee must make application to receive long- term benefits within 180 days after the conclusion of the short-term disability period or after salary continuation payments cease or after monthly payments for Workers' Compensation cease (excluding monthly payments for permanent partial benefits), whichever is later; (3) the employee must be certified by the Medical Board to be mentally or physically disabled for the further performance of his/her usual occupation; (4) the disability must have been continuous, likely to be permanent, and incurred at the time of active employment; (5) the employee must not be eligible to receive an unreduced retirement benefit from the TSERS; and (6) the employee must terminate employment as a permanent, full-time employee. An employee is eligible to receive an unreduced retirement benefit from the TSERS after

(1) reaching the age of 65 and completing five years of membership service, or (2) reaching the age of 60 and completing 25 years of creditable service, or (3) completing 30 years of creditable service, at any age.

For employees who had five or more years of membership service as of July 31, 2007, during the first 36 months of the long-term disability period, the monthly long-term disability benefit is equal to 65% of one-twelfth of an employee's annual base rate of compensation last payable to the participant or beneficiary prior to the beginning of the short-term disability period, plus the like percentage of one-twelfth of the annual longevity payment and local supplements to which the participant or beneficiary would be eligible. The monthly benefits are subject to a maximum of $3,900 per month reduced by any primary Social Security disability benefits and by monthly payments for Workers' Compensation to which the participant or beneficiary may be entitled, but the benefits payable shall be no less than $10 a month. After the first 36 months of the long-term disability, the long-term benefit is calculated in the same manner as described above except the monthly benefit is reduced by an amount equal to a monthly primary Social Security disability benefit to which the participant or beneficiary might be entitled had Social Security disability benefits been awarded. When an employee qualifies for an unreduced service retirement allowance from the TSERS, the benefits payable from the DIPNC will cease, and the employee will commence retirement under the TSERS or the University Employees' ORP.

For employees who had less than five years of membership service as of July 31, 2007, and meet the requirements for long-term disability on or after August 1, 2007, during the first 36 months of the long-term disability period, the monthly long-term benefit shall be reduced by an amount equal to the monthly primary Social Security retirement benefit to which the employee might be entitled should the employee become age 62 during the first 36 months. This reduction becomes effective as of the first day of the month following the month of initial entitlement to Social Security benefits. After the first 36 months of the long-term disability, no further benefits are payable under the terms of this section unless the employee has been approved and is in receipt of primary Social Security disability benefits.

Although the DIPNC operates on a calendar year, disability income benefits are funded by an annual required contribution (ARC) that coincides with the state fiscal year. Contribution rates are established in the Appropriations Bill by the General Assembly. For the fiscal year ended June 30, 2016, the Department of the State Treasurer and State Health Plan made a statutory contribution of .41% of covered payroll to the DIPNC. This was equal to the ARC, as determined by the plan’s consulting actuaries. Required contribution rates for the years ended June 30, 2015 and 2014, were .41% and .44%, respectively. The Department’s and the Plan’s total payments to the DIPNC are shown in the Required Contributions as an Employer table on page 122 of this report.

The contributions cannot be separated between the amounts that relate to other postemployment benefits and employment benefits for active employees. Those individuals who are receiving extended short-term disability benefit payments cannot be separated from the number of members currently eligible to receive disability benefits as another postemployment benefit.

Benefit and contribution provisions are established by Chapter 135, Article 6, of the General Statutes and may be amended only by the North Carolina General Assembly. By statue, the DIPNC is administered by the Department of the State Treasurer and the Board of Trustees of the Teachers' and State Employees' Retirement System. The plan does not provide for automatic post-retirement benefit increases.

The following table presents a three year trend of the contractually required contributions for the Retiree Health Benefit Plan and the ARC for the Disability Income Plan for the Department and the State Health Plan. For the Retiree Health Benefit Plan, the contractually required contribution is determined by the General Assembly and does not reflect the actuary-based ARC. For the Disability Income Plan, the ARC equals the Department's and the State Health Plan's OPEB cost as an employer.

Required Contributions as an Employer
For the Years Ended June 30, 2014 through June 30, 2016

	Retiree Health Benefit	Disability Income
Department:		
2016	$ 1,198,727	$ 87,764
2015	1,000,573	74,724
2014	959,184	78,156
State Health Plan:		
2016	$ 152,535	$ 11,168
2015	113,673	8,489
2014	155,067	12,635

For 2016 and the two preceding years, the Department of State Treasurer and State Health Plan contributed 100% of the contractually required contributions for Retiree Health Benefit and Disability Income.

The following table summarizes membership information by plan at the actuarial valuation date of December 31, 2015:

	Retiree Health Benefit	Disability Income
Retirees and Beneficiaries Currently Receiving Benefits	207,884	N/A
Disabled Members Receiving Long-term Disability Benefits	N/A	6,709
Terminated Employees Entitled to Benefits but Not Yet Receiving Them	37,118	
Active Plan Members	342,965	321,718
Total	587,967	328,427
Date of Valuation	*12/31/2015*	*12/31/2015*

N/A - Not Applicable

The following table summarizes membership information by plan at the actuarial valuation date of December 31, 2014:

	Retiree Health Benefit	Disability Income
Retirees and Beneficiaries Currently Receiving Benefits	201,212	N/A
Disabled Members Receiving Long-term Disability Benefits	N/A	6,900
Terminated Employees Entitled to Benefits but Not Yet Receiving Them	34,150	
Active Plan Members	346,964	323,579
Total	582,326	330,479
Date of Valuation	*12/31/2014*	*12/31/2014*

N/A - Not Applicable

The funding status of each plan at the actuarial valuation date of December 31, 2015, and 2014 is presented below:

	Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll[3] (c)	UAAL as a Percentage of Covered Payroll ([b-a]/c)
Retiree Health[1]	12/31/2015	$ 960,978,000	$ 33,472,004,000	$ 32,511,026,000	2.9%	$ 15,691,815,000	207.2%
	12/31/2014	$ 944,955,000	$ 27,559,481,000	$ 26,614,526,000	3.4%	$ 15,642,890,000	170.1%
Disability Income[2]	12/31/2015	$ 439,956,000	$ 395,950,000	$ (44,006,000)	111.1%	$ 14,718,736,000	-0.3%
	12/31/2014	$ 450,599,000	$ 503,060,000	$ 52,461,000	89.6%	$ 14,459,667,000	-0.4%

1 The AAL has been prepared using the projected unit credit cost method.

2 The AAL has been prepared using the entry age actuarial cost method. The information presented is intended to approximate the funding progress of the plan as required by GASB Statements 43 and 45.

3 Conduent (formerly known as Buck Consulting) reported the unadjusted covered payroll for the DIPNC long-term disability benefits. Segal Consulting reported the adjusted, annualized payroll for postemployment health benefits.

Multiyear trend information on funding progress is presented at Exhibit H–1 in the *Required Supplementary Information* section of this report. This schedule indicates whether the actuarial value of plan assets are increasing or decreasing over time relative to the actuarial accrued liability for benefits.

C. Actuarial Methods and Assumptions

Actuarial valuations of the plans involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future. The latest actuarial valuation for Retiree Health is dated December 31, 2015. The latest actuarial valuation for the DIPNC is also dated December 31, 2015. The schedules of funding progress, presented as required supplementary information following the notes to the financial statements, present multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

The actuarial assumptions used for the Retiree Health Benefit are consistent with those used to value the pension benefits of the TSERS where appropriate. These assumptions are based on the most recent pension valuations available. The discount rate used for Retiree Health reflects a pay-as-you-go approach.

Projections of benefits for financial reporting purposes of the plans are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. Historically, the benefits funded solely by employer contributions applied equally to all retirees. Currently, as described earlier in the note, benefits are dependent on membership requirements.

The actuarial methods and assumptions used for the DIPNC include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

Below are listed the actuarial methods and significant assumptions for these valuations that will be used to determine future annual required contributions.

	Retiree Health Benefit	Disability
Valuation Date	12/31/15	12/31/15
Actuarial Cost Method	Projected Unit Credit	Aggregate
Amortization Method	Level percentage of pay	Level percentage of pay
Remaining Amortization Period	30 years	(1)
Period Open/Closed	Open	(1)
Asset Valuation Method	Market Value	5 year smoothed with 80%/120% corridor
Actuarial Assumptions:		
Investment Rate of Return (2)	4.25%	3.75%
Medical Cost Trend Rate (2)	6% graded to 5% by 2020	N/A
Drug Cost Trend Rate (2)	10.5% grading to 5% by 2027	N/A
Projected Salary Increases (3)	Vary by group and years of service	3.5%-8.1%

1 The aggregate cost method does not identify or separately amortize unfunded liabilities, thus information about the plan's funded status and funding progress has been prepared using the entry age actuarial cost method.

2 For the Retiree Health Benefit, the investment rate of return includes an inflation and productivity rate of 3.5%. The medical and drug cost trend rates include only inflation of 3%. For the DIPNC, the investment rate of return includes an inflation rate of 3%.

3 For the DIPNC, the projected salary increases include an inflation and productivity rate of 3.5%.

N/A Not applicable

NOTE 15 - RISK MANAGEMENT

The Department is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These exposures to loss are handled via a combination of methods, including participation in state-administered insurance programs, purchase of commercial insurance, and self-retention of certain risks. There have been no significant reductions in insurance coverage from the previous year and settled claims have not exceeded coverage in any of the past three fiscal years.

A. Employee Benefit Plans

1. State Health Plan

In accordance with Chapter 135, Article 3B, Part 1, of the General Statutes, the State established the North Carolina State Health Plan for Teachers and State Employees, referred to as the State Health Plan (the Plan). The Plan provides comprehensive healthcare benefits for employees and retirees of the State and its participating component units, as well as their qualified dependents on a contributory basis. These benefits are extended to employees and retirees of the LEAs, and other employing units allowed by statute, which are not part of the State's reporting entity.

The Plan is reported as a major component unit. Coverage for active employees, non-Medicare retirees, and some Medicare retirees is self-funded. Medicare retirees also have the option of selecting one of four fully-insured Medicare Advantage/Prescription Drug Plan (MAPDP). Contributions for employee and retiree coverage are made by the State, its participating component units, LEAs, and other qualified employing units. Some of the plans also require an employee or retiree contribution, depending on the plan selected or the employee's or retiree's willingness to participate in wellness activities that reduce or eliminate employee contributions. Contributions for dependent coverage are made by employees and retirees. As described in Note 14, coverage is also extended to certain individuals as another postemployment benefit. The Plan has contracted with third parties to process claims.

The Plan pays most expenses that are medically necessary and eligible for coverage based on allowed amounts for PPO plan members. Claims are subject to specified annual deductible and co-payment requirements. The Plan provides an unlimited lifetime benefit for the PPO plans. The authority for the PPO plans is provided in General Statute 135-48.2.

Claim liabilities are based on estimates of the ultimate cost of claims that have been incurred (both reported and unreported). Claim liabilities do not include nonincremental claims adjustment expenses. Changes in the Plan's aggregate liabilities for claims for the past two fiscal years are as follows (dollars in thousands):

	Beginning of Fiscal Year Liability	Current-Year Claims and Changes in Estimates	Claim Payments	Balance at Fiscal Year End
2014-15	$ 232,676	$ 2,715,826	$ (2,663,469)	$ 285,033
2015-16	$ 285,033	$ 2,777,913	$ (2,798,310)	$ 264,636

2. Death Benefit Plan of North Carolina

Term life insurance (death benefits) is provided through the Death Benefit Plan, a pension and other employee benefit trust fund, to all members of the TSERS who have completed at least 12 consecutive months of membership in the System. Membership includes employees of the State, the University of North Carolina System, community colleges, and certain participating proprietary component units. Employees of LEAs and miscellaneous educational units which are not part of the reporting entity are also included. The benefit payment is equal to the greater of (1) the compensation on which contributions were made by the member during the calendar year preceding the year in which his/her death occurs or (2) the member's highest 12 month's salary in a row during the 24 months prior to his/her death. The benefit is subject to a minimum of $25,000 and to a maximum of $50,000.

For the period July 1, 2015 to June 30, 2016, death benefits were funded by actuarially based employer contributions that are established in the biennial appropriation bill by the General Assembly. The State, the University of North Carolina System, community colleges, participating proprietary component units, LEAs and other miscellaneous educational units contributed 0.16% of covered payroll (as defined in Note 14) to fund the Death Benefit Plan for the period July 2015 to June 2016.

These benefits are established by General Statute 135-5(1) and may be amended only by the North Carolina General Assembly. Claims liabilities are based on estimates of the ultimate cost of claims that have been incurred (both reported and unreported). Changes in the aggregate liabilities for claims for the past two fiscal years are as follows (dollars in thousands):

	Beginning of Fiscal Year Liability	Current-Year Claims and Changes in Estimates	Claim Payments	Balance at Fiscal Year End
2014-15	$ 3,960	$ 48,719	$ (50,119)	$ 2,560
2015-16	$ 2,560	$ 50,486	$ (50,187)	$ 2,859

3. Disability Income Plan of North Carolina

Short-term and long-term disability benefits are provided through the DIPNC, a pension and other employee benefit trust fund, to the eligible members of the TSERS which includes employees of the State, the University of North Carolina System, community colleges, certain participating proprietary component units and the University Employees' ORP. Employees of LEAs and miscellaneous educational units which are not part of the reporting entity are also included. Short-term benefits are payable after a waiting period of 60 continuous calendar days from the onset of disability. The 60 day waiting period is determined from the last actual day of service, the day of the disabling event if the disabling event occurred on a day other than a normal workday, or the day following at least 365 calendar days of employment as a State teacher or State employee, whichever is later. Short-term benefits are provided to currently active employees and the related liability is not measurable. Short-term benefits during the initial short-term disability period are payable for a period of up to 365 days following the waiting period. The first six months of benefits are payable by the employer outside of the DIPNC. The remaining six months are paid by the employer outside of the DIPNC, but the employer is reimbursed by the DIPNC quarterly. The Board of Trustees may extend the short-term disability benefits of a beneficiary beyond the benefit period of 365 days for an additional period of not more than 365 days; provided the Medical Board determines that the beneficiary's disability is temporary and likely to end within the extended period of short-term disability benefits. During the extended period of short-term disability benefits, payment of benefits shall be made by the DIPNIC directly to the beneficiary. As discussed in Note 14, long-term disability benefits are payable as an other postemployment benefit from the DIPNC after the conclusion of the short-term disability period or after salary continuation payments cease, whichever is later, for as long as an employee is disabled. These benefits are established by Chapter 135, Article 6, of the General Statutes and may be amended only by the North Carolina General Assembly.

B. Other Risk Management and Insurance Activities

1. Automobile, Fire, and Other Property Losses

The Department is required to maintain fire and lightning coverage on all state-owned buildings and contents through the State Property Fire Insurance Fund (Fund), an internal service fund of the State. Such coverage is provided at no cost to the Department for operations supported by the State's General Fund. Other operations not supported by the State's General Fund are charged for the coverage. Losses covered by the Fund are subject to a $5,000 per occurrence deductible. However, some agencies have chosen a higher deductible for a reduction in premium.

All state-owned vehicles are covered by liability insurance through a private insurance company and handled by the North Carolina Department of Insurance. The liability limits for losses are $1,000,000 per claim and $10,000,000 per occurrence. The Department pays premiums to the North Carolina Department of Insurance for the coverage.

2. Public Officers' and Employees' Liability Insurance

The risk of tort claims of up to $1,000,000 per claimant is retained under the authority of the State Tort Claims Act. In addition, the State provides excess public officers' and employees' liability insurance up to $10,000,000 via contract with a private insurance company. The Department pays the premium, based on a composite rate, directly to the private insurer.

3. Employee Dishonesty and Computer Fraud

The Department is protected for losses from employee dishonesty and computer fraud. This coverage is with a private insurance company and is handled by the North Carolina Department of Insurance. The Department is charged a premium by the private insurance company. Coverage limit is $5,000,000 per occurrence. The private insurance company pays 90% of each loss less a $100,000 deductible.

4. Statewide Workers' Compensation Program

The North Carolina Workers' Compensation Program provides benefits to workers injured on the job. All employees of the State and its component units are included in the program. When an employee is injured, the Department's primary responsibility is to arrange for and provide the necessary treatment for work related injury. The Department is responsible for paying medical benefits and compensation in accordance with the North Carolina Workers' Compensation Act. The Department is self-insured for workers' compensation.

Additional details on the state-administered risk management programs are disclosed in the State's *Comprehensive Annual Financial Report*, issued by the Office of the State Controller.

NOTE 16 - RELATED PARTY TRANSACTIONS

Supplemental Retirement Income Plan of North Carolina and North Carolina Public Employee Deferred Compensation Plan

General Statute 135-96 established the Supplemental Retirement Board of Trustees (Board) to administer both the Supplemental Retirement Income Plan of North Carolina and the North Carolina Public Employee Deferred Compensation Plan. The Plan document for each Plan designates that the general administration and responsibility for carrying out the provisions of the Plan, as directed by the Board, shall be placed with the Retirement Systems Division of the Department of State Treasurer as Primary Administrator. The Board and Primary Administrator have entered into an agreement with Prudential Financial, Inc., to perform recordkeeping, administration and investment management services for both Plans.

The Plans contract Galliard Capital Management, Inc. (Galliard), a subsidiary of Wells Fargo Bank N.A., to act as a fiduciary investment advisor for the North Carolina Stable Value Fund. Galliard has the discretion over the benefit responsive contracts and the underlying investment managers. Galliard also has the authority to invest in securities subject to guidelines agreed upon by the Board. As an advisor, Galliard is primarily responsible for ensuring that negotiated investment contracts are adhered to by the insurance companies, bank or other eligible providers who have entered into such contracts. Not less than quarterly, Galliard reports the financial condition of the investment contracts and whether the contracts are being administered according to their respective terms. The fees for wrap coverage, investment management and advisory services are deducted from participants' account balances.

Prudential Retirement Insurance and Annuity Company (Prudential), which is a subsidiary of Prudential Financial, Inc., provides administrative services related to the North Carolina Stable Value Fund and the Pooled Separate Account SA-NC. Prudential is also the provider of record keeping and participant services. The fees to Prudential are deducted from the participants' account balances. Prudential Investment Management is one of the managers in the NC Fixed Income Fund and Stable Value Fund.

NOTE 17 - COMMITMENTS AND CONTINGENCIES

A. No Commitment Debt

The North Carolina Capital Facilities Finance Agency (Agency) is authorized by the State to issue tax-exempt bonds and notes to finance industrial and manufacturing facilities, pollution control facilities for industrial (in connection with manufacturing) or pollution control facilities and to finance facilities and structures at private nonprofit colleges and universities, and institutions providing kindergarten, elementary and secondary education, and various other nonprofit entities. The Agency's authority to issue bonds and notes also includes financing private sector capital improvements for activities that constitute a public purpose. The bonds issued by the Agency are not an indebtedness of the State and, accordingly, are not reflected in the accompanying financial statements. Each issue is payable solely from the revenues of the facility financed by that issue and any other credit support provided. Therefore, each issue is separately secured and is separate and independent from all other issues as to source of payment and security. The outstanding principal of such bonds and notes as of June 30, 2016 and 2015, was $2.9 billion carrying both fixed interest rates and variable interest rates which can be reset periodically.

B. Pending Litigation and Claims

Lake v. North Carolina State Health Plan for Teachers and State Employees, et al. The primary issue is whether the State wrongfully charged a monthly premium to retired State employees for the State's 80/20 coinsurance health plan. The general theme of the complaint is that the State established vesting requirements under which if the employee fulfilled the requirements, the State contracted with each employee to provide 80/20 insurance coverage at no monthly cost to the retiree for the duration of each retiree's retirement. Similarly, the plaintiffs allege that the State terminated an optional 90/10 health plan to which they had vested rights. Plaintiffs claim (1) breach of contract; (2) unconstitutional impairment of contract; (3) unconstitutional denial of equal protection; and (4) unconstitutional denial of due process. The plaintiffs also allege a variety of equitable claims (e.g., specific performance, common fund) that piggy-back on the legal claims.

On May 19, 2017, the Court issued an Order Granting Plaintiffs' Motion for Partial Summary Judgment and Denying Defendants' Motion for Summary Judgment as to Liability. The Court held that Plaintiffs, and all class members, are entitled to the version of the 80/20 PPO Plan in existence in September 2011, or its equivalent, with no premium for their lifetimes; and that the damages for retirees who remained on the 80/20 PPO Plan will be the amount of premiums they actually paid. The damages for retirees who switched to the zero-premium 70/30 PPO Plan are yet to be determined. All damages, as well as injunctive relief, will be stayed pending final resolution of the case after all appeals have concluded. On June 2, 2017, Defendants filed a Notice of Appeal with the Gaston County Superior Court.

Union County Board of Education v. Board of Trustees, Teachers' and State Employees' Retirement System, et al.; Johnston County Board of Education v. Department of State Treasurer, Retirement Systems Division, et al.; Wilkes County Board of Education v. Department of State Treasurer, Retirement Systems Division, et al.; and Cabarrus County Board of Education v. Board of Trustees, Teachers' and State Employees' Retirement System, et al. Four local boards of education, including Union, Johnston, Wilkes and Cabarrus counties, initiated litigation in 2016 challenging the additional employer contributions each was assessed following the retirement of their superintendents. The additional contributions were the result of 2015 legislation that created a Contribution-Based Benefit Cap ("CBBC"), and included $495,114.71 for Union County, $435,913.54 for Johnston County, $590,694.32 for Wilkes County and $208,405.81 for Cabarrus County, which totaled $1,730,128.38. The CBBC was put in place in 2015 to eliminate pension spiking, the practice of retirement system employers raising individuals' pensions through large late-career pay raises. The law applies to less than 0.75% of retirements and provides that, when a highly compensated employee (average final salary greater than $100,000) retires, and the employee's retirement benefit would be significantly higher than what had been funded by contributions, the individual employer is required to make up the difference. Prior to the CBBC legislation, the cost of such underfunded retirements was borne by the Retirement System as a whole. Plaintiffs contended that the TSERS Board was required to adopt a factor recommended by the Retirement System's actuary, and used in the CBBC calculation, as a "rule" pursuant to the North Carolina Administrative Procedure Act. According to Plaintiffs, the failure of the Board to follow the rulemaking process means that the school boards do not have to pay the additional contribution. On May 30, 2017, a Wake County Superior Court judge ruled in favor of Plaintiffs. Defendants have announced that they intend to appeal the ruling.

NOTE 18 - NET POSITION AND FUND BALANCE RESTATEMENTS

As of July 1, 2016 and 2015, the General Fund's fund balance as previously reported was restated as follows:

	2016	2015
Beginning Fund Balance as Previously Reported	$ 4,990,629	$ 9,238,295
Restatements:		
To Correct Prior Year Accrual for Accounts Payable	(51,645)	
Beginning Fund Balance as Restated	$ 4,938,984	$ 9,238,295

As of July 1, 2016 and 2015, the Escheat Fund's fund balance as previously reported was restated as follows:

	2016	2015
Beginning Fund Balance as Previously Reported	$ 571,209,506	$ 498,843,407
Restatements:		
To Correct Prior Period Investment Valuation Error		(33,332,747)
Beginning Fund Balance as Restated	$ 571,209,506	$ 465,510,660

As of July 1, 2016 and 2015, the State Health Plan's net position as previously reported was restated as follows:

	2016	2015
Beginning Net Position as Previously Reported	$ 740,450,222	$ 737,821,223
Restatement:		
To Record the State Health Plan's Net Pension Liability and Pension Related Deferred Outflows of Resources per GASB Statement No. 68[1]		(1,099,983)
Beginning Net Position as Restated	$ 740,450,222	$ 736,721,240

[1] This restatement is due to a change in accounting principle. See Note 19 - Change in Financial Accounting and Reporting for details on GASB Statement No. 68.

NOTE 19 - CHANGE IN FINANCIAL ACCOUNTING AND REPORTING

For the fiscal year ended June 30, 2016, the Department implemented the following pronouncements issued by the Governmental Accounting Standards Board (GASB):

GASB Statement No. 72, *Fair Value Measurement and Application.*

GASB Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68.*

GASB Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments.*

GASB Statement No. 79, *Certain External Investment Pools and Pool Participants.*

GASB Statement No. 72 provides guidance for determining a fair value measurement for financial reporting purposes. This statement also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements.

GASB Statement No. 73 establishes requirements for defined benefit pensions that are not within the scope of Statement No. 68 - *Accounting and Financial Reporting for Pensions,* as well as for the assets accumulated for purposes of providing those pensions. In addition, it establishes requirements for defined contribution pensions that are not within the scope of Statement 68. It also amends certain provisions of Statement No. 67 - *Financial Reporting for Pension Plans,* and Statement 68 for pension plans and pensions that are within their respective scopes.

GASB Statement No. 76 reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and nonauthoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP.

GASB Statement No. 79 establishes criteria for an external investment pool to qualify for making the election to measure all of its investments at amortized cost for financial reporting purposes.

For the fiscal year ended June 30, 2015, the Department implemented the following pronouncements issued by the Governmental Accounting Standards Board (GASB):

GASB Statement No. 68, *Accounting and Financial Reporting for Pensions-an Amendment of GASB Statement No. 27.*

GASB Statement No. 69, *Government Combinations and Disposals of Government Operations.*

GASB Statement No.71, *Pension Transition for Contributions Made Subsequent to the Measurement Date-an Amendment of GASB Statement No. 68*.

GASB Statement No. 68 replaces the requirements of GASB Statement No. 27, *Accounting for Pension by State and Local Governmental Employers* and GASB Statement No. 50, *Pension Disclosures*, as they relate to governments that provide pensions through pension plans administered as trusts or similar arrangements that meet certain criteria. GASB Statement No. 68 requires governments that participate in defined benefit pension plans to report in their statement of net position a net pension liability (or asset) and to more comprehensively and comparably measure the annual costs of pension benefits. The net pension liability is the difference between the total pension liability (the present value of projected benefit payments to employees based on their past service) and the pension plan’s fiduciary net position (mostly investments reported at fair value). The statement requires that most changes in the net pension liability be included in pension expense in the period of change. Changes in the net pension liability not included in pension expense are required to be reported as deferred outflows of resources or deferred inflows of resources and included in pension expense over the current and future periods. GASB Statement No. 68 requires single-employers and cost-sharing employers to record a liability, expense, as well as deferred outflows of resources and differed inflows of resources. Cost-sharing employers are required to record amounts equal to their proportionate share of the collective net pension liability, collective pension expense, and collective deferred outflows of resources and deferred inflows of resources related to pensions for the cost-sharing plan. In specific circumstances called special funding situations, the Statement requires governments that are nonemployer contributing entities to recognize in their own financial statements their proportionate share of the other governmental employers' net pension liability, pension expense, as well as deferred outflows of resources and deferred inflows of resources related to pensions. The existing standards for governments that provide defined contribution pensions are largely carried forward in GASB Statement No. 68. These governments recognize pension expense equal to the amount of contributions or credits to employees' accounts, net of forfeited amounts. The Statement also enhances accountability and transparency through revised and new note disclosures and required supplementary information (RSI).

GASB Statement No. 69, did not result in any significant changes to the financial statements.

GASB Statement No. 71, did not result in any significant changes to the financial statements.

Required Supplementary Information

North Carolina Department of State Treasurer
Required Supplementary Information
Schedule of Revenues, Expenditures, and Changes in Fund Balance
Budget and Actual (Budgetary Basis-Non-GAAP) - General Fund
For the Fiscal Year Ended June 30, 2016 — *Exhibit D-1*

	Budget Amounts Original	Budget Amounts Final	Actual (Cash Basis)	Favorable (Unfavorable)
REVENUES				
Fees	$ 0	$ 0	$ 6,919,640	$ 6,919,640
Services	5,429,530	7,392,053	4,795,347	(2,596,706)
Contributions		1,977,774	1,977,775	1
Investment Earnings	20,072,320	20,097,427	25,573	(20,071,854)
Interest Earnings on Loans		518,387	518,386	(1)
Rental and Lease of Property		125	125	
Revenues from Other State Agencies and Funds	22,599,971	23,796,864	23,467,495	(329,369)
Loan Collection of Principal		6,777,534	6,777,533	(1)
Reimbursement of Core Banking Upgrade Expenditures		763,301	1,588,840	825,539
Reimbursement of Expenditures from Investment Pool	3,041,910	9,776,968	7,707,942	(2,069,026)
Miscellaneous Income	150,000	3,567	4,389	822
Total Revenues	51,293,731	71,104,000	53,783,045	(17,320,955)
EXPENDITURES				
State Aid	14,927,025	20,966,299	20,966,299	
Contracted Personal Services	4,154,983	8,240,741	5,298,007	2,942,734
Personal Services	23,999,031	24,075,921	21,935,902	2,140,019
Employee Benefits	8,219,004	8,417,174	7,118,700	1,298,474
Supplies and Materials	252,253	299,106	237,911	61,195
Travel	254,075	284,699	200,841	83,858
Communication	461,192	606,134	500,896	105,238
Utilities	2,000	230,200	214,398	15,802
Data Processing Services	216,702	236,464	224,206	12,258
Other Services	925,201	1,019,173	920,637	98,536
Claims and Benefits	185,000	1,030,000	675,000	355,000
Debt Service				
Principal Retirement	1,180,186,083	617,687,846	509,545,000	108,142,846
Interest and Fees	195,307,172	340,874,371	266,146,998	74,727,373
Debt Issuance Costs	587,361	2,918,041	923,665	1,994,376
Other Fixed Charges	1,493,743	2,616,153	2,498,630	117,523
Capital Outlay	1,812,782	3,198,978	1,890,422	1,308,556
Insurance	15,338	12,343	12,060	283
Other Expenditures	1,130,978	3,133,215	3,085,531	47,684
Expenditures to Other State Agencies	5,836,628	5,836,628	6,838,869	(1,002,241)
Total Expenditures	1,439,966,551	1,041,683,486	849,233,972	192,449,514
Excess Revenues Under Expenditures	(1,388,672,820)	(970,579,486)	(795,450,927)	175,128,559
OTHER FINANCING SOURCES (USES)				
State Appropriations	745,481,897	745,481,897	733,194,441	(12,287,456)
Sale of Capital Assets	500		1,586	1,586
Agency Reserves	(204,864)	(5,893,576)		5,893,576
Refunding on Bonds Issued	560,481,356	859,501,356	329,360,000	(530,141,356)
Premiums on Bonds Issued	68,866,981	121,036,071	88,065,635	(32,970,436)
Pay to Refunded Debt Escrow Agent	(241,682,683)	(1,008,020,146)	(416,509,303)	591,510,843
Transfers In	233,175,615	237,668,624	72,750,959	(164,917,665)
Transfers Out	(23,055,105)	(17,489,370)	(11,104,851)	6,384,519
Transfers to the State Reserve Fund		(371,139)	(371,139)	
Total Other Financing Sources (Uses)	1,343,063,697	931,913,717	795,387,328	(136,526,389)
Net Change in Fund Balance	(45,609,123)	(38,665,769)	(63,599)	38,602,170
Fund Balance July 1, 2015	4,119,609	4,119,609	4,119,609	
Fund Balance June 30, 2016	$ (41,489,514)	$ (34,546,160)	$ 4,056,010	$ 38,602,170

The accompanying notes to the required supplementary information are an integral part of this schedule.

SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE-BUDGET AND ACTUAL (BUDGETARY BASIS-NON-GAAP) – GENERAL FUND

A. BUDGETARY PROCESS

The State's annual budget is prepared principally on the cash basis. The 1985 General Assembly enacted certain special provisions which state that the budget as certified in the appropriations act is the legal budget for all agencies. These special provisions also state that agencies may spend more than was certified in various line items provided the over-expenditure meets certain criteria and is authorized by the Director of the Budget. The process of approving these over-expenditures results in the authorized budget amounts.

B. SPECIAL REVENUE FUND BUDGETARY PROCESS

The major special revenue fund, which is the Escheats Fund, does not have an annual appropriated budget.

C. RECONCILIATION OF BUDGET/GAAP REPORTING DIFFERENCES

The Schedule of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual (Budgetary Basis – Non-GAAP) – General Fund presents comparisons of legally adopted budget with actual data on a budgetary basis. Accounting principles applied to develop data on a budgetary basis differ significantly from those principles used to present financial statements in conformity with generally accepted accounting principles (GAAP). The following describes the major differences between budgetary financial data and GAAP financial data.

Basis differences: Budgetary fund balance is accounted for on the cash basis of accounting while GAAP fund balance is accounted for on the modified accrual basis of accounting. Accrued revenues and expenditures are recognized in the GAAP financial statements.

Timing differences: A significant variance between budgetary practices and GAAP is the authorized carry forward of appropriated funds.

The following table presents a reconciliation of resulting basis and timing differences in the fund balance (budgetary basis) at June 30, 2016, to the fund balance on a modified accrual basis (GAAP).

	General Fund
Fund Balance (budgetary basis) June 30, 2016	$ 4,056,010
Reconciling Adjustments:	
Basis Differences:	
Accrued Revenues:	
Intergovernmental Receivable	151,455
Interest Receivable	2,485
Contributions Receivable	76,172
Due from Other Funds	28,582
Due from Component Unit	8,494
Total Accrued Revenues	267,188
Accrued Expenditures:	
Accounts Payable	(570,332)
Due to Other Funds	(65,850)
Total Accrued Expenditures	(636,182)
Other Adjustments:	
Inventories	113,646
Cash	1,383,928
Fund Balance (GAAP basis) June 30, 2016	$ 5,184,590

North Carolina Department of State Treasurer
Required Supplementary Information
Schedule of the Changes in the Net Pension Liability and Related Ratios
Cost-Sharing, Multiple-Employer, Defined Benefit Pension Plan — *Exhibit E-1*
Last Three Fiscal Years —

(Dollars in Thousands)

	2016	2015	2014
TEACHERS' AND STATE EMPLOYEES'			
Total Pension Liability			
Service Cost	$ 1,580,544	$ 1,562,846	$ 1,556,027
Interest	4,937,464	4,803,766	4,648,995
Changes of Benefit Terms	35,605		355,224
Differences Between Expected and Actual Experience	(190,178)	(278,170)	(345,392)
Changes of Assumptions	1,743,836		
Benefit Payments, Including Refunds of Member Contributions	(4,339,637)	(4,184,410)	(3,989,397)
Net Change in Total Pension Liability	3,767,634	1,904,032	2,225,457
Total Pension Liability - Beginning	68,692,228	66,788,196	64,562,739
Total Pension Liability - Ending (a)	$ 72,459,862	$ 68,692,228	$ 66,788,196
Plan Fiduciary Net Position			
Contributions-Employer	$ 1,275,003	$ 1,262,988	$ 1,177,341
Contributions-Member	864,151	854,306	825,548
Net Investment Income	472,174	1,468,624	9,121,005
Benefit Payments, Including Refunds of Member Contributions	(4,339,637)	(4,184,410)	(3,989,397)
Administrative Expense	(10,217)	(10,646)	(10,762)
Other	325	393	320
Net Change in Plan Fiduciary Net Position	(1,738,201)	(608,745)	7,124,055
Plan Fiduciary Net Position - Beginning	65,007,030	65,615,775	58,491,720
Plan Fiduciary Net Position - Ending (b)	$ 63,268,829	$ 65,007,030	$ 65,615,775
TSERS's Net Pension Liability - Ending (a) - (b)	$ 9,191,033	$ 3,685,198	$ 1,172,421
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	87.32%	94.64%	98.24%
Covered-Employee Payroll	$ 13,934,459	$ 13,803,148	$ 13,548,227
Net Pension Liability as a Percentage of Covered-Employee Payroll	65.96%	26.70%	8.65%

(Dollars in Thousands)

	2016	2015	2014
LOCAL GOVERNMENTAL EMPLOYEES'			
Total Pension Liability			
Service Cost	$ 684,288	$ 670,936	$ 654,735
Interest	1,707,699	1,628,373	1,555,958
Changes of Benefit Terms	12,581	65,914	(7,790)
Differences Between Expected and Actual Experience	50,205	(72,177)	(80,590)
Changes of Assumptions	183,019		
Benefit Payments, Including Refunds of Member Contributions	(1,251,918)	(1,172,578)	(1,106,799)
Net Change in Total Pension Liability	1,385,874	1,120,468	1,015,514
Total Pension Liability - Beginning	23,496,136	22,375,668	21,360,154
Total Pension Liability - Ending (a)	$ 24,882,010	$ 23,496,136	$ 22,375,668
Plan Fiduciary Net Position			
Contributions-Employer	$ 414,168	$ 408,694	$ 413,175
Contributions-Member	375,572	363,863	346,961
Net Investment Income	175,189	520,578	3,161,964
Benefit Payments, Including Refunds of Member Contributions	(1,251,918)	(1,172,578)	(1,106,799)
Administrative Expense	(3,926)	(4,086)	(3,974)
Other	3,248	3,285	3,297
Net Change in Plan Fiduciary Net Position	(287,667)	119,756	2,814,624
Plan Fiduciary Net Position - Beginning	23,047,342	22,927,586	20,112,962
Plan Fiduciary Net Position - Ending (b)	$ 22,759,675	$ 23,047,342	$ 22,927,586
LGERS's Net Pension Liability (Asset) - Ending (a) - (b)	$ 2,122,335	$ 448,794	$ (551,918)
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	91.47%	98.09%	102.47%
Covered-Employee Payroll	$ 5,860,574	$ 5,650,694	$ 5,553,383
Net Pension Liability (Asset) as a Percentage of Covered-Employee Payroll	36.21%	7.94%	(9.94%)

(Dollars in Thousands)

	2016	2015	2014
FIREFIGHTERS' AND RESCUE SQUAD WORKERS'			
Total Pension Liability			
Service Cost	$ 5,610	$ 5,884	$ 5,710
Interest	30,035	29,671	29,394
Changes of Benefit Terms	118		8,770
Differences Between Expected and Actual Experience	(2,177)	(2,799)	2,714
Changes of Assumptions	15,577		(16,688)
Benefit Payments, Including Refunds of Member Contributions	(27,998)	(26,912)	(25,614)
Net Change in Total Pension Liability	21,165	5,844	4,286
Total Pension Liability - Beginning	422,667	416,823	412,537
Total Pension Liability - Ending (a)	$ 443,832	$ 422,667	$ 416,823
Plan Fiduciary Net Position			
Contributions-Member	$ 2,778	$ 2,822	$ 2,781
Contributions-Nonemployer	13,900	13,900	14,627
Net Investment Income	2,867	8,711	53,842
Benefit Payments, Including Refunds of Member Contributions	(27,998)	(26,912)	(25,614)
Administrative Expense	(860)	(1,622)	(1,045)
Other	18	4	2
Net Change in Plan Fiduciary Net Position	(9,295)	(3,097)	44,593
Plan Fiduciary Net Position - Beginning	386,308	389,405	344,812
Plan Fiduciary Net Position - Ending (b)	$ 377,013	$ 386,308	$ 389,405
FRSWPF's Net Pension Liability - Ending (a) - (b)	$ 66,819	$ 36,359	$ 27,418
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	84.94%	91.40%	93.42%
Covered-Employee Payroll	N/A	N/A	N/A
Net Pension Liability as a Percentage of Covered-Employee Payroll	N/A	N/A	N/A

(Dollars in Thousands)

	2016	2015	2014
REGISTERS OF DEEDS'			
Total Pension Liability			
Service Cost	$ 579	$ 578	$ 563
Interest	1,354	1,372	1,342
Changes in Benefit Terms			
Differences Between Expected and Actual Experience	(45)	(558)	302
Changes of Assumptions	7,082		
Benefit Payments, Including Refunds of Member Contributions	(1,718)	(1,715)	(1,666)
Net Change in Total Pension Liability	7,252	(323)	541
Total Pension Liability - Beginning	23,820	24,143	23,602
Total Pension Liability - Ending (a)	$ 31,072	$ 23,820	$ 24,143
Plan Fiduciary Net Position			
Contributions-Employer	$ 817	$ 802	$ 817
Net Investment Income	3,722	1,114	2,714
Benefit Payments, Including Refunds of Member Contributions	(1,718)	(1,715)	(1,666)
Administrative Expense	(47)	(16)	(18)
Net Change in Plan Fiduciary Net Position	2,774	185	1,847
Plan Fiduciary Net Position - Beginning	46,994	46,809	44,962
Plan Fiduciary Net Position - Ending (b)	$ 49,768	$ 46,994	$ 46,809
RODSPF's Net Pension Asset - Ending (a) - (b)	$ (18,696)	$ (23,174)	$ (22,666)
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	160.17%	197.29%	193.88%
Covered-Employee Payroll	N/A	N/A	N/A
Net Pension Asset as a Percentage of Covered-Employee Payroll	N/A	N/A	N/A

North Carolina Department of State Treasurer
Required Supplementary Information
Schedule of the Changes in the Net Pension Liability and Related Ratios
Single-Employer, Defined Benefit Pension Plan — Exhibit E-2
Last Three Fiscal Years — Page 1 of 3

(Dollars in Thousands)

CONSOLIDATED JUDICIAL	2016	2015	2014
Total Pension Liability			
Service Cost	$ 16,904	$ 16,812	$ 16,637
Interest	42,009	40,846	39,405
Changes in Benefit Terms	332		3,031
Differences Between Expected and Actual Experience	(4,295)	(2,289)	(2,484)
Changes of Assumptions	26,588		
Benefit Payments, Including Refunds of Member Contributions	(40,462)	(38,364)	(35,428)
Net Change in Total Pension Liability	41,076	17,005	21,161
Total Pension Liability - Beginning	582,766	565,761	544,600
Total Pension Liability - Ending (a)	$ 623,842	$ 582,766	$ 565,761
Plan Fiduciary Net Position			
Contributions-Employer	$ 18,908	$ 18,949	$ 21,390
Contributions-Member	7,561	6,238	5,598
Net Investment Income	3,972	12,176	74,294
Benefit Payments, Including Refunds of Member Contributions	(40,462)	(38,364)	(35,428)
Administrative Expense	(73)	(30)	(48)
Other		1	3
Net Change in Plan Fiduciary Net Position	(10,094)	(1,030)	65,809
Plan Fiduciary Net Position - Beginning	538,534	539,564	473,755
Plan Fiduciary Net Position - Ending (b)	$ 528,440	$ 538,534	$ 539,564
CJRS's Net Pension Liability - Ending (a) - (b)	$ 95,402	$ 44,232	$ 26,197
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	84.71%	92.41%	95.37%
Covered-Employee Payroll	$ 69,489	$ 69,638	$ 76,367
Net Pension Liability as a Percentage of Covered-Employee Payroll	137.29%	63.52%	34.30%

(Dollars in Thousands)

LEGISLATIVE

	2016	2015	2014
Total Pension Liability			
Service Cost	$ 822	$ 844	$ 747
Interest	1,708	1,742	1,678
Changes of Benefit Terms	22		146
Differences Between Expected and Actual Experience	(520)	(579)	762
Changes of Assumptions	5,151		
Benefit Payments, Including Refunds of Member Contributions	(2,430)	(2,473)	(2,614)
Net Change in Total Pension Liability	4,753	(466)	719
Total Pension Liability - Beginning	23,952	24,418	23,699
Total Pension Liability - Ending (a)	$ 28,705	$ 23,952	$ 24,418
Plan Fiduciary Net Position			
Contributions-Employer	$ 65	$	$
Contributions-Member	253	253	253
Net Investment Income	181	642	4,293
Benefit Payments, Including Refunds of Member Contributions	(2,430)	(2,473)	(2,614)
Administrative Expense	(53)	(17)	(37)
Net Change in Plan Fiduciary Net Position	(1,984)	(1,595)	1,895
Plan Fiduciary Net Position - Beginning	28,456	30,051	28,156
Plan Fiduciary Net Position - Ending (b)	$ 26,472	$ 28,456	$ 30,051
LRS's Net Pension Liability (Asset) - Ending (a) - (b)	$ 2,233	$ (4,504)	$ (5,633)
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	92.22%	118.80%	123.07%
Covered-Employee payroll	$ 3,616	$ 3,611	$ 3,608
Net Pension Liability (Asset) as a Percentage of Covered-Employee Payroll	61.75%	(124.73%)	(156.13%)

North Carolina Department of State Treasurer
Required Supplementary Information
Schedule of the Changes in the Net Pension Liability and Related Ratios
Single-Employer, Defined Benefit Pension Plan

Last Three Fiscal Years

(Dollars in Thousands)

	2016	2015	2014
NORTH CAROLINA NATIONAL GUARD			
Total Pension Liability			
Service Cost	$ 593	$ 550	$ 512
Interest	10,700	9,916	9,330
Changes of Benefit Terms		8,734	5,752
Differences Between Expected and Actual Experience	30	(198)	192
Changes of Assumptions	15,149		
Benefit Payments, Including Refunds of Member Contributions	(8,512)	(7,958)	(7,502)
Net Change in Total Pension Liability	17,960	11,044	8,284
Total Pension Liability - Beginning	151,250	140,206	131,922
Total Pension Liability - Ending (a)	$ 169,210	$ 151,250	$ 140,206
Plan Fiduciary Net Position			
Contributions-Member			
Contributions-Nonemployer	7,066	6,039	7,007
Net Investment Income	842	2,493	14,942
Benefit Payments, Including Refunds of Member Contributions	(8,512)	(7,958)	(7,502)
Administrative Expense	(97)	(75)	(73)
Other	1		1
Net Change in Plan Fiduciary Net Position	(700)	499	14,375
Plan Fiduciary Net Position - Beginning	110,529	110,030	95,655
Plan Fiduciary Net Position - Ending (b)	$ 109,829	$ 110,529	$ 110,030
NGPF's Net Pension Liability - Ending (a) - (b)	$ 59,381	$ 40,721	$ 30,176
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	64.91%	73.08%	78.48%
Covered-Employee Payroll	N/A	N/A	N/A
Net Pension Liability as a Percentage of Covered-Employee Payroll	N/A	N/A	N/A

North Carolina Department of State Treasurer
Required Supplementary Information
Schedule of Employer and Nonemployer Contributions
Cost-Sharing, Multiple-Employer, Defined Benefit Pension Plans
Last Ten Fiscal Years

(Dollars in Thousands)

	2016	2015	2014	2013
TEACHERS' AND STATE EMPLOYEES'				
Actuarially Determined Contribution	$ 1,210,904	$ 1,262,988	$ 1,177,341	$ 1,078,783
Contractually Required Contribution	1,275,003	1,262,988	1,177,341	1,120,482
Contributions in Relation to the Actuarially Determine Contribution	1,275,003	1,262,988	1,177,341	1,120,482
Contribution Deficiency (Excess)	$ (64,099)	$ 0	$ 0	$ (41,699)
Covered-Employee Payroll	$ 13,934,459	$ 13,803,148	$ 13,548,227	$ 13,451,164
Contributions as a Percentage of Covered-Employee Payroll	9.15%	9.15%	8.69%	8.33%
LOCAL GOVERNMENTAL EMPLOYEES'				
Actuarially Determined Contribution	$ 393,920	$ 402,429	$ 397,462	$ 370,152
Contractually Required Contribution	414,168	408,694	413,175	383,889
Contributions in Relation to the Actuarially Determined Contribution	414,168	408,694	413,175	383,889
Contribution Deficiency (Excess)	$ (20,248)	$ (6,265)	$ (15,713)	$ (13,737)
Covered-Employee Payroll	$ 5,860,574	$ 5,650,694	$ 5,553,383	$ 5,421,364
Contributions as a Percentage of Covered-Employee Payroll	7.07%	7.23%	7.44%	7.08%
FIREFIGHTERS' AND RESCUE SQUAD WORKERS' *				
Actuarially Determined Contribution	$ 13,241	$ 13,900	$ 14,620	$ 14,074
Contractually Required Contribution	13,900	13,900	14,627	15,447
Contributions in Relation to the Actuarially Determined Contribution	13,900	13,900	14,627	15,447
Contribution Deficiency (Excess)	$ (659)	$ 0	$ (7)	$ (1,373)
Covered-Employee Payroll	N/A	N/A	N/A	N/A
Contributions as a Percentage of Covered-Employee Payroll	N/A	N/A	N/A	N/A
REGISTERS OF DEEDS'				
Actuarially Determined Contribution	$ 0	$ 0	$ 0	$ 0
Contractually Required Contribution	817	802	817	937
Contributions in Relation to the Actuarially Defined Contribution	817	802	817	937
Contribution Deficiency (Excess)	$ (817)	$ (802)	$ (817)	$ (937)
Covered-Employee Payroll	N/A	N/A	N/A	N/A
Contributions as a Percentage of Covered-Employee Payroll	N/A	N/A	N/A	N/A

* Nonemployer contributing entity

Note: Changes in benefit terms, methods and assumptions are presented in Notes to the Required Supplementary Information (RSI) schedules following the pension RSI tables.

2012	2011	2010	2009	2008	2007
$ 1,015,762	$ 926,429	$ 492,779	$ 492,689	$ 429,064	$ 341,476
1,015,762	680,670	492,779	492,689	468,669	371,476
1,015,762	680,670	492,779	492,689	468,669	371,476
$ 0	$ 245,759	$ 0	$ 0	$ (39,605)	$ (30,000)
$ 13,652,715	$ 13,806,691	$ 13,803,324	$ 14,663,363	$ 13,976,026	$ 14,592,991
7.44%	4.93%	3.57%	3.36%	3.35%	2.55%
$ 376,340	$ 342,910	$ 230,121	$ 257,982	$ 241,533	$ 225,950
389,399	361,998	273,337	271,363	256,612	241,094
389,399	361,998	273,337	271,363	256,612	241,094
$ (13,059)	$ (19,088)	$ (43,216)	$ (13,381)	$ (15,079)	$ (15,144)
$ 5,402,147	$ 5,329,651	$ 5,320,927	$ 5,284,862	$ 4,948,042	$ 4,693,423
7.21%	6.79%	5.14%	5.13%	5.19%	5.14%
$ 14,389	$ 12,243	$ 10,074	$ 9,757	$ 8,734	$ 8,440
14,398	10,110	10,080	9,762	8,734	8,440
14,398	10,110	10,080	9,762	8,734	8,440
$ (9)	$ 2,133	$ (6)	$ (5)	$ 0	$ 0
N/A	N/A	N/A	N/A	N/A	N/A
N/A	N/A	N/A	N/A	N/A	N/A
$ 0	$ 0	$ 0	$ 0	$ 0	$ 0
843	772	736	754	926	3,150
843	772	736	754	926	3,150
$ (843)	$ (772)	$ (736)	$ (754)	$ (926)	$ (3,150)
N/A	N/A	N/A	N/A	N/A	N/A
N/A	N/A	N/A	N/A	N/A	N/A

North Carolina Department of State Treasurer
Required Supplementary Information
Schedule of Employer and Nonemployer Contributions
Single-Employer, Defined Benefit Pension Plans
Last Ten Fiscal Years

(Dollars in Thousands)

	2016	2015	2014	2013
CONSOLIDATED JUDICIAL				
Actuarially Determined Contribution	$ 18,324	$ 18,949	$ 21,390	$ 18,992
Contractually Required Contribution	18,908	18,949	21,390	18,992
Contributions in Relation to the Actuarially Determined Contribution	18,908	18,949	21,390	18,992
Contribution Deficiency (Excess)	$ (584)	$ 0	$ 0	$ 0
Covered-Employee Payroll	$ 69,489	$ 69,638	$ 76,367	$ 71,533
Contributions as a Percentage of Covered-Employee Payroll	27.21%	27.21%	28.01%	26.55%
LEGISLATIVE				
Actuarially Determined Contribution	$ 65	$ 0	$ 0	$ 0
Contractually Required Contribution	65			
Contributions in Relation to the Actuarially Determined Contribution	65			
Contribution Deficiency (Excess)	$ 0	$ 0	$ 0	$ 0
Covered-Employee Payroll	$ 3,616	$ 3,611	$ 3,608	$ 3,600
Contributions as a Percentage of Covered-Employee Payroll	1.80%	0.00%	0.00%	0.00%
NORTH CAROLINA NATIONAL GUARD*				
Actuarially Determined Contribution	$ 7,066	$ 6,039	$ 5,349	$ 5,667
Contractually Required Contribution	7,066	6,039	7,007	7,007
Contributions in Relation to the Actuarially Determined Contribution	7,066	6,039	7,007	7,007
Contribution Deficiency (Excess)	$ 0	$ 0	$ (1,658)	$ (1,340)
Covered-Employee Payroll	N/A	N/A	N/A	N/A
Contributions as a Percentage of Covered-Employee Payroll	N/A	N/A	N/A	N/A

* Nonemployer contributing entity

Note: Changes in benefit terms, methods and assumptions are presented in Notes to the Required Supplementary Information (RSI) schedules following the pension RSI tables.

Exhibit F-1
Page 2 of 2

2012	2011	2010	2009	2008	2007
$ 18,956	$ 13,322	$ 10,740	$ 10,017	$ 8,214	$ 7,300
18,956	10,457	10,740	10,603	40,844	8,090
18,956	10,457	10,740	10,603	10,844	8,090
$ 0	$ 2,865	$ 0	$ (586)	$ (2,630)	$ (790)
$ 75,673	$ 69,206	$ 71,079	$ 80,265	$ 64,678	$ 64,257
25.05%	15.11%	15.11%	13.21%	16.77%	12.59%
$ 0	$ 0	$ 0	$ 0	$ 0	$ 0
				209	
				209	
$ 0	$ 0	$ 0	$ 0	$ (209)	$ 0
$ 3,314	$ 4,209	$ 3,657	$ 3,686	$ 3,614	$ 3,714
0.00%	0.00%	0.00%	0.00%	5.78%	0.00%
$ 6,075	$ 5,719	$ 5,682	$ 6,248	$ 6,232	$ 7,324
7,007	7,007	7,008	5,892	7,007	7,007
7,007	7,007	7,008	5,892	7,007	7,007
$ (932)	$ (1,288)	$ (1,326)	$ 356	$ (775)	$ 317
N/A	N/A	N/A	N/A	N/A	N/A
N/A	N/A	N/A	N/A	N/A	N/A

North Carolina Department of State Treasurer
Required Supplementary Information
Schedule of Investment Returns
All Defined Benefit Pension Plans
Last Three Fiscal Years — *Exhibit F-2*

Annual Money-Weighted Rate of Return, Net of Investment Expense	2016	2015	2014
Cost Sharing, Multiple-Employer			
Teachers' and State Employees'	0.74%	2.27%	15.88%
Local Governmental Employees'	0.77%	2.27%	15.86%
Firefighters' and Rescue Squad Workers'	0.75%	2.26%	15.62%
Registers of Deeds'	8.04%	2.26%	6.04%
Single-Employer			
Consolidated Judicial	0.75%	2.27%	15.87%
Legislative	0.66%	2.25%	15.91%
North Carolina National Guard	0.77%	2.25%	15.63%

Changes of Benefit Terms:

	Cost of Living Increase									
	2015	**2014**	**2013**	**2012**	**2011**	**2010**	**2009**	**2008**	**2007**	**2006**
Cost Sharing, Multiple-Employer										
Teachers' and State Employees' *	N/A	N/A	1.00%	N/A	N/A	N/A	2.20%	2.20%	3.00%	2.00%
Local Governmental Employees'	0.63%	N/A	N/A	N/A	N/A	0.10%	2.15%	2.20%	2.80%	2.50%
Firefighters' and Rescue Squad Workers' (1)	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Register of Deeds'	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Single-Employer										
Consolidated Judicial	N/A	N/A	1.00%	N/A	N/A	N/A	2.20%	2.20%	3.00%	2.00%
Legislative	N/A	N/A	1.00%	N/A	N/A	N/A	2.20%	2.20%	3.00%	2.00%
North Carolina National Guard (2)	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A

* Per the 2015 State of North Carolina *Comprehensive Annual Financial Report*, the 1.00% cost of living adjustment applies to retirees whose retirement began on or before July 1, 2013.

(1) In 2006, the Firefighters' and Rescue Squad Workers' Pension Fund increased retirement benefits from $161 to $163. In 2007, retirement benefits were increased from $163 to $165. In 2008, retirement benefits increased from $165 to $167. In 2009, retirement benefit its were increased from $167 to $170.

(2) In 2007, the National Guard Pension Fund increased basic benefits from $75 to $80 and total potential benefits from $150 to $160. In 2008, basic benefits were increased from $80 to $95 and total potential benefits were increased from $160 to $190. In 2015, basic benefits were increased from $95 to $99 and total potential benefits were increased from $190 to $198. In 2016, basic benefits were increased from $99 to $105 and total benefits were increased from $198 to 210.

N/A - Not Applicable

Method and Assumptions in Calculations of Actuarially Determined Contributions

An actuarial valuation is performed for each plan each year. The actuarially determined contribution rates in the Schedule of Employer Contributions are calculated by the actuary as a projection of the required employer contribution for the fiscal year beginning 18 months following the date of the valuation results. See Note 11 for more information on the specific assumptions for each plan. The actuarially determined contributions for those items with covered payroll were determined using the actuarially determined contribution rate from the actuary and covered payroll as adjusted for timing differences and other factors such as differences in employee class. Other actuarially determined contributions are disclosed in the schedule as expressed by the actuary in reports to the plans.

Changes of Assumptions

In 2008, 2012, and 2015, the actuarial assumptions were updated to more closely reflect actual experience. These assumptions pertain to the Teachers' and State Employees' Retirement System, the Local Governmental Employees' Retirement System, Firefighters' and Rescue Squad Workers' Pension Fund, the Registers of Deeds' Pension Fund, the Consolidated Judicial Retirement System and the North Carolina National Guard Pension Fund.

In 2015, the North Carolina Retirement Systems' consulting actuaries performed the quinquennial investigation of each retirement system's actual demographic and economic experience (known as the "Experience Review"). The Experience Review provides the basis for selecting the actuarial assumptions and methods used to determine plan liabilities and funding requirements. The most recent experience review examined each plan's experience during the period between January 1, 2010, and December 31, 2014. Based on the findings, the Boards of Trustees of the Teachers' and State Employees' Retirement System and Local Governmental Employees' Retirement System adopted a number of new actuarial assumptions and methods. The most notable changes to the assumptions include updates to the mortality tables and the mortality improvement projection scales to reflect reduced rates of mortality and significant increases in mortality improvements. These assumptions were adjusted to reflect the mortality projection scale MP-2015, released by the Society of Actuaries in 2015. In addition, the assumed rates of retirement, salary increases, and rates of termination from active employment were reduced to more closely reflect actual experience. As a result of current market conditions and the allocation of assets in Register of Deeds' Supplemental Pension Fund, the discount rate used in calculating the plan's liabilities was lowered from 5.75% to 3.75%.

The Boards of Trustees also adopted new actuarial cost methods for the Local Governmental Employees' Retirement System, the Consolidated Judicial Retirement System, the Legislative Retirement System, and the Registers of Deeds' Supplemental Pension Fund. These plans now use the Entry Age Normal cost method to determine plan liabilities and funding requirements.

North Carolina Department of State Treasurer
Required Supplementary Information
Schedule of the Proportionate Net Pension Liability
Teachers' and State Employees' Retirement System
*Last Three Fiscal Years** *Exhibit G-1*

(Dollars in Thousands)

	2015	2014	2013
State Health Plan			
Proportionate Share Percentage of Collective Net Pension Liability	0.01864%	0.02214%	0.01814%
Proportionate Share of TSERS Collective Net Pension Liability	$ 687	$ 259	$ 1,272
Covered-Employee Payroll	$ 2,461	$ 2,973	$ 2,820
Net Pension Liability as a Percentage of Covered-Employee Payroll	27.92%	8.71%	45.11%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	94.64%	98.24%	90.60%

* The amounts presented for each fiscal year were determined as of the prior fiscal year ended June 30. Information is not available for the preceding years, to the extent 10 years of information is not presented.

North Carolina Department of State Treasurer
Required Supplementary Information
Schedule of Component Unit Contributions
Teachers' and State Employees' Retirement System
Last Three Fiscal Years* ***Exhibit G-2***

(Dollars in Thousands)

	2016	2015	2014
State Health Plan			
Contractually Required Contribution	$ 249	$ 225	$ 258
Contributions in Relation to the Contractually Determined Contribution	249	236	261
Contribution Deficiency (Excess)	$ 0	$ (11)	$ (3)
Covered-Employee Payroll	2,724	2,461	2,973
Contributions as a Percentage of Covered-Employee Payroll	9.14%	9.59%	8.78%

* The amounts presented for each fiscal year were determined as of the prior fiscal year ended June 30.
Information is not available for the preceding years, to the extent 10 years of information is not presented.

North Carolina Department of State Treasurer
Notes to Required Supplementary Information
Schedule of Component Unit Contributions
Teachers' and State Employees' Retirement System
Last Ten Fiscal Years

Changes of Benefit Terms:

Cost of Living Increase									
2015*	**2014**	**2013**	**2012**	**2011**	**2010**	**2009**	**2008**	**2007**	**2006**
1.00%	N/A	1.00%	N/A	N/A	N/A	2.20%	2.20%	3.00%	2.00%

Changes of assumptions. In 2008, and again in 2012, the rates of withdrawal, mortality, service retirement and salary increase for active members and the rates of mortality for beneficiaries were adjusted to more closely reflect actual experience. Assumptions for leave conversions and loads were also revised in 2012.

*Per the 2015 State of North Carolina *Comprehensive Annual Financial Report*, the 1.00% cost of living adjustment applies to retirees whose retirement began on or before July 1, 2013.

N/A - Not Applicable

North Carolina Department of State Treasurer
Required Supplementary Information
Schedule of Funding Progress
Other Postemployment Benefits
June 30, 2016 — Exhibit H-1

(Dollars in Thousands)

	Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b) [1]	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c) [2]	UAAL as a Percentage of Covered Payroll ([b-a]/c)
Retiree Health Benefit	12-31-15	$ 960,978	$ 33,472,004	$ 32,511,026	2.9%	$ 15,691,815	207.2%
	12-31-14	944,955	27,559,481	26,614,526	3.4%	15,642,890	170.1%
	12-31-13	890,756	26,420,168	25,529,412	3.4%	15,080,627	169.3%
Disability Income	12-31-15	$ 439,956	$ 395,950	$ (44,006)	111.1%	$ 14,718,736	(0.3%)
	12-31-14	450,599	503,060	52,461	89.6%	14,459,667	0.4%
	12-31-13	442,422	522,940	80,518	84.6%	14,294,017	0.6%

[1] The Retiree Health Benefit AAL has been prepared using the projected unit credit cost method. The Disability Income AAL has been prepared using the entry age actuarial cost method. The information presented is intended to approximate the funding progress of the plan as required by GASB Statements 43 and 45.

[2] Conduent (formerly known as Buck Consulting) reported the unadjusted covered payroll for the DIPNC long-term disability benefits. Segal Consulting reported the adjusted, annualized payroll for the postemployment health benefits.

North Carolina Department of State Treasurer
Required Supplementary Information
Schedule of Employer Contributions
Other Postemployment Benefits
For the Fiscal Years Ended June 30, 2014-2016 ***Exhibit H-2***

(Dollars in Thousands)

	State Fiscal Year	Annual Required Contribution	Percentage Contributed
Retiree Health Benefit	2016	$ 2,510,817	35%
	2015	2,223,032	36%
	2014	2,223,900	36%
Disability Income	2016	$ 63,984	100%
	2015	63,219	100%
	2014	65,730	100%

SUPPLEMENTARY INFORMATION

North Carolina Department of State Treasurer
Combining Balance Sheet
Other Governmental Funds
June 30, 2016 ***Exhibit I-1***

		Capital Project Funds		
	Other Special Revenue Fund	NC Infrastructure Finance	Public Improvement Bonds	Total
ASSETS				
Cash and Cash Equivalents	$ 490,842	$ 0	$ 0	$ 490,842
Investments		1,307,349	2,513,968	3,821,317
Securities Lending Collateral	15,635			15,635
Interest Receivable	69	379	2,284	2,732
Notes Receivable	49,095			49,095
Total Assets	555,641	1,307,728	2,516,252	4,379,621
DEFERRED OUTFLOWS OF RESOURCES				
Total Deferred Outflows of Resources	0	0	0	0
Total Assets and Deferred Outflows of Resources	$ 555,641	$ 1,307,728	$ 2,516,252	$ 4,379,621
LIABILITIES				
Obligations under Securities Lending	$ 15,635	$ 0	$ 0	$ 15,635
Total Liabilities	15,635	0	0	15,635
DEFERRED INFLOWS OF RESOURCES				
Total Deferred Inflows of Resources	0	0	0	0
FUND BALANCE				
Restricted		1,307,728	2,516,252	3,823,980
Committed	540,006			540,006
Total Fund Balances	540,006	1,307,728	2,516,252	4,363,986
Total Liabilities, Deferred Inflows of Resources, and Fund Balances (See Exhibit A-1)	$ 555,641	$ 1,307,728	$ 2,516,252	$ 4,379,621

The accompanying notes to the financial statements are an integral part of this statement.

Note: Other Special Revenue Fund is made up of five nonmajor governmental funds. These nonmajor governmental funds account for activities related to Combined Motor Vehicle Registration, Fire Safety Loans, Assurance of Land Titles, Legislative Retirement, and Educational Facilities Finance.

North Carolina Department of State Treasurer
Combining Balance Sheet
Other Governmental Funds
June 30, 2015 ***Exhibit I-2***

		Capital Project Funds			
	Other Special Revenue Fund	**NC Infrastructure Finance**	**Unallocated Bond Proceeds Fund**	**Public Improvement Bonds**	**Total**
ASSETS					
Cash and Cash Equivalents	$ 476,816	$ 0	$ 0	$ 0	$ 476,816
Investments		1,817,792	294,110	2,506,931	4,618,833
Securities Lending Collateral	19,243				19,243
Interest Receivable	125		15	617	757
Notes Receivable	60,787				60,787
Total Assets	556,971	1,817,792	294,125	2,507,548	5,176,436
DEFERRED OUTFLOWS OF RESOURCES					
Total Deferred Outflows of Resources	0	0	0	0	0
Total Assets and Deferred Outflows of Resources	$ 556,971	$ 1,817,792	$ 294,125	$ 2,507,548	$ 5,176,436
LIABILITIES					
Accounts Payable	$ 33	$ 0	$ 0	$ 0	$ 33
Obligations under Securities Lending	19,243				19,243
Total Liabilities	19,276	0	0	0	19,276
DEFERRED INFLOWS OF RESOURCES					
Total Deferred Inflows of Resources	0	0	0	0	0
FUND BALANCE					
Restricted		1,817,792	294,125	2,507,548	4,619,465
Committed	537,695				537,695
Total Fund Balances	537,695	1,817,792	294,125	2,507,548	5,157,160
Total Liabilities, Deferred Inflows of Resources, and Fund Balances (See Exhibit A-2)	$ 556,971	$ 1,817,792	$ 294,125	$ 2,507,548	$ 5,176,436

The accompanying notes to the financial statements are an integral part of this statement.

Note: Other Special Revenue Fund is made up of five nonmajor governmental funds. These nonmajor governmental funds account for activities related to Combined Motor Vehicle Registration, Fire Safety Loans, Assurance of Land Titles, Legislative Retirement, and Educational Facilities Finance.

North Carolina Department of State Treasurer
Combining Statement of Revenues, Expenditures, and Changes in Fund Balance
Other Governmental Funds
For the Fiscal Year Ended June 30, 2016 *Exhibit I-3*

		Capital Project Funds			
	Other Special Revenue Fund	NC Infrastructure Finance	Unallocated Bond Proceeds Fund	Public Improvement Bonds	Total
REVENUES					
Fees	$ 250	$ 0	$ 0	$ 0	$ 250
Contributions	7,737				7,737
Investment Earnings	1,893	2,122	344	16,524	20,883
Total Revenues	9,880	2,122	344	16,524	28,870
EXPENDITURES					
Contracted Personal Services	144		218	7,817	8,179
Claims and Benefits	7,425				7,425
Debt Service Interest and Fees		680			680
Expenditures to Other State Agencies		511,506			511,506
Total Expenditures	7,569	512,186	218	7,817	527,790
Excess Revenues Over (Under) Expenditures	2,311	(510,064)	126	8,707	(498,920)
OTHER FINANCING (USES)					
Transfers Out			(294,251)	(3)	(294,254)
Total Other Financing Uses	0	0	(294,251)	(3)	(294,254)
Net Change in Fund Balances	2,311	(510,064)	(294,125)	8,704	(793,174)
Fund Balance - July 1	537,695	1,817,792	294,125	2,507,548	5,157,160
Fund Balance - June 30 (See Exhibit A-3)	$ 540,006	$ 1,307,728	$ 0	$ 2,516,252	$ 4,363,986

The accompanying notes to the financial statements are an integral part of this statement.

Note: Other Special Revenue Fund is made up of five nonmajor governmental funds. These nonmajor governmental funds account for activities related to Combined Motor Vehicle Registration, Fire Safety Loans, Assurance of Land Titles, Legislative Retirement, and Educational Facilities Finance.

North Carolina Department of State Treasurer
Combining Statement of Revenues, Expenditures, and Changes in Fund Balance
Other Governmental Funds
For the Fiscal Year Ended June 30, 2015 — *Exhibit I-4*

(Unaudited)

		Capital Project Funds			
	Other Special Revenue Fund	**NC Infrastructure Finance**	**Unallocated Bond Proceeds Fund**	**Public Improvement Bonds**	**Total**
REVENUES					
Fees	$ 273	$ 0	$ 0	$ 0	$ 273
Contributions	9,802				9,802
Investment Earnings	1,719	1,268	189	10,200	13,376
Total Revenues	11,794	1,268	189	10,200	23,451
EXPENDITURES					
Contracted Personal Services	6		238	12,817	13,061
Claims and Benefits	9,600				9,600
Debt Service Interest and Fees		908			908
Other Expenditures		184,159			184,159
Expenditures to Other State Agencies	216,676	427,959			644,635
Total Expenditures	226,282	613,026	238	12,817	852,363
Excess Revenues Over (Under) Expenditures	(214,488)	(611,758)	(49)	(2,617)	(828,912)
OTHER FINANCING (USES)					
Transfers Out				(3,719,328)	(3,719,328)
Total Other Financing Uses	0	0	0	(3,719,328)	(3,719,328)
Net Change in Fund Balances	(214,488)	(611,758)	(49)	(3,721,945)	(4,548,240)
Fund Balance - July 1	752,183	2,429,550	294,174	6,229,493	9,705,400
Fund Balance - June 30 (See Exhibit A-4)	$ 537,695	$ 1,817,792	$ 294,125	$ 2,507,548	$ 5,157,160

The accompanying notes to the financial statements are an integral part of this statement.

Note: Other Special Revenue Fund is made up of five nonmajor governmental funds. These nonmajor governmental funds account for activities related to Combined Motor Vehicle Registration, Fire Safety Loans, Assurance of Land Titles, Legislative Retirement, and Educational Facilities Finance.

North Carolina Department of State Treasurer
Combining Statement of Fiduciary Net Position
Pension and Other Employee Benefit Trust Funds
June 30, 2016

	Teachers' and State Employees' Retirement System	Consolidated Judicial Retirement System	Legislative Retirement System	Firefighters' and Rescue Squad Workers Pension Fund	North Carolina National Guard Pension Fund	Local Governmental Employees' Retirement System
ASSETS						
Cash and Cash Equivalents	$ 123,277,662	$ 1,764,758	$ 135,113	$ 332,266	$ 1,568,304	$ 67,952,592
Investments:						
Collective Investment Funds						
Unallocated Insurance Contracts						
Synthetic Guaranteed Investment Contracts						
State Treasurer Investment Pool	63,024,076,913	524,822,889	26,316,055	376,646,382	108,249,107	22,649,677,932
Non-State Treasurer Pooled Investments						
Securities Lending Collateral	1,917,420,171	16,001,068	804,733	11,436,725	3,311,281	690,700,518
Receivables:						
Accounts Receivable	3,547,457	3,047	422	33,812	10,950	3,208,304
Interest Receivable	222,441	1,916	178	985	532	75,469
Contributions Receivable	69,166,875		26,551			39,260,309
Due from Other Funds	43,273,050	1,920,301				
Due from Component Units	12,871,600					
Notes Receivable						
Total Assets	65,193,856,169	544,513,979	27,283,052	388,450,170	113,140,174	23,450,875,124
LIABILITIES						
Accounts Payable and Accrued Liabilities:						
Accounts Payable						
Benefits Payable	567,159	18,112	285	51	228	478,201
Obligations under Securities Lending	1,917,420,171	16,001,068	804,733	11,436,725	3,311,281	690,700,518
Funds Held for Others	7,040,155	54,756	6,228			21,071
Total Liabilities	1,925,027,485	16,073,936	811,246	11,436,776	3,311,509	691,199,790
NET POSITION						
Restricted for:						
Pension Benefits	63,268,828,684	528,440,043	26,471,806	377,013,394	109,828,665	22,759,675,334
Postemployment Benefits						
Other Employment Benefits						
Total Net Position (See Exhibit B-1)	$ 63,268,828,684	$ 528,440,043	$ 26,471,806	$ 377,013,394	$ 109,828,665	$ 22,759,675,334

The accompanying notes to the financial statements are an integral part of this statement.

401(K) Supplemental Retirement Income Plan	457 Deferred Compensation Plan	Death Benefit Plan of N.C.	Retiree Health Benefit Fund	Disability Income Plan of N.C.	Register of Deeds' Supplemental Pension Fund	Total
$ 0	$ 0	$ 4,783,381	$ 162,151,648	$ 4,155,105	$ 89,902	$ 366,210,731
199,428,470	31,757,094					231,185,564
644,273,232	136,600,433					780,873,665
1,106,024,370	227,641,857					1,333,666,227
		425,927,364	860,293,405	418,399,685	49,596,345	88,464,006,077
5,947,913,936	758,518,319					6,706,432,255
		33,076,877	35,053,931	32,463,486	3,825,246	2,744,094,036
251,360	43,384			23,028,675		30,127,411
		2,617	94,829	4,124	98	403,189
4,788,013	437,367	967,114	28,374,885	2,065,609	81,186	145,167,909
		457,311	16,339,581	1,172,583		63,162,826
		135,903	6,881,884	503,852		20,393,239
292,561,303	19,116,738					311,678,041
8,195,240,684	1,174,115,192	465,350,567	1,109,190,163	481,793,119	53,592,777	101,197,401,170
1,133,916	227,880	102,300				1,464,096
		2,858,718		328,833		4,251,587
		33,076,877	35,053,931	32,463,486	3,825,246	2,744,094,036
				180,880		7,303,090
1,133,916	227,880	36,037,895	35,053,931	32,973,199	3,825,246	2,757,112,809
8,194,106,768					49,767,531	95,314,132,225
			1,074,136,232	448,819,920		1,522,956,152
	1,173,887,312	429,312,672				1,603,199,984
$ 8,194,106,768	$ 1,173,887,312	$ 429,312,672	$ 1,074,136,232	$ 448,819,920	$ 49,767,531	$ 98,440,288,361

North Carolina Department of State Treasurer
Combining Statement of Fiduciary Net Position
Pension and Other Employee Benefit Trust Funds
June 30, 2015

	Teachers' and State Employees' Retirement System	Consolidated Judicial Retirement System	Legislative Retirement System	Firefighters' and Rescue Squad Workers Pension Fund	North Carolina National Guard Pension Fund	Local Governmental Employees' Retirement System
ASSETS						
Cash and Cash Equivalents	$ 152,472,785	$ 1,055,796	$ 267,078	$ 1,978,385	$ 1,028,226	$ 75,211,209
Investments:						
Collective Investment Funds						
Unallocated Insurance Contracts						
Synthetic Guaranteed Investment Contracts						
State Treasurer Investment Pool	64,739,462,001	535,618,359	28,171,149	384,295,106	109,490,211	22,925,299,227
Non-State Treasurer Pooled Investments						
Securities Lending Collateral	2,919,070,203	24,131,708	1,283,745	17,394,688	4,988,772	1,035,281,214
Receivables:						
Accounts Receivable	3,702,022	981	2,782	33,472	10,435	3,193,862
Interest Receivable	176,744	1,430	182	1,396	593	59,144
Contributions Receivable	66,492,558		21,083			44,094,163
Due from Other Funds	40,926,300	1,914,710				
Due from Component Units	11,405,261					
Notes Receivable						
Total Assets	67,933,707,874	562,722,984	29,746,019	403,703,047	115,518,237	24,083,138,819
LIABILITIES						
Accounts Payable and Accrued Liabilities:						
Accounts Payable						
Benefits Payable	894,087	884		51	268	495,899
Obligations under Securities Lending	2,919,070,203	24,131,708	1,283,745	17,394,688	4,988,772	1,035,281,214
Funds Held for Others	6,713,761	56,576	6,513			19,405
Total Liabilities	2,926,678,051	24,189,168	1,290,258	17,394,739	4,989,040	1,035,796,518
NET POSITION						
Restricted for:						
Pension Benefits	65,007,029,823	538,533,816	28,455,761	386,308,308	110,529,197	23,047,342,301
Postemployment Benefits						
Other Employment Benefits						
Total Net Position (See Exhibit B-2)	$ 65,007,029,823	$ 538,533,816	$ 28,455,761	$ 386,308,308	$ 110,529,197	$ 23,047,342,301

The accompanying notes to the financial statements are an integral part of this statement.

	401(K) Supplemental Retirement Income Plan	457 Deferred Compensation Plan	Death Benefit Plan of N.C.	Retiree Health Benefit Fund	Disability Income Plan of N.C.	Register of Deeds' Supplemental Pension Fund	Total
	$ 0	$ 0	$ 4,484,803	$ 144,513,583	$ 3,572,117	$ 135,194	$ 384,719,176
	194,345,489	34,062,010					228,407,499
	628,870,636	133,348,107					762,218,743
	1,082,102,337	226,668,481					1,308,770,818
			394,158,466	853,416,180	398,979,653	46,790,303	90,415,680,655
	5,932,824,747	753,311,212					6,686,135,959
			38,393,711	48,262,990	38,789,971	4,529,589	4,132,126,591
	265,521	43,127			23,540,268		30,792,470
			4,950	63,193	3,434	90	311,156
	5,478,094	413,329	722,696	30,050,180	2,239,236	67,954	149,579,293
			432,513	15,167,239	1,109,081		59,549,843
			120,531	6,802,057	507,986		18,835,835
	285,874,818	18,412,598					304,287,416
	8,129,761,642	1,166,258,864	438,317,670	1,098,275,422	468,741,746	51,523,130	104,481,415,454
	1,130,093	351,866	99,533				1,581,492
			2,559,963		302,572		4,253,724
			38,393,711	48,262,990	38,789,971	4,529,589	4,132,126,591
					180,645		6,976,900
	1,130,093	351,866	41,053,207	48,262,990	39,273,188	4,529,589	4,144,938,707
	8,128,631,549					46,993,541	97,293,824,296
				1,050,012,432	429,468,558		1,479,480,990
		1,165,906,998	397,264,463				1,563,171,461
	$ 8,128,631,549	$ 1,165,906,998	$ 397,264,463	$ 1,050,012,432	$ 429,468,558	$ 46,993,541	$ 100,336,476,747

North Carolina Department of State Treasurer
Combining Statement of Changes in Fiduciary Net Position
Pension and Other Employee Benefit Trust Funds
For the Fiscal Year Ended June 30, 2016

	Teachers' and State Employees' Retirement System	Consolidated Judicial Retirement System	Legislative Retirement System	Firefighters' and Rescue Squad Workers Pension Fund	North Carolina National Guard Pension Fund	Local Governmental Employees' Retirement System
ADDITIONS						
Contributions:						
Employer	$ 1,275,002,849	$ 18,907,591	$ 65,083	$ 0	$ 0	$ 414,167,929
Members	864,151,425	7,560,561	253,099	2,778,522		375,572,414
Other Contributions				13,900,000	7,066,299	
Total Contributions	2,139,154,274	26,468,152	318,182	16,678,522	7,066,299	789,740,343
Investment Income:						
Investment Earnings	891,399,496	7,456,066	358,305	5,365,440	1,557,307	325,203,807
Less Investment Expenses	(419,225,351)	(3,483,659)	(177,705)	(2,498,746)	(715,879)	(150,014,848)
Net Investment Income	472,174,145	3,972,407	180,600	2,866,694	841,428	175,188,959
Other Additions:						
Fees						3,150,427
Interest Earnings on Loans						
Miscellaneous	324,674			18,067	944	97,215
Total Other Additions	324,674	0	0	18,067	944	3,247,642
Total Additions	2,611,653,093	30,440,559	498,782	19,563,283	7,908,671	968,176,944
DEDUCTIONS						
Claims and Benefits	4,224,275,170	40,439,564	2,368,034	27,053,165	8,512,244	1,193,039,978
Medical Insurance Premiums						
Refund of Contributions	115,362,201	22,109	61,579	944,699		58,877,777
Administrative Expenses	10,216,813	72,659	53,124	860,333	96,959	3,926,136
Other Deductions	48					20
Total Deductions	4,349,854,232	40,534,332	2,482,737	28,858,197	8,609,203	1,255,843,911
Change in Net Position	(1,738,201,139)	(10,093,773)	(1,983,955)	(9,294,914)	(700,532)	(287,666,967)
Net Position - July 1	65,007,029,823	538,533,816	28,455,761	386,308,308	110,529,197	23,047,342,301
Net Position - June 30 (See Exhibit B-3)	$ 63,268,828,684	$ 528,440,043	$ 26,471,806	$ 377,013,394	$ 109,828,665	$ 22,759,675,334

The accompanying notes to the financial statements are an integral part of this statement.

Exhibit J-3

401(K) Supplemental Retirement Income Plan	457 Deferred Compensation Plan	Death Benefit Plan of N.C.	Retiree Health Benefit Fund	Disability Income Plan of N.C.	Register of Deeds' Supplemental Pension Fund	Total
$ 181,356,350	$ 1,277,842	$ 26,952,314	$ 880,846,710	$ 63,963,055	$ 816,947	$ 2,863,356,670
307,820,463	76,417,889					1,634,554,373
		24,627,302				45,593,601
489,176,813	77,695,731	51,579,616	880,846,710	63,963,055	816,947	4,543,504,644
3,095,020	2,910,039	31,927,679	13,565,569	31,598,503	3,737,100	1,318,174,331
		(127,667)	(5,685,877)	(127,237)	(14,924)	(582,071,893)
3,095,020	2,910,039	31,800,012	7,879,692	31,471,266	3,722,176	736,102,438
						3,150,427
12,103,546	801,011					12,904,557
1,848,243	260,202					2,549,345
13,951,789	1,061,213	0	0	0	0	18,604,329
506,223,622	81,666,983	83,379,628	888,726,402	95,434,321	4,539,123	5,298,211,411
438,245,503	73,282,649	50,485,942		75,065,233	1,717,650	6,134,485,132
		262,054	855,686,223			855,948,277
						175,268,365
2,502,900	404,020	583,423	518,981	1,017,726	47,483	20,300,557
			8,397,398			8,397,466
440,748,403	73,686,669	51,331,419	864,602,602	76,082,959	1,765,133	7,194,399,797
65,475,219	7,980,314	32,048,209	24,123,800	19,351,362	2,773,990	(1,896,188,386)
8,128,631,549	1,165,906,998	397,264,463	1,050,012,432	429,468,558	46,993,541	100,336,476,747
$ 8,194,106,768	$ 1,173,887,312	$ 429,312,672	$ 1,074,136,232	$ 448,819,920	$ 49,767,531	$ 98,440,288,361

North Carolina Department of State Treasurer
Combining Statement of Changes in Fiduciary Net Position
Pension and Other Employee Benefit Trust Funds
For the Fiscal Year Ended June 30, 2015

(Unaudited)

	Teachers' and State Employees' Retirement System	Consolidated Judicial Retirement System	Legislative Retirement System	Firefighters' and Rescue Squad Workers Pension Fund	North Carolina National Guard Pension Fund	Local Governmental Employees' Retirement System
ADDITIONS						
Contributions:						
Employer	$ 1,262,988,481	$ 18,949,136	$ 0	$ 0	$ 0	$ 408,693,980
Members	854,306,130	6,238,377	252,796	2,821,942		363,863,043
Other Contributions				13,900,000	6,039,274	
Total Contributions	2,117,294,611	25,187,513	252,796	16,721,942	6,039,274	772,557,023
Investment Income:						
Investment Earnings	1,868,453,800	15,481,328	817,488	11,083,344	3,167,042	661,726,198
Less Investment Expenses	(399,830,113)	(3,304,967)	(176,110)	(2,372,068)	(674,268)	(141,148,522)
Net Investment Income	1,468,623,687	12,176,361	641,378	8,711,276	2,492,774	520,577,676
Other additions:						
Fees						3,218,180
Interest Earnings on Loans						
Miscellaneous	393,888	10		4,531	220	68,058
Total Other Additions	393,888	10	0	4,531	220	3,286,238
Total Additions	3,586,312,186	37,363,884	894,174	25,437,749	8,532,268	1,296,420,937
DEDUCTIONS						
Claims and Benefits	4,075,030,384	38,203,622	2,383,973	26,462,351	7,957,556	1,117,822,086
Medical Insurance Premiums						
Refund of Contributions	109,380,061	160,086	88,712	450,198		54,756,018
Administrative Expenses	10,646,374	29,890	16,966	1,621,807	75,106	4,086,256
Other Deductions	695	10		24		48
Total Deductions	4,195,057,514	38,393,608	2,489,651	28,534,380	8,032,662	1,176,664,408
Change in Net Position	(608,745,328)	(1,029,724)	(1,595,477)	(3,096,631)	499,606	119,756,529
Net Position - July 1	65,615,775,151	539,563,540	30,051,238	389,404,939	110,029,591	22,927,585,772
Net Position - June 30 (See Exhibit B-4)	$ 65,007,029,823	$ 538,533,816	$ 28,455,761	$ 386,308,308	$ 110,529,197	$ 23,047,342,301

The accompanying notes to the financial statements are an integral part of this statement.

Exhibit J-4

(Unaudited)

401(K) Supplemental Retirement Income Plan	457 Deferred Compensation Plan	Death Benefit Plan of N.C.	Retiree Health Benefit Fund	Disability Income Plan of N.C.	Register of Deeds' Supplemental Pension Fund	Total
$ 172,661,569	$ 1,029,175	$ 22,379,928	$ 854,383,332	$ 63,266,634	$ 801,569	$ 2,805,153,804
295,811,740	70,651,340					1,593,945,368
		23,797,964				43,737,238
468,473,309	71,680,515	46,177,892	854,383,332	63,266,634	801,569	4,442,836,410
454,061,949	61,551,578	10,035,471	25,014,849	9,719,178	1,125,024	3,122,237,249
		(94,507)	(5,255,627)	(93,332)	(10,802)	(552,960,316)
454,061,949	61,551,578	9,940,964	19,759,222	9,625,846	1,114,222	2,569,276,933
						3,218,180
11,580,133	728,564					12,308,697
1,734,676	238,853					2,440,236
13,314,809	967,417	0	0	0	0	17,967,113
935,850,067	134,199,510	56,118,856	874,142,554	72,892,480	1,915,791	7,030,080,456
399,782,663	61,580,120	48,718,720		78,976,764	1,715,052	5,858,633,291
		196,174	825,337,466			825,533,640
						164,835,075
2,063,318	273,261	16,885,218	344,082	871,964	15,741	36,929,983
			8,530,771			8,531,548
401,845,981	61,853,381	65,800,112	834,212,319	79,848,728	1,730,793	6,894,463,537
534,004,086	72,346,129	(9,681,256)	39,930,235	(6,956,248)	184,998	135,616,919
7,594,627,463	1,093,560,869	406,945,719	1,010,082,197	436,424,806	46,808,543	100,200,859,828
$ 8,128,631,549	$ 1,165,906,998	$ 397,264,463	$ 1,050,012,432	$ 429,468,558	$ 46,993,541	$ 100,336,476,747

North Carolina Department of State Treasurer
Combining Statement of Fiduciary Net Position
Investment Trust Funds
June 30, 2016 — *Exhibit J-5*

	State Treasurer Investment Pool	Public Hospitals Investment Account	Total Investment Trust Funds
ASSETS			
Cash and Cash Equivalents	$ 12,334,371	$ 0	$ 12,334,371
State Treasurer Investment Pool	900,131,137	228,788,211	1,128,919,348
Securities Lending Collateral	42,496,058	220,161	42,716,219
Interest Receivable	771,547		771,547
Total Assets	955,733,113	229,008,372	1,184,741,485
LIABILITIES			
Obligations under Securities Lending	42,496,058	220,161	42,716,219
NET POSITION			
Restricted for:			
Pool Participants	913,237,055		913,237,055
Individuals, Organizations, and Other Governments		228,788,211	228,788,211
Total Net Position (See Exhibit B-1)	$ 913,237,055	$ 228,788,211	$ 1,142,025,266

The accompanying notes to the financial statements are an integral part of this statement.

North Carolina Department of State Treasurer
Combining Statement Fiduciary Net Position
Investment Trust Funds
June 30, 2015 *Exhibit J-6*

	State Treasurer Investment Pool	Public Hospitals Investment Account	Total Investment Trust Funds
ASSETS			
Cash and Cash Equivalents	$ 8,847,706	$ 0	$ 8,847,706
State Treasurer Investment Pool	870,611,569	237,536,489	1,108,148,058
Securities Lending Collateral	51,092,228	10,594	51,102,822
Interest Receivable	1,384,705		1,384,705
Total Assets	931,936,208	237,547,083	1,169,483,291
LIABILITIES			
Obligations under Securities Lending	51,092,228	10,594	51,102,822
NET POSITION			
Restricted for:			
Pool Participants	880,843,980		880,843,980
Individuals, Organizations, and Other Governments		237,536,489	237,536,489
Total Net Position (See Exhibit B-2)	$ 880,843,980	$ 237,536,489	$ 1,118,380,469

The accompanying notes to the financial statements are an integral part of this statement.

North Carolina Department of State Treasurer
Combining Statement of Changes in Fiduciary Net Position
Investment Trust Funds
For the Fiscal Year Ended June 30, 2016 — *Exhibit J-7*

	State Treasurer Investment Pool	Public Hospitals Investment Account	Total Investment Trust Funds
ADDITIONS			
Investment Income:			
Investment Earnings	$ 3,792,040	$ (6,423,105)	$ (2,631,065)
Less Investment Expenses	(590,328)	(771,839)	(1,362,167)
Net Investment Income	3,201,712	(7,194,944)	(3,993,232)
Pool Share Transactions:			
Reinvestment of Dividends	3,560,608	(7,194,944)	(3,634,336)
Net Share Purchases and (Redemptions)	29,191,363	(1,553,334)	27,638,029
Net Pool share Transactions	32,751,971	(8,748,278)	24,003,693
Total Additions	35,953,683	(15,943,222)	20,010,461
DEDUCTIONS			
Distributions Paid and Payable	3,560,608	(7,194,944)	(3,634,336)
Change in Net Position	32,393,075	(8,748,278)	23,644,797
Net Position - July 1	880,843,980	237,536,489	1,118,380,469
Net Position - June 30 (See Exhibit B-3)	$ 913,237,055	$ 228,788,211	$ 1,142,025,266

The accompanying notes to the financial statements are an integral part of this statement.

North Carolina Department of State
Combining Statement of Changes in Fiduciary Net Position
Investment Trust Funds
For the Fiscal Year Ended June 30, 2015 *Exhibit J-8*

	(Unaudited)		
	State Treasurer Investment Pool	**Public Hospitals Investment Account**	**Total Investment Trust Funds**
ADDITIONS			
Investment Income:			
Investment Earnings	$ 12,161,499	$ 14,244,754	$ 26,406,253
Less Investment Expenses	(581,896)	(663,653)	(1,245,549)
Net Investment Income	11,579,603	13,581,101	25,160,704
Pool Share Transactions:			
Reinvestment of Dividends	11,454,983	13,532,199	24,987,182
Net Share Purchases and (Redemptions)	(31,638,362)	78,401,525	46,763,163
Net Pool share Transactions	(20,183,379)	91,933,724	71,750,345
Total Additions	(8,603,776)	105,514,825	96,911,049
DEDUCTIONS			
Distributions Paid and Payable	11,454,983	13,532,199	24,987,182
Change in Net Position	(20,058,759)	91,982,626	71,923,867
Net Position - July 1	900,902,739	145,553,863	1,046,456,602
Net Position - June 30 (See Exhibit B-4)	$ 880,843,980	$ 237,536,489	$ 1,118,380,469

The accompanying notes to the financial statements are an integral part of this statement.

North Carolina Department of State Treasurer
Combining Statement of Revenues and Expenditures
Governmental Funds
For the Fiscal Year Ended June 30, 2016 ***Exhibit K-1***

	General Operations[1]	Information Technology Projects	Benefit Plan Activities[2]	Debt Related Activities[3]	Escheat Fund	Other Activities[4]	Total[5]
REVENUES							
Funds Escheated	$ 0	$ 0	$ 0	$ 0	$ 108,437,030	$ 0	$ 108,437,030
Fees						6,919,890	6,919,890
Services	5,807,211	591,674			240		6,399,125
Contributions			1,986,306				1,986,306
Investment Earnings			16,391	530,362	14,875,194	1,868	15,423,815
Interest Earnings On Loans				518,386			518,386
Rental and Lease of Property	125						125
Revenues from Other State Agencies and Funds	20,722,715	60,200		2,689,608			23,472,523
Loan Collection of Principal				6,777,533			6,777,533
Reimbursement of Core Banking Upgrade Expenditures		1,588,840					1,588,840
Reimbursement of Expenditures from Investment Pool	7,707,942						7,707,942
Miscellaneous Revenue	2,362	1	29,057				31,420
Total Revenues	34,240,355	2,240,715	2,031,754	10,515,889	123,312,464	6,921,758	179,262,935
EXPENDITURES							
State Aid[6]			20,966,299		79,089,814		100,056,113
Contracted Personal Services	3,522,480	943,617	530,415	92,122	5,449,963		10,538,597
Personal Services	21,298,722	89,751	547,474				21,935,947
Employee Benefits	7,094,549	26,625					7,121,174
Supplies and Materials	147,123						147,123
Travel	172,003						172,003
Communication	357,853						357,853
Utilities	215,018						215,018
Data Processing Services	224,643						224,643
Other Services	765,762						765,762
Claims and Benefits			377,425				377,425
Debt Service							
Principal Retirement				471,961,972			471,961,972
Interest and Fees				255,162,448			255,162,448
Debt Issuance Costs	411,278			424,913			836,191
Other Fixed Charges	2,183,671	296,123			81,438		2,561,232
Capital Outlay	1,145,356	307,388					1,452,744
Insurance	12,060						12,060
Other Expenditures	807,613		2,278,100				3,085,713
Expenditures to Other State Agencies and Funds[7]				511,841	22,856,064	6,838,869	30,206,774
Total Expenditures	38,358,131	1,663,504	24,699,713	728,153,296	107,477,279	6,838,869	907,190,792
Excess Revenues Over (Under) Expenditures	(4,117,776)	577,211	(22,667,959)	(717,637,407)	15,835,185	82,889	(727,927,857)
OTHER FINANCING SOURCES (USES)							
State Appropriations	4,506,936		21,686,299	707,081,977			733,275,212
Sale of Capital Assets	1,586						1,586
Refunding on Bonds Issued				329,360,000			329,360,000
Premiums on Bonds Issued				88,065,635			88,065,635
Pay to Refunded Debt Escrow Agent				(416,509,303)			(416,509,303)
Transfer to State Reserve Fund	(250,000)		(121,139)				(371,139)
Transfers In	75,000			10,000,064			10,075,064
Transfers Out				(10,075,064)			(10,075,064)
Total Other Financing Sources	4,333,522	0	21,565,160	707,923,309	0	0	733,821,991
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	$ 215,746	$ 577,211	$ (1,102,799)	$ (9,714,098)	$ 15,835,185	$ 82,889	$ 5,894,134

The accompanying notes to the financial statements are an integral part of this statement.

[1] See supplementary Exhibit K-3

[2] Benefit Plan Activities primarily represent state appropriations and contributions to certain defined benefit plans, including the Firefighters' and Rescue Squad Workers' Pension Fund.

[3] Debt Related Activities primarily consist of the collection of state appropriations and bond proceeds, and distributions of bond proceeds and debt payments.

[4] Other Activities primarily consist of the Department's collection of mortgage and deed recording fees and their remittance to other funds.

[5] See Exhibit A-3

[6] For Benefit Plan Activities, State Aid wholly consists of the distribution of state appropriations to the Firefighters' and Rescue Squad Workers' Pension Fund. The Escheat Fund distributes escheated funds to the State Education Assistance Authority (SEAA) for the UNC Need-Based Financial Aid Program.

[7] The Escheat fund distributes funds to the N.C. Community College System and the Department of Military and Veteran's Affairs each year by statute. See Note 9 for more information.

North Carolina Department of State Treasurer
Combining Statement of Revenues and Expenditures
Governmental Funds
For the Fiscal Year Ended June 30, 2015 *Exhibit K-2*

(Unaudited)

	General Operations[1]	Information Technology Projects	Benefit Plan Activities[2]	Debt Related Activities[3]	Escheat Fund	Other Activities[4]	Total[5]
REVENUES							
Funds Escheated	$ 0	$ 0	$ 0	$ 0	$ 165,062,750	$ 0	$ 165,062,750
Fees						6,516,059	6,516,059
Services	5,741,696	60,977			240		5,802,913
Contributions			2,881,208				2,881,208
Investment Earnings			5,747	136,835	7,022,041	12,314	7,176,937
Interest Earnings on Loans						814,031	814,031
Rental and Lease of Property	1,500						1,500
Revenues from Other State Agencies and Funds	21,599,635	115,748		2,980,191			24,695,574
Loan Collection of Principal						6,421,050	6,421,050
Reimbursement of Core Banking Upgrade Expenditures		893,000					893,000
Reimbursement of Expenditures from Investment Pool	2,451,364						2,451,364
Miscellaneous Revenue			236	47			283
Total Revenues	29,794,195	1,069,725	2,887,191	3,117,073	172,085,031	13,763,454	222,716,669
EXPENDITURES							
State Aid[6]			19,939,274		37,287,242		57,226,516
Contracted Personal Services	6,168,440	1,438,852	451,615	23,356	6,166,157		14,248,420
Personal Services	18,174,068	88,861	481,284				18,744,213
Employee Benefits	5,932,876	25,512					5,958,388
Supplies and Materials	141,382						141,382
Travel	208,042	(26)					208,016
Communication	643,836						643,836
Utilities	1,781						1,781
Data Processing Services	174,276						174,276
Other Services	825,039						825,039
Claims and Benefits			734,600				734,600
Debt Service							
Principal Retirement				447,328,868			447,328,868
Interest and Fees				268,929,129			268,929,129
Debt Issuance Costs	672,298			2,375,938			3,048,236
Other Fixed Charges	1,008,231	505,382			76,899		1,590,512
Capital Outlay	3,297,236	7,415					3,304,651
Insurance	17,782				23		17,805
Other Expenditures	1,090,069		69,031	184,159			1,343,259
Expenditures to Other State Agencies and Funds[7]				231,787,959	22,855,864	12,269,681	266,913,504
Total Expenditures	38,355,356	2,065,996	21,675,804	950,629,409	66,386,185	12,269,681	1,091,382,431
Excess Revenues Over (Under) Expenditures	(8,561,161)	(996,271)	(18,788,613)	(947,512,336)	105,698,846	1,493,773	(868,665,762)
OTHER FINANCING SOURCES (USES)							
State Appropriations	8,663,879		20,664,275	695,982,617			725,310,771
General Obligation Bonds Issued				231,360,000			231,360,000
Refunding on Bonds Issued				299,020,000			299,020,000
Premiums on Bonds Issued				81,894,946			81,894,946
Pay to Refunded Debt Escrow Agent				(349,828,159)			(349,828,159)
Transfers In	451,903			10,000,000			10,451,903
Transfers Out				(10,451,903)			(10,451,903)
Total Other Financing Sources	9,115,782	0	20,664,275	957,977,501	0	0	987,757,558
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	$ 554,621	$ (996,271)	$ 1,875,662	$ 10,465,165	$ 105,698,846	$ 1,493,773	$ 119,091,796

The accompanying notes to the financial statements are an integral part of this statement.

[1] See supplementary Exhibit K-4

[2] Benefit Plan Activities primarily represent state appropriations and contributions to certain defined benefit plans, including the Firefighters' and Rescue Squad Workers' Pension Fund.

[3] Debt Related Activities primarily consist of the collection of state appropriations and bond proceeds, and distributions of bond proceeds and debt payments.

[4] Other Activities primarily consist of the Department's collection of mortgage and deed recording fees and their remittance to other funds.

[5] See Exhibit A-4

[6] For Benefit Plan Activities, State Aid wholly consists of the distribution of state appropriations to the Firefighters' and Rescue Squad Workers' Pension Fund. The Escheat Fund distributes escheated funds to the State Education Assistance Authority (SEAA) for the UNC Need-Based Financial Aid Program.

[7] The Escheat fund distributes funds to the N.C. Community College System and the Department of Military and Veteran's Affairs each year by statute. See Note 9 for more information.

North Carolina Department of State Treasurer
Combining Statement of Revenues and Expenditures
Governmental Funds - General Operations
For the Fiscal Year Ended June 30, 2016

	Core Services[1] Administrative Operations	Core Services[1] Information Services	Core Services[1] Financial Operations	Escheat Operations
REVENUES				
Services	$ 360,043	$ 1,023,344	$ 206,524	$ 0
Rental and Lease of Property	125			
Revenues from Other State Agencies and Funds	13,322			3,089,797
Reimbursement of Expenditures from Investment Pool				
Miscellaneous Revenue	30			1,166
Total Revenues	373,520	1,023,344	206,524	3,090,963
EXPENDITURES				
Contracted Personal Services	148,848	489,464	71,115	382,776
Personal Services	1,374,829	3,753,769	1,315,037	1,097,297
Employee Benefits	447,199	1,227,791	431,959	420,457
Supplies and Materials	6,731	27,250	3,192	16,801
Travel	30,809	4,403	6,644	31,233
Communication	33,882	98,848	2,123	23,669
Utilities	13,359	27,587	12,801	6,294
Data Processing Services	753	219,044	1,289	231
Other Services	14,077	21,897	9,974	73,836
Debt Service				
Debt Issuance Costs				
Other Fixed Charges	15,932	2,063,884	2,414	12,094
Capital Outlay	7,886	713,317	9,370	14,601
Insurance	4,452	527	245	3,091
Other Expenditures	44,084	136,007	42,892	70,440
Total Expenditures	2,142,841	8,783,788	1,909,055	2,152,820
Excess Revenues Over (Under) Expenditures	(1,769,321)	(7,760,444)	(1,702,531)	938,143
OTHER FINANCING SOURCES (USES)				
State Appropriations				
Sale of Capital Assets	199	35	770	376
Transfer to State Reserve Fund				
Transfers In				
Total Other Financing Sources	199	35	770	376
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	$ (1,769,122)	$ (7,760,409)	$ (1,701,761)	$ 938,519

The accompanying notes to the financial statements are an integral part of this statement.

1 The North Carolina Department of State Treasurer operates primarily on a receipt supported basis from programs such as unclaimed property, investment earnings on the pension portfolios, local sales tax, the State Health Plan and retirement systems. The core services support the programs under the authority of the State Treasurer.

2 The North Carolina General Assembly signed House Bill 556 - Achieving A Better Life Experience (ABLE) Act into law on August 11, 2015. This law requires the State Treasurer's office to administer the implementation of the ABLE Act accounts in our state. The ABLE Act allows people with disabilities to save and invest up to $14,000 a year in a 529A account for qualified disability expenses without jeopardizing Medicaid and other programs and supports. Qualified disability expenses include educational, housing, transportation, employment support, and health and wellness expenses.

3 See supplementary Exhibit K-1

Exhibit K-3

Investment Management Operations	State and Local Government Finance Operations	Retirement Plans Operations	Banking Operations	ABLE Operations[2]	Total[3]
$ 0	$ 4,217,300	$ 0	$ 0	$ 0	$ 5,807,211
					125
	4,844	17,614,752			20,722,715
7,707,942					7,707,942
1,166					2,362
7,709,108	4,222,144	17,614,752			34,240,355
135,895	70,931	2,151,082	67,890	4,479	3,522,480
5,219,052	2,133,602	5,736,706	668,430		21,298,722
1,331,381	717,233	2,246,800	271,729		7,094,549
30,750	7,553	51,200	3,646		147,123
35,774	19,691	41,382	1,318	749	172,003
(10,082)	13,226	181,441	14,746		357,853
24,932	21,774	97,591	10,680		215,018
1,816	506	873	131		224,643
74,271	30,989	527,977	12,441	300	765,762
	411,278				411,278
7,192	10,415	33,811	37,929		2,183,671
276,515	19,530	85,678	18,459		1,145,356
1,009	732	1,719	285		12,060
92,941	69,653	319,242	32,354		807,613
7,221,446	3,527,113	11,475,502	1,140,038	5,528	38,358,131
487,662	695,031	6,139,250	(1,140,038)	(5,528)	(4,117,776)
864,078			3,392,858	250,000	4,506,936
	206				1,586
				(250,000)	(250,000)
	75,000				75,000
864,078	75,206	0	3,392,858	0	4,333,522
$ 1,351,740	$ 770,237	$ 6,139,250	$ 2,252,820	$ (5,528)	$ 215,746

North Carolina Department of State Treasurer
Combining Statement of Revenues and Expenditures
Governmental Funds - General Operations
For the Fiscal Year Ended June 30, 2015

	(Unaudited)			
	Core Services[1]			
	Administrative Operations	Information Services	Financial Operations	Escheat Operations
REVENUES				
Services	$ 256,984	$ 696,883	$ 121,369	$ 0
Rental and Lease of Property	1,500			
Revenues from Other State Agencies and Funds	13,322			3,292,759
Reimbursement of Expenditures from Investment Pool				
Total Revenues	271,806	696,883	121,369	3,292,759
EXPENDITURES				
Contracted Personal Services	175,230	684,821	10,138	614,983
Personal Services	1,177,205	3,658,191	914,193	1,018,173
Employee Benefits	348,983	1,129,522	314,550	368,862
Supplies and Materials	9,671	23,412	8,288	12,685
Travel	53,353	5,271	3,124	33,623
Communication	26,187	144,923	30,792	67,771
Utilities	453	85	29	53
Data Processing Services		172,049	1,737	354
Other Services	30,842	22,469	22,319	106,277
Debt Service				
Debt Issuance Costs				
Other Fixed Charges	7,457	863,940	4,309	5,138
Capital Outlay	3,681	1,080,973	30,612	37,149
Insurance	6,670	1,536	549	2,634
Other Expenditures	57,746	132,634	46,591	115,947
Total Expenditures	1,897,478	7,919,826	1,387,231	2,383,649
Excess Revenues Over (Under) Expenditures	(1,625,672)	(7,222,943)	(1,265,862)	909,110
OTHER FINANCING SOURCES				
State Appropriations				
Transfers In				
Total Other Financing Sources	0	0	0	0
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	$ (1,625,672)	$ (7,222,943)	$ (1,265,862)	$ 909,110

The accompanying notes to the financial statements are an integral part of this statement.

1 The North Carolina Department of State Treasurer operates primarily on a receipt supported basis from programs such as unclaimed property, investment earnings on the pension portfolios, local sales tax, the State Health Plan and retirement systems. The core services support the programs under the authority of the State Treasurer.

2 See supplementary Exhibit K-2

Exhibit K-4

(Unaudited)

Investment Management Operations	State and Local Government Finance Operations	Retirement Plans Operations	Banking Operations	Total[2]
$ 0	$ 4,666,460	$ 0	$ 0	$ 5,741,696
				1,500
		18,293,554		21,599,635
2,451,364				2,451,364
2,451,364	4,666,460	18,293,554	0	29,794,195
1,173,234	147,320	3,296,102	66,612	6,168,440
2,854,349	2,157,285	5,696,646	698,026	18,174,068
708,467	698,699	2,079,536	284,257	5,932,876
13,917	9,786	60,796	2,827	141,382
61,412	19,206	32,053		208,042
226,435	12,366	129,135	6,227	643,836
67	62	1,001	31	1,781
14		122		174,276
29,129	26,420	577,442	10,141	825,039
	672,298			672,298
14,513	15,041	46,966	50,867	1,008,231
1,669,314	206,870	53,447	215,190	3,297,236
320	148	5,231	694	17,782
96,953	127,209	462,884	50,105	1,090,069
6,848,124	4,092,710	12,441,361	1,384,977	38,355,356
(4,396,760)	573,750	5,852,193	(1,384,977)	(8,561,161)
5,262,427			3,401,452	8,663,879
	451,903			451,903
5,262,427	451,903	0	3,401,452	9,115,782
$ 865,667	$ 1,025,653	$ 5,852,193	$ 2,016,475	$ 554,621

North Carolina Department of State Treasurer
Schedule of Allocated Net Position
External Investment Pool
June 30, 2016

Exhibit L-1

		Total		Short-term Investment Fund [1]		Long-Term Investment Fund		Other Investment Funds [2]
Internal:								
North Carolina Pension Plans [3]	$	87,927,265,024	$	357,182,342	$	22,159,796,094	$	65,410,286,588
Other Pension and Post Employment Benefit Plans [4]		902,951,706		9,028,388		893,923,318		
State General Fund		4,044,926,184		4,044,926,184				
Highway Trust Fund		1,432,521,219		1,432,521,219				
Highway Fund		364,104,222		364,104,222				
Escheat Fund		500,601,314		379,659,091		120,942,223		
EPA Revolving Loan Fund		446,348,991		240,457,008		205,891,983		
Unemployment Compensation Fund		51,094,184		51,094,184				
Other Primary Government		3,436,153,717		3,108,785,771		327,367,946		
State Health Plan		953,478,156		953,478,156				
Other Component Units of the State [5]		3,337,478,740		3,337,478,740				
External [6]		921,867,543		762,836,599		31,280,717		127,750,227
Net Position Held in Trust (Note 2) [7, 8]	$	104,318,791,000	$	15,041,551,904	$	23,739,202,281	$	65,538,036,815

1 Assets in the Short-term Investment Fund are reported as cash equivalents in the State's *Comprehensive Annual Financial Report* and in fund financial statements. The reported Short-term Investment Fund net position does not include $3.61 billion that is reported in the Other Investment Funds column above. Additionally, a portion of the Cash and Cash equivalents reported in the External Investment Pool's Statement of Net Position as presented in Note 2 are included in the Short-term Investment Fund caption on this schedule.

2 Other Investment Funds consist of the Investment Pool's External Fixed Income, Equity, Real Estate, Alternative, Credit and Inflation Protection Investment Funds, which are wholly owned by the North Carolina Retirement Systems. Other Investment Funds also includes the OPEB Equity Investment Fund. See Note 2 for more information on these investment funds.

3 This caption represents the North Carolina Retirement Systems, which consist of the Teachers' and State Employees' Retirement System, Consolidated Judicial Retirement System, Legislative Retirement System, Firefighters' and Rescue Squad Workers' Pension Fund, North Carolina National Guard Pension Fund, Local Governmental Employees' Retirement System and the Retiree Health Benefit Fund. The equity in the Long-term investment fund and the Other Investment Funds owned by the North Carolina Retirement Systems as of June 30, 2016, was $87,570,082,682. See Note 11 for more information on North Carolina Retirement Systems and Note 14 for more information on the Retiree Health Benefit Fund.

4 The other pension and post employment benefit plans consist of the Register of Deeds' Supplemental Pension Fund, Disability Income Plan of N.C. and Death Benefit Plan of N.C. See Note 11 for more information on the Register of Deeds' Supplemental Pension Fund, Note 14 for more information on the Disability Income Plan, or Note 15 for more information about the Death Benefit Plan.

5 Other Component Units of the State primarily consist of the University of North Carolina System and Community Colleges.

6 The External portion of the Short-term Investment Fund is owned primarily by local government entities including local school districts, school building funds and local OPEB plans. Public schools, local boards of education and public school building funds owned approximately 91% of the external portion of the Short-term Investment Fund balance as of June 30, 2016. The external portion of the Long-term Investment Fund was owned by local OPEB plans and Watauga Medical Center.

7 The total net position presented in this table excludes investments belonging to the Supplemental Retirement Income Plan of North Carolina (the 401(k) Plan) and the North Carolina Public Employee Deferred Compensation Plan (the 457 Plan) because these plans are not invested in the State Treasurer's External Investment Pool. See Note 2 for more information on the investments held by these plans.

8 The Department, a fiduciary, manages the assets of the External Investment Pool on behalf of the ultimate owners, the beneficiaries. As such, participants in the External Investment Pool are considered to have a beneficial ownership in the Pool and the assets in the Pool are considered to be "held in trust".

North Carolina Department of State Treasurer
Schedule of Allocated Net Position
External Investment Pool
June 30, 2015 — *Exhibit L-2*

	Total	Short-term Investment Fund [1]	Long-term Investment Fund	Other Investment Funds [2]
Internal:				
North Carolina Pension Plans [3]	$ 89,952,279,296	$ 376,527,063	$ 22,729,477,671	$ 66,846,274,562
Other Pension and Post Employment Benefit Plans [4]	848,120,536	8,192,114	839,928,422	
State General Fund	2,981,669,508	2,981,669,508		
Highway Trust Fund	1,121,310,646	1,121,310,646		
Highway Fund	377,432,874	377,432,874		
Escheat Fund	404,505,071	292,652,381	111,852,690	
EPA Revolving Loan Fund	417,096,849	221,369,158	195,727,691	
Unemployment Compensation Fund	133,342,724	133,342,724		
Other Primary Government	3,148,743,729	2,853,524,279	295,219,450	
State Health Plan	1,024,119,618	1,024,119,618		
Other Component Units of the State [5]	2,811,907,408	2,811,907,408		
External [6]	888,830,741	741,915,846	27,959,447	118,955,448
Net Position Held in Trust (Note 2) [7, 8]	$ 104,109,359,000	$ 12,943,963,619	$ 24,200,165,371	$ 66,965,230,010

1 Assets in the Short-term Investment Fund are reported as cash equivalents in the State's *Comprehensive Annual Financial Report* and in fund financial statements. The reported STIF net position does not include $4.16 billion that is reported in the Other Investment Funds column above. Additionally, a portion of the Cash and Cash equivalents reported in the External Investment Pool's Statement of Net Position as presented in Note 2 are included in the STIF caption on this schedule.

2 Other Investment Funds consist of the Investment Pool's External Fixed Income, Equity, Real Estate, Alternative, Credit and Inflation Protection Investment Funds, which are wholly owned by the North Carolina Retirement Systems. Other Investment Funds also includes the OPEB Equity Investment Fund. See Note 2 for more information on these investment funds.

3 This caption represents the North Carolina Retirement Systems, which consist of the Teachers' and State Employees' Retirement System, Consolidated Judicial Retirement System, Legislative Retirement System, Firefighters' and Rescue Squad Workers' Pension Fund, North Carolina National Guard Pension Fund, Local Governmental Employees' Retirement System and the Retiree Health Benefit Fund. The equity in the Long-term investment fund and the Other Investment Funds owned by the NCRS as of June 30, 2015, was $89,575,752,233. See Note 11 for more information on the North Carolina Retirement Systems and Note 14 for more information on the Retiree Health Benefit Fund.

4 The other pension and post employment benefit plans consist of the Register of Deeds' Supplemental Pension Fund, Disability Income Plan of N.C. and Death Benefit Plan of N.C. See Note 11 for more information on the Register of Deeds' Supplemental Pension Fund, Note 14 for more information on the Disability Income Plan, or Note 15 for more information about the Death Benefit Plan.

5 Other Component Units of the State primarily consist of the University of North Carolina System and Community Colleges.

6 The External portion of the Short-term Investment Fund is owned primarily by local government entities including local school districts, school building funds and local OPEB plans. Public schools, local boards of education and public school building funds owned approximately 90% of the external portion of the Short-term Investment Fund balance as of June 30, 2015. The external portion of the Long-term Investment Fund was owned by local OPEB plans and Watauga Medical Center.

7 The total net position presented in this table excludes investments belonging to the Supplemental Retirement Income Plan of North Carolina (the 401(k) Plan) and the North Carolina Public Employee Deferred Compensation Plan (the 457 Plan) because these plans are not invested in the State Treasurer's External Investment Pool. See Note 2 for more information on the investments held by these plans.

8 The Department, a fiduciary, manages the assets of the External Investment Pool on behalf of the ultimate owners, the beneficiaries. As such, participants in the External Investment Pool are considered to have a beneficial ownership in the Pool and the assets in the Pool are considered to be "held in trust".

North Carolina Department of State Treasurer
Schedule of Deductions by Investment Portfolio
External Investment Pool
For the Fiscal Year Ended June 30, 2016

	Investment Portfolio [11]			
	Short-term [12]	**Long-term [12]**	**External Fixed Income**	**Public Equity**
Investment Management fees:				
Investment Performance Fees	$ 0	$ 0	$ 0	$ 0
Investment Management Fees			1,283,356	85,999,119
Total Investment Management Fees [1]	0	0	1,283,356	85,999,119
Administrative and Other Fees:				
Direct				
Internal Costs [2]	5,169,120	1,848,956	285,724	2,814,677
Legal	185,790	104,683	42,886	1,448,078
Investment Research and Consulting [3]	43,441	429,993	447,040	1,402,837
Information Technology [4]		205,000	437,337	611,264
Temporary Staffing [5]		127,744	267,408	572,029
Financial Services [6]		18,000	198,636	396,362
Employee Business Expenses [7]		523	18,683	29,754
Other Direct Expenses	117,950	194,189	55,097	28,869
Withholding Taxes [8]				20,976,930
Commissions on Futures Contracts				498,054
Investment Expense [9]				
Banking Expenses [10]	2,765,323	271,891		706,929
Total Administrative and Other Fees	$ 8,281,624	$ 3,200,979	$ 1,752,811	$ 29,485,783

1 In addition to the fees shown in this table, $420,449 in management fees were paid from the Other Post Employment Benefit (OPEB). Equity Investment portfolio. These charges are reported on the Statement of Changes in Fiduciary Net Position in Note 2.

2 Approximately $6.5 million of the allocated internal costs supported Investment Management Division (IMD) employee salaries and fringe benefits. The remaining expenditures primarily funded IMD's portion of the allocated departmental costs, and departmental information technology and location costs.

3 Investment research and consulting costs primarily consist of information service subscriptions, investment advisory services and external consulting costs.

4 Information technology (IT) costs directly supported the development and implementation of an in-house investment research system.

5 Temporary staffing costs include administrative services and portfolio directors operating under contract at the IMD.

6 Financial services costs are related to audit and actuarial services.

7 Employee business expenses primarily consist of reimbursed business travel costs.

8 Withholding taxes are related to foreign taxes paid on foreign investment earnings.

9 Investment Expenses primarily consist of partnership expenses and organizational fees paid for administering the investment portfolios.

10 Banking Expenses primarily consist of bank account charges and asset custody fees.

11 For more information on the investment portfolios in the External Investment Pool, see Note 2.

12 The Short-term and Long-term investment portfolios are internally managed by the Department.

Exhibit M-1

Investment Portfolio [11]					
Real Estate	**Alternatives**	**Credit**	**Inflation Protection**	**Cash**	**Total**
$ 116,444,049	$ 41,041,783	$ 22,155,142	$ 1,497,298	$ 0	$ 181,138,272
79,688,446	55,946,314	57,554,980	51,665,952		332,138,167
196,132,495	96,988,097	79,710,122	53,163,250	0	513,276,439
1,276,958	1,377,328	773,085	659,643	11,109	14,216,600
706,081	1,077,730	274,020	402,027	4,180	4,245,475
280,161	375,778	350,478	264,973	60,694	3,655,395
129,988	101,309	89,559	89,233	16,448	1,680,138
80,670	113,779	63,190	60,560	11,429	1,296,809
58,554	52,046	42,147	39,015	8,223	812,983
33,319	49,406	37,744	35,241	689	205,359
8,903	87,138	11,565	34,973	2,913	541,597
183,785					21,160,715
			374,540		872,594
364,500	24,412,800	4,866,113	8,887,701		38,531,114
			78		3,744,221
$ 3,122,919	$ 27,647,314	$ 6,507,901	$ 10,847,984	$ 115,685	$ 90,963,000

Introduction

The financial statements include investments managed by the Department of State Treasurer. The tradition of conservative fiscal management has served North Carolina's public workers and taxpayers well throughout the years. The Teachers' and State Employees' Retirement System, Consolidated Judicial Retirement System, Legislative Retirement System, Firefighters' and Rescue Squad Workers' Pension Fund, North Carolina National Guard Pension Fund, Local Governmental Employees' Retirement System, and Retiree Health Benefit Fund (collectively "NCRS") continue 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 strong equity markets.

As of June 30, 2016 and 2015, the NCRS comprised approximately 84% and 86% of the total net position of the External Investment Pool, respectively. Following is a discussion of the Investment Policy Statement, risk and returns relative to the benchmarks, and the management and incentive fees paid.

Investment Policy Statement

In July 2013, the General Assembly passed Senate Bill 558. Under this bill, the Investment Management Division was granted greater authority and flexibility with respect to investments by increasing the percentage limitations on various individual alternative investment asset classes as well as in the aggregate. During the year ended June 30, 2014, the Investment Management Division continued to diversify the NCRS investments and conducted an asset liability study to develop a new investment policy statement ("IPS") that would utilize some of the additional investment flexibility created by Senate Bill 558. A new investment policy statement was finalized and became effective July 1, 2014. During the second half of fiscal year 2016, the Investment Management Division updated the asset liability study utilizing revised capital market assumptions. Based on the results of the updated study, it was determined that no changes to the target asset allocation were needed at this time. The table below maps the investment policy statement's classifications to the statutory classifications which are used to prepare the financial statements as of June 30, 2016. The numbers only reflect net position of the NCRS funds in the statutory asset classes excluding securities lending.

North Carolina Department of State Treasurer
Investment Performance Schedule
External Investment Pool
June 30, 2016

	Statutory Classification				
	Public Equity [1]	Long Term [2]	Cash [2]	External Fixed Income [2,3]	Alternatives [4]
Public Equity	$ 34,292,718,744	$ 0	$ 0	$ 0	$ 0
Private Equity					4,375,776,820
Non-Core Real Estate					
Opportunistic Fixed Income					
Investment Grade Fixed Income		22,159,796,094		2,501,567,776	
Cash			854,436,277		
Inflation Sensitive					
Core Real Estate					
Multi-Strategy					1,617,323,452
Total	$ 34,292,718,744	$ 22,159,796,094	$ 854,436,277	$ 2,501,567,776	$ 5,993,100,272

1 General Statute 147-69.2(b)(8)(a), (c)
2 General Statute 147-69.1(c) and General Statute 147-69.2(b)(1)-(6b)
3 Consists solely of investments in the Short-term Investment Fund
4 General Statute 147-69.2(b)(9)

Statutory Classification				
Real Estate [5]	**Inflation Protection** [6]	**Credit** [7]	**Public Equity Limited Liability** [8]	**Total**
$ 0	$ 0	$ 0	$ 2,963,379,264	$ 37,256,098,008
				4,375,776,820
3,906,419,233				3,906,419,233
		5,259,504,719		5,259,504,719
				24,661,363,870
				854,436,277
	5,192,457,132			5,192,457,132
4,446,703,171				4,446,703,171
				1,617,323,452
$ 8,353,122,404	$ 5,192,457,132	$ 5,259,504,719	$ 2,963,379,264	$ 87,570,082,682

[5] General Statute 147-69.2(b)(7)
[6] General Statute 147-69.2(b)(9a)
[7] General Statute 147-69.2(b)(6c)
[8] General Statute 147-69.2(b)(8)(b)

The following schedules present the retirement system's risk and returns compared to benchmarks. As of June 30, 2016 and 2015, the North Carolina Retirement System ("NCRS") had the following investment returns over applicable 1, 3, 5 and 10 year periods.

Investment Returns (Net of Fees) as of June 30, 2016

Asset Classification	1 YR	3 YR	5 YR	10 YR
Growth	-2.14%	7.28%	6.77%	4.65%
Benchmark	-2.30%	6.19%	5.74%	4.24%
Public Equity	-3.89%	6.65%	6.21%	4.59%
Benchmark	-3.84%	6.14%	5.43%	4.11%
Private Equity	4.32%	10.58%	8.79%	7.23%
Benchmark	4.33%	9.66%	9.30%	9.22%
Non-Core Real Estate	12.39%	15.73%	13.56%	3.76%
Benchmark	6.48%	9.66%	9.52%	2.84%
Opportunistic Fixed Income	-4.40%	2.40%	4.83%	5.81%
Benchmark	-3.59%	0.42%	0.46%	0.18%
Rates & Liquidity	6.97%	4.97%	5.09%	6.61%
Benchmark	7.88%	5.42%	5.33%	6.38%
Investment Grade Fixed Income	7.25%	5.10%	5.17%	6.65%
Benchmark	8.17%	5.54%	5.40%	6.41%
Cash	0.84%	0.59%	0.00%	0.00%
Benchmark	0.15%	0.07%	0.06%	0.00%
Inflation Sensitive & Diversifiers	0.24%	2.00%	1.38%	0.88%
Benchmark	3.72%	4.27%	3.17%	0.71%
Inflation Sensitive	-5.75%	-2.67%	-3.60%	-0.98%
Benchmark	-3.13%	-1.71%	-3.05%	2.08%
Core Real Estate	8.53%	8.64%	9.25%	4.63%
Benchmark	12.37%	11.89%	11.57%	5.39%
Multi-Strategy	-1.46%	5.92%	8.53%	4.98%
Benchmark	-3.35%	4.73%	6.60%	5.69%
Total Plan	0.81%	6.10%	5.98%	5.52%
Implementation Benchmark	1.34%	5.63%	5.45%	5.16%
Long-Term Policy Benchmark	1.22%	5.29%	4.90%	5.16%

Investment Returns (Net of Fees) as of June 30, 2015

Asset Classification	1 YR	3 YR	5 YR	10 YR
Growth	2.91%	13.80%	12.79%	6.16%
Benchmark	1.40%	12.03%	11.85%	5.76%
Public Equity	1.14%	14.46%	12.95%	6.26%
Benchmark	0.85%	13.32%	12.22%	5.71%
Private Equity	9.58%	11.08%	10.97%	8.86%
Benchmark	6.27%	11.71%	12.44%	11.33%
Non-Core Real Estate	19.60%	14.98%	14.63%	5.15%
Benchmark	8.80%	11.01%	11.86%	5.06%
Opportunistic Fixed Income	-0.52%	9.67%	8.92%	0.00%
Benchmark	-2.85%	2.77%	3.08%	0.00%
Rates & Liquidity	2.07%	2.38%	4.76%	5.62%
Benchmark	2.24%	2.06%	4.60%	5.22%
Investment Grade Fixed Income	2.09%	2.42%	4.79%	5.63%
Benchmark	2.32%	2.15%	4.66%	5.25%
Cash	0.48%	0.00%	0.00%	0.00%
Benchmark	0.03%	0.00%	0.00%	0.00%
Inflation Sensitive & Diversifiers	-1.98%	3.43%	2.17%	2.59%
Benchmark	-0.72%	4.14%	5.10%	2.15%
Inflation Sensitive	-8.01%	-1.05%	-4.75%	2.01%
Benchmark	-9.41%	-1.27%	-2.00%	4.28%
Core Real Estate	7.00%	10.31%	11.85%	5.55%
Benchmark	10.55%	11.32%	13.34%	6.03%
Multi-Strategy	1.48%	11.84%	10.30%	6.25%
Benchmark	0.30%	11.37%	8.65%	8.48%
Total Plan	2.25%	9.08%	9.46%	6.17%
Implementation Benchmark	1.46%	7.78%	8.83%	5.69%
Long-Term Policy Benchmark	0.32%	7.39%	8.52%	6.02%

The Public Equity benchmark is a dynamically weighted combination of the Morgan Stanley Capital International (MSCI) All Country World Index (ACWI) Investible Market Index (IMI) Net ("Long-Only") and a beta adjusted MSCI ACWI IMI Net (Hedged Equity). Private Equity's benchmark is comprised of the following Burgiss Group Private iQ indices: 50% buyout, 20% venture capital, and 30% special situations and distressed securities. The Non-Core Real Estate benchmark is comprised of the following Burgiss Group Private iQ indices: 80% U.S. Non-Core Real Estate ("Opportunistic and Value-Added") and 20% Non-US Non-Core Real Estate ("Opportunistic and Value-Added"). Opportunistic Fixed Income's benchmark is comprised of 50% Hedge Fund Return Index (HFRX) Distressed Securities Index, 20% HFRX Relative Value Index, and 15% Credit Suisse Leveraged Loan Index, and 15% Bank of America Merrill Lynch (BOAML) High Yield Index. The Growth benchmark used is a blend of the Public Equity, Private Equity, Non-Core Real Estate and Opportunistic Fixed Income benchmarks policy weights.

The benchmark used for Investment Grade (IG) Fixed Income is comprised of 10% iMoneyNet First Tier Institutional Money Market Funds Net Index and 90% custom BOAML Core Investment Grade Index. The Custom BOAML index is comprised of the following weightings: 30% BOAML 5+ Years Governments, 35% BOAML 5+ Years Investment Grade Corporates, and 35% BOAML Mortgage Master. The Cash benchmark used is the iMoneyNet First Tier Institutional Money Market Net Index. The overall Rates & Liquidity benchmark is a blend of the IG Fixed Income and Cash benchmarks at policy weights.

The Inflation Sensitive benchmark is a dynamically weighted combination of the Bank of America Merrill Lynch 1-3 Years U.S. Inflation-Linked Treasury Index (TIPS), the Bloomberg Commodities Index Commodities, and a combination of benchmarks of investments classified within the Private Natural Resources or Other Real Assets and Diversifiers. The Core Real Estate Benchmark is comprised of 80% National Council of Real Estate Investment Fiduciaries (NCREIF) Open End Diversified Core Equity (ODCE) Net and 20% Financial Times Stock Exchange (FTSE) European Public Real Estate Association (EPRA) National Association of Real Estate Investment Trusts (NAREIT) Global Index. The Inflation Sensitive & Diversifiers benchmark used is a blend of the Inflation Sensitive and Core Real Estate benchmarks at policy weights.

The Multi-Strategy benchmark is comprised of a dynamically weighted combination of the HFRX Multi-Strategy Hedge Fund Index, net of fees, and the market value weighted benchmarks for any other total fund strategies within the portfolio.

The Benchmarks used for the total plan are the Implementation, and Long-Term Policy Benchmarks. The Implementation Benchmark is a blend of the asset class benchmarks at policy weights. It is currently as follows: 58% growth, 29% Rates and Liquidity, 11% Inflation Sensitive & Diversifiers, and 2% Multi-Strategy. Lastly, the Long-Term Policy Benchmark is comprised of 57% MSCI ACWI IMI Net, 33% BOAML 5+ Years U.S. Treasury Index, 6% Bloomberg Commodity Index, and 4% BOAML 1-3 Years U.S. Inflation Linked Treasury Index.

North Carolina Department of State Treasurer
Notes to Supplementary Information
Investment Pool Fee Schedule
For the Fiscal Year Ended June 30, 2016

Average Market Value

The market value of investments held by investment managers are averaged monthly over July 1, 2015, to June 30, 2016. This schedule is presented in average market value because it measures the performance of an investment manager over the past year, instead of ending market value where the performance is measured as of June 30, 2016. Note: The Investment Returns Schedule (Exhibits N-1) is reported at ending market value and the Investment Pool Fee Schedule (Exhibits O-1 and O-2) is presented at average market value. Thus, the asset's market values reported on these two schedules will not agree.

Management Fee

A management fee represents a charge by the investment manager as consideration for serving as a delegated fiduciary with respect to investment duties and powers assigned under a contract. Generally, this fee is expressed as an annual fixed percentage of some base value. Depending on the type of investment structure and strategy, this base value can be function of the market value of the investments, cost basis of the investments, or the total capital that the investment manager may request for investments under a contractual commitment.

Incentive Fee

An incentive fee represents a profit sharing arrangement with the investment manager as consideration for serving as a delegated fiduciary with respect to investment duties and powers assigned under a contract. These profit sharing arrangements may also be referred to as a carried interest or a performance fee. Depending on the type of investment structure and strategy, incentive fees can be charged against all profits earned or applied only to the profits above an agreed upon level that is often times referred to as a hurdle rate of return. Incentive fees can be paid annually based on realized and/or unrealized profits, at agreed to interim milestones, or paid only on a measure of realized profits (i.e., generally all are subject to certain criteria and conditions).

Fund of Funds

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.

Basis Point

A basis point is a unit of measure used to describe the percentage change in the value or rate of a financial instrument. One basis point is equivalent to 0.01% (1/100th of a percent) or 0.0001 in decimal form. Likewise, a fractional basis point like 1.5 basis point is equivalent to 0.015% or 0.00015 in decimal form.

North Carolina Department of State Treasurer
Investment Pool Fee Schedule
Total Fees by Basis Point and Asset Class
For the Fiscal Year Ended June 30, 2016 — *Exhibit O-1*

	Expenses Paid: Management and Incentive Fee (Average Market Value)						
	0 bps	**0 - 25bps**	**25 - 50bps**	**50 - 100bps**	**100 - 150bps**	**150+bps**	**Total**
Asset Class							
Global Public Equity	$ 3,311,899,199	$ 16,890,667,064	$ 9,821,981,284	$ 7,000,464,418	$ 3,606,933	$ 91,748,830	$ 37,120,367,728
Private Equity	89,474,962	186,942,507	909,433,813	912,057,449	591,236,513	1,626,406,284	4,315,551,528
Non Core Real Estate	39,167,122	396,368,308	584,349,575	336,756,124	361,611,773	2,056,064,257	3,774,317,159
Opportunistic Fixed Income	163,491,619		706,297,217	2,008,926,730	452,469,231	1,884,129,461	5,215,314,258
Investment Grade Fixed Income and Cash	24,815,582,467						24,815,582,467
Pension Cash	1,087,432,581						1,087,432,581
Inflation Sensitive	221,799,657	1,009,382,469	414,766,932	1,121,551,670	1,552,441,230	753,906,560	5,073,848,518
Core Real Estate	152,947,230	577,616,343	428,041,802	2,820,674,054	26,054,302	15,711,612	4,021,045,343
Multi-Strategy	168,742,311	1,239,792,628	3,391,384		196,447,483	2,076,660	1,610,450,466
Total Fund	$ 30,050,537,148	$ 20,300,769,319	$ 12,868,262,007	$ 14,200,430,445	$ 3,183,867,465	$ 6,430,043,664	$ 87,033,910,048

	Expenses Paid: Management and Incentive Fee (% of Asset Class Average Market Value)						
	0 bps	**0 - 25bps**	**25 - 50bps**	**50 - 100bps**	**100 - 150bps**	**150+bps**	**Total**
Asset Class							
Global Public Equity	8.92%	45.50%	26.46%	18.86%	0.01%	0.25%	100.00%
Private Equity	2.07%	4.33%	21.07%	21.13%	13.70%	37.69%	100.00%
Non Core Real Estate	1.04%	10.50%	15.48%	8.92%	9.58%	54.48%	100.00%
Opportunistic Fixed Income	3.13%		13.54%	38.52%	8.68%	36.13%	100.00%
Investment Grade Fixed Income and Cash	100.00%						100.00%
Pension Cash	100.00%						100.00%
Inflation Sensitive	4.37%	19.89%	8.17%	22.10%	30.60%	14.86%	100.00%
Core Real Estate	3.80%	14.36%	10.65%	70.15%	0.65%	0.39%	100.00%
Multi-Strategy	10.48%	76.98%	0.21%		12.20%	0.13%	100.00%
Total Fund	34.53%	23.33%	14.79%	16.32%	3.66%	7.39%	100.00%

See Notes to Supplementary Information for the Investment Pool Fee Schedule on the preceding page for a description of the terms used in this schedule.

North Carolina Department of State Treasurer
Investment Pool Fee Schedule
Total Fees by Contract Fee Type and Asset Class
For the Fiscal Year Ended June 30, 2016 — *Exhibit O-2*

Fees by Contract Type (Average Market Value)

Asset Class	No Fees	Management Only	Incentive Only	Management and Incentive	Total
Global Public Equity	$ 0	$ 36,878,756,099	$ 0	$ 241,611,629	$ 37,120,367,728
Private Equity				4,315,551,527	4,315,551,527
Non Core Real Estate				3,774,317,160	3,774,317,160
Opportunistic Fixed Income				5,215,314,258	5,215,314,258
Investment Grade Fixed Income and Cash	24,815,582,467				24,815,582,467
Pension Cash	1,087,432,581				1,087,432,581
Inflation Sensitive	89,399,261	1,118,573,117	96,340,855	3,769,535,284	5,073,848,517
Core Real Estate		1,157,885,785		2,863,159,558	4,021,045,343
Multi-Strategy		1,383,117,225		227,333,242	1,610,450,467
Total Fund	$ 25,992,414,309	$ 40,538,332,226	$ 96,340,855	$ 20,406,822,658	$ 87,033,910,048

Fees by Contract Type (% of Asset Class Average Market Value)

Asset Class	No Fees	Management Only	Incentive Only	Management and Incentive	Total
Global Public Equity	0.00%	99.35%	0.00%	0.65%	100.00%
Private Equity				100.00%	100.00%
Non Core Real Estate				100.00%	100.00%
Opportunistic Fixed Income				100.00%	100.00%
Investment Grade Fixed Income and Cash	100.00%				100.00%
Pension Cash	100.00%				100.00%
Inflation Sensitive	1.76%	22.05%	1.90%	74.29%	100.00%
Core Real Estate		28.80%		71.20%	100.00%
Multi-Strategy		85.88%		14.12%	100.00%
Total Fund	29.86%	46.58%	0.11%	23.45%	100.00%

See Notes to Supplementary Information for the Investment Pool Fee Schedule on the second preceding page for a description of the terms used in this schedule.

STATE OF NORTH CAROLINA
Office of the State Auditor

2 S. Salisbury Street
20601 Mail Service Center
Raleigh, NC 27699-0600
Telephone: (919) 807-7500
Fax: (919) 807-7647
http://www.ncauditor.net

Beth A. Wood, CPA
State Auditor

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

The Honorable Dale R. Folwell, State Treasurer
and Management of the North Carolina Department of State Treasurer

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, of each major governmental fund, the discretely presented component unit, and the aggregate remaining fund information of the North Carolina Department of State Treasurer, a department of the State of North Carolina, as of June 30, 2016 and 2015 and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Department's basic financial statements, and have issued our report thereon dated October 16, 2017.

Our report includes a reference to other auditors who audited the financial statements of the North Carolina Department of State Treasurer External Investment Pool, the Supplemental Retirement Income Plan of North Carolina, the North Carolina Public Employee Deferred Compensation Plan, and the cash basis claims and benefits of the North Carolina State Health Plan, as described in our report on the North Carolina Department of State Treasurer's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Department's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Department's internal control. Accordingly, we do not express an opinion on the effectiveness of the Department's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the Department's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Department's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Department's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Department's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Beth A. Wood

Beth A. Wood, CPA
State Auditor

Raleigh, North Carolina

October 16, 2017

Ordering Information

Copies of this report may be obtained by contacting:

Office of the State Auditor
State of North Carolina
2 South Salisbury Street
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For additional information contact:
Brad Young
Director of External Affairs
919-807-7513

NC OSA
The Taxpayers' Watchdog

This audit required 7,324 audit hours at an approximate cost of $794,338.