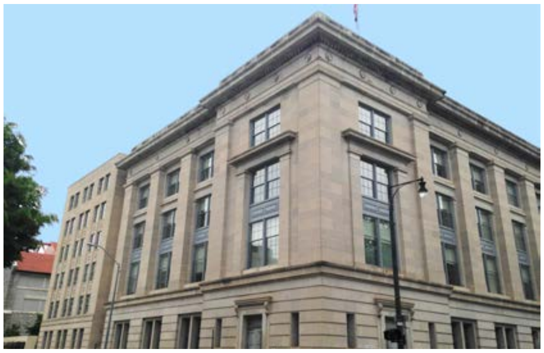
STATE OF NORTH CAROLINA

OFFICE OF THE STATE AUDITOR

BETH A. WOOD, CPA



NORTH CAROLINA DEPARTMENT OF STATE TREASURER

RALEIGH, NORTH CAROLINA

FINANCIAL STATEMENT AUDIT REPORT

FOR THE FISCAL YEAR ENDED JUNE 30, 2017

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 and for the year ended June 30, 2017, 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

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 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 Private – Purpose 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.

Required Information (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 basic 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 Sheet as of June 30, 2017 (with comparative totals as of June 30, 2016), and the Statements of Revenues, Expenditures, and Changes in Fund Balances for the fiscal year ended June 30, 2017 (with comparative totals for the fiscal year ended June 30, 2016) for the Department's **governmental funds**.

"B" Exhibits present the Statement of Fiduciary Net Position as of June 30, 2017 (with comparative totals as of June 30, 2016), and the Statement of Changes in Fiduciary Net Position for the fiscal year ended June 30, 2017 (with comparative totals for the fiscal year ended June 30, 2016) for the Departments' **fiduciary funds**.

"C" Exhibits present the Statement of Net Position as of June 30, 2017 (with comparative totals as of June 30, 2016), the Statement of Revenues, Expenses, and Changes in Net Position for the fiscal year ended June 30, 2017 (with comparative totals for the fiscal year ended June 30, 2016), and the Statement of Cash Flows for the fiscal year ended June 30, 2017 (with comparative totals for the fiscal year ended June 30, 2016) for the **component unit,** the State Health Plan.

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.

Required Supplementary Information: (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** and **escheat fund** for the fiscal year ended June 30, 2017, and related notes.

"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 four 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 four fiscal years and the related notes.

"G" Exhibits present the Schedule of the Proportionate Net Pension Liability and Schedule of Component Unit Contributions and related notes for the **component unit**.

"H" Exhibits present the Schedule of the Changes in the Net Other Postemployment Benefits (OPEB) Liability and Related Ratios as of June 30, 2017, Schedule of Employer Contributions for the last ten fiscal years, and Schedule of Investment Returns as of June 30, 2017, and related notes for each of the **defined other postemployment benefit plans**.

Supplementary Information: (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, 2017 (with comparative totals as of June 30, 2016) and the Combing Statements of Revenues, Expenditures, and Changes in Fund Balance for the fiscal year ended June 30, 2017 (with comparative totals for the fiscal year ended June 30, 2016) for the Department's **other governmental funds**.

"J" Exhibits present the Combining Statements of Fiduciary Net Position as of June 30, 2017 (with comparative totals as of June 30, 2016) and the Combining Statements of Changes in Fiduciary Net Position for the fiscal year ended June 30, 2017 (with comparative totals for the fiscal year ended June 30, 2016) for the **fiduciary funds.**

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

- **Exhibit K-1** presents the Combining Statement of Revenues and Expenditures **Governmental Funds** for fiscal year ended June 30, 2017 (with comparative totals for the fiscal year ended June 30, 2016).
- **Exhibit K-2** presents a further breakdown of the Statement of Revenues and Expenditures **Governmental Funds - General Operations** for the fiscal year ended June 30, 2017 (with comparative totals for the fiscal year ended June 30, 2016).
- **Exhibit K-3** presents the **Retirement Plans Operations** expenses that were reimbursed from the fiduciary funds for fiscal year ended June 30, 2017.

"L" Exhibits present the Schedule of Allocated Net Position for the **State Treasurer Investment Programs** as of June 30, 2017.

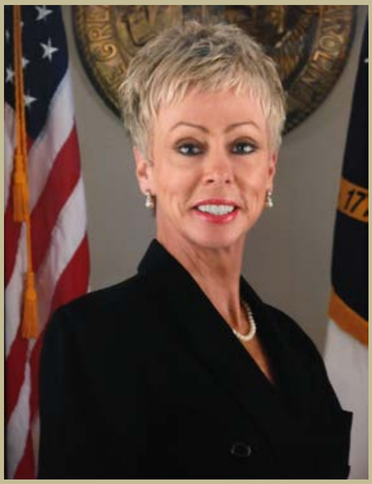
"M" Exhibit presents the Schedule of Deductions by Investment Portfolio for the **External Investment Pool** for the fiscal year ended June 30, 2017.

"N" Exhibit presents the Investment Performance Schedule for the **External Investment Pool** as of June 30, 2017.

"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, 2017 and related notes.

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

TABLE OF CONTENTS

PAGE

SUPPLEMENTARY INFORMATION

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 and for the year ended June 30, 2017, 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 7 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 1 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 Investment Programs, which represent 90 percent, 90 percent, and 63 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 89 percent of the expenses of the discretely presented component unit.

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, 2017, and the respective changes in financial position and, where applicable, cash flows thereof for the year 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, 2017, or the changes in its financial position, or, where applicable, its cash flows for the year 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 2, during the year ended June 30, 2017, the North Carolina Department of State Treasurer adopted new accounting guidance, Governmental Accounting Standards Board Statement No. 74 - *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans* and Statement No. 82 - *Pension Issues – An amendment of GASB Statement No. 67, No. 68, and No. 73*. Our opinion is not modified with respect to these matters.

Other Matters

Prior Period Information

We have previously audited the accompanying financial statements of each major governmental fund, the discretely presented component unit, and the aggregate remaining fund information of the Department as of June 30, 2016 and the respective changes in financial position for the year then ended, and expressed an unmodified audit opinion on those audited financial statements in our report dated October 16, 2017. The prior year supplementary schedules were derived from and related to the underlying accounting and other records used to prepare the financial statements. The supplementary schedules were subjected to the auditing procedures applied in the audit of the basic financial statements of the prior year and accordingly, we expressed an opinion in relation to the basic financial statements as a whole for the year ended June 30, 2016.

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 May 31, 2018 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

Beth A. Wood, CPA
State Auditor

Raleigh, North Carolina

May 31, 2018

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, 2017, with comparative information 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, Debt Proceeds and Interest Fund, and Other Governmental Funds), the fiduciary funds (Teachers' and State Employees' Retirement System, Local Governmental Employees' Retirement System, Retiree Health Benefit Fund, 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 the General Fund and Escheat Fund budgetary comparison schedules reconciling the statutory to the generally accepted accounting principles fund balances at fiscal year-end, and pension and other postemployment benefit-related disclosures pursuant to GASB Statements 67, 68, and 74.

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, 2017 and 2016.

	2017	2016	Change
Assets	$ 826,414,764	$ 769,040,445	$ 57,374,319
Deferred Outflows of Resources	37,287,242	37,287,242	0
Total Assets and Deferred Outflows of Resources	$ 863,702,006	$ 806,327,687	$ 57,374,319
Liabilities	$ 58,998,039	$ 94,061,065	$ (35,063,026)
Deferred Inflows of Resources	0	0	0
Fund Balances			
Nonspendable	72,841	113,646	(40,805)
Restricted	798,730,312	707,016,072	91,714,240
Committed	4,758,536	4,235,139	523,397
Unassigned	1,142,278	901,765	240,513
Total Fund Balances	804,703,967	712,266,622	92,437,345
Total Liabilities, Deferred Inflows and Fund Balances	$ 863,702,006	$ 806,327,687	$ 57,374,319

Analysis of Governmental Funds Condensed Balance Sheet

Total assets increased by $57.4 million compared to the prior year. The increase was primarily due to an increase of $40 million in cash and cash equivalents and $26.1 million in investments in the Escheat Fund as well as an increase in Debt Proceeds and Interest Fund investments of $20 million. This is offset by a decrease in Escheats Fund securities lending collateral of $29.9 million. The decrease in Escheats Fund securities lending collateral was due to a change in securities lending guidelines which resulted in a drastic reduction of securities lending transactions. The increase in Escheat Fund cash and cash equivalents was primarily due to net inflows to the Escheat Fund from receipts exceeding net outflows in claims payments. The increase in Escheat Fund investments was due to a $16.6 million increase in escheated securities held at a fiscal agent being held longer than three years, a $6 million transfer from cash equivalents, and a $3.5 million appreciation in the market value of assets. The increase of $20 million in Debt Proceeds and Interest Fund investments was due to an increase in restricted investments of $30.3 million for the issuance of General Obligation Bonds, offset by a decrease in investments of $10.3 million for a transfer out. 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 $35.1 million decrease in total liabilities was primarily due to a $29.9 million decrease in obligations under securities lending in the Escheat Fund, as well as a $4.8 million decrease in the escheat claims payable. The decrease in obligations under securities lending is due to a change in securities lending guidelines which resulted in a drastic reduction of securities lending transactions. The decrease in escheat claims payable is because of the projected decrease in the expected outflow of claims payments. The decrease in the projection was due to the anticipated impact of two operational changes: 1) the discontinuance of outreach events and 2) the delay in implementation of automated claims payment enhancements that were expected to increase the number of claims presented for payment and thus increase the amount of money paid out.

Total fund balance increased $92.4 million compared to prior year. This increase was primarily due to an increase in restricted fund balance of $91.7 million, consisting of an increase in Escheat Fund restricted fund balance of $71.9 million and an increase in Debt Proceeds and Interest Fund restricted fund balance of $20.1 million. The increase in the Escheat Fund restricted fund balance was a result of $137.2 million of revenue exceeding $64.4 million of expenditures. The increase in Debt Proceeds and Interest Fund restricted fund balance of $20.1 million was a result of the increase in investments.

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

The following condensed statement shows the governmental funds' resource flows at June 30, 2017 and 2016.

	2017	2016	Change
Revenues			
Funds Escheated	$ 126,700,610	$ 108,437,030	$ 18,263,580
Fees	7,255,758	6,919,890	335,868
Services	6,990,927	6,399,125	591,802
Administrative Cost Reimbursements	5,839,625	5,962,718	(123,093)
Investment Earnings	12,509,897	15,423,815	(2,913,918)
Revenues from Other State Agencies	2,943,151	2,707,774	235,377
Loan Collection of Principal	3,730,613	6,777,533	(3,046,920)
Other	10,231,604	11,833,019	(1,601,415)
Total Revenues	176,202,185	164,460,904	11,741,281
Expenditures			
State Aid	63,406,525	100,056,113	(36,649,588)
Contracted Personal Services	4,355,613	5,151,228	(795,615)
Personal Services	17,546,596	16,199,287	1,347,309
Employee Benefits	5,451,059	4,876,850	574,209
Debt Service	704,949,268	727,960,611	(23,011,343)
Other Fixed Charges	1,489,502	2,532,414	(1,042,912)
Capital Outlay	1,021,644	1,366,584	(344,940)
Other	2,227,140	4,038,900	(1,811,760)
Expenditures to Other State Agencies	230,324,405	30,206,774	200,117,631
Total Expenditures	1,030,771,752	892,388,761	138,382,991
Excess Revenues Under Expenditures	(854,569,567)	(727,927,857)	(126,641,710)
Other Financing Sources (Uses)			
State Appropriations	716,989,066	733,275,212	(16,286,146)
Sale of Capital Assets		1,586	(1,586)
General Obligation Bonds Issued	200,000,000		200,000,000
Refunding Bonds Issued		329,360,000	(329,360,000)
Premiums on Bonds Issued	30,018,100	88,065,635	(58,047,535)
Pay to Refunded Debt Escrow Agent		(416,509,303)	416,509,303
Transfers to State Reserve Fund	(122,246)	(371,139)	248,893
Transfers from State Reserve Fund	121,992		121,992
Transfers In	12,042,057	10,941,038	1,101,019
Transfers Out	(12,042,057)	(10,941,038)	(1,101,019)
Total Other Financing Sources	947,006,912	733,821,991	213,184,921
Net Change in Fund Balance	92,437,345	5,894,134	86,543,211
Fund Balance July 1	712,266,622	706,372,488	5,894,134
Fund Balance June 30	$ 804,703,967	$ 712,266,622	$ 92,437,345

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

The $11.7 million increase in revenues was primarily due to an increase in funds escheated of $18.3 million offset by decreases in investment earnings of $2.9 million and loan collection of principal of $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 and cash basis claims decreased by approximately $41.1 million and $2.3 million, respectively, the adjusting entries for accrual basis accounting for claims paid and securities escheated created a net increase of approximately $59.4 million. Cash basis collections decreased due to larger one-time payments from life insurance companies in fiscal year 2016 due to media attention, state and federal legislative changes, internal and external auditor focus as well as larger payments from Clerks of Courts as a result of Unclaimed Property Division educational efforts. The decrease in investment earnings of $2.9 million was due primarily to Escheat Fund investment earnings decreasing by $4.4 million offset by an increase in Debt Proceeds and Interest Fund investment earnings of $1.5 million. These variances occurred because the Escheat Fund investments in the Bond Index Fund had lower earnings than the previous year due to rising interest rates and the Debt Proceeds and Interest Fund investment balance being higher than prior year.

Total expenditures increased by $138.4 million compared to prior year. This increase was due to an increase in expenditures to other state agencies of $200.1 million offset by a decrease in state aid of $36.7 million and a decrease of $23 million in debt service. The increase of expenditures to other state agencies of $200.1 million and the increase in general obligations bonds issued line item of $200 million primarily consists of the $200 million of general obligations bonds issued in the current fiscal year and transferred to the Office of State Budget and Management (See Note 9). The decrease in state aid was primarily due to the decrease in deferred outflows of resources for forward funded state aid. The decrease in debt service was due to payments of principal and interest and a decreasing level of state debt.

Total other financing sources (uses) increased by $213.2 million compared to prior year. This was due to increases in general obligations bonds issued of $200 million and pay to refunded debt escrow agent of $416.5 million, offset by decreases in: refunding on bonds issued of $329.4 million, premiums on bonds issued of $58 million, and state appropriations of $16.3 million. As noted above, there were $200 million of general obligations bonds issued in the current fiscal year. In the prior year only, there was a $416.5 million payment to the debt escrow agent, $329.4 million refunding of bonds issued, and $88.1 million of premiums were for a refunding of Series 2016A issued in fiscal year ended June 30, 2016. The decrease of $16.3 million of state appropriations was due to lower budget allotments needed due to the decreasing level of state debt and resources requested for payments of principal and interest.

Budget Variations

Data for the General Fund 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 $21.5 million more than the original budget. The increase was primarily due to increases in the budgeted loan collections of principal, and reimbursement of expenditures from the investment pool.

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 (DEQ). 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 $6.6 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 uses receipts for all personal services and for reimbursement of core service's operating expenses to the Department of State Treasurer core service divisions. This change was made to more accurately reflect the increase in expected receipts from the investment pool and was approved by the Office of State Budget and Management.

The final budgeted expenditures increased $99 million from the original budget. The increase was primarily due to the increase in the final budgets for debt service (interest and fees), state aid, and contracted personal services, offset by decreases in debt service principal retirement.

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 expenditure for state aid was $6 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 $4.4 million more than the original budget. The increase in the final budget was due to expected increases in temporary services for turnover of staff and expected increases in information technology project related costs.

The final budgeted other financing sources (uses) increased $68.8 million from the original budget. The increase was primarily due to the increases in the final budgets for state appropriations, refunding on bonds issued, premiums on bonds issued, and transfers in, offset by decreases in debt service principal retirement.

The final budgeted amount for refunding on bonds issued were $299 million more than the original budget. The final budgeted amount for premiums on bonds issued were $52.2 million more than the original budget. The final budgeted amount for pay to refunded debt escrow agent was $349.8 million less than the original budget. For these variances and the variance related to transfers in of $56.2 million, see discussion above on debt service.

Variances – Final Budget and Actual Results:

Actual total revenue was $23.1 million below final budgeted revenue amounts. This result occurred due to less than budgeted investment earnings and loan collection of principal offset by unbudgeted fees.

Actual investment earnings were $20 million below budgeted amounts. For the investment earnings explanation, see discussion on the previous page about debt service variances for debt service: principal retirement, interest and fees, and debt issuance costs. As previously noted, it has not been the Department's practice to adjust the final budget to actual, as it is expected that payments will vary each year.

Actual fees were $7.2 million above the final budgeted amount due to a final budget not being recorded for these funds. These are pass-through accounts and the revenue equals the expenditures.

Actual loan collection of principal was $3.1 million less than final budgeted amounts. This variance was due to a reduced number of loan repayments as loans mature and are repaid. This is likewise a pass-through account. See explanation above related to the Clean Water Loans.

Actual total expenditures were $611.1 million less than final budgeted expenditures. Final budgeted expenditures were unrealized primarily because $603.9 million less was spent on debt service, including principal retirement, interest and fees, and debt issuance costs. Contracted personal services and personal services expenditures were also less than final budgeted amounts by $2.7 million and $2.3 million, respectively.

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 code for the state appropriations used for this purpose.

The actual expenditures for contracted personal services came in $2.7 million less than budgeted, because of decisions made by management to have cost savings for the Department.

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 $579.9 million below budgeted amounts due to less than expected refunding and premiums on bonds issued, as well as less than expected transfers in, state appropriations, and agency reserves. These were offset by less than expected other financing uses of pay to refunded debt escrow agent.

For variances about debt issuances, pay to refunded debt escrow agent, transfers in, and transfers out, see discussion above about debt service.

Actual state appropriations were $23.9 million less than budgeted amounts due to the decreasing level of state debt and resources requested for payments of principal and interest.

Fiduciary Funds

Condensed Statement of Fiduciary Net Position

	2017	2016	Change
Assets			
Cash and Cash Equivalents	$ 477,461,981	$ 385,642,539	$ 91,819,442
Investments	105,906,093,658	98,652,422,003	7,253,671,655
Securities Lending Collateral	706,442,857	2,787,203,149	(2,080,760,292)
Other Assets	584,475,575	571,708,860	12,766,715
Total Assets	107,674,474,071	102,396,976,551	5,277,497,520
Liabilities			
Accounts Payable and Accrued Liabilities	6,490,532	5,715,683	774,849
Obligations Under Securities Lending	706,442,857	2,787,203,149	(2,080,760,292)
Funds Held For Others	6,853,172	7,303,090	(449,918)
Total Liabilities	719,786,561	2,800,221,922	(2,080,435,361)
Net Position			
Restricted for:			
Pension Benefits	102,421,894,530	95,314,132,225	7,107,762,305
Postemployment Benefits	1,634,176,135	1,522,956,152	111,219,983
Pool Participants	799,377,119	913,237,055	(113,859,936)
Individuals, Organizations, and Other Governments	423,007,773	243,229,213	179,778,560
Other Employment Benefits	1,676,231,953	1,603,199,984	73,031,969
Total Net Position	$ 106,954,687,510	$ 99,596,754,629	$ 7,357,932,881

Analysis of Fiduciary Funds Condensed Statement of Net Position

Total assets increased by $5.3 billion compared to prior year. The increase was primarily due to an increase in investments of $7.3 billion offset by a decrease in securities lending collateral of $2.1 billion. The increase in investments was primarily due to the appreciation in the market value of assets. The decrease in securities lending collateral was due to a change in securities lending guidelines which resulted in a drastic reduction of securities lending transactions.

The North Carolina pension fund is appropriately diversified and invested with a conservative strategy. The pension fund returned 10.77% for the fiscal year ended June 30, 2017. This is up from the 0.81% returned in the fiscal year ended June 30, 2016.

The pension fund investments are allocated according to the Investment Policy Statement (IPS), which was finalized during fiscal year 2014 and became effective July 1, 2014. During fiscal year 2016, the Investment Management Division (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.

Beginning in the second half of fiscal year 2017, IMD implemented a series of changes to the pension fund investment portfolio as part of a cost efficiencies initiative designed to lower plan complexity and increase value. Through August 2017, this initiative had resulted in an approximate annual savings for the pension fund of over $60 million with a four-year run rate of more than $240 million. These changes also resulted in a modest de-risking of the investment portfolio through June 30, 2017, as public equity exposure was reduced in favor of cash and investment grade fixed income. All the while, the investment portfolio remained compliant with the acceptable ranges laid out within the IPS.

Total liabilities decreased by $2.1 billion mostly due to the decrease in obligations under securities lending. See explanation above about securities lending.

Overall net position increased by $7.4 billion as of fiscal year end 2017 with most of the increase 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

	2017	2016	Change
Additions			
Contributions	$ 4,906,900,043	$ 4,543,508,423	$ 363,391,620
Net Investment Income	9,995,057,701	732,708,603	9,262,349,098
Other	86,239,281	42,608,022	43,631,259
Total Additions	14,988,197,025	5,318,825,048	9,669,371,977
Deductions			
Claims and Benefits	6,435,231,884	6,134,485,132	300,746,752
Medical Insurance Premiums	916,088,760	855,948,277	60,140,483
Other	278,943,500	200,682,052	78,261,448
Total Deductions	7,630,264,144	7,191,115,461	439,148,683
Change in Net Position	7,357,932,881	(1,872,290,413)	9,230,223,294
Net Position - July 1	99,596,754,629	101,469,045,042	(1,872,290,413)
Net Position - June 30	$ 106,954,687,510	$ 99,596,754,629	$ 7,357,932,881

Total additions increased $9.7 billion from the prior year mostly due to the $9.3 billion increase in net investment income. The increase in net investment income was primarily due to returns on the external pool increasing from under 1% in the prior fiscal year to over 10% in the current fiscal year.

Total deductions increased by $439.1 million primarily due to an increase of $300.7 million in claims and benefits paid. During the fiscal year ended June 30, 2017, the North Carolina Retirement Systems and Other Post Employment Benefit funds paid out over $6.4 billion as compared to $6.1 billion in the prior year. The increase in claims and benefits paid is due to an expected increase based on changes in the retiree population over time, a one-time cost-of-living supplement payment made to Teachers' and State Employees' Retirement System (TSERS) retirees during fiscal year 2017, and other immaterial factors. The North Carolina Retirement Systems pays retirement and other benefits to more than 334,000 retirees and beneficiaries. The North Carolina Retirement Systems 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 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 listed North Carolina's pension funding level as 94.6% as of June 30, 2015, the fourth highest out of the 50 states. However, this level is based on a 7.25% return on investment which the Fund has not achieved, on average, for the past 16 years. This report provides the most current ranking of statewide pension plans available.

Component Unit - State Health Plan

Condensed Statement of Net Position

	2017	2016	Change
Assets			
Current Assets	$ 1,032,466,358	$ 1,031,740,929	$ 725,429
Capital Assets, Depreciable, Net		24,138	(24,138)
Total Assets	1,032,466,358	1,031,765,067	701,291
Deferred Outflows of Resources			
Deferred Outflows for Pensions	1,119,698	263,126	856,572
Liabilities			
Current Liabilities	354,720,166	334,686,622	20,033,544
Noncurrent Liabilities:			
Compensated Absences	219,109	354,730	(135,621)
Net Pension Liability	1,556,961	686,795	870,166
Total Liabilities	356,496,236	335,728,147	20,768,089
Deferred Inflows of Resources			
Deferred Inflows for Pensions	109,335	159,179	(49,844)
Net Position			
Net Investment in Capital Assets		24,138	(24,138)
Unrestricted	676,980,485	696,116,729	(19,136,244)
Total Net Position	$ 676,980,485	$ 696,140,867	$ (19,160,382)

Total assets increased by $701.3 thousand compared to the prior year due to the change in current assets. Current assets increase of $725.4 thousand was primarily the result of a $41.5 million decrease in cash and cash equivalents offset by an increase of $45.8 million in rebates receivable. The decrease in cash and cash equivalents was due to normal variations in the timing of premium inflows and claims outflows. The increase in rebates receivable was driven by efficiencies due to changes in pharmacy benefit management effective January 1, 2017. Capital Assets decreased by $24 thousand due to the disposal of equipment during the year.

Liabilities totaled $356.5 million, an increase of $20.8 million over the prior year, primarily due to the change in current liabilities. Current liabilities totaled $354.7 million which was an increase of $20 million from the prior year. Medical claims payable increased by $23.1 million due to proportionate increases in medical claims. The increase in medical claims payable was offset by a $3 million decrease in intergovernmental payables. This was due to reduction in amounts due the federal government under the Affordable Care Act.

Overall net position decreased by $19.2 million as of fiscal year end 2017 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 on the next page.

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

	2017	2016	Change
Operating Revenues			
Insurance Premiums	$ 3,247,140,382	$ 3,075,791,037	$ 171,349,345
Total Operating Revenues	3,247,140,382	3,075,791,037	171,349,345
Operating Expenses			
Contracted Personal Services	152,173,237	151,429,368	743,869
Affordable Care Act Expenses	16,116,164	30,616,769	(14,500,605)
Claims	2,924,475,680	2,777,912,508	146,563,172
Insurance	194,836,664	183,857,884	10,978,780
Other	6,051,881	5,595,139	456,742
Total Operating Expenses	3,293,653,626	3,149,411,668	144,241,958
Operating Loss	(46,513,244)	(73,620,631)	27,107,387
Nonoperating Revenues (Expenses)			
Pharmacy Subsidies and Rebates	17,588,605	21,533,756	(3,945,151)
Investment Earnings	9,788,395	7,578,460	2,209,935
Miscellaneous	(24,138)	199,060	(223,198)
Total Nonoperating Revenues	27,352,862	29,311,276	(1,958,414)
Decrease in Net Position	(19,160,382)	(44,309,355)	25,148,973
Net Position - July 1	696,140,867	740,450,222	(44,309,355)
Net Position - June 30	$ 676,980,485	$ 696,140,867	$ (19,160,382)

Operating revenues from insurance premiums increased by $171.3 million due to growth in membership and increases in premium rates.

Total operating expenses increased $144.2 million due to increases in claims and insurance, offset by a reduction in affordable care act expenses of $14.5 million. Claims increased by $146.6 million due to medical and pharmacy cost inflation, as well as a membership increase. Insurance increased by $11 million due to growth in membership and increased Medicare Advantage premium rates. The decrease in affordable care act expenses was due to a reduced federal liability.

Nonoperating revenues decreased by $2 million due to a decrease in pharmacy subsidies and rebates offset by an increase in investment earnings. Pharmacy subsidies and rebates decreased by $3.9 million because of normal variations in the timing of receipt of these items. Investment earnings increased by $2.2 million due to improved market conditions.

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 ABLE Act, up to and including $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 responsible for the administration and outreach efforts of this new program. The ABLE Board of Trustees determined that joining a consortium of other states was an effective means for leveraging resources and attaining economies of scale with the goal of offering a low cost, high quality program. The Department is coordinating state-wide communications and outreach efforts, actively conferring with staff for other states' ABLE programs, and collaborating with national organization leaders in the nonprofit community who provide services and advocacy for individuals with disabilities.

North Carolina's AAA Rating

In February 2017, North Carolina presented its annual Debt Affordability Study to the Governor and the General Assembly. For the first time, the primary recommendation of this year's report suggested that significant additional money be put toward North Carolina's pension and Other Postemployment Benefits (OPEB) obligations that represent retired employees' health benefits. At the time of the report, the State currently had unfunded pension and OPEB obligations totaling at least $38 billion.

Under this new proposal, the Committee recommended that the targeted debt limit ratio be raised from 4 percent to 4.5 percent of general tax revenues, allowing for debt capacity in the General Fund, after placing funds in trust for the purpose of funding the pension and OPEB liabilities. The result is General Fund debt capacity of approximately $1.3 billion in the current fiscal year or just over $180 million a year for the next 10 years.

Legislation was passed by the North Carolina House of Representatives to implement the Committee's recommendations, but stalled in the North Carolina Senate as time ran out during the regular session.

North Carolina's debt is considered manageable at current levels when compared with its peer group composed of the eleven 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 4.5% of General Fund tax revenues and should not exceed 4.75%.

The study also found that the Highway Fund and Highway Trust Fund had combined debt capacity of $1.1 billion for the 2017 fiscal year and $6.8 million for the 2018 fiscal year. The calculation of the State's Highway Fund and Highway Trust Fund debt capacity is based on the Debt Affordability Advisory Committee's recommendation that debt service should be targeted at no more than 6% of their state tax revenues.

In August 2016, the State issued $200 million of General Obligation Bonds. These General Obligation Bonds were the first in a series of bonds authorized under the Connect NC Bond Act of 2015. The Act authorized the issuance of $2 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.

In July 2017, the State issued $106.1 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 $14.7 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.

In August 2017, the State issued $618.4 million of Limited Obligation Refunding Bonds to refinance limited obligation bonds and certain certificates of participation issued by North Carolina Infrastructure Finance Corporation that were previously issued at higher rates. The refunding will save the State approximately $83.6 million in debt service costs.

On August 16, 2017, the State issued $224.6 million of Grant Anticipation Revenue Vehicle bonds (GARVEE) that were previously issued at higher rates. The refunding will save approximately $18.3 million in debt service costs. GARVEE bonds are payable solely from certain federal aid revenues received on behalf of the State and do not create a debt liability of the State or of any political subdivision of the State.

In total, the refinancing resulted in a reduction of debt service costs for the State of more than $133 million.

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 $5.2 billion in bonds and notes issued by local government units to finance capital needs during the fiscal year ended June 30, 2017.

The staff of the LGC annually examines the audited financial statements of over 1,300 local governments and public authorities across North Carolina to detect signs of fiscal distress and ensure proper accounting presentation of the statements. Due to the unequal and lingering impacts of the Great Recession as well as the devastation caused in some areas by Hurricane Matthew, the staff continues to see areas of deepening fiscal distress, most notably in smaller rural units of government. In response, a local government intervention unit, the COACH team, was created in 2016 to provide special assistance to those governmental units identified as failing to meet fiscal standards or best practices. The team conducted 125 visits with 93 different units of government during the 2017 fiscal year. To address another concern, again found more frequently in smaller rural units, staff created a continuing education class to be provided through the North Carolina Community College System to help provide basic local government finance training for unit finance staff and others without formal governmental accounting training or backgrounds. The class, piloted in three campuses in the spring of 2017, was attended by 47 students from 26 different units and was very well received. The class was made available to all 57 colleges in the fall of 2017.

Banking Operations

As the State's bank, 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 $80.8 million were held in over 90 accounts in 25 non-main banks across the state. In addition, another $159 million was held in deposits with the six main concentration banks. During fiscal year ended June 30, 2017, more than 3.6 million warrants were processed, representing approximately $19.7 billion in payments. In addition, Banking Operations initiated approximately 23,900 wires in the amount of $181.4 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, 2017, Banking Operations oversaw $8.6 billion in pledged securities and collateral for $7 billion in deposits not otherwise covered by the Federal Deposit Insurance Corporation (FDIC) insurance.

Escheat Fund

The Department of State Treasurer oversees and maintains unclaimed property for the State. By law, unclaimed property is escheated, or turned over, to the Department for safekeeping. The Unclaimed Property Division (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 directive of a 1971 state law. The interest earned on these funds pays for the operating costs of the Unclaimed Property Division, and all remaining interest is sent to the State Education Assistance Authority (SEAA) to provide grants, loans, and scholarships for North Carolina students attending public universities. In addition, since 2003, the State has used a significant amount of the Escheat Fund's principal to fund student financial aid.

Per Session Law 2015-241, $60 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 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 million in educational assistance to those in the University system, $16 million to those in the Community College system, and $6.5 million to the Veterans Scholarship Program in the 2016-2017 fiscal year. As of the fiscal year ending June 30, 2017, the Escheat Fund carried a fund balance of $659 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.

Per Session Law 2017-57 the General Assembly, at this time, is continuing the appropriation of principal to support base budget funding for the UNC System, Community Colleges, and the Department of Military and Veterans Affairs.

Award of Major Contracts

Claims Processing and Call Center Support: In addition to outsourcing a portion of its claims processing, the Unclaimed Property Division fully outsourced its call center support services for claims. Due to the anticipated volume of claims and incoming calls, the projected annual cost of the Claims Processing and Call Center Support contract was increased from $540,000 to $850,000 beginning with the 2016-2017 contract period.

Unclaimed Property Management System: The request for proposal (RFP) for a new fully integrated unclaimed property management system will be awarded in 2017-2018 and 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 financial cost is projected to be $1.75 million in the first year and $450,000 per year in subsequent years.

Unclaimed Property Audit Services: UPD awarded contracts to six vendors to provide in-state and/or out-of-state unclaimed property audits on the state's behalf. Contracts were awarded August 16, 2017 for a one-year period with the option to renew twice for one-year periods each. The total cost for all contracts and renewals is not to exceed $15 million.

Venture Capital Multiplier Fund

Pursuant to *General Statute* 147-69.2A and *General Statute* 147-69.2(b)(12)(c), the State Treasurer is required to invest 10% of the Escheat Fund through the Venture Capital Multiplier Fund. The Venture Capital Multiplier Fund is administered by a third party professional investment management firm selected following a public procurement process by designees from the Governor's Office, Department of State Treasurer, the Speaker of the House of Representatives, and the President Pro Tempore of the Senate. In late 2016, Hatteras Venture Partners was selected to act at as the third party investment manager for the Venture Capital Multiplier Fund. To date, $60 million has been committed to the Venture Capital Multiplier fund with roughly $9 million being invested. It is the expectation of the Department that the remaining $51 million will be called over the next few years.

Legislative Changes

In the 2017 legislative session, House Bill 294 Amended *North Carolina General Statutes* 116B-53, 116B-59, and 116B-77.

It made the following changes to the notice requirements for abandoned property effective October 1, 2017:

- Lowered the threshold for the notice of abandoned property for security, stock, or other equity interest in a business association to $25 or more.
- Requires that the notice include the contact information of the person holding the property and a statement that, after the property is in the custody of the Treasurer, any interest, dividends, income or gains earned on the property shall remain with the Treasurer and will not be transferred to the owner once the owner reclaims the property.

Under the clarified provisions, holders of such property must send written notice via first-class mail to the apparent owner(s) at least 60 days prior to filing the annual report and no more than 120 days before filing the annual report. In sending the notice, holders must use reasonable care to ensure that the notice is sent to the appropriate address.

The changes further establish that the dormancy period for a security or other equity interest in a business association is three years after the earlier of: 1) the date a cash dividend or other distribution is unclaimed by the apparent owner, 2) the date a second consecutive mailing or other communication via first-class mail from the holder to the apparent owner is returned to the holder as unclaimed or undeliverable, or 3) the date when the holder ceases mailings and other notifications to the apparent owner.

Finally, the amendment clarifies that willful failure to perform the preceding notice requirements in the holder duties shall lead to the assessment of interest and penalties against a holder.

The preceding provisions are effective October 1, 2017. Accordingly, these provisions apply to property presumed abandoned on or after that date.

The intent of these changes is to increase the required efforts by holders to locate owners of unclaimed securities. As a result of these location efforts, we anticipate an increase in the volume of securities returned to the rightful owner rather than being escheated to the State. However, the Department is unable to determine the specific impact of these changes on the Escheat Fund at this time.

Fiduciary Funds

North Carolina Retirement Systems

Effective July 1, 2017, the State established an employer contribution rate of 10.78% of compensation for TSERS. This includes a base contribution rate of 10.33% along with an additional 0.43% of compensation to pay for a one percent (1%) cost-of-living adjustment (COLA) granted by the General Assembly and 0.02% of compensation to cover legislation extending the retirement benefits provided to law enforcement officers (LEOs) to probation and parole officers in future years. The base contribution rate of 10.33% set by the General Assembly (without any benefit enhancements or COLAs) is greater than the Actuarially Determined Contribution (ADC) of 10.08% determined under the core funding policy. The total contribution rate of 10.33% is equal to the minimum employer contribution rate of 10.33% recommended by the TSERS Board of Trustees under the Board's Employer Contribution Rate Stabilization Policy. However, the Board did not recommend any of the benefit enhancements provided in the fiscal year. 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.

Because there were no undistributed gains to cover any portion of the COLA granted by the General Assembly, Conduent, the actuary for the North Carolina Retirement Systems estimates that the unfunded liability of the State Retirement Systems (including TSERS, the Consolidated Judicial Retirement System (CJRS), and the Legislative Retirement System (LRS)) will increase by roughly $435 million. This increase is projected to be paid off over 12 years through increased employer contributions. The total annual cost for TSERS in fiscal year 2018 and subsequent years is estimated at $64.5 million. These costs are in addition to the continued increased contributions due to COLAs granted in previous years that are still being amortized.

On April 20, 2017, the TSERS Board voted to reduce the discount rate from 7.25% to 7.20% for TSERS, CJRS, LRS, and the North Carolina National Guard Pension Fund (NGPF). This new discount rate assumption will be used in actuarial valuations covering December 31, 2016, and later. This change to the funding policy will require an additional $71 million in appropriations for TSERS in the fiscal year ending June 30, 2019, the first year in which it will affect funding costs. Additionally, the reduced discount rate will decrease the level at which the plans are funded, currently at around 95.9% for LGERS and 91.6% for TSERS, to 95.4% and 91.1%, respectively.

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 ADC rate determined under the Board's core funding policy and adopted assumptions, including a discount rate of 7.25% (7.20% beginning in fiscal year ending June 30, 2019).

(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 ECRSP resulted in a minimum recommended contribution rate of 10.33% of payroll for fiscal year ending 2018, since this would be the minimum contribution after an increase of 0.35% to the prior appropriated contribution rate of 9.98%. This is greater than the 10.08% ADC determined using the core funding policy and an experience investigation covering the period between January 1, 2010 and December 31, 2014. The upper bound on the policy for the fiscal year ending 2018 would be a maximum contribution rate based on 30-year Treasury Rate used as an interest rate assumption, estimated to be 64.01% as of December 31, 2015.

The Board elected to recommend the minimum employer contribution rate under the policy of 10.33% 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 10.78% of compensation for TSERS, which included a base employer contribution rate of 10.33% along with an additional 0.43% of compensation to pay for a one percent (1%) COLA granted by the General Assembly and 0.02% of compensation to pay for legislation extending the retirement benefits provided to LEOs to probation and parole officers in future years.

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 five 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, 2018 to 7.50% for general employees and 8.25% for LEOs. These employer contribution rates represent an increase of 0.25% to the prior fiscal year's contribution rate of 7.25% for general employees and 8.00% for LEOs. These rates are in excess of the ADC of 6.25% for general employees and 7.84% for LEOs as determined using the core funding policy and an experience investigation covering the period between January 1, 2010 and December 31, 2014.

Under the LGERS ECRSP, both rates will continue to increase by 0.25% annually through fiscal year 2020-2021, with the following additional adjustments, if applicable: (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 of the system. Given the investment losses in 2015, the Board of Trustees was not permitted to grant a COLA in the fiscal year ending June 30, 2018, under the authority allowed by statute.

On April 20, 2017, the LGERS Board of Trustees voted unanimously to reduce the discount rate from 7.25% to 7.20% for LGERS and the Firefighters' and Rescue Squad Workers' Pension Fund (FRSWPF). The new discount rate assumption will be used in actuarial valuations covering December 31, 2016, and later. This will not result in an increase in employer contributions until the fiscal year ending June 30, 2019, the first year in which it will affect funding costs. This is due to the parameters of the LGERS ECRSP, which require increases of 0.25% in the employer contribution rate each year unless certain thresholds are exceeded. This reduction in the discount rate does not result in an increase in the underlying ADC that would exceed such thresholds.

Additionally, the LGERS Board adopted a State Contribution Rate Stabilization Policy (SCRSP) on January 26, 2017 for the Firefighter's and Rescue Squad Worker's Pension Fund. The SCRSP establishes how the LGERS Board will develop an annual appropriation amount to recommend to the General Assembly to fund the FRSWPF for the next five years or until the next experience review. It further describes when benefit increases and member contribution increases will be considered and recommended. As a result of this policy, the Board's recommendation for the annual General Fund contribution to the fund will increase each year by a minimum of $350,000.

Closing of Retiree Health Benefit Trust

Members first hired on or after January 1, 2021, will not be eligible to receive retiree medical benefits. Under the new legislation, retirees must have earned contributory retirement service in a state retirement system prior to January 1, 2021, and must not have withdrawn that service, in order to be eligible for retiree medical benefits. Because the valuations of the various retirement systems and the State's Other Postemployment Benefits (OPEB) only reflect current participants, the current valuation results are unaffected by this change.

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, 2016, the 401(k) had approximately 245,500 members and $8.8 billion in assets, while the 457(b) had approximately 52,600 members and $1.2 billion in assets. As of June 30, 2017, member participation had increased to approximately 267,000 and 53,000 for the 401(k) and 457(b), respectively.

Supplemental Retirement Plan for Teachers

The North Carolina 403(b) Program was launched early second quarter 2014. At June 30, 2017, there were 50 school districts enrolled in the North Carolina 403(b) Program with 1,186 employees participating. 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, 2017, assets under management were approximately $11.2 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 2018 benefits that reduce complexity, build value, and provide certainty for members of the State Health Plan. The changes are an initial step by the State Health Plan to address limited funding increases for the State's employer contributions while retaining solid benefits for employees and retirees with affordable individual premiums. The benefit changes will be effective January 1, 2018.

In 2018, active employees and pre-65 retirees can choose the 80/20 PPO Plan (80/20 Plan) or the 70/30 PPO Plan (70/30 Plan). The Consumer-Directed Health Plan 85/15 (CDHP 85/15) with a Health Reimbursement Account (HRA) is not available for 2018.

To reduce complexity, the number of premium wellness activities members are asked to complete is reduced from three in 2017 to one in 2018. Members will still be asked to attest to being a non-tobacco user or to participate in a tobacco cessation program. Members who do not complete the attestation or who use tobacco and are unwilling to participate in a cessation program will pay an additional $60 per month. However, retirees on the 70/30 Plan will not be required to complete the attestation to access a lower 70/30 premium.

The 80/20 Plan option continues 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 Primary Care Provider (PCP) and using designated better value health care providers who meet certain quality, cost, and accessibility benchmarks. Member copayments, deductibles, coinsurance, and out-of-pocket maximums stay the same from 2017 to 2018 for the 80/20 and 70/30 plans.

For Medicare retirees, the State Health Plan will continue to offer fully-insured Medicare Advantage products with integrated prescription drug plans (MA-PDPs) in 2018 through an agreement with United Healthcare. This agreement was renegotiated in July 2017, resulting in the freezing of premiums paid by the State on behalf of the 150,000 Medicare-eligible state retirees using Medicare Advantage plans through the State Health Plan.

United Healthcare will offer a standard base MA-PDP (for a $0 retiree only premium) and an enhanced MA-PDP that members may select for an additional monthly premium charge. The benefit design for the 2018 base and enhanced MA-PDP offerings will be the same as the 2017 United Healthcare plans. Medicare retirees will continue to have the option to enroll in the 70/30 Plan as an alternate to the MA-PDP offerings.

2018 Premium Increases

In July 2017, the Board approved premium increases for the employee/retiree and the employee/spouse coverage tiers effective January 1, 2018. The premium increases were in response to anticipated medical and pharmacy cost increases of 7% and 8.5%, respectively. Adding additional pressure was the fact that the Governor and North Carolina General Assembly provided a 4% increase over 2017 appropriations.

Monthly employee premiums increase to $50 for the 80/20 Plan and $25 for the 70/30 Plan. Employee/Spouse premiums increased 2.4% for the 80/20 Plan and 5% for the 70/30 Plan while premiums remained stable for the Employee/Child and Employee/Family coverage tiers. Family premiums (Employee/Spouse/Child) were frozen for 2018. Employer contributions for 2018 increased by 4%, as authorized in the Appropriations Act of 2017. 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 4%. MA-PDP dependent rates and enhanced plan rates will remain stable.

Recently Enacted Legislation

Session Law 2017-135 (House Bill 299) 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 and clarify plan operations.

The legislation expands the State Health Plan's authority to terminate coverage for individuals found to have knowingly and willfully made or caused to be made a false statement or false representation of a material fact regarding eligibility or enrollment information.

The legislation expands the State Health Plan's or authorized representatives who are assisting the State Health Plan staff access to persons and records when conducting an investigation or audit under the Treasurer's authority to establish and operate fraud detection and audit programs.

The legislation provides that children born to covered employees shall be covered at the time of birth so long as the State Health Plan receives notification within 30 days of the date of birth and the employee pays any additional premium required by the coverage type selected retroactive to the first day of the month in which the child was born.

The legislation provides immunity from civil liability for monetary damages for any act, or failure to act, except under limited circumstances for a person serving on the Board of Trustees.

The legislation clarifies the calculation of member premiums for State Health Plan members who qualify for the 50% contributory eligibility category.

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. Implementation with CVS/Caremark began immediately after approval of the contract and services were successfully transitioned from Express Scripts to CVS/Caremark on January 1, 2017.

In September 2017, the SHP Board of Trustees approved a contract with Blue Cross Blue Shield of North Carolina to provide Third Party Administrator (TPA) Services beginning January 1, 2019. The State Health Plan's TPA contract, which is currently held by Blue Cross Blue Shield of North Carolina, is the State Health Plan's largest and one of the most important contracts. Implementation with Blue Cross Blue Shield of North Carolina began immediately after approval of the contract in order to prepare for the transition to a new contract.

FINANCIAL STATEMENTS

North Carolina Department of State Treasurer
Balance Sheet
Governmental Funds
As of June 30, 2017
(With Comparative Totals as of June 30, 2016)

	General Fund	Escheat Fund	Debt Proceeds and Interest Fund
ASSETS			
Cash and Cash Equivalents (Note 3)	$ 6,051,266	$ 419,657,578	$ 0
Investments		258,902,696	135,540,862
Securities Lending Collateral	2,168	502,621	
Receivables:			
Intergovernmental Receivables	29,121		
Interest Receivable	1,642	1,166,290	247,965
Contributions Receivable	78,655		
Inventories	72,841		
Notes Receivable			
Due from Other Funds	30,820		
Due from Component Unit	6,896		
Total Assets	6,273,409	680,229,185	135,788,827
DEFERRED OUTFLOWS OF RESOURCES			
Forward Funded State Aid	0	37,287,242	0
Total Assets and Deferred Outflows of Resources	$ 6,273,409	$ 717,516,427	$ 135,788,827
LIABILITIES			
Accounts Payable	$ 321,514	$ 93,201	$ 35,003
Obligations under Securities Lending	2,168	502,621	
Due to Other Funds	41,825		
Escheat Claims Payable		58,000,000	
Total Liabilities	365,507	58,595,822	35,003
DEFERRED INFLOWS OF RESOURCES			
Total Deferred Inflows of Resources	0	0	0
FUND BALANCES (Note 8)			
Nonspendable	72,841		
Restricted	477,046	658,920,605	135,753,824
Committed	4,215,737		
Unassigned	1,142,278		
Total Fund Balances	5,907,902	658,920,605	135,753,824
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	$ 6,273,409	$ 717,516,427	$ 135,788,827

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

(1) See supplementary Exhibit I-1 for detailed information of each fund within Other Governmental Funds

Exhibit A-1

Other Governmental Funds (1)	Total 2017	Total 2016
$ 505,129	$ 426,213,973	$ 385,589,871
3,574,228	398,017,786	352,259,725
341	505,130	30,440,844
	29,121	151,455
6,241	1,422,138	322,561
	78,655	76,172
	72,841	113,646
37,404	37,404	49,095
	30,820	28,582
	6,896	8,494
4,123,343	826,414,764	769,040,445
0	37,287,242	37,287,242
$ 4,123,343	$ 863,702,006	$ 806,327,687
$ 1,366	$ 451,084	$ 759,367
341	505,130	30,440,844
	41,825	65,850
	58,000,000	62,795,004
1,707	58,998,039	94,061,065
0	0	0
	72,841	113,646
3,578,837	798,730,312	707,016,072
542,799	4,758,536	4,235,139
	1,142,278	901,765
4,121,636	804,703,967	712,266,622
$ 4,123,343	$ 863,702,006	$ 806,327,687

North Carolina Department of State Treasurer
Statement of Revenues, Expenditures, and Changes in Fund Balance
Governmental Funds
For the Fiscal Year Ended June 30, 2017
(With Comparative Totals for the Fiscal Year Ended June 30, 2016)

	General Fund	Escheat Fund	Debt Proceeds and Interest Fund
REVENUES			
Funds Escheated	$ 0	$ 126,700,610	$ 0
Fees	7,255,608		
Services	6,990,643	284	
Administrative Cost Reimbursements	5,839,625		
Contributions	663,791		
Investment Earnings	22,659	10,484,996	1,957,535
Interest Earnings on Loans	268,942		
Rental and Lease of Property			
Revenues from Other State Agencies (Note 9)	2,943,151		
Loan Collection of Principal	3,730,613		
Reimbursement of Core Banking Upgrade Expenditures	280,000		
Reimbursement of Expenditures from Investment Pool	8,721,372		
Miscellaneous Revenue	294,242		
Total Revenues	37,010,646	137,185,890	1,957,535
EXPENDITURES			
State Aid	26,119,283	37,287,242	
Contracted Personal Services	1,811,397	2,411,529	126,112
Personal Services	16,411,293	1,135,303	
Employee Benefits	5,008,875	442,184	
Supplies and Materials	129,959	16,986	
Travel	81,907	15,388	
Communication	211,085	26,811	
Utilities	183,438	2,285	
Data Processing Services	137,622	18	
Other Services	104,198	50,058	
Claims and Benefits	500,000		
Debt Service			
Principal Retirement	466,299,036		
Interest and Fees	237,583,588		57,929
Debt Issuance Costs	470,226		538,000
Other Fixed Charges	1,398,795	90,707	
Capital Outlay	1,015,686	5,958	
Insurance	9,026	2,936	
Other Expenditures	654,375	97,675	
Expenditures to Other State Agencies (Note 9)	7,188,414	22,855,964	200,000,000
Total Expenditures	765,318,203	64,441,044	200,722,041
Excess Revenues Over (Under) Expenditures	(728,307,557)	72,744,846	(198,764,506)
OTHER FINANCING SOURCES (USES)			
State Appropriations	716,989,066		
Sale of Capital Assets			
General Obligation Bonds Issued			200,000,000
Refunding Bonds Issued			
Premiums on Bonds Issued			30,018,100
Pay to Refunded Debt Escrow Agent			
Transfers to State Reserve Fund	(122,246)		
Transfers from State Reserve Fund	121,992		
Transfers In (Note 10)	12,042,057		
Transfers Out (Note 10)		(868,932)	(11,173,125)
Total Other Financing Sources (Uses)	729,030,869	(868,932)	218,844,975
Net Change in Fund Balances	723,312	71,875,914	20,080,469
Fund Balances - July 1	5,184,590	587,044,691	115,673,355
Fund Balances - June 30	$ 5,907,902	$ 658,920,605	$ 135,753,824

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

(1) See supplementary Exhibit I-2 for detailed information of each fund within Other Governmental Funds

Exhibit A-2

Other Governmental Funds (1)	Total 2017	Total 2016
$ 0	$ 126,700,610	$ 108,437,030
150	7,255,758	6,919,890
	6,990,927	6,399,125
	5,839,625	5,962,718
3,257	667,048	1,986,306
44,707	12,509,897	15,423,815
	268,942	518,386
		125
	2,943,151	2,707,774
	3,730,613	6,777,533
	280,000	1,588,840
	8,721,372	7,707,942
	294,242	31,420
48,114	176,202,185	164,460,904
	63,406,525	100,056,113
6,575	4,355,613	5,151,228
	17,546,596	16,199,287
	5,451,059	4,876,850
	146,945	71,371
	97,295	131,543
	237,896	181,559
	185,723	117,447
	137,640	223,760
	154,256	158,985
3,373	503,373	377,425
	466,299,036	471,961,972
489	237,642,006	255,162,448
	1,008,226	836,191
	1,489,502	2,532,414
	1,021,644	1,366,584
	11,962	10,341
	752,050	2,766,469
280,027	230,324,405	30,206,774
290,464	1,030,771,752	892,388,761
(242,350)	(854,569,567)	(727,927,857)
	716,989,066	733,275,212
		1,586
	200,000,000	
		329,360,000
	30,018,100	88,065,635
		(416,509,303)
	(122,246)	(371,139)
	121,992	
	12,042,057	10,941,038
	(12,042,057)	(10,941,038)
0	947,006,912	733,821,991
(242,350)	92,437,345	5,894,134
4,363,986	712,266,622	706,372,488
$ 4,121,636	$ 804,703,967	$ 712,266,622

North Carolina Department of State Treasurer
Statement of Fiduciary Net Position
Fiduciary Funds
As of June 30, 2017
(With Comparative Totals as of June 30, 2016) ***Exhibit B-1***

		Pension and Other Employee Benefit Trust Funds (1)		Investment Trust Funds (2)		Private-Purpose Trust Fund		Total 2017		Total 2016
ASSETS										
Cash and Cash Equivalents	$	462,061,218	$	7,922,308	$	7,478,455	$	477,461,981	$	385,642,539
Investments:										
Collective Investment Funds		194,478,768						194,478,768		231,185,564
Unallocated Insurance Contracts		813,752,436						813,752,436		780,873,665
Synthetic Guaranteed Investment Contracts		1,465,848,568						1,465,848,568		1,333,666,227
State Treasurer Investment Pool		94,927,088,007		1,198,240,115		6,732,793		96,132,060,915		89,600,264,292
Non-State Treasurer Pooled Investments		7,299,952,971						7,299,952,971		6,706,432,255
Securities Lending Collateral		705,567,696		866,204		8,957		706,442,857		2,787,203,149
Receivables:										
Accounts Receivable		35,767,885						35,767,885		30,127,411
Interest Receivable		665,245		2,004,248		6,973		2,676,466		1,179,434
Contributions Receivable		149,977,160						149,977,160		145,167,909
Due from Other Funds		71,978,102						71,978,102		63,162,826
Due from Component Units		17,999,615						17,999,615		20,393,239
Notes Receivable		306,076,347						306,076,347		311,678,041
Total Assets		106,451,214,018		1,209,032,875		14,227,178		107,674,474,071		102,396,976,551
LIABILITIES										
Accounts Payable and Accrued Liabilities:										
Accounts Payable		1,369,321						1,369,321		1,464,096
Benefits Payable		5,121,211						5,121,211		4,251,587
Obligations under Securities Lending		705,567,696		866,204		8,957		706,442,857		2,787,203,149
Funds Held for Others		6,853,172						6,853,172		7,303,090
Total Liabilities		718,911,400		866,204		8,957		719,786,561		2,800,221,922
NET POSITION										
Restricted for:										
Pension Benefits		102,421,894,530						102,421,894,530		95,314,132,225
Postemployment Benefits		1,634,176,135						1,634,176,135		1,522,956,152
Pool Participants				799,377,119				799,377,119		913,237,055
Individuals, Organizations, and Other Governments				408,789,552		14,218,221		423,007,773		243,229,213
Other Employment Benefits		1,676,231,953						1,676,231,953		1,603,199,984
Total Net Position	$	105,732,302,618	$	1,208,166,671	$	14,218,221	$	106,954,687,510	$	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-3 for detailed information of each Investment Trust Fund

North Carolina Department of State Treasurer
Statement of Changes in Fiduciary Net Position
Fiduciary Funds
For the Fiscal Year Ended June 30, 2017
(With Comparative Totals for the Fiscal Year Ended June 30, 2016) *Exhibit B-2*

	Pension and Other Employee Benefit Trust Funds (1)	Investment Trust Funds (2)	Private-Purpose Trust Fund	Total 2017	Total 2016
ADDITIONS					
Contributions:					
Employer	$ 3,156,180,094	$ 0	$ 0	$ 3,156,180,094	$ 2,863,356,670
Members	1,699,221,196			1,699,221,196	1,634,554,373
Trustee Deposits					3,779
Other Contributions	51,498,753			51,498,753	45,593,601
Total Contributions	4,906,900,043	0	0	4,906,900,043	4,543,508,423
Investment Income:					
Investment Earnings	10,449,645,377	73,622,779	78,647	10,523,346,803	1,316,145,102
Less Investment Expenses	(527,455,634)	(832,040)	(1,428)	(528,289,102)	(583,436,499)
Net Investment Income	9,922,189,743	72,790,739	77,219	9,995,057,701	732,708,603
Pool Share Transactions:					
Reinvestment of Dividends		73,356,751		73,356,751	(3,634,336)
Net Share Purchases (Redemptions)		(6,649,334)		(6,649,334)	27,638,029
Net Pool Share Transactions	0	66,707,417	0	66,707,417	24,003,693
Other Additions:					
Fees and Fines	2,780,337			2,780,337	3,150,427
Interest Earnings on Loans	12,935,036			12,935,036	12,904,557
Miscellaneous	3,816,491			3,816,491	2,549,345
Total Other Additions	19,531,864	0	0	19,531,864	18,604,329
Total Additions	14,848,621,650	139,498,156	77,219	14,988,197,025	5,318,825,048
DEDUCTIONS					
Claims and Benefits	6,435,231,884			6,435,231,884	6,134,485,132
Medical Insurance Premiums	916,088,760			916,088,760	855,948,277
Refund of Contributions	169,902,936			169,902,936	175,268,365
Distributions Paid and Payable		73,356,751		73,356,751	(3,634,336)
Payments in Accordance with Trust Arrangements			300,000	300,000	350,000
Administrative Expenses	29,255,635			29,255,635	20,300,557
Other Deductions	6,128,178			6,128,178	8,397,466
Total Deductions	7,556,607,393	73,356,751	300,000	7,630,264,144	7,191,115,461
Change in Net Position	7,292,014,257	66,141,405	(222,781)	7,357,932,881	(1,872,290,413)
Net Position - July 1	98,440,288,361	1,142,025,266	14,441,002	99,596,754,629	101,469,045,042
Net Position - June 30	$ 105,732,302,618	$ 1,208,166,671	$ 14,218,221	$ 106,954,687,510	$ 99,596,754,629

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-4 for detailed information of each Investment Trust Fund

North Carolina Department of State Treasurer
Statement of Net Position
Component Unit - State Health Plan
As of June 30, 2017
(With Comparative Totals as of June 30, 2016) *Exhibit C-1*

	2017	2016
ASSETS		
Current Assets		
Cash and Cash Equivalents (Note 3)	$ 911,975,256	$ 953,478,156
Receivables		
Rebates Receivable	108,493,558	62,740,390
Accounts Receivable	5,491,375	8,367,640
Intergovernmental Receivables	1,322,972	5,006,319
Interest Receivable	917,565	677,721
Premiums Receivable	1,017,158	1,434,068
Other Receivables	3,248,474	36,635
Total Current Assets	1,032,466,358	1,031,740,929
Noncurrent Assets		
Capital Assets, Depreciable, Net		24,138
Total Assets	1,032,466,358	1,031,765,067
DEFERRED OUTFLOWS OF RESOURCES		
Deferred Outflows for Pensions (Note 12)	1,119,698	263,126
LIABILITIES		
Current Liabilities		
Accounts Payable	29,750,315	28,768,134
Intergovernmental Payables	2,949,520	5,911,880
Due to Primary Government	28,761	5,617
Medical Claims Payable	287,703,086	264,635,748
Compensated Absences (Note 6)	31,617	32,065
Unearned Revenue	34,256,867	35,333,178
Total Current Liabilities	354,720,166	334,686,622
Noncurrent Liabilities		
Compensated Absences (Note 6)	219,109	354,730
Net Pension Liability (Note 6)	1,556,961	686,795
Total Non-Current Liabilities	1,776,070	1,041,525
Total Liabilities	356,496,236	335,728,147
DEFERRED INFLOWS OF RESOURCES		
Deferred Inflows for Pensions (Note 12)	109,335	159,179
NET POSITION		
Net Investment in Capital Assets		24,138
Unrestricted	676,980,485	696,116,729
Total Net Position	$ 676,980,485	$ 696,140,867

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

North Carolina Department of State Treasurer
Statement of Revenues, Expenses, and Changes in Net Position
Component Unit - State Health Plan
For the Fiscal Year Ended June 30, 2017
(With Comparative Totals for the Fiscal Year Ended June 30, 2016) *Exhibit C-2*

	2017	2016
REVENUES		
Operating Revenues		
Insurance Premiums	$ 3,247,140,382	$ 3,075,791,037
EXPENSES		
Operating Expenses		
Personal Services	3,076,603	2,694,824
Employee Benefits	1,041,312	689,592
Supplies and Materials	38,936	312,768
Contracted Personal Services	152,173,237	151,429,368
Utilities	12,725	27,979
Travel	33,453	39,038
Communication	31,251	25,981
Data Processing Services	21,704	33,259
Affordable Care Act Expenses	16,116,164	30,616,769
Other Services	1,609,099	1,466,661
Claims	2,924,475,680	2,777,912,508
Depreciation		1,606
Insurance	194,836,664	183,857,884
Other Fixed Charges	10,173	154,302
Other Expenses	176,625	149,129
Total Operating Expenses	3,293,653,626	3,149,411,668
Operating Loss	(46,513,244)	(73,620,631)
NONOPERATING REVENUES (EXPENSES)		
Pharmacy Subsidies and Rebates	17,588,605	21,533,756
Investment Earnings	9,788,395	7,578,460
Miscellaneous	(24,138)	199,060
Total Nonoperating Revenues	27,352,862	29,311,276
Decrease in Net Position	(19,160,382)	(44,309,355)
Net Position - July 1	696,140,867	740,450,222
Net Position - June 30	$ 676,980,485	$ 696,140,867

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

North Carolina Department of State Treasurer
Statement of Cash Flows
Component Unit - State Health Plan
For the Fiscal Year Ended June 30, 2017
(With Comparative Totals for the Fiscal Year Ended June 30, 2016) *Exhibit C-3*

	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from Customers	$ 3,249,357,245	$ 3,084,117,069
Payments to Suppliers	(366,840,442)	(359,988,606)
Payments to Employees	(4,290,233)	(3,575,413)
Payments for Claims	(2,950,373,349)	(2,816,695,206)
Other Payments	(176,626)	(117,671)
Net Cash Used for Operating Activities	(72,323,405)	(96,259,827)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Grant Receipts	21,271,953	18,225,181
CASH FLOWS FROM INVESTING ACTIVITIES		
Investment Earnings	9,548,551	7,393,185
Net Decrease in Cash and Cash Equivalents	(41,502,901)	(70,641,461)
Cash and Cash Equivalents at July 1	953,478,157	1,024,119,618
Cash and Cash Equivalents at June 30	$ 911,975,256	$ 953,478,157
RECONCILIATION OF NET OPERATING LOSS USED FOR OPERATING ACTIVITIES		
Operating Loss	$ (46,513,244)	$ (73,620,631)
Adjustments to Reconcile Operating Loss		
To Net Cash Used for Operating Activities:		
Depreciation		1,606
Pension Expense	290,120	67,765
Miscellaneous Pension Adjustments		31,457
Change in Assets and Deferred Outflows:		
Receivables	(45,671,833)	(23,940,037)
Deferred Outflows for Pensions	(326,370)	(251,434)
Change in Liabilities and Deferred Inflows:		
Accounts Payable and Accrued Liabilities	(1,980,180)	7,976,985
Due to Primary Government	23,144	(1,583)
Compensated Absences	(136,069)	(7,328)
Unearned Revenue	(1,076,311)	13,881,028
Medical Claims Payable	23,067,338	(20,397,655)
Net Cash Used for Operating Activities	$ (72,323,405)	$ (96,259,827)

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. The Department issues conduit debt for qualified entities through the North Carolina Capital Facilities Finance Agency.

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 units.

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

The Health 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. The Health 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. The State Treasurer upon approval of the board of trustees determines health benefit programs and premium rates.

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 Health 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 accompanying financial statements are presented in accordance with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board (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 funds of the Department and fiduciary fund financial statements under the stewardship 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 and for the fiscal year ended June 30, 2017, with comparative information as of 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 and for the year ended December 31, 2016 and 2015.

The fund financial statements provide information about the Department's funds, including the State's fiduciary funds. Separate statements for each governmental and fiduciary fund category 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 governmental funds.

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

General Fund – This is the Department's primary operating fund. It accounts for all financial resources of the Department, 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 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, the External Bond Index Investment pool, and individual investment accounts held by the Department.

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 reported 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 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, obligations for 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 balances 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 resources 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 flow through 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 3.

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, 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.

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

Rebates receivable for the Health Plan include the drug manufacturer rebates earned from drug sales that occurred during the year. The Health 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 subsequent 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.

J. **Funds Held for Others** – For fiduciary funds, funds held for others represent the amount of pension payments the Department expects to pay to eligible recipients.

K. **Medical Claims Payable** – The Health 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 30. This liability is also known as Incurred But Not Reported (IBNR).

L. **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.

M. **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 for the governmental fund, 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 for computer software.

Capital assets are reported on the face of the financial statements for the Health Plan, if applicable.

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 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, if applicable.

Additional information regarding capital assets is disclosed in Note 5.

N. **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 Health Plan, long-term liabilities, which include compensated absences and net pension liability, are reported as liabilities on the face of the Health Plan's financial statements.

Death Benefits Payable – The death benefits payable represents the Department's obligation to pay for law-enforcement officers', firefighters', 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 Health Plan's proportionate shares of the collective net pension liability reported in the State of North Carolina's 2016 *Comprehensive Annual Financial Report.* These liabilities represent the Department's and Health 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 and 12 for further information regarding the Department's and Health Plan's policies for recognizing liabilities, expenses, and deferred outflows of resources and deferred inflows of resources related to pensions.

Compensated Absences – Employees of the Department and Health 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 Health 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. In addition, 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 subject to the 30 day limitation on annual leave carried forward described above and is not subject to conversion to sick leave.

There is no liability for unpaid accumulated sick leave because the Department and Health 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.

O. Deferred Outflows/Inflows of Resources – In addition to assets, the balance sheet and statement of net position report a separate section of deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of fund balance or net position that applies to a future period(s) and will not be recognized as an outflow of resources (expense) until then. The Department and Health 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, but all other eligibility requirements, if any, have been met) and deferred outflows for pensions (i.e., difference between actual and expected experience, change in proportion, differences between employer's contributions and proportional share of contributions, and contributions subsequent to the measurement date).

In addition to liabilities, the statement of net position reports a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows 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 does not have any items that meet this criterion. The Health 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.

P. 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 Health 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 Health Plan is classified as follows:

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

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

Fund Balance – Fund balance for the governmental funds is 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 remain 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.

Q. **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 represent non-exchange transactions and are eliminated at the statewide reporting level in the State's *Comprehensive Annual Financial Report*. Additional information regarding revenues and expenditures from/to other state agencies is disclosed in Note 9.

R. Revenues and Expenses – The Health Plan distinguishes operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and in connection with the Health 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.*

S. Transfers From/To State Reserve Fund – Transfers from/to state reserve fund represents 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 2 - CHANGES IN FINANCIAL ACCOUNTING AND REPORTING

For the fiscal year ended June 30, 2017, the Department implemented the following pronouncements issued by the Governmental Accounting Standards Board (GASB):

GASB Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*

GASB Statement No. 82, *Pension Issues – An amendment of GASB Statement No. 67, No. 68, and No. 73*

GASB Statement No. 74 establishes new accounting and financial reporting requirements for defined benefit other postemployment benefit (OPEB) plans that replaces Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, as amended, and Statement No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer*

Plans. It also includes requirements for defined contribution OPEB plans that replace the requirements for those OPEB plans in Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, as amended, Statement No. 43, and Statement No. 50, *Pension Disclosures*. This Statement also includes requirements to address financial reporting for assets accumulated for purposes of providing defined benefit OPEB through OPEB plans that are *not* administered through trusts that meet the specified criteria.

GASB Statement No. 82 addresses certain issues with respect to Statement No. 67, *Financial Reporting for Pension Plans,* Statement No. 68, *Accounting and Financial Reporting for Pensions,* and Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement No. 68, and Amendments to Certain Provisions of GASB Statements No. 67 and No. 68.* Specifically, this Statement addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements.

NOTE 3 - DEPOSITS AND INVESTMENTS

A. Deposits and Investments with State Treasurer

Unless specifically exempt, every agency of the State and certain component units are required by General Statute 147-77 to deposit moneys received with the State Treasurer or with a depository institution in the name of the State Treasurer. Certain local governmental units that are not part of the State's reporting entity are also allowed to invest 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 Teachers' and State Employees' Retirement System, the Consolidated Judicial Retirement System, the Firefighters' and Rescue Squad Workers' Pension Fund, the Local Governmental Employees' Retirement System, the Legislative Retirement System, the North Carolina National Guard Pension Fund, and the Retiree Health Benefit Fund (collectively referred to as the pension and OPEB trust funds in this note), the Register of Deeds'

Supplemental Pension Fund, the Disability Income Plan of North Carolina, the Escheat Fund, the Public School Insurance Fund, the Local Governmental Other Postemployment Benefits (OPEB) Trust, public hospitals, 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 and OPEB 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 other investment programs, is maintained in the External Investment Pool (Pool). Other investment programs may include the public hospitals, certain investments of the Escheat Fund, certain investments of other funds and component units of the reporting entity, the Local Government OPEB Trust, and bond proceeds investment accounts. 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 include universities and various boards, commissions, community colleges, the Local Government OPEB Trust, 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 State’s pension and OPEB trust funds are the sole participants in this portfolio.

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 and OPEB trust funds are the sole participants in this 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 and OPEB trust funds are the sole participants in this portfolio.

Real Estate Investment - This portfolio holds investments in real estate-based trust funds, limited partnerships and other limited liability investment vehicles, and group annuity contracts, which is managed pursuant to General Statute 147-69.2(b)(7). The State's pension and OPEB trust funds are the sole participants in this portfolio.

Alternative Investment - This portfolio holds investments in various limited partnerships and limited liability companies, hedge funds, U.S. Treasuries, and equities, which is managed pursuant to General Statute 147-69.2(b)(9). The State's pension and OPEB trust funds are the sole participants in this portfolio.

Opportunistic Fixed Income Investment - This portfolio may hold investments in debt-related strategies made primarily through limited partnerships or other limited liability vehicles as defined by General Statute 147-69.2(b)(6c). The State's pension and OPEB trust funds are the sole participants in this portfolio.

Inflation Sensitive Investment - This portfolio may hold investments in assets that are acquired for the primary purpose of providing protection against risks associated with inflation made primarily through limited partnerships or other limited liability vehicles, managed pursuant to General Statute 147-69.2(b)(9a). The State's pension and OPEB trust funds are the sole participants in this portfolio.

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:

Statement of Fiduciary Net Position
As of June 30, 2017

Assets		
Cash and Cash Equivalents	$	324,943,000
Securities Lending Collateral		724,516,000
Investments, at Fair Value		109,861,609,000
Receivables		413,471,000
Total Assets		111,324,539,000
Liabilities		
Other Payables		95,840,000
Obligations under Securities Lending		724,516,000
Total Liabilities		820,356,000
Net Position		
Net Position Held in Trust *	$	110,504,183,000

*The Condensed Financial Statements for the External Investment Pool contain 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 schedule L-1.

Statement of Changes in Fiduciary Net Position
Fiscal Year Ended June 30, 2017

Additions		
Investment Income:		
Interest and Dividend Income	$	1,790,296,000
Net Appreciation in Fair Value of Investments		3,788,528,000
Other Investment Income		4,435,960,000
Securities Lending Income		23,823,000
Total Investment Income		10,038,607,000
Deductions		
Investment Management Expenses *		499,368,000
Administrative and Other Expenses *		86,733,000
Securities Lending Expense		7,709,000
Total Deductions		593,810,000
Net Increase in Net Position Resulting from Operations		9,444,797,000
Distributions to Participants		
Distributions Paid and Payable		(9,444,797,000)
Share Transactions		
Reinvestment of Distributions		9,447,240,000
Net Share Redemptions		(3,261,848,000)
Change in Net Position		6,185,392,000
Net Position Held in Trust:		
Beginning of Year		104,318,791,000
End of Year	$	110,504,183,000

*See Exhibit M-1

The external portion of the External Investment Pool is presented in Exhibit J-3 as an investment trust fund. Each fund and component unit's share of the internal equity in the External Investment Pool is reported as an asset of those funds or component units. Equity in the Short-term Investment portfolio (STIF) is reported as cash and cash equivalents while equity in the Long-term Investment (LTIF), Equity Investment, Real Estate Investment, Fixed Income Investment, Opportunistic Fixed Income Investment, Inflation Sensitive Investment, and Alternative Investment portfolios, is reported as investments. The internal equity of the pool differs from the amount of assets reported by the funds and component units due to the typical banker/customer outstanding and in-transit items. Additionally, each fund reports its share of the assets and liabilities arising from securities lending transactions.

In the Pool, fair values are determined daily for the LTIF and Equity Investment portfolios, and quarterly for the Real Estate Investment and Alternative Investment portfolios. The Opportunistic Fixed Income Investment portfolio is valued quarterly except for hedge fund investments, which are valued monthly. The Inflation Sensitive Investment portfolio consists of limited partnerships which are valued quarterly and futures which are valued daily or monthly. In the LTIF 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 Opportunistic Fixed Income Investment and Inflation Sensitive 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 year ended June 30, 2017, $9.22 million of investment income associated with other funds 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, deposits may not be recovered. As of June 30, 2017, the External Investment Pool's deposits were exposed to custodial credit risk for nonnegotiable certificates of deposit in the amount of $10.6 million. 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 General Statute* 147-79 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 collateral securities 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, 2017, the amounts shown on the Department's governmental funds' balance sheets as cash and cash equivalents totaled $426,213,973. At June 30, 2017, the statement of net position reported cash and cash equivalents of $911,975,256. These amounts represent the Department's and the Health Plan's equity positions in the STIF.

Investments

The External Investment Pool maintained by the Treasurer had the following investments and maturities in the STIF as of June 30, 2017:

	Investment Maturities (in Years)				
	Carry Amount	Less Than 1	1 to 5	6 to 10	More Than 10
U.S. Treasuries	$ 8,338,575,000	$ 7,642,804,000	$ 695,771,000	$ 0	$ 0
U.S. Agencies	12,657,912,000	449,997,000	12,207,915,000		
Securities Purchased with Cash Collateral under Securities Lending Program:					
Repurchase Agreements	577,000	577,000			
Domestic Corporate Bonds	26,506,000	26,506,000			
Repurchase Agreements	1,455,000,000	1,455,000,000			
Total Short-term Investment Fund Assets	$ 22,478,570,000	$ 9,574,884,000	$ 12,903,686,000	$ 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 LTIF as of June 30, 2017:

	Investment Maturities (in Years)				
	Carry Amount	Less Than 1	1 to 5	6 to 10	More Than 10
U.S. Treasuries	$ 6,604,072,000	$ 0	$ 107,067,000	$ 3,376,108,000	$ 3,120,897,000
U.S. Agencies	747,277,000				747,277,000
Mortgage Pass-Through	8,985,830,000		1,743,000	13,189,000	8,970,898,000
Securities Purchased with Cash Collateral under Securities Lending Program:					
Repurchase Agreements	175,336,000	175,336,000			
Domestic Corporate Bonds	25,508,000	25,508,000			
Domestic Corporate Bonds	8,610,762,000	88,282,000	603,584,000	4,029,215,000	3,889,681,000
Total Long-term Investment Fund Assets	$ 25,148,785,000	$ 289,126,000	$ 712,394,000	$ 7,418,512,000	$ 16,728,753,000

The External Investment Pool maintained by the Treasurer had the following investments and maturities in the other investment portfolios as of June 30, 2017:

		Investment Maturities (in Years)			
	Carry Amount	Less Than 1	1 to 5	6 to 10	More Than 10
U.S. Treasuries	$ 266,144,000	$ 187,780,000	$ 78,364,000	$ 0	$ 0
Asset-Backed Securities	7,676,000		210,000	139,000	7,327,000
Commercial Mortgage Backed Securities	13,755,000	316,000			13,439,000
Collateralized Mortgage Obligations	53,275,000	10,105,000		458,000	42,712,000
Collective Investment Funds	964,615,000	964,615,000			
Domestic Corporate Bonds	187,534,000	67,473,000	21,050,000	64,131,000	34,880,000
Foreign Government Bonds	16,066,000		1,051,000	9,879,000	5,136,000
Securities Purchased with Cash Collateral under Securities Lending Program:					
Asset-Backed Securities	28,601,000	28,601,000			
Repurchase Agreements	467,455,000	467,455,000			
Total Other Investment Portfolios Assets	$ 2,005,121,000	$ 1,726,345,000	$ 100,675,000	$ 74,607,000	$ 103,494,000

The major investment classifications of the External Investment Pool had the following attributes as of June 30, 2017:

Investment Classification	Principal Amount	Range of Interest Rates
Short-term Investment Fund		
U.S. Treasuries	$ 8,350,000,000	0.50% - 1.00%
U.S. Agencies	12,658,000,000	1.00% - 2.29%
Securities Purchased with Cash Collateral under Securities Lending Program:		
Repurchase Agreements	577,000	1.15%
Domestic Corporate Bonds	26,500,000	1.61% - 1.62%
Repurchase Agreements	1,455,000,000	0.70% - 1.30%
Long-term Investment Fund		
U.S. Treasuries	5,753,086,000	0.75% - 8.00%
U.S. Agencies	530,786,000	4.65% - 7.13%
Mortgage Pass Throughs	8,606,485,000	3.00% - 9.00%
Securities Purchased with Cash Collateral under Securities Lending Program:		
Repurchase Agreements	175,336,000	1.06% - 1.16%
Domestic Corporate Bonds	25,500,000	1.61% - 1.62%
Domestic Corporate Bonds	7,886,988,000	0.00% - 10.50%
Other Investment Portfolios		
U.S. Treasuries	266,287,000	0.00% - 2.13%
Asset-Backed Securities	9,579,000	3.00% - 5.79%
Commercial Mortgage-Backed Securities	85,546,000	0.01% - 6.18%
Collateralized Mortgage Obligations	92,228,000	1.09% - 6.39%
Collective Investment Funds	964,615,000	0.00% - 1.22%
Domestic Corporate Bonds	198,742,000	0.00% - 17.53%
Foreign Government Bonds	15,550,000	2.88% - 10.00%
Securities Purchased with Cash Collateral under Securities Lending Program:		
Asset-Backed Securities	29,633,000	1.34% - 1.91%
Repurchase Agreements	467,455,000	1.06% - 1.15%

Interest Rate Risk. Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of debt instruments. There is no formally adopted investment policy to manage interest rate risk. Fixed income assets of the STIF are invested in a laddered maturity approach that focuses on short maturity securities with ample liquidity. The STIF had a weighted average maturity of 1.6 years as of June 30, 2017. Most of the cash and cash equivalents of the State's major governmental and enterprise funds are invested in this portfolio.

The assets of the LTIF 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 18.2 years as of June 30, 2017.

The LTIF holds investments in Government National Mortgage Association (GNMA) mortgage pass-through funds. 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 LTIF 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, there are corporate bonds with variable coupon rates that reset on specific dates. Critical to the cash flows and pricing of these securities are the changes in interest rates.

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 limits credit risk by restricting the STIF'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 LTIF and limits credit risk by restricting the LTIF'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 LTIF, all holdings were rated BBB (or equivalent) or higher at the time of purchase by at least one of the nationally recognized rating agencies.

The State Treasurer is required to comply with General Statutes 147-86.41 through 147-86.49, the Sudan Divestment Act, which requires the Retirement Systems to develop a list of entities engaging in the prohibited conduct quarterly, refrain from making investment in such companies and divesting from the same within 15 months of being listed. General Statutes 147-86.55 through 147-86.63, the Iran Divestment Act, requires the State Treasurer to develop a list of entities engaging in prohibited activities annually, refrain from contracting with or making investments in such companies, and divesting from the same within 180 days of being listed. Indirect investments through structures such as index funds, commingled fund, limited partnerships, or derivative instruments are exempt from the statutes under General Statutes 147-86.42(8) and 147-86.57(3).

The STIF had the following credit quality distribution for securities with credit exposure as of June 30, 2017:

	Aaa/AAA	Aa/AA	A	Baa/BBB	Less than Investment Grade	Unrated
U.S. Agencies	$ 0	$ 12,657,912,000	$ 0	$ 0	$ 0	$ 0
Securities Purchased with Cash Collateral under Securities Lending Program:						
Repurchase Agreements		577,000				
Domestic Corporate Bonds		26,506,000				
Repurchase Agreements		1,455,000,000				
Total Short-term Investment Fund Assets	$ 0	$ 14,139,995,000	$ 0	$ 0	$ 0	$ 0

The LTIF had the following credit quality distribution for securities with credit exposure as of June 30, 2017:

	Aaa/AAA	Aa/AA	A	Baa/BBB	Less than Investment Grade	Unrated
U.S. Agencies	$ 0	$ 747,277,000	$ 0	$ 0	$ 0	$ 0
Domestic Corporate Bonds	56,178,000	685,417,000	4,082,600,000	3,455,378,000	331,189,000	
Securities Purchased with Cash Collateral under Securities Lending Program:						
Repurchase Agreements		175,336,000				
Domestic Corporate Bonds		25,508,000				
Total Long-term Investment Fund Assets	$ 56,178,000	$ 1,633,538,000	$ 4,082,600,000	$ 3,455,378,000	$ 331,189,000	$ 0

The other investment portfolios had the following credit quality distribution for securities with credit exposure as of June 30, 2017:

	Aaa/AAA	Aa/AA	A	Baa/BBB	Less than Investment Grade	Unrated
Asset-Backed Securities	$ 0	$ 0	$ 3,074,000	$ 0	$ 4,253,000	$ 349,000
Commercial Mortgage Backed Securities	6,047,000	3,466,000			3,921,000	321,000
Collateralized Mortgage Obligations	602,000	6,659,000			43,217,000	2,797,000
Collective Investment Funds						964,615,000
Domestic Corporate Bonds	7,350,000	19,960,000	7,614,000	43,280,000	69,334,000	39,996,000
Foreign Government Bonds		198,000	3,147,000	7,823,000	4,898,000	
Securities Purchased with Cash Collateral under Securities Lending Program:						
Asset-Backed Securities		23,583,000	1,756,000		3,262,000	
Repurchase Agreements		467,455,000				
Total Other Investment Portfolios Assets	$ 13,999,000	$ 521,321,000	$ 15,591,000	$ 51,103,000	$ 128,885,000	$ 1,008,078,000

Custodial Credit Risk. For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the 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, 2017, the investments purchased with cash collateral under the securities lending programs of $724 million were not exposed to custodial credit risk since the securities were held by the counterparty in separate accounts in the name of the Treasurer. All other investments of the Pool were not exposed to custodial credit risk at year-end. There is no formally adopted investment policy to manage custodial credit risk 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. However, more than 5% of the Pool's securities were invested in Federal Home Loan Mortgage Corporation. These investments totaled $9.5 billion and comprised 8.6% of the Pool's total investments. These investments are held by the STIF and LTIF portfolios and are classified as U.S. Agencies. Effective June 30, 2017, 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, 2017, 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	Opportunistic Fixed Income Investment Partnership	Total
Euro	$ 3,434,108,000	$ 358,568,000	$ 71,774,000	$ 48,517,000	$ 3,912,967,000
Japanese Yen	2,477,160,000		27,410,000		2,504,570,000
British Pound Sterling	1,723,955,000	78,126,000	275,501,000		2,077,582,000
Hong Kong Dollar	972,852,000		47,098,000		1,019,950,000
Swiss Franc	889,677,000		2,332,000		892,009,000
Australian Dollar	558,134,000		14,771,000		572,905,000
Swedish Krona	447,749,000		3,268,000		451,017,000
Danish Krone	261,179,000				261,179,000
New Taiwan Dollar	232,654,000		62,000		232,716,000
South Korean Won	218,009,000				218,009,000
Indian Rupee	211,738,000		919,000		212,657,000
Singapore Dollar	189,225,000		10,903,000		200,128,000
Canadian Dollar	138,094,000		7,089,000		145,183,000
South African Rand	65,337,000		7,787,000		73,124,000
Brazil Cruzeiro Real	62,641,000		3,874,000		66,515,000
Norwegian Krone	55,825,000		93,000		55,918,000
Mexican Peso	41,578,000		3,988,000		45,566,000
Thai Baht	26,633,000		4,693,000		31,326,000
Turkish Lira	27,067,000		773,000		27,840,000
New Zealand Dollar	23,175,000		223,000		23,398,000
Malaysian Ringgit	20,372,000		2,623,000		22,995,000
Indonesian Rupiah	20,561,000		1,769,000		22,330,000
Philippines Peso	14,594,000		5,717,000		20,311,000
Other Currencies	38,165,000		1,963,000		40,128,000
Total	$ 12,150,482,000	$ 436,694,000	$ 494,630,000	$ 48,517,000	$ 13,130,323,000

The External Investment Pool recognized an aggregate foreign currency transaction loss of $425 million for the fiscal year ended June 30, 2017, as part of the Pool's 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.

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, 2017:

Investments and Derivative Instruments at Fair Value	Total	Fair Value Measurements Using: Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Short-term Investment Fund				
U.S. Treasuries	$ 8,338,575,000	$ 0	$ 8,338,575,000	$ 0
U.S. Agencies	12,657,912,000		12,657,912,000	
Securities Purchased with Cash Collateral under Securities Lending Program:				
Domestic Corporate Bonds	26,506,000		26,506,000	
Subtotal	21,022,993,000	0	21,022,993,000	0
Long-term Investment Fund				
U.S. Treasuries	6,604,072,000	100,632,000	6,503,440,000	
U.S. Agencies	747,277,000		747,277,000	
Mortgage Pass-Throughs	8,985,830,000		8,985,830,000	
Securities Purchased with Cash Collateral under Fixed Income Securities Lending Program:				
Domestic Corporate Bonds	25,508,000		25,508,000	
Domestic Corporate Bonds	8,610,762,000		8,610,762,000	
Foreign Government Bonds				
Subtotal	24,973,449,000	100,632,000	24,872,817,000	0
Other Investment Portfolios				
U.S. Treasuries-Inflation	266,144,000		266,144,000	
Asset-Backed Securities	7,676,000		7,676,000	
Collateralized Mortgage Obligations	53,275,000		53,275,000	
Commercial Mortgage-Backed Securities	13,755,000		13,755,000	
Securities Purchased with Cash Collateral under Equity Securities Lending Program:				
Asset-Backed Securities	28,601,000		28,601,000	
Equity Securities - Domestic	14,375,249,000	14,375,249,000		
Equity Securities - Foreign	13,536,942,000	13,536,916,000		26,000
Equity Securities - Preferred Domestic	38,600,000	1,614,000		36,986,000
Equity Securities - Preferred Foreign	63,731,000	63,731,000		
Domestic Corporate Bonds	187,534,000		156,560,000	30,974,000
Foreign Corporate Bonds	16,066,000		16,066,000	
Subtotal	28,587,573,000	27,977,510,000	542,077,000	67,986,000
Investment Derivative Instruments				
Futures Contracts	3,782,000	3,782,000		
Futures Contracts (Liability)	(5,862,000)	(5,862,000)		
Total Investment Derivative Instruments	(2,080,000)	(2,080,000)	0	0
Total Investments by Fair Value Level	74,581,935,000	$ 28,076,062,000	$ 46,437,887,000	$ 67,986,000

Fair Value Measurement (Continued)

Investments Measured at the Net Asset Value (NAV)		Unfunded Commitments	Redemption Frequency (If Currently Eligible)	Redemption Notice Period (Days)
Commingled Real Estate Funds [1]	$ 860,913,000	$ 0	Daily, Quarterly	1 - 60
Core Real Estate Funds [2]	3,333,325,000	868,549,000	Quarterly, Illiquid	90-Illiquid
Equity Rebalancing [3]	1,443,498,000		Daily	1 - 5
Hedge Funds			Illiquid	N/A
Global Public Equity - Hedged [4]	3,059,635,000		Daily, Monthly, Quarterly, Illiquid	3 - 180
Inflation Sensitive - Publicly Traded and Natural Resources [5]	474,429,000	25,000,000	Daily, Monthly	5-35
Inflation Sensitive - Real Assets and Other Diversifiers [6]	227,352,000		Quarterly	60
Multi-Strategy Funds [7]	149,945,000	2,000	Weekly, Quarterly, Illiquid	5 - Illiquid
Opportunistic Fixed Income - Distressed Credit [8]	94,384,000		Illiquid	15 - 90
Opportunistic Fixed Income - Hedged Fixed Income [9]	2,701,122,000	32,715,000	Monthly, Quarterly, Annually	15 - 90
Inflation Protected Bonds [10]	309,377,000		Monthly	30
Long-Only Public Equity [11]	385,864,000	410,333,000	Illiquid	Illiquid
Non-Core Real Estate Funds [12]	3,667,310,000	2,218,334,000	Illiquid	Illiquid
Private Credit [13]	2,728,621,000	1,380,436,000	Daily, Annually, Illiquid	60 - Illiquid
Private Equity Funds [14]	4,803,649,000	3,068,169,000	Illiquid	Illiquid
Private Infrastructure Funds [15]	625,264,000	35,477,000	Illiquid	Illiquid
Private Multi-Strategy Funds [16]	161,034,000	212,103,000	Illiquid	Illiquid
Private Natural Resources Funds [17]	2,561,369,000	831,860,000	Illiquid	Illiquid
Private Real Asset Funds [18]	1,728,046,000	664,921,000	Illiquid	Illiquid
Collective Investment Funds [19]	964,615,000		Daily	1
Commingled International Equity Funds [20]	3,614,936,000		Daily	1
Total Investments at the NAV	33,894,688,000			
Subtotal	108,476,623,000			
Investments Measured at Cost				
Certificates of Deposit (Non-Negotiable)	10,600,000			
Repurchase Agreements	2,098,902,000			
Total Investments at Cost	2,109,502,000			
Total Investments and Securities Lending Collateral	$ 110,586,125,000			

(1) *Commingled Real Estate Funds* (Four 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.

(2) *Core Real Estate Funds* (Nineteen funds). These investments are valued using net assets valued as of the previous quarter end, plus current quarter cash flows. 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) *Equity Rebalancing* (One fund). The investment is valued at NAV per share. This investment is an options-based equity rebalancing program used as a tool to maintain asset exposures within plan policy portfolio tolerances.

(4) *Hedge Funds – Global Public Equity-Hedged* (Five funds). These investments are valued at NAV per share, and 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. **Two funds have lockups of 2 and 3 years. These lockups will expire in September 2018 and July 2019, respectively, after which time quarterly liquidity will be available with up to a 45 – 180 day notice*.

(5) *Hedge Funds – Inflation Sensitive-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.

(6) *Hedge Funds – Inflation Sensitive-Real Assets and Other 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 protections 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.

(7) *Hedge Funds – Multi-Strategy Funds* (Four 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.

(8) *Hedge Funds – Opportunistic Fixed Income-Distressed Credit* (One fund). This investment is valued at NAV per share. These investments may include strategies that trade distressed debt, but occasionally actively participate in restructuring and seek control post-reorganization of target issuers. These strategies may have equity exposure.

(9) *Hedge Funds – 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.

(10) *Inflation Protected Bonds (One fund). This investment is valued at NAV* per share. These strategies may invest in Treasury Inflation Protected Securities, non U.S. inflation linked bonds, or floating rate

debt. Currently, the strategy represented in this category is one which invests primarily in publicly traded securities, but also has the ability to invest up to 15% in private investments.

(11) *Long-only Public Equity* (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*.

(12) *Non Core Real Estate Funds* (88 funds). These investments are valued using net assets valued as of the previous quarter end, plus current quarter cash flows. 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.

(13) *Private Credit Funds* (27 funds). These investments are valued using net assets valued as of the previous quarter end, plus current quarter cash flows. 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.

(14) *Private Equity Funds* (118 funds). These investments are valued using net assets valued as of the previous quarter end, plus current quarter cash flows. 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.

(15) *Private Infrastructure Funds* (Four funds). These investments are valued using net assets valued as of the previous quarter end, plus current quarter cash flows. 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.

(16) *Private Multi-Strategy Funds* (Two funds). These investments are valued using net assets valued as of the previous quarter end, plus current quarter cash flows. 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. Currently the strategy represented in this category is considered opportunistic, and will tactically invest across a broad range of investible assets. 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.

(17) *Private Natural Resources Funds* (30 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.

(18) *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.

(19) *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.

(20) *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.

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.

External Investment Pool Securities Lending

Based on General Statute 147-69.3(e), the State Treasurer lends securities from its Pool to broker-dealers and other entities (borrowers) for collateral that will be returned for the same securities in the future. The Treasurer's custodian manages the securities lending program for the internally managed fixed income portfolios and for the equity based trust. During the year, the securities lending programs lent U.S. government and agency securities, corporate bonds, and equity securities and notes for collateral. The program is permitted to receive cash, U.S. government and agency securities as collateral for the securities lent.

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 provider and held in a separate account 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 contract 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, 2017, 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 provider is contractually obligated to indemnify the Treasurer for certain conditions, the most important is default on the part of the borrowers.

As of September 15, 2016, securities purchased with cash collateral under the current securities lending guidelines are limited to repurchase agreements and shares in money market funds registered under the Investment Company Act of 1940 and that comply with Rule 2a-7. The securities pledged as collateral for repurchase agreements are limited to securities issued or guaranteed by the U.S. government or its agencies. All counterparties for repurchase agreements must have a short-term debt rating of at least A2, P2, or F2 by at least one of the nationally recognized statistical rating organizations.

Under prior securities lending contractual guidelines, additional flexibility was given with regards to acceptable assets purchased with cash collateral. As of June 30, 2017, a total of $80.6 million remained in securities approved under prior guidelines, consisting of floating rate notes and asset backed securities. These securities will remain in the account until maturity or until sold. The weighted average maturity of investments, including the securities purchased under prior guidelines, was five days.

As of June 30, 2017, the fair value of loaned securities was $5.3 billion; the fair value of the associated collateral was $5.4 billion of which $724 million was cash.

Bond Index External Investment Pool

During fiscal year 2017, North Carolina Department of State Treasurer established an external government sponsored bond index investment pool (BIF) in which the Treasurer is authorized to invest funds for governmental entities which are outside the retirement systems. The BIF invests in high quality debt securities eligible under General Statute 147-69.2(b)(1)-(6). The BIF consists of a separate account managed by a fund manager selected by the Department of State Treasurer.

Participants in the BIF may include public hospitals, the Local Government Other Post Employment Benefit Trust, the Death Benefit Plan of North Carolina, the Disability Income Plan of North Carolina, the Register of Deeds' Supplemental Pension Fund, and other funds and component units of the State of North Carolina with investment authority under General Statue 147-69.2.

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

Statement of Fiduciary Net Position
As of June 30, 2017

Assets	
Investments, at Fair Value	$ 1,586,606,000
Receivables	19,719,000
Total Assets	1,606,325,000
Liabilities	
Other Payables	19,864,000
Total Liabilities	19,864,000
Net Position	
Net Position Held in Trust *	$ 1,586,461,000

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

Statement of Changes in Fiduciary Net Position
Fiscal Year Ended June 30, 2017

Additions		
Investment Income (Loss):		
Interest and Dividend Income	$	40,257,000
Net Depreciation in Fair Value of Investments		(47,568,000)
Other Investment Loss		(8,622,000)
Total Investment Loss		(15,933,000)
Deductions		
Investment Management Expenses		323,000
Total Deductions		323,000
Net Decrease in Net Position Resulting from Operations		(16,256,000)
Distributions to Participants		
Distributions Paid and Payable		16,256,000
Share Transactions		
Reinvestment of Distributions		(16,256,000)
Net Share Purchases		1,602,717,000
Change in Net Position		1,586,461,000
Net Position Held in Trust:		
Beginning of Year *		0
End of Year	$	1,586,461,000

*Beginning of year net position is $0 because the BIF was created during fiscal year 2017.

The deposits are commingled; and therefore, the State Treasurer considers all funds to be part of a single pool. The BIF contains deposits from funds and component units of the State of North Carolina reporting entity as well as deposits from certain legally separate organizations outside the State of North Carolina reporting entity. The BIF is not registered with the Securities and Exchange Commission and is not subject to any formal oversight other than that of the legislative body of the State of North Carolina.

Net investment income earned by the BIF is distributed on a pro rata basis to all participants on a monthly basis net of fees.

Interest Rate Risk. The risk that changes in interest rates will adversely affect the fair value of debt instruments. There is no formally adopted investment policy to manage interest rate risk. The BIF had a weighted average maturity of 7.99 years as of June 30, 2017.

The BIF maintained by the Treasurer had the following investments and maturities as of June 30, 2017:

		Investment Maturities (in Years)			
	Carrying Amount	Less Than 1	1 to 5	6 to 10	More Than 10
U.S. Treasuries	$ 594,894,000	$ 0	$ 329,810,000	$ 171,431,000	$ 93,653,000
U.S. Agencies	23,052,000		10,955,000	8,543,000	3,554,000
Commercial Mortgage-Backed Securities	23,048,000				23,048,000
Asset-Backed Securities	7,070,000		1,602,000	5,468,000	
Mortgage Pass-Throughs	445,800,000		917,000	17,693,000	427,190,000
Collective Investment Funds	12,350,000	12,350,000			
Municipal Bonds	10,063,000		184,000	30,000	9,849,000
Domestic Corporate Bonds	406,256,000		157,150,000	117,282,000	131,824,000
Foreign Government Bonds	64,073,000		49,304,000	7,548,000	7,221,000
Total Investment Fund Assets	$ 1,586,606,000	$ 12,350,000	$ 549,922,000	$ 327,995,000	$ 696,339,000

The major investment classifications had the following attributes as of June 30, 2017:

Investment Classification	Principal Amount	Range of Interest Rates
Bond Index		
U.S. Treasuries	$ 573,651,000	0.75% -6.88%
U.S Agencies	22,000,000	1.13% -6.25%
Commercial Mortgage-Backed Securities	22,442,000	1.68% -3.76%
Asset-Backed Securities	7,100,000	1.59% -1.92%
Mortgage Pass-Throughs	431,525,000	2.50% -5.50%
Collective Investment Funds	12,350,000	0.99%
Municipal Bonds	7,880,000	3.00% -7.55%
Domestic Corporate Bonds	389,085,000	1.10% -9.25%
Foreign Government Bonds	63,305,000	0.88% -8.13%

Credit Risk. Credit risk is the risk an issuer or other counterparty to an investment will not fulfill 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 147-69.2 specifies the cash investment options for the BIF and limits credit risk by restricting the BIF'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 BIF, all holdings were rated BBB (or equivalent) or higher at the time of purchase by at least one of the nationally recognized rating agencies.

The BIF had the following credit quality distribution for securities with credit exposure as of June 30, 2017:

Bond Index	Aaa/AAA	Aa/AA	A	Baa/BBB	Less than Investment Grade	Unrated
U.S. Agencies	$ 0	$ 23,052,000	$ 0	$ 0	$ 0	$ 0
Commercial Mortgage Backed Securities	23,048,000					
Asset-Backed Securities	7,070,000					
Mortgage Pass-Throughs		334,587,000				
Collective Investment Funds						12,350,000
Municipal Bonds	592,000	5,923,000	2,611,000	937,000		
Domestic Corporate Bonds	2,011,000	25,609,000	147,075,000	219,818,000	11,743,000	
Foreign Government Bonds	40,253,000	3,993,000	6,025,000	13,802,000		
Total Investment Fund Assets	$ 72,974,000	$ 393,164,000	$ 155,711,000	$ 234,557,000	$ 11,743,000	$ 12,350,000

Excluded from this chart are securities exempt from credit risk such as U.S. Treasuries and GNMAs.

Custodial Credit Risk. Custodial credit risk is the risk that, in the event of the failure of the counterparty, the 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, 2017, the investments of the BIF were not exposed to custodial credit risk since the securities were held in separate accounts in the name of the Treasurer. There is no formally adopted investment policy to manage custodial credit risk 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. However, more than 5% of the BIF's securities were invested in Federal Home Loan Mortgage Corporation (FHLMC) and Federal National Mortgage Association (FNMA). FHLMC investments totaled $110.5 million and comprised 7% of BIF's total investments; FNMA investments totaled $243.7 million and comprised 15.4% of BIF's total investments. These investments are classified as U.S. Agencies. Effective June 30, 2017, there is no formal policy regarding concentration of credit risk.

The BIF categorizes fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The BIF had the following recurring fair value measurements as of June 30, 2017:

Investments and Derivative Instruments at Fair Value	Total	Fair Value Measurements Using: Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
U.S. Treasuries	$ 594,894,000	$ 9,819,000	$ 585,075,000	$ 0
U.S. Agencies	23,052,000		23,052,000	
Asset-Backed Securities	7,070,000		7,070,000	
Commercial Mortgage-Backed Securities	23,048,000		23,048,000	
Mortgage Pass-Throughs	445,800,000		445,800,000	
Municipal Bonds	10,063,000		10,063,000	
Domestic Corporate Bonds	406,256,000		406,256,000	
Foreign Government Bonds	64,073,000		64,073,000	
Total Investments by Fair Value Level	1,574,256,000	$ 9,819,000	$ 1,564,437,000	$ 0
Investments Measured at the Net Asset Value (NAV)		Unfunded Commitments	Redemption Frequency	Redemption Notice Period (Days)
Collective Investment Funds (1)	12,350,000	$ 0	Daily	1
Total Investments by Fair Value	$ 1,586,606,000			

(1) *Collective Investment Funds* (One fund). This fund invests in a diversified portfolio of U.S. government securities, U.S. government agency securities, and repurchase agreements. It is operated on an amortized cost basis, and transacts at $1.00 per unit.

Valuation Methodologies and Inputs

On-the-run U.S. Treasuries classified in Level 1 of the fair value hierarchy are valued using prices quoted in active markets for those securities.

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. 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 spread.

Level 2 domestic corporate bonds are priced using both spread-based and price-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 price-based evaluations, evaluators use recently executed transactions of similar securities and dealer quotes to arrive at appropriate pricing. These methods are also used to value Canadian government bonds. For non-U.S./Canadian foreign government bonds, the majority of issues are evaluated using discounted cash flow models, incorporating option-adjusted features as appropriate.

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, 2017, the bond proceeds investment accounts had the following investments and maturities:

Investment Type	Carrying Amount	Weighted Average Maturity (Days)
Commercial Paper	$ 58,635,000	63
Repurchase Agreements	258,884,000	13
Total Investments	$ 317,519,000	

Repurchase agreements are reported at cost. See Note 1 for additional information. Commercial paper is valued at fair value at June 30, 2017, ($58.6 million) and is classified as a Level 2 investments in the fair value hierarchy. The valuation technique for these securities is the market approach where data is gathered by the pricing vendor to obtain market yields on new securities. Month-end prices are then updated by applying the national market yields obtained by the pricing vendor.

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.

Equity Index Investment Account

The State Treasurer has contracted with an external party (Trustee) to create the equity index investment account (EIF). Participation in this equity index investment account consists of public hospital trusts and local government other postemployment benefit trust (OPEB) funds. These trusts are part of a commingled equity index investment trust (Trust). The Trustee manages the assets in the Trust 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.

Pursuant to General Statute 159-30.1, the State Treasurer manages the OPEB 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, 2017, there were twenty participants of which sixteen participate in the EIF. Each participant is responsible for making its own investment decision with respect to the allocation of assets between investment options.

The State Treasurer also manages the public hospitals' assets. As of June 30, 2017, there were four participants consisting of the Margaret R. Pardee Hospital Trust, New Hanover Regional Medical Center Trust, Columbus Regional Healthcare Trust, and Watauga Medical Center Trust. One public hospital is also a participant in the BIF.

At year end, the condensed financial statements for the Equity Index External Investment Account maintained by the State Treasurer were as follows:

Statement of Fiduciary Net Position
As of June 30, 2017

Assets	
Investments, at Fair Value	$ 411,837,000
Total Assets	411,837,000
Net Position	
Net Position Held in Trust *	$ 411,837,000

*The Condensed Financial Statements for the Equity Index Investment Account contains deposits from internal and external participants, including the State's defined pension plans maintained by the Department. For more information on the equity ownership of the Equity Index Investment Account, see supplementary Exhibit L-3.

Statement of Changes in Fiduciary Net Position
Fiscal Year Ended June 30, 2017

Additions		
Investment Income:		
Interest and Dividend Income	$	3,823,000
Net Depreciation in Fair Value of Investments		(2,757,000)
Other Investment Income		65,424,000
Total Investment Income		66,490,000
Deductions		
Investment Management Expenses		723,000
Total Deductions		723,000
Net Increase in Net Position Resulting from Operations		65,767,000
Distributions to Participants		
Distributions Paid and Payable		(65,767,000)
Share Transactions		
Reinvestment of Distributions		65,767,000
Net Share Purchases		346,070,000
Change in Net Position		411,837,000
Net Position Held in Trust:		
Beginning of Year *		0
End of Year	$	411,837,000

*Beginning of year net position is $0 because the EIF was not reported as combined individual accounts in the prior year.

Custodial Credit Risk. Custodial credit risk is the risk that, in the event of the failure of the counterparty, the 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, 2017, the investments of the EIF were not exposed to custodial credit risk. There is no formally adopted investment policy to manage custodial credit risk policy for these investment types.

Fair Value Measurement. EIF investments, a commingled global equity index fund, 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. As of June 30, 2017, the EIF had a recurring fair value measurement of $411.8 million. The redemption frequency of the EIF is daily, with a two-day redemption notice.

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, 2017, the Escheat investment account maintained by the State Treasurer had the following investments and fair value measurements:

Investment Measured at the NAV	Fair Value	Unfunded Commitments
Private Credit Limited Partnership	$ 8,769,000	$ 314,000
Private Equity Investment Partnerships	28,208,000	54,533,000
Private Natural Resources Limited Partnership	4,929,000	
Total Investments Measured at the NAV	$ 41,906,000	

Private Credit Limited Partnership. This type includes two private credit funds. These investments are valued using net assets value as of the previous quarter-end, plus current quarter cash flows. 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 using net assets valued as of the previous quarter-end, plus current quarter cash flows. 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. This investment is valued using net assets valued as of the previous quarter-end, plus current quarter cash flows. This strategy 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.

B. Investments Outside the State Treasurer

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

As of June 30, 2017, 94% of investments held outside the State Treasurer were maintained by the Supplemental Retirement Income Plan of North Carolina (the 401(k) Plan) and the North Carolina Public Employee Deferred Compensation Plan (the 457 Plan).

The Iran Divestment Act (*North Carolina General Statues* Sections 147-86.55 through 147-86.63) places investment restrictions on the 401(k) Plan and the 457 Plan. Specifically, pursuant to the North Carolina Department of State Treasurer's "Iran Divestment Policy," 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 certain investment activities in Iran. 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, intelligent judgment, and care.

At December 31, 2016, the 401(k) and 457 Plans had the following investments and maturities that were maintained outside the State Treasurer. Investments in this Pooled Account totaled $7.3 billion as of December 31, 2016. The 401(k) and 457 Plans' investments are held in a group trust established as of January 4, 2016. Their board authorized the establishment of the North Carolina Supplemental Retirement Plans Group Trust (the Group Trust) for the purpose of commingling the corpus of the separate trusts of the Plans; and their board adopted the Declaration of Trust establishing the Group Trust. The Pooled Account offers nine equity funds, an inflation responsive fund, and two fixed income funds. The actively managed separate account funds have multiple investment managers, and the passively managed separate accounts each have a single investment manager. The remainder of the investments is the Stable Value Fund, which consists of three synthetic guaranteed investment contracts, two separate account guaranteed investment contracts, a pooled stable value fund, and a government money market fund.

As of December 31, 2016, 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	$ 234,431,000	$ 51,870,000	$ 159,774,000	$ 10,042,000	$ 12,745,000
U.S. Treasury STRIPS	60,023,000	1,664,000	24,263,000	11,941,000	22,155,000
U.S. Agencies	29,540,000	2,884,000	23,906,000	1,435,000	1,315,000
Mortgage Pass-Throughs	165,384,000	19,012,000	6,674,000	17,155,000	122,543,000
Collateralized Mortgage Obligations	69,009,000	6,653,000	7,034,000	17,118,000	38,204,000
State and Local Government	8,635,000	4,108,000	3,651,000	176,000	700,000
Asset-Backed Securities	115,229,000	647,000	53,711,000	29,476,000	31,395,000
Collective Investment Funds	1,385,142,000	20,648,000	590,848,000	344,115,000	429,531,000
Pooled Debt Funds	331,119,000			331,119,000	
Domestic Corporate Bonds	247,142,000	34,116,000	118,932,000	81,620,000	12,474,000
Foreign Corporate Bonds	87,047,000	10,946,000	63,041,000	10,984,000	2,076,000
Foreign Government Bonds	10,692,000	802,000	8,108,000	1,645,000	137,000
	2,743,393,000	$ 153,350,000	$ 1,059,942,000	$ 856,826,000	$ 673,275,000
Other Investments:					
Equity Mutual Funds	1,674,601,000				
Unallocated Insurance Contracts	813,752,000				
Domestic Stocks	2,725,939,000				
Foreign Stocks	1,296,695,000				
Hedge/Debt Mutual Fund	403,212,000				
Short-Term Investment Collective Trust	128,921,000				
Total Investments	$ 9,786,513,000				

In the above table, the underlying investments of fully benefit-responsive synthetic guaranteed investment contracts (SGICs) are disclosed at fair value. On the combining statements of fiduciary net position (see Exhibit J-1), SGICs are reported at contract value. As of December 31, 2016, the fair value of the underlying investments of fully benefit-responsive SGICs exceeded contract value by $12.13 million.

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 managers within the NC Fixed Income Fund have duration targets relative to a specified benchmark. 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 investments 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 investments 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 investment policy statement applicable to the NC Fixed Income Fund places restrictions on the total risk exposure of the Fund and specifically the concentration of the debt securities in which the fund invests.

As of December 31, 2016, 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	$ 29,540,000	$ 0	$ 0	$ 0	$ 0
Mortgage Pass-Throughs		137,396,000				
Collateralized Mortgage Obligations	4,907,000	57,446,000	1,204,000	3,241,000	1,483,000	728,000
State and Local Government		6,015,000	2,465,000	155,000		
Asset-Backed Securities	92,443,000	19,436,000	1,131,000	260,000	34,000	1,925,000
Collective Investment Funds						1,385,142,000
Pooled Debt Funds						331,119,000
Domestic Corporate Bonds	2,281,000	14,996,000	64,776,000	155,762,000	9,327,000	
Foreign Corporate Bonds	721,000	18,264,000	35,693,000	32,010,000	359,000	
Foreign Government Bonds	5,168,000	3,017,000	1,265,000	1,242,000		
Total Investments	$ 105,520,000	$ 286,110,000	$ 106,534,000	$ 192,670,000	$ 11,203,000	$ 1,718,914,000

Custodial Credit Risk. The 401(k) and 457 Plans do not have formal investment policies that address custodial 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. The 401(k) and 457 Plans do not have formal investment policies that address foreign currency risk. As of December 31, 2016, the Plans' exposure to foreign currency risk was as follows:

Currency	Carrying Amount Foreign Stocks
Euro	$ 234,387,000
British Pound Sterling	131,879,000
Japanese Yen	131,337,000
Swiss Franc	68,511,000
Hong Kong Dollar	38,191,000
South Korean Won	30,300,000
Swedish Krona	28,940,000
New Taiwan Dollar	26,366,000
Australian Dollar	18,386,000
Singapore Dollar	16,613,000
Canadian Dollar	16,578,000
South African Rand	13,736,000
Danish Krone	11,739,000
Indian Rupee	11,608,000
Brazilian Real	10,692,000
Malaysian Ringgit	4,830,000
Thai Baht	4,541,000
Other Currencies	14,191,000
Total	$ 812,825,000

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.

The fair value measurements of the 401(k) and 457 Plan's investments are categorized within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuations 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; and Level 3 inputs are significant unobservable inputs.

At December 31, 2016, the investments of the 401(k) and 457 Plans maintained outside the State Treasurer had the following recurring fair value measurements:

	Total	Fair Value Measurements Using: Quoted Prices in Active Markets for Identical Assets (Level 1)	Fair Value Measurements Using: Significant Other Observable Inputs (Level 2)
Investments by Fair Value			
U.S. Treasuries	$ 234,431,000	$ 0	$ 234,431,000
U.S. Treasury STRIPS	60,023,000		60,023,000
U.S. Agencies	29,540,000		29,540,000
Mortgage Pass-Throughs	165,384,000		165,384,000
Collateralized Mortgage Obligations	69,009,000		69,009,000
State and Local Government	8,635,000		8,635,000
Asset-Backed Securities	115,229,000		115,229,000
Domestic Corporate Bonds	247,142,000		247,142,000
Foreign Corporate Bonds	87,047,000		87,047,000
Foreign Government Bonds	10,692,000		10,692,000
Domestic Stocks	2,725,939,000	2,725,939,000	
Foreign Stocks	1,296,695,000	1,296,695,000	
Total Investments by Fair Value	5,049,766,000	$ 4,022,634,000	$ 1,027,132,000
Investments Measured at Net Asset Value (NAV)			
Hedge/Debt Mutual Fund	403,212,000		
Short-term Investment Collective Trust	128,921,000		
Equity Mutual Funds	1,674,601,000		
Pooled Debt Funds	331,119,000		
Collective Investment Trusts	1,385,142,000		
Total Investments Measured at NAV	3,922,995,000		
Total Investments Measured at Fair Value	$ 8,972,761,000		

U.S. Treasuries, U.S. Treasury STRIPS, U.S. agencies, mortgage pass-throughs, collateralized mortgage obligations, and state and local government securities classified in Level 2 of the fair value hierarchy are valued using a matrix pricing technique. Matrix pricing is used to value securities based on the securities' relationship to benchmark quoted prices. Asset-backed securities, domestic corporate bonds, foreign corporate bonds, and foreign government bonds classified in Level 2 of the fair value hierarchy are valued using discounted cash flow techniques.

Investments measured at NAV per share is presented on the following table:

Investments Measured at NAV	Total	Redemption Frequency (if Currently Eligible)	Redemption Notice Period (Days)
Hedge/Debt Mutual Fund	$ 403,212,000	Daily	1
Short-term Investment Collective Trust	128,921,000	Daily	1
Equity Mutual Funds	1,674,601,000	Daily	1 - 2
Pooled Debt Funds	331,119,000	Daily	5
Collective Investment Funds	1,385,142,000	Daily and Monthly	1 - 365
Total Investments Measured at NAV	$ 3,922,995,000		

Hedge/Debt Mutual Fund – This type includes one fund, the NC Inflation Response Fund. This fund is a real return asset allocation strategy designed to hedge global inflation risks. The fund primarily invests in inflation linked bonds, commodities, emerging market currencies, real estate investment trusts (REITs), and gold. The net asset value is determined by dividing the total value of the fund's portfolio investments and other assets attributable to the fund, less liabilities, by the total number of shares outstanding. The value is determined at the end of each day the New York Stock Exchange is open.

Short-term Investment Collective Trust - This fund is invested in the BNY Mellon EB Temporary Investment Fund. The fund primarily invests 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. This fund is valued with a NAV at $1/unit.

Equity Mutual Funds – This type includes three equity index funds. The BlackRock Large Cap Index Fund seeks to replicate the composition and performance of the S&P 500 Index. The BlackRock Small Mid Cap Index Fund seeks to replicate the composition and performance of the Russell 2500 Index. The BlackRock International Index Fund seeks to replicate the composition and performance of the MSCI ACWI Ex-USA Index. 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.

Pooled Debt Funds – This type includes one fund, the PIM Fund in Fixed Income. The fund is an actively managed bond fund that seeks an excess return over the Bloomberg Barclays U.S. Aggregate Bond Index. The fund invests in a diversified portfolio of fixed income securities including corporate obligations, structured products, and U.S. Treasuries. The fund actively allocates to both benchmark and non-benchmark sectors, with heavy emphasis on the credit-oriented sectors. The fund 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.

Collective Investment Funds – This type includes five funds, the Commingled BlackRock Fixed Income Index Fund, the Prudential Wrapped Commingled Fund in the Stable Value Fund, the Nationwide Wrapped Commingled Fund in the Stable Value Fund, the Wells Fargo Commingled Fund in the Stable Value Fund, and a small Wells Fargo government money market fund. The Commingled BlackRock Fixed Income Index Fund seeks to replicate the composition and performance of the Bloomberg Barclays Aggregate Index. The Prudential and Nationwide wrapped commingled funds in the Stable Value Fund seeks preservation of principal and an above average level of income with the goal of minimizing overall portfolio risk. The funds primarily invest in U.S. Treasuries, U.S. agencies, corporate obligations, asset-backed securities, and mortgage-backed securities. The Wells Fargo Commingled Fund in the Stable Value Fund is primarily comprised of investment contracts issued by financial companies including guaranteed investment contracts (GICs), separate account GICs, and security-backed investment contracts. The Wells Fargo Commingled Fund seeks safety of principal and consistency of returns while attempting to maintain minimal volatility. The Wells Fargo money market fund seeks current income while preserving capital and liquidity. This fund invests in high quality, short-term money market instruments that consist of U.S. Government obligations and repurchase agreements collateralized by U.S. Government obligations. The Commingled BlackRock Fixed Income Index Fund, the Prudential Wrapped Commingled Fund, and the Nationwide Wrapped Commingled Fund 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. The Wells Fargo Commingled Fund is valued at contract value and its fair value is derived using a market/book ratio. The Wells Fargo money market fund is valued with a NAV at $1/unit.

NOTE 4 - 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, 2017.

	Increase (Decrease) in Fair Value		Fair Value		
Investment Derivatives	Classification	Increase	Classification	Debit (Credit)	Notional
U.S Dollar Equity Futures	Investment Earnings	$ (747,000)	State Treasurer Investment Pool	$ (747,000)	230,643,000
Foreign Equity Futures[1]	Investment Earnings	(608,000)	State Treasurer Investment Pool	(608,000)	33,083,000
Commodity Futures[2]	Investment Earnings	(725,000)	State Treasurer Investment Pool	(725,000)	204,737,000
Forward Currency Contracts	Investment Earnings	(1,201,000)	State Treasurer Investment Pool	(1,201,000)	144,270,000
Spot Currency Contracts	Investment Earnings	(4,000)	State Treasurer Investment Pool	(4,000)	26,630,000
Total		$ (3,285,000)		$ (3,285,000)	

[1] 8.3 million Japanese Yen; 12.5 million Euro; 9 million Great British Pound; 3.2 million Australian Dollar.

[2] 368,000 barrels of brent crude oil; 106,500 barrels crude oil; 2,162,500 pounds copper; 20,100 troy ounces gold; 1,490,000 bushels wheat; 12,320,000 pounds live cattle.

A schedule of all foreign derivatives outstanding at June 30, 2017 is presented below by currency:

Fair Value of Foreign Currency Contracts, Assets (Liabilities) as of June 30, 2017

Currency	Forwards Currency Contracts	Spot Currency Contracts	Foreign Equity Futures	Total
Australian Dollar	$ (20,000)	$ (2,000)	$ (40,000)	$ (62,000)
Brazilian Real	8,000	(1,000)		7,000
British Pound Sterling	8,000	(2,000)	(234,000)	(228,000)
Canadian Dollar	66,000			66,000
Chinese Yuan	(10,000)			(10,000)
Egyptian Pound	1,000			1,000
Euro	(146,000)	5,000	(402,000)	(543,000)
Hong Kong Dollar	(18,000)			(18,000)
Indian Rupee	1,000			1,000
Indonesian Rupiah	(37,000)			(37,000)
Israeli Shekel	11,000			11,000
Japanese Yen	86,000	4,000	68,000	158,000
Malaysian Ringgit	14,000			14,000
Mexican Peso	18,000	(3,000)		15,000
New Zealand Dollar	(1,372,000)	(1,000)		(1,373,000)
Norwegian Krone	2,000			2,000
Philippine Peso	1,000			1,000
Polish Zloty	(3,000)			(3,000)
Singapore Dollar	66,000			66,000
South African Rand	2,000	(4,000)		(2,000)
Swedish Krona	14,000			14,000
Swiss Franc	80,000			80,000
Thai Baht	1,000			1,000
Turkish Lira	26,000			26,000
Total	$ (1,201,000)	$ (4,000)	$ (608,000)	$ (1,813,000)

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 country 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, 2017, the counterparties' credit ratings for forward currency contracts that are subject to credit risk had a rating of no less than BBB by one of the nationally recognized ratings agencies.

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 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 2.8%, 1.7%, and 1.28%, respectively. The fair value of the securities covered by the contracts as of December 31, 2016, is $1.236 billion and the contract value is $1.225 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 2.8%, 1.7%, and 1.28%, respectively. The fair value of the securities covered by the contracts as of December 31, 2016, is $242 million and the contract value is $240 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 5 - CAPITAL ASSETS

Governmental Activities

A summary of changes in the Department's capital assets for the year ended June 30, 2017, is presented as follows:

	Balance July 1, 2016	Additions	Disposals	Balance June 30, 2017
Capital Assets, Depreciable:				
Equipment	$ 5,091,815	$ 0	$ (60,808)	$ 5,031,007
Computer Software	20,922,163			20,922,163
Total Capital Assets, Depreciable	26,013,978	0	(60,808)	25,953,170
Less Accumulated Depreciation for:				
Equipment	1,284,720	261,148	(46,569)	1,499,299
Computer Software	8,548,054	1,046,108		9,594,162
Total Accumulated Depreciation	9,832,774	1,307,256	(46,569)	11,093,461
Total Capital Assets, Depreciable, Net	$ 16,181,204	$ (1,307,256)	$ (14,239)	$ 14,859,709

NOTE 6 - LONG-TERM LIABILITIES

Long-term liability activity for the year ended June 30, 2017, is presented as follows:

Governmental Fund - General Fund	Balance July 1, 2016	Additions	Reductions	Balance June 30, 2017	Due Within One Year
Death Benefits Payable	$ 40,000	$ 0	$ 0	$ 40,000	$ 0
Compensated Absences	2,872,176	1,833,962	(1,905,903)	2,800,235	353,110
Net Pension Liability[1]	5,084,594	8,690,007		13,774,601	
Total Long-term Liabilities	$ 7,996,770	$ 10,523,969	$ (1,905,903)	$ 16,614,836	$ 353,110

Component Unit - State Health Plan	Balance July 1, 2016	Additions	Reductions	Balance June 30, 2017	Due Within One Year
Compensated Absences	$ 386,795	$ 188,073	$ (324,142)	$ 250,726	$ 31,617
Net Pension Liability[1]	686,795	870,166		1,556,961	
Total Long-term Liabilities	$ 1,073,590	$ 1,058,239	$ (324,142)	$ 1,807,687	$ 31,617

[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 consisted of the following at June 30, 2017:

Fiscal Year	Amount
2018	$ 1,370,952
2019	1,392,299
2020	1,422,659
2021	1,465,784
2022	1,509,255
2023-2027	4,458,232
Total Minimum Lease Payments	$ 11,619,181

Rental expense for all governmental funds operating leases during the year ended June 30, 2017, was $1,320,798.

NOTE 8 - FUND BALANCE

The details of the fund balance classifications for the governmental fund at June 30, 2017, are as follows:

	General Fund	Escheat Fund	Debt Proceeds and Interest Fund	Other Governmental Funds	Total
Fund Balance					
Nonspendable					
Inventory of Supplies	$ 72,841	$ 0	$ 0	$ 0	$ 72,841
Restricted for:					
General Government	477,046				477,046
Debt Service			135,753,824	2,547,037	138,300,861
Higher Education - Student Aid		658,920,605			658,920,605
Capital Projects				1,031,800	1,031,800
Committed to:					
General Government	4,215,737			362,427	4,578,164
Transportation				180,372	180,372
Unassigned	1,142,278				1,142,278
Total Fund Balance	$ 5,907,902	$ 658,920,605	$ 135,753,824	$ 4,121,636	$ 804,703,967

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, 2017, are as follows:

	Purpose	Amount
General Fund:		
Revenues from Other State Agencies:		
N.C. Wildlife Resources Commission	Debt Service for Wildlife Certificates of Participation	$ 2,942,305
Office of the State Controller	Non-recurring Salary Adjustment Fund Payment	846
Total Revenues from Other State Agencies		$ 2,943,151
Expenditures to Other State Agencies:		
Department of Public Safety	Floodplain Map Register of Deeds	$ 3,990,584
Department of Natural and Cultural Resources	Register of Deeds Proceeds to Cultural Resources	1,813,902
Office of the State Controller	Residual Register of Deeds Proceeds to be used by General Fund	1,383,928
Total Expenditures to Other State Agencies		$ 7,188,414
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	6,520,964
Total Expenditures to Other State Agencies		$ 22,855,964
Debt Proceeds and Interest Fund:		
Expenditures to Other State Agencies:		
Office of State Budget and Management	Transfer of 2016A 2/3 GO Bond Issuance proceeds to OSBM	$ 200,000,000
Total Expenditures to Other State Agencies		$ 200,000,000
Other Governmental Funds:		
Expenditures to Other State Agencies:		
Office of State Budget and Management	Transfer Premium Account Balance held by DST to OSBM Projects	$ 280,027
Total Expenditures to Other State Agencies		$ 280,027

NOTE 10 - INTERFUND TRANSFERS

Transfers in/out of other funds for the fiscal year ended June 30, 2017, consisted of the following:

Transfers Out	Transfers In General Fund
Debt Proceeds and Interest Fund	$ 11,173,125
Escheats Fund	868,932
Total	$ 12,042,057

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, 2017, in the amount of $708,251,727, which has been eliminated on the governmental fund financial statements. These General Fund transfers primarily consist of transfers for debt service appropriated from the State's General Fund which the Department transfers to the fund authorized to account for the expenditures.

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 Teachers' and State Employees' Retirement System, the Local Governmental Employees' Retirement System, the Firefighters' and Rescue Squad Workers' Pension Fund, the Consolidated Judicial Retirement System, the Legislative Retirement System and the North Carolina National Guard Pension Fund are the sole participants in the Long-term Investment, the Fixed Income Investment, Equity Investment, Real Estate Investment, Alternative Investment, Opportunistic Fixed Income Investment, and Inflation Sensitive Investment portfolios. The Fixed Income Asset Class includes the Long-term Investment and Fixed Income Investment portfolios. The

Global Equity Asset Class includes the Equity Investment portfolio. The Registers of Deeds' Supplemental Pension Fund is invested in the Bond Index External Investment Pool.

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 External Investment Pool. Additionally, the securities lending balance represents assets occurring from securities lending transactions that result from the systems' participation in the External Investment Pool. The investments of the State Treasurer are discussed in Note 3 of this report.

B. Plan Descriptions

Cost-Sharing, Multiple-Employer, Defined Benefit Plans

1. Teachers' and State Employees' Retirement System

Plan Administration: The Department 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. 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, 2017, the number of participating employers was as follows:

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

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, 2017, was 9.98% of covered payroll. This was greater than the actuarially determined contribution of 9.96%. 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 contributing members, may file an application for a refund of their contributions. By state law, 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 any other retirement or survivor benefit provided by TSERS.

2. Local Governmental Employees' Retirement System

Plan Administration: The Department 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, 2017, the number of participating local governments was as follows:

Cities	427
Counties	100
Special Districts	368
	895

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. General employee 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. 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 creditable service (age 55 for firefighters and rescue squad workers). 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 have either completed 20 years of creditable service regardless of age (15 years of creditable service for firefighters and rescue squad workers 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, 2017, all employers made contributions of 8% of covered payroll for law enforcement officers and 7.25% for general employees and firefighters. These were greater than the actuarially determined contributions of 7.12% for law enforcement officers and 5.5% for general employees and firefighters. These amounts, 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 contributing members, may file an application for a refund of their contributions. By state law, 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 any other retirement or survivor 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, 2017, there were 1,681 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 any other retirement or survivor benefit provided by FRSWPF.

4. Registers of Deeds' Supplemental Pension Fund

Plan Administration: The Department 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, 2017, there were 101 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 General Statute 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 Department 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, 2017, was 29.46% 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 contributing members may file an application for a refund of their contributions. By state law, 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 any other retirement or survivor benefit provided by CJRS.

6. Legislative Retirement System

Plan Administration: The Department 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, 2017, the State's contractually required contribution was 18.22% 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 contributing members may file an application for a refund of their contributions. By state law, 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 any other retirement or survivor 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. NGPF members do not contribute.

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, as well as law enforcement officers as defined under *North Carolina General Statutes* 143-166.30 and 143-166.50, 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. The assets of the 401(k) Plan are held in trust for the exclusive benefit of participants and their beneficiaries and for paying the reasonable costs of the plan. 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, 2016, there were approximately 245,500 employees enrolled with 1,036 participating employers. Benefit and contribution provisions are established by State and Federal law and the plan document.

The 401(k) Plan is a defined contribution pension plan and benefits of the 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 Board has delegated the general administration of the Plan to a third party but has retained all statutory authority and fiduciary responsibility for oversight and major decisions of the 401(k) Plan. Financial statements are based on the Plan’s fiscal year. The audited statements for the year ended December 31, 2016, 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 Insurance and Annuity Company (Prudential) provides third party administration of the 401(k) Plan. The 401(k) Plan’s financial statements are available by contacting the North Carolina Department of State Treasurer, 3200 Atlantic Avenue, Raleigh, NC 27604-1668.

In addition to the voluntary contribution criteria above, General Statutes 143-166.30 and 143-166.50 require employer contributions to the 401(k) Plan to provide benefits for all law enforcement officers employed by the State and local governments. Participation begins at the date of employment. Employers are required to contribute monthly to the individual accounts of participants an amount equal to 5% of each officer's monthly salary. In addition, State law enforcement officers receive $0.50 for each court cost assessed and collected under General Statute 7A-304, while $1.25 of this assessment goes to local law enforcement officers. All contributions are immediately vested in the name of each participant. At December 31, 2016, 52 state agencies and component units along with 453 local governmental units outside of the State reporting entity contributed the required 5%. In addition, 10 state agencies and 472 local government employers contributed to the 401(k) Plan on a voluntary basis. There were approximately 13,900 LEOs actively contributing to the 401(k) Plan and approximately 24,900 LEOs receiving employer contributions as of December 31, 2016.

The 401(k) Plan reported total member contributions of $325.85 million. The payrolls for law enforcement officers, on which the required contributions were based for the year ended December 31, 2016, amounted to $166.30 million for the State, $27.23 million for universities, and $7.06 million for community colleges, public schools and other miscellaneous component units. The required 5% employer's contribution was made by the State for $8.31 million, by universities for $1.36 million, and by the remaining component units, public schools, and community colleges for $353 thousand. In addition, the State contributed $342 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. The Supplemental Retirement Plan's investment risks are described in Note 3.

C. Plan Membership

The following table summarizes membership information by plan at the actuarial valuation date of December 31, 2016:

	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	208,443	65,930	13,940	103	654	293	4,541
Inactive Plan Members Entitled to but not yet Receiving Benefits	151,581	63,682	139		42	91	5,538
Active Plan Members	312,490	126,647	42,445	100	560	170	5,953
	672,514	256,259	56,524	203	1,256	554	16,032

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 and 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.

For all plans participating in the External Investment Pool, the following table displays the adopted asset allocation policy as of June 30, 2017:

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

The Registers of Deeds' Supplemental Pension fund is 100% invested in the Bond Index External Investment Pool.

Rate of Return: For the year ended June 30, 2017, the annual money-weighted rate of return on pension plan investments, net of pension plan investment expense was:

	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
Money-weighted Rate of Return	10.75%	10.74%	10.76%	(0.03%)	10.75%	10.72%	10.63%

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, 2017, were as follows:

	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	$ 75,639,901,000	$ 26,230,733,000	$ 455,675,000	$ 31,743,000	$ 651,830,000	$ 29,410,000	$ 174,972,000
Plan Fiduciary Net Position	67,705,460,000	24,703,010,000	407,163,000	48,812,000	569,103,000	27,689,000	121,127,000
Net Pension Liability (Asset)	$ 7,934,441,000	$ 1,527,723,000	$ 48,512,000	$ (17,069,000)	$ 82,727,000	$ 1,721,000	$ 53,845,000
Plan Fiduciary Net Position as a percentage of the Total Pension Liability	89.51%	94.18%	89.35%	153.77%	87.31%	94.15%	69.23%

Actuarial Assumptions: The total pension liability for the year ended June 30, 2017, was determined by actuarial valuations as of December 31, 2016, 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, 2017, 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[1]	12/31/16	12/31/16	12/31/16	12/31/16	12/31/16	12/31/16	12/31/16
Inflation	3%	3%	3.5%	3%	3%	3%	3%
Salary Increases	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]	7.20%	7.20%	7.20%	3.75%	7.20%	7.20%	7.20%

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

During the fiscal year ended June 30, 2017, retirees in the TSERS, CJRS, and LRS whose retirement began on or before September 1, 2016, received a one-time pension supplement payment equal to 1.6% of the retiree's annual retirement allowance as of September 1, 2016. Retirees in the LGERS received a 0.105% cost-of-living adjustment (COLA) for the fiscal year ended June 30, 2017. Effective July 1, 2017, retirees and beneficiaries of deceased retirees receiving benefits from the TSERS, CJRS, and LRS as of July 1, 2016 received a 1.0% cost-of-living adjustment. Retirees and beneficiaries of retirees with retirement effective dates between August 1, 2016 and June 1, 2017 received a prorated amount. These benefit enhancements reflect legislation enacted by the North Carolina General Assembly. These enhancements were reflected as liabilities in the 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 mortality rates also contain a provision to reflect future mortality improvements.

The actuarial assumptions used in the December 31, 2016 valuations were based on the results of an actuarial experience review for the period January 1, 2010 through December 31, 2014.

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, 2017 (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
Fixed Income	1.4%
Global Equity	5.3%
Real Estate	4.3%
Alternatives	8.9%
Opportunistic Fixed Income	6.0%
Inflation Sensitive	4.0%

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%. Return projections do not include any excess return expectations over benchmark averages. All rates of return and inflation are annualized. The long-term expected real rate of return for the Bond Index External Investment Pool as of June 30, 2017, is 1.3%.

Discount Rate: The discount rate used to measure the total pension liability was 7.20% except for Registers of Deeds' Supplemental Pension Fund which was 3.75%. The discount rate for the Teachers' and State Employees' Retirement System, the Local Governmental Employees' Retirement System, the Firefighters' and Rescue Squad Workers' Pension Fund, the Consolidated Judicial Retirement System, the Legislative Retirement System, and the North Carolina National Guard Pension Fund was lowered from 7.25% to 7.20% for the December 31, 2016 valuation. This discount rate is in line with the long-term nominal expected return on pension plan investments. The calculation of the net pension liability is a present value calculation of the future net pension payments. These net pension payments assume that contributions from plan members will be made at the current statutory contribution rate and that contributions from employers will be made at the contractually 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, 2017, calculated using the discount rate of 7.20% (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 (6.20%; RODSPF 2.75%) or 1-percentage-point higher (8.20%; RODSPF 4.75%) than the current rate:

	1% Decrease (6.20%)	Current Discount Rate (7.20%)	1% Increase (8.20%)
Cost-Sharing, Multiple-Employer			
TSERS' Net Pension Liability	$ 16,332,364,000	$ 7,934,441,000	$ 898,052,000
LGERS' Net Pension Liability (Asset)	4,586,259,000	1,527,723,000	(1,025,189,000)
FRSWPF' Net Pension Liability	105,209,000	48,512,000	1,908,000
Single-Employer			
CJRS' Net Pension Liability	$ 149,016,000	$ 82,727,000	$ 25,987,000
LRS' Net Pension Liability (Asset)	4,372,000	1,721,000	(559,000)
NCNGs' Net Pension Liability	75,110,000	53,845,000	36,354,000

	1% Decrease (2.75%)	Current Discount Rate (3.75%)	1% Increase (4.75%)
Cost-Sharing, Multiple-Employer			
RODSPF's Net Pension Asset	$ (13,416,000)	$ (17,069,000)	$ (20,141,000)

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, contributions, 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: The Department's and State Health Plan's contractually-required contribution rate for the year ended June 30, 2017 was 9.98% of covered payroll. The Department's contributions to the pension plan were $2,327,779, and employee contributions were $1,399,466 for the year ended June 30, 2017. The State Health Plan's contributions to the pension plan were $324,818 and employee contributions were $195,281 for the year ended June 30, 2017.

Net Pension Liability: At June 30, 2017, the Department's and the State Health Plan's proportionate shares of the collective net pension liability were $13,774,601 and $1,556,961, respectively. The net pension liability was measured as of June 30, 2016. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2015, and update procedures were used to roll forward the total pension liability to June 30, 2016.

The Department's and State Health Plan's proportions 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, 2016, the Department's proportion was 0.14987% which was a total increase of 0.0119% from its proportion measured as of June 30, 2015. The State Health Plan's proportion was 0.01694%, which was a total decrease of 0.0017% from its proportion measured as of June 30, 2015.

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	12/31/2015
Inflation	3%
Salary Increases*	3.50% - 8.10%
Investment Rate of Return**	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 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 study for the period January 1, 2010 through December 31, 2014.

Future ad hoc cost-of-living adjustment 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, (the valuation date) are summarized in the following table:

Asset Class	Long-Term Expected Real Rate of Return
Fixed Income	1.4%
Global Equity	5.3%
Real Estate	4.3%
Alternatives	8.9%
Credit	6.0%

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%. 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%. 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 contractually 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 at June 30, 2016, 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:

	Proportionate Share of the Net Pension Liability		
	1% Decrease (6.25%)	Current Discount Rate (7.25%)	1% Increase (8.25%)
Department	$ 25,907,363	$ 13,774,601	$ 3,572,612
State Health Plan	$ 2,928,343	$ 1,556,961	$ 403,817

Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions: For the year ended June 30, 2017, the Department's proportionate share of the collective pension expense was $2,788,010. The State Health Plan recognized a pension expense of $290,120. At June 30, 2017, the Department's and the State Health Plan's proportionate shares of the collective deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

Employer Proportionate Share 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
Difference Between Actual and Expected Experience	$ 0	$ 651,007	$ 0	$ 73,584
Changes of Assumptions	2,031,419		229,614	
Net Difference Between Projected and Actual Earnings on Pension Plan Investments	4,912,465		555,262	
Change in Proportion and Differences Between Agency's Contributions and Proportionate Share of Contributions	560,748	31,733	8,453	35,751
Contributions Subsequent to the Measurement Date	2,325,446		326,369	
Total	$ 9,830,078	$ 682,740	$ 1,119,698	$ 109,335

The Department's deferred outflows of resources for pensions in the amount of $2,325,446 represents a reduction of the net pension liability for the fiscal year ending June 30, 2018.

Deferred outflows of resources related to pensions for the State Health Plan's proportionate share in the amount of $326,369 for the fiscal year ended June 30, 2017, 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, 2018.

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions included in pension expense were 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 Recognized in Pension Expense:

Year Ended June 30,	Department	State Health Plan
2018	$ 1,196,001	$ 110,173
2019	1,222,421	113,242
2020	2,831,869	295,262
2021	1,571,601	165,317
Total	$ 6,821,892	$ 683,994

NOTE 13 - DEFERRED COMPENSATION PLANS

A. IRC Section 457 Plan

General Statute 143B-426.24 authorized the creation of the North Carolina Public Employee Deferred Compensation Plan (the 457 Plan) to offer a uniform deferred compensation plan to the employees of the State, any county or municipality, the North Carolina Community College System, and any political subdivision of the State. The 457 Plan is administered in accordance with Internal Revenue Code (IRC) Section 457. At December 31, 2016, there were approximately 52,600 plan members with 435 employers adopting the 457 Plan.

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 the 457 Plan. The 457 Plan is a defined contribution pension plan. Benefits of the 457 Plan depend solely on amounts contributed to the plan plus investment earnings. The assets of the 457 Plan are held in trust for the exclusive benefit of participants and their beneficiaries and for paying the reasonable costs of the plan. The deferred compensation is available to employees upon separation from service, death, disability, retirement, or financial hardships. The Board has delegated the general administration of the Plan to a third party but has retained all statutory authority and fiduciary responsibility for oversight and major decisions of the 457 Plan. The audited statements for the year ended December 31, 2016, are presented in this financial report as a pension and other employee benefit trust fund. The 457 Plan's financial statements are prepared using the accrual basis of accounting. All costs of administering and funding the 457 Plan are the responsibility of the plan participants. Prudential Retirement Insurance and Annuity Company (Prudential) provides third party administration of the 457 Plan. The 457 Plan's financial statements are available by contacting the North Carolina 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. The 457 Plan’s investment risks are described in Note 3.

B. IRC Section 403(B) Plans

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 NC 403(b) Plan). Pursuant to General Statutes 115C-341.2 and 115D-25.4, the NC 403(b) Plan is available to all local school Boards of Education and community colleges across the State. Each individual employer has the discretion to adopt the NC 403(b) Plan. The North Carolina Department of State Treasurer administers the NC 403(b) Plan and the Teachers' Insurance and Annuity

Association (TIAA) served as the record keeper through February 21, 2017. As of February 22, 2017, Prudential assumed record keeping and communication responsibility. The NC 403(b) Plan is designed to provide a low-cost supplemental retirement savings option to public school and community college employees. At June 30, 2017, there were 50 school districts enrolled in the NC 403(b) Plan with 1,186 employees participating.

NOTE 14 - THE STATE'S OTHER POSTEMPLOYMENT BENEFIT PLANS – ADMINISTERED BY THE DEPARTMENT

The Department administers three postemployment benefit plans, the Retiree Health Benefit Fund, the Disability Income Plan of North Carolina, and the Retirees' Contributory Death Benefit 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 (RSI) section of this report. The Retirees' Contributory Death Benefit Plan is included in Exhibits J-1 through J-4 in the Death Benefit Plan of North Carolina column.

A. Summary of Significant Accounting Policies and Plan Asset Matters

The financial statements of these plans are prepared using the accrual basis of accounting. 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 other postemployment benefits funds. The State Treasurer maintains various investment portfolios in its External Investment Pool. The Retiree Health Benefit Fund participates in the External Investment Pool. The Disability Income Plan of North Carolina and the assets of the Retirees' Contributory Death Benefit Plan are invested in the Short-term Investment Portfolio of the External Investment Pool and the Bond Index External Investment Pool.

Additionally, the securities lending balance represents assets occurring from securities lending transactions that result from the funds' participation in the External Investment Pool. The investments of the State Treasurer are discussed in Note 3.

B. Plan Descriptions

Cost-Sharing, Multiple-Employer, Defined Benefit Plans

1. Health Benefits

Plan Administration: The State of North Carolina administers the North Carolina State Health Plan for Teachers and State Employees, referred to as the State Health Plan (the Health Plan), a healthcare plan exclusively for the benefit of employees of the State, the University of North Carolina System, community colleges, and certain other component units. In addition, Local Education Agencies (LEAs), charter schools, and some select local governments also participate. The Health Plan is reported as a major component unit of the State. Management of the Health Plan is vested in the State Health Plan Board of Trustees, which consists of 10 members – two appointed by the Governor, two appointed by the State Treasurer, two appointed by the state Senate, two appointed by the state House of Representatives, and the State Treasurer and the Director of State Budget and Management who serve as ex officio members. Health benefit programs and premium rates are determined by the State Treasurer upon approval of the Board of Trustees.

The Retiree Health Benefit Fund (RHBF) has been established as a fund to provide health benefits to retired and disabled employees and their applicable beneficiaries. RHBF is established by General Statute 135-7, Article 1. RHBF is a cost-sharing, multiple-employer, defined benefit healthcare plan, exclusively for the benefit of former employees of the State, the University of North Carolina System, and community colleges. In addition, LEAs, charter schools, and some select local governments also participate.

At June 30, 2017, the number of participating employers was as follows:

State of North Carolina	1
LEAs	116
Charter Schools	61
Community Colleges	58
University of North Carolina System	19
Other Component Units	5
Local Governments	11
Total	271

By statute, RHBF is administered by the Board of Trustees of the Teachers' and State Employees' Retirement System, 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. RHBF is supported by a percent of payroll contribution from participating employing units. Each year the percentage is set in legislation, as are the maximum per retiree contributions from RHBF to the State Health Plan.

The State Treasurer, with the approval of the State Health Plan Board of Trustees, then sets the employer contributions (subject to the legislative cap) and the premiums to be paid by retirees, as well as the health benefits to be provided through the State Health Plan.

Benefits Provided: Benefits received by retired employees and disabled employees from RHBF 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. In the calendar year 2016, Medicare retirees had 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 was selected by a Medicare retiree, the self-funded State Health Plan coverage is secondary to Medicare. Beginning in the calendar year 2017, Medicare retirees can choose from two fully-insured MA-PDP options.

Those former employees who are eligible to receive medical benefits from RHBF 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.

Section 35.21 (c) & (d) of Session Law 2017-57 repeals retiree medical benefits for employees first hired after January 1, 2021. The new legislation amends Article 3B of Chapter 135 of the General Statutes to require that retirees must earn contributory retirement service in the Teachers’ and State Employees’ Retirement System (or in an allowed local system unit), the Consolidated Judicial Retirement System, or the Legislative Retirement System prior to January 1, 2021, and not withdraw that service, in order to be eligible for retiree medical benefits under the amended law. Consequently, members first hired on and after January 1, 2021 will not be eligible to receive retiree medical benefits.

The Health Plan's and RHBF'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. RHBF does not provide for automatic post-retirement benefit increases.

Contributions: By General Statute, accumulated contributions from employers to RHBF and any earnings on those contributions shall be used to provide health benefits to retired and disabled employees and their applicable beneficiaries. By statute, contributions to the RHBF are irrevocable. Also by law, RHBF 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 RHBF. However, RHBF assets may be used for reasonable expenses to administer RHBF, including costs to conduct required actuarial valuations of state-supported retired employees' health benefits. Contribution rates to RHBF, 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 State and the other employers contributed the legislatively mandated 5.60% of covered payroll from July 1, 2016 through December 31, 2016 and 6.02% of covered payroll from January 1, 2017 through June 30, 2017. RHBF is reported as an employee benefit trust fund. Actual contributions are reported in Section F of this note.

2. Disability Income

Plan Administration: As discussed in Note 15, short-term and long-term disability benefits are provided through the Disability Income Plan of North Carolina (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 component units, LEAs, and the University Employees' Optional Retirement Program. At June 30, 2017, the number of participating employers was as follows:

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

By statute, the DIPNC is administered by the Department of State Treasurer and the Board of Trustees of the Teachers' and State Employees' Retirement System, 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: Long-term disability benefits are payable as an other postemployment benefit from 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' Optional Retirement Program, 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 DIPNC will cease, and the employee will commence retirement under the TSERS or the University Employees' Optional Retirement Program.

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.

Contributions: Although the DIPNC operates on a calendar year, disability income benefits are funded by actuarially determined employer contributions that are established in the Appropriations Bill by the General Assembly and coincide with the state fiscal year. For the fiscal year ended June 30, 2017, the State and the other employers made a statutory contribution of 0.38% of covered payroll. This was equal to the actuarially required contribution. Actual contributions are reported in Section F of this note.

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 an other 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. The plan does not provide for automatic post retirement benefit increases.

Single-Employer Defined Benefit Plans

3. Retirees' Contributory Death Benefit Plan

Plan Administration: The Department administers the Retirees' Contributory Death Benefit Plan (CDBP), which is a single-employer defined benefit plan that provides a group life insurance option to all retired members of the Teachers' and State Employees' Retirement System, the Local Governmental Employees' Retirement System (LGERS), the Consolidated Judicial Retirement System, and the Legislative Retirement System. This plan is optional and members must enroll in this option at the time of their retirement to be eligible for the benefits.

Management of the plan is vested in the TSERS Board of Trustees and in the LGERS Board of Trustees. The TSERS Board of Trustees 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. The LGERS Board of Trustees 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: Benefits payable under this plan are supported entirely by the contributions of participants and the investment earnings on these contributions. Upon receipt of proof of death of the participant, a lump-sum death benefit will be paid to the surviving spouse or estate. The death benefit shall be equal to (1) $10,000 if death occurs on or after 24 months of coverage or (2) the total of the monthly contributions plus interest at an annual rate determined by the Board of Trustees if death occurs before 24 months of coverage.

Contributions: The retired member has to elect, when first eligible, to make continuous required contributions as determined by the Board of Trustees on a full contributory basis, through retirement allowance deductions or other methods adopted by the Board of Trustees, to a group death benefit trust fund administered by the Board of Trustees. Monthly member contributions vary between $12.54 and $66.14 per month, depending on the age of the member at the time of retirement. There is no contractually required contribution by the State.

Benefit and contribution provisions are established by Chapter 135-5 (l), Article 1 of the General Statutes and may be amended only by the North Carolina General Assembly.

C. Plan Membership

The following tables summarize membership information by plan at the actuarial valuation date as of December 31, 2016:

	Retiree Health Benefit Fund	Disability Income Plan of N.C.
Retired Members and Beneficiaries Currently Receiving Benefits	213,425	N/A
Retired Members and Survivors of Deceased Members Currently Receiving Benefits	N/A	6,617
Terminated Members Entitled to but not yet Receiving Benefits	39,230	N/A
Active Members	338,158	323,469
Total	590,813	330,086

	Retirees' Contributory Death Benefit Plan
Retired Members Currently Covered under Death Benefit Plan	119,708
Terminated Members Eligible to Elect Coverage under Death Benefit Plan at Retirement	71,484
Active Members Eligible to Elect Coverage under Death Benefit Plan at Retirement	439,867
Total	631,059

D. Investments

Investment Policy: The OPEB plans' policy in regard to the allocation of invested assets is established and may be amended by the State Treasurer. Assets are managed by the Investment Management Division (IMD) of the North Carolina Department of State Treasurer 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 policies for the Disability Income Plan of North Carolina and for the Retirees' Contributory Death Benefit Plan are primarily in the Bond Index External Investment Pool as of June 30, 2017, as described in Note 3. The following table displays the adopted asset allocation policy for the Retiree Health Benefit Fund as of June 30, 2017.

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

Rate of Return: For the year ended June 30, 2017, the annual money-weighted rate of return on OPEB plan investments, net of OPEB plan investment expense was:

	Cost-Sharing, Multiple-Employer		Single-Employer
	Retiree Health Benefit Fund	Disability Income Plan of N.C.	Retirees' Contributory Death Benefit Plan
Money-weighted Rate of Return	9.31%	(0.06%)	(0.02%)

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

E. Net OPEB Liability of Participating Employers

The components of the net OPEB liability of the participating employers at June 30, 2017, were as follows:

	Retiree Health Benefit Fund	Disability Income Plan of N.C.	Retirees' Contributory Death Benefit Plan
Total OPEB Liability	$ 33,983,195,000	$ 376,486,000	$ 331,144,000
Plan Fiduciary Net Position	1,196,570,000	437,606,000	246,995,000
Net OPEB Liability (Asset)	$ 32,786,625,000	$ (61,120,000)	$ 84,149,000
Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability	3.52%	116.23%	74.59%

Actuarial Assumptions: The total OPEB liabilities for RHBF, DIPNC, and CDBP were determined by actuarial valuations as of December 31, 2016, using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified. The total OPEB liabilities were then rolled forward to June 30, 2017, utilizing update procedures incorporating the actuarial assumptions.

	Retiree Health Benefit Fund	Disability Income Plan of N.C.	Retirees' Contributory Death Benefit Plan
Valuation Date	12/31/2016	12/31/2016	12/31/2016
Inflation	2.75%	3.00%	3.00%
Salary Increases [1]	3.50% - 8.10%	3.50% - 8.10%	N/A
Investment Rate of Return [2]	7.20%	3.75%	3.75%
Healthcare Cost Trend Rate - Medical	5.00% - 6.50%	N/A	N/A
Healthcare Cost Trend Rate - Prescription Drug	5.00% - 7.25%	N/A	N/A
Healthcare Cost Trend Rate - Medicare Advantage	4.00% - 5.00%	N/A	N/A
Healthcare Cost Trend Rate - Administrative	3.00%	N/A	N/A

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 OPEB 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 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. DIPNC and CDBP are primarily invested in the Bond Index External Investment Pool, as of June 30, 2017.

Best estimates of real rates of return for each major asset class included in the RHBF's target asset allocation as of June 30, 2017 (see the discussion of the OPEB plans' investment policy in Section D of this note) are summarized in the following table:

Asset Class	Long-Term Expected Real Rate of Return
Fixed Income	1.4%
Global Equity	5.3%
Real Estate	4.3%
Alternatives	8.9%
Opportunistic Fixed Income	6.0%
Inflation Sensitive	4.0%

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%. Return projections do not include any excess return expectations over benchmark averages. All rates of return and inflation are annualized. The long-term expected real rate of return for the Bond Index External Investment Pool as of June 30, 2017, is 1.3%.

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 actuarial assumptions used for RHBF 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 RHBF 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 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.

The actuarial assumptions used in the December 31, 2016 valuations were based on the results of an actuarial experience study prepared as of December 31, 2014.

Discount Rate: The discount rate used to measure the total OPEB liability for RHBF was 3.58%. The projection of cash flow used to determine the discount rate assumed that contributions from employers would be made at the current statutorily determined contribution rate. Based on the above assumptions, the plan's fiduciary net position was not projected to be available to make projected future benefit payments of current plan members. As a result, a municipal bond rate of 3.58% was used as the discount rate used to measure the total OPEB liability. The 3.58% rate is based on the Bond Buyer 20-year General Obligation Index as of June 30, 2017.

The discount rate used to measure the total OPEB liability for DIPNC was 3.75%. The projection of cash flow used to determine the discount rate assumed that contributions from plan members would be made at the current contribution rate and that contributions from employers would be made at contractually required rates, actuarially determined. Based on those assumptions, the plans' fiduciary net position was projected to be available to make all projected future benefit payments of the current pension plan members. Therefore, the long-term expected rate of return on plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

The discount rate used to measure the total OPEB liability for CDBP was 3.65%. The projection of cash flow used to determine the discount rate assumed that no contributions would be made other than those made by retirees who elect coverage at retirement. Based on the above assumptions and the assumed investment return of 3.75% used in the actuarial valuation as of June 30, 2017, the plan's fiduciary net position was not projected to be available to make all projected future benefit payments of current plan members. In order to develop the blended discount rate of 3.65%, 3.75% was used during the period that the plan was projected to have a fiduciary net position, and a municipal bond rate of 3.13% was used during the period that the plan was projected to have no fiduciary net position. The 3.13% rate is based on the S&P Municipal Bond 20 Year High Grade Rate Index as of June 30, 2017.

Sensitivity of the Plans' Net OPEB Liability to Changes in the Discount Rate: The following presents the net OPEB liability of the plans at June 30, 2017, as well as what the plans' net OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower or 1-percentage-point higher than the current discount rate (dollars in thousands):

Cost-Sharing, Multiple-Employer

	1% Decrease (2.58%)	Current Discount Rate (3.58%)	1% Increase (4.58%)
RHBF Net OPEB Liability	$ 39,112,560	$ 32,786,625	$ 27,769,260

	1% Decrease (2.75%)	Current Discount Rate (3.75%)	1% Increase (4.75%)
DIPNC Net OPEB (Asset)	$ (51,961)	$ (61,120)	$ (70,300)

Single-Employer

	1% Decrease (2.65%)	Current Discount Rate (3.65%)	1% Increase (4.65%)
CDBP Net OPEB Liability (Asset)	$ 204,919	$ 84,149	$ (3,243)

Sensitivity of the Net OPEB Liability to Changes in the Healthcare Cost Trend Rates: The following presents the net OPEB liability of the RHBF, as well as what the RHBF's net OPEB liability would be if it were calculated using healthcare cost trend rates that are 1-percentage-point lower or 1-percentage-point higher than the current healthcare cost trend rates.

	1% Decrease (Medical - 4.00 - 5.50%, Pharmacy - 4.00 - 6.25% Med. Advantage - 3.00 - 4.00% Administrative - 2.00%)	Current Healthcare Trend Rates (Medical - 5.00 - 6.50%, Pharmacy - 5.00 - 7.25% Med. Advantage - 4.00 - 5.00% Administrative - 3.00%)	1% Increase (Medical - 6.00 - 7.50%, Pharmacy - 6.00 - 8.25% Med. Advantage - 5.00 - 6.00% Administrative - 4.00%)
RHBF Net OPEB Liability	$ 26,783,653	$ 32,786,625	$ 40,765,341

F. GASB Statement 45 Employer Reporting

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

Required Contributions as an Employer
For the Years Ended June 30, 2015 through June 30, 2017

	Retiree Health Benefit Fund	Disability Income Plan of N.C.
Department		
2017	$ 1,355,150	$ 88,633
2016	1,198,727	87,764
2015	1,000,573	74,724
State Health Plan		
2017	$ 189,097	$ 12,368
2016	152,535	11,168
2015	113,673	8,489

For 2017 and the two preceding years, the Department and State Health Plan contributed 100% of the required contributions for RHBF and DIPNC.

The Retirees' Contributory Death Benefit Plan does not have an ARC since there is no contractually required contribution by the Department. Contributions to the CDBP come from retired members who elect to participate in the Plan.

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 Health Plan). The Health 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 Health Plan is reported as a major component unit of the State. Coverage for active employees, non-Medicare retirees, and some Medicare retirees is self funded. Medicare retirees also had the option of selecting one of four fully-insured Medicare Advantage/Prescription Drug Plan (MA-PDP) options in calendar year 2016 and two fully-insured MA-PDP options in calendar year 2017. 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 Health Plan has contracted with third parties to process claims.

The Health Plan pays most expenses that are medically necessary and eligible for coverage based on allowed amounts for Preferred Provider Organization (PPO) plan members. Claims are subject to specified annual deductible and co-payment requirements. The Health 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 Health Plan's aggregate liabilities for claims for the past two fiscal years are as follows:

	Beginning of Fiscal Year Liability	Current-Year Claims and Changes in Estimates	Claim Payments	Balance at Fiscal Year-End
2015-16	$ 285,033,403	$ 2,777,912,508	$ (2,798,310,163)	$ 264,635,748
2016-17	264,635,748	2,924,475,680	(2,901,408,342)	287,703,086

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 Teachers' and State Employees' Retirement System 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 of the State. 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, 2016 to June 30, 2017, 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 of the State, 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 2016 to June 2017.

These benefits are established by General Statute 135-5(l) 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:

	Beginning of Fiscal Year Liability	Current-Year Claims and Changes in Estimates	Claim Payments	Balance at Fiscal Year-End
2015-16	$ 2,559,963	$ 50,485,942	$ (50,187,187)	$ 2,858,718
2016-17	2,858,718	53,830,964	(52,755,917)	3,933,765

3. Disability Income Plan of North Carolina

Short-term and long-term disability benefits are provided through the Disability Income Plan of North Carolina (DIPNC), a pension and other employee benefit trust fund, to the eligible members of the Teachers' and State Employees' Retirement System which includes employees of the State, the University of North Carolina System, community colleges, certain participating proprietary component units of the State and the University Employees' Optional Retirement Program. Employees of LEAs and miscellaneous educational units which are not part of the State's 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 DIPNC. The remaining six months are paid by the employer outside of DIPNC, but the employer is reimbursed by 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 DIPNC directly to the beneficiary. As discussed in Note 14, long-term disability benefits are payable as an other postemployment benefit from 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 its building and contents through the State Property Fire Insurance Fund (Fund), an internal service fund of the State. The Department is charged based on all divisions' assets. Losses covered by the Fund are subject to a $5,000 per occurrence deductible.

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 retains the risk 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, subject to approval by the Board and the Department of State Treasurer. 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, a specialized unit of the Prudential Financial Investment Division, provides administrative services related to the North Carolina Stable Value Fund and the Pooled Account. Prudential Retirement is also the provider of record keeping and participant services. The fees to Prudential are deducted from the participants' account balances. One of the funds within the North Carolina Fixed Income Fund is a commingled vehicle offered by Prudential Trust Company and managed by Prudential Investment Management, Inc. Jennison Associates, a registered investment advisory division within Prudential Global Investment Management, manages a portion of the North Carolina Stable Value Fund. Affiliates of Prudential Retirement also are a wrap provider (Prudential Insurance Company of America) and an investment manager (PGIM, Inc.) for the North Carolina Stable Value Fund.

The Bank of New York Mellon Corporation serves as the custodian for the Plans and provides global custody services related to the Pooled Account. These fees are deducted from the participants' account balances. Bank of New York Mellon also provides a short term cash vehicle for the temporary investment of funds until they are invested on a longer term basis.

NOTE 17 - COMMITMENTS AND CONTINGENCIES

A. No Commitment Debt

The North Carolina Capital Facilities Finance Agency (Agency), administered by the Department of the State Treasurer, 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, or the Department, 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, 2017, was $2.8 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 main 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 and common fund) that piggy-back on the legal claims.

The State moved to dismiss and, after a hearing, the trial court denied the motion. The State appealed to the North Carolina Court of Appeals regarding only the defense of sovereign immunity, and the case was sent back to Superior Court. 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 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 plan will be the amount of premiums they actually paid. The damages for retirees who switched to the zero premium 70/30 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. Defendants' Proposed Record on Appeal was due August 28, 2017. On December 5, 2017, a joint Petition for Discretionary review was filed in the North Carolina Supreme Court. The Petition is still pending. Appellants' brief was filed in the Court of Appeals on April 23, 2018. Appellees' brief is due on June 22, 2018.

The State Treasurer has stated that if the ruling stands the costs to the State could exceed $100 million.

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 $495,115 for Union County, $435,914 for Johnston County, $590,694 for Wilkes County and $208,406 for Cabarrus County, which totaled $1,730,128. 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 the Plaintiffs. Defendants filed their Notices of Appeal on June 13, 2017 and their Proposed Records on Appeal on July 28, 2017. Briefs were filed with the North Carolina Court of Appeals on December 5, 2017, and amended briefs were filed on December 20, 2017. Oral argument took place on May 14, 2018. To date, $15,178,958 has been invoiced to various employing agencies statewide. Of that amount, only $10,124,833 has been collected. The ability of the Retirement System to collect the remainder will likely depend on the outcome of the appeal.

In a similar action heard on December 6, 2017, the Wake County Superior Court granted a preliminary injunction to the Person County Board of Education and issued a stay pending the outcome of the four cases in the Court of Appeals. The Retirement System had billed petitioners a total of $184,493, of which $15,374 has been paid to date. Other county school boards, including Harnett and Pender, have sent letters requesting refunds of monies paid based on the lower court ruling in the four original pension spiking cases.

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, 2017

Exhibit D-1

	Budget Amounts			
	Original	Final	Actual (Cash Basis)	Favorable (Unfavorable)
REVENUES				
Fees	$ 0	$ 0	$ 7,255,608	$ 7,255,608
Services	5,660,767	7,595,429	5,363,526	(2,231,903)
Contributions		2,000,000	660,668	(1,339,332)
Investment Earnings	20,072,320	20,039,950	23,502	(20,016,448)
Interest Earnings on Loans		521,858	268,942	(252,916)
Revenues from Other State Agencies	1,654,441	2,943,151	2,943,151	
Revenues from Other Funds	22,308,034	24,271,124	21,972,720	(2,298,404)
Loan Collection of Principal		6,842,743	3,730,613	(3,112,130)
Reimbursement of Core Banking Upgrade Expenditures		280,000	280,000	
Reimbursement of Expenditures from Investment Pool	3,269,220	9,851,023	8,721,372	(1,129,651)
Miscellaneous Income	150,000	294,243	294,242	(1)
Total Revenues	53,114,782	74,639,521	51,514,344	(23,125,177)
EXPENDITURES				
State Aid	20,080,007	26,119,283	26,119,283	
Contracted Personal Services	3,036,529	7,478,819	4,781,929	2,696,890
Personal Services	24,972,787	26,200,582	23,905,626	2,294,956
Employee Benefits	8,771,391	8,697,505	7,951,117	746,388
Supplies and Materials	252,253	267,876	176,697	91,179
Travel	254,075	209,551	124,004	85,547
Communication	461,192	511,716	442,560	69,156
Utilities	276,000	338,684	217,863	120,821
Data Processing Services	216,702	190,127	139,321	50,806
Other Services	925,201	837,117	699,287	137,830
Claims and Benefits	230,000	769,998	500,000	269,998
Debt Service:				
Principal Retirement	1,144,956,083	1,053,103,270	518,085,000	535,018,270
Interest and Fees	138,118,837	313,360,613	246,812,853	66,547,760
Debt Issuance Costs	587,361	2,796,056	453,758	2,342,298
Other Fixed Charges	1,943,743	2,015,054	1,522,004	493,050
Capital Outlay	1,806,782	2,790,490	1,329,839	1,460,651
Insurance	15,338	20,730	13,455	7,275
Other Expenditures	1,130,978	1,343,202	1,314,414	28,788
Expenditures to Other State Agencies	5,836,628	5,836,628	7,188,414	(1,351,786)
Total Expenditures	1,353,871,887	1,452,887,301	841,777,424	611,109,877
Excess Revenues Under Expenditures	(1,300,757,105)	(1,378,247,780)	(790,263,080)	587,984,700
OTHER FINANCING SOURCES (USES)				
State Appropriations	740,782,244	740,782,244	716,921,871	(23,860,373)
Sale of Capital Assets	500			
Agency Reserves		5,688,712		(5,688,712)
Refunding on Bonds Issued	560,008,341	859,028,341		(859,028,341)
Premiums on Bonds Issued	68,866,981	121,036,071		(121,036,071)
Pay to Refunded Debt Escrow Agent	(241,682,683)	(591,510,843)		591,510,843
Transfers In	197,585,132	253,757,830	85,018,216	(168,739,614)
Transfers Out	(23,671,766)	(18,359,861)	(11,132,618)	7,227,243
Transfers from the State Reserve Fund		371,139	121,992	(249,147)
Transfers to the State Reserve Fund		(122,246)	(122,246)	
Total Other Financing Sources	1,301,888,749	1,370,671,387	790,807,215	(579,864,172)
Net Change in Fund Balance	1,131,644	(7,576,393)	544,135	8,120,528
Fund Balance July 1, 2016	4,056,010	4,056,010	4,056,010	
Fund Balance June 30, 2017	$ 5,187,654	$ (3,520,383)	$ 4,600,145	$ 8,120,528

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) - Escheat Fund
For the Fiscal Year Ended June 30, 2017 — *Exhibit D-2*

	Budget Amounts			
	Original	**Final**	**Actual (Cash Basis)**	**Favorable (Unfavorable)**
REVENUES				
Funds Escheated	$ 159,036,435	$ 180,000,000	$ 159,242,404	$ (20,757,596)
Services	160	285	285	
Investment Earnings	43,070,521	13,296,078	9,989,039	(3,307,039)
Total Revenues	202,107,116	193,296,363	169,231,728	(24,064,635)
EXPENDITURES				
State Aid	37,287,242	37,287,242	37,287,242	
Contracted Personal Services	6,225,290	6,204,385	5,164,109	1,040,276
Other Services	7,670			
Other Fixed Charges	54,688	83,263	83,262	1
Expenditures to Other State Agencies	22,855,964	22,855,964	22,855,964	
Total Expenditures	66,430,854	66,430,854	65,390,577	1,040,277
Excess Revenues Under Expenditures	135,676,262	126,865,509	103,841,151	(23,024,358)
Net Change in Fund Balance	135,676,262	126,865,509	103,841,151	(23,024,358)
Fund Balance July 1, 2016	379,659,091	379,659,091	379,659,091	
Fund Balance June 30, 2017	$ 515,335,353	$ 506,524,600	$ 483,500,242	$ (23,024,358)

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

The following tables present a reconciliation of resulting basis differences in the fund balance (budgetary basis) at June 30, 2017 to the fund balance on a modified accrual basis (GAAP).

GENERAL FUND RECONCILIATION

	General Fund
Fund Balance (budgetary basis) June 30, 2017	$ 4,600,145
Reconciling Adjustments:	
Basis Differences:	
Accrued Revenues:	
Intergovernmental Receivables	29,121
Interest Receivable	1,642
Contributions Receivable	78,655
Due from Other Funds	30,820
Due from Component Unit	6,896
Total Accrued Revenues	147,134
Accrued Expenditures:	
Accounts Payable	(321,514)
Due to Other Funds	(41,825)
Total Accrued Expenditures	(363,339)
Other Adjustments:	
Inventories	1,451,121
Cash	72,841
Fund Balance (GAAP) basis June 30, 2017	$ 5,907,902

ESCHEAT FUND RECONCILIATION

	Escheat Fund
Fund Balance (budgetary basis) June 30, 2017	$ 483,500,242
Reconciling Adjustments:	
Basis Differences:	
Accrued Revenues:	
Interest Receivable	1,166,290
Accrued Expenditures:	
Escheats Claims Payable	(58,000,000)
Accounts Payable	(93,201)
Total Accrued Expenditures	(58,093,201)
Other Adjustments:	
Investments	258,902,696
Forward Funded State Aid	37,287,243
Reduction of Escheat Claims Payable	(53,949,796)
Other	(9,892,869)
Fund Balance (GAAP) basis June 30, 2017	$ 658,920,605

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 Plans — *Exhibit E-1*
Last Four Fiscal Years — *Page 1 of 2*

	2017	2016	2015	2014
TEACHERS' AND STATE EMPLOYEES'				
Total Pension Liability				
Service Cost	$ 1,469,395,000	$ 1,580,544,000	$ 1,562,846,000	$ 1,556,027,000
Interest	5,195,104,000	4,937,464,000	4,803,766,000	4,648,995,000
Changes of Benefit Terms	449,563,000	35,605,000		355,224,000
Differences Between Expected and Actual Experience	229,339,000	(190,178,000)	(278,170,000)	(345,392,000)
Changes of Assumptions	381,934,000	1,743,836,000		
Benefit Payments, Including Refunds of Member Contributions	(4,545,296,000)	(4,339,637,000)	(4,184,410,000)	(3,989,397,000)
Net Change in Total Pension Liability	3,180,039,000	3,767,634,000	1,904,032,000	2,225,457,000
Total Pension Liability - Beginning	72,459,862,000	68,692,228,000	66,788,196,000	64,562,739,000
Total Pension Liability - Ending (a)	$ 75,639,901,000	$ 72,459,862,000	$ 68,692,228,000	$ 66,788,196,000
Plan Fiduciary Net Position				
Contributions-Employer	$ 1,441,194,000	$ 1,275,003,000	$ 1,262,988,000	$ 1,177,341,000
Contributions-Member	894,538,000	864,151,000	854,306,000	825,548,000
Net Investment Income	6,656,652,000	472,174,000	1,468,624,000	9,121,005,000
Benefit Payments, Including Refunds of Member Contributions	(4,545,296,000)	(4,339,637,000)	(4,184,410,000)	(3,989,397,000)
Administrative Expense	(11,265,000)	(10,217,000)	(10,646,000)	(10,762,000)
Other	808,000	325,000	393,000	320,000
Net Change in Plan Fiduciary Net Position	4,436,631,000	(1,738,201,000)	(608,745,000)	7,124,055,000
Plan Fiduciary Net Position - Beginning	63,268,829,000	65,007,030,000	65,615,775,000	58,491,720,000
Plan Fiduciary Net Position - Ending (b)	$ 67,705,460,000	$ 63,268,829,000	$ 65,007,030,000	$ 65,615,775,000
TSERS's Net Pension Liability - Ending (a) - (b)	$ 7,934,441,000	$ 9,191,033,000	$ 3,685,198,000	$ 1,172,421,000
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	89.51%	87.32%	94.64%	98.24%
Covered-Employee Payroll	$ 14,440,822,000	$ 13,934,459,000	$ 13,803,148,000	$ 13,548,227,000
Net Pension Liability as a Percentage of Covered-Employee Payroll	54.94%	65.96%	26.70%	8.65%

	2017	2016	2015	2014
LOCAL GOVERNMENTAL EMPLOYEES'				
Total Pension Liability				
Service Cost	$ 656,231,000	$ 684,288,000	$ 670,936,000	$ 654,735,000
Interest	1,803,590,000	1,707,699,000	1,628,373,000	1,555,958,000
Changes of Benefit Terms		12,581,000	65,914,000	(7,790,000)
Differences Between Expected and Actual Experience	73,083,000	50,205,000	(72,177,000)	(80,590,000)
Changes of Assumptions	138,096,000	183,019,000		
Benefit Payments, Including Refunds of Member Contributions	(1,322,277,000)	(1,251,918,000)	(1,172,578,000)	(1,106,799,000)
Net Change in Total Pension Liability	1,348,723,000	1,385,874,000	1,120,468,000	1,015,514,000
Total Pension Liability - Beginning	24,882,010,000	23,496,136,000	22,375,668,000	21,360,154,000
Total Pension Liability - Ending (a)	$ 26,230,733,000	$ 24,882,010,000	$ 23,496,136,000	$ 22,375,668,000
Plan Fiduciary Net Position				
Contributions-Employer	$ 461,329,000	$ 414,168,000	$ 408,694,000	$ 413,175,000
Contributions-Member	391,459,000	375,572,000	363,863,000	346,961,000
Net Investment Income	2,413,758,000	175,189,000	520,578,000	3,161,964,000
Benefit Payments, Including Refunds of Member Contributions	(1,322,277,000)	(1,251,918,000)	(1,172,578,000)	(1,106,799,000)
Administrative Expense	(4,264,000)	(3,926,000)	(4,086,000)	(3,974,000)
Other	3,330,000	3,248,000	3,285,000	3,297,000
Net Change in Plan Fiduciary Net Position	1,943,335,000	(287,667,000)	119,756,000	2,814,624,000
Plan Fiduciary Net Position - Beginning	22,759,675,000	23,047,342,000	22,927,586,000	20,112,962,000
Plan Fiduciary Net Position - Ending (b)	$ 24,703,010,000	$ 22,759,675,000	$ 23,047,342,000	$ 22,927,586,000
LGERS's Net Pension Liability (Asset) - Ending (a) - (b)	$ 1,527,723,000	$ 2,122,335,000	$ 448,794,000	$ (551,918,000)
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	94.18%	91.47%	98.09%	102.47%
Covered-Employee Payroll	$ 6,192,808,000	$ 5,860,574,000	$ 5,650,694,000	$ 5,553,383,000
Net Pension Liability (Asset) as a Percentage of Covered-Employee Payroll	24.67%	36.21%	7.94%	(9.94%)

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 Plans

Last Four Fiscal Years

FIREFIGHTERS' AND RESCUE SQUAD WORKERS'	2017	2016	2015	2014
Total Pension Liability				
Service Cost	$ 4,841,000	$ 5,610,000	$ 5,884,000	$ 5,710,000
Interest	31,475,000	30,035,000	29,671,000	29,394,000
Changes of Benefit Terms		118,000		8,770,000
Differences Between Expected and Actual Experience	2,048,000	(2,177,000)	(2,799,000)	2,714,000
Changes of Assumptions	2,549,000	15,577,000		(16,688,000)
Benefit Payments, Including Refunds of Member Contributions	(29,070,000)	(27,998,000)	(26,912,000)	(25,614,000)
Net Change in Total Pension Liability	11,843,000	21,165,000	5,844,000	4,286,000
Total Pension Liability - Beginning	443,832,000	422,667,000	416,823,000	412,537,000
Total Pension Liability - Ending (a)	$ 455,675,000	$ 443,832,000	$ 422,667,000	$ 416,823,000
Plan Fiduciary Net Position				
Contributions-Member	$ 2,594,000	$ 2,778,000	$ 2,822,000	$ 2,781,000
Contributions-Nonemployer	17,602,000	13,900,000	13,900,000	14,627,000
Net Investment Income	39,928,000	2,867,000	8,711,000	53,842,000
Benefit Payments, Including Refunds of Member Contributions	(29,070,000)	(27,998,000)	(26,912,000)	(25,614,000)
Administrative Expense	(919,000)	(860,000)	(1,622,000)	(1,045,000)
Other	15,000	18,000	4,000	2,000
Net Change in Plan Fiduciary Net Position	30,150,000	(9,295,000)	(3,097,000)	44,593,000
Plan Fiduciary Net Position - Beginning	377,013,000	386,308,000	389,405,000	344,812,000
Plan Fiduciary Net Position - Ending (b)	$ 407,163,000	$ 377,013,000	$ 386,308,000	$ 389,405,000
FRSWPF's Net Pension Liability - Ending (a) - (b)	$ 48,512,000	$ 66,819,000	$ 36,359,000	$ 27,418,000
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	89.35%	84.94%	91.40%	93.42%
Covered-Employee Payroll	N/A	N/A	N/A	N/A
Net Pension Liability as a Percentage of Covered-Employee Payroll	N/A	N/A	N/A	N/A

REGISTERS OF DEEDS'	2017	2016	2015	2014
Total Pension Liability				
Service Cost	$ 860,000	$ 579,000	$ 578,000	$ 563,000
Interest	1,164,000	1,354,000	1,372,000	1,342,000
Differences Between Expected and Actual Experience	440,000	(45,000)	(558,000)	302,000
Changes of Assumptions		7,082,000		
Benefit Payments, Including Refunds of Member Contributions	(1,793,000)	(1,718,000)	(1,715,000)	(1,666,000)
Net Change in Total Pension Liability	671,000	7,252,000	(323,000)	541,000
Total Pension Liability - Beginning	31,072,000	23,820,000	24,143,000	23,602,000
Total Pension Liability - Ending (a)	$ 31,743,000	$ 31,072,000	$ 23,820,000	$ 24,143,000
Plan Fiduciary Net Position				
Contributions-Employer	$ 869,000	$ 817,000	$ 802,000	$ 817,000
Net Investment Income	(13,000)	3,722,000	1,114,000	2,714,000
Benefit Payments, Including Refunds of Member Contributions	(1,793,000)	(1,718,000)	(1,715,000)	(1,666,000)
Administrative Expense	(19,000)	(47,000)	(16,000)	(18,000)
Net Change in Plan Fiduciary Net Position	(956,000)	2,774,000	185,000	1,847,000
Plan Fiduciary Net Position - Beginning	49,768,000	46,994,000	46,809,000	44,962,000
Plan Fiduciary Net Position - Ending (b)	$ 48,812,000	$ 49,768,000	$ 46,994,000	$ 46,809,000
RODSPF's Net Pension Asset - Ending (a) - (b)	$ (17,069,000)	$ (18,696,000)	$ (23,174,000)	$ (22,666,000)
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	153.77%	160.17%	197.29%	193.88%
Covered-Employee Payroll	N/A	N/A	N/A	N/A
Net Pension Asset as a Percentage of Covered-Employee Payroll	N/A	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 Plans — *Exhibit E-2*
Last Four Fiscal Years — *Page 1 of 2*

CONSOLIDATED JUDICIAL

	2017	2016	2015	2014
Total Pension Liability				
Service Cost	$ 15,630,000	$ 16,904,000	$ 16,812,000	$ 16,637,000
Interest	44,837,000	42,009,000	40,846,000	39,405,000
Changes in Benefit Terms	4,349,000	332,000		3,031,000
Differences Between Expected and Actual Experience	2,193,000	(4,295,000)	(2,289,000)	(2,484,000)
Changes of Assumptions	3,032,000	26,588,000		
Benefit Payments, Including Refunds of Member Contributions	(42,053,000)	(40,462,000)	(38,364,000)	(35,428,000)
Net Change in Total Pension Liability	27,988,000	41,076,000	17,005,000	21,161,000
Total Pension Liability - Beginning	623,842,000	582,766,000	565,761,000	544,600,000
Total Pension Liability - Ending (a)	$ 651,830,000	$ 623,842,000	$ 582,766,000	$ 565,761,000
Plan Fiduciary Net Position				
Contributions-Employer	$ 19,592,000	$ 18,908,000	$ 18,949,000	$ 21,390,000
Contributions-Member	7,399,000	7,561,000	6,238,000	5,598,000
Net Investment Income	55,762,000	3,972,000	12,176,000	74,294,000
Benefit Payments, Including Refunds of Member Contributions	(42,053,000)	(40,462,000)	(38,364,000)	(35,428,000)
Administrative Expense	(37,000)	(73,000)	(30,000)	(48,000)
Other			1,000	3,000
Net Change in Plan Fiduciary Net Position	40,663,000	(10,094,000)	(1,030,000)	65,809,000
Plan Fiduciary Net Position - Beginning	528,440,000	538,534,000	539,564,000	473,755,000
Plan Fiduciary Net Position - Ending (b)	$ 569,103,000	$ 528,440,000	$ 538,534,000	$ 539,564,000
CJRS's Net Pension Liability - Ending (a) - (b)	$ 82,727,000	$ 95,402,000	$ 44,232,000	$ 26,197,000
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	87.31%	84.71%	92.41%	95.37%
Covered-Employee Payroll	$ 66,504,000	$ 69,489,000	$ 69,638,000	$ 76,367,000
Net Pension Liability as a Percentage of Covered-Employee Payroll	124.39%	137.29%	63.52%	34.30%

LEGISLATIVE

	2017	2016	2015	2014
Total Pension Liability				
Service Cost	$ 872,000	$ 822,000	$ 844,000	$ 747,000
Interest	2,056,000	1,708,000	1,742,000	1,678,000
Changes of Benefit Terms	215,000	22,000		146,000
Differences Between Expected and Actual Experience	(122,000)	(520,000)	(579,000)	762,000
Changes of Assumptions	121,000	5,151,000		
Benefit Payments, Including Refunds of Member Contributions	(2,437,000)	(2,430,000)	(2,473,000)	(2,614,000)
Net Change in Total Pension Liability	705,000	4,753,000	(466,000)	719,000
Total Pension Liability - Beginning	28,705,000	23,952,000	24,418,000	23,699,000
Total Pension Liability - Ending (a)	$ 29,410,000	$ 28,705,000	$ 23,952,000	$ 24,418,000
Plan Fiduciary Net Position				
Contributions-Employer	$ 675,000	$ 65,000	$ 0	$ 0
Contributions-Member	253,000	253,000	253,000	253,000
Net Investment Income	2,744,000	181,000	642,000	4,293,000
Benefit Payments, Including Refunds of Member Contributions	(2,437,000)	(2,430,000)	(2,473,000)	(2,614,000)
Administrative Expense	(18,000)	(53,000)	(17,000)	(37,000)
Net Change in Plan Fiduciary Net Position	1,217,000	(1,984,000)	(1,595,000)	1,895,000
Plan Fiduciary Net Position - Beginning	26,472,000	28,456,000	30,051,000	28,156,000
Plan Fiduciary Net Position - Ending (b)	$ 27,689,000	$ 26,472,000	$ 28,456,000	$ 30,051,000
LRS's Net Pension Liability (Asset) - Ending (a) - (b)	$ 1,721,000	$ 2,233,000	$ (4,504,000)	$ (5,633,000)
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	94.15%	92.22%	118.80%	123.07%
Covered-Employee payroll	$ 3,705,000	$ 3,616,000	$ 3,611,000	$ 3,608,000
Net Pension Liability (Asset) as a Percentage of Covered-Employee Payroll	46.45%	61.75%	(124.73%)	(156.13%)

	2017	2016	2015	2014
NORTH CAROLINA NATIONAL GUARD				
Total Pension Liability				
Service Cost	$ 305,000	$ 593,000	$ 550,000	$ 512,000
Interest	11,975,000	10,700,000	9,916,000	9,330,000
Changes of Benefit Terms			8,734,000	5,752,000
Differences Between Expected and Actual Experience	1,204,000	30,000	(198,000)	192,000
Changes of Assumptions	955,000	15,149,000		
Benefit Payments, Including Refunds of Member Contributions	(8,677,000)	(8,512,000)	(7,958,000)	(7,502,000)
Net Change in Total Pension Liability	5,762,000	17,960,000	11,044,000	8,284,000
Total Pension Liability - Beginning	169,210,000	151,250,000	140,206,000	131,922,000
Total Pension Liability - Ending (a)	$ 174,972,000	$ 169,210,000	$ 151,250,000	$ 140,206,000
Plan Fiduciary Net Position				
Contributions-Member				
Contributions-Nonemployer	8,517,000	7,066,000	6,039,000	7,007,000
Net Investment Income	11,626,000	842,000	2,493,000	14,942,000
Benefit Payments, Including Refunds of Member Contributions	(8,677,000)	(8,512,000)	(7,958,000)	(7,502,000)
Administrative Expense	(168,000)	(97,000)	(75,000)	(73,000)
Other		1,000		1,000
Net Change in Plan Fiduciary Net Position	11,298,000	(700,000)	499,000	14,375,000
Plan Fiduciary Net Position - Beginning	109,829,000	110,529,000	110,030,000	95,655,000
Plan Fiduciary Net Position - Ending (b)	$ 121,127,000	$ 109,829,000	$ 110,529,000	$ 110,030,000
NGPF's Net Pension Liability - Ending (a) - (b)	$ 53,845,000	$ 59,381,000	$ 40,721,000	$ 30,176,000
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	69.23%	64.91%	73.08%	78.48%
Covered-Employee Payroll	N/A	N/A	N/A	N/A
Net Pension Liability as a Percentage of Covered-Employee Payroll	N/A	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

	2017	2016	2015	2014
TEACHERS' AND STATE EMPLOYEES'				
Actuarially Determined Contribution	$ 1,438,306,000	$ 1,210,904,000	$ 1,262,988,000	$ 1,177,341,000
Contractually Required Contribution	1,441,194,000	1,275,003,000	1,262,988,000	1,177,341,000
Contributions in Relation to the Actuarially Determined Contribution	1,441,194,000	1,275,003,000	1,262,988,000	1,177,341,000
Contribution Deficiency (Excess)	$ (2,888,000)	$ (64,099,000)	$ 0	$ 0
Covered Payroll	$ 14,440,822,000	$ 13,934,459,000	$ 13,803,148,000	$ 13,548,227,000
Contributions as a Percentage of Covered-Employee Payroll	9.98%	9.15%	9.15%	8.69%
LOCAL GOVERNMENTAL EMPLOYEES'				
Actuarially Determined Contribution	$ 453,193,000	$ 393,920,000	$ 402,429,000	$ 397,462,000
Contractually Required Contribution	461,329,000	414,168,000	408,694,000	413,175,000
Contributions in Relation to the Actuarially Determined Contribution	461,329,000	414,168,000	408,694,000	413,175,000
Contribution Deficiency (Excess)	$ (8,136,000)	$ (20,248,000)	$ (6,265,000)	$ (15,713,000)
Covered Payroll	$ 6,192,808,000	$ 5,860,574,000	$ 5,650,694,000	$ 5,553,383,000
Contributions as a Percentage of Covered Payroll	7.45%	7.07%	7.23%	7.44%
FIREFIGHTERS' AND RESCUE SQUAD WORKERS' *				
Actuarially Determined Contribution	$ 17,705,000	$ 13,241,000	$ 13,900,000	$ 14,620,000
Contractually Required Contribution	17,602,000	13,900,000	13,900,000	14,627,000
Contributions in Relation to the Actuarially Determined Contribution	17,602,000	13,900,000	13,900,000	14,627,000
Contribution Deficiency (Excess)	$ 103,000	$ (659,000)	$ 0	$ (7,000)
Covered Payroll	N/A	N/A	N/A	N/A
Contributions as a Percentage of Covered Payroll	N/A	N/A	N/A	N/A
REGISTERS OF DEEDS'				
Actuarially Determined Contribution	$ 0	$ 0	$ 0	$ 0
Contractually Required Contribution	869,000	817,000	802,000	817,000
Contributions in Relation to the Actuarially Determined Contribution	869,000	817,000	802,000	817,000
Contribution Deficiency (Excess)	$ (869,000)	$ (817,000)	$ (802,000)	$ (817,000)
Covered Payroll	N/A	N/A	N/A	N/A
Contributions as a Percentage of Covered 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.

2013	2012	2011	2010	2009	2008
$ 1,078,783,000	$ 1,015,762,000	$ 926,429,000	$ 492,779,000	$ 492,689,000	$ 429,064,000
1,120,482,000	1,015,762,000	680,670,000	492,779,000	492,689,000	468,669,000
1,120,482,000	1,015,762,000	680,670,000	492,779,000	492,689,000	468,669,000
$ (41,699,000)	$ 0	$ 245,759,000	$ 0	$ 0	$ (39,605,000)
$ 13,451,164,000	$ 13,652,715,000	$ 13,806,691,000	$ 13,803,324,000	$ 14,663,363,000	$ 13,976,026,000
8.33%	7.44%	4.93%	3.57%	3.36%	3.35%
$ 370,152,000	$ 376,340,000	$ 342,910,000	$ 230,121,000	$ 257,982,000	$ 241,533,000
383,889,000	389,399,000	361,998,000	273,337,000	271,363,000	256,612,000
383,889,000	389,399,000	361,998,000	273,337,000	271,363,000	256,612,000
$ (13,737,000)	$ (13,059,000)	$ (19,088,000)	$ (43,216,000)	$ (13,381,000)	$ (15,079,000)
$ 5,421,364,000	$ 5,402,147,000	$ 5,329,651,000	$ 5,320,927,000	$ 5,284,862,000	$ 4,948,042,000
7.08%	7.21%	6.79%	5.14%	5.13%	5.19%
$ 14,074,000	$ 14,389,000	$ 12,243,000	$ 10,074,000	$ 9,757,000	$ 8,734,000
15,447,000	14,398,000	10,110,000	10,080,000	9,762,000	8,734,000
15,447,000	14,398,000	10,110,000	10,080,000	9,762,000	8,734,000
$ (1,373,000)	$ (9,000)	$ 2,133,000	$ (6,000)	$ (5,000)	$ 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
937,000	843,000	772,000	736,000	754,000	926
937,000	843,000	772,000	736,000	754,000	926
$ (937,000)	$ (843,000)	$ (772,000)	$ (736,000)	$ (754,000)	$ (926)
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

	2017	2016	2015	2014
CONSOLIDATED JUDICIAL				
Actuarially Determined Contribution	$ 19,592,000	$ 18,324,000	$ 18,949,000	$ 21,390,000
Contractually Required Contribution	19,592,000	18,908,000	18,949,000	21,390,000
Contributions in Relation to the Actuarially Determined Contribution	19,592,000	18,908,000	18,949,000	21,390,000
Contribution Deficiency (Excess)	$ 0	$ (584,000)	$ 0	$ 0
Covered Payroll	$ 66,504,000	$ 69,489,000	$ 69,638,000	$ 76,367,000
Contributions as a Percentage of Covered-Employee Payroll	29.46%	27.21%	27.21%	28.01%
LEGISLATIVE				
Actuarially Determined Contribution	$ 675,000	$ 65,000	$ 0	$ 0
Contractually Required Contribution	675,000	65,000		
Contributions in Relation to the Actuarially Determined Contribution	675,000	65,000		
Contribution Deficiency (Excess)	$ 0	$ 0	$ 0	$ 0
Covered Payroll	$ 3,705,000	$ 3,616,000	$ 3,611,000	$ 3,608,000
Contributions as a Percentage of Covered Payroll	18.22%	1.80%	0.00%	0.00%
NORTH CAROLINA NATIONAL GUARD*				
Actuarially Determined Contribution	$ 8,517,000	$ 7,066,000	$ 6,039,000	$ 5,349,000
Contractually Required Contribution	8,517,000	7,066,000	6,039,000	7,007,000
Contributions in Relation to the Actuarially Determined Contribution	8,517,000	7,066,000	6,039,000	7,007,000
Contribution Deficiency (Excess)	$ 0	$ 0	$ 0	$ (1,658,000)
Covered Payroll	N/A	N/A	N/A	N/A
Contributions as a Percentage of Covered 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

2013	**2012**	**2011**	**2010**	**2009**	**2008**
$ 18,992,000	$ 18,956,000	$ 13,322,000	$ 10,740,000	$ 10,017,000	$ 8,214,000
18,992,000	18,956,000	10,457,000	10,740,000	10,603,000	40,844,000
18,992,000	18,956,000	10,457,000	10,740,000	10,603,000	10,844,000
$ 0	$ 0	$ 2,865,000	$ 0	$ (586,000)	$ (2,630,000)
$ 71,533,000	$ 75,673,000	$ 69,206,000	$ 71,079,000	$ 80,265,000	$ 64,678,000
26.55%	25.05%	15.11%	15.11%	13.21%	16.77%
$ 0	$ 0	$ 0	$ 0	$ 0	$ 0
					209,000
					209,000
$ 0	$ 0	$ 0	$ 0	$ 0	$ (209,000)
$ 3,600,000	$ 3,314,000	$ 4,209,000	$ 3,657,000	$ 3,686,000	$ 3,614,000
0.00%	0.00%	0.00%	0.00%	0.00%	5.78%
$ 5,667,000	$ 6,075,000	$ 5,719,000	$ 5,682,000	$ 6,248,000	$ 6,232,000
7,007,000	7,007,000	7,007,000	7,008,000	5,892,000	7,007,000
7,007,000	7,007,000	7,007,000	7,008,000	5,892,000	7,007,000
$ (1,340,000)	$ (932,000)	$ (1,288,000)	$ (1,326,000)	$ 356,000	$ (775,000)
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 Four Fiscal Years ***Exhibit F-2***

Annual Money-Weighted Rate of Return, Net of Investment Expense	2017	2016	2015	2014
Cost Sharing, Multiple-Employer				
Teachers' and State Employees'	10.75%	0.74%	2.27%	15.88%
Local Governmental Employees'	10.74%	0.77%	2.27%	15.86%
Firefighters' and Rescue Squad Workers'	10.76%	0.75%	2.26%	15.62%
Registers of Deeds'	(0.03%)	8.04%	2.26%	6.04%
Single-Employer				
Consolidated Judicial	10.75%	0.75%	2.27%	15.87%
Legislative	10.72%	0.66%	2.25%	15.91%
North Carolina National Guard	10.63%	0.77%	2.25%	15.63%

Changes of Benefit Terms:

	Cost of Living Increase									
	2016	**2015**	**2014**	**2013**	**2012**	**2011**	**2010**	**2009**	**2008**	**2007**
Cost Sharing, Multiple-Employer										
Teachers' and State Employees'	N/A	N/A	N/A	1.00%	N/A	N/A	N/A	2.20%	2.20%	3.00%
Local Governmental Employees	0.11%	0.63%	N/A	N/A	N/A	N/A	0.10%	2.15%	2.20%	2.80%
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	N/A	1.00%	N/A	N/A	N/A	2.20%	2.20%	3.00%
Legislative	N/A	N/A	N/A	1.00%	N/A	N/A	N/A	2.20%	2.20%	3.00%
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

Beginning in FY 2015, with the implementation of GASB 68, the above table reflects COLA's in the period of the legislative session or Board of Trustees meeting when it was passed. The COLA is effective as of July 1 of that period and the fiscal year end plan liability is affected at June 30 of that year because the COLA is included in the actuarial assumptions used to calculate the plan NPL.

[1] In 2007, the Firefighters' and Rescue Squad Workers' Pension Fund increased retirement benefits from $163 to $165. In 2008, retirement benefits increased from $165 to $167. In 2009, retirement benefits 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

Effective July 1, 2017, the definition of law enforcement officer related to TSERS members was changed by the General Assembly to include Probation/Parole officers for retirement benefit purposes. The change includes officers with respect to service rendered on or after July 1, 2017, and provides for unreduced retirement at age 55 with five years of service as a law enforcement officer or reduced retirement at age 50 with 15 years of service as a law enforcement officer.

During the fiscal year ended June 30, 2017, retirees in the TSERS, CJRS and LRS whose retirement began on or before September 1, 2016 received a one-time pension supplement payment equal to 1.6% of the retiree's annual retirement allowance as of September 1, 2016. Retirees in the LGERS received a 0.105% cost-of-living adjustment for the fiscal year ended June 30, 2017. Effective July 1, 2017, retirees and beneficiaries of deceased retirees receiving benefits from the TSERS, CJRS and LRS as of July 1, 2016 received a 1.0% cost-of-living adjustment. Retirees and beneficiaries of retirees with retirement effective dates between August 1, 2016, and June 1, 2017, received a prorated amount. These benefit enhancements reflect legislation enacted by the North Carolina General Assembly.

Method and Assumptions used 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 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, the Firefighters' and Rescue Squad Workers' Pension Fund, the Registers of Deeds' Supplemental Pension Fund, the Consolidated Judicial Retirement System, the Legislative 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 the 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. Also, as a result of market conditions and the allocation of assets in the Registers of Deeds' Supplemental Pension Fund, the discount rate used in calculating the plan's liabilities was lowered from 5.75% to 3.75%. The discount rate for Teachers' and State Employees' Retirement System, the Local Governmental Employees' Retirement System, the Firefighters' and Rescue Squad Workers' Pension Fund, the Consolidated Judicial Retirement System, the Legislative Retirement System and the North Carolina National Guard Pension Fund was lowered from 7.25% to 7.20% for the December 31, 2016 valuation.

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. Finally, the Boards of Trustees adopted a new asset valuation method for the Teachers' and State Employees' Retirement System, the Local Governmental Employees' Retirement System, the Firefighters' and Rescue Squad Workers' Pension Fund, the Registers of Deeds' Pension Fund, the Consolidated Judicial Retirement System, the Legislative Retirement System and the North Carolina National Guard Pension Fund. For determining plan funding requirements, these plans now use a five-year smoothing method with a reset of the actuarial value of assets to market value as of December 31, 2014.

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

Exhibit G-1

	2016	2015	2014	2013
State Health Plan				
Proportionate Share Percentage of Collective Net Pension Liability	0.01694%	0.01864%	0.02214%	0.01814%
Proportionate Share of TSERS Collective Net Pension Liability	$ 1,557,000	$ 687,000	$ 259,000	$ 1,272,000
Covered-Employee Payroll	$ 2,724,000	$ 2,461,000	$ 2,973,000	$ 2,820,000
Net Pension Liability as a Percentage of Covered-Employee Payroll	57.16%	27.92%	8.71%	45.11%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	87.32%	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 Four Fiscal Years**

Exhibit G-2

	2017	2016	2015	2014
State Health Plan				
Contractually Required Contribution	$ 325,000	$ 249,000	$ 225,000	$ 258,000
Contributions in Relation to the Contractually Determined Contribution	325,000	249,000	236,000	261,000
Contribution Deficiency (Excess)	$ 0	$ 0	$ (11,000)	$ (3,000)
Covered-Employee Payroll	3,255,000	2,724,000	2,461,000	2,973,000
Contributions as a Percentage of Covered-Employee Payroll	9.98%	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									
2016	**2015**	**2014**	**2013**	**2012**	**2011**	**2010**	**2009**	**2008**	**2007**
N/A	N/A	N/A	1.00%	N/A	N/A	N/A	2.20%	2.20%	3.00%

Changes of assumptions. In 2015, the actuarial assumptions were updated to more closely reflect actual experience. In 2015, the North Carolina Retirement Systems' consulting actuaries performed the quinquennial investigation of each retirement systems' 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 Board of Trustees of the Teachers' and State 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.

The Notes to Required Supplementary Information reflect the most recent available information included in the State of North Carolina’s 2017 *Comprehensive Annual Financial Report.*

N/A - Not Applicable

North Carolina Department of State Treasurer
Required Supplementary Information
Schedule of the Changes in the Net OPEB Liability and Related Ratios
Cost-Sharing, Multiple-Employer, Defined Benefit OPEB Plans — *Exhibit H-1*

Retiree Health Benefit	**2017**
Total OPEB Liability	
Service Cost	$ 2,650,984,000
Interest	1,332,874,000
Differences Between Expected and Actual Experience	(2,821,033,000)
Changes of Assumptions	(10,835,144,000)
Benefit Payments, Including Refunds of Member Contributions	(922,021,000)
Net Change in Total OPEB Liability	$ (10,594,340,000)
Total OPEB Liability - Beginning	44,577,535,000
Total OPEB Liability - Ending (a)	$ 33,983,195,000
Plan Fiduciary Net Position	
Contributions-Employer	$ 950,813,000
Net Investment Income	94,132,000
Benefit Payments, Including Refunds of Member Contributions	(922,021,000)
Administrative Expense	(490,000)
Net Change in Plan Fiduciary Net Position	$ 122,434,000
Plan Fiduciary Net Position - Beginning	1,074,136,000
Plan Fiduciary Net Position - Ending (b)	$ 1,196,570,000
Retiree Health Benefit Net OPEB Liability - Ending (a) - (b)	$ 32,786,625,000
Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability	3.52%
Covered Payroll	$ 16,365,112,000
Net OPEB Liability as a Percentage of Covered Payroll	200.34%

Disability Income	**2017**
Total OPEB Liability	
Service Cost	$ 25,441,000
Interest	14,111,000
Changes of Benefit Terms	(403,000)
Differences Between Expected and Actual Experience	22,345,000
Benefit Payments, Including Refunds of Member Contributions	(71,728,000)
Net Change in Total OPEB Liability	$ (10,234,000)
Total OPEB Liability - Beginning	386,720,000
Total OPEB Liability - Ending (a)	$ 376,486,000
Plan Fiduciary Net Position	
Contributions-Employer	$ 61,654,000
Net Investment Income	(122,000)
Benefit Payments, Including Refunds of Member Contributions	(71,728,000)
Administrative Expense	(1,050,000)
Other	32,000
Net Change in Plan Fiduciary Net Position	$ (11,214,000)
Plan Fiduciary Net Position - Beginning	448,820,000
Plan Fiduciary Net Position - Ending (b)	$ 437,606,000
Disability Income's Net OPEB Asset - Ending (a) - (b)	$ (61,120,000)
Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability	116.23%
Covered Payroll	$ 16,224,737,000
Net OPEB Asset as a Percentage of Covered Payroll	(0.38%)

North Carolina Department of State Treasurer
Required Supplementary Information
Schedule of the Changes in the Net OPEB Liability and Related Ratios
Single-Employer, Defined Benefit OPEB Plan — *Exhibit H-2*

Retiree's Contributory Death Benefit	**2017**
Total OPEB Liability	
Service Cost	$ (1,901,000)
Interest	11,574,000
Differences Between Expected and Actual Experience	4,241,000
Changes of Assumptions	(8,291,000)
Benefit Payments and Member Contributions	(1,161,000)
Net Change in Total OPEB Liability	$ 4,462,000
Total OPEB Liability - Beginning	326,682,000
Total OPEB Liability - Ending (a)	$ 331,144,000
Plan Fiduciary Net Position	
Contributions-Member	$ 25,380,000
Net Investment Income	643,000
Benefit Payments	(26,541,000)
Administrative Expense	(236,000)
Net Change in Plan Fiduciary Net Position	$ (754,000)
Plan Fiduciary Net Position - Beginning	247,749,000
Plan Fiduciary Net Position - Ending (b)	$ 246,995,000
Retiree's Contributory Death Benefit Net OPEB Liability - Ending (a) - (b)	$ 84,149,000
Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability	74.59%
Covered Payroll	N/A
Net OPEB Liability as a Percentage of Covered Payroll	N/A

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

Retiree Health Benefit	**2017**	**2016**	**2015**	**2014**
Actuarially Determined Contribution	$ 2,728,064,000	$ 2,516,706,000	$ 2,211,436,000	$ 2,226,586,000
Contractually Required Contribution	950,813,000	880,847,000	854,383,000	815,157,000
Contributions in Relation to the Actuarially Determined Contribution	950,813,000	880,847,000	854,383,000	815,157,000
Contribution Deficiency	$ 1,777,251,000	$ 1,635,859,000	$ 1,357,053,000	$ 1,411,429,000
Covered Payroll	$ 16,365,112,000	$ 15,729,411,000	$ 15,562,532,000	$ 15,095,500,000
Contributions as a Percentage of Covered Payroll	5.81%	5.60%	5.49%	5.40%

Disability Income				
Actuarially Determined Contribution	$ 24,337,000	$ 63,963,000	$ 63,267,000	$ 65,878,000
Contractually Required Contribution	61,654,000	63,963,000	63,267,000	65,878,000
Contributions in Relation to the Actuarially Determined Contribution	61,654,000	63,963,000	63,267,000	65,878,000
Contribution Excess	$ (37,317,000)	$ 0	$ 0	$ 0
Covered Payroll	$ 16,224,737,000	$ 15,600,732,000	$ 15,430,976,000	$ 14,972,273,000
Contributions as a Percentage of Covered Payroll	0.38%	0.41%	0.41%	0.44%

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

Exhibit H-3

2013	2012	2011	2010	2009	2008
$ 2,072,951,000	$ 2,371,490,000	$ 2,926,070,000	$ 3,001,667,000	$ 2,713,290,000	$ 2,638,677,000
813,223,000	710,027,000	743,659,000	678,769,000	635,685,000	601,032,000
813,223,000	710,027,000	743,659,000	678,769,000	635,685,000	601,032,000
$ 1,259,728,000	$ 1,661,463,000	$ 2,182,411,000	$ 2,322,898,000	$ 2,077,605,000	$ 2,037,645,000
$ 15,343,830,000	$ 14,200,540,000	$ 15,176,714,000	$ 15,083,756,000	$ 15,504,512,000	$ 14,659,317,000
5.30%	5.00%	4.90%	4.50%	4.10%	4.10%

$ 64,969,000	$ 71,244,000	$ 69,229,000	$ 73,303,000	$ 78,443,000	$ 71,468,000
64,969,000	80,537,000	78,259,000	77,791,000	79,981,000	75,844,000
64,969,000	80,537,000	78,259,000	77,791,000	79,981,000	75,844,000
$ 0	$ (9,293,000)	$ (9,030,000)	$ (4,488,000)	$ (1,538,000)	$ (4,376,000)
$ 14,765,682,000	$ 15,487,885,000	$ 15,049,808,000	$ 14,959,808,000	$ 15,380,962,000	$ 14,585,385,000
0.44%	0.52%	0.52%	0.52%	0.52%	0.52%

North Carolina Department of State Treasurer
Required Supplementary Information
Schedule of Investment Returns
All Defined Benefit OPEB Plans — *Exhibit H-4*

Annual Money-Weighted Rate of Return, Net of Investment Expense	2017
Retiree Health Benefit	9.31%
Disability Income	(0.06%)
Retirees' Contributory Death Benefit Plan	(0.02%)

Changes of benefit terms. Effective January 1, 2016, benefit terms related to copays, out-of-pocket maximums and deductibles were changed for three of four options of the Retiree Health Benefit Fund. Most of the changes were an increase in the amount from the previous year.

Effective January 1, 2017, benefit terms related to copays, coinsurance maximums, out-of-pocket maximums, and deductibles were changed for two of four options of the Retiree Health Benefit Fund. Most of the changes were an increase in the amount from the previous year.

Method and assumptions used 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 six months following the date of the valuation results for the Retiree Health Benefit Fund. 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 for the Disability Income Plan of North Carolina. See Note 14 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 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 the State Health Plan adopted a number of new actuarial assumptions and methods for the Retiree Health Benefit Fund and the Disability Income Plan of North Carolina. 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 and rates of termination from active employment were reduced to more closely reflect actual experience.

In 2017, the medical and prescription health trend rates used in the December 31, 2016 actuarial valuation of the Retiree Health Benefit Fund were reduced based upon the plan's most recent experience.

In 2017, the Retirees' Contributory Death Benefit Plan OPEB Liability was determined using an assumption that 50% of members who are not currently retired will elect coverage under the plan upon retirement (65% for members who are disabled at retirement). Previous valuations did not include this assumption.

SUPPLEMENTARY INFORMATION

North Carolina Department of State Treasurer
Combining Balance Sheet
Other Governmental Funds
As of June 30, 2017
(With Comparative Totals as of June 30, 2016) ***Exhibit I-1***

			Capital Project Funds							
		Other Special Revenue Fund		NC Infrastructure Finance		Public Improvement Bonds		Total 2017		Total 2016
ASSETS										
Cash and Cash Equivalents	$	505,129	$	0	$	0	$	505,129	$	490,842
Investments				1,031,353		2,542,875		3,574,228		3,821,317
Securities Lending Collateral		341						341		15,635
Interest Receivable		266		447		5,528		6,241		2,732
Notes Receivable		37,404						37,404		49,095
Total Assets		543,140		1,031,800		2,548,403		4,123,343		4,379,621
DEFERRED OUTFLOWS OF RESOURCES										
Total Deferred Outflows of Resources		0		0		0		0		0
Total Assets and Deferred Outflows of Resources	$	543,140	$	1,031,800	$	2,548,403	$	4,123,343	$	4,379,621
LIABILITIES										
Accounts Payable and Accrued Liabilities										
Accounts Payable	$	0	$	0	$	1,366	$	1,366	$	0
Obligations under Securities Lending		341						341		15,635
Total Liabilities		341		0		1,366		1,707		15,635
DEFERRED INFLOWS OF RESOURCES										
Total Deferred Inflows of Resources		0		0		0		0		0
FUND BALANCES										
Restricted				1,031,800		2,547,037		3,578,837		3,823,980
Committed		542,799						542,799		540,006
Total Fund Balances		542,799		1,031,800		2,547,037		4,121,636		4,363,986
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	$	543,140	$	1,031,800	$	2,548,403	$	4,123,343	$	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 Statement of Revenues, Expenditures, and Changes in Fund Balance
Other Governmental Funds
For the Fiscal Year Ended June 30, 2017
(With Comparative Totals for the Fiscal Year Ended June 30, 2016) ***Exhibit I-2***

		Capital Project Funds			
	Other Special Revenue Fund	**NC Infrastructure Finance**	**Public Improvement Bonds**	**Total 2017**	**Total 2016**
REVENUES					
Fees	$ 150	$ 0	$ 0	$ 150	$ 250
Contributions	3,257			3,257	7,737
Investment Earnings	2,915	4,588	37,204	44,707	20,883
Total Revenues	6,322	4,588	37,204	48,114	28,870
EXPENDITURES					
Contracted Personal Services	156		6,419	6,575	8,179
Claims and Benefits	3,373			3,373	7,425
Debt Service Interest and Fees		489		489	680
Expenditures to Other State Agencies		280,027		280,027	511,506
Total Expenditures	3,529	280,516	6,419	290,464	527,790
Excess Revenues Over (Under) Expenditures	2,793	(275,928)	30,785	(242,350)	(498,920)
OTHER FINANCING (USES)					
Transfers Out					(294,254)
Total Other Financing Uses	0	0	0	0	(294,254)
Net Change in Fund Balances	2,793	(275,928)	30,785	(242,350)	(793,174)
Fund Balances - July 1	540,006	1,307,728	2,516,252	4,363,986	5,157,160
Fund Balances - June 30	$ 542,799	$ 1,031,800	$ 2,547,037	$ 4,121,636	$ 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 Fiduciary Net Position
Pension and Other Employee Benefit Trust Funds
As of June 30, 2017
(With Comparative Totals as of 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	$ 196,986,087	$ 438,632	$ 77,327	$ 668,837	$ 1,957,195	$ 51,569,864
Investments:						
Collective Investment Funds						
Unallocated Insurance Contracts						
Synthetic Guaranteed Investment Contracts						
State Treasurer Investment Pool	67,391,677,225	566,558,617	27,490,931	406,460,176	119,156,558	24,592,313,433
Non-State Treasurer Pooled Investments						
Securities Lending Collateral	505,374,320	4,247,184	206,152	3,047,433	895,490	184,402,183
Receivables:						
Accounts Receivable	3,328,220	3,047	56,044	33,812	10,950	4,156,395
Interest Receivable	373,650	2,411	207	1,572	1,996	103,121
Contributions Receivable	59,919,588		76,094			55,283,472
Due from Other Funds	49,219,303	2,157,852				
Due from Component Units	11,041,545					
Notes Receivable						
Total Assets	68,217,919,938	573,407,743	27,906,755	410,211,830	122,022,189	24,887,828,468
LIABILITIES						
Accounts Payable and Accrued Liabilities:						
Accounts Payable						
Benefits Payable	480,250	1,820	3,885	1,411	70	392,635
Obligations under Securities Lending	505,374,320	4,247,184	206,152	3,047,433	895,490	184,402,183
Funds Held for Others	6,605,558	55,556	7,328			23,608
Total Liabilities	512,460,128	4,304,560	217,365	3,048,844	895,560	184,818,426
NET POSITION						
Restricted for:						
Pension Benefits	67,705,459,810	569,103,183	27,689,390	407,162,986	121,126,629	24,703,010,042
Postemployment Benefits						
Other Employment Benefits						
Total Net Position[1]	$ 67,705,459,810	$ 569,103,183	$ 27,689,390	$ 407,162,986	$ 121,126,629	$ 24,703,010,042

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

[1] See Exhibit B-1

	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.	Registers of Deeds' Supplemental Pension Fund	Total 2017	Total 2016
	$ 0	$ 0	$ 4,973,179	$ 193,102,980	$ 12,156,466	$ 130,651	$ 462,061,218	$ 366,210,731
	162,584,251	31,894,517					194,478,768	231,185,564
	680,297,036	133,455,400					813,752,436	780,873,665
	1,225,449,403	240,399,165					1,465,848,568	1,333,666,227
			425,555,602	952,972,271	396,306,126	48,597,068	94,927,088,007	88,464,006,077
	6,477,344,818	822,608,153					7,299,952,971	6,706,432,255
			5,956	7,374,288	14,534	156	705,567,696	2,744,094,036
	1,442,363	282,351			26,454,703		35,767,885	30,127,411
			4,780	163,843	13,493	172	665,245	403,189
	6,536,682	656,741	897,688	24,957,818	1,565,214	83,863	149,977,160	145,167,909
			496,717	18,932,293	1,171,937		71,978,102	63,162,826
			110,582	6,440,902	406,586		17,999,615	20,393,239
	286,941,937	19,134,410					306,076,347	311,678,041
	8,840,596,490	1,248,430,737	432,044,504	1,203,944,395	438,089,059	48,811,910	106,451,214,018	101,197,401,170
	1,065,754	209,071	94,496				1,369,321	1,464,096
			3,933,765		307,375		5,121,211	4,251,587
			5,956	7,374,288	14,534	156	705,567,696	2,744,094,036
					161,122		6,853,172	7,303,090
	1,065,754	209,071	4,034,217	7,374,288	483,031	156	718,911,400	2,757,112,809
	8,839,530,736					48,811,754	102,421,894,530	95,314,132,225
				1,196,570,107	437,606,028		1,634,176,135	1,522,956,152
		1,248,221,666	428,010,287				1,676,231,953	1,603,199,984
	$ 8,839,530,736	$ 1,248,221,666	$ 428,010,287	$ 1,196,570,107	$ 437,606,028	$ 48,811,754	$ 105,732,302,618	$ 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, 2017
(With Comparative Totals 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	$ 1,441,193,617	$ 19,592,457	$ 674,916	$ 0	$ 0	$ 461,329,317
Members	894,537,759	7,398,695	253,048	2,594,089		391,459,191
Other Contributions				17,602,210	8,517,073	
Total Contributions	2,335,731,376	26,991,152	927,964	20,196,299	8,517,073	852,788,508
Investment Income:						
Investment Earnings	7,034,851,246	58,935,170	2,899,638	42,201,317	12,289,562	2,551,244,066
Less Investment Expenses	(378,199,562)	(3,173,246)	(155,391)	(2,273,047)	(663,869)	(137,486,093)
Net Investment Income	6,656,651,684	55,761,924	2,744,247	39,928,270	11,625,693	2,413,757,973
Other Additions:						
Fees and Fines						2,780,337
Interest Earnings on Loans						
Miscellaneous	808,695	26		14,081	20	550,735
Total Other Additions	808,695	26	0	14,081	20	3,331,072
Total Additions	8,993,191,755	82,753,102	3,672,211	60,138,650	20,142,786	3,269,877,553
DEDUCTIONS						
Claims and Benefits	4,435,295,319	41,933,192	2,368,403	27,834,219	8,676,860	1,263,799,107
Medical Insurance Premiums						
Refund of Contributions	110,000,760	119,341	68,516	1,236,065		58,478,254
Administrative Expenses[1]	11,264,510	37,429	17,708	918,774	167,962	4,264,482
Other Deductions	40					1,002
Total Deductions	4,556,560,629	42,089,962	2,454,627	29,989,058	8,844,822	1,326,542,845
Change in Net Position	4,436,631,126	40,663,140	1,217,584	30,149,592	11,297,964	1,943,334,708
Net Position — July 1	63,268,828,684	528,440,043	26,471,806	377,013,394	109,828,665	22,759,675,334
Net Position — June 30[2]	$ 67,705,459,810	$ 569,103,183	$ 27,689,390	$ 407,162,986	$ 121,126,629	$ 24,703,010,042

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

[1] See Exhibit K-3
[2] See Exhibit B-2

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.	Registers of Deeds' Supplemental Pension Fund	Total 2017	Total 2016
$ 190,606,262	$ 1,585,828	$ 27,862,444	$ 950,812,691	$ 61,653,717	$ 868,846	$ 3,156,180,094	$ 2,863,356,670
325,848,350	77,130,064					1,699,221,196	1,634,554,373
		25,379,470				51,498,753	45,593,601
516,454,612	78,715,892	53,241,914	950,812,691	61,653,717	868,846	4,906,900,043	4,543,504,644
572,013,288	75,733,205	66,940	99,449,775	(36,436)	(2,394)	10,449,645,377	1,318,174,331
		(90,683)	(5,317,795)	(85,613)	(10,335)	(527,455,634)	(582,071,893)
572,013,288	75,733,205	(23,743)	94,131,980	(122,049)	(12,729)	9,922,189,743	736,102,438
						2,780,337	3,150,427
12,137,551	797,485					12,935,036	12,904,557
2,019,099	390,841			32,994		3,816,491	2,549,345
14,156,650	1,188,326	0	0	32,994	0	19,531,864	18,604,329
1,102,624,550	155,637,423	53,218,171	1,044,944,671	61,564,662	856,117	14,848,621,650	5,298,211,411
448,350,159	79,622,854	53,830,964		71,728,158	1,792,650	6,435,231,884	6,134,485,132
		195,004	915,893,756			916,088,760	855,948,277
						169,902,936	175,268,365
8,850,423	1,680,215	494,588	489,904	1,050,396	19,244	29,255,635	20,300,557
			6,127,136			6,128,178	8,397,466
457,200,582	81,303,069	54,520,556	922,510,796	72,778,554	1,811,894	7,556,607,393	7,194,399,797
645,423,968	74,334,354	(1,302,385)	122,433,875	(11,213,892)	(955,777)	7,292,014,257	(1,896,188,386)
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	100,336,476,747
$ 8,839,530,736	$ 1,248,221,666	$ 428,010,287	$ 1,196,570,107	$ 437,606,028	$ 48,811,754	$ 105,732,302,618	$ 98,440,288,361

North Carolina Department of State Treasurer
Combining Statement of Fiduciary Net Position
Investment Trust Funds
As of June 30, 2017

Exhibit J-3

	State Treasurer Investment Pool	Equity Index Investment Account	Bond Index External Investment Pool	Total 2017
ASSETS				
Cash and Cash Equivalents	$ 7,922,308	$ 0	$ 0	$ 7,922,308
State Treasurer Investment Pool	741,940,353	408,789,552	47,510,210	1,198,240,115
Securities Lending Collateral	861,396	4,808		866,204
Interest Receivable	2,004,248			2,004,248
Total Assets	752,728,305	408,794,360	47,510,210	1,209,032,875
LIABILITIES				
Obligations under Securities Lending	861,396	4,808	0	866,204
NET POSITION				
Restricted for:				
Pool Participants	751,866,909		47,510,210	799,377,119
Individuals, Organizations, and Other Governments		408,789,552		408,789,552
Total Net Position[1]	$ 751,866,909	$ 408,789,552	$ 47,510,210	$ 1,208,166,671

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

Comparative information for the Investment Trust Funds are not available.

1 See Exhibit B-1

North Carolina Department of State Treasurer
Combining Statement of Changes in Fiduciary Net Position
Investment Trust Funds
For the Fiscal Year Ended June 30, 2017 — *Exhibit J-4*

	State Treasurer Investment Pool	Equity Index Investment Account	Bond Index External Investment Pool	Total 2017
ADDITIONS				
Investment Income:				
Investment Earnings	$ 7,720,275	$ 66,019,214	$ (116,710)	$ 73,622,779
Less Investment Expenses	(104,013)	(718,410)	(9,617)	(832,040)
Net Investment Income	7,616,262	65,300,804	(126,327)	72,790,739
Pool Share Transactions:				
Reinvestment of Dividends	8,182,274	65,300,804	(126,327)	73,356,751
Net Share Purchases/(Redemptions)	(168,986,408)	114,700,537	47,636,537	(6,649,334)
Net Pool Share Transactions	(160,804,134)	180,001,341	47,510,210	66,707,417
Total Additions	(153,187,872)	245,302,145	47,383,883	139,498,156
DEDUCTIONS				
Distributions Paid and Payable	8,182,274	65,300,804	(126,327)	73,356,751
Change in Net Position	(161,370,146)	180,001,341	47,510,210	66,141,405
Net Position — July 1	913,237,055	228,788,211	0	1,142,025,266
Net Position — June 30[1]	$ 751,866,909	$ 408,789,552	$ 47,510,210	$ 1,208,166,671

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

Comparative information for the Investment Trust Funds are not available.

[1] See Exhibit B-2

North Carolina Department of State Treasurer
Combining Statement of Revenues and Expenditures
Governmental Funds
For the Fiscal Year Ended June 30, 2017
(With Comparative Totals as of June 30, 2016)

	General Operations[1]	Information Technology Projects	Benefit Plan Activities[2]	Debt Related Activities[3]
REVENUES				
Funds Escheated	$ 0	$ 0	$ 0	$ 0
Fees				
Services	6,057,784	932,859		
Administrative Cost Reimbursements	5,839,625			
Contributions			667,048	
Investment Earnings			11,416	2,010,603
Interest Earnings On Loans				268,942
Rental and Lease of Property				
Revenues from Other State Agencies	846			2,942,305
Loan Collection of Principal				3,730,613
Reimbursement of Core Banking Upgrade Expenditures		280,000		
Reimbursement of Expenditures from Investment Pool	8,721,372			
Miscellaneous Revenue	2,762		53,277	238,203
Total Revenues	20,622,389	1,212,859	731,741	9,190,666
EXPENDITURES				
State Aid			26,119,283	
Contracted Personal Services	1,128,502	333,568	331,107	132,530
Personal Services	15,713,869	91,997	605,427	
Employee Benefits	4,980,648	28,227		
Supplies and Materials	118,742		10,336	
Travel	85,472			
Communication	211,209			
Utilities	183,900			
Data Processing Services	131,416	6,000	206	
Other Services	108,378			
Claims and Benefits			503,373	
Debt Service				
Principal Retirement				466,299,036
Interest and Fees				237,642,006
Debt issuance costs	469,475			538,751
Other Fixed Charges	1,059,235	342,368		
Capital Outlay	1,005,260	10,416	5	
Insurance	9,026			
Other Expenditures	654,566			
Expenditures to Other State Agencies				200,280,027
Total Expenditures	25,859,698	812,576	27,569,737	904,892,350
Excess Revenues Over (Under) Expenditures	(5,237,309)	400,283	(26,837,996)	(895,701,684)
OTHER FINANCING SOURCES (USES)				
State Appropriations	4,221,838		26,698,769	686,068,459
Sale of Capital Assets				
General Obligation Bonds Issued				200,000,000
Premiums on Bonds Issued				30,018,100
Pay to Refunded Debt Escrow Agent				
Transfers to State Reserve Fund	(42,759)		(79,487)	
Transfers from State Reserve Fund	80,340		41,652	
Transfers In	1,416,151			10,625,906
Transfers Out				(11,173,125)
Total Other Financing Sources	5,675,570	0	26,660,934	915,539,340
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	$ 438,261	$ 400,283	$ (177,062)	$ 19,837,656

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

1 See supplementary Exhibit K-2
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 debt payments.
4 Escheat Activities includes the activities of the Escheats Fund noted at Exhibit A-2 as well as General Fund expenditures attributable to Escheat operations.
5 Other Activities primarily consist of the Department's collection of mortgage and deed recording fees and their remittance to other funds.
6 See Exhibit A-2

Escheat Activities[4]	Other Activities[5]	Total[6] 2017	Total 2016
$ 126,700,610	$ 0	$ 126,700,610	$ 108,437,030
	7,255,758	7,255,758	6,919,890
284		6,990,927	6,399,125
		5,839,625	5,962,718
		667,048	1,986,306
10,484,996	2,882	12,509,897	15,423,815
		268,942	518,386
			125
		2,943,151	2,707,774
		3,730,613	6,777,533
		280,000	1,588,840
		8,721,372	7,707,942
		294,242	31,420
137,185,890	7,258,640	176,202,185	164,460,904
37,287,242		63,406,525	100,056,113
2,429,906		4,355,613	5,151,228
1,135,303		17,546,596	16,199,287
442,184		5,451,059	4,876,850
17,867		146,945	71,371
11,823		97,295	131,543
26,687		237,896	181,559
1,823		185,723	117,447
18		137,640	223,760
45,878		154,256	158,985
		503,373	377,425
		466,299,036	471,961,972
		237,642,006	255,162,448
		1,008,226	836,191
87,899		1,489,502	2,532,414
5,963		1,021,644	1,366,584
2,936		11,962	10,341
97,484		752,050	2,766,469
22,855,964	7,188,414	230,324,405	30,206,774
64,448,977	7,188,414	1,030,771,752	892,388,761
72,736,913	70,226	(854,569,567)	(727,927,857)
		716,989,066	733,275,212
			1,586
		200,000,000	329,360,000
		30,018,100	88,065,635
			(416,509,303)
		(122,246)	(371,139)
		121,992	
		12,042,057	10,941,038
(868,932)		(12,042,057)	(10,941,038)
(868,932)	0	947,006,912	733,821,991
$ 71,867,981	$ 70,226	$ 92,437,345	$ 5,894,134

North Carolina Department of State Treasurer
Combining Statement of Revenues and Expenditures
Governmental Funds - General Operations
For the Fiscal Year Ended June 30, 2017
(With Comparative Totals for the Fiscal Year Ended June 30, 2016)

	Core Services[1]			Investment
	Administrative Operations	Information Services	Financial Operations	Management Operations
REVENUES				
Services	$ 384,141	$ 1,011,325	$ 304,777	$ 0
Administrative Cost Reimbursements[3]	995,166	3,957,228	887,231	
Rental and Lease of Property				
Revenues from Other State Agencies				
Reimbursement of Expenditures from Investment Pool				8,721,372
Miscellaneous Revenue	1,381			1,381
Total Revenues	1,380,688	4,968,553	1,192,008	8,722,753
EXPENDITURES				
Contracted Personal Services	81,456	441,585	322,973	16,451
Personal Services	1,475,275	4,052,051	1,414,235	5,785,394
Employee Benefits	501,894	1,380,857	466,469	1,556,865
Supplies and Materials	15,342	26,738	11,061	44,093
Travel	5,034	566	4,646	38,754
Communication	32,274	90,133	3,743	53,914
Utilities	4,696	9,392	143,929	11,185
Data Processing Services	722	128,516	1,806	268
Other Services	3,147	17,698	34,852	21,709
Debt Service				
Debt Issuance Costs				
Other Fixed Charges	2,699	669,066	8,015	33,405
Capital Outlay	5,390	966,427		23,573
Insurance	218	5,364	2,576	361
Other Expenditures	61,068	171,871	95,164	135,653
Total Expenditures	2,189,215	7,960,264	2,509,469	7,721,625
Excess Revenues Over (Under) Expenditures	(808,527)	(2,991,711)	(1,317,461)	1,001,128
OTHER FINANCING SOURCES (USES)				
State Appropriations				440,735
Transfers to State Reserve Fund				
Transfers from State Reserve Fund				
Transfers In	179,580	536,427	152,925	
Total Other Financing Sources	179,580	536,427	152,925	440,735
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses[4]	$ (628,947)	$ (2,455,284)	$ (1,164,536)	$ 1,441,863

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-1

[3] Core services administrative cost reimbursements consist of payments from the North Carolina Retirement Systems for services rendered.

[4] The excess of revenues and other sources over (under) expenditures and other uses amounts presented on this schedule are not indicative of departmental budgetary overruns. All budget codes function on a break-even basis in accordance with the State's budgeting process. The differences shown on this exhibit are primarily a result of expenditures and revenues accrued to present the financial statements in compliance with GASB reporting standards.

State and Local Government Finance Operations	Banking Operations	ABLE Operations	Total 2017[2]	Total 2016
$ 4,357,541	$ 0	$ 0	$ 6,057,784	$ 5,807,211
			5,839,625	5,962,718
				125
	846		846	18,166
			8,721,372	7,707,942
			2,762	1,196
4,357,541	846	0	20,622,389	19,497,358
50,951	44,465	170,621	1,128,502	988,622
2,278,506	708,348	60	15,713,869	14,464,719
790,355	284,208		4,980,648	4,427,292
10,653	9,789	1,066	118,742	79,109
36,259	19	194	85,472	99,388
14,885	16,260		211,209	152,743
10,168	4,530		183,900	111,133
	104		131,416	223,540
15,095	15,931	(54)	108,378	163,949
469,475			469,475	411,278
10,239	335,811		1,059,235	2,137,766
7,677	2,193		1,005,260	1,045,077
347	160		9,026	7,250
130,787	60,023		654,566	417,932
3,825,397	1,481,841	171,887	25,859,698	24,729,798
532,144	(1,480,995)	(171,887)	(5,237,309)	(5,232,440)
	3,665,489	115,614	4,221,838	4,506,936
		(42,759)	(42,759)	1,210
		80,340	80,340	(250,000)
547,219			1,416,151	940,974
547,219	3,665,489	153,195	5,675,570	5,199,120
$ 1,079,363	$ 2,184,494	$ (18,692)	$ 438,261	$ (33,320)

North Carolina Department of State Treasurer
Schedule of Deductions for Administrative Expenses
Pension and Other Employee Benefit Trust Funds -
Retirement Plans Operations
For the Fiscal Year Ended June 30, 2017 *Exhibit K-3*

		Pension and Other Employee Benefit Trust Funds
DEDUCTIONS		
Defined Benefit Plan Administrative Expenses		
Reimbursed to the General Fund:		
Personal Services	$	6,352,158
Employee Benefits		2,501,792
Contracted Services		2,137,486
Supplies and Materials		63,269
Travel		33,003
Communication		204,398
Utilities		42,294
Data Processing Services		120
Other Services		529,724
Other Fixed Charges		83,529
Capital Outlay		145,452
Insurance		1,493
Other Expenses		790,654
Reimbursement for Core Services		5,839,625
401(k) and 457 Administrative Expenses		10,530,638
Total Deductions for Administrative Expenses	$	29,255,635

Financial activities for the operation of the retirement plans are reported in the Department's fiduciary fund. Costs incurred to operate certain retirement plans administered by the Department are reimbursed from the pension and OPEB plans to general fund. Reimbursements to the general fund, presented above, provide additional information on the administrative expenses reported at a summarized level in Exhibits B-2 and J-2. The general fund is not reimbursed for the administrative expenses of the 401(k) and 457 plans. Record keeping of the 401(k) and 457 plans has been delegated to a third party, Prudential Retirement Insurance and Annuity Company.

North Carolina Department of State Treasurer
Schedule of Allocated Net Position
External Investment Pool
June 30, 2017 — Exhibit L-1

	Total	Short-term Investment Fund [1]	Long-term Investment Fund	Other Investment Funds [2]
Internal:				
North Carolina Pension Plans [3]	$ 94,501,430,132	$ 444,800,921	$ 25,265,886,202	$ 68,790,743,009
Other Pension and Post Employment Benefit Plans [4]	17,260,294	17,260,294		
State General Fund	4,680,507,605	4,680,507,605		
Highway Trust Fund	1,746,773,476	1,746,773,476		
Highway Fund	424,943,958	424,943,958		
Escheat Fund	419,657,578	419,657,578		
EPA Revolving Loan Fund	235,187,011	235,187,011		
Unemployment Compensation Fund	51,029,911	51,029,911		
Other Primary Government	3,172,982,819	3,172,982,819		
State Health Plan	911,975,256	911,975,256		
Other Component Units of the State [5]	3,590,568,050	3,590,568,050		
External [6]	751,866,910	751,866,910		
Net Position Held in Trust (Note 3) [7, 8]	$ 110,504,183,000	$ 16,447,553,789	$ 25,265,886,202	$ 68,790,743,009

[1] Assets in the Short-term Investment Fund (STIF) 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 $6.31 billion that is owned by other investment funds in the External Investment Pool. Additionally, a portion of the cash and cash equivalents reported in the External Investment Pool's Statement of Net Position as presented in Note 3 are included in the STIF caption on this schedule.

[2] Other Investment Funds consist of the Investment Pool's Equity, Real Estate, Alternative, Opportunistic Fixed Income, and Inflation Sensitive Investment Funds, which are wholly owned by the North Carolina Retirement Systems. See Note 3 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. See Note 11 for more information on the North Carolina Retirement System

[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, and 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 87% of the external portion of the Short-term Investment Fund balance as of June 30, 2017.

[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 3 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
Bond Index Investment Pool
June 30, 2017 — *Exhibit L-2*

		Bond Index External Investment Pool
Internal:		
Other Pension and Post Employment Benefit Plans [1]	$	870,459,000
Escheat Fund		120,923,000
EPA Revolving Loan Fund		211,470,000
Other Primary Government		278,304,000
Other Component Units of the State [2]		51,062,000
External [3]		54,243,000
Net Position Held in Trust (Note 3)	$	1,586,461,000

[1] 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, and Note 15 for more information about the Death Benefit Plan.

[2] Other Component Units of the State primarily consist of the North Carolina State Education Assistance Authority and Community Colleges.

[3] The External portion of the Bond Index Investment Pool is owned by public hospitals, and the Local Government Other Postemployment Benefit Trust fund.

North Carolina Department of State Treasurer
Schedule of Allocated Net Position
Equity Index Investment Account
June 30, 2017 ***Exhibit L-3***

		Equity Index Investment Account
Internal:		
Other Primary Government	$	3,048,000
External [1]		408,789,000
Net Position Held in Trust (Note 3)	$	411,837,000

[1] The External portion of the Equity Index Investment Account is held by public hospital trusts and local government other postemployment benefit trust funds.

North Carolina Department of State Treasurer
Schedule of Deductions by Investment Portfolio
External Investment Pool
For the Fiscal Year Ended June 30, 2017

	Investment Portfolio [10]			
	Short-term [11]	Long-term [11]	External Fixed Income	Public Equity
Investment Management fees:				
Investment Performance Fees	$ 0	$ 0	$ 0	$ 6,185,620
Investment Management Fees				84,193,763
Total Investment Management Fees	$ 0	$ 0	$ 0	$ 90,379,383
Administrative and Other Fees:				
Direct				
Internal Costs [1]	$ 4,984,103	$ 1,227,299	$ 86,386	$ 2,135,951
Legal		12,390	34,036	379,881
Investment Research and Consulting [2]	110,816	529,508	478,430	1,999,260
Information Technology [3]	55,942	130,000	326,984	500,699
Temporary Staffing [4]		75,002	201,013	446,837
Financial Services [5]		818	54,142	87,613
Employee Business Expenses [6]	2,489	26,539	26,574	53,624
Other Direct Expenses	64,657	344,757	128,398	359,693
Withholding Taxes [7]				13,618,142
Investment Expenses [8]	20,082			141,840
Banking Expenses [9]	2,912,994	485,730	40,665	508,053
Cash Withdrawals and Transfers	1,369	470,569	5,396	91,588
Total Administrative and Other Fees	$ 8,152,452	$ 3,302,612	$ 1,382,024	$ 20,323,181

[1] Internal costs include Investment Management Division (IMD) employee salaries and fringe benefits, IMD's portion of the allocated departmental costs, and departmental information technology and location cost

[2] Investment resarch and consulting costs primarily consist of information servcie subscriptions, investment advisory services and external consulting costs.

[3] Information technology costs directly support the Department's investment research and management systems.

[4] Temporary staffing costs include administrative services and portfolio directors operating under contract at the IMD.

[5] Financial services costs are related to audit and actuarial services.

[6] Employee business expenses primarily consist of reimbursed business travel costs.

[7] Withholding taxes are related to foreign taxes paid on foreign investment earnings.

[8] Investment Expenses primarily consist of partnership expenses and organizational fees paid for administering the investment portfolios.

[9] Banking Expenses primarily consist of bank account charges and asset custody fees.

[10] For more information on the investment portfolios in the External Investment Pool, see the Deposits and Investments note (Note 3).

[11] The Short-term and Long-term investment portfolios are internally managed by the Department and do not have any associated management or performance fees.

Exhibit M-1

Investment Portfolio [10]					
Real Estate	**Alternatives**	**Opportunistic Fixed Income**	**Inflation Sensitive**	**Cash**	**Total**
$ 51,304,818	$ 55,257,094	$ 35,904,274	$ 4,542,092	$ 0	$ 153,193,898
84,036,734	70,158,415	53,547,631	54,237,935		346,174,478
$ 135,341,552	$ 125,415,509	$ 89,451,905	$ 58,780,027	$ 0	$ 499,368,376
$ 1,204,955	$ 1,380,833	$ 687,501	$ 621,811	$ 2,953	$ 12,331,792
368,473	1,031,035	448,474	429,855	1,157	2,705,301
575,117	345,124	462,182	372,755	61,112	4,934,304
110,131	81,128	71,031	74,372	18,379	1,368,666
73,144	82,833	46,685	57,299	10,795	993,608
18,989	58,183	12,262	13,261	1,980	247,248
39,752	65,539	22,063	18,468	1,034	256,082
128,777	154,270	73,739	52,175	4,765	1,311,231
221,109	12,083		6,898		13,858,232
7,820,524	22,604,046	4,582,179	8,949,230		44,117,901
13,170	10,422	9,018	13,542	4,646	3,998,240
1,806	37,068	1,141	1,246	212	610,395
$ 10,575,947	$ 25,862,564	$ 6,416,275	$ 10,610,912	$ 107,033	$ 86,733,000

Introduction

The financial statements include investments managed by the 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 a diversified portfolio. The result of this strategy is a fund that obtains lower returns than the typical large public fund peer in strong equity markets, but is a top performer in turbulent economic and financial market environments.

As of June 30, 2017, the NCRS comprised approximately 85% of the total net position of the External Investment Pool. 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 that 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, 2017. The numbers only reflect net position of the NCRS funds in the statutory asset classes excluding securities lending. The Investment Portfolios chart in Note 3 for these portfolios reflects gross investments for all of the External Investment Pool.

North Carolina Department of State Treasurer
Investment Performance Schedule
External Investment Pool
As of June 30, 2017

	Statutory Classification			
	Public Equity [1]	Long Term [2]	Pension Cash [2]	Fixed Income [2,8]
Public Equity	$ 31,886,229,559	$ 0	$ 0	$ 0
Private Equity				
Non-Core Real Estate				
Opportunistic Fixed Income				
Investment Grade Fixed Income and Cash		25,265,886,202		2,982,236,363
Pension Cash			3,682,775,214	
Inflation Sensitive				
Core Real Estate				
Multi-Strategy				
Total	$ 31,886,229,559	$ 25,265,886,202	$ 3,682,775,214	$ 2,982,236,363

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 General Statute 147-69.2(b)(9)
4 General Statute 147-69.2(b)(7)
5 General Statute 147-69.2(b)(9a)
6 General Statute 147-69.2(b)(6c)
7 General Statute 147-69.2(b)(8)(b)
8 Consists solely of investments in Short-term Investment Fund

Statutory Classification					
Alternatives [3]	**Real Estate [4]**	**Inflation Sensitive [5]**	**Opportunistic Fixed Income [6]**	**Public Equity Limited Liability [7]**	**Total**
$ 0	$ 0	$ 0	$ 0	$ 3,445,504,234	$ 35,331,733,793
4,825,352,506					4,825,352,506
	3,669,848,133				3,669,848,133
			5,524,127,502		5,524,127,502
					28,248,122,565
					3,682,775,214
		6,504,019,570			6,504,019,570
	4,516,172,216				4,516,172,216
1,754,477,713					1,754,477,713
$ 6,579,830,219	$ 8,186,020,349	$ 6,504,019,570	$ 5,524,127,502	$ 3,445,504,234	$ 94,056,629,212

The following supplementary information includes a discussion of the retirement system's risk and returns compared to benchmarks. As of June 30, 2017, the North Carolina Retirement System (NCRS) had the following investment returns over the applicable 1, 3, 5 and 10 year periods:

Investment Returns (Net of Fees) as of June 30, 2017

Asset Classification	1 YR	3 YR	5 YR	10 YR
Growth	16.77%	5.55%	10.99%	4.38%
Benchmark	15.61%	4.63%	9.69%	3.64%
Public Equity	18.99%	4.97%	11.39%	4.51%
Benchmark	18.07%	4.62%	10.56%	3.80%
Private Equity	9.73%	7.85%	9.43%	6.45%
Benchmark	9.25%	6.60%	9.71%	7.67%
Non-Core Real Estate	11.21%	14.34%	13.70%	3.03%
Benchmark	5.23%	6.82%	8.92%	0.17%
Opportunistic Fixed Income	11.51%	1.98%	7.06%	6.81%
Benchmark	11.07%	1.33%	3.05%	0.19%
Rates & Liquidity	-0.37%	2.85%	2.72%	5.91%
Benchmark	-0.60%	3.12%	2.70%	5.65%
Investment Grade Fixed Income	-0.29%	2.97%	2.82%	5.96%
Benchmark	-0.64%	3.22%	2.76%	5.68%
Cash	0.97%	0.77%	0.00%	0.00%
Benchmark	0.55%	0.24%	0.16%	0.00%
Inflation Sensitive & Diversifiers	10.68%	2.84%	4.19%	0.81%
Benchmark	4.42%	2.45%	4.11%	-0.17%
Inflation Sensitive	12.13%	-0.94%	0.47%	-1.38%
Benchmark	2.62%	-3.43%	-0.88%	0.95%
Core Real Estate	8.97%	8.16%	9.68%	4.46%
Benchmark	6.57%	9.80%	10.56%	4.68%
Multi-Strategy	13.20%	4.22%	9.31%	5.17%
Benchmark	12.39%	2.90%	8.45%	4.45%
Total Pension Plan	10.77%	4.52%	7.70%	5.14%
Implementation Benchmark	9.41%	4.00%	6.78%	4.55%
Long-Term Policy Benchmark	8.36%	3.24%	6.31%	4.41%

The Growth benchmark used is a blend of the Public Equity, Private Equity, Non-Core Real Estate and Opportunistic Fixed Income benchmarks at their policy weights. 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% Distressed. The Non-Core Real Estate benchmark is comprised of the following Burgiss Group Private iQ indices: 80% US 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 Absolute Return Index (HFRX) Distressed Securities Index, 20% HFRX Relative Value Index, 15% Credit Suisse Leveraged Loan Index, and 15% Bank of America Merrill Lynch (BOAML) High Yield Index.

The overall Rates & Liquidity benchmark is a blend of the Investment Grade (IG) Fixed Income & Cash and Pension Cash benchmarks at their policy weights. The benchmark used for IG Fixed Income & Cash 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 Pension Cash benchmark used is the iMoneyNet First Tier Institutional Money Market Net Index.

The Inflation Sensitive & Diversifiers benchmark used is a blend of the Inflation Sensitive and Core Real Estate benchmarks at their policy weights. The Inflation Sensitive benchmark is a dynamically weighted combination of the Bank of America Merrill Lynch 1-3 Years US Inflation - Linked Treasury Index (TIPS), the Bloomberg Commodities Index (Commodities), and a combination of benchmarks of investments classified within 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 Multi-Strategy benchmark is comprised of a dynamically weighted combination of the HFRX ED: Multi-Strategy 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 US Treasury Index, 6% Bloomberg Commodity Index, and 4% BOAML 1-3 Years US Inflation-Linked Treasury Index.

North Carolina Department of State Treasurer
Investment Pool Fee Schedule - Total Fees by Basis Points (bps)
For the Fiscal Year Ended June 30, 2017

	Expenses Paid: Management and Incentive Fee (Average Market Value)		
	0 bps	**0 - 25bps**	**25 - 50bps**
Asset Class			
Global Public Equity	$ 409,067,946	$ 20,806,288,453	$ 10,015,319,177
Private Equity	356,269,440	21,321,590	211,646,939
Non Core Real Estate	35,238,925	341,116,022	473,015,662
Opportunistic Fixed Income	174,241,084	56,011,180	707,484,910
Investment Grade Fixed Income and Cash	25,129,620,924		
Pension Cash	1,745,989,753		
Inflation Sensitive	528,449,871	549,621,046	503,656,539
Core Real Estate	108,046,631	565,322,993	563,520,275
Multi-Strategy	218,679,570	1,278,914,792	133,551,912
Total Fund	$ 28,705,604,144	$ 23,618,596,076	$ 12,608,195,414

	Expenses Paid: Management and Incentive Fee (% of Asset Class Average Market Value)		
	0 bps	**0 - 25bps**	**25 - 50bps**
Asset Class			
Global Public Equity	1.08%	54.86%	26.41%
Private Equity	7.78%	0.47%	4.62%
Non Core Real Estate	0.94%	9.13%	12.67%
Opportunistic Fixed Income	3.24%	1.04%	13.15%
Investment Grade Fixed Income and Cash	100.00%		
Pension Cash	100.00%		
Inflation Sensitive	8.92%	9.27%	8.50%
Core Real Estate	2.41%	12.61%	12.57%
Multi-Strategy	13.13%	76.76%	8.02%
Total Fund	31.69%	26.08%	13.92%

Exhibit O-1

Expenses Paid: Management and Incentive Fee
(Average Market Value)

50 - 100bps	100 - 150bps	150+bps	Total
$ 6,356,746,729	$ 181,986,653	$ 155,559,068	$ 37,924,968,026
1,237,513,644	737,020,180	2,015,323,466	4,579,095,259
274,172,602	552,335,983	2,058,670,885	3,734,550,079
1,540,603,044	648,677,882	2,254,420,150	5,381,438,250
			25,129,620,924
			1,745,989,753
1,953,721,309	1,165,471,990	1,226,391,424	5,927,312,179
1,969,748,179	1,263,919,908	13,243,725	4,483,801,711
758,419		34,193,095	1,666,097,788
$ 13,333,263,926	$ 4,549,412,596	$ 7,757,801,813	$ 90,572,873,969

Expenses Paid: Management and Incentive Fee
(% of Asset Class Average Market Value)

50 - 100bps	100 - 150bps	150+bps	Total
16.76%	0.48%	0.41%	100.00%
27.03%	16.10%	44.01%	100.00%
7.34%	14.79%	55.13%	100.00%
28.63%	12.05%	41.89%	100.00%
			100.00%
			100.00%
32.96%	19.66%	20.69%	100.00%
43.93%	28.19%	0.30%	100.00%
0.05%	0.00%	2.05%	100.00%
14.72%	5.02%	8.57%	100.00%

North Carolina Department of State Treasurer
Investment Pool Fee Schedule - Fee Type by Contract
For the Fiscal Year Ended June 30, 2017 *Exhibit O-2*

Fee Type by Contract (Average Market Value)

Asset Class	No Fees	Management Only	Incentive Only	Management and Incentive	Total
Global Public Equity	$ 0	$ 37,041,191,981	$ 23,284,125	$ 860,491,920	$ 37,924,968,026
Private Equity		36,856,925		4,542,238,335	4,579,095,260
Non Core Real Estate				3,734,550,080	3,734,550,080
Opportunistic Fixed Income		81,292,020		5,300,146,231	5,381,438,251
Investment Grade Fixed Income and Cash	25,129,620,924				25,129,620,924
Pension Cash	1,745,989,753				1,745,989,753
Inflation Sensitive	146,296,598	1,154,625,239	156,009,295	4,470,381,046	5,927,312,178
Core Real Estate		1,097,098,110		3,386,703,602	4,483,801,712
Multi-Strategy		1,439,986,154		226,111,634	1,666,097,788
Total Fund	$ 27,021,907,275	$ 40,851,050,429	$ 179,293,420	$ 22,520,622,848	$ 90,572,873,972

Fee Type by Contract (% of Asset Class Average Market Value)

Asset Class	No Fees	Management Only	Incentive Only	Management and Incentive	Total
Global Public Equity	0.00%	97.67%	0.06%	2.27%	100.00%
Private Equity		0.80%		99.20%	100.00%
Non Core Real Estate				100.00%	100.00%
Opportunistic Fixed Income		1.51%		98.49%	100.00%
Investment Grade Fixed Income and Cash	100.00%				100.00%
Pension Cash	100.00%				100.00%
Inflation Sensitive	2.47%	19.48%	2.63%	75.42%	100.00%
Core Real Estate		24.47%		75.53%	100.00%
Multi-Strategy		86.43%		13.57%	100.00%
Total Fund	29.83%	45.10%	0.20%	24.86%	100.00%

Average Market Value

The market value of investments held by investment managers are averaged monthly from July 1, 2016 to June 30, 2017. 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, 2017. 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.

INDEPENDENT AUDITOR'S REPORT

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, the 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, a department of the State of North Carolina, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Department's basic financial statements, and have issued our report thereon dated May 31, 2018.

Our report includes a reference to other auditors who audited the financial statements of the North Carolina Department of State Treasurer Investment Programs, 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

May 31, 2018

ORDERING INFORMATION

COPIES OF THIS REPORT MAY BE OBTAINED BY CONTACTING:

Office of the State Auditor
State of North Carolina
2 South Salisbury Street
20601 Mail Service Center
Raleigh, North Carolina 27699-0600

Telephone: 919-807-7500
Facsimile: 919-807-7647
Internet: http://www.ncauditor.net

To report alleged incidents of fraud, waste or abuse in state government contact the Office of the State Auditor Fraud Hotline: **1-800-730-8477**
or download our free app.

https://play.google.com/store/apps/details?id=net.ncauditor.ncauditor

https://itunes.apple.com/us/app/nc-state-auditor-hotline/id567315745

For additional information contact:
Brad Young
Director of External Affairs
919-807-7513

NCOSA
The Taxpayers' Watchdog

This audit required 3,880 audit hours at an approximate cost of $399,640.