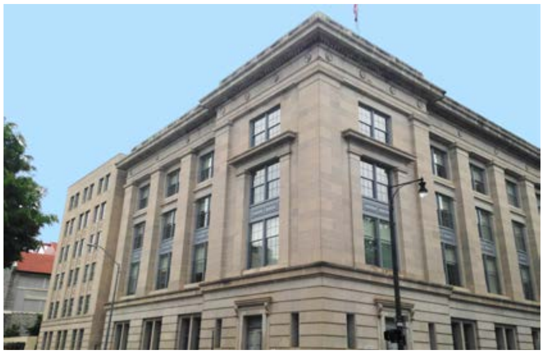
State of North Carolina

Office of The State Auditor

Beth A. Wood, CPA



North Carolina Department of State Treasurer

Raleigh, North Carolina

Financial Statement Audit Report

For the Year Ended June 30, 2018

A Department of the State of North Carolina

NCOSA

The Taxpayers' Watchdog

STATE OF NORTH CAROLINA
Office of the State Auditor

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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, 2018, and our audit results are included in this report. You will note from the independent auditor's report that we determined that the financial statements are presented fairly in all material respects.

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

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

Beth A. Wood, CPA
State Auditor

AN OVERVIEW OF HOW TO USE THIS REPORT

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

The Department of State Treasurer reports financial activities in three major governmental funds, sixteen 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, 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 per the Governmental Accounting Standards Board and *Government Auditing 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, 2018 (with comparative totals as of June 30, 2017), and the Statements of Revenues, Expenditures, and Changes in Fund Balances for the fiscal year ended June 30, 2018 (with comparative totals for the fiscal year ended June 30, 2017) for the Department's **governmental funds**.

"B" Exhibits present the Statement of Fiduciary Net Position as of June 30, 2018 (with comparative totals as of June 30, 2017), and the Statement of Changes in Fiduciary Net Position for the fiscal year ended June 30, 2018 (with comparative totals for the fiscal year ended June 30, 2017) for the Departments' **fiduciary funds**.

"C" Exhibits present the Statement of Net Position as of June 30, 2018 (with comparative totals as of June 30, 2017), the Statement of Revenues, Expenses, and Changes in Net Position for the fiscal year ended June 30, 2018 (with comparative totals for the fiscal year ended June 30, 2017), and the Statement of Cash Flows for the fiscal year ended June 30, 2018 (with comparative totals for the fiscal year ended June 30, 2017) 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, 2018, and related notes.

"E" Exhibits present the pension information on the Schedule of the Changes in the Net Pension Liability and Related Ratios for the last five fiscal years, the Schedule of Employer and Nonemployer Contributions for the last ten fiscal years, and the Schedule of Investment Returns for the last five fiscal years, and the related notes for each of the **defined benefit pension plans**.

"F" Exhibits present the Schedule of the Proportionate Net Pension Liability for the last five fiscal years and Schedule of Component Unit Contributions for the last five fiscal years for the **component unit**.

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

"H" Exhibits present the Schedule of the Component Unit Net OPEB Liability or Asset and Schedule of the Component Unit Contributions for the **component unit**.

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, 2018 (with comparative totals as of June 30, 2017) and the Combing Statements of Revenues, Expenditures, and Changes in Fund Balance for the fiscal year ended June 30, 2018 (with comparative totals for the fiscal year ended June 30, 2017) for the Department's **other governmental funds**.

"J" Exhibits present the Combining Statements of Fiduciary Net Position as of June 30, 2018 (with comparative totals as of June 30, 2017) and the Combining Statements of Changes in Fiduciary Net Position for the fiscal year ended June 30, 2018 (with comparative totals for the fiscal year ended June 30, 2017) 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, 2018 (with comparative totals for the fiscal year ended June 30, 2017).
- **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, 2018 (with comparative totals for the fiscal year ended June 30, 2017).

- **Exhibit K-3** presents the **Retirement Plans Operations** expenses that were reimbursed from the fiduciary funds for fiscal year ended June 30, 2018.

"L" Exhibits present the Schedule of Allocated Net Position for the **State Treasurer Investment Programs** as of June 30, 2018.

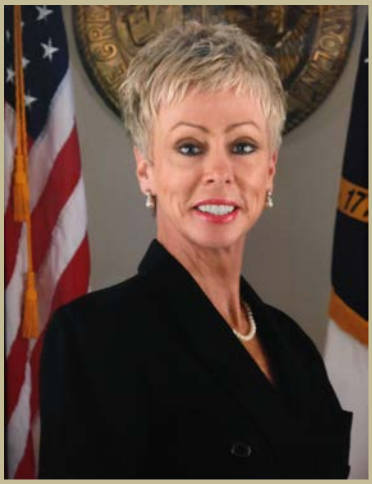
"M" Exhibit presents the Schedule of Deductions by Investment Portfolio for the **External Investment Pool** for the fiscal year ended June 30, 2018.

"N" Exhibit presents the Investment Performance Schedule for the **External Investment Pool** as of June 30, 2018.

"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, 2018 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

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SUPPLEMENTARY INFORMATION

INDEPENDENT AUDITOR'S REPORT

STATE OF NORTH CAROLINA

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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, 2018, 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 9 percent and 14 percent, respectively, of the assets, and revenues of the aggregate remaining fund information.
- The financial statements of the North Carolina Public Employee Deferred Compensation Plan, which represent 1 percent and 2 percent, respectively, of the assets 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 and 84 percent, respectively, of the assets 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.

Opinions

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, 2018, 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.

Emphasis of Matter

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 not purport to, and do not, present fairly the financial position of the State of North Carolina as of June 30, 2018, 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 opinions are not modified with respect to this matter.

As discussed in Note 2 to the financial statements, during the year ended June 30, 2018, North Carolina Department of State Treasurer adopted new accounting guidance, Governmental Accounting Standards Board Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions,* as amended by Governmental Accounting Standards Board Statement No. 85, *Omnibus 2017,* and Governmental Accounting Standards

Board Statement No. 86, *Certain Debt Extinguishment Issues*. Our opinion is not modified with respect to this matter.

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, 2017 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 May 31, 2018. 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, 2017.

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.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated June 5, 2019 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

June 5, 2019

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, 2018. This discussion and analysis should be read in conjunction with the financial statements and related notes which follow this section.

Overview of the Financial Statements

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

Governmental Funds:

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

Fiduciary Funds:

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

Discretely Presented Component Unit:

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

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

Required Supplementary Information (RSI) follows the basic financial statements and notes to the financial statements. The RSI is mandated by the Governmental Accounting Standards Board (GASB) and includes 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 postemployement benefit-related disclosures pursuant to GASB Statements 67, 68, 74, and 75 for the Department, which include the governmental funds and fiduciary funds.

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

Governmental Funds

Condensed Balance Sheet

The following condensed balance sheet shows the governmental funds' financial position at June 30, 2018 and 2017.

	2018	2017	Change
Assets	$ 886,718,993	$ 826,414,764	$ 60,304,229
Deferred Outflows of Resources	37,287,242	37,287,242	0
Total Assets and Deferred Outflows of Resources	$ 924,006,235	$ 863,702,006	$ 60,304,229
Liabilities	$ 62,332,952	$ 58,998,039	$ 3,334,913
Deferred Inflows of Resources	0	0	0
Fund Balances			
Nonspendable	86,544	72,841	13,703
Restricted	853,651,803	798,730,312	54,921,491
Committed	6,837,994	4,758,536	2,079,458
Unassigned	1,096,942	1,142,278	(45,336)
Total Fund Balances	861,673,283	804,703,967	56,969,316
Total Liabilities, Deferred Inflows and Fund Balances	$ 924,006,235	$ 863,702,006	$ 60,304,229

Analysis of Governmental Funds Condensed Balance Sheet

Total assets increased by $60.3 million compared to the prior year. The increase was primarily due to an increase of $61.8 million in cash and cash equivalents. The increase in cash and cash equivalents is primarily due to escheats fund cash and cash equivalents increasing by $59.8 million. This change is due to a combination of factors including an increase in escheated funds, increased investment earnings, sales of escheated securities, and distributions of invested funds back to pooled cash.

The Deferred Outflows of Resources amount represents the Escheat Fund's forward 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 Veterans 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.

Total fund balance increased $57 million compared to prior year. This increase was primarily due to an increase in restricted fund balance of $54.9 million, consisting of an increase in Escheat Fund restricted fund balance of $52 million. The increase in the Escheat Fund restricted fund balance was primarily a result of $117.5 million of revenue exceeding $64.5 million of expenditures.

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

The following condensed statement shows the governmental funds' resource flows at June 30, 2018 and 2017.

	2018	2017	Change
Revenues			
Funds Escheated	$ 105,127,147	$ 126,700,610	$ (21,573,463)
Fees	7,015,114	7,255,758	(240,644)
Services	7,026,108	6,990,927	35,181
Administrative Cost Reimbursements	5,902,760	5,839,625	63,135
Investment Earnings	15,775,223	12,509,897	3,265,326
Revenues from Other State Agencies and Funds	3,149,533	2,943,151	206,382
Loan Collection of Principal	587,101	3,730,613	(3,143,512)
Other	9,688,282	10,231,604	(543,322)
Total Revenues	154,271,268	176,202,185	(21,930,917)
Expenditures			
State Aid	64,162,603	63,406,525	756,078
Contracted Personal Services	3,650,205	4,355,613	(705,408)
Personal Services	16,606,305	17,546,596	(940,291)
Employee Benefits	5,220,753	5,451,059	(230,306)
Debt Service	865,376,449	704,949,268	160,427,181
Other Fixed Charges	2,083,390	1,489,502	593,888
Capital Outlay	733,773	1,021,644	(287,871)
Other	2,523,483	2,227,140	296,343
Expenditures to Other State Agencies and Funds	41,040,452	230,324,405	(189,283,953)
Total Expenditures	1,001,397,413	1,030,771,752	(29,374,339)
Excess Revenues Under Expenditures	(847,126,145)	(854,569,567)	7,443,422
Other Financing Sources (Uses)			
State Appropriations	749,292,666	716,989,066	32,303,600
General Obligation Bonds Issued		200,000,000	(200,000,000)
Refunding on Bonds Issued	724,560,000		724,560,000
Premiums on Bonds Issued	152,357,630	30,018,100	122,339,530
Pay to Refunded Debt Escrow Agent	(706,188,117)		(706,188,117)
Transfers to State Reserve Fund	(16,000,000)	(122,246)	(15,877,754)
Transfers from State Reserve Fund	73,282	121,992	(48,710)
Transfers In	950,235	12,042,057	(11,091,822)
Transfers Out	(950,235)	(12,042,057)	11,091,822
Total Other Financing Sources	904,095,461	947,006,912	(42,911,451)
Net Change in Fund Balance	56,969,316	92,437,345	(35,468,029)
Fund Balance July 1	804,703,967	712,266,622	92,437,345
Fund Balance June 30	$ 861,673,283	$ 804,703,967	$ 56,969,316

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

The $21.9 million decrease in revenues was primarily due to a decrease in funds escheated of $21.6 million and a decrease in loan collection of principal of $3.1 million offset by increases in investment earnings of $3.3 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 increased by approximately $21.1 million and $10 million, respectively, the adjusting entries for accrual basis accounting for claims paid and securities escheated created a net decrease of approximately $32.6 million.

Total expenditures decreased by $29.4 million compared to prior year. This decrease was due to a decrease in expenditures to other state agencies of $189.3 million offset by an increase of $160.4 million in debt service. The decrease of expenditures to other state agencies of $189.3 million is due to no general obligation bonds being issued in the current fiscal year (See Note 9). The increase in debt service includes $169.2 million which reflects the current portion of refunding bonds.

Total other financing sources (uses) decreased by $42.9 million compared to prior year. This was due to decreases in general obligations bonds issued of $200 million and increases in payments to refunded debt escrow agent of $706.2 million; offset by increases in: refunding on bonds issued of $724.6 million, premiums on bonds issued of $122.3 million, and state appropriations of $32.3 million. There were $724.6 million of refunding bonds issued in the current fiscal year and $706.2 million payment to the debt escrow agent. In the prior year only, $200 million of general obligation bonds were issued. State appropriations increased as a result of increased funding from the General Assembly in the most recent budget.

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 expenditures increased $53.2 million from the original budget. The increase was primarily due to the increase in the final budgets for debt service interest and fees and expenditures to other state agencies, 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 other financing sources (uses) increased $42.7 million from the original budget. The increase was primarily due to the increases in refunding on bonds issued, premiums on bonds issued, and transfers in, offset by increases in payments to refunded debt escrow agent.

The final budgeted amount for refunding on bonds issued were $618.8 million more than the original budget. The final budgeted amount for premiums on bonds issued were $133 million more than the original budget. The final budgeted amount for pay to refunded debt escrow agent was $875.4 million more than the original budget. For these variances and the variance related to transfers in the amount of $167 million, see discussion above on debt service.

Variances – Final Budget and Actual Results:

Actual total revenue was $27.4 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 above on debt service.

Actual total expenditures were $587.8 million less than final budgeted expenditures. Final budgeted expenditures were unrealized primarily because $578.3 million less was spent on debt service, including principal retirement, interest and fees, and debt issuance costs.

Actual deficiency of revenues over expenditures were $560.4 million less than the final budget because of the $578.3 million discussed above and lower than budgeted expenditures for personal services were the result of vacancies throughout the year in salaried positions.

See discussion on the previous page on 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.

Actual total other financing sources (uses) were $552.8 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 less than expected other financing uses of pay to refunded debt escrow agent.

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

Fiduciary Funds

Condensed Statement of Fiduciary Net Position

	2018	2017	Change
Assets			
Cash and Cash Equivalents	$ 538,008,725	$ 477,461,981	$ 60,546,744
Investments	111,593,357,249	105,906,093,658	5,687,263,591
Securities Lending Collateral	690,559,242	706,442,857	(15,883,615)
Other Assets	609,606,966	584,475,575	25,131,391
Total Assets	113,431,532,182	107,674,474,071	5,757,058,111
Liabilities			
Accounts Payable and Accrued Liabilities	7,134,751	6,490,532	644,219
Obligations Under Securities Lending	690,559,242	706,442,857	(15,883,615)
Funds Held For Others	7,813,193	6,853,172	960,021
Total Liabilities	705,507,186	719,786,561	(14,279,375)
Net Position			
Restricted for			
Pension Benefits	107,817,368,963	102,421,894,530	5,395,474,433
Postemployment Benefits	1,698,979,288	1,634,176,135	64,803,153
Pool Participants	697,470,300	799,377,119	(101,906,819)
Individuals, Organizations, and Other Governments	675,867,409	423,007,773	252,859,636
Other Employment Benefits	1,836,339,036	1,676,231,953	160,107,083
Total Net Position	$ 112,726,024,996	$ 106,954,687,510	$ 5,771,337,486

Analysis of Fiduciary Funds Condensed Statement of Net Position

Total assets increased by $5.8 billion compared to prior year. The increase was primarily due to an increase on investments of $5.7 billion. The largest driver of the increase in investments was the performance of the growth oriented investments. Growth oriented investments include public equity, private equity, non-core real estate, and opportunistic fixed income. This group combined earned 12.37% for the fiscal year.

The North Carolina pension fund is appropriately diversified and invested with a conservative strategy. The pension fund returned 7.32% for the fiscal year ended June 30, 2018. This is down from the 10.77% returned in the fiscal year ended June 30, 2017.

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. Periodically, the Investment Management Division (IMD) conducts an asset liability study utilizing updated capital market assumptions, and presents the results to the Treasurer and the Investment Advisory Committee. There have been no changes to the asset allocation policy since July 1, 2014.

Overall net position increased by $5.8 billion as of fiscal year end 2018 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

	2018	2017	Change
Additions			
Contributions	$ 5,218,127,347	$ 4,906,900,043	$ 311,227,304
Net Investment Income	8,350,303,688	9,995,057,701	(1,644,754,013)
Other Additions	131,017,730	86,239,281	44,778,449
Total Additions	13,699,448,765	14,988,197,025	(1,288,748,260)
Deductions			
Claims and Benefits	6,677,172,103	6,435,231,884	241,940,219
Medical Insurance Premiums	976,106,638	916,088,760	60,017,878
Other Deductions	274,832,538	278,943,500	(4,110,962)
Total Deductions	7,928,111,279	7,630,264,144	297,847,135
Change in Net Position	5,771,337,486	7,357,932,881	(1,586,595,395)
Net Position - July 1	106,954,687,510	99,596,754,629	7,357,932,881
Net Position - June 30	$ 112,726,024,996	$ 106,954,687,510	$ 5,771,337,486

Total additions decreased $1.3 billion from the prior year mostly due to the $1.6 billion decrease in net investment income. The decrease in net investment income was primarily due to returns on the public equity portfolio in the external pool decreasing from 19% in the prior fiscal year to over 12.5% in the current fiscal year.

Total deductions increased by $297.8 million primarily due to an increase of $241.9 million in claims and benefits paid. During the fiscal year ended June 30, 2018, the North Carolina retirement systems and other postemployment benefit (OPEB) funds paid out over $6.7 billion as compared to $6.4 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 cost-of-living adjustment to benefits of Teachers' and State Employees' Retirement System (TSERS) retirees first effective during fiscal year 2018 and other immaterial factors. The North Carolina retirement systems pay retirement and other benefits to more than 348,000 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.

Component Unit - State Health Plan

Condensed Statement of Net Position

	2018	2017 (As Restated)	Change
Assets			
Current Assets	$ 1,134,359,417	$ 1,032,466,358	$ 101,893,059
Net OPEB Asset	10,427	9,203	1,224
Total Assets	1,134,369,844	1,032,475,561	101,894,283
Deferred Outflows of Resources			
Deferred Outflows for Pensions	927,083	1,119,698	(192,615)
Deferred Outflows for OPEB	1,698,598	201,558	1,497,040
Total Deferred Outflows of Resources	2,625,681	1,321,256	1,304,425
Liabilities			
Current Liabilities	345,358,756	354,720,166	(9,361,410)
Noncurrent Liabilities			
Accrued Vacation Leave	258,034	219,109	38,925
Net Pension Liability	1,545,629	1,556,961	(11,332)
Net OPEB Liability	5,541,457	5,559,734	(18,277)
Total Liabilities	352,703,876	362,055,970	(9,352,094)
Deferred Inflows of Resources			
Deferred Inflows for Pensions	74,907	109,335	(34,428)
Deferred Inflows for OPEB	1,925,484	0	1,925,484
Total Deferred Inflows of Resources	2,000,391	109,335	1,891,056
Net Position			
Restricted - Expendable			
Health and Human Services	19,872	21,631	(1,759)
Unrestricted	782,271,386	671,609,881	110,661,505
Total Net Position	$ 782,291,258	$ 671,631,512	$ 110,659,746

Total assets increased by $101.9 million compared to the prior year due to the change in current assets. Current assets increase of $101.9 million was primarily the result of a $150.8 million increase in cash and cash equivalents offset by a decrease of $50.8 million in rebates receivable. The increase in cash and cash equivalents was due to normal variations in the timing of premium inflows and claims outflows. For fiscal year 2017, the State Health

Plan accrued a receivable for $63 million representing a pharmacy rebate adjustment from a previous pharmacy vendor. This was a large one-time payment and is not present in fiscal year 2018.

Liabilities totaled $352.7 million, a decrease of $9.4 million over the prior year, primarily due to the change in current liabilities. Current liabilities totaled $345.4 million which was a decrease of $9.4 million from the prior year. Liabilities decreasing can be explained by medical claims payable decreasing by $20.9 million due to proportionate decreases in medical claims and by a $3 million decrease in intergovernmental payables. This was due to reduction in amounts due the federal government under the Affordable Care Act. These decreases were offset by an increase in accounts payable of $7.9 million and an increase in unearned revenue of $5.3 million.

Overall net position increased by $110.7 million as of fiscal year end 2018 with most of the increase in unrestricted net position attributable to the overall current year activity. See further details on the following - Statements of Revenues, Expenses, and Changes in Net Position below.

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

	2018	2017*	Change
Operating Revenues			
Insurance Premiums	$ 3,453,399,418	$ 3,247,140,382	$ 206,259,036
Total Operating Revenues	3,453,399,418	3,247,140,382	206,259,036
Operating Expenses			
Operating Expenses			
Contracted Personal Services	146,068,433	152,173,237	(6,104,804)
Affordable Care Act	1,473,979	16,116,164	(14,642,185)
Claims	3,005,405,090	2,924,475,680	80,929,410
Insurance	211,126,519	194,836,664	16,289,855
Other Expenses	5,423,863	6,051,881	(628,018)
Total Operating Expenses	3,369,497,884	3,293,653,626	75,844,258
Operating Income (Loss)	83,901,534	(46,513,244)	130,414,778
Nonoperating Revenues			
Pharmacy Subsidies and Rebates	13,080,614	17,588,605	(4,507,991)
Investment Earnings	13,677,598	9,788,395	3,889,203
Miscellaneous		(24,138)	24,138
Total Nonoperating Revenues	26,758,212	27,352,862	(594,650)
Increase (Decrease) in Net Position	110,659,746	(19,160,382)	129,820,128
Net Position - July 1	671,631,512	696,140,867	(24,509,355)
Restatement (Note 19)		(5,348,973)	5,348,973
Net Position - June 30	$ 782,291,258	$ 671,631,512	$ 110,659,746

*The year ended June 30, 2017 column on the Statement of Revenue, Expense, and Change in Net Position and Statement of Cash Flows is not presented as restated in regards to GASB 75 because actuarial calculations performed do not provide sufficient information to restate revenues, expenses, or cash flows for 2017.

Operating revenues from insurance premiums increased by $206.3 million. The increase is primarily the result of an increase in membership combined with the increase in appropriations from the General Assembly as stated in Session Law 2017-57 (SB 257).

Total operating expenses increased $75.8 million due to increases in claims and insurance offset by a reduction in affordable care act expenses of $14.6 million and a decrease in contracted personal services of $6.1 million. Claims increased by $80.9 million due to medical and pharmacy cost inflation, as well as a membership increase. Insurance increased by $16.3 million due to growth in membership and shifting Medicare members to the Medicare Advantage plan. The decrease in affordable care act expenses was due to a reduced federal liability.

Nonoperating revenues decreased by $600 thousand due to a decrease in pharmacy subsidies and rebates offset by an increase in investment earnings. Pharmacy subsidies and rebates decreased by $4.5 million because of normal variations in the timing of receipt of these items. Investment earnings increased by $3.9 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. Any funds placed into an ABLE account could be used to defray qualified disability expenses (QDEs), such as educational needs and medical costs not covered by Medicaid. Distributions from an ABLE account for QDEs are not included in gross income for federal or state tax purposes. In general, contributions (up to the federal maximum), account balances (up to $100,000 for Supplemental Security Income), earnings on account balances, and distributions for QDEs are not counted as income or resources for federal or state means-tested programs.

The Department is responsible for the administration, and outreach efforts of this new program, which was launched in January 2017. The North Carolina 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 from 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 2018, the State of North Carolina Debt Affordability Advisory Committee (DAAC) presented its annual Debt Affordability Study to the Governor and the General Assembly. The primary recommendation of this year's report suggested that significant additional money be put toward North Carolina's pension and Other Post Employment 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 $41 billion.

Under this proposal, the Committee recommended that the targeted debt limit ratio be raised from 4% to 4.5% 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 $194 million a year for the next 10 years.

Legislation was passed by the North Carolina House of Representatives in 2017 to implement the Committee's recommendations but was not reconsidered in the 2018 short session of the General Assembly.

However, the Unfunded Liability Solvency Reserve Act did pass, creating an Employee Benefit Trust Fund to address the unfunded pension and health care liabilities. The reserve is funded through appropriations from the General Assembly, any overflows or statutory excesses from the Rainy Day Fund including possibly the savings from the refinancing of the general obligation bonds or special indebtedness.

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 $1.5 billion for the 2018 fiscal year or approximately $285 million a year for the next 10 years. 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 2018, the State issued $400 million of general obligation bonds. These general obligation bonds were the second 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. After the 2018 issuance, $1.4 billion remains authorized but unissued. 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 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 2018, the Build NC Bond Act of 2018 was passed by the General Assembly and signed by the Governor. The legislation authorizes the issuance of up to $300 million per year of special indebtedness to be repaid from appropriations from the Highway Trust Fund not to exceed $3 billion in total over the next ten years. The proceeds are expected to be used to accelerate Regional and Divisional transportation projects authorized pursuant to the State's Strategic

Transportation Investments Act (STI). The issuance of the bonds is also subject to provisions contained in Article 9 of Chapter 142 of the General Statues. The maturity of the bonds is limited to 15 years and the issuance is contingent upon the State Treasurer's recommendation.

The Role of the Local Government Commission

The Local Government Commission (LGC) has an ongoing program of providing fiscal and debt management assistance to local governments and other units in the State. Prior to approval, sale, and delivery of all North Carolina local government general obligation bonds and other debt instruments, counseling and assistance is given to local units to determine the size of the issue and the most expedient form of financing and the feasibility of servicing the debt. The LGC approved approximately $4.8 billion in bonds and notes issued by local government units to finance capital needs during the fiscal year ended June 30, 2018.

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 addition, the impact of Hurricane Florence in September 2018 may create significant and ongoing fiscal challenges for local governments and public authorities in affected counties. 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 93 visits with units of government throughout the state during the 2018 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 (NCCC) system to help provide basic local government finance training for unit finance staff and others without formal governmental accounting training or backgrounds. The class is available to all 58 colleges in the NCCC system.

Banking Operations

As the State's banker, the Department manages the deposits and disbursements for the State. Deposits are kept at main and non-main banks in communities across the State. At fiscal year-end, total deposits of $77.8 million were held in over 90 accounts in 22 non-main banks across the state. In addition, another $211 million was held in deposits with the six main concentration banks. During fiscal year ended June 30, 2018, more than 3.3 million warrants were processed, representing approximately $19.4 billion in payments. In addition, Banking Operations initiated approximately 24,000 wires in the amount of $166.3 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, 2018, Banking Operations oversaw $8.5 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 2017-57, $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 2017-2018 fiscal years. 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 2017-2018 fiscal year.

Per Session Law 2018-97, 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. Furthermore, the General Assembly appropriated an additional $2.4 million in nonrecurring funds to the Department of Military and Veterans Affairs for the 2018-2019 fiscal year from the Escheat Fund for Scholarships for the children of veterans.

Award of Major Contracts

Unclaimed Property Management System: The contract for a new fully integrated unclaimed property management system was awarded August 16, 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 will be $428 thousand in the first year, $300 thousand in the first renewal year and $309 thousand in the second renewal year.

Venture Capital Multiplier Fund

Pursuant to *North Carolina General Statute* 147-69.2A and *North Carolina 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 $19 million being invested. It is the expectation of the Department that the remaining $41 million will be called over the next few years.

Legislative Changes

The following legislative changes were enacted in the 2017 legislative session and became effective October 1, 2017.

House Bill 294 Amended *North Carolina General Statue* 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 beginning with reports submitted for the November 1, 2018 reporting due date. 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, 2018, the state established an employer contribution rate of 12.29% of compensation to fund pension benefits for TSERS. This total contribution rate, set by the General Assembly, has two components. The first component, 11.98% of compensation, is the Actuarially Determined Contribution (ADC) determined by the Retirement Systems' consulting actuary without regard to any benefit enhancements during the fiscal year and is also the rate recommended by the TSERS Board of Trustees under the Board's Employer Contribution Rate Stabilization Policy (ECRSP). The second component, 0.31% of compensation, is the contribution estimated by the Retirement Systems' consulting actuary to be necessary to cover the estimated cost of a one-time supplemental payment to members who had retired as of September 1, 2018, equal to 1% of each member's annualized pension benefit. The second component is an adjustment to account for the fact that the Board's recommended contribution rate did not contemplate the provision of the one-time supplement. Maintaining a 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 plans.

Significant Legislative Changes to Administration and Funding Provisions Since Prior Fiscal Year-End

Session Law 2018-5 provides for payment of a one-time pension supplement in the amount of 1% of the annualized benefit in effect on September 1, 2018, to be paid on or before October 31, 2018, to members receiving benefits from TSERS, the Consolidated Judicial Retirement System (CJRS), and the Legislative Retirement System (LRS). The Retirement Systems' consulting actuary has estimated that the unfunded liability of these pension plans increased by roughly $49 million as a result of the supplement. The cost of this supplement is projected to be paid during the fiscal year ending June 30, 2019, through employer contribution rate increases equal to 0.31% of payroll for TSERS (as described above), 0.60% of payroll for CJRS and 0.66% of payroll for LRS. These costs are in addition to the continued increased contributions due to cost-of-living adjustments (COLAs) granted in previous years that are still being amortized. The costs of the supplement, and COLAs granted in previous years, are included in the measurement of the Total Pension Liability as of June 30, 2018.

Session Law 2018-30 creates the Unfunded Liability Solvency Reserve (Solvency Reserve) within the state's General Fund. The purpose of the Solvency Reserve is to accumulate funds during each fiscal year to be used in the following fiscal year to reduce unfunded liabilities associated with TSERS and the Retiree Health Benefit Fund (RHBF). During each fiscal year, the Solvency Reserve will receive any funds specifically designated by the General Assembly for this purpose. To the extent that the Savings Reserve (rainy day fund) balance has reached its statutory maximum, the Solvency Reserve will also receive amounts with respect to the revenue growth transfer and debt refinancing savings that otherwise would have gone to the Savings Reserve. TSERS and RHBF will receive an annual share of the Solvency Reserve's balance, if any, in proportion to each plan's unfunded liability.

Session Law 2018-52 provides that the Disability Income Plan of North Carolina (DIPNC) will no longer reimburse employers for the cost of providing the second six months of short-term disability benefits, effective for disability applications on or after July 1, 2019. The Retirement Systems' consulting actuary has estimated that for the fiscal year ending June 30, 2020, this provision may reduce employer contributions to DIPNC by approximately 0.05% of covered payroll. The Retirement Systems' consulting actuary has further estimated that to the extent the provision results in greater employer management of disability cases, each 10% reduction in utilization would reduce combined benefits paid by DIPNC and employers by about $760 thousand (which is less than 0.01% of covered payroll) during the fiscal year ending June 30, 2020.

Significant Actuarial Assumption Changes Since Prior Fiscal Year-End

On April 26, 2018, the TSERS Board voted to reduce the assumed future rate of investment return on plan assets to 7.00% per year, after payment of expenses, effective for the actuarial valuations as of December 31, 2017, for TSERS, CJRS, LRS and the North Carolina National Guard Pension Fund (NGPF). On the same date, the Local Governmental Employees' Retirement System (LGERS) Board of Trustees voted to make the same assumption change for LGERS and the Firefighters' and Rescue Squad Workers' Pension Fund (FRSWPF). The assumption for all of these retirement systems had been 7.20% per year for the valuations as of December 31, 2016, and had been 7.25% per year for more than ten prior annual valuations.

The 7.00% assumed rate of return is effective for purposes of measuring the funded percentage of the retirement systems as of December 31, 2017, and for purposes of financial reporting as of June 30, 2018. As of June 30, 2018, the assumption change approved by the TSERS Board increased the Total Pension Liability by approximately 2.1% ($1.6 billion) for TSERS, 1.9% ($13 million) for CJRS, 1.7% (less than $1 million) for LRS, and 2.2% ($4 million) for NGPF. The assumption change approved by the LGERS Board increased the Total Pension Liability by approximately 2.1% ($596 million) for LGERS and 2.3% ($11 million) for FRSWPF. The retirement systems' funding liabilities as of December 31, 2018 will change in a similar fashion.

Solely for the purpose of determining employer contribution rates, the reduction in the assumption from 7.20% to 7.00% will be phased in over a period of three years. That is, the employer contribution rates will reflect one-third of the effect of the change as of December 31, 2017 (in the contribution rates for the fiscal year ending June 30, 2020), two-thirds of the effect of the change as of December 31, 2018 (in the contribution rates for the fiscal year ending June 30, 2021), and the entire effect of the change in later years. By the end of the three-year phase-in period, Actuarially Determined Contribution (ADC) rates, prior to application of any Employer Contribution Rate Stabilization Policy (ECRSP) as described herein, are expected to be greater, as a result of this assumption change, by 2.0% to 2.5% of covered payroll. For TSERS, this is estimated to increase the annual ADC amounts, prior to application of the TSERS ECRSP, by $300 million to $500 million by the end of the three-year phase-in period. For LGERS, it is estimated to increase the annual ADC amounts, prior to application of the LGERS ECRSP, by $100 million to $200 million by the end of the three-year phase-in period.

Closing of Retiree Health Benefit Trust

Members first hired on or after January 1, 2021, will not be eligible to receive retiree medical benefits.

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 Post-Employment Benefits (OPEB) only reflect current participants, the current valuation results are unaffected by this change.

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 establishes a procedure for the staff and actuary to use in determining the employer contribution rates for TSERS that the Board of Trustees will recommend to the General Assembly for the fiscal years ending in 2018-2022.

Under this policy, the contribution rate recommended to the General Assembly is no less than 0.35% of payroll greater than the appropriated contribution from the prior fiscal year, within the following bounds: (1) contributions may not be less than the ADC using the assumptions adopted, including a discount rate equal to the assumed rate of investment return used in the current year's valuation; and (2) contributions may not be greater than the ADC determined using the assumptions adopted but using a discount rate equal to the yield on 30-year United States Treasury securities as of the valuation date.

For the fiscal year ending June 30, 2018, the ECRSP resulted in a recommended contribution rate of 10.33% of payroll, which was an increase of 0.35% over the prior appropriated contribution rate of 9.98% of payroll. The minimum recommended contribution rate of 10.33% of payroll exceeded the ADC of 10.08% from the actuarial valuation as of December 31, 2015, and was less than the policy's upper bound (64.01% of payroll, based on a discount rate equal to the yield on 30-year United States Treasury securities). Accordingly, the Board elected to recommend a contribution rate of 10.33% of payroll. This recommendation was based on an assumption that no legislative benefit improvements or cost-of-living increases or supplements would be granted. The General Assembly appropriated employer contributions of 10.78% of payroll for the fiscal year ending June 30, 2018, exceeding the Board's initial recommendation, in light of cost-of-living increases granted for TSERS retirees effective July 1, 2017.

For the fiscal year ending June 30, 2019, the ECRSP resulted in a recommended contribution rate of 11.98% of payroll, which was the ADC from the actuarial valuation as of December 31, 2016. The ADC exceeded the policy's lower bound (11.13% of payroll, equal to the prior year's appropriation of 10.78% of payroll plus 0.35% of payroll), and was less than the policy's upper bound (64.12% of payroll, based on a discount rate equal to the yield on 30-year United States Treasury securities). Accordingly, the Board elected to recommend the ADC equal to 11.98% of payroll. This recommendation was based on an assumption that no legislative benefit improvements or cost-of-living increases or supplements would be granted. The General Assembly appropriated employer contributions of 12.29% of payroll for the fiscal year ending June 30, 2019, exceeding the Board's initial recommendation, in light of a cost-of-living supplement granted for TSERS retirees payable in October 2018.

As a result of Session Law 2018-30, TSERS will receive annually a share of the balance, if any, of the Solvency Reserve. See "Significant Legislative Changes to Administrative and Funding Provisions Since Prior Fiscal Year-End" above for further discussion of this fund. Distributions from the Solvency Reserve may not be used to supplant other funding for the plans, nor can they be used as funding for enhanced plan benefits.

Funding Policy: Employer Contribution Rate Stabilization Policies - LGERS

The LGERS Board adopted an Employer Contribution Rate Stabilization Policy (ECRSP) on January 21, 2016. Following adoption of that policy, the Board set LGERS employer contribution rates for the fiscal years ending in 2018-2022 in accordance with the policy.

For the fiscal year ending June 30, 2018, the LGERS ECRSP required an increase in the employer contribution rate to 7.50% of payroll for general employees and 8.25% of payroll for law enforcement officers (LEOs). These employer contribution rates represented an increase of 0.25% of payroll from the prior fiscal year's contribution rate of 7.25% of payroll for general employees and 8.1% of payroll for LEOs. The employer contribution rates for the fiscal year ending June 30, 2018 were in excess of the ADC of 6.25% of payroll for general employees and 7.84% of payroll for LEOs, as determined using the core funding policy (prior to application of the ECRSP).

For the fiscal year ending June 30, 2019, the LGERS ECRSP required that the employer contribution rates further increase by 0.25% of payroll, to 7.75% of payroll for general employees and 8.50% of payroll for LEOs. The employer contribution rate of 7.75% of payroll for general employees is greater than the ADC of 7.40% of payroll for general employees, as determined using the core funding policy (prior to application of the ECRSP). The employer contribution rate of 8.50% of payroll for LEOs is less than the ADC of 8.99% of payroll for LEOs, as determined using the core funding policy (prior to application of the ECRSP).

Under the LGERS ECRSP, both rates will continue to increase by 0.25% of payroll annually through the fiscal year ending June 30, 2022, with the following additional adjustments, if applicable: (1) if the underlying Actuarially Determined Contribution (ADC) for a given fiscal year is 50% greater than the scheduled employer contribution rate for that fiscal year, the scheduled employer contribution rate for the current and future fiscal years increases by an additional 0.50% of payroll; (2) if the underlying ADC for a given fiscal year is 50% less than the scheduled employer contribution rate for that fiscal year, the scheduled employer contribution rate for the current and future fiscal years decreases by 0.50% of payroll from the scheduled employer contribution rate; (3) employer contribution rates with respect to LEOs will be 0.75% of payroll greater than with respect to general employees; 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- or under- funding of the system. Given recent investment experience, the Board of Trustees was not permitted to grant a COLA for the fiscal years ending June 30, 2018 or June 30, 2019, under the authority allowed by statute.

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 thousand.

Risks Inherent in Actuarial Assumptions and Methods

The Retirement Systems' Boards of Trustees select actuarial assumptions and methods based on the advice of RSD's consulting actuary. The assumptions are selected according to state law and guidelines promulgated by the Actuarial Standards Board. The Boards of Trustees review each significant assumption or method at least once every five years, and update it if necessary.

Actuarial methods include the actuarial cost method, amortization policy, and asset valuation method. These methods are meant to recognize pension costs in an orderly fashion through contributions to the plans over a period of years. In some cases, the methods have the effect of deferring increases or decreases in contributions into later years. If assumptions are not met over a long period of time, the use of these methods will lead to deferred gains or losses.

Similarly, the use of actuarial assumptions, while necessary in actuarial valuations, carries a risk that actual facts will deviate from the assumptions. Such deviation may result in greater or lesser costs in later years than would have been anticipated by the actuarial valuation. To illustrate the significance of the assumed rate of investment return, RSD's consulting actuaries have calculated that as of December 31, 2016, if the Boards had assumed long-term future investment returns equal to the yield on 30-year United States Treasury securities (3.06% per year) rather than the Boards' assumption of 7.20% per year at the time, and held all other assumptions the same as in the actuarial valuation, the actuarial accrued liability would have been greater by $47.3 billion (63% greater) for TSERS, by $17.4 billion (68% greater) for LGERS, and by $355 million (55% greater) for CJRS, as of December 31, 2016.

With regard to the potential risk inherent in other actuarial assumptions, contributions will tend to increase if members and their surviving beneficiaries live longer than expected; if current employees' future salary increases are greater than expected; if more employees work until reaching full retirement eligibility than expected; if more employees (once reaching full retirement eligibility) retire at earlier ages than expected; or if any legislative benefit enhancements or cost-of-living increases or supplements are granted in the future. To illustrate the potential significance of legislative changes, the Retirement Systems' consulting actuaries have estimated that a permanent 1% cost-of-living benefit increase for retirees as of July 1, 2019, would increase the actuarial value of benefits by approximately $481 million for TSERS and by approximately $146 million for LGERS (less than 1% of the estimated liability for each retirement system) as of that date.

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, 2017, the 401(k) had approximately 250,300 members and $10.2 billion in assets, while the 457(b) had approximately 53,800 members and $1.4 billion in assets. Member participation had increased to approximately 252,000 and 54,500 for the 401(k) and 457(b) respectively, by June 30, 2018.

Supplemental Retirement Plan for Teachers

The North Carolina 403(b) Program was launched early second quarter 2014. At June 30, 2018, there were 74 employers (school districts and community colleges) enrolled in the North Carolina 403(b) Program with 1,226 employees participating. The Program allows teachers and other employees of school districts and community colleges 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, 2018, assets under management were approximately $15 million.

Award of Major Contracts

Consulting Actuary: In January 2018, the TSERS and LGERS Boards designated Cavanaugh Macdonald Consulting as their consulting actuary and technical advisor. The cost of the contract is not to exceed $2,996,490 for the three-year period beginning January 1, 2018 and ending December 31, 2020. The contract may be extended for up to two additional one-year periods at the option of the department.

Component Unit

The State Health Plan for Teachers and State Employees

2019 Benefit Plan Options

In 2019, active employees and pre-65 retirees can choose between two self-insured plans: the 80/20 Enhanced PPO Plan (80/20 Plan) or the 70/30 Traditional PPO Plan (70/30 Plan). 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 Physician. Member copayments, deductibles, coinsurance, and out-of-pocket maximums stay the same from 2018 to 2019 for the 70/30 Plan. The 80/20 Plan's out-of-pocket maximum has changed from a separate medical and pharmacy out-of-pocket amount to a combined medical and pharmacy out-of-pocket maximum, which totals $4,890. There has also been a change in the 80/20 Plan's specialist and inpatient hospital copay.

Active members and non-Medicare retirees enrolled in both the 80/20 and 70/30 Plans will still be asked to attest to being a non-tobacco user or to participate in a tobacco cessation program. The 70/30 Plan remains premium-free for non-Medicare retirees, and those members are not required to complete the smoking attestation. 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. Effective 2019, the tobacco cessation program is being administered through the CVS MinuteClinic.

For Medicare retirees, the State Health Plan will continue to offer two fully-insured Medicare Advantage products with integrated prescription drug plans (MA-PDPs) and a self-insured 70/30 PPO Plan. The MA-PDP is administered through an agreement with United Healthcare.

United Healthcare offers 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 2019 base and enhanced MA-PDP offerings have not changed from 2018. The 2019 premium was renegotiated in May 2018, resulting in a 29% decrease of premiums paid by the State on behalf of the nearly 150,000 Medicare-eligible state retirees that enroll in Medicare Advantage plans. The primary driver of the decrease in premiums was the suspension, by CMS (centers for Medicare and Medicaid services), of the annual Health Insurance Fee (HIF) associated with health insurance providers.

2019 Employee Premiums

Under the Treasurer's leadership, the Board of Trustees of the State Health Plan for Teachers and State Employees approved employee and retiree premium rates to remain at their current levels effective January 1, 2019. This decision was made given the expectation that savings from the lower MA-PDP in conjunction with the 4% increase in contributions from employers will offset the anticipated medical and pharmacy cost increases. The expected increase in expenses is considerably higher than the 4% increase over 2018 appropriations 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 remain the same as the previous year. MA-PDP dependent rates will decrease as the insurance premium has decreased. MA-PDP enhanced plan rates will remain stable.

2018 Plan Elections

At the end of 2017, all Medicare members in the self-insured 70/30 PPO Plan were automatically enrolled in the MA-PDP "base" plan if eligible and members had to elect to return to the 70/30 PPO Plan if that was their preference. This resulted in a net movement of 17,000 members to the MA-PDP plan. As a result of this shift, 85% of Medicare eligible members are electing a MA-PDP plan in 2018, compared to only 75% in 2017.

Recently Enacted Legislation

Federal House of Representatives 195 (115th) modified House of Representatives 3590 (111th) (Patient Protection and Affordable Care Act) to delay the excise tax on high cost employer-sponsored health coverage from 2020 to 2022. The same bill suspended the annual fee associated with health insurance providers in 2019, thereby reducing the MA-PDP rates.

North Carolina Session Law 2018-30 (House Bill 651) established an Unfunded Liability Solvency Reserve (Solvency Reserve) within the State's General Fund. The Solvency Reserve will accumulate funds during each fiscal year to be used in the following fiscal year to reduce unfunded liabilities associated with the TSERS and the Retiree Health Benefit Fund (RHBF). During each fiscal year, the Solvency Reserve will receive any funds that may be specifically designated by the General Assembly for this purpose. To the extent that the Savings Reserve (rainy day fund) balance has reached its statutory maximum, the Solvency Reserve will also receive amounts with respect to the revenue growth transfer and debt refinancing savings that otherwise would have gone to the Savings Reserve. TSERS and RHBF will receive an annual share of the Solvency Reserve's balance, if any, in proportion to each plan's unfunded liability. Distributions from the Solvency Reserve may not be used to supplant other funding for the plans, nor can they be used as funding for enhanced plan benefits.

North Carolina Session Law 2017-57 (Senate Bill 257) 35.21.(c) limits retirement health benefits to members who have earned contributory retirement service (and did not withdraw that service) prior to January 1, 2021.

North Carolina Session Law 2018-84 (House Bill 977) eliminated the position of the deputy executive administrator for the State Health Plan. Additional language also modified the categories for members of the Board of Trustees for the State Health Plan for Teachers and State Employees to include a physician who is licensed to practice medicine in the state of North Carolina. The bill also clarifies rules on entry of charter schools to the State Health Plan.

Major Contracts

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 Plan's TPA contract, which is currently held by Blue Cross Blue Shield of North Carolina, is the Plan's largest and one of its 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.

The Plan continues to have CVS as their Pharmacy Benefit Manager (PBM). Services began January 1, 2017 and will continue for calendar year 2019.

Other major contracts include the contract with United Healthcare, which administers the Medicare Advantage product for the Plan. Benefitfocus is the Plan's vendor for eligibility and enrollment services. Both vendors have been and are in place for plan years 2017-2019.

FINANCIAL STATEMENTS

North Carolina Department of State Treasurer
Balance Sheet
Governmental Funds
As of June 30, 2018
(With Comparative Totals as of June 30, 2017)

	General Fund	Escheat Fund	Debt Proceeds and Interest Fund
ASSETS			
Cash and Cash Equivalents	$ 8,152,781	$ 479,405,976	$ 0
Investments	38,811	254,922,819	138,439,460
Securities Lending Collateral	2,294	582,556	
Receivables			
Accounts Receivable	4,235		
Intergovernmental Receivables	37,134		
Interest Receivable	3,219	624,498	478,277
Contributions Receivable	84,050		
Inventories	86,544		
Notes Receivable			
Due from Other Funds	31,115		
Due from Component Unit	7,159		
Total Assets	8,447,342	735,535,849	138,917,737
DEFERRED OUTFLOWS OF RESOURCES			
Forward Funded State Aid	0	37,287,242	0
Total Assets and Deferred Outflows of Resources	$ 8,447,342	$ 772,823,091	$ 138,917,737
LIABILITIES			
Accounts Payable	$ 444,432	$ 303,320	$ 0
Obligations Under Securities Lending	2,294	582,556	
Due to Other Funds			
Escheat Claims Payable		61,000,000	
Total Liabilities	446,726	61,885,876	0
DEFERRED INFLOWS OF RESOURCES			
Total Deferred Inflows of Resources	0	0	0
FUND BALANCES (Note 8)			
Nonspendable	86,544		
Restricted	525,387	710,937,215	138,917,737
Committed	6,291,743		
Unassigned	1,096,942		
Total Fund Balances	8,000,616	710,937,215	138,917,737
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	$ 8,447,342	$ 772,823,091	$ 138,917,737

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 2018	Total 2017
$ 520,161	$ 488,078,918	$ 426,213,973
3,253,291	396,654,381	398,017,786
350	585,200	505,130
	4,235	
	37,134	29,121
18,551	1,124,545	1,422,138
	84,050	78,655
	86,544	72,841
25,712	25,712	37,404
	31,115	30,820
	7,159	6,896
3,818,065	886,718,993	826,414,764
0	37,287,242	37,287,242
$ 3,818,065	$ 924,006,235	$ 863,702,006
$ 0	$ 747,752	$ 451,084
350	585,200	505,130
		41,825
	61,000,000	58,000,000
350	62,332,952	58,998,039
0	0	0
	86,544	72,841
3,271,464	853,651,803	798,730,312
546,251	6,837,994	4,758,536
	1,096,942	1,142,278
3,817,715	861,673,283	804,703,967
$ 3,818,065	$ 924,006,235	$ 863,702,006

North Carolina Department of State Treasurer
Statement of Revenues, Expenditures, and Changes in Fund Balance
Governmental Funds
For the Fiscal Year Ended June 30, 2018
(With Comparative Totals for the Fiscal Year Ended June 30, 2017)

	General Fund	Escheat Fund	Debt Proceeds and Interest Fund
REVENUES			
Funds Escheated	$ 0	$ 105,127,147	$ 0
Fees	7,015,114		
Services	7,025,733	375	
Administrative Cost Reimbursements	5,902,760		
Contributions	2,115,589		
Investment Earnings	20,746	12,335,464	3,318,490
Interest Earnings on Loans	165,176		
Revenues from Other State Agencies (Note 9)	3,149,533		
Loan Collection of Principal	587,101		
Reimbursement of Core Banking Upgrade Expenditures			
Reimbursement of Expenditures from Investment Pool	7,284,552		
Miscellaneous Revenue	121,173		
Total Revenues	33,387,477	117,462,986	3,318,490
EXPENDITURES			
State Aid	26,875,361	37,287,242	
Contracted Personal Services	1,045,199	2,493,739	105,985
Personal Services	15,408,263	1,123,694	
Employee Benefits	4,793,865	426,888	
Supplies and Materials	70,915	17,862	
Travel	52,352	2,482	
Communication	178,824	18,937	
Utilities	235,753		
Data Processing Services	123,013	6,330	
Other Services	92,827	57,669	
Claims and Benefits	800,000		
Debt Service			
Principal Retirement	656,608,188		
Interest and Fees	207,293,436		46,918
Debt Issuance Costs	1,424,993		
Other Fixed Charges	1,995,947	87,443	
Capital Outlay	730,954	2,819	
Insurance	9,394	2,826	
Other Expenditures	738,379	113,920	
Expenditures to Other State Agencies (Note 9)	17,862,796	22,855,964	
Total Expenditures	936,340,459	64,497,815	152,903
Excess Revenues Over (Under) Expenditures	(902,952,982)	52,965,171	3,165,587
OTHER FINANCING SOURCES (USES)			
State Appropriations	749,292,666		
General Obligation Bonds Issued			
Refunding Bonds Issued	724,560,000		
Premiums on Bonds Issued	152,357,630		
Pay to Refunded Debt Escrow Agent	(706,188,117)		
Transfers to State Reserve Fund	(16,000,000)		
Transfers from State Reserve Fund	73,282		
Transfers In (Note 10)	950,235		
Transfers Out (Note 10)		(948,561)	(1,674)
Total Other Financing Sources (Uses)	905,045,696	(948,561)	(1,674)
Net Change in Fund Balances	2,092,714	52,016,610	3,163,913
Fund Balances - July 1	5,907,902	658,920,605	135,753,824
Fund Balances - June 30	$ 8,000,616	$ 710,937,215	$ 138,917,737

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 2018	Total 2017
$ 0	$ 105,127,147	$ 126,700,610
	7,015,114	7,255,758
	7,026,108	6,990,927
	5,902,760	5,839,625
1,260	2,116,849	667,048
100,523	15,775,223	12,509,897
	165,176	268,942
	3,149,533	2,943,151
	587,101	3,730,613
		280,000
	7,284,552	8,721,372
532	121,705	294,242
102,315	154,271,268	176,202,185
	64,162,603	63,406,525
5,282	3,650,205	4,355,613
74,348	16,606,305	17,546,596
	5,220,753	5,451,059
	88,777	146,945
	54,834	97,295
	197,761	237,896
	235,753	185,723
	129,343	137,640
	150,496	154,256
2,000	802,000	503,373
	656,608,188	466,299,036
2,914	207,343,268	237,642,006
	1,424,993	1,008,226
	2,083,390	1,489,502
	733,773	1,021,644
	12,220	11,962
	852,299	752,050
321,692	41,040,452	230,324,405
406,236	1,001,397,413	1,030,771,752
(303,921)	(847,126,145)	(854,569,567)
	749,292,666	716,989,066
		200,000,000
	724,560,000	
	152,357,630	30,018,100
	(706,188,117)	
	(16,000,000)	(122,246)
	73,282	121,992
	950,235	12,042,057
	(950,235)	(12,042,057)
0	904,095,461	947,006,912
(303,921)	56,969,316	92,437,345
4,121,636	804,703,967	712,266,622
$ 3,817,715	$ 861,673,283	$ 804,703,967

North Carolina Department of State Treasurer
Statement of Fiduciary Net Position
Fiduciary Funds
As of June 30, 2018
(With Comparative Totals as of June 30, 2017) — *Exhibit B-1*

	Pension and Other Employee Benefit Trust Funds (1)	Investment Trust Funds (2)	Private-Purpose Trust Fund	Total 2018	Total 2017
ASSETS					
Cash and Cash Equivalents	$ 482,478,629	$ 8,874,271	$ 46,655,825	$ 538,008,725	$ 477,461,981
Investments					
Collective Investment Funds	188,549,107			188,549,107	194,478,768
Unallocated Insurance Contracts	838,099,025			838,099,025	813,752,436
Synthetic Guaranteed Investment Contracts	1,509,747,876			1,509,747,876	1,465,848,568
State Treasurer Investment Pool	99,007,534,186	1,308,478,730	6,699,675	100,322,712,591	96,132,060,915
Non-State Treasurer Pooled Investments	8,734,248,650			8,734,248,650	7,299,952,971
Securities Lending Collateral	689,693,245	809,354	56,643	690,559,242	706,442,857
Receivables:					
Accounts Receivable	33,966,427			33,966,427	35,767,885
Interest Receivable	1,000,059	2,611,138	18,070	3,629,267	2,676,466
Contributions Receivable	164,803,207			164,803,207	149,977,160
Due from Other Funds	74,563,514			74,563,514	71,978,102
Due from Component Units	19,254,218			19,254,218	17,999,615
Notes Receivable	313,390,333			313,390,333	306,076,347
Total Assets	112,057,328,476	1,320,773,493	53,430,213	113,431,532,182	107,674,474,071
LIABILITIES					
Accounts Payable and Accrued Liabilities					
Accounts Payable	1,442,065			1,442,065	1,369,321
Benefits Payable	5,692,686			5,692,686	5,121,211
Obligations Under Securities Lending	689,693,245	809,354	56,643	690,559,242	706,442,857
Funds Held for Others	7,813,193			7,813,193	6,853,172
Total Liabilities	704,641,189	809,354	56,643	705,507,186	719,786,561
NET POSITION					
Restricted for					
Pension Benefits	107,817,368,963			107,817,368,963	102,421,894,530
Postemployment Benefits	1,698,979,288			1,698,979,288	1,634,176,135
Pool Participants		697,470,300		697,470,300	799,377,119
Individuals, Organizations, and Other Governments		622,493,839	53,373,570	675,867,409	423,007,773
Other Employment Benefits	1,836,339,036			1,836,339,036	1,676,231,953
Total Net Position	$ 111,352,687,287	$ 1,319,964,139	$ 53,373,570	$ 112,726,024,996	$ 106,954,687,510

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, 2018
(With Comparative Totals for the Fiscal Year Ended June 30, 2017) *Exhibit B-2*

	Pension and Other Employee Benefit Trust Funds (1)	Investment Trust Funds (2)	Private-Purpose Trust Fund	Total 2018	Total 2017
ADDITIONS					
Contributions					
Employer	$ 3,392,643,095	$ 0	$ 0	$ 3,392,643,095	$ 3,156,180,094
Members	1,733,267,153			1,733,267,153	1,699,221,196
Trustee Deposits			39,242,417	39,242,417	
Other Contributions	52,974,682			52,974,682	51,498,753
Total Contributions	5,178,884,930	0	39,242,417	5,218,127,347	4,906,900,043
Investment Income					
Investment Earnings	8,857,312,817	55,631,678	114,080	8,913,058,575	10,523,346,803
Less Investment Expenses	(562,606,747)	(146,992)	(1,148)	(562,754,887)	(528,289,102)
Net Investment Income	8,294,706,070	55,484,686	112,932	8,350,303,688	9,995,057,701
Pool Share Transactions					
Reinvestment of Dividends		55,484,685		55,484,685	73,356,751
Net Share Purchases (Redemptions)		56,312,783		56,312,783	(6,649,334)
Net Pool Share Transactions	0	111,797,468	0	111,797,468	66,707,417
Other Additions					
Fees and Fines	2,906,031			2,906,031	2,780,337
Interest Earnings on Loans	13,390,543			13,390,543	12,935,036
Miscellaneous	2,923,688			2,923,688	3,816,491
Total Other Additions	19,220,262	0	0	19,220,262	19,531,864
Total Additions	13,492,811,262	167,282,154	39,355,349	13,699,448,765	14,988,197,025
DEDUCTIONS					
Claims and Benefits	6,677,172,103			6,677,172,103	6,435,231,884
Medical Insurance Premiums	976,106,638			976,106,638	916,088,760
Refund of Contributions	186,836,026			186,836,026	169,902,936
Distributions Paid and Payable		55,484,686		55,484,686	73,356,751
Payments in Accordance with Trust Arrangements			200,000	200,000	300,000
Administrative Expenses	31,053,700			31,053,700	29,255,635
Other Deductions	1,258,126			1,258,126	6,128,178
Total Deductions	7,872,426,593	55,484,686	200,000	7,928,111,279	7,630,264,144
Change in Net Position	5,620,384,669	111,797,468	39,155,349	5,771,337,486	7,357,932,881
Net Position - July 1	105,732,302,618	1,208,166,671	14,218,221	106,954,687,510	99,596,754,629
Net Position - June 30	$ 111,352,687,287	$ 1,319,964,139	$ 53,373,570	$ 112,726,024,996	$ 106,954,687,510

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, 2018
(With Comparative Totals as of June 30, 2017) ***Exhibit C-1***

	2018	2017 (As Restated)
ASSETS		
Current Assets		
Cash and Cash Equivalents	$ 1,062,782,280	$ 911,975,256
Securities Lending Collateral	1,287,279	
Receivables		
Rebates Receivable	57,622,666	108,493,558
Accounts Receivable	4,141,587	5,491,375
Intergovernmental Receivables	4,837,675	1,322,972
Interest Receivable	1,470,974	917,565
Premiums Receivable	107,212	1,017,158
Other Receivables	2,109,744	3,248,474
Total Current Assets	1,134,359,417	1,032,466,358
Noncurrent Assets		
Net OPEB Asset (Note 15)	10,427	9,203
Total Assets	1,134,369,844	1,032,475,561
DEFERRED OUTFLOWS OF RESOURCES		
Deferred Outflows for Pensions (Note 12)	927,083	1,119,698
Deferred Outflows for OPEB (Note 15)	1,698,598	201,558
Total Deferred Outflows of Resources	2,625,681	1,321,256
LIABILITIES		
Current Liabilities		
Accounts Payable	37,666,603	29,750,315
Intergovernmental Payables		2,949,520
Obligations Under Securities Lending	1,287,279	
Due to Primary Government		28,761
Medical Claims Payable	266,823,355	287,703,086
Compensated Absences (Note 6)	30,498	31,617
Unearned Revenue	39,551,021	34,256,867
Total Current Liabilities	345,358,756	354,720,166
Noncurrent Liabilities		
Compensated Absences (Note 6)	258,034	219,109
Net Pension Liability (Note 6)	1,545,629	1,556,961
Net OPEB Liability (Note 6)	5,541,457	5,559,734
Total Non-Current Liabilities	7,345,120	7,335,804
Total Liabilities	352,703,876	362,055,970
DEFERRED INFLOWS OF RESOURCES		
Deferred Inflows for Pensions (Note 12)	74,907	109,335
Deferred Inflows for OPEB (Note 15)	1,925,484	
Total Deferred Inflows of Resources	2,000,391	109,335
NET POSITION		
Restricted - Expendable		
Health and Human Services	19,872	21,631
Unrestricted	782,271,386	671,609,881
Total Net Position	$ 782,291,258	$ 671,631,512

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, 2018
(With Comparative Totals for the Fiscal Year Ended June 30, 2017) ***Exhibit C-2***

	2018	2017
REVENUES		
Operating Revenues		
Insurance Premiums	$ 3,453,399,418	$ 3,247,140,382
EXPENSES		
Operating Expenses		
Personal Services	2,847,739	3,076,603
Employee Benefits	1,481,820	1,041,312
Supplies and Materials	13,482	38,936
Contracted Personal Services	146,068,433	152,173,237
Utilities		12,725
Travel	29,590	33,453
Communication	37,144	31,251
Data Processing Services	65,047	21,704
Affordable Care Act Expenses	1,473,979	16,116,164
Other Services	730,710	1,609,099
Claims	3,005,405,090	2,924,475,680
Insurance	211,126,519	194,836,664
Other Fixed Charges	10,434	10,173
Other Expenses	207,897	176,625
Total Operating Expenses	3,369,497,884	3,293,653,626
Operating Income (Loss)	83,901,534	(46,513,244)
NONOPERATING REVENUES (EXPENSES)		
Pharmacy Subsidies and Rebates	13,080,614	17,588,605
Investment Earnings	13,677,598	9,788,395
Miscellaneous		(24,138)
Total Nonoperating Revenues	26,758,212	27,352,862
Increase (Decrease) in Net Position	110,659,746	(19,160,382)
Net Position - July 1	671,631,512	696,140,867
Restatement (Note 19)		(5,348,973)
Net Position - June 30	$ 782,291,258	$ 671,631,512

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, 2018
(With Comparative Totals for the Fiscal Year Ended June 30, 2017) *Exhibit C-3*

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from Customers	$ 3,511,613,140	$ 3,249,357,245
Payments to Suppliers	(354,825,226)	(366,840,442)
Payments to Employees	(3,735,956)	(4,290,233)
Payments for Claims	(3,024,935,033)	(2,950,373,349)
Other Payments		(176,626)
Net Cash Provided (Used) for Operating Activities	128,116,925	(72,323,405)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Grant Receipts	9,565,910	21,271,953
CASH FLOWS FROM INVESTING ACTIVITIES		
Investment Earnings	13,124,189	9,548,551
Net Increase (Decrease) in Cash and Cash Equivalents	150,807,024	(41,502,901)
Cash and Cash Equivalents at July 1	911,975,256	953,478,157
Cash and Cash Equivalents at June 30	$ 1,062,782,280	$ 911,975,256
RECONCILIATION OF NET OPERATING GAIN (LOSS) USED FOR OPERATING ACTIVITIES		
Operating Income (Loss)	$ 83,901,534	$ (46,513,244)
Adjustments to Reconcile Operating Loss		
To Net Cash Used for Operating Activities		
Pension Expense		290,120
Change in Assets and Deferred Outflows		
Receivables	54,269,357	(45,671,833)
Net OPEB Asset	(1,224)	
Deferred Outflows for Pensions	192,615	(326,370)
Deferred Outflows for OPEB	(1,497,040)	
Change in Liabilities and Deferred Inflows		
Accounts Payable and Accrued Liabilities	4,966,768	(1,980,180)
Due to Primary Government	(28,761)	23,144
Compensated Absences	37,806	(136,069)
Unearned Revenue	5,294,154	(1,076,311)
Medical Claims Payable	(20,879,731)	23,067,338
Net Pension Liability	(11,332)	
Net OPEB Liability	(18,277)	
Deferred Inflows for OPEB	1,925,484	
Deferred Inflows for Pensions	(34,428)	
Net Cash Provided (Used) for Operating Activities	$ 128,116,925	$ (72,323,405)
NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES		
Increase in Receivables Related to Nonoperating Income	$ 4,068,112	$ 0
Changes in Securities Lending Collateral	1,287,279	

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, 2018, with comparative information as of and for the fiscal year ended June 30, 2017, 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, 2017 and 2016.

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 and other postemployment benefits (OPEB) 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.

Contributions receivable include amounts due to the fiduciary funds from both employers and employees related to June payrolls 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.

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, net OPEB liability, and bond activity are the only significant general liabilities of the Department. For the Health Plan, long-term liabilities, which include compensated absences, net pension liability, and net OPEB 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 2017 *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.

Net OPEB Liability - The net OPEB liability represents the Department's and Health Plan's proportionate share of the collective net OPEB liability reported in the State of North Carolina's 2017 *Comprehensive Annual*

Financial Report. These liabilities represent the Department's and Health Plan's portion of the collective total OPEB liability less the fiduciary net position of the Retiree Health Benefit Fund and the Disability Income Plan of North Carolina. See Notes 14 and 15 for further information regarding the Department's and Health Plan's policies for recognizing liabilities, expenses, deferred outflows of resources, and deferred inflows of resources related to OPEB.

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 the following items that qualify for reporting in this category: 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 and other postemployment benefits (i.e., difference between actual and expected experience, net difference between projected and actual earnings on plan investments, 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 and the Health Plan have the following items that qualify for reporting in this category: deferred inflows related to other postemployment benefits, and deferred inflows for pensions. These represent 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:

Restricted Net Position - Expendable - Expendable restricted net position includes resources for which the Health Plan is legally or contractually obligated to spend in accordance with restrictions imposed by external parties.

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. It also includes the net position of accrued employee benefits such as compensated absences, pension plans, and other postemployment 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.

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, 2018, the Department implemented the following pronouncements issued by the Governmental Accounting Standards Board (GASB):

GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*

GASB Statement No. 85, *Omnibus 2017*

GASB Statement No. 86, *Certain Debt Extinguishment Issues*

GASB Statement No. 75 improves accounting and financial reporting by state and local governments for postemployment benefits other than pensions

(OPEB). It also improves information provided by state and local governmental employers about financial support for OPEB that is provided by other entities. This Statement replaces the requirements of Statements No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, for OPEB. In addition, this Statement details the recognition and disclosure requirements for employers with payables to defined benefit OPEB plans that are administered through trusts that meet the specified criteria and for employers whose employees are provided with defined contribution OPEB.

GASB Statement No. 85 addresses practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and OPEB).

GASB Statement No. 86 improves consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources—resources other than the proceeds of refunding debt—are placed in an irrevocable trust for the sole purpose of extinguishing debt. This Statement also improves accounting and financial reporting for prepaid insurance on debt that is extinguished and notes to financial statements for debt that is defeased in substance.

Implementation Guide No. 2017-1 addresses questions raised relative to the standards on cash flows related to pension and other postemployment benefits (OPEB), financial reporting entity, pensions – plan and employer accounting and reporting, accounting and financial reporting for certain investments and for external investment pools, fund balance reporting, and tax abatement disclosures.

Implementation Guide No. 2017-2 addresses questions raised relative to Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, as amended.

Implementation Guide No. 2017-3 addresses questions raised relative to Statements No. 74 and 75. The majority of the requirements in this guide are effective in the fiscal year ended June 30, 2018, although some of the requirements are effective in the subsequent fiscal year.

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, local government Law Enforcement Officer Special Separation Allowance (LEOSSA) trusts, 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, local government LEOSSA trusts, and bond proceeds investment accounts. This pool, a governmental sponsored 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, Highway Trust Fund and the remaining portfolios listed below. 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.

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, other limited liability vehicles, or fixed income securities 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, 2018

Assets	
Cash and Cash Equivalents	$ 351,672,000
Securities Lending Collateral	709,909,000
Investments, at Fair Value	114,774,574,000
Receivables	450,692,000
Total Assets	116,286,847,000
Liabilities	
Other Payables	126,074,000
Obligations under Securities Lending	709,909,000
Total Liabilities	835,983,000
Net Position	
Net Position Held in Trust	$ 115,450,864,000

* 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, 2018

Additions		
Investment Income		
Interest and Dividend Income	$	2,008,352,000
Net Appreciation in Fair Value of Investments		5,061,735,000
Other Investment Income		566,339,000
Securities Lending Income		19,158,000
Total Investment Income		7,655,584,000
Deductions		
Investment Management Expenses *		543,299,000
Administrative and Other Expenses *		82,597,000
Securities Lending Expense		4,870,000
Total Deductions		630,766,000
Net Increase in Net Position Resulting from Operations		7,024,818,000
Distributions to Participants		
Distributions Paid and Payable		(7,024,818,000)
Share Transactions		
Reinvestment of Distributions		7,025,144,000
Net Share Redemptions		(2,078,463,000)
Change in Net Position		4,946,681,000
Net Position Held in Trust		
Beginning of Year		110,504,183,000
End of Year	$	115,450,864,000

*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 primarily of limited partnerships which are valued quarterly. It also contains futures and fixed income securities 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, 2018, $17.08 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, 2018, the External Investment Pool's deposits were exposed to custodial credit risk for non-negotiable certificates of deposit in the amount of $75.5 million. The non-negotiable certificates of deposit were uninsured and were collateralized with securities not in the name of the State Treasurer 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).

All deposits are cash and cash equivalents. As of June 30, 2018, the balance of the Pool's deposits was $351.7 million. Also at June 30, 2018, the amount of restricted cash held by the Pool was $16.6 million.

Investments

The External Investment Pool maintained by the Department had the following investments and maturities in the STIF as of June 30, 2018:

	Investment Maturities (in Years)				
	Carry Amount	Less Than 1	1 to 5	6 to 10	More Than 10
U.S. Treasuries	$ 8,816,754,000	$ 8,816,754,000	$ 0	$ 0	$ 0
U.S. Agencies	12,805,951,000	2,519,000,000	10,286,951,000		
Securities Purchased with Cash Collateral under Securities Lending Program					
Repurchase Agreements	27,480,000	27,480,000			
Repurchase Agreements	655,000,000	655,000,000			
Total Short-term Investment Fund Assets	$ 22,305,185,000	$ 12,018,234,000	$ 10,286,951,000	$ 0	$ 0

The External Investment Pool maintained by the Department had the following investments and maturities in the LTIF as of June 30, 2018:

	Investment Maturities (in Years)				
	Carry Amount	Less Than 1	1 to 5	6 to 10	More Than 10
U.S. Treasuries	$ 6,091,892,000	$ 0	$ 332,713,000	$ 2,942,542,000	$ 2,816,637,000
U.S. Agencies	708,867,000				708,867,000
Mortgage Pass-Through	8,681,326,000		3,038,000	14,092,000	8,664,196,000
Securities Purchased with Cash Collateral under Securities Lending Program					
Repurchase Agreements	251,428,000	251,428,000			
Domestic Corporate Bonds	8,674,529,000	72,004,000	775,264,000	3,905,242,000	3,922,019,000
Total Long-term Investment Fund Assets	$ 24,408,042,000	$ 323,432,000	$ 1,111,015,000	$ 6,861,876,000	$ 16,111,719,000

The External Investment Pool maintained by the Treasurer had the following investments and maturities separated by Other Investment Portfolios as of June 30, 2018:

		Investment Maturities (in Years)			
	Carry Amount	Less Than 1	1 to 5	6 to 10	More Than 10
U.S. Treasuries	$ 350,387,000	$ 218,274,000	$ 132,113,000	$ 0	$ 0
Asset Backed Securities	20,535,000	3,726,000	23,000	703,000	16,083,000
Commercial Mortgage Backed Securities	8,860,000	316,000			8,544,000
Collateralized Mortgage Obligations	60,470,000	15,009,000	370,000		45,091,000
Collective Investment Funds	1,587,181,000	1,587,181,000			
Domestic Corporate Bonds	343,539,000	110,465,000	74,644,000	94,764,000	63,666,000
Foreign Government Bonds	14,226,000	199,000	5,633,000	8,394,000	
Securities Purchased with Cash Collateral under Securities Lending					
Asset-Backed Securities	26,855,000	26,855,000			
Repurchase Agreements	403,641,000	403,641,000			
Total Other Investment Portfolios Assets	$ 2,815,694,000	$ 2,365,666,000	$ 212,783,000	$ 103,861,000	$ 133,384,000

The major investment classifications of the External Investment Pool had the following attributes as of June 30, 2018:

Investment Classification	Principal Amount	Range of Interest Rates
Short-term Investment Fund		
U.S. Treasuries	$ 8,850,000,000	0.63%-1.50%
U.S Agencies	12,806,000,000	1.10%-3.22%
Securities Purchased with Cash Collateral under Securities Lending Program		
Repurchase Agreements	27,480,000	2.07%-2.12%
Repurchase Agreements	655,000,000	2.17%
Long-term Investment Fund		
U.S. Treasuries	5,559,949,000	0.75%-7.63%
U.S Agencies	530,786,000	4.65%-7.13%
Mortgage Pass-Throughs	8,566,152,000	3.00%-9.00%
Securities Purchased with Cash Collateral under Securities Lending Program		
Repurchase Agreements	251,428,000	1.92%-2.12%
Domestic Corporate Bonds	8,479,818,000	1.85%-10.50%
Other Investment Portfolios		
U.S. Treasuries	353,564,000	0.00%-1.88%
Asset-Backed Securities	24,231,000	0.01%-4.50%
Commerical Mortgage-Backed Securities	77,309,000	0.83%-6.12%
Collateralized Mortgage Obligations	134,811,000	1.00%-6.50%
Collective Investment Funds	1,587,181,000	0.00%-2.10%
Domestic Corporate Bonds	527,799,000	0.00%-12.31%
Foreign Fovernment Bonds	14,650,000	2.88%-10.00%
Securities Purchased with Cash Collateral under Securities Lending Program		
Asset-Backed Securities	27,255,000	2.22%-3.11%
Repurchase Agreements	403,641,000	1.92%-2.12%

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 1.4 years as of June 30, 2018. 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 17.7 years as of June 30, 2018.

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 when acquired. 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 State Treasurer to develop a list of entities engaging in the prohibited conduct and update the list on an annual basis, refrain from making investments in such companies and divest from the same within 180 days 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 and update the list 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 funds, limited partnerships, or derivative instruments are excepted from the statutes under General Statutes 147-86.42(5a) and 147-86.57(3).

The Divestment from Companies Boycotting Israel Act (North Carolina General Statutes 147-86.80 through 147-86-84) places investment restrictions on the North Carolina Retirement Systems and the Department of State Treasurer. Specifically, pursuant to the North Carolina Department of State Treasurers "Boycott Israel Divestment Policy," adopted in compliance with the statue, the Department of State Treasurer shall refrain from making investments in companies on the state Treasurers list of entities engaging in certain boycotting activities against Israel. The State Treasurer shall review the list of restricted companies on an annual basis and divest from the same within 180 days of being listed. Further, per General Statutes 147-86.82(a) and 147-86.83, listed companies are ineligible to contract with the state, or any political subdivision of thereof, where the value of the contract is over one thousand dollars ($1,000).

The STIF had the following credit quality distribution for securities with credit exposure as of June 30, 2018:

	Aaa/AAA	Aa/AA	A	Baa/BBB	Less than Investment Grade	Unrated
U.S. Agencies	$ 0	$ 12,805,951,000	$ 0	$ 0	$ 0	$ 0
Securities Purchased with Cash Collateral under Securities Lending Program						
Repurchase Agreements		27,480,000				
Repurchase Agreements		655,000,000				
Total Short-Term Investment Fund Assets	$ 0	$ 13,488,431,000	$ 0	$ 0	$ 0	$ 0

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

The LTIF had the following credit quality distribution for securities with credit exposure as of June 30, 2018:

	Aaa/AAA	Aa/AA	A	Baa/BBB	Less than Investment Grade	Unrated
U.S. Agencies	$ 0	$ 708,867,000	$ 0	$ 0	$ 0	$ 0
Domestic Corporate Bonds	71,231,000	754,531,000	3,974,411,000	3,567,352,000	307,004,000	
Securities Purchased with Cash Collateral under Securities Lending Program						
Repurchase Agreements		251,428,000				
Total Long-Term Investment Fund Assets	$ 71,231,000	$ 1,714,826,000	$ 3,974,411,000	$ 3,567,352,000	$ 307,004,000	$ 0

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

The Other Investment Portfolios of the Pool had the following credit quality distribution for securities with credit exposure as of June 30, 2018:

	Aaa/AAA	Aa/AA	A	Baa/BBB	Less than Investment Grade	Unrated
Asset-Backed Securities	$ 0	$ 0	$ 2,713,000	$ 0	$ 5,937,000	$ 11,885,000
Commercial Mortgage Backed Securities	3,227,000	2,186,000	798,000		2,330,000	319,000
Collateralized Mortgage Obligations	495,000	5,906,000			50,904,000	3,165,000
Collective Investment Funds						1,587,181,000
Domestic Corporate Bonds	6,993,000	23,396,000	27,419,000	102,084,000	143,734,000	39,913,000
Foreign Government Bonds			4,621,000	5,957,000	3,648,000	
Securities Purchased with Cash Collateral under Securities Lending Program						
Asset-Backed Securities		23,631,000	306,000		2,918,000	
Repurchase Agreements		403,641,000				
Total Other Investment Portfolios Assets	$ 10,715,000	$ 458,760,000	$ 35,857,000	$ 108,041,000	$ 209,471,000	$ 1,642,463,000

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

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, 2018, the investments purchased with cash collateral under the securities lending programs of $710 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 $8.9 billion and comprised 7.8% 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, 2018, 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, 2018, 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	$ 4,089,995,000	$ 321,064,000	$ 75,633,000	$ 51,075,000	$ 4,537,767,000
Japanese Yen	2,750,105,000		29,112,000		2,779,217,000
Pound Sterling	1,889,672,000	89,129,000	317,712,000		2,296,513,000
Hong Kong Dollar	1,130,476,000		62,078,000		1,192,554,000
Swiss Franc	831,606,000		2,496,000		834,102,000
Australian Dollar	561,995,000		13,307,000		575,302,000
Swedish Krona	464,729,000		3,502,000		468,231,000
Danish Krone	294,259,000				294,259,000
New Taiwan Dollar	115,597,000		62,000		115,659,000
South Korean Won	161,380,000				161,380,000
Indian Rupee	143,940,000		1,346,000		145,286,000
Singapore Dollar	168,536,000		8,920,000		177,456,000
Canadian Dollar	160,831,000		8,120,000		168,951,000
Brazil Cruzeiro Real	76,482,000		3,096,000		79,578,000
Norwegian Krone	68,388,000		431,000		68,819,000
South African Rand	36,227,000		6,327,000		42,554,000
Malaysian Ringgit	21,808,000		2,866,000		24,674,000
New Zealand Dollar	18,451,000		206,000		18,657,000
Turkish Lira	17,628,000		596,000		18,224,000
Thai Baht	16,985,000		3,840,000		20,825,000
Mexican Peso	15,259,000		3,635,000		18,894,000
Isreali Shekel	14,267,000		249,000		14,516,000
UAE Dirham	13,924,000		967,000		14,891,000
Qatari Riyal	9,958,000				9,958,000
Indonesian Rupiah	8,966,000		1,530,000		10,496,000
Phillipines Peso	2,759,000		5,164,000		7,923,000
Other Currencies	12,273,000		1,153,000		13,426,000
Total	$ 13,096,496,000	$ 410,193,000	$ 552,348,000	$ 51,075,000	$ 14,110,112,000

The External Investment Pool recognized an aggregate foreign currency transaction loss of $189.4 million for the fiscal year ended June 30, 2018, 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, 2018:

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	$ 8,816,754,000	$ 0	$ 8,816,754,000	$ 0
U.S. Agencies	12,805,951,000		12,805,951,000	
Subtotal	21,622,705,000	0	21,622,705,000	0
Long-term Investment Fund				
U.S. Treasuries	6,091,892,000	50,100,000	6,041,792,000	
U.S. Agencies	708,867,000		708,867,000	
Mortgage Pass-Throughs	8,681,326,000		8,681,326,000	
Domestic Corporate Bonds	8,674,529,000		8,674,529,000	
Subtotal	24,156,614,000	50,100,000	24,106,514,000	0
Other Investment Portfolios				
U.S. Treasuries-Inflation	350,387,000	26,580,000	323,807,000	
Asset-Backed Securities	20,535,000		20,535,000	
Collateralized Mortgage Obligations	60,470,000		60,470,000	
Commercial Mortgage-Backed Securities	8,860,000		8,860,000	
Securities Purchased with Cash Collateral under Equity Securities Lending Program:				
Asset-Backed Securities	26,855,000		26,855,000	
Equity Securities - Domestic	17,138,587,000	17,138,587,000		
Equity Securities - Foreign	14,773,082,000	14,773,082,000		
Equity Securities - Preferred Domestic	32,265,000	13,668,000		18,597,000
Equity Securities - Preferred Foreign	57,454,000	57,454,000		
Domestic Corporate Bonds	343,539,000		287,986,000	55,553,000
Foreign Government Bonds	14,226,000		14,226,000	
Subtotal	32,826,260,000	32,009,371,000	742,739,000	74,150,000
Investment Derivative Instruments				
Futures Contracts	4,082,000	4,082,000		
Futures Contracts (Liability)	(8,883,000)	(8,883,000)		
Total Investment Derivative Instruments	(4,801,000)	(4,801,000)	0	0
Total Investments by Fair Value Level	$ 78,600,778,000	$ 32,054,670,000	$ 46,471,958,000	$ 74,150,000

Fair Value Measurement (Continued)

Investments measured at the Net Asset Value (NAV)

		Unfunded Commitments	Redemption Frequency (If Currently Eligible)	Redemption Notice Period (Days)
Commingled International Equity Funds (1)	$ 3,802,055,000	$ 0	Daily	1
Commingled Real Estate Funds (2)	753,342,000		Daily, quarterly	1 - 60
Core Real Estate Funds (3)	4,195,548,000	664,165,000	Quarterly, illiquid	90-illiquid
Equity Rebalancing (4)	1,563,711,000		Daily	1 - 5
Hedge Funds			Illiquid	N/A
Global Public Equity - Hedged (5)	2,835,253,000		Daily, monthly, quarterly,illiquid	3 - 180
Inflation Sensitive - Publicly Traded Natural Resources	1,898,000		Daily, monthly	5 - 35
Inflation Sensitive - Real Assets and other Diversifiers (7)	222,085,000		Quarterly	60
Multi-Strategy Funds (8)	141,968,000		Weekly, quarterly, illiquid	5 - illiquid
Opportunistic Fixed Income - Distressed Credit (9)	106,090,000		Illiquid	15 - 90
Opportunistic Fixed Income - Hedged Fixed Income (10)	2,697,410,000	27,952,000	Monthly,quarterly, annually	15 - 90
Inflation Protected Bonds (11)	389,910,000		Monthly	30
Long-Only Public Equity (12)	839,922,000	35,000,000	Illiquid	Illiquid
Non-Core Real Estate Funds (13)	3,200,032,000	1,649,633,000	Illiquid	Illiquid
Private Credit (14)	2,909,059,000	1,052,299,000	Daily,annually, illiquid	60 - illiquid
Private Equity Funds (15)	5,067,415,000	3,040,234,000	Illiquid	Illiquid
Private Infrastructure Funds (16)	628,851,000	30,539,000	Illiquid	Illiquid
Private Multi-Strategy Funds (17)	227,194,000	145,033,000	Illiquid	Illiquid
Private Natural Resources Funds (18)	2,622,379,000	686,933,000	Illiquid	Illiquid
Private Real Asset Funds (19)	1,679,352,000	958,838,000	Illiquid	Illiquid
Collective Investment Funds (20)	1,587,181,000		Daily	1
Total Investments at the NAV	35,470,655,000			
Subtotal	114,071,433,000			
Certificates of Deposit (Non-Negotiable)	75,500,000			
Repurchase Agreements	1,337,550,000			
Investments at Cost	1,413,050,000			
Total Investments and Securities Lending Collateral	$ 115,484,483,000			

(1) *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.

(2) *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.

(3) *Core Real Estate Funds* (19 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.

(4) *Equity Rebalancing* (One fund). This 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.*Hedge funds – Global Public Equity-Hedged* (Five funds). These investments are valued at the 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 two and three 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.

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 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 provider. The weighted average maturities of the cash collateral investments are more than the weighted average maturities of the securities loans.

At June 30, 2018, 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, 2018, a total of $26.9 million remained in securities approved under prior guidelines, consisting of 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 three days.

As of June 30, 2018, the fair value of loaned securities was $8.8 billion; the fair value of the associated collateral was $9 billion of which $710 million was cash.

Bond Index External Investment Pool – The North Carolina Department of State Treasurer operates a government sponsored bond index external investment pool (BIF) in which the State Treasurer is authorized to invest funds for governmental entities which are outside the State's pension and OPEB trust funds as defined in this note. The BIF invests in high quality debt securities eligible under General Statute 147-69.2(b)(1 through 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, Law Enforcement Officer Special Separation Allowance trusts (LEOSSAs), the Local Government Other Post Employment Benefit Trust, the Death Benefit Plan of N.C., the Disability Income Plan of N.C., 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. Participation in the BIF is voluntary.

At June 30, 2018, there were eighteen OPEBs and one hospital participating in the BIF.

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, 2018

Assets		
Investments, at Fair Value	$	1,533,104,000
Receivables		36,076,000
Total Assets		1,569,180,000
Liabilities		
Other Payables		25,978,000
Total Liabilities		25,978,000
Net Position		
Net Position Held in Trust	$	1,543,202,000

*The Condensed Financial Statements for the Bond Index External Investment Pool contains deposits from internal and external participants, including the State's defined pension and other postemployment benefit 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, 2018

Additions		
Investment Income		
Interest and Dividend Income	$	47,251,000
Net Depreciation in Fair Value of Investments		(54,696,000)
Other Investment Income		113,000
Total Investment Income		(7,332,000)
Deductions		
Investment Management Expenses		266,000
Total Deductions		266,000
Net Decrease in Net Position Resulting from Operations		(7,598,000)
Distributions to Participants		
Distributions Paid and Payable		7,598,000
Share Transactions		
Reinvestment of Distributions		(7,598,000)
Net Share Purchases(Redemptions)		(35,661,000)
Change in Net Position		(43,259,000)
Net Position Held in Trust		
Beginning of Year		1,586,461,000
End of Year	$	1,543,202,000

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 (internal portion) as well as deposits from certain legally separate organizations outside the State of North Carolina reporting entity (external portion). 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.

The external portion of the BIF is presented in the State's financial statements as an investment trust fund. Each fund and component unit's share of the internal equity in the BIF is reported in the State's financial statements as an investment asset of those funds or component units.

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 8.24 years as of June 30, 2018.

The BIF maintained by the Treasurer had the following investments and maturities as of June 30, 2018:

		Investment Maturities (in Years)			
Bond Index	Carrying Amount	Less Than 1	1 to 5	6 to 10	More Than 10
U.S. Treasuries	$ 576,590,000	$ 0	$ 312,735,000	$ 174,141,000	$ 89,714,000
U.S. Agencies	26,285,000		14,712,000	8,227,000	3,346,000
Commercial Mortgage-Backed Securities	27,011,000			782,000	26,229,000
Asset-Backed Securities	6,968,000		6,968,000		
Mortgage Pass-Throughs	430,934,000			13,374,000	417,560,000
Collective Investment Funds	13,937,000	13,937,000			
Municipal Bonds	9,994,000		181,000	124,000	9,689,000
Domestic Corporate Bonds	388,321,000		155,476,000	103,075,000	129,770,000
Foreign Government Bonds	53,064,000		39,301,000	9,435,000	4,328,000
Total Investment Fund Assets	$ 1,533,104,000	$ 13,937,000	$ 529,373,000	$ 309,158,000	$ 680,636,000

The major investment classifications had the following attributes as of June 30, 2018:

Investment Classification	Principal Amount	Range of Interest Rates
Bond Index		
U.S. Treasuries	$ 574,550,000	0.75%-6.88%
U.S Agencies	26,000,000	1.13%-6.25%
Commerical Mortgage-Backed	27,056,000	1.68%-4.12%
Asset-Backed Securities	7,100,000	1.59%-1.92%
Mortgage Pass-Throughs	429,177,000	2.50%-5.50%
Collective Investment Funds	13,937,000	2.09%
Municipal Bonds	8,055,000	3.00%-7.55%
Domestic Corporate Bonds	389,810,000	1.10%-9.25%
Foreign Government Bonds	53,805,000	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 when acquired. 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, 2018:

Bond Index	Aaa/AAA	Aa/AA	A	Baa/BBB	Less than Investment Grade	Unrated
U.S. Agencies	$ 0	$ 26,285,000	$ 0	$ 0	$ 0	$ 0
Commercial Mortgage Backed	26,229,000	782,000				
Asset-Backed Securities	6,968,000					
Mortgage Pass-Throughs		331,993,000				
Collective Investment Funds	13,937,000					
Municipal Bonds	571,000	5,913,000	2,198,000	1,312,000		
Domestic Corportate Bonds	1,928,000	24,338,000	138,067,000	211,430,000	12,558,000	
Foreign Government Bonds	32,222,000	2,644,000	5,635,000	12,563,000		
Total Investment Fund Assets	$ 81,855,000	$ 391,955,000	$ 145,900,000	$ 225,305,000	$ 12,558,000	$ 0

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, 2018, 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 $97.8 million and comprised 6.4% of BIF's total investments; FNMA investments totaled $256.9 million and comprised 16.8% of BIF's total investments. These investments are classified as U.S. Agencies. Effective June 30, 2018, 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, 2018:

Investments and Derivative Instruments at Fair Value		Fair Value Measurments Using		
	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investments Measured at Fair Value				
Bond Index Fund				
U.S. Treasuries	$ 576,590,000	$ 3,546,000	$ 573,044,000	$ 0
U.S. Agencies	26,285,000		26,285,000	
Asset-Backed Securities	6,968,000		6,968,000	
Commercial Mortgage-Backed Securities	27,011,000		27,011,000	
Mortgage Pass-Throughs	430,934,000		430,934,000	
Municipal Bonds	9,994,000		9,994,000	
Domestic Corporate Bonds	388,321,000		388,321,000	
Foreign Government Bonds	53,064,000		53,064,000	
Total Investments by Fair Value Level	$ 1,519,167,000	$ 3,546,000	$ 1,515,621,000	$ 0

Investmens Measured at the Net Asset Value (NAV)		Unfunded Commitments	Redemption Frequency	Redemption Notice
Collective Investment Funds [1]	$ 13,937,000	0	Daily	1
Total Investments by Fair Value	$ 1,533,104,000			

(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, 2018, the bond proceeds investment accounts had the following investments and maturities:

Investment Type	Carrying Amount	Weighted Average Maturity (Days)
Debt investments		
U.S. Treasuries	$ 56,500,000	54
Repurchase agreements	85,831,000	12
Total Investments	$ 142,331,000	

Repurchase agreements are reported at cost. See Note 1 for additional information. U.S Treasuries are valued at fair value at June 30, 2018, ($56.5 million) and are classified as a Level 2 investments in the fair value hierarchy. The valuation technique for these securities is the market approach where the pricing vendor gathers real-time market data and uses direct observations to compute an independent price.

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, LEOSSAs, 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, 2018, there were twenty-two participants of which seventeen 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, 2018, 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

	2018
Assets	
Investments, at Fair Value	$ 579,767,000
Total Assets	579,767,000
Net Position	
Net Position Held in Trust	$ 579,767,000

*The Condensed Financial Statements for the Equity Index Investment Account contains deposits from internal and external participants. 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, 2018

Additions		
Investment Income:		
Interest and Dividend Income	$	81,000
Net Appreciation in Fair Value of Investments		45,811,000
Total Investment Income		45,892,000
Deductions		
Investment Management Expenses		109,000
Total Deductions		109,000
Net Increase in Net Position Resulting from Operations		45,783,000
Distributions to Participants		
Distributions Paid and Payable		(45,783,000)
Share Transactions		
Reinvestment of Distributions		45,783,000
Net Share Purchases		122,147,000
Change in Net Position		167,930,000
Net Position Held in Trust		
Beginning of Year		411,837,000
End of Year	$	579,767,000

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, 2018, 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, 2018, the EIF had a recurring fair value measurement of $580 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, 2018, the Escheat investment account maintained by the State Treasurer had the following investments and fair value measurements:

Investment Measured at the NAV	Fair Value 6/30/2018	Unfunded Commitments
Private Credit Limited Partnership	$ 9,340,000	$ 309,000
Private Equity Investment Partnerships	32,307,000	43,864,000
Private Natural Resources Limited Partnership	5,141,000	
Total Investments Measured at the NAV	$ 46,788,000	

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 seven 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, 2018, 95% 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 Statutes* 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 Divestment from Companies Boycotting Israel Act (*North Carolina General Statutes* Sections 147-86.80 through 147-86.84) places investment restrictions on the 401(k) Plan and the 457 Plan. Specifically, pursuant to the North Carolina Department of State Treasurer's "Boycott Israel 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 boycotting activities against Israel.

The form of governance over the investments would be the prudent-person or prudent-expert rule. These rules are broad statements of intent, generally requiring investment selection and management to be made with prudent, discreet, and intelligent judgment and care.

At December 31, 2017, 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 $8.73 billion. 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 seven 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.

At December 31, 2017, 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	$ 260,383,000	$ 14,103,000	$ 161,075,000	$ 55,516,000	$ 29,689,000
U.S. Agencies	35,602,000	2,490,000	31,848,000	156,000	1,108,000
Mortgage Pass-Throughs	209,552,000	237,000	5,824,000	13,478,000	190,013,000
Collateralized Mortgage Obligations	25,919,000	8,434,000	2,668,000	3,402,000	11,415,000
State and Local Government	3,697,000	508,000	1,710,000	179,000	1,300,000
Asset-Backed Securities	176,862,000	32,037,000	67,453,000	33,816,000	43,556,000
Collective Investment Funds	1,488,739,000	22,117,000	592,438,000	354,997,000	519,187,000
Debt Mutual Funds	10,593,000		5,221,000	5,372,000	
Pooled Debt Funds	368,433,000			368,433,000	
Domestic Corporate Bonds	290,274,000	40,218,000	151,866,000	79,956,000	18,234,000
Foreign Corporate Bonds	86,646,000	8,679,000	63,626,000	13,039,000	1,302,000
Foreign Government Bonds	30,774,000	10,469,000	17,770,000	2,535,000	
	$ 2,987,474,000	$ 139,292,000	$ 1,101,499,000	$ 930,879,000	$ 815,804,000
Other Investments					
Equity collective investment trusts	2,543,563,000				
Unallocated Insurance Contracts	838,099,000				
Domestic Stocks	2,829,832,000				
Foreign Stocks	1,495,670,000				
Hedge/Commodity/Debt Mutual Fund	487,337,000				
Short-Term Investment Collective Trust	97,063,000				
Total Investments	$ 11,279,038,000				

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, 2017, the fair value of the underlying investments of fully benefit-responsive SGICs exceeded contract value by $8.39 million.

Interest Rate Risk. The 401(k) and 457 Plans do not 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 investment funds include units in the various funds. The interest rate risk in each of the funds is dependent upon the weighted average maturity of each of the collective investment funds which hold securities with maturities ranging from short to intermediate in duration. As a result, the collective investment 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 do not have a formal investment policy on credit risk. The investment guidelines applicable to the NC Fixed Income Fund places restrictions on the maximum amount of corporate securities or other fixed income securities rated below investment grade the Fund may invest in.

At December 31, 2017, 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	$ 35,602,000	$ 0	$ 0	$ 0	$ 0
Mortgage Pass-Throughs		150,841,000				
Collateralized Mortgage Obligations	5,695,000	11,538,000	239,000	1,195,000	7,210,000	42,000
State and Local Government		2,159,000	1,538,000			
Asset-Backed Securities	134,394,000	23,277,000	6,428,000	1,358,000	11,405,000	
Collective Investment Funds						1,488,739,000
Debt mutual funds					10,593,000	
Pooled Debt Funds						368,433,000
Domestic Corporate Bonds	836,000	9,232,000	89,049,000	183,510,000	7,569,000	78,000
Foreign Corporate Bonds	606,000	11,596,000	33,540,000	38,402,000	2,454,000	48,000
Foreign Government Bonds	9,710,000	7,154,000	13,418,000	492,000		
Total Investments	$ 151,241,000	$ 251,399,000	$ 144,212,000	$ 224,957,000	$ 39,231,000	$ 1,857,340,000

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. At December 31, 2017, the Plans' exposure to foreign currency risk was as follows:

Currency	Carrying Amount Foreign Stocks
Euro	$ 255,527,000
Japanese Yen	210,201,000
British Pound Sterling	146,324,000
Swiss Franc	64,003,000
Hong Kong Dollar	63,554,000
New Taiwan Dollar	43,200,000
South Korean Won	42,710,000
Swedish Krona	24,179,000
South African Rand	23,003,000
Singapore Dollar	22,329,000
Brazilian Real	20,625,000
Canadian Dollar	18,713,000
Danish Krone	17,841,000
Indian Rupee	16,945,000
Australian Dollar	16,312,000
Turkish Lira	11,289,000
Malaysian Ringgit	4,878,000
Other Currencies	11,833,000
Total	$ 1,013,466,000

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, 2017, 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)	Significant Other Observable Inputs (Level 2)
Investments by Fair Value Level			
U.S. Treasuries	$ 260,383,000	$ 0	$ 260,383,000
U.S. Agencies	35,602,000		35,602,000
Mortgage Pass-Throughs	209,552,000		209,552,000
Collateralized Mortgage Obligations	25,919,000		25,919,000
State and Local Government	3,697,000		3,697,000
Asset-Backed Securities	176,862,000		176,862,000
Domestic Corporate Bonds	290,274,000		290,274,000
Foreign Corporate Bonds	86,646,000		86,646,000
Foreign Government Bonds	30,774,000		30,774,000
Domestic Stocks	2,829,832,000	2,829,832,000	
Foreign Stocks	1,495,670,000	1,495,670,000	
Total Investments by Fair Value	5,445,211,000	$ 4,325,502,000	$ 1,119,709,000
Investments Measured at Net Asset Value (NAV)			
Hedge/Commodity/Debt Mutual Fund	487,337,000		
Short-term Investment Collective Trust	97,063,000		
Equity Collective Investments Trusts	2,543,563,000		
Pooled Debt Funds	368,433,000		
Collective Investment Funds	1,488,739,000		
Debt Mutual Funds	10,593,000		
Total Investments Measured at NAV	4,995,728,000		
Total Investments Measured at Fair Value	$ 10,440,939,000		

U.S. Treasuries, 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 are presented on the following table:

Investments Measured at NAV	Fair Value 6/30/2018	Redemption Frequency (if Currently Eligible)	Redemption Notice Period
Hedge/Commodity/Debt Mutual Fund	$ 487,337,000	Daily	1 day
Short-term Investment Collective Trust	97,063,000	Daily	1 day
Equity Collective Investment Trusts	2,543,563,000	Daily	1 - 2 days
Pooled Debt Funds	368,433,000	Daily	5 days
Collective Investment Funds	1,488,739,000	Daily and Monthly	1 day - 12 months
Debt Mutual Funds	10,593,000	Daily	1 day
Total Investments Measured at NAV	$ 4,995,728,000		

Hedge/Commodity/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 Collective Investment Trusts – 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.

Debt Mutual Funds -This type includes two funds in Fixed Income. The MetWest High Yield Bond Fund invests primarily in high yield bonds with the investment objective of maximizing long-term total return. The MetWest Floating Rate Income Fund invests primarily in floating rate securities and seeks to maximize current income. 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.

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, 2018.

Investment Derivatives	Increase (Decrease) in Fair Value Classification	Increase (Decrease)	Fair Value Classification	Debit (Credit)	Notional
U.S Dollar Equity Futures	Investment Earnings	$ (626,000)	State Treasurer Investment Pool	$ (626,000)	$ 29,563,000
Foreign Equity Futures[1]	Investment Earnings	(360,000)	State Treasurer Investment Pool	(360,000)	29,508,000
Commodity Futures[2]	Investment Earnings	(3,815,000)	State Treasurer Investment Pool	(3,815,000)	227,282,000
Forward Currency Contracts	Investment Earnings	90,000	State Treasurer Investment Pool	90,000	81,463,000
Spot Currency Contracts	Investment Earnings	16,000	State Treasurer Investment Pool	16,000	30,162,000
Total		$ (4,695,000)		$ (4,695,000)	

[1] 3.5 million Australian Dollar; 10.1 million Euro; 865.3 million Japanese Yen; 5.5 million Great British Pound.

[2] 317,000 barrels of brent crude oil; 385,000 barrels of West Texas Intermediate crude oil; 1,075,000 pounds copper; 2,270,000 bushels corn; 1,190,000 bushels soybeans; 1,700 metric tons zinc.

A schedule of all foreign derivatives outstanding at June 30, 2018 is presented below by currency:

	Fair Value of Foreign Currency Contracts, Assets (Liabilities) as of June 30, 2018			
Currency	Forwards Currency Contracts	Spot Currency Contracts	Foreign Equity Futures	Total
Australian Dollar	$ 3,000	$ 1,000	$ 20,000	$ 24,000
Brazilian Real	(3,000)	(5,000)		(8,000)
British Pound Sterling	(146,000)	2,000	(18,000)	(162,000)
Canadian Dollar	(63,000)			(63,000)
Chinese Yuan	10,000			10,000
Egyptian Pound	(22,000)			(22,000)
Euro	278,000	6,000	(198,000)	86,000
Hong Kong Dollar	(1,000)	(2,000)		(3,000)
Indian Rupee	(18,000)			(18,000)
Indonesian Rupiah	66,000			66,000
Israeli Shekel	(11,000)			(11,000)
Japanese Yen	93,000	(6,000)	(164,000)	(77,000)
Malaysian Ringgit	(4,000)	(1,000)		(5,000)
Mexican Peso	(36,000)			(36,000)
New Zealand Dollar	(3,000)			(3,000)
Norwegian Krone	370,000			370,000
Philippine Peso	98,000			98,000
Polish Zloty	42,000			42,000
Singapore Dollar	(186,000)			(186,000)
South African Rand	18,000	15,000		33,000
Swedish Krona	(243,000)	(1,000)		(244,000)
Swiss Franc	(87,000)	2,000		(85,000)
Thai Baht	(10,000)			(10,000)
Turkish Lira	(55,000)	5,000		(50,000)
Total	$ 90,000	$ 16,000	$ (360,000)	$ (254,000)

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 Department 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, 2018, 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 2.69%, 1.69%, and 1.42%, respectively. The fair value of the securities covered by the contracts as of December 31, 2017, is $1.276 billion and the contract value is $1.269 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 2.69%, 1.69%, and 1.42%, respectively. The fair value of the securities covered by the contracts as of December 31, 2017, is $241 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, 2018, is presented as follows:

	Balance July 1, 2017	Additions	Disposals	Balance June 30, 2018
Capital Assets, Depreciable				
Equipment	$ 5,031,007	$ 603,527	$ 781,542	$ 4,852,992
Computer Software	20,922,163			20,922,163
Total Capital Assets, Depreciable	25,953,170	603,527	781,542	25,775,155
Less Accumulated Depreciation for				
Equipment	1,499,299	359,724	312,176	1,546,847
Computer Software	9,594,162	1,046,108		10,640,270
Total Accumulated Depreciation	11,093,461	1,405,832	312,176	12,187,117
Total Capital Assets, Depreciable, Net	$ 14,859,709	$ (802,305)	$ 469,366	$ 13,588,038

NOTE 6 - LONG-TERM LIABILITIES

Long-term liability activity for the year ended June 30, 2018, is presented as follows:

Governmental Fund - General Fund	Balance July 1, 2017 (As Restated)	Additions	Reductions	Balance June 30, 2018	Due Within One Year
Death Benefits Payable	$ 40,000	$ 0	$ 0	$ 40,000	$ 0
Compensated Absences	2,800,235	1,835,453	(1,958,544)	2,677,144	282,974
Net Pension Liability[1]	13,774,601		(593,908)	13,180,693	
Net OPEB Liability[2]	53,095,898		(6,037,565)	47,058,333	
Total Long-term Liabilities	$ 69,710,734	$ 1,835,453	$ (8,590,017)	$ 62,956,170	$ 282,974

Component Unit - State Health Plan	Balance (As Restated)	Additions	Reductions	Balance June 30, 2018	Due Within One Year
Compensated Absences	$ 250,726	$ 226,214	$ (188,408)	$ 288,532	$ 30,498
Net Pension Liability[1]	1,556,961		(11,332)	1,545,629	
Net OPEB Liability[2]	5,559,734		(18,277)	5,541,457	
Total Long-term Liabilities	$ 7,367,421	$ 226,214	$ (218,017)	$ 7,375,618	$ 30,498

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

[2] Additional information regarding net OPEB liability is included in Note 15

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, 2018:

Fiscal Year	Amount
2019	$ 1,345,367
2020	1,374,705
2021	1,416,375
2022	1,458,382
2023	1,502,022
2024-2028	2,805,932
Total Minimum Lease Payments	$ 9,902,783

Rental expense for all governmental funds operating leases during the year ended June 30, 2018, was $1,308,593.

NOTE 8 - FUND BALANCE

The details of the fund balance classifications for the governmental fund at June 30, 2018, are as follows:

	General Fund	Escheat Fund	Debt Proceeds and Interest Fund	Other Governmental Funds	Total
Fund Balance					
Nonspendable					
Inventory of Supplies	$ 86,544	$ 0	$ 0	$ 0	$ 86,544
Restricted for					
General Government	525,387				525,387
Debt Service			138,917,737	2,628,926	141,546,663
Higher Education - Student Aid		710,937,215			710,937,215
Capital Projects				642,538	642,538
Committed to					
General Government	6,291,743			363,458	6,655,201
Transportation				182,793	182,793
Unassigned	1,096,942				1,096,942
Total Fund Balance	$ 8,000,616	$ 710,937,215	$ 138,917,737	$ 3,817,715	$ 861,673,283

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, 2018, are as follows:

General Fund	Purpose	Amount
Revenues from Other State Agencies		
N.C. Wildlife Resources Commission	Debt Service for Wildlife Certificates of Participation	$ 3,005,533
Office of the State Controller	Non-recurring Salary Adjustment Fund Payment	144,000
Total Revenues from Other State Agencies		$ 3,149,533
Expenditures to Other State Agencies		
Department of Public Safety	Floodplain Map Register of Deeds	$ 3,858,311
Department of Natural and Cultural Resources	Register of Deeds Proceeds to Cultural Resources	1,753,778
Office of the State Controller	Residual Register of Deeds Proceeds to be used by General Fund	1,451,122
Office of the State Controller	Transfer from savings from Refinancing of Bonds	10,799,585
Total Expenditures to Other State Agencies		$ 17,862,796
Escheats Fund		
Expenditures to Other State Agencies		
N.C. Community Colleges System	Statutory Scholarship Transfer to Community College System	$ 16,335,000
Department of Military and Veteran's Affairs	Statutory Scholarship Transfer to DOA for Veteran's Scholarship Fund	6,520,964
Total Expenditures to Other State Agencies		$ 22,855,964
Other Governmental Funds		
Expenditures to Other State Agencies		
Office of State Budget and Management	Transfer Premium Account Balance held by DST to OSBM Projects Account	$ 321,692
Total Expenditures to Other State Agencies		$ 321,692

NOTE 10 - INTERFUND TRANSFERS

Transfers in/out of other funds for the fiscal year ended June 30, 2018, consisted of the following:

Transfers Out	Transfers In General Fund
Debt Proceeds and Interest Fund	$ 1,674
Escheats Fund	948,561
Total	$ 950,235

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, 2018, in the amount of $696,123,235, 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-2 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, 2018, the number of participating employers was as follows:

State of North Carolina	1
LEAs	115
Charter Schools	59
Community Colleges	58
University of North Carolina System	19
Other Component Units	5
	257

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 and may not be less than the contribution rate required of plan members. The Board of Trustees establishes a funding policy from which an accrued liability rate and a normal contribution rate are developed by the consulting actuary. The sum of those two rates developed under the funding policy is the actuarially determined contribution rate (ADC). The Board of Trustees may further adopt a contribution rate policy that is higher than the ADC known as the "required employer contribution" to be recommended to the General Assembly. The State and other participating employers' contractually required contribution rate for the year ended June 30, 2018, was 10.78% of covered payroll. This was greater than the actuarially determined contribution of 10.53%. This amount, combined with plan member contributions and investment income, funds the benefits earned by plan members during the year, a payment to reduce the net pension liability and administrative expenses.

Refunds of Contributions: Members, who have terminated service as a contributing member, may file an application for a refund of their contributions. By state law, refunds to members include interest (currently 4% per year) 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, local law enforcement officers of participating local governmental entities, firefighters and rescue squad workers. Benefit provisions are established by General Statute 128-27 and may be amended only by the North Carolina General Assembly.

   At June 30, 2018, the number of participating local governments was as follows:

Cities	428
Counties	100
Special Districts	367
	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, disability 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 employee plan 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 required contribution rates for employers are set periodically and affirmed annually by the LGERS Board of Trustees. The Board establishes a funding policy from which accrued liability rates and normal contribution rates are developed by the consulting actuary for general employees and firefighters as well as for law enforcement officers. The sum of those two rates developed under the funding policy and the past service liability contribution rates, if applicable, is the actuarially determined contribution rate (ADC). Further, the required employer contribution rates set by the Board of Trustees may not be less than the normal contribution rates developed under the established funding policy. For the fiscal year ended June 30, 2018, all employers made contributions of 8.25% of covered payroll for law enforcement officers and 7.5% for general employees and firefighters. These were greater than the actuarially determined contributions of 7.84% for law enforcement officers and 6.25% for general employees and firefighters. These amounts, combined with member contributions and investment income fund the benefits earned by plan members during the year, a payment to reduce the net pension liability, a payment for past service liability, if applicable, and administrative expenses. In addition, employers with an unfunded liability, established when the employer 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% per year) 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, 2018, there were 1,675 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, disability 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. Disabled members may be able to receive benefits after attaining age 55 under certain plan provisions. 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. The plan does not provide for automatic post-retirement benefit increases.

   Contributions: Contribution provisions are established by General Statute 58-86 and may be amended only by the North Carolina General Assembly. Plan member benefits earned during the year, a payment to reduce the net pension liability, and administrative expenses are funded by a $10 monthly contribution by the member, investment income and an actuarially based state appropriation developed under a funding policy adopted by the LGERS Board of Trustees, which may recommend an appropriation that is higher than the actuarially determined contribution.

   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, 2018, there were 100 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. 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); for registers of deeds who began serving after September 10, 2009, this 75% limit is applied to the benefit after combining the benefit with the maximum retirement allowance upon retirement under the Local Governmental Employee's Retirement System or equivalent locally sponsored retirement plan; or

    b. One thousand five hundred dollars ($1,500).

Because of the statutory limits noted above, not all contributions available for benefits are distributed. The plan does not provide for automatic post-retirement benefit increases.

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 for fiscal years ending 2018 and 2019 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. Disabled members may qualify for disability benefits at earlier ages. 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 consulting actuary. The State's contractually required contribution for the year ended June 30, 2018, was 31.05% of covered payroll. This was equal to the actuarially determined contribution. This amount, combined with member contributions and investment income, funds the benefits earned by plan members during the year, a payment to reduce the net pension liability, 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% per year) 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. Disabled members may qualify for disability benefits at earlier ages. 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. The plan does not provide for automatic post-retirement benefit increases.

   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 consulting actuary. The annual contributions by the state in a given year when combined with the LRS assets in the pension accumulation fund at the beginning of the year may not be less than the projected retirement allowances and other expected benefits to be paid during that year. For the fiscal year ended June 30, 2018, the State's contractually required contribution was 19.04% of covered payroll. This was equal to the actuarially determined contribution. This amount, combined with member contributions and investment income, funds the benefits earned by plan members during the year, a payment to reduce the net pension liability, 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% per year) 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. The plan does not provide for automatic post-retirement benefit increases.

   Contributions: Contribution provisions are established by General Statute 127A-40 and may be amended only by the North Carolina General Assembly. Plan member benefits earned during the year, a payment to reduce the net pension liability, and administrative expenses are funded by investment income and an actuarially determined state appropriation subject to the funding policy adopted by the TSERS Board of Trustees, which may recommend an appropriation that is higher than the actuarially determined contribution. 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, 2017, there were approximately 250,300 employees enrolled with 1,041 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, 2017, 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 a contribution into the 401(k) equal to a pro rata share of $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, 2017, 52 state agencies and component units along with 451 local governmental units outside of the State reporting entity contributed the required 5%. In addition, 10 state agencies and 478 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 24,600 LEOs receiving employer contributions as of December 31, 2017.

The 401(k) Plan reported total member contributions of $336.64 million. The payrolls for law enforcement officers, on which the required contributions were based for the year ended December 31, 2017, amounted to $210.2 million for the State, $28.56 million for universities, and $7.76 million for community colleges, public schools and other miscellaneous component units. The required 5% employer’s contribution was made by the State for $10.51 million, by universities for $1.43 million, and by the remaining component units, public schools, and community colleges for $388 thousand. In addition, the State contributed $344 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 17 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 as of December 31, 2017:

	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	215,008	68,766	14,308	100	682	295	4,574
Inactive Plan Members Entitled to but not yet Receiving Benefits	160,087	68,243	120		44	95	5,679
Active Plan Members	311,234	128,779	38,202	101	562	170	5,890
	686,329	265,788	52,630	201	1,288	560	16,143

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, 2018:

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, 2018, 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	7.61%	7.59%	7.59%	(0.47)	7.60%	7.64%	7.44%

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, 2018, 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	$ 80,382,787,000	$ 28,354,602,000	$ 473,648,000	$ 31,068,000	$ 691,953,000	$ 30,655,000	$ 180,976,000
Plan Fiduciary Net Position	70,426,698,000	25,982,260,000	424,808,000	47,631,000	596,504,000	28,061,000	129,803,000
Net Pension Liability (Asset)	$ 9,956,089,000	$ 2,372,342,000	$ 48,840,000	$ (16,563,000)	$ 95,449,000	$ 2,594,000	$ 51,173,000
Plan Fiduciary Net Position as a percentage of the Total Pension Liability	87.61%	91.63%	89.69%	153.31%	86.21%	91.54%	71.72%

Actuarial Assumptions: The total pension liability was determined by actuarial valuations as of December 31, 2017, 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, 2018, utilizing update procedures incorporating the actuarial assumptions. The actuarial assumptions used in the December 31, 2017 valuations were based on the results of an actuarial experience review for the period January 1, 2010 through December 31, 2014.

	Cost-Sharing, Multiple-Employer				Single-Employer		
	Teachers' and State Employees' (1)	Local Governmental (1)	Firefighters' and Rescue Squad	Registers of Deeds' (1)	Consolidated Judicial (1)	Legislative (1)	North Carolina National Guard
Valuation date	12/31/17	12/31/17	12/31/17	12/31/17	12/31/17	12/31/17	12/31/17
Inflation	3%	3%	3%	3%	3%	3%	3%
Salary Increases	3.5%-8.1%	3.5%-8.1%	N/A	3.5%-7.75%	3.5%-5.5%	5.5%	N/A
Investment Rate of Return[2]	7%	7%	7%	3.75%	7%	7%	7%

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

Benefit recipients of the TSERS, CJRS, and LRS will receive a one-time benefit supplement payment equal to 1% of the member's annual benefit amount, paid by October 2018, as granted by the North Carolina General Assembly. The one-time supplement does not change the ongoing monthly benefit.

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.

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, 2018 (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, 2018, is 1.5%.

Discount Rate: The discount rate used to measure the total pension liability was 7% except for Registers of Deeds' Supplemental Pension Fund which was 3.75% for the December 31, 2017 valuation. 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 7.2% to 7% for the December 31, 2017 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, 2018, calculated using the discount rate of 7% (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%; RODSPF 2.75%) or 1 percentage point higher (8%; RODSPF 4.75%) than the current rate:

	1% Decrease (6%)	Current Discount Rate (7%)	1% Increase (8%)
Cost-Sharing, Multiple-Employer			
TSERS' Net Pension Liability	$ 18,987,949,000	$ 9,956,089,000	$ 2,377,464,000
LGERS' Net Pension Liability (Asset)	5,698,571,000	2,372,342,000	(407,107,000)
FRSWPF' Net Pension Liability (Asset)	108,412,000	48,840,000	(27,000)
Single-Employer			
CJRS' Net Pension Liability	$ 166,068,000	$ 95,449,000	$ 35,023,000
LRS' Net Pension Liability	5,388,000	2,594,000	170,000
NCNGs' Net Pension Liability	73,340,000	51,173,000	32,963,000

	1% Decrease (2.75%)	Current Discount Rate (3.75%)	1% Increase (4.75%)
Cost-Sharing, Multiple-Employer			
RODSPF's Net Pension Asset	$ (13,059,000)	$ (16,563,000)	$ (19,518,000)

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, 2018 was 10.77% of covered payroll. The Department's contributions to the pension plan were $2,454,337, and employee contributions were $1,366,050 for the year ended June 30, 2018. The State Health Plan's contributions to the pension plan were $301,159 and employee contributions were $167,621 for the year ended June 30, 2018.

Net Pension Liability: At June 30, 2018, the Department reported $13,180,693 and the State Health Plan reported $1,545,629, for their proportionate shares of the collective net pension liability. The net pension liability was measured as of June 30, 2017. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2016, and update procedures were used to roll forward the total pension liability to June 30, 2017. The Department's and State Health Plan's proportion of the net pension liability was based on the present value of future salaries for the Department (including the State Health Plan) relative to the present value of future salaries for all participating employers, actuarially-determined. As of June 30, 2017, the Department's proportion was 0.16612%, which was a total increase of 0.01625 from its proportion measured as of June 30, 2016. The State Health Plan's proportion was 0.01948%, which was a total increase of 0.0025 from its proportion measured as of June 30, 2016.

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	12/31/2016
Inflation	3%
Salary Increases*	3.5% - 8.1%
Investment Rate of Return**	7.2%

* Salary increases include 3.50% 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, 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 Cost of Living Adjustment (COLA) amounts are not considered to be substantively automatic and are therefore not included in the measurement.

The projected long-term investment returns and inflation assumptions are developed through review of current and historical capital markets data, sell-side investment research, consultant whitepapers, and historical performance of investment strategies. Fixed income return projections reflect current yields across the U.S. Treasury yield curve and market expectations of forward yields projected and interpolated for multiple tenors and over multiple year horizons. Global public equity return projections are established through analysis of the equity risk premium and the fixed income return projections. Other asset categories and strategies' return projections reflect the foregoing and historical data analysis. These projections are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2017, (the measurement date) are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Fixed Income	29%	1.4%
Global Equity	42%	5.3%
Real Estate	8%	4.3%
Alternatives	8%	8.9%
Opportunistic Fixed Income	7%	6.0%
Inflation Sensitive	6%	4.0%
	100%	

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 rate of return for the Bond Index Investment Pool as of June 30, 2018 is 1.5%.

Discount Rate: The discount rate used to measure the total pension liability was lowered from 7.25% to 7.2%. The 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 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, 2017 calculated for the Department's and the State Health Plan's proportionate shares using the discount rate of 7.2%, as well as what the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower (6.2%) or 1 percentage point higher (8.2%) than the current rate:

	Department's Proportionate Share of the Net Pension Liability (Asset)		
	1% Decrease (6.2%)	Current Discount Rate (7.2%)	1% Increase (8.2%)
Department	$ 27,131,323	$ 13,180,693	$ 1,491,844
State Health Plan	$ 3,181,545	$ 1,545,629	$ 174,941

Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions: For the year ended June 30, 2018, the Department recognized a pension expense of $3,911,173. The State Health Plan recognized a pension expense of $451,733. At June 30, 2018, the Department and the State Health Plan reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

Employer 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	$ 285,733	$ 431,209	$ 33,506	$ 50,566
Changes of Assumptions	2,082,351		244,186	
Net Difference Between Projected and Actual Earnings on Pension Plan Investments	1,783,795		209,176	
Change in Proportion and Differences Between Agency's Contributions and Proportionate Share of Contributions	1,024,384	14,005	135,336	24,341
Contributions Subsequent to the Measurement Date	2,454,337		304,879	
Total	$ 7,630,600	$ 445,214	$ 927,083	$ 74,907

Deferred outflows of resources related to the Department's contributions subsequent to the measurement date in the amount of $2,454,337 for the fiscal year ended June 30, 2018 will be included as a reduction of the net pension liability in fiscal year ending June 30, 2019.

Deferred outflows of resources related to the State Health Plan's contributions subsequent to the measurement date in the amount of $304,879 for the fiscal year ended June 30, 2018, 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, 2019.

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

Schedule of the Net Amount of the Employer's Balances of Deferred Outflows of Resources and Deferred Inflows of Resources That will be Recognized in Pension Expense

Year Ended June 30	Department	State Health Plan
2019	$ 1,088,494	$ 120,800
2020	2,871,946	330,018
2021	1,484,503	180,194
2022	(713,894)	(83,715)
2023		
Total	$ 4,731,049	$ 547,297

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, 2017, there were approximately 53,800 plan members with 467 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, 2017 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. Notes receivable represent loans to participants and are reported at outstanding principal balances. 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 N.C. Department of State Treasurer, 3200 Atlantic Avenue, Raleigh, NC 27604-1668.

The 457 Plan discloses a related party transaction in Note 17 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 N.C. Department of State Treasurer administers the NC 403(b) Plan and Prudential serves as the record keeper. 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, 2018, there were 74 school districts enrolled in the Plan with 1,226 employees participating.

NOTE 14 - OTHER POSTEMPLOYMENT BENEFITS – ADMINISTERED BY THE STATE TREASURER

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-2 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-2 in the Death Benefit Plan of N.C. 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 made a formal commitment 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 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 Department 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 by General Statute 135-7, Article 1 as a fund to provide health benefits to retired and disabled employees and their applicable beneficiaries. 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, Local Education Agencies (LEAs), charter schools and some select local governments also participate.

At June 30, 2018, the number of participating employers was as follows:

State of North Carolina	1
LEAs	115
Charter Schools	59
Community Colleges	58
University of North Carolina System	19
Other Component Units	5
Local Governments	11
Total	268

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: Plan 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 16. The plan options change when former employees become eligible for Medicare. The benefits provided include medical and pharmacy coverage for employees and their dependents. Non-Medicare eligible members have two self-funded options administered by the State Health Plan while Medicare members have three options, including one self-funded option and two fully-insured Medicare Advantage/Prescription Drug Plan options. Self-funded medical and pharmacy claims costs are shared between the covered member and the State Health Plan. If the self-funded plan is elected by a Medicare eligible member, the coverage is secondary to Medicare. Fully-insured claims include cost sharing from covered members with the remaining balance paid by the fully-insured carrier.

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 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.

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 fiscal year ended June 30, 2018, the State and the other employers contributed the legislatively mandated 6.05% of covered payroll. This amount, combined with investment income, funds the benefits received during the year. RHBF is reported as an employee benefit trust fund.

2. Disability Income

Plan Administration: As discussed in Note 16, 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 Teachers' and State Employees' Retirement System which includes employees of the State, the University of North Carolina system, community colleges, certain participating component units, Local Education Agencies (LEAs), and the University Employees' Optional Retirement Program. At June 30, 2018, the number of participating employers was as follows:

State of North Carolina	1
LEAs	115
Charter Schools	59
Community Colleges	58
University of North Carolina System	19
Other Component Units	5
Total	257

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 Teachers' and State Employees' Retirement System (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 Teachers' and State Employees' Retirement System 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, 2018, the State and the other employers made a statutory contribution of 0.14% of covered payroll. This was equal to the actuarially required contribution.

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

Benefit and contribution provisions are established by Chapter 135, Article 6, of the General Statutes and may be amended only by the North Carolina General Assembly. 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 $206.89 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, 2017:

	Retiree Health Benefit Fund	Disability Income Plan of N.C.
Retired Members and Beneficiaries Currently Receiving Benefits	219,657	N/A
Retired Members and Survivors of Deceased Members Currently Receiving Benefits	N/A	6,362
Terminated Members Entitled to but not yet Receiving Benefits	41,471	
Active Members	344,411	325,419
Total	605,539	331,781

	Retirees' Contributory Death Benefit Plan
Retired Members Currently Covered under Death Benefit Plan	122,849
Terminated Members Eligible to Elect Coverage under Death Benefit Plan at Retirement	74,538
Active Members Eligible to Elect Coverage under Death Benefit Plan at Retirement	440,747
Total	638,134

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

The adopted asset allocation policies for the Disability Income Plan of North Carolina and for the Retirees' Contributory Death Benefit Plan are primarily in the Bond Index Investment Pool as of June 30, 2018 as described in Note 3. The following table displays the adopted asset allocation policy for the Retiree Health Benefit Fund as of June 30, 2018.

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, 2018, 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	6.58%	(0.42%)	(0.48%)

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, 2018, were as follows:

	Retiree Health Benefit Fund	Disability Income Plan of N.C.	Retirees' Contributory Death Benefit Plan
Total OPEB Liability	$ 29,798,358,000	$ 358,431,000	$ 315,839,000
Plan Fiduciary Net Position	1,310,173,000	388,807,000	245,024,000
Net OPEB Liability (Asset)	$ 28,488,185,000	$ (30,376,000)	$ 70,815,000
Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability	4.40%	108.47%	77.58%

Actuarial Assumptions: The total OPEB liabilities for RHBF, DIPNC and CDBP were determined by actuarial valuations as of December 31, 2017, 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, 2018 utilizing update procedures incorporating the actuarial assumptions.

	Retiree Health Benefit Fund	Disability Income Plan of N.C.	Retirees' Contributory Death Benefit Plan
Valuation Date	12/31/2017	12/31/2017	12/31/2017
Inflation	3%	3%	3%
Salary Increases [1]	8.1% grading down to 3.5% depending on employee class	3.5% - 8.1%	N/A
Investment Rate of Return [2]	7%	3.75%	3.75%
Healthcare Cost Trend Rate - Medical	6.5% grading down to 5% by 2024	6.5% grading down to 5% by 2024	N/A
Healthcare Cost Trend Rate - Prescription Drug	7.25% grading down to 5% by 2027	N/A	N/A
Healthcare Cost Trend Rate - Medicare Advantage	5%	N/A	N/A
Healthcare Cost Trend Rate - Administrative	3%	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, other educational employee, general employee, or law enforcement officer) and health status (i.e. disabled and not disabled). 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 Investment Pool as of June 30, 2018.

Best estimates of real rates of return for each major asset class included in the RHBF's target asset allocation as of June 30, 2018 (see the discussion of the OPEB plans' 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 Investment Pool as of June 30, 2018 is 1.5%.

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. The results of the valuations fluctuate from year to year as actual experience differs from assumptions. This includes demographic experiences (i.e., mortality and retirement) that differ from expected. This also includes financial experiences (i.e., member medical costs and contributions) that vary from expected trends. 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 have been 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, 2017 valuations were generally based on the results of an actuarial experience study prepared as of December 31, 2014, as amended for updates to certain assumptions (such as the long-term investment return, medical claims, and medical trend rate assumptions) implemented based on annual reviews that have occurred since that experience study.

Discount Rate: The discount rate used to measure the total OPEB liability for RHBF was 3.87%. 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 3.87% was used as the discount rate used to measure the total OPEB liability. The 3.87% rate is based on the Bond Buyer 20-year General Obligation Index as of June 30, 2018.

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 statutorily 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 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 OPEB liability.

The discount rate used to measure the total OPEB liability for CDBP was 3.76%. 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 December 31, 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 3.76%, 3.75% was used during the period that the plan was projected to have a fiduciary net position, and a municipal bond rate of 3.87% was used during the period that the plan was projected to have no fiduciary net position. The 3.87% rate is based on the Bond Buyer 20-Year General Obligation Index as of June 30, 2018.

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, 2018, 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:

Cost-Sharing, Multiple-Employer

	1% Decrease (2.87%)	Current Discount Rate (3.87%)	1% Increase (4.87%)
RHBF Net OPEB Liability	$ 33,659,079,000	$ 28,488,185,000	$ 24,343,160,000
	1% Decrease (2.75%)	**Current Discount Rate (3.75%)**	**1% Increase (4.75%)**
DIPNC Net OPEB (Asset)	$ (23,275,000)	$ (30,376,000)	$ (37,188,000)

Single-Employer

	1% Decrease (2.76%)	Current Discount Rate (3.76%)	1% Increase (4.76%)
CDBP Net OPEB Liability (Asset)	$ 186,454,000	$ 70,815,000	$ (12,861,000)

Sensitivity of the net OPEB liability to changes in the healthcare cost trend rates. The following presents the net OPEB liability of the plans, as well as what the plans' 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% - 5.5% Pharmacy - 4% - 6.25% Med. Advantage - 4% Administrative - 2%)	Current Healthcare Trend Rates (Medical - 5% - 6% Pharmacy - 5% - 7.25% Med. Advantage - 5% Administrative - 3%)	1% Increase (Medical - 6% - 7.5%, Pharmacy - 6 - 8.25% Med. Advantage - 6% Administrative - 4%)
RHBF net OPEB liability	$ 23,502,011,000	$ 28,488,185,000	$ 35,034,055,000
	1% Decrease (5.5% grading down to 4% in 2024)	(6.5% grading down to 5% in 2024)	1% Increase (7.5% grading down to 6% in 2024)
DIPNC net OPEB asset	$ (30,464,000)	$ (30,376,000)	$ (30,293,000)
CDBP net OPEB liability (asset)	N/A	N/A	N/A

NOTE 15 - OPEB PLANS: EMPLOYER REPORTING

The Department participates in two postemployment benefit plans, the Retiree Health Benefit Fund (RHBF) and the Disability Income Plan of North Carolina

(DIPNC). The financial information, including all information about the plan's administration, benefits provided, basis of accounting, methods used for valuation, assets, deferred outflows of resources, liabilities, deferred inflows of resources, and fiduciary net position are discussed in Note 14 of this report.

RHBF Contributions: 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. The Department's and State Health Plan's contractually-required contribution rate for the year ended June 30, 2018 was 6.05% of covered payroll. The Department's contributions to the OPEB plan were $1,377,434 and the State Health Plan's contributions to the OPEB plan were $169,018.

DIPNC Contributions: Although 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's fiscal year. The Department's and State Health Plan's contractually-required contribution rate for the year ended June 30, 2018 was 0.14% of covered payroll. The Department's contributions to the OPEB plan were $31,875 and the State Health Plan's contributions to the OPEB plan were $3,911.

Net OPEB Liability (Asset) – *Net OPEB Liability:* At June 30, 2018, the Department reported $47,058,333 for its proportionate share of the collective net OPEB liability for RHBF and $5,541,457 for the State Health Plan. The net OPEB liability was measured as of June 30, 2017. The total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of December 31, 2016, and updated procedures were used to roll forward the total OPEB liability to June 30, 2017. The Department's proportion of the net OPEB liability was based on the present value of future salaries for the Department relative to the present value of future salaries for all participating employers, actuarially-determined. As of June 30, 2018, the Department's proportion was 0.14353%, which was an increase of 0.02148 from its proportion measured as of June 30, 2017, which was 0.12205%. The State Health Plan's proportion was 0.0169%, which was an increase of 0.00412 from its proportion measured as of June 30, 2017, which was 0.01278%.

Net OPEB Asset: At June 30, 2018, the Department reported $89,987 for its proportionate share of the collective net OPEB asset for DIPNC and a $10,427 for the State Health Plan. The net OPEB asset was measured as of June 30, 2017. The total OPEB liability used to calculate the net OPEB asset was determined by an actuarial valuation as of December 31, 2016, and update procedures were used to roll forward the total OPEB liability to June 30, 2017. The Department's proportion of the net OPEB asset was based on the present value of future salaries for the Department relative to the present value of future salaries for all participating employers, actuarially-determined. As of June 0, 2018, the Department's proportion was 0.14723%, which was an increase of 0.01337 from its proportion measured as of June 30, 2017, which was 0.13386%. The State Health Plan's proportion was 0.01706%, which was an increase of 0.00224 from its proportion measured as of June 30, 2017, which was 0.01482%.

Actuarial Assumptions: The total OPEB liabilities for RHBF and DIPNC 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.
Valuation Date	12/31/2016	12/31/2016
Inflation	2.75%	3%
Salary Increases [1]	3.5% - 8.1%	3.5% - 8.1%
Investment Rate of Return [2]	7.2%	3.75%
Healthcare Cost Trend Rate - Medical	5% - 6.5%	N/A
Healthcare Cost Trend Rate - Prescription Drug	5% - 7.25%	N/A
Healthcare Cost Trend Rate - Medicare Advantage	4% - 5%	N/A
Healthcare Cost Trend Rate - Administrative	3%	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, other educational employee, general employee, law enforcement officer) and health status (i.e. disabled or not disabled). The current mortality rates are based on published tables and 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 is primarily invested in the Bond Index Investment Pool as of June 30, 2017.

Best estimates of real rates of return for each major asset class included in RHBF's target asset allocation as of June 30, 2017 (the measurement 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%
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 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 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 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, 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 flows 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 statutorily required rates, actuarially determined. Based on those assumptions, the 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 plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

Sensitivity of the Net OPEB Liability (Asset) to Changes in the Discount Rate: The following presents the Department's and the State Health Plan's proportionate share of the net OPEB liability (asset) of the plans, as well as what the plans' net OPEB liability (asset) 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:

Cost-Sharing, Multiple-Employer

		Net OPEB Liability	
	1% Decrease (2.58%)	Current Discount Rate (3.58%)	1% Increase (4.58%)
Retiree Health Benefit Fund			
Proportionate Share			
Department	$ 56,138,257	$ 47,058,333	$ 39,857,219
State Health Plan	6,610,023	5,541,457	4,693,005

		Net OPEB Asset	
	1% Decrease (2.75%)	Current Discount Rate (3.75%)	1% Increase (4.75%)
Disability Income Plan of N.C.			
Proportionate Share			
Department	$ (76,502)	$ (89,987)	$ (103,503)
State Health Plan	(8,865)	(10,427)	(11,993)

Sensitivity of the Net OPEB Liability (Asset) to Changes in the Healthcare Cost Trend Rates: The following presents the net OPEB liability (asset) of the Department and the State Health Plan, as well as what the proportionate share of the net OPEB liability (asset) 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% - 5.5% Pharmacy - 4% - 6.25% Med. Advantage - 3% - 4% Administrative - 2%)	Current Healthcare Trend Rates (Medical - 5% - 6.5% Pharmacy - 5% - 7.25% Med. Advantage - 4% - 5% Administrative - 3%)	1% Increase (Medical - 6% - 7.5%, Pharmacy - 6 - 8.25% Med. Advantage - 5% - 6% Administrative - 4%)
Retiree Health Benefit Fund			
Proportionate Share			
Department	$ 38,442,577	$ 47,058,333	$ 58,510,495
State Health Plan	4,526,437	5,541,457	6,889,343

Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB: For the year ended June 30, 2018, the Department recognized OPEB expense of $3,897,937 for RHBF and $46,050 for DIPNC, and the State Health Plan recognized OPEB expense of $578,337 for RHBF and $5,670 for DIPNC. At June 30, 2018, the Department's and State Health Plan's proportionate share of the collective reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

Employer Balances of Deferred Outflows of Resources
Related to OPEB by Classification:

	RHBF		DIPNC		
	Departmental	State Health Plan	Departmental	State Health Plan	Total
Differences Between Actual and Expected Experience	$ 0	$ 0	$ 24,673	$ 2,859	$ 27,532
Changes of Assumptions					
Net Difference Between Projected and Actual Earnings on Plan Investments			19,724	2,286	22,010
Changes in Proportion and Differences Between Employer's Contributions and Proportionate Share of Contributions	7,824,325	1,518,000		389	9,342,714
Contributions Subsequent to the Measurement Date	1,377,434	171,105	31,875	3,959	1,584,373
Total	$ 9,201,759	$ 1,689,105	$ 76,272	$ 9,493	$ 10,976,629

Employer Balances of Deferred Inflows of Resources
Related to OPEB by Classification:

	RHBF		DIPNC		
	Departmental	State Health Plan	Departmental	State Health Plan	Total
Differences Between Actual and Expected Experience	$ 3,374,169	$ 397,333	$ 0	$ 0	$ 3,771,502
Changes of Assumptions	12,959,650	1,526,092			14,485,742
Net Difference Between Projected and Actual Earnings on Plan Investments	17,489	2,059			19,548
Changes in Proportion and Differences Between Employer's Contributions and Proportionate Share of Contributions			5,280		5,280
Total	$ 16,351,308	$ 1,925,484	$ 5,280	$ 0	$ 18,282,072

Amounts reported as deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability related to RHBF and an increase of the net OPEB asset related to DIPNC in the fiscal year ended June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Schedule of the Net Amount of the Employer's Balances of Deferred Outflows of Resources and
Deferred Inflows of Resources That will be Recognized in OPEB Expense:

Year Ended June 30	RHBF		DIPNC	
	Departmental	State Health Plan	Departmental	State Health Plan
2019	$ (1,706,271)	$ (81,600)	$ 11,398	$ 1,654
2020	(1,706,271)	(81,600)	11,398	1,654
2021	(1,706,271)	(81,600)	11,394	1,654
2022	(1,706,271)	(81,600)	4,927	572
2023	(1,701,899)	(81,084)		
Total	$ (8,526,983)	$ (407,484)	$ 39,117	$ 5,534

NOTE 16 - 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 Local Education Agencies (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 two fully-insured Medicare Advantage/Prescription Drug Plan (MA-PDP) options in calendar year 2017 and in calendar year 2018. 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 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 an other 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 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
2016-17	$ 264,635,748	$ 2,924,475,680	$ (2,901,408,342)	$ 287,703,086
2017-18	$ 287,703,086	$ 3,005,405,090	$ (3,026,284,821)	$ 266,823,355

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. Employees of Local Education Agencies (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, 2017 to June 30, 2018, death benefits were funded by actuarially based employer contributions that are established in the biennial appropriation bill by the General Assembly. The State, the University of North Carolina System, community colleges, participating proprietary component units, LEAs and other miscellaneous educational units contributed 0.16% of covered payroll (as defined in Note 14) to fund the Death Benefit Plan for the period July 2017 to June 2018.

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

	Beginning of Fiscal Year Liability	Current Year Claims and Changes in Estimates	Claim Payments	Balance at Fiscal Year End
2016 -17	$ 2,858,718	$ 53,830,964	$ (52,755,917)	$ 3,933,765
2017 -18	$ 3,933,765	$ 52,428,682	$ (52,463,873)	$ 3,898,574

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 and the University Employees' Optional Retirement Program. Employees of Local Education Agencies (LEAs) and miscellaneous educational units which are not part of the reporting entity are also included. Short-term benefits are payable after a waiting period of 60 continuous calendar days from the onset of disability. The 60 day waiting period is determined from the last actual day of service, the day of the disabling event if the disabling event occurred on a day other than a normal workday, or the day following at least 365 calendar days of employment as a State teacher or State employee, whichever is later. Short-term benefits are provided to currently active employees and the related liability is not measurable. Short-term benefits during the initial short-term disability period are payable for a period of up to 365 days following the waiting period. The first six months of benefits are payable by the employer outside of DIPNC. The remaining six months are paid by the employer outside of DIPNC, but the employer is reimbursed by DIPNC. Effective for disabilities that begin on or after July 1, 2019, DIPNC will not reimburse employers for the second six months of costs to provide the benefit. 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 (the 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 17 - 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. Wells Fargo provides collective investment vehicles and custodial and trustee services 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. The Galliard contract was recently updated to revise the investment structure and guidelines and to lower participant fees.

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 18 - COMMITMENTS AND CONTINGENCIES

A. **No Commitment Debt –** The North Carolina Capital Facilities Finance Agency (Agency) is authorized by the State to issue tax-exempt bonds and notes to finance industrial and manufacturing facilities, pollution control facilities for industrial (in connection with manufacturing) or pollution control facilities and to finance facilities and structures at private nonprofit colleges and universities, and institutions providing kindergarten, elementary and secondary education, and various other nonprofit entities. The Agency's authority to issue bonds and notes also includes financing private sector capital improvements for activities that constitute a public purpose. The bonds issued by the Agency are not an indebtedness of the State and, accordingly, are not reflected in the accompanying financial statements. Each issue is payable solely from the revenues of the facility financed by that issue and any other credit support provided. Therefore, each issue is separately secured and is separate and independent from all other issues as to source of payment and security. The outstanding principal of such bonds and notes as of June 30, 2018, was $3.05 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, 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 the 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 PPO plan in existence in September 2011, or its equivalent, with no premium for their lifetimes; and that the damages for retirees who remained on the 80/20 PPO plan will be the amount of premiums they actually paid. On March 5, 2019, a three-judge panel of the North Carolina Court of Appeals reversed the lower court's ruling and remanded for entry of summary judgment in favor of the Defendants. Plaintiffs may still petition the North Carolina Supreme Court for discretionary review.

The State Treasurer has stated that, if the Superior Court's ruling were to stand, 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 compensation greater than $100,000, adjusted annually for inflation) retires, and the employee's retirement benefit would be significantly higher than what had been funded by contributions, the individual employer is required to make up the difference. Prior to the CBBC legislation, the cost of such underfunded retirements was borne by the Retirement System as a whole. Plaintiffs contended that the TSERS Board was required to adopt a factor recommended by the Retirement System's actuary, and used in the CBBC calculation, as a "rule" pursuant to the North Carolina Administrative Procedure Act. According to Plaintiffs, the failure of the Board to follow the rulemaking process means that the school boards do not have to pay the additional contribution. On May 30, 2017, a Wake County Superior Court judge ruled in favor of Plaintiffs. On September 18, 2018, a three-judge panel of the North Carolina Court of Appeals affirmed the lower court ruling. On October 23, 2018, a Petition for Discretionary Review was filed with the North Carolina Supreme Court. That Petition is still pending.

In similar actions, the Wake County Superior Court granted preliminary injunctions to the Person County Board of Education and the Madison County Board of Education and issued stays in those cases pending the outcome of the four cases in the Court of Appeals. Since then, school boards in Harnett, Lenoir, Edgecombe, Granville, and Swain counties have filed separate actions seeking a return of funds paid in response to CBBC invoices issued by the Retirement System. Other county school boards, including Davidson and Pender, have sent letters requesting refunds of monies paid based on the lower court ruling in the four original pension spiking cases. To date, $19,328,124. has been invoiced to various employing agencies statewide. Of that amount, $4,475,254 remains outstanding. The ability of the Retirement System to collect the remainder will likely depend on the final outcome of the litigation.

NOTE 19 - NET POSITION RESTATEMENT

As of July 1, 2017, net position as previously reported was restated as follows:

Component Unit - State Health Plan	Amount
July 1, 2017 Net Position as Previously Reported	$ 676,980,485
Restatements: Record the State Health Plan's Net OPEB Asset and Liability and OPEB Related Deferred Outflows and Inflows of Resources Per GASB 75 Requirements	(5,348,973)
July 1, 2017 Net Position as Restated	$ 671,631,512

Note: The above restatement is not reflected in the Statement of Revenues, Expenses, and Changes in Net Position, and Cash Flows for the 2017 comparative amounts because GASB 75 actuarial calculations performed do not provide sufficient information to restate revenues, expenses, changes in net position, or cash flows for 2017.

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, 2018 — Exhibit D-1

	Budget Amounts Original	Budget Amounts Final	Actual (Cash Basis)	Favorable (Unfavorable)
REVENUES				
Fees	$ 0	$ 0	$ 7,015,111	$ 7,015,111
Services	6,269,753	7,167,049	5,321,756	(1,845,293)
Contributions	2,000,000	2,000,000	2,109,635	109,635
Reimbursements	23,785,401	24,777,889	21,612,518	(3,165,371)
Investment Earnings	20,037,703	20,041,191	19,121	(20,022,070)
Interest Earnings on Loans	518,386	521,011	165,176	(355,835)
Revenues from Other State Agencies	1,653,595	3,293,533	3,149,533	(144,000)
Loan Collection of Principal	6,777,533	6,842,743	587,101	(6,255,642)
Reimbursement of Expenditures from Investment Pool	9,963,842	9,992,648	7,284,552	(2,708,096)
Miscellaneous Income	2,026	122,435	121,173	(1,262)
Total Revenues	71,008,239	74,758,499	47,385,676	(27,372,823)
EXPENDITURES				
State Aid	26,875,361	26,892,960	26,875,361	17,599
Contracted Personal Services	4,287,585	6,252,021	3,431,087	2,820,934
Personal Services	28,124,731	27,467,496	23,179,974	4,287,522
Employee Benefits	9,241,891	9,253,776	7,825,455	1,428,321
Supplies and Materials	254,053	253,170	159,084	94,086
Travel	254,075	249,100	63,853	185,247
Communication	462,992	465,968	394,912	71,056
Utilities	258,693	283,756	236,756	47,000
Data Processing Services	201,702	267,745	144,520	123,225
Other Services	931,539	1,006,544	687,697	318,847
Claims and Benefits	986,500	968,901	800,000	168,901
Debt Service:				
Principal Retirement	1,144,956,083	1,020,409,221	532,705,000	487,704,221
Interest and Fees	138,118,837	302,785,022	214,122,493	88,662,529
Debt Issuance Costs	2,247,291	3,403,702	1,437,657	1,966,045
Other Fixed Charges	1,840,696	2,732,560	2,037,030	695,530
Capital Outlay	2,398,782	1,161,177	778,343	382,834
Insurance	9,000	20,155	14,064	6,091
Other Expenditures	1,326,539	1,329,072	1,313,109	15,963
Expenditures to Other State Agencies	5,836,628	16,636,213	17,862,796	(1,226,583)
Total Expenditures	1,368,612,978	1,421,838,559	834,069,191	587,769,368
Deficiency of Revenues Over Expenditures	(1,297,604,739)	(1,347,080,060)	(786,683,515)	560,396,545
OTHER FINANCING SOURCES (USES)				
State Appropriations	759,851,779	759,851,779	749,340,766	(10,511,013)
Refunding Bonds Issued	859,028,341	1,477,791,769	724,560,000	(753,231,769)
Premiums on Bonds Issued	121,036,071	254,122,747	152,357,631	(101,765,116)
Pay to Refunded Debt Escrow Agent	(591,510,843)	(1,466,933,962)	(875,423,118)	591,510,844
Transfers In	184,932,838	351,952,202	65,628,031	(286,324,171)
Transfers Out	(18,430,661)	(19,288,210)	(11,766,979)	7,521,231
Transfers to the State Reserve Fund	(16,000,000)	(16,000,000)	(16,000,000)	
Transfers from the State Reserve Fund		122,246	73,282	(48,964)
Total Other Financing Sources	1,298,907,525	1,341,618,571	788,769,613	(552,848,958)
Net Change in Fund Balance	1,302,786	(5,461,489)	2,086,098	7,547,587
Fund Balance July 1, 2017	4,600,145	4,600,145	4,600,145	
Fund Balance June 30, 2018	$ 5,902,931	$ (861,344)	$ 6,686,243	$ 7,547,587

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, 2018 — *Exhibit D-2*

	Budget Amounts			
	Original	**Final**	**Actual (Cash Basis)**	**Favorable (Unfavorable)**
REVENUES				
Funds Escheated	$ 180,000,000	$ 177,367,849	$ 180,295,238	$ 2,927,389
Services	160	375	375	
Investment Earnings	13,296,203	15,928,139	12,219,564	(3,708,575)
Total Revenues	193,296,363	193,296,363	192,515,177	(781,186)
EXPENDITURES				
State Aid	37,287,242	37,287,242	37,287,242	
Contracted Personal Services	6,225,290	6,171,890	4,986,879	1,185,011
Supplies and Materials		405	404	1
Other Services	7,670	7,670		7,670
Other Fixed Charges	54,688	107,683	107,682	1
Expenditures to Other State Agencies	22,855,964	22,855,964	22,855,964	
Total Expenditures	66,430,854	66,430,854	65,238,171	1,192,683
Excess Revenues Over Expenditures	126,865,509	126,865,509	127,277,006	411,497
Net Change in Fund Balance	126,865,509	126,865,509	127,277,006	411,497
Fund Balance July 1, 2017, as Restated	419,657,578	419,657,578	419,657,578	
Fund Balance June 30, 2018	$ 546,523,087	$ 546,523,087	$ 546,934,584	$ 411,497

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 and timing differences in the fund balance (budgetary basis) at June 30, 2018 to the fund balance on a modified accrual basis (GAAP).

GENERAL FUND RECONCILIATION

Fund Balance (budgetary basis) June 30, 2018	$	6,686,243
Reconciling Adjustments		
Basis Differences		
Accrued Revenues		
Accounts Receiavable		4,235
Intergovernmental Receivables		37,134
Interest Receivables		3,219
Contributions Receivable		84,050
Due from Other Funds		31,115
Due from Component Unit		7,159
Total Accrued Revenues		166,912
Accrued Expenditures		
Accounts Payable		(444,432)
Total Accrued Expenditures		(444,432)
Other Adjustments		
Cash		1,466,537
Non Treasurer Investments		38,812
Inventories		86,544
Fund Balance (GAAP) basis June 30, 2018	$	8,000,616

ESCHEAT FUND RECONCILIATION

Fund Balance (budgetary basis) June 30, 2018	$	546,934,584
Reconciling Adjustments		
Basis Differences		
Accrued Revenues		
Interest Receivable		624,498
Accrued Expenditures		
Escheats Claims Payable		(61,000,000)
Accounts Payable		(303,324)
Total Accrued Expenditures		(61,303,324)
Other Adjustments		
Investments		254,922,819
Forward Funded State Aid		37,287,243
Reduction of Escheat Claims Payable		(63,900,902)
Unrealized Loss on Investments		(3,627,703)
Fund Balance (GAAP) basis June 30, 2018	$	710,937,215

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 Five Fiscal Years — ***Page 1 of 2***

Teachers' and State Employees'	**2018**	**2017**	**2016**	**2015**	**2014**
Total Pension Liability					
Service Cost	$ 1,630,323,000	$ 1,469,395,000	$ 1,580,544,000	$ 1,562,846,000	$ 1,556,027,000
Interest	5,281,004,000	5,195,104,000	4,937,464,000	4,803,766,000	4,648,995,000
Changes of Benefit Terms	44,339,000	449,563,000	35,605,000		355,224,000
Differences Between Expected and Actual Experience	815,911,000	229,339,000	(190,178,000)	(278,170,000)	(345,392,000)
Changes of Assumptions	1,637,700,000	381,934,000	1,743,836,000		
Benefit Payments, Including Refunds of Member Contributions	(4,666,391,000)	(4,545,296,000)	(4,339,637,000)	(4,184,410,000)	(3,989,397,000)
Net Change in Total Pension Liability	4,742,886,000	3,180,039,000	3,767,634,000	1,904,032,000	2,225,457,000
Total Pension Liability - Beginning	75,639,901,000	72,459,862,000	68,692,228,000	66,788,196,000	64,562,739,000
Total Pension Liability - Ending (a)	$ 80,382,787,000	$ 75,639,901,000	$ 72,459,862,000	$ 68,692,228,000	$ 66,788,196,000
Plan Fiduciary Net Position					
Contributions-Employer	$ 1,602,901,000	$ 1,441,194,000	$ 1,275,003,000	$ 1,262,988,000	$ 1,177,341,000
Contributions-Member	910,797,000	894,538,000	864,151,000	854,306,000	825,548,000
Net Investment Income	4,885,354,000	6,656,652,000	472,174,000	1,468,624,000	9,121,005,000
Benefit Payments, Including Refunds of Member Contributions	(4,666,391,000)	(4,545,296,000)	(4,339,637,000)	(4,184,410,000)	(3,989,397,000)
Administrative Expense	(11,604,000)	(11,265,000)	(10,217,000)	(10,646,000)	(10,762,000)
Other	181,000	808,000	325,000	393,000	320,000
Net Change in Plan Fiduciary Net Position	2,721,238,000	4,436,631,000	(1,738,201,000)	(608,745,000)	7,124,055,000
Plan Fiduciary Net Position - Beginning	67,705,460,000	63,268,829,000	65,007,030,000	65,615,775,000	58,491,720,000
Plan Fiduciary Net Position - Ending (b)	$ 70,426,698,000	$ 67,705,460,000	$ 63,268,829,000	$ 65,007,030,000	$ 65,615,775,000
TSERS's Net Pension Liability - Ending (a) - (b)	$ 9,956,089,000	$ 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	87.61%	89.51%	87.32%	94.64%	98.24%
Covered Payroll	$ 14,869,212,000	$ 14,440,822,000	$ 13,934,459,000	$ 13,803,148,000	$ 13,548,227,000
Net Pension Liability as a Percentage of Covered Payroll	66.96%	54.94%	65.96%	26.70%	8.65%

Local Governmental Employees'	**2018**	**2017**	**2016**	**2015**	**2014**
Total Pension Liability					
Service Cost	$ 713,227,000	$ 656,231,000	$ 684,288,000	$ 670,936,000	$ 654,735,000
Interest	1,838,989,000	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	378,665,000	73,083,000	50,205,000	(72,177,000)	(80,590,000)
Changes of Assumptions	595,781,000	138,096,000	183,019,000		
Benefit Payments, Including Refunds of Member Contributions	(1,402,793,000)	(1,322,277,000)	(1,251,918,000)	(1,172,578,000)	(1,106,799,000)
Net Change in Total Pension Liability	2,123,869,000	1,348,723,000	1,385,874,000	1,120,468,000	1,015,514,000
Total Pension Liability - Beginning	26,230,733,000	24,882,010,000	23,496,136,000	22,375,668,000	21,360,154,000
Total Pension Liability - Ending (a)	$ 28,354,602,000	$ 26,230,733,000	$ 24,882,010,000	$ 23,496,136,000	$ 22,375,668,000
Plan Fiduciary Net Position					
Contributions-Employer	$ 492,317,000	$ 461,329,000	$ 414,168,000	$ 408,694,000	$ 413,175,000
Contributions-Member	401,632,000	391,459,000	375,572,000	363,863,000	346,961,000
Net Investment Income	1,789,337,000	2,413,758,000	175,189,000	520,578,000	3,161,964,000
Benefit Payments, Including Refunds of Member Contributions	(1,402,793,000)	(1,322,277,000)	(1,251,918,000)	(1,172,578,000)	(1,106,799,000)
Administrative Expense	(4,324,000)	(4,264,000)	(3,926,000)	(4,086,000)	(3,974,000)
Other	3,081,000	3,330,000	3,248,000	3,285,000	3,297,000
Net Change in Plan Fiduciary Net Position	1,279,250,000	1,943,335,000	(287,667,000)	119,756,000	2,814,624,000
Plan Fiduciary Net Position - Beginning	24,703,010,000	22,759,675,000	23,047,342,000	22,927,586,000	20,112,962,000
Plan Fiduciary Net Position - Ending (b)	$ 25,982,260,000	$ 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)	$ 2,372,342,000	$ 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	91.63%	94.18%	91.47%	98.09%	102.47%
Covered Payroll	$ 6,368,275,000	$ 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 Payroll	37.25%	24.67%	36.21%	7.94%	(9.94%)

Firefighters' and Rescue Squad Workers'	**2018**	**2017**	**2016**	**2015**	**2014**
Total Pension Liability					
Service Cost	$ 7,542,000	$ 4,841,000	$ 5,610,000	$ 5,884,000	$ 5,710,000
Interest	31,686,000	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	(121,000)	2,048,000	(2,177,000)	(2,799,000)	2,714,000
Changes of Assumptions	10,593,000	2,549,000	15,577,000		(16,688,000)
Benefit Payments, Including Refunds of Member Contributions	(31,727,000)	(29,070,000)	(27,998,000)	(26,912,000)	(25,614,000)
Net Change in Total Pension Liability	17,973,000	11,843,000	21,165,000	5,844,000	4,286,000
Total Pension Liability - Beginning	455,675,000	443,832,000	422,667,000	416,823,000	412,537,000
Total Pension Liability - Ending (a)	$ 473,648,000	$ 455,675,000	$ 443,832,000	$ 422,667,000	$ 416,823,000
Plan Fiduciary Net Position					
Contributions-Member	$ 17,952,000	$ 2,594,000	$ 2,778,000	$ 2,822,000	$ 2,781,000
Contributions-Nonemployer	2,790,000	17,602,000	13,900,000	13,900,000	14,627,000
Net Investment Income	29,505,000	39,928,000	2,867,000	8,711,000	53,842,000
Benefit Payments, Including Refunds of Member Contributions	(31,727,000)	(29,070,000)	(27,998,000)	(26,912,000)	(25,614,000)
Administrative Expense	(885,000)	(919,000)	(860,000)	(1,622,000)	(1,045,000)
Other	10,000	15,000	18,000	4,000	2,000
Net Change in Plan Fiduciary Net Position	17,645,000	30,150,000	(9,295,000)	(3,097,000)	44,593,000
Plan Fiduciary Net Position - Beginning	407,163,000	377,013,000	386,308,000	389,405,000	344,812,000
Plan Fiduciary Net Position - Ending (b)	$ 424,808,000	$ 407,163,000	$ 377,013,000	$ 386,308,000	$ 389,405,000
FRSWPF's Net Pension Liability - Ending (a) - (b)	$ 48,840,000	$ 48,512,000	$ 66,819,000	$ 36,359,000	$ 27,418,000
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	89.69%	89.35%	84.94%	91.40%	93.42%
Covered Payroll	N/A	N/A	N/A	N/A	N/A
Net Pension Liability as a Percentage of Covered Payroll	N/A	N/A	N/A	N/A	N/A

Registers of Deeds'	**2018**	**2017**	**2016**	**2015**	**2014**
Total Pension Liability					
Service Cost	$ 1,086,000	$ 860,000	$ 579,000	$ 578,000	$ 563,000
Interest	1,157,000	1,164,000	1,354,000	1,372,000	1,342,000
Differences Between Expected and Actual Experience	(1,125,000)	440,000	(45,000)	(558,000)	302,000
Changes of Assumptions			7,082,000		
Benefit Payments, Including Refunds of Member Contributions	(1,793,000)	(1,793,000)	(1,718,000)	(1,715,000)	(1,666,000)
Net Change in Total Pension Liability	(675,000)	671,000	7,252,000	(323,000)	541,000
Total Pension Liability - Beginning	31,743,000	31,072,000	23,820,000	24,143,000	23,602,000
Total Pension Liability - Ending (a)	$ 31,068,000	$ 31,743,000	$ 31,072,000	$ 23,820,000	$ 24,143,000
Plan Fiduciary Net Position					
Contributions-Employer	$ 856,000	$ 869,000	$ 817,000	$ 802,000	$ 817,000
Net Investment Income	(230,000)	(13,000)	3,722,000	1,114,000	2,714,000
Benefit Payments, Including Refunds of Member Contributions	(1,793,000)	(1,793,000)	(1,718,000)	(1,715,000)	(1,666,000)
Administrative Expense	(14,000)	(19,000)	(47,000)	(16,000)	(18,000)
Net Change in Plan Fiduciary Net Position	(1,181,000)	(956,000)	2,774,000	185,000	1,847,000
Plan Fiduciary Net Position - Beginning	48,812,000	49,768,000	46,994,000	46,809,000	44,962,000
Plan Fiduciary Net Position - Ending (b)	$ 47,631,000	$ 48,812,000	$ 49,768,000	$ 46,994,000	$ 46,809,000
RODSPF's Net Pension Asset - Ending (a) - (b)	$ (16,563,000)	$ (17,069,000)	$ (18,696,000)	$ (23,174,000)	$ (22,666,000)
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	153.31%	153.77%	160.17%	197.29%	193.88%
Covered Payroll	N/A	N/A	N/A	N/A	N/A
Net Pension Asset as a Percentage of Covered Payroll	N/A	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 Five Fiscal Years — *Page 1 of 2*

Consolidated Judicial	**2018**	**2017**	**2016**	**2015**	**2014**
Total Pension Liability					
Service Cost	$ 17,192,000	$ 15,630,000	$ 16,904,000	$ 16,812,000	$ 16,637,000
Interest	45,397,000	44,837,000	42,009,000	40,846,000	39,405,000
Changes in Benefit Terms	430,000	4,349,000	332,000		3,031,000
Differences Between Expected and Actual Experience	7,660,000	2,193,000	(4,295,000)	(2,289,000)	(2,484,000)
Changes of Assumptions	12,836,000	3,032,000	26,588,000		
Benefit Payments, Including Refunds of Member Contributions	(43,392,000)	(42,053,000)	(40,462,000)	(38,364,000)	(35,428,000)
Net Change in Total Pension Liability	40,123,000	27,988,000	41,076,000	17,005,000	21,161,000
Total Pension Liability - Beginning	651,830,000	623,842,000	582,766,000	565,761,000	544,600,000
Total Pension Liability - Ending (a)	$ 691,953,000	$ 651,830,000	$ 623,842,000	$ 582,766,000	$ 565,761,000
Plan Fiduciary Net Position					
Contributions-Employer	$ 23,988,000	$ 19,592,000	$ 18,908,000	$ 18,949,000	$ 21,390,000
Contributions-Member	5,706,000	7,399,000	7,561,000	6,238,000	5,598,000
Net Investment Income	41,123,000	55,762,000	3,972,000	12,176,000	74,294,000
Benefit Payments, Including Refunds of Member Contributions	(43,392,000)	(42,053,000)	(40,462,000)	(38,364,000)	(35,428,000)
Administrative Expense	(24,000)	(37,000)	(73,000)	(30,000)	(48,000)
Other				1,000	3,000
Net Change in Plan Fiduciary Net Position	27,401,000	40,663,000	(10,094,000)	(1,030,000)	65,809,000
Plan Fiduciary Net Position - Beginning	569,103,000	528,440,000	538,534,000	539,564,000	473,755,000
Plan Fiduciary Net Position - Ending (b)	$ 596,504,000	$ 569,103,000	$ 528,440,000	$ 538,534,000	$ 539,564,000
CJRS's Net Pension Liability - Ending (a) - (b)	$ 95,449,000	$ 82,727,000	$ 95,402,000	$ 44,232,000	$ 26,197,000
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	86.21%	87.31%	84.71%	92.41%	95.37%
Covered Payroll	$ 77,255,000	$ 66,504,000	$ 69,489,000	$ 69,638,000	$ 76,367,000
Net Pension Liability as a Percentage of Covered Payroll	123.55%	124.39%	137.29%	63.52%	34.30%

Legislative	**2018**	**2017**	**2016**	**2015**	**2014**
Total Pension Liability					
Service Cost	$ 1,006,000	$ 872,000	$ 822,000	$ 844,000	$ 747,000
Interest	2,028,000	2,056,000	1,708,000	1,742,000	1,678,000
Changes of Benefit Terms	24,000	215,000	22,000		146,000
Differences Between Expected and Actual Experience	207,000	(122,000)	(520,000)	(579,000)	762,000
Changes of Assumptions	511,000	121,000	5,151,000		
Benefit Payments, Including Refunds of Member Contributions	(2,531,000)	(2,437,000)	(2,430,000)	(2,473,000)	(2,614,000)
Net Change in Total Pension Liability	1,245,000	705,000	4,753,000	(466,000)	719,000
Total Pension Liability - Beginning	29,410,000	28,705,000	23,952,000	24,418,000	23,699,000
Total Pension Liability - Ending (a)	$ 30,655,000	$ 29,410,000	$ 28,705,000	$ 23,952,000	$ 24,418,000
Plan Fiduciary Net Position					
Contributions-Employer	$ 689,000	$ 675,000	$ 65,000	$ 0	$ 0
Contributions-Member	253,000	253,000	253,000	253,000	253,000
Net Investment Income	1,975,000	2,744,000	181,000	642,000	4,293,000
Benefit Payments, Including Refunds of Member Contributions	(2,531,000)	(2,437,000)	(2,430,000)	(2,473,000)	(2,614,000)
Administrative Expense	(14,000)	(18,000)	(53,000)	(17,000)	(37,000)
Net Change in Plan Fiduciary Net Position	372,000	1,217,000	(1,984,000)	(1,595,000)	1,895,000
Plan Fiduciary Net Position - Beginning	27,689,000	26,472,000	28,456,000	30,051,000	28,156,000
Plan Fiduciary Net Position - Ending (b)	$ 28,061,000	$ 27,689,000	$ 26,472,000	$ 28,456,000	$ 30,051,000
LRS's Net Pension Liability (Asset) - Ending (a) - (b)	$ 2,594,000	$ 1,721,000	$ 2,233,000	$ (4,504,000)	$ (5,633,000)
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	91.54%	94.15%	92.22%	118.80%	123.07%
Covered Payroll	$ 3,618,000	$ 3,705,000	$ 3,616,000	$ 3,611,000	$ 3,608,000
Net Pension Liability (Asset) as a Percentage of Covered Payroll	71.70%	46.45%	61.75%	(124.73%)	(156.13%)

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

Last Five Fiscal Years

North Carolina National Guard	2018	2017	2016	2015	2014
Total Pension Liability					
Service Cost	$ 304,000	$ 305,000	$ 593,000	$ 550,000	$ 512,000
Interest	12,288,000	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	(1,748,000)	1,204,000	30,000	(198,000)	192,000
Changes of Assumptions	3,926,000	955,000	15,149,000		
Benefit Payments, Including Refunds of Member Contributions	(8,766,000)	(8,677,000)	(8,512,000)	(7,958,000)	(7,502,000)
Net Change in Total Pension Liability	6,004,000	5,762,000	17,960,000	11,044,000	8,284,000
Total Pension Liability - Beginning	174,972,000	169,210,000	151,250,000	140,206,000	131,922,000
Total Pension Liability - Ending (a)	$ 180,976,000	$ 174,972,000	$ 169,210,000	$ 151,250,000	$ 140,206,000
Plan Fiduciary Net Position					
Contributions-Member					
Contributions-Nonemployer	$ 8,923,000	$ 8,517,000	$ 7,066,000	$ 6,039,000	$ 7,007,000
Net Investment Income	8,766,000	11,626,000	842,000	2,493,000	14,942,000
Benefit Payments, Including Refunds of Member Contributions	(8,766,000)	(8,677,000)	(8,512,000)	(7,958,000)	(7,502,000)
Administrative Expense	(249,000)	(168,000)	(97,000)	(75,000)	(73,000)
Other	2,000		1,000		1,000
Net Change in Plan Fiduciary Net Position	8,676,000	11,298,000	(700,000)	499,000	14,375,000
Plan Fiduciary Net Position - Beginning	121,127,000	109,829,000	110,529,000	110,030,000	95,655,000
Plan Fiduciary Net Position - Ending (b)	$ 129,803,000	$ 121,127,000	$ 109,829,000	$ 110,529,000	$ 110,030,000
NGPF's Net Pension Liability - Ending (a) - (b)	$ 51,173,000	$ 53,845,000	$ 59,381,000	$ 40,721,000	$ 30,176,000
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	71.72%	69.23%	64.91%	73.08%	78.48%
Covered Payroll	N/A	N/A	N/A	N/A	N/A
Net Pension Liability as a Percentage of Covered Payroll	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
Cost-Sharing, Multiple-Employer, Defined Benefit Pension Plans
Last Ten Fiscal Years

	2018	2017	2016	2015
Teachers' and State Employees'				
Actuarially Determined Contribution	$ 1,565,728,000	$ 1,438,306,000	$ 1,210,904,000	$ 1,262,988,000
Contractually Required Contribution	1,602,901,000	1,441,194,000	1,275,003,000	1,262,988,000
Contributions in Relation to the Actuarially Determined Contribution	1,602,901,000	1,441,194,000	1,275,003,000	1,262,988,000
Contribution Deficiency (Excess)	$ (37,173,000)	$ (2,888,000)	$ (64,099,000)	$ 0
Covered Payroll	$ 14,869,212,000	$ 14,440,822,000	$ 13,934,459,000	$ 13,803,148,000
Contributions as a Percentage of Covered Payroll	10.78%	9.98%	9.15%	9.15%
Local Governmental Employees'				
Actuarially Determined Contribution	$ 483,559,000	$ 453,193,000	$ 393,920,000	$ 402,429,000
Contractually Required Contribution	492,317,000	461,329,000	414,168,000	408,694,000
Contributions in Relation to the Actuarially Determined Contribution	492,317,000	461,329,000	414,168,000	408,694,000
Contribution Deficiency (Excess)	$ (8,758,000)	$ (8,136,000)	$ (20,248,000)	$ (6,265,000)
Covered Payroll	$ 6,368,275,000	$ 6,192,808,000	$ 5,860,574,000	$ 5,650,694,000
Contributions as a Percentage of Covered Payroll	7.73%	7.45%	7.07%	7.23%
Firefighters' and Rescue Squad Workers' *				
Actuarially Determined Contribution	$ 14,287,000	$ 17,705,000	$ 13,241,000	$ 13,900,000
Contractually Required Contribution	17,952,000	17,602,000	13,900,000	13,900,000
Contributions in Relation to the Actuarially Determined Contribution	17,952,000	17,602,000	13,900,000	13,900,000
Contribution Deficiency (Excess)	$ (3,665,000)	$ 103,000	$ (659,000)	$ 0
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	856,000	869,000	817,000	802,000
Contributions in Relation to the Actuarially Determined Contribution	856,000	869,000	817,000	802,000
Contribution Deficiency (Excess)	$ (856,000)	$ (869,000)	$ (817,000)	$ (802,000)
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 E-3
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	2014	2013	2012	2011	2010	2009
	$ 1,177,341,000	$ 1,078,783,000	$ 1,015,762,000	$ 926,429,000	$ 492,779,000	$ 492,689,000
	1,177,341,000	1,120,482,000	1,015,762,000	680,670,000	492,779,000	492,689,000
	1,177,341,000	1,120,482,000	1,015,762,000	680,670,000	492,779,000	492,689,000
	$ 0	$ (41,699,000)	$ 0	$ 245,759,000	$ 0	$ 0
	$ 13,548,227,000	$ 13,451,164,000	$ 13,652,715,000	$ 13,806,691,000	$ 13,803,324,000	$ 14,663,363,000
	8.69%	8.33%	7.44%	4.93%	3.57%	3.36%
	$ 397,462,000	$ 370,152,000	$ 376,340,000	$ 342,910,000	$ 230,121,000	$ 257,982,000
	413,175,000	383,889,000	389,399,000	361,998,000	273,337,000	271,363,000
	413,175,000	383,889,000	389,399,000	361,998,000	273,337,000	271,363,000
	$ (15,713,000)	$ (13,737,000)	$ (13,059,000)	$ (19,088,000)	$ (43,216,000)	$ (13,381,000)
	$ 5,553,383,000	$ 5,421,364,000	$ 5,402,147,000	$ 5,329,651,000	$ 5,320,927,000	$ 5,284,862,000
	7.44%	7.08%	7.21%	6.79%	5.14%	5.13%
	$ 14,620,000	$ 14,074,000	$ 14,389,000	$ 12,243,000	$ 10,074,000	$ 9,757,000
	14,627,000	15,447,000	14,398,000	10,110,000	10,080,000	9,762,000
	14,627,000	15,447,000	14,398,000	10,110,000	10,080,000	9,762,000
	$ (7,000)	$ (1,373,000)	$ (9,000)	$ 2,133,000	$ (6,000)	$ (5,000)
	N/A	N/A	N/A	N/A	N/A	N/A
	N/A	N/A	N/A	N/A	N/A	N/A
	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0
	817,000	937,000	843,000	772,000	736,000	754,000
	817,000	937,000	843,000	772,000	736,000	754,000
	$ (817,000)	$ (937,000)	$ (843,000)	$ (772,000)	$ (736,000)	$ (754,000)
	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 Employer and Nonemployer Contributions
Single-Employer, Defined Benefit Pension Plans
Last Ten Fiscal Years

	2018	2017	2016	2015
Consolidated Judicial				
Actuarially Determined Contribution	$ 23,988,000	$ 19,592,000	$ 18,324,000	$ 18,949,000
Contractually Required Contribution	23,988,000	19,592,000	18,908,000	18,949,000
Contributions in Relation to the Actuarially Determined Contribution	23,988,000	19,592,000	18,908,000	18,949,000
Contribution Deficiency (Excess)	$ 0	$ 0	$ (584,000)	$ 0
Covered Payroll	$ 77,255,000	$ 66,504,000	$ 69,489,000	$ 69,638,000
Contributions as a Percentage of Covered Payroll	31.05%	29.46%	27.21%	27.21%
Legislative				
Actuarially Determined Contribution	$ 689,000	$ 675,000	$ 65,000	$ 0
Contractually Required Contribution	689,000	675,000	65,000	
Contributions in Relation to the Actuarially Determined Contribution	689,000	675,000	65,000	
Contribution Deficiency (Excess)	$ 0	$ 0	$ 0	$ 0
Covered Payroll	$ 3,618,000	$ 3,705,000	$ 3,616,000	$ 3,611,000
Contributions as a Percentage of Covered Payroll	19.04%	18.22%	1.80%	0.00%
North Carolina National Guard*				
Actuarially Determined Contribution	$ 8,923,000	$ 8,517,000	$ 7,066,000	$ 6,039,000
Contractually Required Contribution	8,923,000	8,517,000	7,066,000	6,039,000
Contributions in Relation to the Actuarially Determined Contribution	8,923,000	8,517,000	7,066,000	6,039,000
Contribution Deficiency (Excess)	$ 0	$ 0	$ 0	$ 0
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.

2014	2013	2012	2011	2010	2009
$ 21,390,000	$ 18,992,000	$ 18,956,000	$ 13,322,000	$ 10,740,000	$ 10,017,000
21,390,000	18,992,000	18,956,000	10,457,000	10,740,000	10,603,000
21,390,000	18,992,000	18,956,000	10,457,000	10,740,000	10,603,000
$ 0	$ 0	$ 0	$ 2,865,000	$ 0	$ (586,000)
$ 76,367,000	$ 71,533,000	$ 75,673,000	$ 69,206,000	$ 71,079,000	$ 80,265,000
28.01%	26.55%	25.05%	15.11%	15.11%	13.21%
$ 0	$ 0	$ 0	$ 0	$ 0	$ 0
$ 0	$ 0	$ 0	$ 0	$ 0	$ 0
$ 3,608,000	$ 3,600,000	$ 3,314,000	$ 4,209,000	$ 3,657,000	$ 3,686,000
0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
$ 5,349,000	$ 5,667,000	$ 6,075,000	$ 5,719,000	$ 5,682,000	$ 6,248,000
7,007,000	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
$ (1,658,000)	$ (1,340,000)	$ (932,000)	$ (1,288,000)	$ (1,326,000)	$ 356,000
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 Five Fiscal Years

Exhibit E-4

Annual Money-Weighted Rate of Return, Net of Investment Expense	2018	2017	2016	2015	2014
Cost Sharing, Multiple-Employer					
Teachers' and State Employees'	7.61%	10.75%	0.74%	2.27%	15.88%
Local Governmental Employees'	7.59%	10.74%	0.77%	2.27%	15.86%
Firefighters' and Rescue Squad Workers'	7.59%	10.76%	0.75%	2.26%	15.62%
Registers of Deeds'	(0.47%)	(0.03%)	8.04%	2.26%	6.04%
Single-Employer					
Consolidated Judicial	7.60%	10.75%	0.75%	2.27%	15.87%
Legislative	7.64%	10.72%	0.66%	2.25%	15.91%
North Carolina National Guard	7.44%	10.63%	0.77%	2.25%	15.63%

	Cost of Living Increase									
	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
Cost Sharing, Multiple-Employer										
Teachers' and State Employees'	1.00%	N/A	N/A	N/A	1.00%	N/A	N/A	N/A	2.20%	2.20%
Local Governmental Employees'	N/A	0.11%	0.63%	N/A	N/A	N/A	N/A	0.10%	2.15%	2.20%
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	1.00%	N/A	N/A	N/A	1.00%	N/A	N/A	N/A	2.20%	2.20%
Legislative	1.00%	N/A	N/A	N/A	1.00%	N/A	N/A	N/A	2.20%	2.20%
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 2008, retirement benefits increased from $165 to $167. In 2009, retirement benefits increased from $167 to $170.

(2) In 2008, basic benefits 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.

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% cost-of-living adjustment. Retirees and beneficiaries of retirees with retirement effective dates between July 1, 2016 and June 30, 2017 received a prorated amount. These benefit enhancements reflect legislation enacted by the North Carolina General Assembly.

Benefit recipients of the TSERS, CJRS, and LRS systems will receive a benefit supplement, paid by October 2018, as granted by the North Carolina General Assembly, equal to 1% of the member's annual benefit amount. The one-time supplement does not change the ongoing monthly benefit and absent additional action by the General Assembly, the payment will not recur in future years.

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 Register of Deeds' Supplemental Pension Fund, the discount rate used in calculating the plan's liabilities was lowered from 5.75% to 3.75%.

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

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. For the December 31, 2017 valuation, the discount rate was lowered to 7%.

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

	2018	2017	2016	2015	2014
State Health Plan					
Proportionate Share Percentage of Collective Net Pension Liability	0.01948%	0.01694%	0.01864%	0.02214%	0.01814%
Proportionate Share of TSERS Collective Net Pension Liability	$ 1,546,000	$ 1,557,000	$ 687,000	$ 259,000	$ 1,272,000
Covered Payroll	$ 3,255,000	$ 2,724,000	$ 2,461,000	$ 2,973,000	$ 2,820,000
Net Pension Liability as a Percentage of Covered Payroll	47.50%	57.16%	27.92%	8.71%	45.11%

* 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 Five Fiscal Years* ***Exhibit F-2***

	2018	2017	2016	2015	2014
State Health Plan					
Contractually Required Contribution	$ 301,000	$ 325,000	$ 249,000	$ 225,000	$ 258,000
Contributions in Relation to the Contractually Determined Contribution	301,000	325,000	249,000	236,000	261,000
Contribution Deficiency (Excess)	$ 0	$ 0	$ 0	$ (11,000)	$ (3,000)
Covered Payroll	$ 2,794,000	$ 3,255,000	$ 2,724,000	$ 2,461,000	$ 2,973,000
Contributions as a Percentage of Covered Payroll	10.77%	9.98%	9.14%	9.59%	8.78%

* 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 the Changes in the Net OPEB Liability and Related Ratios
Cost-Sharing, Multiple-Employer, Defined Benefit OPEB Plans
Last Two Fiscal Years — *Exhibit G-1*

Retiree Health Benefit	**2018**	**2017**
Total OPEB Liability		
Service Cost	$ 1,753,384,000	$ 2,650,984,000
Interest	1,261,878,000	1,332,874,000
Differences Between Expected and Actual Experience	(80,951,000)	(2,821,033,000)
Changes of Assumptions	(6,141,972,000)	(10,835,144,000)
Benefit Payments, Including Refunds of Member Contributions	(977,176,000)	(922,021,000)
Net Change in Total OPEB Liability	(4,184,837,000)	(10,594,340,000)
Total OPEB Liability - Beginning	33,983,195,000	44,577,535,000
Total OPEB Liability - Ending (a)	$ 29,798,358,000	$ 33,983,195,000
Plan Fiduciary Net Position		
Contributions Employer	$ 1,018,693,000	$ 950,813,000
Net Investment Income	72,384,000	94,132,000
Benefit Payments, Including Refunds of Member Contributions	(977,176,000)	(922,021,000)
Administrative Expense	(298,000)	(490,000)
Net Change in Plan Fiduciary Net Position	113,603,000	122,434,000
Plan Fiduciary Net Position - Beginning	1,196,570,000	1,074,136,000
Plan Fiduciary Net Position - Ending (b)	$ 1,310,173,000	$ 1,196,570,000
Retiree Health Benefit Net OPEB Liability - Ending (a) - (b)	$ 28,488,185,000	$ 32,786,625,000
Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability	4.40%	3.52%
Covered Payroll	$ 16,837,901,000	$ 16,365,112,000
Net OPEB Liability as a Percentage of Covered Payroll	169.19%	200.34%

Disability Income	**2018**	**2017**
Total OPEB Liability		
Service Cost	$ 25,919,000	$ 25,441,000
Interest	14,654,000	14,111,000
Changes of Benefit Terms	(44,158,000)	(403,000)
Differences Between Expected and Actual Experience	48,787,000	22,345,000
Changes of assumptions	6,692,000	
Benefit Payments, Including Refunds of Member Contributions	(69,949,000)	(71,728,000)
Net Change in Total OPEB Liability	(18,055,000)	(10,234,000)
Total OPEB Liability - Beginning	376,486,000	386,720,000
Total OPEB Liability - Ending (a)	$ 358,431,000	$ 376,486,000
Plan Fiduciary Net Position		
Contributions Employer	$ 23,385,000	$ 61,654,000
Net Investment Income	(1,481,000)	(122,000)
Benefit Payments, Including Refunds of Member Contributions	(69,949,000)	(71,728,000)
Administrative Expense	(777,000)	(1,050,000)
Other	23,000	32,000
Net Change in Plan Fiduciary Net Position	(48,799,000)	(11,214,000)
Plan Fiduciary Net Position - Beginning	437,606,000	448,820,000
Plan Fiduciary Net Position - Ending (b)	$ 388,807,000	$ 437,606,000
Disability Income's Net OPEB Asset - Ending (a) - (b)	$ (30,376,000)	$ (61,120,000)
Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability	108.47%	116.23%
Covered Payroll	$ 16,703,858,000	$ 16,224,737,000
Net OPEB Asset as a Percentage of Covered Payroll	(0.18%)	(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
Last Two Fiscal Years ***Exhibit G-2***

Retiree's Contributory Death Benefit	2018	2017
Total OPEB Liability		
Service Cost	$ (3,341,000)	$ (1,901,000)
Interest	12,075,000	11,574,000
Differences Between Expected and Actual Experience	(12,421,000)	4,241,000
Changes of Assumptions	(10,955,000)	(8,291,000)
Benefit Payments and Member Contributions	(663,000)	(1,161,000)
Net Change in Total OPEB Liability	(15,305,000)	4,462,000
Total OPEB Liability - Beginning	331,144,000	326,682,000
Total OPEB Liability - Ending (a)	$ 315,839,000	$ 331,144,000
Plan Fiduciary Net Position		
Contributions Member	$ 26,099,000	$ 25,380,000
Net Investment Income	(1,143,000)	643,000
Benefit Payments	(26,762,000)	(26,541,000)
Administrative Expense	(165,000)	(236,000)
Net Change in Plan Fiduciary Net Position	(1,971,000)	(754,000)
Plan Fiduciary Net Position - Beginning	246,995,000	247,749,000
Plan Fiduciary Net Position - Ending (b)	$ 245,024,000	$ 246,995,000
Retiree's Contributory Death Benefit Net OPEB Liability - Ending (a) - (b)	$ 70,815,000	$ 84,149,000
Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability	77.58%	74.59%
Covered Payroll	N/A	N/A
Net OPEB Liability as a Percentage of Covered Payroll	N/A	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	**2018**	**2017**	**2016**	**2015**
Actuarially Determined Contribution	$ 2,613,258,000	$ 2,728,064,000	$ 2,516,706,000	$ 2,211,436,000
Contractually Required Contribution	1,018,693,000	950,813,000	880,847,000	854,383,000
Contributions in Relation to the Actuarially Determined Contribution	1,018,693,000	950,813,000	880,847,000	854,383,000
Contribution Deficiency	$ 1,594,565,000	$ 1,777,251,000	$ 1,635,859,000	$ 1,357,053,000
Covered Payroll	$ 16,837,901,000	$ 16,365,112,000	$ 15,729,411,000	$ 15,562,532,000
Contributions as a Percentage of Covered Payroll	6.05%	5.81%	5.60%	5.49%

Disability Income	**2018**	**2017**	**2016**	**2015**
Actuarially Determined Contribution	$ 23,385,000	$ 24,337,000	$ 63,963,000	$ 63,267,000
Contractually Required Contribution	23,385,000	61,654,000	63,963,000	63,267,000
Contributions in Relation to the Actuarially Determined Contribution	23,385,000	61,654,000	63,963,000	63,267,000
Contribution Excess	$ 0	$ (37,317,000)	$ 0	$ 0
Covered Payroll	$ 16,703,858,000	$ 16,224,737,000	$ 15,600,732,000	$ 15,430,976,000
Contributions as a Percentage of Covered Payroll	0.14%	0.38%	0.41%	0.41%

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 G-3

2014	2013	2012	2011	2010	2009
$ 2,226,586,000	$ 2,072,951,000	$ 2,371,490,000	$ 2,926,070,000	$ 3,001,667,000	$ 2,713,290,000
815,157,000	813,223,000	710,027,000	743,659,000	678,769,000	635,685,000
815,157,000	813,223,000	710,027,000	743,659,000	678,769,000	635,685,000
$ 1,411,429,000	$ 1,259,728,000	$ 1,661,463,000	$ 2,182,411,000	$ 2,322,898,000	$ 2,077,605,000
$ 15,095,500,000	$ 15,343,830,000	$ 14,200,540,000	$ 15,176,714,000	$ 15,083,756,000	$ 15,504,512,000
5.40%	5.30%	5.00%	4.90%	4.50%	4.10%

2014	2013	2012	2011	2010	2009
$ 65,878,000	$ 64,969,000	$ 71,244,000	$ 69,229,000	$ 73,303,000	$ 78,443,000
65,878,000	64,969,000	80,537,000	78,259,000	77,791,000	79,981,000
65,878,000	64,969,000	80,537,000	78,259,000	77,791,000	79,981,000
$ 0	$ 0	$ (9,293,000)	$ (9,030,000)	$ (4,488,000)	$ (1,538,000)
$ 14,972,273,000	$ 14,765,682,000	$ 15,487,885,000	$ 15,049,808,000	$ 14,959,808,000	$ 15,380,962,000
0.44%	0.44%	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
Last Two Fiscal Years *Exhibit G-4*

Annual Money-Weighted Rate of Return, Net of Investment Expense	2018	2017
Retiree Health Benefit	6.58%	9.31%
Disability Income	(0.42%)	(0.06%)
Retirees' Contributory Death Benefit Plan	(4.80%)	(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.

Effective July 1, 2019, employers will no longer be reimbursed for their costs incurred during the second six months of the short term benefit period for their employees that received benefits under the Disability Income Plan of North Carolina.

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 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.

In 2018, for the December 31, 2017 actuarial valuation, the discount rate for the RHBF was updated to 3.87% and the medical and prescription drug claims cost were changed based on most recent experience. Enrollment assumptions were updated to model expected migrations among RHBF plan options and trend assumptions for the RHBF include contribution changes for the 2019 period as those amounts have been finalized

Additionally, the December 31, 2017 DIPNC actuarial valuation includes a liability for the state's potential reimbursement of health insurance premiums paid by employers during the second six months of the short-term disability benefit period.

North Carolina Department of State Treasurer
Required Supplementary Information
Schedule of the Component Unit Net OPEB Liability or Asset
Cost-Sharing, Multiple-Employer, Defined Benefit OPEB Plans
Last Fiscal Year* ***Exhibit H-1***

		2018
State Health Plan		
Retiree Health Benefit Fund		
Proportionate Share Percentage of Collective Net OPEB Liability		0.01690%
Proportionate Share of Collective OPEB Net Pension Liability	$	5,541,000
Covered Payroll	$	3,255,000
Net OPEB Liability as a Percentage of Covered Payroll		170.23%
Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability		89.51%
Disability Income Plan of North Carolina		
Proportionate Share Percentage of Collective Net OPEB Liability		0.01706%
Proportionate Share of Collective Net OPEB Asset	$	10,000
Covered Payroll	$	3,255,000
Net OPEB Asset as a Percentage of Covered Payroll		0
Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability		3.52%

* 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
Cost-Sharing, Multiple-Employer, Defined Benefit OPEB Plans
*Last Fiscal Year** — *Exhibit H-2*

		2018
State Health Plan		
Retiree Health Benefit Fund		
Contractually Required Contribution	$	169,000
Contributions in Relation to the Contractually Determined Contribution		169,000
Contribution Deficiency (Excess)	$	0
Covered Payroll	$	2,794,000
Contributions as a Percentage of Covered Payroll		6.05%
Disability Income Plan of North Carolina		
Contractually Required Contribution	$	4,000
Contributions in Relation to the Contractually Determined Contribution		4,000
Contribution Deficiency (Excess)	$	0
Covered Payroll	$	2,794,000
Contributions as a Percentage of Covered Payroll		0.14%

* Information is not available for the preceding years, to the extent 10 years of information is not presented.

SUPPLEMENTARY INFORMATION

North Carolina Department of State Treasurer
Combining Balance Sheet
Other Governmental Funds
As of June 30, 2018
(With Comparative Totals as of June 30, 2017) ***Exhibit I-1***

		Capital Project Funds			
	Other Special Revenue Fund	**NC Infrastructure Finance**	**Public Improvement Bonds**	**Total 2018**	**Total 2017**
ASSETS					
Cash and Cash Equivalents	$ 520,161	$ 0	$ 0	$ 520,161	$ 505,129
Investments		640,983	2,612,308	3,253,291	3,574,228
Securities Lending Collateral	350			350	341
Interest Receivable	378	1,555	16,618	18,551	6,241
Notes Receivable	25,712			25,712	37,404
Total Assets	546,601	642,538	2,628,926	3,818,065	4,123,343
DEFERRED OUTFLOWS OF RESOURCES					
Total Deferred Outflows of Resources	0	0	0	0	0
Total Assets and Deferred Outflows of Resources	$ 546,601	$ 642,538	$ 2,628,926	$ 3,818,065	$ 4,123,343
LIABILITIES					
Accounts Payable and Accrued Liabilities					
Accounts Payable	$ 0	$ 0	$ 0	$ 0	$ 1,366
Obligations under Securities Lending	350			350	341
Total Liabilities	350	0	0	350	1,707
DEFERRED INFLOWS OF RESOURCES					
Total Deferred Inflows of Resources	0	0	0	0	0
FUND BALANCES					
Restricted		642,538	2,628,926	3,271,464	3,578,837
Committed	546,251			546,251	542,799
Total Fund Balances	546,251	642,538	2,628,926	3,817,715	4,121,636
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	$ 546,601	$ 642,538	$ 2,628,926	$ 3,818,065	$ 4,123,343

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, 2018
(With Comparative Totals for the Fiscal Year Ended June 30, 2017) *Exhibit I-2*

		Capital Project Funds			
	Other Special Revenue Fund	NC Infrastructure Finance	Public Improvement Bonds	Total 2018	Total 2017
REVENUES					
Fees	$ 0	$ 0	$ 0	$ 0	$ 150
Contributions	1,260			1,260	3,257
Investment Earnings	3,825	9,692	87,006	100,523	44,707
Miscellaneous Revenue	532			532	
Total Revenues	5,617	9,692	87,006	102,315	48,114
EXPENDITURES					
Contracted Personal Services	165		5,117	5,282	6,575
Personal Services		74,348		74,348	
Claims and Benefits	2,000			2,000	3,373
Debt Service Interest and Fees		2,914		2,914	489
Expenditures to Other State Agencies		321,692		321,692	280,027
Total Expenditures	2,165	398,954	5,117	406,236	290,464
Excess Revenues Over (Under) Expenditures	3,452	(389,262)	81,889	(303,921)	(242,350)
OTHER FINANCING (USES)					
Transfers Out					
Total Other Financing Uses	0	0	0	0	0
Net Change in Fund Balances	3,452	(389,262)	81,889	(303,921)	(242,350)
Fund Balances - July 1	542,799	1,031,800	2,547,037	4,121,636	4,363,986
Fund Balances - June 30	$ 546,251	$ 642,538	$ 2,628,926	$ 3,817,715	$ 4,121,636

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, 2018
(With Comparative Totals as of June 30, 2017)

	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	$ 176,909,343	$ 539,457	$ 521,829	$ 1,109,143	$ 1,905,480	$ 54,531,552
Investments						
Collective Investment Funds						
Unallocated Insurance Contracts						
Synthetic Guaranteed Investment Contracts						
State Treasurer Investment Pool	70,122,008,326	593,642,743	27,411,082	423,658,380	127,885,098	25,865,038,194
Non-State Treasurer Pooled Investments						
Securities Lending Collateral	492,371,983	4,167,149	193,020	2,974,788	899,880	181,607,965
Receivables						
Accounts Receivable	3,127,446	137,848	55,319	39,813	10,726	3,769,969
Interest Receivable	543,616	3,497	843	3,661	3,157	147,660
Contributions Receivable	68,123,886		78,568			59,508,650
Due from Other Funds	52,183,436	2,240,177				
Due from Component Units	12,195,263					
Notes Receivable						
Total Assets	70,927,463,299	600,730,871	28,260,661	427,785,785	130,704,341	26,164,603,990
LIABILITIES						
Accounts Payable and Accrued Liabilities						
Accounts Payable						
Benefits Payable	849,071	1,820	285	2,601	1,876	705,155
Obligations under Securities Lending	492,371,983	4,167,149	193,020	2,974,788	899,880	181,607,964
Funds Held for Others	7,544,107	58,076	6,220			30,821
Total Liabilities	500,765,161	4,227,045	199,525	2,977,389	901,756	182,343,940
NET POSITION						
Restricted for						
Pension Benefits	70,426,698,138	596,503,826	28,061,136	424,808,396	129,802,585	25,982,260,050
Postemployment Benefits						
Other Employment Benefits						
Total Net Position[1]	$ 70,426,698,138	$ 596,503,826	$ 28,061,136	$ 424,808,396	$ 129,802,585	$ 25,982,260,050

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

[1] See Exhibit B-1

Exhibit J-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 2018	Total 2017
$ 0	$ 0	$ 6,029,279	$ 233,780,889	$ 7,067,086	$ 84,571	$ 482,478,629	$ 462,061,218
158,569,799	29,979,308					188,549,107	194,478,768
704,841,280	133,257,745					838,099,025	813,752,436
1,269,697,938	240,049,938					1,509,747,876	1,465,848,568
		423,462,355	1,022,779,957	354,188,093	47,459,958	99,007,534,186	94,927,088,007
7,749,917,873	984,330,777					8,734,248,650	7,299,952,971
		7,320	7,462,445	8,592	103	689,693,245	705,567,696
3,002	100,692			26,721,612		33,966,427	35,767,885
		6,655	277,667	13,114	189	1,000,059	665,245
7,184,881	925,197	923,821	27,340,670	631,039	86,495	164,803,207	149,977,160
		497,877	19,206,020	436,004		74,563,514	71,978,102
		114,545	6,787,347	157,063		19,254,218	17,999,615
292,525,108	20,865,225					313,390,333	306,076,347
10,182,739,881	1,409,508,882	431,041,852	1,317,634,995	389,222,603	47,631,316	112,057,328,476	106,451,214,018
1,136,262	214,822	90,981				1,442,065	1,369,321
		3,898,574		233,304		5,692,686	5,121,211
		7,321	7,462,445	8,592	103	689,693,245	705,567,696
				173,969		7,813,193	6,853,172
1,136,262	214,822	3,996,876	7,462,445	415,865	103	704,641,189	718,911,400
10,181,603,619					47,631,213	107,817,368,963	102,421,894,530
			1,310,172,550	388,806,738		1,698,979,288	1,634,176,135
	1,409,294,060	427,044,976				1,836,339,036	1,676,231,953
$ 10,181,603,619	$ 1,409,294,060	$ 427,044,976	$ 1,310,172,550	$ 388,806,738	$ 47,631,213	$ 111,352,687,287	$ 105,732,302,618

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, 2018
(With Comparative Totals for the Fiscal Year Ended June 30, 2017)

	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	$ 1,602,901,084	$ 23,987,570	$ 688,664	$ 0	$ 0	$ 492,316,995
Members	910,797,028	5,705,866	253,184	2,789,547		401,632,356
Other Contributions				17,952,208	8,923,153	
Total Contributions	2,513,698,112	29,693,436	941,848	20,741,755	8,923,153	893,949,351
Investment Income						
Investment Earnings	5,287,376,918	44,518,053	2,134,331	31,931,170	9,494,067	1,937,242,219
Less Investment Expenses	(402,023,118)	(3,394,837)	(159,341)	(2,426,617)	(727,833)	(147,905,695)
Net Investment Income	4,885,353,800	41,123,216	1,974,990	29,504,553	8,766,234	1,789,336,524
Other Additions						
Fees and Fines						2,906,031
Interest Earnings on Loans						
Miscellaneous	181,294			10,295	1,468	175,495
Total Other Additions	181,294	0	0	10,295	1,468	3,081,526
Total Additions	7,399,233,206	70,816,652	2,916,838	50,256,603	17,690,855	2,686,367,401
DEDUCTIONS						
Claims and Benefits	4,548,638,472	43,373,785	2,377,908	28,500,727	8,766,097	1,337,106,675
Medical Insurance Premiums						
Refund of Contributions	117,752,023	18,373	152,823	3,226,287		65,686,520
Administrative Expenses[1]	11,604,356	23,851	14,361	884,179	248,802	4,324,198
Other Deductions	27					
Total Deductions	4,677,994,878	43,416,009	2,545,092	32,611,193	9,014,899	1,407,117,393
Change in Net Position	2,721,238,328	27,400,643	371,746	17,645,410	8,675,956	1,279,250,008
Net Position — July 1	67,705,459,810	569,103,183	27,689,390	407,162,986	121,126,629	24,703,010,042
Net Position — June 30[2]	$ 70,426,698,138	$ 596,503,826	$ 28,061,136	$ 424,808,396	$ 129,802,585	$ 25,982,260,050

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

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

Exhibit J-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 2018	Total 2017
$ 199,798,246	$ 2,113,327	$ 27,903,513	$ 1,018,692,516	$ 23,385,401	$ 855,779	$ 3,392,643,095	$ 3,156,180,094
336,634,764	75,454,408					1,733,267,153	1,699,221,196
		26,099,321				52,974,682	51,498,753
536,433,010	77,567,735	54,002,834	1,018,692,516	23,385,401	855,779	5,178,884,930	4,906,900,043
1,302,064,401	167,915,671	(1,933,892)	78,211,222	(1,419,700)	(221,643)	8,857,312,817	10,449,645,377
		(72,824)	(5,827,369)	(60,970)	(8,143)	(562,606,747)	(527,455,634)
1,302,064,401	167,915,671	(2,006,716)	72,383,853	(1,480,670)	(229,786)	8,294,706,070	9,922,189,743
						2,906,031	2,780,337
12,516,913	873,630					13,390,543	12,935,036
2,108,783	424,643			21,710		2,923,688	3,816,491
14,625,696	1,298,273	0	0	21,710	0	19,220,262	19,531,864
1,853,123,107	246,781,679	51,996,118	1,091,076,369	21,926,441	625,993	13,492,811,262	14,848,621,650
500,736,050	83,502,405	52,428,682		69,948,652	1,792,650	6,677,172,103	6,435,231,884
		188,623	975,918,015			976,106,638	916,088,760
						186,836,026	169,902,936
10,314,174	2,206,880	344,124	297,812	777,079	13,884	31,053,700	29,255,635
			1,258,099			1,258,126	6,128,178
511,050,224	85,709,285	52,961,429	977,473,926	70,725,731	1,806,534	7,872,426,593	7,556,607,393
1,342,072,883	161,072,394	(965,311)	113,602,443	(48,799,290)	(1,180,541)	5,620,384,669	7,292,014,257
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
$ 10,181,603,619	$ 1,409,294,060	$ 427,044,976	$ 1,310,172,550	$ 388,806,738	$ 47,631,213	$ 111,352,687,287	$ 105,732,302,618

North Carolina Department of State Treasurer
Combining Statement of Fiduciary Net Position
Investment Trust Funds
As of June 30, 2018 — *Exhibit J-3*

	State Treasurer Investment Pool	Equity Index Investment Account	Bond Index External Investment Pool	Total 2018	Total 2017
ASSETS					
Cash and Cash Equivalents	$ 8,874,271	$ 0	$ 0	$ 8,874,271	$ 7,922,308
State Treasurer Investment Pool	685,984,891	561,938,485	60,555,354	1,308,478,730	1,198,240,115
Securities Lending Collateral	804,375	4,979		809,354	866,204
Interest Receivable	2,611,138			2,611,138	2,004,248
Total Assets	698,274,675	561,943,464	60,555,354	1,320,773,493	1,209,032,875
LIABILITIES					
Obligations under Securities Lending	804,375	4,979		809,354	866,204
NET POSITION					
Restricted for					
Pool Participants	697,470,300			697,470,300	799,377,119
Individuals, Organizations, and Other Governments		561,938,485	60,555,354	622,493,839	408,789,552
Total Net Position[1]	$ 697,470,300	$ 561,938,485	$ 0	$ 1,319,964,139	$ 1,208,166,671

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

[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, 2018 *Exhibit J-4*

	State Treasurer Investment Pool	Equity Index Investment Account	Bond Index External Investment Pool	Total 2018	Total 2017
ADDITIONS					
Investment Income					
Investment Earnings	$ 10,181,546	$ 45,780,383	$ (330,251)	$ 55,631,678	$ 73,622,779
Less Investment Expenses	(28,000)	(108,440)	(10,552)	(146,992)	(832,040)
Net Investment Income	10,153,546	45,671,943	(340,803)	55,484,686	72,790,739
Pool Share Transactions					
Reinvestment of Dividends	10,153,545	45,671,943	(340,803)	55,484,685	73,356,751
Net Share Purchases/(Redemptions)	(64,550,154)	107,476,990	13,385,947	56,312,783	(6,649,334)
Net Pool Share Transactions	(54,396,609)	153,148,933	13,045,144	111,797,468	66,707,417
Total Additions	(44,243,063)	198,820,876	12,704,341	167,282,154	139,498,156
DEDUCTIONS					
Distributions Paid and Payable	10,153,546	45,671,943	(340,803)	55,484,686	73,356,751
Change in Net Position	(54,396,609)	153,148,933	13,045,144	111,797,468	66,141,405
Net Position — July 1	751,866,909	408,789,552	47,510,210	1,208,166,671	1,142,025,266
Net Position — June 30[1]	$ 697,470,300	$ 561,938,485	$ 60,555,354	$ 1,319,964,139	$ 1,208,166,671

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

[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, 2018
(With Comparative Totals as of June 30, 2017)

	General Operations[1]	Information Technology Projects	Benefit Plan Activities[2]
REVENUES			
Funds Escheated	$ 0	$ 0	$ 0
Fees			
Services	6,385,752	639,981	
Administrative Cost Reimbursements	5,902,760		
Contributions			2,116,849
Investment Earnings			14,818
Interest Earnings On Loans			
Revenues from Other State Agencies		144,000	
Loan Collection of Principal			
Reimbursement of Core Banking Upgrade Expenditures			
Reimbursement of Expenditures from Investment Pool	7,284,552		
Miscellaneous Revenue	1,541		
Total Revenues	19,574,605	783,981	2,131,667
EXPENDITURES			
State Aid			26,875,361
Contracted Personal Services	829,421		216,484
Personal Services	14,752,506	92,998	562,762
Employee Benefits	4,777,236	16,626	
Supplies and Materials	71,135		
Travel	53,303		
Communication	179,531		
Utilities	235,753		
Data Processing Services	123,158		
Other Services	89,608		3,074
Claims and Benefits			802,000
Debt Service			
Principal Retirement			
Interest and Fees			
Debt issuance costs	324,193		
Other Fixed Charges	1,642,094	353,852	
Capital Outlay	731,060		
Insurance	9,395		
Other Expenditures	738,482		
Expenditures to Other State Agencies			
Total Expenditures	24,556,875	463,476	28,459,681
Excess Revenues Over (Under) Expenditures	(4,982,270)	320,505	(26,328,014)
OTHER FINANCING SOURCES (USES)			
State Appropriations	4,012,609		27,692,960
Sale of Capital Assets			
General Obligation Bonds Issued			
Refunding on Bonds Issued			
Premiums on Bonds Issued			
Pay to Refunded Debt Escrow Agent			
Transfers to State Reserve Fund			
Transfers from State Reserve Fund	26,123		47,159
Transfers In	950,235		
Transfers Out			
Total Other Financing Sources	4,988,967	0	27,740,119
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	$ 6,697	$ 320,505	$ 1,412,105

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

Exhibit K-1

Debt Related Activities[3]	Escheat Activities[4]	Other Activities[5]	Total 2018[6]	Total 2017
$ 0	$ 105,127,147	$ 0	$ 105,127,147	$ 126,700,610
		7,015,114	7,015,114	7,255,758
	375		7,026,108	6,990,927
			5,902,760	5,839,625
			2,116,849	667,048
3,421,142	12,335,464	3,799	15,775,223	12,509,897
165,176			165,176	268,942
3,005,533			3,149,533	2,943,151
587,101			587,101	3,730,613
				280,000
			7,284,552	8,721,372
119,632		532	121,705	294,242
7,298,584	117,462,986	7,019,445	154,271,268	176,202,185
	37,287,242		64,162,603	63,406,525
111,101	2,493,199		3,650,205	4,355,613
74,345	1,123,694		16,606,305	17,546,596
	426,891		5,220,753	5,451,059
	17,642		88,777	146,945
	1,531		54,834	97,295
	18,230		197,761	237,896
			235,753	185,723
	6,185		129,343	137,640
	57,814		150,496	154,256
			802,000	503,373
656,608,188			656,608,188	466,299,036
207,343,268			207,343,268	237,642,006
1,100,800			1,424,993	1,008,226
	87,444		2,083,390	1,489,502
	2,713		733,773	1,021,644
	2,825		12,220	11,962
	113,817		852,299	752,050
11,121,277	22,855,964	7,063,211	41,040,452	230,324,405
876,358,979	64,495,191	7,063,211	1,001,397,413	1,030,771,752
(869,060,395)	52,967,795	(43,766)	(847,126,145)	(854,569,567)
717,587,097			749,292,666	716,989,066
				200,000,000
724,560,000			724,560,000	
152,357,630			152,357,630	30,018,100
(706,188,117)			(706,188,117)	
(16,000,000)			(16,000,000)	(122,246)
			73,282	121,992
			950,235	12,042,057
(1,674)	(948,561)		(950,235)	(12,042,057)
872,314,936	(948,561)	0	904,095,461	947,006,912
$ 3,254,541	$ 52,019,234	$ (43,766)	$ 56,969,316	$ 92,437,345

North Carolina Department of State Treasurer
Combining Statement of Revenues and Expenditures
Governmental Funds - General Operations
For the Fiscal Year Ended June 30, 2018
(With Comparative Totals for the Fiscal Year Ended June 30, 2017)

	Core Services[1]		
	Administrative Operations	**Information Services**	**Financial Operations**
REVENUES			
Services	$ 398,882	$ 937,008	$ 363,088
Administrative Cost Reimbursements[3]	918,590	3,936,499	1,047,671
Revenues from Other State Agencies			
Reimbursement of Expenditures from Investment Pool			
Miscellaneous Revenue			777
Total Revenues	1,317,472	4,873,507	1,411,536
EXPENDITURES			
Contracted Personal Services	67,668	472,853	220,781
Personal Services	1,428,416	4,180,642	1,430,727
Employee Benefits	475,617	1,404,170	471,032
Supplies and Materials	11,510	27,452	4,549
Travel	9,244		2,105
Communication	28,473	93,578	2,223
Utilities	242	0	233,933
Data Processing Services	1,006	118,916	2,079
Other Services	4,930	9,145	38,493
Debt Service			
Debt Issuance Costs			
Other Fixed Charges	9,087	1,203,616	4,561
Capital Outlay	1,415	729,005	
Insurance	468		7,837
Other Expenditures	54,796	130,252	255,511
Total Expenditures	2,092,872	8,369,629	2,673,831
Excess Revenues Over (Under) Expenditures	(775,400)	(3,496,122)	(1,262,295)
OTHER FINANCING SOURCES (USES)			
State Appropriations			
Transfers to State Reserve Fund			
Transfers from State Reserve Fund			
Transfers In	200,999	573,555	174,007
Total Other Financing Sources	200,999	573,555	174,007
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses[4]	$ (574,401)	$ (2,922,567)	$ (1,088,288)

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.

Exhibit K-2

Investment Management Operations	State and Local Government Finance Operations	Banking Operations	ABLE Operations	Total 2018[2]	Total 2017
$ 0	$ 4,686,774	$ 0	$ 0	$ 6,385,752	$ 6,057,784
				5,902,760	5,839,625
					846
7,284,552				7,284,552	8,721,372
			764	1,541	2,762
7,284,552	4,686,774	0	764	19,574,605	20,622,389
19,500	47,670	949		829,421	1,128,502
4,601,203	2,297,592	753,602	60,324	14,752,506	15,713,869
1,279,759	820,346	305,178	21,134	4,777,236	4,980,648
12,526	9,635	2,993	2,470	71,135	118,742
4,327	34,913		2,714	53,303	85,472
31,029	10,804	13,424		179,531	211,209
1,093	485			235,753	183,900
495	331	331		123,158	131,416
2,383	14,792	1,356	18,509	89,608	108,378
	324,193			324,193	469,475
8,258	11,293	405,279		1,642,094	1,059,235
	640			731,060	1,005,260
455	435	200		9,395	9,026
116,170	121,988	59,765		738,482	654,566
6,077,198	3,695,117	1,543,077	105,151	24,556,875	25,859,698
1,207,354	991,657	(1,543,077)	(104,387)	(4,982,270)	(5,237,309)
		4,012,609		4,012,609	4,221,838
					(42,759)
			26,123	26,123	80,340
	1,674			950,235	1,416,151
0	1,674	4,012,609	26,123	4,988,967	5,675,570
$ 1,207,354	$ 993,331	$ 2,469,532	$ (78,264)	$ 6,697	$ 438,261

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, 2018 *Exhibit K-3*

		Pension and Other Employee Benefit Trust Funds
DEDUCTIONS		
Defined Benefit Plan Administrative Expenses		
Reimbursed to the General Fund		
Personal Services	$	6,648,066
Employee Benefits		2,591,053
Contracted Services		1,858,092
Supplies and Materials		64,998
Travel		17,538
Communication		192,329
Utilities		242
Data Processing Services		6,688
Other Services		541,655
Other Fixed Charges		35,644
Capital Outlay		3,434
Insurance		1,844
Other Expenses		668,302
Reimbursement for Core Services		5,902,760
401(k) and 457 Administrative Expenses		12,521,055
Total Deductions for Administrative Expenses	$	31,053,700

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, 2018

Exhibit L-1

	Total	Short-term Investment Fund [1]	Long-term Fund	Other Investment Funds [2]
Internal:				
North Carolina Pension Plans [3]	$ 98,623,840,314	$ 469,297,693	$ 24,574,625,226	$ 73,579,917,395
Other Pension and Post Employment Benefit Plans [4]	14,718,727	14,718,727		
State General Fund	5,602,404,731	5,602,404,731		
Highway Trust Fund	1,360,957,415	1,360,957,415		
Highway Fund	103,980,616	103,980,616		
Escheat Fund	480,030,475	480,030,475		
EPA Revolving Loan Fund	300,981,333	300,981,333		
Unemployment Compensation Fund	51,130,108	51,130,108		
Other Primary Government	3,300,930,585	3,300,930,585		
State Health Plan	1,062,782,280	1,062,782,280		
Other Component Units of the State [5]	3,851,637,416	3,851,637,416		
External [6]	697,470,000	697,470,000		
Net Position Held in Trust (Note 3) [7, 8]	$ 115,450,864,000	$ 17,296,321,379	$ 24,574,625,226	$ 73,579,917,395

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 $5.43 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, and the 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 Retiree Health Benefit Fund and Disability Income Plan, and Note 16 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 86% of the external portion of the Short-term Investment Fund balance as of June 30, 2018.

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, 2018

Exhibit L-2

		Bond Index External Investment Pool
Internal:		
Other Pension and Post Employment Benefit Plans [1]	$	825,110,000
Escheat Fund		120,328,000
EPA Revolving Loan Fund		210,429,000
Other Primary Government		275,969,000
Other Component Units of the State [2]		50,811,000
External [3]		60,555,000
Net Position Held in Trust (Note 3)	$	1,543,202,000

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 16 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, 2018 *Exhibit L-3*

		Equity Index Investment Account
Internal:		
Other Primary Government	$	17,829,000
External [1]		561,938,000
Net Position Held in Trust (Note 3)	$	579,767,000

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, 2018

	Investment Portfolio [10]			
	Short-term [11]	Long-term [11]	External Fixed Income	Public Equity
Investment Management Fees				
Investment Performance Fees	$ 0	$ 0	$ 0	$ 10,997,991
Investment Management Fees				64,540,700
Total Investment Management Fees	$ 0	$ 0	$ 0	$ 75,538,691
Administrative and Other Fees				
Direct				
Internal Costs [1]	$ 4,453,717	$ 1,389,868	$ 21,468	$ 1,217,175
Legal			1,207	12,063
Investment Research and Consulting [2]	40,570	459,133	11,116	41,893
Information Technology [3]	144,522	262,007	185,256	368,526
Temporary Staffing [4]		276	120,605	159,542
Financial Services [5]			235,689	1,600,813
Employee Business Expenses [6]	6	736	714	18,042
Other Direct Expenses	349,524	268,642	(13,245)	579,760
Withholding Taxes [7]		98		14,768,222
Investment Expenses [8]				65,809
Banking Expenses [9]	2,822,391	390,180		782,421
Total Administrative and Other Fees	$ 7,810,730	$ 2,770,940	$ 562,810	$ 19,614,266

[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 service 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 2).

[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**	**Credit**	**Inflation Sensitive**	**Cash**	**Total**
$ 130,320,183	$ 43,947,034	$ 35,080,324	$ 2,571,075	$ 0	$ 222,916,607
75,665,577	63,601,770	57,222,209	58,687,192	664,574	320,382,022
$ 205,985,760	$ 107,548,804	$ 92,302,533	$ 61,258,267	$ 664,574	$ 543,298,629
$ 725,848	$ 1,137,088	$ 345,070	$ 175,692	$ 493,463	$ 9,959,389
344	3,731	1,141	271	148	18,905
3,145	30,044	2,071	2,386	2,439	592,797
49,274	108,061	55,314	60,669	23,302	1,256,931
35,279	28,723	23,709	27,534	14,949	410,617
250,150	320,299	270,958	165,229	28,485	2,871,623
1,878	8,896	1,062	731	235	32,300
159,842	184,823	87,839	93,502	(493,430)	1,217,257
79,830	526,017	2,711	2,128,188		17,505,066
3,267,278	21,905,718	4,363,425	15,129,331		44,731,561
			6,526		4,001,518
$ 4,572,868	$ 24,253,400	$ 5,153,300	$ 17,790,059	$ 69,591	$ 82,597,964

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, 2018, 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, the management and incentive fees paid and peer cost comparison relative to NCRS.

Investment Policy Statement

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. Periodically, the Investment Management Division conducts an asset liability study utilizing updated capital market assumptions, and presents the results to the Treasurer and the Investment Advisory Committee. There have been no changes to the asset allocation policy since July 1, 2014. 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, 2018. 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 State Treasurer Pool.

North Carolina Department of State Treasurer
Investment Performance Schedule
External Investment Pool
As of June 30, 2018

	Statutory Classification			
	Public Equity [1]	Long Term [2]	Pension Cash [2]	Fixed Income [2,8]
Public Equity	$ 35,836,673,713	$ 0	$ 0	$ 0
Private Equity				
Non Core Real Estate				
Opportunistic Fixed Income				
Investment Grade Fixed Income and Cash		24,574,625,226		3,022,276,673
Pension Cash			3,464,317,078	
Inflation Sensitive				
Core Real Estate				
Multi Strategy				
Total	$ 35,836,673,713	$ 24,574,625,226	$ 3,464,317,078	$ 3,022,276,673

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	$ 3,675,175,497	$ 39,511,849,210
5,074,694,968					5,074,694,968
	3,200,032,092				3,200,032,092
			5,712,558,573		5,712,558,573
					27,596,901,899
					3,464,317,078
		6,356,060,710			6,356,060,710
	5,305,255,165				5,305,255,165
1,932,872,926					1,932,872,926
$ 7,007,567,894	$ 8,505,287,257	$ 6,356,060,710	$ 5,712,558,573	$ 3,675,175,497	$ 98,154,542,621

The following supplementary information includes a discussion of the retirement system's risk and returns compared to benchmarks, total management and incentive fees paid, and comparisons to peer cost benchmarks. As of June 30, 2018, 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, 2018

Asset Classification	1 YR	3 YR	5 YR	10 YR
Growth	12.37%	8.69%	10.13%	6.52%
Benchmark	9.51%	7.35%	8.68%	5.72%
Public Equity	12.53%	8.77%	10.18%	6.93%
Benchmark	10.55%	7.87%	9.31%	6.19%
Private Equity	16.29%	10.01%	11.53%	6.73%
Benchmark	13.70%	9.03%	10.38%	7.73%
Non-Core Real Estate	15.90%	13.12%	14.83%	3.14%
Benchmark	11.04%	7.55%	9.03%	0.73%
Opportunistic Fixed Income	6.47%	4.40%	5.03%	6.53%
Benchmark	-0.96%	1.98%	2.18%	0.57%
Rates & Liquidity	-0.20%	2.08%	2.84%	5.09%
Benchmark	-0.44%	2.21%	3.01%	4.84%
Investment Grade Fixed Income and Cash	-0.37%	2.13%	2.89%	5.11%
Benchmark	-0.50%	2.26%	3.05%	4.87%
Pension Cash	1.39%	1.07%	0.83%	0.00%
Benchmark	1.29%	0.66%	0.41%	0.00%
Inflation Sensitive & Diversifiers	6.78%	5.82%	4.64%	1.05%
Benchmark	5.34%	4.49%	4.52%	-0.15%
Inflation Sensitive	6.24%	3.93%	1.89%	-1.59%
Benchmark	3.78%	1.05%	0.22%	-0.60%
Core Real Estate	7.64%	8.41%	8.52%	5.11%
Benchmark	7.22%	8.69%	9.87%	4.88%
Multi-Strategy	6.27%	5.83%	7.41%	5.91%
Benchmark	5.70%	4.71%	6.41%	4.64%
Total Pension Plan	7.32%	6.22%	7.27%	6.11%
Implementation Benchmark	6.06%	5.55%	6.46%	5.47%
Long-Term Policy Benchmark	6.54%	5.33%	6.15%	4.95%

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, 2018

	Expenses Paid: Management and Incentive Fee (Average Market Value)		
	0 bps	0 - 25bps	25 - 50bps
Asset Class			
Public Equity	$ 3,981,677,603	$ 23,967,857,720	$ 10,175,499,178
Private Equity	525,479,953	28,753,564	560,184,334
Non Core Real Estate	215,823,362	17,719,948	52,725,835
Opportunistic Fixed Income	157,296,597	238,027,356	665,184,922
Investment Grade Fixed Income and Cash	27,596,904,440		
Pension Cash	3,499,914,691		
Inflation Sensitive	369,651,564	69,786,327	1,601,280,883
Core Real Estate	173,588,153	355,245,846	927,929,614
Multi-Strategy	490,949	1,528,871,171	631,153
Total Fund	$ 36,520,827,312	$ 26,206,261,932	$ 13,983,435,919

	Expenses Paid: Management and Incentive Fee (% of Asset Class Average Market Value)		
	0 bps	0 - 25bps	25 - 50bps
Asset Class			
Public Equity	10.09%	60.76%	25.80%
Private Equity	10.43%	0.57%	11.12%
Non Core Real Estate	6.12%	0.50%	1.49%
Opportunistic Fixed Income	2.79%	4.22%	11.78%
Investment Grade Fixed Income and Cash	100.00%	0.00%	0.00%
Pension Cash	100.00%	0.00%	0.00%
Inflation Sensitive	5.87%	1.11%	25.43%
Core Real Estate	3.46%	7.09%	18.52%
Multi-Strategy	0.03%	81.39%	0.03%
Total Fund	37.29%	26.74%	14.28%

Exhibit O-1

Expenses Paid: Management and Incentive Fee (Average Market Value)			
50 - 100bps	100 - 150bps	150+bps	Total
$ 292,512,816	$ 438,570,981	$ 590,072,180	$ 39,446,190,478
1,094,412,270	886,255,310	1,942,669,732	5,037,755,163
484,293,267	622,316,837	2,134,892,749	3,527,771,998
1,815,913,490	732,219,159	2,037,250,138	5,645,891,662
			27,596,904,440
			3,499,914,691
1,891,542,186	1,374,627,025	988,865,562	6,295,753,547
2,801,193,318	222,706,311	530,710,880	5,011,374,122
185,733,444	145,331,497	17,491,743	1,878,549,957
$ 8,565,600,791	$ 4,422,027,120	$ 8,241,952,984	$ 97,940,106,058

Expenses Paid: Management and Incentive Fee (% of Asset Class Average Market Value)			
50 - 100bps	100 - 150bps	150+bps	Total
0.74%	1.11%	1.50%	100.00%
21.73%	17.59%	38.56%	100.00%
13.73%	17.64%	60.52%	100.00%
32.16%	12.97%	36.08%	100.00%
0.00%	0.00%	0.00%	100.00%
0.00%	0.00%	0.00%	100.00%
30.05%	21.83%	15.71%	100.00%
55.90%	4.44%	10.59%	100.00%
9.89%	7.73%	0.93%	100.00%
8.75%	4.52%	8.42%	100.00%

North Carolina Department of State Treasurer
Investment Pool Fee Schedule - Fee Type by Contract
For the Fiscal Year Ended June 30, 2018 — Exhibit O-2

	Fee Type by Contract (Average Market Value)				
	No Fees	Management Only	Incentive Only	Management and Incentive	Total
Asset Class					
Public Equity	$ 3,264,300,910	$ 35,118,576,309	$ 34,690,256	$ 1,028,623,003	$ 39,446,190,478
Private Equity	32,600,000	20,529,173		4,984,625,990	5,037,755,163
Non Core Real Estate				3,527,771,998	3,527,771,998
Opportunistic Fixed Income		262,465,040		5,383,426,622	5,645,891,662
Investment Grade Fixed Income and Cash	27,596,903,964			476	27,596,904,440
Pension Cash	3,499,914,691				3,499,914,691
Inflation Sensitive	152,074,702	1,000,040,052	182,843,703	4,960,795,091	6,295,753,548
Core Real Estate		1,156,354,584		3,855,019,537	5,011,374,121
Multi-Strategy		1,528,871,171		349,678,786	1,878,549,957
Total Fund	$ 34,545,794,267	$ 39,086,836,329	$ 217,533,959	$ 24,089,941,503	$ 97,940,106,058

	Fee Type by Contract (% of Asset Class Average Market Value)				
	No Fees	Management Only	Incentive Only	Management and Incentive	Total
Asset Class					
Public Equity	8.28%	89.02%	0.09%	2.61%	100.00%
Private Equity	0.65%	0.41%	0.00%	98.94%	100.00%
Non Core Real Estate	0.00%	0.00%	0.00%	100.00%	100.00%
Opportunistic Fixed Income	0.00%	4.65%	0.00%	95.35%	100.00%
Investment Grade Fixed Income and Cash	100.00%	0.00%	0.00%	0.00%	100.00%
Pension Cash	100.00%	0.00%	0.00%	0.00%	100.00%
Inflation Sensitive	2.42%	15.88%	2.90%	78.80%	100.00%
Core Real Estate	0.00%	23.07%	0.00%	76.93%	100.00%
Multi-Strategy	0.00%	81.39%	0.00%	18.61%	100.00%
Total Fund	35.27%	39.91%	0.22%	24.60%	100.00%

North Carolina Department of State Treasurer
Notes to Supplementary Information
Investment Pool Fee Schedules
For the Fiscal Year Ended June 30, 2018

Average Market Value

The market value of investments held by investment managers are averaged monthly from July 1, 2017 to June 30, 2018. 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, 2018. 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 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

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Office of the State Auditor

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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, 2018, and the related notes to the financial statements, which collectively comprise the Department's basic financial statements, and have issued our report thereon dated June 5, 2019.

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.

As discussed in Note 1, the financial statements of the Department of State Treasurer are intended to present the financial position, changes in financial position, and cash flows that are only attributable to the transactions of the Department of State Treasurer. They do not purport to, and do not, present fairly the financial position of the State of North Carolina as of June 30, 2018, the changes in its financial position, or its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

<u>Internal Control Over Financial Reporting</u>

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

June 5, 2019

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NC OSA
The Taxpayers' Watchdog

This audit required 6,166 audit hours at an approximate cost of $635,047, plus actuarial costs of $40,000. The total audit cost also includes the cost associated with the report on the Department's statewide financial statement audit procedures.