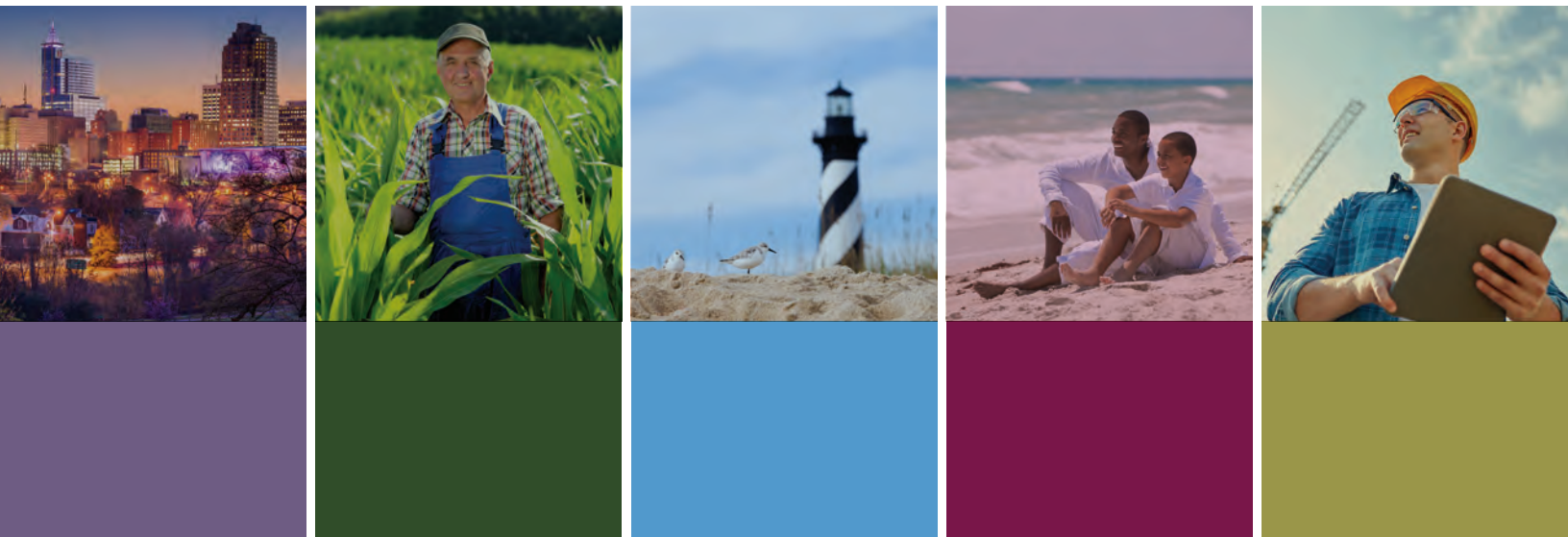




North Carolina Department of State Treasurer



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

STATE TREASURER
JANET COWELL

FISCAL YEAR

2015-2016

DEAR FELLOW NORTH CAROLINIANS,



It has been my honor to serve as Treasurer of this great state for the past eight years. The awesome responsibility entrusted to this office was never more apparent than in the preparation of our Annual Report. The information contained in the pages that follow has served as a periodic reminder of all the ways in which the work of this Department positively impacts lives.

With that said, it is my great pleasure to present the Department of State Treasurer's 2015-2016 Annual Report. This report provides an overview of the work achieved together as a Department and also as the individual divisions that comprise it. Those divisions are Retirement Systems, State Health Plan, Unclaimed Property, State and Local Government Finance, Investment Management and Financial Operations.

Management of the pension is a role most closely associated with the office of Treasurer. I am proud of the work we've done over the last eight years on behalf of public servants to secure their retirement. We first had to stabilize the pension fund, which had lost more than 20 percent of its value in the months before I took office at the height of the

recession. Then, we worked our way back and made strategic investments to optimize the fund for the future. As the office transitions to the next Treasurer, North Carolina has one of the four best-funded public pensions in the nation—one that is well-situated for the long-term benefit of public employees.

By approving the ConnectNC Bonds in March, voters signaled a renewed commitment to investing in the state's public universities and community colleges, water and sewer projects, state parks, public safety, agriculture projects and the National Guard. North Carolina's 'AAA' bond rating is the fiscal seal of approval that confirms the sound financing of such an investment. Our state continues to be one of only nine states that maintain an 'AAA' bond rating from all three agencies. We continue to be a tireless advocate of conservative debt management during this time of growth.

The State Health Plan provides health care coverage to more than 700,000 people in our state and has emphasized wellness and engagement. A new initiative continuing that work is a partnership with N.C. State University and the N.C. Division of Public Health. This new program is Diabetes Free NC, a 12 month process, guiding participants to learn real-life solutions to prevent diabetes either online or onsite through a local provider.

These are only a few highlights from the last fiscal year of how the Department is committed to a common vision: create and maintain a healthy, prosperous and financially sound North Carolina. Finally, I am eternally grateful to the people of North Carolina for entrusting me to serve in this office for the past eight years. It is humbling to be charged with ensuring that someone receives their hard earned

retirement check each month or that they are receiving affordable and quality health coverage. While the report that follows is focused on the past fiscal year, all of these accomplishments signify a thriving Department. I am proud of the work our team has to done to innovate and modernize the functions of each division. Thank you for the opportunity to serve.

Sincerely,

A handwritten signature in black ink that reads "Janet Cowell". The signature is fluid and cursive.

Janet Cowell
North Carolina Treasurer

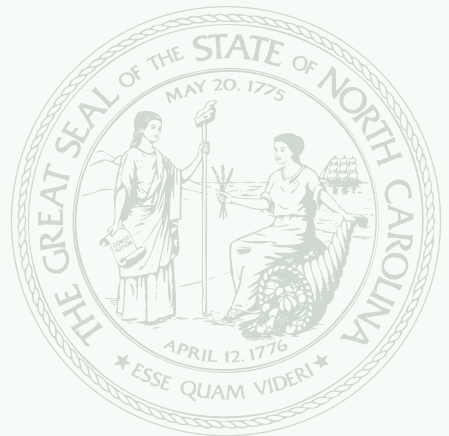


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DEPARTMENT OVERVIEW



DEPARTMENT OVERVIEW

The Department of State Treasurer serves the people of North Carolina through a variety of functions related to the financial health of the state and its citizenry. State Treasurer Janet Cowell serves as the state's banker and chief investment officer, and, as such, she is responsible for more than \$100 billion in assets.

The Department administers the public employee retirement systems for more than 900,000 North Carolinians, as well as the 401(k), 457 and 403(b) plans for public employees. The Department provides fiscal assistance and expertise to local governmental 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 approximately 685,000 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 that holds approximately \$440 million.

The Department of State Treasurer is made up of approximately 400 employees, and is composed of the following divisions:

Retirement Systems

State and Local Government Finance

Information Technology

State Health Plan

Financial Operations

Office of State Treasurer

Unclaimed Property and Escheats

Investment Management

VISION, MISSION AND VALUES

The vision of the Department of State Treasurer is to create and maintain a fiscally sound and prosperous North Carolina. The Department works to achieve this goal by taking utmost care in overseeing the finances of the State.

The Department's mission is to add value to and instill confidence in the state's citizens, customers and the financial community by providing exemplary oversight and customer service.

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

Customer Orientation

Focus on our customers, the citizens of the state of North Carolina

Long-Term View

Maintain a big-picture perspective and strategic approach

Transparency

Structure and conduct all aspects of our work with an open and transparent policy, promoting both trust and accountability

Diversity

Recognize and value the benefits of diverse ideas, perspectives, and people

Performance-Driven

Operate with performance excellence to achieve optimum results

Integrity

Establish and maintain the highest level of integrity and ethics

DEPARTMENT OVERVIEW

STRATEGIC GOALS

The Strategic Plan provides the vision, mission, strategic goals, and performance measures for ensuring the desired results for the Department of State Treasurer. The plan is a result of the assessment, goal setting, and planning process of the Department, designed to influence future success and achieve departmental goals.

The Department has identified the following strategic goals for the 2015-2016 Strategic plan:

Goal 1

Providing Public Leadership in Finance, Fiscal and Health Policy

Goal 2

Enhancing Accountability of Department Services

Goal 3

Innovating and Modernizing Operations

Goal 4

Maximizing Talent

This report will address Department highlights of the first three goals. The fourth goal, maximizing talent, was added to focus on staff recruiting, retention and growth, which will support the other strategic goals. This report will focus on the external-facing divisions of the Department and their work on behalf of the people of North Carolina: Retirement Systems, State Health Plan, Unclaimed Property and Escheats, State and Local Government Finance, and Financial Operations.

PROVIDING PUBLIC LEADERSHIP IN FINANCE, FISCAL AND HEALTH POLICY

The Department of State Treasurer serves as a model for others so as to positively influence legislative, finance, health care and other government agencies in promoting finance, fiscal and health policies that create and maintain a financially sound and prosperous North Carolina.

Consistent with the Department's mission, government agencies have a responsibility of continuously improving the value of the services that citizens receive. The Department recognizes that in order to improve that value, it must continuously increase the standards by which it operates and collaborate and lead in both public and private initiatives that are serving the needs of North Carolinians.

PROTECTING THE PENSION PLANS

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

The North Carolina pension plans are invested for the long term, and are conservatively managed to protect the full funding status. This keeps our state prepared to pay out obligatory pension benefits.

The combined pension plans' assets were valued at \$87.57 for the fiscal year ending June 30, 2015. The fund returned an average annual gain of 5.98 percent and 8.53 percent over the last 5 years and 7 years, respectively. The Department's investment policy developed, in consultation with the Investment Advisory Committee, has helped the state pension fund outperform most large public pension funds, with lower risk and cost.

MAINTAINING THE STATE'S AAA BOND RATING

A triple-A bond rating indicates that North Carolina has followed well-defined financial management policies and demonstrated strong debt management practices. Standard and Poor's, Moody's Investors Service, and Fitch Ratings – three primary bond rating agencies – all reaffirmed the "AAA" rating for North Carolina in the 2014-15 fiscal year.

While maintaining this strong rating is a good sign of the state's fiscal health, federal budget deficits may present a challenge to sustaining the triple-A rating. Bond ratings are largely dependent on the economic stability and diversity of revenues, conservative debt management, administrative capabilities, fiscal performance and financial condition, including funding of long-term benefit programs such as the retirement systems and health care. At June 30, 2016, the State had a "Triple-A" rating, the highest rating attainable, from all three national rating agencies. Only nine other

DEPARTMENT OVERVIEW

states enjoyed this distinction. These ratings have enabled the State to sell its bonds at interest rates considerably below the Bond Buyer's Index, thereby providing tremendous savings to North Carolina's taxpayers.

In addition, the Division staffs the State's Debt Affordability Committee and drafts an annual Debt Affordability Study, which provides the General Assembly with an overview of the State's debt load and borrowing capacity. The February 1, 2016 Study determined that the State's annual General Fund debt capacity was approximately \$209 million in fiscal year 2016. The Study also provided an estimate of the annual debt capacity for the transportation funds (the State Highway Fund and Highway Trust Fund) and projected that there is approximately \$240 million of new transportation debt capacity.

PROMOTING FINANCIAL EDUCATION

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

This year was one of renovation, focused on rebuilding the Department's voice and position on specific financial education initiatives. Our financial education outreach touched 15 statewide issue areas through opportunities that were responsive to the Department's strategic goal. The year's highlights included promoting the federal earned income tax credit and free tax preparation, a press conference to increase awareness around the NC 529 savings plan, and celebrating financial literacy month across the state with conversations with students about managing money wisely.

Future plans include integrating financial education into the Department's operations and member outreach, specifically with the State Health Plan and Retirement Services Division; beginning to plant seeds for future work with the ABLE program; and continuing financial education support for higher education and Department employees.

LOCAL GOVERNMENT FINANCE TRAINING

In early, 2016, State and Local Government Finance division staff began talking with the Community College System about the need for more regionally available training for finance staff in our local governments, particularly those staff that do not have a formal accounting education. With funding granted by the General Assembly in the budget revisions

for 2016-2017, we began development of a pilot program to be offered at four colleges beginning January, 2017. Asheville-Buncombe Technical Community College, Beaufort County Community College, Johnston Community College, and Rowan-Cabarrus Community College will all offer the class in a hybrid learning model – part online and part live instruction.

The General Assembly also, with the adoption of H 1035, gave the Local Government Commission the authority to require mandatory training as needed for finance officials. It is our intent to recommend to certain local governments that their finance staff attend the pilot program being offered by one of these four institutions. These local governments will be selected based on our evaluation of their audited financial reports, input from the COACH team, and input from other staff that have worked with each unit. After the initial pilot is complete we plan to evaluate and retool the program as needed before launching it across the State.

CONFERENCE ON SUSTAINABILITY IN LOCAL GOVERNMENT

On April 7, 2016, the North Carolina Department of the State Treasurer hosted a conference on "Sparking Sustainability and Innovation: Together, Let's Build a Stronger Future". The conference was designed to foster discussion around how innovation and sustainability are integral to creating and maintaining long-term stability for North Carolina communities. Representatives from across the State participated in the conference to hear speakers from the public, private, and non-profit sectors.

The conference discussed sustainability in the broadest possible sense, based on the understanding that sustainable local governments are not built by one idea, one group, one principle or one philosophy. Rather, they are built by many elements of the unit working together interdependently with a belief that all are necessary to make their community sustainable – local governments capable of surviving and thriving over the passage of time.

There were four central themes to the conference: strategies for innovation and sustainability; a snapshot of efforts that support innovation and sustainability around the State; financing sustainable and innovative initiatives; and the future of sustainability for North Carolina local governments.

DEPARTMENT OVERVIEW

ENHANCING ACCOUNTABILITY OF DEPARTMENT SERVICES

The Department of State Treasurer strives to manage current operations efficiently and effectively, including providing solid customer service to the citizens of the State. The Department and all government agencies, have a fiduciary responsibility to the citizens we serve to see that their resources are used in accordance with the laws and regulations and to demonstrate that it serves the best interests of North Carolinians. This is necessary to ensure public confidence and maintain public support for needed government services.

PUBLISHED CORPORATE GOVERNANCE REPORT

The Department of State Treasurer published its first Corporate Governance Report in October of 2015. This report contains information on how the Department has engaged with companies since mid-2008 to jointly improve their performance and the value of the Department's investments.

This report reflects four areas of focus for the Department: expressing a commitment to corporate board accountability by engaging with companies and filing shareholder resolutions; maintaining shareholders' rights in litigation when necessary; advancing diversity of perspectives across the financial system; and encouraging companies to transparently disclose important information. The report also includes data and analysis about how the Department has voted on more than 10,000 resolutions per year at companies' annual meetings.

WORKSITE WELLNESS

The State Health Plan covers members at approximately 3,200 worksite locations throughout the state and beyond. In order to support members' health habits, the Plan recognizes the importance of worksite wellness programs. These programs go beyond the habits of an individual by improving the work environment and culture to support healthy behaviors. The Plan developed two initiatives to foster worksite wellness throughout public worksites: the Wellness Champions Program and Wellness Wins pilot program. The Wellness Champions program began in April 2015 and encourages wellness advocates to act to improve the health of their workforce and report to the Plan

SPOTLIGHT

Improving Claims Experience in Unclaimed Property

During the 2015-16 fiscal year, the Unclaimed Property Division made enhancements to the automated claims processing service, "Eclaims" which Treasurer Cowell launched in January 2015. These enhancements further improved the Department's ability to provide paperless processing of claims that meet certain criteria through the NCCash.com website.

In 2015-16, the first full fiscal year of implementation of the automated service, a total of 91,912 claims were paid, returning more than \$56 million to the rightful owners. Of those claims,

54,349 (59 percent) were submitted and approved online, with less than 10 business days turnaround time for payment.

Behind each of those claims is a unique story of an individual being reunited with their property. For some, it means a little extra spending money. For others, the news of a little more money to help with expenses is met with much more excitement. Ms. Georgette Houghton was one of those individuals. Ms. Houghton recently had to leave her job to take care of her 84 year old mother who has multiple health issues. After learning that her name was listed on the NCCash.com website, Ms. Houghton contacted the Unclaimed Property Division to initiate the claims process. Ms. Houghton shared her appreciation for staff facilitating the return of her funds in a letter to the Department. She had

\$1340 due to her in proceeds from the sale of stock she held with a former employer. Ms. Houghton stated that learning of the existence

...She was in need of the money to help with daily survival.

of the money was a pleasant and timely surprise as she was in need of the money to help, "with daily survival". Ms. Houghton's story serves as a reminder of the importance of the work that staff members do every day to locate owners and reunite them with their property.

DEPARTMENT OVERVIEW

quarterly to earn prizes to support their program. Through December 2015, there were a total of 167 registered Wellness Champions with a reach of over 21,000 Plan members. Another of these initiatives is the Wellness Wins pilot program. One of the goals of Wellness Wins is to support member health by establishing sustainable worksite wellness programs at state worksites in Greene, Lenoir, and Jones counties. Members in these counties exhibit a higher disease burden than members in the rest of the state. The pilot gained traction in 2015 with the recruitment of three public schools, four agencies, and one community college to participate in the area. Moving forward, the Plan is aiming to recruit 12 additional school worksites before the end of 2016.

ASSISTING LOCAL GOVERNMENTS WITH FINANCES

The State and Local Government Finance Division monitors fiscal and accounting standards prescribed for local governmental units by State law. Each unit of local government is to have its accounts audited annually by a Certified Public Accountant or by an accountant certified by the Department's Local Government Commission. As a part of its role in assisting local units and monitoring their fiscal programs, the Division provides guidance in following generally accepted accounting principles. Each local government is required to file a copy of its annual audit report with the Division and submit all audit invoices to the Division for approval. In fiscal year 2015-16, staff issued 23 public memoranda directed to local governments, auditors and the State's public finance community. Topics included the implementation of the new financial reporting standards for GASB Statement 68, implementation of GASB Statement 72, secondary market disclosure requirements, accounting for grant funded revolving loan funds, and the annual statistical reports.

evidence indicating that small, emerging investment firms outperform their larger competitors. The Department of State Treasurer has also made advancing a culture of diversity a strategic objective. The Department is committed to working with historically under-utilized businesses (HUBs) to the extent possible without compromising superior risk-adjusted returns.

INNOVATING AND MODERNIZING OPERATIONS

The Department of State Treasurer works to find new ways to deliver services and value, including expanding or restructuring responsibilities. It is important to balance resource investments in ensuring a stable and reliable business infrastructure while also leveraging new public or private solutions that could have a meaningful impact on the services that are provided to the citizens of North Carolina. Creating and supporting a culture of innovation can also help attract the best talent to the Department.

IMPROVEMENTS TO THE STATE HEALTH PLAN ENROLLMENT ONLINE EXPERIENCE

A primary goal for the State Health Plan this year was to improve the online experience within the enrollment system, eEnroll, and complement one of the Plan's strategic priorities: Improving the Member's Experience. The State Health Plan's Eligibility and Enrollment partner was able to conduct focus groups and usability testing in order to launch a new and enhanced online enrollment experience that is set to be available to State Health Plan members in September 2017.

ENCOURAGING ENGAGEMENT IN HEALTH CARE

The Patient Centered Medical Home (PCMH) pilot is a two-year pilot designed to promote high quality care and improve the health care experience for members receiving medical care from participating practice groups. The PCMH pilot uses an alternate payment model to apply a per member per month (PMPM) fee based on a practice's assignment to one of four tier levels, as determined by baseline assessments for quality and engagement. Four practices partnered with the Plan in 2015: CaroMont Medical Group, Eagle Physicians, and Carolinas Healthcare Associates (New Hanover Medical Group) began in May, and Novant Medical Group began in August. Collectively, the pilot impacted 22,640 members through service provided by over 900 providers. Practices utilized data and care coordination support from the Plan to implement quality improvement strategies to achieve targets mutually set with the Plan for required and optional clinical quality metrics. The required metrics address diabetes management, asthma management, and utilization measures including Emergency Department visits, avoidable inpatient hospitalizations, readmission rates, radiology costs, and engagement with the provider and practice

DEPARTMENT OVERVIEW

care coordinator. Practices self-selected up to five optional metrics addressing preventive health, to include influenza vaccination, and tobacco, depression, mammogram, and colorectal cancer screening, as well as coronary artery disease, heart failure, hypertension, and diabetes. Early results at the close of 2015 demonstrated improvement in many quality metrics from the baseline. It has also become evident that additional strategic data analysis, innovative and individualized approaches to member engagement and continuous quality improvement efforts are required to help practices meet their quality improvement targets.

SPOTLIGHT

Supplemental Plan Awards

Small The Supplemental Retirement Plans NC 403(b) Program was recognized in 2015 by the National Association of Government Defined Contribution Administrators (NAGDCA) and granted two prestigious national awards for leadership.

The first recognition was in Participant education/effective communication for the “Golden Ticket” Annual Benefits Statement Follow-up Educational

Campaign, which resulted in 9.7% of targeted employees increasing their plan contribution level.

Two prestigious
national awards
for leadership
granted

The second award was for Plan design and administration. This focused on “Year End Transition” plans that included an unbundling

of the plans’ custody arrangement. These changes were designed to increase the transparency of the plans’ administration, decrease overall plan fees, and restructure the NC DST’s vendor relationships.

RETIREMENT SYSTEMS DIVISION



RETIREMENT SYSTEMS DIVISION

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

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

- Teachers
- State Government Employees
- Local Government Employees
- Firefighters
- Rescue Squad Workers
- Judges
- Law Enforcement Officers
- National Guard Members
- State Legislators
- Registers of Deeds
- Other public workers

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

The Division is also responsible for communicating the Treasurer's retirement readiness mission — that all public employees become "retirement ready" by being able to replace 80% of their pre-retirement income for each year of their retirement, starting as early as age 62. As of December 31, 2015, 60.48% of all active North Carolina public servants are on track to replace 80% of their income in retirement, starting at age 62.

The total assets of all state-administered pension funds were valued at \$89.8 billion² as of June 30, 2016.

The total number of retirees receiving benefits for the year ending June 30, 2016, was 277,584. The total dollar amount of benefits paid for year ending June 30, 2016, was \$5.8 billion, up from \$5.6 billion in the previous fiscal year.

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

SYSTEM	NUMBER OF MEMBERS ³	ASSETS ⁴ AS OF 6/30/16
TEACHERS' AND STATE EMPLOYEES' RETIREMENT SYSTEM (TSERS)	657,558	\$65.2 Billion
LOCAL GOVERNMENTAL EMPLOYEES' RETIREMENT SYSTEM (LGERS)	247,373	\$23.5 Billion
CONSOLIDATED JUDICIAL RETIREMENT SYSTEM (CJRS)	1,253	\$544.5 Million
LEGISLATIVE RETIREMENT SYSTEM (LRS)	560	\$27.3 Million
FIREFIGHTERS' AND RESCUE SQUAD WORKERS' PENSION FUND (FRSWPF)	56,430	\$388.5 Million
NATIONAL GUARD PENSION FUND (NGPF)	15,752	\$113.1 Million
LEGISLATIVE FUND (LF) (Closed to new entrants)	5	\$0.0 Million
REGISTERS OF DEEDS' SUPPLEMENTAL PENSION FUND (RDSPF)	196	\$53.6 Million

¹ Actual member counts can be found in the actuarial valuations for each retirement system. All valuations are posted on the State Treasurer's website here:

<https://www.nctreasurer.com/ret/Pages/Valuation-Reports.aspx>

² Unaudited figures. Audited total asset amounts will appear in the FY 2016 Comprehensive Annual Financial Report, available here: <http://www.osc.nc.gov/financial/>

³ Member counts reflect 2015 calendar year values as of valuation date (12/31/2015).

⁴ Unaudited figures. Audited figures will appear in the Comprehensive Annual Financial Report, available here: <http://www.osc.nc.gov/financial/>

RETIREMENT SYSTEMS DIVISION

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

TYPES OF SUPPLEMENTAL PLANS/PROGRAMS	BENEFIT/SERVICE
Disability Benefits	Provides equitable replacement income for eligible members of TSERS who are temporarily or permanently disabled, as well as for LGERS members who are permanently disabled.
Social Security Benefits	Administers the state's responsibility under the Social Security Agreement of July 16, 1951, which is an agreement between the federal government and the state government allowing local governments and other instrumentalities of the state to participate in Social Security.
Employee Death Benefits	Provides group death benefits for members of TSERS, CJRS and LGERS. These benefits include: death benefits for active employees in TSERS, CJRS, LRS and LGERS; the Separate Insurance Benefits Plan for active and retired state and local governmental law enforcement officers; and the line-of-duty death benefit for certain civil service and emergency services workers.
Supplemental Retirement Income Plan – (NC 401(k) Plan)	Provides members with voluntary retirement savings plan to supplement retirement income.
Public Employee Deferred Compensation Plan – (NC 457 Plan)	Provides members with voluntary retirement savings plan to supplement retirement income.
Public School Teachers' and Professional Educators' Investment Plan – (NC 403(b) Program)	Provides teachers and school employees a voluntary retirement savings plan to supplement retirement income.
Supplemental Retirement Income Plan – (NC 401(k), NC 457 Plans)	Enables members to receive an additional monthly benefit from TSERS, LGERS, CJRS, or LRS by transferring all or a portion of the balance in their NC 401(k) and/or NC 457.
NC Able Program	The Achieving a Better Life Experience (ABLE) Act allows people with disabilities to save money in a 529A account for qualified medical expenses, similar to the tax-deferred accounts used by families to save for their children's college educations. This new type of 529 account allows people with disabilities to save (and their family members, friends and others to contribute) money in a 529A account for qualified disability expenses, similar to the tax-deferred accounts used by families to save for their children's college educations.
Contributory Death Benefit for Retired Members	Offers an optional benefit that gives retirees a one-time death benefit of up to \$10,000.
Supplemental Insurance	Provides retired members with optional supplemental insurance (i.e., dental, vision, ID theft protection, critical illness, accident or life).
Retiree Health Benefits	Acts as the Health Benefits Representative for retired members covered under the State Health Plan of North Carolina.

RETIREMENT SYSTEMS DIVISION

LEGISLATIVE HIGHLIGHTS

The 2016 Session of the North Carolina General Assembly enacted the following retirement-related legislation:

- Full funding for the Actuarially Determined Contributions of the retirement systems.
- Payment of one-time pension supplement of 1.6% of annual benefits to current TSERS, CJRS and LRS retirees.
- Elimination of the Qualified Excess Benefit Arrangement (QEBA) sunset for members hired on or before Jan. 1, 2015.
- Line-of-Duty Death Survivorship Benefit provided for Firefighters' and Rescue Squad Workers' Pension Fund members.
- Clarified retirement public records law by consolidating nine different public records statutes and three opinions from the Department of Justice related to retirement records into the retirement statutes.

DEFINED BENEFIT PLAN AWARDS

The Teachers' and State Employees' Retirement System (TSERS) and the Local Governmental Employees' Retirement System (LGERS) were recognized with two awards in 2015, the most current year available, by the Public Pension Coordinating Council (PPCC). The PPCC is a coalition of three national associations that represent public retirement systems and administrators: the National Association of State Retirement Administrators, the National Council on Teacher Retirement, and the National Conference on Public Employee Retirement Systems.

The first, the Recognition Award for Public Pension Administration, recognizes that TSERS and LGERS meet the PPCC's Public Pension Standards in five areas of assessment.

1. **Comprehensive benefit program:** TSERS and LGERS offer benefits including service retirement benefits, in-service death benefits, disability benefits, vesting, and provisions for granting cost-of-living adjustments.
2. **Actuarial:** actuarial valuations completed annually.
3. **Audit:** NCRS regularly obtains an unqualified opinion from an independent audit in accordance with government auditing standards
4. **Investments:** NCRS follows written investment policies and written fiduciary standards, and obtains quarterly investment performance evaluations from the Investment Advisory Committee.
5. **Communications:** NCRS annually produces and distributes benefit handbooks and annual benefit statements for all members, and the governing boards of NCRS meet quarterly.

The second award, the Recognition Award for Public Pension Funding, recognizes TSERS and LGERS for meeting the requirements for funding adequacy by making contributions to the pension funds equal to or greater than 100% of the actuarially determined contribution each year. These Public Pension Standards serve as a benchmark by which to measure public defined benefit plans. All public retirement systems and the state and local governments that sponsor them are encouraged to meet these standards.

INVESTMENT MANAGEMENT



INVESTMENT MANAGEMENT DIVISION

The Investment Management Division (“IMD”) serves as the investment arm for the Department of State Treasurer. This Division employs over 30 investment professionals who provide the expertise for state government investing. IMD is responsible for the management of the Short Term Investment Fund (“STIF”), the Pension Fund Investment Program (“Pension Fund”), and the Ancillary Governmental Participant Investment Program (“AGPIP”). At the end of the fiscal year ending June 30, 2016, total assets of these programs were \$104.77 billion.

INVESTMENT PROGRAMS ¹		
Pension Fund	Assets of the North Carolina Retirement Systems ² defined in N.C.G.S. 147-69.2(b) (8) (the “Retirement Systems”).	85.59%
STIF	An internally managed portfolio of highly liquid fixed income securities. Investors include the State’s General Fund, Highway Trust Fund, certain Retirement Systems funds, ³ and other investors.	14.35%
AGPIP	Assets invested in programs such as the Escheat Fund, Public Hospital Funds, Local Government Other Post-Employment Benefits Funds, and other non-Retirement Systems investors.	2.06%

The Treasurer is directed by statute to establish, maintain, administer, manage and operate investment programs for all funds on deposit, pursuant to the applicable statutes. In doing so, the Treasurer has full powers as a fiduciary and, with IMD staff, manages the investment programs so assets may be readily converted into cash when needed.

In establishing the comprehensive management program, the State Treasurer, utilizing a professional investment staff, has developed an investment strategy for each portfolio

that recognizes the guidelines of the governing General Statutes and provides appropriate diversification. In addition to the Treasurer and IMD staff managing these programs, the Investment Advisory Committee (“IAC”) provides opinion on policies and general strategy for achieving investment results of the Pension Fund, including asset allocation, in consultation with IMD staff.

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

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

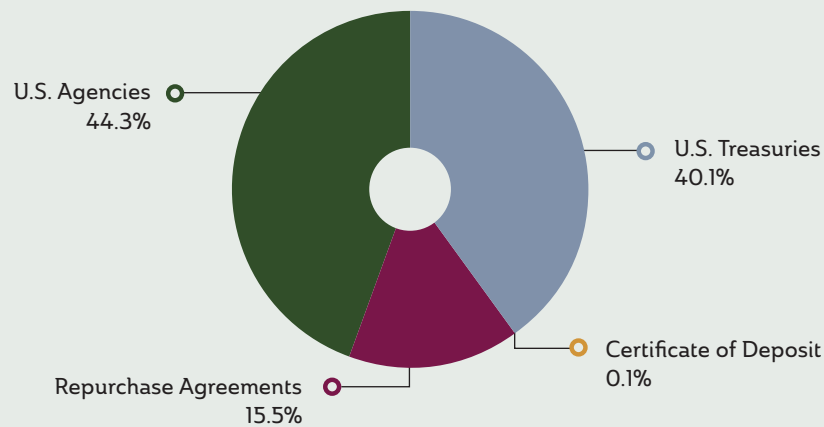
³ In this table and in Table 2 of the Statistical Tables, Retirement Systems assets in the STIF are listed within the “Short-Term Investment Fund” row only if held in the operating accounts used to meet cash needs for payment of items such as member benefits and administrative expenses. All other Retirement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

INVESTMENT MANAGEMENT DIVISION

SHORT -TERM INVESTMENT FUND

The objective of the STIF is to maximize income consistent with the principles of preservation of capital and liquidity. The STIF is an internally managed portfolio of highly liquid fixed income securities. These securities are primarily money market instruments and short- to intermediate-term U.S. Treasuries and Agencies. All bank accounts of the State Treasurer are included in this portfolio, which serves as the main operating account for state agencies. Because the Treasurer's cash balances are ultimately subject to disbursement upon presentation of valid warrants, the primary consideration in making investments is safety and liquidity; the secondary consideration is income. For the fiscal year 2016, the STIF generated a cash return of 0.75 percent. The following graph¹ provides the STIF's asset allocation as of June 30, 2016.

STIF ASSET ALLOCATION AS OF JUNE 30, 2016



* Definitions:

U.S. Treasuries – government debt issued by the United States Department of the Treasury

Certificates of Deposit – financial product commonly offered to consumers by banks, thrift institutions and credit unions

Repurchase Agreements – short-term collateralized loan

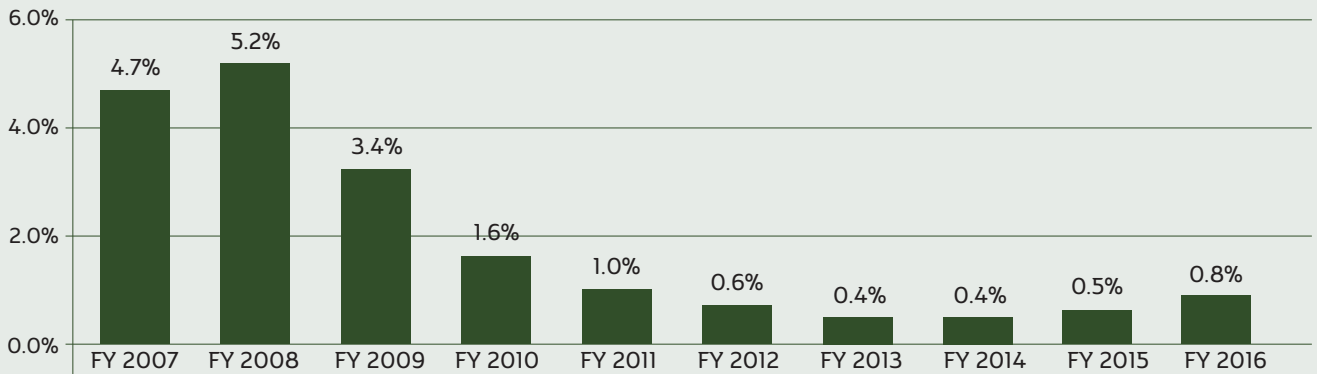
U.S. Agencies – debt from a federal government agency or government sponsored enterprise such as the Government National Mortgage Association (GNMA or Ginnie Mae), the Federal National Mortgage Association (FNMA or Fannie Mae), the Federal Home Loan Mortgage Corporation (FHLMC or Freddie Mac), Federal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

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

INVESTMENT MANAGEMENT DIVISION

The following chart provides historic returns for STIF as of June 30, 2016.

STIF FISCAL YEAR PERFORMANCE



STIF TOP TEN POSITIONS AS OF JUNE 30, 2016

Issuer	Coupon	Maturity Date	Par Value (\$)
SOUTH STREET REPO	0.520	7/1/2016	1,800,000,000
SOUTH STREET REPO	0.650	7/1/2016	700,000,000
U S TREASURY NOTE	0.500	7/31/2016	650,000,000
U S TREASURY NOTE	0.500	8/31/2016	650,000,000
U S TREASURY NOTE	0.500	9/30/2016	650,000,000
U S TREASURY NOTE	0.375	10/31/2016	650,000,000
U S TREASURY NOTE	0.500	11/30/2016	650,000,000
U S TREASURY NOTE	0.500	1/3/2017	650,000,000
U S TREASURY NOTE	0.500	2/28/2017	650,000,000
U S TREASURY NOTE	0.500	3/31/2017	650,000,000

INVESTMENT MANAGEMENT DIVISION

STIF Summary of Brokers Utilized During Fiscal Year 2015-16

Brokers are used to execute buy and sell orders on behalf of the fund. Below is a list of brokers used to facilitate trades of securities during the fiscal year ending June 30, 2016.

Bank of America	Jefferies & Company	RBS Greenwich Capital
BNP Paribas	JPMorgan Chase	South Street Securities
CastleOak Securities	Loop Capital	Stifel Nicolaus
Citigroup	Mizuho Securities	Suntrust Capital Markets
Deutsche Bank Securities	Morgan Stanley	Wells Fargo Securities
First Tennessee Bank	Raymond James	Williams Capital
HSBC Securities	RBC Capital Markets	

PENSION FUND INVESTMENT PROGRAM REVIEW

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

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

A. Provide investment returns sufficient for the Pension Fund to make timely payment of statutory benefits to current and future members and keep contribution rates at a reasonable level over the long-term. To achieve this, long-term projected investment returns should be generally consistent with the actuarial assumed rate of return, unless otherwise determined by the Treasurer.⁴

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

C. Additionally:

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

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

⁴ The Retirement Systems' actuary advises each applicable Retirement System's Board of Trustees (or in the case of the Retiree Health Benefit Fund, the Committee on Actuarial Valuation of Retired Employees' Health Benefits) with respect to setting the actuarial assumed rate of return and annual required contributions. These boards and the committee have been granted the authority by the legislature to set the actuarial assumed rate of return for the Fund, which is currently 7.25% for the Retirement Systems other than the Retiree Health Benefit Fund and 4.25% for the Retiree Health Benefit Fund.

INVESTMENT MANAGEMENT DIVISION

Operating Policy

In all transactions executed for any investment program managed by the State Treasurer, the objective is to perform such business in the best interest of the beneficial owners of the trusts' assets, which for the Pension Fund are North Carolina's participating public employees, teachers, firefighters, police officers and other public workers.

In order to meet the investment objectives, a "Strategic Asset Allocation" is established through consideration of the Pension Fund's projected actuarial liabilities, liquidity needs, risk tolerance, and the role that different asset categories and strategies are expected to play in the overall portfolio construction. The Strategic Asset Allocation will be reviewed no less than annually and a detailed asset-liability study will be conducted no less than triennially, assuming that benefit design and funding policy is unchanged. The current Strategic Asset Allocation, consisting of targets and authorized ranges, is detailed below.

Row Labels	Range		
	Target	Minimum	Maximum
Growth	58.0%	37.0%	71.0%
Public Equity	42.0%	37.0%	47.0%
Non Core Real Estate	3.0%	0.0%	8.0%
Opportunistic Fixed Income	7.0%	0.0%	7.5%
Private Equity	6.0%	0.0%	8.75%
Inflation Sensitive & Diversifiers	11.0%	4.0%	16.0%
Core Real Estate	5.0%	2.0%	10.0%
Inflation Sensitive	6.0%	2.0%	7.5%
Multi-Strategy	2.0%	0.0%	4.0%
Rates & Liquidity	29.0%	24.0%	42.0%
Cash	1.0%	0.0%	10.0%
Investment Grade Fixed Income	28.0%	24.0%	32.0%

More information on Pension Fund asset types is available in the "Investment Policy Statement for North Carolina Retirement Systems". The Investment Policy Statement may be found on the Department of State Treasurer's website at <https://www.nctreasurer.com/inv/Policies/InvestmentPolicyForNCRetirementSystems.pdf>. A website page at <https://www.nctreasurer.com/inside-the-department/OpenGovernment/Pages/Department-Policies.aspx> provides links to the Investment Policy Statement and other Investment Management Division policies.

INVESTMENT MANAGEMENT DIVISION

Pension Fund Strategy

The tradition of conservative fiscal management has served North Carolina's public workers and taxpayers well throughout the years. The Pension Fund continues that tradition with a significant allocation in fixed income assets (bonds) combined with reasonable exposure to more volatile growth-oriented assets and an increasingly diversified portfolio. The result of this strategy is a fund that is a top performer in turbulent economic and financial market environments, but obtains lower returns than the typical large public fund peer in bull markets. The below chart outlines the one-, three-, five- and 10-year average returns and exposure to risk within the different percentiles of public funds in comparison to the performance and exposure to risk of the North Carolina Pension Fund.

NATIONAL AVERAGE GROSS OF FEES RETURNS AND EXPOSURE TO RISK				
Returns	1 Year	3 Year	5 Year	10 Year
25th Percentile	1.37	7.19	7.08	6.00
Median	0.43	6.48	6.43	5.67
75th Percentile	-0.58	5.69	5.74	5.18
NC Pension Fund	1.45%	6.75%	6.56%	6.00%
Risk*				
25th Percentile	9.10	7.32	7.98	10.43
Median	7.76	6.17	7.36	9.78
75th Percentile	6.71	5.76	6.58	9.03
NC Pension Fund	6.39	5.42	6.16	8.18

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

* Volatility of returns (Standard Deviation)

INVESTMENT MANAGEMENT DIVISION

Total Pension Fund Structure

As of June 30, 2016, the Pension Fund maintained a market value of \$87.6 billion. IMD is constantly monitoring the overall Pension Fund in an effort to manage risk. The following chart highlights the strategic asset allocation targets over the past seven years.

CURRENT AND HISTORICAL STRATEGIC TARGETS							
	June 2010	June 2011	June 2012	June 2013	June 2014	June 2015	June 2016
Growth							
Public Equity	48.5%	40.5%	40.5%	40.5%	40.5%	42.0%	42.0%
Non-Core Real Estate	3.6%	4.8%	4.8%	4.8%	4.8%	3.0%	3.0%
Opportunistic Fixed Income	1.5%	4.5%	4.5%	4.5%	4.5%	7.0%	7.0%
Private Equity	3.15%	4.5%	4.5%	4.5%	4.5%	6.0%	6.0%
Inflation Sensitive and Diversifiers							
Core Real Estate	2.4%	3.2%	3.2%	3.2%	3.2%	5.0%	5.0%
Inflation Sensitive	1.5%	4.5%	4.5%	4.5%	4.5%	6.0%	6.0%
Multi-Strategy	1.35%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%
Rates and Liquidity							
Investment Grade Fixed Income	38.0%	36.0%	36.0%	36.0%	36.0%	28.0%	28.0%
Cash Portfolio	0.0%	0.0%	0.0%	0.0%	0.0%	1.0%	1.0%

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

INVESTMENT MANAGEMENT DIVISION

PENSION FUND ASSET ALLOCATION AS OF JUNE 30, 2016					
	Market Value (\$000)	Portfolio Weight	Target	Range Minimum	Maximum
Growth	\$50,797,799	58.00%	58.0%	37.0%	71.0%
Public Equity	37,256,098	42.5%	42.0%	37.0%	47.0%
Non-Core Real Estate	3,906,419	4.5%	3.0%	0.0%	8.0%
Opportunistic Fixed Income	5,259,505	6.0%	7.0%	0.0%	7.5%
Private Equity	4,375,777	5.0%	6.0%	0.0%	8.75%
Inflation Sensitive and Diversifiers	9,639,160	11.0%	11.0%	4.0%	16.0%
Core Real Estate	4,446,703	5.1%	5.0%	2.0%	10.0%
Inflation Sensitive	5,192,457	5.9%	6.0%	2.0%	7.5%
Multi-Strategy	1,617,323	1.8%	2.0%	0.0%	4.0%
Rates and Liquidity	25,515,800	29.2%	29.0%	24.0%	42.0%
Cash	854,436	1.0%	1.0%	0.0%	10.0%
Investment Grade Fixed Income	24,661,364	28.2%	28.0%	24.0%	32.0%
Grand Total	87,570,083	100.00%			

INVESTMENT MANAGEMENT DIVISION

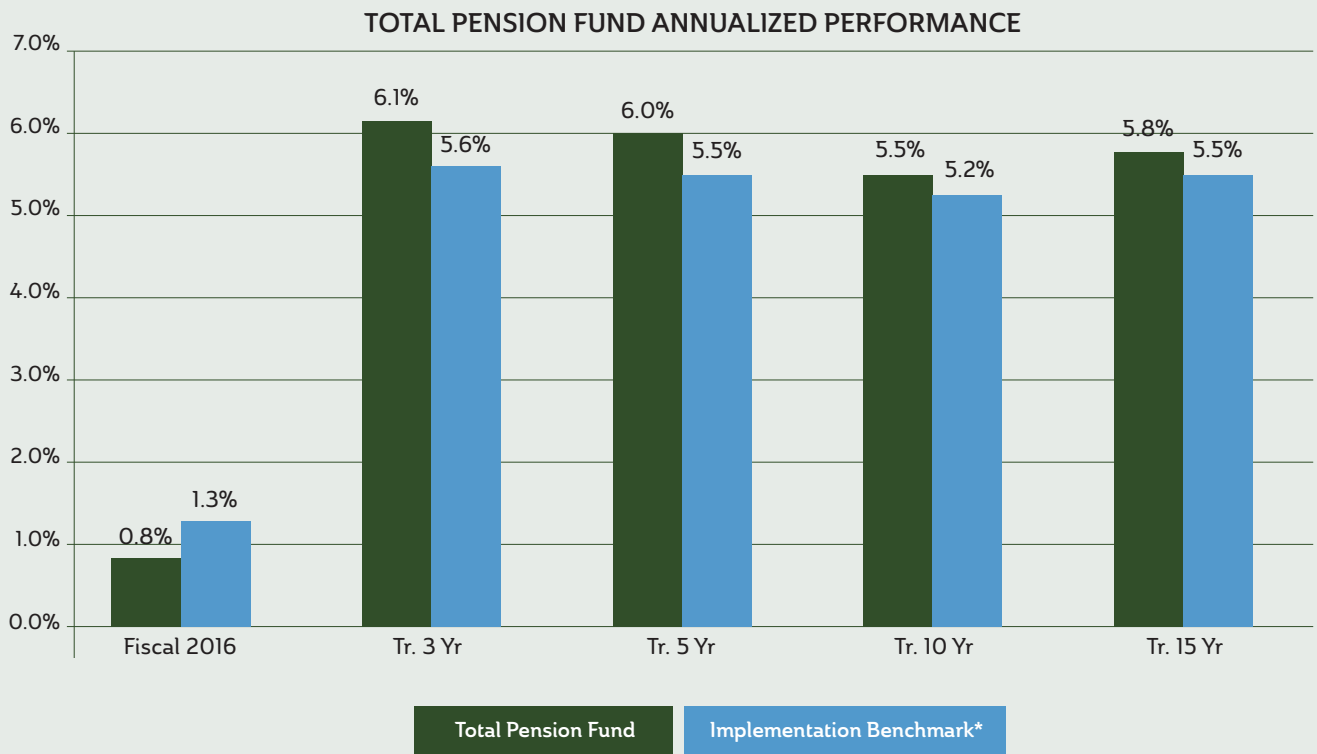
Total Fund Performance

The Pension Fund has underperformed its implementation benchmark by 0.5% over the past fiscal year. The following chart provides fiscal year returns for each asset class within the total Pension Fund.

For the fiscal year 2016, the Pension Fund returned 0.81 percent, net of fees. The charts below provide a snapshot for the total Pension Fund's annualized performance and performance by asset class for one-, three-, five- and 10-year periods.

FISCAL YEAR RETURNS

Growth	(2.14)%
Public Equity	(3.89)%
Private Equity	4.32%
Non-Core Real Estate	12.39%
Opportunistic Fixed Income	(4.40)%
Rates & Liquidity	6.97%
IG Fixed Income	7.25%
Cash	0.84%
Inflation Sensitive & Diversifiers	0.24%
Inflation Sensitive	(5.75)%
Core Real Estate	8.53 %
Multi-Strategy	(1.46)%
Total Pension Fund	0.81%



**As of June 30, 2016, the Implementation Benchmark is a blend of the Asset Class Benchmarks at policy weights. It is currently weighted as follows: 58% Growth Benchmark, 29% Rates & Liquidity Benchmark, 11% Inflation Sensitive & Diversifiers Benchmark, and 2% Multi-Strategy Benchmark*

INVESTMENT MANAGEMENT DIVISION

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

ANNUALIZED PERFORMANCE AS OF JUNE 30, 2016, NET OF FEES					
	1-Year	3-Year	5-Year	10-Year	15-Year
Growth Benchmark¹	-2.1% -2.3%	7.3% 6.2%	6.8% 5.7%	4.7% 4.2%	5.0% 4.5%
Public Equity Investment Portfolio Public Benchmark²	-3.9% -3.8%	6.7% 6.1%	6.2% 5.4%	4.6% 4.1%	4.9% 4.2%
Private Equity Investment Portfolio Benchmark³	4.3% 4.3%	10.6% 9.7%	8.8% 9.3%	7.2% 9.2%	4.2% 9.3%
Non-Core Real Estate Investment Portfolio Benchmark⁴	12.4% 6.5%	15.7% 9.7%	13.6% 9.5%	3.8% 2.8%	5.1% 6.7%
Opportunistic Fixed Income Investment Portfolio Benchmark⁵	-4.4% -3.6%	2.4% 0.4%	4.8% 0.5%	5.8% 0.2%	- -
Rates & Liquidity Benchmark⁶	7.0% 7.9%	5.0% 5.4%	5.1% 5.3%	6.6% 6.4%	6.5% 6.3%
Fixed Income Portfolio Benchmark⁷	7.3% 8.2%	5.1% 5.5%	5.2% 5.4%	6.7% 6.4%	6.5% 6.3%
Cash Portfolio Benchmark⁸	0.8% 0.2%	0.6% 0.1%	- -	- -	- -
Inflation Sensitive and Diversifiers Benchmark⁹	0.2% 3.7%	2.0% 4.3%	1.4% 3.2%	0.9% 0.7%	3.4% 3.8%
Inflation Sensitive Benchmark¹⁰	-5.8% -3.1%	-2.7% -1.7%	-3.6% -3.1%	-1.0% 2.1%	2.5% -
Core Real Estate Investment Portfolio Benchmark¹¹	8.5% 12.4%	8.6% 11.9%	9.3% 11.6%	4.6% 5.4%	5.9% 6.9%
Multi-Strategy Investment Portfolio Benchmark¹²	-1.5% -3.4%	5.9% 4.7%	8.5% 6.6%	5.0% 5.7%	- -
Total Pension Plan Implementation Benchmark¹³ Long-Term Policy Benchmark¹⁴	0.8% 1.3% 1.2%	6.1% 5.6% 5.3%	6.0% 5.5% 4.9%	5.5% 5.2% 5.2%	5.8% 5.5% 6.0%

1. The Growth Benchmark is a blend of the Public Equity Benchmark, Private Equity Benchmark, Non-Core Real Estate Benchmark, & Opportunistic FI Benchmark at policy weights.

2. The Public Equity Benchmark is the dynamically weighted combination of the MSCI ACWI IMI Net (Long-Only) and a beta adjusted MSCI ACWI IMI Net (Hedged Equity).

3. The Private Equity Benchmark is comprised of the following Burgiss Group Private iQ indices: 50% Buyout, 20% Venture Capital, and 30% Special Situations and Distressed Securities.

4. The Non-Core Real Estate Benchmark is comprised of the following Burgiss Group Private iQ indices: 80% U.S. Non-Core Real Estate (Opportunistic and Value-Added) and 20% Non-U.S. Non-Core Real Estate (Opportunistic and Value-Added).

5. The Opportunistic Fixed Income Benchmark is a comprised of 50% HFRX Distressed Securities Index, 20% HFRX Relative Value Index, 15% Credit Suisse Leveraged Loan Index, and 15% BOAML High Yield Index.

6. The Rates & Liquidity Benchmark is a blend of the IG Fixed Income Benchmark and the Cash Benchmark at policy weights.

7. The IG Fixed Income Benchmark is comprised 10% iMoneyNet First Tier Institutional Money Market Funds Net Index and 90% custom BOAML Core Investment Grade Index. The custom BOAML core index comprised of the following weightings: 30% BOAML 5+ Years Governments, 35% BOAML 5+ Years Investment Grade Corporates, and 35% BOAML Mortgage Master.

8. The Cash Benchmark is the iMoneyNet First Tier Institutional Money Market Funds Net Index.

9. The Inflation Sensitive & Diversifiers Benchmark is a blend of the Inflation Sensitive Benchmark and the Core Real Estate Benchmark at policy weights.

10. The Inflation Sensitive Benchmark is the dynamically weighted combination of the Bank of America Merrill Lynch 1-3 Years U.S. Inflation-Linked Treasury Index (TIPS), the Bloomberg Commodities Index (Commodities), and a combination of the benchmarks of investments classified within Private Natural Resources or Other Real Assets and Diversifiers.

11. The Core Real Estate Benchmark is comprised of 80% NCREIF ODCE Net and 20% FTSE EPRA NAREIT Global Index.

12. 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.

13. The Implementation Benchmark is a blend of the Asset Class Benchmarks at policy weights. It is currently weighted as follows: 58% Growth Benchmark, 29% Rates & Liquidity Benchmark, 11% Inflation Sensitive & Diversifiers Benchmark, and 2% Multi-Strategy Benchmark.

14. The Long-Term Policy Benchmark is comprised of 57% MSCI ACWI IMI Net, 33% BOAML 5+ Years U.S. Treasury Index, 6% Bloomberg Commodity Index, and 4% BOAML 1-3 Years U.S. Inflation-Linked Treasury Index.

INVESTMENT MANAGEMENT DIVISION

Cost

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

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

During the fiscal year, the Department engaged CEM Benchmarking, a leading independent cost and performance analysis firm, to review our cost structure for calendar year 2015. The report showed that our cost structure was below those of most of our institutional peers. This leads to savings of about 9.7 bp compared to the median peer. Importantly, after deducting all fees, incentives, and expenses for the trust fund we exceeded our performance benchmarks, which are a positive for plan beneficiaries, employers, and taxpayers. At the same time, we continue to proactively target improvements in cost-efficiency, transparency, risk management, and compliance.

TABLE X: CALENDAR YEAR 2015 NCRS COSTS OF INVESTMENT OPERATIONS COMPARED TO PEERS
(EXPRESSED IN BASIS POINTS WHERE 50 BASIS POINTS EQUALS 0.50%)

	TOTAL (bps)
Median Peer	54.7
NCRS	47.4
Percentile	38%

Source: CEM [Cost Effectiveness Measurement] Benchmarking Inc., The peer group consists of 14 U.S. public pension funds managing from \$42 billion to \$157.7 billion. The median peer managed \$68.6 billion versus NCRS' \$89 billion. CEM Benchmarking's methodology excludes carry/performance fees for private investments because most peers do not provide such data. All such fees and expenses have been deducted from all reported investment returns.

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

TABLE Y: TOTAL NCRS EXTERNAL FEES PAID FY 2015-2016

	Management Fees	Incentive Fees	Total Fees	Portfolio Market Value	Ratio of Fees to Market Value
Public Equity	\$83,697,806	\$ 0	\$83,697,806	\$37,256,098,008	0.22%
Private Equity	\$59,567,017	\$44,525,168	\$104,092,185	\$4,375,776,820	2.38%
Real Estate	\$78,563,876	\$43,819,017	\$122,382,893	\$8,353,122,405	1.47%
Multi-Strategy	\$3,462,253	\$181,115	\$3,643,368	\$1,617,323,452	0.23%
Opportunistic Fixed Income	\$53,409,769	\$11,115,765	\$64,525,533	\$5,259,504,719	1.23%
Inflation Sensitive	\$47,587,522	\$832,395	\$48,419,917	\$5,192,457,132	0.93%
TOTAL	\$326,288,243	\$100,473,460	\$426,761,703	\$62,054,282,535	0.69%

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

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

INVESTMENT MANAGEMENT DIVISION

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

	Management Fees	Incentive Fees	Market Value	Ratio of Fees to Market Value
NCRS Fund of Funds	\$43,830,232	\$12,475,343	\$2,312,844,467	2.43%

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

INVESTMENT MANAGEMENT DIVISION

FIXED INCOME

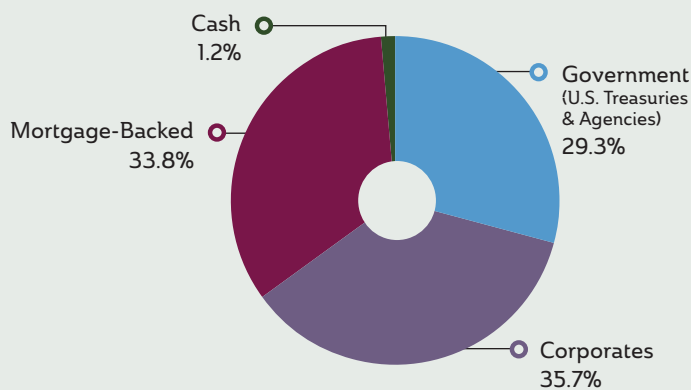
As of June 30, 2016, the fixed income allocation maintained a market value of \$24.7 billion, representing 28.2 percent of the Pension Fund. The Pension Fund's core Long-Term Investment Portfolio ("LTIP") represented the bulk of the fixed income assets with a market value of \$22.2 billion. The balance of the fixed income assets was in non-core strategies.

Core Fixed Income Structure

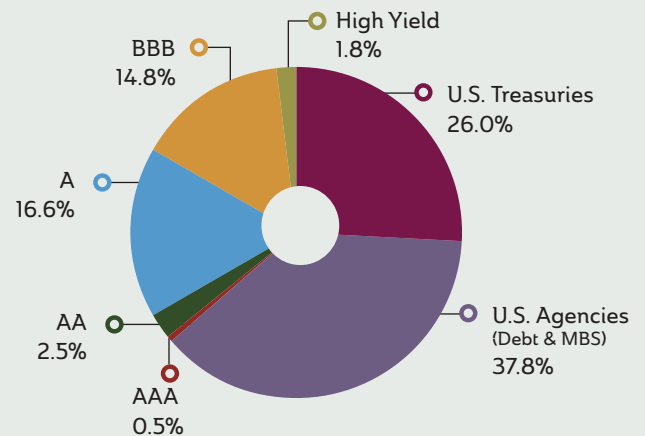
The LTIP is an internally managed investment grade fixed income portfolio that takes an enhanced approach to generating excess returns versus an assigned benchmark. The portfolio is structured to provide a long duration

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

LTIP SECTOR ALLOCATION
(AS OF 6/30/16)



LTIP QUALITY* ALLOCATION
(AS OF 6/30/16)



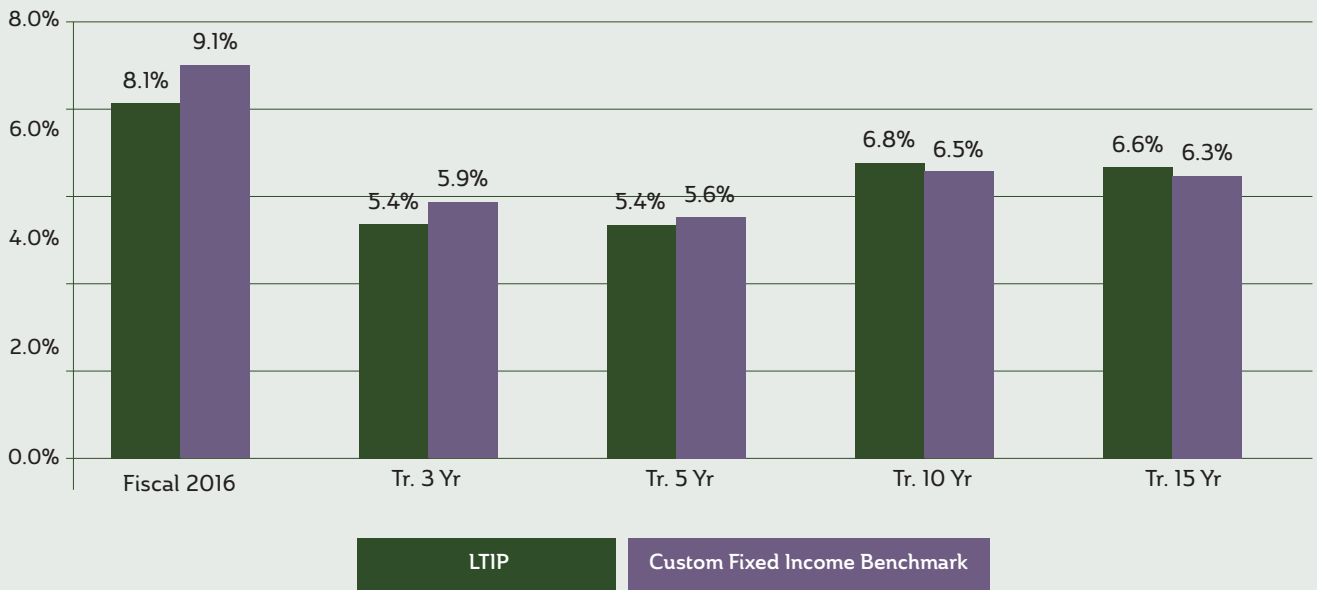
**Credit Quality based on Moody's Ratings*

INVESTMENT MANAGEMENT DIVISION

Core Fixed Income Performance

For the fiscal year, the LTIP return was 8.05 percent net of fees versus a benchmark return of 9.09 percent. The slight underperformance to the benchmark was due to drag from cash exposures and the short duration position relative to the benchmark.

LONG TERM INVESTMENT PORTFOLIO ANNUALIZED PERFORMANCE



INVESTMENT MANAGEMENT DIVISION

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

LTIP TOP 10 CORPORATE POSITIONS AS OF JUNE 30, 2016	
Corporate Issuer	% of LTIP
General Electric	0.9%
JP Morgan	0.8%
Goldman Sachs	0.8%
Wells Fargo	0.7%
Bank of America	0.7%
Wal-Mart	0.7%
Comcast	0.6%
Morgan Stanley	0.5%
HSBC	0.5%
Anheuser-Busch	0.5%

LTIP SUMMARY OF BROKERS UTILIZED DURING FISCAL YEAR 2016

Bank of America	Cross Point Capital	Mizuho Securities	SunTrust Capital Markets
Barclays Capital	Deutsche Bank Securities	MarketAxess	UBS Securities
BB&T Capital Markets	First Tennessee Bank	Morgan Stanley	US Bank
BNY Mellon	HSBC Securities	Raymond James	Wells Fargo Securities
Cantor Fitzgerald	Jefferies & Company	RBS Greenwich Capital	
Citigroup	JPMorgan Chase	Scotia Capital	
Credit Suisse Securities	KeyBanc Cap Mkts	Stifel Nicolaus	

Non-Core Fixed Income Structure

The non-core component consists of a liquidity allocation to the Short-Term Investment Fund.

As of June 30, 2016, the allocation to STIF was \$2.50 billion.

Non-Core Fixed Income Performance

The non-core fixed income composite posted a return of 0.71 percent for the fiscal year.

INVESTMENT MANAGEMENT DIVISION

PUBLIC EQUITY

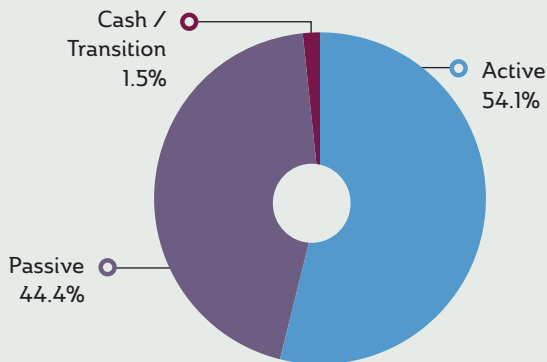
The Public Equity portfolio ended fiscal year June 30, 2016 at \$37.3 billion, with \$16.6 billion in U.S. equity strategies, \$15.0 billion in non-U.S. strategies, \$2.4 billion in global strategies, and \$2.6 billion in hedged equity strategies. As a percentage of the pension fund's assets, the Public Equity allocation was 42.5 percent on June 30, 2016.

The Public Equity portfolio maintains prudent diversification within the broad equity market across size and valuation style. Valuation style divides stocks into value, growth, and core. Value stocks are characterized by low valuation multiples such as price to book (P/B) and price to earnings (P/E). Growth stocks typically have higher-than-average sales and earnings growth prospects. Core is a

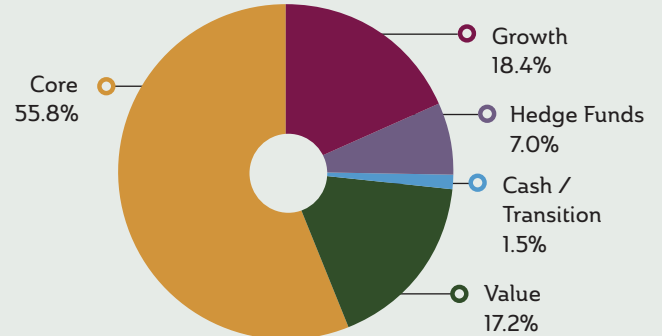
blend between value and growth. The portfolio is also categorized into U.S. Large-Cap, U.S. Mid-Cap, U.S. Small-Cap and Non-U.S. investments.

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

**PUBLIC EQUITY ACTIVE & PASSIVE
ALLOCATION
STRATEGY ALLOCATION**

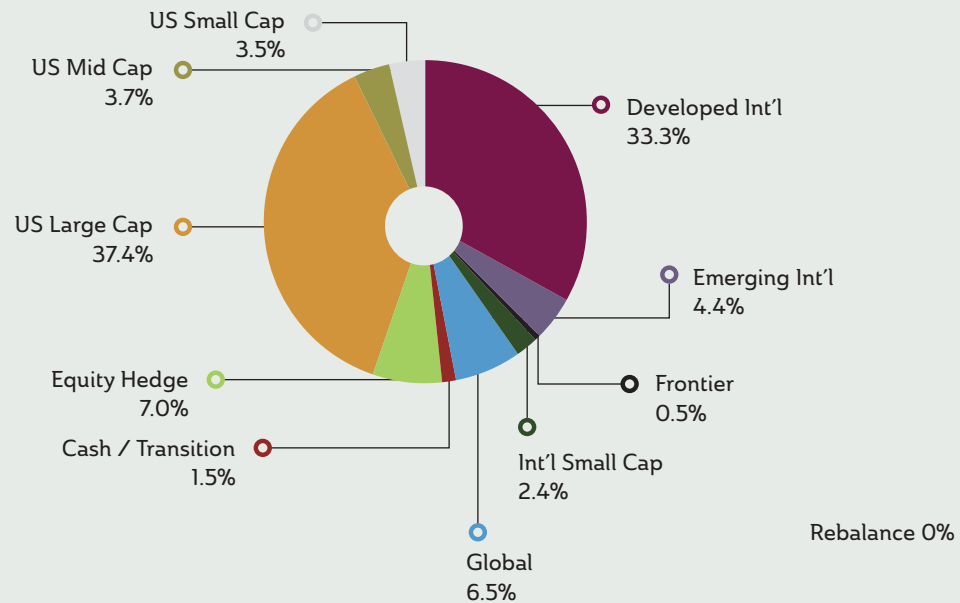


**PUBLIC EQUITY STYLE ALLOCATION
STYLE ALLOCATION**



INVESTMENT MANAGEMENT DIVISION

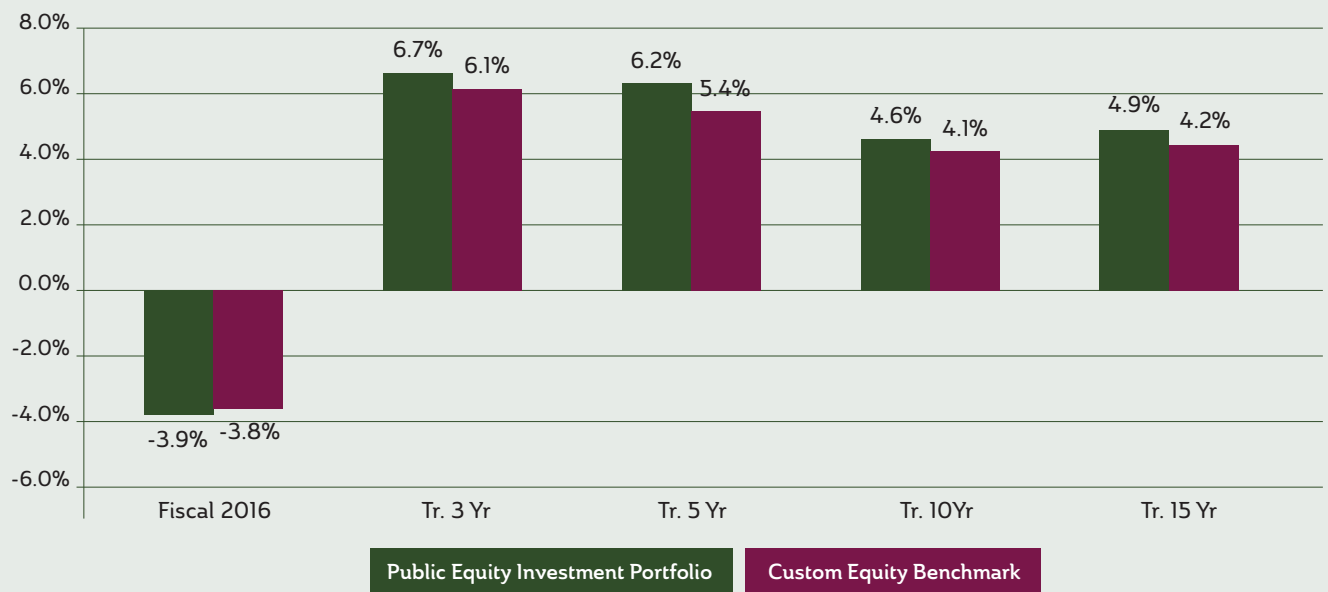
PUBLIC EQUITY SIZE ALLOCATION



Public Equity Performance

The graph below illustrates the fiscal year performance against the benchmark, as well as the three-, five-, 10- and 15-year trailing returns.

PUBLIC EQUITY INVESTMENT PORTFOLIO ANNUALIZED PERFORMANCE



INVESTMENT MANAGEMENT DIVISION

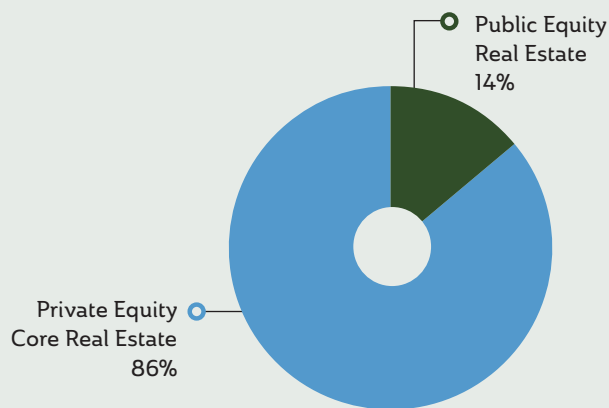
REAL ESTATE

As of June 30, 2016, the Core Real Estate Investment Portfolio ("Core REIP") was valued at \$4.45 billion or 5.1% allocation as a percentage of Pension Fund assets. The Non-Core REIP was valued at \$3.90 billion or 4.5% allocation as a percentage of Pension Fund assets. These portfolios consist of both open-end and closed-end commingled funds as well as separate account mandates.

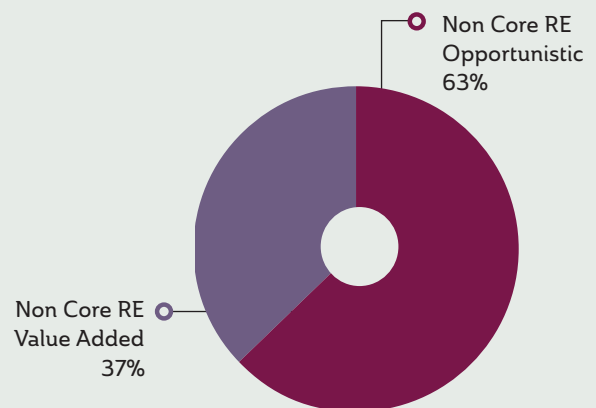
The Core REIP seeks returns from income and capital appreciation by investing in core public equity and private equity real estate. The Non-Core REIP invests in value-added and opportunistic strategies. Core real estate is represented by well-located, stable properties with high occupancy levels. Core investment returns are primarily driven by property income with debt levels typically at 0-50 percent of property value. Value-added real

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

CORE REAL ESTATE STRATEGY ALLOCATION



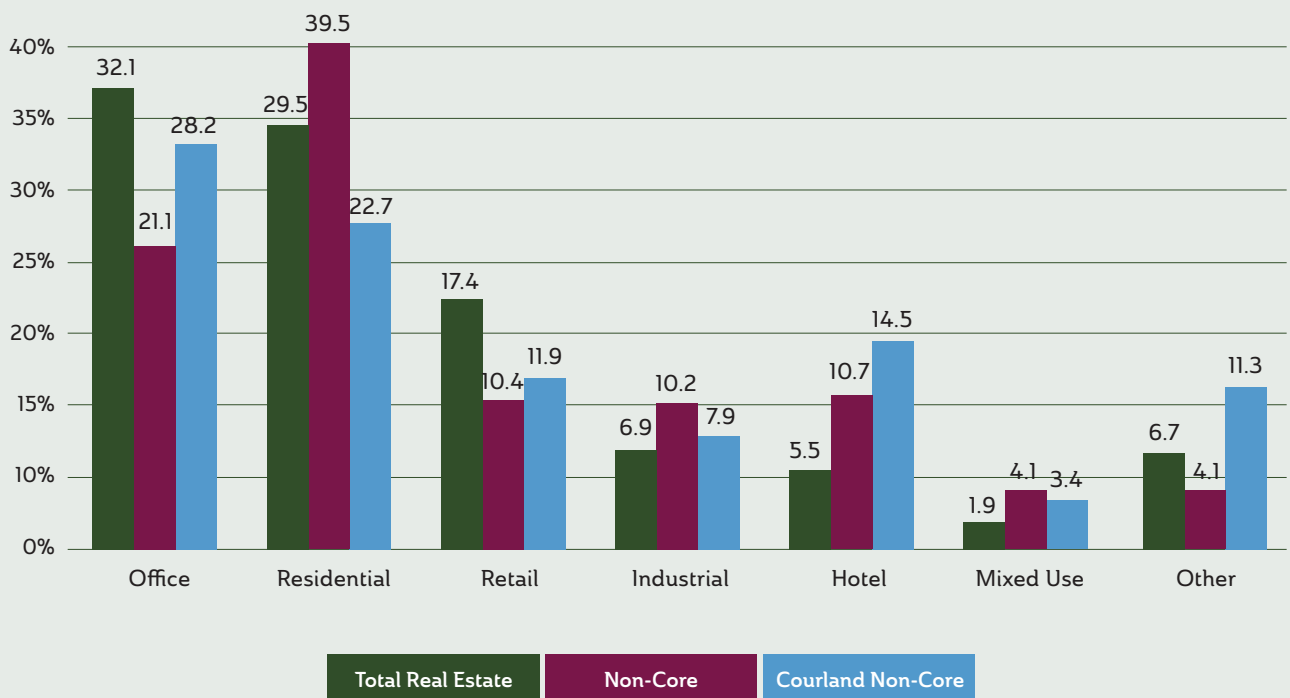
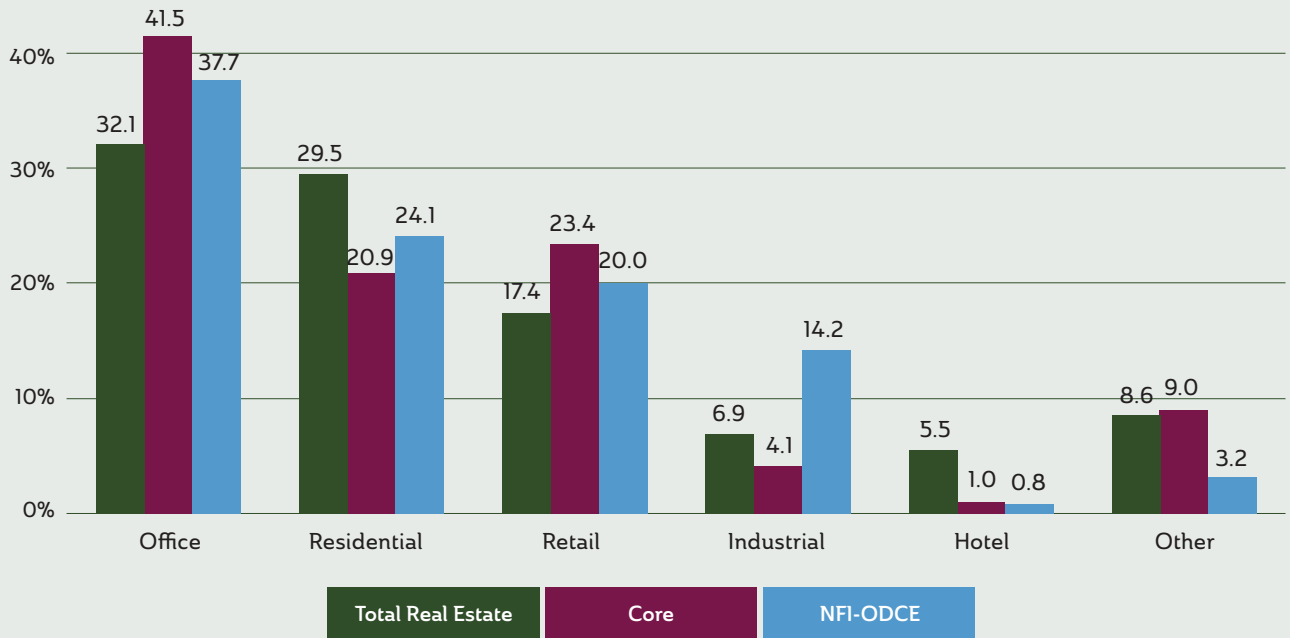
NON-CORE REAL ESTATE STRATEGY ALLOCATION



INVESTMENT MANAGEMENT DIVISION

In addition, the analysis of new investments focuses on location and property types. Both Core REIP and Non-Core REIP invest in a variety of property types including debt, industrial, land, lodging, multi-type, office, multi-family residential, single-family residential, retail and timber. The chart below displays the percentage of each property type allocation as of June 30, 2016.

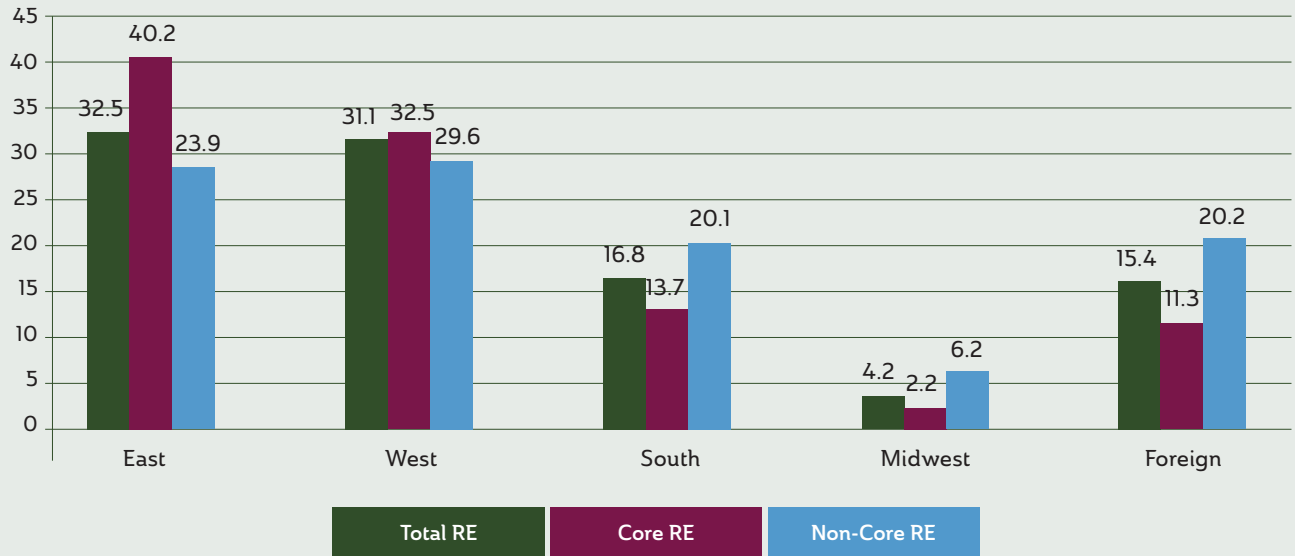
PROPERTY TYPE DIVERSIFICATION vs. BENCHMARKS



INVESTMENT MANAGEMENT DIVISION

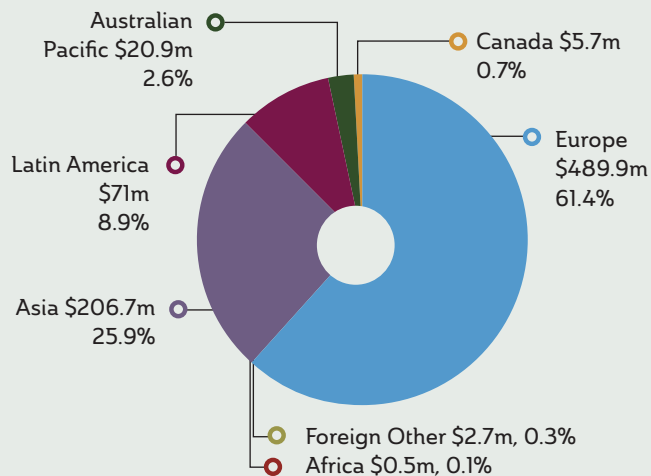
Geographically, both Core REIP and Non-Core REIP have a U.S. focus, and is diversified among the South, East, West and Midwest regions. Investment exposure outside of North America is approximately 16 percent, with the majority split between Europe and Asia. The following chart shows both the US and global geographic allocations as of June 30, 2016.

GEOGRAPHIC DIVERSIFICATION

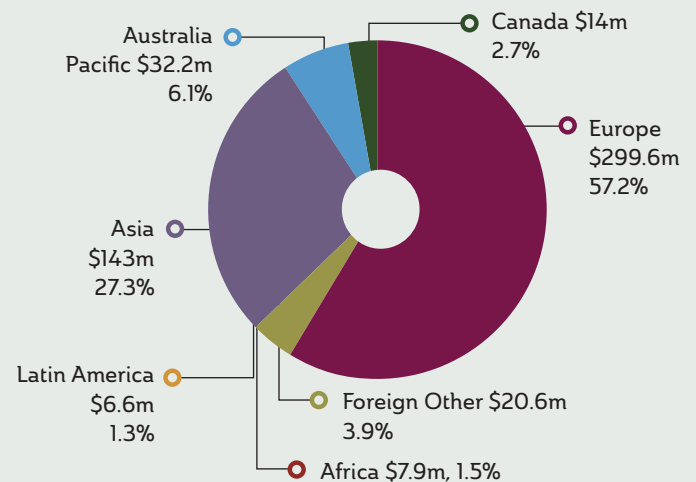


GLOBAL GEOGRAPHIC DIVERSIFICATION

NCRS NON-CORE REAL ESTATE FOREIGN INVESTMENTS



NCRS CORE REAL ESTATE FOREIGN INVESTMENTS

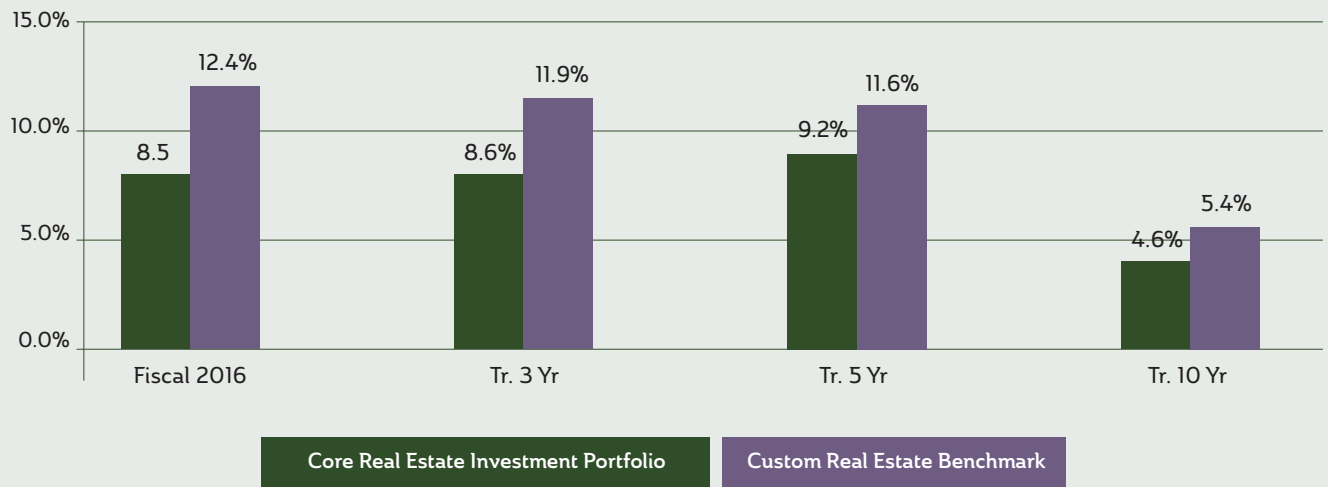


INVESTMENT MANAGEMENT DIVISION

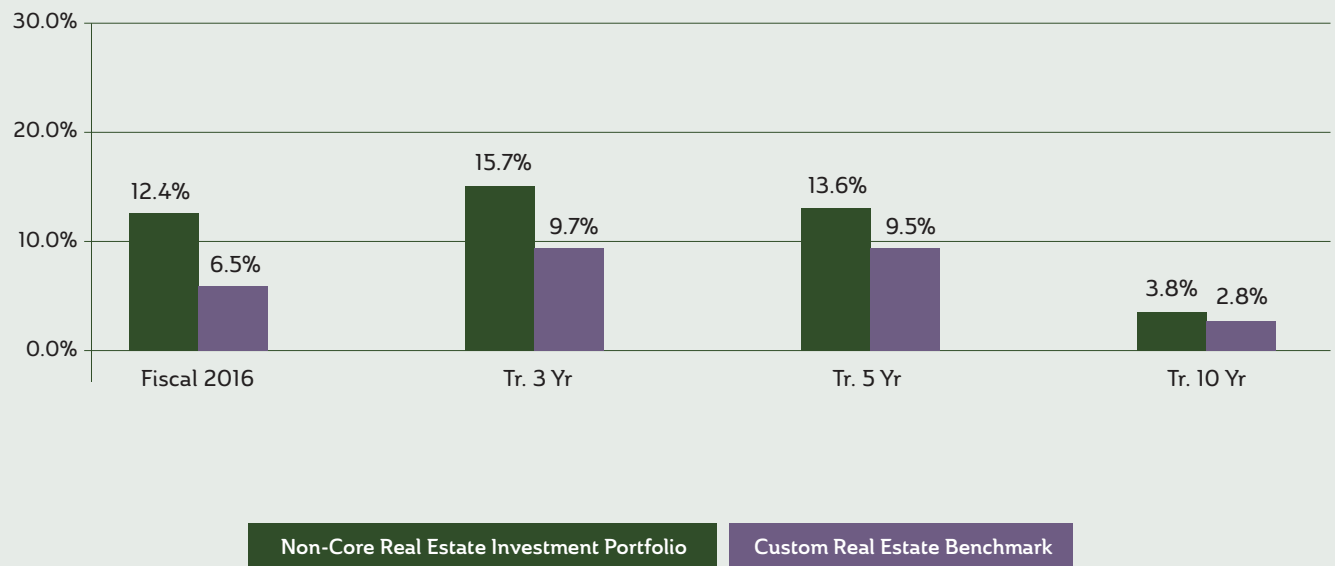
Real Estate Performance

For the fiscal year 2016, the Core REIP returned 8.5 percent, net of fees, underperforming its custom benchmark return of 12.4 percent. Non-Core REIP returned 12.4 percent, net of fees, outperforming its custom benchmark return of 6.5 percent. The Core Real Estate Benchmark is comprised of 80% NCREIF ODCE Net and 20% FTSE EPRA NAREIT Global Index. The Non-Core Real Estate Benchmark is comprised of the following Burgiss Group Private iQ indices: 80% U.S. Non-Core Real Estate (Opportunistic and Value-Added) and 20% Non-U.S. Non-Core Real Estate (Opportunistic and Value-Added).

CORE REAL ESTATE INVESTMENT PORTFOLIO ANNUALIZED PERFORMANCE



NON-CORE REAL ESTATE INVESTMENT PORTFOLIO ANNUALIZED PERFORMANCE



INVESTMENT MANAGEMENT DIVISION

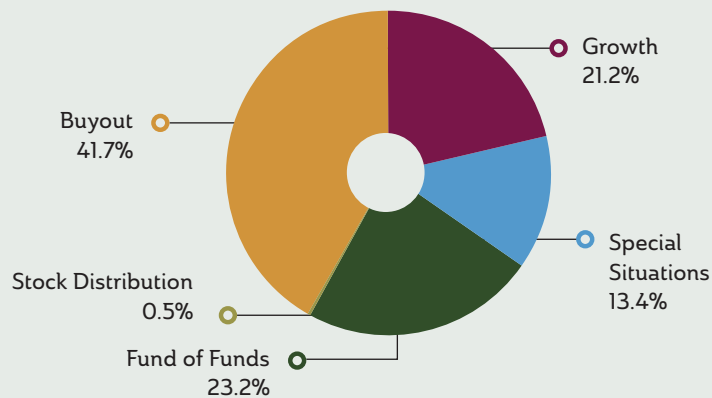
PRIVATE EQUITY

As of June 30, 2016, the Private Equity investment portfolio maintained a market value of approximately \$4.4 billion, representing 5.0 percent of the pension fund. The portfolio invests in limited partnerships and other limited liability entities, which are externally managed by experienced private equity investment professionals. The Private Equity investment portfolio has three major subcomponents: Growth, Buyout, and Special Situations. Growth includes venture capital and growth equity strategies. Growth equity investments, most often minority investments, are in relatively mature companies that are looking for capital to expand or restructure operations, enter new markets or finance a major acquisition without a change of control of the business. Venture capital refers to equity investments made, typically in less mature companies, for the launch

of a seed or start-up company, early stage development, or expansion of a less mature business. Buyout refers to a strategy of making control investments as part of a transaction in which a company, business unit, or business assets are acquired from the current owners typically with the use of financial leverage. Special Situations includes a broad set of strategies such as distressed for control, secondary strategies, co-investment, and other strategies not classified into buyout or growth.

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

PRIVATE EQUITY STRATEGY ALLOCATION
(BASED ON COMMITMENTS)

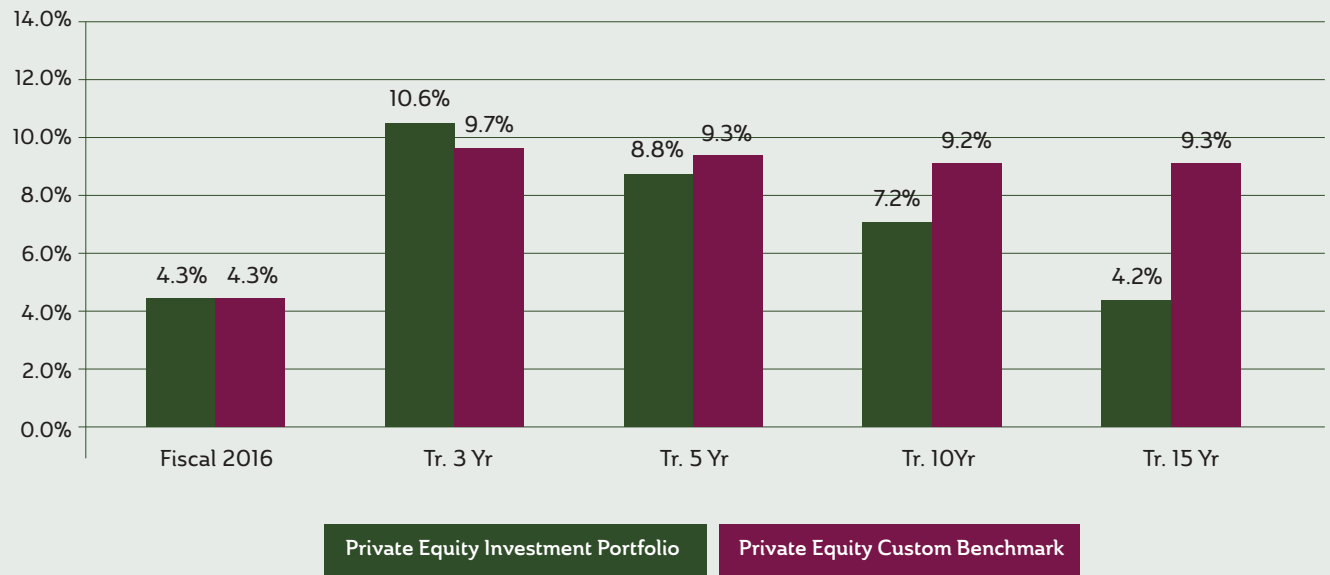


INVESTMENT MANAGEMENT DIVISION

Private Equity Performance

For the fiscal year, the Private Equity investment portfolio returned 4.32 percent, underperforming its benchmark return of 4.33 percent.

PRIVATE EQUITY INVESTMENT PORTFOLIO ANNUALIZED PERFORMANCE



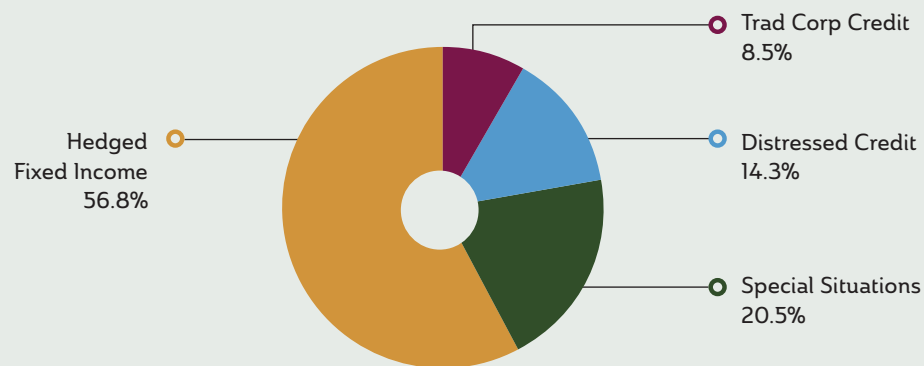
INVESTMENT MANAGEMENT DIVISION

OPPORTUNISTIC FIXED INCOME PORTFOLIO

As of June 30, 2016, the Opportunistic Fixed Income portfolio maintained a market value of approximately \$5.3 billion, representing 6.0 percent of the Pension Fund. The portfolio has a target weight of 7.0 percent and invests in a diversified mix of credit-focused investment vehicles managed by experienced investment advisors. The vehicles include hedge funds, capital drawn down, and hybrid vehicles. The Opportunistic Fixed Income Strategies investment portfolio has four major subcomponents: Traditional Corporate Credit, Distressed Debt, Hedged Fixed Income, and Special Situations. Traditional Corporate

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

STRATEGY ALLOCATION

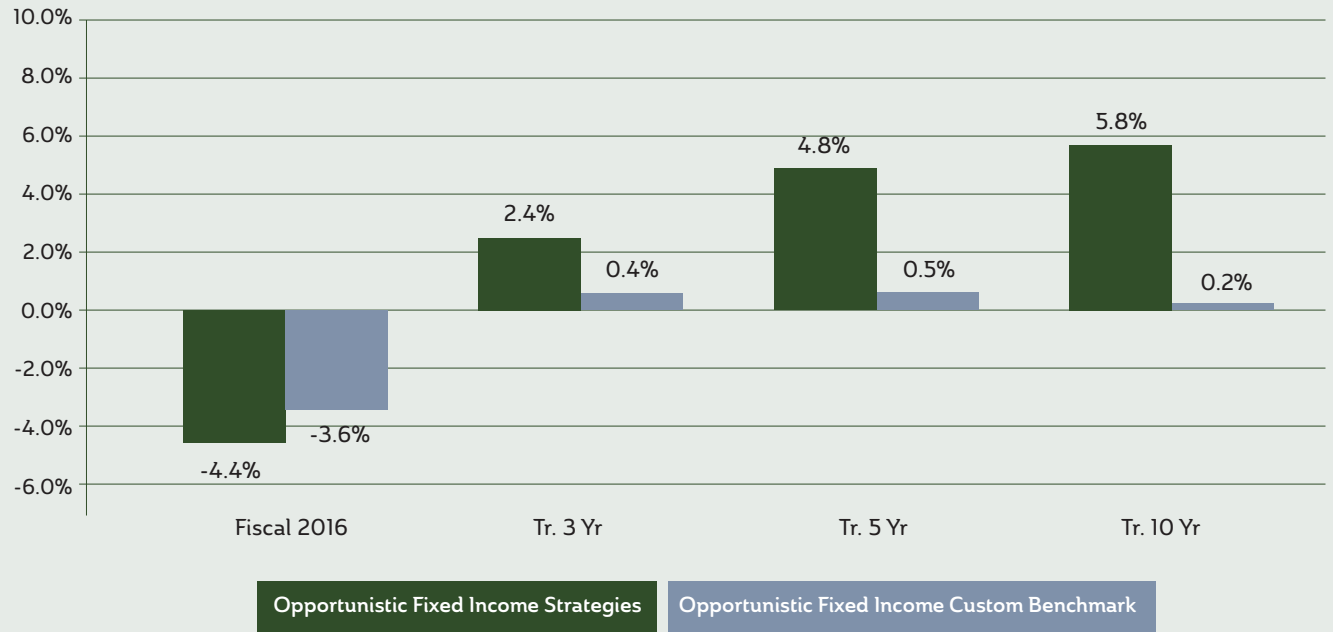


Opportunistic Fixed Income Portfolio Performance

For the fiscal year, the Opportunistic Fixed Income Portfolio returned -4.4 percent, underperforming its benchmark return of -3.6 percent..

INVESTMENT MANAGEMENT DIVISION

OPPORTUNISTIC FIXED INCOME STRATEGIES ANNUALIZED PERFORMANCE



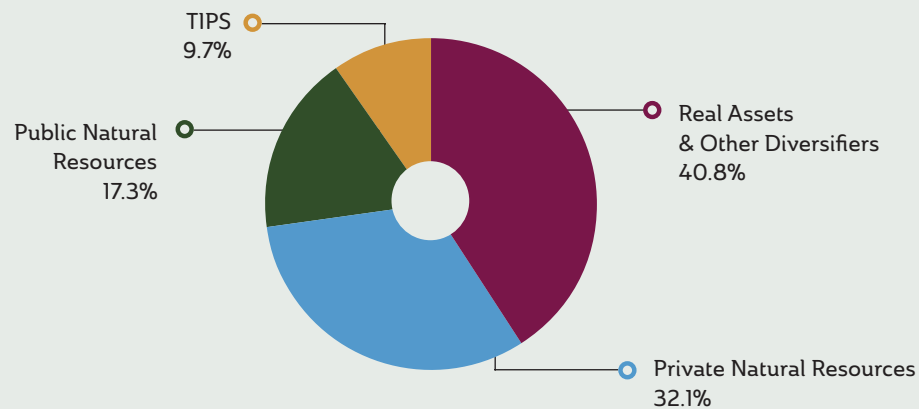
INVESTMENT MANAGEMENT DIVISION

INFLATION SENSITIVE PORTFOLIO

As of June 30, 2016, the Inflation Sensitive Protection Portfolio maintained a market value of \$5.2 billion, representing 5.9 percent of the Pension Fund. The portfolio invests in a diversified mix of inflation sensitive-linked investment vehicles managed by experienced investment advisors. The portfolio is divided into three subcomponents: Publicly Trade Natural Resources, Private Natural Resources, and Real Assets and Other Diversifiers. Publicly Traded Natural Resources are strategies that invest

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

STRATEGY ALLOCATION

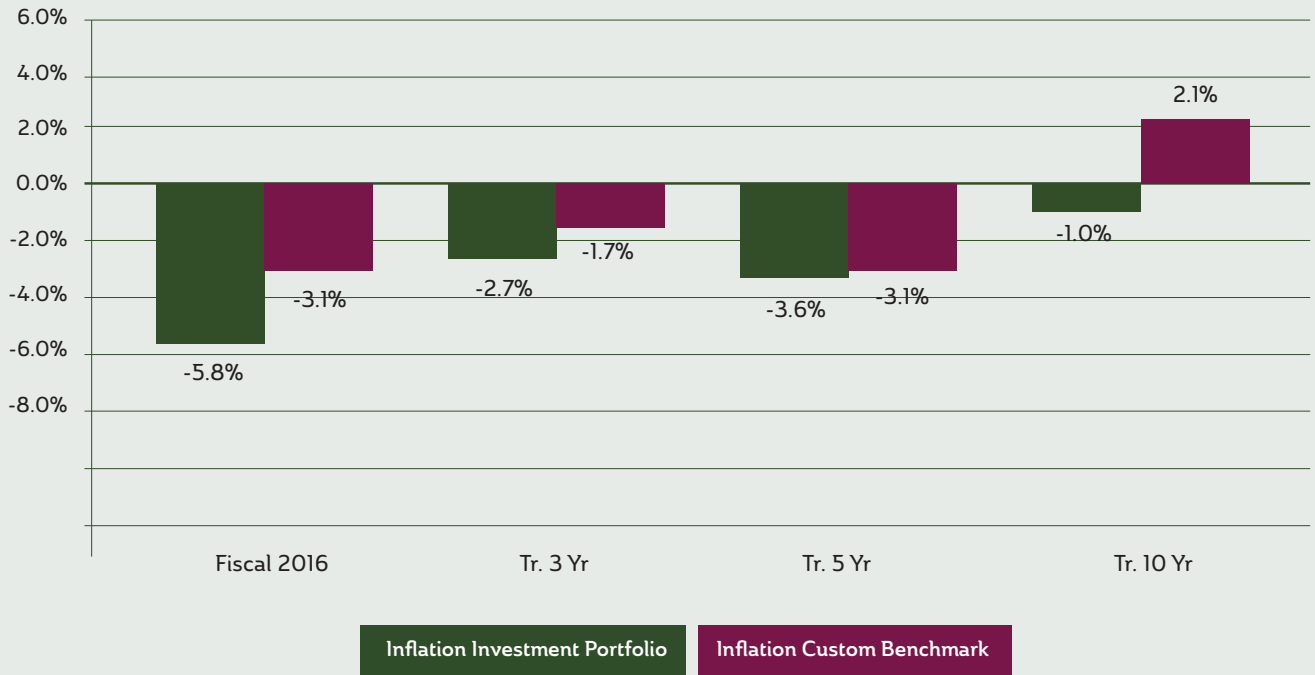


Inflation Sensitive Protection Performance

For the fiscal year, the Inflation Sensitive Protection Portfolio returned -5.75 percent, underperforming its benchmark return of -3.13 percent.

INVESTMENT MANAGEMENT DIVISION

INFLATION INVESTMENT PORTFOLIO ANNUALIZED PERFORMANCE



INVESTMENT MANAGEMENT DIVISION

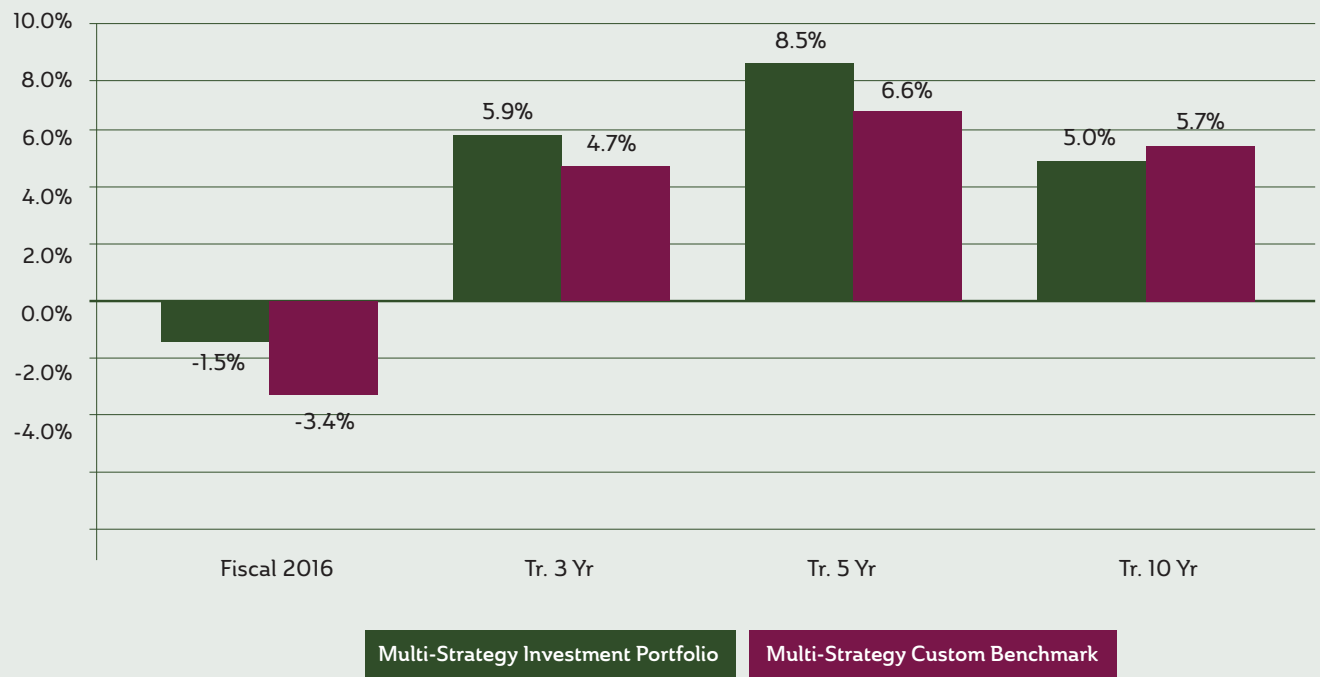
MULTI-STRATEGY PORTFOLIO

As of June 30, 2016, the Multi-Strategy Portfolio maintained a market value of \$1.6 billion, representing 1.8 percent of the Pension Fund. The Multi-Strategy Portfolio invests in externally managed vehicles that have the flexibility to invest across markets, asset classes, commodities, and currencies, including hedging. Strategies may include opportunistic, event-driven, and relative value multi-strategy, global macro, rebalancing, tail hedging and overlays.

Multi-Strategy Performance

For the fiscal year, the Multi-Strategy Portfolio returned -1.5 percent, outperforming its benchmark return of -3.4 percent.

MULTI-STRATEGY INVESTMENT PORTFOLIO ANNUALIZED PERFORMANCE



INVESTMENT MANAGEMENT DIVISION

ANCILLARY GOVERNMENTAL PARTICIPANT INVESTMENT PROGRAM REVIEW

The Treasurer is responsible for one or more investment programs for the deposit and investment of assets pursuant to the provision of N.C.G.S. 147-69.1 and N.C.G.S. 147-69.2, the AGPIP's objective is to generate returns that match or exceed those of the appropriate benchmarks over a three-to five-year basis for the Escheats Fund, Public Hospital Funds, the Local Government Other Post-Employment Benefits Program, and other ancillary governmental participants' assets.

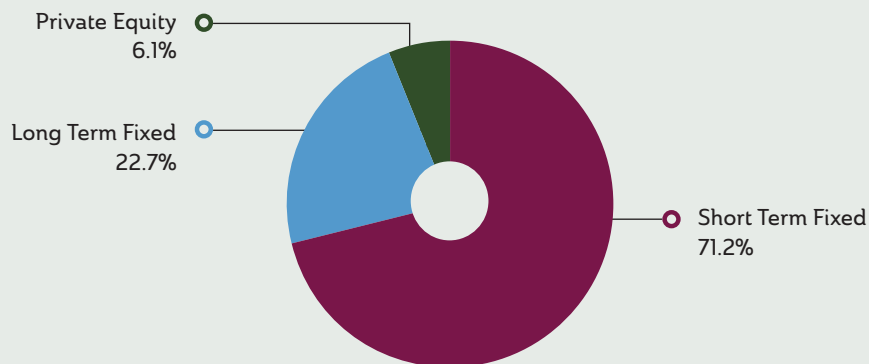
ESCHEATS FUND

Pursuant to G.S. 147-69.2(b)(12), up to 20 percent of the Escheats Investment Fund's assets can be invested in the authorized Public Equity, Real Estate and Private Equity asset classes discussed above. For the fiscal year ending June 30, 2016, the Escheats Fund maintained a total portfolio market value of \$533.0 million, with \$500.6 million invested in fixed income, and \$32.4 million invested in private equity. The following table and chart provide the Escheats Fund's asset allocation and each allocation's percentage of the total Escheats Fund as of June 30, 2016. Actual allocations versus target weights reflect the relatively large appropriations out of the fund in recent years. The policy is expected to be revisited in the upcoming fiscal year.

ESCHEAT INVESTMENT FUND ASSET ALLOCATION AS OF JUNE 30, 2016

	Market Value (000's)	Portfolio Weight
Fixed Income	\$500,601	93.9%
Private Equity	\$32,428	6.1%
Escheat Fund	\$533,029	100%

ESCHEATS INVESTMENT FUND ASSET ALLOCATION



INVESTMENT MANAGEMENT DIVISION

PUBLIC HOSPITALS

Pursuant to G.S. 147-69.2(b2), North Carolina public hospitals are allowed to invest assets in the authorized public equity funds, STIF, and LTIP. As of June 30, 2016 the assets were invested based on the hospital's chosen allocation.

As of June 30, 2016, the market value for the New Hanover Hospital portfolio was \$174.8 million, the market value for Columbus Regional Healthcare System was \$13.8 million, the market value for the Margaret R. Pardee Hospital was \$8.4 million, and the market value for the Watauga Medical Center was \$31.8 million.

OTHER POST-EMPLOYMENT BENEFITS FUND

Pursuant to G.S. 159-30.1(b), the assets of Other Post-Employment Benefits ("OPEB") Trusts can be deposited with the State Treasurer for investment according to G.S. 147-69.2(b4). The assets are allocated among: STIF, LTIP and authorized public equity funds. As of June 30, 2016, there were a total of 16 participants with assets totaling \$201.8 million in allocations based on the OPEB's Trust's chosen allocation.

BOND PROCEEDS FUND

The assets of the Bond Proceeds Fund, managed by Sterling Capital, totaled \$191.1 million as of June 30, 2016.

CONSERVATION EASEMENT ENDOWMENT FUND

The assets of the Conservation Easement Endowment Fund invested in the LTIP and authorized public equity fund, totaled \$2.8 million as of June 30, 2016.

OTHER ANCILLARY GOVERNMENTAL PARTICIPANTS

As of June 30, 2016, the aggregate market value of the other ancillary governmental participants invested in the Long-Term Investment Portfolio was \$1.56 billion.

STATE & LOCAL GOVERNMENT FINANCE DIVISION



STATE & LOCAL GOVERNMENT FINANCE DIVISION

STATE & LOCAL GOVERNMENT FINANCE DIVISION			
	2013-14	2014-15	2015-16
Maintained the AAA Bond Rating	Yes	Yes	Yes
Number of Local Government Units Contacted Regarding their Fiscal Health or Compliance with General Statutes	333	528	267
Total Debt Issued by Local Governments	\$1.9 Billion	\$4.2 Billion	\$4.4 Billion
Debt Issued for Special State and Local Authorities and Agencies	\$1.2 Billion	\$2.2 Billion	\$2.6 Billion
Total State Debt Issued	\$0.3 Billion	\$0.8 Billion	\$0.5 Billion

STATE & LOCAL GOVERNMENT FINANCE DIVISION

The State and Local Government Finance Division handles the sale and delivery of all State and local debt and monitors the repayment of State and local government debt. Staff counsel assists local governments in determining the feasibility of projects, the size of the financing, and the most expedient form of financing. Additionally, this Division monitors and analyzes the fiscal and accounting practices of all local governments.

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

2015-16 FISCAL YEAR SUMMARY OF DEBT ISSUED

Total State	\$ 0.3 Billion
Total Local Governments	\$ 4.4 Billion
TOTAL	\$ 4.7 Billion

HISTORY

In 1931 the North Carolina General Assembly established the Local Government Commission ("LGC"), staffed by this Division, to help address the problems in local government finance caused by the Depression. In 1933, 62 North Carolina counties, 152 cities and towns, and some 200 special districts were in default on the principal or the interest or both of outstanding obligations. The debt of its local governments in general finds a significantly better reception on the national bond markets than the national average. Many attribute this favored credit status, in part, to the work of the LGC. This Commission is unique nationally and is often referred to as a model for local government financial oversight.

THE LOCAL GOVERNMENT COMMISSION

The LGC, established by G.S. 159-3, provides assistance to local governments and public authorities in North Carolina. It is staffed by the Department of State Treasurer and approves the issuance of debt for all units of local government and assists these units with fiscal management. The Commission is composed of nine members: the State Treasurer, the Secretary of State, the State Auditor, the Secretary of Revenue, and five others by appointment (three by the Governor, one by the General Assembly upon the recommendation of the President Pro Tempore, and one by the General Assembly upon the recommendation of the Speaker of the House of Representatives). The State Treasurer serves as Chair and selects the Secretary of the Commission, who heads the administrative staff serving the Commission. The General Statutes require the Commission to meet at least quarterly. As a matter of practice, the Commission meets on the even months, and the Commission's executive committee meets in the odd months.

THE NORTH CAROLINA CAPITAL FACILITIES FINANCE AGENCY

Private colleges, universities, nonprofit and for-profit corporations providing certain services may receive financing assistance through bonds issued by the North Carolina Capital Facilities Finance Agency ("Agency"), established by the General Assembly in 1986. The Agency Board of Directors is composed of seven members: the State Treasurer, the State Auditor, and five others by appointment (three by the Governor, one by the President Pro Tempore of the Senate and one by the Speaker of the House of Representatives). The administrative staff for the Agency is provided by the Department of State Treasurer. The Agency meets monthly.

Following initial contact from an applicant, the staff generally begins the process of determining project feasibility and desirability with a preliminary conference. Upon receipt of an application, financial capability and responsibility is reviewed through ratio and trend analysis. The staff presents the project and its recommendations to the Agency board and subsequently to the LGC for approval. Since its creation, the Agency has provided over \$7.96 billion in tax-exempt capital financing. At June 30, 2016, there were \$2.79 billion in outstanding obligations. Each issue is payable solely from revenues derived from each entity financed, is separately secured, and is separate and independent from all other series of bonds as to source of payment and security. During the fiscal year ended June 30, 2016, the Agency issued \$860 million in bonds for eleven institutions. The Agency's annual report is available from the Department of the State Treasurer.

THE NORTH CAROLINA INFRASTRUCTURE FINANCE CORPORATION

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

DEBT MANAGEMENT

The Division issues and monitors all State debt, including debt secured by a pledge of the taxing power of the State and debt for which repayment is subject to appropriation. With the assistance of other State agencies, the Division determines the cash needs, plans for the repayment of debt (maturity schedules) and schedules the sale at the most appropriate time. An official statement describing the issue and other required disclosures about the State is prepared with the advice and cooperation of bond counsel. Finally, the Division handles the actual sale and delivery of the debt, maintains the State bond records and register of bonds, and monitors the debt service payments. At June 30, 2016, the State had General Obligation bonds outstanding of approximately \$3.0 billion and certificates of participation, limited obligation bonds and lease-purchase bonds outstanding of approximately \$2.1 billion. (See Tables 7 and 8.)

The Division also is responsible for the authorization and sale of revenue bonds for the North Carolina Medical Care Commission, the Municipal Power Agencies, the North Carolina Capital Facilities Finance Agency and the North Carolina Housing Finance Agency. Only the specific revenues pledged for payment secure these bonds. The staff works with the personnel of these agencies in determining the feasibility and scheduling of the bond offerings, in structuring the issues and the underlying security documents, and in preparing the data that must be presented to the LGC for its approval.

The Division assists the State Treasurer in representing the State in all presentations to Moody's Investors Service, Inc., Standard & Poor's Corporation and Fitch Ratings, Inc., the three national bond rating agencies used by the State and local governmental units in North Carolina. At June 30, 2016, the State had a "Triple-A" rating, the highest rating attainable, from all three national rating agencies.

Only eleven other states enjoyed this distinction. These ratings have enabled the State to sell its bonds at interest rates considerably below the Bond Buyer's Index, thereby providing tremendous savings to North Carolina's taxpayers.

In addition, the Division staffs the State's Debt Affordability Committee and drafts an annual Debt Affordability Study, which provides the General Assembly with an overview of the State's debt load and borrowing capacity. The February 1, 2016 Study determined that the State's annual General Fund debt capacity was approximately \$209 million in fiscal year 2016. The Study also provided an estimate of the annual debt capacity for the transportation funds (the State Highway Fund and Highway Trust Fund) and projected that there is approximately \$240 million of new transportation debt capacity.

The other primary function of the Division is the approval, sale and delivery of all North Carolina local government bonds and notes. This includes the sale of revenue bonds, which are secured only by specific revenue pledged in payment of the bonds. The Division staff counsels and assists local governmental units in determining the necessity of a project, the size of the issue, and the most expedient form of financing. A review is made of the debt management policies of the unit, the effect of the financing on the unit's tax rate and the unit's compliance with the Local Government Budget and Fiscal Control Act. Sale dates are scheduled depending on the need for the money, the anticipated interest rates and the most favorable times bonds can be sold with a minimum of competition. The staff strives to resolve all problems and to determine that all statutory requirements are met before applications are presented to the LGC for approval.

Debt records are maintained for all units on principal and interest payments coming due in the current and future years. All debt service payments are monitored through a system of monthly reports. At June 30, 2016, authorized and unissued general obligation bonds for local governments and authorities amounted to \$6.2 billion and general obligation debt outstanding amounted to \$8.9 billion. (See Table 7.)

Another responsibility of the Division's staff is assisting units that desire to enter into agreements to finance the lease or installment purchase of capital assets. Before approving such agreements, the LGC must find that the proposed project is necessary and expedient, the proposed undertaking cannot be economically financed by a bond issue and that the contract will not require an excessive increase in taxes. During the fiscal year ended June 30, 2016, the LGC approved contracts or other agreements (including refundings) totaling \$1.5 billion. (See Tables 5 and 6.)

STATE & LOCAL GOVERNMENT FINANCE DIVISION

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

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

-- TABLE 3 --

BOND ISSUANCES FOR 2015-16		
	FY No.	2015-2016 (Amount in Millions)
BONDS SOLD FOR THE STATE		
G.O. Bonds (General Fund)	1	\$ 329.4
North Carolina Turnpike Authority Revenue Bonds	-	-
Grant Anticipation Revenue Vehicle Bonds ¹	-	-
Special Indebtedness	-	-
Total Issued	1	\$ 329.4
BONDS AND NOTES SOLD FOR LOCAL GOVERNMENT UNITS		
G.O. Bonds	50	\$ 934.8
Revenue Bonds	57	1,963.9
Water and Sewer Revolving Loans	42	72.5
Water and Sewer Loans (Stimulus)	0	0.0
Special Obligation Bonds - Solid Waste	6	59.6
G.O. Notes ²	31	176.4
Revenue Notes ²	13	53.9
Total Issued	218	\$ 3,188.6
Installment/Lease Contracts Sold for Local Units	126	\$1,169.1
Total for Local Government	325	\$ 4,430.2
REVENUE BONDS SOLD FOR		
Medical Care Commission	16	683.6
Housing Finance Agency	1	66.0
Power Agencies	7	970.9
Industrial Facilities & Pollution Control Financing Authorities ³	2	10.5
NC Department of Transportation (I-77)	0	0.0
Capital Facilities Finance Agency	11	860.4
Total Issued	37	\$2,591.4
GRAND TOTAL ISSUED	363	\$ 7,351.0

¹ The GARVEES are bonds issued for the State Department of Transportation for transportation construction and improvement costs. They are payable solely from certain federal transportation revenues received on behalf of the State and do not create a liability or obligation of the State or any political subdivision. The State issued no new GARVEE bonds in fiscal year 2016.

² These These are ongoing programs involving more than a year in duration. The purpose of these projects is to allow interim funding of large ongoing programs until a sufficient amount of bonds or favorable market conditions justify replacing the notes with permanent financing.

³ Bonds issued by these authorities are commonly referred to as Industrial Revenue Bonds and are used to attract and retain manufacturing industries to the State.

A comparison of bond issuances by the categories above in fiscal year 2015-16 with issuances in the past two fiscal years is shown below in Chart 8.

FISCAL MANAGEMENT

Another function of the Division involves monitoring certain fiscal and accounting standards prescribed for local governmental units by the Local Government Budget and Fiscal Control Act. The Act requires each unit of local government to have its accounts audited annually by a Certified Public Accountant or by an accountant certified by the Commission as qualified to audit local government accounts. As a part of its role in assisting local units and monitoring their fiscal programs, the Division provides guidance in following generally accepted accounting principles. Each local government is required to file a copy of its annual audit report with the Division and submit all audit invoices to the Division for approval.

The staff of the Fiscal Management Section annually reviews the audited financial statements of approximately 1,331 local governments and public authorities. The staff determines that all reports are prepared in accordance with generally accepted accounting principles and that applicable auditing standards have been followed. The staff also reviews the audit report to evaluate the financial condition of the unit, to determine if the unit complied with the Local Government Budget and Fiscal Control Act and other State laws, and to determine if the unit has an adequate system of internal controls in place. As a part of the audit review process, staff reviewed approximately 612 single audits and approximately 262 "Yellow Book" audits to ensure that audits performed under Government Auditing Standards (the "Yellow Book") and the federal and State single audit acts meet all the federal and State requirements.

When Division staff notes problems, local governments and public authorities, as well as their independent auditors, receive written communication expressing the staff's concerns, suggestions for improvements and an offer of assistance. On behalf of the LGC, staff requests a response detailing the unit's plans to take corrective action. In fiscal year 2015-16, staff sent approximately 267 audit letters to units of local government. Letters typically discussed such issues as over expenditures in the budget, fiscal weaknesses in the water and sewer system, internal control problems with the accounting system, credit cards or deposits, late delivery of audits or problems with the unit's level of fund balance. In providing assistance to local governments, units are counseled in accounting systems and internal controls,

cash and investment management, budget preparation, risk management, capital planning and changes in laws and regulations. Educational programs in the form of seminars and classes are also provided in order to accomplish these tasks. Staff members make presentations throughout the year at various workshops sponsored by:

- North Carolina Association of School Business Officers
- North Carolina Government Finance Officers Association
- North Carolina Local Government Investment Association
- North Carolina League of Municipalities
- North Carolina State University MPA Program
- North Carolina Department of Justice
- UNC School of Government
- Large City and County Finance Officers Association
- Treasurer's Conference on Innovation and Sustainability
- Cherry, Bekaert, LLP

OUTREACH AND COMMUNICATION

• Staff members spoke at 14 continuing education courses and conferences sponsored by organizations such as the UNC School of Government, various North Carolina finance officers associations, the North Carolina Association of Certified Public Accountants, and N.C. State University. Due to scheduling conflicts, the staff decided to move the 15th annual State Treasurer's Conference on Accounting, Auditing and Financial Reporting to Fall, 2016.

• A Continuing Professional Education class for governmental auditors was offered again in 2016 in collaboration with the UNC School of Government. Held at the UNC campus, the class covered information from DHHS on compliance issues, a compliance auditing update, the municipal Powell Bill program, auditing local government investments, unit letters, the preaudit process, and new GASB standards. It was well received with 112 attendees.

• A member of the staff serves on the Governmental Accounting and Auditing Committee of the NCACPA. Staff members provide additional assistance to independent auditors by researching their questions concerning governmental accounting, auditing and budgeting, as well as North Carolina General Statutes.

OTHER HIGHLIGHTS

Implementation of GASB Statement 68

Local government participants in the Teachers and State Employees Retirement System and the Local Government Employees Retirement System implemented GASB Statement number 68 as of June 30, 2015. Fiscal staff continued updating its dedicated website that provided myriad templates, memoranda, and illustrative documents for the various reporting components required for successful implementation. Staff also maintained a regularly updated FAQ as well as provided individual assistance for local government and independent auditors' staffs. We continued to refine our guidance and developed a journal entry template tool for units to use as of June 30, 2016 for their second year of implementation. Staff also began working on the implementation process for GASB Statements 73, 74, and 75, which are refinements of GASB 68 and new reporting standards for units that offer retiree healthcare and other post-employment benefits.

COACH Team

In the 2015-2016 operating budget, the General Assembly allocated funds to Fiscal Management for the development and implementation of a two person COACH team to assist troubled local governments. Staff was hired in May and June of 2016 to provide hands-on, onsite training and development for local entities that are struggling. The team began working with units in July, 2016.

STATE & LOCAL GOVERNMENT FINANCE DIVISION

-- TABLE 4 --

GENERAL OBLIGATION BONDS LOCAL GOVERNMENT REFERENDA & AUTHORIZATIONS						
FISCAL YEAR JULY 1, 2015 - JUNE 30, 2016						
	Propositions			Bonds		
	# Proposed	# Approved	% Approved	\$ Proposed	\$ Approved	% Approved
COUNTIES						
VOTED PROPOSITIONS						
School						
Community College						
Parks & Recreation						
Total	0	0	0%	\$0	\$0	0%
NONVOTED PROPOSITIONS						
Refunding	11	11	100.00%	410,835,000	410,835,000	100.00%
2/3rds						
Total	11	11	100.00%	\$410,835,000	\$410,835,000	100.00%
DISTRICTS						
VOTED PROPOSITIONS						
Water						
Sewer						
Total	0	0	0%	\$0	\$0	100.00%
NONVOTED PROPOSITIONS						
Refunding	9	9	100.00%	33,665,000	33,665,000	100.00%
Total	9	9	100.00%	\$33,665,000	\$33,665,000	100.00%
MUNICIPALITIES						
VOTED PROPOSITIONS						
Water	1	1	100.00%	3,000,000	3,000,000	100.00%
Sewer	1	1	100.00%	2,000,000	2,000,000	100.00%
Greenway	1	1	100.00%	5,000,000	5,000,000	100.00%
Parks & Recreation	2	2	100.00%	43,000,000	43,000,000	100.00%
Solid Waste	1	1	100.00%	5,200,000	5,200,000	100.00%
Storm Water	1	1	100.00%	5,900,000	5,900,000	100.00%
Transportation	1	1	100.00%	21,000,000	21,000,000	100.00%
Telecommunications	1	1	100.00%	10,000,000	10,000,000	100.00%
Streets & Sidewalks	3	3	100.00%	47,050,000	47,050,000	100.00%
Total	12	12	100.00%	\$142,150,000	\$142,150,000	100.00%
NONVOTED PROPOSITIONS						
Refunding	10	10	100.00%	248,570,000	248,570,000	100.00%
2/3rds	2	2	100.00%	6,815,000	6,815,000	100.00%
Total	12	12	100.00%	\$255,385,000	\$255,385,000	100.00%
TOTAL VOTED	12	12	100.00%	\$142,150,000	\$142,150,000	100.00%
TOTAL NONVOTED	32	32	100.00%	\$699,885,000	\$699,885,000	100.00%
GRAND TOTALS	44	44	100.00%	\$842,035,000	\$842,035,000	100.00%

STATE & LOCAL GOVERNMENT FINANCE DIVISION

-- TABLE 5 --

INSTALLMENT PURCHASE AGREEMENTS APPROVED BY PURPOSE FISCAL YEAR JULY 1, 2015 THROUGH JUNE 30, 2016

MUNICIPALITIES:	Amount
UTILITIES	
Sanitary Sewer	\$6,510,625
Electric	\$4,806,000
Gas	-
Water	\$11,606,653
	\$22,923,278
PUBLIC BUILDINGS	
Fire Station	\$5,088,000
Municipal Buildings	\$147,635,134
Town Hall	\$350,000
Stadium & Auditorium	\$111,926,037
Community Center	\$933,452
	\$265,932,623
Land	\$1,810,683
Recreation	\$71,374,002
Streets & Sidewalks	\$30,331,393
Equipment	\$10,411,667
Refunding	\$153,054,504
Stormwater	\$714,464
Economic Development	\$1,500,000
Parking	\$5,800,000
Redevelopment	\$7,410,784
Vehicles	\$27,000
Housing	\$2,139,900
Flood & Erosion	\$790,527
Funding	\$1,179,646
Senior Center	830,908
	\$287,375,478
SUBTOTAL	\$576,231,379

COUNTIES:	Amount
SCHOOLS	\$324,671,289
PUBLIC BUILDINGS	
Recreation Center	\$1,623,385
Auditorium	\$32,764
Courthouse/Law Enforcement/Jail	\$21,634,472
County Buildings	\$99,140,267
Library	\$96,000
	\$122,526,888
UTILITIES	
Water	\$13,000,000
Sanitary Sewer	\$216,117
	\$13,216,117
Community College	\$12,432,000
Refunding	\$392,117,499
Equipment	\$1,679,377
Vehicles	\$1,102,297
Land Acquisition	\$4,910,375
Solid Waste	\$238,544
Parking	\$40,080
Flood Erosion	\$35,331,979
Animal Shelter	\$1,703,000
Economic Development	\$9,400,000
	\$458,955,151
COMMUNITY COLLEGES	
Guaranteed Energy Savings Contract/ Qualified School Construction	\$16,808,785
DISTRICTS/AUTHORITIES:	
Water	\$1,659,940
Airport	\$1,300,000
Hospital Facility	\$1,500,000
	\$4,459,940
SUBTOTAL	\$940,638,170
GRAND TOTAL	\$1,516,869,549

STATE & LOCAL GOVERNMENT FINANCE DIVISION

-- TABLE 6 --

INSTALLMENT AND LEASE AGREEMENTS APPROVED BY THE LOCAL GOVERNMENT COMMISSION FISCAL YEARS ENDED JUNE 30, 2016, 2015 AND 2014 (IN MILLIONS)						
	FY 2015-16		FY 2014-15		FY 2013-14	
	NO.	Amount	NO.	Amount	NO.	Amount
Counties	35	\$527,252	22	\$350.0	17	\$303.0
Municipalities	69	423,177	67	407.2	49	301.7
Authorities/Districts	4	4,459.9	1	0.8	4	12.0
Community College/GESC/QSCB	4	16,809	9	20.0	3	11.0
Subtotal	112	\$971,697.4	99	\$778.0	73	\$627.7
Refunding	16	\$545,172	31	\$1,001.0	17	\$326.3
GRAND TOTAL	128	\$1,516,869.5	130	\$1,779.0 *	90	\$954.0*

*Total includes refundings.

-- TABLE 7 --

SUMMARY OF STATE AND LOCAL GOVERNMENT DEBT AND AUTHORIZATIONS AT JUNE 30, 2016								
	General Obligation Debt	Special Indebtedness/ Installment/ Lease Purchase Debt	Revenue Bond/ Revolving & State Bond Loan/Special Obligation Bond Debt	Total	Industrial Revenue Bonds	Total Indebtedness	General Obligation Bonds Authorized and Unissued	Non- General Obligation Debt Authorized and Unissued
State of NC	\$3,038,665,000	\$2,121,890,000	\$-	\$5,160,555,000	\$-	\$5,160,555,000	\$2,000,000,000	\$-
GARVEE ¹	-	-	675,290,000	675,290,000	-	675,290,000	-	-
NC Turnpike	-	-	1,011,388,109	1,011,388,109	-	1,011,388,109	-	-
State Authorities & Institutions	-	-	18,232,813,147	18,232,813,147	-	18,232,813,147	-	-
Totals	\$3,038,665,000	\$2,121,890,000	\$19,919,491,256	\$25,080,046,256	\$-	\$25,080,046,256	\$2,000,000,000	\$-
Counties	\$6,391,485,242	\$4,871,917,691	\$834,880,177	\$12,098,283,110	\$-	\$12,098,283,110	\$2,014,470,000	\$-
Municipalities	2,212,277,327	3,129,949,654	5,889,108,087	11,231,335,068	-	11,231,335,068	1,368,691,825	-
Districts	318,436,606	15,398,619	1,568,312,448	1,902,147,673	-	1,902,147,673	-	117,737,000
Authorities	-	8,718,663	1,985,557,387	1,994,276,050	1,261,514,147	3,255,790,197	-	-
Total	\$8,922,199,175	\$8,025,984,627	\$10,277,858,099	\$27,226,041,901	\$1,261,514,147	\$28,487,556,048	\$3,383,161,825	\$117,737,000
GRAND TOTAL	\$11,960,864,175	\$10,147,874,627	\$30,197,349,355	\$52,306,088,157	\$1,261,514,147	\$53,567,602,304	\$5,383,161,825	\$117,737,000

Note: Outstanding indebtedness above does not include the bonded indebtedness for which funds have been escrowed from advance refunding proceeds or other sources to cover the debt.

¹ Grant Anticipation Revenue Vehicle Bonds.

STATE & LOCAL GOVERNMENT FINANCE DIVISION

The following chart outlines the revenue bonds and other indebtedness of State authorities and institutions at June 30, 2016. The State is not responsible for debt service on any of the revenue bonds and other indebtedness represented in this chart.

-- TABLE 8 --

REVENUE BONDS AND OTHER INDEBTEDNESS OF STATE AUTHORITIES AND INSTITUTIONS AT JUNE 30, 2016	
Appalachian State University	\$ 243,204,064
East Carolina University	359,454,053
Elizabeth City State University	33,218,851
Fayetteville State University	65,866,706
North Carolina A & T State University	110,274,932
North Carolina Central University	85,521,062
North Carolina School of the Arts	6,973,807
North Carolina State University at Raleigh	573,907,697
University of North Carolina at Asheville	44,629,318
University of North Carolina at Chapel Hill	1,370,851,448
University of North Carolina at Charlotte	526,193,862
University of North Carolina at Greensboro	310,369,677
University of North Carolina at Pembroke	51,557,625
University of North Carolina at Wilmington	218,753,911
Western Carolina University	125,440,120
Winston-Salem State University	88,277,347
North Carolina Capital Facilities Finance Agency	2,789,572,817
North Carolina Eastern Municipal Power Agency	421,430,000
North Carolina Housing Finance Agency	637,190,000
North Carolina Medical Care Commission	7,096,463,507
North Carolina Municipal Power Agency No. 1	1,135,360,000
North Carolina State Education Assistance Authority	1,749,696,647
North Carolina State Ports Authority	88,605,696
North Carolina Department of Transportation (I-77)	100,000,000
TOTAL	\$ 18,232,813,147

Source: Chief fiscal officer of each authority or institution.

*unaudited.

STATE & LOCAL GOVERNMENT FINANCE DIVISION

-- TABLE 9 --

PURPOSES FOR WHICH LOCAL GOVERNMENTS SOLD BONDS & NOTES FISCAL YEAR 2016						
	School	Utilities	Refunding	Other	NO.	Total Amount
G.O. BONDS						
Counties	\$183,507,141	\$-	\$387,787,000	\$61,947,859	22	\$633,242,000
Municipalities	-	2,581,000	199,792,000	70,900,000	19	273,273,000
Districts and Authorities	-	-	28,290,000	-	9	28,290,000
Total G.O. Bonds	\$183,507,141	\$2,581,000	\$615,869,000	\$132,847,859	50	\$934,805,000
REVENUE BONDS						
Counties	-	\$36,186,713	\$-	\$-	5	\$36,186,713
Municipalities	-	285,005,000	900,285,000	-	22	1,185,290,000
Districts and Authorities	-	20,287,000	206,370,000	515,778,753	30	742,435,753
Total Revenue Bonds	-	\$341,478,713	\$1,106,655,000	\$515,778,753	57	\$1,963,912,466
SPECIAL OBLIGATION BONDS						
Special Obligation Bonds	-	\$48,613,691	-	\$11,000,000	6	\$59,613,691
Total Special Obligation Bonds	-	\$48,613,691	-	\$11,000,000	6	\$59,613,691
WATER & SEWER REVOLVING LOANS						
Counties	-	\$3,572,031	-	-	4	\$3,572,031
Municipalities	-	43,037,560	-	-	29	43,037,560
Districts and Authorities	-	25,938,596	-	-	9	25,938,596
Total Water & Sewer Revolving Loans	-	\$72,548,187	-	-	42	\$72,548,187
NOTES						
G.O. Bond Anticipation Notes	\$9,479,595	\$11,328,000	-	\$155,603,500	31	\$176,411,095
Revenue Notes	-	31,090,701	-	22,804,360	13	53,895,061
Total	\$9,479,595	\$42,418,701	-	\$178,407,860	44	\$230,306,156
TOTAL BONDS & NOTES	\$192,986,736	\$507,640,292	\$1,722,524,000	\$838,034,472	199	\$3,261,185,500

STATE & LOCAL GOVERNMENT FINANCE DIVISION

-- TABLE 10 --

DEBT MANAGEMENT ACTIVITIES - STATE & LOCAL (IN MILLIONS)						
	FY 2015-16		FY 2014-15		FY 2013-14	
	NO.	Amount	NO.	Amount	NO.	Amount
BONDS SOLD FOR STATE						
G.O. Bonds (General Fund)	1	\$329.4	1	\$231.4	1	\$306.7
G.O. Bonds (Highway Fund)	-	-	-	-	-	-
Special Indebtedness	-	-	1	299.0	1	199.6
Grant Anticipation Revenue Vehicle Bonds	-	-	1	264.9	-	-
NC Turnpike Authority Revenue Bonds	-	-	-	-	-	-
Total Issued	1	329.4	3	795.3	2	506.3
BONDS AND NOTES SOLD FOR LOCAL GOVERNMENT UNITS						
G.O. Bonds	50	934.8	45	1,227.7	53	689.9
Revenue Bonds	57	1,963.9	46	1,012.2	27	201.4
Special Obligation Bonds	6	59.6	2	21.0	-	-
G.O. Notes	31	176.4	31	105.5	20	51.6
Revenue Notes	13	53.9	23	157.3	10	59.8
Subtotal Bonds & Notes Issued	157	3,188.6	147	2,523.7	110	1,002.7
Installment/Lease Contracts Sold for Local Units	126	1,169.1	143	1,529.5	134	886.1
Water & Sewer Revolving Loans *	42	72.5	71	151.6	40	60.0
Total for Local Government Units	325	\$4,430.2	361	\$4,204.8	284	\$1,948.8
REVENUE BONDS SOLD FOR						
Medical Care Commission	16	683.6	20	919.6	16	762.9
Housing Finance Agency	1	66.0	-	-	1	54.3
Power Agencies	7	970.9	-	-	1	175.0
Industrial Facilities and Pollution Control	-	-	-	-	-	-
Financing Authorities	2	10.5	2	20.4	3	12.6
NC Department of Transportation (I-77)	-	-	1.0	100.0	-	-
Capital Facilities Finance Agency	11	860.4	12	1,110.0	11	150.1
Total Issued	37	2,591.4	35	2,150.0	32	\$1,154.9
GRAND TOTAL ISSUED	363	\$7,351.0	399	\$7,150.1	318	3,610.0

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

STATE & LOCAL GOVERNMENT FINANCE DIVISION

STATE OF NORTH CAROLINA ANNUAL DEBT SERVICE REQUIREMENTS FOR GENERAL OBLIGATION BONDS & SPECIAL INDEBTEDNESS FISCAL YEAR JULY 1, 2015 THROUGH JUNE 30, 2016

	General Obligation Existing Debt		Highway Existing Debt		Special Indebtedness Existing Debt		Total Existing Debt ^{1, 2}	
Fiscal Year	Principal	Principal & Interest	Principal	Principal & Interest	Principal	Principal & Interest	Principal	Principal & Interest
2016-17	325,184,036.00	457,111,683.72	51,785,964.00	61,012,228.78	131,115,000.00	229,970,918.76	508,085,000.00	748,094,831.26
2017-18	342,573,188.00	460,026,157.16	45,331,812.00	52,160,867.84	135,230,000.00	227,571,318.76	523,135,000.00	739,758,343.76
2018-19	344,962,812.00	446,097,824.54	45,387,188.00	50,036,450.46	138,765,000.00	224,408,106.26	529,115,000.00	720,542,381.26
2019-20	303,093,000.00	386,452,760.81	55,877,000.00	59,774,014.19	157,765,000.00	236,201,881.26	516,735,000.00	682,428,656.26
2020-21	279,880,000.00	350,344,525.00	-	-	158,990,000.00	229,721,431.26	438,870,000.00	580,065,956.26
2021-22	261,625,000.00	319,238,875.00	-	-	163,550,000.00	226,369,431.26	425,175,000.00	545,608,306.26
2022-23	257,025,000.00	302,684,875.00	-	-	168,475,000.00	223,153,981.26	425,500,000.00	525,838,856.26
2023-24	230,880,000.00	265,134,200.00	-	-	172,000,000.00	218,938,306.26	402,880,000.00	484,072,506.26
2024-25	152,420,000.00	175,130,200.00	-	-	141,185,000.00	180,700,806.26	293,605,000.00	355,831,006.26
2025-26	93,320,000.00	108,409,200.00	-	-	135,690,000.00	168,648,706.26	229,010,000.00	277,057,906.26
2026-27	76,620,000.00	87,043,200.00	-	-	138,485,000.00	165,125,531.26	215,105,000.00	252,168,731.26
2027-28	49,230,000.00	56,053,600.00	-	-	134,465,000.00	154,836,706.26	183,695,000.00	210,890,306.26
2028-29	32,900,000.00	37,464,487.50	-	-	120,690,000.00	135,619,331.26	153,590,000.00	173,083,818.76
2029-30	32,745,000.00	35,866,875.00	-	-	79,000,000.00	88,371,537.50	111,745,000.00	124,238,412.50
2030-31	11,565,000.00	13,646,700.00	-	-	82,730,000.00	88,558,712.50	94,295,000.00	102,205,412.50
2031-32	11,565,000.00	13,299,750.00	-	-	46,430,000.00	48,638,750.00	57,995,000.00	61,938,500.00
2032-33	11,565,000.00	12,952,800.00	-	-	17,325,000.00	17,844,750.00	28,890,000.00	30,797,550.00
2033-34	11,565,000.00	12,490,200.00	-	-	-	-	11,565,000.00	12,490,200.00
3034-35	11,565,000.00	12,027,600.00	-	-	-	-	11,565,000.00	12,027,600.00
TOTAL	\$2,840,283,036.00	\$3,551,475,513.73	\$198,381,964.00	\$222,983,561.27	\$2,121,890,000.00	\$2,864,680,206.38	\$5,160,555,000.00	\$6,639,139,281.38

¹ Table includes refunding debt but not refunded debt since sufficient funds have been placed with an escrow agent to pay all principal and interest and any premium on the debt refunded to and including their respective maturities or dates of redemption.

² Does not include North Carolina Turnpike Bonds (which are payable from the Highway Trust Fund).

STATE HEALTH PLAN DIVISION



STATE HEALTH PLAN DIVISION

The State Health Plan for Teachers and State Employees (Plan) provides health care coverage to more than 700,000 teachers and school personnel, state employees, retirees, current and former lawmakers, state university and community college personnel, and their dependents. The mission of the State Health Plan is to improve the health and health care of North Carolina teachers, state employees, retirees, and their dependents, in a financially sustainable manner, thereby serving as a model to the people of North Carolina for improving their health and well-being.

The Plan's vision is to be a leader in North Carolina by providing access to cost-effective, quality health care and wellness programs for our membership. In fulfilling its mission and vision, the Plan seeks to follow these values: focusing on our members; collaborating with our vendor partners and other stakeholders on behalf of our members; acting in a transparent and open manner with the highest degree of integrity; and striving for the best quality of care and service for our members.

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

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

GOVERNANCE

The Treasurer, Executive Administrator, and Board of Trustees are designated as fiduciaries for the Plan. The powers and duties of the Treasurer are set forth in statute at NCGS 135-48.30(a) and include setting benefits, premium rates, copays, deductibles, and coinsurance percentages and maximums subject to approval of the Board of Trustees. The Board of Trustees' powers and duties are set forth at NCGS 135-22 and include approving large contracts, approving premium rates, copays and deductibles proposed by the Treasurer, and developing and maintaining a strategic plan. The General Assembly determines member eligibility rules and provides state funding for the Plan.

The Board of Trustees is required to be composed of at least one of the following: an employee of a State department, agency or institution; a teacher employed by a North Carolina public school system; a retired employee of a State

department, agency or institution; and a retired teacher from a North Carolina public school system. The board must also include individuals with the following expertise: actuarial science, health economics, health benefits and administration, and health law and policy. The State Treasurer is an ex officio member of the Board and serves as its Chair, but only votes in the event of a tie. The Director of the Office of State Budget and Management serves as an ex officio nonvoting member. Two members are appointed by the Governor. Two members are appointed by the State Treasurer. Two members are appointed by the General Assembly upon the recommendation of the Speaker of the House of Representatives. Two members are appointed by the General Assembly upon the recommendation of the President Pro Tempore of the Senate.

MEMBERSHIP STATISTICS

The State Health Plan provides health care coverage to 700,166 teachers, state employees, retirees, current and former lawmakers, state university and community college personnel, and their dependents, as of July 2016. (685,243 in May 2015)

Among total membership, there are:

- 482,714 active employees and dependents. Dependents include spouses and children up to age 26.
- 912 Consolidated Omnibus Budget Reconciliation Act of 1986 (COBRA) participants and their dependents. COBRA requires most employers with group health plans to offer employees the opportunity to continue their group health care coverage temporarily under their employer's plan if their coverage otherwise would cease due to termination, layoff or other change in employment status. COBRA rules apply to the State Health Plan pursuant to Title XXII of the Public Health Service (PHS) Act, 42 U.S.C. §§ 300bb-1 through 300bb-8.
- 213,735 Medicare and non-Medicare retirees and their dependents.
- 2,805 direct bill members and their dependents.

The Plan offers three Preferred Provider Organization (PPO) plans to our active and Non-Medicare retirees, described below, using the Blue Options(SM) network. These plans offer freedom of choice among in-network providers, lower out-of-pocket costs and a strong emphasis on preventive health. The plans offer financial incentives for taking steps to improve one's health.

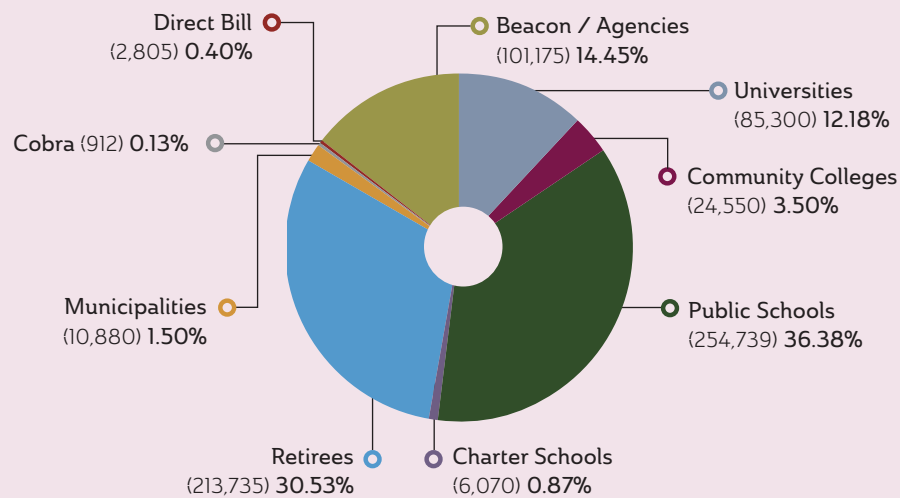
STATE HEALTH PLAN DIVISION

- The Consumer-Directed Health Plan 85/15 (CDHP) is a high deductible health plan that is accompanied by a Health Reimbursement Account (HRA), which is set up for members by the State Health Plan. This plan includes the ability to lower monthly premiums by completing wellness activities. As of July 2016, the CDHP accounted for 30,321 members, or 4.33 percent of total membership.
- The Enhanced 80/20 PPO Plan has higher premiums in exchange for lower copays, coinsurance and deductibles. This plan also includes the ability to lower monthly premiums by completing wellness activities. As of July 2016, the 80/20 Plan accounted for 290,647 members, or 41.51 percent of total membership.

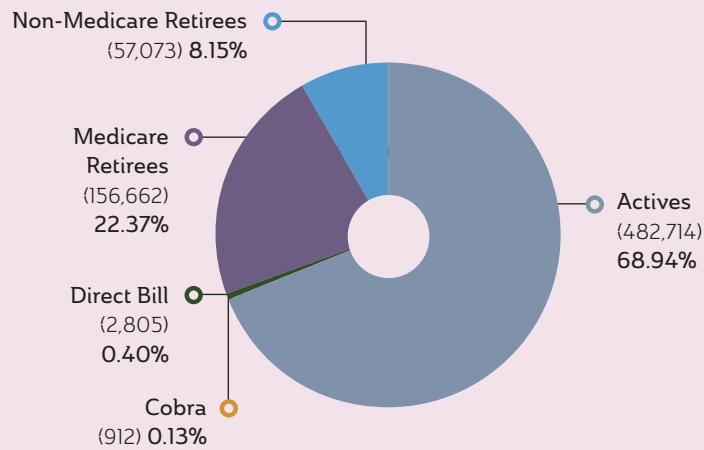
- The Traditional 70/30 PPO Plan has lower premiums in exchange for higher copays, coinsurance and deductibles. As of July 2016, the 70/30 Plan accounted for 222,747 members, or 31.81 percent of total membership.

In 2016, the State Health Plan offered five health plan options for Medicare Primary members. These plans include the Traditional 70/30 Plan, which is administered through Blue Cross and Blue Shield of North Carolina, and Group Medicare Advantage (PPO) Plan options — offered through Humana and UnitedHealthcare — which include benefits and services such as access to the SilverSneakers® Fitness Program, a nurse help line and disease and case management services. As of July 2016, the Medicare Primary membership breakdown was as follows:

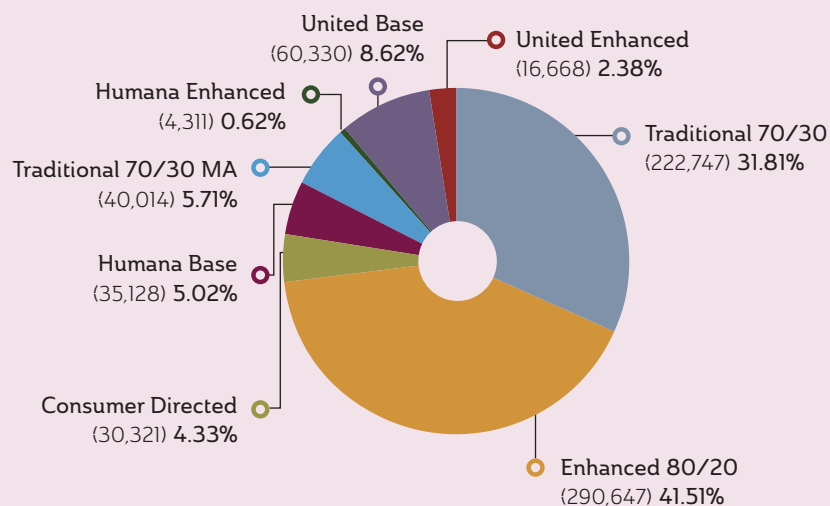
MEMBERSHIP BY ENTITY
(JULY 2016)



MEMBERSHIP BY EMPLOYEE STATUS
(JULY 2016)



MEMBERSHIP BY PLAN
(MAY 2016)



STATE HEALTH PLAN DIVISION

LEGISLATION ENACTED

State Health Plan Appropriations

HB 1030, SL 2016-94 sets and modifies annual appropriations for fiscal year 2016-17. Section 36.24 of the act modifies a “Reserve for Future Benefits Needs” that was established in the 2015 appropriations act, SL 2015-241. The reserve was established by the General Assembly to encourage the Plan to adopt measures that would reduce projected employer premium increases in calendar years 2018 and 2019. Approximately \$71 million was held in the reserve, which represented the anticipated employer premium increase for calendar year 2017 (an increase of 3.43%).

Section 36.24 dictates that the Plan adopt measures sufficient to reduce projected employer premium increases to 4% in calendar years 2018 and 2019. The legislation further dictates that the reserve funds may be released at the discretion of the Director of the Budget, provided that the Plan can demonstrate the 4% threshold in a financial forecast. The Plan provided such a forecast to the Office of State Budget and Management in late July; OSBM has confirmed that the reserve funds will be released.

Section 36.24 also modifies requirements related to the Plan’s cash reserves that were established in SL 2015-241. The 2015 appropriations act required the Plan to maintain a cash reserve equivalent to 20% of annual costs. Section 36.24 revises that requirement to mandate maintenance of a 12% cash reserve for FY 2016-17.

State Health Plan Administrative Changes and Local Government Participation

SB 865, SL 2016-104 made administrative and technical changes to the statutes that apply to the State Health Plan. The legislation included several provisions that were intended to enhance Plan operations and revise rules governing participation in the Plan by local units of government.

Senate Bill 865 increases the cap on the number of Plan members from local government units (up to 13,500 total members, going up to 16,000 on July 1, 2017). Prior to enactment of the legislation approximately 10,000 local government unit employees were enrolled in the State Health Plan.

The legislation also clarifies the premium flexibility available to local government units. Although the legislation does not change the existing parameters for participation, it does require that local units participating in the Plan adhere to the premiums approved by the Board of Trustees for employee-only coverage.

The legislation requires that third-party claims processors provide the Plan with an enhanced range of data elements. The Plan previously received claims data from these third-party administrators, but it has traditionally been reported without provider indicators. Under SL 2016-104, claims processors must now provide the Plan with claims data that presents provider information in addition to the payment details. This information allows the Plan to conduct additional data analytics and reviews of provider performance.

The legislation also delegates responsibilities related to reporting requirements under sections 6055 and 6056 of the Internal Revenue Code. Under the Patient Protection and Affordable Care Act (PPACA), employers must annually certify offers of qualifying health coverage to the IRS. SL 2016-104 indicates that employing units will be responsible for compliance with this reporting requirement for active state employees; the Plan will be responsible for compliance with regards to state retirees and direct bill members.

Lastly, the legislation clarified the Plan’s exemption from the definition of “health benefit plan” included in GS 58-3-167. The Plan has previously found itself in a “gray area” regarding this definition – legislative staff have traditionally held that the Plan was exempt from the definition, but questions regarding applicability have been raised whenever newly introduced legislation referenced this definition. With the enactment of SL 2016-104, the Plan now has an explicit exemption from the definition included in 58-3-167.

Longleaf Charter School Enrolled in the State Health Plan

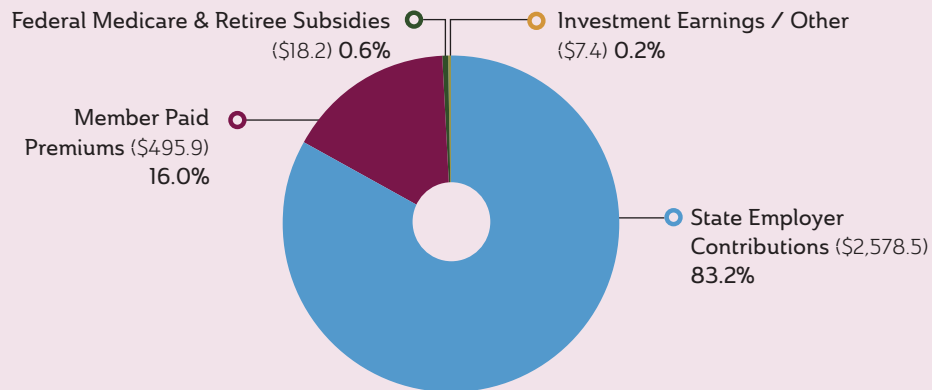
SB 815, SL 2016-106 authorized Longleaf Charter School in Raleigh to join the State Health Plan. In general, enrollment of charter school employees in the Plan is governed by GS 135-48.54. This statute provides that charter schools must elect to participate within 30 days of the charter having been signed by both the nonprofit seeking the charter and the State Board of Education. On occasion, charter schools have been permitted to join the Plan outside the established 30-day period through legislation. SL 2016-106 is one such example.

STATE HEALTH PLAN DIVISION

FINANCIAL STATISTICS

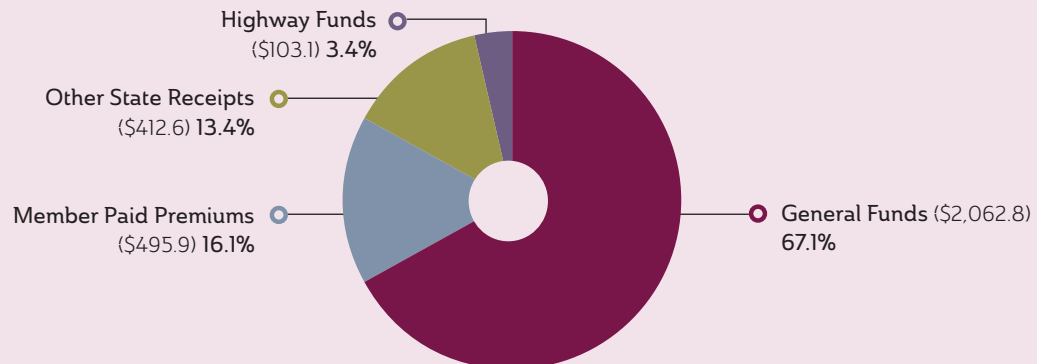
The General Assembly does not appropriate funds directly to the State Health Plan. Instead, it provides funds to State agencies, universities, community colleges, local school systems and the retirement system to pay an “employer contribution” or monthly premium on behalf of employees and retirees. As such, the State Health Plan is 100 percent receipt-supported, with premium receipts, including employer contributions and amounts paid by employees and retirees for their own and dependent coverage, representing approximately 99.2 percent of total revenues in fiscal year 2015-16.

FY 2015-16 PLAN REVENUES
(\$ MILLIONS)



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

FY 2015-16 PREMIUM CONTRIBUTIONS
(\$ MILLIONS)



STATE HEALTH PLAN DIVISION

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

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

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

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

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

STATE HEALTH PLAN FINANCIAL SUMMARY				
	FY 2015-16	FY 2014-15	FY 2013-14	FY 2012-13
Premium Contributions*	\$3,088,300,089	\$2,987,491,313	\$2,940,797,755	\$2,904,569,825
Other Receipts	\$25,615,279	\$75,771,640	\$79,698,021	\$63,139,306
Total Revenues	\$3,113,915,368	\$3,063,262,953	\$3,020,495,776	\$2,967,709,132
Medical Claims	\$2,099,295,495	\$1,996,529,750	\$1,967,123,567	\$1,834,681,439
Pharmacy Claims	\$670,354,584	\$651,628,357	\$657,275,439	\$654,259,638
Premiums for Fully-Insured Plans	\$183,856,887	\$162,400,579	\$78,538,847	N/A
Total Claims	\$3,004,730,384	\$2,829,284,913	\$2,697,290,771	\$2,491,956,878
Premiums				
Administrative Expenses	\$179,826,450	\$168,416,460	\$148,134,913	\$162,022,999
Total Expenditures	\$3,184,556,834	\$2,997,701,373	\$2,845,425,684	\$2,653,979,876
Plain Income/ (Loss)	(\$70,641,466)	\$65,561,580	\$175,070,092	\$313,729,255

*May include prepaid premiums for the subsequent fiscal

STATE HEALTH PLAN DIVISION

POPULATION HEALTH MANAGEMENT: MEMBER HEALTH STATISTICS AND INITIATIVES

Membership Health Snapshot

The State Health Plan monitors the general health of its member population to identify and address health-related trends. Clinical Risk Group (CRG) analysis is a management tool that performs analysis of claims and clinical data to assign individual members to a specific clinical group based on their diagnosis. The analysis helps to identify the prevalent health risks within the State Health Plan's population, predict the financial impact of those risks, and find opportunities for the Plan to better control cost and improve the health of its members (Segal Consulting, 2015). The table below shows the distribution of the Plan's membership by clinical risk grouping and the percentage of total claims associated with the risk grouping. \$2.4 billion or 76% of total claims were spent on members with one or more chronic disease diagnosis.

STATE HEALTH PLAN MEMBERSHIP BY HEALTH STATUS AND ASSOCIATED COSTS			
	State Health Plan Population Distribution	Total Spent (% of Total Claims)	Annual Average Cost (Per Member Per Year)
Healthy	52.2%	\$455 million (14.3%)	\$1,624
Chronic	47.1%	\$2.4 billion (76.1%)	\$9,545
Catastrophic	0.7%	\$304 million (9.6%)	\$86,260

Analysis of the Plan's medical and pharmacy claims show the following:

- Mental illness had the highest prevalence, impacting 29% (155,546) of the Plan's active and pre-Medicare retiree members; the Per Member Per Year (PMPY) cost associated with mental illness was \$6,424 in 2015.
- Hypertension had the second-highest prevalence, impacting 24.6% of the Plan's membership, with a PMPY of \$7,922.
- The prevalence of diabetes was 7.8%, increasing 1.3% from the previous year.

STATE HEALTH PLAN HEALTH ASSESSMENT COMPLETIONS:

As a result of continuing to offer a wellness premium credit for members completing a Health Assessment by the end of the 2015 Annual Enrollment period, a total of 199,384 State Health Plan members completed a Health Assessment (185,116 online and 14,268 telephonic completions) in 2015. Information obtained through Health Assessment completions is kept confidential, and only shared with the State Health Plan through aggregate reports.

The State Health Plan and its partners use these aggregate reports to tailor health promotion initiatives to meet the needs of the membership. Through Health Assessment aggregate reports, the Plan has learned that:

- Over 60% of Plan members are either overweight or obese based on their Body Mass Index (BMI)
- 74% of members consider their health to be excellent or very good
- 54% of members are at risk for pre-diabetes
- Stress is considered the top identified condition, with over 134,588 members affected
- Weight loss is the highest priority health goal for 55,453 members

In addition, the Health Assessment continues to provide members with a comprehensive view of their health. After completing the Health Assessment, members can access a personalized health report as well as customized health action steps. These resources not only help members understand their current health status, but they also provide suggestions on ways to improve or maintain their health.

UNCLAIMED PROPERTY DIVISION



UNCLAIMED PROPERTY DIVISION

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

The unclaimed property which is turned over to the Department of State Treasurer was previously held by financial institutions, insurance companies, government agencies and other businesses, referred to as “holders”, in the form of wages, utility deposits, insurance policy proceeds, and other sources of funds. Property is considered unclaimed when the apparent owner fails to communicate interest in it for a period of time called the dormancy period. Once the property has met its dormancy limit and the holder has made a good faith effort to locate an apparent owner, any funds they are holding are escheated to UPD and maintained in the Escheat Fund by directive of a 1971 state law. Upon receipt of this information, UPD works to locate the owners by various means, including listing names on the NCCash.com website, earning media coverage through television and newspapers, and participating in community events such as the North Carolina State Fair, Wilmington Riverfest, and many others throughout the State to reunite owners with their money and promote public awareness about the program.

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. At the end of the 2016 fiscal year, ending June 30, a total of \$5 million from interest earned and \$ 32.2 million from the principal of the Escheat Fund was sent to SEAA. As a result, a total of 79,647 students received financial assistance from the Escheat Fund during the 2015-2016 academic year. The General Assembly mandated that additional principal from the Escheat Fund of \$16.3 million go to the State Board of Community Colleges, and \$6.5 million to the Department of Military and Veterans Affairs to provide educational assistance for needy and worthy students.

In addition to online outreach through the NCCash.com website, UPD’s NC Cash outreach program attended 25 events across the state and looked up more than 27,000 names, resulting in 3,116 matches for \$805,502.

During the 2015-16 fiscal year, the Unclaimed Property Division continued to expand its efforts to assist holders in complying with North Carolina’s unclaimed property reporting requirements. To increase holder access to information and resources, UPD staff traveled throughout the state providing holder education at various association conferences and meetings including the American Payroll Association-Charlotte, NC Clerks of Court, and the North Carolina Housing Directors.

Holders reported \$201.7 million in unclaimed property in the 2015-16 fiscal year. As of June 30, 2016, the Escheat Fund was valued at approximately \$587 million. This is a combination of unclaimed property collected from holders and interest earnings from the investment of the fund. As the custodian of these funds, North Carolina remains liable to the rightful owners for the full amount of unclaimed property reported to DST. This includes an additional \$1.12 billion which has been reported since June 1971, but has been appropriated by the legislature from the Escheat Fund principal over the last 13 years.

UNCLAIMED PROPERTY DIVISION

UNCLAIMED PROPERTY DIVISION STATISTICS				
	2015-16	2014-15	2013-14	2012-13
Amount of Funds Deposited	\$201.7 million	\$155.6 million	\$157.4 million	\$162.4 million
Interest Used for Student Scholarships	\$5 million	\$7.6 million	\$2.8 million	\$2.4 million
Principal Used for Student Scholarships	\$55.1 million	\$52.4 million	\$64.2 million	\$50.3 million
Unclaimed Property Outreach				
NCCash.com Page Views	\$2.3 million	\$4.3 million	\$4.1 million	\$5.7 million
Total Number of Claims Paid	91,912	35,664	30,770	38,100
Amount Paid to Rightful Owners	\$56.3 million	\$49.8 million	\$59.3 million	\$50.6 million

FINANCIAL OPERATIONS DIVISION



FINANCIAL OPERATIONS DIVISION

FINANCIAL OPERATIONS DIVISION STATISTICS			
	2013-2014	2014-2015	2015-2016
Amount in Checks	\$19.7 Billion	\$19.7 Billion	\$19.8 Billion
Total Dollar Amount of Wire Transfers Processed	\$157.2 Billion	\$160.2 Billion	\$160.9 Billion
Total Number Wire Transfers	22,762	23,799	24,765
Cash Balances in the State Treasurer's Depository Account at Concentration and Community Banks	\$196 Million	\$204.1 Million	\$301.5 Million

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

The Division comprises five areas:

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

HISTORY

In 1925, the General Assembly passed a law stating that all deposits received by the state must be deposited into centralized accounts in the name of the State Treasurer at banks approved by the Treasurer. In 1929, it designated the State Treasurer's office as the centralized office of deposits and disbursements. As such, the position of Treasurer for each state agency and department was eliminated. This centralized system for managing the flow of moneys collected and disbursed by all State departments, agencies, institutions and universities ensures that the State continues

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

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

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

BANKING OPERATIONS

All revenues collected by a State entity on behalf of the State must be deposited with the State Treasurer. Banking Operations maintains correspondent depository relationships with various North Carolina banks and savings institutions in order for State entities to have a convenient location to make their deposits. Relationships are maintained with six major banking institutions that have a statewide branch network (Wells Fargo, Bank of America, PNC, First Citizens, BB&T, and SunTrust), as well as more than 90 other bank accounts in 27 community banks across the state. State funds are deposited both at branch locations as well as electronically through Automated Clearing House ("ACH") and wires. Banking Operations reviews all incoming electronic payments and ensures that the funds are credited to the account of the agency expecting the funds.

FINANCIAL OPERATIONS DIVISION

BANK RECONCILIATION UNIT

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

STATEWIDE ACCOUNTING OPERATIONS

This area manages the accounting for all funds that are deposited, invested and disbursed through the Department of State Treasurer including the over \$100 billion investment pool and banking programs. The area prepares the financial statements for the investment pool which are audited and issued each year.

Statewide Accounting Operations also maintains the general ledgers for the pension funds, employee benefit trust funds, State Health Plan, and the Escheats Fund, also known as the Unclaimed Property Fund, administered by the State Treasurer. As new accounting standards are issued by the Governmental Accounting Standards Board, the Statewide Accounting Operations group prepares other financial information such as pension liability tables for pension participant employers to use in their own financial reporting. The accounts for the outstanding General Obligation and Special Indebtedness of the State are also maintained by the Statewide Accounting Operations area. Functions include the recording of new debt and the timely payment of principal and interest for the State's debt. The area is also responsible for the financial statements of the NC Supplemental Retirement Income Plan and the North Carolina Public Employee Deferred Compensation Plan.

DEPARTMENTAL ACCOUNTING

The Departmental Accounting area manages all fiscal duties that relate to the administration of the programs of the Department of State Treasurer. These duties include developing and monitoring the operating budget for the Department, preparing payroll for approximately 400 employees and contractors, fixed assets, accounts receivable and managing accounts payable.

PROCUREMENT & CONTRACTING

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

FINANCIAL OPERATIONS DIVISION

DEPARTMENT OF STATE TREASURER BANK BALANCES AS OF JUNE 30, 2016

BANK BALANCES AS OF JUNE 30, 2016		Bank, continued	Bank Balance, continued
Bank	Bank Balance	HomeTrust Bank	\$999,999.90
Wells Fargo	\$155,628,226.80	KS Bank	\$100,000.00
Bank of America	\$37,939,549.68	Lumbree Guaranty Bank	\$3,000,000.11
SunTrust	\$7,453,780.13	Entegra Bank (formerly Macon Bank)	\$2,000,000.49
PNC	\$277,143.95	M&F Bank	\$3,000,000.29
First Citizens	\$3,496,952.84	Peoples Bank	\$1,000,000.19
BB&T	\$16,272,906.18	South State Bank	\$1,073,970.76
Asheville Savings Bank	\$999,999.75	Southern Bank & Trust	\$12,656,130.09
Bank of North Carolina	\$100,000.22	Surrey Bank	\$999,999.73
Bank of Tennessee	\$915.82	TD Bank	\$1,499,999.46
Bank of the Ozarks	\$1,999,999.64	The Little Bank	\$175,366.93
Capital Bank	\$4,100,000.61	Townebank	\$2,000,000.13
CommunityOne Bank	\$2,100,000.09	Union Bank	\$749,999.85
Fidelity Bank	\$9,458,935.74	United Community Bank	\$6,442,828.93
First Bank	\$12,462,276.19	Uwharrie Bank	\$2,000,000.23
First Federal Savings Bank	\$296,330.11	Yadkin Bank	\$10,120,604.41
Four Oaks Bank	\$100,000.00		
High Point Bank	\$999,999.67		
		TOTAL	\$301,505,918.92

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