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

(Fiduciary Funds of the State of North Carolina)

Financial Report

December 31, 2017

Supplemental Retirement Income Plan of North Carolina and North Carolina Public Employee Deferred Compensation Plan (together "Supplemental Retirement Plans of North Carolina")

December 31, 2017

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INDEPENDENT AUDITORS' REPORT

Board of Trustees
Supplemental Retirement Plans of North Carolina
Raleigh, North Carolina

Report on the Financial Statements

We have audited the accompanying financial statements of the Supplemental Retirement Income Plan of North Carolina (401(k) Plan) and the North Carolina Employee Deferred Compensation Plan (457(b) Plan), collectively referred to as the Supplemental Retirement Plans of North Carolina (the Plans), which comprise the statements of fiduciary net position as of December 31, 2017, and the related statements of changes in fiduciary net position for the year then ended, and the related notes to the financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the fiduciary net position of the Plans as of December 31, 2017, and the respective changes in their fiduciary net position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated July 20, 2018, on our consideration of the Plans' internal control over financial reporting and on our tests of their compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Plans' internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Plans' internal control over financial reporting and compliance.

CliftonLarsonAllen LLP

Baltimore, Maryland
July 20, 2018

The Supplemental Retirement Plans of North Carolina (the "Plans") include the Supplemental Retirement Income Plan of North Carolina (the "401(k) Plan") and the North Carolina Public Employee Deferred Compensation Plan (the "457(b) Plan"). This discussion and analysis of the Plans' financial performance provides an overview of the Plans' financial activities for the year ended December 31, 2017. It is intended to be a narrative supplement to the Plans' financial statements.

Using the Financial Report

This discussion and analysis is an introduction to the Plans' basic financial statements. This financial report for each Plan consists of two financial statements and the notes to the financial statements.

The Statements of Fiduciary Net Position report the Plans' assets, liabilities, and resultant fiduciary net position where Assets - Liabilities = Fiduciary Net Position. The assets are held in a trust for the benefit of participants at the end of the Plans' fiscal year. It can be thought of as a snapshot of the financial position of the Plans at that specific point in time.

The Statements of Changes in Fiduciary Net Position report the Plans' transactions that occurred during the fiscal year where Additions - Deductions = Net Change in Fiduciary Net Position. It is a record of the activity that occurred over the year, and explains the changes that have occurred to the prior year's fiduciary net positions on the Statements of Fiduciary Net Position.

The Plans' investments are divided among 11 options – seven equity funds, two fixed income funds, an inflation responsive fund (referred to collectively herein as the "Pooled Account") and the NC Stable Value Fund. The assets in the Pooled Account are held in separate accounts, collective investment trusts, and a mutual fund.

The notes to the financial statements are an integral part of the financial statements and include additional information not readily evident in the statements themselves.

Financial Highlights – 401(k) Plan

The following financial highlights occurred during the 401(k) Plan year ended December 31, 2017:

- The 401(k) Plan's fiduciary net position increased by approximately $1.3 billion to approximately $10.2 billion during the 2017 plan year. Asset growth was primarily due to an increase in net investment income. Net investment income, which measures net appreciation in the fair market value of investments and interest earned on those investments, was approximately $1.3 billion. In addition, contributions to the plan exceeded distributions to plan participants by approximately $36 million. Contributions to the plan were $536 million, an increase of approximately 4% from the prior year. Please see the Asset Class and Economic Discussion for additional information.

- The total number of participants in the plan increased approximately 2% to approximately 250,300 on December 31, 2017, from approximately 245,500 participants the year prior.

Condensed Statements of Fiduciary Net Position (401(k) Plan), as of December 31:

(in thousands of dollars)	2017	2016
Investments		
Pooled account, at fair value	$ 7,749,918	$ 6,477,345
Stable value fund	2,133,109	2,068,331
Receivables		
Notes receivable from participants	292,525	286,942
Other	7,188	7,979
Liabilities	(1,136)	(1,066)
Fiduciary net position	$ 10,181,604	$ 8,839,531

The Pooled Account increased by approximately $1.3 billion or approximately 20% reflecting positive returns in the financial markets for the year. The S&P 500 Index finished the year up 21.8%. International Equity markets were also up with the MSCI ACWI ex-US Index up 27.2% for the year. The Fixed Income market was up for the year with the Bloomberg Barclays Aggregate Index returning 3.5%. High Yield Bonds returned 7.5%, outperforming U.S. Treasuries and Investment Grade Credit. Commodities were one of the lower returning asset classes with the Bloomberg Commodity Index returning 1.7% for the year. The assets of the NC Stable Value Fund increased by approximately 3% for the year, due to participant activity and earnings generated from the underlying portfolios.

Condensed Statements of Changes in Fiduciary Net Position (401(k) Plan), for the year ended December 31:

(in thousands of dollars)	2017	2016
Additions		
Contributions	$ 536,433	$ 516,454
Net investment income	1,302,064	572,014
Interest on notes receivable from participants	12,517	12,138
Miscellaneous income	2,109	2,019
Total additions	1,853,123	1,102,625
Deductions		
Distributions to participants and beneficiaries	500,736	448,350
Administrative expenses	10,314	8,851
Total deductions	511,050	457,201
Net increase in fiduciary net position	$ 1,342,073	$ 645,424

Contributions to the 401(k) Plan rose approximately 4% or $20 million due primarily to an increase in employer contributions made on behalf of participants. Distributions to participants and beneficiaries increased by approximately $52 million, or approximately 12%. This increase was due to the average lump sum distribution amount increasing over the prior year. The plan did not change the practice of assessing flat fee rates for recordkeeping fees and asset based fees rate for administrative fees during 2017.

We are not aware of any other currently known facts, decisions or conditions that are expected to have a significant impact on fiduciary net position or changes in fiduciary net position as of December 31, 2017.

Financial Highlights – 457(b) Plan

The following financial highlights occurred during the 457(b) Plan year ended on December 31, 2017:

- The 457(b) Plan's fiduciary net position was approximately $1.4 billion on December 31, 2017, representing an increase of approximately $161 million during the 2017 plan year. This increase was primarily due to net investment income of approximately $168 million. Net investment income measures net appreciation in the fair value of investments and interest earned on those investments. Please see the Asset Class and Economic Discussion for additional information.

- There were approximately 53,800 and 52,600 participants in the 457(b) Plan at December 31, 2017, and 2016, respectively. Thirty-two new employers adopted the Plan in 2017 thereby increasing the number of new participants enrolling into the plan.

Condensed Statements of Fiduciary Net Position (457(b) Plan), as of December 31:

(in thousands of dollars)	2017	2016
Investments		
Pooled account, at fair value	$ 984,331	$ 822,608
Stable value fund	403,287	405,748
Receivables		
Notes receivable from participants	20,865	19,134
Other	1,026	940
Liabilities	(215)	(209)
Fiduciary net position	$ 1,409,294	$ 1,248,221

Fiduciary Net Position increased approximately 13% in 2017. This increase is due in large part to a significant increase in net investment income reflecting positive returns in the financial markets. The Pooled Account rose 20% while the assets within the NC Stable Value Fund decreased by less than one percent. The S&P 500 Index finished the year up 21.8%. International Equity markets were also up with the MSCI ACWI ex-US Index up 27.2% for the year. The Fixed Income market was up for the year with the Bloomberg Barclays Aggregate Index returning 3.5%. High Yield Bonds returned 7.5%, outperforming U.S. Treasuries and Investment Grade Credit. Commodities were one of the lowest returning asset classes with the Bloomberg Commodity Index returning 1.7% for the year.

Condensed Statements of Changes in Fiduciary Net Position (457(b) Plan), for the year ended December 31:

(in thousands of dollars)	2017	2016
Additions		
Contributions	$ 77,567	$ 78,716
Net investment income	167,916	75,733
Miscellaneous income	425	391
Interest on notes receivable from participants	874	797
Total additions	246,782	155,637
Deductions		
Distributions to participants and beneficiaries	83,502	79,623
Administrative expenses	2,207	1,680
Total deductions	85,709	81,303
Net increase in fiduciary net position	$ 161,073	$ 74,334

Contributions to the 457(b) Plan remained somewhat consistent, decreasing approximately $1 million or 1% in 2017 due primarily to a reduction in participant "roll overs" in from external qualified plans. Distributions to participants and beneficiaries increased by approximately $4 million, or approximately 5%. This increase was due to an increase in "in-service" withdrawals which returned to pre-2016 levels.

Net investment income was approximately $168 million, due in large part to positive performance in the financial markets.

We are not aware of any other currently known facts, decisions or conditions that are expected to have a significant impact on fiduciary net position or changes in fiduciary net position as of December 31, 2017.

Other Highlights

In September 2017, the North Carolina Large Cap Value and North Carolina Large Cap Growth Funds were replaced with the new North Carolina Large Cap Core Fund. Similarly, the North Carolina Small/Mid Cap Value and North Carolina Small/Mid Cap Growth Funds were replaced with the new North Carolina Small/Mid Cap Core Fund. The North Carolina Supplemental Retirement Board of Trustees ("Board") approved these actions in order to enhance the Plans' investment line up, reduce complexity and enhance value by reducing participant expenses.

Also in September, the Board approved enhancements to the GoalMaker portfolios available within the Plans. These changes were implemented in June 2018. The Board's approved changes also include an enhanced GoalMaker glidepath, additional model portfolio options, new investment options and anticipated lower participant fees.

The Plans' expenses remain competitive when compared to a peer group of institutional mutual funds. At the end of 2017, the average asset based plan expenses consisting of investment management, custodial and administrative fees were approximately 0.332%. This compares favorably to the median expense ratio of the Mercer Institutional Mutual Fund Universe of 0.564%. There is an additional recordkeeping fee of $31 per account.

Asset Class and Economic Discussion

Net Investment Income for the 457(b) and 401(k) Plans was $1.3 billion and $168 million, respectively due primarily to strong performance in the financial markets during 2017.
According to the World Bank, global growth in 2017 came in at an estimated 3.0%, with the United States gross domestic product growth of 2.3%.

Based on the strength of the economy and labor market, the Federal Reserve began to roll back its stimulus program and raised interest rates three times during the year, for a total of 0.75%. During 2017, the stock market reached several historic highs. Consumer incomes rose while inflation remained contained.

U.S. Equities

U.S. equities ended the year up 21.1%, supported by the new tax bill. Growth oriented equities continued to outperform value across all capitalizations throughout 2017. This outperformance was driven by the information technology sector, which was up 38.4%. Telecommunications services was the worst performing sector, declining 1.4% during the year. Although the energy sector saw positive returns in the 4th quarter, the energy sector declined in 2017, returning -1.1% for the year.

Large Cap stocks, up 21.7%, outperformed Small Cap stocks, which were up 14%. Mid Cap stocks finished the year up 18.5%. Growth outperformed Value across all market capitalizations during the year.

Large Cap Growth was the best performing style, gaining 30.2% for the year. Small Cap Value was up 7.8% during 2017.

Active managers performed well over the year, as correlations between equities decreased and growth oriented securities came back in favor. Within the plans, the North Carolina Large Cap Value and North Carolina Large Cap Growth Funds were replaced with the new North Carolina Large Cap Core Fund at the end of the 3rd quarter in 2017. The new North Carolina Large Cap Core Fund, with one quarter of performance in 2017, returned 5.9% in the 4th quarter, underperforming the Russell 1000 Index by 70 basis points. Similarly, the North Carolina Small Mid Cap Value and North Carolina Small Mid Cap Growth Funds were replaced with the North Carolina Small Mid Cap Core Fund at the end of the 3rd quarter. The new North Carolina Small Mid Cap Core Fund, with one quarter of performance, returned 4.6% in the 4th quarter, underperforming the Russell 2500 Index by 60 basis points.

International Equities

International equities, as measured by the MSCI ACWI ex USA, ended the year up 27.2%.

Growth within the Eurozone remained solid with the IMF estimating that the economy expanded by 2.3% in 2017. The strongest performing country in the international benchmark was Austria up 58.3%. Other countries within the Eurozone with strong performance during the year included France (up 28.7%), Germany (up 27.7%) and Italy (up 28.4%). The Asia Pacific region also showed strong performance supported by robust macroeconomic data with Hong Kong returning 36.2%. Japan returned 24% for the year as the country's economy expanded for the seventh consecutive quarter. Investors also welcomed Prime Minister Abe's victory in the October elections.

The North Carolina International Equity Fund returned 28.9% for the year, outperforming its benchmark, the MSCI ACWI ex USA by 110 basis points.

Global Equities

Global equity markets ended the year strong due to better than expected economic and corporate earnings growth. The North Carolina Global Equity Fund was up 25.4% for the year, underperforming its benchmark, the MSCI All Country World Index ("ACWI") by 80 basis points.

Emerging Market Equities

Emerging Markets were up 37.3%, which outperformed all other asset classes. China was one of the top performing countries, as their industrial producers posted stronger than expected profit margins along with stronger than expected domestic demand.

Currencies
Strong growth outside the U.S. weighed on the dollar throughout 2017. The Euro continued to rally against the Dollar gaining 14.1% during the year. The Japanese Yen gained 3.7% against the Dollar in 2017, with the central bank maintaining its accommodative monetary policy. Emerging market currencies performed well during the year due to strong economic growth, falling current account deficits, and a weak U.S. Dollar. The Chinese yuan gained 6.7% and the Mexican peso was up 5.5% for the year.

Fixed Income
The Federal Reserve increased interest rates three times during 2017, for a total of 0.75%, pushing short-term rates higher. Longer-term bond yields remained steady as inflation was contained, effectively flattening the yield curve. Global bond yields continued to be held down by easy monetary policy in Europe and Japan. The Bloomberg Barclays Aggregate Index ended the year up 3.5%. Within U.S. fixed income, high yield bonds were the top performer during the year, followed by investment grade corporate bonds.

The North Carolina Fixed Income Fund was up 5% in 2017, outperforming the Bloomberg Barclays Aggregate Index by 150 basis points due to the fund's exposure to spread sectors such as corporates and high yield bonds which outperformed during the year.

Commodities & Real Assets
The Bloomberg Commodity Index was up 1.7% for the year. U.S. REITs finished the year up 8.7%, while global REITs outperformed, returning 11.4% for the year. The Bloomberg Barclays U.S. TIPS Index was up 3.0%.

The North Carolina Inflation Responsive Fund returned 8.6% in 2017, exhibiting strong performance during the year given the fund's exposure to commodities, REITs and TIPS.

Economic Discussion
Real World GDP increased 3.0% in 2017 compared to 1.6% in 2016. Growth in advanced economies strengthened in 2017, reaching an estimated 2.3%, helped by a recovery in capital spending and exports. The pickup in investment reflected increased capacity utilization, favorable financing conditions, and rising profits and business sentiment. Consumption growth was stable, as labor market improvements offset the impact of a rebound in energy prices. Despite the strengthening of activity, inflation in the advanced economies remained contained in 2017. The Consumer Price Index ("CPI") rose 2.1% over the 12 months ending 12/31/17. The index for all items less food and energy increased 1.8% over the one-year period. The U.S. economy added an average of 171,000 jobs per month during 2017. Over the course of the year, the unemployment rate declined from 4.7% to 4.1%.

Emerging Market growth accelerated in 2017 to 4.3% reflecting a recovery in commodity exporters. Growth was further supported by more accommodative monetary and fiscal policies, which contributed to a reduction in financing costs and a recovery in capital inflows.

Note: All NC fund performance is net of fees.

For detailed information regarding investment performance of the funds, please access the Plans' website at www.ncplans.prudential.com.

Requests for Information

This financial report is designed to provide a general overview of the finances of the Supplemental Retirement Plans of North Carolina. If you have any questions or concerns about this report or need additional financial information, contact Mary Buonfiglio, Deputy Director of Supplemental Retirement Plans, North Carolina Department of State Treasurer, 3200 Atlantic Avenue, Raleigh, NC 27604.

Supplemental Retirement Plans of North Carolina
Statements of Fiduciary Net Position
December 31, 2017

(in thousands of dollars)

	401(k)	457(b)
Assets		
Investments		
Pooled Account, at fair value	$ 7,749,918	$ 984,331
North Carolina Stable Value Fund		
Unallocated insurance contracts, at contract value		
Synthetic Guaranteed Investment Contracts	1,269,699	240,050
Insurance Company Separate Accounts	704,841	133,258
Wells Fargo Stable Return Fund, at contract value	139,969	26,463
Wells Fargo Government Money Market Fund, at amortized cost	18,600	3,516
Total stable value fund	2,133,109	403,287
Total investments	9,883,027	1,387,618
Receivables		
Contributions		
Participants	4,356	925
Employers	2,829	101
Notes receivable from participants	292,525	20,865
Other	3	-
Total receivables	299,713	21,891
Total assets	10,182,740	1,409,509
Liabilities		
Accounts payable	1,136	215
Total liabilities	1,136	215
Fiduciary net position	$ 10,181,604	$ 1,409,294

The accompanying notes are an integral part of these financial statements.

Supplemental Retirement Plans of North Carolina
Statements of Changes in Fiduciary Net Position
Year Ended December 31, 2017

(in thousands of dollars)

	401(k)	457(b)
Additions		
Investment income		
Net appreciation in fair value of investments	$ 1,257,876	$ 159,629
Interest	44,188	8,287
Total net investment income	1,302,064	167,916
Other income		
Interest on notes receivable from participants	12,517	874
Miscellaneous income	2,109	425
Total other income	14,626	1,299
Contributions		
Plan participant contributions, including rollover contributions of $51,344 for the 401(k) Plan and $11,783 for the 457(b) Plan	336,635	75,454
Employer contributions	199,798	2,113
Total contributions	536,433	77,567
Total additions	1,853,123	246,782
Deductions		
Distributions to participants and beneficiaries	500,736	83,502
Administrative expenses	10,314	2,207
Total deductions	511,050	85,709
Net increase in fiduciary net position	1,342,073	161,073
Fiduciary net position		
Beginning of year	8,839,531	1,248,221
End of year	$ 10,181,604	$ 1,409,294

The accompanying notes are an integral part of these financial statements.

1. Plan Description

The following description of the Supplemental Retirement Plans of North Carolina ("Plans") is provided for general informational purposes only. The Supplemental Retirement Plans of North Carolina (the "Plans") include the Supplemental Retirement Income Plan of North Carolina (the "401(k) Plan") and the North Carolina Public Employee Deferred Compensation Plan (the "457(b) Plan"). More complete information regarding the Plans' provisions may be found in the respective plan documents.

General

The 401(k) Plan, established effective January 1, 1985, is a defined contribution multiple-employer governmental plan sponsored by the State of North Carolina ("Plan Sponsor"). As of December 31, 2017, the Plan is utilized by 1,041 governmental employers in North Carolina consisting principally of state agencies, counties, school systems, cities, and towns.

The 457(b) Plan, established effective January 1, 1974, is a defined contribution multiple-employer governmental plan sponsored by the State of North Carolina ("Plan Sponsor"). As of December 31, 2017, the 457(b) Plan is utilized by 467 governmental employers in North Carolina consisting principally of state agencies, counties, school systems, cities, and towns.

Plan Administration

The Supplemental Retirement Board of Trustees ("Board") and the Retirement Systems Division of the Department of State Treasurer ("Department") have the responsibility for administering the 401(k) Plan and the 457(b) Plan according to the plan documents and North Carolina General Statutes, with the Department serving as the Primary Administrator ("Primary Administrator") carrying out the provisions of the Plans, as directed by the Board. The Board and the Department have entered into an agreement with Prudential Retirement Insurance and Annuity Company ("Contractor") to perform recordkeeping, administration and education services.

The Plans offer seven equity funds, an inflation responsive fund, two fixed income funds, and a stable value fund. The actively managed separate account funds have multiple investment managers, and the passively managed separate accounts each have a single investment manager.

The Board has engaged Galliard Capital Management, Inc. ("Galliard") to provide professional management of the NC Stable Value Fund. Under Galliard's management, the NC Stable Value Fund allocates funds to five insurance contracts with six underlying investment managers, as well as the commingled funds of another manager.

Participation

Those employees eligible for the 401(k) Plan include participants of the following:

- State of North Carolina Teachers' and State Employees' Retirement System of North Carolina ("TSERS")
- Consolidated Judicial Retirement System
- Legislative Retirement System
- North Carolina Local Governmental Employees' Retirement System ("LGERS")
- Optional Retirement Program
- Law Enforcement officers as defined under NC G.S. 143-166.30 and 134-166.50

Those employees eligible for the 457(b) Plan are employees of the state, any county or municipality, the North Carolina Community College System and any political subdivision of the state that have elected to participate in the 457(b) Plan.

The 401(k) Plan had approximately 250,300 participants at December 31, 2017.

The 457(b) Plan had approximately 53,800 participants at December 31, 2017.

Contributions
401(k) Plan participants may elect to contribute between 1% and 80%, in whole percentages, of their compensation, as defined by the 401(k) Plan, subject to certain limitations under the Internal Revenue Code ("IRC"). 457(b) Plan participants may elect to contribute between 1% and 100%, in whole percentages, of their compensation, as defined by the 457(b) Plan, subject to certain limitations under the IRC. The Plans limit the amount of an individual's annual contributions to the maximum allowed by the IRC ($18,000 for 2017). Federal and state income tax on amounts contributed by participants are deferred until benefits are paid to the participants. An employee may begin contributing to the 401(k) Plan on the first enrollment date, which is at least 60 days, or such shorter period as the governmental employer determines, after the date he or she files with the governmental employer a notice whereby the employee: 1) makes an election to contribute a percentage of his/her compensation or fixed dollar amount to the Plans and 2) authorizes the governmental employer to reduce his/her compensation by such percentage or amount. An employee may become a participant in the 457(b) Plan by entering into an enrollment agreement prior to the beginning of the calendar month in which the enrollment agreement is to become effective or such other date as may be permitted under the Code. Participating employers may make contributions to the Plans. Employer contributions to the 401(k) Plan and the 457(b) Plan were approximately $199.8 million and $2.1 million, respectively, in 2017.

Roth contributions are permissible within the 401(k) Plan and 457(b) Plan. Roth contributions are elective deferrals that the participant elects to include in gross income. Qualified distributions from a designated Roth account are excludable from gross income. Generally, a distribution qualifies for income exclusion when it occurs more than five years after the initial contribution to the account and when the participant is age 59½ or older, dies or becomes disabled.

In-plan Roth conversion provisions were added to the 401(k) Plan and 457(b) Plan effective December 1, 2010 and April 1, 2011, respectively. As of the effective date, the Plans accept Roth contributions made on behalf of participants. All contribution sources and earnings thereon, except Roth contributions and Roth rollover contributions, will be eligible for in-plan Roth conversions in accordance with the standard in-service withdrawal and termination distribution provisions of the Plans. Participants and spousal beneficiaries will be allowed to elect voluntary federal and state income tax withholding on in-plan Roth Conversion amounts. Withholding will be deducted from eligible amounts in advance of the in-plan Roth conversion. In-plan Roth conversion amounts will remain invested among the same plan investment options in which they were invested prior to the conversion ("like to like").

The 401(k) Plan allows participants age 50 or older to make catch-up contributions in accordance with and subject to the limitations of Section 414(v) of the IRC ($6,000 for 2017). The 401(k) Plan allows participants to contribute amounts being rolled over from other eligible retirement plans, as defined in the 401(k) Plan document. Participating governmental employers may elect to make discretionary contributions to the 401(k) Plan as determined by the General Assembly or the participating governmental employer.

With respect to participants who are law enforcement officers, the governmental employer of the law enforcement officers shall contribute to the 401(k) Plan on behalf of each such law enforcement officer an amount equal to such percentage, as determined by the North Carolina General Assembly, of compensation received during the plan year (5% in 2017). Law enforcement officers, excluding sheriffs, shall also receive a contribution, allocated on a per capita basis, of an amount equal to a division, as determined by the North

Carolina General Assembly, of receipts collected under North Carolina General Statute 7A-304 on account of assessed cost of court.

The 457(b) Plan allows participants age 50 or older to make catch-up contributions in accordance with and subject to the limitations of Section 414(v) of the IRC. The 457(b) Plan allows participants to contribute amounts being rolled over from other eligible retirement plans, as defined in the 457(b) Plan document. In addition, the 457(b) Plan allows participants within three years of reaching a normal retirement age to contribute up to twice the amount allowed by the IRC ($36,000 for 2017) subject to certain limitations. The age 50 or older catch-up contributions cannot be used in conjunction with the three-year catch-up contributions.

On June 28, 2012, the North Carolina General Assembly ratified House Bill 153. House Bill 153 prohibits state and local law enforcement officers from receiving employer contributions made to the 401(k) Plan on or after December 1, 2012, if the law enforcement officer is convicted of a felony related to employment on or after December 1, 2012.

Vesting
Subject to the felony forfeiture law described in the preceding paragraph, participants are at all times 100% vested in their contributions, employer contributions and their allocated earnings thereon.

Payment of Benefits
On termination of employment due to retirement, disability or death, the participant, or sole beneficiary, may receive the amount to the credit of the participant's account upon election of a payment option. Upon such election, a participant or sole beneficiary may elect to receive payments from their account in monthly, quarterly, semiannual or annual installments over a period not to exceed the participant's, or sole beneficiary's, life expectancy. In addition, hardship distributions are permitted if certain criteria are met.

Participant Accounts
Individual accounts are maintained by the Contractor for each of the Plans' participants to reflect the participant's and employer's contributions, as well as the participant's share of the Plans' income and any related administrative expenses. Allocations of income and expenses are based on the proportion that each participant's account balance bears to the total of all participant account balances. The benefit to which a participant is entitled is the benefit that can be provided from the participant's vested account.

Notes Receivable from Participants
Participants may borrow from their accounts subject to certain limitations and the approval of the Contractor according to the loan policy adopted by the Board.

A participant with an account balance equal to or less than $20,000 may borrow the lesser of i) 100% of the participant's account balance or ii) $10,000. A participant with an account balance of more than $20,000 may borrow the lesser of i) $50,000 (reduced by the excess, if any, of the participant's highest outstanding balance of loans from the Plans during the one-year period ending on the day before the date on which such loan is made) or ii) one-half (1/2) of the participant's vested account balance. The minimum loan amount allowed is $1,000.

A participant may have only one loan outstanding at any time in the 401(k) Plan and one in the 457(b) Plan and must wait 15 days to initiate a new loan after paying off an existing loan. The interest rate charged on loans shall be reasonable as determined by the Primary Administrator. During 2017, the interest rate charged was equal to the prime rate, as reported by the US Federal Reserve, on the last business day of each calendar quarter, plus 1%. At December 31, 2017, the interest rates on outstanding loans ranged from 4.25% to 5.25% for the 401(k) Plan and 4.25% to 10.25% for the 457(b) Plan. The term of the loan shall be arrived at by mutual agreement between the participant and the Contractor but shall not exceed five years, except in the case of a loan to purchase a primary residence, which shall not exceed 15 years. At December 31, 2017, the loans outstanding had initial repayment terms between one and fifteen years for the 401(k) Plan and for the 457(b) Plan.

Under the Loan Policy of the Plans, members are permitted to continue repaying loans after they separate from service. Members electing to continue loan repayments after separating from service are subject to a one-time $100 loan administration fee.

Investment Elections
Upon enrollment in the Plans, a participant may direct contributions to any investment option offered by the Plans. The participant has a broad range of options from which to choose, which allows the participants to diversify their investments. At December 31, 2017, the Plans offered 11 investment options – seven equity funds, two fixed income funds, and an inflation responsive fund (referred to collectively herein as the "Pooled Account") and the North Carolina Stable Value Fund. Participants exercise control over the assets in their individual accounts and are solely responsible for choosing the investment options for their account. Participants may change their investment elections daily provided they do not violate market timing policies. The Plans are not governed by any law or regulation restricting its deposits or investments other than that of following the prudent person rule and acting solely in the interests of participants.

Transfer Benefit Option
Members of TSERS and LGERS are allowed to convert their 401(k) Plan and 457(b) Plan balances into a monthly benefit. In 2013, the North Carolina General Assembly ratified House Bill 359. House Bill 359 allows members of TSERS and LGERS to transfer balances from other qualified plans into a monthly benefit from their TSERS and LGERS plans. Under such a transfer, the funds from the other qualified plans are first transferred into the 401(k) Plan or 457(b) Plan, and then transferred to TSERS or LGERS. When transferred into the Plans, these contributions are reflected in total contributions as the rollover contributions. Transfers to TSERS and LGERS are reflected as distributions on the Statement of Changes in Fiduciary Net Position.

2. Summary of Significant Accounting Policies

Reporting Entity
The Plans are reported by the State of North Carolina as fiduciary funds. The financial statements of the Plans are intended to present the fiduciary net position and the changes in fiduciary net position of only that portion of the total fiduciary funds that are attributable to the Plans. They do not purport to, and do not, present the financial position of the total fiduciary funds of the State of North Carolina as of December 31, 2017, and the changes in its financial position for the year then ended.

Basis of Accounting
The financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America, including all applicable effective statements of the Governmental Accounting Standards Board ("GASB"), and on the accrual basis of accounting.

Investments
The Plans invest in various types of investment securities. Investment securities are exposed to various risks, such as interest rate, market and credit risks. The Plans invest in securities with contractual cash flows, such as asset-backed securities, collateralized mortgage obligations and commercial mortgage-backed securities. The value, liquidity and related income of these and other securities are sensitive to changes in economic conditions, including real estate values, delinquencies or defaults, or both.

Due to the level of risks associated with certain investment securities, it is at least possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect participants' account balances and the amounts reported in the statements of fiduciary net position. Assets are reported at fair value, contract value or amortized cost, depending upon the investment type.

The Plans' investments are divided among 11 options – seven equity funds, two fixed income funds, an inflation responsive fund (referred to collectively herein as the "Pooled Account") and the NC Stable Value Fund. The assets in the Pooled Account are held in separate accounts, collective investment trusts, and a mutual fund.

The Plans' investments in the Pooled Account are stated at fair value. The value of each Plan's account within the Group Trust is adjusted periodically to reflect each Plan's share of the value of the Group Trust. Units of common/commingled funds, including collective investment funds, are valued at the net asset value of shares held by the Plans. Investments in fixed income securities (U.S. treasuries and U.S. agency securities, asset-backed securities, collateralized mortgage obligations, domestic corporate bonds, foreign government bonds, foreign corporate bonds, state and local government bonds, mutual funds, and mortgage pass-throughs) are valued on the basis of valuations furnished by independent pricing services. These services determine valuations for normal institutional-size trading units of such securities using models or matrix pricing, which incorporates yield and/or price with respect to bonds that are considered comparable in characteristics such as rating, interest rate, maturity date and quotations from bond dealers to determine current value. If these valuations are deemed to be either not reliable or not readily available, the fair value will be determined in good faith by the custodian. Common stock is valued at the closing price reported on the active market on which the individual securities are traded.

Purchases and sales of securities are recorded on a trade-date basis. Interest income is recorded on the accrual basis. Dividends are recorded on the ex-dividend date. Contributions to the group trust are credited to participant accounts as units. The value of a unit changes each day based on the current fair value of the investment portfolio. Earnings as well as market fluctuations, are reflected in unit values.

A valuation date occurs each day that the New York Stock Exchange ("NYSE") is open. The recordkeeper processes all participant transactions on the valuation date at the value of Pooled Account and Stable Value investments as of the close of the financial market's business day.

The Plans' investments in the NC Stable Value Fund are stated at contract value with the exception of the Government Money Market Fund, a fund of highly liquid assets used for liquidity and stated at amortized cost. Both contract value and amortized cost approximate fair value based on GASB standards. The NC Stable Value Fund's investments, excluding the Government Money Market Fund, consist of unallocated insurance contracts, which are nonparticipating investments. As such, GASB reporting standards provide they be reported at contract value. The NC Stable Value Fund ordinarily allows participants to withdraw their investment at contract value which represents their principal investment plus interest at a stated rate (known as the "crediting rate"), less withdrawals. As a result, participants are provided investment statements showing their activity in the NC Stable Value Fund at contract value rather than fair value. In addition to the contracts directly owned by the Plans, the Plans own units of participation in a Stable Return Fund that primarily invests in investment contracts, including traditional guaranteed investment contracts ("GICs") and security-backed contracts issued by insurance companies and other financial institutions.

The crediting rate of security-backed contracts will track current market yields on a trailing basis. The rate reset allows the contract value to converge with the fair value of the underlying portfolio over time, assuming the portfolio continues to earn the current yield for a period of time equal to the current portfolio duration. The net crediting rate reflects fees paid to security-backed contract issuers.

To the extent that the underlying portfolio of a security-backed contract has unrealized and/or realized losses, a positive adjustment is made to the adjustment from fair value to contract value under contract value accounting. As a result, the future crediting rate may be lower over time than the then-current market rates. Similarly, if the underlying portfolio generates unrealized and/or realized gains, a negative adjustment is made to the adjustment from fair value to contract value, and the future crediting rate may be higher than the then-current market rates.

Contributions Receivable
Participant contributions receivable represent amounts withheld from participants, but not remitted to the Contractor as of the Plans' year end. Employer contributions receivable represent the matching portion the employer owes the Plans on participant contributions receivable.

Notes Receivable from Participants
Notes receivable from participants are measured at their unpaid principal balance plus any accrued but unpaid interest. Delinquent notes receivable from participants are reclassified as distributions based upon the terms of the respective Plan documents.

Payment of Distributions
Distributions are recorded when paid.

Administrative Expenses and Investment Management Fees
All administrative costs of the Plans are deducted from participants' account balances. These costs include (a) benefit-responsive investment contract fees, which are included in the cost of investments and in determining net proceeds on sales of investments, and (b) operational expenses required for administration of the Plans including the Primary Administrator's expenses, custodial expenses, and investment management fees which are charged against the various fund's assets on a pro rata basis throughout the year. An annual recordkeeping and communication fee of $31 is charged per account and is deducted from accounts quarterly on a pro rata basis ($7.75 per quarter). Loan initiation fees and custodial expenses are reported as administrative expenses. Loan initiation fees are deducted from the individual accounts under the Plan of the individual participants that are initiating loans. Custodian and investment management fees for commingled trusts are charged based on a percentage of net asset value and are paid from the assets of the respective funds. Certain other administrative expenses are paid by the Contractor.

Use of Estimates in the Preparation of Financial Statements
The preparation of financial statements, in conformity with accounting principles generally accepted in the United States of America, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of additions and deductions during the reporting period. Actual results could differ from those estimates.

3. Investments

The following table presents a summary of investments at December 31, 2017:

(in thousands of dollars)

	401(k) Plan	457(b) Plan	Total
Pooled Account (Notes 4 and 6)	$ 7,749,918	$ 984,331	$ 8,734,249
Stable Value Fund (Notes 5 and 6)			
North Carolina Stable Value Fund			
Unallocated Insurance Contracts			
Prudential Synthetic Guaranteed Investment Contracts	593,950	112,292	706,242
Nationwide Life Insurance Company	359,618	67,990	427,608
American General Insurance Company	316,131	59,768	375,899
Great-West Deferred Stable Asset Fund Annuity	429,893	81,276	511,169
MetLife Insurance Company Separate Account	274,948	51,982	326,930
Wells Fargo Stable Return Fund	139,969	26,463	166,432
Wells Fargo Government Money Market Fund	18,600	3,516	22,116
Total stable value fund	2,133,109	403,287	2,536,396
Total investments	$ 9,883,027	$ 1,387,618	$ 11,270,645

4. Investments in Pooled Account

The Plans' investments are held in a group trust established as of January 4, 2016. The Board authorized the establishment of the North Carolina Supplemental Retirement Plans Group Trust (the "Group Trust") for the purpose of commingling the corpus of the separate trusts of the Plans; and the Board adopted the Declaration of Trust establishing the Group Trust. In addition, the Board agreed to act as trustee of the Group Trust, under the terms and conditions of the Declaration of Trust. The assets are managed by investment managers appointed by the Board and specified in investment agreements. The Plans are the beneficial owners of the assets in the Group Trust, which are accounted for in separate participating trust accounts for both Plans. The value of each Plan's account within the Group Trust is adjusted for the contributions and disbursements made with respect to each Plan; the investment gains and losses attributable to each Plan; and the costs allocated to each Plan. Each participating trust account is adjusted periodically to reflect each Plan's share of the fair market value of the Group Trust.

The following table presents the assets, including the investments and the percentage of each Plan's interest in each of the funds. Investment income and expense are presented in total for each fund in the Pooled Account:

NC Large CAP Index		
*Blackrock Equity Index Non-Lendable Collective Investment Fund, at fair value	$	1,640,562
401(k) plan interest in NC Large CAP Index		1,457,602
401(k) plan interest percentage		89%
457(b) plan interest in NC Large CAP Index		182,960
457(b) plan interest percentage		11%
Investment income		
Net appreciation in fair value of investments - collective trust		297,772
NC Large CAP Core		
Domestic common stock, at fair value		2,166,586
Accrued interest income		1,561
Due from broker for securities sold		74
Accounts payable - fees		(2,183)
Due to broker for securities purchased		(37)
Total net assets		2,166,001
401(k) plan interest in NC Large Cap Core		1,901,719
401(k) plan interest percentage		88%
457(b) plan interest in NC Large Cap Core		264,282
457(b) plan interest percentage		12%
Investment income and (expenses)		
Net appreciation in fair value of investments		431,693
Dividends and interest		27,672
Management and administrative fees		(7,873)
Net investment income		451,492

NC Fixed Income

PIM (Prudential Investment Mgt) Core Plus Bond Fund - collective trust	368,433
Separate Account - TCW Core Plus Bond Fund	416,013
Total investments, at fair value	784,446
Cash and cash equivalents	396
Accrued income	1,679
Due from broker for securities sold	9,223
Receivable for foreign exchange contract	8,217
Due to broker for securities purchased	(59,129)
Payable for foreign exchange contract	(8,188)
Accounts payable - fees	(239)
Total net assets	736,405
401(k) plan interest in NC Fixed Income	646,272
401(k) plan interest percentage	88%
457(b) plan interest in NC Fixed Income	90,133
457(b) plan interest percentage	12%
Investment income and (expenses)	
Net appreciation in fair value of investments - JP Morgan Core Bond Fund	10
Net appreciation in fair value of investments - PIM Core Plus Bond Fund	22,475
Net appreciation in fair value of investments - TCW Core Plus Bond Fund	2,432
Interest	9,388
Management and administrative fees	(824)
Net investment income	33,481

NC International

Domestic common stock, at fair value	82,994
Foreign stock	649,326
Total investments, at fair value	732,320
Cash and cash equivalents	263
Accrued income	3,342
Receivable for foreign exchange contract	644
Due from broker for securities sold	258
Payable for foreign exchange contract	(645)
Due to broker for securities purchased	(1,409)
Accounts payable - fees	(1,451)
Total net assets	733,322
401(k) plan interest in NC International	653,237
401(k) plan interest percentage	89%
457(b) plan interest in NC International	80,085
457(b) plan interest percentage	11%
Investment income and (expenses)	
Net appreciation in fair value of investments - domestic stock	105,050
Net appreciation in fair value of investments - foreign stock	44,502
Dividends and interest	19,748
Management and administrative fees	(3,455)
Net investment income	165,845

NC Small MID CAP Index

Blackrock Russell 2500 Collective Investment Fund, at fair value	291,720
401(k) plan interest in NC Small MID CAP Index	264,282
401(k) plan interest percentage	91%
457(b) plan interest in NC Small MID CAP Index	27,438
457(b) plan interest percentage	9%
Investment income	
Net appreciation in fair value of investments - collective trust	41,180

NC Small MID CAP Core

Domestic common stock, at fair value	1,039,197
Cash and cash equivalents	108
Accrued interest income	1,058
Due from broker for securities sold	663
Accounts payable - fees	(1,423)
Due to broker for securities purchased	(1,403)
Total net assets	1,038,200
401(k) plan interest in NC Small MID CAP Core	883,041
401(k) plan interest percentage	85%
457(b) plan interest in NC Small MID CAP Core	155,159
457(b) plan interest percentage	15%
Investment income and (expenses)	
Net appreciation in fair value of investments	144,111
Dividends and interest	10,631
Management and administrative fees	(5,936)
Net investment income	148,806

NC Global Equity

Domestic common stock, at fair value	697,107
Foreign stock	359,327
Total investments, at fair value	1,056,434
Cash and cash equivalents	682
Receivable for foreign exchange contracts	760
Accrued interest income	2,258
Due from broker for securities sold	3,991
Accounts payable - fees	(2,176)
Payable for foreign exchange contracts	(725)
Due to broker for securities purchased	(5,943)
Total net assets	1,055,281
401(k) plan interest in NC Global Equity	978,890
401(k) plan interest percentage	93%
457(b) plan interest in NC Global Equity	76,391
457(b) plan interest percentage	7%
Investment income and (expenses)	
Net appreciation in fair value of investments - domestic stock	175,140
Net appreciation in fair value of investments - foreign stock	25,521
Dividends and interest	20,957
Management and administrative fees	(6,405)
Net investment income	215,213

NC U.S. Debt Index	
*Blackrock U.S. Debt Index Non-Lendable Collective Investment Fund, at fair value	512,434
401(k) plan interest in NC U.S. Debt Index	457,947
401(k) plan interest percentage	89%
457(b) plan interest in NC U.S. Debt Index	54,487
457(b) plan interest percentage	11%
Investment income	
Net appreciation in fair value of investments - collective trust	16,253
NC International Index	
Blackrock MSCI ACWI ex-U.S. Index Non-Lendable Collective Investment Fund, at fair value	72,673
401(k) plan interest in NC International Index	57,079
401(k) plan interest percentage	79%
457(b) plan interest in NC International Index	15,594
457(b) plan interest percentage	21%
Investment income	
Net appreciation in fair value of investments - collective trust	13,850
NC Inflation Responsive	
* PIMCO Inflation Response Multi Asset Fund - mutual fund, at fair value	487,651
401(k) plan interest in NC Inflation Responsive	449,849
401(k) plan interest percentage	92%
457(b) plan interest in NC Inflation Responsive	37,802
457(b) plan interest percentage	8%
Investment income and (expenses)	
Net appreciation in fair value of investments	7,656
Dividends and interest	29,199
Management and administrative fees	(123)
Net investment income	36,732
Total Pooled Account Asset	$ 8,734,249
Total 401(k) plan interest in Pooled Account	7,749,918
Total 401(k) plan interest percentage in Pooled Account	89%
Total 457(b) plan interest in Pooled Account	984,331
Total 457(b) plan interest percentage in Pooled Account	11%

* Represents individual investment greater than or equal to 5% of the fair value of the Plans' investments

Interest Rate Risk

The Plans do not have a formal investment policy that limits duration as a means of managing its exposure to fair value losses arising from increasing interest rates. The managers within the NC Fixed Income Fund have duration targets relative to a specified benchmark. The maturities of the fixed income securities held in the NC Fixed Income Fund and collective investment funds in certain equity accounts, which are subject to interest rate risk, as of December 31, 2017, are as follows:

(in thousands of dollars)

		Investment Maturities (in Years) at Fair Market Value			
Investment Type	**Fair Value**	**Less than 1**	**1 to 5**	**6 to 10**	**More than 10**
Collateralized mortgage obligations	$ 23,650	$ 8,434	$ 1,738	$ 3,402	$ 10,076
Mortgage pass throughs	104,801	225	5,764	7,186	91,626
Domestic corporate bonds	95,922	28,977	22,238	28,970	15,737
Asset-backed securities	32,128	32,037	-	-	91
Foreign corporate bonds	16,494	3,925	6,466	4,801	1,302
U.S. treasury securities	103,847	12,161	51,134	14,994	25,558
U.S. agencies securities	3,223	248	2,376	-	599
Foreign government bonds	8,172	8,172	-	-	-
State and local government bonds	1,300	-	-	-	1,300
Mutual funds	10,593	-	5,221	5,372	-
Common/commingled fund					
Collective investment funds	97,063	97,063	-	-	-
Fixed income core plus bond fund	368,433	-	-	368,433	-
Total	$ 865,626	$ 191,242	$ 94,937	$ 433,158	$ 146,289

Investments may also include various collateralized mortgage obligations, asset-backed securities, and commingled funds considered to be sensitive to changes in interest rates due to the existence of prepayment or conversion features.

Collateralized Mortgage Obligation Securities

Collateralized Mortgage Obligations ("CMOs") generate a return based upon either the payment of interest or principal on mortgages in an underlying pool. The relationship between interest rates and prepayments makes the fair value sensitive to changes in interest rates. In falling interest rate environments, the underlying mortgages are subject to a higher propensity of prepayments. In a rising interest rate environment, the opposite is true.

Asset-Backed Securities

Asset-backed securities are securities that are primarily serviced by the cash flows of a discrete pool of receivables or other financial assets, either fixed or revolving, that by their terms convert into cash within a finite time period, plus any rights or other assets designed to assure the servicing or timely distribution of proceeds to the security holders.

Commingled Funds

The Plans own units in a commingled fixed income core plus bond fund, in a commingled inflation responsive multi-asset mutual fund, and in a short term collective investment trust. The weighted average maturity of the PIM Core Plus Bond Fund, which is a common/commingled fund and included in the NC Fixed Income Fund in the Pooled Account of the Plans, is approximately 8 years. As a result, the fund is sensitive to changes in interest rates. The weighted average maturity of the PIMCO Inflation Response Multi-Asset Fund, which is a common/commingled mutual fund and included in the NC Inflation Response Fund in the Pooled Account of the Plans, is approximately 4 years. As a result, the fund is sensitive to changes in interest rates.

Credit Risk
Credit risk is the risk an issuer or other counterparty to an investment will not fulfill its obligations, such as the chance that a bond issuer will fail to pay interest or principal in a timely manner, or that negative perceptions of the issuer's ability to make these payments will cause security prices to decline. These circumstances may arise due to a variety of factors such as financial weakness, bankruptcy, litigation and/or adverse political developments. Certain fixed income securities, including obligations of the U.S. government or those explicitly guaranteed by the U. S. government, are not considered to have credit risk. The Plans do not have a formal policy to limit credit risk.

A bond's credit quality is an assessment of the issuer's ability to pay interest on the bond, and ultimately to repay the principal. Credit quality is evaluated by one of the independent bond-rating agencies - for example, Moody's Investors Service ("Moody's"), Standard and Poor's ("S&P"), or Fitch Ratings ("Fitch"). The lower the rating, the greater the chance, in the rating agency's opinion, that the bond issuer will default or fail to meet its payment obligations. Generally, the lower a bond's credit rating, the higher its yield should be to compensate for the additional risk. The investment guidelines applicable to the NC Fixed Income Fund places restrictions on the total risk exposure of the Fund and specifically the concentration of the debt securities in which the fund invests.

The following table presents the rating of debt securities held in the NC Fixed Income Fund and collective investment funds in certain equity accounts, as of December 31, 2017:

(in thousands of dollars)

Investment Type	Fair Value	Aaa / AAA	Aa / AA	A / A- / A+	Baa/BBB	Less than investment grade	Unrated	Exempt from credit quality (1)
Collateralized mortgage obligations	$ 23,650	$ 4,356	$ 10,608	$ 239	$ 1,195	$ 7,210	$ 42	$ -
Mortgage pass throughs	104,801	-	77,159	-	-	-	-	27,642
Domestic corporate bonds	95,922	836	3,888	30,699	57,801	2,620	78	-
Asset-backed securities	32,128	6,388	6,549	6,428	1,358	11,405	-	-
Foreign corporate bonds	16,494	606	1,030	5,449	9,201	160	48	-
U.S. treasury securities	103,847	-	-	-	-	-	-	103,847
U.S. agencies securities	3,223	-	3,223	-	-	-	-	-
Foreign government bonds	8,172	-	-	8,172	-	-	-	-
State and local government bonds	1,300	-	1,137	163	-	-	-	-
Mutual funds	10,593	-	-	-	-	10,593	-	-
Common/commingled fund								
Collective investment funds	97,063	-	-	-	-	-	97,063	-
Fixed income core plus bond fund	368,433	-	-	-	-	-	368,433	-
Total	$ 865,626	$ 12,186	$ 103,594	$ 51,150	$ 69,555	$ 31,988	$ 465,664	$ 131,489

(1) Obligations of the United States Government or obligations explicitly guaranteed by the United States Government are not considered to have credit risk and do not require disclosure of credit quality.

Commingled Funds
The Fixed Income Core Plus Bond Fund, which is a common/commingled fund and included in the NC Fixed Income Fund of the Pooled Account, has more than 81% of its debt securities rated BBB or better including 41% of which are rated AAA at December 31, 2017.

All assets of the NC Inflation Responsive Fund are invested in the PIMCO Inflation Response Multi-Asset Fund, a mutual fund. The PIMCO Inflation Response Multi-Asset Fund is more than 55% invested in U.S. treasury securities, which are exempt from rating. The other remaining investments are unrated.

Custodial Credit Risk
Custodial credit risk is the risk that, in the event of the failure of a counterparty financial institution, the Plans will not be able to recover the value of its investments and other assets that are in possession of an outside third party. The Plans do not have a formal policy to limit custodial credit risk.

Concentration of Credit Risk
Concentration of credit risk is the risk of loss attributed to the magnitude of a Plan's investment in a single issuer. Money market funds and external investment pools are excluded from this disclosure requirement. Obligations explicitly guaranteed by the U.S. Government are not considered to have credit risk. The Plans do not have a formal policy to limit concentration of credit risk. Included in the Pooled Account are investments in individual collective trust funds under the various index funds and fixed-income options. Such funds that equal 5% or more of the fair value of the Plan's investments are the Russell 1000 Index Fund holdings within the NC Large Cap Core Fund as well as the index funds identified with an asterisk in the presentation of the Pooled Account table within this footnote. The guidelines applicable to the NC Funds places restrictions on the concentration of the securities in which the funds invest.

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

The foreign investments, primarily in the NC International Fund and the NC Global Equity Fund expose the Plans to foreign currency risk. The following table presents in U.S. dollars the Pooled Account exposure to foreign currency as of December 31, 2017:

Currency (in thousands of dollars)		
Euro	$	255,527
Japanese Yen		210,201
Pound Sterling		146,324
Hong Kong Dollar		63,554
Swiss Franc		64,003
New Taiwan Dollar		43,200
South Korean Won		42,710
Swedish Krona		24,179
South African Rand		23,003
Singapore Dollar		22,329
Brazil Real		20,625
Canadian Dollar		18,713
Danish Krone		17,841
Indian Rupee		16,945
Australian Dollar		16,312
Turkish Lira		11,289
Malaysian Ringgit		4,878
UAE Dirham		2,822
Indonesian Rupiah		2,805
Mexican Pesos		2,192
Thai Baht		1,973
Qatari Riyal		1,071
Polish Zloty		569
New Zealand Dollar		401
	$	1,013,466

5. Stable Value Fund

The NC Stable Value Fund consists of three synthetic guaranteed investment contracts, two separate account guaranteed investment contracts, a pooled stable value fund and a government money market fund. Galliard provides the professional management and oversight of the NC Stable Value Fund.

With a synthetic guaranteed investment contract, the Plan owns the underlying assets and negotiates a wrap contract for insurance protection. Because the synthetic GICs are fully benefit-responsive and nonparticipating investments, contract value, which approximates fair value, is the relevant measurement attribute for that portion of the net position attributable to the synthetic guaranteed investment contracts. Contract value represents contributions made under the contract, plus earnings, less participant withdrawals and administrative expenses. Participants may ordinarily direct the withdrawal or transfer of all or a portion of their investment at contract value. The interest crediting rate is reset, at a minimum, on a quarterly basis to reflect the performance of the underlying portfolio wrapped by the contract. The compound crediting rate methodology uses a formula to smooth out the gains or losses on the fixed income investments that back the wrap contract. The formula components are the current contract value, the fair value of the underlying portfolio, the annualized weighted average yield to maturity of the underlying portfolio and the weighted average duration of the underlying portfolio. The change in these factors from quarter to quarter impacts future crediting rate. The crediting rates of the contract may not fall below zero.

With a contract that is fully benefit-responsive and comprised of a separate account GIC, the contract value is the relevant measurement attribute for that portion of the net position attributable to the separate account GIC. Contract value represents contributions made under the contract, plus earnings, less participant withdrawals and administrative expenses. Participants may ordinarily direct the withdrawal or transfer of all or a portion of their investment at contract value. The interest crediting rate is reset, at a minimum, on a quarterly basis to reflect the performance of the underlying portfolio wrapped by the contract. The compound crediting rate methodology uses a formula to smooth out the gains or losses on the fixed-income investments that back the wrap contract. The formula components are the current contract value, the fair value of the underlying portfolio, the annualized weighted average yield to maturity of the underlying portfolio and the weighted average duration of the underlying portfolio. The change in these factors from quarter to quarter impacts the future crediting rate. The crediting rate may not fall below zero.

The five wrap contract issuers are Prudential, Nationwide Life, American General, Great West Life, and MetLife. Wrap contracts maintain a book value asset or fund balance for the underlying asset and report the yield credited on that book balance. The contracts are issued by insurance companies which guarantee the return of principal and a stated rate of interest. The contracts do not provide protection from all defaulting events of the underlying fixed income investments which could result in a negative return on the fund.

The contracts are described as follows:

Prudential Synthetic GIC - The Plans have a fully benefit-responsive synthetic GIC with Prudential. The contract covers a commingled fixed-income collective investment fund managed by Jennison, and a fixed income portfolio managed by Prudential. The Plans own units of the underlying collective investment fund in addition to the securities within the fixed income bond portfolio. At December 31, 2017, the Prudential wrapper contract covering the fixed income investments had no fair value. Wells Fargo Bank is the custodian for the underlying investments and the trustee for the collective investment fund.

Nationwide Life Synthetic GIC - The Plans have a fully benefit-responsive synthetic GIC with Nationwide Life. The contract covers a fixed income collective investment fund managed by Galliard. The Plans own units of the underlying collective investment fund. At December 31, 2017, there was no fair value to the wrap contract. Wells Fargo Bank is the trustee and custodian for the underlying investments.

American General Synthetic GIC - The Plans have a fully benefit-responsive synthetic GIC with American General. The contract covers a fixed income separate account managed by Payden & Rygel. All of the underlying investments are owned by the Plans. At December 31, 2017, there was no fair value to the wrap contract. Wells Fargo Bank is the custodian for the underlying investments.

Great-West Deferred Stable Asset Fund Annuity Contract - The contract is fully benefit-responsive and comprised of a separate account GIC issued by a life insurance company (issuer). The separate account GIC is backed by assets invested in an insurance separate account, a portfolio owned by the life insurance company but invested outside the insurance company's general investment account and managed by Great-West. The assets of the separate account are held exclusively for the benefit of the Plans and stated in the financial statements at contract value, which was $511 million at December 31, 2017. The fair value of the assets in the separate account was reported by Great-West to be $508 million. At December 31, 2017, there was no fair value to the wrap contract. The Bank of New York Mellon is the custodian for the underlying investments.

MetLife Insurance Company Separate Account - The contract is fully benefit-responsive and comprised of a separate account GIC issued by a life insurance company. The separate account GIC is backed by assets invested in an insurance separate account, a portfolio owned by the life insurance company but invested outside the insurance company's general investment account and managed by Dodge & Cox. The assets of the separate account are held for the benefit of the Plans and certain other plans and stated in the financial statements at contract value, which was $327 million at December 31, 2017. The fair value of the Plan's portion of the assets in the separate account was reported by MetLife to be $330 million. State Street Bank is the custodian for the underlying investments. At December 31, 2017, there was no fair value to the wrap contract.

Wells Fargo Stable Return Fund - A pooled stable value fund is a collective trust fund that holds unallocated, non-participating and benefit-responsive investment contracts issued by financial companies including GICs, Insurance Separate Account GICs, and Security Backed Investment Contracts. GICs are guaranteed insurance contracts backed by the general account of the insurance company while Insurance Separate Account GICs are backed by a segregated pool of assets owned by the issuer. Security Backed Investment Contracts are comprised of two components: investment contracts issued by a financial institution and underlying portfolios of fixed income securities (i.e. bonds) whose market prices fluctuate. The investment contracts held in the collective trust fund are designed to allow participants to transact at contract value without reference to the price fluctuations of the underlying fixed income securities. The NC Stable Value Fund holds units of the Wells Fargo Stable Return Fund. Terms of the underlying fund incorporate terms of the crediting rates and valuation at contract value. The Plans' investments in this fund are included in the disclosures of risk. At December 31, 2017, the fair value of the assets in the Stable Return Fund was $166 million.

Wells Fargo Government Money Market Fund - This segment of the portfolio is invested in a money market fund managed by Wells Fargo, where the underlying securities are held at amortized cost (net asset value). The amortized cost accounting used in the fund very closely approximates the fair market value of the investments. The Plans' investments in this fund are included in the disclosures of risk. At December 31, 2017, the fair value of the assets in the Wells Fargo Government Money Market Fund was $22 million.

Crediting Interest Rate for Fully Benefit-Responsive Contracts

The crediting interest rate is based on a formula agreed upon with the issuer. Such interest rates are reviewed on a quarterly basis for resetting.

Yields and Crediting Rate Ranges for 2017	**Earnings**	**Crediting Rate Range**
Prudential Synthetic GIC - Fixed Income Separate Account	2.85%	2.61% - 2.76%
Prudential Synthetic GIC - Fund N	2.34%	2.61% - 2.76%
Nationwide Life Synthetic GIC - Fund F	2.25%	1.56% - 1.81%
American General Synthetic GIC - Payden and Rygel	2.16%	1.19% - 1.65%
Great-West Group Deferred Stable Asset Fund Annuity	2.56%	2.10% - 2.15%
MetLife Insurance Company Separate Account	2.72%	2.44% - 2.66%
Wells Fargo Stable Return Fund	2.14%	1.82% - 2.14%

Fair Value of Fully Benefit-Responsive Contracts

The market values for which the Plans do not directly own the underlying assets are previously disclosed in the Great-West Deferred Stable Asset Fund Annuity Contract and MetLife Insurance Company Separate Account sections of this note. The market values of the fully benefit-responsive contracts for which the Plans own the underlying assets at December 31, 2017 are as follows:

(in thousands of dollars)

	401(k) Plan Total Contract Value	401(k) Plan Underlying Investments Market Value	457(b) Plan Total Contract Value	457(b) Plan Underlying Investments Market Value
Prudential Synthetic GIC - Fixed Income Separate Account	$ 300,197	$ 305,102	$ 56,755	$ 57,683
Prudential Synthetic GIC - Fund N	293,753	298,552	55,537	56,445
Total Prudential	593,950	603,654	112,292	114,128
Nationwide Life Synthetic GIC - Galliard	359,618	358,271	67,990	67,735
American General Synthetic GIC - Payden and Rygel	316,131	314,831	59,768	59,522
Wells Fargo Stable Return Fund	139,969	139,969	26,463	26,463
Total Synthetic GIC Components	$1,409,668	$ 1,416,725	$ 266,513	$ 267,848

Interest Rate Risk

The fixed income securities underlying the synthetic GICs owned by the Plans are subject to interest rate risk. The Plans do not have a formal policy to limit interest rate risk. However, the fund's underlying investment manager guidelines and duration guidelines seek to manage the overall fund's exposure to interest rate risk. The maturities of the securities underlying the GICs owned by the Plans as of December 31, 2017 are as follows:

(in thousands of dollars)

		Investment Maturities (in Years) at Fair Market Value (1)			
Investment Type	Fair Value	Less Than 1	1 to 5	6 to 10	More Than 10
Domestic corporate bonds	$ 194,352	$ 11,241	$ 129,628	$ 50,986	$ 2,497
U.S. treasury securities	156,536	1,942	109,941	40,522	4,131
Foreign corporate bond	70,152	4,754	57,160	8,238	-
Asset-backed securities	95,098	-	67,155	17,386	10,557
Foreign government bonds	22,602	2,297	17,770	2,535	-
Mortgage pass throughs	104,751	12	60	6,292	98,387
U.S. agencies securities	32,379	2,242	29,472	156	509
State and local government	2,397	508	1,710	179	-
Collateralized mortgage obligations	2,269	-	930	-	1,339
Commercial mortgage backed securities	49,636	-	298	16,430	32,908
Common/commingled fund:					
Intermediate collective trust fund N	354,997	-	-	354,997	-
Short-core fixed income collective trust fund	426,006	-	426,006	-	-
Stable return collective trust fund	166,432	-	166,432	-	-
Government money market collective trust fund	22,116	22,116	-	-	-
Total	$ 1,699,723	$ 45,112	$ 1,006,562	$ 497,721	$ 150,328

(1) Assets for which the Plans do not directly own the underlying securities are excluded from this chart.

Investments may also include various collateralized mortgage obligations and asset backed securities that are considered to be sensitive to changes in interest rates due to the existence of prepayment or conversion features.

Asset-Backed Securities
Asset-backed securities are securities that are primarily serviced by the cash flows of a discrete pool of receivables or other financial assets, either fixed or revolving, that by their terms convert into cash within a finite time period, plus any rights or other assets designed to assure the servicing or timely distribution of proceeds to the security holders.

Collateralized Mortgage Obligation Securities
CMOs generate a return based upon either the payment of interest or principal on mortgages in an underlying pool. The relationship between interest rates and prepayments makes the fair value sensitive to changes in interest rates. In falling interest rate environments, the underlying mortgages are subject to a higher propensity of prepayments. In a rising interest rate environment, the opposite is true.

Commingled Funds
The NC Stable Value Fund owns units in various commingled funds, each with an investment objective relative to maturity and liquidity. This includes units in the Wells Fargo Advantage Government Money Market Fund, the Wells Fargo Stable Return Fund, the intermediate collective trust fund for one of the Prudential Synthetic GICs and the short core high quality fixed income collective trust fund for the Nationwide Life Synthetic GIC. The interest rate risk in each of the funds is dependent upon the weighted average maturity of each of the funds. The weighted average maturities of the Intermediate trust fund N and the Short-core fixed income collective trust fund are approximately 6.5 and 2.5 years, respectively. As a result, the funds are sensitive to changes in interest rates.

Credit Risk
Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations, such as the chance that a bond issuer will fail to pay interest or principal in a timely manner, or that negative perceptions of the issuer's ability to make these payments will cause security prices to decline. These circumstances may arise due to a variety of factors such as financial weakness, bankruptcy, litigation and/or adverse political developments. Certain fixed- income securities, including obligations of the U.S. government or those explicitly guaranteed by the U.S. government, are not considered to have credit risk. The Plans do not have a formal policy to limit Credit Risk.

A bond's credit quality is an assessment of the issuer's ability to pay interest on the bond, and ultimately to pay the principal. Credit quality is evaluated by one of the independent bond rating agencies – for example, Moody's, S&P, or Fitch. The lower the rating, the greater the chance (in the rating agency's opinion), that the bond issuer will default or fail to meet its payment obligations. Generally, the lower a bond's credit rating, the higher its yield should be to compensate for the additional risk. The fund's underlying investment manager guidelines and credit quality guidelines seek to manage the overall fund's credit risk.

The following table presents the debt securities ratings of the GICs owned by the Plans as of December 31, 2017:

(in thousands of dollars)

		Credit Rating - Moody's/S&P (1)						
Investment Type	**Fair Value**	**Aaa/AAA**	**Aa/AA**	**A**	**Baa/BBB**	**Less than Investment Grade**	**Unrated**	**Exempt from Credit Quality (2)**
Domestic corporate bonds	$ 194,352	$ -	$ 5,344	$ 58,350	$ 125,709	$ 4,949	$ -	$ -
U.S. treasury securities	156,536	-	-	-	-	-	-	156,536
Foreign corporate bond	70,152	-	10,566	28,091	29,201	2,294	-	-
Asset-backed securities	95,098	95,098	-	-	-	-	-	-
Foreign government bonds	22,602	9,710	7,154	5,246	492	-	-	-
Mortgage pass throughs	104,751	-	73,682	-	-	-	-	31,069
U.S. agencies securities	32,379	-	32,379	-	-	-	-	-
State and local government	2,397	-	1,022	1,375	-	-	-	-
Collateralized mortgage obligations	2,269	1,339	930	-	-	-	-	-
Commercial mortgage backed securities	49,636	32,908	16,728	-	-	-	-	-
Common/commingled fund:								
Intermediate collective trust fund N	354,997	-	-	-	-	-	354,997	-
Short-core fixed income collective trust fund	426,006	-	-	-	-	-	426,006	-
Stable return collective trust fund	166,432	-	-	-	-	-	166,432	-
Government money market collective trust fund	22,116	-	-	-	-	-	22,116	-
	$ 1,699,723	$ 139,055	$ 147,805	$ 93,062	$ 155,402	$ 7,243	$ 969,551	$ 187,605

(1) Assets for which the Plans do not directly own the underlying securities are excluded from this chart.

(2) Obligations of the United States Government or obligations explicitly guaranteed by the United States Government, including mortgage pass-throughs, are not considered to have credit risk and do not require disclosure of credit quality.

Commingled Funds
The Intermediate collective trust fund N is comprised entirely of securities rated BBB or better (62% are rated AAA) at December 31, 2017. Over 99% of the securities comprising the Short-core fixed-income collective trust fund are rated BBB or better (72% are rated AAA) at December 31, 2017. The government money market fund consists of US Government obligations or repurchase agreements collateralized by U.S. Government obligations.

Custodial Credit Risk
Custodial credit risk is the risk that, in the event of the failure of a counterparty financial institution, the Plans will not be able to recover the value of its investments and other assets that are in possession of an outside third party. The Plans do not have a formal policy to limit custodial credit risk.

Concentration of Credit Risk
Concentration of credit risk is the risk of loss attributed to the magnitude of the Plans' investment in a single issuer or category of issuer with similar risk. Money market funds and external investment pools are excluded from this disclosure requirement. Obligations explicitly guaranteed by the U.S. Government are not considered to have credit risk. The NC Stable Value Fund did not have any investment in any one issuer equal to 5% or more of the fair value of the NC Stable Value Fund's investments.

6. Fair Value Measurement

The Plans categorize fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy levels are summarized in the three levels listed below:

Level 1 - Unadjusted quoted prices for identical instruments in active markets.

Level 2 - Quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations in which all significant inputs are observable.

Level 3 - Valuations derived from valuation techniques in which significant inputs are unobservable.

The Plans had the following recurring fair value measurements as of December 31, 2017:

(in thousands of dollars)

		Fair Value Measurements Using		
	As of 12/31/2017	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Pooled Account				
Investments measured at fair value				
Domestic equity securities	$ 2,829,832	$ 2,829,832	$ -	$ -
Foreign equity securities	1,489,165	1,489,165	-	-
Collateralized mortgage obligations	23,650	-	23,650	-
Domestic corporate bonds	95,922	-	95,922	-
Mortgage pass-throughs	104,801	-	104,801	-
U.S. Treasury securities	103,847	-	103,847	-
Asset backed securities	32,128	-	32,128	-
Foreign corporate bonds	16,494	-	16,494	-
International preferred securities	6,505	6,505	-	-
U.S. agencies securities	3,223	-	3,223	-
Foreign government bonds	8,172	-	8,172	-
State and local government bonds	1,300	-	1,300	-
Total investments by fair value level	4,715,039	4,325,502	389,537	-

Investments measured at the Net Asset Value (NAV)

		Unfunded commitments	Redemption frequency	Redemption notice (days)
Commingled equity funds [1]	2,593,336	-	Daily	1 - 2
Commingled fixed income [2]	512,221	-	Daily	1 - 2
Mutual fund [3]	497,930	-	Daily	1
Commingled U.S. debt fund [4]	368,433	-	Daily	5
Collective investment fund [5]	97,063	-	Daily	1
Total investments at the NAV	4,068,983			
Total Pooled Account investments at fair value	8,784,022			
Accruals	(49,773)			
Total Pooled Account investments	$ 8,734,249			

(1) Five funds. Each are valued at the net asset value of units held at the end of the period, based upon the fair value of the underlying investments.

(2) One fund. Valued at the net asset value of units held at the end of the period, based upon the fair value of the underlying investments.

(3) Three funds. NAV is determined by dividing the total value of the fund's portfolio investments and other assets attributable to the fund, less liabilities, by the total number of shares outstanding. Value determined at the end of each day the New York Stock Exchange is open.

(4) One fund. Valued at the net asset value of units held at the end of the period, based upon the fair value of the underlying investments.

(5) This fund is invested in the BNY Mellon EB Temporary Investment Fund. The Fund primarily invests in instruments issued by the US Government and Federal agencies, short-term corporate obligations, commercial paper, and certificates of deposit. The average weighted maturity of these funds does not exceed 60 days.

		Fair Value Measurements Using		
	As of 12/31/2017	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Stable Value Fund				
Investments measured at fair value				
Domestic corporate bonds	$ 194,352	$ -	$ 194,352	$ -
U.S. treasury securities	156,536	-	156,536	-
Foreign corporate bond	70,152	-	70,152	-
Asset-backed securities	95,098	-	95,098	-
Foreign government bonds	22,602	-	22,602	-
Mortgage pass throughs	104,751	-	104,751	-
U.S. agencies securities	32,379	-	32,379	-
State and local government	2,397	-	2,397	-
Collateralized mortgage obligations	2,269	-	2,269	-
Commercial mortgage backed securities	49,636	-	49,636	-
Investments at fair value	730,172	-	730,172	-

Investments measured at the Net Asset Value (NAV)

		Unfunded commitments	Redemption frequency	Redemption notice
Intermediate collective trust fund N [(1)]	354,997	-	Monthly	1 day
Short-core fixed income collective trust fund[(2)]	426,006	-	Monthly	1 day
Stable return collective trust fund[(3)]	166,432	-	Daily	12 months
Government money market collective trust fund[(4)]	22,116	-	Daily	1 day
Investments at NAV	969,551			
Total Stable Value Fund investments	$ 1,699,723			

Note: Assets for w hich the Plans do not directly ow n the underlying securities and cash balances are excluded from the above table. The fair value of the Great-West Deferred Stable Asset Fund Annuity Contract and the MetLife Insurance Company Separate Account have been previously disclosed in Note 5.

[(1)] One fund. Valued at the net asset value of units held at the end of the period, based upon the fair value of the underlying investments.

[(2)] One fund. Valued at the net asset value of units held at the end of the period, based upon the fair value of the underlying investments.

[(3)] One fund. Valued at contract value. Fair value is derived using a market/book ratio.

[(4)] One fund. Money market fund. NAV at $1/unit.

Valuation Methodologies and Inputs

Equity securities classified in Level 1 of the fair value hierarchy are valued using prices quoted in active markets for those securities.

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

Level 2 Domestic bonds are priced using both spread-based and price-based evaluations. Evaluators survey the dealer community to obtain relevant trade data, benchmark quotes and spreads.

Level 2 Mortgage Pass-throughs are evaluated on interest rate movements and other market data to derive spread, yield and/or price data as appropriate allowing data points to be extrapolated for application across a range of related securities.

Level 2 Collateralized Mortgage Obligations evaluators monitor structured product markets, interest rate movements, new issue information and other market data. Market color such as trades, bids, and offers are applied to the model.

7. Related Party Transactions

The Plans contract with Galliard, a subsidiary of Wells Fargo, to act as a fiduciary investment advisor for the NC Stable Value Fund. Wells Fargo provides collective investment vehicles and custodial and trustee services for the NC Stable Value Fund. Galliard has discretion over the benefit responsive contracts and the underlying investment managers, subject to approval by the Board and the Department. Galliard also has the authority to invest in securities subject to guidelines agreed upon by the Board. As an advisor, Galliard is primarily responsible for ensuring that negotiated investment contracts are adhered to by the insurance companies, bank or other eligible providers who have entered into such contracts. Not less than quarterly, Galliard reports the financial condition of the investment contracts and whether the contracts are being administered according to their respective terms. The fees for wrap coverage, investment management and advisory services are deducted from participants' account balances. The Galliard contract was recently updated to revise the investment structure and guidelines and to lower participant fees.

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

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

8. Tax Status

The 401(k) Plan received a favorable determination letter from the Internal Revenue Service ("IRS") on November 14, 2016. The determination letter stated that following review, the 401(k) Plan was in compliance with all applicable sections of the IRC. The 401(k) Plan document was modified on December 15, 2017. The NC 457(b) Plan has not applied for a Private Letter Ruling from the IRS in 2017.

On December 14, 2017, the Board adopted a revised plan document for the 457(b) Plan. The new, individually-designed plan document replaced the specimen base plan document and adoption agreement provided and maintained by Prudential, allowing the Board the same control and flexibility that it has with the 401(k) Plan document to address compliance, policy, and plan design issues. The new document:

- Incorporates the specific structure of the 457(b) Plan;
- Includes clarifications and other amendments to reflect better the intent and administration of the plan; and
- Makes the 457(b) Plan document more consistent with the NC 401(k) Plan document.

The Plans are subject to rules and regulations promulgated by the IRS. Failure to comply with the rules and regulations of the IRS could result in penalties to the Plans and for the Plan Sponsor. The Department has analyzed the tax positions taken by the Plans, and has concluded that as of December 31, 2017, there are no uncertain positions taken or expected to be taken that would require recognition of a liability (or asset) or disclosure in the financial statements.

9. Plan Termination

Although the General Assembly of North Carolina has not expressed any intent to do so, it has the right to terminate the Plans under the provisions of each of the Plans' documents. In the event of a plan termination, assets of that plan would be distributed to participants as soon as administratively possible.