

NC STATE INVESTMENT FUND, INC.

FINANCIAL REPORT

JUNE 30, 2017 and 2016

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NC State Investment Fund, Inc.
Financial Statements
For the Years Ended June 30, 2017 and 2016

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Independent Auditor's Report

To the Board of Directors
NC State Investment Fund, Inc.
Raleigh, North Carolina

Report on the Financial Statements

We have audited the accompanying financial statements of NC State Investment Fund, Inc. (the "Fund"), as of and for the years ended June 30, 2017 and 2016, and the related notes to the financial statements, which collectively comprise the Fund's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the 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 opinions.



Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Fund as of June 30, 2017 and 2016, and the respective changes in financial position and, where applicable, cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 through 10 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Fund's basic financial statements. The participants' net position graph and schedules of changes in net position by participant are presented for purposes of additional analysis and are not a required part of the basic financial statements.

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



Other Reporting Required by *Government Auditing Standards*

In accordance with *Governmental Auditing Standards*, we have also issued our report dated October 5, 2017 on our consideration of the Fund's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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 Funds internal control over financial reporting and compliance.

BDO USA, LLP

Raleigh, North Carolina
October 5, 2017

MANAGEMENT'S DISCUSSION AND ANALYSIS

(UNAUDITED)

INTRODUCTION

This discussion and analysis provides an introduction and overview of the financial position and activities of the NC State Investment Fund, Inc. (the "Fund") for the fiscal year ended June 30, 2017 with comparative information for the fiscal year ended June 30, 2016. Management has prepared the discussion and analysis, which should be read in conjunction with the financial statements and the accompanying note disclosures. The Fund is a North Carolina not-for-profit organization exempt from income tax under Section 501(c)(3) of the Internal Revenue Code and was established to operate a pooled investment vehicle for North Carolina State University (the "University"), the Endowment Fund of the University (the "Endowment Fund"), and other University-associated entities.

The Fund was established in 1998 and began operations in April 1999. The Fund is classified as a governmental external investment pool that is not registered with the Securities and Exchange Commission (the "SEC") as an investment company, but has a policy that it will, and does, operate in a manner consistent with the SEC's Rule 2a7 of the Investment Company Act of 1940. The original pool, the long-term investment pool (the "LTIP"), was established as an external pooled investment vehicle for the Endowment Fund and other University-associated entities' endowed funds. In July 2014, the Fund established a second pool, the NC State Intermediate Term Fund (the "ITF"), as a vehicle to invest the excess operating cash of these entities.

Included in this report are the Statements of Net Position, Statements of Changes in Net Position, Notes to the Financial Statements, Participants' Net Position Graph, and Schedules of Changes in Net Position by Participant by investment pool. These financial statements have been prepared in accordance with the presentation and disclosure requirements of the Governmental Accounting Standards Board ("GASB"). The GASB pronouncements establish financial reporting standards for all state and local governments and related entities.

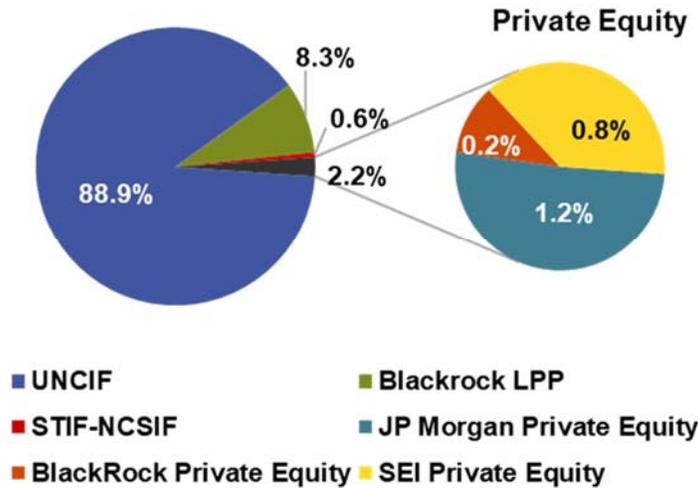
FINANCIAL HIGHLIGHTS

Long-Term Investment Pool ("LTIP")

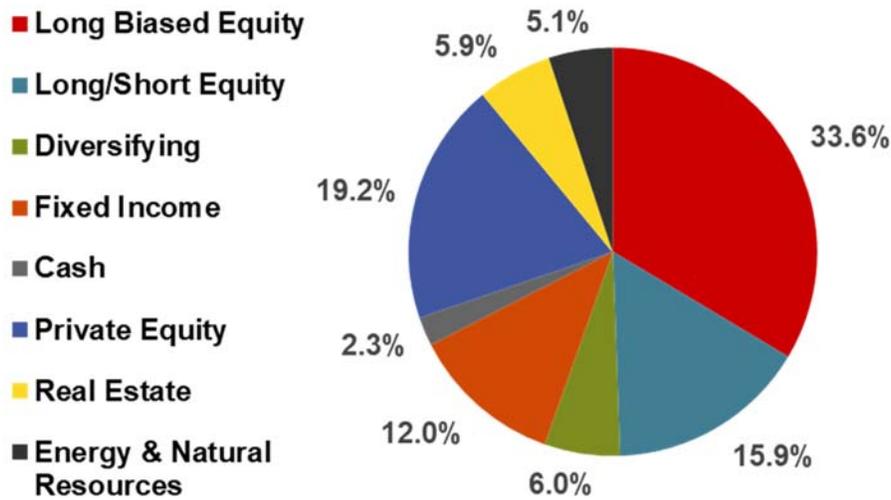
The LTIP recorded an increase in net position of \$187.07 million and \$6.67 million in fiscal years 2017 and 2016, respectively. This increase is attributable to net operating gains (losses) of \$88.72 million and (\$10.88) million for fiscal years 2017 and 2016, respectively, and net additions of \$98.36 million and \$17.55 million for fiscal years 2017 and 2016, respectively.

During the fiscal year ended June 30, 2017, the LTIP continued its investment with UNC Management Company ("UNCMC"). UNCMC provides investment management services to the constituent institutions of the UNC System through a pooled investment vehicle called the UNC Investment Fund (the "System Fund"). As such, the LTIP has adopted the investment objectives, portfolio composition and specific return targets of the System Fund. The LTIP began investing its non-committed assets with the System Fund effective July 2008 with completion of the transition occurring December 2009, and has a 14% membership interest in the System Fund as of June 30, 2017.

In addition to the allocation with the System Fund of \$774.2 million as of June 30, 2017, the LTIP has \$19.15 million with other managers in private equity funds, \$72.25 million in a BlackRock Liquid Policy Portfolio (“LPP”), and \$4.9 million in the State Treasurer’s Short-Term Investment Fund (the “STIF”).



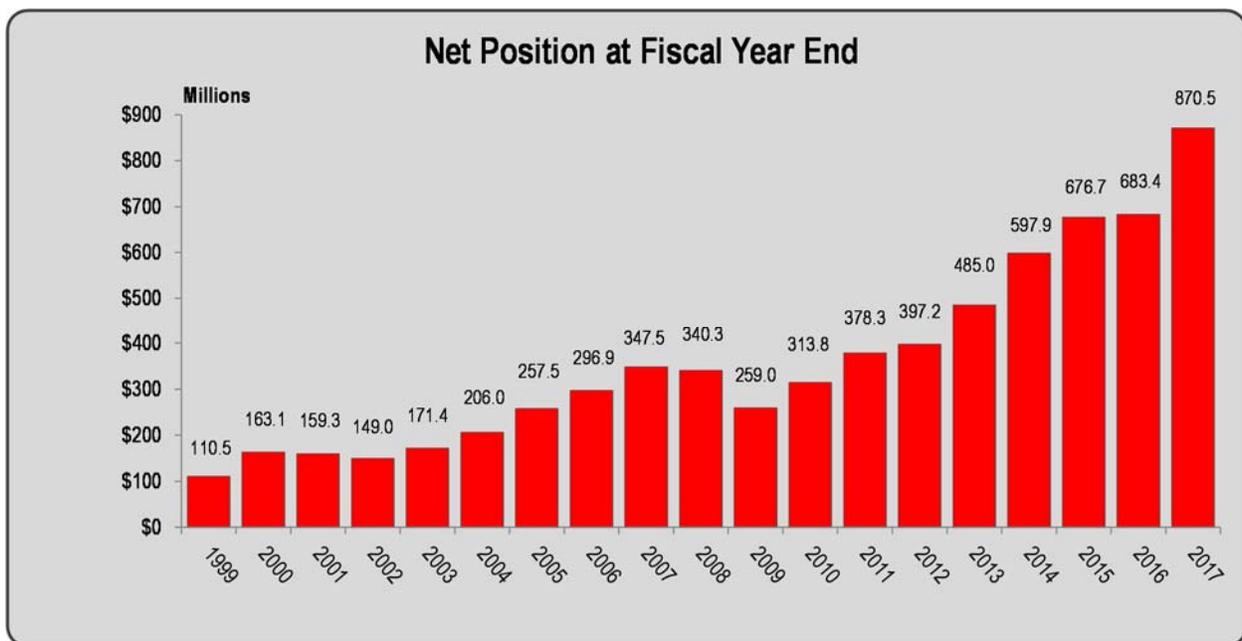
The LTIP asset allocation as of June 30, 2017 is as follows:



For the fiscal year ended June 30, 2017, the LTIP experienced a net investment return of 11.9% compared to the policy benchmark of 11.8%. For the fiscal year ended June 30, 2016, the LTIP experienced a net return of -1.4% compared to the policy benchmark return of -0.8%. The LTIP’s annualized 5-year return as of June 30, 2017 was 9.3% as compared with the System Fund of 9.2% and to the policy benchmark of 7.8%.

For the long-term, the primary investment objective for the LTIP is to earn a total return (net of investment and custodial fees) within prudent levels of risk, sufficient to maintain in real terms the purchasing power of the LTIP and to meet the spending needs of the participants. To help meet this investment objective, the LTIP invests in various asset classes to offer diversification. The purpose of diversification is to provide reasonable assurance that no single security or class of securities will have a disproportionate impact on the performance of the total fund. The LTIP’s policy target, the target by which the LTIP monitors performance, was adopted from the Investment Policy Statement of the System Fund.

As shown in the chart below, since the LTIP’s inception in April 1999, net position has increased to \$870.5 million, which consists of \$747.4 million in additions (\$181.98 million of which is from initial additions to the Fund), \$358.8 million in net earnings and appreciation, minus \$235.7 million in participant spending withdrawals. For fiscal year ended June 30, 2017, change in net position was attributable to \$121.6 million in additions to the Fund, \$88.7 million in net earnings and appreciation, minus \$23.2 million in participant spending withdrawals.

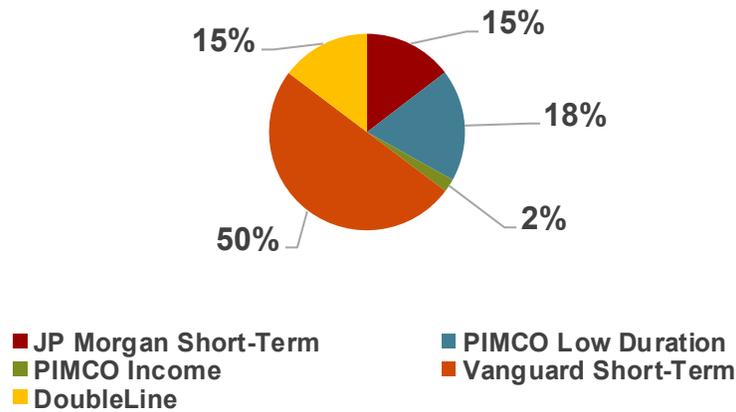


Intermediate Term Fund (“ITF”)

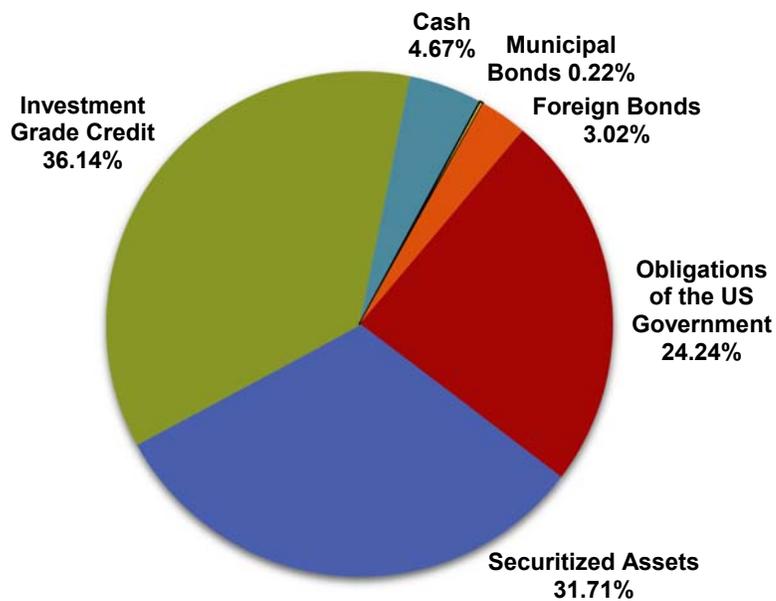
The ITF was established on July 3, 2014 with an initial investment of \$122 million. Two additional investments were made during fiscal year 2015, and one during fiscal year 2017, bringing the total invested to \$193.8 million. BlackRock’s SIO was liquidated from the fund on June 30, 2016. Proceeds were invested in Vanguard’s Short Term Fund and DoubleLine’s Total Return Fund on July 1, 2016. Additionally, a small position with PIMCO Income was initiated on November 2, 2016 bringing the total cost basis to \$192 million as of June 30, 2017. Monthly earnings from the Intermediate Term Fund are distributed to the participants, rather than reinvesting in additional shares.

The ITF consists of participants’ excess operating cash balances, which are defined as funds not needed for normal operating purposes. Generally, the ITF will not include funds needed within the next year, endowed funds, or those funds that are specifically excluded by law or contractual agreement.

ITF contributions are invested in five mutual funds held with JP Morgan, DoubleLine, Vanguard, and PIMCO.



The ITF asset allocation as of June 30, 2017 is as follows:



For the fiscal year ended June 30, 2017, the ITF experienced a net investment return of 1.4% compared to the Barclays 1-3 year US Treasury Index of -0.1%. For the fiscal year ended June 30, 2016, the ITF experienced a net return of 1.9% compared to the Barclays 1-3 year US Treasury Index of 1.3%.

The primary investment objectives of the ITF are preservation and safety of principal; liquidity; and maximization of returns within acceptable levels of risk. Because of concerns about potential changes in monetary policy and rising interest rates, duration is limited. The investment policy calls for an average weighted maturity between one and five years, with an overall credit rating in general of A+/A as rated by a nationally-recognized rating agency. For any mutual funds selected by the ITF, their respective approved investment policy guidelines supersede those of the ITF.

USING THE FINANCIAL STATEMENTS

The Fund's Annual Financial Report includes the following four components:

- Statements of Net Position
- Statements of Changes in Net Position
- Notes to the Financial Statements
- Supplementary Information:
 - Participants' Net Position Graph (LTIP)
 - Schedules of Changes in Net Position by Participant (LTIP) and (ITF)

COMPARATIVE CONDENSED FINANCIAL STATEMENT INFORMATION

Condensed Statements of Net Position

The Condensed Statements of Net Position present the financial position of the Fund at the end of the fiscal year and includes all assets and liabilities of the Fund by pool. Net position represents the difference between total assets and total liabilities, and is one indicator of the financial condition of the Fund.

The following table summarizes and compares the LTIP's assets, liabilities, and net position at June 30, 2017 and 2016:

	2017		2016
Assets			
Cash and cash equivalents	\$ 4,846,622	\$	1,322,093
Long-term investments, at fair value	866,113,294		682,433,292
Total Assets	\$ 870,959,916	\$	683,755,385
Liabilities			
Payables - current	\$ 505,399	\$	375,393
Total Liabilities	505,399		375,393
Net Position - Restricted	870,454,517		683,379,992
Total Liabilities and Net Position	\$ 870,959,916	\$	683,755,385

Cash and cash equivalents include the amount held in the STIF. Payables represent amounts due for investment management fees.

The following table summarizes the ITF's assets, liabilities, and net position at June 30, 2017 and June 30, 2016:

	2017		2016
Assets			
Cash and cash equivalents	\$ 361,033	\$	32,903,125
Intermediate term investments, at fair value	188,615,728		137,760,321
Total Assets	\$ 188,976,761	\$	170,663,446
Net Position - Restricted	\$ 188,976,761	\$	170,663,446
Total Net Position	\$ 188,976,761	\$	170,663,446

Cash and cash equivalents include the amount held in the STIF.

Condensed Statements of Changes in Net Position

The Condensed Statements of Changes in Net Position represent the Fund's results of operations.

The following table summarizes and compares the LTIP's changes in net position for the years ended June 30, 2017 and 2016:

	2017		2016
Operating Income			
Investment appreciation (depreciation), net	\$ 91,810,192	\$	(8,016,040)
Total Operating Income	91,810,192		(8,016,040)
Operating Expenses			
Investment management fees	2,806,513		2,416,840
Investment custodial fees	91,062		134,384
Other expenses	196,592		316,546
Total Operating Expenses	3,094,167		2,867,770
Net Operating Gains (Losses)	88,716,025		(10,883,810)
Participant Additions	121,588,000		40,920,000
Participant Withdrawals	(23,229,500)		(23,372,696)
Total Net Additions	98,358,500		17,547,304
Change in Net Position	187,074,525		6,663,494
Net Position			
Beginning of year	683,379,992		676,716,498
End of year	\$ 870,454,517	\$	683,379,992

The following table summarizes the ITF's changes in net position for the year ended June 30, 2017 and 2016:

	2017		2016
Operating Income			
Investment appreciation, net	\$ 2,473,660	\$	3,142,858
Total Operating Income	2,473,660		3,142,858
Operating Expenses			
Investment management fees	129,830		125,095
Investment custodial fees	27,494		38,272
Other expenses	35,028		38,641
Total Operating Expenses	192,352		202,008
Net Operating Gains	2,281,308		2,940,850
Participant Additions	20,000,000		-
Participant Distributions	(3,967,993)		(3,703,585)
Total Net Additions	16,032,007		(3,703,585)
Change in Net Position	18,313,315		(762,735)
Net Position			
Beginning of year	170,663,446		171,426,181
End of year	\$ 188,976,761	\$	170,663,446

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the financial statements taken as a whole. The notes to the financial statements can be found immediately following the Fund's financial statements.

Supplementary Information

The supplementary information section on pages 25 and 26 include the Participants' Net Position Graph for the LTIP at June 30, 2017 and 2016, as well as the Schedules of Changes in Net Position by Participant for both the LTIP and ITF. This information is not mandatory, but is included to provide details for the participants of the Fund.

Contacting the NC State Investment Fund, Inc.

An electronic version of this report is available by accessing the Foundations Accounting and Investments home page at <http://foundationsaccounting.ofa.ncsu.edu/investment-fund/> or by calling (919) 513-7149.

FINANCIAL STATEMENTS

NC State Investment Fund, Inc.

Statements of Net Position

June 30, 2017 and 2016

	ASSETS	
	2017	2016
Current Assets:		
Cash and cash equivalents (Notes 1 and 2)	\$ 5,207,655	\$ 34,225,218
Total Current Assets	5,207,655	34,225,218
Noncurrent Assets:		
Intermediate term investments, at fair value (Notes 1 and 2)	188,615,728	137,760,321
Long-term Investments, at fair value (Notes 1 and 2)	866,113,294	682,433,292
Total Noncurrent Assets	1,054,729,022	820,193,613
Total Assets	\$ 1,059,936,677	\$ 854,418,831
	LIABILITIES	
Liabilities:		
Payables - current (Note 3)	\$ 505,399	\$ 375,393
Total Liabilities	505,399	375,393
	NET POSITION	
Net Position - Restricted	1,059,431,278	854,043,438
Total Liabilities and Net Position	\$ 1,059,936,677	\$ 854,418,831

See accompanying notes to the financial statements.

NC State Investment Fund, Inc.

Statements of Changes in Net Position
For the Years Ended June 30, 2017 and 2016

	2017	2016
Additions		
Participant additions	\$ 141,588,000	\$ 40,920,000
Investment income	4,603,421	4,034,447
Realized appreciation on investment transactions, net (Note 2)	10,901,261	4,295,541
Unrealized (depreciation) appreciation on investments, net (Note 2)	78,779,170	(13,203,170)
Total Additions	235,871,852	36,046,818
Deductions		
Participant withdrawals (Note 5)	23,229,500	23,372,696
Participant distributions (Note 5)	3,967,993	3,703,585
Investment management fees	2,936,343	2,541,935
Investment custodial fees	118,556	172,656
Other expenses	231,620	355,187
Total Deductions	30,484,012	30,146,059
Change in Net Position	205,387,840	5,900,759
Net Position		
Beginning of year	854,043,438	848,142,679
End of year	\$ 1,059,431,278	\$ 854,043,438

See accompanying notes to the financial statements.

NOTES TO THE FINANCIAL STATEMENTS

Note 1. Nature of Activities and Significant Accounting Policies

Nature of activities: The NC State Investment Fund, Inc., (the "Fund") is a governmental not-for-profit organization established in April 1999, as a separately incorporated external investment fund pool, reporting under the guidelines of Governmental Accounting Standards Board ("GASB") Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, as amended by GASB Statement No. 34, *Basic Financial Statement and Management Discussion and Analysis for State and Local Governments*, GASB Statement No. 37, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus* and GASB Statement No. 40, *Deposit and Investment Risk Disclosures*. An external pool is defined as an arrangement that pools the monies of more than one legally separate entity and invests in an investment portfolio on the participants' behalf. The Fund is classified as a non-rated "2a7-like" pool which is an external investment pool that is not registered with the SEC as an investment company, but has a policy that it will, and does, operate in a manner consistent with the SEC's Rule 2a7 of the Investment Company Act of 1940. The original pool, the long-term investment pool (the "LTIP"), was established as an external pooled investment vehicle for North Carolina State University, the Endowment Fund of the University and other University-associated entities' endowed funds. In July 2014, the Fund established a second pool, the NC State Intermediate Term Fund (the "ITF"), as a vehicle to invest the excess operating cash of these entities'. Detailed information regarding the participants in the Fund is available in the Supplementary Information section of the financial statements.

As of June 30, 2017 and 2016, 88.9% and 91.2%, respectively, of the LTIP was managed by UNC Management Company ("UNCMC") as a member of the System Fund. The System Fund was organized as a North Carolina limited liability company in 2002 and was granted tax-exempt status under Internal Revenue Code Section 501(c)(3) effective July 1, 2008. Effective July 1, 2009, UNCMC adopted GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, which addresses the recognition, measurement, and disclosure of information regarding derivative instruments entered into by state and local governments.

A summary of the Fund's significant accounting policies follows:

Basis of accounting/measurement focus: The financial statements of the Fund have been prepared on the accrual basis of accounting and the economic resources measurement focus. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred.

As permitted under GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, the Fund has elected not to apply Financial Accounting Standards Board Statements of Financial Accounting Standards issued after November 30, 1989, unless the GASB amends its pronouncements to specifically adopt FASB pronouncements issued after that date.

Note 1. Nature of Activities and Significant Accounting Policies (continued)

Cash and cash equivalents: This classification includes deposits held by the State Treasurer in the Short-Term Investment Fund (the "STIF"). The STIF is not FDIC insured and has the general characteristics of a demand deposit account in that participants may deposit additional cash at any time and also may withdraw cash at any time without prior notice or penalty. Cash and cash equivalents held by the LTIP and the ITF at June 30, 2017 were \$4,846,622 and \$361,033, respectively. Cash and cash equivalents held by the LTIP and the ITF at June 30, 2016 were \$1,322,093 and \$32,903,125, respectively.

Intermediate term investments: This classification includes investments in five publicly traded mutual funds holding securities with average duration of less than five years. Each of these funds are traded on a recognized securities exchange and will be valued at that day's last reported trade price or the official closing price on the exchange where the funds are primarily traded.

Long-term investments: This classification includes investments in a 501(c)(3) limited liability company ("System Fund"), private equity partnerships, and the LPP, a bundle of exchange-traded funds. The System Fund's investments are managed by external investment firms and advisors and are diversified both by asset class (e.g. common stocks and fixed income securities) and within asset classes (e.g. within common stocks by economic sector, geographic area, industry, quality, and size). The fair values of all debt and equity securities with readily determinable fair values are based on quoted market prices for the System Fund. Investments for which a readily determinable fair value does not exist may include investments in venture capital funds, hedge funds, and limited partnerships for which underlying securities may include marketable debt and equity securities. These investments are carried at estimated fair values as provided by the respective fund managers of the investments. UNCMC, the investment manager of the System Fund, reviews and evaluates the values provided by the fund managers as well as the valuation methods and assumptions used in determining the fair value of such investments. Those estimated fair values may differ significantly from the values that would have been used had a ready market for these securities existed.

Private equities include venture capital partnerships, buy-outs, and international funds. The valuation of the underlying private companies requires significant judgment and interpretation by the general partners of the underlying investment partnerships due to the absence of quoted market values, inherent lack of liquidity and the long-term nature of such investments. Private companies are initially valued based upon transaction price, with subsequent adjustments to values which reflect the consideration of available market data, including primarily observations of the trading multiples of public companies considered comparable to the private companies being valued. Valuations are also adjusted to give consideration to the financial condition and operating results specific to the issuer, the lack of liquidity inherent in a non-public investment, credit markets, and the fact that comparable public companies are not identical to the companies being valued. Changes in unrealized appreciation (depreciation) on the carrying value of investments are reported in the Statements of Changes in Net Position.

Note 1. Nature of Activities and Significant Accounting Policies (continued)

BlackRock values the LPP's exchange-traded funds (the "ETF"s) at fair value each day. The BlackRock Global Valuation Methodologies Committee oversees the valuation of investments for the LPP. ETFs traded on a recognized securities exchange are valued at that day's last reported trade price or the official closing price on the exchange where the ETF is primarily traded. If these methods yield a price for an investment deemed not representative of the fair value of the investment or if a price is not available, the investment will be valued based upon the price that the LPP can reasonably expect to receive from the current sale of that asset in an arm's-length transaction.

Income taxes: The Fund is exempt from income taxes as a not-for-profit organization under Internal Revenue Code Section 501(c)(3). The Fund is not a private foundation because it is an organization described in Internal Revenue Code Section 509(a)(3).

Accounting principles generally accepted in the United States of America require management to evaluate tax positions taken by the Fund and recognize a tax liability (or asset) if the Fund has taken an uncertain position that more likely than not would be sustained upon examination by the IRS. Management has analyzed the tax positions taken by the Fund, and has concluded that as of June 30, 2017 and 2016 there are no uncertain tax positions taken or expected to be taken that would require recognition of a liability (or asset) or disclosure in the financial statements. The Fund is subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress. Management believes the Fund is no longer subject to income tax examinations for years prior to 2013.

Estimates: 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 reported amounts of assets and liabilities, 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 these estimates.

Note 2. Deposits and Investments

Deposits - During fiscal years 2017 and 2016, the Fund invested cash in the STIF pursuant to G.S. 147-69.3 (b) and the North Carolina Administrative Code (20 NCAC 1G. 0207) which allows for certain entities having funds not required to be deposited with the State Treasurer to voluntarily deposit them with the State Treasurer for investment purposes.

The STIF is an external investment pool that is not registered with the Securities and Exchange Commission and does not have a credit rating and had a weighted average maturity of 1.5 years as of June 30, 2017 and 2016. Assets and shares of the STIF are valued at amortized cost, which approximates fair value. Deposit and investment risks associated with the State Treasurer's Investment Pool, which includes the STIF, are incorporated in the State of North Carolina's *Comprehensive Annual Financial Report*. An electronic version of this report is available on the North Carolina Office of the State Controller's website, <http://www.osc.nc.gov>.

Note 2. Deposits and Investments (continued)

Investments - The Fund's oversight is provided by the Fund's Members Board and its Board of Directors. The Members Board is responsible for adopting investment objectives and policies and for monitoring policy implementation and investment performance. The Members Board has chosen not to make individual security or manager selection decisions. The Board of Directors' primary role is to oversee the allocation of the Fund's portfolio among asset classes, investment vehicles, and investment managers. An Investment subcommittee of the Board of Directors is responsible for oversight of the ITF.

The Fund's custodian provides monthly reporting of income and fair value information, which is then allocated among the Fund's participants. Each participant holds Master Trust Units ("Units") of the Fund. The Unit price fluctuates based on the investment return of the investment pool. The Unit price is determined by dividing the net asset value of the investment pool by the total number of Units held by the participants. The Custodian provides monthly and quarterly reporting of income and fair value information, which is then allocated among the participants on a quarterly basis. Earnings are allocated based on the pro-rata share of the Unit holdings of each participant account as of the close of the earnings period. Fair values are determined by the Fund's custodian using published market rates. These values are compiled monthly and are used to determine the net asset value of the Fund. There are no involuntary participants in the Fund. The Fund has not provided or obtained any legally binding guarantees to support the value of the pool's investments. In the management of the Fund, the Members Board and Board of Directors are responsible for exercising ordinary business care and prudence under the facts and circumstances prevailing at the time of an action or decision. The Fund believes it is in compliance with all legal, regulatory or contractual provisions including the investment policy of the Fund and the laws and regulations of the State of North Carolina.

The Fund's equity position in the System Fund was \$774,211,528 and \$623,327,283 at June 30, 2017 and 2016, respectively. The System Fund is an external investment pool that is not registered with the Securities and Exchange Commission and does not have a credit rating. Asset and ownership interests of the System Fund are determined on a monthly market unit valuation basis. The System Fund reviews and evaluates the values provided by the fund managers as well as the valuation methods and assumptions used in determining the fair value of such investments. Those estimated fair values may differ significantly from the values that would have been used had a ready market for these securities existed. The policies surrounding normal spending distributions and withdrawals less than \$10 million require a thirty day notice period. For withdrawals in excess of \$10 million (excluding spending distributions), a ninety day notice is required and funds may be withdrawn on a quarterly basis. After the ninety day notice period, requests up to \$200 million will be fulfilled via \$50 million payments per quarter until the redemption is complete. For requests in excess of \$200 million, \$50 million will be paid quarterly for the first four quarters. The following four quarters will pay the greater of \$50 million or 25% excess over \$200 million until the redemption is complete. Final payment of a complete withdrawal is subject to a 5% holdback pending the completion of the audit for the fiscal year in which the final payment is expected.

Investment risks associated with the System Fund are included in the audited financial statements of the UNC Investment Fund, LLC which may be obtained from the UNC Chapel Hill Controller's Office, Campus Box 1270, Chapel Hill, NC 27599-1270.

Note 2. Deposits and Investments (continued)

Realized and unrealized appreciation: The Fund realized net appreciation of \$10,901,261 and \$4,295,541 from the sale of investments for the years ended June 30, 2017 and 2016, respectively. The calculation of realized appreciation is independent of the calculation of the net increase in the fair value of investments. The change in unrealized appreciation (depreciation) on investments during the years ended June 30, 2017 and 2016 was \$78,779,170 and (\$13,203,170), respectively. These amounts take into account all changes in the fair values (including appreciation and depreciation) that occurred during the respective periods. The cumulative net unrealized appreciation on investments held at June 30, 2017 and 2016 is \$254,223,014 and \$175,443,844, respectively.

The calculation of the net change in the fair value of investments utilizing the aggregate method is as follows:

	2017	2016
Fair value at end of year	\$ 1,059,431,278	\$ 854,043,438
Add: Proceeds of investments sold	69,069,049	69,474,144
Less: Cost of investments purchased	(184,776,458)	(84,282,530)
	<u>943,723,869</u>	<u>839,235,052</u>
Fair value at beginning of year	854,043,438	848,142,681
Appreciation (depreciation) in fair value of investments during the year	89,680,431	(8,907,629)
Net realized appreciation for year	10,901,261	4,295,541
Net appreciation (depreciation) in the fair value of investments	<u>\$ 78,779,170</u>	<u>\$ (13,203,170)</u>

Investment and deposit risk: Deposit and investment risks associated with the State Treasurer's Investment Pool (which includes the State Treasurer's STIF) are included in the State of North Carolina's *Comprehensive Annual Financial Report*. An electronic version of this report is available by accessing the North Carolina Office of the State Controller's Internet home page <http://www.osc.nc.gov/> or by calling the State Controller's Financial Reporting Section at (919) 707-0500. Investment risks associated with the System Fund are included in audited financial statements of the UNC Investment Fund, LLC which may be obtained from UNC Management Company, Inc., 1400 Environ Way, Chapel Hill, NC 27517.

Credit risk: Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The Fund does not have a formal policy that addresses credit risk. The Fund minimizes concentrations of credit risk by undertaking transactions in a large number of asset classes across multiple investment managers. The value of securities indirectly held with the System Fund may decline if the issuer or guarantor of a fixed income security is unable or unwilling to make timely principal and/or interest payments, or to otherwise honor its obligations. Securities are subject to varying degrees of credit risk, which are often reflected in credit ratings.

Custodial credit risk: Custodial credit risk is the risk that in the event of a bank failure, the Fund's deposits may not be returned to it. The Fund follows the Cash Management Plan approved by the North Carolina Office of the State Controller.

Note 2. Deposits and Investments (continued)

Concentration of credit risk: Concentration of credit risk is the risk of loss attributed to the magnitude of the Fund's investment in a single issuer. For the ITF, 80% of the portfolio should be at least Investment Grade or higher as rated by the Nationally Recognized Statistical Rating Organization ("NRSRO"). No single credit/corporate issuer should constitute more than 20% of the portfolio, except for U.S. Treasuries which may constitute up to 100%. For the System Fund, diversification of credit risk is primarily achieved through asset allocation and augmented by investment mandates established with each external manager. There are no formal limits on the amount the System Fund may invest in any one issuer. However, the System Fund's Statement of Investment Objectives and Guidelines limits the amount that can be managed by an external manager to 10% of the System Fund. The Fund's investment in the System Fund represented 88.9% and 91.2% of its total investments at June 30, 2017 and 2016, respectively.

Interest rate risk: Interest rate risk is the risk the Fund may face should interest rate variances affect the fair value of investments. The Fund does not have a formal policy that addresses interest rate risk. As nominal interest rates rise, certain fixed income securities held directly or indirectly by the Fund may decline in value. A nominal interest rate can be described as the sum of a real interest rate and an expected inflation rate. Fixed income securities with longer durations tend to be more sensitive to changes in interest rates, usually making them more volatile than securities with shorter durations. Duration is useful primarily as a measure of the sensitivity of a fixed income security's market price to interest rate (yield) movements. A wide variety of factors can cause interest rates to rise (central bank monetary policies, inflation rates, general economic conditions, etc.). At present, the U.S. is experiencing historically low interest rates. All of these factors, collectively or individually, could cause the Fund to decline in value.

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. The Fund does not have a formal policy that addresses foreign currency risk. The Fund invests indirectly in foreign currencies or in securities that trade in, and receive revenues in, foreign currencies, and is subject to the risk that those currencies will decline in value relative to the base currency of the Fund. Currency rates in foreign countries may fluctuate significantly over short periods of time for a number of reasons, including changes in interest rates, intervention (or the failure to intervene) by U.S. or foreign governments, central banks or supranational entities such as the International Monetary Fund, or by the imposition of currency controls or other political developments in the U.S. or abroad. As a result, the Fund's investments in foreign currency-denominated securities may reduce the Fund's returns.

Fair value measurements: To the extent available, the Fund's investments are recorded at fair value as of June 30, 2017 and 2016. GASB Statement No. 72, *Fair Value Measurement and Application*, defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This statement establishes a hierarchy of valuation inputs based on the extent to which the inputs are observable in the marketplace. Inputs are used in applying the various valuation techniques and take into account the assumptions that market participants use to make valuation decisions. Inputs may include price information, credit data, interest and yield curve data, and other factors specific to the financial instrument. Observable inputs reflect market data obtained from independent sources. In contrast, unobservable inputs reflect the entity's assumptions about how market participants would value the financial instrument. Valuation techniques should maximize the use of observable inputs to the extent available.

Note 2. Deposits and Investments (continued)

A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. The following describes the hierarchy of inputs used to measure fair value and the primary valuation methodologies used for financial instruments measured at fair value on a recurring basis:

- Level 1 Investments whose values are based on quoted prices (unadjusted) for identical assets or liabilities in active markets that a government can access at the measurement date.
- Level 2 Investments with inputs, other than quoted prices included within Level 1 that are observable for an asset or liability, either directly or indirectly.
- Level 3 Investments classified as Level 3 have unobservable inputs and may require a degree of professional judgment.

Fair value measurements for which the readily determinable fair market value was not available are reported using net asset value ("NAV").

For the fiscal years ended June 30, 2017 and 2016, the Fund measured its investments using fair value and net asset values as follows:

	<u>June 30, 2017</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
STIF	\$ 5,207,655	\$ -	\$ 5,207,655	\$ -
Exchange traded funds	260,865,710	260,865,710	-	-
Total investments measured at fair value	<u>266,073,365</u>	<u>\$ 260,865,710</u>	<u>\$ 5,207,655</u>	<u>\$ -</u>
Total investments measured at NAV	<u>793,357,913</u>			
Total Fund	<u>\$1,059,431,278</u>			
Investments measured at NAV:		<u>Unfunded</u>		
	<u>June 30, 2017</u>	<u>commitments</u>	<u>Redemption frequency</u>	
UNC Investment Fund	\$ 774,211,528	\$ -	Varies, see page 18 for details	
Private equities	19,146,385	5,146,973	Not eligible	
Total investments measured at NAV	<u>\$ 793,357,913</u>	<u>\$ 5,146,973</u>		

Note 2. Deposits and Investments (continued)

	June 30, 2016	Level 1	Level 2	Level 3
STIF	\$ 34,225,218	\$ -	\$ 34,225,218	\$ -
Exchange traded funds	172,578,296	172,578,296	-	-
Total investments measured at fair value	<u>206,803,514</u>	<u>\$ 172,578,296</u>	<u>\$ 34,225,218</u>	<u>\$ -</u>
Total investments measured at NAV	<u>647,239,924</u>			
Total Fund	<u>\$ 854,043,438</u>			

Investments measured at NAV:

	June 30, 2016	Unfunded commitments	Redemption frequency
UNC Investment Fund	\$ 623,327,283	\$ -	Varies, see page 18 for details
Private equities	<u>23,912,641</u>	<u>5,199,859</u>	Not eligible
Total investments measured at NAV	<u>\$ 647,239,924</u>	<u>\$ 5,199,859</u>	

Note 3. Payables

Payables at June 30, 2017 and 2016 consist of LTIP investment management fees of \$505,399 and \$375,393, respectively.

Note 4. Donated Services

The University has incurred various expenses on behalf of the Fund for the years ended June 30, 2017 and 2016 of approximately \$157,000 and \$67,000, respectively. These amounts have not been recorded in the accompanying financial statements.

Note 5. Participant Withdrawals and Distributions

Participants withdraw funds from the Fund each fiscal year for the next year's spending needs. For the years ended June 30, 2017 and 2016, annual spending withdrawals from the LTIP totaled \$23,229,500 and \$23,372,696, respectively. Participants of the ITF receive distributions (yield) from the investments held in that pool on a monthly basis. For the years ended June 30, 2017 and 2016, ITF distributions were \$3,967,993 and \$3,703,585, respectively. All income is distributed to the participants, including a portion that is set aside by each participant to protect against loss in fair market value in the event of liquidation. This loss reserve is invested in STIF.

Note 6. Risk Management

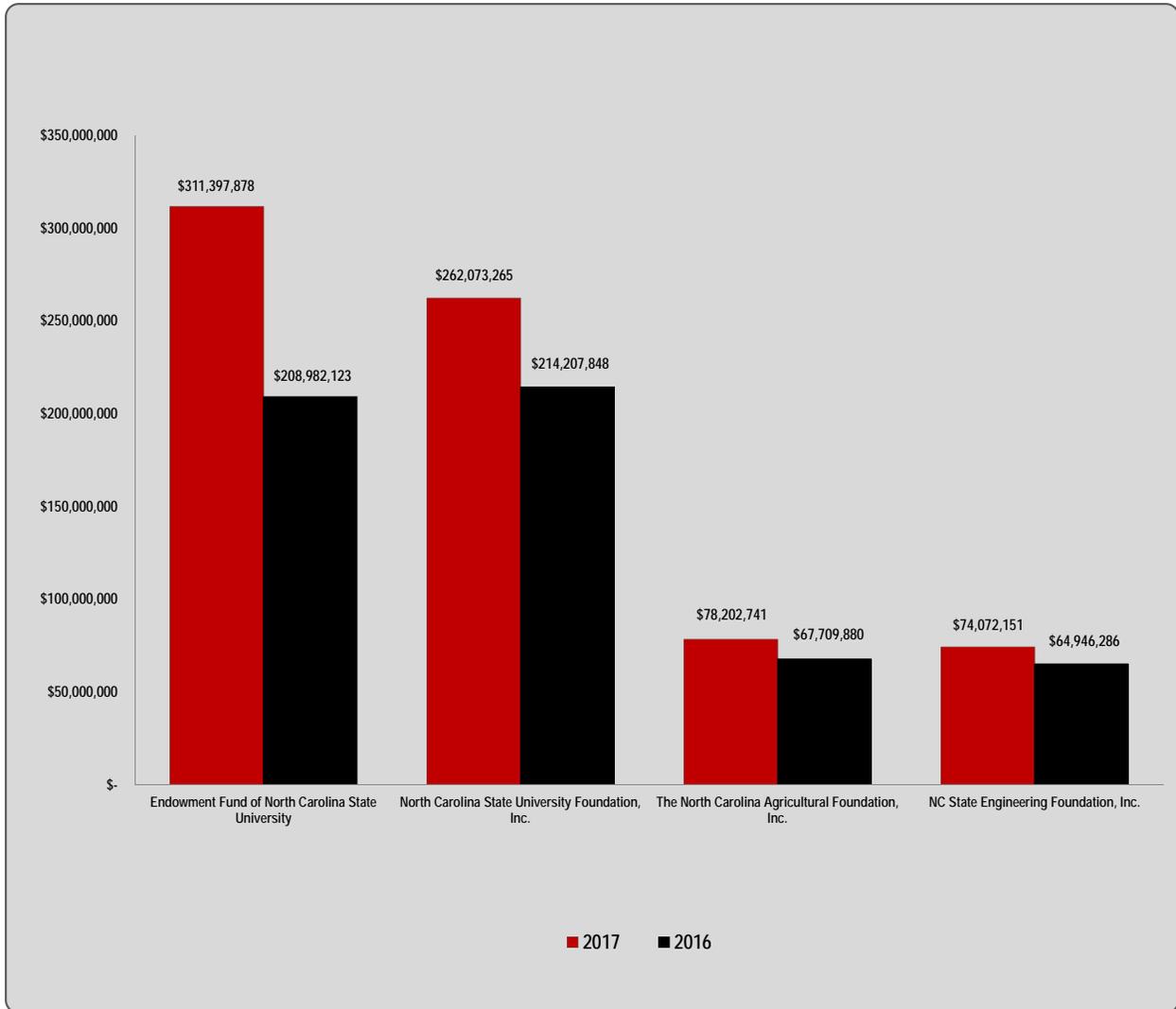
The Fund is exposed to various risks of loss related to torts, theft of assets and errors and omissions. The Fund's affairs are conducted by employees of North Carolina State University and exposures to loss resulting from this arrangement are handled by the University through a combination of methods, including participation in various risk pools administered by the State of North Carolina, purchase of commercial insurance and self-retention of certain risks. Additional details on the University's risk management program are disclosed in the financial report of the University located at www.fis.ncsu.edu/controller/financial_reports. During fiscal years 2017 and 2016, the Fund purchased Directors and Officers Liability Insurance to insure those individuals serving on the Members Board, Board of Directors, and the officers who are employees of North Carolina State University acting on behalf of the Fund.

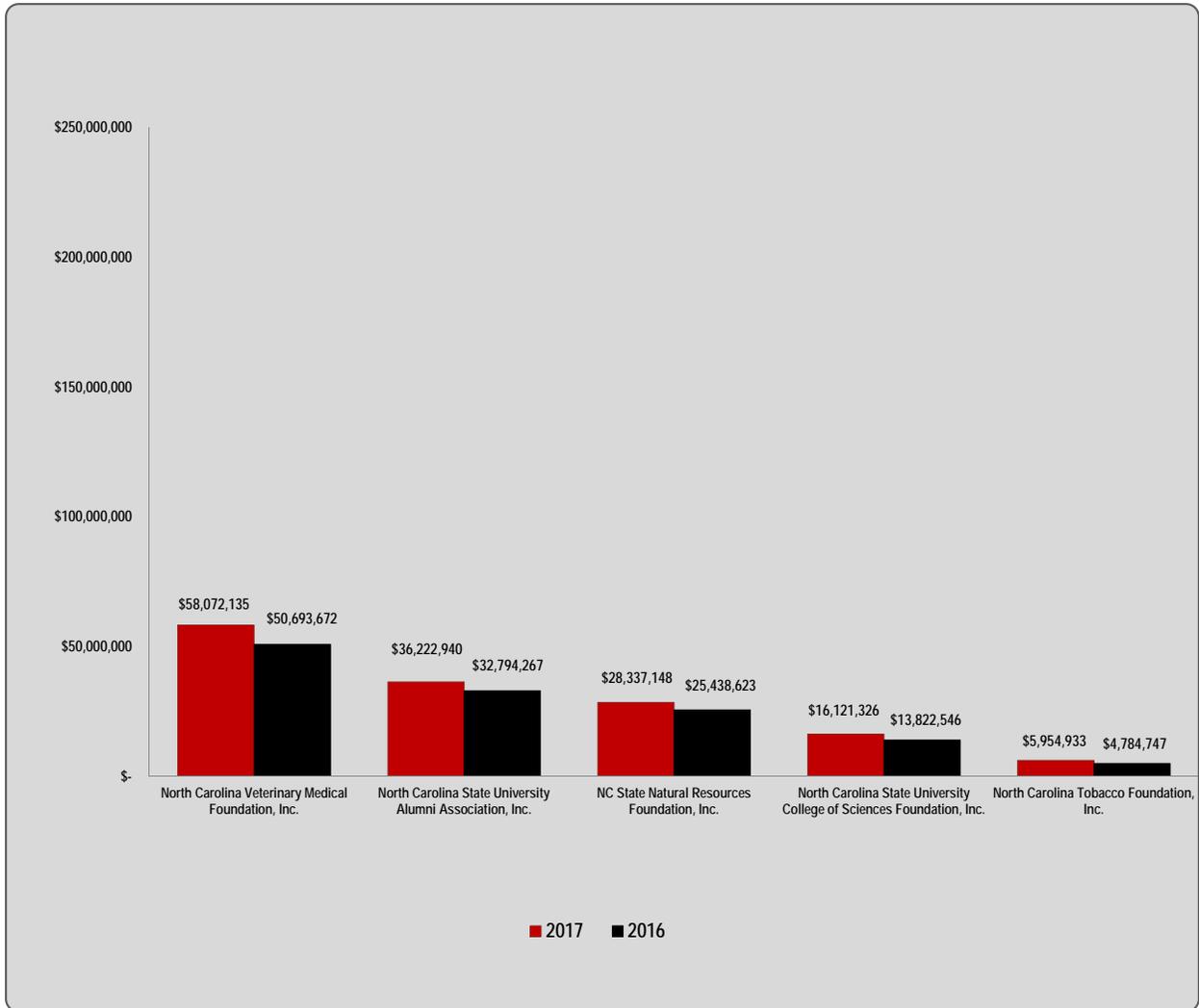
Note 7. Subsequent Events

The Fund has evaluated subsequent events through October 5, 2017, the date which the financial statements were available to be issued, and there were no subsequent events to report.

SUPPLEMENTARY INFORMATION

Participants' Net Position Graph - Long-Term Investment Pool (LTIP)





NC State Investment Fund, Inc.
 Long-Term Investment Pool (LTIP)
 Schedule of Changes in Net Position by Participant
 Year Ended June 30, 2017

	Total	Endowment Fund of North Carolina State University	North Carolina State University Foundation, Inc.	The North Carolina Agricultural Foundation, Inc.
Additions				
Participant additions	121,588,000	\$ 79,375,000	\$ 25,595,000	\$ 5,000,000
Investment income	412,826	144,619	123,407	38,212
Realized appreciation on investment transactions	10,901,261	3,829,056	3,279,429	994,622
Unrealized appreciation on investments	80,496,105	27,426,455	24,276,030	7,568,048
Total Additions	213,398,192	110,775,130	53,273,866	13,600,882
Deductions				
Participant withdrawals	23,229,500	8,595,119	4,453,960	2,818,113
Investment management fees	2,806,513	964,721	842,921	263,250
Investment custodial fees	91,062	32,458	27,374	8,196
Other expenses	196,592	67,077	59,312	18,462
Total Deductions	26,323,667	9,659,375	5,383,567	3,108,021
Transfers Among Participants	-	1,300,000	(24,882)	-
Change in Net Position	187,074,525	102,415,755	47,865,417	10,492,861
Net Position				
Beginning of year	683,379,992	208,982,123	214,207,848	67,709,880
End of year	\$ 870,454,517	\$ 311,397,878	\$ 262,073,265	\$ 78,202,741

NC State Engineering Foundation, Inc.	North Carolina Veterinary Medical Foundation, Inc.	North Carolina State University Alumni Association, Inc.	NC State Natural Resources Foundation, Inc.	North Carolina State University College of Sciences Foundation, Inc.	North Carolina Tobacco Foundation, Inc.
\$ 3,990,000	\$ 4,035,000	\$ 925,000	\$ 860,000	\$ 1,170,000	\$ 638,000
36,020	28,146	17,826	13,897	7,819	2,880
933,443	760,359	463,735	361,052	204,202	75,363
7,142,485	5,634,631	3,561,975	2,772,346	1,545,730	568,405
12,101,948	10,458,136	4,968,536	4,007,295	2,927,751	1,284,648
2,703,340	1,564,643	1,428,860	1,003,015	569,790	92,660
247,667	195,015	123,395	96,036	53,721	19,787
7,711	6,233	3,813	2,970	1,686	621
17,365	13,782	8,677	6,749	3,774	1,394
2,976,083	1,779,673	1,564,745	1,108,770	628,971	114,462
-	(1,300,000)	24,882	-	-	-
9,125,865	7,378,463	3,428,673	2,898,525	2,298,780	1,170,186
64,946,286	50,693,672	32,794,267	25,438,623	13,822,546	4,784,747
\$ 74,072,151	\$ 58,072,135	\$ 36,222,940	\$ 28,337,148	\$ 16,121,326	\$ 5,954,933

NC State Investment Fund, Inc.
 Long-Term Investment Pool (LTIP)
 Schedule of Changes in Net Position by Participant
 Year Ended June 30, 2016

	Total	North Carolina State University Foundation, Inc.	Endowment Fund of North Carolina State University	The North Carolina Agricultural Foundation, Inc.
Additions				
Participant additions	\$ 40,920,000	\$ 6,505,000	\$ 15,080,000	\$ 5,115,000
Investment income	91,689	28,982	27,720	9,237
Realized appreciation on investment transactions, net	6,407,204	2,021,081	1,943,434	640,879
Unrealized (depreciation) appreciation on investments, net	(14,514,933)	(4,563,610)	(4,341,797)	(1,450,494)
Total Additions	32,903,960	3,991,453	12,709,357	4,314,622
Deductions				
Participant withdrawals	23,372,696	4,084,783	9,713,140	2,455,240
Investment management fees	2,416,840	762,783	730,395	242,361
Investment custodial fees	134,384	42,455	40,517	13,478
Other expenses	316,546	99,828	95,692	31,730
Total Deductions	26,240,466	4,989,849	10,579,744	2,742,809
Transfers Among Participants	-	62,256	-	(62,256)
Change in Net Position	6,663,494	(936,140)	2,129,613	1,509,557
Net Position				
Beginning of year	676,716,498	215,143,988	206,852,510	66,200,323
End of year	\$ 683,379,992	\$ 214,207,848	\$ 208,982,123	\$ 67,709,880

North Carolina State University Engineering Foundation, Inc.	North Carolina Veterinary Medical Foundation, Inc.	North Carolina State University Alumni Association, Inc.	NC State Natural Resources Foundation, Inc.	North Carolina State University College of Sciences Foundation, Inc.	North Carolina Tobacco Foundation, Inc.
\$ 2,805,000	\$ 6,035,000	\$ 2,380,000	\$ 1,565,000	\$ 660,000	\$ 775,000
8,928	6,497	4,397	3,401	1,895	632
619,466	461,282	307,022	238,197	131,407	44,436
(1,402,910)	(1,123,994)	(702,812)	(520,727)	(301,680)	(106,909)
2,030,484	5,378,785	1,988,607	1,285,871	491,622	713,159
2,578,518	1,603,015	1,365,500	914,050	496,660	161,790
234,602	174,340	116,134	89,826	49,760	16,639
13,084	9,665	6,447	5,033	2,770	935
30,636	23,003	15,228	11,759	6,501	2,169
2,856,840	1,810,023	1,503,309	1,020,668	555,691	181,533
-	-	-	-	-	-
(826,356)	3,568,762	485,298	265,203	(64,069)	531,626
65,772,642	47,124,910	32,308,969	25,173,420	13,886,615	4,253,121
\$ 64,946,286	\$ 50,693,672	\$ 32,794,267	\$ 25,438,623	\$ 13,822,546	\$ 4,784,747

NC State Investment Fund, Inc.
Intermediate Term Fund (ITF)
Schedule of Changes in Net Position by Participant
Year Ended June 30, 2017

	Total	North Carolina State University	The North Carolina Agricultural Foundation, Inc.	NC State Engineering Foundation, Inc.
Additions				
Participant additions	\$ 20,000,000	\$ 20,000,000	\$ -	\$ -
Investment income	4,190,595	3,660,579	293,030	98,093
Unrealized depreciation on investments, net	(1,716,935)	(1,501,512)	(119,099)	(39,871)
Total Additions	22,473,660	22,159,067	173,931	58,222
Deductions				
Participant distributions	3,967,993	3,461,240	280,169	93,787
Investment management fees	129,830	113,473	9,044	3,027
Investment custodial fees	27,494	24,126	1,862	623
Other expenses	35,028	30,446	2,534	848
Total Deductions	4,160,345	3,629,285	293,609	98,285
Change in Net Position	18,313,315	18,529,782	(119,678)	(40,063)
Net Position				
Beginning of year	170,663,446	147,294,171	12,920,175	4,325,056
End of year	\$ 188,976,761	\$ 165,823,953	\$ 12,800,497	\$ 4,284,993

North Carolina State University Foundation, Inc.	North Carolina Tobacco Foundation, Inc.	North Carolina Veterinary Medical Foundation, Inc.	North Carolina State University College of Sciences Foundation, Inc.	North Carolina State University Alumni Association, Inc.
\$ -	\$ -	\$ -	\$ -	\$ -
77,946	30,567	13,005	8,903	8,472
(31,681)	(12,425)	(5,286)	(3,617)	(3,444)
<u>46,265</u>	<u>18,142</u>	<u>7,719</u>	<u>5,286</u>	<u>5,028</u>
74,525	29,225	12,434	8,513	8,100
2,406	943	401	275	261
495	194	83	57	54
674	264	112	77	73
<u>78,100</u>	<u>30,626</u>	<u>13,030</u>	<u>8,922</u>	<u>8,488</u>
<u>(31,835)</u>	<u>(12,484)</u>	<u>(5,311)</u>	<u>(3,636)</u>	<u>(3,460)</u>
3,436,775	1,347,743	573,403	392,566	373,557
<u>\$ 3,404,940</u>	<u>\$ 1,335,259</u>	<u>\$ 568,092</u>	<u>\$ 388,930</u>	<u>\$ 370,097</u>

NC State Investment Fund, Inc.
Intermediate Term Fund (ITF)
Schedule of Changes in Net Position by Participant
Year Ended June 30, 2016

	Total	North Carolina State University	The North Carolina Agricultural Foundation, Inc.	NC State Engineering Foundation, Inc.
Additions				
Investment income	\$ 3,942,758	\$ 3,402,883	\$ 298,478	\$ 99,917
Realized loss on investment transactions, net	(2,111,663)	(1,822,509)	(159,865)	(53,515)
Unrealized appreciation on investments, net	1,311,763	1,132,125	99,318	33,247
Total Additions	3,142,858	2,712,499	237,931	79,649
Deductions				
Participant distributions	3,703,585	3,196,463	280,370	93,855
Investment management fees	125,095	107,965	9,471	3,170
Investment custodial fees	38,272	33,031	2,897	970
Other expenses	38,641	33,351	2,924	980
Total Deductions	3,905,593	3,370,810	295,662	98,975
Change in Net Position	(762,735)	(658,311)	(57,731)	(19,326)
Net Position				
Beginning of year	171,426,181	147,952,482	12,977,906	4,344,382
End of year	\$ 170,663,446	\$ 147,294,171	\$ 12,920,175	\$ 4,325,056

North Carolina State University Foundation, Inc.	North Carolina Tobacco Foundation, Inc.	North Carolina Veterinary Medical Foundation, Inc.	North Carolina State University College of Sciences Foundation, Inc.	North Carolina State University Alumni Association, Inc.
\$ 79,399	\$ 31,135	\$ 13,247	\$ 9,069	\$ 8,630
(42,524)	(16,676)	(7,095)	(4,857)	(4,622)
26,416	10,360	4,408	3,018	2,871
63,291	24,819	10,560	7,230	6,879
74,582	29,246	12,443	8,519	8,107
2,519	988	420	288	274
771	302	129	88	84
779	305	130	89	83
78,651	30,841	13,122	8,984	8,548
(15,360)	(6,022)	(2,562)	(1,754)	(1,669)
3,452,135	1,353,765	575,965	394,320	375,226
\$ 3,436,775	\$ 1,347,743	\$ 573,403	\$ 392,566	\$ 373,557



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Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

To the Board of Directors
NC State Investment Fund, Inc.
Raleigh, North Carolina

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of NC State Investment Fund, Inc. (the "Fund") as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Fund's basic financial statements, and have issued our report thereon dated October 5, 2017.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Fund's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control. Accordingly, we do not express an opinion on the effectiveness of the Fund's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Fund's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.



Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

BDO USA, LLP

Raleigh, North Carolina
October 5, 2017