

# **Financial Statement Report**

**NORTH CAROLINA GLOBAL TRANSPARK AUTHORITY  
KINSTON, NORTH CAROLINA**

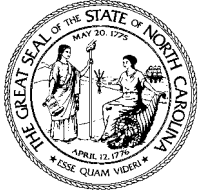
**FOR THE YEAR ENDED JUNE 30, 2004**

**Performed under contract with  
the North Carolina Office of the State Auditor  
Ralph Campbell, Jr., State Auditor**

**CHAIRMAN OF THE BOARD OF DIRECTORS**

**THE HONORABLE MICHAEL F. EASLEY**

**DARLENE A. WADDELL, EXECUTIVE DIRECTOR**



Ralph Campbell, Jr.  
State Auditor

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**AUDITOR'S TRANSMITTAL**

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The Honorable Michael F. Easley, Governor  
The General Assembly of North Carolina  
Local Government Commission  
Board of Directors, North Carolina Global TransPark Authority

This report presents the results of the financial statement audit of the North Carolina Global TransPark Authority (the Authority), a component unit of the State of North Carolina, for the year ended June 30, 2004. Cherry, Bekaert, and Holland, L.L.P. performed this audit under contract with the Office of the State Auditor and their report is submitted herewith.

The audit of the Authority was conducted in accordance with North Carolina General Statute 63A, the North Carolina Global TransPark Authority Act. That legislation created the Authority and a governing Board of Directors. The Authority is required by General Statute 63A-23 to submit an annual report, accompanied by an audit conducted by the State Auditor of its books and accounts, to the Governor, General Assembly, and the Local Government Commission. General Statute 147-64.7 allows the State Auditor to obtain the services of independent public accountants to carry out its duties and functions.

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

A handwritten signature in black ink that reads "Ralph Campbell, Jr." in a cursive script.

Ralph Campbell, Jr.  
State Auditor

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## INDEPENDENT AUDITORS' REPORT

Board of Directors  
North Carolina Global Transpark Authority  
Kinston, North Carolina

We have audited the accompanying financial statements of the North Carolina Global Transpark Authority (“the Authority”), as of and for the year ended June 30, 2004, which collectively comprise the Authority’s basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Authority’s management. Our responsibility is to express an opinion on these basic financial statements based on our audit. We did not audit the basic financial statements of the North Carolina Global Transpark Foundation (“the Foundation”). Those basic financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for the Foundation, is based solely on the report of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. The financial statements of the Foundation were not audited in accordance with Government Auditing Standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall basic financial statement presentation. We believe that our audit and the report of other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audit and the report of other auditors the financial statements referred to above present fairly, in all material respects, the respective financial position of the Authority as of June 30, 2004, and the results of its operations and cash flows, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated September 10, 2004 on our consideration of the Authority’s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing on internal controls over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit this information and express no opinion thereon.

The accompanying financial statements have been prepared assuming that the Authority will continue as a going concern. As discussed in Note 12D of the financial statements, the Authority has a loan outstanding including accrued interest totaling \$30,016,101 to the North Carolina Escheat Fund. The terms of this loan required that the Authority make a payment of \$2,500,000 to the Escheat Fund, together with accumulated and projected interest, as soon as feasible. Subsequent to June 30, 2004 the Authority's investment balance on deposit with the State Treasurer, which totaled \$10,361,614 was reduced to approximately \$600,000 to meet this mandatory payment. There are also additional outstanding commitments, which the Authority is currently negotiating with the State. The current amount of operating cash held by the Authority is not sufficient to pay the balance due to the North Carolina Escheat Fund and as such, substantial doubt about the Authority's ability to continue as a going concern exists. In addition, if the Authority was forced to declare bankruptcy all funding received to date from the Federal Aviation Administration (the FAA) would be required to be paid back. As of June 30, 2004, the Authority had received approximately \$21,600,000 from the FAA. These conditions raise substantial doubt about the Authority's ability to continue as a going concern. The financial statements do not include any adjustments that might result from the outcome of these uncertainties.

**CHERRY, BEKAERT & HOLLAND, L.L.P.**

*Cherry, Bekaert & Holland L.L.P.*

Raleigh, North Carolina  
September 10, 2004

# MANAGEMENT'S DISCUSSION AND ANALYSIS

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## Overview

The discussion and analysis (MD&A) provides an overview of the North Carolina Global TransPark Authority's (Authority) activities during the fiscal years ended June 30, 2004 and June 30, 2003, respectively. In addition to the management's discussion and analysis, management has prepared the accompanying Statement of Net Assets, Statement of Revenues, Expenses and Changes in Net Assets, and Statement of Cash Flows.

Although the North Carolina Global TransPark Foundation, Inc. (Foundation) is included in the financial statements as a component unit to satisfy the accounting rules that are generally accepted in the United States of America, the accompanying statements in the overview are of the Authority only. The Foundation organized and raised private money to assist in economic development at the TransPark. The money was raised from private individuals and corporations and is used exclusively for economic development. The Foundation's funds are separate from the Authority's funds and are for the sole purpose of increasing business and jobs at the TransPark.

The MD&A is intended to aid the reader in interpreting the Authority's relative financial position as of the above referenced dates, as well as gauging performance from one period to the next. Condensed key financial as well as non-financial information will be highlighted for the reader.

## Financial Highlights and Analysis

The fiscal year ended June 30, 2004, was a year of aggressively marketing the TransPark. Although the Authority had a near miss with a premier international aircraft company in December, the publicity provided through that process has come to the attention of many companies that perhaps would not have considered the TransPark otherwise. Interest in the State's asset in Southeastern North Carolina has increased tremendously.

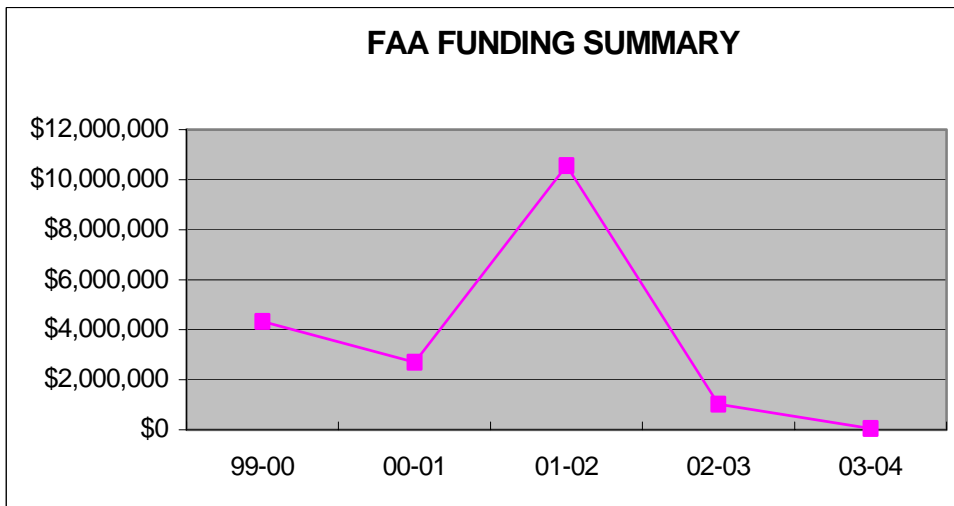
Although most of the ongoing runway projects were completed and Phase 1 of the environmental work continued, new construction projects were started. Construction was begun on upgrading the airport's instrument landing system (ILS) from Category I to Category III. Also, a 20,000 square foot hangar adjacent to the Foundation's Mountain Air Cargo hangar is being built for a tenant. Additionally, the Executive Committee of the Authority's Board of Directors approved construction of two facilities: GTP One, a 120,000 square foot industrial grade facility which will be in the industrial park and GTP Two, a 38,000 square foot airport rescue and firefighting (ARFF)/operations facility. There has been a lot of interest already in GTP One, and marketing efforts are underway to have a percentage of the facility leased before construction is completed.

The Authority initiated a Beautification Program to improve the looks of and update the aging airport. It has been determined that if the TransPark is going to attract international companies, new facilities need to be constructed and old ones need to be demolished. This is the purpose of building GTP Two. As part of the program, one building was demolished during the fiscal year and another facility has been demolished subsequent to fiscal year end.

## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

### FAA Funding Summary

The following graph illustrates the FAA funding since 2000; total funding for this time span is \$21.6 million. The Authority received the balance of existing grant funding for the runway projects in the amount of \$57,000 for fiscal year ended June 30, 2004. There has been a sharp decline in funding the last two fiscal years. The funds received represented the balance of the FAA's commitment towards the \$35 million joint funding agreement between the FAA and the State of North Carolina. The Authority will not be eligible for entitlement funds from FAA until passenger airline service is resumed. It is anticipated that the Authority will regain service in 2005.



### Net Assets

A comparison of net assets at June 30, 2004 compared to June 30, 2003 depicts relative consistency between the two years. The reduction in current assets is due to the decrease in the Investment on Deposit with State Treasurer for land and land services. As part of the ongoing environmental work the Authority is tasked to do in order to keep the 404 permit with the United States Corps of Engineers, mitigation land was acquired. Capital assets are explained later in this analysis. The 106% increase in other non-current assets relates to an increase in a restricted interest-bearing savings account that is required for USDA loans until the balance equals one year's debt payment for each loan. The 161% increase in current liabilities is due to new construction projects, as well as recording of contingent liabilities of approximately \$560,000. The reduction in total net assets relates to the loss incurred by the Authority during the fiscal year.

## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

### Condensed Statement of Net Assets

	<u>June 30, 2004</u>	<u>June 30, 2003</u>	<u>Change</u>	<u>% Change</u>
Current Assets	\$ 22,015,604	\$ 23,367,476	\$ (1,351,872)	-6%
Capital Assets	61,812,838	61,983,358	(170,520)	0%
Other Noncurrent Assets	<u>15,555</u>	<u>7,538</u>	<u>8,017</u>	106%
 Total Assets	 <u>83,843,997</u>	 <u>85,358,372</u>	 <u>(1,514,375)</u>	 -2%
Current Liabilities	1,051,596	403,218	648,378	161%
Long-term debt outstanding	30,016,101	28,329,836	1,686,265	6%
Other Noncurrent Liabilities	<u>41,452</u>	<u>34,099</u>	<u>7353</u>	22%
 Total Liabilities	 <u>32,401,698</u>	 <u>30,077,750</u>	 <u>2,323,948</u>	 8%
 Net Assets				
Invested in Capital Assets, Net of Related Debt	45,863,855	48,046,507	(2,182,652)	-5%
Restricted for Debt Service	15,555	7,538	8,017	106%
Unrestricted	5,562,889	7,226,577	(1,663,688)	-23%
 Total Net Assets	 <u>\$ 51,442,299</u>	 <u>\$ 55,280,622</u>	 <u>\$ (3,838,323)</u>	 -7%

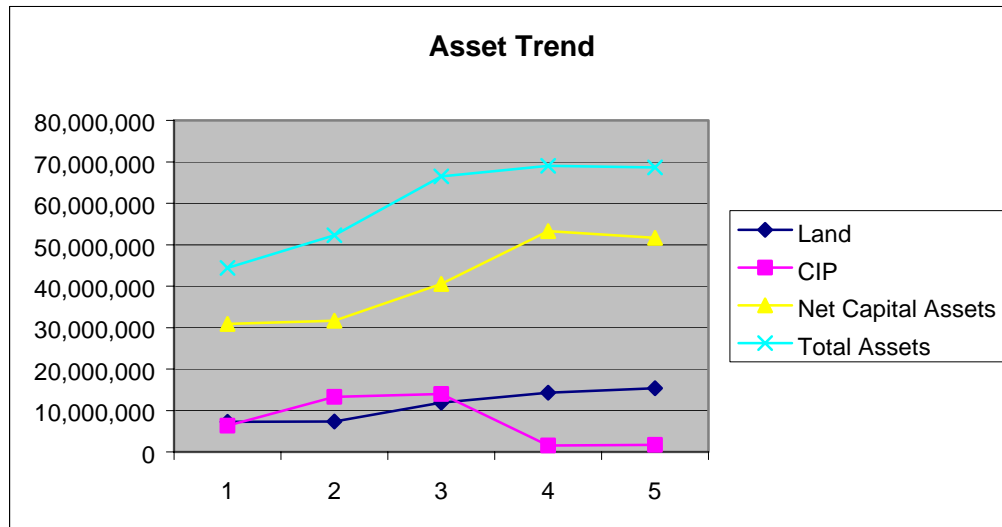
### Capital Asset and Debt Administration

#### Capital Assets

The following graph depicts the trend in net assets, particularly total capital assets. Total net capital assets include land, construction in progress, and depreciable capital assets. Net Capital Assets represents capital assets less depreciation. There was an increase in land/land costs of approximately \$1.1 and an increase in construction in progress of approximately \$926,000 with completion of approximately \$778,000, or a net increase of approximately \$148,000. There was an increase in net assets of approximately \$1.1 million due to land transactions, and a decrease in total capital assets of approximately \$400,000. The combination of completed construction projects and late commencement of new construction projects in the fiscal year reflect the anticipated slow-growth pattern at the TransPark.



## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)



### Long-Term Debt

The following is a summary of changes in the Authority's long-term obligations as of June 30, 2004:

	<u>July 1, 2003</u>	<u>Additions</u>	<u>Payments</u>	<u>June 30, 2004</u>	<u>Due in Less Than One year</u>
Notes payable	\$ 29,657,677	\$ 2,675,284	\$ 1,006,262	\$ 31,326,699	\$ 18,048
Compensated Absences	68,198	82,904	68,198	82,904	41,452
	<u>\$ 29,725,875</u>	<u>\$ 2,758,188</u>	<u>\$ 1,074,460</u>	<u>\$ 31,409,603</u>	<u>\$ 59,500</u>

**North Carolina Escheat Fund** - The \$24,241,952 principle plus the net accrued interest expense of \$5,774,149 represents a balance of \$30,016,101 due to the North Carolina Escheat Fund at June 30, 2004. It is payable on July 1, 2005, bears interest at a variable rate based upon the earnings record of the State Treasurer's Long-Term Investment Fund and is collateralized at June 30, 2004 by the \$10,361,614 deposit in the Long-Term Investment Fund with the State Treasurer and by real property. Additional collateral can be substituted for the deposit with the State Treasurer when the Authority deems it necessary to withdraw funds for its statutory purpose. Interest expense on the loan with the State Treasurer was \$2,675,284 for the year ended June 30, 2004.

## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

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**United States Department of Agriculture (USDA)** – The Authority was indebted for two USDA loans for the construction of Fixed Base Operator (FBO) hangars at the Global TransPark. Additionally, the Authority was indebted for a USDA loan for the construction of an Administration Building. The loan information on the notes is shown in the following table:

<u>Interest Rate</u>	<u>Final Maturity Date</u>	<u>Original Amount Of Issue</u>	<u>Principal Paid Through 6/30/2004</u>	<u>Principal Outstanding 6/30/2004</u>
4.75%	6/21/41	\$666,500	\$18,445	\$648,055
4.625%	10/25/32	\$673,350	\$10,808	\$662,542

### Revenues, Expenses and Changes in Net Assets

For the fiscal year the Authority showed a 17% increase in operating loss due to decreases in tenant revenues and nonrecurring miscellaneous revenues and increases in operating expenses due to depreciation expense and the recording of a contingent liability of approximately \$596,000. If the non-cash transaction of depreciation and the contingent liability expense were excluded, the operating loss would show a decrease from the prior year of 18% in lieu of a 17% increase. This is a clear indication the Authority has taken drastic steps to decrease its operating costs. Non-operating revenues and expenses showed a decrease of 85% due to a \$1.1 million decrease in federal funding, nonrecurring non-operating revenues from the prior fiscal year, and a decrease in investment earnings.

## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

### Condensed Statement of Revenues, Expenses, and Changes in Net Assets

	<u>June 30, 2004</u>	<u>June 30, 2003</u>	<u>Change</u>	<u>% Change</u>
Operating Revenues				
Rental Revenue	\$ 458,764	\$ 534,491	\$ (75,727)	-14%
Miscellaneous Revenue	133,370	205,738	(72,368)	-35%
Total Operating Revenues	<u>592,134</u>	<u>740,229</u>	<u>(148,095)</u>	-20%
Operating Expenses				
Salaries and Benefits	788,473	1,209,902	(421,429)	-35%
Professional Services	457,139	314,529	142,610	45%
Depreciation	2,200,280	1,886,951	313,329	17%
Utilities	234,117	190,007	44,110	23%
Other Operating Expenses	1,072,988	684,392	388,596	57%
Total Operating Expenses	<u>4,752,997</u>	<u>4,285,781</u>	<u>467,216</u>	11%
Operating Loss	<u>(4,160,863)</u>	<u>(3,545,552)</u>	<u>(615,311)</u>	17%
Nonoperating Revenues (Expenses)				
State Operating Aid	1,600,000	1,600,000	-	0%
Noncapital Grants	21,500	143,500	(122,000)	-85%
Gain on Sale of Property	-	268,743	(268,743)	-100%
Investment Earnings	1,361,890	1,774,485	(412,595)	-23%
Interest Expense	(2,737,514)	(2,801,308)	63,794	-2%
Net Nonoperating Revenues	<u>245,876</u>	<u>985,420</u>	<u>(739,544)</u>	-75%
Loss Before Capital Contributions	<u>(3,914,987)</u>	<u>(2,560,132)</u>	<u>(1,354,855)</u>	53%
Capital Contributions	76,664	1,173,937	(1,097,273)	-93%
Decrease in Net Assets	<u>(3,838,323)</u>	<u>(1,386,195)</u>	<u>(2,452,128)</u>	177%
Net Assets—July 1	<u>55,280,622</u>	<u>56,666,817</u>	<u>(1,386,195)</u>	-2%
Net Assets—June 30	<u>\$ 51,442,299</u>	<u>\$ 55,280,622</u>	<u>\$ (3,838,323)</u>	-7%

## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONCLUDED)

### Cash Flows

The Authority's overall liquidity position is virtually unchanged at June 30, 2004 compared to June 30, 2003. However, there were significant changes in the use of cash during the fiscal year compared to the prior fiscal year. The 25% decrease in net cash used for operating activities is due to an increase in cash received from customers and a decrease in payments to vendors and employees. This significant change shows the trend in decreasing operating costs. The 101% decrease in capital and related financing costs is due to the decrease in federal funding and the decrease in construction projects, as well as a decrease in proceeds from capital debt and principal and interest payments on capital debt. The 28% decrease in investing activities is due to a decrease in the investment balance of the Escheat Fund, as well as a decrease in interest rates.

The following is a summary of the change in cash and cash equivalents for the fiscal year ended June 30, 2004 and June 30, 2003:

	<b>Cash Flows</b>			
	<u>June 30, 2004</u>	<u>June 30, 2003</u>	<u>Change</u>	<u>% Change</u>
Net Cash Provided From (Used For):				
Operating Activities	\$ (1,318,801)	\$ (1,755,488)	\$ 436,687	-25%
Noncapital Financing Activities	1,636,167	1,692,958	(56,791)	-3%
Capital and Related Financing Activities	(1,694,025)	(3,408,787)	1,714,762	-50%
Investing Activities	<u>1,397,722</u>	<u>1,792,799</u>	<u>(395,077)</u>	-22%
Net Increase (Decrease)	21,063	(1,678,518)	1,699,581	
Cash and Cash Equivalents at beginning of year	<u>11,584,329</u>	<u>13,262,847</u>	<u>(1,678,518)</u>	-13%
Cash and Cash Equivalents at end of year	<u>\$ 11,605,392</u>	<u>\$ 11,584,329</u>	<u>\$ 21,063</u>	0%

### Economic Outlook

The decrease in state appropriations for operations to the Authority continues to put pressure on the organization to become self-sufficient quickly. While there has been a conscientious effort to decrease operating expenses, it is apparent that aggressive marketing efforts need to continue in order to increase activity at the TransPark and generate revenues.

The unexpected legislative provision in extending the maturity date of the Escheat Loan by only ten months to July 1, 2005 has also placed the Authority in a situation where the terms cannot be met. This unrealistic maturity date, coupled with the subsequent decrease in the investment balance the Authority has available to draw down to meet its commitments, leads to a going concern situation for the agency. Note 12D further explains the going concern situation.

State lawmakers are faced with soon deciding if they can continue to support this project as the Authority works on transforming itself from being a financial burden to the State to an economic engine for Southeastern North Carolina. The slowdown in the economy since 2001 has added to that burden; however, the economy appears to be improving and interest in the TransPark is increasing. Given the chance to finish what started 13 years ago, the TransPark can compete in the marketplace and meet its goal to become self-sufficient.

*North Carolina Global TransPark Authority*  
*Statement of Net Assets*  
*June 30, 2004*

*Exhibit A*

	<i>Authority</i>	<i>Foundation</i>
<b>ASSETS</b>		
Current Assets:		
Cash and Cash Equivalents (Notes 2 and 12)	\$ 11,589,837	\$ 4,066,509
Investment on Deposit with State Treasurer (Notes 2 and 12)	10,361,614	-
Accounts Receivable (Net)	64,153	-
Contributions Receivable	-	163,138
Total Current Assets	<u>22,015,604</u>	<u>4,229,647</u>
Noncurrent Assets:		
Restricted Cash and Cash Equivalents (Note 2)	15,555	-
Capital Asset - Nondepreciable (Note 3)	17,021,701	-
Capital Assets - Depreciable, net (Note 3)	<u>44,791,137</u>	<u>6,832,503</u>
Total Noncurrent Assets	61,828,393	6,832,503
Total Assets	<u>83,843,997</u>	<u>11,062,150</u>
<b>LIABILITIES</b>		
Current Liabilities:		
Accounts Payable	967,967	-
Due to Primary Government	2,934	-
Compensated Absences	41,452	-
Deferred Revenue	21,195	-
Note Payable - USDA (Note 6)	<u>18,048</u>	-
Total Current Liabilities	1,051,596	-
Noncurrent Liabilities:		
Note Payable - USDA (Note 6)	1,292,549	-
Note Payable - Due to NC Escheat Fund (Note 6)	30,016,101	-
Compensated Absences	<u>41,452</u>	-
Total Noncurrent Liabilities	31,350,102	-
Total Liabilities	<u>32,401,698</u>	<u>-</u>
<b>NET ASSETS</b>		
Invested in Capital Assets, Net of Related Debt	45,863,855	6,832,503
Restricted for Debt Service	15,555	-
Unrestricted	5,562,889	4,229,647
Total Net Assets	<u>\$ 51,442,299</u>	<u>\$ 11,062,150</u>

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

*North Carolina Global TransPark Authority*  
*Statement of Revenues, Expenses and Changes in Fund Net Assets*  
*Year Ended June 30, 2004*

*Exhibit B*

	<i>Authority</i>	<i>Foundation</i>
<b>Operating Revenues</b>		
Rental Revenue	\$ 458,764	\$ 186,683
Miscellaneous Revenues	<u>133,370</u>	<u>884</u>
Total Operating Revenues	<u>592,134</u>	<u>187,567</u>
<b>Operating Expenses</b>		
Salaries and Benefits	788,473	102,770
Professional Services	457,139	53,764
Legal and Accounting	60,670	-
Depreciation	2,200,280	216,633
Rent	27,212	-
Repairs and Maintenance	117,098	-
Supplies and Materials	63,356	927
Equipment	9,870	-
Insurance	31,610	-
Printing and Binding	4,671	-
Telephone	31,276	3,497
Utilities	234,117	-
Travel and Subsistence	6,799	9,044
Advertising	27,518	-
Landing Fields and Grounds	60,144	-
Other	<u>632,764</u>	<u>6,728</u>
Total Operating Expenses	<u>4,752,997</u>	<u>393,363</u>
Operating Loss	<u>(4,160,863)</u>	<u>(205,796)</u>
<b>Nonoperating Revenues (Expenses)</b>		
State Operating Aid	1,600,000	-
Contributions	-	269,280
Noncapital Grants	21,500	-
Investment Earnings	1,361,890	51,155
Interest Expense	<u>(2,737,514)</u>	<u>-</u>
Net Nonoperating Revenues	245,876	320,435
<b>Loss Before Capital Contributions</b>	(3,914,987)	114,639
<b>Capital Contributions</b>	76,664	-
Increase (Decrease) in Net Assets	(3,838,323)	114,639
Net Assets -- July 1	<u>55,280,622</u>	<u>10,947,511</u>
Net Assets -- June 30	<u>\$ 51,442,299</u>	<u>\$ 11,062,150</u>

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

*North Carolina Global TransPark Authority*  
*Statement of Cash Flows*  
*Year Ended June 30, 2004*

*Exhibit C*

	<i>Authority</i>	<i>Foundation</i>
<b>Cash Flows From Operating Activities</b>		
Cash Received from Customers	\$ 601,773	\$ 187,567
Payments to Vendors	(1,146,807)	(73,961)
Payments to Employees and Fringe Benefits	<u>(773,767)</u>	<u>(102,769)</u>
Net Cash Used For Operating Activities	<u>(1,318,801)</u>	<u>10,837</u>
<b>Cash Flows From Noncapital Financing Activities</b>		
State Appropriations	1,600,000	-
Other	<u>36,167</u>	<u>476,155</u>
Net Cash Provided From Noncapital Financing Activities	<u>1,636,167</u>	<u>476,155</u>
<b>Cash Flows from Capital and Related Financing Activities</b>		
Acquisition and construction of capital assets	(1,973,524)	-
Proceeds from Capital Debt	1,271,328	-
Federal Capital Appropriations	56,664	-
Grants	20,000	-
Principal Payments on Capital Debt	(17,244)	-
Interest Payments on Capital Debt	<u>(1,051,249)</u>	<u>-</u>
Net Cash Used For Capital and Related Financing Activities	<u>(1,694,025)</u>	<u>-</u>
<b>Cash Flows From Investing Activities</b>		
Interest Received	<u>1,397,722</u>	<u>51,155</u>
Net Cash Proved From Investing Activities	<u>1,397,722</u>	<u>51,155</u>
Net Decrease in Cash and Cash Equivalents	21,063	538,147
Cash and Cash Equivalents, July 1	<u>11,584,329</u>	<u>3,528,362</u>
Cash and Cash Equivalents, June 30	<u><u>\$ 11,605,392</u></u>	<u><u>\$ 4,066,509</u></u>

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

	<i>Authority</i>	<i>Foundation</i>
<b>Reconciliation of Operating Income to Net Cash Used By Operating Activities</b>		
Operating Loss	\$ (4,160,863)	\$ (205,796)
Adjustments to Reconcile operating income to net cash flows from operating activities:		
Depreciation	2,200,280	216,633
Decrease in Accounts Receivables	22,805	-
Increase in Accounts payable	607,904	-
Increase in Due to Primary Government	1,672	-
Increase in Compensated Absences Liability	14,705	-
Decrease in Deferred Revenue	(5,304)	-
Net Cash Used by Operating Activities	<u>\$ (1,318,801)</u>	<u>\$ 10,837</u>
<b>Noncash Investing, Capital, and Financing Activities</b>		
Assets acquired through the assumption of a liability	<u>\$ 1,271,328</u>	<u>\$ -</u>
Change in Capital Assets as a Result of Accrual Accounts Payable	<u>\$ 35,950</u>	<u>\$ -</u>
<b>Composition of Cash and Cash Equivalents</b>		
Current Assets:		
Cash and Cash Equivalents	\$ 11,589,837	\$ 4,066,509
Noncurrent Assets:		
Restricted Cash and Cash Equivalents	<u>15,555</u>	<u>-</u>
Total Cash and Cash Equivalents	<u>\$ 11,605,392</u>	<u>\$ 4,066,509</u>

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



**NORTH CAROLINA GLOBAL TRANSPARK AUTHORITY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2004**

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**NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES**

- A. Organization and Purpose** – The North Carolina Global TransPark Authority (Authority), formerly the North Carolina Air Cargo Airport Authority, was created on July 16, 1991, upon ratification by the General Assembly of North Carolina of Senate Bill 649. The Authority is a state agency located within the North Carolina Department of Transportation, but exercises its powers independent of the Secretary of Transportation. It was created to administer the development of the North Carolina Global TransPark, an international Global TransPark complete with transportation links, dedicated intrafacility distribution systems and state of the art communication systems. By law, the Authority is empowered to acquire all required property for the project and issue bonds and notes to finance the project.
- B. Financial Reporting Entity** – The concept underlying the definition of the financial reporting entity is that elected officials are accountable to their constituents for their actions. As required by accounting principles generally accepted in the United States of America, the financial reporting entity includes both the primary government and all of its component units. An organization other than a primary government serves as a nucleus for a reporting entity when it issues separate financial statements. The North Carolina Global TransPark Authority is a component unit of the State of North Carolina and an integral part of the State’s Comprehensive Annual Financial Report.

As required by General Statute 63A-3, certain elected State officials appoint thirteen of the North Carolina Global TransPark Authority’s twenty board members. Three board members serve by virtue of their State positions, two serve at the pleasure of the President of the University of North Carolina and the President of the North Carolina Community College System. The remaining two board members are appointed by the Kinston City Council and the Lenoir County Commissioners.

The accompanying financial statements present the funds of the Authority and of the component unit for the Authority, the North Carolina Global TransPark Foundation, Inc. (Foundation). The Authority is “financially accountable” for the Foundation pursuant to the accounting principles generally accepted in the United States of America

**NORTH CAROLINA GLOBAL TRANSPARK AUTHORITY**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**JUNE 30, 2004**

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The Foundation, a not-for-profit organization that is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code is a legally separate entity from the Authority. The Foundation is governed by a 29-member board, consisting of four (4) ex officio directors and twenty-five (25) appointed directors. Eleven (11) directors of the Foundation are appointed by the members of the Authority Board of Directors; four (4) directors of the Foundation are ex officio members; one (1) director is appointed by the Global TransPark Development Commission Board of Directors; and thirteen (13) directors are appointed by the Foundation Board of Directors. The Foundation's purpose is to benefit the Authority in the economic development at the North Carolina Global TransPark.

- C. Basis of Presentation** – The accompanying financial statements are presented in accordance with generally accepted accounting principles in the United States of America as prescribed by the Governmental Accounting Standards Board (GASB), which consist of GASB Statements and Interpretations, as well as American Institute of Certified Public Accountants (AICPA) and Financial Accounting Standards Board (FASB) pronouncements specifically made applicable to state and local government entities by GASB Statements and Interpretations. The full scope of the Authority's and Foundation's activities are considered to be separate business-type activities and accordingly, are reported in separate columns in the basic financial statements.
- D. Basis of Accounting** – The Authority and the Foundation are accounted for as proprietary fund types (enterprise funds) in conformity with the accounting and reporting requirements of the Governmental Accounting Standards Board (GASB). The financial statements were prepared on the accrual basis of accounting. Under the accrual basis, revenues are recognized when earned, and expenses are recorded when an obligation has been incurred

Non-exchange transactions, in which the Authority or the Foundation gives (or receives) value without directly giving (or receiving) equal value in exchange, include contributions and donations. Revenue from contributions and donations is recognized in the fiscal year in which all requirements have been satisfied.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues are charges to customers for rent. Operating expenses include the cost of rental, administrative expenses, and depreciation on capital

**NORTH CAROLINA GLOBAL TRANSPARK AUTHORITY**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**JUNE 30, 2004**

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assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

In accordance with GASB Statement No. 20, Accounting and Financial Reporting for Proprietary Fund Accounting, the Authority or the Foundation does not apply FASB pronouncements issued after November 30, 1989, for proprietary activities, unless the GASB amends its pronouncements to specifically adopt FASB pronouncements issued after that date.

- E. Cash and Cash Equivalents** – This classification consists of petty cash, the Authority’s equity position in the Short-Term Investment Fund managed by the North Carolina State Treasurer, and cash on deposit in private bank accounts. The funds on deposit with the State Treasurer are available on demand. This classification also appears on the accompanying statement of cash flows. The Authority considers highly liquid temporary cash investments with an initial maturity of three months or less to be cash equivalents. The Foundation considers highly liquid temporary cash investments with an initial maturity of six months or less to be cash equivalents.
- F. Investments** – This classification consists of the Authority’s equity position in the Long-Term Investment Fund managed by the North Carolina State Treasurer. This investment is stated at cost because the Authority does not participate in the gains or losses resulting from the activity of the long-term investment fund.
- G. Receivables** – Accounts receivable are shown in the accompanying financial statements net of allowances for doubtful accounts of \$7,901. Contributions receivable are shown in the accompanying financial statements net of allowances for doubtful accounts of \$203,466.
- H. Capital Assets and Depreciation** – The Authority capitalizes all assets that have a value or cost greater than or equal to \$5,000 at the date of acquisition. Depreciation is computed using the straight-line method over the following useful lives: buildings range from 10-50 years, landing fields and grounds range from 20–40 years and equipment ranges from 5-10 years.

The Foundation capitalizes all assets that have a value or cost greater than or equal to \$100 at the date of acquisition. Depreciation is computed using the straight-line method over the following useful lives: buildings range from 30-50 years and equipment ranges from 5-7 years.

**NORTH CAROLINA GLOBAL TRANSPARK AUTHORITY**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**JUNE 30, 2004**

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- I. Restricted Assets** – Restricted assets represent assets whose use is restricted by external parties or by law through constitutional provisions or enabling legislation.
- J. Non-current Long-Term Liabilities** – Noncurrent long-term liabilities include notes payable and compensated absences that are not expected to be paid within the next fiscal year.
- K. Compensated Absences** – The Authority’s policy is to record the cost of vacation leave when earned. The policy provides for a maximum accumulation of unused vacation leave of 30 days which can be carried forward each January 1st or for which an employee can be paid upon termination of employment. Also, any accumulated vacation leave in excess of 30 days at year-end is converted to sick leave. Under this policy, the accumulated vacation leave for each employee at June 30th equals the leave carried forward at the previous December 31st plus the leave earned, less the leave taken between January 1 and June 30.

In addition to the vacation leave described above, compensated absences includes the accumulated unused portion of the special annual leave bonuses awarded by the Authority to all full-time permanent employees. The unused portion of this leave remains available until used, notwithstanding the limitation on annual leave carried forward described above.

When classifying unused vacation leave into current and noncurrent, leave is considered taken using a last-in, first-out method.

The Authority has the policy of recording the cost of sick leave when taken and paid rather than when the leave is earned. The policy provides for unlimited accumulation of sick leave, but the employee cannot be compensated for any unused sick leave upon termination or retirement. However, additional service credit for retirement pension benefits is given for accumulated sick leave upon retirement.

**Component Unit Information**

The Foundation currently has one employee. The employee agreement with that employee provides for a maximum accumulation of unused vacation leave of 30 days which can be carried forward each January 1<sup>st</sup> or for which the employee can be paid upon termination of employment. Also any accumulated vacation leave in excess of 30 days at year-end is forfeited. At June 30, 2004, the liability related to compensated absences payable is immaterial and has not been recorded.

**NORTH CAROLINA GLOBAL TRANSPARK AUTHORITY**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**JUNE 30, 2004**

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The employee agreement with the Foundation's employee allows for ten (10) days of paid sick leave per year. The sick leave does not accumulate, and any unused sick leave at year-end is forfeited. The employee cannot be compensated for any unused sick leave upon termination or retirement.

**L. Net Assets** – The Authority's net assets are classified as follows:

**Invested in Capital Assets, Net of Related Debt** – This represents total investment in capital assets, net of outstanding debt obligations related to those capital assets. To the extent debt has been incurred but not yet expended for capital assets, such amounts are not included as a component of Invested in Capital Assets, Net of Related Debt.

**Restricted Net Assets** – Restricted net assets include resources in which the Authority legally or contractually obligated to spend the resources in accordance with restrictions imposed by external parties.

**Unrestricted Net Assets** – Unrestricted net assets include resources derived from operating state appropriations, tenant revenues, donations, contributions, and interest income.

**Revenue and Expense Recognition** – The Authority and the Foundation classifies its revenues and expenses as operating or non-operating in the accompanying Statement of Revenues, Expenses, and Changes in Fund Net Assets. Operating revenues and expenses generally result from providing services and collecting rents in connection with the Authority's and Foundation's principal ongoing operations. Operating revenues include activities that have characteristics of exchange transactions, such as (1) building space rents, (2) land rents, (3) janitorial services, and (4) computer networking. Operating expenses are all expense transactions incurred other than those related to capital and non-capital financing or investing activities as defined by GASB Statement No. 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting*.

Non-operating revenues include activities that have the characteristics of non-exchange transactions. Revenues from non-exchange transactions and State aid that represent subsidies to the Authority and the Foundation, as well as investment income, are considered non-operating since these are either investing, capital or non-capital financing activities. Capital contributions are presented separately after non-operating revenues and expenses.

**NORTH CAROLINA GLOBAL TRANSPARK AUTHORITY**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**JUNE 30, 2004**

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**NOTE 2 – DEPOSITS AND INVESTMENTS**

All funds of the Authority are deposited in board-designated official depositories and are required to be collateralized in accordance with North Carolina General Statute 115D-58.7. Official depositories may be established with any bank or savings and loan association whose principal office is located in North Carolina or with the State Treasurer's Investment Pool. The North Carolina Administrative Code (20 NCAC 7) requires all depositories to collateralize public deposits in excess of federal depository insurance coverage by using one of two methods, dedicated or pooled. Under the Dedicated Method, all deposits exceeding the federal depository insurance coverage level are collateralized with securities held by the Authority's agent in the Authority's names. Under the Pooling Method, which is a collateral pool, all uninsured deposits are collateralized with securities held by the State Treasurer's agent in the name of the State Treasurer. Since the State Treasurer is acting in a fiduciary capacity for the Authority, these deposits are considered to be held by their agent in the Authority's name. The amount of the pledged collateral is based on an approved averaging method for non-interest bearing deposits and the actual current balance for interest-bearing deposits. Depositories using the Pooling Method report to the State Treasurer the adequacy of their pooled collateral covering uninsured deposits. The State Treasurer does not confirm this information with the Authority or with the escrow agent. Because of the inability to measure the exact amount of collateral pledged for the Authority under the Pooling Method, the potential exists for under-collateralization, and this risk may increase in periods of high cash flows. However, the State Treasurer of North Carolina enforces strict standards of financial stability for each depository that collateralizes public deposits under the Pooling Method.

The financial statements and disclosures for the State Treasurer's Investment Pool 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.state.nc.us/> and clicking on "Financial Reports", or by calling the State Controller's Financial Reporting Section at (919) 981-5454.

**State Treasurer's Short-Term Investment Fund** – The amount shown on the Statement of Net Assets as cash and cash equivalents includes \$11,363,746, which represents the Authority's equity position in the Short-Term Investment Fund managed by the North Carolina State Treasurer.

**Private Bank Accounts** – The amount shown on the Statement of Net Assets as cash and cash equivalents for the Authority and the Foundation includes deposits in private bank accounts with a carrying value of \$4,307,834 and a bank balance of \$4,353,967. Of the bank balance, \$600,000 was covered by federal depository insurance and \$3,753,967 was uninsured.

**NORTH CAROLINA GLOBAL TRANSPARK AUTHORITY**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**JUNE 30, 2004**

**Authority Investments-Long-Term Investment Fund** – As authorized by General Statute 63A-4(a)(22), the Authority borrowed \$25,000,000 from the North Carolina Escheat Fund on August 31, 1994. As required by the loan agreement, the proceeds were deposited with the State Treasurer in the State Treasurer’s Long-Term Investment Fund and have been pledged as collateral for the loan. Interest earned on the investment on deposit with the State Treasurer totaled \$989,018 for the year ended June 30, 2004. The Authority’s investment in this fund is exempt from risk categorization because the Authority does not own any identifiable security.

**NOTE 3 – CAPITAL ASSETS**

A summary of changes in capital assets is presented as follows:

	Balance July 1, 2003	Additions	Deletions	Balance June 30, 2004
<b>Capital Assets, Non-depreciable</b>				
Land	\$ 14,250,515	\$ 1,094,844	\$ -	\$ 15,345,359
Construction in Progress	1,528,139	925,714	(777,511)	1,676,342
<b>Total Capital Assets, Non-depreciable</b>	<u>15,778,654</u>	<u>2,020,558</u>	<u>(777,511)</u>	<u>17,021,701</u>
<b>Capital Assets, Depreciable</b>				
Landing Fields and Grounds	38,053,732	777,511	(276,126)	38,555,117
Buildings	24,605,706	-	-	24,605,706
Equipment	3,011,618	285,327	(25,496)	3,271,449
<b>Total Capital Assets, Depreciable</b>	<u>65,671,056</u>	<u>1,062,838</u>	<u>(301,622)</u>	<u>66,432,272</u>
<b>Less Accumulated Depreciation for:</b>				
Landings Fields and Grounds	(6,229,189)	(1,289,490)	112,682	(7,405,997)
Buildings	(4,218,491)	(710,351)	-	(4,928,842)
Equipment	(1,969,536)	(529,753)	25,496	(2,473,793)
	<u>(12,417,216)</u>	<u>(2,529,594)</u>	<u>138,178</u>	<u>(14,808,632)</u>
<b>Total Capital Assets, Depreciable, Net</b>	<u>53,253,840</u>	<u>(1,466,756)</u>	<u>(163,444)</u>	<u>51,623,640</u>
<b>Total Capital Assets, Net</b>	<u>\$ 69,032,494</u>	<u>\$ 553,802</u>	<u>\$ (940,955)</u>	<u>\$ 68,645,341</u>

Depreciation expense was charged to the components of the Authority as follows:

The Authority	\$ 2,200,280
The Foundation	216,633
<b>Total</b>	<u>\$ 2,416,913</u>

**NORTH CAROLINA GLOBAL TRANSPARK AUTHORITY  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2004**

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**NOTE 4 – LEASE AGREEMENTS**

**Component Unit Information**

The Foundation entered into a lease agreement with Mountain Air Cargo, Inc., on November 16, 1995 to lease a building owned by the Foundation. The term of the lease is 21 years and 6 months after the date of beneficial occupancy by the lessee. Mountain Air Cargo, Inc. occupied the building in August 1996. Under the terms of the agreement, Mountain Air Cargo, Inc. was to pay no lease payments for the first 18 months. At the end of eighteen months, lease payments would be \$2.25, \$3.50, \$4.50, and \$5.90 per square foot for each five-year period until the lease terminates. The lease square footage is approximately 53,338 square feet. Lease payments began in February 1998. Mountain Air Cargo, Inc. may terminate the lease early with ninety (90) days notice if certain conditions relating to their business are not met. These conditions relate to the termination of a contract with Federal Express Corporation or a reduction by 50% of Mountain Air Cargo, Inc.'s F-27 aircraft operations.

Expected income from leasing arrangements over the next five years is as follows:

<u>Fiscal Year</u>	<u>Amount</u>
2005	\$ 186,683
2006	186,683
2007	186,683
2008	208,907
2009	<u>240,021</u>
Total	<u>\$ 1,008,977</u>

The building being leased was constructed in 1995 at a cost of \$8,498,064 and has accumulated depreciation totaling \$1,679,756 at June 30, 2004.

**NOTE 5 – ACCOUNTS PAYABLE**

Accounts payable at June 30, 2004 were as follows:

	<u>Amount</u>
Accounts Payable	\$ 935,717
Contract Retainage	32,250
Intergovernmental Payables	<u>2,934</u>
Total	<u>\$ 970,901</u>



**NORTH CAROLINA GLOBAL TRANSPARK AUTHORITY  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2004**

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**NOTE 6 - NOTES PAYABLE**

The following is a summary of changes in the Authority's long-term obligations as of June 30, 2004:

	<u>July 1, 2003</u>	<u>Additions</u>	<u>Payments</u>	<u>June 30, 2004</u>	<u>Due in Less Than One year</u>
Notes payable	\$ 29,657,677	\$ 2,675,284	\$ 1,006,262	\$ 31,326,699	\$ 18,048
Compensated Absences	68,198	82,904	68,198	82,904	41,452
	<u>\$ 29,725,875</u>	<u>\$ 2,758,188</u>	<u>\$ 1,074,460</u>	<u>\$ 31,409,603</u>	<u>\$ 59,500</u>

**A. North Carolina Escheat Fund** - The \$24,241,952 principle plus the net accrued interest expense of \$5,774,149 represents a balance of \$30,016,101 due to the North Carolina Escheat Fund at June 30, 2004. It is payable on July 1, 2005, bears interest at a variable rate based upon the earnings record of the State Treasurer's Long-Term Investment Fund and is collateralized at June 30, 2004 by the \$10,361,614 deposit in the Long-Term Investment Fund with the State Treasurer and by real property. Additional collateral can be substituted for the deposit with the State Treasurer when the Authority deems it necessary to withdraw funds for its statutory purpose. Interest expense on the loan with the State Treasurer was \$2,675,284 for the year ended June 30, 2004. Interest earned on the invested portion of the loan is disclosed in Note 2.

**B. United States Department of Agriculture (USDA)** – The Authority was indebted for two USDA loans for the construction of Fixed Base Operator (FBO) hangars at the Global TransPark. Additionally, the Authority was indebted for a USDA loan for the construction of an Administration Building. The loan information on the notes is shown in the following table:

<u>Interest Rate</u>	<u>Final Maturity Date</u>	<u>Original Amount Of Issue</u>	<u>Principal Paid Through 6/30/2004</u>	<u>Principal Outstanding 6/30/2004</u>
4.75%	6/21/41	\$666,500	\$18,445	\$648,055
4.625%	10/25/32	\$673,350	\$10,808	\$662,542

**NORTH CAROLINA GLOBAL TRANSPARK AUTHORITY  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2004**

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The annual requirements to pay principal and interest on the notes at June 30, 2004 are presented as follows:

Fiscal Year	Principal	Interest
2005	\$ 18,048	\$ 61,426
2006	18,891	60,583
2007	19,775	59,699
2008	20,698	58,776
2009	21,665	57,809
2010-2014	124,490	272,880
2015-2019	156,417	240,953
2020-2024	196,533	200,837
2025-2029	246,943	150,427
2030-2034	268,208	87,212
2035-2039	149,137	38,483
2040-2041	<u>69,792</u>	<u>5,256</u>
Total Requirements	<u>\$ 1,310,597</u>	<u>\$ 1,294,341</u>

**NOTE 7 – OPERATING LEASE OBLIGATIONS**

Future minimum lease payments under non-cancelable operating leases consist of the following at June 30, 2004:

<u>Fiscal Year</u>	<u>Amount</u>
2005	\$ 18,127
2006	<u>14,655</u>
Total Minimum Lease Payments	<u>\$ 32,782</u>

Rental expenses for all operating leases during the year were \$21,320.

**NOTE 8 – RISK MANAGEMENT**

The Authority is exposed to various risks of loss related to torts; theft of, damage to, and the destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Authority carries insurance through the North Carolina Department of Insurance for risks of loss.

**NORTH CAROLINA GLOBAL TRANSPARK AUTHORITY**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
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Tort claims of up to \$500,000 are self-insured under the authority of the State Tort Claims Act. In addition, the State provides an additional \$5,000,000 public officers' and employees' liability insurance via contract with a private insurance company. The amount of liability insurance has decreased from \$11,000,000 in prior years. The premium, based on a composite rate, is paid by the Authority directly to the insurer.

The State Property Fire Insurance Fund (Fund), an internal service fund of the State, insures all State owned buildings and contents for fire and various other property losses up to \$2,500,000 per occurrence. The Fund purchases excess insurance from private insurers to cover losses over the amounts insured by the Fund. Losses covered by the Fund are subject to a \$500 per occurrence deductible except for theft losses that carry a \$1,000 per occurrence deductible. There have been no significant reductions in insurance coverage from the previous year, and settled claims have not exceeded coverage in any of the past three fiscal years.

All State owned vehicles are covered by liability insurance handled by the North Carolina Department of Insurance. The State is self-insured for the first \$500,000 of any loss through a retrospective rated plan. Excess insurance coverage is purchased through a private insurer to cover losses greater than \$500,000. The liability limits for losses occurring in state are \$500,000 per claimant and \$5,000,000 per occurrence. The Authority is charged premiums to cover the cost of excess insurance and to pay for those losses falling under the self-insured retention.

Blanket public employee dishonesty and computer fraud insurance is provided for agencies of the State with a limit of \$5,000,000 per occurrence, subject to a \$50,000 deductible and a 10% participation in each loss above the deductible. The coverage is placed with a private insurance company and is handled by the North Carolina Department of Insurance. In addition, the Authority has a separate public employee dishonesty and faithful performance policy with a limit of \$1,000,000.

Employees and retirees are provided health care coverage by the Comprehensive Major Medical Plan, a Pension and Other Employee Benefit Trust Fund of the State. The Plan is funded by employer and employee contributions and is administered by a third party contractor.

The North Carolina Workers' Compensation Program provides benefits to workers injured on the job. All employees of the State are included in the program. When an employee is injured, the Authority's primary responsibility is to arrange for and provide the necessary treatment for work related injury. The Authority is responsible to pay medical benefits and compensation in accordance

**NORTH CAROLINA GLOBAL TRANSPARK AUTHORITY**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**JUNE 30, 2004**

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with the North Carolina Workers' Compensation Act. The Authority is self-insured for workers' compensation.

Term life insurance of \$25,000 to \$50,000 is provided to eligible employees. This self-insured death benefit program is administered by the Department of the State Treasurer and funded via employer contributions. Employer contributions were not required for 2004.

Additional details on the state-administered risk management programs are disclosed in the State's *Comprehensive Annual Financial Report*, issued by the Office of the State Controller.

**NOTE 9 – PENSION PLAN**

- A. Retirement Plans** - Each permanent full-time employee, as a condition of employment, is a member of the Teachers' and State Employees' Retirement System. The Teachers' and State Employees' Retirement System (System) is a cost sharing multiple-employer defined benefit pension plan administered by the North Carolina State Treasurer.

Benefit and contribution provisions for the Teachers' and State Employees' Retirement System are established by *North Carolina General Statutes* 135-5 and 135-8 and may be amended only by the North Carolina General Assembly. Employer and member contribution rates are set each year by the North Carolina General Assembly based on annual actuarial valuations. For the year ended June 30, 2004, these rates were set at .22% of covered payroll for employers and 6% of covered payroll for members.

For the year ended June 30, 2004, the Authority had a total payroll of \$645,210, of which \$564,435 was covered under the System. Total employee and employer contributions for pension benefits for the year were \$33,866 and \$1,242, respectively. The Authority made one hundred percent of its annual required contributions for the years ended June 30, 2004, 2003, and 2002, which were \$1,242, \$0, and \$22,041, respectively.

The Foundation maintains a 401(b) plan for the benefit of all employees that meet certain age and employment criteria. Contributions are made on a discretionary basis as authorized by the Board of Directors. For the year ended June 30, 2004, the Foundation contributed \$9,500 to the plan on behalf of its employee.

**NORTH CAROLINA GLOBAL TRANSPARK AUTHORITY  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
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The Teachers' and State Employees' Retirement System's financial information is 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.state.nc.us/> and clicking on "Financial Reports", or by calling the State Controller's Financial Reporting Section at (919) 981-5454.

- B. Supplemental Retirement Income Plans** – IRC Section 401(k) Plan – All members of the Teachers' and State Employees' Retirement System are eligible to enroll in the Supplemental Retirement Income Plan created under Internal Revenue Code Section 401(k). All costs of administering the plan are the responsibility of the plan participants. No costs are incurred by the Authority. The voluntary contributions by employees amounted to \$21,330 for the year ended June 30, 2004.

**NOTE 10 – OTHER POSTEMPLOYMENT BENEFITS**

- A. Health Care for Long-Term Disability Beneficiaries and Retirees** – The Authority participates in state administered programs that provide post employment health insurance to eligible former employees. Additional detailed information about these programs is disclosed in the State of North Carolina's *Comprehensive Annual Financial Report*. For the fiscal year ended June 30, 2004, the Authority contributed 3.2% of covered payroll to the Comprehensive Major Medical Plan, or \$18,062. The Authority assumes no liability for these health care benefits provided by the programs other than its contribution.
- B. Disability Income**– The Authority participates in the Disability Income Plan of North Carolina (the Plan). Established by chapter 135, Article 6, of the General Statutes, the Plan provides short-term and long-term disability benefits to eligible members of the Teachers' and State Employees' Retirement System. Long-term disability income benefits are advance funded on an actuarially determined basis using the one-year term cost method. Employer contributions are established in the Appropriations Bill by the General Assembly. The Authority was not required to contribute to the Plan for the fiscal year ended June 30, 2004. The Authority assumes no liability for long-term disability benefits under the Plan other than its contribution. Additional detailed information about the Disability Income Plan of North Carolina is disclosed in the State of North Carolina's *Comprehensive Annual Financial Report*.

**NORTH CAROLINA GLOBAL TRANSPARK AUTHORITY  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2004**

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**NOTE 11 – RELATED PARTIES**

**Global TransPark Development Commission** – The Global TransPark Development Commission (Commission) is a corporate body created on November 29, 1993, by North Carolina General Statute 158-31. Although not directly connected with the development of the Global TransPark itself, the Commission supports economic development initiatives in its 13-member counties. A principal objective of the Commission is to accommodate businesses drawn to the region by the Global TransPark. The Authority appoints at least three but not more than seven of the Commission’s 41-member board. No significant financial transactions occurred between the Authority and the Commission during the year ended June 30, 2004.

**NOTE 12 – COMMITMENTS AND CONTINGENCIES**

**A. Environmental** – The Global TransPark is subject to a number of federal, state, and local environmental laws, regulations, and policies. The environmental laws and regulations most applicable to the TransPark relate to wetlands, air emissions, wastewater discharges, and the handling, disposal, and release of solid and/or hazardous wastes. More specifically, the TransPark may be subject to the Comprehensive Environmental Response, Compensation and Liability Act, which imposes retroactive liability upon owners and operators of facilities, including the TransPark, for the release or threatened release of hazardous substances at on-site or off-site locations.

Before constructing a major federal action significantly affecting the environment, the TransPark must complete an environmental review and permitting process pursuant to applicable federal and state law and regulations. On September 8, 1997, the Federal Aviation Administration (FAA) granted a favorable Record of Decision satisfactorily concluding the FAA’s actions on the environmental process. On October 21, 1998, the United States Army Corps of Engineers issued a permit to discharge dredge or fill material for the initial construction of the Global TransPark. This permit will allow the Authority to proceed with construction.

The Authority intends to fully comply with all applicable environmental laws, regulations, and policies and does not currently anticipate any material adverse effects on its operations or financial condition as a result of its compliance therewith. The possibility that environmental liability may arise is an inherent risk in any development such as the TransPark. Additionally, unforeseeable legislative actions by federal, state, or local governments regarding new environmental laws or regulations could increase the cost of and/or delay developing the TransPark.

**NORTH CAROLINA GLOBAL TRANSPARK AUTHORITY**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**JUNE 30, 2004**

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- B. Construction and Environmental Commitments** – The Authority has established an encumbrance system to track its outstanding commitments on construction projects. Outstanding commitments on construction contracts were \$2,873,162 at June 30, 2004. These commitments were for capital improvement projects for the Runway Extension Project and other construction projects. As of July 2004, the Authority has entered into additional construction contracts totaling \$6,276,693. Long-range commitments on environmental, based on the 404 permit, are estimated to be a minimum of \$9,000,000.
- C. Concentration of Risk and Potential Refinancing Commitment** – The Authority is a state agency for the State of North Carolina and, therefore, receives the majority of its financial support from the State. For the year ended June 30, 2004, the Authority received approximately 44% of its financial support from the State. In addition, the Authority received an additional 2% of its revenues from the Federal Aviation Administration.
- D. Going Concern Consideration**  
As of June 30, 2004, the Authority also has a loan outstanding including accrued interest payable totaling \$30,016,101 to the North Carolina Escheat Fund. However, the Appropriation Act of 2003 (House Bill 1414) Section 30.22(a) provided that the Authority make a payment of \$2,500,000 to the Escheat Fund, together with accumulated and projected interest, as soon as feasible. Additionally, the maturity date was extended to July 1, 2005. As of August 31, 2004, the investment balance had decreased from \$10,361,614 at June 30 to approximately \$600,000. There are outstanding commitments on the June 30 balance, and the Authority is negotiating with the State to restore the accrued and projected interest in order to meet the commitments, but no agreement has been reached to date. The current amount of operating cash held by the Authority is not sufficient to pay the balance due to the NC Escheat Fund and as such, substantial doubt about the Authority's ability to continue as a going concern exists. In addition if the Authority declares bankruptcy all funding received to date from the Federal Aviation Administration (the "FAA") is required to be paid back. As of June 30, 2004, the Authority has received approximately \$21.6 million from the FAA.

**NORTH CAROLINA GLOBAL TRANSPARK AUTHORITY  
NOTES TO THE FINANCIAL STATEMENTS (CONCLUDED)  
JUNE 30, 2004**

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- E. Pending Litigation and Claims** – The Authority is a party to litigation and claims in the ordinary course of its operations. Since it is not possible to predict the ultimate outcome of all of these matters, no provision for a liability has been made in the financial statements for litigation that is not probable and cannot be reasonably estimated. Litigation that is both probable of payment by the Authority and can be reasonably estimated total \$ 595,800. As of the report date, claims have been settled in the amount of \$433,000. Subsequent to year-end, the Authority's foreign trade zone operator for Site 1 of FTZ #214, Longistics International, LLC (Longistics), filed a motion for preliminary injunction against the Authority due to the Authority terminating its agreement with the operator. On September 8, 2004 a district court judge ordered the parties to come to an agreement out of court. The deadline given by the judge for completion of the talks was October 15, 2004. On September 22, 2004 Longistics filed a Notice of Voluntary Dismissal Without Prejudice against the Authority in the above referenced matter.

**NOTE 13 – NET ASSET RESTATEMENT**

**Component Unit information**

In prior years, the Authority did not include the financial statements of the North Carolina Global TransPark Foundation, Inc. (Foundation). However, the Foundation was determined to be a component unit of the Authority under GASB No.14. Therefore, the following restatement is necessary:

July 1, 2003 Net Assets as Previously Reported	\$ -
Restatements	
Change in reporting entity to properly report the Foundation as a component unit	<u>10,947,511</u>
July 1, 2003 Net Assets as Restated	<u><u>\$ 10,947,511</u></u>





**INDEPENDENT AUDITORS' 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**

Board of Directors  
North Carolina Global Transpark Authority  
Kinston, North Carolina

We have audited the financial statements of the North Carolina Global Transpark Authority (the "Authority") as of and for the year ended June 30, 2004, and have issued our report thereon dated September 10, 2004. We did not audit the basic financial statements of the North Carolina Global Transpark Foundation ("the Foundation"). Those basic financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for the Foundation, is based solely on the report of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. The financial statements of the Foundation were not audited in accordance with *Government Auditing Standards*.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the Authority's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operations that we consider to be material weaknesses. We noted no other matters involving the internal control over financial reporting that we have reported to management of the Authority.

## **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Authority's financial statements are free of 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 that are required to be reported under Government Auditing Standards.

This report is intended solely for the information and use of the audit committee, management, others within the organization, the governing board and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specific parties.

**CHERRY, BEKAERT & HOLLAND, L.L.P.**

*Cherry, Bekaert & Holland L.L.P.*

Raleigh, North Carolina  
September 10, 2004

## **DISTRIBUTION OF AUDIT REPORT**

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In accordance with General Statutes 147-64.5 and 147-64.6(c)(14), copies of this report have been distributed to the public officials listed below. Additional copies are provided to other legislators, state officials, the press, and the general public upon request.

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The Honorable Beverly M. Perdue	Lieutenant Governor of North Carolina
The Honorable Richard H. Moore	State Treasurer
The Honorable Roy A. Cooper, III	Attorney General
Mr. David T. McCoy	State Budget Officer
Mr. Robert L. Powell	State Controller
Ms. Darlene A. Waddell	Executive Director
	North Carolina Global TransPark Authority

### **LEGISLATIVE BRANCH**

Appointees to the Joint Legislative Commission on Governmental Operations

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	Representative William C. Owens, Jr.
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	Representative Thomas E. Wright

### **Other Legislative Officials**

Mr. James D. Johnson	Director, Fiscal Research Division
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## ORDERING INFORMATION

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