

**Financial Statements
and
Compliance Reports**

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

**(A COMPONENT UNIT OF THE
STATE OF NORTH CAROLINA)**

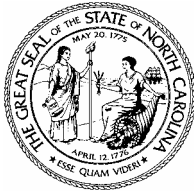
FOR THE YEAR ENDED JUNE 30, 2005

**Performed under contract with
the North Carolina Office of the State Auditor
Leslie W. Merritt, Jr., CPA, CFP – State Auditor**

CHAIRMAN OF THE BOARD OF DIRECTORS

THE HONORABLE MICHAEL F. EASLEY

DARLENE A. WADDELL, EXECUTIVE DIRECTOR



STATE OF NORTH CAROLINA
Office of the State Auditor

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AUDITOR'S TRANSMITTAL

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, 2005. 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 "Leslie W. Merritt, Jr." in a cursive script.

Leslie W. Merritt, Jr., CPA, CFP
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 Statement of Net Assets of the North Carolina Global Transpark Authority ("the Authority"), a component unit of the State of North Carolina, as of June 30, 2005, and the related statements of revenues, expenses and changes in net assets and cash flows for the year then ended. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit. We did not audit the financial statements of the North Carolina Global Transpark Foundation ("the Foundation"). Those 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 financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides 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 financial position of the Authority as of June 30, 2005, 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 19, 2005 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.

INDEPENDENT AUDITORS' REPORT (CONCLUDED)

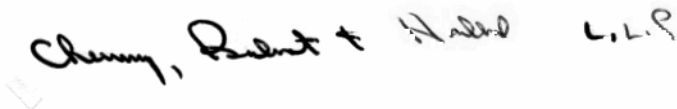
Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods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

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the basic financial statements of the Authority. The accompanying schedules of expenditures of Federal awards as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

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 \$28,932,194 to the North Carolina Escheat Fund. The Appropriation Act of 2004 (House Bill 1414) Section 30.22(a) provided that the Authority make a payment of \$2,500,000 to the Escheat Fund as soon as feasible; the payment was made in January 2005. The maturity date of the loan has been extended to October 1, 2007. 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 funding received to date from the Federal Aviation Administration (the "FAA") may be required to be paid back. As of June 30, 2005, the Authority has received approximately \$20.1 million 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.

As discussed in Note 1 to the financial statements, upon further review of accounting pronouncements, the Authority recorded a prior period adjustment to reclassify litigation claims related to the acquisition of land that had been previously recorded as an expense rather than a deposit for land. The Authority already had taken possession of the land by power of eminent domain. Accordingly, the net assets as of June 30, 2004 have been adjusted to properly reflect the deposit.

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

Handwritten signature in cursive script that reads "Cherry, Bekaert & Holland L.L.P." with a small checkmark to the left.

Raleigh, North Carolina
September 19, 2005

MANAGEMENT'S DISCUSSION AND ANALYSIS

Overview

The discussion and analysis (MD&A) provides an overview of the North Carolina Global TransPark Authority's (Authority) activities during the fiscal year ended June 30, 2005. 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, 2005, was a year of growing momentum at the TransPark, including developments such as:

- Construction completed for a 20,000 Square Foot hangar, built by existing GTP tenant Aero Contractors.
- Expansion plans initiated for Global TransPark tenant Segrave Aviation.
- Beginning of jet service to Atlanta via Delta Connection carrier Atlantic Southeast Airlines on April 1, thanks to the Lenoir Committee of 100's recruiting efforts. Delta has been extremely pleased with the new service and additional flights are currently being considered.
- New business is booming at the TransPark's Kinston Regional Jetport terminal. In addition to Delta's ticket counter, currently two rental car agencies, one local taxicab company, a gift shop/bakery, and the Transportation Security Administration (TSA) lease space.
- Governor's announcement that Workhorse Aviation will open a manufacturing plant at the GTP, creating approximately 50 jobs over the next three years. A fall completion date is anticipated for its 27,000 SF facility.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

- Announcement that the Golden LEAF Foundation awarded a large grant to N.C. State University and Lenoir Community College; training and certification will be done at the GTP Education & Training Center - bringing in lease revenues of approximately \$300,000 over a three-year period beginning this fall.
- Near-completion of Phase I of the GTP's environmental plan, which includes restoration and enhancement work on Stonyton Creek.
- Ongoing construction of upgrading the airport's instrument landing system (ILS) from Category I to Category III.
- Completion of construction of two new facilities: GTP One, a 120,000 square foot industrial grade facility in the industrial park and GTP Two, a 38,400 square foot airport rescue and firefighting (ARFF)/operations facility in the new fiscal year.
- Continuation of the Beautification Program to update and improve the looks of the GTP's aging airport. Another facility was demolished this past fiscal year, and there are plans to demolish the old ARFF/operations facility. In addition, landscaping plans are in place.

The business development at the end of the fiscal year was that New Breed, Inc., a major logistics and supply chain management company with many national clients, signed a lease for all of the space in GTP One.

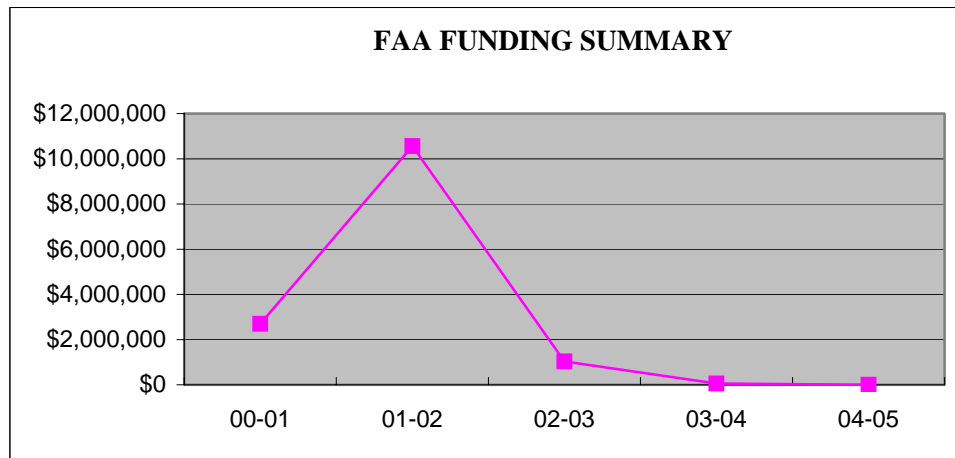
This deal will contribute more than \$300,000 in annual revenues to the N.C. Global TransPark Authority. The GTP team believes this deal signals a major turning point for the GTP. We received widespread news coverage at a June 29 press conference that announced our new tenant, and we are hopeful that New Breed will reveal more of its plan for the TransPark in the near future, which should attract additional attention.

The Global TransPark Foundation and its leadership played a major role in assisting with recruitment efforts through private funding this past fiscal year. The Foundation has truly stepped up to the plate with the Workhorse and New Breed projects, among others, and has helped foster the successful development of the GTP. The Foundation also enabled the TransPark to produce a video brochure this past spring, which is available for viewing on our web site. This video has been a powerful selling tool, portraying the Global TransPark as it is today, and continues to be widely distributed.

FAA Funding Summary

The following graph illustrates the FAA funding since 2000-2001. There has been no funding from the FAA since the balance of existing grant funding for the runway projects were received in the fiscal year ended June 30, 2004. These funds represented the balance of the FAA's commitment towards the \$35 million joint funding agreement between the FAA and the State of North Carolina. Since the Authority regained passenger airline service and has already met enplanement requirements, it is anticipated the airport will be eligible for FAA funding for capital projects in 2006.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)



Net Assets

A comparison of net assets at June 30, 2005 compared to June 30, 2004, depicts a significant change in current assets. This was due to the Authority's decrease in cash for capital projects, such as the ongoing environmental work, construction of the instrument landing system, construction of GTP One and Two, and the Workhorse facilities.

Capital assets are explained later in this analysis. The approximate 120% increase in noncurrent assets is due to an increase in deposits for land of approximately \$725,077 as well as an increase in a restricted interest-bearing account that is required for USDA loans until the balance equals one year's debt payment for each loan. 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

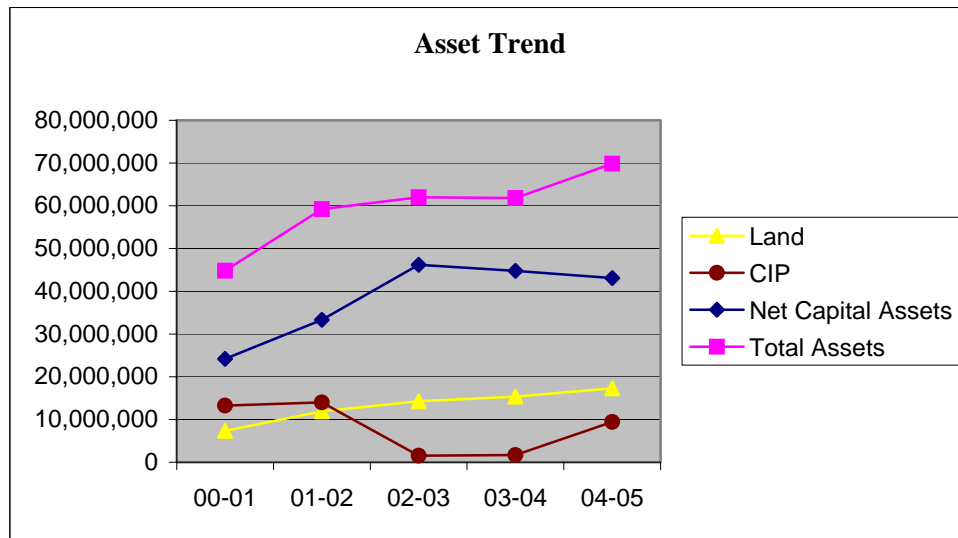
	<u>2005</u>	<u>2004 (Restated)</u>	<u>Change</u>	<u>% Change</u>
Current Assets	\$ 10,681,104	\$ 22,015,604	\$ (11,334,500)	-51%
Capital Assets	69,847,010	61,812,838	8,034,172	13%
Other Noncurrent Assets	<u>1,344,634</u>	<u>611,355</u>	<u>733,279</u>	120%
Total Assets	<u>81,872,748</u>	<u>84,439,797</u>	<u>(2,567,049)</u>	-3%
Current Liabilities	2,161,661	1,051,596	1,110,065	106%
Long-term debt outstanding	30,205,852	31,308,650	(1,102,798)	-4%
Other Noncurrent Liabilities	<u>36,821</u>	<u>41,452</u>	<u>(4,631)</u>	-11%
Total Liabilities	32,404,334	32,401,698	2,636	0%
Net Assets				
Invested in Capital Assets, Net of Related Debt	47,442,528	45,863,855	1,578,673	3%
Restricted for Debt Service	23,757	15,555	8,202	53%
Unrestricted	<u>2,002,129</u>	<u>6,158,689</u>	<u>(4,156,560)</u>	-67%
Total Net Assets	<u>\$ 49,468,414</u>	<u>\$ 52,038,099</u>	<u>\$ (2,569,685)</u>	-5%

Capital Asset and Debt Administration

Capital Assets

The following graph depicts the trend in net assets, particularly total capital assets. Total capital assets include land, construction in progress, and depreciable capital assets. Net Assets represents capital assets less depreciation. There was an increase in land/land costs of approximately \$1,863,500 and an increase in construction in progress of approximately \$8,180,000 with completion of approximately \$410,500 or a net increase of approximately \$7,769,500. There was a decrease in depreciable capital assets net due to most projects still in the construction-in-progress stage, the deletion of a facility demolished, and depreciation. Total capital assets increased significantly due to the increase in construction in progress throughout the year. This was a significant year for increased development 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, 2005:

	July 1, 2004	Additions	Payments	June 30, 2005	Due in Less Than One year
Notes payable	\$ 31,326,699	\$ 1,416,092	\$ 2,518,048	\$ 30,224,743	\$ 18,891
Compensated Absences	82,904	73,642	82,904	73,642	36,821
	<u>\$ 31,409,603</u>	<u>\$ 1,489,734</u>	<u>\$ 2,600,952</u>	<u>\$ 30,298,385</u>	<u>\$ 55,712</u>

North Carolina Escheat Fund - The \$21,741,952 principal plus the net accrued interest expense of \$7,190,242 represents a balance of \$28,932,194 due to the North Carolina Escheat Fund at June 30, 2005. It is payable on October 1, 2007, 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, 2005 by the \$7,280,262 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 \$2,059,529 for the year ended June 30, 2005. Interest earned on the invested portion of the loan is disclosed in Note 2.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

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:

Interest Rate	Final Maturity Date	Original Amount Of Issue	Principal Paid Through 6/30/2005	Principal Outstanding 6/30/2005
4.75%	06/21/41	\$ 666,500	\$ 25,186	\$ 641,314
4.63%	10/25/32	\$ 673,350	\$ 22,115	\$ 651,235

Revenues, Expenses and Changes in Net Assets

For the fiscal year the Authority showed a 17% increase in operating revenues due to increases in miscellaneous revenues. The Authority continues to decrease operating costs and will continue to find ways to become more efficient. Nonoperating revenues increased in total by 37% due mainly to an increase in noncapital grants. Investment earnings decreased because of the decrease in cash and investment balances, and there was a 23% decrease in interest expense due to the decreasing interest rates on the Escheat Loan. There was an increase in capital contributions of 291% due to combining two years of grant funds available through the North Carolina Division of Aviation into one year.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

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

	<u>2005</u>	<u>2004 (Restated)</u>	<u>Change</u>	<u>% Change</u>
Operating Revenues:				
Rental Revenue	\$ 438,273	\$ 458,764	\$ (20,491)	-4%
Miscellaneous Revenues	252,093	133,370	118,723	89%
Total Operating Revenues	<u>690,366</u>	<u>592,134</u>	<u>98,232</u>	17%
Operating Expenses:				
Salaries and Benefits	736,647	788,473	(51,826)	-7%
Professional Services	335,225	457,139	(121,914)	-27%
Depreciation	1,980,855	2,200,280	(219,425)	-10%
Utilities	239,246	234,117	5,129	2%
Other	604,215	477,188	127,027	27%
Total Operating Expenses	<u>3,896,188</u>	<u>4,157,197</u>	<u>(261,009)</u>	-6%
Operating Loss	<u>(3,205,822)</u>	<u>(3,565,063)</u>	<u>359,241</u>	-10%
Nonoperating Revenues (Expenses):				
State Operating Aid	1,600,000	1,600,000		
Loss on Disposal	(74,668)		(74,668)	-100%
Noncapital Grants	83,384	21,500	61,884	288%
Investment Earnings	848,376	1,361,890	(513,514)	-38%
Interest Expense	(2,120,955)	(2,737,514)	616,559	-23%
Net Nonoperating Revenues	<u>336,137</u>	<u>245,876</u>	<u>90,261</u>	37%
Loss Before Capital Contributions	<u>(2,869,685)</u>	<u>(3,319,187)</u>	<u>449,502</u>	-14%
Capital Contributions	300,000	76,664	223,336	2914%
Decrease in Net Assets	<u>(2,569,685)</u>	<u>(3,242,523)</u>	<u>672,838</u>	-21%
Net Assets-July 1	<u>52,038,099</u>	<u>55,280,622</u>	<u>(3,242,523)</u>	-6%
Net Assets-June 30	<u>\$ 49,468,414</u>	<u>\$ 52,038,099</u>	<u>\$ (2,569,685)</u>	-5%

Cash Flows

There were significant changes in the use of cash during the fiscal year compared to the prior fiscal year. The 18% decrease in 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 attempting to decrease operating costs. The 546% increase in capital and related financing activities is due to the increase in construction projects as well as the \$1.4 million in deposits related to the condemnation of a piece of land, while the 39% decrease in investing activities is due to the decrease in investments, as well as a decrease in interest rates.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONCLUDED)

The following is a summary of the change in cash and cash equivalents for the fiscal year ended June 30, 2005, and June 30, 2004:

Condensed Statement of Cash Flows

	<u>2005</u>	<u>2004</u>	<u>Change</u>	<u>% Change</u>
Net Cash Provided From (Used For):				
Operating Activities	\$ (312,215)	\$ (1,318,801)	\$ 1,006,586	-76%
Noncapital Financing Activities	1,624,960	1,636,167	(11,207)	-1%
Capital and Related Financing Activities	(10,949,106)	(1,694,025)	(9,255,081)	546%
Investing Activities	<u>848,376</u>	<u>1,397,722</u>	<u>(549,346)</u>	-39%
Net Increase (Decrease)	(8,787,985)	21,063	(8,809,048)	
Cash and Cash Equivalents at Beginning of Year	<u>11,605,392</u>	<u>11,584,329</u>	<u>21,063</u>	
Cash and Cash Equivalents at End of Year	<u><u>\$ 2,817,407</u></u>	<u><u>\$ 11,605,392</u></u>	<u><u>\$ (8,787,985)</u></u>	-76%

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 continued aggressive marketing efforts are essential in order to increase activity at the TransPark and generate revenues.

The Authority has made significant strides this past fiscal year in increasing activity at the TransPark. Several leases were signed; however, the full impact of the leases with Workhorse and New Breed, Inc., will not be seen until fiscal year ended June 30, 2007. As of September 2005, the Authority has less than 40,000 square feet available for lease and needs more product.

State lawmakers have included the Authority in the continuation budget, which is a strong sign of support for this project. Given the chance to finish what started 14 years ago, the TransPark can become the economic engine in Eastern North that it was designed to be while meeting its goal to become self-sufficient.

North Carolina Global TransPark Authority
Statement of Net Assets
June 30, 2005

Exhibit A

	<i>NCGTPA</i>	<i>NCGTPF</i>
ASSETS		
Current Assets:		
Cash and Cash Equivalents (Note 2)	\$ 2,793,650	\$ 4,297,860
Investment on Deposit with State Treasurer (Note 2)	7,820,262	
Accounts Receivable (Net)	67,192	
Contributions Receivable		128,138
Total Current Assets	<u>10,681,104</u>	<u>4,425,998</u>
Noncurrent Assets:		
Restricted Cash and Cash Equivalents (Note 2)	23,757	
Deposit for Land	1,320,877	
Capital Assets - Nondepreciable (Note 3)	26,745,652	
Capital Assets - Depreciable, Net (Note3)	<u>43,101,358</u>	<u>6,627,818</u>
Total Noncurrent Assets	<u>71,191,644</u>	<u>6,627,818</u>
Total Assets	<u>81,872,748</u>	<u>11,053,816</u>
LIABILITIES		
Current Liabilities:		
Accounts Payable (Note 5)	2,080,262	
Due to Primary Government (Note 5)	2,772	
Compensated Absences	36,821	
Unearned Revenue	22,915	
Note Payable - USDA (Note 6)	<u>18,891</u>	
Total Current Liabilities	<u>2,161,661</u>	
Noncurrent Liabilities:		
Note Payable - USDA (Note 6)	1,273,658	
Note Payable - Due to NC Escheat Fund (Note 6)	28,932,194	
Compensated Absences (Note 6)	<u>36,821</u>	
Total Noncurrent Liabilities	<u>30,242,673</u>	
Total Liabilities	<u>32,404,334</u>	
NET ASSETS		
Invested in Capital Assets, Net of Related Debt	47,442,528	6,627,818
Restricted for Debt Service	23,757	
Unrestricted	<u>2,002,129</u>	<u>4,425,998</u>
Total Net Assets	<u>\$ 49,468,414</u>	<u>\$ 11,053,816</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 Net Assets
For the Fiscal Year Ended June 30, 2005

Exhibit B

	<i>NCGTPA</i>	<i>NCGTPF</i>
OPERATING REVENUES		
Rental Revenue	\$ 438,273	\$ 186,683
Miscellaneous Revenues	252,093	609
Total Operating Revenues	690,366	187,292
EXPENSES		
Salaries and Benefits	736,647	105,710
Professional Services	335,225	65,369
Legal Accounting	49,835	
Depreciation	1,980,855	218,141
Rent	25,496	
Repairs and Maintenance	209,140	
Supplies and Materials	57,932	889
Equipment	9,747	
Insurance	29,614	
Printing and Binding	8,135	
Telephone	30,214	2,967
Utilities	239,246	
Travel and Subsistence	4,603	7,528
Advertising	7,334	
Landing Fields and Grounds	106,968	
Projects	40,518	
Other	24,679	3,338
Total Operating Expenses	3,896,188	403,942
Operating Loss	(3,205,822)	(216,650)
NONOPERATING REVENUES (EXPENSES)		
State Operating Aid	1,600,000	
Contributions		124,650
Loss on Disposal	(74,668)	
Noncapital Grants	83,384	
Investment Earnings	848,376	83,666
Interest Expense	(2,120,955)	
Net Nonoperating Revenues	336,137	208,316
Loss Before Capital Contributions	(2,869,685)	(8,334)
Capital Contributions	300,000	
Decrease in Net Assets	(2,569,685)	(8,334)
Net Assets - July 1, as Previously Reported	51,442,299	11,062,150
Prior Period Adjustment	595,800	
Net Assets - July 1, Restated	52,038,099	
Net Assets - June 30	\$ 49,468,414	\$ 11,053,816

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, 2005

Exhibit C

	NCGTPA	NCGTPF
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash Received from Customers	\$ 748,043	\$ 186,683
Cash Received from Others		609
Payments to Vendors	(313,193)	(80,091)
Payments to Employees and Fringe Benefits	(747,065)	(105,710)
Net Cash Provided (Used) from Operating Activities	(312,215)	1,491
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
State Appropriations	1,600,000	
Other	24,960	159,650
Net Cash Provided from Noncapital Financing Activities	1,624,960	159,650
CASH FLOWS FROM CAPITAL FINANCING AND RELATED FINANCING ACTIVITIES		
Acquisition and Construction of Capital Assets	(10,567,548)	(13,456)
Federal Capital Appropriations	2,541,352	
Grants	300,000	
Principal Payments on Capital Debt	(2,518,048)	
Interest Payments on Capital Debt	(704,862)	
Net Cash Used from Capital Financing and Related Financing Activities	(10,949,106)	(13,456)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest Received	848,376	83,666
Net Increase (Decrease) in Cash and Cash Equivalents	(8,787,985)	231,351
Cash and Cash Equivalents, July 1	11,605,392	4,066,509
Cash and Cash Equivalents, June 30	\$ 2,817,407	\$ 4,297,860
RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES		
Operating Loss	\$ (3,205,822)	\$ (216,650)
Adjustments to Reconcile Operating Loss to Net Cash Flows from Operating Activities:		
Depreciation	1,980,855	218,141
Decrease in Accounts Receivables	55,385	
Increase in Accounts Payable	865,071	
Decrease in Due to Primary Government	(162)	
Decrease in Compensated Absences	(9,262)	
Increase in Unearned Revenue	1,720	
Net Cash Provided (Used) by Operating Activities	\$ (312,215)	\$ 1,491
NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES		
Assets Acquired through the Assumption of a Liability	\$ 41,352	\$ 0
Change in Capital Assets as a Result of Accrual Accounts Payable	\$ 270,863	\$ 0

North Carolina Global TransPark Authority
Statement of Cash Flows
Year Ended June 30, 2005

Exhibit C
Page 2
NCGTPA ***NCGTPF***

COMPOSITION OF CASH AND CASH EQUIVALENTS

Current Assets:		
Cash and Cash Equivalents	\$ 2,793,650	\$ 4,297,860
Noncurrent Assets:		
Restricted Cash and Cash Equivalents	23,757	
Total Cash and Cash Equivalents - June 30, 2005	<u>\$ 2,817,407</u>	<u>\$ 4,297,860</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, 2005

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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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.

The Foundation has commitments to the Authority to provide financial incentives to two tenants that have signed leases to locate at the TransPark. Estimated payments related to these commitments at June 30, 2005 are as follows:

<u>Fiscal Year</u>	<u>Commitment</u>
2006	\$ 350,466
2007	87,912
2008	58,608
2009	29,308
	<u>\$ 526,294</u>

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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 nonoperating 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 assets. All revenues and expenses not meeting this definition are reported as nonoperating 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 and 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 \$203,966.
- H. Deposits** - Deposits include the potential estimated costs of condemnation of a piece of land.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

- I. 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.

- J. Restricted Assets** - Restricted assets represent assets whose use is restricted by external parties or by law through constitutional provisions or enabling legislation.

- K. 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.

- L. 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 1 or for which an employee can be paid upon termination of employment. Also, any accumulated vacation leave in excess of 30 days at yearend is converted to sick leave. Under this policy, the accumulated vacation leave for each employee at June 30 equals the leave carried forward at the previous December 31 plus the leave earned, less the leave taken between January 1 and June 30.

In addition to the vacation leave described above, compensated absences includes the accumulated unused portion of the special annual leave bonuses awarded by the Authority to all full-time permanent employees as of September 30, 2002, and as of July 1, 2003. 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 (LIFO) 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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 or for which the employee can be paid upon termination of employment. Also any accumulated vacation leave in excess of 30 days at yearend is forfeited. At June 30, 2005, the liability related to compensated absences payable is immaterial and has not been recorded.

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.

M. 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*.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

- N. Prior Period Adjustment** - In the prior year, the Authority accrued the litigation claims related to the acquisition of land as an expense rather than a deposit for land, as the Authority had taken possession of the land by power of eminent domain. The result of this prior period adjustment was to increase net assets by \$595,800.

NOTE 2 - DEPOSITS AND INVESTMENTS

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 \$4,754,746 and a bank balance of \$4,812,873. Of the bank balance, \$538,884 was covered by federal depository insurance and \$4,273,989 was uninsured and uncollateralized. The Authority and the Foundation have no deposit policy concerning credit risk.

State Treasurer's Short-Term Investment Fund - The amount shown on the Statement of Net Assets as cash and cash equivalents includes \$2,360,521, which represents the Authority's equity position in the Short-Term Investment Fund managed by the North Carolina State Treasurer (a portfolio within the State Treasurer's Investment Pool, an external investment pool that is not registered with the Securities and Exchange Commission and does not have a credit rating). The Short-Term Investment Fund had a weighted average maturity of 1.41 years as of June 30, 2005. Assets and shares of the Short-Term Investment Fund are valued at amortized cost, which approximates fair value.

State Treasurer's 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 in the State Treasurer's Long-Term Investment Fund (a portfolio within the State Treasurer's Investment Pool described above) and have been pledged as collateral for the loan. The investment is valued at \$7,820,262 at June 30, 2005. Interest earned on the investment on deposit with the State Treasurer totaled \$643,436 for the year ended June 30, 2005. As stipulated in the loan agreement, the Authority does not participate in changes to the fair value of the investments. Consequently,

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

the Authority's shares in the Long-Term Investment Fund are valued at cost and the Authority is not exposed to interest rate risk.

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.

NOTE 3 – CAPITAL ASSETS

A summary of changes in the capital assets for the year ended June 30, 2005, is presented as follows:

	Balance July 1, 2004	Additions	Deletions	Balance June 30, 2005
Capital Assets, Nondepreciable:				
Land	\$ 15,345,359	\$ 1,954,390	\$ 0	\$ 17,299,749
Construction in Progress	1,676,342	8,180,059	(410,498)	9,445,903
Total Capital Assets, Nondepreciable	17,021,701	10,134,449	(410,498)	26,745,652
Capital Assets, Depreciable:				
Landing Fields and Grounds	38,555,117	348,208		38,903,325
Buildings	24,605,706		(227,462)	24,378,244
Equipment	3,271,449	42,140	(19,673)	3,293,916
Total Capital Assets, Depreciable	66,432,272	390,348	(247,135)	66,575,485
Less Accumulated Depreciation for:				
Landings Fields and Grounds	(7,405,997)	(1,295,426)		(8,701,423)
Buildings	(4,928,842)	(705,494)	152,794	(5,481,542)
Equipment	(2,473,793)	(198,076)	8,525	(2,663,344)
	(14,808,632)	(2,198,996)	161,319	(16,846,309)
Total Accumulated Depreciation	51,623,640	(1,808,648)	(85,816)	49,729,176
Total Capital Assets, Net	\$ 68,645,341	\$ 8,325,801	\$ (496,314)	\$ 76,474,828

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

The Authority	\$ 1,980,855
The Foundation	<u>218,141</u>
Total	<u><u>\$ 2,198,996</u></u>

NOTE 4 – LEASE AGREEMENTS

The Authority has entered into several long-term lease agreements. Expected income from leasing arrangements over the next five years is as follows:

<u>Fiscal Year</u>	<u>Amount</u>
2006	\$ 690,881
2007	725,445
2008	714,833
2009	614,282
2010	<u>574,052</u>
Total	<u><u>\$ 3,319,493</u></u>

Component Unit Information

The Foundation has entered into a lease agreement with Mountain Air Cargo, Inc., 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 during the current year. Under the terms of the agreement, Mountain Air Cargo, Inc. will pay no lease payments for the first 18 months. At the end of eighteen months, lease payments are \$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. 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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

Fiscal Year	Amount
2006	\$ 186,683
2007	186,683
2008	208,907
2009	240,021
2010	240,021
Total	<u>\$ 1,062,315</u>

The building being leased was constructed in 1995 at a cost of \$8,498,064 and has accumulated depreciation totaling \$1,892,208 at June 30, 2005.

NOTE 5 – ACCOUNTS PAYABLE

Accounts payable at June 30, 2005 were as follows:

	Amount
Accounts Payable	\$ 1,730,102
Contract Retainage	350,159
Intergovernmental Payables	<u>2,772</u>
Total Accounts Payable	<u>\$ 2,083,033</u>

NOTE 6 – LONG-TERM DEBT

The following is a summary of changes in the Authority's long-term obligations as of June 30, 2005:

	Balance July 1, 2004	Additions	Payments	Balance June 30, 2005	Due in Less Than
Notes Payable	\$ 31,326,699	\$ 1,416,092	\$ 2,518,048	\$ 30,224,743	\$ 18,891
Compensated Absences	<u>82,904</u>	<u>73,642</u>	<u>82,904</u>	<u>73,642</u>	<u>36,821</u>
	<u>\$ 31,409,603</u>	<u>\$ 1,489,734</u>	<u>\$ 2,600,952</u>	<u>\$ 30,298,385</u>	<u>\$ 55,712</u>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

A. North Carolina Escheat Fund - The \$21,741,952 principle plus the net accrued interest expense of \$7,190,242 represents a balance of \$28,932,194 due to the North Carolina Escheat Fund at June 30, 2005. It is payable on October 1, 2007, 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, 2005 by the \$7,820,262 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 \$2,059,529 for the year ended June 30, 2005. Interest earned on the invested portion of the loan is disclosed in Note 2.

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:

Interest Rate	Final Maturity Date	Original Amount Of Issue	Principal Paid Through 6/30/2005	Principal Outstanding 6/30/2005
4.75%	\$ 06/21/41	\$ 666,500	\$ 25,186	\$ 641,314
4.63%	\$ 10/25/32	\$ 673,350	\$ 22,115	\$ 651,235

The annual requirements to pay principal and interest on the notes at June 30, 2005 are presented as follows:

Fiscal Year	Principal	Interest
2006	\$ 18,891	\$ 60,583
2007	19,775	59,699
2008	20,698	58,776
2009	21,665	57,809
2010	22,677	56,797
2011-2015	130,305	267,065
2016-2020	163,724	233,646
2021-2025	205,717	191,653
2026-2030	258,483	138,887
2031-2035	238,808	74,662
2036-2040	156,218	31,401
2041	35,588	1,684
Total Requirements	<u>\$ 1,292,549</u>	<u>\$ 1,232,662</u>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 7 - OPERATING LEASE OBLIGATIONS

Future minimum lease payments under non-cancelable operating leases consist of the following at June 30, 2005:

<u>Fiscal Year</u>	<u>Amount</u>
2006	\$ 11,134
2007	5,646
2008	5,646
2009	5,646
2010	5,646
2011	471
Total Minimum Lease Payments	<u>\$ 34,189</u>

Rental expenses for all operating leases during the year were \$20,804.

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. There have been no significant reductions in insurance coverage in the prior year, and settled claims have not exceeded coverage in any of the past three fiscal years.

Tort claims of up to \$500,000 are self-insured under the authority of the State Tort Claims Act. In addition, the State provides excess public officers' and employees' liability insurance up to \$5,000,000 via contract with a private insurance company. 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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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. Health care coverage is optionally available through contractual agreements with several health maintenance organizations.

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 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 2005.

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. Teachers' and State Employees' Retirement System** - The Authority contributes to the statewide Teachers' and State Employees' Retirement System (TSERS), a cost sharing multiple-employer defined benefit pension plan administered by the State of North Carolina. TSERS provides retirement benefits to plan members and beneficiaries. Article 1 of G.S. Chapter 135 assigns the authority to establish and amend benefit

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

provisions to the North Carolina General Assembly. The Teachers' and State Employees' Retirement System is included in the *Comprehensive Annual Financial Report* (CAFR) for the State of North Carolina. The State's CAFR includes financial statements and required supplementary information for TSERS. That report may be obtained in writing to the Office of the State Controller, 1410 Mail Service Center, Raleigh, North Carolina, 27699-1410, or by calling (919)981-5454.

Plan members are required to contribute six percent of their annual covered salary and the Authority is required to contribute at an actuarially determined rate. The current rate is 2.17% of annual covered payroll. The contribution requirements of the plan members and the Authority are established and may be amended by the North Carolina General Assembly. The Authority's contributions to TSERS for the years ended June 30, 2005, 2004, and 2003 were \$17,076, \$1,242, and \$0, respectively, equal to the required contributions for each year.

401(b) Plan - 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, 2005, the Foundation contributed \$10,500 to the plan on behalf of its employee.

NOTE 10 – OTHER EMPLOYMENT 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, 2005, the Authority contributed 3.2% of covered payroll to the Retiree Health Benefit Fund, or \$17,076. 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. The Authority contributes .445% of covered payroll under the Teachers' and State Employees' Retirement System to the Plan. For the year ended June 30, 2005, the Authority's total contribution to the Plan was \$2,375. The Authority assumes no liability for long-term

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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*.

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 can appoint 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, 2005.

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

NOTES TO THE FINANCIAL STATEMENTS (CONCLUDED)

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.

- 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 \$1,644,413 at June 30, 2005. These commitments were for capital improvement projects for the Runway Extension Project and other construction projects. As of July 2005, the Authority has entered into additional construction contracts totaling \$299,449. There are long-range commitments on environmental, based on the 404 permit.
- 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, 2005, the Authority received approximately 45% of its financial support from the State.
- D. Going Concern Consideration** - As of June 30, 2005, the Authority also has a loan outstanding including accrued interest payable totaling \$28,932,194 to the North Carolina Escheat Fund. The Appropriation Act of 2004 (House Bill 1414) Section 30.22(a) provided that the Authority make a payment of \$2,500,000 to the Escheat Fund as soon as feasible; the payment was made in January 2005. The maturity date of this loan has been extended to October 1, 2007. 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 funding received to date from the Federal Aviation Administration (the "FAA") may be required to be paid back. As of June 30, 2005, the Authority has received approximately \$20.1 million from the FAA.
- 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.

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**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, 2005 and have issued our report thereon dated September 19, 2005. We did not audit the financial statements of the North Carolina Global TransPark Foundation (the Foundation). Those 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 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.

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.

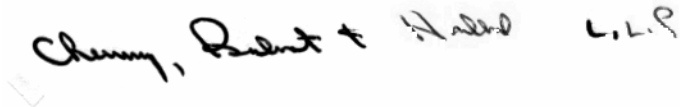
**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL
OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER
MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS* (CONCLUDED)**

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*.

We noted other matters involving the internal control over financial reporting that we have reported to management of the Authority in a separate letter dated September 19, 2005.

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.

Handwritten signature of Cherry, Bekaert & Holland, L.L.P.

Raleigh, North Carolina
September 19, 2005



**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE
WITH REQUIREMENTS APPLICABLE TO EACH MAJOR FEDERAL
PROGRAM AND INTERNAL CONTROL OVERCOMPLIANCE IN
ACCORDANCE WITH OMB CIRCULAR A-133**

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

Compliance

We have audited the compliance of the North Carolina Global TransPark Authority (the "Authority"), with the types of compliance requirements described in the *U. S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement*, that are applicable to its major federal programs for the years ended June 30, 2005 and 2004. The Authority's major federal programs are identified in the summary of auditor's results section of the accompanying schedules of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal programs is the responsibility of the Authority's management. Our responsibility is to express an opinion on the Authority's compliance based on our audits.

We conducted our audits of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and *OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and *OMB Circular A-133*, require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Authority's compliance with those requirements and performing such other procedures, as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audits do not provide a legal determination on the Authority's compliance with those requirements.

In our opinion, the Authority complied, in all material respects, with the requirements referred to above that are applicable to its major federal programs for the years ended June 30, 2005 and 2004.

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE
WITH REQUIREMENTS APPLICABLE TO EACH MAJOR FEDERAL
PROGRAM AND INTERNAL CONTROL OVERCOMPLIANCE IN
ACCORDANCE WITH *OMB CIRCULAR A-133* (CONCLUDED)**

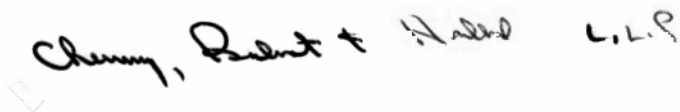
Internal Control Over Compliance

The management of the Authority is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the Authority's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with *OMB Circular A-133*.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control 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 noncompliance with applicable requirements of laws, regulations, contracts and grants caused by error or fraud that would be material in relation to a major federal program 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 compliance and its operation that we consider to be material weaknesses.

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.

Handwritten signature of Cherry, Bekaert & Holland, L.L.P.

Raleigh, North Carolina
September 19, 2005

NORTH CAROLINA GLOBAL TRANSPARK AUTHORITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Years Ended June 30, 2005 and 2004

I – Summary of Auditors’ Results

Type of auditor’s reports issued: **Unqualified.**

Internal control over financial reporting:

- Material weakness (es) identified? _____ yes X no
- Reportable condition(s) identified that are not considered to be material weaknesses? _____ yes X none reported

Noncompliance material to financial statements noted _____ yes X no

Federal Awards

Internal control over major federal programs:

- Material weakness (es) identified? _____ yes X no
- Reportable condition(s) identified that are not considered to be material weaknesses? _____ yes X none reported

Noncompliance material to federal awards? _____ yes X no

Type of auditor’s report issued on compliance for major federal programs: **Unqualified**

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of *OMB Circular A-133*? _____ yes X no

Identification of major federal programs:

<u>CFDA Numbers</u>	<u>Names of Federal Program or Cluster</u>
---------------------	--

10.766 (for 2005 and 2004) 20.106 (for 2005)	Community Facility Program Airport Improvement Program
---	---

Dollar threshold used to distinguish between Type A and Type B Programs: \$ 300,000

Auditee qualified as low-risk auditee? X yes _____ no

NORTH CAROLINA GLOBAL TRANSPARK AUTHORITY
SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS
Years Ended June 30, 2005 and 2004 (CONCLUDED)

II – Findings Related to the Audits of the Financial Statements of the North Carolina Global TransPark Authority

None.

III – Federal Awards Findings and Questioned Costs

None.

There were no prior year audit findings.

***North Carolina Global TransPark Authority
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2005***

Schedule 1

Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Pass-Through Grantor's Number	Federal (Direct & Pass-Through) Expenditures
Federal Awards			
<u>U.S. Department of Agriculture</u>			
USDA Rural Development Community Facility Program	10.766		\$ 1,292,549
<u>U.S. Department of Transportation</u>			
Federal Aviation Administration Passed Through the North Carolina Division of Aviation Airport Improvement Program	20.106	36237.51.1.1	300,000
Small Community Air Service Development Pilot Program	20.930		55,924
<u>National Science Foundation</u>			
Passed Through the University of North Carolina Education and Human Resource Program	47.076	5-37302	5,000
Total Federal Expenditures			\$ 1,653,473

Notes to Schedule of Expenditures of Federal Awards

The accompanying Schedule of Expenditures of Federal Awards includes federal grant activity of the Authority and is presented on the full accrual basis of accounting. The information is presented in accordance with the requirements of *OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations*.

***North Carolina Global TransPark Authority
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2004***

Schedule 2

Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Pass-Through Grantor's Number	Federal (Direct & Pass-Through) Expenditures
Federal Awards			
<u>U.S. Department of Agriculture</u>			
<u>USDA Rural Development</u>			
Community Facility Program	10.766		\$ 1,310,597
<u>U.S. Department of Transportation</u>			
<u>Federal Aviation Administration</u>			
Passed Through the North Carolina Division of Aviation Airport			
Improvement Program	20.106	3-37-0035-20	22,981
		3-37-0035-23	33,683
			56,664
Total Federal Expenditures			\$ 1,367,261

Notes to Schedule of Expenditures of Federal Awards

The accompanying Schedule of Expenditures of Federal Awards includes federal grant activity of the Authority and is presented on the full accrual basis of accounting. The information is presented in accordance with the requirements of *OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations*.

DISTRIBUTION OF AUDIT REPORT

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

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Director, Fiscal Research Division

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