

**FINANCIAL STATEMENT AUDIT REPORT OF
NORTH CAROLINA GLOBAL TRANSPARK AUTHORITY
Kinston, North Carolina**

Year Ended June 30, 2011

Performed under contract with
The North Carolina Office of the State Auditor
Beth A. Wood, CPA

Chairman of the Board of Directors
The Honorable Beverly Eaves Perdue

Board of Directors
Eugene A. Conti, Chairman

James T. Fain III, President
Darlene A. Waddell, CPA, Executive Director

NORTH CAROLINA GLOBAL TRANSPARK AUTHORITY
TABLE OF CONTENTS
Year Ended June 30, 2011

	<u>Page(s)</u>
INDEPENDENT AUDITORS' REPORT	1-2
MANAGEMENT'S DISCUSSION AND ANALYSIS	3-12
FINANCIAL STATEMENTS	
Exhibits	
<i>PRIMARY GOVERNMENT</i>	
A Statement of Net Assets	13
B Statement of Revenues, Expenses, and Changes in Net Assets	14
C Statement of Cash Flows.....	15-16
<i>DISCRETELY PRESENTED COMPONENT UNIT</i>	
D Global TransPark Foundation, Inc. Statement of Financial Position	17
E Global TransPark Foundation, Inc. Statement of Activities.....	18
Notes to the Financial Statements.....	19-39
ADDITIONAL AUDITORS' REPORT	
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 <i>Government Auditing Standards</i>	40-41



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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"), a component unit of the State of North Carolina and its discretely presented component unit, as of and for the year ended June 30, 2011. 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 as listed in the table of contents 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 they relate to the amounts included for the Foundation, are 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 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 financial position of the Authority and its discretely presented component unit as of June 30, 2011, and the changes in financial position 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 December 29, 2011 on our consideration of the Authority's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of our 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 the 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 financial statements have been prepared assuming that the Authority will continue as a going concern. As discussed in Note 13 of the financial statements, the Authority has a loan outstanding including accrued interest totaling \$23,173,823 to the North Carolina Escheat Fund. The maturity date of the loan is October 1, 2012. 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 declares bankruptcy, funding received to date from the Federal Aviation Administration (the "FAA") may be required to be paid back. As of June 30, 2011 the Authority's amortized potential liability to the FAA was approximately \$15.8 million. 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.

Thomas S. Gibbs CA, PLLC

Durham, North Carolina
December 29, 2011

NORTH CAROLINA GLOBAL TRANSPARK AUTHORITY 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, 2011. 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 Global TransPark Foundation, Inc. (Foundation) is included in the financial statements as a component unit to comply with 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's and the Authority's financial information are shown separately. The Foundation organized and raised funds from private individuals and corporations for the sole purpose of increasing business and jobs at the Global 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 that ended June 30, 2011, was a busy year for the Authority, as the agency was and continues to be very attentive to its new anchor tenant, recognizing that Spirit AeroSystems (Spirit) is the catalyst for the TransPark's promising future, such as IBM was for the Research Triangle Park early on.

Some of the activities for the fiscal year included the following:

- Spirit AeroSystems (Spirit), the Authority's anchor tenant, opened its doors to its 600,000 SF facility in July 2010 with a gala event that included participation from the CEOs of both Spirit and Airbus.
- DB Schenker was announced as Spirit's logistics partner, leasing 20,000 SF of space at the GTP and committed to creating 40 new jobs over 5 years.
- Segrave Aviation was rebranded as Delta Private Jets following the purchase of the company by Delta Aire Elite, a wholly-owned subsidiary of Delta Airlines.
- The Authority received a \$350,000 Small Community Air Service Grant from the FAA to explore the development of air passenger service at the Kinston Regional Jetport (ISO).
- With the active support of the marketing committee, composed of board members, staff and consultants, the Authority participated in several events, including those sponsored by Friends of NC, as well as attended aviation/aerospace events such as the MRO Americas, Farnborough Air Show and Paris Air Show.

Financial Highlights and Analysis (Continued)

The agency continues to work with its partners at the Department of Commerce, North Carolina's Eastern Region, Lenoir Community College, North Carolina Department of Transportation (DOT) and others, in marketing the TransPark to aviation/aerospace, advanced manufacturing, logistics and supply chain management, emergency response and disaster relief, and defense and security industries.

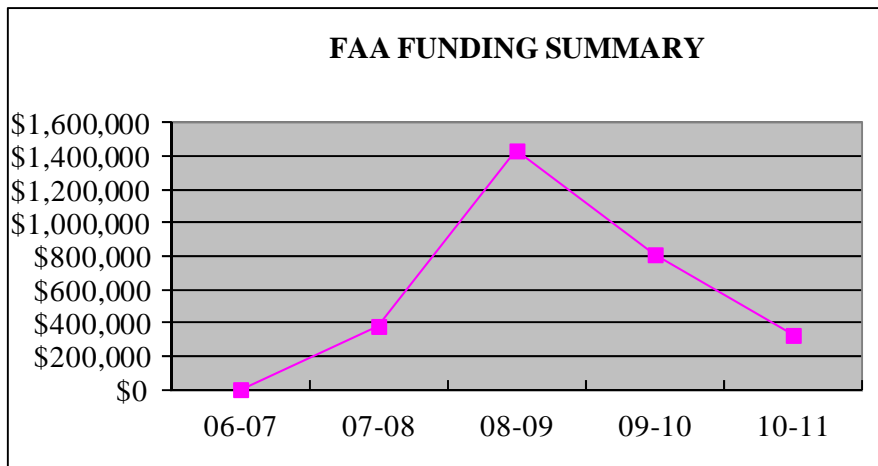
- The Development Committee, which consisted of board members, staff and consultants, had several meetings with Lenoir County and City of Kinston staff regarding going forward with the public process for the Development (zoning) Ordinance. There are ongoing meetings into the new fiscal year, as it is important for the county and city to partner with the Authority.
- With assistance from green energy partner, Greenfield Power, the Authority completed the installation of a solar array atop the Spirit AeroSystem's Composite Center of Excellence (Composite Center)— the largest of its kind east of I-95. The solar array was financed with private funding from an anonymous NC investor.
- The following infrastructure development activities occurred:
 - Completed the construction on a taxiway on the southwest end of the airport runway. Having this taxiway gives the agency's airport a competitive edge when recruiting aviation clients.
 - Completed the construction of the apron and transverse taxiways on the southeast end of the runway—a commitment the State made to the Authority's anchor tenant. This section of the 11,500 foot runway will be used this fall when Spirit utilizes one of the largest aircraft in the world, a Russian Antonov AN-124L, to transport its product to its customer overseas.
 - Construction of the fiber optic loop at the TransPark was completed, giving redundancy capability to the TransPark users.
 - Workforce development training for Spirit picked up momentum, as Lenoir Community College held several classes of Aerospace Manufacturing Readiness (AMR) training at the Composite Center.
 - The Authority's Strategic Plan was completed before December 31, 2011.
 - During the year the Authority's Board of Directors approved a bank loan to finance the construction of GTP-7, a 100,000 square foot facility adjacent to the rail spur. As of December 2011, the loan closing had not taken place.

Financial Highlights and Analysis (Continued)

- North Carolina Session Law 2010-31, Section 28.3(b) directed The Program Evaluation Division of the General Assembly to conduct a comprehensive program and financial review of the GTP. Their findings can be found in Report Number 2011-02 dated April 19, 2011. On May 17, 2011, the findings were presented to the Joint Legislative Program Evaluation Oversight Committee; the Authority's leadership also participated. The two recommendations were:
 1. The General Assembly should establish the terms and repayment schedule for the Escheat Fund debt.
 2. The General Assembly should choose between two options for the future of the TransPark – continue supporting the agency based on demonstrated results or incrementally divest in the GTP.
- The General Assembly passed North Carolina Session Law 2011-340 which made substantial changes to the makeup of the Authority's board of directors, changed the agency's reporting requirements, directed the Office of State Budget and Management to remit to the Escheat Fund \$17,500,000 as payment on the Authority's debt with the State Treasurer authorized under GS 63A-4(a)922) and GS 147-69.2(b)(11).

FAA Funding Summary

The following graph illustrates FAA funding for fiscal years 2007–2011. The Authority's Kinston Regional Jetport was awarded entitlement grants for fiscal years ended June 30, 2008 and June 30, 2009, respectively. Funding received in the current fiscal year from prior years' entitlement grant awards totaled \$325,651.



MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Net Assets

A comparison of current assets at June 30, 2011 compared to June 30, 2010, depicts an increase in total current assets of approximately 8%.

There was an 87% decrease in other noncurrent assets due to the funds in restricted cash being used to complete Spirit's 600,000 SF state-of-the-art facility. This decrease coincides with the 82% decrease in current liabilities and 97% decrease in net assets restricted for construction.

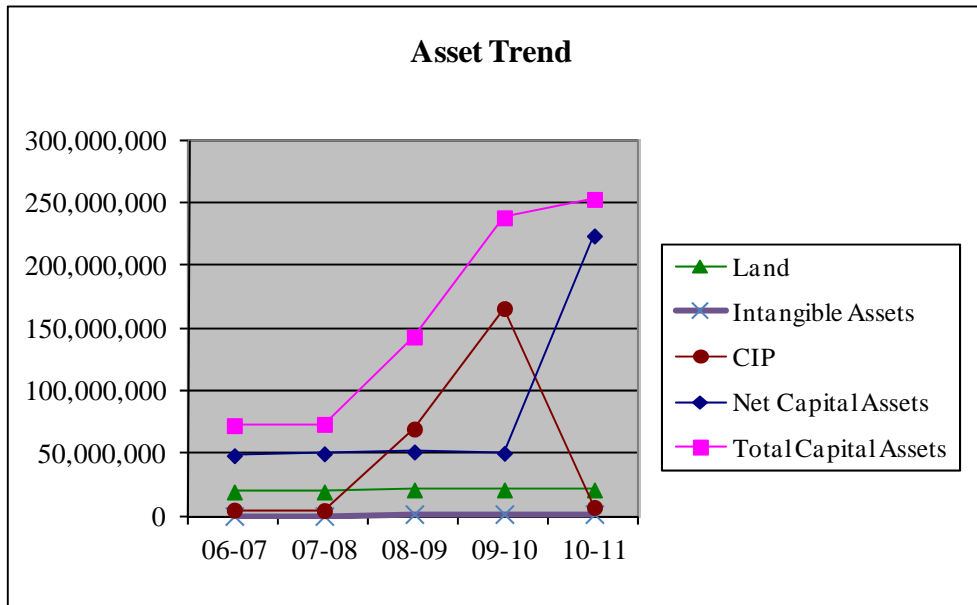
The 35% decrease in long-term debt outstanding, as well as the 121% increase in unrestricted net assets, is due to the reduction of the Escheat Fund debt by \$17,500,000 and the restricted cash from the grant received for the Spirit project being used during the fiscal year.

Condensed Statement of Net Assets				
June 30,				
	2011	2010	Change	% Change
Current assets	\$ 6,266,807	\$ 5,787,348	\$ 479,459	8.28%
Intangible assets	1,546,370	1,546,370	-	0.00%
Capital assets	251,069,166	236,354,912	14,714,254	6.23%
Other noncurrent assets	678,349	5,452,117	(4,773,768)	-87.56%
Total assets	259,560,692	249,140,747	10,419,946	4.18%
Current liabilities	1,039,708	5,901,912	(4,862,204)	-82.38%
Long-term debt outstanding	28,096,265	43,299,567	(15,203,302)	-35.11%
Other non-current liabilities	44,539	44,748	(209)	-0.47%
Total liabilities	29,180,512	49,246,227	(20,065,715)	-40.75%
Net assets				
Invested in capital assets, net of related debt	226,149,320	210,871,341	15,277,979	7.25%
Restricted for debt service	540,964	524,180	16,784	3.20%
Restricted for construction	137,385	4,927,937	(4,790,552)	-97.21%
Unrestricted	3,552,511	(16,428,938)	19,981,449	121.62%
Total net assets	\$ 230,380,180	\$ 199,894,520	\$ 30,485,660	15.25%

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, intangible assets, construction in progress, and depreciable capital assets. Net capital assets represent capital assets less depreciation. Net Capital Assets, depreciable increased significantly by approximately \$173 million due to the completion of the Spirit facility and the taxiways at the airport. In contrast, there was a decrease in construction in progress of approximately \$158 million, and total capital assets increased by approximately \$15 million.



Long-Term Debt

The following is a summary of changes in the Authority's long-term obligations as of June 30, 2011:

	Balance July 1, 2010	Additions	Payments	Balance June 30, 2011	Due in Less Than One Year
Notes payable	\$ 43,648,987	\$ 2,317,050	\$ 17,677,506	\$ 28,288,531	\$ 192,266
Compensated absences	89,496	89,079	89,496	89,079	44,540
Total	\$ 43,738,483	\$ 2,406,129	\$ 17,767,002	\$ 28,377,610	\$ 236,806

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Capital Asset and Debt Administration (Continued)

North Carolina Escheat Fund – S. L. 2011-340 required the Escheat Fund debt be reduced by \$17,500,000. Consequently, the \$21,741,952 principal and reduced net accrued interest expense of \$1,431,871 are recognized and represent a balance of \$23,173,823 due to the North Carolina Escheat Fund at June 30, 2011. The balance is payable on October 1, 2012, 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, 2011, by real property. Interest expense on the loan with the State Treasurer was \$2,317,050 for the year ended June 30, 2011. It is anticipated the General Assembly will have a plan in place by the payment due date to repay the debt.

United States Department of Agriculture (USDA) - The Authority was indebted for a total of four USDA loans at June 30, 2011. One USDA loan was for the construction of Fixed Base Operator (FBO) hangars at the Global TransPark. Another USDA loan was for the construction of an Administration Building. The third loan was for the Airport Rescue and Fire Fighting Facility (ARFF) that has approximately 20,000 square feet of leased space. The fourth loan was for an expansion of the FBO hangars. 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 June 30, 2011</u>	<u>Principal Outstanding June 30, 2011</u>
4.75%	6/21/2041	\$ 666,500	\$ 72,916	\$ 593,584
4.63%	10/25/2032	673,350	101,829	571,521
4.13%	8/18/2046	1,345,000	47,588	1,297,412
4.25%	11/7/2046	500,000	21,142	478,858

Private Loans - The Authority secured two loans to finance the construction of a 20,000 square foot facility for a tenant. Principal and interest payments on the first loan are payable monthly; interest on the second loan is payable monthly, and the entire principal amount is paid at final maturity. The principal amount for the loan for \$205,944 was refinanced during the fiscal year, is due February 8, 2013, and has been reclassified to long-term debt. The Authority secured a third loan to finance the installation of an 8" gas line for a tenant. Principal and interest payments on the loans are paid annually. Information on the loans at June 30, 2011 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 June 30, 2011</u>	<u>Principal Outstanding June 30, 2011</u>
7.00%	11/8/2030	\$ 1,606,750	\$ 29,805	\$ 1,576,945
3.50%	2/8/2013	205,944	-	205,944
7.00%	8/14/2014	488,055	97,611	390,444

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Revenues, Expenses and Changes in Net Assets

The Authority improved its financial condition compared to the prior fiscal year. The 18% increase in total operating revenues was due mainly to an increase in the percentage of leasable space at the TransPark, as well as an increase in miscellaneous revenues. The capitalization of the Spirit facility, apron and taxiways, and fiber installation resulted in a \$3 million increase in depreciation, causing a 47% increase in operating loss for the fiscal year. The \$43 thousand dollar increase in equipment expensed is due to equipment being purchased for the Composite Center. There were increases in printing and binding, as well as travel, because of accelerated efforts in marketing, including attending trade shows such as the Paris Air Show in June. The decrease in project costs relates to a one-time expense last fiscal year due to the installation of a gas line be installed that is owned and maintained by a gas company.

If the non-cash charge of depreciation is not considered, there would be an operating loss of \$335,056 compared to \$1,471,789 last fiscal year, or a 77% decrease from the prior year in lieu of a 47% increase.

Net non-operating expenses increased 14% due to a 30% reduction in investment earnings and a 5% increase in interest expense.

Capital contributions consist of grants and gifts from Spirit AeroSystems (Spirit), FAA, North Carolina Division of Aviation and private entities totaling \$37,564,794. An Inducement Agreement between the GTP and Spirit states that by 2014 Spirit will make capital improvements to its facility, GTP-6, totaling \$100,000,000. At June 30, 2011, Spirit was ahead of schedule and has already contributed a total of \$77,917,159 towards the commitment, \$16,103,941 for this fiscal year. The Grant Agreement between the GTP and the Golden LEAF Foundation also stipulates Spirit's commitment. The remaining grants were grants from DOT totaling \$3,544,126, private grants totaling \$40,000 for economic development, DOA grants and FAA grants to the airport (ISO) totaling \$51,177 and \$325,651, respectively, and \$17,500,000 from the State of North Carolina to reduce the Escheat Fund debt.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Revenues, Expenses and Changes in Net Assets (Continued)

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

	June 30,		Change	% Change
	2011	2010		
Operating revenues				
Rental revenue	\$ 1,338,996	\$ 1,186,602	\$ 152,394	12.84%
Miscellaneous revenue	363,147	254,541	108,606	42.67%
Total operating revenues	<u>1,702,143</u>	<u>1,441,143</u>	<u>261,000</u>	18.11%
Operating expenses				
Salaries and benefits	881,304	849,355	31,949	3.76%
Professional services	277,017	158,533	118,484	74.74%
Legal and accounting	147,112	148,783	(1,671)	-1.12%
Depreciation	5,495,599	2,492,546	3,003,053	120.48%
Rent	14,610	15,961	(1,351)	-8.46%
Repairs and maintenance	83,203	66,874	16,329	24.42%
Supplies and materials	65,266	45,279	19,987	44.14%
Equipment	43,115	422	42,693	10116.92%
Insurance	78,813	79,373	(560)	-0.71%
Printing and binding	10,009	4,068	5,941	146.05%
Telephone	23,712	25,310	(1,598)	-6.31%
Utilities	257,135	322,294	(65,159)	-20.22%
Travel and subsistence	18,052	8,979	9,073	101.05%
Advertising	55,292	58,833	(3,541)	-6.02%
Projects	49,816	1,090,216	(1,040,400)	-95.43%
Other	32,743	38,652	(5,909)	-15.29%
Total operating expenses	<u>7,532,798</u>	<u>5,405,478</u>	<u>2,127,320</u>	39.35%
Operating loss	<u>(5,830,655)</u>	<u>(3,964,335)</u>	<u>(1,866,320)</u>	47.08%
Non-operating revenues (expenses)				
State operating aid	1,280,000	1,280,000	-	0.00%
Investment earnings	65,405	94,018	(28,613)	-30.43%
Non-capital contributions	3,123	-	3,123	100%
Interest expense	<u>(2,597,007)</u>	<u>(2,466,215)</u>	<u>(130,792)</u>	5.30%
Net non-operating revenues (expenses)	<u>(1,248,479)</u>	<u>(1,092,197)</u>	<u>(156,282)</u>	14.31%
Loss before capital contributions	<u>(7,079,134)</u>	<u>(5,056,532)</u>	<u>(2,022,602)</u>	40.00%
Capital contributions	37,564,794	63,251,904	(25,687,110)	-40.61%
Increase in net assets	30,485,660	58,195,372	(27,709,712)	-47.61%
Net assets - July 1	<u>199,894,520</u>	<u>141,699,148</u>	<u>58,195,372</u>	41.07%
Net assets - June 30	<u>\$ 230,380,180</u>	<u>\$ 199,894,520</u>	<u>\$ 30,485,660</u>	15.25%

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Cash Flows

There was a 56% decrease in cash used for operating activities which was a result of a \$600,000 down payment on the installation of a gas line in the prior fiscal year. The 89% decrease in capital and related financing activities use of cash was due to the decrease in cash being expended for the Spirit facility. Overall cash at the end of the year decreased 39% compared to 82% in the prior fiscal year.

The following is a summary of the change in cash and cash equivalents for the fiscal year ended June 30, 2011 and June 30, 2010:

	Condensed Statement of Cash Flows		Change	% Change
	June 30,			
	2011	2010		
Net cash provided from (used for):				
Operating activities	\$ (424,399)	\$ (974,475)	\$ 550,076	-56.45%
Noncapital financing activities	1,283,123	1,280,000	3,123	0.24%
Capital and related financing activities	(5,237,033)	(49,007,839)	43,770,806	-89.31%
Investing activities	65,405	94,018	(28,613)	-30.43%
Net (decrease) increase	(4,312,904)	(48,608,296)	44,295,392	
Cash and cash equivalents, beginning of year	10,992,873	59,601,169	(48,608,296)	-81.56%
Cash and cash equivalents, end of year	\$ 6,679,969	\$ 10,992,873	\$ (4,312,904)	-39.23%

Economic Outlook

The TransPark has taken on a new dimension now that the project has a global anchor tenant, Spirit AeroSystems. There was increased marketing participation in aviation/aerospace trade shows, friends of NC events, electronic media usage, visits to site consultants, as well as strengthening partnerships. To increase its visibility and ramp up marketing/economic development efforts, the GTP hired a former North Carolina Secretary of Commerce in June as President.

The agency completed several development steps during the fiscal year, realizing infrastructure development is essential to this economic development project. The rail spur project to the TransPark is now scheduled to be completed in January 2012. With the completion of the rail spur, the TransPark will truly be multimodal with transportation access via road, rail, air and sea. Additionally, with the Governor's Executive Order 85 putting the Authority directly under the Department of Transportation (DOT), as well as the Logistics Task Force and Maritime Study in progress, it is anticipated the TransPark's underutilized transportation assets are poised to be a major factor for the State going forward.

Since the TransPark is now 97% leased, it is time to have more product available to prospective tenants. The Authority has started construction on a 100,000 square foot facility adjacent to its rail spur; tentative completion date is December 2011.

Economic Outlook (Continued)

The Authority is working with the DOT and is updating its Strategic Plan, which will be completed in December 2011. The outlook for the agency becoming and being recognized as a major aerospace/aviation/logistics hub depends largely on the state's continued commitment to this economic development project.

The location of this project in eastern North Carolina and the infrastructure are major assets for the State. A recent economic impact analysis by the North Carolina Department of Commerce noted that existing GTP tenants contribute \$27,500,000 to the region's gross domestic product (GDP) each year. With future and currently planned tenant activities, tenants' contribution to the region's GDP will increase to \$142,000,000 by 2014.

NORTH CAROLINA GLOBAL TRANSPARK AUTHORITY – PRIMARY GOVERNMENT
STATEMENT OF NET ASSETS

June 30, 2011

Exhibit A

Assets

Current assets:

Cash and cash equivalents (Note 2)	\$ 6,001,619
Accounts receivable, net	265,188
Total current assets	6,266,807

Non-current assets:

Restricted cash and cash equivalents (Note 2)	678,349
Capital assets - non-depreciable (Note 3)	29,193,704
Capital assets - depreciable (Note 3)	223,421,832
Total non-current assets	253,293,885

Total assets	\$ 259,560,692
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Liabilities

Current liabilities:

Accounts payable (Note 5)	666,193
Accrued interest payable	103,170
Due to primary government	3,672
Compensated absences (Note 7)	44,540
Note payable - USDA (Note 7)	47,894
Note payable - PNG (Note 7)	97,611
Note payable - FCB (Note 7)	46,761
Funds held for others (Note 1)	27,881
Deferred revenue	1,986
Total current liabilities	1,039,708

Non-current liabilities:

Note payable - USDA (Note 7)	2,893,481
Note payable - FCB (Note 7)	1,736,128
Note payable - PNG (Note 7)	292,833
Note payable - Due to NC Escheat Fund (Note 7)	23,173,823
Compensated absences (Note 7)	44,539
Total non-current liabilities	28,140,804

Total liabilities	29,180,512
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Net assets

Invested in capital assets, net of related debt	226,149,320
Restricted for debt service	540,964
Restricted for construction	137,385
Unrestricted	3,552,511
Total net assets	\$ 230,380,180

See accompanying notes to financial statements.

NORTH CAROLINA GLOBAL TRANSPARK AUTHORITY – PRIMARY GOVERNMENT
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
Year Ended June 30, 2011

Exhibit B

Operating revenues	
Rental revenue	\$ 1,338,996
Miscellaneous revenues	363,147
Total operating revenues	<u>1,702,143</u>
Operating expenses	
Salaries and benefits	881,304
Professional services	277,017
Legal and accounting	147,112
Depreciation	5,495,599
Rent	14,610
Repairs and maintenance	83,203
Supplies and materials	65,266
Equipment	43,115
Insurance	78,813
Printing and binding	10,009
Telephone	23,712
Utilities	257,135
Travel and subsistence	18,052
Advertising	55,292
Projects	49,816
Other	32,743
Total operating expenses	<u>7,532,798</u>
Operating loss	<u>(5,830,655)</u>
Non-operating revenues (expenses)	
State operating aid	1,280,000
Investment earnings	65,405
Non-capital contributions	3,123
Interest expense	<u>(2,597,007)</u>
Net non-operating revenues (expenses)	<u>(1,248,479)</u>
Loss before capital contributions	(7,079,134)
Capital contributions	<u>37,564,794</u>
Increase in net assets	30,485,660
Net assets - July 1	<u>199,894,520</u>
Net assets - June 30	<u><u>\$ 230,380,180</u></u>

See accompanying notes to financial statements.

NORTH CAROLINA GLOBAL TRANSPARK AUTHORITY – PRIMARY GOVERNMENT
STATEMENT OF CASH FLOWS
Year Ended June 30, 2011

Exhibit C

Cash flows from operating activities	
Receipts from customers	\$ 1,690,102
Payments to vendors and suppliers	(1,232,682)
Payments to employees and fringe benefits	(881,819)
Net cash used by operating activities	(424,399)
Cash flows from non-capital financing activities	
State appropriations	1,280,000
Other	3,123
Net cash provided from non-capital financing activities	1,283,123
Cash flows from capital financing and related financing activities	
Acquisition and construction of capital assets	(8,842,121)
State capital contributions	3,595,203
Federal capital contributions	333,889
Grants	40,000
Principal payments on capital debt	(75,670)
Interest payments on capital debt	(288,334)
Net cash provided for capital and related financing activities	(5,237,033)
Cash flows from investing activities	
Interest received	65,405
Net cash provided from investing activities	65,405
Net decrease in cash and cash equivalents	(4,312,904)
Cash and cash equivalents - July 1	10,992,873
Cash and cash equivalents - June 30	\$ 6,679,969
Reconciliation of operating loss to net cash used by operating activities	
Operating loss	\$ (5,830,655)
Depreciation expense	5,495,599
Adjustments to reconcile operating loss to net cash used by operating activities	
Changes in assets and liabilities	
Accounts receivable	(10,295)
Accounts payable	21,326
Due to primary government	(289)
Accrued payroll and vacation leave	(417)
Deferred revenue	(2,057)
Note payable	(97,611)
Net change in assets and liabilities	(89,343)
Net cash used by operating activities	\$ (424,399)

See accompanying notes to financial statements.

NORTH CAROLINA GLOBAL TRANSPARK AUTHORITY – PRIMARY GOVERNMENT
STATEMENT OF CASH FLOWS
Year Ended June 30, 2011

Exhibit C
(Continued)

Noncash investing, capital, and financing activities

Assets acquired by donation	\$	16,103,941
Capital contribution - reduction of accrued interest on debt		17,500,000
Change in capital assets as a result of accrual accounts payable		(4,719,669)

Composition of cash and cash equivalents

Current assets:

Cash and cash equivalents	\$	6,001,619
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Non-current assets:

Restricted cash and cash equivalents		<u>678,349</u>
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Total cash and cash equivalents	\$	<u><u>6,679,968</u></u>
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See accompanying notes to financial statements.

GLOBAL TRANSPARK FOUNDATION, INC. – DISCRETELY PRESENTED COMPONENT UNIT
STATEMENT OF FINANCIAL POSITION

June 30, 2011

Exhibit D

ASSETS

Current assets:

Cash and cash equivalents (Note 2)	\$	3,964,783
Accounts interest receivable		<u>18,046</u>
Total current assets		<u>3,982,829</u>

Capital assets - depreciable (Note 3)		<u>5,330,767</u>
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Total assets	\$	<u><u>9,313,596</u></u>
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LIABILITIES AND NET ASSETS

Current liabilities:

Accounts payable		<u>4,484</u>
Total current liabilities		4,484

Net assets:

Unrestricted net assets		8,948,962
Unrestricted net assets - board designated		<u>360,150</u>

Total net assets		<u>9,309,112</u>
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Total liabilities and net assets	\$	<u><u>9,313,596</u></u>
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See accompanying notes to financial statements.

GLOBAL TRANSPARK FOUNDATION, INC. – DISCRETELY PRESENTED COMPONENT UNIT
STATEMENT OF ACTIVITIES
Year Ended June 30, 2011

Exhibit E

	Unrestricted	Temporarily Restricted	Total June 30, 2011
Support and Revenue:			
Contributions	\$ -	\$ 30,000	\$ 30,000
Interest income	41,696	-	41,696
Rental income	240,021	-	240,021
Other income	48	-	48
Net assets released from restrictions	30,000	(30,000)	-
Total support and revenue	<u>311,765</u>	<u>-</u>	<u>311,765</u>
Expenses:			
Program services (Note 1)	342,527	-	342,527
Management and general expenses (Note 1)	44,843	-	44,843
Loss on disposal of fixed assets	318	-	318
Total expenses	<u>387,688</u>	<u>-</u>	<u>387,688</u>
Changes in net assets	(75,923)	-	(75,923)
Net assets at beginning of year	<u>9,385,035</u>	<u>-</u>	<u>9,385,035</u>
Net assets at end of year	<u>\$ 9,309,112</u>	<u>\$ -</u>	<u>\$ 9,309,112</u>

See accompanying notes to financial statements.

NORTH CAROLINA GLOBAL TRANSPARK AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS

Note 1 – Summary of 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 intra-facility 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.

Component Unit Information

The Global TransPark Foundation, Inc. (Foundation) was established in 1992 as a nonprofit corporation. The purpose of the Foundation is to engage in major fund-raising activities and to assist the North Carolina Global TransPark Authority (Authority) with the development of the Global TransPark.

The Foundation is a not-for-profit organization exempt from income taxation under Section 501 (c)(3) of the Internal Revenue Code. During prior years, the Foundation received approval from the Internal Revenue Service to be classified as a public charity under Section 509 (a)(1). The Foundation had previously been classified as a public charity under IRC Section 509 (a)(3).

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 (GAAP), 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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Note 1 – Summary of Significant Accounting Policies (Continued)

B. Financial Reporting Entity (Continued)

The accompanying financial statements present the funds of the Authority and its component unit. The Global TransPark Foundation, Inc. (Foundation) has been determined to be a component unit of the Authority under GASB Statement No. 39, *Determining Whether Certain Organizations Are Component Units* - an amendment of GASB Statement No. 14. The Authority is “financially accountable” for the Foundation pursuant to the accounting principles generally accepted in the United States of America.

The Foundation is a legally separate, tax-exempt component unit of the Authority and acts primarily as a fund-raising organization to supplement available resources. The Foundation is governed by a 31-member board, consisting of four (4) ex officio directors and twenty-six (26) elected directors and one (1) director appointed by the Chairperson of North Carolina’s Eastern Region, formerly the Global TransPark Development Commission. Although the Authority does not control the timing or amount of receipts from the Foundation, the majority of resources that the Foundation holds and invests are restricted to the activities of the Authority. Because these restricted resources held by the Foundation can only be used by, or for the benefit of the Authority, the Foundation is considered a component unit of the Authority and is reported in separate financial statements because of the difference in its reporting model, as described below.

During the year ended June 30, 2011, the Foundation paid the Authority \$132,828 for economic development commitments and other expenses. The Foundation has remaining commitments with the Authority to provide financial incentives on behalf of a tenant that has chosen to locate in the TransPark. Payments totaling \$130,075 each year are expected to be paid by the Foundation. The Foundation also has a commitment with the Authority to provide financial assistance to support transitional activities at the Authority in the amount of \$100,000. This amount was paid in July 2011.

C. Basis of Presentation

The accompanying financial statements are presented in accordance with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board (GASB).

Pursuant to the provisions of GASB Statement No. 34, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments*, the full scope of the Authority’s activities is considered to be a single business-type activity and accordingly, is reported within a single column in the basic financial statements.

In accordance with GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, the Authority does not apply Financial Accounting Standards Board (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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Note 1 – Summary of Significant Accounting Policies (Continued)

C. Basis of Presentation (Continued)

Component Unit Information

The Foundation's financial statement preparation follows the recommendations of the Financial Accounting Standards Board in its Statement of Financial Accounting Standards (SFAS) No. 117, Financial Statements for Not for Profit Organizations. Under SFAS No. 117, the Foundation is required to report information regarding its financial position and activities according to three classes of net assets, unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

For prior periods, the Foundation presented its financial statements in accordance with accounting principles generally accepted 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. Due to changes in the manner board members are elected, the Foundation no longer meets the definition of a government for reporting purposes.

Use of Estimates - The preparation of the Foundation's financial statements in accordance with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

D. Basis of Accounting

The financial statements of the Authority and the Foundation have been prepared using the economic resource measurement focus and the accrual basis of accounting, respectively. Under the accrual basis, revenues are recognized when earned, and expenses are recorded when an obligation has been incurred. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Non-exchange transactions, in which the Authority or the Foundation gives (or receives) value without directly giving (or receiving) equal value in exchange, includes State appropriations, contributions and donations. Revenues are recognized, net of estimated uncollectible amounts, as soon as all eligibility requirements imposed by the provider have been met, if probable of collection.

E. Cash and Cash Equivalents

This classification includes petty cash, cash on deposit with private bank accounts, money market accounts, and deposits held by the State Treasurer in the short-term investment fund. The short-term investment fund maintained by the State Treasurer has the general characteristics of a demand deposit account in that participants may deposit and withdraw cash at any time without prior notice or penalty. The Authority and the Foundation consider all highly liquid investments to be cash equivalents, including certificates of deposit.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Note 1 – Summary of Significant Accounting Policies (Continued)

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 in the amount of \$271,499 are shown in the accompanying financial statements net \$6,311 of allowance for doubtful accounts.

Component Unit Information

Certain pledges were deemed to be uncollectible with a net present value of \$66,500, which includes an adjustment for pledges due in future years of \$0. The gross pledges deemed uncollectible were \$66,500. Uncollectible pledges relating to payments currently due are charged against unrestricted net assets. However, uncollectible pledges relating to payments due in the future are charged as a temporarily restricted bad debt loss since the time restriction has not yet expired.

H. Capital Assets and Depreciation

Capital assets are stated at cost at the date of acquisition or fair value at date of donation in the case of gifts. The Authority capitalizes assets that have a value of \$5,000 or more at the date of acquisition and an expected useful life of more than one year. Depreciation is computed using the straight-line method over the following useful lives of the assets, generally 10 to 50 years for buildings, 20 to 40 years for landing fields and grounds and 5 to 10 years for equipment.

Interest expense is capitalized on assets during the period of construction with tax-exempt debt, if material. The amount of interest expense to be capitalized is calculated by offsetting interest expense incurred from the date of the borrowing until completion of the project with interest earned on invested proceeds over the same period. Assets acquired through gifts or grants with external restrictions on the use of funds are excluded from this interest cost capitalization. In the accompanying financial statements, interest expense in the amount of \$1,580 has been capitalized to Construction in Progress.

Component Unit Information

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Note 1 – Summary of Significant Accounting Policies (Continued)

I. Restricted Assets

Certain resources are reported as restricted assets because restrictions on asset use change the nature or normal understanding of the availability of the asset. Resources that are not available for current operations and are reported as restricted include resources restricted or designated for the acquisition or construction of capital assets and resources whose use is limited by external parties or statute.

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 1 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 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 include the accumulated unused portion of the special annual leave bonuses awarded by the North Carolina General Assembly. The bonus leave balance on December 31 is retained by employees and transferred into the next calendar year. It is not subject to the limitation on annual leave carried forward described above and is not subject to conversion to sick leave.

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.

Component Unit Information

The Foundation currently has no employees. Therefore, no liability for compensated absences exists at the balance sheet date.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Note 1 – Summary of Significant Accounting Policies (Continued)

L. Net Assets

The Authority's net assets are classified as follows:

Invested in Capital Assets, Net of Related Debt

This represents the Authority's 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.

Restricted Net Assets

Restricted net assets include resources for which the Authority is legally or contractually obligated to spend in accordance with restrictions imposed by external parties.

Unrestricted Net Assets - Unrestricted net assets include resources derived from state appropriations, tenant revenues, contributions, and interest income.

Component Unit Information

At June 30, 2011, all Foundation net assets were classified as unrestricted. Unrestricted net assets represent funds that are available at the discretion of management and the Board of Directors.

M. Revenue and Expense Recognition

The Authority classifies revenues and expenses as operating or non-operating in the accompanying Statement of Revenues, Expenses, and Changes in Net Assets. Operating revenues and expenses generally result from providing services and collecting rents in connection with the Authority'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, as well as investment income, are considered non-operating since these are investing, capital or non-capital financing activities. Capital contributions are presented separately after non-operating revenues and expenses.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Note 1 – Summary of Significant Accounting Policies (Continued)

M. Revenue and Expense Recognition (Continued)

Component Unit Information

Expenses for the Foundation have been summarized on a functional basis. Directly identifiable expenses, such as economic development expenses and depreciation of the Mountain Air Cargo building have been charged to program services. Management and general expenses include those expenses that are not directly identifiable with any other specific function but provide overall support and direction of the Foundation.

Functional expenses are classified as follows:

	Program Services	Management and General	Total
Depreciation	\$ 212,452	\$ -	\$ 212,452
Economic development	130,075	-	130,075
Professional and consulting services	-	30,034	30,034
Other expenses	-	14,809	14,809
	<u>\$ 342,527</u>	<u>\$ 44,843</u>	<u>\$ 387,370</u>

N. Funds Held for Others

The \$100,000,000 grant funds from the Golden LEAF Foundation for the construction of the Spirit AeroSystems' fabrication and assembly facility were deposited into an escrow account on October 1, 2008. Interest earned on the balance of the funds is being held for the Golden LEAF Foundation. At year end Funds Held for Others had a balance of \$27,881.

O. Recent Accounting Pronouncements

In November 2010, GASB issued No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*. GASB No. 60 addresses issues related to service concession arrangements (SCAs), which are a type of public-private or public-public partnership. This statement applies only to those arrangements in which specific criteria determining whether a transferor has control over the facility are met. The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2011.

In 2011, GASB issued Statement No. 61, *The Financial Reporting Entity: Omnibus*. GASB No. 61 modifies certain requirements for inclusion of component units in the financial reporting entity. This Statement also amends the criteria for reporting component units as if they were part of the primary government (that is, blending) in certain circumstances. The provisions of this Statement are effective for financial statements for periods beginning after June 15, 2012. Earlier application is encouraged.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Note 1 – Summary of Significant Accounting Policies (Continued)

O. Recent Accounting Pronouncements (Continued)

In December 2010, GASB issued Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre- November 30, 1989 FASB and AICPA Pronouncements*. GASB No. 62 is intended to enhance the usefulness of its Codification by incorporating guidance that previously could only be found in certain FASB and AICPA pronouncements. The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2011. Earlier application is encouraged.

In June 2011, the GASB issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. GASB No. 63 provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources. Previous financial reporting standards do not include guidance for reporting those financial statements elements, which are distinct from assets and liabilities. The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2011. Earlier application is encouraged.

Management has not yet determined the effect, if any of adoption of these GASB statements for the financial statements.

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 includes deposits in private bank accounts with a carrying value of \$767,058 and a bank balance of \$780,570. Of the bank balance, \$610,980 was covered by federal depository insurance and \$169,590 was uninsured and uncollateralized. The Authority has 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 \$5,912,711 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 1.9 years as of June 30, 2011. Assets and shares of the Short-Term Investment Fund are valued at amortized cost, which approximates fair value.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Note 2 – Deposits and Investments (Continued)

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 with the State Treasurer 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. At June 30, 2011 the investment account had a \$0 balance. Interest earned on the investment on deposit with the State Treasurer totaled \$4,225 for the year ended June 30, 2011. As stipulated in the loan agreement, the Authority does not participate in changes to the fair value of the investments. Consequently, 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.ncosc.net/> and clicking on “Proceed directly to OSC’s index page,” then “Reports,” or by calling the State Controller’s Financial Reporting Section at (919) 981-5454.

Component Unit Information

The Foundation maintains its cash balances in several financial institutions located in Kinston, NC. The Federal Deposit Insurance Corporation insures the balances up to \$250,000. At June 30, 2011, the amount shown on the Statement of Financial Position as cash and cash equivalents for the Foundation includes deposits with a carrying value of \$3,964,783 and a bank balance of \$3,978,523. Of the bank balance, \$1,000,000 was covered by federal depository insurance and \$2,978,523 was uninsured and uncollateralized.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Note 3 – Capital Assets

A summary of changes in capital assets for the year ended June 30, 2011, is presented as follows:

	Balance July 1, 2010	Additions	Deductions	Balance June 30, 2011
Capital assets, non-depreciable:				
Land	\$ 20,781,796	\$ -	\$ -	\$ 20,781,796
Intangible assets	1,546,370	-	-	1,546,370
Construction in process	165,521,453	20,209,853	(178,865,768)	6,865,538
Total capital assets, non-depreciable	<u>187,849,619</u>	<u>20,209,853</u>	<u>(178,865,768)</u>	<u>29,193,704</u>
Capital assets, depreciable:				
Landing fields and grounds	\$ 42,661,848	\$ 6,112,669	\$ -	\$ 48,774,517
Buildings	29,513,281	172,659,202	-	202,172,483
Equipment	3,970,420	93,897	-	4,064,317
Total capital assets, depreciable	<u>76,145,549</u>	<u>178,865,768</u>	<u>-</u>	<u>255,011,317</u>
Less accumulated depreciation for:				
Landing fields and grounds	(15,513,300)	(1,536,675)	-	(17,049,975)
Buildings	(7,395,883)	(3,826,097)	-	(11,221,980)
Equipment	(3,184,703)	(132,827)	-	(3,317,530)
Total accumulated depreciation	<u>(26,093,886)</u>	<u>(5,495,599)</u>	<u>-</u>	<u>(31,589,485)</u>
Total capital assets, depreciable, net	<u>50,051,663</u>	<u>173,370,169</u>	<u>-</u>	<u>223,421,832</u>
Total capital assets, net	<u>\$ 237,901,282</u>	<u>\$ 193,580,022</u>	<u>\$ (178,865,768)</u>	<u>\$ 252,615,536</u>

For the year ended June 30, 2011, depreciation expense for the Authority was \$5,495,599.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Note 3 – Capital Assets (Continued)

Component Unit Information

A summary of changes in capital assets for the year ended June 30, 2011 for the Foundation is presented as follows:

	Balance July 1, 2010	Additions	Deductions	Balance June 30, 2011
Capital assets, depreciable:				
Buildings	\$ 8,498,064	\$ -	\$ -	\$ 8,498,064
Equipment	5,411	-	(5,411)	-
Total capital assets, depreciable	<u>8,503,475</u>	<u>-</u>	<u>(5,411)</u>	<u>8,498,064</u>
Less accumulated depreciation for:				
Buildings	(2,954,528)	(212,451)	(318)	(3,167,297)
Equipment	(5,411)	-	5,411	-
Total accumulated depreciation	<u>(2,959,939)</u>	<u>(212,451)</u>	<u>5,093</u>	<u>(3,167,297)</u>
Total capital assets, depreciable, net	<u><u>\$ 5,543,536</u></u>	<u><u>\$ (212,451)</u></u>	<u><u>\$ (318)</u></u>	<u><u>\$ 5,330,767</u></u>

At June 30, 2011, depreciation expense for the Foundation was \$212,451.

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:

June 30,	Amount
2012	\$ 1,019,073
2013	828,625
2014	700,250
2015	686,739
2016	<u>643,514</u>
Total	<u><u>\$ 3,878,201</u></u>

The various buildings leased were acquired at a cost of \$190,289,734 and have accumulated depreciation totaling \$6,992,707.

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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Note 4 – Lease Agreements (Continued)

Component Unit Information (Continued)

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 leased 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.

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

<u>June 30,</u>	<u>Amount</u>
2012	\$ 240,021
2013	271,132
2014	314,694
2015	314,694
2016	314,694
Total	<u>\$ 1,455,235</u>

The building leased was constructed in 1995 at a cost of \$8,498,064 and has accumulated depreciation totaling \$3,167,297.

Note 5 – Accounts Payable

Accounts payable and accrued liabilities at June 30, 2011 were as follows:

	<u>Amount</u>
Accounts payable	\$ 500,894
Contract retainage	162,211
Deposit liability	3,088
Total	<u>\$ 666,193</u>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Note 6 – Short-Term Debt

Private Loans

The Authority secured two loans to finance the construction of a 20,000 square foot facility for a tenant. Principal and interest payments on the first loan are payable monthly; interest on the second loan is payable monthly, and the entire principal amount is paid at final maturity. The principal amount for the second loan for \$205,944 was refinanced during the fiscal year and is due February 8, 2013. As of June 30, 2011, both loans are classified in long-term debt.

	Balance July 1, 2010	Additions	Decreases	Balance June 30, 2011
Notes payable	\$ 205,944	\$ -	\$ 205,944	\$ -

Note 7 – Long-Term Debt

The following is a summary of changes in the Authority’s long-term obligations as of June 30, 2011:

	Balance July 1, 2010	Additions	Decreases	Balance June 30, 2011	Due in Less Than One year
Notes payable	\$ 43,648,987	\$ 2,317,050	\$ 17,677,506	\$ 28,288,531	\$ 192,266
Compensated absences	89,496	89,079	89,496	89,079	44,540
	<u>\$ 43,738,483</u>	<u>\$ 2,406,129</u>	<u>\$ 17,767,002</u>	<u>\$ 28,377,610</u>	<u>\$ 236,806</u>

North Carolina Escheat Fund

North Carolina Session Law 2011-340 required the Escheat Fund debt be reduced by \$17,500,000. The Authority was relieved of this debt as the funds were appropriated for the Office of State Budget and Management to make the payment. The \$17,500,000 was applied to the accrued interest through November 2010. That reduction is reflected in the Escheat Fund debt balance. The \$21,741,952 principal and net accrued interest expense of \$1,431,871 represent a balance of \$23,173,823 due to the North Carolina Escheat Fund at June 30, 2011. It is payable on October 1, 2012, 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, 2011 by real property. Additional collateral can be substituted for the deposit with the State. Interest expense on the loan with the State Treasurer was \$2,317,050 for the year ended June 30, 2011. Interest earned on the invested portion of the loan is disclosed in Note 2.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Note 7 – Long-Term Debt (Continued)

United States Department of Agriculture (USDA)

The Authority was indebted for a total of four USDA loans at June 30, 2011. One USDA loan was for the construction of Fixed Base Operator (FBO) hangars at the Global TransPark. Another USDA loan was for the construction of an Administration Building. The third loan was for the Airport Rescue and Fire Fighting Facility (ARFF) that has approximately 20,000 square feet of leased space. The fourth loan was for an expansion of the FBO hangars. The loan information on the notes is shown in the following table:

Interest Rate	Final Maturity Date	Original Amount of Issue	Principal Paid Through June 30, 2011	Principal Outstanding June 30, 2011
4.75%	6/21/2041	\$ 666,500	\$ 72,916	\$ 593,584
4.63%	10/25/2032	673,350	101,829	571,521
4.13%	8/18/2046	1,345,000	47,588	1,297,412
4.25%	11/7/2046	500,000	21,142	478,858

The annual requirements to pay principal and interest on the USDA notes at June 30, 2011 are presented as follows:

Fiscal Year	Principal	Interest
2012	\$ 47,894	\$ 128,497
2013	50,013	126,378
2014	52,225	124,166
2015	54,537	121,854
2016	56,950	119,441
2017-2021	324,879	557,076
2022-2026	403,506	478,449
2027-2031	501,242	380,713
2032-2036	490,851	265,254
2037-2041	510,059	162,146
2042-2046	424,165	59,601
2047-2051	25,054	1,065
Total requirements	<u>\$ 2,941,375</u>	<u>\$ 2,524,640</u>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Note 7 –Long-Term Debt (Continued)

Private Loans - The Authority secured two loans to finance the construction of a 20,000 square foot facility for a tenant. Principal and interest payments on the first loan are payable monthly; interest on the second loan is payable monthly, and the entire principal amount is paid at final maturity. The principal amount for the loan for \$205,944 was refinanced during the fiscal year, is due February 8, 2013, and has been reclassified to long-term debt. The Authority secured a third loan to finance the installation of an 8” gas line for a tenant. Principal and interest payments on the loans are paid annually. Information on the loans at June 30, 2011 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 June 30, 2011</u>	<u>Principal Outstanding June 30, 2011</u>
7.00%	11/8/2030	\$ 1,606,750	\$ 29,805	\$ 1,576,945
3.50%	2/8/2013	205,944	-	205,944
7.00%	8/14/2014	488,055	97,611	390,444

The annual requirements to pay principal and interest on the private notes at June 30, 2011 are presented as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>
2012	\$ 144,372	\$ 144,978
2013	353,745	128,278
2014	151,481	116,996
2015	155,431	106,213
2016	62,060	95,140
2017-2021	385,610	400,390
2022-2026	549,299	236,701
2027-2031	371,335	36,258
Total requirements	<u>\$ 2,173,333</u>	<u>\$ 1,264,954</u>

Note 8 – Operating Lease Obligations

Future minimum lease payments under non-cancelable operating leases consist of the following at June 30, 2011:

<u>June 30,</u>	<u>Amount</u>
2012	\$ 9,538
2013	8,170
2014	8,170
2015	4,604
2016	648
Total	<u>\$ 31,130</u>

Rental expenses for all operating leases during the year were \$8,890.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Note 9 – 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 from the previous year, and settled claims have not exceeded coverage in any of the past three fiscal years.

Tort claims of up to \$1,000,000 are retained under the authority of the State Tort Claims Act. In addition, the State provides excess public officers' and employees' liability insurance up to \$10,000,000 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. 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 \$5,000 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.

State-owned vehicles are covered by liability insurance through a private insurance company and handled by the North Carolina Department of Insurance. The liability limits for losses are \$1,000,000 per claim and \$10,000,000 per occurrence. The Authority pays premiums to the North Carolina Department of Insurance for the coverage.

The Authority is protected for losses from employee dishonesty and computer fraud for employees paid in whole or in part from State funds. This coverage is with a private insurance company and is handled by the North Carolina Department of Insurance. The North Carolina Global TransPark Authority is charged a premium by the private insurance company. Coverage limit is \$5,000,000 per occurrence. The private insurance company pays 90% of each loss less a \$75,000 deductible.

The Authority purchased other authorized coverage from private insurance companies through the North Carolina Department of Insurance.

Authority employees and retirees are provided comprehensive major medical benefits. Coverage is funded by contributions to the State Health Plan (Plan), a pension and other employee benefit trust fund of the State of North Carolina. 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 and its component units 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 for paying medical benefits and compensation in accordance with the North Carolina Workers' Compensation Act. The Authority is self-insured for workers' compensation.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Note 9 – Risk Management (Continued)

Term life insurance (death benefits) of \$25,000 to \$50,000 is provided to eligible workers. This Death Benefit Plan is administered by the State Treasurer and funded via employer contributions. The employer contribution rate was .16% for the current fiscal year.

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.

Component Unit Information

Financial instruments that potentially subject the Foundation to credit risk consist of pledges receivable. Pledges receivable are unconditional promises to give over a period of time. The Foundation receives pledges from large companies and corporations as well as private individuals. Pledges receivable are unsecured. The Foundation provides an allowance for doubtful accounts equal to the estimated losses expected in the collection of the pledges receivable. The accounting loss related to the pledges receivable is limited to the net balance outstanding at June 30, 2011.

Note 10 – Pension Plans

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, 2011, these rates were set at 4.93% of covered payroll for employers and 6% of covered payroll for members.

For the current fiscal year, the Authority had a total payroll of \$683,434, of which \$612,945 was covered under the Teachers' and State Employees' Retirement System. Total employee and employer contributions for pension benefits for the year were \$36,777 and \$30,218, respectively.

Required employer contribution rates for the years ended June 30, 2010, and 2009, were 3.57% and 3.36%, respectively, while employee contributions were 6% each year. The Authority made 100% of its annual required contributions for the years ended June 30, 2011, 2010, and 2009, which were \$30,218, \$21,920, and \$21,521, respectively.

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.ncosc.net/> and clicking on "Proceed directly to OSC's index page," then "Reports," or by calling the State Controller's Financial Reporting Section at (919) 981-5454.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Note 10 – Pension Plans (Continued)

Deferred Compensation and Supplemental Retirement Income Plans - IRC Section 457 Plan - The State of North Carolina offers its permanent employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457 through the North Carolina Public Employee Deferred Compensation Plan (the Plan). The Plan permits each participating employee to defer a portion of his or her salary until future years. The deferred compensation is available to employees upon separation from service, death, disability, retirement, or financial hardships if approved by the Board of Trustees of the Plan. The Board, a part of the North Carolina Department of Administration, maintains a separate fund for the exclusive benefit of the participating employees and their beneficiaries, *The North Carolina Public Employee Deferred Compensation Trust Fund*. The Board also contracts with an external third party to perform certain administrative requirements and to manage the trust fund's assets. All costs of administering and funding the Plan are the responsibility of the Plan participants. No costs are incurred by the Authority. The voluntary contributions by employees amounted to \$15,200 for the year ended June 30, 2011.

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, a defined contribution 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 \$7,271 for the year ended June 30, 2011.

Note 11 – Other Postemployment Benefits

Health Benefits - The Authority participates in the Comprehensive Major Medical Plan (the Plan), a cost-sharing, multiple-employer defined benefit health care plan that provides postemployment health insurance to eligible former employees. Eligible former employees include long-term disability beneficiaries of the Disability Income Plan of North Carolina and retirees of the Teachers' and State Employees' Retirement System. Coverage eligibility varies depending on years of contributory membership service in their retirement system prior to disability or retirement.

The Plan's benefit and contribution provisions are established by Chapter 135-7, Article 1, and Chapter 135, Article 3, of the General Statutes and may be amended only by the North Carolina General Assembly. The Plan does not provide for automatic post-retirement benefit increases.

By General Statute, a Retiree Health Benefit Fund (the Fund) has been established as a fund in which accumulated contributions from employers and any earnings on those contributions shall be used to provide health benefits to retired and disabled employees and applicable beneficiaries. By statute, the Fund is administered by the Board of Trustees of the Teachers' and State Employees' Retirement System and contributions to the fund are irrevocable. Also by law, Fund assets are dedicated to providing benefits to retired and disabled employees and applicable beneficiaries and are not subject to the claims of creditors of the employers making contributions to the Fund. Contribution rates to the Fund, which are intended to finance benefits and administrative expenses on a pay-as-you-go basis, are determined by the General Assembly.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Note 11 – Other Postemployment Benefits (Continued)

For the current fiscal year the Authority contributed 4.9% of the covered payroll under the Teachers' and State Employees' Retirement System to the Fund. Required contribution rates for the years ended June 30, 2010, and 2009, were 4.5% and 4.1%, respectively. The Authority made 100% of its annual required contributions to the Plan for the years ended June 30, 2011, 2010, and 2009, which were \$30,034, \$27,630, and \$26,261, respectively. The Authority assumes no liability for retiree health care benefits provided by the programs other than its required contribution.

Additional detailed information about these programs can be located 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.ncosc.net/> and clicking on "Proceed directly to OSC's index page," then "Reports," or by calling the State Controller's Financial Reporting Section at (919) 981-5454.

Disability Income - The Authority participates in the Disability Income Plan of North Carolina (DIPNC) a cost-sharing, multiple-employer defined benefit plan, to provide short-term and long-term disability benefits to eligible members of the Teachers' and State Employees' Retirement System. Benefit and contribution provisions are established by Chapter 135, Article 6, of the General Statutes, and may be amended only by the North Carolina General Assembly. The plan does not provide for automatic post-retirement benefit increases.

Disability income benefits are funded by actuarially determined employer contributions that are established by the General Assembly. For the fiscal year ended June 30, 2011, the Authority made a statutory contribution of .52% of covered payroll under the Teachers' and State Employees' Retirement System to the DIPNC. Required contribution rates for the years ended June 30, 2010, and 2009, were .52% and .52%, respectively. The Authority made 100% of its annual required contributions to the DIPNC for the years ended June 30, 2011, 2010, and 2009, which were \$3,187, \$3,193, and \$3,331, respectively. There were 13 employees eligible for this benefit. The Authority assumes no liability for long-term disability benefits under the Plan other than its contribution.

Additional detailed information about the DIPNC is disclosed in the State of North Carolina's *Comprehensive Annual Financial Report*.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Note 12 – Related Parties

North Carolina’s Eastern Region

North Carolina’s Eastern Region (Region), formerly the Global TransPark Development Commission, is a corporate body created on November 29, 1993, by *North Carolina General Statute* 158-31. It is composed of a nineteen (19) member board; thirteen (13) members are appointed by the county commissioners of each of the counties; two members are appointed by the Governor; two members are appointed by the President Pro Tempore of the Senate; and two members are appointed by the Speaker of the House of Representatives. Although not directly connected with the development of the Global TransPark itself, the Region supports economic development initiatives in its thirteen-member counties. A principal objective of the Region is to accommodate businesses drawn to the area by the Global TransPark. No significant financial transactions occurred between the Authority and the Region during the year ended June 30, 2011.

Global TransPark Foundation, Inc. - The Authority’s operating bank accounts are with a bank owned by one of the directors of the Foundation.

Note 13 – Commitments and Contingencies

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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Note 13 – Commitments and Contingencies (Continued)

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 \$3,746,353 at June 30, 2011. These commitments were for capital improvement projects for the Kinston Regional Jetport and other construction projects. As of December 2011, the Authority has entered into additional construction commitments of \$490,396. There are also long-range environmental commitments based on the 404 permit.

Concentration of Risk and Potential Refinancing Commitment

The Authority is a state agency for the State of North Carolina and, therefore, receives financial support from the State. Excluding capital contributions and investment earnings, the Authority received 43% of its financial support from the State for the year ended June 30, 2011 compared to 46% the prior year.

Going Concern Consideration

As of June 30, 2011, the Authority also has a loan outstanding including accrued interest payable totaling \$23,173,823 to the North Carolina Escheat Fund. The maturity date is October 1, 2012. As of October 29, 2011, the investment balance in the State Treasurer's Long-Term Investment Fund was \$0.00. 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. The North Carolina Session Law 2011-340 required the State to reduce the Escheat Fund debt by \$17,500,000. It is anticipated the General Assembly will determine how to repay the balance by the maturity date.

If the Authority were to declare bankruptcy, funding received to date from the Federal Aviation Administration (the "FAA") and the Economic Development Administration (EDA) may be required to be repaid. As of June 30, 2011, the Authority has an amortized commitment of approximately \$15.8 million from the FAA and EDA.

Note 14 – Subsequent Event

The Authority has evaluated subsequent events from the date of the statement of net assets through December 29, 2011, the date the report is available to be issued which is the date of the auditors' report. The Authority has not evaluated subsequent events after that date. The DOT and the Authority executed a Reimbursable Agreement on September 29, 2011 whereby the DOT will finance up fit of a facility at the TransPark for an amount not to exceed \$5,000,000. On October 26, 2011, the Office of State Budget and Management remitted a payment of \$17,500,000 to reduce the Escheat Fund balance as directed by North Carolina Session Law 2011-340.



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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 accompanying financial statements of the North Carolina Global TransPark Authority (the "Authority"), and its component unit as of and for the year ended June 30, 2011 and have issued our report thereon dated December 29, 2011. 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*.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the Authority's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Foundation's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over financial reporting.

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

Our consideration of internal control was for the limited purpose described in the first paragraph and was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance that all such deficiencies have been identified. We did not identify any deficiencies in internal control 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. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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

Thomas S. Gibbs CA, FCC

Durham, North Carolina
December 29, 2011