

STATE OF NORTH CAROLINA

NORTH CAROLINA GLOBAL TRANSPARK AUTHORITY

KINSTON, NORTH CAROLINA

FINANCIAL STATEMENT AUDIT REPORT

FOR THE YEAR ENDED JUNE 30, 2013

OFFICE OF THE STATE AUDITOR

BETH A. WOOD, CPA

STATE AUDITOR

NORTH CAROLINA GLOBAL TRANSPARK AUTHORITY

KINSTON, NORTH CAROLINA

FINANCIAL STATEMENT AUDIT REPORT

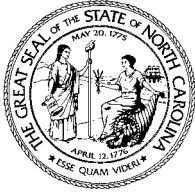
FOR THE YEAR ENDED JUNE 30, 2013

BOARD OF DIRECTORS

ANTHONY J. TATA, CHAIRMAN

ADMINISTRATIVE OFFICERS

SHERMAN R. LUPTON, EXECUTIVE DIRECTOR



Beth A. Wood, CPA
State Auditor

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AUDITOR'S TRANSMITTAL

The Honorable Pat McCrory, Governor
The General Assembly of North Carolina
Board of Directors, North Carolina Global TransPark Authority

We have completed a financial statement audit of the North Carolina Global TransPark Authority for the year ended June 30, 2013, and our audit results are included in this report. You will note from the independent auditor's report that we determined that the financial statements are presented fairly in all material respects.

The results of our tests disclosed no deficiencies in internal control over financial reporting that we consider to be material weaknesses in relation to our audit scope or any instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

A handwritten signature in cursive script that reads "Beth A. Wood".

Beth A. Wood, CPA
State Auditor

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INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the North Carolina Global TransPark 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, 2013, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of The Global TransPark Foundation, Inc., the Authority's discretely presented component unit. Those statements were audited by other auditors whose report has been furnished to us, and our opinions, insofar as they relate to the amounts included for the Global TransPark Foundation, Inc., 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. The financial statements of the Global TransPark Foundation, Inc. were not audited in accordance with *Government Auditing Standards*.

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

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

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

Opinions

In our opinion, based on our audit and the report of the other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of the North Carolina Global TransPark Authority, and its discretely presented component unit, as of June 30, 2013, and the changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters – Required Supplementary Information

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 17, 2013 on our consideration of the Authority's internal control over financial

INDEPENDENT AUDITOR'S REPORT (CONCLUDED)

reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting and compliance.



Beth A. Wood, CPA
State Auditor

Raleigh, North Carolina

December 17, 2013

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NORTH CAROLINA GLOBAL TRANSPARK AUTHORITY MANAGEMENT'S DISCUSSION AND ANALYSIS

Overview

Management's 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, 2013. In addition to Management's Discussion and Analysis, management has prepared the accompanying Statement of Net Position, Statement of Revenues, Expenses, and Changes in Net Position, 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 organizes and raises funds from private individuals and corporations for the sole purpose of increasing business and jobs at the Global TransPark (GTP).

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

Financial Highlights and Analysis

The Governmental Accounting Standards Board (GASB) established as an independent nonprofit organization in 1984 is charged with establishing and maintaining accounting policy, procedure, and disclosure standards as they pertain to state and local governments. These standards are most commonly referred to as generally accepted accounting principles or GAAP. Governmental GAAP accounting requires the application of the GASB Statement No. 34 reporting model whose intent is to make financial statements more useful to and easier to understand by oversight bodies, investors, creditors, and citizens. This improvement in utility value is accomplished principally through the introduction of the MD&A and a reformatting and consolidation of the basic financial statements for the main type of governmental reporting fund types, general government and proprietary units. The Authority is classified as a discretely presented component unit and is reported as a non-major component unit in the State's *Comprehensive Annual Financial Report*.

The accompanying basic financial statements have been prepared on an accrual basis of accounting, meaning that revenues are recognized when earned and expenses when incurred. Please refer to Note 1 in the Notes to the Financial Statements for additional details relating to accounting policy. Taken in whole, the Statement of Net Position, Statement of Revenues, Expenses, and Changes in Net Position, and Statement of Cash Flows are one measure of an organization's overall financial health and value. Individually, the Statement of Net Position is a static view of financial value while the other two depict the movement of key elements

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

from one period to the next, with a specific focus on the organization's net assets and cash and cash equivalents.

The fiscal year that ended June 30, 2013, continued to be another year in transition for the Authority. Some of the significant activities regarding capital assets and related debt activities are described below.

Statement of Net Position

As summarized in the following table by major category, a comparison of net position as of June 30, 2013 to that of the prior year yields significant changes.

Condensed Statement of Net Position				
	June 30, 2013	June 30, 2012 (Restated)	Change	% Change
Current Assets	\$ 4,248,256	\$ 5,363,339	\$ (1,115,083)	-21%
Other Noncurrent Assets	896,683	840,573	56,110	7%
Capital Assets	<u>172,352,721</u>	<u>177,392,657</u>	<u>(5,039,936)</u>	-3%
Total Assets	<u>177,497,660</u>	<u>183,596,569</u>	<u>(6,098,909)</u>	-3%
Current Liabilities	915,036	1,944,650	(1,029,614)	-53%
Long-term Debt Outstanding	37,480,627	35,291,488	2,189,139	6%
Other Noncurrent Liabilities	<u>40,365</u>	<u>44,696</u>	<u>(4,331)</u>	-10%
Total Liabilities	<u>38,436,028</u>	<u>37,280,834</u>	<u>1,155,194</u>	3%
Net Position				
Net Investment in Capital Assets	134,261,286	141,297,434	(7,036,148)	-5%
Restricted for Debt Service	896,683	1,053,850	(157,167)	-15%
Unrestricted	<u>3,903,663</u>	<u>3,964,451</u>	<u>(60,788)</u>	-2%
Total Net Position	<u>\$ 139,061,632</u>	<u>\$ 146,315,735</u>	<u>\$ (7,254,103)</u>	-5%

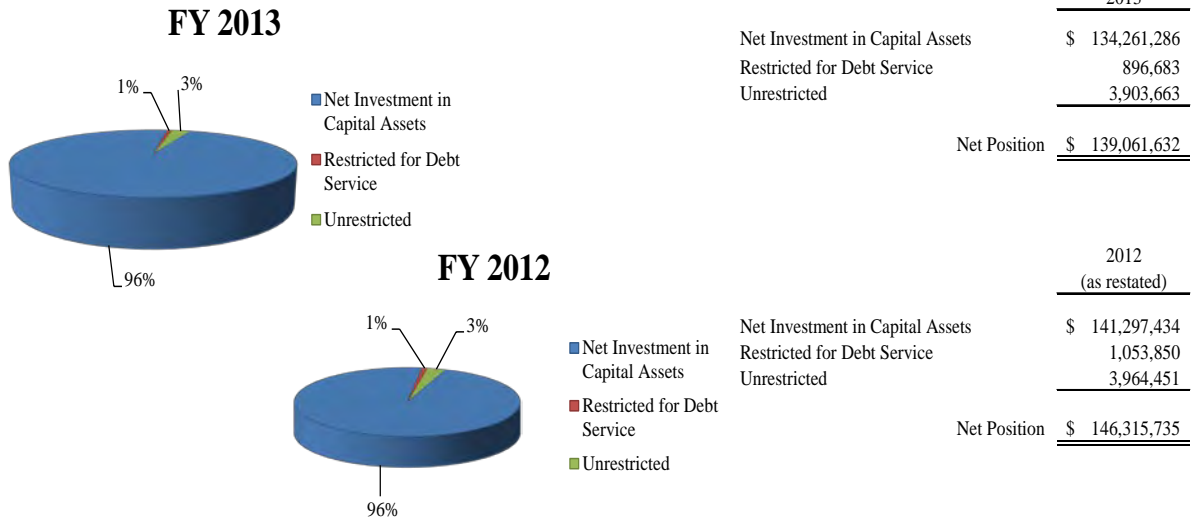
Total assets decreased 3%. This is due to activities during the fiscal year that affected receivables, debt, and capital assets. Current assets decreased 21% due mainly to the collection of loan proceeds reported as a receivable from the North Carolina Department of Transportation in the prior year, as well as an overall improvement in operations in timely collecting amounts due to the Authority. Capital assets decreased 3% due to the net effect of current year acquisitions and annual depreciation. Total liabilities decreased by 3%. Current liabilities decreased 53% because of construction payments from the prior year being paid with no new major construction projects at fiscal year-end.

Total net position of the Authority decreased 5% from the prior year. The first category, net investment in capital assets, represents the Authority's equity position, net of related debt, with regards to land, facilities, and equipment. The 5% decrease from the prior year was due to the net effect of asset acquisitions, depreciation expense, and capital debt activity. The second category, restricted for debt service, is restricted by debt covenants. The decrease of 15% in this category was due to the payoff of a loan. The final category, unrestricted, is

MANAGEMENT’S DISCUSSION AND ANALYSIS (CONTINUED)

available for any lawful purpose of the Authority and did not change significantly from the prior year.

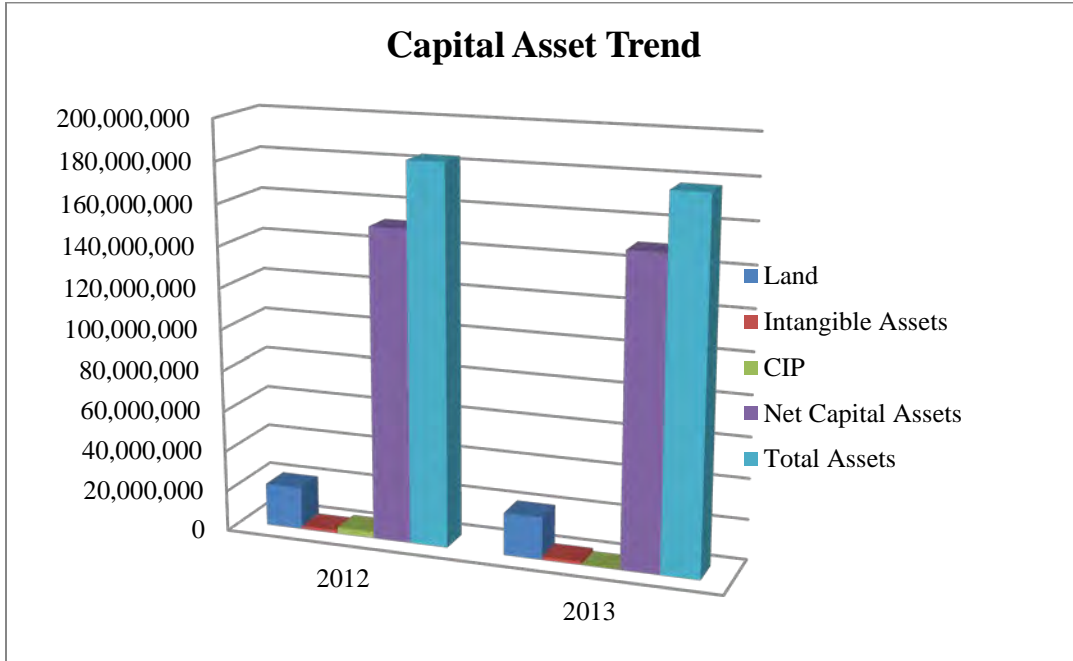
Net Position



Capital Assets

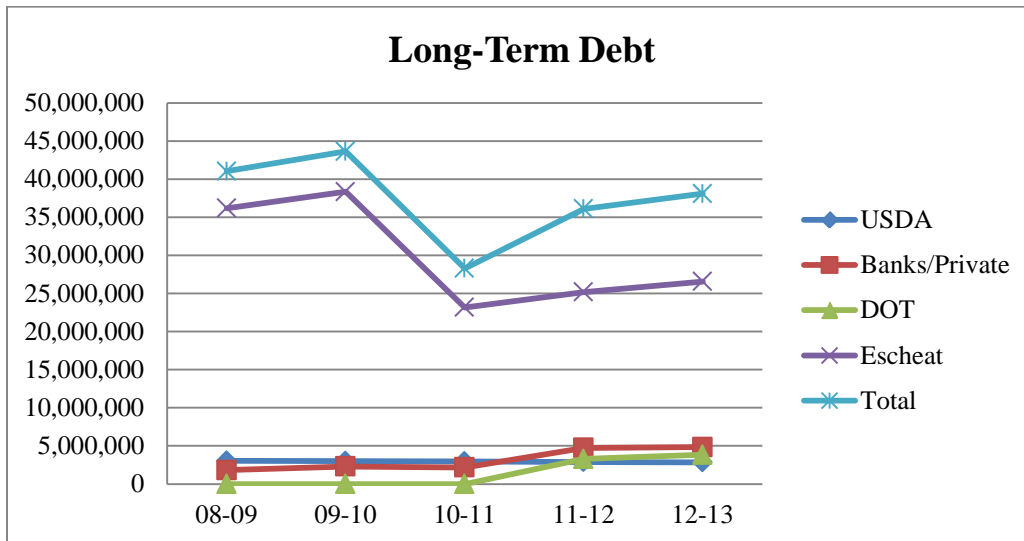
The following graph depicts the trend in capital assets. Total net capital assets include land, intangible assets, construction in progress, and depreciable capital assets. Net capital assets represent depreciable capital assets less depreciation. While there was very little change with land, intangible assets, and net capital assets, there was an approximate 98% decrease in construction in progress due to the completion of the GTP-1 and GTP-7 projects during the fiscal year. Additionally, as of June 30, 2013, Spirit AeroSystems reported total capital improvements to date of \$74,990,250 and \$1,145,048 to the GTP-6 and GTP-1 facilities, respectively. These capital improvements are not recorded on the Authority’s financial statements.

MANAGEMENT’S DISCUSSION AND ANALYSIS (CONTINUED)



Long-Term Debt

Long-term debt activity during the period consisted of additions to existing notes payable to finance construction projects, additions to accrued interest on the Escheat Fund loan, and reductions in notes payable for principal payments. On July 26, 2013, the General Assembly directed the Office of State Budget and Management to transfer funds to the Escheat Fund as a payment-in-full for the Authority’s outstanding loan. This payoff was made on September 20, 2013, and will give the Authority an opportunity to manage existing debt and work towards becoming self-sufficient in future periods. The graph below depicts the makeup of debt at June 30, 2013 as compared to prior years.



MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Revenues, Expenses and Changes in Net Position

The Authority's financial condition overall compared to the prior fiscal year decreased 5%. There was a 6% decrease in total operating revenues that was due to a slight decrease in the percentage of leasable space at the TransPark, as well as a 16% decrease in miscellaneous revenues, some of which resulted from non-recurring transactions in the prior fiscal year.

Working to improve its efficiency and watching the bottom line, the Authority's operating expenses decreased 6%. While the overall percentage is modest, it is noted that professional services decreased 67% by Authority personnel increasing their responsibilities and completing tasks in house, as well as utilization of resources from other state agencies. Salaries and benefits decreased 11% due to employees retiring and positions not being filled because of the state-imposed hiring freeze. Repairs and maintenance increased 133%. More than \$190,000 in costs accrued from damages to several Authority-owned facilities from a prior year's hurricane; insurance reimbursement, less deductible, is reflected in miscellaneous revenues. The training center roof and HVAC system required repairs and maintenance during the year, as well. Partnering with the North Carolina Department of Transportation, the Authority plans to implement an asset maintenance program to better manage asset maintenance and repairs.

Nonoperating revenues decreased 22% due to a 13% decrease in state operating aid, lower interest rates on investment earnings, as well as an 83% decrease in noncapital aviation grants due to a lack of availability. There was a 21% reduction in nonoperating expenses because of the decrease in Escheat Fund interest expense from the prior year.

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

	June 30, 2013	June 30, 2012 (Restated)	Change	% Change
Operating Revenues	\$ 1,929,366	\$ 2,055,524	\$ (126,158)	-6%
Operating Expenses				
Salaries and Benefits	849,030	949,701	(100,671)	-11%
Professional Services	172,660	522,554	(349,894)	-67%
Depreciation	6,306,594	6,479,070	(172,476)	-3%
Other Operating Expenses	1,204,673	1,074,155	130,518	12%
Total Operating Expenses	<u>8,532,957</u>	<u>9,025,480</u>	<u>(492,523)</u>	-6%
Operating Loss	<u>(6,603,591)</u>	<u>(6,969,956)</u>	<u>(126,158)</u>	2%
Nonoperating Revenues	1,050,961	1,349,693	(298,732)	-22%
Nonoperating Expenses	(1,832,046)	(2,306,704)	474,658	-21%
Capital Contributions	<u>130,573</u>	<u>204,578</u>	<u>(74,005)</u>	-36%
Net Nonoperating Expenses and Capital Contributions	<u>(650,512)</u>	<u>(752,433)</u>	<u>101,921</u>	-14%
Decrease in Net Position	(7,254,103)	(7,722,389)	(468,286)	-6%
Net Position, Beginning of Period, as Restated	<u>146,315,735</u>	<u>154,038,124</u>	<u>7,722,389</u>	-5%
Net Position, End of Period	<u>\$ 139,061,632</u>	<u>\$ 146,315,735</u>	<u>\$ (7,254,103)</u>	-5%

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Highlights and Economic Outlook

The Authority continued to experience another year of transition. Some of the highlights, activities and plans are included below.

- A new administration at the DOT brought significant changes in the organizational leadership. The Authority's third executive director in the fiscal year took the helm in May; he also serves as the Director of Statewide Logistics. He is tasked with not only the executive management of the Authority, but also with integrating the operations of both the Authority and the North Carolina State Ports Authority (Ports) within the North Carolina Department of Transportation's Division of Logistics.
- The Authority also had major changes to the makeup of its Board of Directors, with nine of its 20 members' terms having expired, and one member resigning.
- A major milestone for the Authority was Senate Bill 402 (Session Law 2013-360) that directed repayment of the Escheat Fund loan to the State Treasurer.
- With an already small staff, three of the Authority's long-time employees retired. Due to a hiring freeze, two positions remain vacant.
- The Authority's Administrative Policies were updated.
- Final design and program plan for way finding signage in and around the TransPark campus was completed. The Request for Qualifications/Request for Proposals, as well as phase I of construction and installation of signage, will begin in fiscal year 2014, with final completion planned for fiscal year 2016.
- With the support of DOT, staff developed data for an enterprise asset management system. When the system is fully implemented, staff will be able to plan for expenditures for assets, based on their remaining life span.
- Marketing activities for the year were focused on establishing new partnerships and fostering existing relationships. Going forward the Authority will rely on these partners to help expand the sales capacity of the agency's small staff in order to reach a wider audience. Marketing activities included:
 - Continued development of a redesigned website. The new site went live on August 31, 2013, and includes an interactive map and links to TransPark-related documents.
 - Partnered with the North Carolina Department of Commerce and North Carolina's Eastern Region for the June 2013 Paris Air Show.
 - Hosted economic development meetings, as well as quarterly tenant luncheons.
 - Hosted a familiarization tour for a respected site location consultant who has evaluated North Carolina for several projects, with multiple projects successfully located in the state. The Authority is currently being evaluated for a project as a result of this visit.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

- Attended several aviation/aerospace trade shows, as well as participation in Friends of North Carolina events.
- The Authority faced significant challenges due to the sequestration imposed on federal government spending, causing two tenants to consolidate operations elsewhere.
- Kinston Regional Jetport (ISO), headquarters of the Global TransPark, faced another hurdle with the decision of the airport's fixed base operator (FBO) to consolidate operations in another state. The FBO began scaling back operations during the latter part of the fiscal year, with an end date of August 31, 2013. There has been no disruption of FBO service, as a temporary FBO is providing services until FBO proposals are evaluated, and a lease and operating agreement are negotiated with a permanent FBO.
- The Federal Aviation Administration (FAA) contracted air traffic control tower at ISO, along with 251 other towers across the country and five others in North Carolina, faced immediate or short-term closure in April 2013 due to budget cuts within the FAA. The towers are currently being funded until January 15, 2014. It is not known at this time if the contract tower will remain open after that date, as long-term federal funding for tower operations nationwide has not yet been provided for in the federal 2014 budget.
- Despite many challenges and opportunities, ISO tackled several initiatives and projects, as listed below:
 - Updated the Airport Minimum Standards and implemented a new application process for aeronautical-related businesses.
 - Worked with an aviation consultant and air service committee, composed of community leaders, to investigate the potential for commercial air service to a hub airport from the ISO. Although the airport does not currently have scheduled airline service, there are several charter flights weekly, and ISO has a long-term agreement in place for the military to utilize the runway for training.
 - Updated the airport security program manual, airport certification manual, and storm water monitoring program, as well as sub-programs for TransPark tenants.
 - Completed numerous airport maintenance and repair projects, such as the terminal building, rotating beacon and fuel farm, airfield hold line remarking, rehabilitation of airfield lighted signage, and improvements to airport gate access.
 - Established an airport tenants' user group to discuss and inform airport users on issues related to operation of the airport.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

- Foreign Trade Zone (FTZ) #214 continued to be an economic driver for the state economy with between \$200 million - \$400 million in goods shipped during calendar year 2012. FTZ activities included:
 - Worked with the Ports to provide administrative support and help increase activity within Foreign Trade Zones #66 and #67, located within the Ports of Wilmington and Morehead City, respectively.
 - Hosted FTZ information sessions for both the Authority and the Ports.
 - Drafted an FTZ marketing plan for the Authority and the Ports.
 - Applied to the FTZ Board for the Ports' foreign trade zones (FTZ #66 and #67) to be transferred to the DOT, with concurrence from both DOT and the North Carolina Department of Commerce.
 - Participated in FTZ conferences and seminars.
- Increased activity among the Authority, the Ports, DOT personnel, and the logistics team to spur economic development activity.
- Development committee meetings, as well as meetings with city and county officials, regarding zoning were held.
- Completion of environmental reporting required for certified sites documentation, parcel development estimates, and the actual site certification process on 877 acres of land at the GTP.
- Despite experiencing some private sector job losses due to consolidation, the TransPark maintained steady job growth in fiscal year 2013. Private sector employment at the TransPark increased 10% over the prior year, with a total of 486 employees. These numbers do not reflect the public agencies who are also tenants at the TransPark.
- The average annual \$50,000 salary for private sector jobs at the TransPark remained consistent with the previous fiscal year. These salaries are 17% higher than the average annual private sector salary for the State. Compared to the \$1 million in state operating aid the Authority received in fiscal year 2013, the total payroll for private sector companies at the TransPark was more than \$23 million.
- With 84% of facilities currently leased, the Authority continues to receive interest from prospects in several targeted industries, including Tier 1 and Tier 2 aerospace suppliers, technical service firms, federal government contractors, aviation maintenance, repair and overhaul (MRO) companies, as well as manufacturers in paper, metal, and building products.

Although the Authority had some setbacks during the fiscal year, there is a continued prospect interest in the TransPark, particularly in aviation. With new leadership at the helm having skillsets in logistics, aviation, and executive management, the TransPark is poised to continue its mission as a catalyst for economic growth and job creation in North Carolina.

Contacting the Authority's Management

If you have questions about these financial statements or need additional information, contact the Authority's Executive Director, 2780 Jetport Road, Kinston, NC 28504, or at (919) 707-2512.

North Carolina Global TransPark Authority
Statement of Net Position
June 30, 2013

Exhibit A-1

ASSETS

Current Assets:	
Cash and Cash Equivalents (Note 2)	\$ 3,923,223
Accounts Receivable, Net (Note 3)	12,335
Due from State of North Carolina Component Units	<u>312,698</u>
Total Current Assets	<u>4,248,256</u>
Noncurrent Assets:	
Restricted Cash and Cash Equivalents (Note 2)	896,683
Capital Assets - Nondepreciable (Note 4)	22,585,019
Capital Assets - Depreciable, Net (Note 4)	<u>149,767,702</u>
Total Noncurrent Assets	<u>173,249,404</u>
Total Assets	<u>177,497,660</u>

LIABILITIES

Current Liabilities:	
Accounts Payable and Accrued Liabilities (Note 5)	133,344
Due to Primary Government	34,539
Unearned Revenue	7,836
Accrued Interest Payable	88,144
Compensated Absences (Note 6)	40,365
Note Payable - USDA (Note 6)	52,225
Note Payable - PNG (Note 6)	97,611
Note Payable - FCB (Note 6)	53,846
Note Payable - Southern Bank (Note 6)	7,126
Note Payable - Due to NC DOT (Note 6)	<u>400,000</u>
Total Current Liabilities	<u>915,036</u>
Noncurrent Liabilities:	
Compensated Absences (Note 6)	40,365
Note Payable - USDA (Note 6)	2,791,243
Note Payable - PNG (Note 6)	97,611
Note Payable - FCB (Note 6)	1,426,467
Note Payable - Due to NC DOT (Note 6)	3,440,615
Note Payable - Southern Bank (Note 6)	3,152,081
Note Payable - Due to NC Escheat Fund (Note 6)	<u>26,572,610</u>
Total Noncurrent Liabilities	<u>37,520,992</u>
Total Liabilities	<u>38,436,028</u>

NET POSITION

Net Investment in Capital Assets	134,261,286
Restricted for:	
Expendable:	
Debt Service	896,683
Unrestricted	<u>3,903,663</u>
Total Net Position	<u>\$ 139,061,632</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 Position
For the Fiscal Year Ended June 30, 2013***

Exhibit A-2

REVENUES

Operating Revenues:	
Rental Revenues	\$ 1,456,057
Miscellaneous Revenues	473,309
	<hr/>
Total Operating Revenues	1,929,366
	<hr/>

EXPENSES

Operating Expenses:	
Salaries and Benefits	849,030
Professional Services	172,660
Legal and Accounting	175,310
Depreciation	6,306,594
Rent	12,831
Repairs and Maintenance	324,082
Supplies and Materials	69,298
Equipment	3,231
Insurance	78,902
Telephone	29,818
Utilities	279,492
Travel and Subsistence	28,668
Advertising	75,128
Projects	95,505
Other	32,408
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Total Operating Expenses	8,532,957
	<hr/>
Operating Loss	(6,603,591)
	<hr/>

NONOPERATING REVENUES (EXPENSES)

State Operating Aid	1,000,000
Noncapital Contributions	26,810
Investment Earnings	24,151
Interest Expense	(1,832,046)
	<hr/>
Net Nonoperating Expenses	(781,085)
	<hr/>
Loss Before Other Revenues	(7,384,676)
	<hr/>
Capital Contributions	130,573
	<hr/>
Decrease in Net Position	(7,254,103)
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NET POSITION

Net Position - July 1, 2012, as Restated (Note 14)	146,315,735
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Net Position - June 30, 2013	\$ 139,061,632
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The accompanying notes to the financial statements are an integral part of this statement.

North Carolina Global TransPark Authority
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2013

Exhibit A-3
Page 1 of 2

CASH FLOWS FROM OPERATING ACTIVITIES

Receipts from Customers	\$ 1,937,570
Payments to Employees and Fringe Benefits	(864,168)
Payments to Vendors and Suppliers	<u>(1,513,992)</u>
Net Cash Used by Operating Activities	<u>(440,590)</u>

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

State Operating Aid	1,000,000
Noncapital Contributions	<u>26,810</u>
Cash Provided by Noncapital Financing Activities	<u>1,026,810</u>

CASH FLOWS FROM CAPITAL FINANCING AND RELATED FINANCING ACTIVITIES

Proceeds from Capital Debt	3,004,541
Capital Contributions	148,245
Acquisition and Construction of Capital Assets	(2,065,312)
Principal Payments on Capital Debt	(807,436)
Interest Payments on Capital Debt	<u>(453,932)</u>
Net Cash Used by Capital Financing and Related Financing Activities	<u>(173,894)</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Interest Received	<u>24,151</u>
Cash Provided by Investing Activities	<u>24,151</u>

Increase in Cash and Cash Equivalents	436,477
Cash and Cash Equivalents - July 1, 2012	<u>4,383,429</u>
Cash and Cash Equivalents - June 30, 2013	<u>\$ 4,819,906</u>

RECONCILIATION OF NET OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES

Operating Loss	\$ (6,603,591)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:	
Depreciation Expense	6,306,594
Changes in Assets and Liabilities:	
Accounts Receivable (Net)	(125,213)
Accounts Payable and Accrued Liabilities	3,002
Due to Primary Government	(3,891)
Unearned Revenue	(8,831)
Compensated Absences	<u>(8,660)</u>
Net Cash Used by Operating Activities	<u>\$ (440,590)</u>

***North Carolina Global TransPark Authority
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2013***

***Exhibit A-3
Page 2 of 2***

RECONCILIATION OF CASH AND CASH EQUIVALENTS

Current Assets:	
Cash and Cash Equivalents	\$ 3,923,223
Noncurrent Assets:	
Restricted Cash and Cash Equivalents	<u>896,683</u>
Total Cash and Cash Equivalents - June 30, 2013	<u><u>\$ 4,819,906</u></u>

NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES

Change in Capital Assets as a Result of Accounts Payable Accruals	\$ (814,512)
Assets Acquired through Capital Contributions	16,667

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

Global TransPark Foundation, Inc.
Statement of Financial Position
June 30, 2013

Exhibit B-1

ASSETS

Current Assets:

Cash and Cash Equivalents	\$ 4,090,227
Accrued Interest Receivable	1,905
Unconditional Promises to Give - Net of Allowance for Uncollectible Promises to Give of \$66,500	<u>0</u>

Total Current Assets	<u>4,092,132</u>
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Noncurrent Assets:

Property and Equipment, Net of Accumulated Depreciation of \$3,592,000	<u>4,905,864</u>
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Total Assets	<u><u>\$ 8,997,996</u></u>
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LIABILITIES

Current Liabilities:

Accounts Payable	<u>\$ 3,246</u>
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Total Liabilities	<u>3,246</u>
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NET ASSETS

Unrestricted	<u>8,994,750</u>
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Total Net Assets	<u>8,994,750</u>
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Total Liabilities and Net Assets	<u><u>\$ 8,997,996</u></u>
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The accompanying notes to the financial statements are an integral part of this statement.

Global TransPark Foundation, Inc.
Statement of Activities
For the Fiscal Year Ended June 30, 2013

Exhibit B-2

	Unrestricted	Total June 30, 2013
SUPPORT AND REVENUE:		
Rent Income	\$ 271,135	\$ 271,135
Interest Income	17,390	17,390
Other Income	5	5
	<hr/>	<hr/>
Total Support and Revenue	288,530	288,530
EXPENSES:		
Program Services	342,527	342,527
Management and General Expenses	53,342	53,342
	<hr/>	<hr/>
Total Expenses	395,869	395,869
Change in Net Assets	(107,339)	(107,339)
Net Assets at Beginning of Year	9,102,089	9,102,089
	<hr/>	<hr/>
Net Assets at End of Year	<u>\$ 8,994,750</u>	<u>\$ 8,994,750</u>

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

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NORTH CAROLINA GLOBAL TRANSPARK AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2013

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

- A. 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 (Authority) is a component unit of the State of North Carolina and an integral part of the State's Comprehensive Annual Financial Report.

The accompanying financial statements present all funds belonging to the Authority and its component unit. The Authority's component unit is discretely presented in the Authority's financial statements. The discretely presented component unit's financial data is reported in separate financial statements because of its use of different GAAP reporting models and to emphasize their legal separateness.

Discretely Presented Component Unit - The Global TransPark Foundation, Inc. (Foundation) is a legally separate not-for-profit corporation and is reported as a discretely presented component unit based on the nature and significance of its relationship to the Authority.

The 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 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 the year ended June 30, 2013, the Foundation paid the Authority \$130,075 for economic development commitments and other expenses. The Foundation has no remaining commitments with the Authority to provide financial incentives.

Complete financial statements for the Foundation may be obtained from the North Carolina Global TransPark, P.O. Box 1476, Kinston, NC 28503-1476, or by calling (252) 522-4929.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

- B. 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.

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

Nonexchange transactions, in which the Authority receives (or gives) value without directly giving (or receiving) equal value in exchange, includes certain grants, appropriations, and contributions. 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.

- D. Cash and Cash Equivalents** - This classification includes undeposited receipts, petty cash, cash on deposit with private bank accounts, and deposits held by the State Treasurer in the Short-Term Investment Fund (STIF). The STIF 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.
- E. Receivables** - Receivables consist of charges to customers for services, leases on facilities, and miscellaneous revenues. Receivables also include amounts due from the Foundation. Receivables are recorded net of estimated uncollectible amounts.
- F. 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 value of assets constructed includes all material direct and indirect construction costs. Interest costs incurred are capitalized during the period of construction.

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. The Authority capitalizes intangible assets under these same provisions.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 20 years for equipment.

- G. 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 for the payment of principal and interest as required by debt covenants.
- H. Noncurrent Long-Term Liabilities** - Noncurrent long-term liabilities include principal amounts on notes payable and compensated absences that will not be paid within the next fiscal year.
- I. 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. When classifying compensated absences into current and noncurrent, leave is considered taken using a last-in, first-out (LIFO) method. 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.

The Authority has the policy of recording the cost of sick leave when taken and paid rather than when the leave is earned. There is no liability for unpaid accumulated sick leave because the Authority has no obligation to pay sick leave upon termination or retirement. The policy provides for unlimited accumulation of sick leave. However, additional service credit for retirement pension benefits is given for accumulated sick leave upon retirement.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

J. Net Position - The Authority's net position is classified as follows:

Net Investment in Capital Assets - 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 as a component of Net Investment in Capital Assets.

Restricted Net Position - Expendable - Expendable restricted net position includes resources for which the Authority is legally or contractually obligated to spend in accordance with restrictions imposed by external parties.

Unrestricted Net Position - Unrestricted net position includes resources derived from state appropriations, rental revenues, contributions, and interest income.

Restricted and unrestricted resources are tracked separately. When both restricted and unrestricted funds are available for expenditure, the decision for funding is determined by management on a case-by-case basis.

K. Revenue and Expense Recognition - The Authority classifies its revenues and expenses as operating or nonoperating in the accompanying Statement of Revenues, Expenses, and Changes in Net Position. 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 noncapital 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*.

Nonoperating revenues include activities that have the characteristics of nonexchange transactions. Revenues from nonexchange transactions and state aid that represent subsidies or gifts to the Authority, 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.

NOTE 2 - DEPOSITS

Authority - Unless specifically exempt, the Authority is required by *North Carolina General Statute 147-77* to deposit moneys received with

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

the State Treasurer or with a depository institution in the name of the State Treasurer.

At June 30, 2013, the amount shown on the Statement of Net Position as cash and cash equivalents includes \$3,224,534 which represents the Authority's equity position in the State Treasurer's STIF. The STIF (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) had a weighted average maturity of 1.6 years as of June 30, 2013. Assets and shares of the STIF are valued at amortized cost, which approximates fair value. Deposit and investment risks associated with the State Treasurer's Investment Pool (which includes the State Treasurer's STIF) are included in the State of North Carolina's *Comprehensive Annual Financial Report*. An electronic version of this report is available by accessing the North Carolina Office of the State Controller's Internet home page <http://www.osc.nc.gov/> and clicking on "Reports," or by calling the State Controller's Financial Reporting Section at (919) 707-0500.

Cash on hand at June 30, 2013 was \$200. The carrying amount of the Authority's deposits not with the State Treasurer was \$1,595,172 and the bank balance was \$1,630,830. Custodial credit risk is the risk that in the event of a bank failure, the Authority's deposits may not be returned to it. The Authority does not have a deposit policy for custodial credit risk. As of June 30, 2013, the Authority's bank balance was exposed to custodial credit risk as follows:

Uninsured and Collateralized	<u><u>\$ 736,977</u></u>
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Component Unit - The North Carolina Global TransPark Foundation (Foundation) maintains its cash balances in several financial institutions located in Kinston, NC. The carrying amount of the Foundation's deposits and the bank balances were \$4,090,227. The Foundation does not have a deposit policy for custodial credit risk. As of June 30, 2013, the Foundation's bank balance was exposed to custodial credit risk, as follows:

Uninsured and Collateralized	<u><u>\$ 3,093,486</u></u>
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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 3 - RECEIVABLES

Receivables at June 30, 2013, were as follows:

	Gross Receivables	Less Allowance for Doubtful Accounts	Net Receivables
Current Receivables:			
Due from Customers	\$ 20,352	\$ 10,000	\$ 10,352
Due from Global TransPark Foundation	1,983		1,983
Total Current Receivables	\$ 22,335	\$ 10,000	\$ 12,335

NOTE 4 - CAPITAL ASSETS

A summary of changes in the capital assets for the year ended June 30, 2013, is presented as follows:

	Balance July 1, 2012 (as restated)	Increases	Decreases	Balance June 30, 2013
Capital Assets, Nondepreciable:				
Land	\$ 20,916,656	\$ 55,589	\$ 0	\$ 20,972,245
Intangible Assets	1,546,370			1,546,370
Construction in Progress	3,120,426	1,101,329	4,155,351	66,404
Total Capital Assets, Nondepreciable	25,583,452	1,156,918	4,155,351	22,585,019
Capital Assets, Depreciable:				
Landing Fields and Grounds	48,774,517	259,546		49,034,063
Buildings	135,427,138	3,964,670		139,391,808
Equipment	4,101,005	40,875		4,141,880
Total Capital Assets, Depreciable	188,302,660	4,265,091	0	192,567,751
Less Accumulated Depreciation for:				
Landing Fields and Grounds	18,682,260	1,652,087		20,334,347
Buildings	14,366,827	4,539,428		18,906,255
Equipment	3,444,368	115,079		3,559,447
Total Accumulated Depreciation	36,493,455	6,306,594	0	42,800,049
Total Capital Assets, Depreciable, Net	151,809,205	(2,041,503)	0	149,767,702
Capital Assets, Net	\$ 177,392,657	\$ (884,585)	\$ 4,155,351	\$ 172,352,721

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Component Unit - A summary of changes in the Foundation's capital assets for the year ended June 30, 2013, is presented as follows:

	Balance July 1, 2012	Increases	Decreases	Balance June 30, 2013
Capital Assets, Depreciable:				
Buildings	\$ 8,498,064	\$ 0	\$ 0	\$ 8,498,064
Less Accumulated Depreciation for:				
Buildings	3,379,749	212,451		3,592,200
Total Capital Assets, Net	\$ 5,118,315	\$ (212,451)	\$ 0	\$ 4,905,864

NOTE 5 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities at June 30, 2013, were as follows:

Accounts Payable and Accrued Liabilities	Amount
Accounts Payable	\$ 112,584
Accrued Payroll	17,672
Deposit Liability	3,088
Total	\$ 133,344

NOTE 6 - LONG-TERM LIABILITIES

A. Summary of Changes - A summary of changes in the Authority's long-term liabilities for the year ended June 30, 2013 is presented as follows:

	Balance July 1, 2012	Additions	Reductions	Balance June 30, 2013	Current Portion
Notes Payable	\$ 36,095,223	\$ 2,803,648	\$ 807,436	\$ 38,091,435	\$ 610,808
Compensated Absences	89,392	80,730	89,392	80,730	40,365
Total Long-Term Liabilities	\$ 36,184,615	\$ 2,884,378	\$ 896,828	\$ 38,172,165	\$ 651,173

B. Notes Payable Summary

Notes Payable - North Carolina Escheat Fund - The \$21,741,952 principal and net accrued interest expense of \$4,830,658, represent a balance of \$26,572,610, due to the North Carolina Escheat Fund at June 30, 2013. The loan is payable on October 1, 2014 and bears interest at a variable rate based upon the earnings record of the State Treasurer's Long-Term Investment Fund, which was 5.164% at June 30, 2013. The

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

loan is collateralized by real property. Interest expense on the loan with the State Treasurer was \$1,385,430 for the year ended June 30, 2013.

Effective July 1, 2013, Senate Bill 402, Session Law 2013, directed the Office of State Budget and Management to transfer funds to the Escheat Fund as payment-in-full for the outstanding loan. Additional information regarding this subsequent event is provided in Note 15.

Notes Payable - United States Department of Agriculture (USDA) - The Authority was indebted for a total of four USDA loans at June 30, 2013. One USDA loan was for the construction of Fixed Base Operator (FBO) hangars at the Global TransPark at an interest rate of 4.75%. Another USDA loan was for the construction of an Administration Building at an interest rate of 4.63%. The third loan was for the Airport Rescue and Fire Fighting Facility (ARFF) that has approximately 20,000 square feet of leased space at an interest rate of 4.13%. The fourth loan was for an expansion of the FBO hangars at an interest rate of 4.25%. These loans are collateralized by the assets acquired with the loan proceeds. The loan information on the USDA notes payable is shown in the following table:

Interest Rate	Final Maturity Date	Original Amount of Issue	Principal Paid Through June 30, 2013	Principal Outstanding June 30, 2013
4.75%	6/21/2041	\$ 666,500	\$ 92,017	\$ 574,483
4.63%	10/25/2032	673,350	133,581	539,769
4.13%	8/18/2046	1,345,000	82,675	1,262,325
4.25%	11/7/2046	500,000	33,109	466,891

The annual requirements to pay principal and interest on the USDA notes at June 30, 2013 are presented as follows:

Fiscal Year	Principal	Interest
2014	\$ 52,225	\$ 124,166
2015	54,537	121,854
2016	56,950	119,441
2017	59,471	116,920
2018	62,105	114,286
2019-2023	354,293	527,662
2024-2028	440,069	441,886
2029-2033	546,573	335,382
2034-2038	449,166	223,039
2039-2043	478,546	118,611
2044-2048	289,533	26,518
Total Requirements	<u>\$ 2,843,468</u>	<u>\$ 2,269,765</u>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Notes Payable - Bank and Private Loans - The Authority secured two loans to finance the construction of a 20,000 square foot facility for a tenant. Principal and interest on the first loan are payable monthly; interest on the second loan is payable monthly, and the remaining principal amount was paid on February 1, 2013. The Authority secured a third loan to finance the installation of an 8" gas line for a tenant. Principal and interest payments on this loan are paid annually. The Authority secured a fourth loan to construct GTP-7, a 100,000 square foot shell building. The Authority could draw down a maximum of \$4,000,000, with the first two years of the loan payments being interest only. The total amount borrowed at year end was \$3,159,207. These loans are collateralized by the assets acquired with the loan proceeds, as well as the land on which the assets are located.

Information on the loans at June 30, 2013 is shown in the following table:

Purpose	Financial Lender	Issue Date	Interest Rate	Final Maturity Date	Original Amount of Issue	Principal Paid Through June 30, 2013	Principal Outstanding June 30, 2013
Facility Construction	First Citizens	11/8/2006	7.00%	11/8/2030	\$ 1,606,750	\$ 126,437	\$ 1,480,313
Facility Construction	First Citizens	1/31/2008	3.50%	2/8/2013	205,944	205,944	
Gas Line Construction	PNG Gas Co.	10/6/2009	7.00%	8/4/2014	488,055	292,833	195,222
Facility Construction	Southern Bank	5/24/2012	6.75%	5/24/2032	3,159,207		3,159,207

The annual requirements to pay principal and interest on the private notes at June 30, 2013 are presented as follows:

Fiscal Year	Principal	Interest
2014	\$ 158,584	333,227
2015	248,416	319,093
2016	161,040	302,025
2017	173,153	289,912
2018	185,562	277,503
2019-2023	1,146,813	1,168,512
2024-2028	1,621,109	694,216
2029-2033	1,140,065	152,064
Total Requirements	<u>\$ 4,834,742</u>	<u>\$ 3,536,552</u>

Notes Payable - North Carolina Department of Transportation (DOT) Loan - On September 29, 2011, the Authority signed an agreement with DOT to draw down a maximum of \$5,000,000 for the renovation of GTP-1, a 120,000 square foot facility to be converted from warehousing to industrial fabrication for a tenant. On April 17, 2012, the agreement was amended to require the Authority to repay DOT \$400,000 annually at 0% interest until the loan is paid in full by reducing quarterly

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

appropriations to the Authority by \$100,000. It was further agreed that the Authority would repay DOT \$200,000 during the fiscal year ended June 30, 2012. The total amount borrowed was \$4,440,615, and the final maturity date is July 1, 2023. Information on the loan at June 30, 2013 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, 2013</u>	<u>Principal Outstanding June 30, 2013</u>
0.00%	7/1/2023	\$ 4,440,615	\$ 600,000	\$ 3,840,615

The annual requirements to pay principal on the note at June 30, 2013 are presented as follows:

<u>Fiscal Year</u>	<u>Principal</u>
2014	\$ 400,000
2015	400,000
2016	400,000
2017	400,000
2018	400,000
2019-2023	<u>1,840,615</u>
Total Requirements	<u>\$ 3,840,615</u>

NOTE 7 - OPERATING LEASE OBLIGATIONS

The Authority entered into operating leases for facilities and equipment. Future minimum lease payments under noncancelable operating leases consist of the following at June 30, 2013:

<u>Fiscal Year</u>	<u>Amount</u>
2014	\$ 9,360
2015	9,360
2016	9,360
2017	<u>8,018</u>
Total Minimum Lease Payments	<u>\$ 36,098</u>

Rental expense for all operating leases during the year was \$9,256.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 8 - FUTURE RENTAL REVENUES

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

<u>Fiscal Year</u>	<u>Amount</u>
2014	\$ 1,124,284
2015	967,936
2016	909,380
2017	831,599
2018	717,107
Total	<u>\$ 4,550,306</u>

The various buildings leased were acquired at a cost of \$133,670,553 and have accumulated depreciation totaling \$17,173,019.

Component Unit - 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.

Under the terms of the agreement, Mountain Air Cargo, Inc. paid 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>Fiscal Year</u>	<u>Amount</u>
2014	\$ 314,694
2015	314,694
2016	314,694
2017	314,694
2018	183,572
Total	<u>\$ 1,442,348</u>

The building leased was constructed in 1995 at a cost of \$8,498,064 and has accumulated depreciation totaling \$3,592,200.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 9 - PENSION PLANS

- A. **Retirement Plans** - Each permanent full-time employee, as a condition of employment, is a member of the Teachers' and State Employees' Retirement System.

The Teachers' and State Employees' Retirement System (TSERS) is a cost-sharing multiple-employer defined benefit pension plan established by the State to provide pension benefits for employees of the State, its component units, and local boards of education. TSERS is administered by a 14-member Board of Trustees, with the State Treasurer serving as Chairman of the Board.

Benefit and contribution provisions for the TSERS 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, 2013, these rates were set at 8.33% of covered payroll for employers and 6% of covered payroll for members.

For the current fiscal year, the Authority had a total payroll of \$646,256, of which \$584,736 was covered under the TSERS. Total employer and employee contributions for pension benefits for the year were \$48,709 and \$35,084, respectively.

Required employer contribution rates for the years ended June 30, 2012, and 2011, were 7.44% and 4.93%, respectively, while employee contributions were 6% each year. The Authority made 100% of its annual required contributions for the years ended June 30, 2013, 2012, and 2011, which were \$48,709, \$51,644, and \$30,218, 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.osc.nc.gov/> and clicking on "Reports" or by calling the State Controller's Financial Reporting Section at (919) 707-0500.

- B. **Deferred Compensation and Supplemental Retirement Income Plans** - Internal Revenue Code 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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 \$1,545 for the year ended June 30, 2013.

Internal Revenue Code 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 \$1,910 for the year ended June 30, 2013.

NOTE 10 - OTHER POSTEMPLOYMENT BENEFITS

- A. 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, Article 3B, 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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 established by the General Assembly.

For the current fiscal year the Authority contributed 5.3% of the covered payroll under the Teachers' and State Employees' Retirement System to the Fund. Required contribution rates for the years ended June 30, 2012, and 2011, were 5.0% and 4.9%, respectively. The Authority made 100% of its annual required contributions to the Plan for the years ended June 30, 2013, 2012, and 2011, which were \$30,991, \$34,707, and \$30,034, 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.osc.nc.gov/> and clicking on "Reports" or by calling the State Controller's Financial Reporting Section at (919) 707-0500.

- B. 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, 2013, the Authority made a statutory contribution of .44% of covered payroll under the Teachers' and State Employees' Retirement System to the DIPNC. Required contribution rates for the years ended June 30, 2012, and 2011, were .52% and .52%, respectively. The Authority made 100% of its annual required contributions to the DIPNC for the years ended June 30, 2013, 2012, and 2011, which were \$2,573, \$3,610, and \$3,187, respectively. 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 11 - RISK MANAGEMENT

The Authority is exposed to various risks of loss related to torts; theft of, damage to, and 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.

The risk of tort claims of up to \$1,000,000 per claimant is 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 Authority pays the premium, based on a composite rate, directly to the private insurer.

The Authority is required to maintain fire and lightning coverage on all state-owned buildings and contents through the State Property Fire Insurance Fund (Fund), an internal service fund of the State. Such coverage is provided at no cost to the Authority for operations supported by the State's General Fund. Other operations not supported by the State's General Fund are charged for the coverage. Losses covered by the Fund are subject to a \$5,000 per occurrence deductible.

All 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 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.

Authority employees and retirees are provided comprehensive major medical care benefits. Coverage is funded by contributions to the State Health Plan (Plan), a discretely presented component unit of the State of North Carolina. The Plan has contracted with third parties to process claims.

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

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.

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, 2013.

Global TransPark Foundation, Inc. - The Foundation'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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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. The United States Army Corps of Engineers originally issued a Section 404 permit on October 21, 1998 to discharge dredge or fill material for the initial and future construction of the Global TransPark. The permit has been extended to October 21, 2018.

The Authority will continue to fully comply with all applicable environmental laws, regulations, and policies and does not currently anticipate any material adverse effects on its continued 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 in developing the TransPark.

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 \$57,419 at June 30, 2013. These commitments were for capital improvement projects for the Kinston Regional Jetport and other construction projects. As of June 30, 2013, the Authority had not entered into additional construction contracts. There are also long-range environmental commitments based on the United States Army Corps of Engineers Section 404 permit for the activities described above.

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 34% of its financial support from the State for the year ended June 30, 2013 compared to 39% during the prior year.

NOTE 14 - NET POSITION RESTATEMENT

As of July 1, 2012, net position as previously reported was restated as follows:

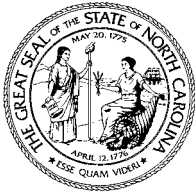
	<u>Amount</u>
July 1, 2012 Net Position as Previously Reported	\$ 224,676,996
Restatement: To remove leasehold improvements erroneously capitalized in prior years.	(78,361,261)
July 1, 2012 Net Position as Restated	<u><u>\$ 146,315,735</u></u>

NOTES TO THE FINANCIAL STATEMENTS (CONCLUDED)

NOTE 15 - SUBSEQUENT EVENTS

On July 26, 2013, Senate Bill 402, Session Law 2013, Part VI General Loan Provisions, Global TransPark Loan Repayment, was signed into law with an effective date of July 1, 2013. Section 6.3(a) of the bill directed the Office of State Budget and Management to transfer funds from the Reserve for Global TransPark Loan Repayment to the Escheat Fund as payment-in-full for the outstanding loan, originally authorized under G. S. 63A-4(a)(22) and G. S. 147-69.2(b)(11). On September 20, 2013, the total amount of the loan was transferred to the State Treasurer.

Effective on August 31, 2013, the Authority and its former fixed base operator (FBO) signed an early termination agreement releasing the tenant from its long-term lease. In compensation, the FBO paid the Authority \$954,254 on August 26, 2013.

Office of the State Auditor

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State Auditor

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the North Carolina Global TransPark 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, 2013, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated December 17, 2013. Our report includes a reference to other auditors who audited the financial statements of the Global TransPark Foundation, Inc., as described in our report on the Authority's financial statements. The financial statements of the Global TransPark Foundation, Inc. were not audited in accordance with *Government Auditing Standards*, and accordingly, this report does not include reporting on internal control over financial reporting or instances of reportable noncompliance associated with the Global TransPark Foundation, Inc.

Internal Control Over Financial Reporting

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

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

**INDEPENDENT AUDITOR'S REPORT
ON INTERNAL CONTROL OVER FINANCIAL REPORTING
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prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

Compliance and Other Matters

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

Purpose of this Report

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



Beth A. Wood, CPA
State Auditor

Raleigh, North Carolina

December 17, 2013

ORDERING INFORMATION

Copies of this report may be obtained by contacting the:

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For additional information contact:

Bill Holmes

Director of External Affairs