State of North Carolina

Office of The State Auditor

Beth A. Wood, CPA

North Carolina State Ports Authority

Wilmington, North Carolina

Financial Statement Audit Report

For the Year Ended June 30, 2017

A Component Unit of the State of North Carolina

NCOSA

The Taxpayers' Watchdog

STATE OF NORTH CAROLINA
Office of the State Auditor

Beth A. Wood, CPA
State Auditor

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AUDITOR'S TRANSMITTAL

The Honorable Roy Cooper, Governor
The General Assembly of North Carolina
Board of Directors, North Carolina State Ports Authority

We have completed a financial statement audit of the North Carolina State Ports Authority for the year ended June 30, 2017, 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*.

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

Beth A. Wood, CPA
State Auditor

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TABLE OF CONTENTS

PAGE

INDEPENDENT AUDITOR'S REPORT

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
North Carolina State Ports Authority
Wilmington, North Carolina

Report on the Financial Statements

We have audited the accompanying financial statements of the North Carolina State Ports Authority (Authority), a component unit of the State of North Carolina, as of and for the year ended June 30, 2017, 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 an opinion on these financial statements based on our audit. 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.

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.

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 opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the North Carolina State Ports Authority, as of June 30, 2017, and the changes in financial position and 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 and other required supplementary information, as listed in the table of contents, 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 September 26, 2017 on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, 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

September 26, 2017

MANAGEMENT'S DISCUSSION AND ANALYSIS

Overview of the Financial Statements and Financial Analysis

The annual financial statements of the North Carolina State Ports Authority (Authority) present the results of the Authority's financial activities for the fiscal year ended June 30, 2017. Management's Discussion and Analysis (MD&A) should be read in conjunction with the financial statements and provides a general overview of the Authority's financial activity during the fiscal year. The financial statements include, in addition to this MD&A, a Statement of Net Position, Statement of Revenues, Expenses, and Changes in Net Position, Statement of Cash Flows, and accompanying Notes to the Financial Statements. Management is responsible for the preparation of the MD&A and the accompanying basic financial statements.

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 and nonfinancial information will be highlighted for the reader followed by a discussion of the Authority's current capital expansion program and economic outlook.

Required Supplementary Information (RSI) follows the basic financial statements and Notes to the Financial Statements. The RSI is mandated by the Governmental Accounting Standards Board (GASB) and includes information related to the Authority's participation in the Teachers' and State Employees' Retirement System.

About the Authority

The North Carolina State Ports Authority was created by act of the North Carolina General Assembly (§136-260) in 1945 as a political subdivision of the State of North Carolina for the purpose of engaging in promoting, developing, constructing, equipping, maintaining and operating the harbors and seaports within the State, or within the jurisdiction of the State (§136-261). As a political subdivision of the State, the Authority has no stock or equity shareholders but rather is governed by an 11-member Board of Directors appointed by the Governor, Speaker of the House, and President Pro Tempore of the Senate of North Carolina. Specific Authority operations include the deep-water ports of Morehead City and Wilmington, and the inland terminal facilities located in Charlotte and Greensboro. These facilities handle both import and export containerized, break bulk, and bulk cargos.

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 (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 governmental reporting fund types, general government and proprietary units. The Authority is classified as a discretely presented component unit and is reported as a nonmajor 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 policies. Taken as a 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 from one period to the next, with a specific focus on the Authority's net position and cash and cash equivalents.

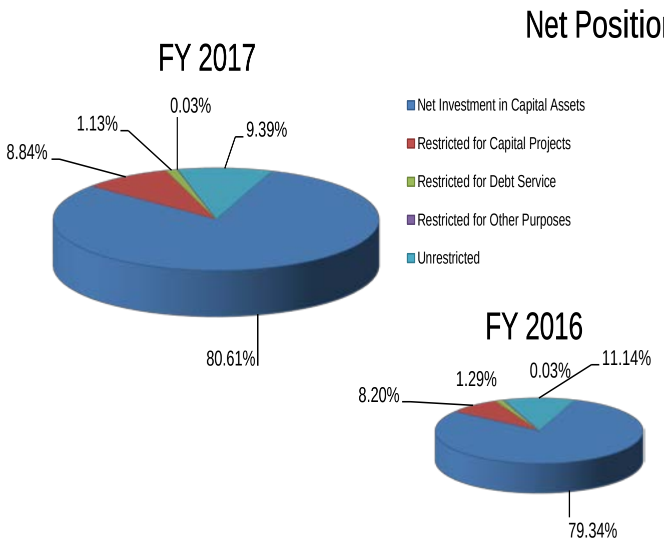
The following table provides a summarized Statement of Net Position as of June 30, 2017 with comparative figures for the prior period:

Condensed Statement of Net Position

(in thousands)	June 30, 2017	June 30, 2016	Change	% Change
Current Assets	$ 22,577	$ 20,626	$ 1,951	9.46%
Capital Assets	316,418	281,547	34,871	12.39%
Other Noncurrent Assets	39,253	39,520	(267)	-0.68%
Total Assets	378,248	341,693	36,555	10.70%
Total Deferred Outflows of Resources	4,941	1,211	3,730	308.01%
Other Current Liabilities	9,094	5,863	3,231	55.11%
Other Noncurrent Liabilities	778	954	(176)	-18.45%
Long-Term Liabilities	93,154	91,381	1,773	1.94%
Total Liabilities	103,026	98,198	4,828	4.92%
Total Deferred Inflows of Resources	370	699	(329)	-47.07%
Total Net Position	$ 279,793	$ 244,007	$ 35,786	14.67%

The change in capital assets, representing the single largest dollar value change in assets, is a result of capital expansion plan spending including the completion of the Turning Basin project which widened the Cape Fear River to allow for larger vessel traffic, offset by continued depreciation charges. The increase in other current liabilities represents an increase in payments to contractors for work completed in June and subsequently paid in July, as well as an increase in contract retainage payable. The reduction in long-term liabilities represents the payment of principal on outstanding debt, offset by an increase in the Authority's net pension liability. The changes in deferred outflows of resources, deferred inflows of resources, and the net pension liability are due to valuation changes as determined by the Teachers' and State Employees' Retirement System (TSERS) plan's actuary. Refer to Note 11 for additional information regarding the Authority's participation in the TSERS.

The Authority's net position is divided into five categories. The first, net investment in capital assets, represents the Authority's equity position with regards to property, facilities, and equipment. The second category is restricted by external funding sources to expenditure for capital projects. The third category is restricted for debt service payments as required by debt agreements. The fourth category is restricted for use by other third parties. The final category is that of unrestricted which is available for any lawful purpose of the Authority. The following exhibit analyzes the Authority's net position category mix for the periods ended June 30, 2017 and 2016, respectively. Significant changes, as noted above, are the result of increases to capital assets as the Authority invests in its capital expansion program (net investment in capital assets), as well as the influx of $35.0 million in state capital appropriations during the period (restricted for capital projects).



(in thousands)	2017
Net Investment in Capital Assets	$ 225,568
Restricted for Capital Projects	24,732
Restricted for Debt Service	3,151
Restricted for Other Purposes	75
Unrestricted	26,267
Total Net Position	$ 279,793

	2016
Net Investment in Capital Assets	$ 193,613
Restricted for Capital Projects	20,005
Restricted for Debt Service	3,141
Restricted for Other Purposes	75
Unrestricted	27,173
Total Net Position	$ 244,007

The Statement of Revenues, Expenses, and Changes in Net Position reflects an overall increase in net position for the current fiscal year ended June 30, 2017 of $35.8 million. This increase is principally a product of the recognition of $35.0 million in state capital appropriations, and an increase in capital grants from the prior year. The following table identifies variances between major financial categories for the fiscal years ended June 30, 2017 and 2016, respectively.

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

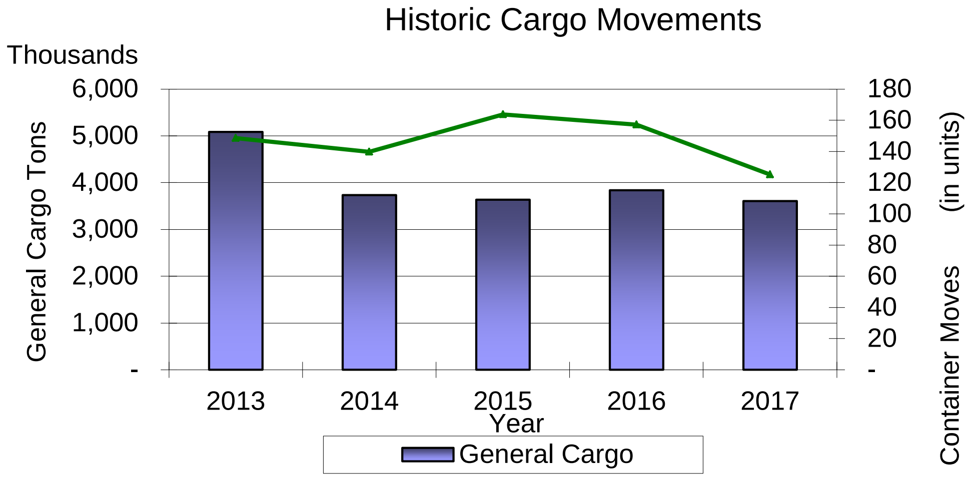
(in thousands)	June 30, 2017	June 30, 2016	Change	% Change
Operating Revenues	$ 43,066	$ 46,505	$ (3,439)	-7.39%
Operating Expenses	40,234	42,263	(2,029)	-4.80%
Operating Income	2,832	4,242	(1,410)	-33.24%
Nonoperating Revenues (Expenses):				
Investment Income, Net	99	179	(80)	-44.69%
Interest and Fees on Debt	(3,618)	(3,668)	(50)	-1.36%
Gain on Sale of Capital Assets		5,120	(5,120)	-100.00%
Loss on Disposal of Capital Assets		(3,230)	(3,230)	-100.00%
Other Nonoperating Revenues (Expenses)	29	(39)	68	174.36%
Net Nonoperating Expenses	(3,490)	(1,638)	1,852	113.06%
Other Revenues:				
State Capital Aid		186	(186)	-100.00%
State Capital Appropriations	35,000	35,000		
Capital Grants	1,444	832	612	73.56%
Total Revenues	79,638	87,822	(8,184)	-9.32%
Total Expenses	(43,852)	(49,200)	(5,348)	-10.87%
Increase in Net Position	35,786	38,622	(2,836)	-7.34%
Net Position, Beginning of Period	244,007	205,385		
Net Position, End of Period	$ 279,793	$ 244,007		

As reflected in the preceding table, the Authority posted an operating profit of $2.8 million versus $4.2 million in the prior year. A decrease in operating expenses partially offset a decrease in operating revenues. Total revenues decreased as a result of market declines in cargo and the prior year recognition of a $5.1 million gain on the sale of the Southport Marina property, partially offset with a $3.2 million loss on disposal of capital assets, which drove the major variances in nonoperating revenue (expenses). The Authority also received significantly more capital grant funds during the current fiscal year due to the receipt of Department of Transportation rail grants and other private grant awards. The following table shows the major sources of both operating and other revenues in detail.

Revenues, by Major Source

(in thousands)	June 30, 2017	June 30, 2016	Change	% Change
Operating Revenues:				
Sales and Services, Net	$ 38,751	$ 42,090	$ (3,339)	-7.93%
Rental and Lease Earnings	4,315	4,415	(100)	-2.27%
Total Operating Revenues	43,066	46,505	(3,439)	-7.39%
Nonoperating Revenues:				
Investment Earnings, Net	99	179	(80)	-44.69%
Gain on Sale of Capital Assets		5,120	(5,120)	-100.00%
Other	29		29	
Total Nonoperating Revenues	128	5,299	(5,171)	-97.58%
Other Nonoperating Revenues:				
State Capital Aid		186	(186)	-100.00%
State Capital Appropriations	35,000	35,000		
Capital Grants	1,444	832	612	73.56%
Total Other Nonoperating Revenues	36,444	36,018	426	1.18%
Total Revenues	$ 79,638	$ 87,822	$ (8,184)	-9.32%

The decreased operating levels as compared to the prior year are viewed to be a product of market declines in cargo, as well as the bankruptcy filing of a major carrier customer (Hanjin) and the vessel calls attached to that carrier. The Authority is anticipating a general recovery trend as coverage to new markets has been aligned by the addition of several new carrier strings. The following graph and table depict these current changes and general trends utilizing nonfinancial data and measurements.

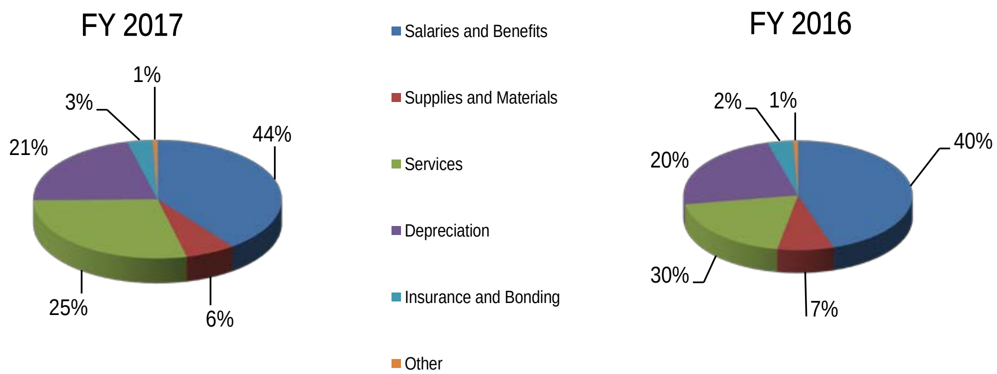


	June 30, 2017	June 30, 2016	Change	% Change
Container Movement	125,231	157,249	(32,018)	-20.36%
General Cargo Movement (Short Tons)	3,604,237	3,835,383	(231,146)	-6.03%
Vessel Calls	888	994	(106)	-10.66%
Rail Car Activity	24,359	20,211	4,148	20.52%

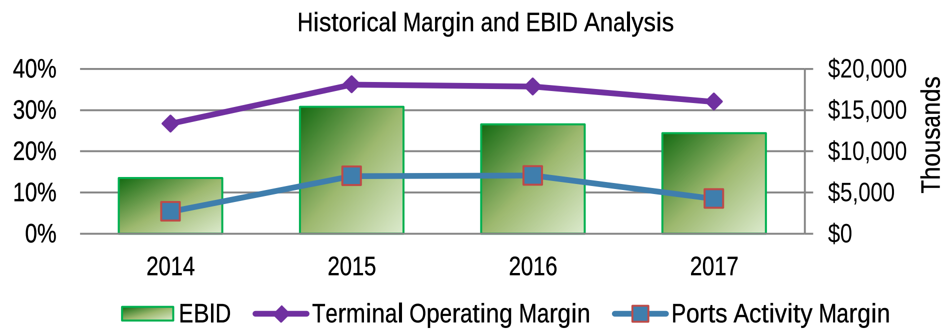
The Authority has continued to manage expenses and implement cost containment measures where possible. As noted previously, the current year reflects a decrease in operating expenses. The decrease in services is primarily due to $3.1 million of nonroutine harbor dredging expenses incurred in the prior year. The following table and graphs analyze operating expenses by major category as well as providing a relative mix year-over-year.

Operating Expenses by Major Category

(in thousands)	June 30, 2017	June 30, 2016	Change	% Change
Salaries and Benefits	$ 17,671	$ 16,765	$ 906	5.40%
Supplies and Materials	2,517	2,764	(247)	-8.94%
Services	9,882	12,794	(2,912)	-22.76%
Insurance and Bonding	1,359	1,399	(40)	-2.86%
Other	283	273	10	3.66%
Depreciation	8,522	8,268	254	3.07%
Total Operating Expenses	$ 40,234	$ 42,263	$ (2,029)	-4.80%



The following graph depicts the operating margins and earnings before interest and depreciation (EBID). Relatively flat or slightly improving margins and earnings are anticipated to continue to improve over the following fiscal cycle.



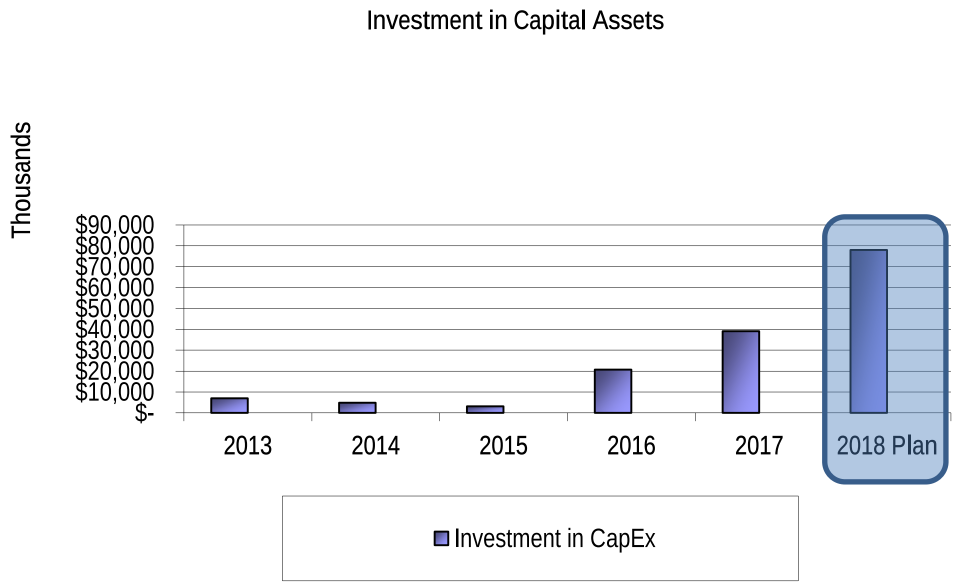
The Authority's market share, market position, and long-term growth expectations for both container volume and general terminal activities are considered sustainable as they are driven by a number of factors including continued steady global economic growth and developments in the operating environment for US East Coast ports. US East Coast cargo volumes are expected to grow with carriers taking advantage of the economic benefits derived by deploying larger ships through the new Panama Canal and general increases in world trade in the East-West trade lane with Asia and Europe and the North-South trade with Latin America.

Capital Assets and Long-Term Debt

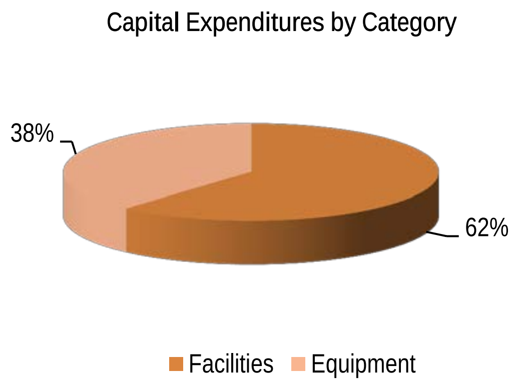
The Authority's current capital expansion program can be traced back to most recent Strategic Plan completed in 2015 when the Authority undertook a significant and comprehensive strategic planning effort which, among other outputs, produced a long-term market plan and corresponding capital infrastructure program. This program was based on a number of motivating factors including the need to address an aging infrastructure system, seek and secure new business development opportunities, and explore general economic growth opportunities. In keeping with the established planning process, the Authority continually updates its strategic business plan along with long-range market, financial, and corresponding capital infrastructure plans. Terminal improvements and equipment needs are identified and programmed to meet anticipated market growth requirements. Market growth expectations are adjusted for both long-term as well as short-term economic impacts and supply chain developments. These expenditures are focused on the expansion or otherwise maintenance of the existing deep-water marine terminals in Wilmington and Morehead City and include acquisitions of equipment and the rehabilitation of existing facilities and infrastructure.

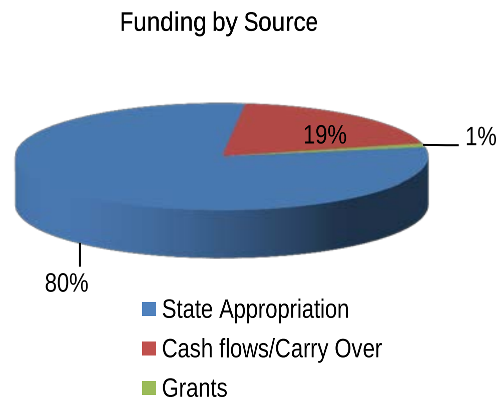
Since late fiscal year 2005 the Authority has assertively worked to rehabilitate or otherwise expand its facilities, investing approximately $256.4 million in equipment and infrastructure. Highlights of these expenditures include the acquisition of new container cranes and construction of a new warehouse facility. As previously mentioned, during the current fiscal year, the Authority received a second allotment of $35.0 million in appropriations from the State of North Carolina to fund infrastructure improvements and expansion.

During the fiscal year $32.4 million was transferred out of construction in progress and computer software in development to depreciable capital assets, related mostly to enhancing the Authority's aging infrastructure system and updating information technology systems. Refer to Note 5 for additional information regarding the Authority's capital assets. The following graph summarizes recent and planned capital investment.



Capital investment for the upcoming fiscal year is anticipated to increase significantly in projects related to berth structure improvement and cranes/equipment, and is projected at approximately $78 million. Funding for these expenditures will be accomplished, as in recent years, by a combination of state and federal grants, private capital, reserves, and internal cash flows. In addition, the State of North Carolina has budgeted another $45 million in capital appropriations to the Authority for fiscal year 2018. Further details on the capital improvement program can be found in the Authority's 2018 Capital Budget document. The following graphs provide a breakdown of planned fiscal year 2018 expenditures by category as well as anticipated funding by sources.





Economic Outlook

As indicated previously, there were a number of notable events in FY17 that negatively impacted the Authority's cargo volumes. However, given the expected continued steady growth in world trade and North Carolina's economy, cargo volume is widely anticipated to experience positive growth in the coming years. The Authority is expecting and has budgeted for a recovery in volume in FY18, and has projected continued growth in the upcoming years.

As a result of the Authority's investments in container operations, the start of an intermodal service to/from Charlotte and intense marketing efforts, the Authority was able to attract a number of new container services to the Port of Wilmington that started at the end of FY17. The expanded number and scope of container services has the potential to increase container volume by over 70% once the services are fully phased in. The completion of the bulk wood pellet facility in Wilmington in FY17 is expected to drive an overall 17% increase in handled general cargo tonnage through the Wilmington and Morehead City locations. As a result of these growth projections, the Authority is anticipating that utilization at its existing facilities will improve, thus significantly raising operating profitability. Based on current as well as anticipated financial performance, the Authority will have adequate cash flows from operations to meet all current obligations as well as debt service requirements. The Authority's debt service coverage for budgeted fiscal year 2018 is 2.66 to 1.00, which is well within the stipulated debt covenant requirements and sufficient to maintain its current credit ratings.

Contacting the Authority's Financial Management

If you have questions about these financial statements or need additional financial information, contact the Authority's Finance Office, 2202 Burnett Blvd., Wilmington, NC 28412.

FINANCIAL STATEMENTS

North Carolina State Ports Authority
Statement of Net Position
June 30, 2017

ASSETS		
Current Assets:		
Cash and Cash Equivalents	$	8,854,484
Restricted Cash and Cash Equivalents		253,519
Short-Term Investments		5,519,000
Receivables, Net (Note 4)		5,758,087
Due from Primary Government		18,719
Inventories		738,790
Prepaid Items		1,434,454
Total Current Assets		22,577,053
Noncurrent Assets:		
Restricted Cash and Cash Equivalents		2,973,036
Restricted Due from Primary Government		317,422
Investments		10,595,366
Restricted Investments		24,414,216
Unamortized Charges		952,626
Capital Assets - Nondepreciable (Note 5)		84,371,003
Capital Assets - Depreciable, Net (Note 5)		232,047,008
Total Noncurrent Assets		355,670,677
Total Assets		378,247,730
DEFERRED OUTFLOWS OF RESOURCES		
Deferred Outflows Related to Pensions		4,941,483
LIABILITIES		
Current Liabilities:		
Accounts Payable and Accrued Liabilities (Note 6)		6,696,733
Due to Primary Government		628,325
Unearned Revenue		372,199
Interest Payable		1,220,935
Advance from Primary Government - Current Portion (Note 9)		176,115
Long-Term Liabilities - Current Portion (Note 7)		2,771,693
Total Current Liabilities		11,866,000
Noncurrent Liabilities:		
Advance from Primary Government - Noncurrent Portion (Note 9)		777,780
Long-Term Liabilities, Net (Note 7)		90,381,794
Total Noncurrent Liabilities		91,159,574
Total Liabilities		103,025,574
DEFERRED INFLOWS OF RESOURCES		
Deferred Inflows Related to Pensions		370,173

NET POSITION		
Net Investment in Capital Assets		225,567,843
Restricted for:		
Expendable:		
Capital Projects		24,731,638
Debt Service		3,151,556
Other		75,000
Unrestricted		26,267,429
Total Net Position	$	279,793,466

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

North Carolina State Ports Authority
Statement of Revenues, Expenses, and Changes in Net Position
For the Fiscal Year Ended June 30, 2017 ***Exhibit A-2***

REVENUES	
Operating Revenues:	
Sales and Services (Net of $885,423 in Allowance for Doubtful Accounts)	$ 38,750,822
Rental and Lease Earnings	4,315,624
Total Operating Revenues	43,066,446
EXPENSES	
Operating Expenses:	
Salaries and Benefits	17,670,810
Supplies and Materials	2,516,847
Services	9,882,166
Insurance and Bonding	1,359,470
Other Operating Expenses	283,386
Depreciation	8,521,580
Total Operating Expenses	40,234,259
Operating Income	2,832,187
NONOPERATING REVENUES (EXPENSES)	
Investment Income (Net of Investment Expense of $39,336)	99,452
Interest and Fees on Debt	(3,618,060)
Other Nonoperating Revenues	28,827
Net Nonoperating Expenses	(3,489,781)
Loss Before Other Revenues	(657,594)
State Capital Appropriations	35,000,000
Capital Grants	1,443,709
Increase in Net Position	35,786,115
NET POSITION	
Net Position - July 1, 2016	244,007,351
Net Position - June 30, 2017	$ 279,793,466

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

North Carolina State Ports Authority
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2017

CASH FLOWS FROM OPERATING ACTIVITIES		
Received from Customers	$	45,696,143
Payments to Employees and Fringe Benefits		(17,743,337)
Payments to Vendors and Suppliers		(14,725,714)
Net Cash Provided by Operating Activities		13,227,092
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Principal Paid on Noncapital Debt		(332,169)
Interest and Fees Paid on Noncapital Debt		(44,929)
Total Cash Used by Noncapital Financing Activities		(377,098)
CASH FLOWS FROM CAPITAL FINANCING AND RELATED FINANCING ACTIVITIES		
State Capital Appropriations		35,000,000
Capital Grants		1,222,326
Proceeds from Sale of Capital Assets		582,910
Acquisition and Construction of Capital Assets		(39,020,973)
Principal Paid on Capital Debt and Leases		(2,530,371)
Interest and Fees Paid on Capital Debt and Leases		(3,638,445)
Net Cash Used by Capital Financing and Related Financing Activities		(8,384,553)
CASH FLOWS FROM INVESTING ACTIVITIES		
Investment Income		266,442
Purchase of Investments and Related Fees		(5,679,272)
Net Cash Used by Investing Activities		(5,412,830)
Net Decrease in Cash and Cash Equivalents		(947,389)
Cash and Cash Equivalents - July 1, 2016		13,028,428
Cash and Cash Equivalents - June 30, 2017	$	12,081,039

RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES

Operating Income	$	2,832,187
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:		
Depreciation Expense		8,521,580
Changes in Assets and Deferred Outflows of Resources:		
Receivables, Net		2,685,202
Unamortized Charges		571,289
Prepaid Items		(41,187)
Due from Primary Government		2,156
Inventories		(22,154)
Deferred Outflows for Pensions		(3,730,280)
Changes in Liabilities and Deferred Inflows of Resources:		
Accounts Payable and Accrued Liabilities		(2,296,204)
Due to Primary Government		609,846
Unearned Revenue		112,883
Net Pension Liability		4,215,823
Compensated Absences		95,257
Deferred Inflows for Pensions		(329,306)
Net Cash Provided by Operating Activities	$	13,227,092

RECONCILIATION OF CASH AND CASH EQUIVALENTS

Current Assets:		
Cash and Cash Equivalents	$	8,854,484
Restricted Cash and Cash Equivalents		253,519
Noncurrent Assets:		
Restricted Cash and Cash Equivalents		2,973,036
Total Cash and Cash Equivalents - June 30, 2017	$	12,081,039

NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES

Assets Acquired through the Assumption of a Liability	$	6,068,913
Change in Fair Value of Investments		(180,139)
Loss on Disposal of Capital Assets		(63,147)
Amortization of Bond Premiums		8,007

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

NOTES TO THE FINANCIAL STATEMENTS

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 State Ports 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 for which the Authority is financially accountable. Related foundations for which the Authority is not financially accountable or for which the nature of their relationship is not considered significant to the Authority are not part of the accompanying financial statements.

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 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.

Nonexchange transactions, in which the Authority receives (or gives) value without directly giving (or receiving) equal value in exchange, include state appropriations, certain grants, and investment income. 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, cash on deposit with fiscal agents, 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. Investments – To the extent available, investments are recorded at fair market value based on quoted market prices in active markets on a trade-date basis. Additional information regarding the fair market value measurement of investments is disclosed in Note 3. Because of the inherent uncertainty in the use of estimates, values that are based on estimates may differ from the values that would have been used had a ready market existed for the investments. The net change in the fair value of investments is recognized as a component of investment income.

F. **Receivables** - Receivables consist of charges to customers for services, contract guarantees, and use of facilities. Receivables have been recorded for interest income. Receivables are recorded net of estimated uncollectible amounts.

G. **Inventories** - Inventories, consisting of expendable supplies, are valued at the lower of cost or market on a moving weighted average cost basis, which approximates cost on a first-in, first-out (FIFO) basis.

H. **Prepaid Items** - Prepaid items consist of prepayments for insurance, subscriptions, and maintenance contracts.

I. **Unamortized Charges** - Unamortized charges are comprised of prepayments of maintenance contracts for dredging and piping relocation that will be expensed in future periods. These charges are amortized over a period of two to three years or length of contract using the straight-line method.

J. **Capital Assets** - Capital assets are stated at cost at date of acquisition or acquisition value at date of donation in the case of gifts. Donated capital assets acquired prior to July 1, 2015 are stated at fair value as of the date of donation. 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 or cost of $5,000 or greater at the date of acquisition and an estimated useful life of more than one year. The Authority capitalizes intangible assets and internally generated software under these same provisions. Depreciation is computed using the straight-line method over the estimated useful lives of the assets in the following manner:

Asset Class	Estimated Useful Life
Buildings	8-75 years
Machinery & Equipment	3-40 years
General Infrastructure	10-60 years
Computer Software	3-5 years

K. **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 acquisition or construction of capital assets, resources legally segregated for the payment of principal and interest as required by debt covenants, and resources restricted for use by other external parties.

L. **Noncurrent Long-Term Liabilities** - Noncurrent long-term liabilities include principal amounts of revenue bonds payable, net pension liability, capital lease obligations, and compensated absences that will not be paid within the next fiscal year.

Revenue bonds payable are reported net of unamortized premiums or discounts. The Authority amortizes bond premiums/discounts over the life of the bonds using the straight-line method that approximates the effective interest method. Issuance costs are expensed in the reporting period in which they are incurred.

The net pension liability represents the Authority's proportionate share of the collective net pension liability reported in the State of North Carolina's 2016 *Comprehensive Annual Financial Report.* This liability represents the Authority's portion of the collective total pension liability less the fiduciary net position of the Teachers' and State Employees' Retirement System. See Note 11 for further information regarding the Authority's policies for recognizing liabilities, expenses, and deferred outflows of resources and deferred inflows of resources related to pensions.

M. **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.

There is no liability for unpaid accumulated sick leave because the Authority has no obligation to pay sick leave upon termination or retirement. However, additional service credit for retirement pension benefits is given for accumulated sick leave upon retirement.

N. **Deferred Outflows/Inflows of Resources** - In addition to assets, the Statement of Net Position reports a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense) until then. The Authority has the following item that qualities for reporting in this category: deferred outflows related to pensions.

In addition to liabilities, the Statement of Net Position reports a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period and so will not be recognized as revenue until then. The Authority has the following item that qualifies for reporting in this category: deferred inflows related to pensions.

O. 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 liabilities 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 sales and services, rental and lease earnings, sale of surplus property 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. Unrestricted net position includes consideration of deferred outflows of resources and deferred inflows of resources.

P. 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 producing and delivering goods in connection with the Authority's principal ongoing operations. Operating revenues include activities that have characteristics of exchange transactions, such as sales and services and rental and lease earnings. 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 capital appropriations 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 AND INVESTMENTS

A. Deposits - Unless specifically exempt, the Authority is required by *North Carolina General Statute* 147-77 to deposit moneys received with the State Treasurer or with a depository institution in the name of the State Treasurer.

Cash on hand at June 30, 2017 was $960. The carrying amount of the Authority's deposits not with the State Treasurer was $12,052,023, and the bank balance was $12,377,675. 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, 2017, the Authority's bank balance was exposed to custodial credit risk as follows:

Uninsured and Uncollateralized	$ 11,047,294

B. Investments - The Authority invests its excess funds in the same manner as the State Treasurer is required to invest, as discussed below.

G.S. 147-69.1(c), applicable to the State's General Fund, and G.S. 147-69.2, applicable to institutional trust funds, authorize the State Treasurer to invest in the following: obligations of or fully guaranteed by the United States; obligations of certain federal agencies; repurchase agreements; obligations of the State of North Carolina; certificates of deposit and other deposit accounts of specified financial institutions; prime quality commercial paper; asset-backed securities with specified ratings, specified bills of exchange or time drafts, and corporate bonds/notes with specified ratings; general obligations of other states; general obligations of North Carolina local governments; and obligations of certain entities with specified ratings.

In accordance with the bond resolutions, bond proceeds and debt service funds are invested in obligations that will by their terms mature on or before the date funds are expected to be required for expenditure or withdrawal.

Investments are subject to the following risks as defined by GASB Statement No. 40, *Deposit and Investment Risk Disclosures – An Amendment of GASB Statement No. 3.*

Interest Rate Risk: Interest rate risk is the risk the Authority may face should interest rate variances affect the value of investments. The Authority does not have a formal policy that addresses interest rate risk.

Credit Risk: Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The Authority has a formal policy that addresses credit risk. The policy limits investments to: obligations of the United States, or obligations backed by the full faith and credit by the U.S. government; government agencies; repurchase agreements with regard to securities guaranteed by the U.S. government; obligations of the State of North Carolina; time deposits of banks with a physical presence in North Carolina for the purpose of receiving commercial or retail deposits, not to exceed $100,000 per deposit (must be FDIC insured); prime quality commercial paper with a credit rating of no less than AAA by a nationally recognized rating agency; and corporate bonds and notes that bear a rating of no less than AAA by a nationally recognized rating agency.

Custodial Credit Risk: Custodial credit risk is the risk that, in the event of the failure of the counterparty, the Authority will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Authority does not have a formal policy for custodial credit risk.

Short-Term Investment Fund - At June 30, 2017, the amount shown on the Statement of Net Position as cash and cash equivalents includes $28,056, which represents the Authority's equity position in the State Treasurer's Short-Term Investment Fund (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 or subject to any other regulatory oversight and does not have a credit rating) had a weighted average maturity of 1.6 years as of June 30, 2017. Assets and shares of the STIF are valued at 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 North Carolina Department of State Treasurer Investment Programs' separately issued audit report. This separately issued report can be obtained from the Department of State Treasurer, 3200 Atlantic Avenue, Raleigh, NC 27604 or can be accessed from the Department of State Treasurer's website at https://www.nctreasurer.com/ in the Audited Financial Statements section.

The following table presents investments by type and investments subject to interest rate risk at June 30, 2017.

		Investment Maturities (in Years)	
	Amount	Less Than 1	1 to 5
Investment Type			
Debt Securities			
U.S. Treasuries	$ 20,502,645	$ 17,063,253	$ 3,439,392
U.S. Agencies	14,425,111	7,582,172	6,842,939
Money Market Mutual Funds	5,600,826	5,600,826	
Total Investments	$ 40,528,582	$ 30,246,251	$ 10,282,331

At June 30, 2017, the Authority's investments had the following credit quality distribution for securities with credit exposure:

	Amount	AAA Aaa
U.S. Agencies	$ 14,425,111	$ 14,425,111
Money Market Mutual Funds	5,600,826	5,600,826
Totals	$ 20,025,937	$ 20,025,937

Rating Agency: Moody's

At June 30, 2017, the Authority's investments were exposed to custodial credit risk as follows:

Investment Type		Held by Couterparty's Trust Dept or Agent not in Authority's Name
U.S. Treasuries	$	20,502,645
U.S. Agencies		14,425,111
Total	$	34,927,756

NOTE 3 - FAIR VALUE MEASUREMENTS

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

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

Level 1 Investments whose values are based on quoted prices (unadjusted) for identical assets in active markets that a government can access at the measurement date.

Level 2 Investments with inputs – other than quoted prices included within Level 1 – that are observable for an asset, either directly or indirectly.

Level 3 Investments classified as Level 3 have unobservable inputs for an asset and may require a degree of professional judgment.

The following table summarizes the Authority's investments, including the Short-Term Investment Fund, within the fair value hierarchy at June 30, 2017:

	Fair Value	Fair Value Measurements Using Level 1	Level 2	Level 3
Investments by Fair Value Level				
Debt Securities				
U.S. Treasuries	$ 20,502,645	$ 20,502,645	$ 0	$ 0
U.S. Agencies	14,425,111	14,425,111		
Money Market Mutual Funds	5,600,826	5,600,826		
Total Debt Securities	40,528,582	40,528,582		
Other Securities				
Short-Term Investment Fund	28,056		28,056	
Total Investments Measured at Fair Value	$ 40,556,637	$ 40,528,582	$ 28,056	$ 0.00

Debt Securities - Debt securities classified in Level 1 of the fair value hierarchy are valued using prices quoted in active markets for those securities.

Short-Term Investment Fund (STIF) – Ownership interest of the STIF is determined on a fair market valuation basis as of fiscal year end in accordance with the STIF operating procedures. Valuation of the underlying assets is performed by the custodian.

NOTE 4 - RECEIVABLES

Receivables at June 30, 2017, were as follows:

	Gross Receivables	Less Allowance for Doubtful Accounts	Net Receivables
Receivables:			
Due from Customers	$ 5,905,057	$ 227,327	$ 5,677,730
Investment Earnings	52,798		52,798
Other	27,559		27,559
Total Receivables	$ 5,985,414	$ 227,327	$ 5,758,087

NOTE 5 - CAPITAL ASSETS

A summary of changes in the capital assets for the year ended June 30, 2017, is presented as follows:

	Balance July 1, 2016	Increases	Decreases	Balance June 30, 2017
Capital Assets, Nondepreciable:				
Land and Permanent Easements	$ 58,735,407	$ 0	$ 631,614	$ 58,103,793
Construction in Progress	18,097,820	40,368,300	32,207,647	26,258,473
Computer Software in Development	18,860	157,283	167,406	8,737
Total Capital Assets, Nondepreciable	76,852,087	40,525,583	33,006,667	84,371,003
Capital Assets, Depreciable:				
Buildings	85,090,513	810,132		85,900,645
Machinery and Equipment	74,073,378	4,462,738	962,273	77,573,843
General Infrastructure	191,571,078	30,448,205	87,480	221,931,803
Computer Software	3,597,426	167,407		3,764,833
Total Capital Assets, Depreciable	354,332,395	35,888,481	1,049,753	389,171,124
Less Accumulated Depreciation for:				
Buildings	31,112,849	1,528,979		32,641,828
Machinery and Equipment	34,569,132	2,556,564	962,273	36,163,423
General Infrastructure	81,715,626	3,875,759	73,037	85,518,348
Computer Software	2,240,239	560,278		2,800,517
Total Accumulated Depreciation	149,637,846	8,521,580	1,035,310	157,124,116
Total Capital Assets, Depreciable, Net	204,694,549	27,366,901	14,443	232,047,008
Capital Assets, Net	$ 281,546,636	$ 67,892,484	$ 33,021,110	$ 316,418,011

During the year ended June 30, 2017, the Authority incurred $3,562,775 in interest costs related to the acquisition and construction of capital assets that was charged to interest and fees on debt.

The Authority has pledged land with a carrying value of $30,738,106 as security for the Port Facilities Subordinated Revenue Refunding Bond, Series 2014. Additional information regarding the Series 2014 bond can be found in Note 7.

NOTE 6 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities at June 30, 2017, were as follows:

	Amount
Accounts Payable	$ 5,362,835
Accrued Payroll	188,412
Contract Retainage	1,145,486
Total Accounts Payable and Accrued Liabilities	$ 6,696,733

NOTE 7 - LONG-TERM LIABILITIES

A. Changes in Long-Term Liabilities - A summary of changes in the long-term liabilities for the year ended June 30, 2017, is presented as follows:

	Balance July 1, 2016	Additions	Reductions	Balance June 30, 2017	Current Portion
Revenue Bonds Payable	$ 59,985,000	$ 0	$ 1,810,000	$ 58,175,000	$ 1,865,000
Plus: Unamortized Premium	188,828		8,007	180,821	
Total Revenue Bonds Payable	60,173,828		1,818,007	58,355,821	1,865,000
Net Pension Liability	3,006,491	4,215,823		7,222,314	
Capital Leases Payable	27,145,804		720,371	26,425,433	755,954
Compensated Absences	1,054,661	809,599	714,341	1,149,919	150,739
Total Long-Term Liabilities	$ 91,380,784	$ 5,025,422	$ 3,252,719	$ 93,153,487	$ 2,771,693

Additional information regarding capital lease obligations is included in Note 8.
Additional information regarding the net pension liability is included in Note 11.

B. Revenue Bonds Payable - The Authority was indebted for revenue bonds payable for the purposes shown in the following table:

Purpose	Series	Interest Rate/ Ranges	Final Maturity Date	Original Amount of Issue	Principal Paid Through June 30, 2017	Principal Outstanding June 30, 2017
Construct Bulk Grain Facility	2001	.25%-15%	09/2022	$ 11,000,000	$ 9,230,000	$ 1,770,000
Port Facilities Revenue Bond, Sr. Lien	2010-A	5.25%	02/2040	23,690,000		23,690,000
Port Facilities Revenue Bond, Sr. Lien	2010-B	3.0%-5.0%	02/2029	20,245,000	5,700,000	14,545,000
Port Facilities Senior Lien Revenue Refunding Bond	2013	Variable[1]	02/2036	10,000,000	315,000	9,685,000
Port Facilities Subordinated Revenue Refunding Bond	2014	Variable[2]	02/2029	9,750,000	1,265,000	8,485,000
Total Revenue Bonds Payable (principal only)				$ 74,685,000	$ 16,510,000	
Plus Unamortized Premium						180,821
Total Revenue Bonds Payable, Net						$ 58,355,821

[1] Variable rate calculated monthly as .72% per annum + 68%(1-month LIBOR)
[2] Variable rate calculated monthly as .70% per annum + 68%(1-month LIBOR)

C. Demand Bonds - Included in bonds payable are two variable rate demand bond issues. Demand bonds are securities that contain a “put” feature that allows bondholders to demand payment before the maturity of the debt upon proper notice to the Authority’s remarketing or paying agents.

With regards to the following demand bonds, the Authority has not entered into legal agreements, which would convert the demand bonds not successfully remarketed into another form of long-term debt. The bonds are subject to purchase on demand with 180 days prior written notice on any date specified in such notice occurring on or after 7 years of the date of issuance.

North Carolina State Ports Authority - Port Facilities Senior Lien Revenue Refunding Bond, Series 2013 (Series 2013): On December 20, 2013, the Authority issued a tax-exempt variable rate Series 2013 demand bond in the amount of $10,000,000 that has a final maturity date of February 1, 2036. The bond was initially issued as one fully registered bond without coupons in the aggregate principal amount of $10,000,000 and may not be exchanged for any denomination other than the outstanding principal amount thereof. This bond is a special obligation of the Authority secured by a senior lien upon and pledge of the Net Receipts of the Authority and on parity with all other parity indebtedness. The proceeds of this bond issue were used to refund the outstanding Port Facilities Subordinate Revenue Bonds Series 2008 and pay the costs of expenses incurred in connection with the sale and issuance of the Series 2013 Bond. The bond is not subject to a parity or special reserve account requirement. The bond is subject to purchase on demand with 180 days prior written notice on any date specified in such notice occurring on or after 7 years of the date of issuance beginning December 20, 2020.

North Carolina State Ports Authority - Port Facilities Subordinated Revenue Refunding Bond, Series 2014 (Series 2014): On January 23, 2014, the Authority issued a tax-exempt variable rate Series 2014 demand bond in the amount of $9,750,000 that has a final maturity date of February 1, 2029. The bond was initially issued as one fully registered bond without coupons in the aggregate principal amount of $9,750,000 and may not be exchanged for any denomination other than the outstanding principal amount thereof. The bond issue is not subject to a parity or special reserve account requirement. This bond is a special obligation of the Authority secured by a junior lien upon and pledge of the Net Receipts of the Authority. As additional security for these bonds, the Authority executed and delivered a deed of trust on the site of the NCIT Project to secure the Authority's obligations. The proceeds of this bond issue were used to refund the outstanding Port Facilities Subordinate Revenue Bonds Series 2008 and pay the costs of expenses incurred in connection with the sale and issuance of the Series 2014 Bond. The bond is subject to purchase on demand with 180 days prior written notice on any date specified in such notice occurring on or after 7 years of the date of issuance beginning January 23, 2021.

D. Annual Requirements - The annual requirements to pay principal and interest on the long-term obligations at June 30, 2017, are as follows:

	Annual Requirements Revenue Bonds Payable	
Fiscal Year	Principal	Interest
2018	$ 1,865,000	$ 2,146,049
2019	1,935,000	2,090,372
2020	2,000,000	2,031,623
2021	2,080,000	1,966,803
2022	2,160,000	1,894,935
2023-2027	11,035,000	8,360,070
2028-2032	13,540,000	6,316,072
2033-2037	15,740,000	3,634,496
2038 and after	7,820,000	853,010
Total Requirements	$ 58,175,000	$ 29,293,430

NOTE 8 - CAPITAL LEASE OBLIGATIONS

Capital lease obligations relating to container cranes are recorded at the present value of the minimum lease payments. Future minimum lease payments under capital lease obligations consist of the following at June 30, 2017:

Fiscal Year	Amount
2018	$ 2,036,404
2019	2,036,404
2020	2,036,404
2021	2,036,404
2022	2,036,404
2023	23,327,722
Total Minimum Lease Payments	33,509,742
Amount Representing Interest (4.88% Rate of Interest)	7,084,309
Present Value of Future Lease Payments	$ 26,425,433

Machinery and equipment acquired under capital lease amounted to $33,892,318 at June 30, 2017.

Depreciation for the capital assets associated with capital leases is included in depreciation expense, and accumulated depreciation for assets acquired under capital lease totaled $8,683,343 at June 30, 2017.

NOTE 9 - ADVANCE FROM PRIMARY GOVERNMENT

The Authority entered into an inter-agency agreement with the North Carolina Department of Transportation (NCDOT) in May 2011 to repair and strengthen the bascule span of NCDOT Railroad Bridge R-110, which crosses the

Newport River and enables rail access to Radio Island. The agreement committed the Authority to fund 35% cost sharing repayable over ten years at 4% interest. The payments are unsecured and uncollateralized.

Future minimum payments under the agreement consist of the following at June 30, 2017:

	Annual Requirements Advance from Primary Government	
Fiscal Year	Principal	Interest
2018	$ 176,115	$ 38,156
2019	183,159	31,111
2020	190,486	23,785
2021	198,105	16,165
2022	206,030	8,241
Total Requirements	$ 953,895	$ 117,458

NOTE 10 - FUTURE RENTAL REVENUES

The Authority leases certain land and facilities to others. These leases are accounted for as operating leases; revenues are recorded when earned on leased facilities. Future minimum revenues under noncancelable agreements treated as operating leases consist of the following at June 30, 2017:

Fiscal Year	Amount
2018	$ 3,888,209
2019	3,087,909
2020	2,604,542
2021	317,804
2022	312,389
2023 and thereafter	378,144
Total Future Rental Revenues	$ 10,588,997

NOTE 11 - PENSION PLANS

Defined Benefit Plan

Plan Administration: The State of North Carolina administers the Teachers' and State Employees' Retirement System (TSERS) plan. This plan is a cost-sharing, multiple-employer, defined benefit pension plan established by the State to provide pension benefits for general employees and law enforcement officers (LEOs) of the State, general employees and LEOs of its component units, and employees of Local Education Agencies (LEAs) and charter schools not in the reporting entity. Membership is comprised of employees of the State (state agencies and institutions), universities, community colleges, and certain proprietary component units along with the LEAs and charter schools that elect to join the Retirement System. Benefit provisions are established by General Statute 135-5 and may be amended only by the North Carolina General Assembly.

Benefits Provided: TSERS provides retirement and survivor benefits. Retirement benefits are determined as 1.82% of the member's average final compensation times the member's years of creditable service. A member's average final compensation is calculated as the average of a member's four highest consecutive years of compensation. General employee plan members are eligible to retire with full retirement benefits at age 65 with five years of creditable service, at age 60 with 25 years of creditable service, or at any age with 30 years of creditable service. General employee plan members are eligible to retire with partial retirement benefits at age 50 with 20 years of creditable service or at age 60 with five years of creditable service. Survivor benefits are available to eligible beneficiaries of general members who die while in active service or within 180 days of their last day of service and who also have either completed 20 years of creditable service regardless of age, or have completed five years of service and have reached age 60. Eligible beneficiaries may elect to receive a monthly Survivor's Alternate Benefit for life or a return of the member's contributions. The plan does not provide for automatic post-retirement benefit increases. Increases are contingent upon actuarial gains of the plan.

Contributions: Contribution provisions are established by General Statute 135-8 and may be amended only by the North Carolina General Assembly. Employees are required to contribute 6% of their annual pay. The contribution rate for employers is set each year by the North Carolina General Assembly in the Appropriations Act based on the actuarially-determined rate recommended by the actuary. The Authority's contractually-required contribution rate for the year ended June 30, 2017 was 9.98% of covered payroll. Employee contributions to the pension plan were $749,677, and the Authority's contributions were $1,246,963 for the year ended June 30, 2017.

The TSERS plan's financial information, including all information about the plan's assets, deferred outflows of resources, liabilities, deferred inflows of resources, and fiduciary net position, is included in the State of North Carolina's fiscal year 2016 *Comprehensive Annual Financial Report*. An electronic version of this report is available on the North Carolina Office of the State Controller's website at http://www.osc.nc.gov/ or by calling the State Controller's Financial Reporting Section at (919) 707-0500.

TSERS Basis of Accounting: The financial statements of the TSERS plan were prepared using the accrual basis of accounting. Plan member contributions are recognized in the period in which the contributions are due. Employer contributions are recognized when due and the employer has a legal requirement to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of each plan. The plan's fiduciary net position was determined on the same basis used by the pension plan.

Methods Used to Value TSERS Investment: Pursuant to *North Carolina General Statutes*, the State Treasurer is the custodian and administrator of the retirement systems. The State Treasurer maintains various investment portfolios in its Investment Pool. The pension trust funds are the primary participants in the Long-term Investment portfolio and the sole participants in the External Fixed Income Investment, Equity Investment, Real Estate Investment, Alternative Investment, Credit Investment, and Inflation Protection

Investment portfolios. The Fixed Income Asset Class includes the Long-Term Investment and External Fixed Income Investment Portfolios. The Global Equity Asset Class includes the Equity Investment Portfolio. The investment balance of each pension trust fund represents its share of the fair market value of the net position of the various portfolios within the pool. Detailed descriptions of the methods and significant assumptions regarding investments of the State Treasurer are provided in the 2016 *Comprehensive Annual Financial Report*.

Net Pension Liability: At June 30, 2017, the Authority reported a liability of $7,222,314 for its proportionate share of the collective net pension liability. The net pension liability was measured as of June 30, 2016. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2015, and update procedures were used to roll forward the total pension liability to June 30, 2016. The Authority's proportion of the net pension liability was based on the present value of future salaries for the Authority relative to the present value of future salaries for all participating employers, actuarially-determined. As of June 30, 2016, the Authority's proportion was 0.07858%, which was a decrease of 0.00300 from its proportion measured as of June 30, 2015.

Actuarial Assumptions: The following table presents the actuarial assumptions used to determine the total pension liability for the TSERS plan at the actuarial valuation date:

Valuation Date	12/31/2015
Inflation	3%
Salary Increases*	3.50% - 8.10%
Investment Rate of Return**	7.25%

* Salary increases include 3.5% inflation and productivity factor.
** Investment rate of return is net of pension plan investment expense, including inflation.

TSERS currently uses mortality tables that vary by age, gender, employee group (i.e. teacher, general, law enforcement officer) and health status (i.e. disabled and healthy). The current mortality rates are based on published tables and based on studies that cover significant portions of the U.S. population. The healthy mortality rates also contain a provision to reflect future mortality improvements.

The actuarial assumptions used in the December 31, 2015 valuations were based on the results of an actuarial experience study for the period January 1, 2010 through December 31, 2014.

Future ad hoc Cost of Living Adjustment (COLA) amounts are not considered to be substantively automatic and are therefore not included in the measurement.

The projected long-term investment returns and inflation assumptions are developed through review of current and historical capital markets data, sell-side investment research, consultant whitepapers, and historical performance of investment strategies. Fixed income return projections reflect current yields across the U.S. Treasury yield curve and market expectations of forward yields projected and interpolated for multiple tenors and over multiple year horizons. Global public equity return projections are established through analysis of the equity risk premium and the fixed income return projections. Other asset categories and strategies' return projections reflect the foregoing and historical data analysis. These projections are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2016 (the valuation date) are summarized in the following table:

Asset Class	Long-Term Expected Real Rate of Return
Fixed Income	1.4%
Global Equity	5.3%
Real Estate	4.3%
Alternatives	8.9%
Credit	6.0%
Inflation Protection	4.0%

The information in the preceding table is based on 30-year expectations developed with the consulting actuary and is part of the asset, liability and investment policy of the North Carolina Retirement Systems. The long-term nominal rates of return underlying the real rates of return are arithmetic annualized figures. The real rates of return are calculated from nominal rates by multiplicatively subtracting a long-term inflation assumption of 3.05%. Return projections do not include any excess return expectations over benchmark averages. All rates of return and inflation are annualized.

Discount Rate: The discount rate used to measure the total pension liability was 7.25%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current contribution rate and that contributions from employers will be made at statutorily required rates, actuarially determined. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of the current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the Net Pension Liability to Changes in the Discount Rate: The following presents the net pension liability of the plan at June 30, 2016 calculated using the discount rate of 7.25%, as well as what the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower (6.25%) or 1-percentage point higher (8.25%) than the current rate:

Net Pension Liability		
1% Decrease (6.25%)	Current Discount Rate (7.25%)	1% Increase (8.25%)
$ 13,583,776	$ 7,222,314	$ 1,873,196

Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions: For the year ended June 30, 2017, the Authority recognized pension expense of $1,403,199. At June 30, 2017, the Authority reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

Employer Balances of Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions by Classification

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference Between Actual and Expected Experience	$ 0	$ 341,337
Changes of Assumptions	1,065,116	
Net Difference Between Projected and Actual Earnings on Pension Plan Investments	2,575,708	
Change in Proportion and Differences Between Agency's Contributions and Proportionate Share of Contributions	53,696	28,836
Contributions Subsequent to the Measurement Date	1,246,963	
Total	$ 4,941,483	$ 370,173

The amount of $1,246,963 reported as deferred outflows of resources related to pensions will be included as a reduction of the net pension liability in the fiscal year ended June 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Schedule of the Net Amount of the Employer's Balances of Deferred Outflows of Resources and Deferred Inflows of Resources That Will be Recognized in Pension Expense

Fiscal year ended June 30:	Amount
2018	$ 568,476
2019	574,077
2020	1,395,254
2021	786,540
Total	$ 3,324,347

NOTE 12 - 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 (TSERS). 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 TSERS 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 established by the General Assembly.

For the period July 1, 2016 through December 31, 2016, the Authority contributed 5.60% of the covered payroll under TSERS to the Fund, and for the period January 1, 2017 through June 30, 2017, the Authority contributed 6.02% of the covered payroll under TSERS to the Fund. Required contribution rates for the years ended June 30, 2016, and 2015, were 5.60% and 5.49%, respectively. The Authority made 100% of its annual required contributions to the Plan for the years ended June 30, 2017, 2016, and 2015, which were $725,938, $690,122, and $668,174, 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 on the North Carolina Office of the State Controller's website athttp://www.osc.nc.gov/ 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 TSERS. 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, 2017, the Authority made a statutory contribution of .38% of covered payroll under TSERS to the DIPNC. Required contribution rates for the years ended June 30, 2016, and 2015, were .41% in both years. The Authority made 100% of its annual required contributions to the DIPNC for the years ended June 30, 2017, 2016, and 2015, which were $47,480, $50,527 and $49,900, 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*.

NOTE 13 - 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. These exposures to loss are handled via a combination of methods, including participation in state-administered insurance programs, purchase of commercial insurance, and self-retention of certain risks. 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.

A. Employee Benefit Plans

1. State Health Plan

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 is funded by employer and employee contributions. The Plan has contracted with third parties to process claims.

2. Death Benefit Plan of North Carolina

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.

B. Other Risk Management and Insurance Activities

1. Automobile, Fire, and Other Property Losses

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. However, in order to reduce its premiums the Authority has established higher deductibles for losses associated with buildings and supporting infrastructure of $100,000 and $250,000 on equipment. 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.

2. **Public Officers' and Employees' Liability Insurance**

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.

3. **Employee Dishonesty and Computer Fraud**

The Authority is protected for losses from employee dishonesty and computer fraud. 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 $100,000 deductible.

4. **Statewide Workers' Compensation Program**

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 retains the risk for workers' compensation.

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.

5. **Other Insurance Held by the Authority**

The Authority purchased other authorized coverage from private insurance companies through the North Carolina Department of Insurance. The Authority carries terminal operator's legal liability coverage from a private insurer at a premium of .265% for every dollar of operating revenue, not including rental and lease earnings. The Authority has also elected to pay an additional 5% of the total premium for terrorism coverage. The Authority has also purchased a clause to reduce the deductible related to airplane fuselage lifts at a cost of $1,100 per lift if using Authority equipment, or $850 per lift if using the ship's equipment.

NOTE 14 - COMMITMENTS AND CONTINGENCIES

A. Commitments - The Authority has established an encumbrance system to track its outstanding commitments on construction projects. Outstanding commitments on construction contracts were $38,706,163 at June 30, 2017.

B. Pending Litigation and Claims - The Authority is a party to litigation and claims in the ordinary course of its operations. Since it is not possible to predict the ultimate outcome of these matters, no provision for any liability has been made in the financial statements. Authority management is of the opinion that the liability, if any, for any of these matters will not have a material adverse effect on the financial position of the Authority.

NOTE 15 - CHANGES IN FINANCIAL ACCOUNTING AND REPORTING

For the fiscal year ended June 30, 2017, the Authority implemented the following pronouncements issued by the Governmental Accounting Standards Board (GASB):

GASB Statement No. 82, *Pension Issues – An amendment of GASB Statement No. 67, No. 68, and No. 73*

GASB Statement No. 82 addresses certain issues with respect to Statements No. 67, *Financial Reporting for Pension Plans* , No. 68, *Accounting and Financial Reporting for Pensions* , and No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68* . Specifically, this Statement addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements.

REQUIRED SUPPLEMENTARY INFORMATION

North Carolina State Ports Authority
Required Supplementary Information
Schedule of the Proportionate Net Pension Liability
Teachers' and State Employees' Retirement System
Last Four Fiscal Years — *Exhibit B-1*

	2016	2015	2014	2013
Proportionate Share Percentage of Collective Net Pension Liability	0.07858%	0.08158%	0.08220%	0.08138%
Proportionate Share of TSERS Collective Net Pension Liability	$ 7,222,314	$ 3,006,491	$ 963,753	$ 4,940,641
Covered Payroll	$ 12,494,622	$ 12,323,603	$ 11,773,267	$ 12,205,518
Net Pension Liability as a Percentage of Covered Payroll	57.80%	24.40%	8.19%	40.48%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	87.32%	94.64%	98.24%	90.60%

North Carolina State Ports Authority
Required Supplementary Information
Schedule of Authority Contributions
Teachers' and State Employees' Retirement System
Last Ten Fiscal Years ***Exhibit B-2***

	2017	2016	2015	2014	2013
Contractually Required Contribution	$ 1,246,963	$ 1,127,510	$ 1,113,624	$ 1,023,097	$ 1,016,720
Contributions in Relation to the Contractually Determined Contribution	1,246,963	1,127,510	1,113,624	1,023,097	1,016,720
Contribution Deficiency (Excess)	$ 0	$ 0	$ 0	$ 0	$ 0
Covered Payroll	$ 12,494,622	$ 12,323,603	$ 12,170,751	$ 11,773,267	$ 12,205,518
Contributions as a Percentage of Covered Payroll	9.98%	9.15%	9.15%	8.69%	8.33%

	2012	2011	2010	2009	2008
Contractually Required Contribution	$ 952,502	$ 630,554	$ 456,391	$ 455,651	$ 425,254
Contributions in Relation to the Contractually Determined Contribution	952,502	630,554	456,391	455,651	425,254
Contribution Deficiency (Excess)	$ 0	$ 0	$ 0	$ 0	$ 0
Covered Payroll	$ 12,802,452	$ 12,790,136	$ 12,784,066	$ 13,561,043	$ 13,942,758
Contributions as a Percentage of Covered Payroll	7.44%	4.93%	3.57%	3.36%	3.05%

Note: Changes in benefit terms, methods, and assumptions are presented in the Notes to Required Supplementary Information (RSI) schedule following the pension RSI tables.

North Carolina State Ports Authority
Notes to Required Supplementary Information
Schedule of Authority Contributions
Teachers' and State Employees' Retirement System
Last Ten Fiscal Years

Changes of Benefit Terms:

Cost of Living Increase

2015	2014	2013	2012	2011	2010	2009	2008	2007	2006
N/A	N/A	1.00%	N/A	N/A	N/A	2.20%	2.20%	3.00%	2.00%

Changes of assumptions. In 2008, 2012, and 2015, the actuarial assumptions were updated to more closely reflect actual experience. In 2015, the North Carolina Retirement Systems' consulting actuaries performed the quinquennial investigation of each retirement systems' actual demographic and economic experience (known as the "Experience Review"). The Experience Review provides the basis for selecting the actuarial assumptions and methods used to determine plan liabilities and funding requirements. The most recent Experience Review examined each plan's experience during the period between January 1, 2010, and December 31, 2014. Based on the findings, the Board of Trustees of the Teachers' and State Employees' Retirement System adopted a number of new actuarial assumptions and methods. The most notable changes to the assumptions include updates to the mortality tables and the mortality improvement projection scales to reflect reduced rates of mortality and significant increases in mortality improvements. These assumptions were adjusted to reflect the mortality projection scale MP-2015, released by the Society of Actuaries in 2015. In addition, the assumed rates of retirement, salary increases, and rates of termination from active employment were reduced to more closely reflect actual experience.

INDEPENDENT AUDITOR'S REPORT

Beth A. Wood, CPA
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 AUDIT STANDARDS*

Board of Directors
North Carolina State Ports Authority
Wilmington, 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 State Ports Authority (Authority), a component unit of the State of North Carolina, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated September 26, 2017.

<u>Internal Control Over Financial Reporting</u>

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 opinion 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 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 the 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

Beth A. Wood, CPA
State Auditor

Raleigh, North Carolina

September 26, 2017

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NC OSA
The Taxpayers' Watchdog

This audit required 390 hours at an approximate cost of $40,170.