

STATE OF NORTH CAROLINA

OFFICE OF THE STATE AUDITOR

BETH A. WOOD, CPA



NORTH CAROLINA STATE PORTS AUTHORITY

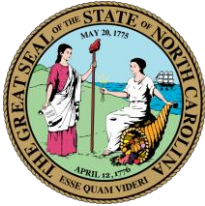
WILMINGTON, NORTH CAROLINA
FINANCIAL STATEMENT AUDIT REPORT
FOR THE YEAR ENDED JUNE 30, 2018

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, 2018, 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.

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

Beth A. Wood, CPA
State Auditor

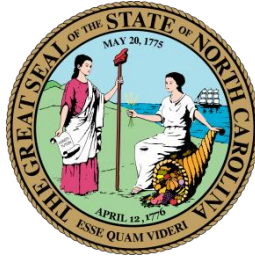


Beth A. Wood, CPA
State Auditor

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Article V, Chapter 147 of the *North Carolina General Statutes*, gives the Auditor broad powers to examine all books, records, files, papers, documents, and financial affairs of every state agency and any organization that receives public funding. The Auditor also has the power to summon people to produce records and to answer questions under oath.



INDEPENDENT AUDITOR'S REPORT

STATE OF NORTH CAROLINA
Office of the State Auditor



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State Auditor

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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, 2018, 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.

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, 2018, 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.

Emphasis of Matter

As discussed in Note 16 to the financial statements, during the year ended June 30, 2018, the North Carolina State Ports Authority adopted new accounting guidance, Governmental Accounting Standards Board Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, as amended by Governmental Accounting Standards Board Statement No. 85, *Omnibus 2017*. Our opinion is not modified with respect to this matter.

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

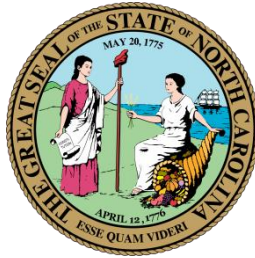
In accordance with *Government Auditing Standards*, we have also issued our report dated October 24, 2018 on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements 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

October 24, 2018



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, 2018. 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 (TSERS) and Other Postemployment Benefits (OPEB) plans.

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.

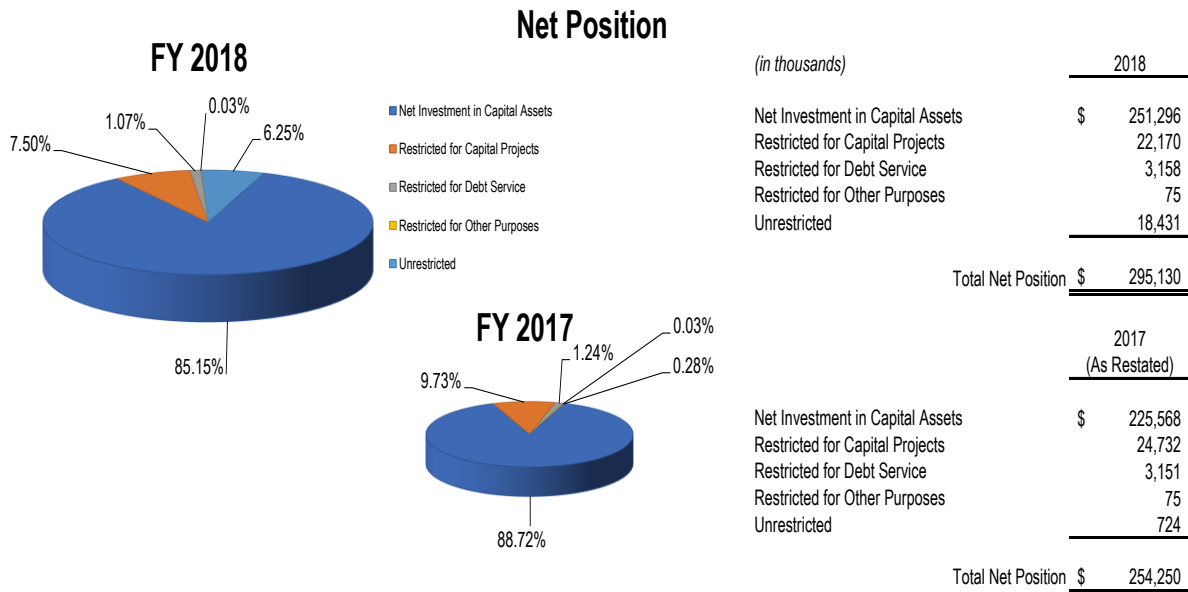
The following table provides a summarized Statement of Net Position as of June 30, 2018 with comparative figures for the prior period:

Condensed Statement of Net Position				
	<u>June 30, 2018</u>	<u>June 30, 2017 (As Restated)</u>	<u>Change</u>	<u>% Change</u>
<i>(in thousands)</i>				
Current Assets	\$ 27,122	\$ 22,577	\$ 4,545	20.13%
Capital Assets, Net	356,301	316,418	39,883	12.60%
Other Noncurrent Assets	68,362	39,296	29,066	73.97%
Total Assets	<u>451,785</u>	<u>378,291</u>	<u>73,494</u>	19.43%
Total Deferred Outflows of Resources	<u>5,227</u>	<u>5,714</u>	<u>(487)</u>	-8.52%
Other Current Liabilities	9,153	9,094	59	0.65%
Other Noncurrent Liabilities	595	778	(183)	-23.52%
Long-Term Liabilities, Net	<u>144,886</u>	<u>119,513</u>	<u>25,373</u>	21.23%
Total Liabilities	<u>154,634</u>	<u>129,385</u>	<u>25,249</u>	19.51%
Total Deferred Inflows of Resources	<u>7,248</u>	<u>370</u>	<u>6,878</u>	1858.92%
Total Net Position	<u>\$ 295,130</u>	<u>\$ 254,250</u>	<u>\$ 40,880</u>	16.08%

The change in current assets is due to a \$6 million receivable from the Army Corps of Engineers (Corps) for reimbursement of certain non-recurring dredging costs. The increase in other noncurrent assets represents an increase in the investment reserve resulting from a \$12.5 million transfer from operating and other cash, and a \$15.6 million increase in restricted cash acquired through financing to construct three new container cranes at the Port of Wilmington. 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 Berth 8 project which was completely reconstructed to service the larger vessels that call in the Port of Wilmington, as well as the progress payments related to the design and construction of three new container cranes, offset by continued depreciation charges. The increase in long-term liabilities represents additional financing for the purchase of three new container cranes at the Port of Wilmington offset by principal payments and a reduction to net pension and net OPEB liabilities. The changes in deferred outflows of resources, deferred inflows of resources, net pension liability, and the net OPEB liability are due to valuation changes as determined by the plans' actuaries. Refer to Notes 12 and 13 for additional information regarding the Authority's participation in the TSERS and OPEB plans, respectively.

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, 2018 and 2017, 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), the influx of \$45 million in state capital appropriations during the period (net investment in capital assets), and reductions in net pension and net OPEB liabilities (unrestricted).



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, 2018 of \$40.9 million. This increase is principally a product of the recognition of \$45 million in state capital appropriations. The following table identifies variances between major financial categories for the fiscal years ended June 30, 2018 and 2017, respectively.

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

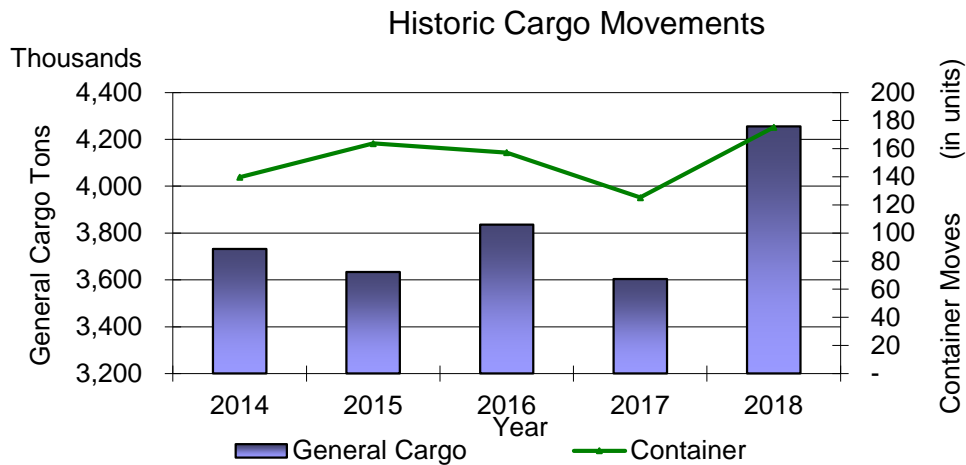
<i>(in thousands)</i>	June 30, 2018	June 30, 2017 *	Change	% Change
Operating Revenues, Net	\$ 47,690	\$ 43,066	\$ 4,624	10.74%
Operating Expenses	48,581	40,234	8,347	20.75%
Operating Income (Loss)	(891)	2,832	(3,723)	-131.46%
Nonoperating Revenues (Expenses):				
Investment Income, Net	401	99	302	305.05%
Interest and Fees on Debt	(3,878)	(3,618)	260	7.19%
Loss on Disposal of Capital Assets	(1,170)		1,170	
Other Nonoperating Revenues	77	29	48	165.52%
Net Nonoperating Expenses	(4,570)	(3,490)	1,080	30.95%
Other Revenues:				
State Capital Appropriations	45,000	35,000	10,000	28.57%
Capital Grants	1,341	1,444	(103)	-7.13%
Total Revenues	94,509	79,638	14,871	18.67%
Total Expenses	(53,629)	(43,852)	9,777	22.30%
Increase in Net Position	40,880	35,786	5,094	14.23%
Net Position, Beginning of Period	254,250	244,007		
Net Position Restatement		(25,543)		
Net Position, End of Period	\$ 295,130	\$ 254,250		

* Note - The year ended June 30, 2017 column is not presented "as restated" above because actuarial calculations performed relative to the implementation of GASB 75 do not provide sufficient information to restate these amounts.

As reflected in the preceding table, the Authority posted an operating loss of \$0.9 million versus \$2.8 million profit in the prior year. The Authority posted record volumes and revenues for fiscal year 2018. Investment income increased during the fiscal year due to positive performances in the investment portfolio. Operating expenses significantly increased from the prior year due to the contribution of \$6.5 million to the Corps for dredging projects funded through state capital appropriations. Because the GASB requires state capital appropriations to be reported as nonoperating revenues, the contributions to the Corps for dredging projects resulted in an operating loss in the current period. Nonoperating expenses increased from the prior year due to the noncash disposal of assets. The Authority received \$45 million in fiscal year 2018 which represented an additional \$10 million in capital appropriations over the prior year. The revised capital appropriations allowed up to \$15 million of the \$45 million to be used for funding the Corps for dredging projects, of which \$6.5 million was applied during the period. The following table shows the major sources of both operating and other revenues in detail.

Revenues by Major Source				
(in thousands)	June 30, 2018	June 30, 2017	Change	% Change
Operating Revenues:				
Sales and Services, Net	\$ 43,342	\$ 38,751	\$ 4,591	11.85%
Rental and Lease Earnings	4,348	4,315	33	0.76%
Total Operating Revenues	47,690	43,066	4,624	10.74%
Nonoperating Revenues:				
Investment Income, Net	401	99	302	305.05%
Other	77	29	48	165.52%
Total Nonoperating Revenues	478	128	350	273.44%
Other Nonoperating Revenues:				
State Capital Appropriations	45,000	35,000	10,000	28.57%
Capital Grants	1,341	1,444	(103)	-7.13%
Total Other Nonoperating Revenues	46,341	36,444	9,897	27.16%
Total Revenues	\$ 94,509	\$ 79,638	\$ 14,871	18.67%

The increased operating levels as compared to the prior year reflect a general recovery trend for containers as coverage to new markets has been aligned by the addition of several new carrier strings and the ramp up in wood pellets in general cargo for Wilmington. The following graph and table depict these current changes and general trends utilizing nonfinancial data and measurements.



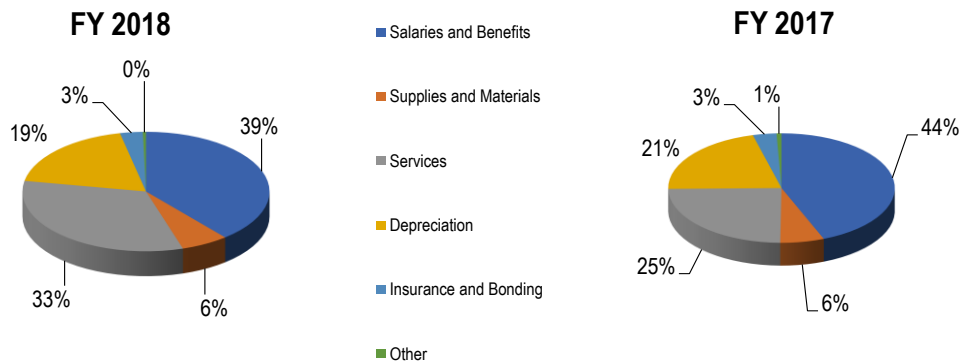
	June 30, 2018	June 30, 2017	Change	% Change
Container Movement	175,252	125,231	50,021	39.94%
General Cargo Movement (Short Tons)	4,255,649	3,604,237	651,412	18.07%
Vessel Calls	1,033	888	145	16.33%
Rail Car Activity	30,856	24,359	6,497	26.67%

The Authority has continued to manage expenses and implement cost containment measures where possible. As noted previously, the current year reflects a significant increase in operating expenses driven mostly by the \$6.5 million to the Corps for dredging projects and

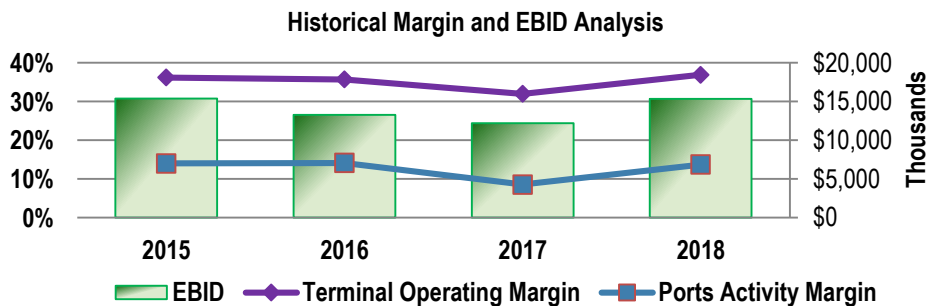
corresponding increase to services. The increase in salaries and benefits is a result of increased headcount year-over-year. Depreciation expense continues to increase as the Authority finalizes some of the larger projects in the Capital Expansion Plan. The following table and graphs analyze operating expenses by major category as well as providing a relative mix year-over-year.

Operating Expenses by Major Category

(in thousands)	June 30, 2018	June 30, 2017	Change	% Change
Salaries and Benefits	\$ 18,917	\$ 17,671	\$ 1,246	7.05%
Supplies and Materials	3,027	2,517	510	20.26%
Services	15,875	9,882	5,993	60.65%
Insurance and Bonding	1,446	1,359	87	6.40%
Other	201	283	(82)	-28.98%
Depreciation	9,115	8,522	593	6.96%
Total Operating Expenses	\$ 48,581	\$ 40,234	\$ 8,347	20.75%



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 container 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 lane with Latin America.

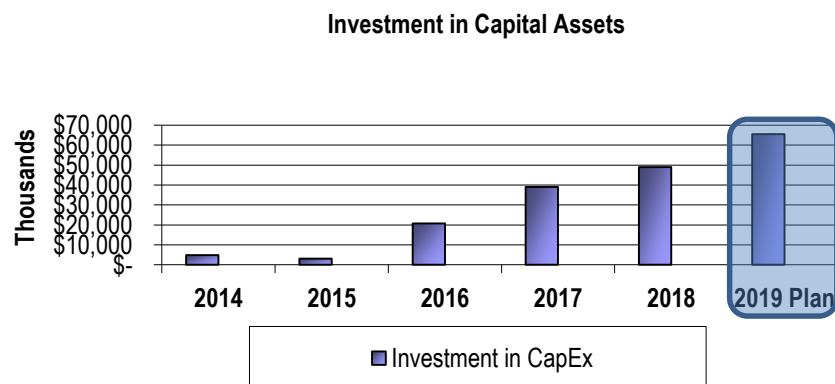
Capital Assets and Long-Term Debt

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.

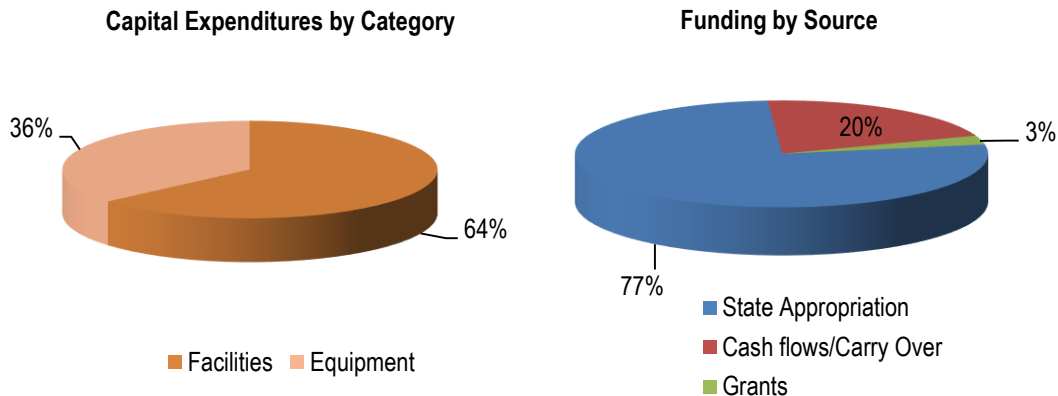
During the fiscal year, the Authority refinanced an outstanding capital lease obligation to eliminate a pending balloon payment and take advantage of a more favorable interest rate and terms. The new agreement established an escrow account to fund payments for the construction of three new container cranes at the Port of Wilmington.

Since late fiscal year 2005 the Authority has assertively worked to rehabilitate or otherwise expand its facilities, investing approximately \$305.4 million in equipment and infrastructure. Highlights of these expenditures include the acquisition of new container cranes, investments in terminal and berth infrastructure, and new or upgraded facilities. As previously mentioned, during the current fiscal year the Authority received an allotment of \$45 million in appropriations from the State of North Carolina to fund infrastructure improvements and expansion as well as offset contributions for dredging performed by the Army Corps of Engineers.

During the fiscal year \$36.2 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 \$66 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 2019. Further details on the capital improvement program can be found in the Authority's 2019 Capital Budget document. The following graphs provide a breakdown of planned fiscal year 2019 expenditures by category as well as anticipated funding by sources.



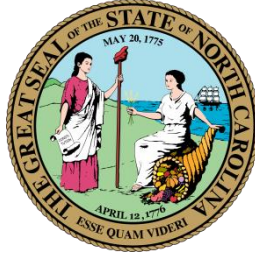
Economic Outlook

As indicated previously, there were a number of notable events in FY18 that positively impacted the Authority's cargo volumes. 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 continued growth in volume in FY19, and 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 continue to increase container volume as the capacity on the services are allocated to Wilmington. The completion of the bulk wood pellet facility in Wilmington in FY17 was the key driver of the 35% increase in handled bulk cargo tonnage through the Wilmington locations. As a result of these growth projections, the Authority is anticipating that utilization at its existing facilities will improve, thus improving 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 2019 is 1.8 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, 2018

Exhibit A-1
Page 1 of 2

ASSETS

Current Assets:

Cash and Cash Equivalents	\$ 6,068,191
Restricted Cash and Cash Equivalents	228,105
Short-Term Investments	5,922,000
Receivables, Net (Note 4)	12,604,005
Due from Primary Government	21,236
Inventories	693,666
Prepaid Items	1,585,128
Total Current Assets	27,122,331

Noncurrent Assets:

Restricted Cash and Cash Equivalents	18,608,629
Restricted Due from Primary Government	120,580
Investments	26,715,324
Restricted Investments	22,049,737
Unamortized Charges	828,819
Net Other Postemployment Benefits Asset	38,878
Capital Assets - Nondepreciable (Note 5)	94,323,295
Capital Assets - Depreciable, Net (Note 5)	261,978,070
Total Noncurrent Assets	424,663,332

Total Assets	451,785,663
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DEFERRED OUTFLOWS OF RESOURCES

Deferred Loss on Refunding	797,947
Deferred Outflows Related to Pensions	3,217,590
Deferred Outflows Related to Other Postemployment Benefits (Note 13)	1,211,058
Total Deferred Outflows of Resources	5,226,595

LIABILITIES

Current Liabilities:

Accounts Payable and Accrued Liabilities (Note 6)	6,521,718
Due to Primary Government	827,801
Unearned Revenue	343,095
Interest Payable	1,277,046
Advance from Primary Government - Current Portion (Note 9)	183,159
Long-Term Liabilities - Current Portion (Note 7)	5,630,277
Total Current Liabilities	14,783,096

Noncurrent Liabilities:

Advance from Primary Government - Noncurrent Portion (Note 9)	594,620
Long-Term Liabilities, Net (Note 7)	139,256,358
Total Noncurrent Liabilities	139,850,978

Total Liabilities	154,634,074
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DEFERRED INFLOWS OF RESOURCES

Deferred Inflows Related to Pensions	255,302
Deferred Inflows Related to Other Postemployment Benefits (Note 13)	6,992,427
Total Deferred Inflows of Resources	7,247,729

North Carolina State Ports Authority
Statement of Net Position
June 30, 2018

Exhibit A-1
Page 2 of 2

NET POSITION

Net Investment in Capital Assets	251,295,459
Restricted for:	
Expendable:	
Capital Projects	22,170,317
Debt Service	3,158,467
Other	75,000
Unrestricted	<u>18,431,212</u>
Total Net Position	<u><u>\$ 295,130,455</u></u>

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, 2018

Exhibit A-2

REVENUES

Operating Revenues:

Sales and Services (Net of \$88,593 in Allowance for Doubtful Accounts)	\$ 43,342,324
Rental and Lease Earnings	4,347,493
Total Operating Revenues	<u>47,689,817</u>

EXPENSES

Operating Expenses:

Salaries and Benefits	18,916,874
Supplies and Materials	3,026,502
Services	15,875,630
Insurance and Bonding	1,445,630
Other Operating Expenses	201,244
Depreciation	9,115,213
Total Operating Expenses	<u>48,581,093</u>
Operating Loss	<u>(891,276)</u>

NONOPERATING REVENUES (EXPENSES)

Investment Income (Net of Investment Expense of \$64,701)	400,831
Interest and Fees on Debt	(3,877,995)
Loss on Disposal of Capital Assets	(1,169,926)
Other Nonoperating Revenues	77,284
Net Nonoperating Expenses	<u>(4,569,806)</u>
Loss Before Other Revenues	(5,461,082)
State Capital Appropriations	45,000,000
Capital Grants	1,341,363
Increase in Net Position	40,880,281

NET POSITION

Net Position - July 1, 2017, as Restated (Note 17)	<u>254,250,174</u>
Net Position - June 30, 2018	<u>\$ 295,130,455</u>

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, 2018

Exhibit A-3
Page 1 of 2

CASH FLOWS FROM OPERATING ACTIVITIES

Received from Customers	\$ 46,858,597
Payments to Employees and Fringe Benefits	(18,264,897)
Payments to Vendors and Suppliers	<u>(23,375,903)</u>
Net Cash Provided by Operating Activities	<u>5,217,797</u>

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

Principal Paid on Noncapital Debt	(176,115)
Interest and Fees Paid on Noncapital Debt	<u>(38,156)</u>
Total Cash Used by Noncapital Financing Activities	<u>(214,271)</u>

CASH FLOWS FROM CAPITAL FINANCING AND RELATED FINANCING ACTIVITIES

State Capital Appropriations	45,000,000
Capital Grants	1,538,205
Proceeds from Capital Debt	62,850,845
Acquisition and Construction of Capital Assets	(53,394,181)
Principal Paid on Capital Debt and Leases	(29,858,271)
Interest and Fees Paid on Capital Debt and Leases	<u>(4,581,675)</u>
Net Cash Provided by Capital Financing and Related Financing Activities	<u>21,554,923</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Proceeds from Sales and Maturities of Investments	5,519,000
Investment Income	464,293
Purchase of Investments and Related Fees	<u>(19,717,856)</u>
Net Cash Used by Investing Activities	<u>(13,734,563)</u>
Net Increase in Cash and Cash Equivalents	12,823,886
Cash and Cash Equivalents - July 1, 2017	<u>12,081,039</u>
Cash and Cash Equivalents - June 30, 2018	<u>\$ 24,904,925</u>

North Carolina State Ports Authority
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2018

Exhibit A-3
Page 2 of 2

**RECONCILIATION OF NET OPERATING LOSS
TO NET CASH PROVIDED BY OPERATING ACTIVITIES**

Operating Loss	\$	(891,276)
Adjustments to Reconcile Operating Loss to Net Cash Provided by Operating Activities:		
Depreciation Expense		9,115,213
Changes in Assets and Deferred Outflows of Resources:		
Receivables, Net		(6,799,599)
Unamortized Charges		123,807
Prepaid Items		(150,674)
Due from Primary Government		(2,517)
Inventories		45,124
Net Other Postemployment Benefits Asset		3,797
Deferred Outflows Related to Pensions		1,723,893
Deferred Outflows Related to Other Postemployment Benefits		(438,316)
Changes in Liabilities and Deferred Inflows of Resources:		
Accounts Payable and Accrued Liabilities		3,050,547
Due to Primary Government		199,476
Unearned Revenue		(29,104)
Net Pension Liability		(1,389,706)
Net Other Postemployment Benefits Liability		(6,234,816)
Compensated Absences		14,392
Deferred Inflows Related to Pensions		(114,871)
Deferred Inflows Related to Other Postemployment Benefits		6,992,427
Net Cash Provided by Operating Activities	\$	<u>5,217,797</u>

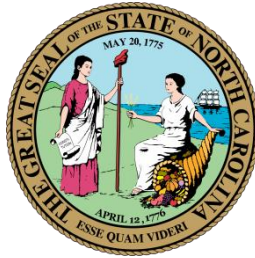
RECONCILIATION OF CASH AND CASH EQUIVALENTS

Current Assets:		
Cash and Cash Equivalents	\$	6,068,191
Restricted Cash and Cash Equivalents		228,105
Noncurrent Assets:		
Restricted Cash and Cash Equivalents		<u>18,608,629</u>
Total Cash and Cash Equivalents - June 30, 2018	\$	<u>24,904,925</u>

NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES

Assets Acquired through the Assumption of a Liability	\$	2,843,351
Change in Fair Value of Investments		(109,781)
Loss on Disposal of Capital Assets		(1,169,926)
Amortization of Bond Premiums		8,005

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 capital 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, 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 also include amounts due from the federal government in connection with reimbursement of allowable expenditures made pursuant to contracts. 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 expensed 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:

<u>Asset Class</u>	<u>Estimated Useful Life</u>
Buildings	10-75 years
Machinery & Equipment	2-40 years
General Infrastructure	10-60 years
Computer Software	2-5 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 long-term debt and other long-term liabilities that will not be paid within the next fiscal year. Long-term debt includes: revenue bonds payable and capital leases payable. Other long-term liabilities include: compensated absences, net pension liability, and net other postemployment benefits (OPEB) liability.

Revenue bonds payable are reported net of unamortized premiums. The Authority amortizes bond premiums over the life of the bonds using the straight-line method that approximates the effective interest method. Deferred losses on refundings are amortized over the life of the old debt or new debt (whichever is shorter) using the straight-line method, and are aggregated as deferred outflows of resources on the Statement of Net Position. 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 2017 *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 12 for further information regarding the Authority's policies for recognizing liabilities, expenses, deferred outflows of resources, and deferred inflows of resources related to pensions.

The net OPEB liability represents the Authority's proportionate share of the collective net OPEB liability reported in the State of North Carolina's 2017 *Comprehensive Annual Financial Report*. This liability represents the Authority's portion of the collective total OPEB liability less the fiduciary net position of the Retiree Health Benefit Fund. See Note 13 for further information regarding the Authority's policies for recognizing liabilities, expenses, deferred outflows of resources, and deferred inflows of resources related to OPEB.

- 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 items that qualify for reporting in this category: deferred loss on refunding, deferred outflows related to pensions, and deferred outflows related to other postemployment benefits.

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(s) and so will not be recognized as an inflow of resources (revenue) until then. The Authority has the following items that qualify for reporting in this category: deferred inflows related to pensions and deferred inflows related to other postemployment benefits.

- 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. It also includes the net position of accrued employee benefits such as compensated absences, pension plans, and other postemployment benefits.

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. See Note 10 for further information regarding deferred outflows of resources and deferred inflows of resources that had a significant effect on unrestricted net position.

- 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.

At June 30, 2018, the amount shown on the Statement of Net Position as cash and cash equivalents includes \$30,337, 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 1.4 years as of June 30, 2018. 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 carrying amount of the Authority's deposits not with the State Treasurer was \$24,874,588, and the bank balance was \$25,082,532. 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, 2018, the Authority's bank balance was exposed to custodial credit risk as follows:

Uninsured and Uncollateralized	<u>\$ 23,582,532</u>
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- 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 \$250,000 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.

The following table presents investments by type and investments subject to interest rate risk at June 30, 2018.

Investment Type	Amount	Investment Maturities (in Years)	
		Less Than 1	1 to 5
Debt Securities			
U.S. Treasuries	\$ 20,209,194	\$ 15,927,626	\$ 4,281,568
U.S. Agencies	8,111,460	1,594,518	6,516,942
Money Market Mutual Funds	26,366,407	26,366,407	
Total Investments	<u>\$ 54,687,061</u>	<u>\$ 43,888,551</u>	<u>\$ 10,798,510</u>

At June 30, 2018, the Authority's investments had the following credit quality distribution for securities with credit exposure:

	Amount	AAA Aaa
U.S. Agencies	\$ 8,111,460	\$ 8,111,460
Money Market Mutual Funds	26,366,407	26,366,407
Totals	<u>\$ 34,477,867</u>	<u>\$ 34,477,867</u>

Rating Agency: Moody's

At June 30, 2018, the Authority's investments were exposed to custodial credit risk as follows:

Investment Type	Held by Counterparty's Trust Dept or Agent not in Authority's Name
U.S. Treasuries	\$ 20,209,194
U.S. Agencies	8,111,460
Total	<u>\$ 28,320,654</u>

NOTE 3 - FAIR VALUE MEASUREMENTS

To the extent available, the Authority's investments are recorded at fair value as of June 30, 2018. 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 deposits in the Short-Term Investment Fund, within the fair value hierarchy at June 30, 2018:

		Fair Value Measurements Using		
	Fair Value	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs
Investments by Fair Value Level				
Debt Securities				
U.S. Treasuries	\$ 20,209,194	\$ 20,209,194	\$ 0	\$ 0
U.S. Agencies	8,111,460	8,111,460		
Money Market Mutual Funds	26,366,407	26,366,407		
Total Investments by Fair Value Level	54,687,061	\$ 54,687,061	\$ 0	\$ 0
Investments as a Position in an External Investment Pool				
Short-Term Investment Fund	30,337			
Total Investments Measured at Fair Value	\$ 54,717,398			

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. Pool investments are measured at fair value in

accordance with GASB 72. The Authority's position in the pool is measured and reported at fair value.

NOTE 4 - RECEIVABLES

Receivables at June 30, 2018, were as follows:

	Gross Receivables	Less Allowance for Doubtful Accounts	Net Receivables
Receivables:			
Customers	\$ 6,556,506	\$ 88,593	\$ 6,467,913
Intergovernmental	6,000,000		6,000,000
Investment Earnings	99,117		99,117
Other	36,975		36,975
Total Receivables	\$ 12,692,598	\$ 88,593	\$ 12,604,005

NOTE 5 - CAPITAL ASSETS

A summary of changes in the capital assets for the year ended June 30, 2018, is presented as follows:

	Balance July 1, 2017	Increases	Decreases	Balance June 30, 2018
Capital Assets, Nondepreciable:				
Land and Permanent Easements	\$ 58,103,793	\$ 456,653	\$ 0	\$ 58,560,446
Construction in Progress	26,258,473	45,373,125	36,136,424	35,495,174
Computer Software in Development	8,737	338,672	79,734	267,675
Total Capital Assets, Nondepreciable	84,371,003	46,168,450	36,216,158	94,323,295
Capital Assets, Depreciable:				
Buildings	85,900,645	2,114,778	1,725,061	86,290,362
Machinery and Equipment	77,573,843	4,172,786	2,305,742	79,440,887
General Infrastructure	221,931,803	33,848,903	1,972,272	253,808,434
Computer Software	3,764,833	79,734	239,396	3,605,171
Total Capital Assets, Depreciable	389,171,124	40,216,201	6,242,471	423,144,854
Less Accumulated Depreciation for:				
Buildings	32,641,828	1,601,021	884,225	33,358,624
Machinery and Equipment	36,163,423	2,841,094	2,280,165	36,724,352
General Infrastructure	85,518,348	4,285,012	1,668,759	88,134,601
Computer Software	2,800,517	388,086	239,396	2,949,207
Total Accumulated Depreciation	157,124,116	9,115,213	5,072,545	161,166,784
Total Capital Assets, Depreciable, Net	232,047,008	31,100,988	1,169,926	261,978,070
Capital Assets, Net	\$ 316,418,011	\$ 77,269,438	\$ 37,386,084	\$ 356,301,365

During the year ended June 30, 2018, the Authority incurred \$3,846,884 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, 2018, were as follows:

	Amount
Accounts Payable and Accrued Liabilities	
Accounts Payable	\$ 3,394,778
Accounts Payable - Capital Assets	2,535,656
Accrued Payroll	283,589
Contract Retainage	307,695
Total Accounts Payable and Accrued Liabilities	<u>\$ 6,521,718</u>

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, 2018, is presented as follows:

	Balance July 1, 2017 (as Restated)	Additions	Reductions	Balance June 30, 2018	Current Portion
Long-Term Debt					
Revenue Bonds Payable	\$ 58,175,000	\$ 0	\$ 1,865,000	\$ 56,310,000	\$ 1,935,000
Plus: Unamortized Premium	180,821		8,005	172,816	
Total Revenue Bonds Payable, Net	58,355,821		1,873,005	56,482,816	1,935,000
Capital Leases Payable	26,425,433	62,850,845	27,993,271	61,283,007	3,474,684
Total Long-Term Debt	84,781,254	62,850,845	29,866,276	117,765,823	5,409,684
Other Long-Term Liabilities					
Net Pension Liability	7,222,314		1,389,706	5,832,608	
Net Other Postemployment Benefits Liability	26,358,709		6,234,816	20,123,893	
Compensated Absences	1,149,919	818,121	803,729	1,164,311	220,593
Total Other Long-Term Liabilities	34,730,942	818,121	8,428,251	27,120,812	220,593
Total Long-Term Liabilities, Net	<u>\$ 119,512,196</u>	<u>\$ 63,668,966</u>	<u>\$ 38,294,527</u>	<u>\$ 144,886,635</u>	<u>\$ 5,630,277</u>

Additional information regarding capital lease obligations is included in Note 8.

Additional information regarding the net pension liability is included in Note 12.

Additional information regarding the net OPEB liability is included in Note 13.

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, 2018	Principal Outstanding June 30, 2018
Construct Bulk Grain Facility	2001	.25%-15%	09/2022	\$ 11,000,000	\$ 9,525,000	\$ 1,475,000
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	6,635,000	13,610,000
Port Facilities Senior Lien Revenue Refunding Bond	2013	Variable ¹	02/2036	10,000,000	420,000	9,580,000
Port Facilities Subordinated Revenue Refunding Bond	2014	Variable ²	02/2029	9,750,000	1,795,000	7,955,000
Total Revenue Bonds Payable (principal only)				<u>\$ 74,685,000</u>	<u>\$ 18,375,000</u>	56,310,000
Plus Unamortized Premium						172,816
Total Revenue Bonds Payable, Net						<u>\$ 56,482,816</u>

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, 2018, are as follows:

Fiscal Year	Annual Requirements Revenue Bonds Payable	
	Principal	Interest
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	2,245,000	1,820,222
2024-2028	11,250,000	7,983,680
2029-2033	14,190,000	5,835,371
2034-2038	15,105,000	3,027,774
2039 and after	5,345,000	496,601
Total Requirements	\$ 56,310,000	\$ 27,147,382

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, 2018:

Fiscal Year	Amount
2019	\$ 4,839,554
2020	4,839,554
2021	4,839,554
2022	4,839,554
2023	4,839,554
2024-2028	24,197,772
2029-2033	24,197,772
Total Minimum Lease Payments	72,593,314
Amount Representing Interest (2.259% Rate of Interest)	<u>11,310,307</u>
Present Value of Future Lease Payments	\$ 61,283,007

Machinery and equipment acquired under capital lease amounted to \$33,892,318 at June 30, 2018. There was an additional \$20,498,867 reported as construction in progress at June 30, 2018 for three additional cranes that were included in the refinance of the capital lease.

Depreciation for the capital assets associated with capital leases is included in depreciation expense, and accumulated depreciation for assets acquired under capital lease totaled \$9,530,651 at June 30, 2018.

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, 2018:

Fiscal Year	Annual Requirements	
	Advance from Primary Government	
	Principal	Interest
2019	\$ 183,159	\$ 31,111
2020	190,486	23,785
2021	198,105	16,165
2022	206,029	8,241
Total Requirements	\$ 777,779	\$ 79,302

NOTE 10 - NET POSITION

The unrestricted net position balance of \$18,431,212 has been significantly affected by transactions that resulted in the recognition of deferred outflows of resources and deferred inflows of resources. A summary of the balances reported within unrestricted net position relating to the reporting of net pension liability and net other postemployment benefits (OPEB) liability, and the related deferred outflows of resources and deferred inflows of resources is presented as follows:

	TSERS	Retiree Health Benefit Fund	Total
Deferred Outflows Related to Pensions	\$ 3,217,590	\$ 0	\$ 3,217,590
Deferred Outflows Related to OPEB		1,165,678	1,165,678
Noncurrent Liabilities:			
Long-Term Liabilities:			
Net Pension Liability	5,832,608		5,832,608
Net OPEB Liability		20,123,893	20,123,893
Deferred Inflows Related to Pensions	255,302		255,302
Deferred Inflows Related to OPEB		6,992,427	6,992,427
Net Effect on Unrestricted Net Position	\$ (2,870,320)	\$ (25,950,642)	\$ (28,820,962)

See Notes 12 and 13 for detailed information regarding the amortization of the deferred outflows of resources and deferred inflows of resources relating to pensions and OPEB, respectively.

NOTE 11 - 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, 2018:

<u>Fiscal Year</u>	<u>Amount</u>
2019	\$ 4,021,787
2020	2,796,951
2021	422,531
2022	416,946
2023	233,582
2024-2028	271,779
Total Future Rental Revenues	<u>\$ 8,163,576</u>

NOTE 12 - 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, 2018 was 10.78% of covered payroll. Employee contributions to the pension plan were \$755,086, and the Authority's contributions were \$1,356,638 for the year ended June 30, 2018.

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 2017 *Comprehensive Annual Financial Report*. An electronic version of this report is available on the North Carolina Office of the State Controller's website at <https://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 External Investment Pool. TSERS and other pension plans of the State of North Carolina are the sole participants in the Long-Term Investment, Fixed Income Investment, Equity Investment, Real Estate Investment, Alternative Investment, Opportunistic Fixed Income Investment, and Inflation Sensitive Investment Portfolios. The Fixed Income Asset Class includes the Long-Term Investment and 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 External Investment Pool. Detailed descriptions of the methods and significant assumptions regarding investments of the State Treasurer are provided in the 2017 *Comprehensive Annual Financial Report*.

Net Pension Liability: At June 30, 2018, the Authority reported a liability of \$5,832,608 for its proportionate share of the collective net pension liability. The net pension liability was measured as of June 30, 2017. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2016, and update procedures were used to roll forward the total pension liability to June 30, 2017. 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, 2017, the Authority's proportion was 0.07351%, which was a decrease of .00507 from its proportion measured as of June 30, 2016, which was 0.07858%.

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	12/31/2016
Inflation	3%
Salary Increases*	3.50% - 8.10%
Investment Rate of Return**	7.20%

* Salary increases include 3.5% inflation and productivity factor.

** Investment rate of return includes inflation assumption and is net of pension plan investment expense.

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 mortality rates also contain a provision to reflect future mortality improvements.

The actuarial assumptions used in the December 31, 2016 valuations were based on the results of an actuarial experience review for the period January 1, 2010 through December 31, 2014.

Future ad hoc Cost of Living Adjustment 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, 2017 (the valuation date) are summarized in the following table:

<u>Asset Class</u>	<u>Long-Term Expected Real Rate of Return</u>
Fixed Income	1.4%
Global Equity	5.3%
Real Estate	4.3%
Alternatives	8.9%
Opportunistic Fixed Income	6.0%
Inflation Sensitive	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. The long-term expected real rate of return for the Bond Index Investment Pool as of June 30, 2017 is 1.3%.

Discount Rate: The discount rate used to measure the total pension liability was lowered from 7.25% to 7.20% for the December 31, 2016 valuation. The discount rate is in line with the long-term nominal expected return on pension plan investments. The calculation of the net pension liability is a present value calculation of the future net pension payments. These net pension payments assume that contributions from plan members will be made at the current statutory contribution rate and that contributions from employers will be made at the contractually 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, 2017 calculated using the discount rate of 7.20%, as well as what the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower (6.20%) or 1-percentage point higher (8.20%) than the current rate:

<u>Net Pension Liability</u>		
<u>1% Decrease (6.20%)</u>	<u>Current Discount Rate (7.20%)</u>	<u>1% Increase (8.20%)</u>
\$ 12,005,921	\$ 5,832,608	\$ 660,158

Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions: For the year ended June 30, 2018, the Authority recognized pension expense of \$1,575,954. At June 30, 2018, 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	\$ 126,440	\$ 190,815
Changes of Assumptions	921,464	
Net Difference Between Projected and Actual Earnings on Plan Investments	789,350	
Change in Proportion and Differences Between Employer's Contributions and Proportionate Share of Contributions	23,698	64,487
Contributions Subsequent to the Measurement Date	1,356,638	
Total	\$ 3,217,590	\$ 255,302

The amount of \$1,356,638 reported as deferred outflows of resources related to contributions subsequent to the measurement date will be included as a reduction of the net pension liability in the fiscal year ended June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as 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:

<u>Year Ended June 30:</u>	<u>Amount</u>
2019	\$ 318,940
2020	1,085,828
2021	516,789
2022	(315,907)
Total	\$ 1,605,650

NOTE 13 - OTHER POSTEMPLOYMENT BENEFITS

The Authority participates in two postemployment benefit plans, the Retiree Health Benefit Fund and the Disability Income Plan of North Carolina, that are administered by the State of North Carolina as pension and other employee benefit trust funds. Each plan's financial information, including all information about the plans' 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 2017 *Comprehensive Annual Financial Report*. An electronic version of this report is available on the North Carolina Office of the State Controller's website at <https://www.osc.nc.gov/> or by calling the State Controller's Financial Reporting Section at (919) 707-0500.

A. Summary of Significant Accounting Policies and Plan Asset Matters

Basis of Accounting: The financial statements of these plans were prepared using the accrual basis of accounting. Employer contributions are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits are recognized when due and payable in accordance with the terms of each plan. The fiduciary net position of each plan was determined using the same basis as the other postemployment benefit (OPEB) plans.

Methods Used to Value Plan Investments: Pursuant to North Carolina General Statutes, the State Treasurer is the custodian and administrator of the other postemployment benefits funds. The State Treasurer maintains various investment portfolios in its External Investment Pool. The Retiree Health Benefit Fund participates in the External Investment Pool. The Disability Income Plan of North Carolina is invested in the Short-Term Investment Portfolio of the External Investment Pool and the Bond Index External Investment Pool. The investment balance of each other employee benefit 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 2017 *Comprehensive Annual Financial Report*.

B. Plan Descriptions**1. Health Benefits**

Plan Administration: The State of North Carolina administers the North Carolina State Health Plan for Teachers and State Employees, referred to as the State Health Plan (the Plan), a healthcare plan exclusively for the benefit of employees of the State, the University of North Carolina System, community colleges, and certain other component units. In addition, Local Education Agencies (LEAs), charter schools, and some select local governments that are not part of the State's financial reporting entity also participate. Health benefit programs and premium rates are determined by the State Treasurer upon approval of the Plan Board of Trustees.

The Retiree Health Benefit Fund (RHBF) has been established as a fund to provide health benefits to retired and disabled employees and their applicable beneficiaries. RHBF is established by General Statute 135-7, Article 1. RHBF is a cost-sharing, multiple-employer, defined benefit healthcare plan, exclusively for the benefit of eligible former employees of the State, the University of North Carolina System, and community colleges. In addition, LEAs, charter schools, and some select local governments that are not part of the State's financial reporting entity also participate.

By statute, RHBF is administered by the Board of Trustees of the Teachers' and State Employees' Retirement System (TSERS). RHBF is supported by a percent of payroll contribution from participating employing units. Each year the percentage is set in legislation, as are the maximum per retiree contributions from RHBF to the Plan. The State Treasurer, with the approval of the Plan Board of Trustees, then sets the employer contributions (subject to the legislative cap) and the premiums to be paid by retirees, as well as the health benefits to be provided through the Plan.

Benefits Provided: Plan benefits received by retired employees and disabled employees from RHBF are OPEB. The healthcare benefits for retired and disabled employees who are not eligible for Medicare are the same as for active employees as described in Note 14. The plan options change when former employees become eligible for Medicare. Medicare retirees have the option of selecting one of two fully-insured Medicare Advantage/Prescription Drug Plan options or the self-funded Traditional 70/30 Preferred Provider Organization plan option that is also offered to non-Medicare members. If the Traditional 70/30 Plan is selected by a Medicare retiree, the self-funded State Health Plan coverage is secondary to Medicare.

Those former employees who are eligible to receive medical benefits from RHBF are long-term disability beneficiaries of the Disability Income Plan of North Carolina and retirees of TSERS, the Consolidated Judicial Retirement System, the Legislative Retirement System, the University Employees' Optional Retirement Program (ORP), and a small number of local governments, with five or more years of contributory membership service in their retirement system prior to disability or retirement, with the following exceptions: for employees first hired on or after October 1, 2006, and members of the General Assembly first taking office on or after February 1, 2007, future coverage as retired employees and retired members of the General Assembly is subject to the requirement that the future retiree have 20 or more years of retirement service credit in order to receive coverage on a noncontributory basis. Employees first hired on or after October 1, 2006 and members of the General Assembly first taking office on or after February 1, 2007 with 10 but less than 20 years of retirement service credit are eligible for coverage on a partially contributory basis. For such future retirees, the State will pay 50% of the State Health Plan's total noncontributory premium.

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

Contributions: Contribution rates to RHBF, which are intended to finance benefits and administrative expenses on a pay-as-you-go basis, are determined by the General Assembly in the Appropriations Bill. The Authority's contractually-required contribution rate for the year ended June 30, 2018 was 6.05% of covered payroll. The Authority's contributions to the RHBF were \$761,378 for the year ended June 30, 2018.

2. Disability Income

Plan Administration: As discussed in Note 14, short-term and long-term disability benefits are provided through the Disability Income Plan of North Carolina (DIPNC), a cost-sharing, multiple-employer, defined benefit plan, to the eligible members of TSERS which includes employees of the State, the University of North Carolina System, community colleges, certain participating component units, LEAs which are not part of the reporting entity, and the University Employees' ORP. By statute, DIPNC is administered by the Department of State Treasurer and the Board of Trustees of TSERS.

Benefits Provided: Long-term disability benefits are payable as an OPEB from DIPNC after the conclusion of the short-term disability period or after salary continuation payments cease, whichever is later, for as long as an employee is disabled. An employee is eligible to receive long-term disability benefits provided the following requirements are met: (1) the employee has five or more years of contributing membership service in TSERS earned within 96 months prior to the end of the short-term disability period or cessation of salary continuation payments, whichever is later; (2) the employee must make application to receive long-term benefits within 180 days after the conclusion of the short-term disability period or after salary continuation payments cease or after monthly payments for Workers' Compensation cease (excluding monthly payments for permanent partial benefits), whichever is later; (3) the employee must be certified by the Medical Board to be mentally or physically disabled for the further performance of his/her usual occupation; (4) the disability must have been continuous, likely to be permanent, and incurred at the time of active employment; (5) the employee must not be eligible to receive an unreduced retirement benefit from TSERS; and (6) the employee must terminate employment as a permanent, full-time employee. An employee is eligible to receive an unreduced retirement benefit from TSERS after (1) reaching the age of 65 and completing five years of membership service, or (2) reaching the age of 60 and completing 25 years of creditable service, or (3) completing 30 years of creditable service, at any age.

For employees who had five or more years of membership service as of July 31, 2007, during the first 36 months of the long-term disability period, the monthly long-term disability benefit is equal to 65% of one-twelfth of an employee's annual base rate of compensation last payable to the participant or beneficiary prior to the beginning of the short-term disability period, plus the like percentage of one-twelfth of the annual longevity payment and local supplements to which the participant or beneficiary would be eligible. The monthly benefits are subject to a maximum of \$3,900 per month reduced by any primary Social Security disability benefits and by monthly payments for Workers' Compensation to which the participant or beneficiary may be entitled, but the benefits payable shall be no less than \$10 a month. After the first 36 months of the long-term disability, the long-term benefit is calculated in the same manner as described above except the monthly benefit is reduced by an amount equal to a monthly primary Social Security disability benefit to which the participant or beneficiary might be entitled had Social Security disability benefits been awarded. When an employee qualifies for an unreduced service retirement allowance from TSERS, the benefits payable from DIPNC will cease, and the employee will commence retirement under TSERS.

For employees who had less than five years of membership service as of July 31, 2007, and meet the requirements for long-term disability on or after August 1, 2007, during the first 36 months of the long-term disability period, the monthly long-term benefit shall be reduced by an amount equal to the monthly primary Social Security retirement benefit to which the employee might be entitled should the employee become age 62 during the first 36 months. This reduction becomes effective as of the first day of the month following the month of initial entitlement to Social Security benefits. After the first 36 months of the long-term disability, no further benefits are payable under the terms of this section unless the employee has been approved and is in receipt of primary Social Security disability benefits.

Contributions: Although DIPNC operates on a calendar year, disability income benefits are funded by actuarially determined employer contributions that are established in the Appropriations Bill by the General Assembly and coincide with the State's fiscal year. The Authority's contractually-required contribution rate for the year ended June 30, 2018 was 0.14% of covered payroll. The Authority's contributions to DIPNC were \$17,619 for the year ended June 30, 2018.

C. Net OPEB Liability (Asset)

Net OPEB Liability: At June 30, 2018, the Authority reported a liability of \$20,123,893 for its proportionate share of the collective net OPEB liability for RHBF. The net OPEB liability was measured as of June 30, 2017. The total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of December 31, 2016, and update procedures were used to roll forward the total OPEB liability to

June 30, 2017. The Authority's proportion of the net OPEB 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, 2017, the Authority's proportion was 0.06138%, which was an increase of 0.00079 from its proportion measured as of June 30, 2016, which was 0.06059%.

Net OPEB Asset: At June 30, 2018, the Authority reported an asset of \$38,878 for its proportionate share of the collective net OPEB asset for DIPNC. The net OPEB asset was measured as of June 30, 2017. The total OPEB asset used to calculate the net OPEB asset was determined by an actuarial valuation as of December 31, 2016, and update procedures were used to roll forward the total OPEB asset to June 30, 2017. The Authority's proportion of the net OPEB asset 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, 2017, the Authority's proportion was 0.06361%, which was an decrease of 0.00511 from its proportion measured as of June 30, 2016, which was 0.06872%.

Actuarial Assumptions: The total OPEB liabilities (assets) for RHBF and DIPNC were determined by actuarial valuations as of December 31, 2016, using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified. The total OPEB liabilities (assets) were then rolled forward to June 30, 2017 utilizing update procedures incorporating the actuarial assumptions.

	Retiree Health Benefit Fund	Disability Income Plan of N.C.
Valuation Date	12/31/2016	12/31/2016
Inflation	2.75%	3.00%
Salary Increases*	3.50% - 8.10%	3.50% - 8.10%
Investment Rate of Return**	7.20%	3.75%
Healthcare Cost Trend Rate - Medical	5.00% - 6.50%	N/A
Healthcare Cost Trend Rate - Prescription Drug	5.00% - 7.25%	N/A
Healthcare Cost Trend Rate - Medicare Advantage	4.00% - 5.00%	N/A
Healthcare Cost Trend Rate - Administrative	3.00%	N/A

* Salary increases include 3.5% inflation and productivity factor.

** Investment rate of return is net of pension plan investment expense, including inflation.

N/A - Not Applicable

The OPEB plans currently use 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 studies that cover significant portions of the U.S. population. The healthy mortality rates also contain a provision to reflect future mortality improvements.

The projected long-term investment returns and inflation assumptions are developed through a 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 projects 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. DIPNC is primarily invested in the Bond Index Investment Pool as of June 30, 2017.

Best estimates of real rates of return for each major asset class included in RHBF's target asset allocation as of June 30, 2017 (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%
Opportunistic Fixed Income	6.0%
Inflation Sensitive	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. The long-term expected real rate of return for the Bond Index Investment Pool as of June 30, 2017 (the valuation date) was 1.3%.

Actuarial valuations of the plans involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future.

The actuarial assumptions used for RHBF are consistent with those used to value the pension benefits of TSERS where appropriate. These

assumptions are based on the most recent pension valuations available. The discount rate used for RHBF reflects a pay-as-you-go approach.

Projections of benefits for financial reporting purposes of the plans are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and historical pattern of sharing of benefit costs between the employer and plan members to that point. Historically, the benefits funded solely by employer contributions applied equally to all retirees. Currently, as described earlier in the note, benefits are dependent on membership requirements.

The actuarial methods and assumptions used for DIPNC include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

The actuarial assumptions used in the December 31, 2016 valuations were based on the results of an actuarial experience study prepared as of December 31, 2014.

Discount Rate: The discount rate used to measure the total OPEB liability for RHBF was 3.58%. The projection of cash flows used to determine the discount rate assumed that contributions from employers will be made at the current statutorily determined contribution rate. Based on the above assumptions, the plan's fiduciary net position was not projected to be available to make projected future benefit payments of current plan members. As a result, a municipal bond rate of 3.58% was used as the discount rate used to measure the total OPEB liability. The 3.58% rate is based on the Bond Buyer 20-year General Obligation Index as of June 30, 2017.

The discount rate used to measure the total OPEB asset for DIPNC was 3.75%. 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 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 plan investments was applied to all periods of projected benefit payments to determine the total OPEB asset.

Sensitivity of the Net OPEB Liability (Asset) to Changes in the Discount Rate: The following presents the Authority's proportionate share of the net OPEB liability (asset) of the plans, as well as what the plans' net OPEB liability (asset) would be if it were calculated using a discount rate that is 1-percentage point lower or 1-percentage point higher than the current discount rate:

Net OPEB Liability (Asset)					
	1% Decrease (2.58%)		Current Discount Rate (3.58%)		1% Increase (4.58%)
RHBF	\$ 24,007,289	\$	20,123,893	\$	17,044,772
	1% Decrease (2.75%)		Current Discount Rate (3.75%)		1% Increase (4.75%)
DIPNC	\$ (33,052)	\$	(38,878)	\$	(44,718)

Sensitivity of the Net OPEB Liability (Asset) to Changes in the Healthcare Cost Trend Rates: The following presents the net OPEB liability (asset) of the plans, as well as what the plans' net OPEB liability (asset) would be if it were calculated using healthcare cost trend rates that are 1-percentage-point lower or 1-percentage-point higher than the current healthcare cost trend rates:

	1% Decrease (Medical - 4.00 - 5.50%, Pharmacy - 4.00 - 6.25%, Med. Advantage - 3.00 - 4.00%, Administrative - 2.00%)	Current Healthcare Cost Trend Rates (Medical - 5.00 - 6.50%, Pharmacy - 5.00 - 7.25%, Med. Advantage - 4.00 - 5.00%, Administrative - 3.00%)	1% Increase (Medical - 6.00 - 7.50%, Pharmacy - 6.00 - 8.25%, Med. Advantage - 5.00 - 6.00%, Administrative - 4.00%)
RHBF Net OPEB Liability	\$ 16,439,806	\$ 20,123,893	\$ 25,021,766
DIPNC Net OPEB Asset	N/A	N/A	N/A

Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB: For the year ended June 30, 2018, the Authority recognized OPEB expense of \$1,078,573 for RHB and \$23,516 for DIPNC. At June 30, 2018, the Authority reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

Employer Balances of Deferred Outflows of Resources Related to OPEB by Classification:			
	RHBF	DIPNC	Total
Differences Between Actual and Expected Experience	\$ 0	\$ 10,660	\$ 10,660
Changes of Assumptions			
Net Difference Between Projected and Actual Earnings on Plan Investments		8,522	8,522
Changes in Proportion and Differences Between Employer's Contributions and Proportionate Share of Contributions	404,300	8,579	412,879
Contributions Subsequent to the Measurement Date	761,378	17,619	778,997
Total	\$ 1,165,678	\$ 45,380	\$ 1,211,058

**Employer Balances of Deferred Inflows of Resources
Related to OPEB by Classification:**

	<u>RHBF</u>	<u>DIPNC</u>	<u>Total</u>
Differences Between Actual and Expected Experience	\$ 1,442,920	\$ 0	\$ 1,442,920
Changes of Assumptions	5,542,028		5,542,028
Net Difference Between Projected and Actual Earnings on Plan Investments	7,479		7,479
Changes in Proportion and Differences Between Employer's Contributions and Proportionate Share of Contributions			0
Total	<u>\$ 6,992,427</u>	<u>\$ 0</u>	<u>\$ 6,992,427</u>

Amounts reported as deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability related to RHBF and an increase of the net OPEB asset related to DIPNC in the fiscal year ended June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB 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 OPEB Expense:

<u>Year Ended June 30:</u>	<u>RHBF</u>	<u>DIPNC</u>
2019	\$ (1,317,999)	\$ 8,545
2020	(1,317,999)	8,545
2021	(1,317,999)	8,543
2022	(1,317,999)	2,128
2023	(1,316,131)	
Total	<u>\$ (6,588,127)</u>	<u>\$ 27,761</u>

NOTE 14 - 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.

Employee Benefit Plans

1. State Health Plan

Authority employees 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 contributions. The Plan has contracted with third parties to process claims. See Note 13, Other Postemployment Benefits, for additional information regarding retiree health benefits.

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 0.16% for the current fiscal year.

3. Disability Income Plan

Short-term and long-term disability benefits are provided to Authority employees through the Disability Income Plan of North Carolina (DIPNC), part of the State's Pension and Other Employee Benefit Trust Funds. Short-Term benefits are paid by the Authority up to the first six months of benefits and reimbursed by DIPNC for any additional short-term benefits. As discussed in Note 13, long-term disability benefits are payable as other postemployment benefits from DIPNC after the conclusion of the short-term disability period or after salary continuation payments cease, whichever is later, for as long as an employee is disabled.

A. 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 15 - COMMITMENTS

- A. Commitments** - The Authority has established an encumbrance system to track its outstanding commitments on construction projects. Outstanding commitments on construction contracts were \$44,110,796 at June 30, 2018.
- 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 16 - CHANGES IN FINANCIAL ACCOUNTING AND REPORTING

For the fiscal year ended June 30, 2018, the Authority implemented the following pronouncements issued by the Governmental Accounting Standards Board (GASB):

GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*

GASB Statement No. 85, Omnibus 2017

GASB Statement No. 75 improves accounting and financial reporting requirements by state and local governments for postemployment benefits other than pensions (OPEB). It also improves information provided by state and local governmental employers about financial support for OPEB that is provided by other entities. This Statement replaces the requirements of Statements No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, for OPEB. In addition, this Statement details the recognition and disclosure requirements for employers with payables to defined benefit OPEB plans that are administered through trusts that meet the specified criteria and for employers whose employees are provided with defined contribution OPEB.

GASB Statement No. 85 addresses practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and OPEB).

NOTE 17 - NET POSITION RESTATEMENT

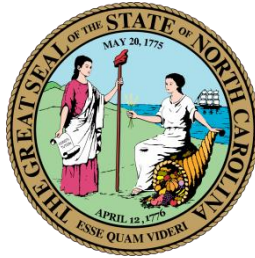
As of July 1, 2017, net position as previously reported was restated as follows:

	Amount
July 1, 2017 Net Position as Previously Reported	\$ 279,793,466
Restatement:	
Record the Authority's Net OPEB Asset and Liability and OPEB Related Deferred Outflows and Inflows of Resources Per GASB 75 Requirements.	<u>(25,543,292)</u>
July 1, 2017 Net Position as Restated	<u>\$ 254,250,174</u>

NOTE 18 - SUBSEQUENT EVENT

On September 14, 2018, the Authority suffered from the effects of Hurricane Florence, a weakened Category 1 hurricane that produced record-breaking freshwater flooding inland, as well as significant wind damage and widespread power outages throughout the State of North Carolina. Both terminals in Wilmington and Morehead City were closed for more than one week to commercial traffic as a result, but it is expected that some cargo losses may be recoverable throughout the remainder of fiscal year 2019.

The Authority suffered significant damage to warehouses, buildings, and other equipment, particularly roof and metal wall damage. The Authority's property and equipment is covered for all risk losses by the State Property Fire Insurance Fund as described in Note 14. Current estimates to repair this damage are in excess of \$8 million, but are only subject to the disclosed deductibles.



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 Five Fiscal Years

Exhibit B-1

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
Proportionate Share Percentage of Collective Net Pension Liability	0.07351%	0.07858%	0.08158%	0.08220%	0.08138%
Proportionate Share of TSERS Collective Net Pension Liability	\$ 5,832,608	\$ 7,222,314	\$ 3,006,491	\$ 963,753	\$ 4,940,641
Covered Payroll	\$ 12,494,622	\$ 12,323,603	\$ 12,170,751	\$ 11,773,267	\$ 12,205,518
Net Pension Liability as a Percentage of Covered Payroll	46.68%	58.61%	24.70%	8.19%	40.48%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	89.51%	87.32%	94.64%	98.24%	90.60%

Note: Information is presented for all years that were measured in accordance with the requirements of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions - An Amendment of GASB Statement No. 27*, as amended.

**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

	2018	2017	2016	2015	2014
Contractually Required Contribution	\$ 1,356,638	\$ 1,246,963	\$ 1,127,510	\$ 1,113,624	\$ 1,023,097
Contributions in Relation to the Contractually Determined Contribution	<u>1,356,638</u>	<u>1,246,963</u>	<u>1,127,510</u>	<u>1,113,624</u>	<u>1,023,097</u>
Contribution Deficiency (Excess)	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>
Covered Payroll	\$ 12,584,767	\$ 12,494,622	\$ 12,323,603	\$ 12,170,751	\$ 11,773,267
Contributions as a Percentage of Covered Payroll	10.78%	9.98%	9.15%	9.15%	8.69%

	2013	2012	2011	2010	2009
Contractually Required Contribution	\$ 1,016,720	\$ 952,502	\$ 630,554	\$ 456,391	\$ 455,651
Contributions in Relation to the Contractually Determined Contribution	<u>1,016,720</u>	<u>952,502</u>	<u>630,554</u>	<u>456,391</u>	<u>455,651</u>
Contribution Deficiency (Excess)	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>
Covered Payroll	\$ 12,205,518	\$ 12,802,452	\$ 12,790,136	\$ 12,784,066	\$ 13,561,043
Contributions as a Percentage of Covered Payroll	8.33%	7.44%	4.93%	3.57%	3.36%

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:

<u>Cost of Living Increase</u>									
<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>
N/A	N/A	N/A	1.00%	N/A	N/A	N/A	2.20%	2.20%	3.00%

Changes of assumptions. In 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. The discount rate for Teachers' and State Employees' Retirement System was lowered from 7.25% to 7.20% for the December 31, 2016 valuation.

The Board of Trustees also adopted a new asset valuation method for the Teachers' and State Employees' Retirement System. For determining plan funding requirements, these plans now use a five-year smoothing method with a reset of the actuarial value of assets to market value as of December 31, 2014.

The Notes to Required Supplementary Information reflect the most recent available information included in the State of North Carolina's 2017 *Comprehensive Annual Financial Report*.

North Carolina State Ports Authority
Required Supplementary Information
Schedule of the Proportionate Net OPEB Liability (Asset)
Cost-Sharing, Multiple-Employer, Defined Benefit OPEB Plans
Last Two Fiscal Years

Exhibit B-3

	<u>2017</u>	<u>2016</u>
Retiree Health Benefit Fund		
Proportionate Share Percentage of Collective Net OPEB Liability (Asset)	0.06138%	0.06059%
Proportionate Share of Collective Net OPEB Liability (Asset)	\$ 20,123,893	\$ 26,358,709
Covered Payroll	\$ 12,494,622	\$ 12,323,603
Net OPEB Liability as a Percentage of Covered Payroll	161.06%	213.89%
Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability (Asset)	3.52%	2.41%
Disability Income Plan of North Carolina		
Proportionate Share Percentage of Collective Net OPEB Liability (Asset)	0.06361%	0.06872%
Proportionate Share of Collective Net OPEB Liability (Asset)	\$ (38,878)	\$ (42,675)
Covered Payroll	\$ 12,494,622	\$ 12,323,603
Net OPEB Liability (Asset) as a Percentage of Covered Payroll	-0.31%	-0.35%
Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability (Asset)	116.23%	116.06%

Note: Information is presented for all years that were measured in accordance with the requirements of GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*.

North Carolina State Ports Authority
Required Supplementary Information
Schedule of Authority Contributions
Cost-Sharing, Multiple-Employer, Defined Benefit OPEB Plans
Last Ten Fiscal Years

Exhibit B-4

	2018	2017	2016	2015	2014
Retiree Health Benefit Fund					
Contractually Required Contribution	\$ 761,378	\$ 725,938	\$ 690,122	\$ 668,174	\$ 635,756
Contributions in Relation to the Contractually Determined Contribution	761,378	725,938	690,122	668,174	635,756
Contribution Deficiency (Excess)	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>
Covered Payroll	\$ 12,584,767	\$ 12,494,622	\$ 12,323,603	\$ 12,170,751	\$ 11,773,267
Contributions as a Percentage of Covered Payroll	6.05%	5.81%	5.60%	5.49%	5.40%
	2013	2012	2011	2010	2009
Contractually Required Contribution	\$ 646,892	\$ 640,123	\$ 626,717	\$ 575,283	\$ 556,003
Contributions in Relation to the Contractually Determined Contribution	646,892	640,123	626,717	575,283	556,003
Contribution Deficiency (Excess)	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>
Covered Payroll	\$ 12,205,518	\$ 12,802,452	\$ 12,790,136	\$ 12,784,066	\$ 13,561,043
Contributions as a Percentage of Covered Payroll	5.30%	5.00%	4.90%	4.50%	4.10%
	2018	2017	2016	2015	2014
Disability Income Plan of North Carolina					
Contractually Required Contribution	\$ 17,619	\$ 47,480	\$ 50,527	\$ 49,900	\$ 51,802
Contributions in Relation to the Contractually Determined Contribution	17,619	47,480	50,527	49,900	51,802
Contribution Deficiency (Excess)	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>
Covered Payroll	\$ 12,584,767	\$ 12,494,622	\$ 12,323,603	\$ 12,170,751	\$ 11,773,267
Contributions as a Percentage of Covered Payroll	0.14%	0.38%	0.41%	0.41%	0.44%
	2013	2012	2011	2010	2009
Contractually Required Contribution	\$ 53,704	\$ 66,573	\$ 66,509	\$ 66,477	\$ 70,517
Contributions in Relation to the Contractually Determined Contribution	53,704	66,573	66,509	66,477	70,517
Contribution Deficiency (Excess)	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>
Covered Payroll	\$ 12,205,518	\$ 12,802,452	\$ 12,790,136	\$ 12,784,066	\$ 13,561,043
Contributions as a Percentage of Covered Payroll	0.44%	0.52%	0.52%	0.52%	0.52%

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

North Carolina State Ports Authority
Notes to Required Supplementary Information
Schedule of Authority Contributions
Cost-Sharing, Multiple-Employer, Defined Benefit OPEB Plans
Last Ten Fiscal Years

Changes of Benefit Terms: Effective January 1, 2016, benefit terms related to copays, out-of-pocket maximums, and deductibles were changed for three of four options of the Retiree Health Benefit Fund. Most of the changes were an increase in the amount from the previous year.

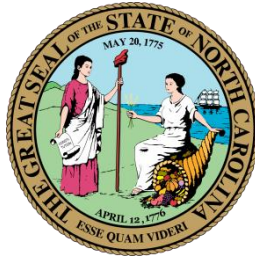
Effective January 1, 2017, benefit terms related to copays, coinsurance maximums, out-of-pocket maximums, and deductibles were changed for two of four options of the Retiree Health Benefit Fund. Most of the changes were an increase in the amount from the previous year.

Method and Assumptions Used in Calculations of Actuarially Determined Contributions: An actuarial valuation is performed for each plan each year. The actuarially determined contribution rates in the Schedule of Employer Contributions are calculated by the actuary as a projection of the required employer contribution for the fiscal year beginning six months following the date of the valuation results for the Retiree Health Benefit Fund. The actuarially determined contribution rates in the Schedule of Employer Contributions are calculated by the actuary as a projection of the required employer contribution for the fiscal year beginning 18 months following the date of the valuation results for the Disability Income Plan of North Carolina. See Note 13 for more information on the specific assumptions for each plan. The actuarially determined contributions for those items with covered payroll were determined using the actuarially determined contribution rate from the actuary and covered payroll as adjusted for timing differences and other factors such as differences in employee class. Other actuarially determined contributions are disclosed in the schedule as expressed by the actuary in reports to the plans.

Changes of assumptions: In 2015, the North Carolina Retirement Systems' consulting actuaries performed the quinquennial investigation of each retirement system's 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 Boards of Trustees of the Teachers' and State Employees' Retirement System and the State Health Plan adopted a number of new actuarial assumptions and methods for the Retiree Health Benefit Fund and the Disability Income Plan of North Carolina. 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 and rates of termination from active employment were reduced to more closely reflect actual experience.

In 2017, the medical and prescription health trend rates used in the December 31, 2016 actuarial valuation of the Retiree Health Benefit Fund were reduced based upon the plan's most recent experience.

The Notes to Required Supplementary Information reflect the most recent available information included in the State of North Carolina's 2017 *Comprehensive Annual Financial Report*.



INDEPENDENT AUDITOR'S REPORT

STATE OF NORTH CAROLINA
Office of the State Auditor



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 AUDITING 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, 2018, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated October 24, 2018.

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 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

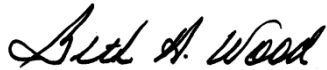
did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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, CPA
State Auditor

Raleigh, North Carolina

October 24, 2018

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This audit required 466 hours at an approximate cost of \$47,998.