STATE OF NORTH CAROLINA

OFFICE OF THE STATE AUDITOR

BETH A. WOOD, CPA

NORTH CAROLINA GLOBAL TRANSPARK AUTHORITY

KINSTON, NORTH CAROLINA

FINANCIAL STATEMENT AUDIT REPORT

FOR THE YEAR ENDED JUNE 30, 2018

A COMPONENT UNIT OF THE STATE OF NORTH CAROLINA

NCOSA

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STATE OF NORTH CAROLINA
Office of the State Auditor

Beth A. Wood, CPA
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AUDITOR'S TRANSMITTAL

The Honorable Roy Cooper, Governor
The General Assembly of North Carolina
Board of Directors, North Carolina Global TransPark Authority

We have completed a financial statement audit of the North Carolina Global TransPark Authority for the year ended June 30, 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.

Our consideration of internal control over financial reporting and compliance and other matters based on an audit of the financial statements disclosed certain deficiencies that are detailed in the Findings, Recommendations, and Responses section of this report. The Authority's response is included following each finding.

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

Beth A. Wood, CPA
State Auditor

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

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INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the North Carolina Global TransPark Authority (Authority), a component unit of the State of North Carolina, and its discretely presented component unit, as of and for the year ended June 30, 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 opinions on these financial statements based on our audit. We did not audit the financial statements of the Global TransPark Foundation, Inc., the Authority's discretely presented component unit. Those statements were audited by other auditors, whose report has been furnished to us, and our opinions, insofar as they relate to the amounts included for the Global TransPark Foundation, Inc., are based solely on the report of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. The financial statements of the Global TransPark Foundation, Inc. were not audited in accordance with *Government Auditing Standards*.

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

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

<u>Opinions</u>

In our opinion, based on our audit and the report of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the North Carolina Global TransPark Authority, and its discretely presented component unit, as of June 30, 2018, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

<u>Emphasis of Matter</u>

As discussed in Note 14 to the financial statements, during the year ended June 30, 2018, the 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.

<u>Other Matters – Required Supplementary Information</u>

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.

<u>Other Reporting Required by *Government Auditing Standards*</u>

In accordance with *Government Auditing Standards*, we have also issued our report dated April 10, 2019 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

April 10, 2019

MANAGEMENT'S DISCUSSION AND ANALYSIS

Overview

Management's Discussion and Analysis (MD&A) provides an overview of the North Carolina Global TransPark Authority's (Authority or Global TransPark) activities during the fiscal year ended June 30, 2018. In addition to Management's Discussion and Analysis, management has prepared the accompanying Statement of Net Position, Statement of Revenues, Expenses, and Changes in Net Position, Statement of Cash Flows, and Notes to the Financial Statements.

Although the Global TransPark Foundation, Inc. (Foundation) is included in the financial statements as a discretely presented component unit to comply with the accounting rules that are generally accepted in the United States of America, the accompanying statements in the overview are of the Authority only. The Foundation's and the Authority's financial information are shown separately. The Foundation organizes and raises funds from private individuals and corporations for the sole purpose of increasing business and jobs at the Authority. Refer to Note 1A to the financial statements for additional information regarding the Foundation.

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

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 State's pension and other postemployment benefits (OPEB) plans.

Financial Highlights and Analysis

The 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 types of governmental reporting fund types, general government and proprietary units. The Authority is classified as a discretely presented component unit and is reported as a non-major component unit in the State's *Comprehensive Annual Financial Report*.

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

Statement of Net Position

As summarized in the following table by major category, a comparison of net position as of June 30, 2018 to that of the prior year yields significant changes.

Condensed Statement of Net Position

	June 30, 2018	(as Restated) June 30, 2017	Change	% Change
Assets:				
Current Assets	$ 3,198,089	$ 2,562,053	$ 636,036	25%
Noncurrent Assets - Other	3,664,817	393,851	3,270,966	831%
Noncurrent Assets - Capital Assets, Net	149,737,530	149,061,360	676,170	1%
Total Assets	156,600,436	152,017,264	4,583,172	3%
Total Deferred Outflows of Resources	195,426	182,851	12,575	7%
Liabilities:				
Other Current Liabilities	3,870,267	747,195	3,123,072	418%
Long-Term Liabilities - Current Portion	264,745	280,787	(16,042)	-6%
Long-Term Liabilities	5,619,994	6,313,458	(693,464)	-11%
Total Liabilities	9,755,006	7,341,440	2,413,566	33%
Total Deferred Inflows of Resources	223,232	59,096	164,136	278%
Net Position:				
Net Investment in Capital Assets	140,888,866	143,015,355	(2,126,489)	-1%
Restrictted	3,638,901	380,585	3,258,316	856%
Unrestricted	2,289,857	1,403,644	886,213	63%
Total Net Position	$ 146,817,624	$ 144,799,584	$ 2,018,040	1%

The Authority's current assets increased by 25% from the prior year due primarily to the increase in state operating aid and a resulting increase in cash. As discussed below there was significant construction activity for runway rehabilitation and lighting projects during the current year, however these increases were largely offset by depreciation expense resulting in only a modest 1% increase in net capital assets. The increase in other noncurrent assets is the result of additional construction reimbursements due from the State as a result of the increase in grant funded construction activity further discussed below.

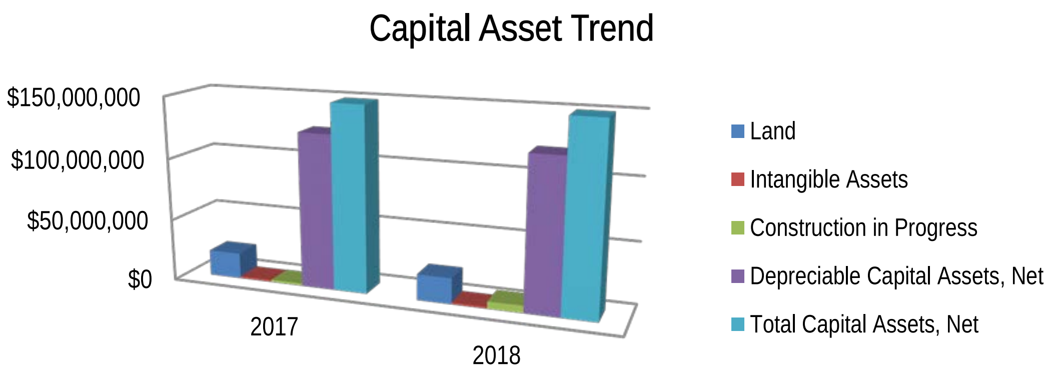
Total liabilities increased by 33% from the prior year due primarily to the construction activity discussed above and a related increase in contracts payable reflected in other current liabilities. The 11% decrease in long-term liabilities represents the effect of principal payments on notes payable, as well as decreases in the Authority's net pension and net OPEB liabilities. The Authority reported a restatement of beginning net position to reflect the implementation of GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions.* The changes in the net pension liability, net OPEB liability, and the related deferred outflows of resources and deferred inflows of resources were the result of changes in actuarial valuations of the State's pension and OPEB plans in which the Authority participates. See Notes 10 and 11 to the financial statements for further information regarding pension and OPEB plans.

Total net position of the Authority remained relatively consistent with the prior year. Net investment in capital assets represents the Authority's equity position, net of related liabilities, with regards to land, facilities, and equipment. The 1% decrease from the prior year represents the net effect of current year asset additions, depreciation expense, and additional construction payables. Restricted net position increased significantly due to the increase in construction reimbursements due from the State as discussed above. Unrestricted net position is available for any lawful purpose of the Authority. Unrestricted net position increased by 63% primarily as a result of the increase in state operating aid.

Capital Assets

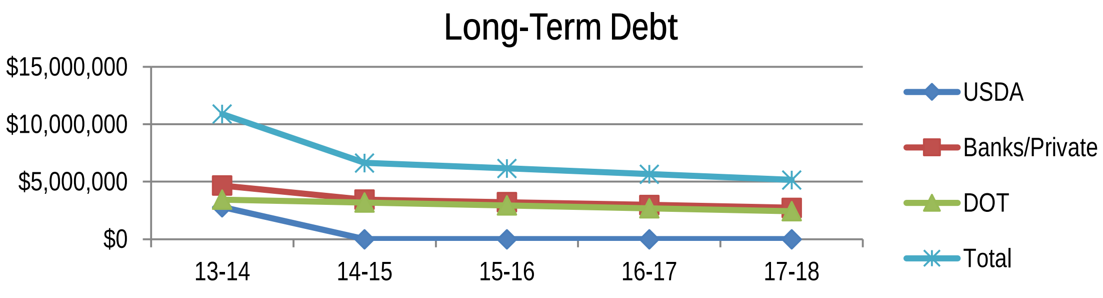
The following graph depicts the trend in capital assets. Total net capital assets include land, intangible assets, construction in progress, and depreciable capital assets net of accumulated depreciation.

Capital activity during the period included $5.9 million in additions to construction in progress related to the grant-funded airfield pavement rehabilitation project. The Authority also completed the airfield lighting and electrical vault project that began in the prior year. Additional improvements to the GTP-7 facility and equipment purchases totaled an additional $229,596. This activity was offset by routine depreciation and write-offs of fully depreciated assets no longer used by the Authority. See Note 5 to the financial statements for additional information on capital assets.



Long-Term Liabilities

Long-term liability activity during the period consisted of planned reductions in notes payable for principal payments, and decreases in the Authority's net pension and net OPEB liabilities due to changes in actuarial valuations. The graph below depicts the makeup of debt at June 30, 2018 as compared to prior years. See Note 7 to the financial statements for additional information regarding long-term liabilities.



Statement of Revenues, Expenses, and Changes in Net Position

Operating revenues were relatively consistent with that of the prior year. The increase in capital contributions was the result of a grant awarded to the Authority from the Division of Aviation for airfield pavement rehabilitation that was not applicable to the prior year. State operating aid increased by 125% as a result of additional amounts provided to the Authority by the State to fund operations. The decrease in noncapital contributions was the result of all current year contributions being capital in nature.

The Authority's total operating expenses increased by 2% as compared to the prior year due to an increase in salaries and benefits. During the period the Authority filled the Executive Director position that was previously vacant and also added a Business Development Specialist position. Other operating expense items remained consistent with the prior year.

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

	June 30, 2018	June 30, 2017*	Change	% Change
Operating Revenues:				
Rental Revenues, Net	$ 1,405,338	$ 1,426,863	$ (21,525)	-2%
Sales and Services	294,209	290,395	3,814	1%
Total Operating Revenues	1,699,547	1,717,258	(17,711)	-1%
Operating Expenses:				
Salaries and Benefits	803,476	595,347	208,129	35%
Supplies and Materials	59,564	95,139	(35,575)	-37%
Services	514,227	530,869	(16,642)	-3%
Utilities	208,854	222,903	(14,049)	-6%
Other	116,012	128,975	(12,963)	-10%
Depreciation	6,300,345	6,246,133	54,212	1%
Total Operating Expenses	8,002,478	7,819,366	183,112	2%
Operating Loss	(6,302,931)	(6,102,108)	(200,823)	3%
Nonoperating Revenues (Expenses):				
State Operating Aid	1,685,000	750,000	935,000	125%
Noncapital Contributions		181,796	(181,796)	-100%
Investment Earnings	19,035	6,870	12,165	177%
Interest and Fees on Debt	(110,053)	(116,879)	6,826	-6%
Net Nonoperating Revenues	1,593,982	821,787	772,195	94%
Other Revenues:				
Capital Contributions	6,726,989	1,760,111	4,966,878	282%
Total Revenues	10,130,571	4,416,035	5,714,536	129%
Total Expenses	(8,112,531)	(7,936,245)	(176,286)	2%
Increase (Decrease) in Net Position	2,018,040	(3,520,210)	5,538,250	157%
Net Position, Beginning of Period	144,799,584	148,953,560	(4,153,976)	
Less: Restatement		(633,766)		
Net Position, End of Period	$ 146,817,624	$ 144,799,584	$ 2,018,040	

**Note: The year ended June 30, 2017 column is not presented as restated in regards to GASB 75 because actuarial calcuations performed do not provide sufficient information to restate.*

Economic Outlook

The Authority continues to achieve its potential as the regional economic driver. Given the mission to enhance the economic well-being of North Carolinians, the Authority continues to bring high-impact jobs and investment to eastern North Carolina by sustaining and expanding existing tenants, recruiting new industries, and strategically collaborating with partners to ensure the availability of a skilled workforce.

The average annual salary of $54,301 for private sector jobs at the Authority represents a 33% increase over the previous fiscal year, and this average was 29% higher than the average annual private sector salary for Lenoir County. Compared to the $1,685,000 in state operating aid the Authority received in fiscal year 2018, the total payroll for private sector companies at the Global TransPark was more than $42.5 million.

The Authority is enabling and embracing its opportunities by reducing its deferred facility maintenance, tightening its focus on targeted industries and clusters, optimizing its current facilities and developable land, and forming partnerships for workforce development and marketing.

The Authority was recently tasked by the North Carolina General Assembly to establish and implement a strategic plan and report on the actionable items. That plan includes specific strategies for success related to:

- Document and permit reviews
- Multiple stakeholder workshops
- Industry cluster analysis
- Regional economic data
- Current land use and operations
- Industry stakeholder outreach
- Site selection research/updates
- Supply chain evaluation and analysis
- Transportation asset review

The Authority has contracted with external parties to assist with increasing business attraction and marketing, including a redesign of the Authority's website. Through this contract the Authority has engaged in direct communication with industry site selectors, industry leaders, and key decision makers to identify and secure the needed resources for industry retention and recruitment.

The Authority has also continued to implement its existing initiatives and projects including:

- Working in partnership with Carolina Gateway to implement the Carolina Connector intermodal terminal (CCX) for CSX Corporation and connection to the Global TransPark.
- Extension of Harvey Parkway to Highway 11. Developing north/south limited-access highway connectivity has been approved, funded, and is under construction.

On December 19, 2018, the Authority entered into a long-term lease agreement with a new tenant, Jetstream Aviation, LLC, which requires the construction of new facilities at the Global TransPark. Construction of these new facilities is expected to begin in 2019 and will be funded by a combination of private capital, governmental grants, contributions from the Foundation, and $4.5 million in capital financing provided by the Authority.

The creation of these new electrostatic painting facilities is expected to greatly enhance the attractiveness of the Authority as a full-service aerospace cluster and create the critical mass necessary for extended growth opportunities to attract multiple companies in this sector to the Global TransPark. In addition to the rental revenues generated through this agreement, preliminary projections indicate it will result in the creation of 156 new jobs with an estimated annual salary of $60,000.

Contacting the Authority's Management

If you have questions about these financial statements, the strategic plan, or need additional information, contact the Authority's Executive Director, 3800 Highway 58 North, Kinston, NC 28504, or at (252) 523-1351 extension 309.

Financial Statements

North Carolina Global TransPark Authority
Statement of Net Position — *Exhibit A-1*
June 30, 2018 — *Page 1 of 2*

ASSETS		
Current Assets:		
Cash and Cash Equivalents	$	3,107,310
Receivables, Net (Note 4)		90,664
Prepaid Items		115
Total Current Assets		3,198,089
Noncurrent Assets:		
Restricted Cash and Cash Equivalents		28,000
Restricted Due from Primary Government		3,635,821
Net Other Postemployment Benefits Asset		996
Capital Assets - Nondepreciable (Note 5)		28,462,954
Capital Assets - Depreciable, Net (Note 5)		121,274,576
Total Noncurrent Assets		153,402,347
Total Assets		156,600,436
DEFERRED OUTFLOWS OF RESOURCES		
Deferred Outflows Related to Pensions		118,896
Deferred Outflows Related to Other Postemployment Benefits (Note 11)		76,530
Total Deferred Outflows of Resources		195,426
LIABILITIES		
Current Liabilities:		
Accounts Payable and Accrued Liabilities (Note 6)		3,719,195
Due to Primary Government		33,830
Funds Held for Others		28,000
Unearned Revenue		89,242
Long-Term Liabilities - Current Portion (Note 7)		264,745
Total Current Liabilities		4,135,012
Noncurrent Liabilities:		
Long-Term Liabilities (Note 7)		5,619,994
Total Liabilities		9,755,006
DEFERRED INFLOWS OF RESOURCES		
Deferred Inflows Related to Pensions		41,298
Deferred Inflows Related to Other Postemployment Benefits (Note 11)		181,934
Total Deferred Inflows of Resources		223,232

NET POSITION		
Net Investment in Capital Assets		140,888,866
Restricted for:		
Expendable:		
Capital Projects		3,635,821
Disability Income Plan of North Carolina		3,080
Unrestricted		2,289,857
Total Net Position	$	146,817,624

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

North Carolina Global TransPark Authority
Statement of Revenues, Expenses, and Changes in Net Position
For the Fiscal Year Ended June 30, 2018 — *Exhibit A-2*

REVENUES		
Operating Revenues:		
Rental Revenues (Net of $165,525 in Allowance for Doubtful Accounts)	$	1,405,338
Sales and Services		294,209
Total Operating Revenues		1,699,547
EXPENSES		
Operating Expenses:		
Salaries and Benefits		803,476
Supplies and Materials		59,564
Services		514,227
Utilities		208,854
Other		116,012
Depreciation		6,300,345
Total Operating Expenses		8,002,478
Operating Loss		(6,302,931)
NONOPERATING REVENUES (EXPENSES)		
State Operating Aid		1,685,000
Investment Earnings		19,035
Interest and Fees on Debt		(110,053)
Net Nonoperating Revenues		1,593,982
Loss Before Other Revenues		(4,708,949)
Capital Contributions		6,726,989
Increase in Net Position		2,018,040
NET POSITION		
Net Position - July 1, 2017, as Restated (Note 15)		144,799,584
Net Position - June 30, 2018	$	146,817,624

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

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

CASH FLOWS FROM OPERATING ACTIVITIES		
Received from Customers	$	1,757,849
Payments to Employees and Fringe Benefits		(857,653)
Payments to Vendors and Suppliers		(1,066,460)
Net Cash Used by Operating Activities		(166,264)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
State Operating Aid		1,685,000
Related Activity Agency Receipts		13,000
Total Cash Provided by Noncapital Financing Activities		1,698,000
CASH FLOWS FROM CAPITAL FINANCING AND RELATED FINANCING ACTIVITIES		
Capital Contributions		3,468,808
Acquisition and Construction of Capital Assets		(3,707,369)
Principal Paid on Capital Debt		(501,265)
Interest and Fees Paid on Capital Debt		(109,932)
Net Cash Used by Capital Financing and Related Financing Activities		(849,758)
CASH FLOWS FROM INVESTING ACTIVITIES		
Investment Income		19,035
Cash Provided by Investing Activities		19,035
Net Increase in Cash and Cash Equivalents		701,013
Cash and Cash Equivalents - July 1, 2017		2,434,297
Cash and Cash Equivalents - June 30, 2018	$	3,135,310
RECONCILIATION OF NET OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES		
Operating Loss	$	(6,302,931)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:		
Depreciation Expense		6,300,345
Write-Offs		25,496
Changes in Assets and Deferred Outflows of Resources:		
Receivables, Net		52,092
Prepaid Items		(115)
Net Other Postemployment Benefits Asset		215
Deferred Outflows Related to Pensions		37,680
Deferred Outflows Related to Other Postemployment Benefits		(50,255)
Changes in Liabilities and Deferred Inflows of Resources:		
Accounts Payable and Accrued Liabilities		(199,692)
Due to Primary Government		8,791
Unearned Revenue		6,210
Net Pension Liability		(60,348)
Net Other Postemployment Benefits Liability		(137,656)
Compensated Absences		(10,232)
Deferred Inflows Related to Pensions		(17,798)
Deferred Inflows Related to Other Postemployment Benefits		181,934
Net Cash Used by Operating Activities	$	(166,264)

RECONCILIATION OF CASH AND CASH EQUIVALENTS

Current Assets:		
Cash and Cash Equivalents	$	3,107,310
Noncurrent Assets:		
Restricted Cash and Cash Equivalents		28,000
Total Cash and Cash Equivalents - June 30, 2018	$	3,135,310

NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES

Assets Acquired through the Assumption of a Liability	$	3,673,818
Loss on Disposal of Capital Assets		(25,496)
Increase in Receivables Related to Nonoperating Income		3,258,181

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

Global TransPark Foundation, Inc.
Statement of Financial Position
June 30, 2018

Exhibit B-1

ASSETS		
Cash and Cash Equivalents	$	565,978
Investments		4,745,021
Property and Equipment, Net of Accumulated Depreciation of $4,654,458		3,843,606
Total Assets		9,154,605
LIABILITIES		
Accounts Payable		1,085
Total Liabilities		1,085
NET ASSETS		
Unrestricted		9,153,520
Total Net Assets		9,153,520
Total Liabilities and Net Assets	$	9,154,605

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

Global TransPark Foundation, Inc.
Statement of Activities
For the Fiscal Year Ended June 30, 2018

Exhibit B-2

		Unrestricted		Temporarily Restricted		Total
REVENUES, GAINS, AND LOSSES						
Rent Income	$	320,250	$	0	$	320,250
Interest Income		24,979				24,979
Investment Income		24,288				24,288
Net Realized Gains on Investments		1,735				1,735
Net Unrealized Losses on Investments		(11,341)				(11,341)
Total Revenues, Gains, and Losses		359,911				359,911
EXPENSES						
Program Services		410,419				410,419
Management and General Expenses		35,126				35,126
Total Expenses		445,545				445,545
Change in Net Assets		(85,634)				(85,634)
Net Assets at Beginning of Year		9,239,154				9,239,154
Net Assets at End of Year	$	9,153,520	$	0	$	9,153,520

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

The accompanying financial statements present all funds belonging to the Authority and its component unit. The Authority's component unit is discretely presented in the Authority's financial statements. See below for further discussion of the Authority's component unit.

Discretely Presented Component Unit - The Global TransPark Foundation, Inc. (Foundation) is a legally separate nonprofit corporation and is reported as a discretely presented component unit based on the nature and significance of its relationship to the Authority.

The Foundation was established in 1992 as a nonprofit corporation. The purpose of the Foundation is to engage in major fundraising activities and to assist the North Carolina Global TransPark Authority with the development of the Global TransPark. The Foundation is a nonprofit organization exempt from income taxation under Section 501(c)(3) of the Internal Revenue Code.

The Foundation reports its financial results under the Financial Accounting Standards Board (FASB) Codification. As such, certain revenue recognition criteria and presentation features are different from the Governmental Accounting Standards Board (GASB) revenue recognition criteria and presentation features. No modifications have been made to the Foundation's financial information in the Authority's financial reporting entity for these differences.

During the year ended June 30, 2018, the Foundation provided support in the amount of $197,967 to the Authority in order to upfit the GTP-7 facility with a crane system.

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

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 operating aid, capital contributions, and interest income. Revenues are recognized, net of estimated uncollectible amounts, as soon as all eligibility requirements imposed by the provider have been met, if probable of collection.

D. **Cash and Cash Equivalents** - This classification includes undeposited receipts, petty cash, cash on deposit with private bank accounts, 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. The Authority's equity position in the STIF is recorded at fair value. Additional information regarding the fair value measurement of deposits held by the State Treasurer in the STIF is disclosed in Note 3.

E. **Receivables** - Receivables consist of charges to customers for services, leases on facilities, as well as amounts due from the Foundation. Receivables are recorded net of estimated uncollectible amounts.

F. **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 under these same provisions.

Depreciation is computed using the straight-line method over the estimated useful lives of the assets in the following manner:

Asset Class	Estimated Useful Life
Landing Fields and Grounds	20-40 years
Buildings	10-50 years
Equipment	2-25 years

The Authority's permanent conservation easement on the Frog Hollow site is capitalized at cost as an intangible asset. Because there are no legal or regulatory limits on the useful life of this asset it is considered inexhaustible and therefore is not depreciated.

G. **Restricted Assets** - Certain resources are reported as restricted assets because restrictions on asset use change the nature or normal understanding of the availability of the asset. Resources that are not available for current operations and are reported as restricted include resources restricted for the acquisition or construction of capital assets and amounts restricted by Foreign Trade Zone 214.

H. **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 only notes payable. Other long-term liabilities include: compensated absences, net pension liability, and net other postemployment benefits (OPEB) liability.

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 10 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 11 for further information regarding the Authority's policies for recognizing liabilities, expenses, deferred outflows of resources, and deferred inflows of resources related to OPEB.

I. **Compensated Absences** - The Authority's policy is to record the cost of vacation leave when earned. The policy provides for a maximum accumulation of unused vacation leave of 30 days which can be carried forward each January 1 or for which an employee can be paid upon termination of employment. When classifying compensated absences into current and noncurrent, leave is considered taken using a last-in, first-out (LIFO) method. Also, any accumulated vacation leave in excess of 30 days at year-end is converted to sick leave. Under this policy, the accumulated vacation leave for each employee at June 30 equals the leave carried forward at the previous December 31 plus the leave earned, less the leave taken between January 1 and June 30.

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

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.

J. **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 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.

K. **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.

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

Unrestricted Net Position - Unrestricted net position includes resources derived from state operating aid, rental revenues, sales and services, 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. Both restricted and unrestricted net position include consideration of deferred outflows of resources and deferred inflows of resources. See Note 8 for further information regarding deferred outflows of resources and deferred inflows of resources that had a significant effect on unrestricted net position.

L. **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 delivering goods in connection with the Authority's principal ongoing operations. Operating revenues include activities that have characteristics of exchange transactions, such as (1) rental revenues, (2) charges for services, (3) fuel sales, and (4) landing fees. 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 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

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

Cash on hand at June 30, 2018 was $200. The carrying amount of the Authority's deposits not with the State Treasurer, was $2,126,575, and the bank balance was $2,400,396. 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 exposed to custodial credit risk (amounts that are uninsured and uncollateralized) was $258,335.

At June 30, 2018, the amount shown on the Statement of Net Position as cash and cash equivalents includes $1,008,535, 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.

Component Unit - Because the Foundation reports under the FASB reporting model, disclosures of the various investment risks are not required. The following is an analysis of investments by type:

Investment Type	Fair Value
U.S. Treasury Notes	$ 505,692
Private Company Bonds	499,968
Mutual Funds	3,739,361
Total Investments	$ 4,745,021

NOTE 3 - FAIR VALUE MEASUREMENTS

Authority - 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.

Short-Term Investment Fund - At year-end, all of the Authority's investments valued at $1,008,535 were held in the 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 and the STIF is not required to be categorized within the fair value hierarchy.

Component Unit - Investments consist of assets invested in marketable equity and debt securities. FASB standards require investments in equity securities with readily determinable fair values and all investments in debt securities be measured at fair value in the Statement of Financial Position.

Generally accepted accounting principles establish a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are described below:

Level 1 - Quoted prices in active markets for identical securities.

Level 2 - Observable inputs other that Level 1 prices, such as quoted prices for similar assets; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets.

Level 3 - Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets. Level 3 assets include investments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation.

As of June 30, 2018, all of the Foundation's investments were reported at fair value based on Level 1 inputs represented by quoted prices in active markets for identical securities.

NOTE 4 - RECEIVABLES

Receivables at June 30, 2018, were as follows:

	Gross Receivables	Less Allowance for Doubtful Accounts	Net Receivables
Receivables:			
Due from Customers	$ 255,959	$ 165,525	$ 90,434
Due from Foundation	230		230
Total Receivables	$ 256,189	$ 165,525	$ 90,664

NOTE 5 - CAPITAL ASSETS

Authority - 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	$ 21,017,780	$ 0	$ 0	$ 21,017,780
Construction in Progress	1,781,005	5,898,804	1,781,005	5,898,804
Intangible Assets	1,546,370			1,546,370
Total Capital Assets, Nondepreciable	24,345,155	5,898,804	1,781,005	28,462,954
Capital Assets, Depreciable:				
Landing Fields and Grounds	48,500,167	2,654,616	1,256,209	49,898,574
Buildings	139,248,949	219,835	86,299	139,382,485
Equipment	2,630,632	9,761	56,922	2,583,471
Total Capital Assets, Depreciable	190,379,748	2,884,212	1,399,430	191,864,530
Less Accumulated Depreciation for:				
Landing Fields and Grounds	26,354,468	1,662,615	1,230,714	26,786,369
Buildings	36,922,095	4,542,440	86,299	41,378,236
Equipment	2,386,980	95,290	56,921	2,425,349
Total Accumulated Depreciation	65,663,543	6,300,345	1,373,934	70,589,954
Total Capital Assets, Depreciable, Net	124,716,205	(3,416,133)	25,496	121,274,576
Capital Assets, Net	$ 149,061,360	$ 2,482,671	$ 1,806,501	$ 149,737,530

During the year ended June 30, 2018, the Authority incurred $110,053 in interest costs related to the acquisition and construction of capital assets all of which was reported as interest expense.

The Authority has pledged the GTP-7 facility and land upon which the facility is located with a carrying value of $3,539,536 as security for the notes payable to

Southern Bank. Additional information regarding notes payable can be found in Note 7.

Component Unit - A summary of changes in the Foundation's capital assets for the year ended June 30, 2018, is presented as follows:

	Balance June 30, 2017	Increases	Decreases	Balance June 30, 2018
Capital Assets, Depreciable:				
Buildings	$ 8,498,064	$ 0	$ 0	$ 8,498,064
Less Accumulated Depreciation for:				
Buildings	4,442,007	212,451		4,654,458
Total Capital Assets, Net	$ 4,056,057	$ (212,451)	$ 0	$ 3,843,606

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	$ 33,811
Accounts Payable - Capital Assets	3,126,435
Accrued Payroll	2,284
Contract Retainage	547,383
Interest Payable	9,282
Total Accounts Payable and Accrued Liabilities	$ 3,719,195

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					
Notes Payable	$ 5,666,829	$ 0	$ 501,265	$ 5,165,564	$ 260,537
Other Long-Term Liabilities					
Compensated Absences	51,089	40,858	51,090	40,857	4,208
Net Pension Liability	215,070		60,348	154,722	
Net Other Postemployment Benefits Liability	661,252		137,656	523,596	
Total Other Long-Term Liabilities	927,411	40,858	249,094	719,175	4,208
Total Long-Term Liabilities	$ 6,594,240	$ 40,858	$ 750,359	$ 5,884,739	$ 264,745

Additional information regarding the net pension liability is included in Note 10.
Additional information regarding the net other postemployment benefits liability is included in Note 11.

B. Notes Payable - The Authority was indebted for notes payable for the purposes shown in the following table:

Purpose	Financial Lender	Interest Rate	Final Maturity Date	Original Amount of Issue	Principal Paid Through June 30, 2018	Principal Outstanding June 30, 2018
Facility Construction	Southern Bank	3.75%	5/28/2027	$ 3,159,207	$ 789,213	$ 2,369,994
Refinance USDA FBO Expansion Note	Southern Bank	3.00%	5/28/2027	453,738	98,783	354,955
GTP-1 Renovation	NCDOT	0.00%	7/1/2029	4,440,615	2,000,000	2,440,615
Total Notes Payable				$ 8,053,560	$ 2,887,996	$ 5,165,564

C. Annual Requirements - The annual requirements to pay principal and interest on notes payable at June 30, 2018, are as follows:

Fiscal Year	Principal	Interest
2019	$ 260,537	$ 100,661
2020	520,152	91,046
2021	530,125	81,073
2022	540,467	70,731
2023	551,839	59,359
2024-2028	2,571,829	122,786
2029	190,615	
Total Requirements	$ 5,165,564	$ 525,656

NOTE 8 - NET POSITION

The unrestricted net position balance of $2,289,857 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	$ 118,896	$ 0	$ 118,896
Deferred Outflows Related to OPEB		74,446	74,446
Noncurrent Liabilities:			
Long-Term Liabilities:			
Net Pension Liability	154,722		154,722
Net OPEB Liability		523,596	523,596
Deferred Inflows Related to Pensions	41,298		41,298
Deferred Inflows Related to OPEB		181,934	181,934
Net Effect on Unrestricted Net Position	$ (77,124)	$ (631,084)	$ (708,208)

See Notes 10 and 11 for detailed information regarding the amortization of the deferred outflows of resources and deferred inflows of resources relating to pensions and OPEB, respectively.

NOTE 9 - FUTURE RENTAL REVENUES

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

Fiscal Year	Amount
2019	$ 1,182,539
2020	1,108,706
2021	1,022,568
2022	483,543
2023	461,606
Total	$ 4,258,962

The various assets leased were acquired at a cost of $128,328,595 and have accumulated depreciation totaling $35,751,743.

The Authority negotiates terms of lease agreements on a case-by-case basis. Lease agreements generally consist of a fixed rate for rental of land and/or facilities, as well as variable charges for utility reimbursements and other related services. Certain lease agreements contain optional extension periods which may include rate escalations. Agreements are generally considered noncancelable once executed, however certain agreements contain specific cancellation terms and conditions. The amounts above represent only those agreements which are noncancelable and do not reflect optional extension periods.

Component Unit - The Foundation entered into an amended lease agreement with Mountain Air Cargo, Inc. on October, 15, 2015 to extend the lease of a building owned by the Foundation. The terms of the original lease agreement included a lease rate of $5.90 per square foot per year (53,388 square feet) and were set to expire on January 31, 2018. The amendment extends the original lease agreement for an additional five years, through January 31, 2023, and provides Mountain Air Cargo, Inc. four options to extend the lease agreement for an additional five years each. The lease rate beginning February 1, 2018 and continuing through the duration of the initial lease term (January 31, 2023) is $6.15 per square foot, per year. The lease rates for each of the five year options periods are $6.77 per square foot per year, $7.45 per square foot per year, $8.20 per square foot per year, and $9.02 per square foot per year, respectively. The last optional period expires January 31, 2043.

Mountain Air Cargo, Inc. can terminate the lease with 90 days' written notice if the Aircraft Dry Lease and Services Agreement with Federal Express Corporation is terminated without the consent of Mountain Air Cargo, Inc. They can also terminate the lease with 90 days' written notice if there is a material adverse change to the terms of the Aircraft Dry Lease and Services Agreement with Federal Express Corporation, or if Mountain Air Cargo, Inc.'s operations render continuation of the lease economically impracticable, including, without limitation, reduction of more than 50% of the number of ATR aircraft or Cessna aircraft as of the effective date of the lease.

Expected income from leasing arrangements, including the option periods that are expected to be exercised, is as follows:

Fiscal Year	Amount
2019	$ 328,028
2020	328,028
2021	328,028
2022	328,028
2023	341,807
2024-2028	1,820,603
2029-2033	2,003,508
2034-2038	2,205,080
2039-2043	2,205,082
Total	$ 9,888,192

The buildings leased have a total cost of $8,498,064 and a net book value of $3,843,606.

NOTE 10 - 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 $38,411, and the Authority's contributions were $69,011 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 $154,722 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 0.00195%, which was a decrease of 0.00039 from its proportion measured as of June 30, 2016, which was 0.00234%.

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:

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 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:

Net Pension Liability		
1% Decrease (6.20%)	Current Discount Rate (7.20%)	1% Increase (8.20%)
$ 318,481	$ 154,722	$ 17,512

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 $28,544. 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	$ 3,354	$ 5,062
Changes of Assumptions	24,444	
Net Difference Between Projected and Actual Earnings on Plan Investments	20,939	
Change in Proportion and Differences Between Employer's Contributions and Proportionate Share of Contributions	1,148	36,236
Contributions Subsequent to the Measurement Date	69,011	
Total	$ 118,896	$ 41,298

The amount of $69,011 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:

Year Ended June 30:	Amount
2019	$ (4,940)
2020	14,960
2021	6,948
2022	(8,381)
Total	$ 8,587

NOTE 11 - 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 19. 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 $38,731 for the year ended June 30, 2018.

2. Disability Income

Plan Administration: As discussed in Note 12, 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 or the University Employees' ORP, 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 or the University Employees' ORP.

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 $896 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 $523,596 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 0.00160%, which was an increase of 0.0008 from its proportion measured as of June 30, 2016, which was 0.00152%.

Net OPEB Asset: At June 30, 2018, the Authority reported an asset of $996 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 0.00163%, which was a decrease of 0.00032 from its proportion measured as of June 30, 2016, which was 0.00195%.

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 is 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	$ 625,801	$ 523,596	$ 444,308
	1% Decrease (2.75%)	Current Discount Rate (3.75%)	1% Increase (4.75%)
DIPNC	$ (847)	$ (996)	$ (1,146)

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	$ 428,538	$ 523,596	$ 652,245
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 $33,104 for RHBF and $761 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	$ 273	$ 273
Changes of Assumptions			
Net Difference Between Projected and Actual Earnings on Plan Investments		218	218
Changes in Proportion and Differences Between Employer's Contributions and Proportionate Share of Contributions	35,715	697	36,412
Contributions Subsequent to the Measurement Date	38,731	896	39,627
Total	$ 74,446	$ 2,084	$ 76,530

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

	RHBF	DIPNC	Total
Differences Between Actual and Expected Experience	$ 37,543	$ 0	$ 37,543
Changes of Assumptions	144,196		144,196
Net Difference Between Projected and Actual Earnings on Plan Investments	195		195
Changes in Proportion and Differences Between Employer's Contributions and Proportionate Share of Contributions			
Total	$ 181,934	$ 0	$ 181,934

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:

Year Ended June 30:	RHBF	DIPNC
2019	$ (29,253)	$ 378
2020	(29,253)	378
2021	(29,253)	378
2022	(29,253)	54
2023	(29,207)	
Total	$ (146,219)	$ 1,188

NOTE 12 - 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. Certain plans also require contributions from employees. The Plan has contracted with third parties to process claims. See Note 11, 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 11, 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. The Authority's has also chosen to obtain additional all-risk coverage for its buildings and their contents through the North Carolina Department of Insurance. This policy covers a broader range of losses and is also subject to a $5,000 per occurrence deductible.

All state-owned vehicles are covered by liability insurance through a private insurance company and handled by the North Carolina

Department of Insurance. The liability limits for losses are $1,000,000 per claim and $10,000,000 per occurrence. The Authority pays premiums to the North Carolina Department of Insurance for the coverage.

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.

NOTE 13 - COMMITMENTS AND CONTINGENCIES

Environmental - The Authority is subject to a number of federal, state, and local environmental laws, regulations, and policies. The environmental laws and regulations most applicable to the Authority relate to wetlands, air emissions, wastewater discharges, and the handling, disposal, and release of solid and/or hazardous wastes. More specifically, the Authority may be subject to the Comprehensive Environmental Response, Compensation and Liability Act, which imposes retroactive liability upon owners and operators of facilities, including the Authority, for the release or threatened release of hazardous substances at on-site or off-site locations.

Before constructing a major federal action significantly affecting the environment, the Authority must complete an environmental review and permitting process pursuant to applicable federal and state law and regulations. On September 8, 1997, the Federal Aviation Administration (FAA) granted a favorable Record of Decision satisfactorily concluding the FAA's actions on the environmental process. The United States Army Corps of Engineers originally issued a Section 404 permit on October 21, 1998 to discharge dredge or fill material for the initial and future construction of the Global TransPark. The permit has been extended to October 21, 2028.

The Authority will continue to fully comply with all applicable environmental laws, regulations, and policies and does not currently anticipate any material adverse effects on its continued operations or financial condition as a result of its compliance therewith. The possibility that environmental liability may arise is an inherent risk in any development such as the Global TransPark. Additionally, unforeseeable legislative actions by federal, state, or local governments regarding new environmental laws or regulations could increase the cost of and/or delay in developing the Global TransPark.

Commitments - The Authority has established an encumbrance system to track its outstanding commitments on construction projects and other purchases. There were outstanding commitments on construction projects of $1,340,168 at June 30, 2018. There are also long-range environmental commitments based on the United States Army Corps of Engineers' Section 404 permit for the activities described above.

NOTE 14 - 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 15 - 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	$	145,433,350
Restatement:		
Record the Authority's Net OPEB Asset and Liability and OPEB Related Deferred Outflows and Inflows of Resources Per GASB 75 Requirements.		(633,766)
July 1, 2017 Net Position as Restated	$	144,799,584

NOTE 16 - SUBSEQUENT EVENT

On December 19, 2018, the Authority entered into a long-term lease agreement with Jetstream Aviation, LLC which requires the construction of new facilities at the Global TransPark. These facilities have an estimated cost of $10.3 million and construction will be funded by a combination of $2.3 million in contributions from Jetstream Aviation, LLC, $2.5 million in governmental grants, $1.0 million in contributions from the Global TransPark Foundation, Inc., and $4.5 million provided by the Authority through additional capital financing that has yet to be finalized.

REQUIRED SUPPLEMENTARY INFORMATION

North Carolina Global TransPark Authority
Required Supplementary Information
Schedule of the Proportionate Net Pension Liability
Teachers' and State Employees' Retirement System
Last Five Fiscal Years ***Exhibit C-1***

	2017	2016	2015	2014	2013
Proportionate Share Percentage of Collective Net Pension Liability	0.00195%	0.00234%	0.00395%	0.00481%	0.00477%
Proportionate Share of TSERS Collective Net Pension Liability	$ 154,722	$ 215,070	$ 145,689	$ 56,436	$ 289,317
Covered Payroll	$ 456,463	$ 447,137	$ 597,375	$ 701,974	$ 584,736
Net Pension Liability as a Percentage of Covered Payroll	33.90%	48.10%	24.39%	8.04%	49.48%
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 Global TransPark Authority
Required Supplementary Information
Schedule of Authority Contributions
Teachers' and State Employees' Retirement System
Last Ten Fiscal Years ***Exhibit C-2***

	2018	2017	2016	2015	2014
Contractually Required Contribution	$ 69,011	$ 45,555	$ 40,913	$ 54,660	$ 61,002
Contributions in Relation to the Contractually Determined Contribution	69,011	45,555	40,913	54,660	61,002
Contribution Deficiency (Excess)	$ 0	$ 0	$ 0	$ 0	$ 0
Covered Payroll	$ 640,176	$ 456,463	$ 447,137	$ 597,375	$ 701,974
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	$ 48,709	$ 51,644	$ 30,216	$ 21,920	$ 21,521
Contributions in Relation to the Contractually Determined Contribution	48,709	51,644	30,216	21,920	21,521
Contribution Deficiency (Excess)	$ 0	$ 0	$ 0	$ 0	$ 0
Covered Payroll	$ 584,736	$ 694,145	$ 612,945	$ 613,999	$ 640,515
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 Global TransPark Authority
Notes to Required Supplementary Information
Schedule of Authority Contributions
Teachers' and State Employees' Retirement System
Last Ten Fiscal Years

Changes of Benefit Terms:

Cost of Living Increase

2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
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 information included in the State of North Carolina's 2017 *Comprehensive Annual Financial Report* .

North Carolina Global TransPark Authority
Required Supplementary Information
Schedule of the Proportionate Net OPEB Liability or Asset
Cost-Sharing, Multiple-Employer, Defined Benefit OPEB Plans
Last Two Fiscal Years — *Exhibit C-3*

		2017		2016
Retiree Health Benefit Fund				
Proportionate Share Percentage of Collective Net OPEB Liability		0.00160%		0.00152%
Proportionate Share of Collective Net OPEB Liability	$	523,596	$	661,252
Covered Payroll	$	456,463	$	447,137
Net OPEB Liability as a Percentage of Covered Payroll		114.71%		147.89%
Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability		3.52%		2.41%
Disability Income Plan of North Carolina				
Proportionate Share Percentage of Collective Net OPEB Asset		0.00163%		0.00195%
Proportionate Share of Collective Net OPEB Asset	$	996	$	1,211
Covered Payroll	$	456,463	$	447,137
Net OPEB Asset as a Percentage of Covered Payroll		0.22%		0.27%
Plan Fiduciary Net Position as a Percentage of the Total OPEB 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 Global TransPark Authority
Required Supplementary Information
Schedule of Authority Contributions
Cost-Sharing, Multiple-Employer, Defined Benefit OPEB Plans
Last Ten Fiscal Years — *Exhibit C-4*

Retiree Health Benefit Fund	**2018**	**2017**	**2016**	**2015**	**2014**
Contractually Required Contribution	$ 38,731	$ 26,521	$ 25,039	$ 32,796	$ 37,907
Contributions in Relation to the Contractually Determined Contribution	38,731	26,521	25,039	32,796	37,907
Contribution Deficiency (Excess)	$ 0	$ 0	$ 0	$ 0	$ 0
Covered Payroll	$ 640,176	$ 456,463	$ 447,137	$ 597,375	$ 701,974
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	$ 30,991	$ 34,707	$ 30,034	$ 27,630	$ 26,261
Contributions in Relation to the Contractually Determined Contribution	30,991	34,707	30,034	27,630	26,261
Contribution Deficiency (Excess)	$ 0	$ 0	$ 0	$ 0	$ 0
Covered Payroll	$ 584,736	$ 694,145	$ 612,945	$ 613,999	$ 640,515
Contributions as a Percentage of Covered Payroll	5.30%	5.00%	4.90%	4.50%	4.10%

Disability Income Plan of North Carolina	**2018**	**2017**	**2016**	**2015**	**2014**
Contractually Required Contribution	$ 896	$ 1,735	$ 1,833	$ 2,449	$ 3,089
Contributions in Relation to the Contractually Determined Contribution	896	1,735	1,833	2,449	3,089
Contribution Deficiency (Excess)	$ 0	$ 0	$ 0	$ 0	$ 0
Covered Payroll	$ 640,176	$ 456,463	$ 447,137	$ 597,375	$ 701,974
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	$ 2,573	$ 3,610	$ 3,187	$ 3,193	$ 3,331
Contributions in Relation to the Contractually Determined Contribution	2,573	3,610	3,187	3,193	3,331
Contribution Deficiency (Excess)	$ 0	$ 0	$ 0	$ 0	$ 0
Covered Payroll	$ 584,736	$ 694,145	$ 612,945	$ 613,999	$ 640,515
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 Global TransPark 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 11 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 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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Raleigh, NC 27699-0600
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INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the North Carolina Global TransPark Authority (Authority), a component unit of the State of North Carolina, and its discretely presented component unit, as of and for the year ended June 30, 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 April 10, 2019. Our report includes a reference to other auditors who audited the financial statements of the Global TransPark Foundation, Inc., as described in our report on the Authority's financial statements. The financial statements of the Global TransPark Foundation, Inc. were not audited in accordance with *Government Auditing Standards*, and accordingly, this report does not include reporting on internal control over financial reporting or instances of reportable noncompliance associated with the Global TransPark Foundation, Inc.

Internal Control Over Financial Reporting

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

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Findings, Recommendations, and Responses section, we identified certain deficiencies in internal control that we consider to be material weaknesses.

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. We consider the deficiencies described in the accompanying Findings, Recommendations, and Responses section to be material weaknesses.

<u>Compliance and Other Matters</u>

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.*

<u>Authority's Response to Findings</u>

The Authority's responses to the Findings identified in our audit are described in the accompanying Findings, Recommendations, and Responses section. The Authority's responses were not subjected to the auditing procedures applied in the audit of the financial statements, and, accordingly, we express no opinion on them.

<u>Purpose of this Report</u>

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

Beth A. Wood

Beth A. Wood, CPA
State Auditor

Raleigh, North Carolina

April 10, 2019

Findings, Recommendations, and Responses

Matters Related to Financial Reporting

1. LACK OF MANAGEMENT OVERSIGHT AND COOPERATION RESULTED IN INADEQUATE INTERNAL CONTROLS OVER FINANCIAL REPORTING AND SIGNIFICANT MISSTATEMENTS

The Executive Director and Controller (management) did not implement a proper system of internal control to ensure the financial statements were accurate and complete.

Auditors found:

- The financial statements did not agree to the underlying accounting records, and management could not explain the differences.
- The Controller posted twelve year-end journal entries outside of the accounting system with no evidence of review or approval. One entry for $454,407 was recorded to balance the financial statements because of accounting errors. The entry was not supported by documentation, and management was unable to provide a basis for the entry or to assist auditors in determining the necessary corrections.
- The Executive Director did not review the financial statements that the Controller prepared.
- Eight adjustments were required to correct obvious errors that indicated a lack of understanding of generally accepted accounting principles and to correct errors that were identified in the prior year audit.
- Operating expenses (excluding depreciation) were overstated by $1,268,205, or 75% of the final audited balances.
- Beginning balances were misstated by $89,893 even though the Office of the State Controller[1](OSC) provided the required amount to management.
- The notes to the financial statements and required supplementary information were incomplete and required significant corrections.

Management also failed to fully cooperate with the audit process. For example:

- Management did not provide all required financial statements to OSA until February 14, 2019, (146 days late) despite certifying to OSC that it would provide the statements by September 21, 2018.[2]
- Management did not have a proper system of internal controls in place over year-end financial reporting despite certifying to OSC that it had established and maintained a proper system of internal control as required by *North Carolina General Statute* 143D.[3]
- Management failed to provide requested information by the agreed deadlines, resulting in scheduled fieldwork being postponed multiple times.

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1 https://www.osc.nc.gov/gasb-statement-75
2 https://www.ncleg.gov/EnactedLegislation/Statutes/HTML/BySection/Chapter_143B/GS_143B-426.40H.html
3 https://www.ncleg.gov/EnactedLegislation/Statutes/HTML/ByChapter/Chapter_143D.html

- Management did not inform auditors of a subsequent event which required disclosure in the financial statements. Auditors identified the event through news articles 63 days after it occurred.
- Management delayed audit finalization because it did not respond to auditor's repeated communication attempts. Management also failed to inform the auditors when the Executive Director announced his resignation on March 7, 2019. Auditors learned of the resignation though news articles on March 22, 2019, one business day prior to the Executive Director's departure.

As a result of its lack of oversight, management cannot ensure that its financial statements are accurate and complete. Consequently, there is an increased risk that:

- Financial statement users could be misinformed about the Authority's financial condition or operating results.
- Fraud could occur and go undetected.
- Audit costs could increase, resulting in the diversion of resources otherwise available to management for use towards its principal purpose.
- The Department of Transportation's audit report (where the Authority is reported as a component unit) could be delayed.

The omissions and errors in financial reporting occurred and were not detected and corrected by management, in part because:

- Management did not understand its statutory responsibilities for ensuring a proper system of internal controls was in place.
- The Executive Director did not ensure that staff responsible for the preparation of the financial statements were sufficient in number or possessed the necessary knowledge and training.
- The Executive Director did not have an adequate year-end plan designed that would result in a complete and thorough review of the financial statements prior to submission for audit.

Management is responsible for the fair presentation of the financial statements and related notes to the financial statements in conformity with accounting principles generally accepted in the United States of America.

Recommendation:

Management should understand their responsibilities for establishing and maintaining a proper system of internal control. Additionally, management should ensure that:

- Staff possess the required competencies and are adequately trained to perform year-end financial reporting, and

- A year-end plan is designed and implemented to provide a thorough review of the financial statements and related information to ensure accurate, complete, and timely year-end reporting.

2. INEFFECTIVE OVERSIGHT BY THE AUTHORITY'S BOARD OF DIRECTORS

The Authority's Board of Directors (Board) did not establish policies or sufficient monitoring mechanisms to ensure timely and accurate financial statements.

Following the prior year audit, officials from the State Auditor communicated certain concerns regarding internal control over financial reporting to the Board and emphasized that,

> *…the concerns if not resolved would increase the likelihood of undetected errors or fraud, potential errors could increase as more grant dollars flow through the Authority resulting in reportable issues, and audit adjustments and corrections drive up audit cost.*[4]

No new policies or other corrective actions were taken by the Board in response to the concerns communicated by auditors in the prior year.

In addition to the issues described in the previous finding, ineffective governance by the Board could result in users of their financial statements making financial decisions based on unreliable or incomplete information.

North Carolina General Statues[5] charge the Board with the responsibility for governance of the Authority, including the determination of policies to be executed by management.

Recommendation:

The Board should establish sufficient policies and monitor to ensure the Authority's financial resources are appropriately managed and reported.

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4 https://www.ncgtp.com/Documents/board-minutes-2018-04-12.pdf
5 https://www.ncleg.gov/EnactedLegislation/Statutes/HTML/ByChapter/Chapter_63A.html

Roy Cooper
Governor

James H. Trogdon, III
Secretary of Transportation

Richard Barkes
Interim Executive Director

STATE OF NORTH CAROLINA
Global TransPark Authority
Foreign Trade Zone 214

April 10, 2019

Beth A. Wood, CPA
State Auditor
2 S Salisbury St #200
Raleigh, NC 27601

Dear Auditor Wood:

We are in receipt of your letter dated March 29, 2019. The results of a thorough audit make an organization run more efficiently and we appreciate the work your team put into this audit. We want to thank you for your continued commitment to the citizens of North Carolina and to the North Carolina Global TransPark Authority (Authority). We also express our appreciation for the extra effort you and your staff exerted to ensure the financial statements present fairly, in all material respects, the respective financial position of the Authority.

It is unacceptable that your team did not receive the information it needed in a timely manner or timely responses to their questions. This has been addressed with the Authority staff and will not happen again.

Addressing your specific comments:

Finding #1: Lack of Management Oversight and Cooperation Resulted in Inadequate Internal Controls Over Financial Reporting and Significant Misstatements

Recommendation: Management should understand their responsibilities for establishing and maintaining a proper system of internal control.

Response: The Authority concurs.

We have requested the Department of Transportation's Office of Inspector General (OIG) evaluate risk management systems and internal controls to ensure compliance with applicable laws and regulations.

To address the identified deficiencies the Authority is taking the following actions: 1) making the necessary personnel changes and establishing policies and procedures for month-end and year-end financial statement preparation; 2) hired a new finance officer on February 11, 2019; 3) transitioning duties from the previous Controller to the new finance officer and other staff; and 4) engaging an outside consultant to develop critical policies and procedures.

The policies and procedures will prevent the posting of erroneous entries such as those you identified in your findings letter and include but are not limited to those shown below. The Board of Directors, with input from the Finance Committee and Executive Committee, will adopt these before June 30, 2019.

Code of Conduct

Budget Development/ Implementation/ Monitoring & Amendments

CIP/ Construction/ Maintenance

Grants Management/ Billing/ Grants Receivable

Debt Management

Month-end Close

Year-end Close and Check List

Finding #2: Ineffective Oversight by the Authority's Board of Directors

Recommendation: The Board should establish sufficient policies and monitor to ensure the Authority's financial resources are properly managed and reported.

Response: The Authority concurs.

Before June 30, 2019; 1) the Board and all its committees will receive training from the University of North Carolina School of Government, 2) the Authority will amend its By Laws to specifically address the Finance Committee's membership, meeting frequency, and roles and responsibilities, and 3) the Board will adopt a Delegation of Authority policy.

The Authority is always looking – not just in finance and accounting -- for operational improvements and for ways to be more effective and efficient. Toward that goal, since July 1, 2017, the Authority has:

Developed and begun implementing a Strategic Plan, at the request of the North Carolina General Assembly

Taken advantage of an economy of scale by sharing IT resources with the Department of Transportation

Increased IT security and checks and balances by moving all IT functions to NCDOT/DIT system

Eliminated the Authority's independent computer server and moved all files to NCDOT/DIT servers

Made it standard that the Board and all committees meet at least quarterly

Implemented a Marketing Plan, along with key performance indicators

Entered into a formal partnership for economic development supportive services with NC Southeast Partnership

Created an economic development review process with the Department of Commerce and the Economic Development Partnership of NC

We assure you the Authority, Board, and committees take your findings and recommendations seriously and are committed to improving all processes and to transparency, integrity and accountability in all aspects of operations. We will keep you apprised of the results of the OIG Audit, operational improvements as those occur, and provide your office with copies of Board and committee meeting minutes on a timely basis.

Sincerely,

Richard Barkes, Interim Executive Director
North Carolina Global TransPark Authority

David Howard, Chairman
Global TransPark Authority Board of Directors

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For additional information contact:
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919-807-7513

This audit required 336 hours at an approximate cost of $34,608.