STATE OF NORTH CAROLINA

OFFICE OF THE STATE AUDITOR

BETH A. WOOD, CPA

NORTH CAROLINA STATE PORTS AUTHORITY

WILMINGTON, NORTH CAROLINA

FINANCIAL STATEMENT AUDIT REPORT

FOR THE YEAR ENDED JUNE 30, 2022

A COMPONENT UNIT OF THE STATE OF NORTH CAROLINA

NCOSA

The Taxpayers' Watchdog

STATE OF NORTH CAROLINA
Office of the State Auditor

Beth A. Wood, CPA
State Auditor

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Raleigh, NC 27699
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AUDITOR'S TRANSMITTAL

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

We have completed a financial statement audit of the North Carolina State Ports Authority for the year ended June 30, 2022, and our audit results are included in this report. You will note from the independent auditor's report that we determined that the financial statements are presented fairly in all material respects.

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

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

Beth A. Wood

Beth A. Wood, CPA
State Auditor

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Chapter 147, Article 5A 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 State Ports Authority
Wilmington, North Carolina

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of the North Carolina State Ports Authority (Authority), a component unit of the State of North Carolina, as of and for the year ended June 30, 2022, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the North Carolina State Ports Authority, as of June 30, 2022, and the changes in financial position and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards* (GAGAS), issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the North Carolina State Ports Authority and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

The Authority's management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Authority's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and GAGAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and GAGAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Authority's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 19, 2022 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

Beth A. Wood, CPA
State Auditor

Raleigh, North Carolina

October 19, 2022

MANAGEMENT'S DISCUSSION AND ANALYSIS

Overview of the Financial Statements and Financial Analysis

The annual financial statements of the North Carolina State Ports Authority (Authority) present the results of the Authority's financial activities for the fiscal year ended June 30, 2022. Management's Discussion and Analysis (MD&A) should be read in conjunction with the financial statements and provides a general overview of the Authority's financial activity during the fiscal year. The financial statements include, in addition to this MD&A, a Statement of Net Position, Statement of Revenues, Expenses, and Changes in Net Position, Statement of Cash Flows, and accompanying Notes to the Financial Statements. Management is responsible for the preparation of the MD&A and the accompanying basic financial statements.

The MD&A is intended to aid the reader in interpreting the Authority's relative financial position as of the above referenced date as well as gauging performance from one period to the next. Condensed key financial and nonfinancial information will be highlighted for the reader followed by a discussion of the Authority's current capital expansion program and economic outlook.

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

About the Authority

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

Financial Highlights and Analysis

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

The Authority delivered a solid financial performance in fiscal year 2022 delivering a $52.8 million positive net change in position from the prior year. A number of operating records in general cargo tons, refrigerated containers, and intermodal container volume generated an all-time high in operating revenue and earnings before interest, depreciation, and amortization (Adjusted EBIDA), overcoming volatile economic conditions driven in part by global supply chain disruptions coming out of the COVID-19 pandemic. The ongoing support from the State for capital appropriations allowed the Authority to continue to improve its infrastructure to meet the evolving demands of its customers and service the largest container vessels calling the U.S. East Coast.

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

The following table provides a summarized Statement of Net Position as of June 30, 2022 with comparative figures for the prior period.

Condensed Statement of Net Position

(in thousands)	June 30, 2022	June 30, 2021	Change
Current Assets	$ 43,572	$ 27,147	$ 16,425
Capital Assets, Net	498,605	488,332	10,273
Other Noncurrent Assets	103,442	68,359	35,083
Total Assets	645,619	583,838	61,781
Total Deferred Outflows of Resources	10,707	10,589	118
Other Current Liabilities	8,636	11,130	(2,494)
Long-Term Liabilities	123,006	133,107	(10,101)
Total Liabilities	131,642	144,237	(12,595)
Total Deferred Inflows of Resources	30,729	9,083	21,646
Total Net Position	$ 493,955	$ 441,107	$ 52,848

The change in current assets is primarily due to an increase in receipts from operations and because of the recording of the lease receivable due to the implementation of GASB 87. The majority of the receipts from operations are held in short-term investments and available to process vendor payments in relation to the Authority's capital expansion programs and other working capital needs. The change in capital assets is a result of the expansion capital master plan and core capital spending, net of accumulated depreciation. Capital project spending includes the updated terminal infrastructure, operating system and equipment. The increases to capital assets are offset by continued depreciation charges. Other noncurrent assets, representing the single largest dollar value change in assets, increased due to an increase in restricted investments and the recording of lease receivable due to the implementation of GASB

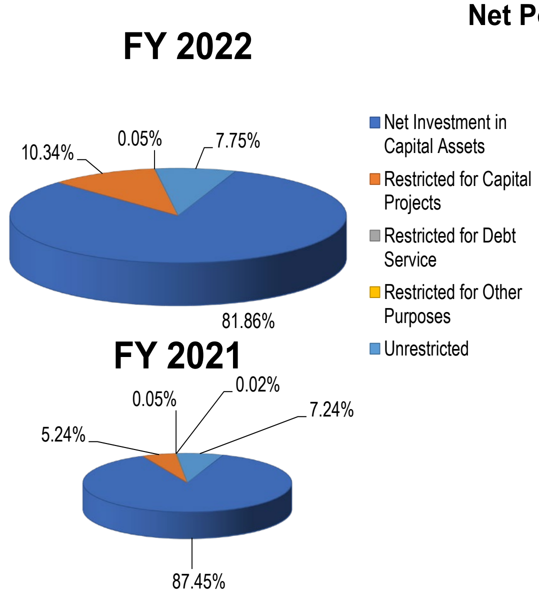
87. The Authority continued to receive state capital appropriations for the expansion capital plan while spending during the fiscal year fell below historical levels. The unused funds were invested and will be used for future spending related to the expansion capital plan.

The decrease in current liabilities represents a decrease in payables at year end due to timing differences of purchases of certain supplies, materials, and engineering contractor services as compared to the prior year. There was also a reduction in capital related payables and contract retainage due to the reduction in ongoing construction at year end. The reduction in long-term liabilities represents the regularly scheduled debt service payments on the outstanding note from direct borrowing and bonds, coupled with a $6.4 million decrease in the net pension liability.

Changes in deferred outflows of resources, deferred inflows of resources, net pension liability, and net OPEB liability are due to valuation changes as determined by the plans' actuaries. Refer to Notes 11 and 12 for additional information regarding the Authority's participation in the TSERS and OPEB plans, respectively. Deferred inflows of resources also increased due to the implementation of GASB 87 requiring the recording of deferred inflows for leases.

The Authority's net position is divided into four categories. The first, net investment in capital assets, represents the Authority's equity position with regards to property, facilities, and equipment. The second category is restricted by external funding sources to expenditure for capital projects. The third category is restricted for debt service payments as required by debt agreements. The final category is that of unrestricted which is available for any lawful purpose of the Authority. The following exhibit analyzes the Authority's net position category mix for the periods ended June 30, 2022 and 2021, respectively. Significant changes, as noted above, are the result of increases to capital assets as the Authority invests in its capital expansion program (net investment in capital assets) and increases in investments due to cash flows from capital appropriations (capital projects) and from operations (unrestricted).

Net Position



(in thousands)	2022
Net Investment in Capital Assets	$ 404,347
Restricted for Capital Projects	51,055
Restricted for Debt Service	253
Restricted for Other Purposes	-
Unrestricted	38,300
Total Net Position	$ 493,955

	2021
Net Investment in Capital Assets	$ 385,745
Restricted for Capital Projects	23,117
Restricted for Debt Service	228
Restricted for Other Purposes	75
Unrestricted	31,942
Total Net Position	$ 441,107

The Statement of Revenues, Expenses, and Changes in Net Position reflects an overall increase in net position for the current fiscal year ended June 30, 2022 of $52.8 million. This increase is principally a product of the recognition of $50 million in state capital appropriations and increased operating revenues, offset by increased operating expenses.

The following table identifies variances between major financial categories for the fiscal years ended June 30, 2022 and 2021, respectively.

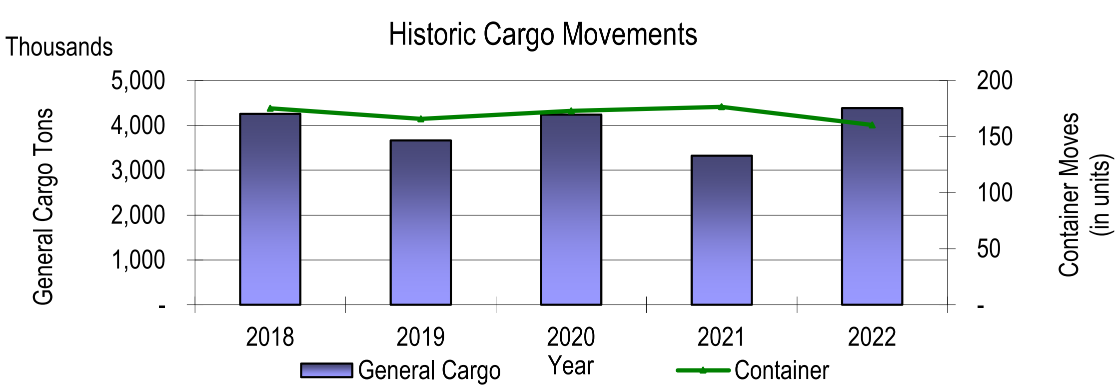
(in thousands)	June 30, 2022	June 30, 2021	Change
Operating Revenues, Net	$ 66,141	$ 56,992	$ 9,149
Operating Expenses	64,033	58,750	5,283
Operating Income (Loss)	2,108	(1,758)	3,866
Nonoperating Revenues (Expenses):			
State Aid - Coronavirus	326	-	326
Investment Income (Loss), Net	(1,769)	91	(1,860)
Interest and Fees on Debt	(2,259)	(2,413)	154
Insurance Recoveries (Repair Cost), Net	(376)	801	(1,177)
Interest Earned on Leases	588	-	588
Noncapital Contributions	136	343	(207)
Other Nonoperating Revenues (Expenses)	1,001	(88)	1,089
Net Nonoperating Expenses	(2,353)	(1,266)	(1,087)
Other Revenues:			
Capital Appropriations	50,000	50,500	(500)
Capital Contributions	3,093	2,647	446
Total Revenues	121,285	111,374	9,911
Total Expenses	(68,437)	(61,251)	(7,186)
Increase in Net Position	52,848	50,123	2,725
Net Position, Beginning of Period	441,107	390,984	
Net Position, End of Period	$ 493,955	$ 441,107	

As reflected in the preceding table, the Authority posted operating income of $2.1 million versus a $1.8 million loss in the prior year. The Authority posted record revenues for fiscal year 2022 (FY2022) driven primarily by increases in general cargo tonnage. Services expense decreased during FY2022 due to the final $4.1 million payment to Duke Energy Progress (DEP) for raising the power lines that cross the Cape Fear River being recorded in FY2021. Services did include expenses associated with the Queen City Express intermodal service. The Queen City Express intermodal service was partially offset through grant reimbursements classified as capital contributions. The Authority posted $3.7 million in asset impairments as new construction in the expansion capital plan, related primarily to berth improvements and the new South Gate configuration, rendered several older infrastructure assets obsolete. The investment loss during the fiscal year was the result of a decline in market conditions from the previous year. The Authority's investment strategies included higher investments in U.S treasuries, U.S. agencies, and domestic corporate bonds which yield lower returns, but are less impacted during fluctuating financial markets. The Authority recorded over $2.45 million in net unrealized gains and losses (noncash), which should recover with time as the Authority holds the underlying investments until maturity. Insurance repairs increased in FY2022 as the Authority recognized repair costs for a Transit Shed in Morehead City that was damaged by an outside party and funded by the NC Department of Insurance (DOI) in FY2021. The increase in insurance repairs was offset by the recognition of the final DOI reimbursements to close out the Hurricane Isaias (August 2020) and Hurricane Florence (September 2018) claims. Other nonoperating revenues increased from the prior year due to the sale of land near the Port of Morehead City and the sale of surplus inventories. The implementation of GASB 87 created the recognition and presentation of the interest earned on lease revenue. The decrease in noncapital contributions was the result of a smaller allocation to the Authority from the State Health Plan for cost savings as discussed in Note 12. In fiscal year 2022, the Authority continued to receive capital appropriations which included $5 million for development at the Radio Island terminal in Morehead City. Capital contributions included funding for the previously discussed Queen City Express intermodal services, as well as security improvements throughout the terminals. The following table shows the major sources of both operating and other revenues in detail.

Revenues by Major Source

(in thousands)	June 30, 2022	June 30, 2021	Change
Operating Revenues:			
Sales and Services, Net	$ 61,962	$ 52,735	$ 9,227
Lease Income	4,179	4,257	(78)
Total Operating Revenues	66,141	56,992	9,149
Nonoperating Revenues:			
State Aid - Coronavirus	326	-	326
Investment Income, Net	-	91	(91)
Insurance Recoveries, Net of Repairs	-	801	(801)
Interest Earned on Leases	588	-	588
Noncapital Contributions	136	343	(207)
Other Nonoperating Revenues	1,001	-	1,001
Total Nonoperating Revenues	2,051	1,235	816
Other Revenues:			
Capital Appropriations	50,000	50,500	(500)
Capital Contributions	3,093	2,647	446
Total Other Revenues	53,093	53,147	(54)
Total Revenues	$ 121,285	$ 111,374	$ 9,911

The following graph and table outline the operating statistics compared to prior year and general trends. It is worth noting that operating revenues and cargo statistics were not adjusted for the adverse effect of Hurricane Florence in fiscal year 2019, Hurricane Dorian in fiscal year 2020 or Hurricane Isaias in fiscal year 2021.



Summarized Cargo Movement (In Units)

	June 30, 2022	June 30, 2021 (as Adjusted)*	Change
Container Movement	160,343	176,477	(16,134)
General Cargo Movement (Short Tons)	4,384,964	3,322,641	1,062,323
Vessel Calls	1,022	691	331
Rail Car Activity	30,334	30,678	(344)

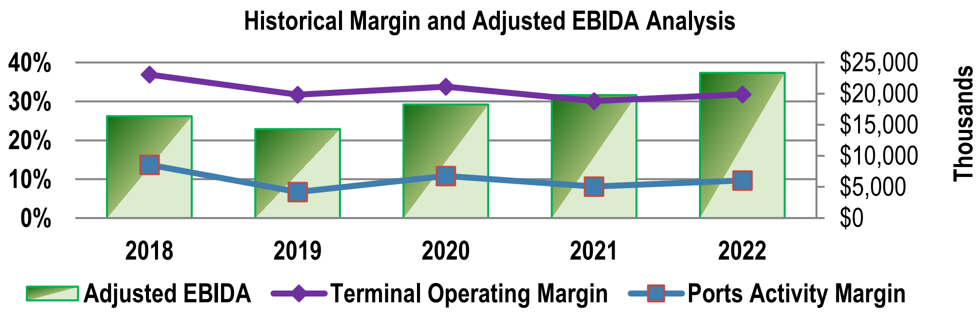
* Rail car activity adjusted for intermodal

The Authority has continued to manage expenses and implement cost containment measures where practical. The increase in salaries and benefits is a result of filling several vacant positions in combination with the application of the pay-for-performance compensation programs and overtime. The increase in supplies and materials is a result of general and maintenance supply purchases as well as inflationary increases in fuel costs and materials. The decrease in services is a result of completion of the power line raising in FY2021. As previously mentioned, the Authority recorded $3.7 million in impairment losses in FY2022. Depreciation and amortization expense continues to increase as the Authority finalizes larger projects in the capital expansion plan. The following table and graphs analyze operating expenses by major category as well as providing a relative mix year-over-year.

Operating Expenses by Major Category

(in thousands)	June 30, 2022	June 30, 2021	Change
Salaries and Benefits	$ 22,168	$ 21,277	$ 891
Supplies and Materials	3,908	2,819	1,089
Services	15,933	18,200	(2,267)
Capital Asset Impairment Losses	3,704	-	3,704
Insurance and Bonding	2,384	2,329	55
Other	215	239	(24)
Depreciation/Amortization	15,721	13,886	1,835
Total Operating Expenses	$ 64,033	$ 58,750	$ 5,283

The following graph depicts the operating margins and adjusted EBIDA.



The Authority's market share, market position, and long-term growth expectations for both container volume and general terminal activities are considered sustainable as they are driven by a number of factors including continued steady global economic growth, developments in the operating environment for U.S. East Coast ports, and a rebound from negative market and natural forces that impacted fiscal years 2019, 2020 and 2021 that included Hurricanes Florence, Dorian, and Isaias and the continued economic uncertainty and supply-chain disruptions from the COVID-19 pandemic. U.S. East Coast container volumes are expected to grow with carriers taking advantage of the economic benefits derived by deploying larger ships through the enlarged Panama Canal and general increases in world trade in the East-West trade lane with Asia and Europe and the North-South trade lane with Latin America.

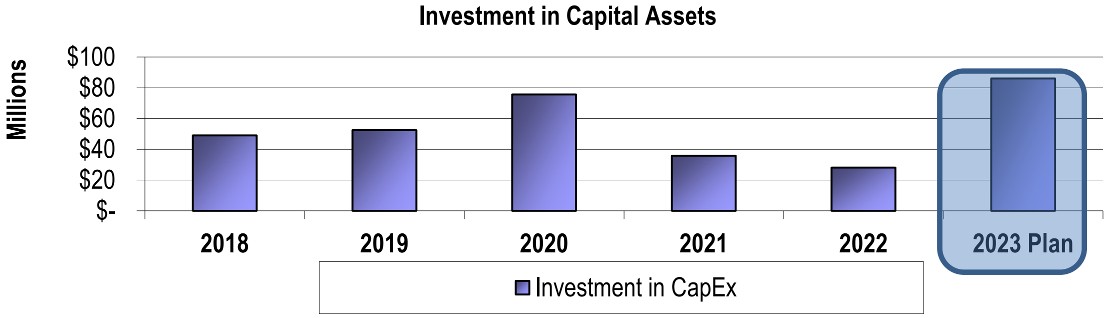
Capital Assets and Long-Term Debt

The Authority's expansion capital program can be traced back to the Strategic Plan formulated in 2015 and subsequently updated and modified in 2019 and again in 2021 whereby the Authority engaged in a significant and comprehensive strategic planning effort which, among other outputs, produced a long-term market plan and corresponding capital infrastructure program. The Authority's strategy continues to grow the container volume and expand business on the general terminals. Investment requirements needed to meet the cargo forecast are factored into the Authority's Capital Budget process.

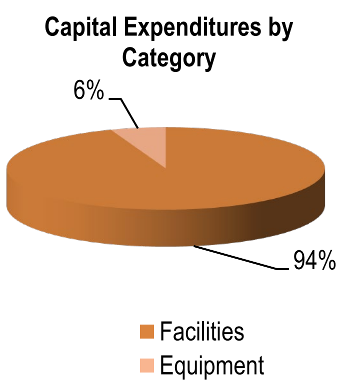
In fiscal year 2018, the Authority refinanced an outstanding direct borrowing agreement to eliminate a pending balloon payment and take advantage of a more favorable interest rate and terms. In fiscal year 2019, the Authority modified the terms of the outstanding Series 2013 and 2014 variable-rate bonds to eliminate the bank call options. In February 2020, the Authority refinanced the outstanding Series 2010AB bonds with the new Series 2020AB bonds to secure favorable interest rates. In December 2020, the Authority refinanced Series 2020B bonds with Series 2020C bonds to eliminate certain tax provisions and secure a more favorable interest rate.

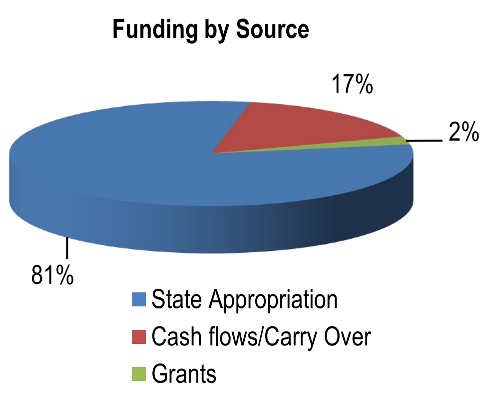
Since fiscal year 2016 when the State of North Carolina appropriated recurring funds for expansion investment, the Authority has assertively worked to upgrade, modernize or expand its facilities, investing approximately $302.5 million in equipment and infrastructure, with plans to invest an additional $86.1 million in fiscal year 2023. Highlights of these expenditures include the acquisition of new terminal equipment, investments in terminal and berth infrastructure, improvements in navigation, and new or upgraded facilities and systems. As previously mentioned, during the current fiscal year the Authority received an allotment of $50 million in appropriations from the State of North Carolina to fund infrastructure improvements and expansion.

During the fiscal year, $42.8 million was transferred out of construction in progress and computer software in development to depreciable capital assets, related mostly to enhancing the Authority's aging infrastructure system and updating information technology systems. Refer to Note 5 and discussion above for additional information regarding the Authority's capital assets. The following graph summarizes recent and planned capital investment.



Capital investment for the upcoming fiscal year is anticipated to increase as more terminal improvements are planned. The FY2023 capital investment plan includes finalizing certain IT system upgrades, and continued progress with the container master plan for the Port of Wilmington as well as other infrastructure, system and equipment improvements. Funding for these expenditures will be accomplished, as in recent years, by a combination of state and federal grants, reserves, and internal cash flows. In addition, the State of North Carolina's proposed budget included the annual continuation of $45 million in capital appropriations to the Authority for fiscal year 2023. In August 2022, the Authority was informed it was awarded a Rebuilding American Infrastructure with Sustainability and Equity (RAISE) program grant by the United States Department of Transportation (USDOT) for $18 million towards the Port of Wilmington dedicated intermodal facility. In December 2020, the Wilmington Harbor Navigation Improvement Project (WHNIP) was conditionally authorized as part of the federal Omnibus bill passed by the United States Congress. The project calls for the deepening and widening of the navigational channel and extending the ocean entrance channel farther offshore. The total submitted project cost of the 47-foot plan is approximately $847 million with the non-federal share at approximately $284 million. As part of the FY2022-23 budget process, the State reserved $283.8 million toward the non-federal share of the project as it continues to run through the federal approval process. Further details on the capital improvement program can be found in the Authority's 2023 Capital Budget document. The following graphs provide a breakdown of planned fiscal year 2023 expenditures by category as well as anticipated funding by sources.





Economic Outlook

As a result of the Authority's investments in container operations, the operation of an intermodal service to/from Charlotte and the Mid-West, and intense marketing efforts, the Authority was able to attract a number of new container services to the Port of Wilmington. The expanded number, vessel size and scope of container services has the potential to continue to increase container volume as the capacity on the services are allocated to Wilmington. The completion of the bulk wood pellet facility in Wilmington in fiscal year 2017 and subsequent investments in an agricultural transload facility, refrigerated cargo logistics and other warehouse equipment, and infrastructure improvements continue to be key drivers of the increase in handled bulk and breakbulk cargo tonnage through the Wilmington and Morehead City terminals.

Despite the economic impact of COVID-19 and other economic, supply-chain and market factors, the Authority posted increases in general terminal volumes in fiscal year 2022. The FY2023 Operating Budget was prepared assuming resumed container and intermodal growth while expecting the Ukrainian conflict and other market factors to negatively impact general cargoes from the highs of FY2022. The extent of the impact on the Authority's operational and financial performance will again depend on many factors outside of the Authority's control.

The Authority managed the FY2022 budget to have adequate cash flows from operations to meet all current obligations as well as debt service requirements. The Authority's debt service coverage for budgeted fiscal year 2023 is 2.40 to 1.00, which is well within the stipulated debt covenant requirements.

Contacting the Authority's Financial Management

If you have questions about these financial statements or need additional financial information, contact the Authority's Finance Office, 2202 Burnett Blvd., Wilmington, NC 28401.

FINANCIAL STATEMENTS

North Carolina State Ports Authority
Statement of Net Position
June 30, 2022

ASSETS		
Current Assets:		
Cash and Cash Equivalents	$	3,752,535
Restricted Cash and Cash Equivalents		252,565
Short-Term Investments		23,912,000
Receivables, Net (Note 4)		10,306,075
Inventories		754,522
Prepaid Items		2,566,123
Leases Receivable (Note 9)		2,027,983
Total Current Assets		43,571,803
Noncurrent Assets:		
Restricted Due from Primary Government		386,508
Investments		34,678,174
Restricted Investments		50,668,000
Unamortized Charges		48,859
Leases Receivable (Note 9)		17,649,118
Net Other Postemployment Benefits Asset		11,674
Capital Assets - Nondepreciable (Note 5)		83,634,173
Capital Assets - Depreciable, Net (Note 5)		414,971,317
Total Noncurrent Assets		602,047,823
Total Assets		645,619,626
DEFERRED OUTFLOWS OF RESOURCES		
Deferred Loss on Refunding		137,577
Deferred Outflows Related to Pensions		4,736,421
Deferred Outflows Related to Other Postemployment Benefits (Note 12)		5,832,621
Total Deferred Outflows of Resources		10,706,619
LIABILITIES		
Current Liabilities:		
Accounts Payable and Accrued Liabilities (Note 6)		6,715,810
Due to Primary Government		960,776
Unearned Revenue		289,282
Interest Payable		670,084
Long-Term Liabilities - Current Portion (Note 8)		6,547,441
Total Current Liabilities		15,183,393
Noncurrent Liabilities:		
Long-Term Liabilities (Note 8)		116,458,960
Total Liabilities		131,642,353

DEFERRED INFLOWS OF RESOURCES	
Deferred Gain on Refunding	140,787
Deferred Inflows Related to Pensions	5,030,788
Deferred Inflows Related to Other Postemployment Benefits (Note 12)	5,880,420
Deferred Inflows for Leases	19,677,101
Total Deferred Inflows of Resources	30,729,096
NET POSITION	
Net Investment in Capital Assets	404,347,156
Restricted:	
Expendable:	
Capital Projects	51,055,203
Debt Service	252,566
Total Restricted-Expendable Net Position	51,307,769
Unrestricted	38,299,871
Total Net Position	$ 493,954,796

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

North Carolina State Ports Authority
Statement of Revenues, Expenses, and Changes in Net Position
For the Fiscal Year Ended June 30, 2022

Exhibit A-2

OPERATING REVENUES		
Sales and Services (Net of $65,801 of Allowance for Doubtful Accounts)	$	61,961,948
Lease Income		4,179,430
Total Operating Revenues		66,141,378
OPERATING EXPENSES		
Salaries and Benefits		22,168,028
Supplies and Materials		3,908,233
Services		15,932,575
Capital Asset Impairment Losses		3,704,464
Insurance and Bonding		2,383,982
Other Operating Expense		214,681
Depreciation/Amortization		15,720,964
Total Operating Expenses		64,032,927
Operating Income		2,108,451
NONOPERATING REVENUES (EXPENSES)		
State Aid - Coronavirus		326,274
Noncapital Contributions		135,556
Investment Loss (Includes $35,704 of Investment Expense)		(1,768,597)
Interest and Fees on Debt		(2,259,248)
Insurance Repairs (Net of Recoveries of $430,299)		(376,046)
Interest Earned on Leases		587,697
Other Nonoperating Revenues		1,000,631
Net Nonoperating Expenses		(2,353,733)
Loss Before Other Revenues		(245,282)
Capital Appropriations		50,000,000
Capital Contributions		3,093,403
Total Other Revenues		53,093,403
Increase in Net Position		52,848,121
NET POSITION		
Net Position - July 1, 2021		441,106,675
Net Position - June 30, 2022	$	493,954,796

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

North Carolina State Ports Authority
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2022

CASH FLOWS FROM OPERATING ACTIVITIES	
Received from Customers	$ 64,413,613
Payments to Employees and Fringe Benefits	(24,523,946)
Payments to Vendors and Suppliers	(21,635,011)
Net Cash Provided by Operating Activities	18,254,656
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
State Aid - Coronavirus	326,274
Cash Provided by Noncapital Financing Activities	326,274
CASH FLOWS FROM CAPITAL FINANCING AND RELATED FINANCING ACTIVITIES	
Capital Appropriations	50,000,000
Capital Contributions	3,269,241
Proceeds from Sale of Capital Assets	968,271
Insurance Repair Payments	(806,345)
Insurance Repair Recoveries	430,299
Interest Earned on Leases	587,697
Acquisition and Construction of Capital Assets	(31,981,156)
Principal Paid on Capital Debt	(6,056,914)
Interest and Fees Paid on Capital Debt	(2,096,361)
Net Cash Provided by Capital Financing and Related Financing Activities	14,314,732
CASH FLOWS FROM INVESTING ACTIVITIES	
Proceeds from Sales and Maturities of Investments	11,833,000
Investment Income	650,230
Purchase of Investments and Related Fees	(44,913,112)
Net Cash Used by Investing Activities	(32,429,882)
Net Increase in Cash and Cash Equivalents	465,780
Cash and Cash Equivalents - July 1, 2021	3,539,320
Cash and Cash Equivalents - June 30, 2022	$ 4,005,100

North Carolina State Ports Authority
Statement of Cash Flows — *Exhibit A-3*
For the Fiscal Year Ended June 30, 2022 — *Page 2 of 2*

RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES

Operating Income	$	2,108,451
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:		
Depreciation/Amortization Expense		15,720,964
Impairment Losses		3,704,464
Changes in Assets and Deferred Outflows of Resources:		
Receivables, Net		(1,708,513)
Unamortized Charges		1,181,106
Inventories		(98,699)
Prepaid Assets		(234,145)
Net Other Postemployment Benefits Asset		22,944
Deferred Outflows Related to Pensions		38,133
Deferred Outflows Related to Other Postemployment Benefits		(321,196)
Changes in Liabilities and Deferred Inflows of Resources:		
Accounts Payable and Accrued Liabilities		(339,779)
Due to Primary Government		171,630
Unearned Revenue		(59,318)
Net Pension Liability		(6,357,371)
Net Other Postemployment Benefits Liability		2,489,103
Compensated Absences		20,032
Workers' Compensation Liability		(60,006)
Deferred Inflows Related to Pensions		5,030,788
Deferred Inflows Related to Other Postemployment Benefits		(3,053,932)
Net Cash Provided by Operating Activities	$	18,254,656

NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES

Assets Acquired through the Assumption of a Liability	$	2,499,896
Change in Fair Value of Investments		(2,450,085)
Increase in Receivables Related to Nonoperating Revenues		31,258
Decrease in Net Other Postemployment Benefits Liability Related to Noncapital Contributions		(135,556)
Capital Asset Impairment Losses		(2,746,699)

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

NOTES TO THE FINANCIAL STATEMENTS

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

A. **Financial Reporting Entity** - The concept underlying the definition of the financial reporting entity is that elected officials are accountable to their constituents for their actions. As required by accounting principles generally accepted in the United States of America (GAAP), the financial reporting entity includes both the primary government and all of its component units. An organization other than a primary government serves as a nucleus for a reporting entity when it issues separate financial statements. The North Carolina State Ports Authority (Authority) is a component unit of the State of North Carolina and an integral part of the State's *Annual Comprehensive Financial Report*.

   The accompanying financial statements present all funds belonging to the Authority. Related foundations for which the Authority is not financially accountable or for which the nature of their relationship is not considered significant to the Authority are not part of the accompanying financial statements.

B. **Basis of Presentation** - The accompanying financial statements are presented in accordance with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board (GASB). Pursuant to the provisions of GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments,* the full scope of the Authority's activities is considered to be a single business-type activity and accordingly, is reported within a single column in the basic financial statements.

C. **Basis of Accounting** - The financial statements of the Authority have been prepared using the economic resource measurement focus and the accrual basis of accounting. Under the accrual basis, revenues are recognized when earned, and expenses are recorded when an obligation has been incurred, regardless of the timing of the cash flows.

   Nonexchange transactions, in which the Authority receives (or gives) value without directly giving (or receiving) equal value in exchange, include state capital appropriations, certain grants, and investment income. Revenues are recognized, net of estimated uncollectible amounts, as soon as all eligibility requirements imposed by the provider have been met, if probable of collection.

D. **Cash and Cash Equivalents** - This classification includes cash on deposit with private bank accounts, cash on deposit with fiscal agents, and deposits held by the State Treasurer in the Short-Term Investment Fund (STIF). The STIF maintained by the State Treasurer has the general characteristics of a demand deposit account in that participants may deposit and withdraw cash at any time without prior notice or penalty.

E. **Investments** - To the extent available, investments are recorded at fair value based on quoted market prices in active markets on a trade-date basis. Additional information regarding the fair value measurement of investments is disclosed in Note 3. Because of the inherent uncertainty in the use of estimates, values that are based on estimates may differ from the values that would have been used had a ready market existed for the investments. The net change in the value of investments is recognized as a component of investment income.

F. **Receivables** - Receivables consist of charges to customers for services, contract guarantees, and use of facilities. Receivables also include amounts due from the federal government in connection with reimbursement of allowable expenditures made pursuant to contracts, as well as interest income receivable. Receivables are recorded net of estimated uncollectible amounts.

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

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

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

J. **Capital Assets** - Capital assets are stated at cost at date of acquisition or acquisition value at date of donation in the case of gifts. Donated capital assets acquired prior to July 1, 2015 are stated at fair value as of the date of donation. The value of assets constructed includes all material direct and indirect construction costs.

The Authority capitalizes assets that have a value or cost of $5,000 or greater at the date of acquisition and an estimated useful life of more than one year. The Authority capitalizes intangible assets and internally generated computer software under these same provisions.

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

Asset Class	Estimated Useful Life
Buildings	10-75 years
Machinery and Equipment	2-40 years
General Infrastructure	10-60 years
Computer Software	2-5 years

K. **Restricted Assets** - Certain resources are reported as restricted assets because restrictions on asset use change the nature or normal understanding of the availability of the asset. Resources that are not available for current operations and are reported as restricted include resources restricted for the acquisition or construction of capital assets and resources legally segregated for the payment of principal and interest as required by debt covenants.

L. **Noncurrent Long-Term Liabilities** - Noncurrent long-term liabilities include principal amounts of long-term debt and other long-term liabilities that will not be paid within the next fiscal year. Debt is defined as a liability that arises from a contractual obligation to pay cash (or other assets that may be used in lieu of cash) in one or more payments to settle an amount that is fixed at the date the contractual obligation is established. Long-term debt includes revenue bonds payable and a note from direct borrowing. Other long-term liabilities include: compensated absences, net pension liability, net other postemployment benefits (OPEB) liability, and workers' compensation.

Deferred gains and losses on refundings are amortized over the life of the old debt or new debt (whichever is shorter) using the straight-line method, and are aggregated as deferred outflows of resources or deferred inflows of resources on the Statement of Net Position. Issuance costs are expensed in the reporting period in which they are incurred.

The net pension liability represents the Authority's proportionate share of the collective net pension liability reported in the State of North Carolina's 2021 *Annual Comprehensive Financial Report.* This liability represents the Authority's portion of the collective total pension liability less the fiduciary net position of the Teachers' and State Employees' Retirement System. See Note 11 for further information regarding the Authority's policies for recognizing liabilities, expenses, 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 2021 *Annual Comprehensive 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 12 for further information regarding the Authority's policies for recognizing liabilities, expenses, deferred outflows of resources, and deferred inflows of resources related to OPEB.

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

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

N. **Deferred Outflows/Inflows of Resources** - Deferred outflows of resources represent a consumption of net assets that applies to a future period(s) and so will not be recognized as an outflow of resources (expense) until then. Deferred inflows of resources represent an acquisition of net assets that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until then.

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

Net Investment in Capital Assets - This represents the Authority's total investment in capital assets, net of outstanding liabilities related to those capital assets. To the extent debt has been incurred but not yet expended for capital assets, such amounts are not included as a component of net investment in capital assets. Additionally, deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction, or improvement of capital assets or related debt are also included in this component of net position.

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

Unrestricted Net Position - Unrestricted net position includes resources derived from sales and services, lease income, sale of surplus property, and interest income. It also includes the net position of accrued employee benefits such as compensated absences, workers' compensation, pension plans, and other postemployment benefits.

Restricted and unrestricted resources are tracked separately. When both restricted and unrestricted funds are available for expenditure, the decision for funding is determined by management on a case-by-case basis. See Note 10 for further information regarding deferred outflows of resources and deferred inflows of resources that had a significant effect on unrestricted net position.

P. **Revenue and Expense Recognition** - The Authority classifies its revenues and expenses as operating or nonoperating in the accompanying Statement of Revenues, Expenses, and Changes in Net Position. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the Authority's principal ongoing operations. Operating revenues include activities that have characteristics of exchange transactions, such as sales and services and lease income. Operating expenses are all expense transactions incurred other than those related to capital and noncapital financing or investing activities as defined by GASB Statement No. 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting*.

Nonoperating revenues include activities that have the characteristics of nonexchange transactions. Revenues from nonexchange transactions and state capital appropriations that represent subsidies or gifts to the Authority, as well as investment income, are considered nonoperating since these are either investing, capital, or noncapital financing activities. Capital contributions are presented separately after nonoperating revenues and expenses.

NOTE 2 - DEPOSITS AND INVESTMENTS

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

At June 30, 2022, the amount shown on the Statement of Net Position as cash and cash equivalents includes $43,800, 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 0.9 years as of June 30, 2022. Assets and shares of the STIF are valued at fair value. Deposit and investment risks associated with the State Treasurer's Investment Pool (which includes the

State Treasurer's STIF) are included in the North Carolina Department of State Treasurer Investment Programs' separately issued audit report. This separately issued report can be obtained from the Department of State Treasurer, 3200 Atlantic Avenue, Raleigh, NC 27604 or can be accessed from the Department of State Treasurer's website at https://www.nctreasurer.com/ in the Audited Financial Statements section.

The Authority deposits the majority of cash deposits to meet working capital needs with private depository institutions. The carrying amount of the Authority's deposits not with the State Treasurer was $3,961,300, and the bank balance was $4,841,328. 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, 2022, the Authority's bank balance exposed to custodial credit risk (amounts that are uninsured and uncollateralized) was $4,091,084.

B. Investments - The Authority invests its excess funds in accordance with North Carolina General Statute 159-30, as discussed below.

G.S. 159-30 authorizes the Authority to invest in the following: obligations of or fully guaranteed by the United States; obligations of certain federal agencies; repurchase agreements; obligations of the State of North Carolina; certificates of deposit and other deposit accounts of specified financial institutions; prime quality commercial paper; asset-backed securities with specified ratings, specified bills of exchange or time drafts, and corporate bonds/notes with specified ratings; general obligations of other states; general obligations of North Carolina local governments; and obligations of certain entities with specified ratings.

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

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

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

Credit Risk: Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The Authority does have a formal policy that addresses credit risk. The policy limits investments to obligations of the United States, or obligations backed by the full faith and credit by the U.S. government; government agencies; repurchase agreements with regard to securities guaranteed by the U.S. government; obligations with the state of North Carolina; time deposits of banks with a physical presence in North Carolina for the purpose of receiving commercial or retail deposits, not to exceed $250,000 per deposit (must be FDIC insured); prime quality commercial paper with a credit rating of no less than AAA by a nationally recognized rating agency; and corporate bonds and notes that bear a rating of no less than AAA by a nationally recognized rating agency.

Custodial Credit Risk: Custodial credit risk is the risk that, in the event of the failure of the counterparty, the Authority will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Authority does have a formal policy that addresses safekeeping and custody. Investments must be secured through independent third-party custody and safekeeping procedures and benchmark performance must be reviewed annually.

The following table presents investments by type and investments subject to interest rate risk at June 30, 2022:

		Investment Maturities (in Years)	
	Amount	Less Than 1	1 to 5
Investment Type			
Debt Securities			
U.S. Treasuries	$ 53,687,607	$ 30,290,053	$ 23,397,554
U.S. Agencies	15,205,792	5,198,637	10,007,155
Money Market Mutual Funds	28,700,941	28,700,941	-
Domestic Corporate Bonds	11,663,834	3,994,375	7,669,459
Total Debt Securities	$ 109,258,174	$ 68,184,006	$ 41,074,168

At June 30, 2022, the Authority's investments had the following credit quality distribution for securities with credit exposure:

	AAA Aaa
U.S. Agencies	$ 15,205,792
Money Market Mutual Funds	28,700,941
Domestic Corporate Bonds	11,663,834
Total	$ 55,570,567

Rating Agency: Moody's

At June 30, 2022, the Authority's investments were exposed to custodial credit risk as follows:

Investment Type	Held by Counterparty's Trust Dept or Agent not in Authority's Name
U.S. Treasuries	$ 53,687,607
U.S. Agencies	15,205,792
Domestic Corporate Bonds	11,663,834
Total	$ 80,557,233

NOTE 3 - FAIR VALUE MEASUREMENTS

To the extent available, the Authority's investments are recorded at fair value as of June 30, 2022. GASB Statement No. 72, *Fair Value Measurement and Application*, defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This statement establishes a hierarchy of valuation inputs based on the extent to which the inputs are observable in the marketplace. Inputs are used in applying the various valuation techniques and take into account the assumptions that market participants use to make valuation decisions. Inputs may include price information, credit data, interest and yield curve data, and other factors specific to the financial instrument. Observable inputs reflect market data obtained from independent sources. In contrast, unobservable inputs reflect the entity's assumptions about how market participants would value the financial instrument. Valuation techniques should maximize the use of observable inputs to the extent available.

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

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

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

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

The following table summarizes the Authority's investments, including deposits in the Short-Term Investment Fund, within the fair value hierarchy at June 30, 2022:

		Fair Value Measurements Using		
	Fair Value	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs
Investments by Fair Value Level				
Debt Securities				
U.S. Treasuries	$ 53,687,607	$ 53,687,607	$ -	$ -
U.S. Agencies	15,205,792	15,205,792	-	-
Money Market Mutual Funds	28,700,941	28,700,941	-	-
Domestic Corporate Bonds	11,663,834	11,663,834	-	-
Total Debt Securities	109,258,174	$ 109,258,174	$ -	$ -
Investments as a Position in an External Investment Pool				
Short-Term Investment Fund	43,800			
Total Investments Measured at Fair Value	$ 109,301,974			

Short-Term Investment Fund - Ownership interests of the STIF are 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 Statement No. 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.

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

NOTE 4 - RECEIVABLES

Receivables at June 30, 2022, were as follows:

	Gross Receivables	Less Allowance for Doubtful Accounts	Net Receivables
Receivables:			
Due from Customers	$ 10,278,547	$ 309,266	$ 9,969,281
Intergovernmental	37,971	-	37,971
Investment Earnings	117,712	-	117,712
Other	181,111	-	181,111
Total Receivables	$ 10,615,341	$ 309,266	$ 10,306,075

NOTE 5 - CAPITAL ASSETS

A summary of changes in the capital assets for the year ended June 30, 2022, is presented as follows:

	Balance July 1, 2021	Increases	Decreases	Balance June 30, 2022
Capital Assets, Nondepreciable:				
Land and Permanent Easements	$ 58,164,920	$ 334,876	$ 10,506	$ 58,489,290
Construction in Progress	35,394,611	22,897,518	35,810,322	22,481,807
Computer Software in Development	5,945,833	3,735,916	7,018,673	2,663,076
Total Capital Assets, Nondepreciable	99,505,364	26,968,310	42,839,501	83,634,173
Capital Assets, Depreciable:				
Buildings	92,018,232	11,945,608	232,786	103,731,054
Machinery and Equipment	129,058,060	4,109,226	1,137,479	132,029,807
General Infrastructure	343,449,578	22,496,421	6,830,797	359,115,202
Computer Software	7,733,047	7,018,673	1,756,833	12,994,887
Total Capital Assets, Depreciable	572,258,917	45,569,928	9,957,895	607,870,950
Less Accumulated Depreciation/Amortization for:				
Buildings	36,953,858	1,868,161	166,277	38,655,742
Machinery and Equipment	37,694,365	5,057,133	1,135,463	41,616,035
General Infrastructure	104,825,287	7,258,303	3,195,511	108,888,079
Computer Software	3,958,590	1,537,367	1,756,180	3,739,777
Total Accumulated Depreciation/Amortization	183,432,100	15,720,964	6,253,431	192,899,633
Total Capital Assets, Depreciable, Net	388,826,817	29,848,964	3,704,464	414,971,317
Capital Assets, Net	$ 488,332,181	$ 56,817,274	$ 46,543,965	$ 498,605,490

The Authority recorded an impairment loss of $3,704,464 due to obsolescence of certain assets as they were replaced with new construction in the ongoing capital expansion program.

NOTE 6 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities at June 30, 2022, were as follows:

	Amount
Accounts Payable	$ 3,174,752
Accounts Payable - Capital Assets	2,263,881
Accrued Payroll	1,041,162
Contract Retainage	236,015
Total Accounts Payable and Accrued Liabilities	$ 6,715,810

NOTE 7 - SHORT-TERM DEBT - UNUSED LINES OF CREDIT

The Authority had a line of credit agreement with Truist Bank for financing of an amount up to $25,000,000. This line was unused during the year ended June 30, 2022 and was closed before year-end.

NOTE 8 - LONG-TERM LIABILITIES

A. **Changes in Long-Term Liabilities** - A summary of changes in the long-term liabilities for the year ended June 30, 2022, is presented as follows:

	Balance July 1, 2021 (as Restated)	Additions	Reductions	Balance June 30, 2022	Current Portion
Long-Term Debt					
Revenue Bonds Payable	$ 47,195,000	$ -	$ 2,340,000	$ 44,855,000	$ 2,400,000
Note from Direct Borrowing	50,620,352	-	3,716,914	46,903,438	3,801,353
Total Long-Term Debt	97,815,352	-	6,056,914	91,758,438	6,201,353
Other Long-Term Liabilities					
Employee Benefits					
Compensated Absences	1,507,184	914,847	894,815	1,527,216	276,088
Net Pension Liability	10,344,606	-	6,357,371	3,987,235	-
Net Other Postemployment Benefits Liability	20,056,168	2,353,547	-	22,409,715	-
Workers' Compensation	3,383,803	-	60,006	3,323,797	70,000
Total Other Long-Term Liabilities	35,291,761	3,268,394	7,312,192	31,247,963	346,088
Total Long-Term Liabilities	$ 133,107,113	$ 3,268,394	$ 13,369,106	$ 123,006,401	$ 6,547,441

Additional information regarding the net pension liability is included in Note 11.
Additional information regarding the net other postemployment benefits liability is included in Note 12.
Additional information regarding workers' compensation is included in Note 13.

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

Purpose	Series	Interest Rate/ Ranges	Final Maturity Date	Original Amount of Issue	Principal Outstanding June 30, 2022
Construct Bulk Grain Facility	2001	0.25% - 15%	09/2022	$ 11,000,000	$ 295,000
Ports Facilities Senior Lien Revenue Refunding Bond	2013	0.742% - 6%	02/2036	10,000,000	9,160,000
Ports Facilities Subordinated Revenue Refunding Bond	2014	0.722% - 6%	02/2029	9,750,000	5,540,000
Ports Facilities Senior Lien Revenue Refunding Bond	2020A	2.69%	02/2040	21,755,000	21,380,000
Ports Facilities Senior Lien Revenue Refunding Bond	2020C	2.10%	02/2029	10,670,000	8,480,000
Total Revenue Bonds Payable				$ 63,175,000	$ 44,855,000

C. Note from Direct Borrowing - The Authority was indebted for a note from direct borrowing for the purpose shown in the following table:

Purpose	Financial Institution	Interest Rate	Final Maturity Date	Original Amount of Issue	Principal Outstanding June 30, 2022
2017 Crane Refinancing Note	Sun Trust Equipment Finance & Leasing Corp.	2.259%	04/2033	$ 62,850,845	$ 46,903,438

D. Annual Requirements - The annual requirements to pay principal and interest on the long-term obligations at June 30, 2022, are as follows:

	Annual Requirements			
	Revenue Bonds Payable		Note from Direct Borrowing	
Fiscal Year	Principal	Interest	Principal	Interest
2023	$ 2,400,000	$ 881,470	$ 3,801,353	$ 1,016,733
2024	2,175,000	834,296	3,887,711	929,888
2025	2,250,000	797,883	3,976,030	841,070
2026	2,320,000	760,377	4,066,356	750,234
2027	2,400,000	721,801	4,158,734	657,324
2028-2032	13,190,000	2,963,915	22,254,476	1,817,611
2033-2037	14,110,000	1,630,782	4,758,778	53,901
2038-2040	6,010,000	326,163	-	-
Total Requirements	$ 44,855,000	$ 8,916,687	$ 46,903,438	$ 6,066,761

Interest on the variable rate Series 2013 revenue bonds is calculated at 2.0625% at June 30, 2022.
Interest on the variable rate Series 2014 revenue bonds is calculated at 2.0625% at June 30, 2022.

E. Terms of Debt Agreements - The Authority's debt agreements are subject to the following collateral requirements and terms with finance-related consequences:

Revenue Bonds Payable - The Authority's revenue bonds payable are governed by a trust agreement with U.S. Bank National Association as trustee. This trust agreement requires that the Authority collect receipts in order that for each fiscal year the income available for debt service will not be less than 135% of the long-term debt service requirements for parity indebtedness for that year, and will not be less than 105% of the long-term debt service requirements for parity and subordinated indebtedness for that year.

Provisions related to events of defaults and remedies are also contained within the trust agreement. Significant to these provisions, an event of default occurs when: (1) the Authority fails to pay principal, interest, or premium on any bonds when due and payable, (2) the Authority fails to pay, appeal, or have discharged within 120 days any judgements in excess of $500,000, (3) the Authority becomes insolvent or the subject of insolvency or similar proceedings, (4) a court of competent jurisdiction assumes custody or control of the Authority and such custody is not terminated within 90 days, or (5) the Authority defaults in the due and punctual performance of any other of the covenants, conditions, agreements, and provisions of the agreements and such default continues for 30 days after receipt of a written notice without the Authority instituting action reasonably designed to cure such default. Upon the happening and continuance of any event of default, the trustee may, or if required by the owners of the bonds, must declare all unpaid principal and interest immediately due and payable.

The Authority is also required to annually file the following with the trustee: (1) capital improvements budget, (2) annual audit within 180 days of fiscal year end, (3) officer's certificate within 60 days of fiscal year end stating whether any violations or default occurred, and (4) an insurance report with 60 days of fiscal year end listing policies currently in force including names of such companies, expiration dates, the risks covered, and if a consultant was employed during such fiscal year.

The Authority's revenue bonds contain certain other terms and remedies as detailed below.

Series 2001 - The Authority entered into an agreement with a customer to construct a bulk materials facility through the issuance of special purpose bonds. Debt service obligations related to these bonds were split between the Authority and the customer. The Authority has met its obligation with respect to its portion of debt service and the remaining obligation is that of the customer only. The customer is responsible for remitting remaining principal and interest payments to the Authority which are used to fund the remaining debt service payments. The remaining liability is not secured by or payable from receipts of the Authority. In the event of a default by the customer due to bankruptcy, the remaining principal and interest payments would be the sole responsibility of the Authority. The Authority has secured the outstanding bonds through a standby letter of credit to service the debt through maturity.

Series 2013 - The Series 2013 bonds are secured by a senior lien upon and pledge of the net receipts of the Authority and are on parity with all other parity indebtedness. In addition to the provisions above, a provision for rate adjustment from and after an event of default until remedied or otherwise waived equal to the greater of the prime rate plus 2%, or 6%.

The Authority is also required to annually file a compliance certificate containing the following provisions: (1) debt service coverage ratio for all debt (parity, subordinate, and non-pledge) at least 105%, and (2) a no default certification.

Series 2014 - The Series 2014 bonds are secured by a junior lien upon and pledge of the net receipts of the Authority. As additional security for these bonds the Authority executed and delivered a deed of trust on the site of the NC International Terminal project to secure the Authority's obligations. In addition to the provisions above, a provision for rate adjustment from and after an event of default until remedied or otherwise waived equal to the greater of the prime rate plus 2%, or 6%. The required annual filing from the Series 2013 bonds apply to Series 2014 as well.

Series 2020AC - The Series 2020AC bonds are secured by a senior lien on the net receipts of the Authority, defined as all receipts after the payment of current expenses. There are no pre-payment penalties associated with the bond issue.

Note from Direct Borrowing - The Authority's direct borrowing agreement contains provisions related to events of defaults and remedies. Significant to these provisions, an event of default occurs when: (1) the Authority fails to pay, within 10 days following the due date thereof, any payment or other amount required, (2) the Authority fails to perform or abide by any condition, agreement, or covenant for a period of 30 days after written notice unless extension is granted, (3) the Authority is found to have made a representation or warrant that was untrue in any material respect upon execution of the agreement, (4) an event of taxability occurs, or (5) the Authority declares bankruptcy or otherwise enters proceedings which impair its ability to continue operations. Upon the happening and continuance of any event of default, the lessor may declare all payments immediately due and payable, repossess any or all of the equipment acquired through the agreement, or take any other remedy available by law.

In addition to the provisions above, the direct borrowing agreement contains the following requirements: (1) the Authority many not take on any additional lien or encumbrance against the financed equipment, (2) the Authority must adhere to terms, conditions and covenants made in other trust agreements, and (3) the Authority must maintain a debt-to-capitalization ratio that is less than 0.6:1. The Authority is also required to maintain certain levels of insurance on the financed equipment through the duration of the agreement.

NOTE 9 - LEASES

The Authority's leasing arrangements at June 30, 2022 are summarized below (excluding short-term leases):

Classification:	Number of Lease Contracts	Lease Receivable June 30, 2022	Current Portion	Lease Terms	Interest Rate
Lessor:					
Land	2	$ 17,469,194	$ 1,208,860	8-13 years	3.3%
Buildings	2	2,207,907	819,123	1-6 years	2.5%
Total	4	$ 19,677,101	$ 2,027,983		

A. Lease Receivable - Measurement of the lease receivable excluded the following variable payment amounts: the increase or decrease in payments after the initial measurement of the lease receivable that depend on customer-specific contract terms. During the year the Authority did not recognize any variable payment amounts.

B. Annual Lease Revenues - The annual principal and interest lease revenues under noncancelable lease agreements (excluding short-term leases), are as follows at June 30, 2022:

Fiscal Year	Principal	Interest
2023	$ 2,027,983	$ 582,036
2024	1,527,877	528,887
2025	1,573,288	483,476
2026	1,620,120	436,644
2027	1,668,421	388,343
2028-2032	7,168,602	1,221,910
2033-2035	4,090,810	208,202
Total Lease Revenues	$ 19,677,101	$ 3,849,498

NOTE 10 - NET POSITION

Unrestricted net position has been significantly affected by transactions resulting from the recognition of deferred outflows of resources, deferred inflows of resources, and related long-term liabilities, as shown in the following table:

	Amount
Net Pension Liability and Related Deferred Outflows of Resources and Deferred Inflows of Resources	$ (4,281,602)
Net OPEB Liability (Retiree Health Benefit Fund) and Related Deferred Outflows of Resources and Deferred Inflows of Resources	(22,501,366)
Effect on Unrestricted Net Position	(26,782,968)
Total Unrestricted Net Position Before Recognition of Deferred Outflows of Resources, Deferred Inflows of Resources, and Related Long-Term Liabilities	65,082,839
Total Unrestricted Net Position	$ 38,299,871

See Notes 11 and 12 for detailed information regarding the amortization of the deferred outflows of resources and deferred inflows of resources relating to pensions and OPEB, respectively.

NOTE 11 - PENSION PLANS

A. 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 membership 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 membership 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.

Contributions: Contribution provisions are established by General Statute 135-8 and may be amended only by the North Carolina General Assembly. Plan members 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 and may not be less than the contribution rate required of plan members. The TSERS Board of Trustees establishes a funding policy from which an accrued liability rate and a normal contribution rate are developed by the consulting actuary. The sum of those two rates developed under the funding policy is the actuarially determined contribution rate (ADC). The TSERS Board of Trustees may further adopt a contribution rate policy that is higher than the ADC known as the required employer contribution to be recommended to the North Carolina General Assembly. The Authority's contractually-required contribution rate for the year ended June 30, 2022 was 16.38% of covered payroll. Plan members' contributions to the pension plan were $975,347, and the Authority's contributions were $2,662,698 for the year ended June 30, 2022.

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 2021 *Annual Comprehensive 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 are 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. For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the TSERS plan, and additions to/deductions from the TSERS plan's fiduciary net position have been determined on the same basis as they are reported by TSERS.

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 participate in the Long-Term Investment, the 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 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 2021 *Annual Comprehensive Financial Report*.

Net Pension Liability: At June 30, 2022, the Authority reported a liability of $3,987,235 for its proportionate share of the collective net pension liability. The net pension liability was measured as of June 30, 2021. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2020, and update procedures were used to roll forward the total pension liability to June 30, 2021. The Authority's proportion of the net pension liability was based on a projection of the present value of future salaries for the Authority relative to the projected present value of future salaries for all participating employers, actuarially-determined. As of June 30, 2021, the Authority's proportion was 0.08515%, which was a decrease of 0.00047 from its proportion measured as of June 30, 2020, which was 0.08562%.

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	12/31/2020
Inflation	2.5%
Salary Increases*	3.25% - 8.05%
Investment Rate of Return**	6.5%

* Salary increases include 3.25% 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. public plan population. The mortality rates also contain a provision to reflect future mortality improvements.

The actuarial assumptions used in the December 31, 2020 valuations were based on the results of an actuarial experience review for the period January 1, 2015 through December 31, 2019.

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, 2021 (the measurement 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 as part of a study conducted in 2016, 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, 2021 is 1.3%.

Discount Rate: The discount rate used to measure the total pension liability was 6.5% for the December 31, 2020 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, 2021 calculated using the discount rate of 6.5%, as well as what the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower (5.5%) or 1-percentage point higher (7.5%) than the current rate:

Net Pension Liability		
1% Decrease (5.5%)	Current Discount Rate (6.5%)	1% Increase (7.5%)
$ 13,374,688	$ 3,987,235	$ (3,816,092)

Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions: For the year ended June 30, 2022, the Authority recognized pension expense of $1,374,248. At June 30, 2022, the Authority reported deferred outflows of resources and deferred inflows of resources related to TSERS 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	$ 224,128	$ 90,554
Changes of Assumptions	1,495,655	-
Net Difference Between Projected and Actual Earnings on Plan Investments	-	4,940,234
Change in Proportion and Differences Between Employer's Contributions and Proportionate Share of Contributions	353,940	-
Contributions Subsequent to the Measurement Date	2,662,698	-
Total	$ 4,736,421	$ 5,030,788

The amount reported as deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the fiscal year ending June 30, 2023. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to TSERS 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 Ending June 30:	Amount
2023	$ (306,544)
2024	(433,329)
2025	(702,042)
2026	(1,515,150)
Total	$ (2,957,065)

NOTE 12 - 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 2021 *Annual Comprehensive 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. For purposes of measuring the net other postemployment benefits (OPEB) liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of each plan, and additions to/deductions from each plans' fiduciary net position have been determined on the same basis as they are reported by the 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 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 2021 *Annual Comprehensive 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 by Chapter 135-7, Article 1 of the General Statutes as a fund to provide health benefits to retired and disabled employees and their applicable beneficiaries. 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 13. The plan options change when former employees become eligible for Medicare. The benefits provided include medical and pharmacy coverage for employees and their dependents. Non-Medicare eligible members have two self-funded options administered by the State Health Plan while Medicare members have three options, including one self-funded option and two fully-insured Medicare Advantage/Prescription Drug Plan options. Self-funded medical and pharmacy claims costs are shared between the covered member and the State Health Plan. If the self-funded plan is elected by a Medicare eligible member, the coverage is secondary to Medicare. Fully-insured claims include cost sharing from covered members with the remaining balance paid by the fully-insured carrier.

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 North Carolina General Assembly first taking office on or after February 1, 2007, future coverage as retired employees and retired members of the North Carolina 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 North Carolina 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. Employees first hired on or after October 1, 2006 and members of the North Carolina General Assembly first taking office on or after February 1, 2007 with five but less than 10 years of retirement service credit are eligible for coverage on a fully contributory basis.

Section 35.21 (c) & (d) of Session Law 2017-57 repeals retiree medical benefits for employees first hired on or after January 1, 2021. The legislation amends Chapter 135, Article 3B of the General Statutes to require that retirees must earn contributory retirement service in the Teachers' and State Employees' Retirement System (or in an allowed local system unit), the Consolidated Judicial Retirement System, or the Legislative Retirement System prior to January 1, 2021, and not withdraw that service, in order to be eligible for retiree medical benefits under the amended law. Consequently, members first hired on and after January 1, 2021 will not be eligible to receive retiree medical benefits.

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 North Carolina General Assembly in the Appropriations Bill. The Authority's contractually-required contribution rate for the year ended June 30, 2022 was 6.29% of covered payroll. The Authority's contributions to the RHBF were $1,022,489 for the year ended June 30, 2022.

In fiscal year 2021, the State Health Plan (the Plan) transferred $187.0 million to RHBF as a result of cost savings to the Plan over a span of six years. For financial reporting purposes, the transfer was recognized as a nonemployer contributing entity contribution. The contribution was allocated among RHBF employers and recorded as noncapital contributions. For the fiscal year ended June 30, 2022, the Authority recognized noncapital contributions for RHBF of $135,556.

2. Disability Income

Plan Administration: As discussed in Note 13, 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 and 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 North Carolina General Assembly and coincide with the State's fiscal year. The Authority's contractually-required contribution rate for the year ended June 30, 2022 was 0.09% of covered payroll. The Authority's contributions to DIPNC were $14,630 for the year ended June 30, 2022.

C. Net OPEB Liability (Asset)

Net OPEB Liability: At June 30, 2022, the Authority reported a liability of $22,409,715 for its proportionate share of the collective net OPEB liability for RHBF. The net OPEB liability was measured as of June 30, 2021. The total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of December 31, 2020, and update procedures were used to roll forward the total OPEB liability to June 30, 2021. The Authority's proportion of the net OPEB liability was based on a projection of the present value of future salaries for the Authority relative to the projected present value of future salaries for all participating employers, actuarially-determined. As of June 30, 2021, the Authority's proportion was 0.07249%, which was an increase of 0.00019 from its proportion measured as of June 30, 2020, which was 0.07230%.

Net OPEB Asset: At June 30, 2022, the Authority reported an asset of $11,674 for its proportionate share of the collective net OPEB asset for DIPNC. The net OPEB asset was measured as of June 30, 2021. The total OPEB liability used to calculate the net OPEB asset was determined by an actuarial valuation as of December 31, 2020, and update procedures were used to roll forward the total OPEB liability to June 30, 2021. The Authority's proportion of the net OPEB asset was based on a projection of the present value of future salaries for the Authority relative to the projected present value of future salaries for all participating employers, actuarially-determined. As of June 30, 2021, the Authority's proportion was 0.07147%, which was an increase of 0.00110 from its proportion measured as of June 30, 2020, which was 0.07037%.

Actuarial Assumptions: The total OPEB liabilities for RHBF and DIPNC were determined by actuarial valuations as of December 31, 2020, using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified. The total OPEB liabilities were then rolled forward to June 30, 2021 utilizing update procedures incorporating the actuarial assumptions.

	Retiree Health Benefit Fund	Disability Income Plan of N.C.
Valuation Date	12/31/2020	12/31/2020
Inflation	2.5%	2.5%
Salary Increases*	3.25% - 8.05%	3.25% - 8.05%
Investment Rate of Return**	6.5%	3.00%
Healthcare Cost Trend Rate - Medical	6% grading down to 5% by 2026	6% grading down to 5% by 2026
Healthcare Cost Trend Rate - Prescription Drug	9.5% grading down to 5% by 2030	9.5% grading down to 5% by 2030
Healthcare Cost Trend Rate - Medicare Advantage	5%	N/A
Healthcare Cost Trend Rate - Administrative	3%	3%

* Salary increases include 3.25% inflation and productivity factor.
** Investment rate of return is net of OPEB 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 or not disabled). The current mortality rates are based on published tables and studies that cover significant portions of the U.S. public plan 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 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. DIPNC is primarily invested in the Bond Index Investment Pool as of June 30, 2021.

Best estimates of real rates of return for each major asset class included in RHBF's target asset allocation as of June 30, 2021 (the measurement 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 as part of a study conducted in 2016, 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, 2021 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. The results of the valuations fluctuate from year to year as actual experience differs from assumptions. This includes demographic experiences (i.e., mortality and retirement) that differ from expected. This also includes financial experiences (i.e., member medical costs and contributions) that vary from expected trends. 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 have been 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, 2020 valuations were generally based on the results of an actuarial experience study prepared as of December 31, 2019, as amended for updates to certain assumptions (such as the long-term investment return, medical claims, and medical trend rate assumptions) implemented based on annual reviews that have occurred since that experience study.

Discount Rate: The discount rate used to measure the total OPEB liability for RHBF was 2.16% at June 30, 2021 compared to 2.21% at June 30, 2020. The projection of cash flows used to determine the discount rate assumed that contributions from employers would 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 to current plan members. As a result, a municipal bond rate of 2.16% was used as the discount rate used to measure the total OPEB liability. The 2.16% rate is based on the Bond Buyer 20-year General Obligation Index as of June 30, 2021.

The discount rate used to measure the total OPEB liability for DIPNC was 3.00%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members would be made at the current contribution rate and that contributions from employers would 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 to 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 liability.

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 (1.16%)	Current Discount Rate (2.16%)	1% Increase (3.16%)
RHBF	$ 26,657,218	$ 22,409,715	$ 18,971,522
	1% Decrease (2%)	Current Discount Rate (3%)	1% Increase (4%)
DIPNC	$ (7,371)	$ (11,674)	$ (15,655)

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:

Net OPEB Liability (Asset)

	1% Decrease (Medical - 4% - 5%, Pharmacy - 4% - 8.5%, Med. Advantage - 4%, Administrative - 2%)	Current Healthcare Cost Trend Rates (Medical - 5% - 6%, Pharmacy - 5% - 9.5%, Med. Advantage - 5%, Administrative - 3%)	1% Increase (Medical - 6% - 7%, Pharmacy - 6% - 10.5%, Med. Advantage - 6%, Administrative - 4%)
RHBF	$ 18,148,899	$ 22,409,715	$ 28,064,403

	1% Decrease (Medical - 4% - 5%, Pharmacy - 4% - 8.5%, Administrative - 2%)	Current Healthcare Cost Trend Rates (Medical - 5% - 6%, Pharmacy - 5% - 9.5%, Administrative - 3%)	1% Increase (Medical - 6% - 7%, Pharmacy - 6% - 10.5%, Administrative - 4%)
DIPNC	$ (12,287)	$ (11,674)	$ (10,910)

OPEB Expense: For the fiscal year ended June 30, 2022, the Authority recognized OPEB expense as follows:

OPEB Plan	Amount
RHBF	$ 148,380
DIPNC	1,733
Total OPEB Expense	$ 150,113

Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB: At June 30, 2022, 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	$ 132,304	$ 29,765	$ 162,069
Changes of Assumptions	1,832,922	2,050	1,834,972
Net Difference Between Projected and Actual Earnings on Plan Investments	-	1,139	1,139
Changes in Proportion and Differences Between Employer's Contributions and Proportionate Share of Contributions	2,795,294	2,028	2,797,322
Contributions Subsequent to the Measurement Date	1,022,489	14,630	1,037,119
Total	$ 5,783,009	$ 49,612	$ 5,832,621

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

	RHBF	DIPNC	Total
Differences Between Actual and Expected Experience	$ 417,149	$ -	$ 417,149
Changes of Assumptions	5,446,048	4,238	5,450,286
Net Difference Between Projected and Actual Earnings on Plan Investments	11,463	-	11,463
Changes in Proportion and Differences Between Employer's Contributions and Proportionate Share of Contributions	-	1,522	1,522
Total	$ 5,874,660	$ 5,760	$ 5,880,420

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 ending June 30, 2023. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized as 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 Ending June 30:	RHBF	DIPNC
2023	$ (1,673,440)	$ 7,625
2024	(106,691)	5,194
2025	352,225	6,741
2026	34,064	3,726
2027	279,702	1,669
Thereafter	-	4,267
Total	$ (1,114,140)	$ 29,222

NOTE 13 - RISK MANAGEMENT

The Authority is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These exposures to loss are handled via a combination of methods, including participation in state-administered insurance programs, purchase of commercial insurance, and self-retention of certain risks. There have been no significant reductions in insurance coverage from the previous year and settled claims have not exceeded coverage in any of the past three fiscal years.

A. Employee Benefit Plans

1. State Health Plan

Authority employees are provided comprehensive major medical care benefits. Coverage is funded by contributions to the State Health Plan (Plan), a discretely presented component unit of the State of North Carolina. The Plan is funded by employer and employee contributions. The Plan has contracted with third parties to process claims. See Note 12, 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 who enroll in the Teachers' and State Employees' Retirement System. This Death Benefit Plan is administered by the State Treasurer and funded via employer contributions. The employer contribution rate was 0.13% 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 for up to twelve months. The Board of Trustees of the DIPNC may extend the short-term disability benefits for up to an additional twelve months. During the extended period of short-term disability benefits, payments are made directly by the DIPNC to the beneficiary. As discussed in Note 12, 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.

B. Other Risk Management and Insurance Activities

1. Automobile, Fire, and Other Property Losses

The Authority is required to maintain all risk 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 coverage. Losses covered by the Fund are subject to a $5,000 per occurrence deductible. However, in order to reduce its premiums, the Authority has established higher deductibles for losses associated with buildings, equipment, and supporting infrastructure of $100,000.

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 $2,000,000 per claim and $10,000,000 in the aggregate per fiscal year via contract with private insurance companies. 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 *Annual Comprehensive Financial Report*, issued by the Office of the State Controller.

5. Other Insurance Held by the Authority

The Authority purchased other authorized coverage from private insurance companies through the North Carolina Department of Insurance. The Authority carries terminal operator's legal liability coverage from a private insurer at a premium of 0.265% for every dollar of operating revenue, not including lease income.

The Authority also purchased additional flood and business interruption coverage under the all-risks policy from the State Property Fire Insurance Fund. This policy reimburses the Authority for lost revenues and extra expenses resulting from certain covered events that disrupt Authority operations for a minimum of 72 hours. The Authority also purchased cyber risk coverage through a private insurer. This policy has a $25,000 deductible and coverage limits range from $250,000 to $1,000,000 depending on the nature of the event.

NOTE 14 - COMMITMENTS AND CONTINGENCIES

A. Commitments - The Authority has established an encumbrance system to track its outstanding commitments on construction projects. Outstanding commitments on construction contracts were $26,004,894 at June 30, 2022.

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

NOTE 15 - CHANGES IN FINANCIAL ACCOUNTING AND REPORTING

For the fiscal year ended June 30, 2022, the Authority implemented the following pronouncements issued by the Governmental Accounting Standards Board (GASB):

GASB Statement No. 87, Leases

GASB Statement No. 93, Replacement of Interbank Offered Rates

GASB Statement No. 87 increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundation principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities.

GASB Statement No. 93 addresses the accounting and financial reporting implications that result from the replacement of an Interbank Offered Rate (IBOR) for derivative instruments, leases, and other agreements in which variable payments made or received depend on an IBOR.

NOTE 16 - NET POSITION RESTATEMENT

As of July 1, 2021, the Authority implemented GASB Statement No. 87, *Leases*. Total net position was not restated due to the implementation; however, certain long-term liabilities were restated as a result of the implementation. See Note 8 for details on the restated balances related to long-term liabilities.

REQUIRED SUPPLEMENTARY INFORMATION

North Carolina State Ports Authority
Required Supplementary Information
Schedule of the Proportionate Share of the Net Pension Liability
Cost-Sharing, Multiple-Employer, Defined Benefit Pension Plan
*Last Nine Fiscal Years**

Exhibit B-1

Teachers' and State Employees' Retirement System	**2022**	**2021**	**2020**	**2019**	**2018**
Proportionate Share Percentage of Collective Net Pension Liability	0.08515%	0.08562%	0.08011%	0.08015%	0.07351%
Proportionate Share of TSERS Collective Net Pension Liability	$ 3,987,235	$ 10,344,606	$ 8,304,969	$ 7,979,805	$ 5,832,608
Covered Payroll	$ 14,051,104	$ 14,734,885	$ 13,258,581	$ 12,584,767	$ 12,494,622
Proportionate Share of the Net Pension Liability as a Percentage of Covered Payroll	28.38%	70.20%	62.64%	63.41%	46.68%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	94.86%	85.98%	87.56%	87.61%	89.51%

	2017	**2016**	**2015**	**2014**
Proportionate Share Percentage of Collective Net Pension Liability	0.07858%	0.08158%	0.08220%	0.08138%
Proportionate Share of TSERS Collective Net Pension Liability	$ 7,222,314	$ 3,006,491	$ 963,753	$ 4,940,641
Covered Payroll	$ 12,323,603	$ 12,170,751	$ 11,773,267	$ 12,205,518
Proportionate Share of the Net Pension Liability as a Percentage of Covered Payroll	58.61%	24.70%	8.19%	40.48%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	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.

* The amounts presented for each fiscal year were determined as of the prior fiscal year ended June 30.

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

Exhibit B-2

Teachers' and State Employees' Retirement System	**2022**	**2021**	**2020**	**2019**	**2018**
Contractually Required Contribution	$ 2,662,698	$ 2,076,753	$ 1,911,115	$ 1,629,480	$ 1,356,638
Contributions in Relation to the Contractually Determined Contribution	2,662,698	2,076,753	1,911,115	1,629,480	1,356,638
Contribution Deficiency (Excess)	$ -	$ -	$ -	$ -	$ -
Covered Payroll	$ 16,255,789	$ 14,051,104	$ 14,734,885	$ 13,258,581	$ 12,584,767
Contributions as a Percentage of Covered Payroll	16.38%	14.78%	12.97%	12.29%	10.78%

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

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

North Carolina State Ports Authority
Notes to Required Supplementary Information
Schedule of Authority Contributions
Cost-Sharing, Multiple-Employer, Defined Benefit Pension Plan
For the Fiscal Year Ended June 30, 2022

Changes of Benefit Terms:

	Cost of Living Increase									
Teachers' and State Employees'	**2020**	**2019**	**2018**	**2017**	**2016**	**2015**	**2014**	**2013**	**2012**	**2011**
Retirement System	N/A	N/A	N/A	1.00%	N/A	N/A	N/A	1.00%	N/A	N/A

Beginning in fiscal year 2015, with the implementation of GASB Statement No. 68, the above table reflects Cost of Living Adjustments (COLA's) in the period of the legislative session of Board of Trustees meeting when it was passed. The COLA is effective July 1 of that period and the fiscal year end liability is affected at June 30 of that year because the COLA is included in the actuarial assumptions used to calculate the plan net pension liability.

Effective July 1, 2017, the definition of law enforcement officer related to TSERS members was changed by the General Assembly to include Probation/Parole officers for retirement benefit purposes. The change includes officers with respect to service rendered on or after July 1, 2017 and provides for unreduced retirement at age 55 with five years of service as a law enforcement officer or reduced retirement at 50 with 15 years of service as a law enforcement officer.

Effective July 1, 2017, retirees and beneficiaries of deceased retirees receiving benefits from the TSERS as of July 1, 2016 received a 1% cost-of-living adjustment. Retirees and beneficiaries of retirees with retirement effective dates between July 1, 2016 and before June 30, 2017 received a prorated amount. These benefit enhancements reflect legislation enacted by the North Carolina General Assembly.

Methods 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 Authority 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. 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 2020, 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, 2015, and December 31, 2019. 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 improvements. These assumptions were adjusted to be based on the Pub-2010 mortality tables reflecting the mortality projection scale MP-2019, released by the Society of Actuaries in 2019. In addition, the assumed rates of retirement, salary increases, and rates of termination from active employment were updated to more closely reflect actual experience.

The discount rate for the Teachers' and State Employees' Retirement System was lowered from 7.00% to 6.50% effective for the December 31, 2020 valuation, with the resulting effect on minimum actuarially determined employer contribution rates (or amounts) to be gradually recognized over a five-year period beginning July 1, 2022.

The Notes to Required Supplementary Information reflect the most recent available information included in the State of North Carolina’s 2021 *Annual Comprehensive Financial Report*.

N/A - Not Applicable

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

Retiree Health Benefit Fund	**2022**	**2021**	**2020**	**2019**	**2018**
Proportionate Share Percentage of Collective Net OPEB Liability	0.07249%	0.07230%	0.06639%	0.06509%	0.06138%
Proportionate Share of Collective Net OPEB Liability	$ 22,409,715	$ 20,056,168	$ 21,004,451	$ 18,542,674	$ 20,123,893
Covered Payroll	$ 14,051,104	$ 14,734,885	$ 13,258,581	$ 12,584,767	$ 12,494,622
Proportionate Share of the Net OPEB Liability as a Percentage of Covered Payroll	159.49%	136.11%	158.42%	147.34%	161.06%
Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability	7.72%	6.92%	4.40%	4.40%	3.52%

	2017
Proportionate Share Percentage of Collective Net OPEB Liability	0.06059%
Proportionate Share of Collective Net OPEB Liability	$ 26,358,709
Covered Payroll	$ 12,323,603
Proportionate Share of the Net OPEB Liability as a Percentage of Covered Payroll	213.89%
Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability	2.41%

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

Exhibit B-3

Disability Income Plan of North Carolina	2022	2021	2020	2019	2018
Proportionate Share Percentage of Collective Net OPEB Asset	0.07147%	0.07037%	0.06911%	0.06910%	0.06361%
Proportionate Share of Collective Net OPEB Asset	$ 11,674	$ 34,618	$ 29,821	$ 20,990	$ 38,878
Covered Payroll	$ 14,051,104	$ 14,734,885	$ 13,258,581	$ 12,584,767	$ 12,494,622
Proportionate Share of the Net OPEB Asset as a Percentage of Covered Payroll	0.08%	0.23%	0.22%	0.17%	0.31%
Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability	105.18%	115.57%	113.00%	108.47%	116.23%

	2017
Proportionate Share Percentage of Collective Net OPEB Asset	0.06872%
Proportionate Share of Collective Net OPEB Asset	$ 42,675
Covered Payroll	$ 12,323,603
Proportionate Share of the Net OPEB Asset as a Percentage of Covered Payroll	0.35%
Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability	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* , as amended.

* The amounts presented for each fiscal year were determined as of the prior fiscal year ended June 30.

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

Retiree Health Benefit Fund	**2022**	**2021**	**2020**	**2019**	**2018**
Contractually Required Contribution	$ 1,022,489	$ 938,614	$ 953,347	$ 831,313	$ 761,378
Contributions in Relation to the Contractually Determined Contribution	1,022,489	938,614	953,347	831,313	761,378
Contribution Deficiency (Excess)	$ -	$ -	$ -	$ -	$ -
Covered Payroll	$ 16,255,789	$ 14,051,104	$ 14,734,885	$ 13,258,581	$ 12,584,767
Contributions as a Percentage of Covered Payroll	6.29%	6.68%	6.47%	6.27%	6.05%

	2017	**2016**	**2015**	**2014**	**2013**
Contractually Required Contribution	$ 725,938	$ 690,122	$ 668,174	$ 635,756	$ 646,892
Contributions in Relation to the Contractually Determined Contribution	725,938	690,122	668,174	635,756	646,892
Contribution Deficiency (Excess)	$ -	$ -	$ -	$ -	$ -
Covered Payroll	$ 12,494,622	$ 12,323,603	$ 12,170,751	$ 11,773,267	$ 12,205,518
Contributions as a Percentage of Covered Payroll	5.81%	5.60%	5.49%	5.40%	5.30%

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

Exhibit B-4
Page 2 of 2

Disability Income Plan of North Carolina	**2022**	**2021**	**2020**	**2019**	**2018**
Contractually Required Contribution	$ 14,630	$ 12,646	$ 14,735	$ 18,562	$ 17,619
Contributions in Relation to the Contractually Determined Contribution	14,630	12,646	14,735	18,562	17,619
Contribution Deficiency (Excess)	$ -	$ -	$ -	$ -	$ -
Covered Payroll	$ 16,255,789	$ 14,051,104	$ 14,734,885	$ 13,258,581	$ 12,584,767
Contributions as a Percentage of Covered Payroll	0.09%	0.09%	0.10%	0.14%	0.14%

	2017	**2016**	**2015**	**2014**	**2013**
Contractually Required Contribution	$ 47,480	$ 50,527	$ 49,900	$ 51,802	$ 53,704
Contributions in Relation to the Contractually Determined Contribution	47,480	50,527	49,900	51,802	53,704
Contribution Deficiency (Excess)	$ -	$ -	$ -	$ -	$ -
Covered Payroll	$ 12,494,622	$ 12,323,603	$ 12,170,751	$ 11,773,267	$ 12,205,518
Contributions as a Percentage of Covered Payroll	0.38%	0.41%	0.41%	0.44%	0.44%

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

North Carolina State Ports Authority
Notes to Required Supplementary Information
Schedule of Authority Contributions
Cost-Sharing, Multiple-Employer, Defined Benefit OPEB Plans
For the Fiscal Year Ended June 30, 2022

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

Effective January 1, 2019, benefit terms related to copays, out-of-pocket maximums, and deductibles were changed for one of four options of the RHBF. Out-of-pocket maximums increased while certain specialist copays decreased related to option benefits.

Effective January 1, 2020, benefit terms related to copays, out-of-pocket maximums, and deductibles were changed for the 70/30 PPO option of the RHBF. Only the copays were adjusted for 80/20 PPO option of the RHBF.

Effective January 1, 2021, members first hired on and after January 1, 2021 will not be eligible to receive retiree medical benefits.

Additionally, the December 31, 2017 Disability Income Plan of North Carolina (DIPNC) actuarial valuation includes a liability for the State's potential reimbursement of health insurance premiums paid by employers during the second six months of the short-term disability benefit period.

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 Authority Contributions are calculated by the actuary as a projection of the required employer contribution for the fiscal year beginning six months preceding the date of the valuation results for the RHBF. The actuarially determined contribution rates in the Schedule of Authority 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 DIPNC. See Note 12 for more information on the specific assumptions for each plan. The actuarially determined contributions 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 2020, 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, 2015, and December 31, 2019. Based on the findings, the Boards of Trustees of the Teachers' and State Employees' Retirement System and the Committee on Actuarial Valuation of Retired Employees' Health Benefits adopted a number of new actuarial assumptions and methods for the RHBF and the DIPNC. The most notable changes to the assumptions include updates to the mortality tables and mortality improvements. These assumptions were adjusted to be based on the Pub-2010 mortality tables reflecting the mortality projection scale MP-2019, released by the Society of Actuaries in 2019. In addition, the assumed rates of retirement, salary increases, and rates of termination from active employment were updated to more closely reflect actual experience.

Consistent with the prior year, for the actuarial valuation measured as of June 30, 2021, the discount rate for the RHBF was updated to reflect the Bond Buyer 20-year General Obligation Index as of fiscal year end. In 2020, disability rates were adjusted to the non-grandfathered assumptions used in the Teachers' and State Employees' Retirement System actuarial valuation to better align with the anticipated incidence of disability. Medical and prescription drug claims costs were changed based on most recent experience, and medical and prescription drug trend rates were changed to the current schedule. Enrollment assumptions were updated to model expected migrations among RHBF plan options over the next four years. For the DIPNC actuarial valuation as of December 31, 2018, for individuals who may become disabled in the future, the Social Security disability income benefit (which is an offset to the DIPNC benefit) was updated to be based on assumed Social Security calculation parameters in the year of the disability. The assumed costs related to the Patient Protection and Affordable Care Act regarding the Health Insurance Provider Fee for the fully insured plans and Excise Tax were removed when those pieces were repealed in December 2019 and first recognized in the 2020 OPEB report.

The Notes to Required Supplementary Information reflect the most recent available information included in the State of North Carolina’s 2021 *Annual Comprehensive Financial Report* .

Independent Auditor's Report

STATE OF NORTH CAROLINA

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the North Carolina State Ports Authority (Authority), a component unit of the State of North Carolina, as of and for the year ended June 30, 2022, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated October 19, 2022.

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) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control.

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

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

Compliance and Other Matters

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

Purpose of this Report

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

Beth A. Wood

Beth A. Wood, CPA
State Auditor

Raleigh, North Carolina

October 19, 2022

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This audit required 525 hours at an approximate cost of $63,000.