

STATE OF NORTH CAROLINA

OFFICE OF THE STATE AUDITOR

BETH A. WOOD, CPA

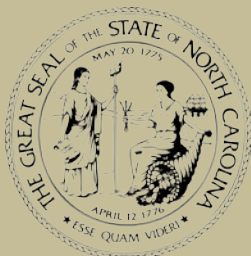


NORTH CAROLINA GLOBAL TRANSPARK AUTHORITY

KINSTON, NORTH CAROLINA

FINANCIAL STATEMENT AUDIT REPORT
FOR THE YEAR ENDED JUNE 30, 2016

A COMPONENT UNIT OF THE STATE OF NORTH CAROLINA



NC  **OSA**
The Taxpayers' Watchdog

STATE OF NORTH CAROLINA
Office of the State Auditor



Beth A. Wood, CPA
State Auditor

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AUDITOR'S TRANSMITTAL

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

We have completed a financial statement audit of the North Carolina Global TransPark Authority for the year ended June 30, 2016, and our audit results are included in this report. You will note from the independent auditor's report that we determined that the financial statements are presented fairly in all material respects.

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

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

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

Beth A. Wood, CPA
State Auditor



Beth A. Wood, CPA
State Auditor

TABLE OF CONTENTS

	PAGE
INDEPENDENT AUDITOR’S REPORT	1
MANAGEMENT’S DISCUSSION AND ANALYSIS	3
BASIC FINANCIAL STATEMENTS	
AUTHORITY EXHIBITS	
A-1 Statement of Net Position	10
A-2 Statement of Revenues, Expenses, and Changes in Net Position	11
A-3 Statement of Cash Flows	12
COMPONENT UNIT EXHIBITS	
B-1 Statement of Financial Position	13
B-2 Statement of Activities	14
NOTES TO THE FINANCIAL STATEMENTS	15
REQUIRED SUPPLEMENTARY INFORMATION	
C-1 Schedule of the Proportionate Net Pension Liability (Teachers’ and State Employees’ Retirement System)	35
C-2 Schedule of Authority Contributions (Teachers’ and State Employees’ Retirement System)	36
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION (TEACHERS’ AND STATE EMPLOYEES’ RETIREMENT SYSTEM)	37
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 <i>GOVERNMENT AUDITING STANDARDS</i>	38
ORDERING INFORMATION	40

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



INDEPENDENT AUDITOR'S REPORT

STATE OF NORTH CAROLINA
Office of the State Auditor



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State Auditor

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INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the North Carolina Global TransPark Authority, a component unit of the State of North Carolina, and its discretely presented component unit, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Authority's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the

circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, based on our audit and the report of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the North Carolina Global TransPark Authority, as of June 30, 2016, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters – Required Supplementary Information

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 20, 2016 on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting and compliance.



Beth A. Wood, CPA
State Auditor

Raleigh, North Carolina

December 20, 2016



MANAGEMENT'S DISCUSSION AND ANALYSIS

Overview

Management's Discussion and Analysis (MD&A) provides an overview of the North Carolina Global TransPark Authority's (Authority) activities during the fiscal year ended June 30, 2016. In addition to Management's Discussion and Analysis, management has prepared the accompanying Statement of Net Position, Statement of Revenues, Expenses, and Changes in Net Position, Statement of Cash Flows, and Notes to the Financial Statements.

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

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

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

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

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

The fiscal year that ended June 30, 2016, continued to be another year in transition for the Authority. Some of the significant activities are described below.

Statement of Net Position

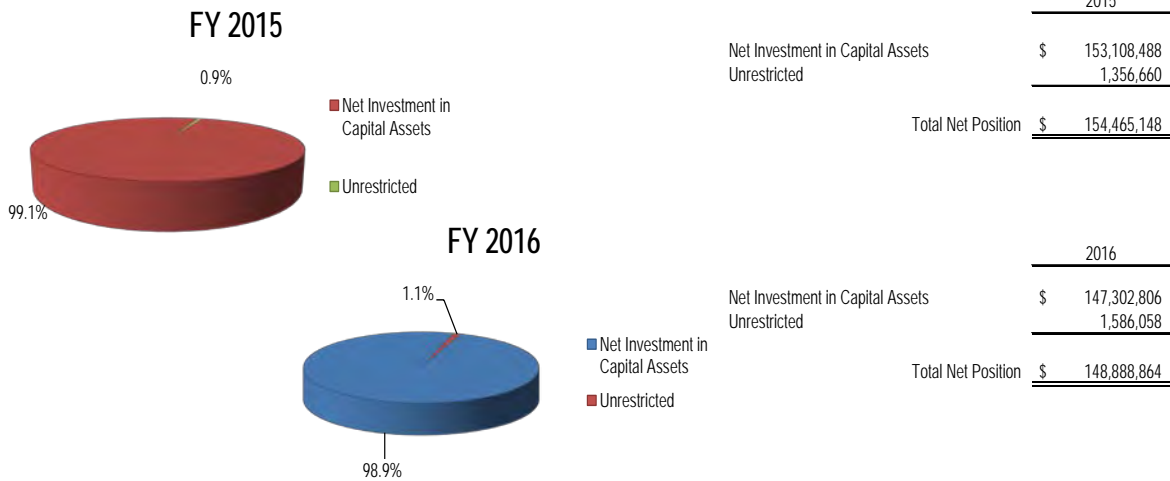
As summarized in the following table by major category, a comparison of net position as of June 30, 2016 to that of the prior year yields significant changes.

Condensed Statement of Net Position				
	<u>June 30, 2016</u>	<u>June 30, 2015</u>	<u>Change</u>	<u>% Change</u>
Assets:				
Current Assets	\$ 2,109,434	\$ 1,773,404	\$ 336,030	19%
Noncurrent Assets - Capital Assets	<u>153,461,792</u>	<u>159,747,502</u>	<u>(6,285,710)</u>	-4%
Total Assets	<u>155,571,226</u>	<u>161,520,906</u>	<u>(5,949,680)</u>	-4%
Deferred Outflows of Resources	<u>44,969</u>	<u>61,171</u>	<u>(16,202)</u>	-26%
Liabilities:				
Current Liabilities	871,353	685,060	186,293	27%
Long-Term Liabilities - Notes Payable	5,668,992	6,155,827	(486,835)	-8%
Other Long-Term Liabilities	<u>153,091</u>	<u>72,210</u>	<u>80,881</u>	112%
Total Liabilities	<u>6,693,436</u>	<u>6,913,097</u>	<u>(219,661)</u>	-3%
Deferred Inflows of Resources	<u>33,895</u>	<u>203,832</u>	<u>(169,937)</u>	-83%
Net Position:				
Net Investment in Capital Assets	147,302,806	153,108,488	(5,805,682)	-4%
Unrestricted	<u>1,586,058</u>	<u>1,356,660</u>	<u>229,398</u>	17%
Total Net Position	<u>\$ 148,888,864</u>	<u>\$ 154,465,148</u>	<u>\$ (5,576,284)</u>	-4%

Total assets decreased 4%, primarily due to routine depreciation of capital assets. Current assets increased 19% due to an overall reduction in expenditures and a resulting increase in cash. Capital assets decreased 4% due to annual depreciation. Total liabilities decreased by 3% mainly due to principal payments on outstanding debt. At June 30, 2016, the Authority's only remaining debt obligations were amounts due to Southern Bank and the NC Department of Transportation. Current liabilities increased 27% due to unexpected repair expenses recorded as accounts payable at year end. The changes in other long-term liabilities, deferred outflows of resources, and deferred inflows of resources were the result of changes in amounts associated with the Authority's position in the Teacher's and State Employee's Retirement System described in Note 10 to the financial statements.

Total net position of the Authority decreased 4% from the prior year. Net investment in capital assets represents the Authority's equity position, net of related debt, with regards to land, facilities, and equipment. The 4% decrease from the prior year was due to depreciation expense. Unrestricted net position is available for any lawful purpose of the Authority. Unrestricted net position increased 17% as a result of an overall reduction in expenses.

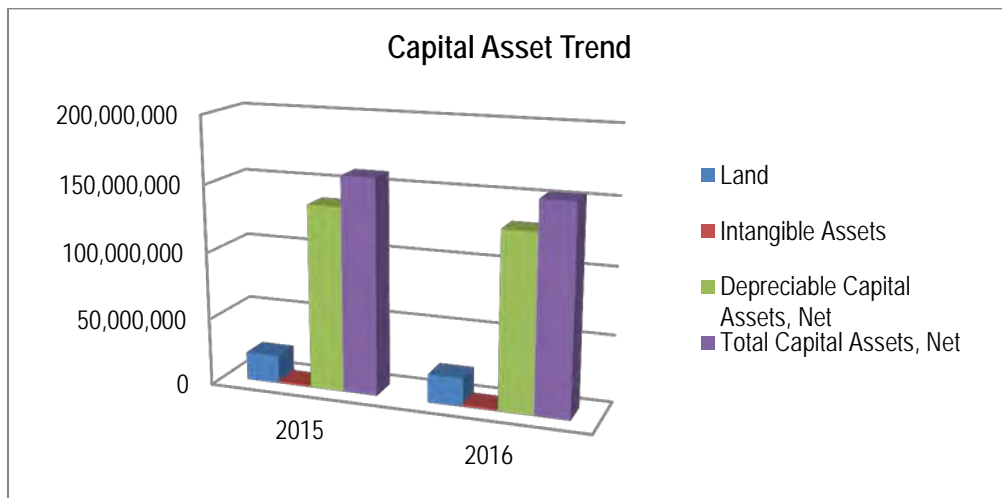
Net Position



Capital Assets

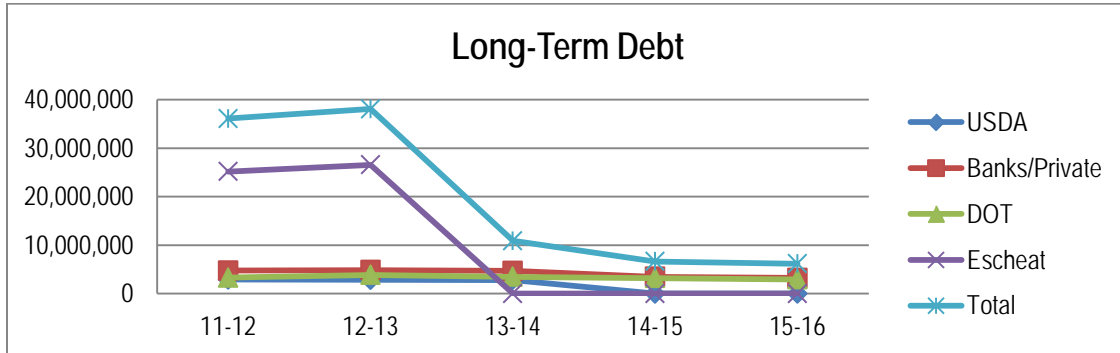
The following graph depicts the trend in capital assets. Total net capital assets include land, intangible assets, and depreciable capital assets net of accumulated depreciation. There was no significant capital asset activity during the period.

Additionally, as of June 30, 2016, Spirit AeroSystems, the Authority's largest tenant, reported total capital improvements to date of \$105,045,366 and \$1,164,417 to the GTP-6 and GTP-1 facilities, respectively. These capital improvements are not recorded on the Authority's financial statements.



Long-Term Liabilities

Long-term liability activity during the period consisted of reductions in notes payable for principal payments, and an increase in the Authority's net pension liability further discussed in Note 10 to the financial statements. The graph below depicts the makeup of debt at June 30, 2016, as compared to prior years.



Revenues, Expenses and Changes in Net Position

The Authority's financial condition, overall, declined by 4% as compared to the prior fiscal year. Total operating revenues were unchanged from the prior year. Rental revenues increase by 6% due to the addition of a new tenant. Fuel sales decreased by 70% due to the Authority now receiving a fixed rate of commission per gallon as opposed to reporting gross fuel sales in the prior period. State operating aid was comparatively unchanged. Noncapital contributions decreased by 84% as a result of less grant funding awarded to the Authority in the current year.

Continuing to improve the bottom line, the Authority's operating expenses decreased 3% mostly due to a reduction in salaries and benefits and projects expense. Salaries and benefits decreased 21% due to continued reductions in staff. Projects expense decreased by 79% as a result of a decline in grant funding for project planning and design in 2016 as compared to the prior year. This activity is expected to resume in subsequent periods as additional grant funding becomes available. Repair and maintenance expense increased by 289% as a result of HVAC, roofing, window, and fencing repairs incurred in 2016 that were not necessary in the prior year.

The 28% reduction in interest and fees on debt was due to the aggressive payoff and refinance of notes payable late in the prior year.

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

	June 30, 2016	June 30, 2015	Change	% Change
Operating Revenues:				
Rental Revenues	\$ 1,294,975	\$ 1,221,093	\$ 73,882	6%
Fuel Sales	40,490	132,596	(92,106)	-70%
Client Services	92,508		92,508	
Miscellaneous Revenues	69,020	142,803	(73,783)	-52%
Total Operating Revenues	1,496,993	1,496,492	501	0%
Operating Expenses:				
Salaries and Benefits	580,548	733,211	(152,663)	-21%
Professional, Legal, and Accounting Services	73,911	109,297	(35,386)	-32%
Rent	9,925	10,594	(669)	-6%
Repairs and Maintenance	231,218	59,425	171,793	289%
Supplies and Materials	94,927	50,253	44,674	89%
Equipment	6,583	4,528	2,055	45%
Insurance	62,594	56,224	6,370	11%
Telephone	24,995	28,277	(3,282)	-12%
Utilities	201,233	238,144	(36,911)	-15%
Travel and Subsistence	8,321	11,870	(3,549)	-30%
Advertising	3,421	3,253	168	5%
Projects	75,867	361,037	(285,170)	-79%
Depreciation	6,285,534	6,294,058	(8,524)	0%
Other Operating Expenses	95,817	51,125	44,692	87%
Total Operating Expenses	7,754,894	8,011,296	(256,402)	-3%
Operating Loss	(6,257,901)	(6,514,804)	256,903	4%
Nonoperating Revenues (Expenses):				
State Operating Aid	750,000	739,500	10,500	1%
Noncapital Contributions	57,733	356,701	(298,968)	-84%
Investment Earnings	5,055	3,839	1,216	32%
Interest and Fees on Debt	(131,171)	(183,295)	52,124	-28%
Net Nonoperating Revenues	681,617	916,745	(235,128)	-26%
Total Revenues	2,309,781	2,596,532	(286,751)	-11%
Total Expenses	(7,886,065)	(8,194,591)	308,526	4%
Decrease in Net Position	(5,576,284)	(5,598,059)	21,775	0%
Net Position, Beginning of Period	154,465,148	160,392,037	(5,926,889)	
Restatement		(328,830)		
Net Position, End of Period	\$ 148,888,864	\$ 154,465,148	\$ (5,576,284)	

Highlights and Economic Outlook

The Authority continued to move forward regarding the commitment to achieve annual goals and objectives established in early 2014. The Authority made significant strides in reducing expenditures while adding additional tenants during the period. These efforts included:

- Adding North State Aviation as a new tenant and leasing additional space to Crate Tech, Inc.

- Continuing to provide significant support to Spirit AeroSystems as it sought to expand production at the North Carolina Business Unit in Kinston. This effort included an in-depth assessment of logistics options along the Highway 70 and North Carolina Railroad corridors between Morehead City and Kinston.
- Continuing to work with the U.S. Army Corps of Engineers (USACE) to include 158 acres of the Authority's property currently outside of the USACE administered 404 permit area. This change would ensure that all of the Authority's developable land is available to meet short-notice development opportunities.

Marketing activities for the year were focused on establishing new partnerships and fostering existing relationships. Moving forward the Authority will rely on these partners to help expand the sales capacity of the Authority's small staff in order to reach a wider audience. Marketing activities included:

- Submitting proposals for and/or establishing contact with 11 new potential industries for future expansion at the Authority.
- Hosting a visit by the Secretary of the North Carolina Department of Transportation, Secretary of the North Carolina Department of Commerce, and other local, city, and county government leaders. Leaders discussed economic growth, infrastructure needs, and funding challenges at the Authority.
- Participating in an NC State University College of Design study. The purpose of the study was to increase economic development opportunities through adaptive reuse of the Authority's initial visions, and look at existing assets and those of the surrounding communities to make the Authority more attractive to potential new industries in North Carolina.
- Presenting an intermodal project for the West Pharmaceutical site to the Counsel of Development Finance Agencies (CFDA) Brownfields Technical Assistance Program. The Authority is working with East Carolina University to develop information suggested by the CDFA.
- Partnering with Lenoir County Manufacturers Association and surrounding Economic Developers to host Manufacturing Day featuring the NC Global TransPark Authority.

Other activities included:

- Participating in an extensive study conducted by the Federal Emergency Management Agency by performing an assessment on the Authority and particularly the airport to determine its suitability and potential future usage as a National Disaster Center to stage resources for the east coast of the USA.
- Working with the NC Rail Division, G&O Railways, Norfolk Southern, and Spirit AeroSystems on an ongoing project to bring affordable rail service to the Authority.
- Working in conjunction with the local Rural Planning Organization and local units of government, the Authority has several projects that have been requested for consideration in the State Transportation Improvement Program. The primary potential future project would be a hangar complex capable of supporting a maintenance, repair, and overhaul operation such as North State Aviation.

Despite many challenges and opportunities, the Authority has continued to implement initiatives and projects, as listed below:

- Completed design for comprehensive airfield electrical lighting system rehabilitation and vault relocation, as well as replacement of the approach lighting system.
- Worked with local area schools promoting science, technology, education, and math (STEM) education, particularly aerospace and manufacturing career development. This consisted of conducting and coordinating tours of the Authority and select tenants with a focus on flight training, airport management, air traffic control, and aircraft maintenance careers. Additionally the Authority has worked with NC State University, East Carolina University, and other secondary educational institutes to focus on specific tours promoting engineering, manufacturing, and management of aviation aerospace industries.
- Successfully completed a Federal Aviation Administration Part 139 inspection of the airfield and reestablished support for an Air Traffic Control Tower program that is vital to Kinston Regional Jetport's operations.
- The Authority maintained steady job growth in fiscal year 2016. Private sector employment at the Authority increased 48% over the prior year, with a total of 737 employees. These numbers do not reflect the public agencies who are also tenants at the Authority.
- The average annual salary of \$41,273 for private sector jobs at the Authority was slightly less than the previous fiscal year, however these salaries are 33% higher than the average annual private sector salary for Lenoir County. Compared to the \$750,000 in state operating aid the Authority received in fiscal year 2016, the total payroll for private sector companies at the Authority was more than \$30.4 million.
- With 85% of facilities currently leased, the Authority continues to receive interest from prospects in several targeted industries, including Tier 1 and Tier 2 aerospace suppliers, technical service firms, federal government contractors, aviation maintenance, repair and overhaul (MRO) companies, as well as manufacturers in paper, metal, and building products.

Contacting the Authority's Management

If you have questions about these financial statements or need additional information, contact the Authority's Executive Director, 3800 Hwy 58, Kinston, NC 28504, or at (252)523-1351 x309.



FINANCIAL STATEMENTS

North Carolina Global TransPark Authority
Statement of Net Position
June 30, 2016

Exhibit A-1

ASSETS

Current Assets:	
Cash and Cash Equivalents	\$ 2,080,470
Receivables (Note 4)	28,964
	<hr/>
Total Current Assets	2,109,434
Noncurrent Assets:	
Capital Assets - Nondepreciable (Note 5)	22,564,150
Capital Assets - Depreciable, Net (Note 5)	130,897,642
	<hr/>
Total Noncurrent Assets	153,461,792
	<hr/>
Total Assets	155,571,226

DEFERRED OUTFLOWS OF RESOURCES

Deferred Outflows Related to Pensions	44,969
	<hr/>

LIABILITIES

Current Liabilities:	
Accounts Payable and Accrued Liabilities (Note 6)	230,316
Due to Primary Government	22,045
Unearned Revenue	72,121
Accrued Interest Payable	16,512
Compensated Absences (Note 7)	40,365
Note Payable - Southern Bank (Note 7)	239,994
Note Payable - Due to NC DOT (Note 7)	250,000
	<hr/>
Total Current Liabilities	871,353
Noncurrent Liabilities:	
Compensated Absences (Note 7)	7,402
Net Pension Liability (Note 7)	145,689
Note Payable - Southern Bank (Note 7)	2,978,377
Note Payable - Due to NC DOT (Note 7)	2,690,615
	<hr/>
Total Noncurrent Liabilities	5,822,083
	<hr/>
Total Liabilities	6,693,436

DEFERRED INFLOWS OF RESOURCES

Deferred Inflows Related to Pensions	33,895
	<hr/>

NET POSITION

Net Investment in Capital Assets	147,302,806
Unrestricted	1,586,058
	<hr/>
Total Net Position	\$ 148,888,864

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

North Carolina Global TransPark Authority
Statement of Revenues, Expenses, and
Changes in Net Position
For the Fiscal Year Ended June 30, 2016

Exhibit A-2

REVENUES

Operating Revenues:	
Rental Revenues	\$ 1,294,975
Fuel Sales	40,490
Client Services	92,508
Miscellaneous Revenues	69,020
	<hr/>
Total Operating Revenues	1,496,993
	<hr/>

EXPENSES

Operating Expenses:	
Salaries and Benefits	580,548
Professional Services	52,501
Legal and Accounting	21,410
Depreciation	6,285,534
Rent	9,925
Repairs and Maintenance	231,218
Supplies and Materials	94,927
Equipment	6,583
Insurance	62,594
Telephone	24,995
Utilities	201,233
Travel and Subsistence	8,321
Advertising	3,421
Projects	75,867
Other	95,817
	<hr/>
Total Operating Expenses	7,754,894
	<hr/>
Operating Loss	(6,257,901)
	<hr/>

NONOPERATING REVENUES (EXPENSES)

State Operating Aid	750,000
Investment Earnings	5,055
Noncapital Contributions	57,733
Interest and Fees on Debt	(131,171)
	<hr/>
Net Nonoperating Revenues	681,617
	<hr/>
Decrease in Net Position	(5,576,284)

NET POSITION

Net Position - July 1, 2015	154,465,148
	<hr/>
Net Position - June 30, 2016	\$ 148,888,864
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The accompanying notes to the financial statements are an integral part of this statement.

North Carolina Global TransPark Authority
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2016

Exhibit A-3

CASH FLOWS FROM OPERATING ACTIVITIES

Received from Customers	\$ 1,441,894
Payments to Employees and Fringe Benefits	(615,045)
Payments to Vendors and Suppliers	(696,702)
	<hr/>
Net Cash Provided by Operating Activities	130,147
	<hr/>

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

State Operating Aid	750,000
Noncapital Contributions	57,733
	<hr/>
Cash Provided by Noncapital Financing Activities	807,733
	<hr/>

CASH FLOWS FROM CAPITAL FINANCING AND RELATED FINANCING ACTIVITIES

Principal Paid on Capital Debt	(480,028)
Interest and Fees Paid on Capital Debt	(131,171)
	<hr/>
Cash Used by Capital Financing and Related Financing Activities	(611,199)
	<hr/>

CASH FLOWS FROM INVESTING ACTIVITIES

Interest Received	5,055
	<hr/>
Cash Provided by Investing Activities	5,055
	<hr/>
Net Increase in Cash and Cash Equivalents	331,736
Cash and Cash Equivalents - July 1, 2015	1,748,734
	<hr/>
Cash and Cash Equivalents - June 30, 2016	\$ 2,080,470
	<hr/> <hr/>

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

Operating Loss	\$ (6,257,901)
Adjustments to Reconcile Operating Loss to Net Cash Provided by Operating Activities:	
Depreciation Expense	6,285,534
Write-Offs	425
Pension Expense	15,221
Miscellaneous Pension Adjustment	(39,039)
Changes in Assets, Liabilities, and Deferred Outflows of Resources:	
Receivables	(4,294)
Accounts Payable and Accrued Liabilities	191,495
Due to Primary Government	182
Unearned Revenue	(12,191)
Deferred Outflows for Contributions Subsequent to the Measurement Date	(40,913)
Compensated Absences	(8,372)
	<hr/>
Net Cash Provided by Operating Activities	\$ 130,147
	<hr/> <hr/>

RECONCILIATION OF CASH AND CASH EQUIVALENTS

Current Assets:	
Cash and Cash Equivalents	\$ 2,080,470
	<hr/>
Total Cash and Cash Equivalents - June 30, 2016	\$ 2,080,470
	<hr/> <hr/>

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

Global TransPark Foundation, Inc.
Statement of Financial Position
June 30, 2016

Exhibit B-1

ASSETS

Current Assets:

Cash and Cash Equivalents	\$ 4,932,485
Total Current Assets	<u>4,932,485</u>

Noncurrent Assets:

Property and Equipment, Net of Accumulated Depreciation of \$4,229,555	<u>4,268,509</u>
Total Assets	<u>9,200,994</u>

LIABILITIES

Current Liabilities:

Accounts Payable	<u>1,687</u>
Total Liabilities	<u>1,687</u>

NET ASSETS

Unrestricted	<u>9,199,307</u>
Total Net Assets	<u>9,199,307</u>
Total Liabilities and Net Assets	<u>\$ 9,200,994</u>

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

Global TransPark Foundation, Inc.
Statement of Activities
For the Fiscal Year Ended June 30, 2016

Exhibit B-2

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
SUPPORT AND REVENUE			
Rent Income	\$ 314,694	\$ 0	\$ 314,694
Interest Income	18,111		18,111
Total Support and Revenue	<u>332,805</u>		<u>332,805</u>
EXPENSES			
Program Services	212,451		212,451
Management and General Expenses	66,859		66,859
Total Expenses	<u>279,310</u>		<u>279,310</u>
Change in Net Assets	53,495		53,495
Net Assets at Beginning of Year	<u>9,145,812</u>		<u>9,145,812</u>
Net Assets at End of Year	<u>\$ 9,199,307</u>	<u>\$ 0</u>	<u>\$ 9,199,307</u>

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



NOTES TO THE FINANCIAL STATEMENTS

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

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

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

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

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

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

During the year ended June 30, 2016, there were no significant transactions between the Authority and Foundation. The Foundation has no remaining commitments with the Authority to provide financial incentives.

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

- B. Basis of Presentation** - The accompanying financial statements are presented in accordance with accounting principles generally accepted in the United States of America as prescribed by the GASB.

Pursuant to the provisions of GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, the full scope of the Authority's activities is considered to be a single business-type activity and accordingly, is reported within a single column in the basic financial statements.

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

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

- D. Cash and Cash Equivalents** - This classification includes undeposited receipts, petty cash, cash on deposit with private bank accounts, and deposits held by the State Treasurer in the Short-Term Investment Fund (STIF). The STIF maintained by the State Treasurer has the general characteristics of a demand deposit account in that participants may deposit and withdraw cash at any time without prior notice or penalty.
- 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.
- F. Receivables** - Receivables consist of charges to customers for services, leases on facilities, and miscellaneous revenues. Receivables also include amounts due from the Foundation. Receivables are considered fully collectible; accordingly, no allowance for doubtful accounts has recorded.
- G. Capital Assets** - Capital assets are stated at cost at date of acquisition or acquisition value at date of donation in the case of gifts. Donated capital assets acquired prior to July 1, 2015 are stated at fair value as of the date of donation. The value of assets constructed includes all material direct and indirect construction costs. Interest costs incurred are capitalized during the period of construction.

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

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

<u>Asset Class</u>	<u>Estimated Useful Life</u>
Buildings	10-50 years
Machinery & Equipment	5-25 years
Landing Fields and Grounds	20-40 years

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

The net pension liability represents the Authority’s proportionate share of the collective net pension liability reported in the State of North Carolina’s 2015 *Comprehensive Annual Financial Report*. This liability represents the Authority’s portion of the collective total pension liability less the fiduciary net position of the Teachers’ and State Employees’ Retirement System. See Note 10 for further information regarding the Authority’s policies for recognizing liabilities, expenses, and deferred outflows and inflows related to pensions.

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

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

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

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

Net Investment in Capital Assets - This represents the Authority's total investment in capital assets, net of outstanding 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.

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

Restricted and unrestricted resources are tracked separately. When both restricted and unrestricted funds are available for expenditure, the decision for funding is determined by management on a case-by-case basis. Both restricted and unrestricted net position include consideration of deferred outflows and inflows of resources.

K. Revenue and Expense Recognition - The Authority classifies its revenues and expenses as operating or nonoperating in the accompanying Statement of Revenues, Expenses, and Changes in Net Position. Operating revenues and expenses generally result from providing services and collecting rents in connection with the Authority's principal ongoing operations. Operating revenues include activities that have characteristics of exchange transactions, such as (1) building space rents, (2) land rents, (3) janitorial services, and (4) computer networking. Operating expenses are all expense transactions incurred other than those related to capital and noncapital financing or investing activities as defined by GASB Statement No. 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting*.

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

NOTE 2 - DEPOSITS

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

Cash on hand at June 30, 2016 was \$200. The carrying amount of the Authority's deposits not with the State Treasurer was \$1,838,347 and the bank balance was \$1,848,522. 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, 2016, the Authority's bank balance was exposed to custodial credit risk as follows:

Uninsured and Uncollateralized	<u>\$ 256,007</u>
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At June 30, 2016, the amount shown on the Statement of Net Position as cash and cash equivalents includes \$241,923 which represents the College's equity position in the State Treasurer's Short-Term Investment Fund (STIF). The STIF (a portfolio within the State Treasurer's Investment Pool, an external investment pool that is not registered with the Securities and Exchange Commission or subject to any other regulatory oversight and does not have a credit rating) had a weighted average maturity of 1.5 years as of June 30, 2016. 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 State of North Carolina's *Comprehensive Annual Financial Report*. An electronic version of this report is available by accessing the North Carolina Office of the State Controller's Internet home page <http://www.osc.nc.gov/> and clicking on "Reports" or by calling the State Controller's Financial Reporting Section at (919) 707-0500.

Component Unit - The Global TransPark Foundation, Inc. (Foundation) maintains its cash balances in several financial institutions located in Kinston, NC. The carrying amount of the Foundation's deposits and the bank balances were \$4,932,485. The Foundation does not have a deposit policy for custodial credit risk. As of June 30, 2016, the Foundation's bank balance was exposed to custodial credit risk, as follows:

Uninsured and Uncollateralized	<u>\$ 3,951,109</u>
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NOTE 3 - FAIR VALUE MEASUREMENTS

To the extent available, the Authority's investments are recorded at fair value as of June 30, 2016. 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 and may require a degree of professional judgment.

Short-Term Investment Fund - At year-end, all of the Authority’s investments valued at \$241,923 were held in the STIF which is a Level 2 investment. Ownership interest of the STIF is determined on a fair market valuation basis as of fiscal year end in accordance with the STIF operating procedures. Valuation of the underlying assets is performed by the custodian.

NOTE 4 - RECEIVABLES

Receivables at June 30, 2016, were as follows:

	Amount
Accounts Receivable:	
Due from Customers	\$ 27,277
Due from Global TransPark Foundation, Inc.	1,687
Total Accounts Receivable	\$ 28,964

NOTE 5 - CAPITAL ASSETS

A summary of changes in the capital assets for the year ended June 30, 2016, is presented as follows:

	Balance July 1, 2015	Increases	Decreases	Balance June 30, 2016
Capital Assets, Nondepreciable:				
Land	\$ 21,017,780	\$ 0	\$ 0	\$ 21,017,780
Intangible Assets	1,546,370			1,546,370
Total Capital Assets, Nondepreciable	22,564,150	0	0	22,564,150
Capital Assets, Depreciable:				
Landing Fields and Grounds	49,034,063		63,640	48,970,423
Buildings	139,391,808		142,859	139,248,949
Equipment	3,728,835		781,388	2,947,447
Total Capital Assets, Depreciable	192,154,706	0	987,887	191,166,819
Less Accumulated Depreciation for:				
Landing Fields and Grounds	23,634,824	1,644,643	63,640	25,215,827
Buildings	27,980,661	4,543,601	143,210	32,381,052
Equipment	3,355,869	97,290	780,861	2,672,298
Total Accumulated Depreciation	54,971,354	6,285,534	987,711	60,269,177
Total Capital Assets, Depreciable, Net	137,183,352	(6,285,534)	176	130,897,642
Capital Assets, Net	\$ 159,747,502	\$ (6,285,534)	\$ 176	\$ 153,461,792

During the year ended June 30, 2016, the Authority incurred \$131,171 in interest expense related to the acquisition and construction of capital assets.

Component Unit - A summary of changes in the Foundation's capital assets for the year ended June 30, 2016, is presented as follows:

	Balance July 1, 2015	Increases	Decreases	Balance June 30, 2016
Capital Assets, Depreciable:				
Buildings	\$ 8,498,064	\$ 0	\$ 0	\$ 8,498,064
Less Accumulated Depreciation for:				
Buildings	4,017,104	212,451		4,229,555
Total Capital Assets, Net	\$ 4,480,960	\$ (212,451)	\$ 0	\$ 4,268,509

NOTE 6 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities at June 30, 2016, were as follows:

	Amount
Accounts Payable and Accrued Liabilities	
Accounts Payable	\$ 210,789
Accrued Payroll	19,527
Total Accounts Payable and Accrued Liabilities	\$ 230,316

NOTE 7 - LONG-TERM LIABILITIES

A. Changes in Long-Term Liabilities - A summary of changes in the long-term liabilities for the year ended June 30, 2016, is presented as follows:

	Balance July 1, 2015	Additions	Reductions	Balance June 30, 2016	Current Portion
Net Pension Liability	\$ 56,436	\$ 89,253	\$ 0	\$ 145,689	\$ 0
Notes Payable	6,639,014		480,028	6,158,986	489,994
Compensated Absences	56,139		8,372	47,767	40,365
Total Long-Term Liabilities	\$ 6,751,589	\$ 89,253	\$ 488,400	\$ 6,352,442	\$ 530,359

Additional information regarding the net pension liability is included in Note 10.

B. Notes Payable Summary

Bank Loans - The Authority secured the first loan to construct GTP-7, a 100,000 square foot shell building. The Authority borrowed \$3,159,207 of the maximum of \$4,000,000, with the first two years of the loan payments being interest only. The Authority secured a second loan to refinance the outstanding balance of other notes payable originally issued to facilitate the expansion of the fixed-base operator building. These loans are collateralized by the assets acquired with the loan proceeds, as well as the land on which the assets are located. Information on the loans at June 30, 2016 is shown in the following table:

Purpose	Financial Lender	Issue Date	Interest Rate	Final Maturity Date	Original Amount of Issue	Principal Paid Through June 30, 2016	Principal Outstanding June 30, 2016
Facility Construction	Southern Bank	5/24/2012	3.75%	5/28/2027	\$ 3,159,207	\$ 362,709	\$ 2,796,498
Refinance USDA FBO Expansion Note	Southern Bank	5/28/2015	3.00%	5/28/2027	453,738	31,865	421,873

B. Notes Payable Summary

The annual requirements to pay principal and interest on the private notes at June 30, 2016 are presented as follows:

Fiscal Year	Principal	Interest
2017	\$ 239,994	\$ 121,204
2018	249,021	112,177
2019	258,388	102,810
2020	267,851	93,347
2021	278,191	83,007
2022-2026	1,556,036	249,954
2027	368,890	13,926
Total Requirements	\$ 3,218,371	\$ 776,425

North Carolina Department of Transportation (DOT) Loan - On September 29, 2011, the Authority signed an agreement with DOT to

draw down a maximum of \$5,000,000 for the renovation of GTP-1, a 120,000 square foot facility to be converted from warehousing to industrial fabrication for a tenant. On April 17, 2012, the agreement was amended to require the Authority to repay DOT \$400,000 annually at 0% interest until the loan is paid in full by reducing quarterly appropriations to the Authority by \$100,000. On August 26, 2015 the Authority and DOT amended the annual payment on the DOT note payable from \$400,000 to \$250,000, and extended the repayment terms by 5 years. This was to help mitigate the impact of the reduction in appropriations from the state legislature to the Authority from \$1,000,000 to \$750,000. As repayment for the note the Authority's quarterly appropriation will be reduced by \$62,500, resulting in an annual payment of \$250,000 and a new maturity date of July 1, 2028. The total amount borrowed was \$4,440,615, and the final maturity date is July 1, 2028. Information on the loan at June 30, 2016 is shown in the following table:

<u>Interest Rate</u>	<u>Final Maturity Date</u>	<u>Original Amount of Issue</u>	<u>Principal Paid Through June 30, 2016</u>	<u>Principal Outstanding June 30, 2016</u>
0.00%	7/1/2028	\$ 4,440,615	\$ 1,500,000	\$ 2,940,615

The annual requirements to pay principal on the note at June 30, 2016 are presented as follows:

<u>Fiscal Year</u>	<u>Principal</u>
2017	\$ 250,000
2018	250,000
2019	250,000
2020	250,000
2021	250,000
2022-2026	1,250,000
2027-2028	440,615
Total Requirements	<u>\$ 2,940,615</u>

NOTE 8 - OPERATING LEASE OBLIGATIONS

The Authority entered into operating leases for facilities and equipment. Future minimum lease payments under noncancelable operating leases consist of the following at June 30, 2016:

<u>Fiscal Year</u>	<u>Amount</u>
2017	\$ 9,360
2018	6,710
Total Minimum Lease Payments	<u>\$ 16,070</u>

Rental expense for all operating leases during the year was \$9,360.

NOTE 9 - FUTURE RENTAL REVENUES

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

Fiscal Year	Amount
2017	\$ 1,294,965
2018	1,138,559
2019	772,833
2020	549,876
2021	<u>529,921</u>
Total	<u>\$ 4,286,154</u>

The various buildings leased were acquired at a cost of \$133,539,976 and have accumulated depreciation totaling \$29,293,974.

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

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

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

Fiscal Year	Amount
2017	\$ 314,694
2018	320,550
2019	328,336
2020	328,336
2021	328,336
2022-2026	1,754,775
2027-2031	1,931,222
2032-2036	2,125,511
2037-2041	2,338,057
2042-2043	762,207
Total	<u>\$ 10,532,024</u>

The buildings leased have a total cost of \$8,498,064 and a net book value of \$4,268,509.

NOTE 10 - PENSION PLANS

Defined Benefit Plan

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

Benefits Provided: TSERS provides retirement and survivor benefits. Retirement benefits are determined as 1.82% of the member's average final compensation times the member's years of creditable service. A member's average final compensation is calculated as the average of a member's four highest consecutive years of compensation. General employee plan members are eligible to retire with full retirement benefits at age 65 with five years of creditable service, at age 60 with 25 years of creditable service, or at any age with 30 years of creditable service. General employee plan members are eligible to retire with partial retirement benefits at age 50 with 20 years of creditable service or at age 60 with five years of creditable service. Survivor benefits are available to eligible beneficiaries of general members who die while in active service or within 180 days of their last day of service and who also have either completed 20 years of creditable service regardless of age, or have completed five

years of service and have reached age 60. Eligible beneficiaries may elect to receive a monthly Survivor's Alternate Benefit for life or a return of the member's contributions. The plan does not provide for automatic post-retirement benefit increases. Increases are contingent upon actuarial gains of the plan.

Contributions: Contribution provisions are established by General Statute 135-8 and may be amended only by the North Carolina General Assembly. Employees are required to contribute 6% of their compensation. The contribution rate for employers is set each year by the NC General Assembly in the Appropriations Act based on the actuarially-determined rate recommended by the actuary. The Authority's contractually-required contribution rate for the year ended June 30, 2016 was 9.15% of covered payroll. The Authority's contributions to the pension plan were \$40,913, and employee contributions were \$26,828 for the year ended June 30, 2016.

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 2015 *Comprehensive Annual Financial Report*. An electronic version of this report is available by accessing the North Carolina Office of the State Controller's Internet home page <http://www.osc.nc.gov/> and clicking on "Reports" or by calling the State Controller's Financial Reporting Section at (919) 707-0500.

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

Methods Used to Value TSERS Investment: Pursuant to *North Carolina General Statutes*, the State Treasurer is the custodian and administrator of the retirement systems. The State Treasurer maintains various investment portfolios in its Investment Pool. The pension trust funds are the primary participants in the Long-term Investment portfolio and the sole participants in the External Fixed Income Investment, Equity Investment, Real Estate Investment, Alternative Investment, Credit Investment, and Inflation Protection Investment portfolios. The investment balance of each pension trust fund represents its share of the fair market value of the net position of the various portfolios within the pool. Detailed descriptions of the methods and significant assumptions regarding investments of the State Treasurer are provided in the 2015 *Comprehensive Annual Financial Report*.

Net Pension Liability: At June 30, 2016, the Authority reported a liability of \$145,689 for its proportionate share of the collective net pension liability. The net pension liability was measured as of June 30, 2015. The total pension liability used to calculate the net pension liability was determined

by an actuarial valuation as of December 31, 2014, and update procedures were used to roll forward the total pension liability to June 30, 2015. The Authority's proportion of the net pension liability was based on the present value of future salaries for the Authority relative to the present value of future salaries for all participating employers, actuarially-determined. As of June 30, 2015, the Authority's proportion was 0.00395336%, which was a decrease of 0.00086027 from its proportion measured as of June 30, 2014.

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	12/31/2014
Inflation	3%
Salary Increases*	4.25% - 9.10%
Investment Rate of Return**	7.25%

* Salary increases include 3.5% inflation and productivity factor.

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

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

The actuarial assumptions used in the December 31, 2014 valuations were based on the results of an actuarial experience study for the period January 1, 2005 through December 31, 2009.

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

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

pension plan's target asset allocation as of June 30, 2015 (the valuation date) are summarized in the following table:

<u>Asset Class</u>	<u>Long-Term Expected Real Rate of Return</u>
Fixed Income	2.2%
Global Equity	5.8%
Real Estate	5.2%
Alternatives	9.8%
Credit	6.8%
Inflation Protection	3.4%

The information above is based on 30-year expectations developed with the consulting actuary for the 2014 asset, liability and investment policy study for 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 3.19%. All rates of return and inflation are annualized.

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

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

<u>Net Pension Liability (Asset)</u>		
<u>1% Decrease (6.25%)</u>	<u>Current Discount Rate (7.25%)</u>	<u>1% Increase (8.25%)</u>
\$ 438,484	\$ 145,689	\$ (102,781)

Deferred Inflows of Resources and Deferred Outflows of Resources Related to Pensions: For the year ended June 30, 2016, the Authority recognized pension expense of \$15,221. At June 30, 2016, the Authority reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference Between Actual and Expected Experience	\$ 0	\$ 16,565
Changes of Assumptions		
Net Difference Between Projected and Actual Earnings on Pension Plan Investments		15,784
Change in Proportion and Differences Between Agency's Contributions and Proportionate Share of Contributions	4,056	1,546
Contributions Subsequent to the Measurement Date	40,913	
Total	<u>\$ 44,969</u>	<u>\$ 33,895</u>

The amount of \$40,913 reported as deferred outflows of resources related to pensions will be included as a reduction of the net pension liability in the fiscal year ended June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

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

Year ended June 30:	Amount
2017	\$ (17,944)
2018	(17,944)
2019	(17,651)
2020	23,700
Total	<u>\$ (29,839)</u>

NOTE 11 - OTHER POSTEMPLOYMENT BENEFITS

A. Health Benefits - The Authority participates in the Comprehensive Major Medical Plan (the Plan), a cost-sharing, multiple-employer defined benefit health care plan that provides postemployment health insurance to eligible former employees. Eligible former employees include long-term disability beneficiaries of the Disability Income Plan of North Carolina and retirees of the Teachers' and State Employees' Retirement System (TSERS). Coverage eligibility varies depending on years of contributory membership service in their retirement system prior to disability or retirement.

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

By General Statute, a Retiree Health Benefit Fund (the Fund) has been established as a fund in which accumulated contributions from employers and any earnings on those contributions shall be used to provide health benefits to retired and disabled employees and applicable beneficiaries. By statute, the Fund is administered by the Board of Trustees of TSERS and contributions to the Fund are irrevocable. Also by law, Fund assets are dedicated to providing benefits to retired and disabled employees and applicable beneficiaries and are not subject to the claims of creditors of the employers making contributions to the Fund. Contribution rates to the Fund, which are intended to finance benefits and administrative expenses on a pay-as-you-go basis, are established by the General Assembly.

For the current fiscal year the Authority contributed 5.60% of the covered payroll under TSERS to the Fund. Required contribution rates for the years ended June 30, 2015, and 2014, were 5.49% and 5.40%, respectively. The Authority made 100% of its annual required contributions to the Plan for the years ended June 30, 2016, 2015, and 2014, which were \$25,039, \$32,796, and \$37,907, respectively. The Authority assumes no liability for retiree health care benefits provided by the programs other than its required contribution.

Additional detailed information about these programs can be located in the State of North Carolina's *Comprehensive Annual Financial Report*. An electronic version of this report is available by accessing the North Carolina Office of the State Controller's Internet home page <http://www.osc.nc.gov/> and clicking on "Reports" or by calling the State Controller's Financial Reporting Section at (919) 707-0500.

- B. Disability Income** - The Authority participates in the Disability Income Plan of North Carolina (DIPNC), a cost-sharing, multiple-employer defined benefit plan, to provide short-term and long-term disability benefits to eligible members of TSERS. Benefit and contribution provisions are established by Chapter 135, Article 6, of the General Statutes, and may be amended only by the North Carolina General Assembly. The Plan does not provide for automatic post-retirement benefit increases.

Disability income benefits are funded by actuarially determined employer contributions that are established by the General Assembly. For the fiscal year ended June 30, 2016, the Authority made a statutory contribution of .41% of covered payroll under TSERS to the DIPNC. Required contribution rates for the years ended June 30, 2015, and 2014, were .41% and .44%, respectively. The Authority made 100% of its annual required contributions to the DIPNC

for the years ended June 30, 2016, 2015, and 2014, which were \$1,833, \$2,449, and \$3,089, respectively. The Authority assumes no liability for long-term disability benefits under the Plan other than its contribution.

Additional detailed information about the DIPNC is disclosed in the State of North Carolina's *Comprehensive Annual Financial Report*.

NOTE 12 - RISK MANAGEMENT

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

A. Employee Benefit Plans

1. State Health Plan

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

2. Death Benefit Plan of North Carolina

Term life insurance (death benefits) of \$25,000 to \$50,000 is provided to eligible workers. This Death Benefit Plan is administered by the State Treasurer and funded via employer contributions. The employer contribution rate was .16% for the current fiscal year.

B. Other Risk Management and Insurance Activities

1. Automobile, Fire, and Other Property Losses

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

All state-owned vehicles are covered by liability insurance through a private insurance company and handled by the North Carolina Department of Insurance. The liability limits for losses are \$1,000,000 per claim and \$10,000,000 per occurrence. The Authority pays premiums to the North Carolina Department of Insurance for the coverage.

2. Public Officers' and Employees' Liability Insurance

The risk of tort claims of up to \$1,000,000 per claimant is retained under the authority of the State Tort Claims Act. In addition, the State provides excess public officers' and employees' liability insurance up to \$10,000,000 via contract with a private insurance company. The Authority pays the premium, based on a composite rate, directly to the private insurer.

3. Employee Dishonesty and Computer Fraud

The Authority is protected for losses from employee dishonesty and computer fraud. This coverage is with a private insurance company and is handled by the North Carolina Department of Insurance. The Authority is charged a premium by the private insurance company. Coverage limit is \$5,000,000 per occurrence. The private insurance company pays 90% of each loss less a \$100,000 deductible.

4. Statewide Workers' Compensation Program

The North Carolina Workers' Compensation Program provides benefits to workers injured on the job. All employees of the State and its component units are included in the program. When an employee is injured, the Authority's primary responsibility is to arrange for and provide the necessary treatment for work related injury. The Authority is responsible for paying medical benefits and compensation in accordance with the North Carolina Workers' Compensation Act. The Authority is self-insured for workers' compensation.

Additional details on the state-administered risk management programs are disclosed in the State's *Comprehensive Annual Financial Report*, issued by the Office of the State Controller.

NOTE 13 - COMMITMENTS AND CONTINGENCIES

Environmental - The Authority is subject to a number of federal, state, and local environmental laws, regulations, and policies. The environmental laws and regulations most applicable to the Authority relate to wetlands, air emissions, wastewater discharges, and the handling, disposal, and release of solid and/or hazardous wastes. More specifically, the Authority may be subject to the Comprehensive Environmental Response, Compensation

and Liability Act, which imposes retroactive liability upon owners and operators of facilities, including the Authority, for the release or threatened release of hazardous substances at on-site or off-site locations.

Before constructing a major federal action significantly affecting the environment, the Authority must complete an environmental review and permitting process pursuant to applicable federal and state law and regulations. On September 8, 1997, the Federal Aviation Administration (FAA) granted a favorable Record of Decision satisfactorily concluding the FAA's actions on the environmental process. The United States Army Corps of Engineers originally issued a Section 404 permit on October 21, 1998 to discharge dredge or fill material for the initial and future construction of the Global TransPark. The permit has been extended to October 21, 2018.

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

Commitments - The Authority has established an encumbrance system to track its outstanding commitments on construction projects and other purchases. There were no outstanding commitments on construction projects or other purchases at June 30, 2016, however there are long-range environmental commitments based on the United States Army Corps of Engineers Section 404 permit for the activities described above.

Concentration of Risk - The Authority is a state agency for the State of North Carolina and, therefore, receives financial support from the State. Excluding capital contributions and investment earnings, the Authority received 33% of its financial support from the State for the year ended June 30, 2016 compared to 29% during the prior year.

NOTE 14 - RELATED PARTIES

Global TransPark Foundation, Inc. - The Foundation's operating bank accounts are with a bank owned by one of the directors of the Foundation.

NOTE 15 - CHANGES IN FINANCIAL ACCOUNTING AND REPORTING

For the fiscal year ended June 30, 2016, the Authority implemented the following pronouncements issued by the Governmental Accounting Standards Board (GASB):

GASB Statement No. 72, Fair Value Measurement and Application

GASB Statement No. 76, The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments

GASB Statement No. 72 provides guidance for determining a fair value measurement for financial reporting purposes. This statement also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements.

GASB Statement No. 76 reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and nonauthoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP.



REQUIRED SUPPLEMENTARY INFORMATION

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

Exhibit C-1

	<u>2015</u>	<u>2014</u>	<u>2013</u>
Proportionate Share Percentage of Collective Net Pension Liability	0.00395336%	0.00481363%	0.00476554%
Proportionate Share of TSERS Collective Net Pension Liability	\$ 145,689	\$ 56,436	\$ 289,317
Covered-Employee Payroll	\$ 597,375	\$ 701,974	\$ 584,736
Net Pension Liability as a Percentage of Covered-Employee Payroll	24%	8%	49%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	94.64%	98.24%	90.60%

**North Carolina Global TransPark Authority
 Required Supplementary Information
 Schedule of Authority Contributions
 Teachers' and State Employees' Retirement System
 Last Ten Fiscal Years**

Exhibit C-2

	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>
Contractually Required Contribution	\$ 40,913	\$ 54,660	\$ 61,002	\$ 48,709	\$ 51,644
Contributions in Relation to the Contractually Determined Contribution	<u>40,913</u>	<u>54,660</u>	<u>61,002</u>	<u>48,709</u>	<u>51,644</u>
Contribution Deficiency (Excess)	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>
Covered-Employee Payroll	\$ 447,137	\$ 597,375	\$ 701,974	\$ 584,736	\$ 694,145
Contributions as a Percentage of Covered-Employee Payroll	9.15%	9.15%	8.69%	8.33%	7.44%

	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>
Contractually Required Contribution	\$ 30,216	\$ 21,920	\$ 21,521	\$ 23,088	\$ 18,146
Contributions in Relation to the Contractually Determined Contribution	<u>30,216</u>	<u>21,920</u>	<u>21,521</u>	<u>23,088</u>	<u>18,146</u>
Contribution Deficiency (Excess)	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>
Covered-Employee Payroll	\$ 612,945	\$ 613,999	\$ 640,515	\$ 756,995	\$ 682,195
Contributions as a Percentage of Covered-Employee Payroll	4.93%	3.57%	3.36%	3.05%	2.66%

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

Changes of Benefit Terms:

				<u>Cost of Living Increase</u>					
<u>2015*</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>
1.00%	N/A	1.00%	N/A	N/A	N/A	2.20%	2.20%	3.00%	2.00%

Changes of assumptions. In 2008, and again in 2012, the rates of withdrawal, mortality, service retirement and salary increase for active members and the rates of mortality for beneficiaries were adjusted to more closely reflect actual experience. Assumptions for leave conversions and loads were also revised in 2012.

*Per the 2015 State of North Carolina *Comprehensive Annual Financial Report*, the 1.00% cost of living adjustment applies to retirees whose retirement began on or before July 1, 2013.



INDEPENDENT AUDITOR'S REPORT

STATE OF NORTH CAROLINA
Office of the State Auditor



Beth A. Wood, CPA
State Auditor

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the North Carolina Global TransPark Authority, a component unit of the State of North Carolina, and its discretely presented component unit, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated December 20, 2016. Our report includes a reference to other auditors who audited the financial statements of the Global TransPark Foundation, Inc., as described in our report on the Authority's financial statements. The financial statements of the Global TransPark Foundation, Inc. were not audited in accordance with *Government Auditing Standards*, and accordingly, this report does not include reporting on internal control over financial reporting or instances of reportable noncompliance associated with the Global TransPark Foundation, Inc.

Internal Control Over Financial Reporting

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

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

deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

Compliance and Other Matters

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

Purpose of this Report

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



Beth A. Wood, CPA
State Auditor

Raleigh, North Carolina

December 20, 2016

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For additional information contact:
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This audit required 170 hours at an approximate cost of \$17,510.00.