

NORTH CAROLINA TURNPIKE AUTHORITY

Financial Statements

June 30, 2012 and 2011

(With Independent Auditors' Report Thereon)

NORTH CAROLINA TURNPIKE AUTHORITY
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Independent Auditors' Report

Board of Directors
North Carolina Turnpike Authority
Raleigh, North Carolina

We have audited the accompanying statements of net assets of the North Carolina Turnpike Authority (NCTA), a major enterprise fund of the State of North Carolina as of and for the years ended June 30, 2012 and 2011, and the related statements of revenues, expenses and changes in net assets and cash flows, which collectively comprise the NCTA's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the NCTA's management. Our responsibility is to express opinions on these financial statements based on our audits.

We conducted our audits 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 audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinions.

As discussed in Note 1, the financial statements present only the NCTA and do not purport to, and do not, present fairly the financial position of the State of North Carolina or the North Carolina Department of Transportation, as of and for the years ended June 30, 2012 and 2011, and the changes in its financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the NCTA as of June 30, 2012 and 2011, and the respective changes in financial position, and cash flows thereof for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 1, 2012 on our consideration of the NCTA'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* and should be considered in assessing the results of our audits.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis as shown 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 audits 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.

Cherry, Bekaert & Holland, L.L.P.

Raleigh, North Carolina
October 1, 2012

NORTH CAROLINA TURNPIKE AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2012 and 2011

The management's discussion and analysis (MD&A) provides an overview of the North Carolina Turnpike Authority's (NCTA) activities during the fiscal years ended June 30, 2012, 2011 and 2010. The discussion and analysis also includes condensed financial information comparing the current year to the prior years.

Overview of the Financial Statements

The North Carolina Turnpike Authority is a public agency of the State of North Carolina located within the Department of Transportation (NCDOT) and is a major enterprise fund of the State. As such, the NCTA is included in the State of North Carolina *Comprehensive Annual Financial Report*. The accompanying statements were prepared in accordance with accounting principles generally accepted in the United States of America to represent the NCTA's financial position separate from the State of North Carolina.

Included in this report are the Statements of Net Assets as of June 30, 2012 and 2011, the Statements of Revenues, Expenses, and Changes in Net Assets for the years ended June 30, 2012 and 2011, and the Statements of Cash Flows for the years ended June 30, 2012 and 2011. These statements use the accrual basis of accounting, which is similar to the accounting by most private-sector businesses. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid. The Statements of Net Assets present assets less liabilities which equals net assets, thus presenting the NCTA's financial position at the end of the fiscal year, while the Statements of Activities presents information showing how the NCTA's net assets changed during the fiscal year.

Financial Highlights and Analysis

Although the North Carolina Turnpike Authority was created in October 2002, financial activity started late in fiscal year 2004. Budgeted Administrative Activities for fiscal year 2012 were limited to salaries, personnel, Board members per-diem, travel and other general operating expenditures while project related cost was funded by state appropriated, federal or project specific financings.

Major accomplishments for the North Carolina Turnpike Authority (NCTA) for fiscal year 2012 included the following:

- The Triangle Expressway, North Carolina's first modern toll road, is under construction and being completed in three phases. The Triangle Parkway (Phase I) is 3.4 miles of new construction between the existing interchange of NC 147 and I-40 and existing NC 540. Phase I was completed ahead of schedule and opened to traffic on December 8, 2011. The Western Wake Freeway (Phases II and III) includes 12.6 miles of new construction between NC 55 and the NC 55 Bypass near the Town of Holly Springs. Phase II and Phase III are on schedule and expected to open in August 2012 and December of 2012, respectively. The Triangle Expressway system includes the construction of an integrated, electronic tolling system. As of June 2012, the project is approximately 80% complete, with a 5.9% estimated savings from the initial financial plan.
- The Monroe Bypass is a new location, controlled-access toll road from US 74 near I-485 in Mecklenburg County to US 74 between the towns of Wingate and Marshville in Union County, a distance of approximately 20 miles. The highway design-build price proposals were opened in October 2010, and the \$367,000,000 contract was awarded in November 2011. In October 2010, the NCTA issued \$233,920,000 in State Annual Appropriation Revenue Bonds. In late 2011, in addition to \$77,000,000 in STIP funding, and to complete funding of the project, \$10,000,000 in Senior Lien Turnpike Revenue Bonds, \$214,505,000 in State Annual Appropriation Revenue Bonds, and \$145,535,000 in GARVEE bonds with State match were sold. However, construction has been delayed due to litigation challenging the project's NEPA documentation. Court resolution is expected in Fiscal Year 2013.

**NORTH CAROLINA TURNPIKE AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS**

June 30, 2012 and 2011

- The Mid-Currituck Bridge project is a new seven-mile, two-lane, toll project that would cross Currituck Sound and connect the mainland at U.S. 158 near Aydlett with NC 12 on the Outer Banks south of Corolla. The project is planned as the State's first long-term concession Public-Private Partnership. The Currituck Development Group (CDG) was awarded a Pre-Development Agreement in 2008 for the development of design options, traffic and revenue studies, value engineering, construction methodology, and preliminary financial feasibility studies. The CDG is currently negotiating a concession contract with the Authority to develop, design, build, finance, operate and maintain the Project.
- In 2012, the NCTA completed the environmental documentation and continued the highway design-build procurement process for the Garden Parkway, a new 21-mile, controlled-access toll highway that would begin at I-485 near the Charlotte-Douglas International Airport at N.C. 160 in Mecklenburg County and continue west across the Catawba River into Gaston County, ending at I-85 west of Gastonia.
- The North Carolina General Assembly amended the budget to include the following appropriations for NCTA projects:
 - FY 2012 and FY 2013: \$49 million annually for the Triangle Expressway (\$25 million) and Monroe Bypass (\$24 million) projects
 - FY 2014 and beyond: \$112 million annually for the Triangle Expressway (\$25 million), Monroe Bypass (\$24 million), Mid-Currituck Bridge (\$28 million), and Garden Parkway (\$35 million) projects.
- Funding for administrative expenses is reviewed and advanced as needed from the Highway Trust Fund Administration line item to be repaid by the NCTA from revenue collections. Interest will begin to accrue on the advance one year after the NCTA begins collecting tolls on a completed Turnpike project at a rate equal to the State Treasurer's average annual yield on its investment of Highway Trust Funds pursuant to G.S. 147-6.1. Turnpike project funding may come from a combination of debt and North Carolina Department of Transportation, Federal Highway Administration, and public private partnership participation as authorized in G.S. 136-89.189 and G.S. 136-89.191.

Net Assets and Revenues, Expenses, and Changes in Net Assets

For fiscal year 2012, the NCTA ended with positive net assets. This is the result of reclassifying project expenditures to capital assets, non-depreciable that will eventually be depreciated when projects are completed.

Condensed Statements of Net Assets

	2012	2011	2010
Current Assets	\$ 55,849,363	\$ 48,281,824	\$ 5,323,581
Restricted Assets and Deferred Charges	902,787,475	706,505,873	545,547,326
Capital Assets	1,013,042,633	689,382,678	299,092,924
Total Assets	1,971,679,471	1,444,170,375	849,963,831
Current Liabilities	131,866,984	98,245,834	43,770,357
Noncurrent Liabilities	1,569,455,286	1,155,584,063	712,139,911
Total Liabilities	1,701,322,270	1,253,829,897	755,910,268
Invested in Capital Assets	346,628,861	249,443,795	128,824,029
Unrestricted	(76,271,660)	(59,103,317)	(34,770,466)
Net Assets	\$ 270,357,201	\$ 190,340,478	\$ 94,053,563

NORTH CAROLINA TURNPIKE AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2012 and 2011

Current Assets

The increase is due to an increase in in the securities lending collateral.

Capital Assets

Capital Assets, Non-depreciable – The increase is due to an increase in engineering and construction contract expenses related to toll road projects, primarily the Triangle Expressway, which will be completed in December of 2012 and the Monroe Connector. Since these projects are not yet complete, they are recorded in the Construction in Progress account.

Capital Assets, Depreciable – The increase is due to the opening of the first phase of the Triangle Expressway and the resulting re-classification of costs from the Construction in Progress account to a depreciable asset account.

Current Liabilities

Current liabilities include accounts payable, current portion of interest payable, obligations under securities lending, current portion of revenue bonds payable and other current liabilities. The increase is due to an increase in the securities lending collateral due to a higher balance with the North Carolina State Treasurer's Investment Fund as well as a portion of the revenue bonds payable becoming current and due within one year.

Noncurrent Liabilities

Noncurrent liabilities include revenue bonds payable, notes payable, funds advanced to the Turnpike Authority from the Highway Trust Fund to cover the administrative expenditures of the NCTA and it also includes the noncurrent portion of accrued vacation and interest payable. The increase is attributable to the issuance of more revenue, appropriation and GARVEE bonds in the current year and an increase in the TIFIA loan.

Net Assets

Net Assets represent the residual interest in the NCTA's assets after all liabilities are deducted. For reporting purposes they are divided into three categories: invested in capital assets, net of related debt, restricted for capital projects and unrestricted net assets.

NORTH CAROLINA TURNPIKE AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2012 and 2011

Condensed Statements of Revenues, Expenses and Changes in Net Assets

	2012	2011	2010
Operating Revenues:			
Charges for Services	\$ 495,686	\$ 21	\$ -
Other Operating Revenues	169,175	-	-
Total Operating Revenues	<u>664,861</u>	<u>21</u>	<u>-</u>
Operating Expenses:			
Personnel Services	1,318,567	1,154,715	1,967,621
Supplies and Materials	244,582	17,404	22,549
Contracted Personnel Services	2,796,599	601,523	709,257
Travel	67,413	59,192	50,547
Advertising	-	22,875	58,917
Utilities	77,380	41,691	49,081
Dues and Subscription Fees	25,495	16,409	17,639
Other Services	2,038,719	1,663,155	241,644
Cost of Goods Sold	169,170	-	-
Capital Outlay	3,481,880	20,246	216,920
Rental Expense	107,035	183,243	206,298
Depreciation	1,869,952	15,134	16,095
Total Operating Expenses	<u>12,196,792</u>	<u>3,795,587</u>	<u>3,556,568</u>
Operating Loss	<u>(11,531,931)</u>	<u>(3,795,566)</u>	<u>(3,556,568)</u>
Nonoperating other revenue/expenses and capital grants	24,381,728	30,929,723	12,469,729
Transfers In	69,912,789	69,152,758	34,390,831
Transfers Out	<u>(2,745,863)</u>	<u>-</u>	<u>-</u>
Change in Net Assets	<u>80,016,723</u>	<u>96,286,915</u>	<u>43,303,992</u>
Net Assets Beginning, July 1	<u>190,340,478</u>	<u>94,053,563</u>	<u>50,749,571</u>
Net Assets Ending, June 30	<u>\$ 270,357,201</u>	<u>\$ 190,340,478</u>	<u>\$ 94,053,563</u>

Operating Revenues

Operating revenues are revenues derived from the business operations of the NCTA. These include toll revenues, fees and sales revenue from the sale of transponders. 2012 was the first year these revenues have been collected due to the opening of the first phase of the Triangle Expressway.

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June 30, 2012 and 2011

Operating Expenses

Operating expenses are expenses used to acquire or produce goods and services to carry out the mission of the NCTA. The increase in personnel services is attributed to a shift from direct toll road project labor which is capitalized during the construction period, to operational labor. The increase in contracted personnel services is attributed to the expensing of certain costs related to the completed section of the Triangle Expressway instead of capitalizing them during construction. The majority of the other services expenses are the costs associated with the standard overhead allocation from the North Carolina Department of Transportation.

Non-operating and Other Revenue/Expenses

Non-operating revenues/expenses are revenues received or expenses incurred for which goods and services are not provided or received. They include capital grants, transfers in and out, investment income and debt service expense. Capital grants are the funds received from the Federal Highway Administration and the North Carolina Department of Transportation for their participation in the initial construction of toll highways and in preliminary studies to determine the feasibility of a toll facility. This amount decreased due to the expensing of debt service related to the completed section of the Triangle Expressway.

Economic Outlook

Utilizing innovative financing and engineering initiatives, advanced toll collection technologies, and expedited environmental reviews, the NCTA is moving rapidly to accomplish its mission to advance construction of certain strategic highways as efficiently as possible. With the completion of each project, sound fiscal practices are being reviewed and implemented to allow for efficient and effective operation of the completed project to safeguard the assets and patrons of the NCTA.

Requests for Information

Any request for information about this report should be sent to the Chief Financial Officer at the North Carolina Turnpike Authority, 1 South Wilmington Street, Raleigh, NC 27601.

NORTH CAROLINA TURNPIKE AUTHORITY
STATEMENTS OF NET ASSETS
June 30, 2012 and 2011

	2012	2011
ASSETS		
Current Assets:		
Cash and Cash Equivalents	\$ 2,569,019	\$ -
Securities Lending Collateral	51,709,874	41,711,692
Accounts Receivable	84,055	1,865
Inventory	1,420,171	-
Intergovernmental Receivable	66,244	6,568,267
Total Current Assets	55,849,363	48,281,824
Noncurrent Assets:		
Restricted Assets:		
Cash and Cash Equivalents	333,282	-
Investments	873,307,704	679,207,154
Total Restricted Assets	873,640,986	679,207,154
Deferred Charges	29,146,489	27,298,719
Capital Assets, Nondepreciable:		
Land and Permanent Easements	136,406,626	110,997,951
Construction in Progress	692,690,918	578,364,148
Capital Assets, Depreciable, Net of Depreciation:		
Highway Network	183,936,517	-
Machinery and Equipment	8,572	20,579
Total Capital Assets, Net of Depreciation	1,013,042,633	689,382,678
Total Noncurrent Assets	1,915,830,108	1,395,888,551
Total Assets	1,971,679,471	1,444,170,375
LIABILITIES		
Current Liabilities:		
Accounts Payable	23,285,744	29,545,465
Accrued Interest Payable	30,678,152	23,973,021
Accrued Vacation	15,918	9,389
Obligations Under Securities Lending	54,889,207	44,490,567
Due to Other Funds	918	227,392
Revenue Bonds Payable, Net	22,725,000	-
Intergovernmental Payables	5,498	-
Deferred Revenue	266,547	-
Total Current Liabilities	131,866,984	98,245,834
Noncurrent Liabilities:		
Revenue Bonds Payable, Net	1,233,488,119	854,549,970
Note Payable	283,508,357	264,596,067
Advances from Other Funds	22,746,383	21,011,189
Accrued Interest Payable	29,549,695	15,327,935
Accrued Vacation	162,732	98,902
Total Noncurrent Liabilities	1,569,455,286	1,155,584,063
Total Liabilities	1,701,322,270	1,253,829,897
NET ASSETS		
Invested in Capital Assets, Net of Related Debt	346,628,861	249,443,795
Unrestricted Net Assets	(76,271,660)	(59,103,317)
Total Net Assets	\$ 270,357,201	\$ 190,340,478

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NORTH CAROLINA TURNPIKE AUTHORITY
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
Years Ending June 30, 2012 and 2011

	2012	2011
REVENUES		
Operating Revenues		
Charges for Services	\$ 495,686	\$ -
Other Operating Revenues	169,175	21
Total Operating Revenues	<u>664,861</u>	<u>21</u>
EXPENSES		
Operating Expenses:		
Personnel Services	1,318,567	1,154,715
Supplies and Materials	244,582	17,404
Contracted Personnel Services	2,796,599	601,523
Travel	67,413	59,192
Advertising	-	22,875
Utilities	77,380	41,691
Dues and Subscription Fees	25,495	10,769
Other Services	2,038,719	1,606,419
Cost of Goods Sold	169,170	-
Capital Outlay	3,481,880	82,622
Rental Expense	107,035	183,243
Depreciation	1,869,952	15,134
Total Operating Expenses	<u>12,196,792</u>	<u>3,795,587</u>
Operating Loss	<u>(11,531,931)</u>	<u>(3,795,566)</u>
NONOPERATING REVENUES (EXPENSES)		
Investment Earnings	2,144,171	2,467,241
Federal Interest Subsidy on Debt	12,217,743	18,141,142
Interest and Fees	(5,251,731)	(1,008,072)
Miscellaneous	-	(301,266)
Total Nonoperating Revenues	<u>9,110,183</u>	<u>19,299,045</u>
Income (Loss) before Transfers and Capital Grants	<u>(2,421,748)</u>	<u>15,503,479</u>
CAPITAL GRANTS	15,271,545	11,630,678
TRANSFERS IN	69,912,789	69,152,758
TRANSFERS OUT	<u>(2,745,863)</u>	<u>-</u>
Increase in Net Assets	80,016,723	96,286,915
NET ASSETS		
Net Assets Beginning, July 1	<u>190,340,478</u>	<u>94,053,563</u>
Net Assets Ending, June 30	<u>\$ 270,357,201</u>	<u>\$ 190,340,478</u>

NORTH CAROLINA TURNPIKE AUTHORITY
STATEMENTS OF CASH FLOWS
Years Ending June 30, 2012 and 2011

	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from Customers	\$ 582,671	\$ 21
Payments to Employees and Fringe Benefits	(1,248,207)	(1,187,765)
Payments to Vendors and Suppliers	(5,653,148)	(1,261,968)
Other Payments	(2,034,093)	(1,765,348)
Net Cash Flows from Operating Activities	(8,352,777)	(4,215,060)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Transfers Out	(2,745,863)	-
Other Noncapital Financing Receipts - Advances	1,735,194	2,731,754
Net Cash Flows from Noncapital Financing Activities	(1,010,669)	2,731,754
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition and Construction of Capital Assets	(272,236,939)	(326,405,664)
Transfers In	69,912,790	69,152,758
Federal Interest Subsidy on Debt	18,326,614	8,690,893
Capital Grants	15,614,697	11,600,352
Capital Gifts	50,000	-
Proceeds from Issuance of Revenue Bonds	422,105,247	233,920,000
Interest Expense	(49,752,911)	(37,869,328)
Issuance Costs	(2,849,311)	(1,688,672)
Proceeds from TIFIA Loan	-	195,796,023
Net Cash Flows from Capital and Related Financing Activities	201,170,187	153,196,362
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from Sale and Maturities of Investments	4,629,114,969	747,334,759
Purchase of Investments	(4,823,590,936)	(1,174,987,855)
Investment Earnings	5,571,527	8,108,677
Net Cash Flows from Investing Activities	(188,904,440)	(419,544,419)
Net Change in Cash and Cash Equivalents	2,902,301	(267,831,363)
Cash and Cash Equivalents at Beginning of Year	-	267,831,363
Cash and Cash Equivalents at End of Year	\$ 2,902,301	\$ -
SUMMARY OF CASH AND CASH EQUIVALENTS		
Cash and Cash Equivalents Unrestricted	\$ 2,569,019	\$ -
Cash and Cash Equivalents Restricted	333,282	-
Cash and Cash Equivalents at End of Year	\$ 2,902,301	\$ -

NORTH CAROLINA TURNPIKE AUTHORITY
STATEMENTS OF CASH FLOWS (CONTINUED)
Years Ending June 30, 2012 and 2011

	2012	2011
RECONCILIATION OF OPERATING LOSS TO NET CASH		
FLows USED BY OPERATING ACTIVITIES		
Operating Loss	\$ (11,531,931)	\$ (3,795,566)
Adjustments to Reconcile Operating Loss to Net Cash Flows Used by		
Operating Activities:		
Depreciation Expense	1,869,952	15,134
Management Fees	(16,248)	-
Changes in Assets and Liabilities:		
Accounts Receivable	(82,190)	(1,865)
Inventories	(1,420,171)	-
Accounts Payable	2,711,881	(623,801)
Intergovernmental Payables	5,498	-
Due to Other Funds	(226,474)	224,087
Deferred Revenue	266,547	-
Compensated Absences	70,359	(33,049)
Total Cash (Used by) Operating Activities	\$ (8,352,777)	\$ (4,215,060)
NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES		
Increase in Fair Value of Investments	\$ 10,857,257	\$ 1,234,493
Amortization of Bond Related Costs	706,895	1,008,073
Change in Construction in Progress as a Result of Accrual Liabilities	22,909,850	29,489,618
Assets Acquired Through Assumption of a Liability	51,709,874	41,711,692

NORTH CAROLINA TURNPIKE AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2012 and 2011

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES

- A. Organization and Purpose** – The North Carolina Turnpike Authority (NCTA) was established by G.S. 136 Article 6H on October 3, 2002. Effective July 27, 2009 the North Carolina General Assembly adopted Session law 2009-343, transferring the NCTA to the North Carolina Department of Transportation to conserve expenditures and improve efficiency. The NCTA is a business unit of the North Carolina Department of Transportation and is subject to and under the direct supervision of the Secretary of Transportation. The NCTA is presented as a major enterprise fund in the State of North Carolina. Currently, the NCTA is authorized to construct, operate and maintain up to nine toll roads in the state.
- B. 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 NCTA is a business unit of the North Carolina Department of Transportation. The NCTA is an integral part of the State of North Carolina's *Comprehensive Annual Financial Report*. These financial statements for the NCTA are separate and apart from those of the State of North Carolina and do not present the financial position of the State, nor changes in the State's financial position and cash flows. The NCTA is governed by a nine member Board of Directors; two members are appointed by the Senate Pro Tempore and two by the Speaker of the House. The remaining five are appointed by the Governor, and include the Secretary of Transportation.
- C. 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). The full scope of the NCTA's activities is considered to be a single business-type activity and accordingly, is reported within a single column in the basic financial statements.
- The NCTA elected to apply all applicable Governmental Accounting Standards Board (GASB) pronouncements as well as Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements. As permitted by GASB Statement Number 20, the NCTA elected not to apply FASB statements or interpretations issued on or after November 30, 1989, unless specifically adopted by GASB.
- D. Basis of Accounting** - The financial statements of the NCTA have been prepared using the "economic resources" 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. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.
- E. Cash and Cash Equivalents** – This classification includes deposits held by the State Treasurer in the short-term investment fund. The short-term investment fund maintained by the State Treasurer has the general characteristics of a demand deposit account in that participants may deposit and withdraw cash at any time without prior notice or penalty. The funds on deposit with the State Treasurer are an advance from the Highway Trust fund and are available on demand for payment of the NCTA's expenses. The cash balances as of June 30, 2012 and 2011 are the result of timing differences between when the expenses are recorded and when the corresponding checks are written.

NORTH CAROLINA TURNPIKE AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2012 and 2011

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

- F. State Treasurer's Securities Lending Collateral** – While the NCTA does not directly engage in securities lending transactions, it deposits certain funds with the State Treasurer's Short-Term Investment Fund which participates in securities lending activities. Based on the State Treasurer's allocation of these transactions, the NCTA recognizes its allocable share of the assets and liabilities related to these transactions on the accompanying financial statements as "Securities Lending Collateral" and "Obligations Under Securities Lending." The NCTA's allocable share of these assets and liabilities is based on the NCTA's year end deposit balance per the State Treasurer's records.

Based on the authority provided in General Statutes 147-69.3(e), the State Treasurer lends securities from its investment pools to brokers-dealers and other entities (borrowers) for collateral that will be returned for the same securities in the future. The Treasurer's securities custodian manages the securities lending program. The Treasurer's custodian lent U.S. government and agency securities, FNMAs, corporate bonds and notes for collateral. The Treasurer's custodian is permitted to receive cash, U.S. government and agency securities, or irrevocable letters of credit as collateral for the securities lent.

The collateral is initially pledged at 102 percent of the market value of the securities lent, and additional collateral is required if its value falls to less than 100 percent of the market value of the securities lent. There are no restrictions on the amount of loans that can be made. Substantially all security loans can be terminated on demand by either the State Treasurer or the borrower.

Additional details on the State Treasurer's securities lending program 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.ncosc.net/> and clicking on "Reports," or by calling the State Controller's Financial Reporting Section at (919) 981-5454.

- G. Receivables** – Receivables consist of uncollected toll revenues, as well as, amounts due from the Federal Highway Administration in connection with reimbursement of allowable expenditures made pursuant to contracts and grants that are verifiable, measurable, and expected to be collected and available for expenditures for which the resource provider's conditions have been satisfied. Receivables also include a cash subsidy from the Federal Government. Pursuant to the issuance of the 2009B and 2010A Series State Appropriation Revenue Bonds, the Authority will receive cash subsidy payments from the United States Treasury equal to 35% of the interest payable.
- H. Restricted Cash and Cash Equivalents** – This classification includes funds received through toll revenue collections. The proceeds are to be used for debt service payment. The funds are held in the North Carolina State Treasurer's Investment Fund and the securities are valued at amortized cost, which approximates fair value.
- I. Restricted Investments** – This classification includes revenue bond proceeds and funds received from the State of North Carolina to be used solely for the construction of the Triangle Expressway and the Monroe Connector. These funds are invested in a money market mutual fund and other designated funds and are valued using the Net Asset Value (NAV) provided by the administrator of the funds. The securities are stated at fair market value.

NORTH CAROLINA TURNPIKE AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
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NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

- J. Inventory** – Inventory is valued at the lower of cost (first-in, first-out) or market and consists of transponders held for resale.
- K. Deferred Charges** – Includes bond issuance costs, assured guaranty premiums, and underwriter's discounts related to the issuance of the 2009, 2010 and 2011 Series Revenue bonds. These amounts are capitalized and will be amortized over the maturity of the bonds.
- L. Capital Assets – Nondepreciable** – Includes land and permanent easements purchased for specific projects. These costs will never be depreciated and include consultant contract expenditures and contracted personnel service expenditures that are charged to specific projects. These costs, currently recorded as construction in progress, will be transferred to depreciable asset categories when projects are complete.
- M. Capital Assets – Depreciable** – Capital assets are stated at cost at the date of acquisition or fair value at date of donation in the case of gifts. Assets that have a value or cost in excess of \$5,000 at the date of acquisition and have an expected useful life of more than one year are capitalized. This definition conforms to the policy of the North Carolina Office of State Controller.

Depreciation is calculated using the straight-line method over the estimated useful life of 5 years for the machinery and equipment and 50 years for the highway network. Capital assets are carried at cost less accumulated depreciation.

- N. Noncurrent Liabilities** – Noncurrent liabilities include the advances from other funds, revenue bonds payable, a note payable, accrued interest, and accrued vacation that will not be paid within the fiscal year.
- O. Accrued Vacation** – The NCTA'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 1st or for which an employee can be paid upon termination of employment. 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 30th equals the leave carried forward at the previous December 31st plus the leave earned, less the leave taken between January 1 and June 30.

In addition to the vacation leave described above, accrued vacation includes 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 conversion to sick leave. When classifying accrued vacation into current and noncurrent, leave is considered taken using a last-in, first-out method.

- P. Net Assets** – The NCTA's net assets are classified as follows:

Invested in Capital Assets, Net of Related Debt – This represents the NCTA's total investment in capital assets, net of the corresponding related debt.

Unrestricted Net Assets - Since there were minimal toll collections and the NCTA is incurring expenses in excess of the capital grants received, the NCTA has a deficit in unrestricted net assets balance.

NORTH CAROLINA TURNPIKE AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2012 and 2011

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Q. Revenue and Expense Recognition – The NCTA classifies its revenue as operating and nonoperating and its expenses as operating in the accompanying Statement of Revenues, Expenses, and Changes in Net Assets. Operating expenses generally result from providing services and producing and delivering goods in connection with the NCTA's principal ongoing operations. Operating expenses are all expense transactions incurred other than those related to capital and non-capital 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*.

Operating revenues include activity from the toll roads that were open for operations during the fiscal year ending June 30, 2012. These revenues include toll revenues, processing fees, and other charges arising from the toll roads.

Nonoperating revenues include activities that have the characteristics of nonexchange transactions. Revenue from non-exchange transactions represent funds received from the Federal Highway Administration and North Carolina Department of Transportation. These revenues are classified as Capital Grants and are considered nonoperating, along with investment income and transfers in, since these are related to investing, capital or non-capital financing activities.

R. Use of Estimates – The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the dates of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates.

NOTE 2 – DEPOSITS

At June 30, 2012 and 2011, respectively, \$2,902,301 and \$0 as shown on the Statements of Net Assets as cash and cash equivalents represents the NCTA's equity position in the State Treasurer's Short-Term Investment Fund. The Short-Term Investment Fund (a portfolio within the State Treasurer's Investment Pool, an external investment pool that is not registered with the Securities and Exchange Commission and does not have a credit rating) had a weighted average maturity of 1.5 and 1.9 years as of June 30, 2012 and 2011, respectively. Assets and shares of the Short-Term Investment Fund are valued at amortized cost, which approximates fair value. At June 30, 2012 and 2011, \$333,282 and \$0, respectively, is classified as restricted. This amount represents cash collected from toll revenues that are restricted for payments on bonds. Deposit and investment risks associated with the State Treasurer's Investment Pool (which includes the State Treasurer's Short-Term Investment Fund) 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.ncosc.net/> and clicking on "Reports," or by calling the State Controller's Financial Reporting Section at (919) 981-5454.

NORTH CAROLINA TURNPIKE AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2012 and 2011

NOTE 3 – RESTRICTED INVESTMENTS

At June 30, 2012 and 2011, respectively, \$873,307,704 and \$679,207,154 is invested in the PFM Funds – Prime Series. The PFM Funds – Prime Series is an SEC registered money market mutual fund. The fund invests in obligations of the United States government and its agencies, high quality debt obligations of U.S. companies and obligations of financial institutions. The Fund seeks to maintain a constant \$1 net asset value and is rated “AAAm” by Standard & Poor’s. In addition, the Fund maintains a weighted average maturity of 60 days or less. Investments are limited to those authorized under North Carolina General Statute 159-30.

NOTE 4 – CAPITAL ASSETS

A summary of changes in capital assets for the year ended June 30, 2012 is presented as follows:

	July 1, 2011	Additions	Disposals	Transfers	June 30, 2012
Capital Assets, Nondepreciable					
Land and Permanent Easements	\$ 110,997,951	\$ 26,116,956	\$ (708,281)	\$ -	\$ 136,406,626
Construction in Progress	578,364,148	300,121,232	-	(185,794,462)	692,690,918
Total Capital Assets, Nondepreciable	689,362,099	326,238,188	(708,281)	(185,794,462)	829,097,544
Capital Assets, Depreciable					
Highway Network	-	-	-	185,794,462	185,794,462
Machinery and Equipment	80,476	-	-	-	80,476
Total Capital Assets, Depreciable	80,476	-	-	185,794,462	185,874,938
Less Accumulated Depreciation for:					
Highway Network	-	1,857,945	-	-	1,857,945
Machinery and Equipment	59,897	12,007	-	-	71,904
Total Accumulated Depreciation	59,897	1,869,952	-	-	1,929,849
Total Capital Assets, Depreciable, Net of Depreciation	20,579	(1,869,952)	-	185,794,462	183,945,089
Capital Assets, Net of Depreciation	\$ 689,382,678	\$ 324,368,236	\$ (708,281)	\$ -	\$ 1,013,042,633

A summary of changes in capital assets for the year ended June 30, 2011 is presented as follows:

	July 1, 2010	Additions	June 30, 2011
Capital Assets, Nondepreciable			
Land and Permanent Easements	\$ 45,983,474	\$ 65,014,477	\$ 110,997,951
Construction in Progress	253,073,737	325,290,411	578,364,148
Total Capital Assets, Nondepreciable	299,057,211	390,304,888	689,362,099
Capital Assets, Depreciable			
Machinery and Equipment	80,476	-	80,476
Less Accumulated Depreciation for:			
Machinery and Equipment	44,763	15,134	59,897
Total Capital Assets, Depreciable, Net of Depreciation	35,713	(15,134)	20,579
Capital Assets, Net of Depreciation	\$ 299,092,924	\$ 390,289,754	\$ 689,382,678

NORTH CAROLINA TURNPIKE AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2012 and 2011

NOTE 5 – ADVANCES FROM OTHER FUNDS

The following is a summary of changes in the NCTA's Advances from Other Funds as of June 30, 2012:

	<u>July 1, 2011</u>	<u>Additions</u>	<u>June 30, 2012</u>
Advances from Other Funds	<u>\$ 21,011,189</u>	<u>\$ 1,735,194</u>	<u>\$ 22,746,383</u>

The following is a summary of changes in the NCTA's Advances from Other Funds as of June 30, 2011:

	<u>July 1, 2010</u>	<u>Additions</u>	<u>June 30, 2011</u>
Advances from Other Funds	<u>\$ 18,279,130</u>	<u>\$ 2,732,059</u>	<u>\$ 21,011,189</u>

Pursuant to G.S. 136-176(b), operation and project development costs for the NCTA are eligible for funding from the Highway Trust Fund administration funds. These funds are considered an Advance from Other Funds and are to be repaid from toll revenue as soon as possible. Beginning one year after the NCTA begins collecting tolls on a completed Turnpike project; interest shall accrue on any unpaid balance owed to the Highway Trust Fund at a rate equal to the State Treasurer's average annual yield on its investment of Highway Trust Fund funds pursuant to G.S. 147-6.1.

NOTE 6 – LEASE OBLIGATIONS

During 2012, the NCTA was released from their two lease contracts that were being negotiated as of June 30, 2011. As of June 30, 2012, the NCTA does not have any operating lease agreements and the lease expense for the year ended June 30, 2012 was the negotiated price for the NCTA to be released from the obligations. Rental expense relating to operating leases during the years ended June 30, 2012 and 2011 was \$107,035 and \$183,243, respectively.

NORTH CAROLINA TURNPIKE AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2012 and 2011

NOTE 7 – LONG-TERM DEBT

Revenue Bonds Payable

Long-Term Debt as of June 30, 2012 and 2011 consists of the following:

Revenue Bonds	2012	2011
Revenue bonds payable, Series 2009A Triangle Expressway Revenue Bonds in the amount of \$234,910,000, issued July 29, 2009, with coupon rates of 5.50% and 5.75%, with principal payments beginning January 2019 and a final maturity of January 2039, net of unamortized discount of \$1,142,364 at June 30, 2012.	\$ 233,767,636	\$ 233,701,792
Revenue bonds payable, Series 2009B Capital Appreciation Triangle Expressway Revenue Bonds in the amount of \$35,173,109, issued July 29, 2009, compounding semi-annually, with principal payments beginning January 2030, due in full January 2038, net of unamortized discount of \$171,046 at June 30, 2012.	35,002,063	34,992,204
Revenue bonds payable, Series 2009B State Appropriation Revenue Bonds in the amount of \$352,675,000, issued July 29, 2009 with coupon rates of 6.00% and 6.70%, with principal payments beginning January 2017, final maturity January 2039, net of unamortized discount of \$698,752 at June 30, 2012.	351,976,248	351,935,974
Revenue bonds payable, Series 2010A State Appropriation Revenue Bonds in the amount of \$233,920,000, issued October 26, 2010 with coupon rates of 5.318% and 5.418%, with principal payments beginning January 2022, final maturity January 2041.	233,920,000	233,920,000
Revenue bonds payable, Series 2011 Monroe Connector System Revenue Bonds in the amount of \$10,000,000, issued November 15, 2011, with a coupon rate of 2.48%, with principal payments beginning July 2012 and a final maturity of July 2023.	10,000,000	-
Revenue bonds payable, Series 2011 State Appropriation Revenue Bonds in the amount of \$214,505,000, issued November 30, 2011 with a coupon rate of 5.00%, with principal payments beginning July 2012, final maturity July 2041, net of unamortized premium of \$17,791,576 at June 30, 2012.	232,296,576	-
Revenue bonds payable, Series 2011 Grant Anticipation Revenue Vehicle Bonds in the amount of \$145,535,000, issued December 15, 2011 with a coupon rate of 2.10%, with principal payments beginning March 2019, final maturity March 2023, net of unamortized premium of \$13,715,596 at June 30, 2012.	159,250,596	-
Total Revenue Bonds	\$ 1,256,213,119	\$ 854,549,970
 Notes Payable		
TIFIA note payable for an amount not to exceed \$386,662,363, opened on July 1, 2009, bearing interest of 4.25% per annum, with debt service payments beginning July 2015, due in full July 1, 2047 or the last payment date occurring no later than 35 years after the date of substantial project completion, whichever date is earlier.	\$ 283,508,357	\$ 264,596,067

NORTH CAROLINA TURNPIKE AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2012 and 2011

NOTE 7 – LONG-TERM DEBT (CONTINUED)

Revenue bond payable maturities are as follows:

Year Ending June 30,	Principal	Interest	Total
2013	\$ 22,725,000	\$ 63,075,777	\$ 85,800,777
2014	19,150,000	62,585,497	81,735,497
2015	19,720,000	61,911,662	81,631,662
2016	8,200,000	61,328,068	69,528,068
2017	11,960,000	60,951,103	72,911,103
2018-2022	210,430,000	290,120,792	500,550,792
2023-2027	245,350,000	228,256,332	473,606,332
2028-2032	280,856,359	167,278,105	448,134,464
2033-2037	234,246,567	232,103,910	466,350,477
2038-2042	174,080,183	39,793,933	213,874,116
Total	<u>\$ 1,226,718,109</u>	<u>\$ 1,267,405,179</u>	<u>\$ 2,494,123,288</u>

The TIFIA note payable requires debt service payments commencing July 1, 2015 with a final maturity of July 1, 2047, or the last payment date occurring no later than 35 years after the date of substantial project completion, whichever date is earlier. No payment of principal or interest on the TIFIA note payable is required to be made during the period of July 1, 2009 through January 1, 2015. The payments of principal and interest will commence on January 1, 2015. The amounts of principal and interest will be calculated based on the total amount drawn on the note and outstanding as of January 1, 2015. For the period of January 1, 2015 through December 31, 2024, the payment shall be equal to the interest payable on the TIFIA note payable outstanding balance on the next interest payment date. For the period of January 1, 2025 until the maturity of the TIFIA note payable, the payment shall be 100% of the interest payable on the outstanding TIFIA note payable balance on the next interest payment date and 50% of the scheduled principal amortization as determined by the debtor at such future date. Accrued interest on the loan agreement was \$11,345,804 and \$8,213,912 as of June 30, 2012 and 2011, respectively.

TIFIA note payable maturities are as follows:

Year Ending June 30,	Principal	Interest	Total
2013	\$ -	\$ -	\$ -
2014	-	-	-
2015	-	4,829,408	4,829,408
2016	-	10,916,925	10,916,925
2017	-	12,175,034	12,175,034
2018-2022	-	60,833,769	60,833,769
2023-2027	3,904,228	60,797,761	64,701,989
2028-2032	26,515,630	57,010,205	83,525,835
2033-2037	55,897,258	50,136,179	106,033,437
2038-2042	139,364,436	33,614,531	172,978,967
2043-2044	57,826,805	3,255,888	61,082,693
Total	<u>\$ 283,508,357</u>	<u>\$ 293,569,700</u>	<u>\$ 577,078,057</u>

NORTH CAROLINA TURNPIKE AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2012 and 2011

NOTE 7 – LONG-TERM DEBT (CONTINUED)

Long-term liability activity for the years ended June 30, 2012 is as follows:

	June 30, 2011	Additions	Reductions	June 30, 2012	Due Within a Year
Bonds Payable					
Revenue Bonds	\$ 856,678,109	\$ 370,040,000	\$ -	\$ 1,226,718,109	\$ 22,725,000
Deferred Amounts:					
For Issuance Premiums	-	33,152,957	(1,645,785)	31,507,172	-
For Issuance Discounts	(2,128,139)	-	115,977	(2,012,162)	-
	<u>854,549,970</u>	<u>403,192,957</u>	<u>(1,529,808)</u>	<u>1,256,213,119</u>	<u>22,725,000</u>
Note Payable	264,596,067	18,912,290	-	283,508,357	-
Accrued Vacation	108,291	121,388	(51,029)	178,650	15,918
Total Long-Term Debt	<u>\$ 1,119,254,328</u>	<u>\$ 422,226,635</u>	<u>\$ (1,580,837)</u>	<u>\$ 1,539,900,126</u>	<u>\$ 22,740,918</u>

Long-term liability activity for the years ended June 30, 2011 is as follows:

	June 30, 2010	Additions	Reductions	June 30, 2011	Due Within a Year
Bonds Payable					
Revenue Bonds	\$ 622,758,109	\$ 233,920,000	\$ -	\$ 856,678,109	\$ -
Less Deferred Amounts:					
For Issuance Discounts:	(2,244,095)	-	115,956	(2,128,139)	-
	<u>620,514,014</u>	<u>233,920,000</u>	<u>115,956</u>	<u>854,549,970</u>	<u>-</u>
Note Payable	68,800,044	195,796,023	-	264,596,067	-
Accrued Vacation	141,340	85,098	(118,147)	108,291	9,389
Total Long-Term Debt	<u>\$ 689,455,398</u>	<u>\$ 429,801,121</u>	<u>\$ (2,191)</u>	<u>\$ 1,119,254,328</u>	<u>\$ 9,389</u>

Total interest cost on indebtedness was \$64,916,049 and \$54,914,450 for the years ended June 30, 2012 and 2011, respectively. Total capitalized interest represented \$62,264,536 and \$52,348,288 of this amount at June 30, 2012 and 2011, respectively.

Federal Interest Cash Subsidy

NCTA has elected to treat the The Triangle Expressway System State Annual Appropriate Revenue Bonds, Series 2009B and the Monroe Connector System State Appropriation Revenue Bonds, Series 2010A as "Build America Bonds" for purposes of the American Recovery and Reinvestment Tax Act of 2009 (Recovery Act). In adherence with the Recovery Act, the NCTA receives cash subsidy payments from the United States Treasury equal to 35% of the interest payable on the Series 2009B and 2010A State Appropriation Bonds. Cash subsidy payments totaled \$12,217,743 and \$18,141,142 as of June 30, 2012 and 2011, respectively.

NORTH CAROLINA TURNPIKE AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
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NOTE 8 – PLEDGED REVENUES

On July 29, 2009, NCTA issued State Annual Appropriation Revenue Bonds, Series 2009B in the amount of \$352,675,000 and the Triangle Expressway System Revenue Bonds, Series 2009A and 2009B in the amount of \$270,083,109. The NCTA has pledged, as security for revenue bonds issued by the NCTA, revenues from the operation of the Triangle Expressway System. During the year-ended June 30, 2012, NCTA opened a portion of the Triangle Expressway and collected charges for services in the amount of \$495,686. Interest incurred during the year ending June 30, 2012 relating to the 2009 Revenue Bonds totaled \$35,649,035 and no principal repayment was required.

On October 26, 2010, NCTA issued Monroe Connector System State Appropriation Revenue Bonds, Series 2010A in the amount of \$233,920,000. The NCTA has pledged, as security for revenue bonds issued by the NCTA, revenues from the operation of the Monroe Connector System.

The NCTA has elected to treat the State Appropriation Revenue Bonds, Series 2009B and 2010A, as “Build America Bonds” for purposes of the American Recovery and Reinvestment Act of 2009 and to receive a cash subsidy from the United States Treasury equal to 35% of the interest payable on those bonds. For the State Annual Appropriation Revenue Bonds, specific revenues pledged consist of state annual appropriations, federal interest subsidy payments, and investment income. For the Senior Lien Revenue Bonds, specific revenues pledged consist of toll revenues and all other income derived from the operation of the Triangle Expressway System.

The Monroe Connector System Revenue Bonds, Series 2011 were issued on November 30, 2011 and were outstanding in the aggregate principal amount of \$10,000,000 on June 30, 2012. The 2011 Bonds have a coupon rate of 2.48% and a final maturity of July 2023. Interest on the 2011 Bonds is due and payable on each January 1 and July 1, beginning July 1, 2012.

The Monroe Connector System State Appropriation Revenue Bonds, Series 2011 were issued on November 30, 2011 and were outstanding in the aggregate principal amount of \$232,296,576 on June 30, 2012. The 2011 Bonds are secured by, and payable from, in parity with the Series 2010A Bonds, the revenues and, under certain circumstances, the proceeds of the Bonds. The “revenues” consist of an annual appropriation to the Authority by the State of North Carolina from the North Carolina Highway Trust Fund, the Interest Subsidy Payments received from the United States Department of the Treasury with respect to the Series 2010A Bonds under the “Build America Bond” program, and the investment income realized from the investment of amounts held under the Trust Agreement. Interest on the 2011 Bonds is due and paid semi-annually.

The Monroe Connector System Grant Anticipation Revenue Vehicle Bonds, Series 2011 were issued on December 15, 2011 and were outstanding in the aggregate principal amount of \$159,250,596 on June 30, 2012. The 2011 Bonds are payable solely from certain federal aid revenues received by or on behalf of the State that are legally available for the payment thereof, and moneys held in certain funds under the Indenture. Such federal aid revenues consist of amounts derived from the National Highway System and other federal surface transportation programs. Interest on the 2009B Bonds is due and paid semi-annually.

Proceeds from the bonds will be used to pay the costs of land acquisition, design, construction, and equipping of the Triangle Expressway System and the Monroe Connector System. The total principal and interest remaining to be paid on the bonds is \$2,458,950,178, payable through 2041 (final maturity date). For the current fiscal year, interest paid, available revenues (federal interest subsidy and investment revenues), and state appropriations (transfers in) were \$37,085,304, \$14,361,914, and \$69,912,789, respectively. The first principal payment is due in 2013.

NORTH CAROLINA TURNPIKE AUTHORITY
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NOTE 9 – PENSION PLANS

- A. Retirement Plans** – Each permanent full-time employee, as a condition of employment, is a member of the Teachers' and State Employees' Retirement System. The Teachers' and State Employees' Retirement System (System) is a cost sharing multiple-employer defined benefit pension plan administered by the North Carolina State Treasurer.

Benefit and contribution provisions for the Teachers' and State Employees' Retirement System are established by *North Carolina General Statutes* 135-5 and 135-8 and may be amended only by the North Carolina General Assembly. Employer and member contribution rates are set each year by the North Carolina General Assembly based on annual actuarial valuations.

For the years ending June 30, 2012, 2011, and 2010, the NCTA had a total payroll of \$1,973,724, \$2,040,256, and \$2,052,154 of which \$1,699,256, \$1,531,997, and \$1,628,285 was covered under the Teachers' and State Employees' Retirement System. Total employer contributions for pension benefits for the years ended June 30, 2012, 2011, and 2010 were \$126,425, \$75,527, and \$58,130, respectively. Total employee contributions for pension benefits were \$101,955, \$91,920, and \$97,697 for the years ended June 30, 2012, 2011, and 2010, respectively.

Required employer contribution rates for the years ended June 30, 2012, 2011, and 2010, were 7.44%, 4.93% and 3.57%, respectively, while employee contributions were 6% each year. The NCTA made 100% of its annual required contributions for the years ended June 30, 2012, 2011, and 2010.

The Teachers' and State Employees' Retirement System's financial information is 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.ncosc.net/> and clicking on "Reports," or by calling the State Controller's Financial Reporting Section at (919) 981-5454.

- B. Deferred Compensation and Supplemental Retirement Income Plans** – IRC Section 457 Plan – The State of North Carolina offers its permanent employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457 through the North Carolina Public Employee Deferred Compensation Plan (the Plan). The Plan permits each participating employee to defer a portion of his or her salary until future years. The deferred compensation is available to employees upon separation from service, death, disability, retirement, or financial hardships if approved by the Board of Trustees of the Plan. The Board, a part of the North Carolina Department of Administration, maintains a separate fund for the exclusive benefit of the participating employees and their beneficiaries, *the North Carolina Public Employee Deferred Compensation Trust Fund*. The Board also contracts with an external third party to perform certain administrative requirements and to manage the trust fund's assets. All costs of administering and funding the Plan are the responsibility of the Plan participants. No costs are incurred by the NCTA. The voluntary contributions by employees amounted to \$19,266, \$7,530, and \$0 for the years ended June 30, 2012, 2011, and 2010, respectively.

IRC Section 401(k) Plan – All members of the Teachers' and State Employees' Retirement System are eligible to enroll in the Supplemental Retirement Income Plan, a defined contribution plan, created under Internal Revenue Code Section 401(k). All costs of administering the plan are the responsibility of the Plan participants. No costs are incurred by the NCTA. The voluntary contributions by employees amounted to \$32,303, \$20,839, and \$23,239 for the years ended June 30, 2012, 2011, and 2010, respectively.

NORTH CAROLINA TURNPIKE AUTHORITY
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NOTE 10 – OTHER POST-EMPLOYMENT BENEFITS

- A. Health Benefits** – The NCTA participates in the Comprehensive Major Medical Plan (the Plan), a cost-sharing, multiple-employer defined benefit health care plan that provides post employment 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. 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 135-7, Article 1, and Chapter 135, Article 3, 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 these 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 the Teachers' and State Employees' Retirement System 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 determined by the General Assembly in the Appropriations Bill.

For the years ended June 30, 2012 and 2011, the NCTA contributed 5.0% and 4.9% of the covered payroll under the Teachers' and State Employees' Retirement System. Required contribution rates for the years ended June 30, 2012 and 2011 were 5.0% and 4.9%, respectively. The NCTA made 100% of its annual contributions to the Plan for the years ended June 30, 2012 and 2011, which were \$84,963 and \$75,068, respectively. The NCTA 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.ncosc.net/> and clicking on "Reports," or by calling the State Controller's Financial Reporting Section at (919) 981-5454.

- B. Disability Income** – The NCTA 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 the Teachers' and State Employees' Retirement System. 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 in the Appropriations Bill by the General Assembly. For the fiscal years ended June 30, 2012 and 2011, the NCTA made a statutory contribution of .52% of covered payroll under the Teachers' and State Employees' Retirement System to the DIPNC. The NCTA made 100% of its annual required contributions to the DIPNC for the years ended June 30, 2012 and 2011, which were \$8,836 and \$7,966, respectively. The NCTA assumes no liability for long-term disability benefits under the Plan other than its contribution.

NORTH CAROLINA TURNPIKE AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS

June 30, 2012 and 2011

NOTE 10 – OTHER POST-EMPLOYMENT BENEFITS (CONTINUED)

Additional detailed information about the DIPNC is disclosed 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.ncosc.net/> and clicking on "Reports", or by calling the State Controller's Financial Reporting Section at (919) 981-5454.

NOTE 11 – RISK MANAGEMENT

The NCTA is exposed to various risks of loss related to torts; theft of, damage to, and the destruction of assets; errors and omissions; injuries to employees; and natural disasters. The NCTA carries insurance through the North Carolina Department of Transportation (NCDOT) for risks of loss. 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.

Tort claims of up to \$1,000,000 are self-insured under the authority of the State Tort Claims Act. In addition, the State provides excess public officers' and employees' liability insurance up to \$5,000,000 via contract with a private insurance company. The premium, based on a composite rate, is paid by NCDOT directly to the insurer.

The State Property Fire Insurance Fund (Fund), an internal service fund of the State, insures all State-owned buildings and contents for fire and various other property losses up to \$2,500,000 per occurrence. The Fund purchases excess insurance from private insurers to cover losses over the amounts insured by the Fund. Losses covered by the Fund are subject to a \$500 per occurrence deductible except for theft losses that carry a \$1,000 per occurrence deductible. 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.

State-owned vehicles are covered by liability insurance handled by the North Carolina Department of Insurance. The State is self-insured for the first \$500,000 of any loss through a retrospective rated plan. Excess insurance coverage is purchased through a private insurer to cover losses greater than \$500,000. The liability limits for losses occurring in-state are \$500,000 per claimant and \$5,000,000 per occurrence. The NCDOT covers the cost of excess insurance and to pay for those losses falling under the self-insured retention.

The NCTA is protected for losses from employee dishonesty and computer fraud for employees paid in whole or in part from State funds. This coverage is with a private insurance company and is handled by the North Carolina Department of Insurance with coverage of \$5,000,000 per occurrence, with a \$75,000 deductible and 10% participation in each loss above the deductible. In addition, the NCDOT has a separate public employee dishonesty and faithful performance policy with a limit of \$1,000,000.

Employees and retirees are provided health care coverage by the Comprehensive Major Medical Plan (Plan), a component unit of the State. The Plan is funded by employer and employee contributions and is administered by a third-party contractor.

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

Term life insurance of \$25,000 to \$50,000 is provided to eligible employees. This self-insured death benefit program is administered by the State Treasurer and funded via employer contributions. The employer contribution rate was .16% for the current fiscal year.

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.

NORTH CAROLINA TURNPIKE AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2012 and 2011

NOTE 12 – COMMITMENTS AND CONTINGENCIES

The NCTA has established an encumbrance system to track its outstanding commitments on construction projects and other purchases. Outstanding commitments for engineering and design contracts were \$22,673,255 and \$199,941,615 at June 30, 2012 and 2011, respectively.

The NCTA at times is involved in litigation in the normal course of business. Although the outcome of any such litigation is not presently determinable, in the opinion of management and the NCTA's General Counsel, the results of the litigation will not have a materially adverse impact on the financial position of the NCTA.

NOTE 14 – RECLASSIFICATION AND RESTATEMENTS

Certain amounts presented in prior year data have been reclassified to be consistent with the current year's presentation.

NOTE 13 – SUBSEQUENT EVENTS

In connection with the preparation of the financial statements and in accordance with accounting principles generally accepted in the United States of America (GAAP), the NCTA considered for disclosure subsequent events that occurred after the statement of net assets date of June 30, 2012 through October 1, 2012, which was the date the financial statements were available to be issued. No subsequent events were noted that required disclosure in the financial statements.



**Independent Auditors' 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 Turnpike Authority
Raleigh, North Carolina

We have audited the financial statements of the North Carolina Turnpike Authority (NCTA), a major enterprise fund of the State of North Carolina, as of and for the years ended June 30, 2012 and 2011, which collectively comprise NCTA's basic financial statements as listed in the table of contents, and have issued our report thereon dated October 1, 2012. 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.

The financial statements present only the NCTA and do not purport to, and do not, present fairly the financial position of the State of North Carolina or the North Carolina Department of Transportation, as of and for the years ended June 30, 2012 and 2011, and the changes in its financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Internal Control Over Financial Reporting

Management of NCTA, is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered NCTA's internal control over financial reporting as a basis for designing our auditing procedures 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 NCTA's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of NCTA's internal control over financial reporting.

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 NCTA's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether NCTA's financial statements are free of 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*.

This report is intended solely for the information and use of management, the Board of Directors, others within the organization and the State of North Carolina and is not intended to be and should not be used by anyone other than these specified parties.

James Robert + Howard, LLC, P

Raleigh, North Carolina
October 1, 2012

