Cherry Bekaert LLP
CPAs & Advisors

The Board of Directors
North Carolina Turnpike Authority
Raleigh, North Carolina

We have audited the statements of net position of the North Carolina Turnpike Authority ("NCTA"), a major enterprise fund of the State of North Carolina, and a business unit of the North Carolina Department of Transportation ("NCDOT"), as of June 30, 2018 and 2017, and the related statements of revenues, expenses, and changes in net position and cash flows for the years then ended. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards and *Government Auditing Standards*, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated April 13, 2018. Professional standards also require that we communicate to you the following information related to our audit.

SIGNIFICANT AUDIT MATTERS

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by NCTA are described in Note 1 to the financial statements. As described in Note 15 to the financial statements, NCTA adopted and implemented Governmental Accounting Standards Board Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, during the fiscal year ended June 30, 2018. This statement required the reporting of the net other postemployment benefits ("OPEB") liability and asset and the related deferred outflows/inflows of resources. We have included an Emphasis of Matter paragraph in our report of independent auditor concerning this matter. We noted no transactions entered into by NCTA during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the NCTA's financial statements were:

> Management's estimate of depreciation expense is based on the anticipated useful lives of fixed assets. We evaluated the key factors and assumptions used to develop the estimate in determining that it is reasonable in relation to the financial statements taken as a whole.
>
> Management's assessment of the fair value and the input level used to measure the fair value of the NCTA's applicable investments under GASB Statement No. 72 is based on management's assessment of the market for the applicable investments as of June 30, 2018 and 2017. We evaluated the key factors and assumptions used to develop this assessment in determining that it is reasonable in relation to the financial statements taken as a whole.
>
> Management's estimate of the securities lending collateral is based on the fair market value of assets pledged as collateral on securities as a part of the North Carolina State Treasurer's Short-Term Investment Fund. We evaluated the key factors and assumptions used to develop the estimate in determining that it is reasonable in relation to the financial statements taken as a whole.

> Management's estimate of the allowance for doubtful accounts is based on historical collections and losses recognized. We evaluated the key factors and assumptions used to develop the allowance in determining that it is reasonable in relation to the financial statements taken as a whole. The estimate or therefore lack of an allowance is considered reasonable in relation to the financial statements taken as a whole, based on historical collections and losses actually incurred.
>
> Management's estimate of the net pension liability is based on an actuarial valuation which considered the projection of the NCTA's long-term share of future payroll covered by the pension plan, relative to the projected future payroll covered by the pension plan of all participating Teachers' and State Employees' Retirement System ("TSERS") employers. We evaluated the key factors and assumptions used to develop this liability in determining that it is reasonable in relation to the financial statements taken as a whole. The estimate is considered reasonable in relation to the financial statements taken as a whole based on the information currently available.
>
> Management's estimate of the net OPEB liability is based on an actuarial valuation which considered the projection of the NCTA's long-term share of future health benefit expenses covered by the OPEB plan, relative to the projected future health benefit expenses covered by the OPEB plan of all participating Retiree Health Benefit Fund ("RHBF") and Disability Income Plan of North Carolina ("DIPNC") employers. We evaluated the key factors and assumptions used to develop this liability in determining that it is reasonable in relation to the financial statements taken as a whole. The estimate is considered reasonable in relation to the financial statements taken as a whole based on the information currently available.

The financial statement disclosures are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit
We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements
Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. There were no misstatements noted during the audit.

Disagreements with Management
For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations
We have requested certain representations from management that are included in the management representation letter dated November 30, 2018.

Management Consultations with Other Independent Accountants
In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the NCTA's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as NCTA's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Other Matters

We applied certain limited procedures to management's discussion and analysis, schedule of proportionate share of net pension liability for Teachers' and State Employees' Retirement System ("TSERS"), schedule of contributions for TSERS, schedule of proportionate share of the net OPEB liability (RHBF), schedule of contributions for RHBF, schedule of proportionate share of the net OPEB asset (DIPNC), and schedule of contributions for DIPNC, which are required supplementary information ("RSI") that supplement the basic financial statements. Our procedures consisted of inquiries of management regarding 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 did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

We were engaged to report on the Statement of Revenues, Expenses, and Changes in Net Position (Modified Accrual Basis) (the "Schedule") which accompanies the financial statements but is not RSI. With respect to this supplementary information, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

Restriction on Use

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

Cherry Bekaert LLP

Raleigh, North Carolina
November 30, 2018

NORTH CAROLINA TURNPIKE AUTHORITY

FINANCIAL STATEMENTS

As of and for the Years Ended June 30, 2018 and 2017

And Report of Independent Auditor

Cherry Bekaert LLP
CPAs & Advisors

NORTH CAROLINA TURNPIKE AUTHORITY
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Cherry Bekaert LLP
CPAs & Advisors

Report of Independent Auditor

Board of Directors
North Carolina Turnpike Authority
Raleigh, North Carolina

Report on the Financial Statements

We have audited the accompanying statements of net position of the North Carolina Turnpike Authority ("NCTA"), a major enterprise fund of the State of North Carolina, and a business unit of the North Carolina Department of Transportation ("NCDOT"), as of June 30, 2018 and 2017, and the related statements of revenues, expenses, and changes in net position and cash flows for the years then ended, and the related notes to the financial statements, which collectively comprise the NCTA'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 ("U.S. GAAP"); this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our 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 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 NCTA'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 NCTA'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 financial statement presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the NCTA, as of June 30, 2018 and 2017, and the respective changes in financial position and cash flows for the years then ended in accordance with U.S. GAAP.

Emphasis of Matter

Nature of Reporting Entity

As discussed in Note 1 to the financial statements, 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 NCDOT, as of June 30, 2018 and 2017, and the changes in their financial position and their cash flows thereof for the years then ended in conformity with U.S. GAAP.

Restatement

As discussed in Note 15 to the financial statements, the NCTA adopted Governmental Accounting Standards Board Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, during the fiscal year ended June 30, 2018. As a result, net position as of June 30, 2017 has been restated. Our opinion is not modified with respect to these matters.

Other Matters

Required Supplementary Information

U.S. GAAP requires that the management's discussion and analysis and the required supplementary information as listed in the table of contents be presented to supplement the basic financial statements. Such information, although not a required 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.

Supplementary and Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements of the NCTA. The Statement of Revenues, Expenses, and Changes in Net Position (Modified Accrual Basis) is presented for purposes of additional analysis and is not a required part of the financial statements. The Statement of Revenues, Expenses, and Changes in Net Position (Modified Accrual Basis) is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, based on our audit, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 30, 2018, 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 grants 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 NCTA's internal control over financial reporting and compliance.

Cherry Bekaert LLP

Raleigh, North Carolina
November 30, 2018

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, 2018, 2017, and 2016. The discussion and analysis also includes condensed financial information comparing the current year to the prior years.

Overview of the Financial Statements

The NCTA 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's *Comprehensive Annual Financial Report.* The accompanying statements were prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP") to represent the NCTA's financial position separate from the State of North Carolina.

Included in this report are the statements of net position as of June 30, 2018 and 2017, the statements of revenues, expenses, and changes in net position for the years ended June 30, 2018 and 2017, and the statements of cash flows for the years ended June 30, 2018 and 2017. These statements use the accrual basis of accounting, which is similar to the accounting used 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 position present assets and deferred outflows of resources less liabilities and deferred inflows of resources which equals net position, thus presenting the NCTA's financial position at the end of the fiscal year, while the statements of revenues, expenses, and changes in net position present information showing how the NCTA's net position changed during the fiscal year.

Financial Highlights and Analysis

The NCTA was created in October 2002, with financial activity starting late in fiscal year 2004. Budgeted Administrative Activities for fiscal years 2018 and 2017 were limited to salaries, personnel, Board members' per-diem, travel, and other general operating expenditures, while project-related costs were funded by state-appropriated, Federal Highway Administration ("FHWA"), or project-specific financings.

Funding for administrative expenses is reviewed and advanced as needed from the Highway Trust Fund. Interest began to accrue on the advance on January 1, 2014.

Legislation was passed in 2013 creating the Strategic Mobility Formula, a new way to fund and prioritize transportation projects to ensure they provide the maximum benefit to the State of North Carolina (House Bill 817-An Act to Strengthen the Economy through Strategic Transportation Investments). This law also included changes to the annual appropriations ("GAP funds") dedicated to NCTA projects; the annual appropriation of $49 million remains for the Triangle Expressway ($25 million) and Monroe Expressway ($24 million) projects.

In support of its mission to facilitate the development, delivery, and operation of an integrated, creative system of toll roads, the NCTA executed agreements with E-ZPass®, Florida's SunPass®, and Georgia's Peach Pass® to ensure compatibility with their electronic toll collection systems. These agreements allow for seamless toll interoperability between North Carolina and most states along the east coast.

The NCTA opened the Triangle Expressway fully to traffic in 2013 and is currently working to develop several other toll and managed lanes projects throughout the State that are included in the 2018-2027 State Transportation Improvement Program. The Monroe Expressway has been funded and construction is underway with an expected substantial completion date of November 27, 2018. Additional information on the two active projects on the following page.

Triangle Expressway

North Carolina's first modern toll road, the Triangle Expressway, is approximately 18.8 miles of new highway construction, extending the partially complete "Outer Loop" around the greater Raleigh area from I-40 in the north to the NC 55 Bypass in the south. The final phase opened to toll traffic on January 2, 2013. The Triangle Expressway project was delivered on schedule and under budget. In April 2017, the Veridea Parkway interchange, previously named Old Holly Springs-Apex Road, opened to traffic. In addition, work is currently being undertaken to add the Morrisville Parkway interchange to the existing Triangle Expressway which is projected to open to traffic in 2019.

Total revenues, inclusive of toll revenue and processing fees, but excluding transponder revenues are listed in the chart below with operating expenses. Fiscal year 2018 revenues increased by $4,291,646.61 or 9.6% from the prior year, while fiscal year 2018 operating expenses increased $1,714,869.00 or 10.5% from the prior year. Fiscal year 2017 revenues increased $6,234,723.00 or 16.2% from the prior year while fiscal year 2017 operating expenses increased $1,484,855.00 or 10.0% from the prior year.

Triangle Expressway Total Revenue and Operating Expenses

	2018	2017	2016
Total Revenue	$ 48,999,352.61	$ 44,707,706.00	$ 38,472,983.00
Operating Expenses	$ 18,019,430.00	$ 16,304,561.00	$ 14,819,706.00

A southeast extension to the Triangle Expressway is planned, extending the existing the Expressway to I-40 in southern Wake County. Construction on this extension is expected to commence in 2019.

Monroe Expressway

The Monroe Expressway toll project is a 19.7-mile new location divided highway that is under construction from U.S. 74 at I-485 in eastern Mecklenburg County to U.S. 74 between the towns of Wingate and Marshville in Union County. The highway is expected to improve mobility and capacity within the project study area by providing a highway for the U.S. 74 corridor that allows for high-speed regional travel.

A design-build construction contract was advertised in April 2010 and price proposals were opened the following October. The Monroe Bypass Constructors (a joint venture between United Infrastructure, Boggs Paving, and Anderson Columbia) was selected through the best-value procurement process. Work on the Monroe Expressway was halted in 2012 due to a legal challenge to the environmental documentation. Additional environmental studies were conducted. Following these studies, the Record of Decision for the Monroe Expressway was signed by FHWA and NCDOT on May 15, 2014 and work by the design build team resumed. The Monroe Expressway is anticipated to open to traffic in November 2018.

In October 2010, the NCTA issued $233,920,000.00 in State Annual Appropriation Revenue Bonds. In late 2011, $10,000,000.00 in Senior Lien Turnpike Revenue Bonds, $214,505,000.00 in State Annual Appropriation Revenue Bonds and $145,535,000.00 in GARVEE bonds with State match were sold in conjunction with the award of the design build contract. On January 31, 2017, the Turnpike Authority sold $137,051,904.00 in toll revenue bonds and closed on a TIFIA loan in the amount of $166,500,000.00 which replaced the GARVEE bonds and completed the funding for the project. The State has also authorized the use of $22,000,000.00 in State Transportation Improvement Program ("STIP") funds.

Net Position

Net position represents the residual interest in the NCTA's assets after all liabilities are deducted. For reporting purposes they are divided into three categories: net investment in capital assets; restricted; and unrestricted.

Condensed Statements of Net Position

	2018	2017	2016
Current Assets	$ 18,735,628.56	$ 18,424,898.00	$ 35,722,286.00
Restricted Assets, Prepaid Insurance Costs, and Net OPEB Asset	275,928,207.73	324,352,204.00	730,643,795.00
Capital Assets	1,763,845,036.74	1,661,457,187.00	1,416,167,367.00
Total Assets	2,058,508,873.03	2,004,234,289.00	2,182,533,448.00
Deferred Outflows of Resources	28,830,658.95	20,743,112.00	80,516.00
Current Liabilities	141,317,794.87	99,141,469.00	122,247,331.00
Noncurrent Liabilities	1,595,214,113.90	1,606,765,510.00	1,642,577,499.00
Total Liabilities	1,736,531,908.77	1,705,906,979.00	1,764,824,830.00
Deferred Inflows of Resources	744,332.00	32,383.00	52,384.00
Net Investment in Capital Assets	529,511,803.08	459,895,176.00	584,358,734.00
Restricted	7,475,821.35	5,476,668.00	4,267,172.00
Unrestricted	(186,924,333.22)	(146,333,805.00)	(170,889,156.00)
Net Position	$ 350,063,291.21	$ 319,038,039.00	$ 417,736,750.00

Current Assets

The increase in fiscal year 2018 is mainly due to an increase in transponder inventory. The decrease in fiscal year 2017 was due to a decrease in the securities lending collateral.

Capital Assets

Capital Assets, Nondepreciable – The increase in fiscal years 2018 and 2017 is due to the increase in the Construction in Progress and the Land accounts for continued work on the various turnpike projects.

Capital Assets, Depreciable – The decrease in fiscal years 2018 and 2017 is due to the annual depreciation of the Triangle Expressway.

Restricted Assets and Prepaid Insurance Costs

The decreases in fiscal years 2018 and 2017 are due to the use of bond proceeds for the Monroe Expressway and the continued amortization of the bond insurance for Triangle Expressway.

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 in fiscal year 2018 is due to an increase in the payables to other funds. This increase is due to an increase in contract payments for the Monroe Expressway that were initially paid for by the Highway Fund and will be reimbursed by the NC Turnpike Authority at a later date. The increase in fiscal year 2017 is due to an increase in accounts payable related to the construction contract payments for the Monroe Expressway and an increase in current bond principal payable.

Noncurrent Liabilities

Noncurrent liabilities include revenue bonds payable, notes payable, funds advanced to the NCTA from the Highway Trust Fund to cover the administrative expenditures of the NCTA, and they also include the noncurrent portion of accrued vacation and interest payable. The decrease in fiscal year 2018 is due to the decrease in the noncurrent bonds payable. The decrease in fiscal year 2017 is due to a portion of revenue bonds payable becoming current and due within one year.

Net Position and Revenues, Expenses, and Changes in Net Position

For fiscal years 2018, 2017, and 2016, the NCTA ended with positive net position.

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

	2018	2017	2016
Operating Revenues:			
Charges for Services	$ 48,999,352.61	$ 44,707,706.00	$ 38,472,983.00
Other Operating Revenues	648,256.27	812,050.00	674,902.00
Total Operating Revenues	49,647,608.88	45,519,756.00	39,147,885.00
Operating Expenses:			
Personnel Services	1,326,736.25	1,212,703.00	1,412,879.00
Supplies and Materials	72,748.57	281,122.00	73,394.00
Contracted Personnel Services	776,212.34	888,012.00	980,824.00
Travel	49,989.22	35,126.00	26,660.00
Advertising	123,921.65	48,844.00	104,340.00
Utilities	281,988.94	272,028.00	294,832.00
Dues and Subscription Fees	23,960.00	22,586.00	21,278.00
Other Services	3,814,480.59	4,965,440.00	3,120,573.00
Cost of Goods Sold	726,724.39	788,249.00	856,221.00
Capital Outlay	15,153,166.50	15,262,218.00	11,877,091.00
Rental Expense	107,994.45	65,529.00	88,391.00
Depreciation	16,129,720.29	16,129,720.00	16,129,720.00
Total Operating Expenses	38,587,643.19	39,971,577.00	34,986,203.00
Operating Income (Loss)	11,059,965.69	5,548,179.00	4,161,682.00
Nonoperating Revenue (Expenses) and Capital Grants	(33,562,851.52)	103,562,052.00	(23,440,908.00)
Transfers In	55,543,931.22	49,000,000.00	101,055,960.00
Transfers Out	-	(97,603,925.00)	-
Transfer of GARVEE Bonds to North Carolina Highway Fund	-	(159,205,017.00)	-
Change in Net Position	33,041,045.39	(98,698,711.00)	81,776,734.00
Net Position Beginning, July 1	319,038,039.00	417,736,750.00	335,960,016.00
Net Position, Restatement (GASB 75)	(2,015,793.18)	-	-
Net Position Ending, June 30	$350,063,291.21	$ 319,038,039.00	$ 417,736,750.00

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. The increase in revenues is due to the increased usage of the Triangle Expressway and toll collections on the entire roadway.

Operating Expenses
Operating expenses are expenses used to acquire or produce goods and services to carry out the mission of the NCTA. The consistency in depreciation expense is due to no new depreciable assets put into service this year. The majority of the other services expenses are the costs associated with the standard overhead allocation from the NCDOT which had a decrease in fiscal year 2018, resulting in an overall decrease in operating expenses. The overall increase for fiscal year 2017 was due to continued work on new interchanges and maintenance of the roadway toll collection system.

Nonoperating and Other Revenue/Expenses
Nonoperating 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 FHWA and the NCDOT for their participation in the initial construction of toll highways and in preliminary studies to determine the feasibility of a toll facility. The amount in fiscal year 2018 decreased due to the one-time transfer of debt for the 2011 GARVEE bonds to the Department of Transportation Highway Fund in fiscal year 2017 that did not occur again in fiscal year 2018.

Transfers In
Transfers in include funds received from the NCDOT for gap funding of debt service and funds for the FHWA State match. The amount of State match had increased in fiscal year 2018 as the result of increased expenditures on the Southern Wake Expressway and the Mid-Currituck Bridge. This amount of State match received from the NCDOT decreased in fiscal year 2017 due to the transfer of GARVEE funds to the Highway Fund.

Transfers Out
Transfers out decreased in fiscal year 2018 due to a one time transfer of the 2011 series GARVEE bonds and bond proceeds to the Highway Fund in fiscal year 2017 that did not occur again in fiscal year 2018.

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 projects 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 POSITION

JUNE 30, 2018 AND 2017

	2018	2017
ASSETS		
Current Assets:		
Securities Lending Collateral	$ 175,215.77	$ 211,764.00
Accounts Receivable	17,453,905.49	17,531,433.00
Inventory	625,769.09	239,662.00
Intergovernmental Receivable	480,738.21	442,039.00
Total Current Assets	18,735,628.56	18,424,898.00
Noncurrent Assets:		
Restricted Assets:		
Cash and Cash Equivalents	7,475,821.35	5,476,668.00
Investments	264,029,048.40	312,465,489.00
Total Restricted Assets	271,504,869.75	317,942,157.00
Net OPEB Asset	3,209.00	-
Prepaid Insurance Costs	4,420,128.98	6,410,047.00
Capital Assets, Nondepreciable:		
Land and Permanent Easements	272,478,849.30	258,834,956.00
Construction in Progress	777,309,523.64	672,435,847.00
Capital Assets, Depreciable, Net of Depreciation:		
Highway Network	714,056,663.80	730,186,384.00
Total Capital Assets, Net of Depreciation	1,763,845,036.74	1,661,457,187.00
Total Noncurrent Assets	2,039,773,244.47	1,985,809,391.00
Total Assets	2,058,508,873.03	2,004,234,289.00
Deferred Outflows of Resources:		
Pension	321,293.00	393,833.00
Other post employment benefits	387,129.00	-
Unamortized bond refunding charges	28,122,236.95	20,349,279.00
Total Deferred Outflows of Resources	28,830,658.95	20,743,112.00
LIABILITIES		
Current Liabilities:		
Accounts Payable	6,359,252.63	14,208,529.00
Accrued Interest Payable	33,176,459.92	34,922,394.00
Accrued Vacation	11,786.00	13,966.00
Obligations under Securities Lending	175,215.77	211,764.00
Due to Other Funds	74,277,869.26	25,975,248.00
Bonds Payable, Net	22,060,000.00	18,395,000.00
Intergovernmental Payables	809,598.71	1,910,389.00
Unearned Revenue	4,447,612.58	3,504,179.00
Total Current Liabilities	141,317,794.87	99,141,469.00
Noncurrent Liabilities:		
Bonds Payable, Net	1,103,425,490.06	1,122,755,708.00
Note Payable	372,876,792.00	372,876,792.00
Advances from Other Funds	27,763,020.74	26,895,929.00
Accrued Interest Payable	88,732,367.10	83,522,785.00
Accrued Vacation	187,983.00	156,348.00
Net OPEB Liability	1,745,360.00	-
Net Pension Liability	483,101.00	557,948.00
Total Noncurrent Liabilities	1,595,214,113.90	1,606,765,510.00
Total Liabilities	1,736,531,908.77	1,705,906,979.00
Deferred Inflows of Resources:		
Pension	33,221.00	32,383.00
Other post employment benefit	711,111.00	-
Total Deferred Inflows of Resources	744,332.00	32,383.00
NET POSITION		
Net Investment in Capital Assets	529,511,803.08	459,895,176.00
Restricted	7,475,821.35	5,476,668.00
Unrestricted	(186,924,333.22)	(146,333,805.00)
Total Net Position	$ 350,063,291.21	$ 319,038,039.00

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

NORTH CAROLINA TURNPIKE AUTHORITY

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

YEARS ENDED JUNE 30, 2018 AND 2017

	2018	2017
Revenues:		
Operating Revenues:		
Charges for Services	$ 48,999,352.61	$ 44,707,706.00
Other Operating Revenues	648,256.27	812,050.00
Total Operating Revenues	49,647,608.88	45,519,756.00
Expenses:		
Operating Expenses:		
Personnel Services	1,326,736.25	1,212,703.00
Supplies and Materials	72,748.57	281,122.00
Contracted Personnel Services	776,212.34	888,012.00
Travel	49,989.22	35,126.00
Advertising	123,921.65	48,844.00
Utilities	281,988.94	272,028.00
Dues and Subscription Fees	23,960.00	22,586.00
Other Services	3,814,480.59	4,965,440.00
Cost of Goods Sold	726,724.39	788,249.00
Capital Outlay	15,153,166.50	15,262,218.00
Rental Expense	107,994.45	65,529.00
Depreciation	16,129,720.29	16,129,720.00
Total Operating Expenses	38,587,643.19	39,971,577.00
Operating Income	11,059,965.69	5,548,179.00
Nonoperating Revenues (Expenses):		
Investment Earnings	2,577,215.65	2,710,669.00
Federal Interest Subsidy on Debt	10,833,446.56	11,348,364.00
Interest and Fees	(50,115,611.73)	(68,872,612.00)
Gain on Debt Reclassification	-	153,259,501.00
Miscellaneous	1,175.00	8,210.00
Total Nonoperating Revenues (Expenses)	(36,703,774.52)	98,454,132.00
Income (Loss) Before Transfers and Capital Grants	(25,643,808.83)	104,002,311.00
Capital Grants	3,140,923.00	5,107,920.00
Transfers In	55,543,931.22	49,000,000.00
Transfers Out	-	(97,603,925.00)
Transfer of GARVEE Bonds to North Carolina Highway Fund	-	(159,205,017.00)
Increase (Decrease) in Net Position	33,041,045.39	(98,698,711.00)
Net Position, Beginning	319,038,039.00	417,736,750.00
Restatement (GASB 75)	(2,015,793.18)	-
Net Position, Ending	$ 350,063,291.21	$ 319,038,039.00

NORTH CAROLINA TURNPIKE AUTHORITY
STATEMENTS OF CASH FLOWS

YEARS ENDED JUNE 30, 2018 AND 2017

	2018	2017
Cash Flows from Operating Activities:		
Receipts from Customers	$ 49,561,240.30	$ 44,011,796.00
Receipts from Other Funds	17,624.65	-
Payments to Employees and Fringe Benefits	(353,572.68)	(1,115,929.00)
Payments to Vendors and Suppliers	(19,375,856.98)	(10,421,669.00)
Other Receipts	102,308.73	-
Other Payments	(357,806.14)	(5,732,708.00)
Net Cash Flows from Operating Activities	29,593,937.88	26,741,490.00
Cash Flows from Noncapital Financing Activities:		
Transfers Out	-	(256,808,941.00)
Advances from Other Funds	867,091.35	-
Other Noncapital Financing Receipts - Advances	-	778,275.00
Net Cash Flows from Noncapital Financing Activities	867,091.35	(256,030,666.00)
Cash Flows from Capital and Related Financing Activities:		
Acquisition and Construction of Capital Assets	(55,304,496.25)	(266,620,632.00)
Transfers from Other Funds	55,543,931.22	49,000,000.00
Federal Interest Subsidy on Debt	10,833,446.56	11,348,364.00
Capital Grants	3,144,443.00	5,321,352.00
Principal Payments	(18,395,000.00)	(11,960,000.00)
Interest Payments	(72,691,785.36)	(73,495,151.00)
Proceeds from Capital Debt	157,091,341.05	371,485,019.00
Payment to Bond Escrow Agent	(159,529,078.43)	(261,419,476.00)
Bond Issuance Costs	(443,498.14)	(1,103,530.00)
Insurance Recoveries	1,175.00	8,210.00
Net Cash Flows Used in Capital and Related Financing Activities	(79,749,521.35)	(177,435,844.00)
Cash Flows from Investing Activities:		
Proceeds from Sale and Maturities of Investments	178,209,897.41	4,425,065,582.00
Purchase of Investments	(129,935,022.54)	(4,020,442,707.00)
Investment Earnings	3,012,770.60	3,311,642.00
Net Cash Flows from Investing Activities	51,287,645.47	407,934,517.00
Net Change in Cash and Cash Equivalents	1,999,153.35	1,209,497.00
Cash and Cash Equivalents, Beginning of Year	5,476,668.00	4,267,171.00
Cash and Cash Equivalents, End of Year	$ 7,475,821.35	$ 5,476,668.00

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

NORTH CAROLINA TURNPIKE AUTHORITY

STATEMENTS OF CASH FLOWS (CONTINUED)

YEARS ENDED JUNE 30, 2018 AND 2017

	2018	2017
Reconciliation of Operating Income to Net Cash Flows From Operating Activities:		
Operating Income	$ 11,059,965.69	$ 5,548,179.00
Adjustments to Reconcile Operating Income to Net Cash Flows From Operating Activities:		
Depreciation Expense	16,129,720.29	16,129,720.00
Management Fees	(357,806.14)	(2,814,377.00)
Changes in Assets and Deferred Outflow:		
Accounts Receivable	77,527.62	(1,427,059.00)
Intergovernmental Receivables	(59,844.47)	(67,026.00)
Due from Other Funds	17,624.65	(5,321.00)
Inventory	(386,107.04)	594,764.00
Prepaid Items	931,011.31	(579,246.00)
Net OPEB Asset	(104.00)	-
Deferred Outflows for Pensions	72,541.00	(313,317.00)
Deferred Outflows for OPEB	(323,257.00)	-
Changes in Liabilities and Deferred Inflows:		
Accounts Payable	1,106,761.82	(137,928.00)
Intergovernmental Payables	-	173,928.00
Due to Other Funds	-	7,903,845.00
Funds Held for Others	943,433.57	698,757.00
Due to Fiduciary	53,325.58	635,036.00
Unearned Revenue	-	312,791.00
Compensated Absences	29,455.00	88,744.00
Net OPEB Liability	(337,412.00)	-
Deferred Infows for OPEB	711,111.00	-
Net Pension Liability	(74,847.00)	-
Deferred Inflows for Pensions	838.00	-
Total Cash From Operating Activities	$ 29,593,937.88	$ 26,741,490.00
Noncash Investing, Capital, and Financing Activities:		
Increase in Fair Value of Investments	$ 248,539.53	$ 336,979.00
Change in Land as a Result of Accounts Payable	6,500.00	1,335,835.00
Change in Construction in Progress as a Result of Accrual Liabilities	50,596,323.68	11,389,905.00
Change in Securities Lending Collateral	(36,548.23)	(17,989,281.00)
Gain on Debt Reclassification	-	153,259,501.00

Note 1—Nature of operations and summary of significant accounting policies

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 ("NCDOT") to conserve expenditures and improve efficiency. The NCTA is a business unit of the NCDOT 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 11 turnpike projects in the State.

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 ("U.S. 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 NCDOT. 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 NCDOT and do not present the financial position of the State or NCDOT, or changes in their 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.

Basis of Presentation – The accompanying financial statements are presented in accordance with U.S. GAAP 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.

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.

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 in the short-term investment fund ("NC STIF"), 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 Statute 147-69.3(e), the State Treasurer ("Treasurer") lends securities from its investment pools to broker-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, Federal Nation Mortgage Association Securities, 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% of the market value of the securities lent and additional collateral is required if its value falls to less than 100% 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 Treasurer or the borrower.

Note 1—Nature of operations and summary of significant accounting policies (continued)

Additional details on the 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 ("NC OSC") Internet home page http://www.ncosc.net/ and clicking on "Public Information" or by calling the State Controller's Financial Reporting Section at (919) 707-0500.

Receivables – Accounts receivable consist of uncollected toll revenues and intergovernmental receivables consist of amounts due from the Federal Highway Administration ("FHWA") and other local Governmental Agencies 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.

Allowance for Doubtful Accounts – An allowance for doubtful accounts has not been established because there are no indications of significant delinquencies from the collection of toll revenues as of June 30, 2018 and 2017. Uncollectible accounts receivable were written off in 2018 and 2017 using the direct write-off method.

Inventory – Inventory is valued at the lower of cost (first-in, first-out) or net realizable value and consists of transponders held for resale.

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 NC STIF. Ownership interest of the NC STIF is determined on a fair market valuation basis as of June 30, 2018 and 2017, in accordance with the NC STIF operating procedures.

Restricted Investments – This classification includes revenue and Grant Anticipation Revenue Vehicles ("GARVEE") 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. See Note 3 for further information on restricted investments.

Prepaid Insurance Costs – Prepaid insurance costs consist of guaranty bond insurance related to the issuance of the 2009 Triangle Expressway bonds. These amounts are capitalized and will be amortized over the maturity of the bonds.

Capital Assets, Nondepreciable – Capital assets, nondepreciable include land and permanent easements purchased for specific projects. These costs will never be depreciated. Construction in progress includes consultant contract expenditures and contracted personnel service expenditures that are charged to specific projects. These costs will be transferred to depreciable asset categories when projects are complete.

Capital Assets, Depreciable – Capital assets, depreciable 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 $5,000.00 at the date of acquisition and have an expected useful life of more than two years 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 50 years for the highway network. Capital assets are carried at cost less accumulated depreciation.

Noncurrent Liabilities – Noncurrent liabilities include the advances from other funds, bonds payable, a note payable, accrued interest, accrued vacation, net pension liability, and net OPEB liability that will not be paid within the next fiscal year.

Note 1—Nature of operations and summary of significant accounting policies (continued)

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 1 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 as of 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, 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.

Net Position – The NCTA's net position is classified as follows:

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

Restricted – This represents funds received through toll revenue collections. The proceeds are to be used for debt service payment. The funds are held in the NC STIF. Ownership interest of the NC STIF is determined on a fair market valuation basis as of June 30, 2018 and 2017, in accordance with the NC STIF operating procedures.

Unrestricted – Since there were toll collections only on the Triangle Expressway and the NCTA is incurring expenses in excess of the capital grants received, the NCTA has a deficit in the unrestricted balance.

Deferred Outflows/Inflows of Resources – In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period and so will not be recognized until then. The NCTA has items that meet this criterion which include pension related deferrals, other post employment benefits ("OPEB") related deferrals, and deferrals related to debt refundings that took place in fiscal years 2018 and 2017. The statements of net position also report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period and so will not be recognized until then. The NCTA has two items that meets this criterion which include pension related deferrals and OPEB related deferrals.

Revenue and Expense Recognition – The NCTA classifies its revenue and expenses as operating and nonoperating in the accompanying statements of revenues, expenses, and changes in net position. 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.* Nonoperating expenses mainly relate to interest expense and the amortization of premiums and discounts of long-term debt.

Operating revenues include activity from the toll roads that were open for operations during the fiscal years ended June 30, 2018 and 2017. These revenues include toll revenues, processing fees, and other charges arising from the toll roads.

Note 1—Nature of operations and summary of significant accounting policies (continued)

Nonoperating revenues include activities that have the characteristics of nonexchange transactions. Revenue from nonexchange transactions represents funds received from the FHWA and NCDOT. Revenues from FHWA are classified as Capital Grants and are considered nonoperating, along with investment income and transfers in from the NCDOT, since these are related to investing, capital, or non-capital financing activities.

Use of Estimates – The preparation of financial statements in conformity with U.S. GAAP 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.

Retirement Plans – For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Teachers' and State Employees' Retirement System ("TSERS") and additions to/deductions from TSERS' fiduciary net position have been determined on the same basis as they are reported by TSERS. For this purpose, plan member contributions are recognized in the period in which the contributions are due. The NCTA's employer contributions are recognized when due and the NCTA has a legal requirement to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of TSERS. Investments are reported at fair value.

Other Post Employment Benefit Plans – For purposes of measuring the net OPEB asset and liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net positions of the Retiree Health Benefit Fund ("RHBF") and the Disability Income Plan of North Carolina ("DIPNC") and additions to/deductions from RHBF and DIPNC's fiduciary net positions have been determined on the same basis as they are reported by RHBF and DIPNC. For this purpose, plan member contributions are recognized in the period in which the contributions are due. The NCTA's employer contributions are recognized when due and the NCTA has a legal requirement to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of RHBF and DIPNC. Investments are reported at fair value.

Note 2—Deposits

As of June 30, 2018 and 2017, respectively, $7,475,821.35 and $5,476,668.00 shown on the statements of net position as restricted cash and cash equivalents represent the NCTA's equity position in the State Treasurer's NC STIF. The NC STIF (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 1.0 and 1.6 years as of June 30, 2018 and 2017, respectively.

Ownership interest of the NC STIF is determined on a fair market valuation basis as of June 30, 2018 and 2017, in accordance with the NC STIF operating procedures. Valuation of the underlying assets is performed by the custodian.

The NCTA's fair market value share of the NC STIF was determined based on Level 2 inputs in accordance with U.S. GAAP. At 2018 and 2017, $7,475,821.35 and $5,476,668.00, respectively, are classified as restricted. These amounts represent cash collected from toll revenues that is restricted for payments on bonds. Deposit and investment risks associated with the State Treasurer's Investment Pool (which includes the State Treasurer's NC 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 NC OSC's Internet home page http://www.ncosc.net/ and clicking on "Public Information" or by calling the State Controller's Financial Reporting Section at (919) 707-0500.

Note 3—Restricted investments

The NCTA's policy for eligible investments are governed by North Carolina General Statute 159-30 and bond covenants that, in general, allow funds to be invested in obligations of the United States or United States government sponsored enterprises, obligations of the State of North Carolina or localities of the State of North Carolina, prime quality commercial paper, shares of certain money market mutual funds, and commingled investment pools.

Fair Value Measurements – U.S. GAAP defines fair value as the exchange price that would be received for an asset or paid to transfer a liability in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. U.S. GAAP also establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy consists of three broad levels of inputs that may be used to measure fair value is as follows:

Level 1 – Inputs to the valuation methodology are quoted prices available in active markets for identical assets and are given the highest priority;

Level 2 – Inputs consist of observable inputs other than quoted prices for identical assets; and

Level 3 – Inputs consist of unobservable inputs and are given the lowest priority.

Concentrations of Credit Risk – A diversified portfolio is managed by the NCTA, financial advisors, and trustees to minimize the risk of loss resulting from over concentration of assets. Securities that are exposed to credit risk, i.e., commercial paper, are limited to 5% of the portfolio to a single issuer. The NCTA's policy does not set a limit on the amount that may be invested in any single government sponsored enterprise, money market mutual fund, or commingled investment pool.

Interest Rate Risk – Interest rate risk represents the risk governments are exposed to as a result of changes in interest rates on the fair value of an investment. Generally, the longer the maturity of an investment the greater the sensitivity of its fair value to changes in market interest rates. The NCTA's policy to mitigate risk has been to structure the investment portfolio so that securities mature to meet cash requirements reducing the need to sell securities on the open market prior to maturity. In addition, interest rate risk is reduced by investing funds primarily in shorter-term securities. The NCTA does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Note 3—Restricted investments (continued)

The NCTA's revenue bond proceeds were invested as follows as of June 30:

2018

Type of Investment	Valuation Measurement Method	Fair Value	Investment Maturities (in Years) Less Than 1 Year	1 – 5 Years
U.S. Treasuries	Fair Value - Level 1	$ 37,838,242.93	$ 36,485,531.64	$ 1,352,711.29
U.S. Government Agencies	Fair Value - Level 2	4,058,196.28	2,923,290.09	1,134,906.19
NC STIF	Fair Value - Level 2	138,118,089.43	-	138,118,089.43
Money Market Mutual Funds	Cost	84,014,519.76	84,014,519.76	-
		$264,029,048.40	$ 123,423,341.49	$ 140,605,706.91

2017

Type of Investment	Valuation Measurement Method	Fair Value	Investment Maturities (in Years) Less Than 1 Year	1 – 5 Years
U.S. Treasuries	Fair Value - Level 1	$ 37,763,361.00	$ 3,268,500.00	$ 34,494,861.00
U.S. Government Agencies	Fair Value - Level 2	4,074,622.00	-	4,074,622.00
NC STIF	Fair Value - Level 2	172,152,281.00	-	172,152,281.00
Money Market Mutual Funds	Cost	98,475,225.00	98,475,225.00	-
		$312,465,489.00	$ 101,743,725.00	$ 210,721,764.00

As of June 30, 2018 and 2017, respectively, included in the Money Market Mutual Funds totals as stated above, $54,330,713.08 and $63,938,046.00 were invested in the PFM Funds – Prime Series, Institutional Class. 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.

In addition to NCTA revenue bond proceeds, additional debt was incurred by the State of North Carolina and the NCDOT through GARVEE. Investment of the proceeds of such debt is governed by North Carolina General Statute §147-69.1 and bond covenants that, in general, allow funds to be invested in obligations of the United States or United States government sponsored enterprises, obligations of the State of North Carolina or localities of the State of North Carolina, prime quality commercial paper, shares of certain money market mutual funds, and commingled investment pools. A stipulation of this GARVEE debt is that the proceeds be spent on GARVEE eligible projects within five years of issuance. During fiscal year 2017, NCTA management identified that the GARVEE debt proceeds would not be spent on the Monroe Connector System project, the originally intended project, before the expiration date. The NCTA agreed to transfer the GARVEE debt to the North Carolina Highway Fund of the NCDOT to be spent on GARVEE eligible projects. The Series 2016 Monroe Expressway Toll Revenue Bonds were then issued to replace the GARVEE bonds for the NCTA.

Interest Rate Risk and Credit Risk – As established in the contract with the private investment company advising on the portfolio and prior to the fiscal year 2017 transfer of the GARVEE bonds to the NCDOT Highway Fund, all GARVEE bond proceeds were managed in compliance with General Statute §147-69.1, which limits credit risk as described above, and can only be invested in short-term maturities with the average maturity ranging between overnight to six months based on the liquidity needs of the investment accounts.

Note 4—Capital assets

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

	July 1, 2017	Additions	Disposals	June 30, 2018
Capital Assets, Nondepreciable				
Land and Permanent Easements	$ 258,834,956.00	$ 13,648,582.86	$ (4,690.00)	$ 272,478,848.86
Construction in Progress	672,435,846.00	104,873,676.88	-	777,309,522.88
Total Capital Assets, Nondepreciable	931,270,802.00	118,522,259.74	(4,690.00)	1,049,788,371.74
Capital Assets, Depreciable				
Highway Network	806,486,015.00	-	-	806,486,015.00
Machinery and Equipment	60,035.00	-	-	60,035.00
Total Capital Assets, Depreciable	806,546,050.00	-	-	806,546,050.00
Less Accumulated Depreciation for:				
Highway Network	76,299,630.00	16,129,720.00	-	92,429,350.00
Machinery and Equipment	60,035.00	-	-	60,035.00
Total Accumulated Depreciation	76,359,665.00	16,129,720.00	-	92,489,385.00
Total Capital Assets, Depreciable, Net of Depreciation	730,186,385.00	(16,129,720.00)	-	714,056,665.00
Capital Assets, Net of Depreciation	$ 1,661,457,187.00	$ 102,392,539.74	$ (4,690.00)	$ 1,763,845,036.74

A summary of changes in capital assets for the year ended June 30, 2017 is presented as follows:

	July 1, 2016	Additions	Disposals	June 30, 2017
Capital Assets, Nondepreciable				
Land and Permanent Easements	$ 225,500,785.00	$ 33,427,770.00	$ (93,599.00)	$ 258,834,956.00
Construction in Progress	444,350,477.00	235,664,858.00	(7,579,489.00)	672,435,846.00
Total Capital Assets, Nondepreciable	669,851,262.00	269,092,628.00	(7,673,088.00)	931,270,802.00
Capital Assets, Depreciable				
Highway Network	806,486,015.00	-	-	806,486,015.00
Machinery and Equipment	60,035.00	-	-	60,035.00
Total Capital Assets, Depreciable	806,546,050.00	-	-	806,546,050.00
Less Accumulated Depreciation for:				
Highway Network	60,169,910.00	16,129,720.00	-	76,299,630.00
Machinery and Equipment	60,035.00	-	-	60,035.00
Total Accumulated Depreciation	60,229,945.00	16,129,720.00	-	76,359,665.00
Total Capital Assets, Depreciable, Net of Depreciation	746,316,105.00	(16,129,720.00)	-	730,186,385.00
Capital Assets, Net of Depreciation	$ 1,416,167,367.00	$ 285,222,348.00	$ (7,673,088.00)	$ 1,661,457,187.00

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, 2018:

	July 1, 2017	Additions	June 30, 2018
Advances from Other Funds	$ 26,895,929.00	$ 867,091.74	$ 27,763,020.74

The following is a summary of changes in the NCTA's Advances from Other Funds as of June 30, 2017:

	July 1, 2016	Additions	June 30, 2017
Advances from Other Funds	$ 26,117,656.00	$ 778,273.00	$ 26,895,929.00

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 January 1, 2014, one year after the NCTA began collecting tolls on the completed Triangle Expressway project, the NCTA began accruing interest on the unpaid balance owed to the Highway Trust Fund at a rate equal to the State Treasurer's average annual yield (1.33% as of June 30, 2018) on its investment of Highway Trust Fund funds pursuant to G.S. 147-6.1. The NCTA accrued $306,164.26 and $229,230.00 of interest for the years ended June 30, 2018 and 2017, respectively.

Note 6—Lease obligations

During the year ended June 30 2014, the NCTA entered into lease agreements for road maintenance equipment. Rental expense relating to operating leases during the years ended June 30, 2018 and 2017 was $107,994.45 and $65,529.00, respectively.

Note 7—Long-term debt

Long-term debt as of June 30 consists of the following:

Revenue Bonds:	2018	2017
Revenue bonds payable, Series 2009A Triangle Expressway Revenue Bonds in the amount of $234,910,000.00, issued July 29, 2009, with coupon rates of 5.50% and 5.75%, with principal payments beginning January 2019, final maturity of January 2039, net of unamortized discount of $879,000.00 as of June 30, 2016. These revenue bonds payable were refunded in March 2017 except for $600,000.00, which will be due in full on January 1, 2019.	$ 600,000.00	$ 600,000.00
Revenue bonds payable, Series 2009B Capital Appreciation Triangle Expressway Revenue Bonds in the amount of $35,173,000.00, issued July 29, 2009, with interest ranging from 6.74% to 7.10% compounding semi-annually, with principal payments beginning January 2030, due in full January 2038.	35,173,109.00	35,149,729.00
Revenue bonds payable, Series 2009B Triangle Expressway State Appropriation Revenue Bonds in the amount of $352,675,000.00 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 $409,597.00 as of June 30, 2018.	190,930,403.00	348,807,517.00
Revenue bonds payable, Series 2010A Monroe Connector System State Appropriation Revenue Bonds in the amount of $233,920,000.00, issued October 26, 2010, with coupon rates of 5.318% and 5.418%, with principal payments beginning January 2022, final maturity January 2041.	233,920,000.00	233,920,000.00
Revenue bonds payable, Series 2011 Monroe Connector System State Appropriation Revenue Bonds in the amount of $214,505,000.00, issued November 30, 2011, with coupon rates of 4.25% and 5.00%, with principal payments beginning July 2012, final maturity July 2041, net of unamortized premium of $11,088,689.00 as of June 30, 2018.	142,798,689.00	151,860,260.00
Revenue bonds payable, Series 2016 Monroe Expressway Toll Revenue Bonds in the amount of $137,052,000.00, issued January 31, 2017, with a coupon rate of 5.00%, with principal payments beginning July 2023, final maturity July 2054, net of unamortized premium of $6,999,563.00 as of June 30, 2018.	144,051,467.00	144,286,508.00

Note 7—Long-term debt (continued)

Revenue Bonds:	2018	2017
Revenue bonds payable, Series 2017 Triangle Expressway System Senior Lien Turnpike Revenue Refunding Bonds in the amount of $200,515,000.00, issued March 30, 2017, with coupon rates of 3.125% and 5.00%, with principal payments beginning January 2018, final maturity January 2039, net of unamortized premium of $23,619,279.00 as of June 30, 2018.	$ 220,974,279.00	$ 226,526,694.00
Revenue bonds payable, Series 2018 Triangle Expressway System Senior Lien Turnpike Revenue Refunding Bonds in the amount of $150,125,000.00, issued May 10, 2018, with average coupon rates of 4.00%, with principal payments beginning January 2019, final maturity January 2039, net of unamortized premium of $6,912,543.00 as of June 30, 2018.	157,037,543.00	-
Total Bonds, Net	$ 1,125,485,490.00	$ 1,141,150,708.00

Bonds payable maturities are as follows:

Years Ending June 30,	Principal	Interest	Total
2019	$ 22,060,000.00	$ 50,149,680.54	$ 72,209,680.54
2020	24,580,000.00	51,202,772.21	75,782,772.21
2021	27,270,000.00	49,962,788.46	77,232,788.46
2022	39,295,000.00	48,567,103.46	87,862,103.46
2023	34,505,000.00	46,753,015.96	81,258,015.96
2024-2028	210,383,422.65	203,791,881.00	414,175,303.65
2029-2033	242,882,455.70	176,472,455.46	419,354,911.16
20343-2038	234,540,731.20	234,472,728.05	469,013,459.25
2039-2043	128,818,403.65	50,204,609.40	179,023,013.05
2044-2048	33,515,000.00	24,369,875.00	57,884,875.00
2049-2053	52,470,000.00	13,727,750.00	66,197,750.00
2054-2055	26,955,000.00	1,364,125.00	28,319,125.00
	1,077,275,013.20	951,038,784.54	2,028,313,797.74
Issuance Premiums	48,620,074.00	-	48,620,074.00
Issuance Discounts	(409,597.20)	-	(409,597.20)
	$ 1,125,485,490.00	$ 951,038,784.54	$ 2,076,524,274.54

Note Payable:	2018	2017
TIFIA note payable for an amount not to exceed $386,662,000.00, opened on July 1, 2009, bearing interest of 4.25% per annum, with interest payments beginning July 2015, principal payments beginning January 2024, and final maturity in January 2043.	$ 372,876,792.00	$ 372,876,792.00

Note 7—Long-term debt (continued)

The TIFIA note payable requires debt service payments commencing July 1, 2015, with a final maturity of January 1, 2043. No payment of principal or interest on the TIFIA note payable was required to be made during the period of July 1, 2009 through January 1, 2015. Payments of interest commenced on January 1, 2015 and payments of principal and interest will commence on January 1, 2024. The amounts of principal and interest to be paid were calculated based on the total amount drawn on the note and amount of accrued interest outstanding as of January 1, 2015. Accrued interest on the loan agreement was $66,628,276.00 as of June 30, 2018 and 2017. On January 31, 2017, the NCTA signed an agreement with the United States Department of Transportation for a TIFIA loan of up to $166,500,000.00. When and if used, the loan will be used to pay certain costs, including land acquisition, design, construction, and equipping of the Monroe Expressway Project. As of June 30, 2018 and 2017, this loan had only been executed and no draws had been taken for any project related costs, respectively.

TIFIA note payable maturities are as follows:

Years Ending June 30,	Principal	Interest	Total
2019	$ -	$ 18,292,253.00	$ 18,292,253.00
2020	-	18,267,058.19	18,267,058.19
2021	-	18,317,447.81	18,317,447.81
2022	-	18,292,253.00	18,292,253.00
2023	-	18,292,253.00	18,292,253.00
2024-2028	13,303,780.94	92,733,969.32	106,037,750.26
2029-2033	50,071,807.84	91,231,620.18	141,303,428.02
2034-2038	98,827,959.62	81,651,276.87	180,479,236.49
2039-2043	210,673,243.60	62,008,616.05	272,681,859.65
	$ 372,876,792.00	$ 419,086,747.42	$ 791,963,539.42

Long-term liability activity for the year ended June 30, 2018 is as follows:

	July 1, 2017, restated (GASB 75)	Additions	Reductions	June 30, 2018	Due Within One Year
Bonds Payable:					
Bonds	$ 1,096,395,013.00	$ 150,125,000.00	$ (169,245,000.00)	$ 1,077,275,013.00	$ 22,060,000.00
Deferred Amounts:					
For Issuance Premiums	45,253,234.00	6,966,341.00	(3,599,501.00)	48,620,074.00	-
For Issuance Discounts	(497,539.00)	-	(87,941.80)	(409,597.20)	-
	1,141,150,708.00	157,091,341.00	(172,932,442.80)	1,125,485,489.80	22,060,000.00
Note Payable	372,876,792.00	-	-	372,876,792.00	-
Accrued Vacation	170,314.00	116,487.00	(87,032.00)	199,769.00	11,786.00
Net OPEB Liability	2,082,772.00		(337,412.00)	1,745,360.00	-
Net Pension Liability	557,948.00	-	(74,847.00)	483,101.00	-
Total Long-Term Debt	$ 1,516,838,534.00	$ 157,207,828.00	$ (173,431,733.80)	$ 1,500,790,511.80	$ 22,071,786.00

Note 7—Long-term debt (continued)

Long-term liability activity for the year ended June 30, 2017 is as follows:

	July 1, 2016	Additions	Reductions	June 30, 2017	Due Within One Year
Bonds Payable:					
Bonds	$ 1,156,923,109.00	$ 337,566,904.00	$ (398,095,000.00)	$ 1,096,395,013.00	$ 18,395,000.00
Deferred Amounts:					
For Issuance Premiums	20,752,367.00	33,918,115.00	(9,417,248.00)	45,253,234.00	-
For Issuance Discounts	(1,548,037.00)	-	1,050,498.00	(497,539.00)	-
	1,176,127,439.00	371,485,019.00	(406,461,750.00)	1,141,150,708.00	18,395,000.00
Note Payable	372,876,792.00	-	-	372,876,792.00	-
Accrued Vacation	81,570.00	103,316.00	(14,572.00)	170,314.00	13,966.00
Net Pension Liability	225,156.00	332,792.00	-	557,948.00	-
Total Long-Term Debt	$ 1,549,310,957.00	$ 371,921,127.00	$ (406,476,322.00)	$ 1,514,755,762.00	$ 18,408,966.00

Total interest cost on indebtedness was $76,168,933.46 and $76,022,131.00 for the years ended June 30, 2018 and 2017, respectively. Total capitalized interest represented $25,251,644.29 and $20,817,389.00 of this amount during the years ended June 30, 2018 and 2017, respectively.

Federal Interest Cash Subsidy

The NCTA has elected to treat the Triangle Expressway System State Annual Appropriation 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 Department equal to 35% of the interest payable on the Series 2009B and 2010A State Appropriation Bonds. As part of the 2018 Federal Budget, the payments received during the year ended June 30, 2018 were reduced by 6.6%. As part of the 2017 Federal Budget, the payments received during the year ended June 30, 2017 were reduced by 6.9%. Cash subsidy payments totaled $10,833,446.56 and $11,348,364.00 for the years ended June 30, 2018 and 2017, respectively.

Refundings

On March 22, 2017, the NCTA issued $200,515,000.00 of senior lien advance refunding bonds to provide resources that were placed in an irrevocable trust to be used for interest on the refunded bonds until January 1, 2019 and the principal amount of the refunded bonds on January 1, 2019. As a result, the refunded bonds are considered to be defeased and the liability has been removed from the statements of net position as of June 30, 2017. The reacquisition price exceeded the net carrying amount of the old debt by $20,734,143.00. This amount is shown as a deferred outflow of resources and amortized over the life of the refunded debt. This advance refunding was undertaken to reduce total debt service payments over the next 22 years by $65,515,780.00 and resulted in an economic gain of $32,153,069.00.

On May 10, 2018, the NCTA issued $150,125,000.00 of appropriation revenue refunding bonds. These bonds were issued to refund, in advance of their maturity, certain of the NCTA’s Triangle Expressway System State Appropriation Revenue Bonds, Series 2009B, and to pay costs incurred in connection with the issuance of these bonds. As a result, the refunded bonds are considered to be defeased and the liability has been removed from the statements of net position as of June 30, 2018. The reacquisition price exceeded the net carrying amount of the old debt by $9,777,825.18. This amount is shown as a deferred outflow of resources and amortized over the life of the refunded debt. This advance refunding was undertaken to reduce total debt service payments over the next 22 years by $15,026,177.17 and resulted in an economic gain of $10,933,562.18.

Note 8—Deferred outflows of resources – unamortized bond refunding charges

Gains and losses from debt refunding must be deferred and amortized over the lesser of the original remaining life of the old debt or the life of the new debt. In addition, gains and losses related to debt refunding are to be used in determining the carrying value of the new debt issued to finance debt refunding. As of June 30, 2018, and 2017, the carrying values of the 2017 Triangle Expressway System Senior Lien Turnpike Revenue Refunding Bonds and the 2018 Triangle Expressway System Appropriation Revenue Refunding Bonds have been adjusted for the gain from defeasance (net amortization) of $28,122,236.95 and $20,349,279.00, respectively.

This deferred outflow of resources is included as unamortized bond refunding charges in the statement of net position.

Note 9—Pledged revenues

The NCTA has pledged, as security for revenue bonds, net revenues from the operation of the Triangle Expressway System and the Monroe Connector System. In July 2009, the NCTA issued Triangle Expressway System State Annual Appropriation Revenue Bonds ($352,675,000.00) and Triangle Expressway System Senior Lien Revenue Bonds ($270,083,109.00). In October 2010, the NCTA issued Monroe Connector System State Annual Appropriation Revenue Bonds ($233,920,000.00). In November 2011, the NCTA issued State Annual Appropriation Revenue Bonds ($214,505,000.00). In January 2017, the NCTA issued Monroe Expressway Toll Revenue Bonds ($137,051,904.00). In March 2017, the NCTA issued Triangle Expressway System Senior Lien Turnpike Revenue Refunding Bonds ($200,515,000.00). In May 2018, the NCTA issued Triangle Expressway System Appropriation Revenue Refunding Bonds ($150,125,000.00). 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. For the State Annual Appropriation Revenue Bonds, specific revenues pledged consist of federal interest subsidy payments and investment income.

The NCTA has elected to treat the State Annual Appropriation Revenue Bonds 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 these bonds. As part of the 2018 Federal Budget, the payments received during the year ended June 30, 2018 were reduced by 6.6%. As part of the 2017 Federal Budget, the payments received during the year ended June 30, 2017 were reduced by 6.9%.

Proceeds from the bonds are being used to pay the costs of land acquisition, design, construction, and equipping of the Triangle Expressway System, a 19-mile toll road facility built in Durham and Wake counties that was fully opened in January 2013. Additionally, proceeds from the bonds are being used to pay the costs of design, construction, and equipping of the Monroe Connector System, a 19.7-mile toll road facility to be built in Mecklenburg and Union counties. The total principal and interest remaining to be paid on the bonds is $2,076,524,274.54 payable through fiscal year 2055 (final maturity date). For the year ended June 30, 2018, principal and interest paid and available revenues (toll revenues, fees, federal interest subsidy, federal transportation funds, and investment revenues) were $72,794,532.36, and $62,483,152.84, respectively. For year ended June 30, 2017, principal and interest paid and available revenues (toll revenues, fees, federal interest subsidy, federal transportation funds and investment revenues) were $67,137,703.00, and $58,787,193.00, respectively.

Note 10—Retirement plans

Plan Description – The NCTA is a participating employer in the statewide Teachers' and State Employees' Retirement System ("TSERS"), a cost-sharing multiple-employer defined benefit pension plan administered by the State of North Carolina. TSERS membership is comprised of employees of the State (state agencies and institution), universities, community colleges, and certain proprietary component units along with the employees of Local Education Agencies and charter schools. Article 1 of G.S. Chapter 135 assigns the authority to establish and amend benefit provision to the North Carolina General Assembly. Management of the plan is vested in the TSERS Board of Trustees, which consists of 13 member – nine appointed by the Governor, on appointed by the state Senate, one appointed by the state House of Representatives, and the State Treasurer and State Superintendent, who serve as ex-officio members. The Teachers' and State Employees' Retirement System is included in the Comprehensive Annual Financial Report ("CAFR") for the State of North Carolina. The State's CAFR included financial statements and required supplementary information for TSERS. That Report may be obtained by writing to the Office of the State Controller, 1410 Mail Service Center, Raleigh, North Carolina 27699-1410, by calling (919) 981-5454, or at www.osc.nc.gov.

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 (or 10 years of creditable service for members joining TSERS on or after August 1, 2011), 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 (or 10 years of creditable service for members joining TSERS on or after August 1, 2011). Survivor benefits are available to eligible beneficiaries of members who die while in active service or within 180 days of their last day of service and who have either completed 20 years of creditable service regardless of age or have completed five years of service and have reached age 60 (10 years for members joining on or after August 1, 2011). 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 – Benefit and contribution provisions for TSERS are established by North Carolina General Statutes 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. Required employer contribution rates for the years ended June 30, 2018, and 2017 were 10.56% and 9.98%, respectively, while employee contributions were 6% each year. The NCTA made 100% of its annual required contributions for the years ended June 30, 2018, 2017, and 2016. Contributions to the pension plan from the NCTA were $136,611.00 and $101,323.00 for the years ended June 30, 2018, and 2017, respectively.

Refunds of Contributions – Employees who have terminated service as a contributing member of TSERS may file an application for a refund of their contributions. By state law, refunds to members with at least five years of service include 4% interest. State law requires a 60-day waiting period after service termination before the refund may be paid. The acceptance of a refund payment cancels the individual's right to employer contributions or any other benefit provided by TSERS.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions – As of June 30, 2018, the NCTA reported a liability of $483,101.00 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2017. The total pension liability used to calculate the net pension was determined by an actuarial valuation as of December 31, 2016. The total pension liability was then rolled forward to the measurement date of June 30, 2017, utilizing update procedures incorporating the actuarial assumptions.

Note 10—Retirement plans (continued)

The NCTA's proportion of the net pension liability was based on a projection of the NCTA's long-term share of future payroll covered by the pension plan, relative to the projected future payroll covered by the pension plan of all participating TSERS employers, actuarially determined. As of June 30, 2017 and 2016, the NCTA's proportion was 0.01% and the proportion did not change from the prior measurement date.

For the years ended June 30, 2018 and 2017, the NCTA recognized pension expense of $136,886.00 and $109,352.00, respectively. As of June 30, 2018, the NCTA reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between actual and expected experience	$ 10,473.00	$ 15,805.00
Changes in assumptions	76,323.00	-
Net difference between projected and actual earnings on pension plan investments	65,380.00	-
Change in proportion and differences between agency's contributions and proportionate share of contributions	32,506.00	17,416.00
Contributions subsequent to the measurement date	136,611.00	-
	$ 321,293.00	$ 33,221.00

As of June 30, 2017, the NCTA reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between actual and expected experience	$ -	$ 26,369.00
Changes in assumptions	82,284.00	-
Net difference between projected and actual earnings on pension plan investments	198,982.00	-
Change in proportion and differences between agency's contributions and proportionate share of contributions	11,245.00	6,014.00
Contributions subsequent to the measurement date	101,322.00	-
	$ 393,833.00	$ 32,383.00

As of June 30, 2018, the $136,611.00 included as a component of deferred outflows of resources related to pensions resulting from NCTA contributions subsequent to the measurement date will be recognized as a decrease of the net pension liability in the year ended June 30, 2019. Other amounts reported as deferred inflows of resources and deferred outflows of resources related to pensions will be recognized in pension expense as follows:

Years Ending June 30,	
2019	$ 32,750.00
2020	96,205.00
2021	48,672.00
2022	(26,166.00)
2023	-
Total	$ 151,461.00

Note 10—Retirement plans (continued)

Actuarial Assumptions – The total pension liability in the December 31, 2016, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.0%
Salary increases	3.50% to 8.10%, including inflation and productivity factor of 3.50%
Investment rate of return	7.20%, net of pension plan investment expense, including inflation

The plan currently uses mortality tables that vary by age, gender, employee group (i.e., 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, 2016, valuation were based on the results of an actuarial experience study for the period January 1, 2010 through December 31, 2014. Future ad hoc 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. The target allocation and best estimates of arithmetic real rates of return for each major asset class as of June 30, 2017, are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Fixed Income	29.0%	1.4%
Global Equity	42.0%	5.3%
Real Estate	8.0%	4.3%
Alternatives	8.0%	8.9%
Credit	7.0%	6.0%
Inflation Protection	6.0%	4.0%
	100.0%	

The information above is based on 30-year expectations developed with the consulting actuary for the 2016 asset liability and investment policy study for the North Carolina Retirement Systems, including TSERS. The long-term nominal rates of return underlying the real rates of return are arithmetic annualized figures. The real rates of return are calculated from nominal rates by multiplicatively subtracting a long-term inflation assumption of 3.05%. All rates of return and inflation are annualized.

Discount Rate – The discount rate used to measure the total pension liability was 7.20%. 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 these 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 net pension liability.

Note 10—Retirement plans (continued)

Sensitivity of the NCTA's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate – The following presents the NCTA's proportionate share of the net pension liability calculated using the discount rate of 7.20%, as well as what the NCTA's proportionate share of the net pension asset or net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.20%) or 1 percentage-point higher (8.20%) than the current rate:

	1% Decrease (6.20%)	Discount Rate (7.20%)	1% Increase (8.20%)
NCTA's proportionate share of the net pension liability	$ 994,422.00	$ 483,101.00	$ 54,679.00

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 due to death, disability, or 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 $30,423.92 and $37,198.00 for the years ended June 30, 2018, and 2017, respectively.

IRC Section 401(k) Plan – All members of TSERS 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 $24,567.58 and $33,464.00for the years ended June 30, 2018 and 2017, respectively.

Note 11—Other post-employment benefits

The NCTA participates in the Comprehensive Major Medical Plan (the "Medical 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 Plane of North Carolina and retirees of TSERS.

Retiree Health Benefit Fund
Plan Description – The Retiree Health Benefit Fund ("RHBF") has been established as a fund to provide health benefits to retired and disabled employees and their applicable beneficiaries. The RHBF is established by General Statute 135-7, Article 1. It is a cost-sharing, multiple-employer, defined benefit healthcare plan, exclusively for the benefit of former employees of the State, the University of North Carolina System, and community colleges. In addition, LEAs, charter schools, and some select local governments also participate.

Management of the plan is vested in the State Health Plan Board of Trustees, which consists of 13 members – eight appointed by the Governor, one appointed by the State senate, one appointed by the State House of Representatives, and the State Treasurer and the State Superintendent and the Director of the Office of State Human Resources who serve as ex-officio members. The RHBF is supported by a percent of payroll contribution from participating employing units. Each year the percentage is set in legislation, as are the maximum per retiree contributions from the RHBF to the State Health Plan. The State Treasurer, with the approval of the State Health Plan Board of Trustees, then set the employer contributions (subject to the legislative cap) and the premiums to be paid by retirees, as well as the health benefits to be provided through the State Health Plan.

Note 11—Other post-employment benefits (continued)

The financial statements and other required disclosures for the plan are presented in the State of North Carolina's CAFR, which can be found at https://www.osc.nc.gov/public-information/reports.

Benefits Provided – Plan benefits received by retired employees and disabled employees from the RHBF are OPEB. The healthcare benefits for retired and disabled employees who are not eligible for Medicare are the same as for active employees. The plan options change when former employees become eligible for Medicare. Medicare retirees have the option of selecting one of two fully-insured Medicare Advantage/Prescription Drug

Plan ("MA-PDP") options of the self0funded Traditional 70/30 preferred Provider Organization plan option that is also offered to non-Medicare members. If the Traditional 70/30 Plan is selected by a Medicare retiree, the self-funded State Health Plan coverage is secondary to Medicare.

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

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

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

Contributions – By General Statute, accumulated contributions from employers to the RHBF and any earnings on those contributions shall be used to provide health benefits to retired and disabled employees and their applicable beneficiaries. By statute, contributions to the RHBF are irrevocable. Also by law, fund asserts are dedicated to providing benefits to retired and disabled employees and their applicable beneficiaries and are not subject to the claims of creditors of the employers making contributions to the RHBF. However, the RHBF assets may be used for reasonable expenses to administer the RHBF, including costs to conduct required actuarial valuations of state – supports retired employees' health benefits. Contribution rates to the RHBF, which are intended to finance benefits and administrative expenses on a pay-as-you-go basis are determined by the General Assembly in the Appropriations Bill. For the current fiscal year, the NCTA contributed 6.27% of covered payroll which amounted to $78,436.23.

Note 11—Other post-employment benefits (continued)

At June 30, 2018, the NCTA reported a liability of $1,745,360.00 for its proportionate share of the net OPEB liability. The net OPEB liability was measured as of June 30, 2017, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of December 31, 2016. The total OPEB liability was then rolled forward to the measurement date of June 30, 2017 utilizing update procedures incorporating the actuarial assumptions. The NCTA's proportion of the net OPEB liability was based on a projection of the NCTA's present value of future salary, actuarially determined. At December 31, 2016, the NCTA's proportion was 0.01%.

As of June 30, 2018, $76,669.00 of contributions subsequent to the measurement date and $306,290.00 related to the change in proportion of the net OPEB liability are reported as deferred outflows of resources and will be recognized as a decrease of the net OPEB liability in the year ending June 30, 2019. Other amounts reported as deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Years Ending June 30,		
2019	$	(80,914.00)
2020		(80,914.00)
2021		(80,914.00)
2022		(80,914.00)
2023		(80,754.00)
Total	$	(404,410.00)

Actuarial Assumptions – The total OPEB liability in the December 31, 2016, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.75%
Salary increases	3.50% to 8.10%, including inflation and productivity factor of 3.50%
Investment rate of return	7.20%, net of OPEB plan investment expense, including inflation
Healthcare cost trend rate – Medical	5.00% to 6.50%
Healthcare cost trend rate – Prescription Drug	5.00% to 7.25%
Healthcare cost trend rate – Medicare Advantage	4.00% to 5.00%
Healthcare cost trend rate – Administrative	3.00%

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

Sensitivity of the NCTA's Proportionate Share of the Net OPEB Liability to Changes in the Discount Rate – The following presents the NCTA's proportionate share of the net OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (2.58%) or 1-percentage point higher (4.58%) than the current discount rate:

	1% Decrease (2.58%)	Discount Rate (3.58%)	1% Increase (4.58%)
NCTA's proportionate share of the net OPEB liability	$ 2,082,114.00	$ 1,745,360.00	$ 1,478,266.00

Note 11—Other post-employment benefits (continued)

Sensitivity of the NCTA's Proportionate Share of the Net OPEB Liability to Changes in Healthcare Trend Rates – The following presents the NCTA's proportionate share of the net OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower or 1-percentage point higher than the current discount rate:

	1% Decrease	6.50% Medical, 7.25% Rx, 3.00% Administrative	1% Increase
NCTA's proportionate share of the net OPEB liability	$ 1,425,798.00	$ 1,745,360.00	$ 2,170,098.00

OPEB Plan Fiduciary Net Position – Detailed information about the OPEB plan's fiduciary net position is available in the separately issued CAFR for the State of North Carolina, which can be found at https://www.osc.nc.gov/public-information/reports.

Disability Income Plan of North Carolina
Plan Description – Short-term and long-term disability benefits are provided through the Disability Income Plan of North Carolina ("DIPNC"), a cost-sharing, multiple-employer defined benefit plan, to the eligible members of TSERS which includes employees of the State, the University of North Carolina System, community colleges, and certain Local Education Agencies, and ORP.

Management of the plan is vested in the State Health Plan Board of Trustees, which consists of 13 members – eight appointed by the Governor, one appointed by the State Senate, one appointed by the State House of Representatives, and the State Treasurer the State Superintendent and the Director of the Office of the State Human Resources who serve as ex-officio members. Management of the plan is vested in the State Health Plan Board of Trustees, which consists of 13 members – eight appointed by the Governor, one appointed by the State Senate, one appointed by the State House of Representatives, and the State Treasurer the State Superintendent and the Director of the Office of State Human Resources who service as ex-officio members.

The financial statements and other required disclosures for the plan are presented in the State of North Carolina's CAFR, which can be found at https://www.osc.nc.gov/public-information/reports.

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

Note 11—Other post-employment benefits (continued)

Contributions – 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 and coincide with the State fiscal year. For the fiscal year ended June 30, 2018, employers made a statutory contribution of 0.14% of covered payroll which was equal to the actuarially required contribution. The NCTA's contributions to the plan were $1,751.37 for the year ended June 30, 2018.

The contributions cannot be separated between the amounts that relate to other postemployment benefits and employment benefits for active employees. Those individuals who are receiving extended short-term disability benefit payments cannot be separated from the number of members currently eligible to receive disability benefits as an other postemployment benefit.

OPEB Liabilities, OPEB Expense, and Deferred Outflows and Inflows of Resources Related to OPEB – At June 30, 2018, the NCTA reported an asset of $3,209.00 for it proportionate share of the net OPEB asset. The net OPEB asset was measured as of June 30, 2017, and the total OPEB asset used to calculate the net OPEB asset was determined by an actuarial valuation as of December 31, 2016. The total OPEB asset was then rolled forward to the measurement date of June 30, 2017 utilizing update procedures incorporating the actuarial assumptions. The NCTA's proportion of the net OPEB asset was based on a projection of the NCTA's present value of future salary, actuarially determined. At December 31, 2016, the NCTA's proportion was 0.01%.

As of June 30, 2018, $1,774.00 resulting from the NCTA's contributions subsequent to the measurement date, $880.00 from a difference between actual and expected experience, $703.00 from a difference between project and actual earnings on OPEB plan investments, and $813.00 from a change in proportion between the NCTA's contributions and proportionate share of contributions are reported as deferred outflows of resources and will be recognized as an increase of the net OPEB asset in the year ending June 30, 2019. Other amounts reported as deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Years Ending June 30,		
2019	$	603.00
2020		603.00
2021		603.00
2022		176.00
2023		-
Total	$	1,985.00

Actuarial Assumptions – The total OPEB asset in the December 31, 2016, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.00%
Salary increases	3.50% to 8.10%, including inflation and productivity factor of 3.50%
Investment rate of return	3.75%, net of pension plan investment expense, including inflation

Note 11—Other post-employment benefits (continued)

Sensitivity of the NCTA's Proportionate Share of the Net OPEB Asset to Changes in the Discount Rate – The following presents the NCTA's proportionate share of the net OPEB asset would be if it were calculated using a discount rate that is 1 percentage point lower (2.75%) or 1-percentage point higher (4.75%) than the current discount rate:

	1% Decrease (2.75%)	Discount Rate (3.75%)	1% Increase (4.75%)
NCTA's proportionate share of the net OPEB asset	$ 2,728.00	$ 3,209.00	$ 3,691.00

Common Actuarial Assumptions for both OPEB Plans – The total OPEB asset was determined by an actuarial valuation performed as of December 31, 2016 using the following actuarial assumptions, applied to all periods in the measurement, unless otherwise specified. The total OPEB liability was calculated through the use of update procedures to roll forward from the actuarial valuation date to the measurement date of June 30, 2017. The update procedures incorporated the actuarial assumptions used in the valuation. The entry age normal cost method was utilized.

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

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

The long-term expected rate of return on OPEB plan investments was determined using a building-block method in which best estimate ranges of expected future real rates of return are developed for each major asset class. These ranges 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 and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Fixed Income	29.0%	1.4%
Global Equity	42.0%	5.3%
Real Estate	8.0%	4.3%
Alternatives	8.0%	8.9%
Credit	7.0%	6.0%
Inflation Protection	6.0%	4.0%
	100.0%	

Note 11—Other post-employment benefits (continued)

Total OPEB Expense, OPEB Liabilities, and Deferred Outflows and Inflows of Resources Related to OPEB –

The following is information related to the proportionate share and OPEB expense:

	RHBF	DIPNC	Total
OPEB Expense	$ 126,942.00	$ 1,839.00	$ 128,781.00
OPEB Liability (Asset)	1,745,360.00	(3,209.00)	1,742,151.00
Proportionate share of net OPEB liability (asset)	0.01%	0.01%	
Deferred Outflows of Resources			
Difference between actual and expected experience	-	880.00	880.00
Changes in assumptions	-	-	-
Net difference between projected and actual earnings on OPEB plan investments	-	703.00	703.00
Change in proportion and differences between agency's contributions and proportionate share of contributions	-	813.00	813.00
Change in proportion	306,290.00	-	306,290.00
Contributions subsequent to the measurement date	76,669.00	1,774.00	78,443.00
	382,959.00	4,170.00	387,129.00
Deferred Inflows of Resources			
Difference between actual and expected experience	125,146.00	-	125,146.00
Changes in assumptions	480,664.00	-	480,664.00
Net difference between projected and actual earnings on OPEB plan investments	649.00	-	649.00
Change in proportion and differences between agency's contributions and proportionate share of contributions	104,241.00	-	104,241.00
Change in proportion	-	411.00	411.00
Contributions subsequent to the measurement date	-	-	-
	$ 710,700.00	$ 411.00	$ 711,111.00

Note 12—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 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 $1,000.00 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 $10,000.00 via contract with a private insurance company. The premium, based on a composite rate, is paid by the NCDOT directly to the insurer.

The State Property Fire Insurance Fund ("Fire Fund"), an internal service fund of the State, insures all state-owned buildings and contents for fire and various other property losses up to $2,500.00 per occurrence. The Fire Fund purchases excess insurance from private insurers to cover losses over the amounts insured by the Fund. Losses covered by the Fire Fund are subject to a $5.00 per occurrence deductible except for theft losses that carry a $1.00 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.

Note 12—Risk management (continued)

State-owned vehicles are covered by liability insurance handled by the North Carolina Department of Insurance. The State is self-insured for the first $1,000.00 of any loss through a retrospective rated plan. Excess insurance coverage is purchased through a private insurer to cover losses greater than $1,000.00 up to $10,000.00. The liability limits for losses occurring in-state are $1,000.00 per claimant and $10,000.00 per occurrence. The NCDOT covers the cost of excess insurance and pays 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 $5,000.00 per occurrence, with a $75.00 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 $1,000.00.

Employees and retirees are provided health care coverage by the Medical Plan, a component unit of the State. The Medical 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 $25.00 to $50.00 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 0.16% of covered payroll for the current fiscal year.

Additional details on the state-administered risk management programs are 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 "Public Information" or by calling the State Controller's Financial Reporting Section at (919) 707-0500.

Note 13—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 $53,354,092.61 and $112,794,777.00 as of June 30, 2018 and 2017, 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—Transfer of GARVEE Bonds

During fiscal year 2017, the NCTA transferred the Series 2011 GARVEE Bonds to the North Carolina Highway Fund. This transfer was done to fund other GARVEE eligible projects with the North Carolina Highway Fund before the time to spend the proceeds expired. The transfer of the GARVEE related restricted investments is shown on the statements of revenues, expenses, and changes in net position in the amount of $159,205,017.00. A related gain on debt reclassification in the amount of $153,259,501.00 is also shown on the statements of revenues, expenses, and changes in net position to reflect the removal of the related debt principal and unamortized premium of the GARVEE debt from the NCTA's books. As of June 30, 2018 and 2017, the NCTA does not have any amounts recorded related to the Series 2011 GARVEE Bonds.

Note 15—Restatement

The NCTA implemented Governmental Accounting Standards Board (GASB) statement 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* in the fiscal year ending June 30, 2018. The implementation of the statement required the NCTA to record beginning net OPEB liability and the effects on net position of benefit payments and administrative expenses paid by the NCTA related to OPEB during the measurement period (fiscal year ending December 31, 2017). Beginning deferred outflows and inflows of resources associated with the implementation were excluded from the restatement. As a result, net position for the NCTA decreased $2,015,793.18.

Note 16—Subsequent events

In connection with the preparation of the financial statements and in accordance with U.S. GAAP, the NCTA considered for disclosure subsequent events that occurred after the statement of net position date of June 30, 2018 through November 30, 2018, which was the date the financial statements were available to be issued.

On or about December 12, 2018 the NCTA expects to issue $401,155,000 of senior lien refunding bonds. These bonds are being issued to refund, in its entirety, the 2009 Triangle Expressway TIFIA loan. This refunding is being undertaken to reduce total debt service over the next 23 years by $18,561,930.32 and will result in a present value economic gain of $10,245,387.60.

REQUIRED SUPPLEMENTARY INFORMATION

This section contains additional information required by generally accepted accounting principles.

- Schedule of Proportionate Share of Net Pension Liability – Teachers' and State Employees' Retirement System
- Schedule of Contributions – Teachers' and State Employees' Retirement System
- Schedule of Proportionate Share of Net OPEB Liability – Retiree Health Benefit Fund
- Schedule of Contributions– Retiree Health Benefit Fund
- Schedule of Proportionate Share of Net OPEB Asset – Disability Income Plan of North Carolina
- Schedule of Contributions – Disability Income Plan of North Carolina

Schedule of Proportionate Share of Net Pension Liability
Teachers' and State Employees' Retirement System
June 30, *

	2018	2017	2016	2015	2014
NCTA's proportion of the net pension liability (%)	0.01%	0.01%	0.01%	0.01%	0.01%
NCTA's proportion of the net pension liability ($)	$ 483,101.00	$ 557,948.00	$ 225,156.00	$ 69,460.00	$ 356,082.00
NCTA's covered-employee payroll	$ 1,020,099.00	$ 899,061.00	$ 882,095.00	$ 988,337.00	$ 988,337.00
NCTA's proportionate share of the net pension liability as a percentage of its covered-employee payroll	47.4%	62.1%	25.5%	7.0%	36.0%
Plan fiduciary net position as a percentage of the total pension liability	89.51%	87.32%	94.64%	98.24%	90.60%

Schedule of Contributions
Teachers' and State Employees' Retirement System
June 30, *

	2018	2017	2016	2015	2014
Contractually required contribution	$ 132,103.13	$ 101,322.00	$ 74,249.00	$ 86,087.00	$ 82,328.00
Contributions in relation to the contractually required contribution	(132,103.13)	(101,322.00)	(74,249.00)	(86,087.00)	$ (82,328.00)
Contribution deficiency (excess)	$ -	$ -	$ -	$ -	$ -
NCTA's covered-employee payroll	$ 1,250,976.57	$ 1,020,099.00	$ 899,061.00	$ 882,095.00	$ 988,337.00
Contributions as a percentage of covered-employee payroll	10.6%	9.9%	8.3%	9.8%	8.3%

*The amounts presented for each fiscal year were determined as of the prior fiscal year ended June 30. Information is not available for preceding years, to the extent 10 years of information is not presented.

Schedule of Proportionate Share of Net OPEB Liability
Retiree Health Benefit Fund
June 30, *

	2018
NCTA's proportion of the net OPEB liability (%)	0.01%
NCTA's proportion of the net OPEB liability ($)	$ 1,745,360.00
NCTA's covered-employee payroll	$ 1,020,099.00
NCTA's proportionate share of the net OPEB liability as a percentage of its covered-employee payroll	171.1%
Plan fiduciary net position as a percentage of the total OPEB liability	3.52%

Schedule of Contributions
Retiree Health Benefit Fund
June 30, *

	2018
Contractually required contribution	$ 78,436.23
Contributions in relation to the contractually required contribution	(78,436.23)
Contribution deficiency (excess)	$ -
NCTA's covered-employee payroll	$ 1,020,099.00
Contributions as a percentage of covered-employee payroll	7.69%

*The amounts presented for each fiscal year were determined as of the prior fiscal year ended June 30. Information is not available for preceding years, to the extent 10 years of information is not presented.

Schedule of Proportionate Share of Net OPEB Asset
Disability Income Plan of North Carolina
June 30, *

	2018
NCTA's proportion of the net OPEB asset (%)	0.01%
NCTA's proportion of the net OPEB asset ($)	$ 3,209.00
NCTA's covered-employee payroll	$ 1,020,099.00
NCTA's proportionate share of the net OPEB asset as a percentage of its covered-employee payroll	0.31%
Plan fiduciary net position as a percentage of the total OPEB asset	116.23%

Schedule of Contributions
Disability Income Plan of North Carolina
June 30, *

	2018
Contractually required contribution	$ 1,751.37
Contributions in relation to the contractually required contribution	(1,751.37)
Contribution deficiency (excess)	$ -
NCTA's covered-employee payroll	$ 1,020,099.00
Contributions as a percentage of covered-employee payroll	0.17%

*The amounts presented for each fiscal year were determined as of the prior fiscal year ended June 30. Information is not available for preceding years, to the extent 10 years of information is not presented.

SUPPLEMENTARY INFORMATION

NORTH CAROLINA TURNPIKE AUTHORITY

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION — (MODIFIED ACCRUAL BASIS – NON GAAP)

YEAR ENDED JUNE 30, 2018

	Triangle Expressway	Monroe Expressway
Revenues:		
Operating Revenue:		
Charges for Services	$ 49,142,404.66	$ -
Toll Receipts	45,013,869.80	-
Toll Bad Debt	(1,073,804.90)	-
Late Payment Fee	5,055,371.04	-
Electronic Transaction Fees	126,101.56	-
Returned Check Fee	3,916.67	-
IAG Interoperability Fees	16,950.49	-
Other Operating Revenues	418,102.98	-
Transponder Sales	418,102.98	-
Total Operating Revenues	49,560,507.64	-
Expenses:		
Operating Expenses:		
Personnel Services	673,554.85	1,097,301.94
Supplies and Materials	16,471.76	8,548.74
Contracted Personnel Services	345,930.05	132,212.07
Travel	2,030.22	22,218.53
Advertising	92,879.85	-
Utilities	243,100.26	2,380.25
Dues and Subscription Fees	23,960.00	-
Other Services	1,801,487.57	-
Other Expenses	1,437,125.31	717,484.70
Transponder Purchases	448,472.98	-
Capital Outlay	12,878,142.64	73,691,820.89
Right of Way	6,350.00	14,586,899.39
Rental Expense	73,602.53	9,618.28
Depreciation	-	-
Total Operating Expenses	18,043,108.02	90,268,484.79
Total Operating Renewal and Replacement:		
Personnel Services	23,206.59	-
Supplies and Materials	1,271,213.19	-
Travel	1,115.42	
Capital Outlay	2,249,605.02	-
Rental Expense	23,206.59	-
Other Services	9,975.25	-
Total Operating Renewal and Replacement	3,578,322.06	-
Operating Income	27,939,077.56	(90,268,484.79)

NORTH CAROLINA TURNPIKE AUTHORITY

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION — (MODIFIED ACCRUAL BASIS – NON GAAP) (CONTINUED)

YEAR ENDED JUNE 30, 2018

	Triangle Expressway	Monroe Expressway
Nonoperating Revenues (Expenses):		
Insurance Recoveries	$ 23,678.00	$ -
Utility Installation Refund	-	1,954.00
Sale of Land	4,690.00	-
Fuel Hedge	-	60,895.30
Investment Earnings	1,866,783.66	1,067,076.24
Federal Interest Subsidy on Debt	6,813,554.90	4,019,891.66
Interest and Fees:		
Triangle Expressway System Senior Lien Revenue Bonds, Series 2009A	(27,000.00)	-
Triangle Expressway System State Annual Appropriation Revenue Bonds, Series 2009B (Federally Taxable-Issuer Subsidy-Build America Bonds)	(22,449,068.76)	-
Triangle Expressway Senior Lien Revenue Refunding Bonds, Series 2017	(7,447,301.16)	-
Triangle Expressway TIFIA Bond Interest	(18,292,253.00)	-
Monroe Connector System State Annual Appropriation Revenue Bonds, Series 2010A, (Federally Taxable-Issuer Subsidy-Build America Bonds)	-	(12,297,007.20)
Monroe Connector System Senior Lien Revenue Bonds, Series 2011	-	-
Monroe Connector System Senior Lien Revenue Bonds, Series 2011	-	(6,690,750.00)
Monroe Connector System Senior Lien Revenue Bonds, Series 2016	-	(5,488,405.24)
Principal:		
Triangle Expressway System State Annual Appropriation Revenue Bonds, Series 2009B (Federally Taxable-Issuer Subsidy-Build America Bonds)	(7,115,000.00)	-
Triangle Expressway System Senior Lien Turnpike Revenue Refunding Bonds, Series 2017	(3,160,000.00)	-
Monroe Connector System State Appropriation Revenue Bonds, Series 2011	-	(8,120,000.00)
Monroe Connector System Senior Lien Revenue Bonds, Series 2011	-	-
Total Nonoperating Revenues (Expenses)	(49,781,916.36)	(27,446,345.24)
Income/Loss before Transfers and Capital Grants	(21,842,838.80)	(117,714,830.03)
Capital Grants	-	115,053.00
Transfers In	25,000,000.00	24,000,000.00
Increase (Decrease) in Net Position	$ 3,157,161.20	$ (93,599,777.03)

Report of Inde1pendent Auditor 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 in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to the financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the North Carolina Turnpike Authority ("NCTA"), a major enterprise fund of the State of North Carolina, and a business unit of the North Carolina Department of Transportation ("NCDOT"), as of and for the years ended June 30, 2018 and 2017, and the related notes to the financial statements, which collectively comprises the NCTA's basic financial statements as listed in the table of contents, and have issued our report thereon dated November 30, 2018.

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 NCDOT, as of June 30, 2018 and 2017, and the changes in their financial position and their 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

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

Cherry Bekaert LLP

Raleigh, North Carolina
November 30, 2018

This audit required 375 audit hours at a cost of $69,000.