



STATE OF NORTH CAROLINA

NORTH CAROLINA TURNPIKE AUTHORITY

RALEIGH, NORTH CAROLINA

FINANCIAL STATEMENT AUDIT REPORT

FOR THE YEAR ENDED JUNE 30, 2007

OFFICE OF THE STATE AUDITOR

LESLIE W. MERRITT, JR., CPA, CFP

STATE AUDITOR

NORTH CAROLINA TURNPIKE AUTHORITY

RALEIGH, NORTH CAROLINA

FINANCIAL STATEMENT AUDIT REPORT

FOR THE YEAR ENDED JUNE 30, 2007

CHAIRMAN OF THE BOARD OF DIRECTORS

LYNDO TIPPETT

ADMINISTRATIVE OFFICER

DAVID JOYNER, EXECUTIVE DIRECTOR



STATE OF NORTH CAROLINA
Office of the State Auditor

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AUDITOR'S TRANSMITTAL

The Honorable Michael F. Easley, Governor
The General Assembly of North Carolina
Board of Directors, North Carolina Turnpike Authority

We have completed a financial statement audit of North Carolina Turnpike Authority for the year ended June 30, 2007, and our audit results are included in this report. You will note from the independent auditor's report that we determined that the financial statements are presented fairly in all material respects.

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

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

Leslie W. Merritt, Jr.

Leslie W. Merritt, Jr., CPA, CFP
State Auditor

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
North Carolina Turnpike Authority
Raleigh, North Carolina

We have audited the accompanying basic financial statements of North Carolina Turnpike Authority, a component unit of the State of North Carolina, as of and for the year ended June 30, 2007, as listed in the table of contents. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of North Carolina Turnpike Authority as of June 30, 2007, and the changes in its financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 28, 2008, on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

INDEPENDENT AUDITOR'S REPORT (CONCLUDED)

The Management's Discussion and Analysis, as listed in the table of contents, is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Leslie W. Merritt, Jr.

Leslie W. Merritt, Jr., CPA, CFP
State Auditor

May 28, 2008

NORTH CAROLINA TURNPIKE AUTHORITY MANAGEMENT'S DISCUSSION AND ANALYSIS

The management's discussion and analysis provides an overview of the North Carolina Turnpike Authority activities during the fiscal year ended June 30, 2007. The discussion and analysis also includes condensed financial information comparing the current year to the prior year.

Overview of the Financial Statements

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

Financial Highlighted and Analysis

Although the North Carolina Turnpike Authority was created in October 2002, financial activity started late in fiscal year 2004. Activities for fiscal year 2007 were limited to salaries, personnel and consultant service contract payments, Board member per-diem, travel and other general operating expenditures.

Major accomplishments for the North Carolina Turnpike Authority (NCTA) for fiscal year 2007 included the following:

- An Attorney was hired to provide legal counsel and contract review for the Turnpike Authority.
- A Director of Outreach and Community Affairs was also hired to lead and enhance external communication between the Turnpike Authority and general public.
- A Director of Construction was hired to lead and coordinate the upcoming design build phase of the Turnpike Authority projects.
- The NCTA personnel staff increased to a total of seventeen employees.
- The NCTA continued to contract the services of various highly skilled transportation, planning, and engineering consultants, as well as traffic and revenue, financial and bond counsel consultants to assist in the core operations.
- Project timelines, project cost estimates, and financing strategies were updated, as well as gap funding identified and traffic and revenue feasibility studies completed for three major on-going projects; Triangle Expressway, Mid-Currituck Bridge and the Yadkin River Bridge.

Currently, the Turnpike Authority has no direct appropriations or revenue collections from the General Assembly. Funding for administrative expenses is being advanced as needed from

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

the Highway Trust Fund Administration line item to be repaid by the Turnpike Authority from revenue collections. Interest will begin to accrue on the advance one year after the Authority begins collecting tolls on a completed Turnpike project at a rate equal to the State Treasurer's average annual yield on its investment of Highway Trust Fund pursuant to G.S. 147-6.1. Turnpike project funding may come from a combination of debt and North Carolina Department of Transportation, Federal Highway Administration, and public private partnership participation as authorized in G.S.136-89.189 and G.S.136-89.191.

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

For fiscal year 2007, the Turnpike Authority ended with positive net assets. This is the result of reclassifying project expenditures to capital assets non-depreciable so that they can be capitalized when projects are complete.

Condensed Statement of Net Assets

	June 30, 2007	June 30, 2006, as Restated	Change
Current Assets	\$ 260,462.56	\$ 139,859.44	\$ 120,603.12
Capital Assets	12,472,512.67	2,555,204.54	9,917,308.13
Total Assets	12,732,975.23	2,695,063.98	10,037,911.25
Current Liabilities	3,480,894.75	563,582.19	2,917,312.56
Noncurrent Liabilities	7,613,638.71	3,647,141.98	3,966,496.73
Total Liabilities	11,094,533.46	4,210,724.17	6,883,809.29
Invested in Capital Assets	12,472,512.67	2,555,204.54	9,917,308.13
Unrestricted	(10,834,070.90)	(4,070,864.73)	(6,763,206.17)
Net Assets	\$ 1,638,441.77	\$ (1,515,660.19)	\$ 3,154,101.96

Current Assets

Cash and Cash Equivalents - Includes cash on deposit with the State Treasurer in an interest bearing account. The cash balance is due to a timing difference between the funding of the expenses by the Highway Trust Fund and the corresponding cash movement when the checks for goods or services are actually produced. The cash balance as of June 30, 2007, is the result of a timing difference between the expense entry and when the checks are actually written. The Highway Trust Fund is advancing the Turnpike Authority funding for administrative expenses. The transfer is made mostly based on expenses recorded during that time. There is a time lag due to processing procedures between when these expenses are recorded and when payment is approved and the corresponding check produced. This results in a residual cash balance on deposit with the State Treasurer.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Intergovernmental Receivables - Includes the amount invoiced to the Federal Highway Administration for eligible project expenditures at June 30, 2007 that had not been received at fiscal year end.

Noncurrent Assets

Capital Assets Depreciable - Includes equipment and are stated at historical cost less any associated depreciation. The increase is due to the continued acquisition of office and computer equipment during the year.

Capital Assets Nondepreciable - Includes construction in progress. The increase is due to reclassifying individual project costs to a balance sheet account called "Construction in Progress" in which project costs will be capitalized once the individual projects are completed.

Current Liabilities

Current liabilities include accounts payable and the current portion of compensated absences. The increase is a direct result of the continued expenses for contracted personnel services by the Turnpike Authority. These contracts were for continued preliminary engineering, traffic and feasibility studies for future toll roads.

Noncurrent Liabilities

Noncurrent liabilities include funds advanced to the Turnpike Authority from the Highway Trust Fund to cover the administrative expenditures of the Authority and it also includes the noncurrent portion of compensated absences. The increase is attributable to the large increase in the advance from the Highway Trust Fund.

Net Assets

Net Assets represent the residual interest in the Authority's assets after all liabilities are deducted. For reporting purposes they are divided into two categories: invested in capital assets and unrestricted net assets.

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

	June 30, 2007	June 30, 2006	Change
Operating Revenues	\$ 0.00	\$ 0.00	\$ 0.00
Operating Expenses	3,377,307.30	3,986,157.00	(608,849.70)
Operating Loss	(3,377,307.30)	(3,986,157.00)	608,849.70
Nonoperating Revenue	6,531,409.26	127.39	6,531,281.87
Change In Net Assets	3,154,101.96	(3,986,029.61)	7,140,131.57
Net Assets July 1, as Restated	(1,515,660.19)	(64,151.34)	(1,451,508.85)
Net Assets June 30	\$ 1,638,441.77	\$ (4,050,180.95)	\$ 5,688,622.72

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Operating Expenses

Operating expenses are expenses used to acquire or produce goods and services to carry out the mission of the Authority. The increase is a result of personnel and consultant service contracts being utilized, the hiring of additional NCTA employees, and the continued establishment of a permanent NCTA office residency.

Nonoperating Revenue

Nonoperating revenues are revenues received for which goods and services are not provided. They include investment income and capital grants received from the Federal Highway Administration and the North Carolina Department of Transportation for their participation in the initial construction of toll highways and in preliminary studies to determine the feasibility of a toll facility. This amount increased because this is the first year the Authority received capital grants.

Economic Outlook

As interest and expectations continue to increase for the North Carolina Turnpike Authority to provide congestion relief to the most heavily traveled areas of North Carolina by the means of toll road projects and to deliver these projects years or even decades sooner than would be possible through traditional methods, so too will the need to expand and develop the Turnpike Authority's operations to efficiently and effectively manage these projects. The following are a brief project description, estimated project cost, and timeline of each of the five major on-going projects.

Triangle Expressway

Project Description

The proposed 18.9 mile Triangle Expressway is comprised of three components:

- Triangle Parkway will extend from NC 147 at I-40 south 3.4 miles, terminating at the interchange with Outer Wake Expressway/I-540.
- I-540P is the portion of Outer Wake Expressway/I-540 that extends from NC 54 to NC 55. This 2.8-mile segment is currently under construction by NCDOT. The General Assembly approved the transfer of this section of I-540 to NCTA in August 2006, including this section in the toll road system will enable the Triangle Parkway and Western Wake Parkway to function as a contiguous toll facility.
- Western Wake Parkway will connect with I-540P and will extend from a northern junction with NC 55 near Research Triangle Park to a southern junction with the NC 55 Bypass near Holly Springs, a distance of 12.6 miles.

The Triangle Expressway will eventually connect with the Southern and Eastern Wake Expressways which are currently in the project planning phase and are proposed by the Capital Area Metropolitan Planning Organization (CAMPO) for further studies as toll facilities. This would extend the Triangle Expressway system 27.3 miles from NC 55 Bypass

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

near Holly Springs to I-40 south of Raleigh and further to US 64 Bypass near Knightdale and complete the Outer Wake Expressway. The entire system will provide an attractive alternative for motorists wishing to avoid the increasingly congested sections of I-40 and I-440.

Architectural and aesthetic design guidelines are currently being prepared for the Triangle Expressway. These guidelines will direct the preparation of final plans to include distinctive toll plazas and aesthetically pleasing bridges, sound walls, sign structures and landscaping.

Financial Feasibility Analysis

The NCTA has completed a preliminary financial feasibility analysis of the Triangle Expressway which incorporates:

- Preliminary traffic and revenue reports prepared by Wilbur Smith Associates, NCTA's traffic and revenue consultant. (The Triangle Parkway report was completed in March 2006, and the Western Wake and Southern Wake report was completed in June 2006. Both reports are posted at www.ncturnpike.org.)
- Project costs estimated by Howard, Needles, Tammen and Bergendoff (HNTB), NCTA's general engineering consultant.
- Preliminary financial plan developed by Public Financial Management, Inc., NCTA's financial advisor.

Triangle Expressway Estimated Project Costs (\$ millions)

<u>Cost Component</u>	<u>Triangle Parkway</u>	<u>Western Wake</u>	<u>Total Cost</u>
Construction	\$ 107.1	\$ 431.5	\$ 538.6
I-540P Tolling		8.0	8.0
Stipends for Design Build Process	0.2	0.7	0.9
Right-of-Way	23.0	210.0	233.0
Utility Relocation	4.7	2.6	7.3
Administration	1.5	5.9	7.4
Permits & Mitigation	3.0	4.2	7.2
Engineering & Design	8.0	30.9	38.9
Construction Support	10.3	32.9	43.2
	<u>\$ 157.8</u>	<u>\$ 726.7</u>	<u>884.5</u>
Total			<u>884.5</u>
Cost of I-540P			<u>108.7</u>
Total including I-540 P			<u>\$ 993.2</u>

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Changes in Estimated Project Cost

The above project costs reflect increases in the estimated cost of the Triangle Parkway and Western Wake sections of the project. These cost increases incorporate updated (higher) estimates of both right-of-way construction costs, all inflated to the expected time of expenditure.

	<u>Capital Cost (\$ millions)</u>
November 2006 Estimate	\$ 749.0
Right-of-Way	84.5
Construction Cost Increase	<u>51.0</u>
June 2007 Estimate	<u><u>\$ 884.5</u></u>

Project Timeline

The timeline on the following page shows many of the activities scheduled through August 2008 when the NCTA plans to sell bonds and let the final design-build contracts for the project.

Based on this timeline, the NCTA will open the first sections of the Triangle Expressway to traffic in December 2010, and the Western Wake sections will be open by October 2011.

Gaston East-West Connector

Project Description

The Gaston East-West Connector is a new roadway from I-85 west of Gastonia to I-485/NC 160 in Mecklenburg County, a distance of approximately 21.5 miles. Major bridges over the Catawba and South Fork Rivers are included in the project estimates.

As discussed on the Annual Report for 2006, due to the magnitude of the project, the preliminary traffic and revenue studies and financial analyses revealed the need to assess building the project in phases. Therefore, three scenarios (A, B and C) were established and the financial viability of each scenario was assessed.

- Scenario A extends approximately 5.7 miles from I-485/NC 160 near Charlotte Douglas International Airport west to NC 279. This includes construction of single-span bridges across the Catawba and South Fork Rivers. These bridges will be widened in the future to accommodate the future extension of the project.
- Scenario B includes Scenario A plus an additional 8.4 miles between NC 279 west to US 321 for a total length of approximately 14.1 miles.
- Scenario C, the complete project, extends approximately 21.5 miles from I-485 near Charlotte Douglas International Airport to I-85.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

The project is substantially more feasible to be built in sections on a phase-in basis from east to west.

Financial Feasibility Analysis

Projected Costs

The following table shows the project cost by scenario. Note that Scenario B includes Scenario A and its associated costs. Scenario C includes both Scenarios A and B and their associated costs.

Estimated Project Costs (\$ millions)

<u>Cost Component</u>	<u>Scenario A</u>	<u>Scenario B</u>	<u>Scenario C</u>
Construction	\$ 272.6	\$ 499.3	\$ 831.8
Right-of-Way	84.4	161.5	261.7
Other	52.7	104.6	161.7
Total by Scenario	<u>\$ 409.7</u>	<u>\$ 765.4</u>	<u>\$ 1,255.2</u>

Financing Gap Estimate

As noted previously, by “value engineering” the project, the NCTA was able to structure a project that is substantially more feasible to be built in phases from east to west.

Project Timeline

May 2007	Receive preliminary engineering and impact evaluations
February 2008	Issue draft environmental impact statement
July 2009	Issue final environmental impact statement
January 2010	Issue Record of Decision
May 2010	Award construction contract

Monroe Connector & Bypass

Project Description

This project is a combination of two projects previously analyzed by the NCDOT and encompasses a 21.1 mile corridor from I-485 near Matthews in Mecklenburg County to US 74 West of Marshville in Union County.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

At the request of the local Metropolitan Planning Organization (MPO) and the Department of Transportation Board members from the area, NCTA has undertaken the NEPA work on this as a single project. Even though the environmental work has been combined, the local MPO is still considering whether to build the project as a single toll project or to build the Connector section as a toll project and the By-Pass section as a non-toll project. NCTA expects this decision in August or September of 2007.

NCTA has analyzed the two projects separately as well as combined for financial feasibility. The preliminary traffic and revenue study and the preliminary financial analysis were completed in October 2006. Two scenarios were analyzed in the studies:

- Scenario 1 assumes both the Monroe Connector and the Monroe Bypass are toll facilities.
- Scenario 2 assumes the Monroe Connector is a toll facility and the Monroe Bypass is a toll-free facility.

Financial Feasibility Analysis

Projected Costs

The following table shows the project costs for the Monroe Connector, the Monroe Bypass, and the combined project.

Monroe Connector and Bypass

Estimated Project Costs

(\$ millions)

<u>Cost Element</u>	<u>Connector</u>	<u>By-Pass</u>	<u>Combined</u>
Construction	\$ 282.2	\$ 161.7	\$ 443.9
Right-of-Way	40.6	0.0	40.6
Utility Relocation	1.6	4.9	6.5
Permits and Mitigation	4.2	4.1	8.3
Engineering and Design	22.8	2.6	25.4
Inspection and Testing	18.6	9.5	28.1
Total by Section	<u>\$ 370.0</u>	<u>\$ 182.8</u>	<u>\$ 552.8</u>

Financing Gap Estimate

The Connector and Bypass have designated TIP (Transportation Improvement Program) funds; therefore, the NCTA conducted the financial assessments and gap analyses both with and without the TIP funds. The following table shows the results of these analyses.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Scenario 1

Constructed Together as a Toll Facility
 (\$ millions)

	Scenario 1 Toll	
	Connector and By-	
	Pass	
	<hr/>	
Capital Cost	\$	552.8
Estimated Bonding Capacity		397.5
Financing Gap		155.3
	<hr/>	
	TIP Funds	
	<hr/>	
TIP Funds Available	\$	185.7
Applied to Gap		155.7
Available for Other Uses		30.0

Bypass completion	2012
Connector Completion	2013

Scenario 2

Monroe Connector Constructed as a Toll Facility
Bypass constructed as a Non-Toll Facility
 (\$ millions)

	Connector	Bypass	Combined
	<hr/>	<hr/>	<hr/>
Capital Cost	\$ 370.3	\$ 160.0	
Estimated Bonding Capacity	270.6	NA	
Financing Gap	99.7	160.0	
TIP Funds Available	71.7	114.0	
Additional Funds Needed	28.0	46.0	
Additional Inflation (2 years)	35.0	0.0	
Additional Funds			\$ 109.0

Project Timeline

August 2007	Identify detailed study alternatives
July 2008	Issue draft environmental impact statement
May 2009	Issue final environmental impact statement
July 2009	Issue Record of Decision
December 2009	Award construction contract

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONCLUDED)

Cape Fear Skyway

Project Description

The Cape Fear Skyway is a new roadway facility from the US 17 Bypass to US 421 near Wilmington, including a bridge over the Cape Fear River. The project is located in Brunswick and New Hanover Counties and is approximately 9.5 miles long.

Financial Feasibility Analysis

Projected Costs

	Capital Cost (\$ millions)
Construction Costs	\$ 665.9
Right-of-Way Costs	196.7
Other Costs	109.0
Total Current Estimate	\$ 971.6

Project Timeline

June 2007	Receive preliminary traffic and revenue and cost estimates
July 2008	Issue draft environmental impact statement
May 2009	Issue final environmental impact statement
September 2009	Issue Record of Decision
November 2009	Award construction contract

Mid-Currituck Bridge

Project Description

The Mid-Currituck Bridge project is a new facility, approximately 7 miles in length, from Coinjock to Corolla in Currituck County. The majority of the project will be on structure including bridging the Currituck Sound and Maple Swamp.

Financial Feasibility Analysis

Projected Costs

	Capital Cost (\$ millions)
Construction Costs	\$ 379.8
Right-of-Way Costs	25.0
Other Costs	54.8
Total Current Estimate	\$ 459.6

***North Carolina Turnpike Authority
Statement of Net Assets
For the Fiscal Year Ended June 30, 2007***

Exhibit A-1

ASSETS

Current Assets:

Cash and Cash Equivalents (Note 2)	\$ 208,796.56
Intergovernmental Receivable	51,666.00
	<hr/>
Total Current Assets	260,462.56

Noncurrent Assets:

Capital Assets - Nondepreciable (Note 3)	12,437,000.36
Capital Assets - Depreciable, Net (Note 3)	35,512.31
	<hr/>
Total Noncurrent Assets	12,472,512.67
	<hr/>
Total Assets	12,732,975.23

LIABILITIES

Current Liabilities:

Accounts Payable	3,474,537.35
Long-Term Liabilities - Current Portion (Note 4)	6,357.40
	<hr/>
Total Current Liabilities	3,480,894.75

Noncurrent Liabilities:

Long-Term Liabilities - Noncurrent Portion (Note 4)	57,216.60
Advance from Primary Government (Note 5)	7,556,422.11
	<hr/>
Total Noncurrent Liabilities	7,613,638.71
	<hr/>
Total Liabilities	11,094,533.46

NET ASSETS

Invested in Capital Assets	12,472,512.67
Unrestricted (deficit)	(10,834,070.90)
	<hr/>

Total Net Assets	<u>\$ 1,638,441.77</u>
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The accompanying notes to the financial statements are an integral part of this statement.

***North Carolina Turnpike Authority
Statement of Revenues, Expenses, and
Changes in Net Assets
For the Fiscal Year Ended June 30, 2007***

Exhibit A-2

REVENUES

Operating Revenues \$ 0.00

EXPENSES

Operating Expenses:

Personal Services	1,528,799.38
Supplies and Materials	51,078.73
Contracted Personal Services	1,288,341.93
Travel	45,196.93
Advertising	27,697.93
Utilities	34,399.94
Dues and Subscription Fees	1,825.00
Other Services	82,336.98
Capital Outlay	162,130.34
Rental Expense	152,017.07
Depreciation	<u>3,483.07</u>

Total Operating Expenses 3,377,307.30

Operating Loss (3,377,307.30)

NONOPERATING REVENUES

Investment Income 7,481.43

Nonoperating Revenues 7,481.43

Income Before Other Revenues, Expenses, Gains, and Losses (3,369,825.87)

Capital Grants 6,523,927.83

Increase in Net Assets 3,154,101.96

NET ASSETS

Net Assets, July 1, 2006 as Restated (Note 10) (1,515,660.19)

Net Assets, June 30, 2007 \$ 1,638,441.77

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

North Carolina Turnpike Authority
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2007

Exhibit A-3

CASH FLOWS FROM OPERATING ACTIVITIES

Payments to Employees and Fringe Benefits	\$ (1,493,183.38)
Payments to Vendor and Suppliers	(441,567.45)
	<u>(1,934,750.83)</u>
Cash Used by Operating Activities	<u>(1,934,750.83)</u>

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

Advance from Primary Government (Highway Trust Fund)	<u>3,934,571.13</u>
Cash Provided by Noncapital Financing Activities	<u>3,934,571.13</u>

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

Acquisition and Construction of Capital Assets	(8,410,626.44)
Capital Grants	6,472,261.83
	<u>(1,938,364.61)</u>
Net Cash Used by Capital and Related Financing Activities	<u>(1,938,364.61)</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Investment Income	<u>7,481.43</u>
Cash Provided by Investing Activities	<u>7,481.43</u>

Net Increase in Cash and Cash Equivalents	68,937.12
Cash and Cash Equivalents, July 1, 2006	<u>139,859.44</u>
Cash and Cash Equivalents, June 30, 2007	<u>\$ 208,796.56</u>

**RECONCILIATION OF OPERATING LOSS
TO NET CASH USED BY OPERATING ACTIVITIES**

Operating Loss	\$ (3,377,307.30)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:	
Depreciation Expense	3,483.07
Changes in Assets and Liabilities:	
Accounts Payable	1,403,457.40
Compensated Absences	35,616.00
	<u>(1,934,750.83)</u>
Net Cash Used by Operating Activities	<u>\$ (1,934,750.83)</u>

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

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NORTH CAROLINA TURNPIKE AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2007

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

- A. Organization and Purpose** - The North Carolina Turnpike Authority was established by G.S. 136 Article 6H on October 3, 2002. The Authority is a component unit of the State of North Carolina located within the Department of Transportation for administrative purpose only, but exercises its powers independent of the Department. Currently, the Authority is authorized to construct, operate and maintain up to nine toll roads in the State.
- B. Financial Reporting Entity** - The concept underlying the definition of the financial reporting entity is that elected officials are accountable to their constituents for their actions. As required by accounting principles generally accepted in the United States of America, the financial reporting entity includes both the primary government and all of its component units. An organization other than a primary government serves as a nucleus for a reporting entity when it issues separate financial statements. The North Carolina Turnpike Authority is a component unit of the State of North Carolina and an integral part of the State's *Comprehensive Annual Financial Report*. The Authority is governed by a nine-member Board of Directors; two members are appointed by the Senate Pro-Tem and two by the Speaker of the House. The remaining five are appointed by the Governor, and include the Secretary of Transportation.
- C. Basis of Presentation** - The accompanying financial statements are presented in accordance with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board (GASB). The full scope of the Authority's activities is considered to be a single business-type activity and accordingly, is reported within a single column in the basic financial statements.

In accordance with GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, the Authority does not apply Financial Accounting Standards Board (FASB) pronouncements issued after November 30, 1989, for proprietary activities, unless the GASB amends its pronouncements to specifically adopt FASB pronouncements issued after that date.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

- D. Basis of Accounting** - The Turnpike Authority is accounted for as a proprietary fund type using the accrual basis of accounting. Under the accrual basis, revenues are recognized when earned, and expenses are recorded when an obligation has been incurred. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.
- E. Cash and Cash Equivalents** - This classification includes deposits held by the State Treasurer in the short-term investment fund. The funds on deposit with the State Treasurer are an advance from the Highway Trust fund and are available on demand for payment of the Authority's expenses. The cash balance as of June 30, 2007, is the result of a timing difference between when the expenses are recorded and when the corresponding checks are written.
- F. Receivables** - Receivables consist of amounts due from the Federal Highway Administration in connection with reimbursement of allowable expenditures made pursuant to contracts and grants that are verifiable, measurable, and expected to be collected and available for expenditures for which the resource provider's conditions have been satisfied.
- G. Capital Assets - Depreciable** - Capital assets are stated at cost at date of acquisition or fair value at date of donation in the case of gifts. Assets that have a value or cost in excess of \$5,000 at the date of acquisition and an expected useful life of more than one year are capitalized.
- Depreciation is computed using the straight-line method over the estimated useful life of 5 years for office and computer equipment.
- H. Capital Assets - Nondepreciable** - Includes the reclassification of consultant contract expenditures and contracted personal service expenditures that were charged to projects. These costs will be capitalized when the projects are complete.
- I. Noncurrent Long-Term Liabilities** - Noncurrent long-term liabilities includes the advance from the Highway Trust Fund and compensated absences that will not be paid within the next fiscal year.
- J. Compensated Absences** - The Authority's policy is to record the cost of vacation leave when earned. The policy provides for a maximum accumulation of unused vacation leave of 30 days which can be carried forward each January 1 or for which an employee can be paid upon termination of employment. Also, any accumulated vacation leave in excess of 30 days at year end is converted to sick leave. Under this policy, the accumulated vacation leave for each employee at June 30

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

equals the leave carried forward at the previous December 31 plus the leave earned, less the leave taken between January 1 and June 30.

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

When classifying compensated absences into current and noncurrent, leave is considered taken using a last-in, first-out method.

The Authority has the policy of recording the cost of sick leave when taken and paid rather than when this leave is earned. The policy provides for unlimited accumulation of sick leave, but the employee cannot be compensated for any unused sick leave upon termination or retirement.

However, additional service credit for retirement pension benefits is given for accumulated sick leave upon retirement.

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

Nonoperating revenues include activities that have the characteristics of non-exchange transactions. Revenues from non-exchange transactions that represent funds received from the Federal Highway Administration and are classified as Capital Grants as well as investment income, are considered nonoperating since these are either investing, capital or noncapital financing activities.

- L. Net Assets** - The Authority's net assets are classified as follows:

Invested in Capital Assets - This represents the Authority's total investment in capital assets.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Unrestricted Net Assets - Unrestricted net assets include resources derived from investment income. Since there are no current toll collections, the Turnpike Authority has ended the fiscal year with a deficit unrestricted net assets.

NOTE 2 - DEPOSITS

At June 30, 2007, the amount shown on the Statement of Net Assets as cash and cash equivalents includes \$208,796.56 which represents the Authority's equity position in the State Treasurer's Short-Term Investment Fund. The Short-Term Investment Fund (a portfolio within the State Treasurer's Investment Pool, an external investment pool that is not registered with the Securities and Exchange Commission and does not have a credit rating) had a weighted average maturity of 1.6 years as of June 30, 2007. Assets and shares of the Short-Term Investment Fund are valued at amortized cost, which approximates fair value. Deposit and investment risks associated with the State Treasurer's Investment Pool (which includes the State Treasurer's Short-Term Investment Fund) are included in the State of North Carolina's *Comprehensive Annual Financial Report*. An electronic version of this report is available by accessing the North Carolina Office of the State Controller's Internet home page <http://www.ncosc.net/> and clicking on "Financial Reports," or by calling the State Controller's Financial Reporting Section at (919) 981-5454.

NOTE 3 - CAPITAL ASSETS

A summary of changes in the capital assets for the year ended June 30, 2007, is presented as follows:

	Balance July 1, 2006 as Restated	Increases	Decreases	Balance June 30, 2007
Capital Assets, Nondepreciable:				
Construction in Progress	\$ 2,534,520.76	\$ 9,902,479.60	\$ 0.00	\$ 12,437,000.36
Total Capital Assets, Nondepreciable	<u>2,534,520.76</u>	<u>9,902,479.60</u>		<u>12,437,000.36</u>
Capital Assets, Depreciable:				
Machinery and Equipment	21,743.07	18,311.60		40,054.67
Less Accumulated Depreciation:				
Machinery and Equipment	1,059.29	3,483.07		4,542.36
Total Capital Assets, Depreciable, Net	<u>20,683.78</u>	<u>14,828.53</u>		<u>35,512.31</u>
Capital Assets, Net	<u>\$ 2,555,204.54</u>	<u>\$ 9,917,308.13</u>	<u>\$ 0.00</u>	<u>\$ 12,472,512.67</u>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

At June 30, 2007, the amount shown on the Statement of Net Assets as Capital Assets Nondepreciable is \$12,437,000.36 which represents the amount of individual projects costs incurred to date that have been reclassified to Construction in Progress that will be capitalized when the individual projects are complete.

NOTE 4 - LONG-TERM LIABILITIES

The following is a summary of changes in the Authority's long-term liabilities as of June 30, 2007:

	<u>Balance July 1, 2006</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance June 30, 2007</u>	<u>Current Portion</u>
Compensated Absences	<u>\$ 27,958.00</u>	<u>\$ 86,279.00</u>	<u>\$ 50,663.00</u>	<u>\$ 63,574.00</u>	<u>\$ 6,357.40</u>

NOTE 5 - ADVANCE FROM PRIMARY GOVERNMENT

The following is a summary of changes in the Authority's Advance from Primary Government as of June 30, 2007:

	<u>Balance July 1, 2006</u>	<u>Additions</u>	<u>Balance June 30, 2007</u>
Advance from Highway Trust Fund	<u>\$ 3,621,850.98</u>	<u>\$ 3,934,571.13</u>	<u>\$ 7,556,422.11</u>

Pursuant to G.S. 136-176(b), operation and project development costs for the North Carolina Turnpike Authority are eligible for funding from the Highway Trust Fund administration funds. These funds are considered an Advance from Primary Government and are to be repaid from toll revenue as soon as possible. Beginning one year after the Authority begins collecting tolls on a completed Turnpike project, interest shall accrue on any unpaid balance owed to the Highway Trust Fund at a rate equal to the State Treasurer's average annual yield on its investments of Highway Trust funds pursuant to G.S. 147-6-1.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 6 - LEASE OBLIGATIONS

Future minimum lease payments under operating lease obligations consist of the following at June 30, 2007:

<u>Fiscal Year</u>	<u>Amount</u>
2008	\$ 125,984.00
2009	130,048.00
2010	134,112.00
2011	<u>138,176.00</u>
Total Minimum Lease Payments	<u>\$ 528,320.00</u>

Rental expense for all operating leases during the year was \$125,153.35.

NOTE 7 - PENSION PLANS

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

Benefit and contribution provisions for the Teachers' and State Employees' Retirement System are established by *North Carolina General Statutes* 135-5 and 135-8 and may be amended only by the North Carolina General Assembly. Employer and member contribution rates are set each year by the North Carolina General Assembly based on annual actuarial valuations. For the year ended June 30, 2007, these rates were set at 2.66% of covered payroll for employers and 6% of covered payroll for members.

For the year ended June 30, 2007, the Authority had a total payroll of \$999,887.43, of which \$817,772.49 was covered under the Teachers' and State Employees' Retirement System. Total employee and employer contributions for pension benefits for the year were \$49,066.35 and \$21,752.75, respectively. The Authority made 100% of its annual required contributions for the years ended June 30, 2007, and 2006 which were \$21,752.75 and \$3,678.08, respectively.

The Teachers' and State Employees' Retirement System's financial information is included in the State of North Carolina's *Comprehensive Annual Financial Report*. An electronic version of this report is available by accessing the North Carolina Office of the State Controller's Internet home

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

page <http://www.osc.state.nc.us/> and clicking on “Financial Reports,” or by calling the State Controller’s Financial Reporting Section at (919) 981-5454.

NOTE 8 - OTHER POST-EMPLOYMENT BENEFITS

- A. Health Care for Long-Term Disability Beneficiaries and Retirees -**
The Authority participates in State-administered programs which provide post-employment health insurance to eligible former employees. Eligible former employees include long-term disability beneficiaries of the Disability Income Plan of North Carolina and retirees of the Teachers’ and State Employees’ Retirement System.

These benefits were established by Chapter 135, Article 3, Part 3, of the General Statutes and may be amended only by the North Carolina General Assembly. Funding for the health care benefit for long-term disability beneficiaries and retirees is financed on a pay-as-you-go basis. The Authority contributed 3.8% of the covered payroll under the Teachers’ and State Employees’ Retirement System for these health care benefits. For the fiscal year ended June 30, 2007, the Authority’s total contribution to the Plan was \$31,075.36. The Authority assumes no liability for retiree health care benefits provided by the programs other than its required contribution. Additional detailed information about these programs can be located in the State of North Carolina’s *Comprehensive Annual Financial Report*.

- B. Disability Income -** The Authority participates in the Disability Income Plan of North Carolina (DIPNC). Established by Chapter 135, Article 6, of the General Statutes, DIPNC provides short-term and long-term disability benefits to eligible members of the Teachers’ and State Employees’ Retirement System. Long-term disability income benefits are advance funded on an actuarially determined basis using the one-year term cost method. The Authority contributes .52% of covered payroll under the Teachers’ and State Employees’ Retirement System to the DIPNC. For the year ended June 30, 2007, the Authority’s total contribution to the DIPNC was \$4,252.42. The Authority assumes no liability for long-term disability benefits under the Plan other than its contribution. Additional detailed information about the DIPNC is disclosed in the State of North Carolina’s *Comprehensive Annual Financial Report*.

NOTE 9 - RISK MANAGEMENT

The Authority is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

employees; and natural disasters. The Authority carries insurance through the North Carolina Department of Transportation (NCDOT) for risks of loss. There have been no significant reductions in insurance coverage from the previous year and settled claims have not exceeded coverage in any of the past three fiscal years.

Tort claims of up to \$500,000 are self-insured under the authority of the State Tort Claims Act. In addition, the State provides excess public officers' and employees' liability insurance up to \$5,000,000 via contract with a private insurance company. The premium, based on a composite rate, is paid by the NCDOT directly to the private insurer.

The State Property Fire Insurance Fund (Fund), an internal service fund of the State, insures all State owned buildings and contents for fire and various other property losses up to \$2,500,000 per occurrence. The Fund purchases excess insurance from private insurers to cover losses over the amounts insured by the Fund. Losses covered by the Fund are subject to a \$500 per occurrence deductible except for theft losses that carry a \$1,000 per occurrence deductible. There have been no significant reductions in insurance coverage from the previous year and settled claims have not exceeded coverage in any of the past three fiscal years.

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

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

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

The North Carolina Workers' Compensation Program provides benefits to workers injured on the job. All employees of the State are included in the

NOTES TO THE FINANCIAL STATEMENTS (CONCLUDED)

program. When an employee is injured, the Authority's primary responsibility is to arrange for and provide the necessary treatment for work related injury. The Authority is responsible to pay medical benefits and compensation in accordance with the North Carolina Workers' Compensation Act. The Authority is self-insured for workers' compensation.

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

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

NOTE 10 - NET ASSET RESTATEMENT

As of July 1, 2006, net assets as previously reported were restated as follows:

	<u>Amount</u>
July 1, 2006 Net Assets as Previously Reported	\$ (4,050,180.95)
Restatements (2006 Project Costs that Should Have Been Reclassified to Capital Assets Nondepreciable, Construction in Progress.)	<u>2,534,520.76</u>
July 1, 2006 Net Assets as Restated	<u><u>\$ (1,515,660.19)</u></u>

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

Board of Directors
North Carolina Turnpike Authority
Raleigh, North Carolina

We have audited the financial statements of North Carolina Turnpike Authority, a component unit of the State of North Carolina, as of and for the year ended June 30, 2007, which collectively comprise the Authority's basic financial statements and have issued our report thereon dated May 28, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Authority's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over financial reporting. Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified a deficiency in internal control over financial reporting that we consider to be a significant deficiency.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Authority's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Authority's financial statements that is more than inconsequential

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

will not be prevented or detected by the Authority's internal control. We consider the deficiency described in the finding in the Audit Findings and Responses section of this report to be a significant deficiency in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Authority's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we consider the significant deficiency described above to be a material weakness.

Compliance and Other Matters

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

The Authority's response to the finding identified in our audit is described in the Audit Findings and Responses section of this report. We did not audit the Authority's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the Board of Directors, the Governor, the State Controller, and the General Assembly, and is not intended to be and should not be used by anyone other than these specified parties.



Leslie W. Merritt, Jr., CPA, CFP
State Auditor

May 28, 2008

AUDIT FINDINGS AND RESPONSES

Matters Related to Financial Reporting

The following finding and recommendation was identified during the current audit and describes a condition that represents a significant deficiency in internal control.

FINANCIAL STATEMENTS PRESENTATION ERRORS

The financial statements prepared by the Authority contained misstatements that were corrected as a result of our audit. Without these corrections, the financial statements could have been misleading to the readers. Our audit revealed the following misstatements:

- The Authority did not identify all outstanding obligations at year-end. Based on our review of a sample of expenditures paid subsequent to year-end, we identified \$1.7 million in unrecorded liabilities.
- The Authority did not reclassify all current year project expenditures to construction in progress. This resulted in an understatement of nondepreciable capital assets of \$1.3 million and an overstatement of contracted personal services by the same amount. In addition, prior year project expenditures totaling \$2.5 million that had originally been expensed were not reclassified to construction in progress.
- The Authority's 2007 Statement of Cash Flows contained a number of errors. For example, in the Cash Flows from Noncapital Financing Activities section, the Authority used prior year amounts. In addition, the amount shown for net increase in cash and cash equivalents was not computed correctly.

Recommendation: The Authority should place greater emphasis on the year-end financial reporting process and implement effective internal control procedures to ensure the completeness and accuracy of the financial statements.

Authority's Response: The Authority accrues expenditures pertaining to fiscal year end under the current NCDOT accounting accrual procedure of all invoices submitted through the following month of July, one month after year end close. The Authority will increase efforts to identify all expenditures predicated on the Comprehensive Annual Financial Report (CAFR) process.

It is the opinion of NCTA that, in the interest of conservative financial reporting, project costs should be capitalized only when it is clear that a project is both financially feasible and has sufficient state support to reasonably assure that the project financing and construction can be completed.

NCTA agrees with the Office of the State Controller's (OSC) recommendation to capitalize project costs for FY2007 as project financial analyses had been completed and showed feasibility on projects for which expenses were capitalized. In addition, while no GAP

AUDIT FINDINGS AND RESPONSES (CONCLUDED)

funding was provided by the legislature, there was support for financing the NCTA projects so there was reasonable likelihood that the projects could be built.

For FY2006 the projects were less well defined and the financial analysis was less certain and the legislature had shown no evidence of financial support.

Many of these project amounts not capitalized were expended in the early project stages when conducting preliminary traffic and revenue studies for the Authority's candidate tolling projects.

The Authority is seeking additional clarity from the OSC to further define when, and for what expenses, it is appropriate to capitalize project expenses.

The Authority is not required to report a Statement of Cash Flows in the CAFR and has requested the OSC to create a cash flow template for the Authority to use when preparing the detailed financial statements for fiscal year end. The Authority is taking steps to ensure that all financial statements including future cash flow statements are presented error free.

While the Authority will, as recommended, place greater emphasis on year-end financial reporting. The Authority has internal controls in place and will continue to make a concerted effort to distinguish the CAFR reporting differences between the Authority and the NCDOT. Since both the NCDOT and the Authority utilize the same accounting system (SAP), the two entities in a cooperative effort will improve accounting policies and procedures that better differentiate reporting requirements between the two entities.

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