To the Board of Directors of
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, 2017 and 2016, 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 July 31, 2017. Professional standards also require that we communicate to you the following information related to our audit.

SIGNIFICANT AUDIT FINDINGS

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the NCTA are described in the notes to the financial statements. We noted no transactions entered into by the 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 was 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, 2017 and 2016. 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 was 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.

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 October 23, 2017.

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"), and schedule of contributions for TSERS, which are required supplementary information ("RSI") that supplements 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.

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
October 23, 2017

NORTH CAROLINA TURNPIKE AUTHORITY

FINANCIAL STATEMENTS

As of and for the Years Ended June 30, 2017 and 2016

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, 2017 and 2016, and the related statements of revenues, expenses, and changes in net position and cash flows, for the years then ended, and the 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 entity'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 entity'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, 2017 and 2016, 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, 2017 and 2016, and the changes in their financial position and their cash flows thereof for the years then ended in conformity with U.S. GAAP.

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.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 23, 2017, 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
October 23, 2017

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, 2017, 2016, and 2015. 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, 2017 and 2016, the statements of revenues, expenses, and changes in net position for the years ended June 30, 2017 and 2016, and the statements of cash flows for the years ended June 30, 2017 and 2016. 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 2017 and 2016 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 is included below:

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 late 2018.

Total revenues, inclusive of toll revenue and processing fees, but excluding transponder revenues are listed in the chart below with operating expenses. Fiscal year 2017 revenues increased by $6.2 million or 16.2% from the prior year, while fiscal year 2017 operating expenses increased $1.50 million or 10.1% from the prior year. Fiscal year 2016 revenues increased $8.25 million or 27.3% from the prior year while fiscal year 2016 operating expenses increased $1.15 million or 8.4% from the prior year.

	2017	2016	2015
Total Revenue	$ 44.71	$ 38.47	$ 30.22
Operating Expenses	$ 16.32	$ 14.82	$ 13.67

A possible southeast extension to the Triangle Expressway is in the study phase, and would extend the Expressway to I-40 in southern Wake County.

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. In October 2010, the NCTA issued $233,920,000 in State Annual Appropriation Revenue Bonds. In late 2011, $10,000,000 in Senior Lien Turnpike Revenue Bonds, $214,505,000 in State Annual Appropriation Revenue Bonds, and $145,535,000 in GARVEE bonds with State match were sold in conjunction with the award of the design build contract. On January 31, 2017, the Turnpike Authority sold $137,051,904 in toll revenue bonds and closed on a TIFIA loan in the amount of $166,500,000 which replaced the GARVEE bonds and completed the funding for the project. The State has also authorized the use of $22,000,000 in State Transportation Improvement Program ("STIP") funds.

In November 2010, a lawsuit was filed by the Southern Environmental Law Center ("SELC") challenging the environmental documentation for the Monroe Expressway. The NCDOT prevailed in the district court; however, SELC filed an appeal to the U.S. Court of Appeals for the 4th Circuit, and a three-judge panel of the court in May 2012 overturned the lower court decision. Following the Circuit Court's ruling against the NCDOT and FHWA, standard right-of-way acquisition and work by the design build team was suspended while 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 on final designs and right-of-way acquisition resumed. On June 9, 2016, following another lawsuit, and series of appeals, during which construction continued, the U.S. Court of Appeals for the 4th Circuit ruled in favor of NCDOT/FHWA by holding that the agencies' environmental study was valid and did not violate any laws. There is no other pending or threatened litigation.

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
(In Thousands)

	2017	2016	2015
Current Assets	$ 18,425	$ 35,722	$ 51,252
Restricted Assets and Prepaid Insurance Costs	324,352	730,644	837,297
Capital Assets	1,661,457	1,416,167	1,200,264
Total Assets	2,004,234	2,182,533	2,088,813
Deferred Outflows of Resources	20,742	81	94
Current Liabilities	99,139	122,248	100,482
Noncurrent Liabilities	1,606,767	1,642,577	1,652,214
Total Liabilities	1,705,906	1,764,825	1,752,696
Deferred Inflows of Resources	32	52	251
Net Investment in Capital Assets	459,895	584,359	465,144
Restricted	5,477	4,267	3,487
Unrestricted	(146,334)	(170,889)	(132,671)
Net Position	$ 319,038	$ 417,737	$ 335,960

Current Assets

The decrease in fiscal year 2017 is mainly due to a continued decrease in the securities lending collateral. The decrease in fiscal year 2016 was due to a decrease in the securities lending collateral.

Capital Assets

Capital Assets, Nondepreciable – The increase in fiscal years 2017 and 2016 is due to the increase in the Construction in Progress account for continued work on the various turnpike projects.
Capital Assets, Depreciable – The decrease in fiscal years 2017 and 2016 is due to the annual depreciation of the Triangle Expressway.

Restricted Assets and Prepaid Insurance Costs

The decreases in fiscal years 2017 and 2016 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 decrease in fiscal year 2017 is due to a decrease in the securities lending collateral due to a lower balance with the North Carolina State Treasurer's Investment Fund along with a decrease in accounts payable related to the contract payments for the Monroe Expressway and a decrease in the current bond principal payable. The increase in fiscal year 2016 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 2017 is due to a portion of revenue bonds payable becoming current and due within one year. The decrease in fiscal year 2016 is due to the decrease in the noncurrent bonds payable.

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

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

Condensed Statements of Revenues, Expenses, and Changes in Net Position
(In Thousands)

	2017	2016	2015
Operating Revenues:			
Charges for Services	$ 44,708	$ 38,473	$ 30,218
Other Operating Revenues	812	675	491
Total Operating Revenues	45,520	39,148	30,709
Operating Expenses:			
Personnel Services	1,213	1,414	1,351
Supplies and Materials	281	73	86
Contracted Personnel Services	888	981	592
Travel	35	27	7
Advertising	49	104	-
Utilities	272	295	280
Dues and Subscription Fees	23	21	17
Other Services	4,965	3,121	4,745
Cost of Goods Sold	788	856	448
Capital Outlay	15,262	11,877	9,721
Rental Expense	66	88	191
Depreciation	16,130	16,130	16,130
Total Operating Expenses	39,972	34,987	33,568
Operating Income (Loss)	5,548	4,161	(2,859)
Nonoperating Revenue (Expenses) and Capital Grants	103,562	(23,440)	(31,112)
Transfers In	49,000	101,056	93,680
Transfers Out	(97,604)	-	(239)
Transfer of GARVEE Bonds to North Carolina Highway Fund	(159,205)	-	-
Change in Net Position	(98,699)	81,777	59,470
Net Position Beginning, July 1	417,737	335,960	276,490
Net Position Ending, June 30	$ 319,038	$ 417,737	$ 335,960

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. Phase II of the Triangle Expressway opened in August 2012 and Phase III opened in December 2012.

Operating Expenses

Operating expenses are expenses used to acquire or produce goods and services to carry out the mission of the NCTA. The increase in capital outlay is attributed to the expensing of certain costs related to the completed section of the Triangle Expressway instead of capitalizing them during construction. The consistency in depreciation expense is due to no new depreciable assets put into service this year. The overall increase for fiscal year 2017 was due to continued work on new interchanges and maintenance of the roadway toll collection system. The overall increase in operating expenses for fiscal year 2016 was due to contracted work on a Triangle Expressway interchange. The majority of the other services expenses are the costs associated with the standard overhead allocation from the NCDOT.

Non-operating and Other Revenue/Expenses

Non-operating revenues/expenses are revenues received or expenses incurred for which goods and services are not provided or received. They include capital grants, transfers in and out, investment income, and debt service expense. Capital grants are the funds received from the 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 2017 increased due to the one-time transfer of debt for the 2011 GARVEE bonds to the Department of Transportation Highway Fund. The amount in fiscal year 2016 decreased due to a decrease in the debt service expense and an increase in Federal Capital Grants for the Monroe Expressway.

Transfers In

Transfers in include funds received from the NCDOT for gap funding of debt service and funds for the FHWA State match. 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. The amount of State match had increased in fiscal year 2016 as the result of increased GARVEE expenditures on the Monroe Expressway.

Transfers Out

Transfers out increased in fiscal year 2017 due to a one time transfer of the 2011 series GARVEE bonds and bond proceeds to the Highway Fund. Transfers out in fiscal year 2016 decreased due to a change in accounts for the payments made to the NC Highway Patrol. These payments are now recorded as professional fees.

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, 2017 AND 2016 (IN THOUSANDS)

	2017	2016
ASSETS		
Current Assets:		
Securities Lending Collateral	$ 212	$ 18,201
Accounts Receivable	17,531	16,104
Inventory	240	834
Intergovernmental Receivable	442	583
Total Current Assets	18,425	35,722
Noncurrent Assets:		
Restricted Assets:		
Cash and Cash Equivalents	5,477	4,267
Investments	312,465	717,196
Total Restricted Assets	317,942	721,463
Prepaid Insurance Costs	6,410	9,181
Capital Assets, Nondepreciable:		
Land and Permanent Easements	258,835	225,501
Construction in Progress	672,436	444,350
Capital Assets, Depreciable, Net of Depreciation:		
Highway Network	730,186	746,316
Total Capital Assets, Net of Depreciation	1,661,457	1,416,167
Total Noncurrent Assets	1,985,809	2,146,811
Total Assets	2,004,234	2,182,533
Deferred Outflows of Resources:		
Pension	393	81
Unamortized bond refunding charges	20,349	-
	20,742	81
LIABILITIES		
Current Liabilities:		
Accounts Payable	14,209	32,938
Accrued Interest Payable	34,922	38,700
Accrued Vacation	14	6
Obligations under Securities Lending	212	18,201
Due to Other Funds	25,975	17,207
Bonds Payable, Net	18,395	11,960
Intergovernmental Payables	1,910	431
Unearned Revenue	3,502	2,805
Total Current Liabilities	99,139	122,248
Noncurrent Liabilities:		
Bonds Payable, Net	1,122,757	1,164,167
Note Payable	372,877	372,877
Advances from Other Funds	26,896	26,118
Accrued Interest Payable	83,523	79,115
Accrued Vacation	156	75
Net Pension Liability	558	225
Total Noncurrent Liabilities	1,606,767	1,642,577
Total Liabilities	1,705,906	1,764,825
Deferred Inflows of Resources	32	52
NET POSITION		
Net Investment in Capital Assets	459,895	584,359
Restricted	5,477	4,267
Unrestricted	(146,334)	(170,889)
Total Net Position	$ 319,038	$ 417,737

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

NORTH CAROLINA TURNPIKE AUTHORITY

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

YEARS ENDED JUNE 30, 2017 AND 2016 (IN THOUSANDS)

	2017	2016
Revenues:		
Operating Revenues:		
Charges for Services	$ 44,708	$ 38,473
Other Operating Revenues	812	675
Total Operating Revenues	45,520	39,148
Expenses:		
Operating Expenses:		
Personnel Services	1,213	1,414
Supplies and Materials	281	73
Contracted Personnel Services	888	981
Travel	35	27
Advertising	49	104
Utilities	272	295
Dues and Subscription Fees	23	21
Other Services	4,965	3,121
Cost of Goods Sold	788	856
Capital Outlay	15,262	11,877
Rental Expense	66	88
Depreciation	16,130	16,130
Total Operating Expenses	39,972	34,987
Operating Income	5,548	4,161
Nonoperating Revenues (Expenses):		
Investment Earnings	2,711	2,741
Federal Interest Subsidy on Debt	11,348	11,387
Interest and Fees	(68,874)	(52,386)
Gain on Debt Reclassification	153,260	-
Miscellaneous	9	11
Total Nonoperating Revenues (Expenses)	98,454	(38,247)
Income (Loss) Before Transfers and Capital Grants	104,002	(34,086)
Capital Grants	5,108	14,807
Transfers In	49,000	101,056
Transfers Out	(97,604)	-
Transfer of GARVEE Bonds to North Carolina Highway Fund	(159,205)	-
Increase (Decrease) in Net Position	(98,699)	81,777
Net Position, Beginning July 1	417,737	335,960
Net Position, Ending June 30	$ 319,038	$ 417,737

NORTH CAROLINA TURNPIKE AUTHORITY
STATEMENTS OF CASH FLOWS

YEARS ENDED JUNE 30, 2017 AND 2016 (IN THOUSANDS)

	2017	2016
Cash Flows from Operating Activities:		
Receipts from Customers	$ 44,014	$ 36,333
Payments to Employees and Fringe Benefits	(1,116)	(1,464)
Payments to Vendors and Suppliers	(10,422)	(5,703)
Other Payments	(5,733)	(1,238)
Net Cash Flows from Operating Activities	26,743	27,928
Cash Flows from Noncapital Financing Activities:		
Transfers Out	(256,809)	-
Insurance Recoveries	-	10
Other Noncapital Financing Receipts - Advances	778	831
Net Cash Flows from Noncapital Financing Activities	(256,031)	841
Cash Flows from Capital and Related Financing Activities:		
Acquisition and Construction of Capital Assets	(266,621)	(184,728)
Transfers In	49,000	101,056
Federal Interest Subsidy on Debt	11,348	11,387
Capital Grants	5,321	14,631
Principal Payments	(11,960)	(8,200)
Interest Payments	(73,495)	(78,416)
Proceeds from Capital Debt	371,485	-
Payment to Bond Escrow Agent	(261,419)	-
Bond Issuance Costs	(1,104)	-
Insurance Recoveries	8	-
Net Cash Flows from Capital and Related Financing Activities	(177,436)	(144,270)
Cash Flows from Investing Activities:		
Proceeds from Sale and Maturities of Investments	4,425,066	7,302,367
Purchase of Investments	(4,020,443)	(7,194,452)
Investment Earnings	3,312	3,769
Net Cash Flows from Investing Activities	407,935	111,684
Net Change in Cash and Cash Equivalents	1,210	(3,817)
Cash and Cash Equivalents at Beginning of Year	4,267	8,084
Cash and Cash Equivalents at End of Year	$ 5,477	$ 4,267
Summary of Cash and Cash Equivalents:		
Cash and Cash Equivalents Restricted	$ 5,477	$ 4,267
Cash and Cash Equivalents at End of Year	$ 5,477	$ 4,267

NORTH CAROLINA TURNPIKE AUTHORITY
STATEMENTS OF CASH FLOWS (CONTINUED)

YEARS ENDED JUNE 30, 2017 AND 2016 (IN THOUSANDS)

	2017	2016
Reconciliation of Operating Income to Net Cash Flows Provided by Operating Activities:		
Operating Income	$ 5,548	$ 4,161
Adjustments to Reconcile Operating Income to Net Cash Flows Provided by Operating Activities:		
Depreciation Expense	16,130	16,130
Pension Expense	-	45
Management Fees	(2,815)	(153)
Changes in Assets and Liabilities:		
Accounts Receivable	(1,427)	(2,811)
Intergovernmental Receivables	(67)	-
Due from Other Funds	(5)	(33)
Inventories	594	568
Prepaid Items	(579)	87
Deferred Outflows for Pensions	(313)	(74)
Accounts Payable	(137)	(2,637)
Intergovernmental Payables	174	155
Due to Other Funds	7,904	11,239
Funds Held for Others	699	-
Due to Fiduciary	635	465
Unearned Revenue	313	787
Compensated Absences	89	(1)
Total Cash Provided by Operating Activities	$ 26,743	$ 27,928
Noncash Investing, Capital, and Financing Activities:		
Increase in Fair Value of Investments	$ 337	$ 1,298
Change in Land as a Result of Accounts Payable	1,336	-
Change in Construction in Progress as a Result of Accrual Liabilities	11,390	30,010
Change in Securities Lending Collateral	(17,989)	(13,389)
Gain on Debt Reclassification	153,260	-

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 eleven 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.

Cash and Cash Equivalents – This classification includes deposits held by the State Treasurer in the short-term investment fund ("NC STIF"). The short-term investment fund maintained by the State Treasurer has the general characteristics of a demand deposit account in that participants may deposit and withdraw cash at any time without prior notice or penalty. The funds on deposit with the State Treasurer are an advance from the Highway Trust Fund and are available on demand for payment of the NCTA's expenses. The cash balances as of June 30, 2017 and 2016, are the result of timing differences between when the expenses are recorded and when the corresponding checks are written.

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 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.

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

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

The collateral is initially pledged at 102% 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 State Treasurer or the borrower.

Additional details on the State Treasurer's securities lending program are included in the State of North Carolina's *Comprehensive Annual Financial Report*. An electronic version of this report is available by accessing the North Carolina Office of the State Controller's Internet home page http://www.ncosc.net/ and clicking on "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, 2017 and 2016. Uncollectible accounts receivable were written off in 2017 and 2016 using the direct write-off method.

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, 2017 and 2016, 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.

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

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.

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

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 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, and net pension liability that will not be paid within the next fiscal year.

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, 2017 and 2016, 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 - pension related deferrals (see Note 10) and a deferral related to a debt refunding that took place in fiscal year 2017 (see Note 7). 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 one item that meets this criterion - pension related deferrals.

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

Revenue and Expense Recognition – The NCTA classifies its revenue as operating and nonoperating and its expenses as operating 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, 2017 and 2016. These revenues include toll revenues, processing fees, and other charges arising from the toll roads.

Nonoperating revenues include activities that have the characteristics of nonexchange transactions. Revenue from 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.

Note 2—Deposits

As of June 30, 2017 and 2016, respectively, $5,477 and $4,267 shown on the statements of net position as 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 1.6 and 1.5 years as of June 30, 2017 and 2016, respectively. Ownership interest of the NC STIF is determined on a fair market valuation basis as of June 30, 2017 and 2016, 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 (see Note 3 for further information on fair value measurements). At 2017 and 2016, $5,477 and $4,267, 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 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 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 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. 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.

JUNE 30, 2017 AND 2016 (IN THOUSANDS)

Note 3—Restricted investments (continued)

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. 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. 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.

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

	2017			
			Investment Maturities (in Years)	
Type of Investment	**Valuation Measurement Method**	**Fair Value**	**Less Than 1 Year**	**1 – 5 Years**
U.S. Treasuries	Fair Value - Level 1	$ 37,763	$ 3,269	$ 34,494
U.S. Government Agencies	Fair Value - Level 2	4,075	-	4,075
NC STIF	Fair Value - Level 2	172,152	-	172,152
Money Market Mutual Funds	Cost	98,475	98,475	-
Total		$ 312,465	$ 101,744	$ 210,721

	2016			
			Investment Maturities (in Years)	
Type of Investment	**Valuation Measurement Method**	**Fair Value**	**Less Than 1 Year**	**1 – 5 Years**
U.S. Treasuries	Fair Value - Level 1	$ 52,341	$ 6,491	$ 45,850
U.S. Government Agencies	Fair Value - Level 2	42,512	27,812	14,700
NC STIF	Fair Value - Level 2	325,170	-	325,170
Money Market Mutual Funds	Cost	165,364	165,364	-
Total		$ 585,387	$ 199,667	$ 385,720

As of June 30, 2017 and 2016, respectively, $63,938 and $119,304 are 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.

JUNE 30, 2017 AND 2016 (IN THOUSANDS)

Note 3—Restricted investments (continued)

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 (see Note 7) were then issued to replace the GARVEE bonds for the NCTA.

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

	2016		
			Investment Maturities (in Years)
Type of Investment	Valuation Measurement Method	Fair Value	Less Than 1 Year
HSBC Repurchase Agreements	Cost	$ 131,809	$ 131,809
Total		$ 131,809	$ 131,809

Interest Rate Risk and Credit Risk – As established in the contract with the private investment company advising on the portfolio, all GARVEE bond proceeds are 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.

JUNE 30, 2017 AND 2016 (IN THOUSANDS)

Note 4—Capital assets

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	$ 225,501	$ 33,428	$ (94)	$ 258,835
Construction in Progress	444,350	235,665	(7,579)	672,436
Total Capital Assets, Nondepreciable	669,851	269,093	(7,673)	931,271
Capital Assets, Depreciable				
Highway Network	806,486	-	-	806,486
Machinery and Equipment	60	-	-	60
Total Capital Assets, Depreciable	806,546	-	-	806,546
Less Accumulated Depreciation for:				
Highway Network	60,170	16,130	-	76,300
Machinery and Equipment	60	-	-	60
Total Accumulated Depreciation	60,230	16,130	-	76,360
Total Capital Assets, Depreciable, Net of Depreciation	746,316	(16,130)	-	730,186
Capital Assets, Net of Depreciation	$ 1,416,167	$ 252,963	$ (7,673)	$ 1,661,457

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

	July 1, 2015	Additions	Disposals	June 30, 2016
Capital Assets, Nondepreciable				
Land and Permanent Easements	$ 174,891	$ 50,610	$ -	$ 225,501
Construction in Progress	262,927	181,423	-	444,350
Total Capital Assets, Nondepreciable	437,818	232,033	-	669,851
Capital Assets, Depreciable				
Highway Network	806,486	-	-	806,486
Machinery and Equipment	60	-	-	60
Total Capital Assets, Depreciable	806,546	-	-	806,546
Less Accumulated Depreciation for:				
Highway Network	44,040	16,130	-	60,170
Machinery and Equipment	60	-	-	60
Total Accumulated Depreciation	44,100	16,130	-	60,230
Total Capital Assets, Depreciable, Net of Depreciation	762,446	(16,130)	-	746,316
Capital Assets, Net of Depreciation	$ 1,200,264	$ 215,903	$ -	$ 1,416,167

JUNE 30, 2017 AND 2016 (IN THOUSANDS)

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, 2017:

	July 1, 2016	Additions	June 30, 2017
Advances from Other Funds	$ 26,118	$ 778	$ 26,896

The following is a summary of changes in the NCTA's Advances from Other Funds as of June 30, 2016:

	July 1, 2015	Additions	June 30, 2016
Advances from Other Funds	$ 25,287	$ 831	$ 26,118

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 (0.98% as of June 30, 2017) on its investment of Highway Trust Fund funds pursuant to G.S. 147-6.1. The NCTA accrued $229 and $153 of interest for the years ended June 30, 2017 and 2016, 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, 2017 and 2016, was $66 and $88, respectively.

Note 7—Long-term debt

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

Revenue Bonds	2017	2016
Revenue bonds payable, Series 2009A Triangle Expressway Revenue Bonds in the amount of $234,910, 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 as of June 30, 2016. These revenue bonds payable were refunded in March 2017 except for $600, which will be due in full on January 1, 2019.	$ 600	$ 234,031
Revenue bonds payable, Series 2009B Capital Appreciation Triangle Expressway Revenue Bonds in the amount of $35,173, 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	35,042
Revenue bonds payable, Series 2009B Triangle Expressway State Appropriation Revenue Bonds in the amount of $352,675, 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 $497 as of June 30, 2017.	348,786	352,137

JUNE 30, 2017 AND 2016 (IN THOUSANDS)

Note 7—Long-term debt (continued)

Revenue Bonds	2017	2016
Revenue bonds payable, Series 2010A Monroe Connector System State Appropriation Revenue Bonds in the amount of $233,920, 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	$ 233,920
Revenue bonds payable, Series 2011 Monroe Connector System Revenue Bonds in the amount of $10,000, issued November 15, 2011, with a coupon rate of 2.48%, with principal payments beginning July 2012, final maturity of July 2023. These bonds were refunded as part of the Series 2016 Monroe Express Toll Revenue Bonds issuance noted below, leaving a $0 balance as of June 30, 2017.	-	7,100
Revenue bonds payable, Series 2011 Monroe Connector System State Appropriation Revenue Bonds in the amount of $214,505, 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 $12,030 as of June 30, 2017.	151,860	160,638
Revenue bonds payable, Series 2016 Monroe Expressway Toll Revenue Bonds in the amount of $137,052, 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 $7,235 as of June 30, 2017.	144,287	-
Revenue bonds payable, Series 2017 Triangle Expressway System Senior Lien Turnpike Revenue Refunding Bonds in the amount of $200,515, 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 $25,988 as of June 30, 2017.	226,527	-
GARVEE Bonds		
Bonds payable, Series 2011 GARVEE Bonds in the amount of $145,535, issued December 15, 2011, with coupon rates of 2.00% and 4.00%, with principal payments beginning March 2019, final maturity March 2023, net of unamortized premium of $7,724 as of June 30, 2016. These bonds were transferred to the NCDOT Highway Fund in December 2017 (see Note 3), leaving a $0 balance as of June 30, 2017.	-	153,259
Total Bonds, Net	$ 1,141,152	$ 1,176,127

JUNE 30, 2017 AND 2016 (IN THOUSANDS)

Note 7—Long-term debt (continued)

Bonds payable maturities are as follows:

Years Ending June 30,	Principal	Interest	Total
2018	$ 18,395	$ 51,388	$ 69,783
2019	22,060	56,376	78,436
2020	24,580	55,305	79,885
2021	27,270	54,065	81,335
2022	39,295	52,669	91,964
2023-2027	198,818	234,691	433,509
2028-2032	245,698	184,066	429,764
2033-2037	230,007	264,207	494,214
2038-2042	172,421	81,225	253,646
2043-2047	30,400	26,728	57,128
2048-2052	48,420	17,461	65,881
2053-2057	39,032	3,990	43,022
	1,096,396	1,082,171	2,178,567
Issuance Premiums	45,253	-	45,253
Issuance Discounts	(497)	-	(497)
Total	$ 1,141,152	$ 1,082,171	$ 2,223,323

	2017	2016
Note Payable		
TIFIA note payable for an amount not to exceed $386,662, opened on July 1, 2009, bearing interest of 4.25% per annum, with debt service payments beginning July 2015, final maturity January 2043.	$ 372,877	$ 372,877

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. 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 as of June 30, 2017 and 2016. 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. 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, 2017, this loan had only been executed and no draws had been taken for any project related costs.

TIFIA note payable maturities are as follows:

Years Ending June 30,	Principal	Interest	Total
2018	$ -	$ 18,292	$ 18,292
2019	-	18,292	18,292
2020	-	18,267	18,267
2021	-	18,317	18,317
2022	-	18,292	18,292
2023-2027	7,857	92,362	100,219
2028-2032	42,364	92,168	134,532
2033-2037	85,500	83,930	169,430
2038-2042	199,316	70,427	269,743
2043	37,840	7,030	44,870
Total	$ 372,877	$ 437,379	$ 810,256

JUNE 30, 2017 AND 2016 (IN THOUSANDS)

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	$ 337,568	$ (398,095)	$ 1,096,396	$ 18,395
Deferred Amounts:					
For Issuance Premiums	20,752	33,918	(9,417)	45,253	-
For Issuance Discounts	(1,548)	-	1,051	(497)	-
	1,176,127	371,486	(406,461)	1,141,152	18,395
Note Payable	372,877	-	-	372,877	-
Accrued Vacation	81	103	(15)	170	14
Net Pension Liability	225	333	-	558	-
Total Long-Term Debt	$ 1,549,310	$ 371,922	$ (406,476)	$ 1,514,757	$ 18,409

Long-term liability activity for the year ended June 30, 2016 is as follows:

	July 1, 2015	Additions	Reductions	June 30, 2016	Due Within One Year
Bonds Payable					
Bonds	$ 1,165,123	$ -	$ (8,200)	$ 1,156,923	$ 11,960
Deferred Amounts:					
For Issuance Premiums	23,326	-	(2,574)	20,752	-
For Issuance Discounts	(1,664)	-	116	(1,548)	-
	1,186,785	-	(10,658)	1,176,127	11,960
Note Payable	372,877	-	-	372,877	-
Accrued Vacation	82	70	(71)	81	6
Net Pension Liability	69	156	-	225	-
Total Long-Term Debt	$ 1,559,813	$ 226	$ (10,729)	$ 1,549,310	$ 11,966

Total interest cost on indebtedness was $76,022 and $83,217 for the years ended June 30, 2017 and 2016, respectively. Total capitalized interest represented $20,817 and $27,082 of this amount during the years ended June 30, 2017 and 2016, respectively.

<u>Federal Interest Cash Subsidy</u>

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 2017 Federal Budget, the payments received during the year ended June 30, 2017, were reduced by an average of 6.9%. As part of the 2016 Federal Budget, the payments received during the year ended June 30, 2016, were reduced by 6.8%. Cash subsidy payments totaled $11,348 and $11,387 for the years ended June 30, 2017 and 2016, respectively.

Note 7—Long-term debt (continued)

On March 22, 2017, the NCTA issued $200,515 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 deceased and the liability has been removed from the statements of net position. The reacquisition price exceeded the net carrying amount of the old debt by $20,734. 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 $65,516 and resulted in an economic gain of $32,153.

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. The carrying value of the 2017 Triangle Expressway System Senior Lien Turnpike Revenue Refunding Bonds has been adjusted for the gain from defeasance (net amortization) of $20,349.

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) and Triangle Expressway System Senior Lien Revenue Bonds ($270,083). In October 2010, the NCTA issued Monroe Connector System State Annual Appropriation Revenue Bonds ($233,920). In November 2011, the NCTA issued State Annual Appropriation Revenue Bonds ($214,505). In January 2017, the NCTA issued Monroe Expressway Toll Revenue Bonds ($137,052). In March 2017, the NCTA issued Triangle Expressway System Senior Lien Turnpike Revenue Refunding Bonds ($200,515). 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 2017 Federal Budget, the payments received during the year ended June 30, 2017, were reduced by 6.9%. As part of the 2016 Federal Budget, the payments received during the year ended June 30, 2016, were reduced by 6.8%.

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 were 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 $2,223,323 payable through fiscal year 2057 (final maturity date). 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 $67,138, and $58,787, respectively. For year ended June 30, 2016, principal and interest paid and available revenues (toll revenues, fees, federal interest subsidy, federal transportation funds and investment revenues) were $69,528, and $66,796, respectively.

Note 10—Retirement plans

Retirement Plans – Each permanent full-time employee, as a condition of employment, is a member of the TSERS. TSERS is a cost-sharing multiple-employer defined benefit pension plan administered by the North Carolina State Treasurer.

Benefits Provided – The 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 135-5 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. Required employer contribution rates for the years ended June 30, 2017, 2016, and 2015, were 9.98%, 9.15%, and 9.15%, respectively, while employee contributions were 6% each year. The NCTA made 100% of its annual required contributions for the years ended June 30, 2017, 2016, and 2015.

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.

TSERS financial information and detailed information about the pension plan's fiduciary net position 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 "Public Information" or by calling the State Controller's Financial Reporting Section at (919) 707-0500.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions – As of June 30, 2017, the NCTA reported a liability of $558 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2016. The total pension liability used to calculate the net pension was determined by an actuarial valuation as of December 31, 2015. The total pension liability was then rolled forward to the measurement date of June 30, 2016, utilizing update procedures incorporating the actuarial assumptions. 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, 2016 and 2015, the NCTA's proportion was 0.01% and the proportion did not change from the prior measurement date.

JUNE 30, 2017 AND 2016 (IN THOUSANDS)

Note 10—Retirement plans (continued)

For the years ended June 30, 2017 and 2016, the NCTA recognized pension expense of $109 and $24, respectively. 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
Changes in assumptions	82	-
Net difference between projected and actual earnings on pension plan investments	199	-
Change in proportion and differences between agency's contributions and proportionate share of contributions	11	6
Contributions subsequent to the measurement date	101	-
Total	$ 393	$ 32

As of June 30, 2016, 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
Net difference between projected and actual earnings on pension plan investments	-	24
Change in proportion and differences between agency's contributions and proportionate share of contributions	6	2
Contributions subsequent to the measurement date	75	-
Total	$ 81	$ 52

As of June 30, 2017, the $101 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, 2018. 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,	
2018	$ 45
2019	45
2020	109
2021	61
2022	-
Total	$ 260

Actuarial Assumptions – The total pension liability in the December 31, 2015, 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	7.25%, net of pension plan investment expense, including inflation

JUNE 30, 2017 AND 2016 (IN THOUSANDS)

Note 10—Retirement plans (continued)

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, 2015, 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, 2016, are summarized in the following table:

Asset Class	Target Allocation	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%
Total	100.0%	

The information above is based on 30-year expectations developed with the consulting actuary for the 2015 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 7.25%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current contribution rate and that contributions from employers will be made at statutorily required rates, actuarially determined. Based on 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 pension liability.

JUNE 30, 2017 AND 2016 (IN THOUSANDS)

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 7.25%, 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 (6.25%) or 1 percentage-point higher (8.25%) than the current rate:

	1% Decrease (6.25%)	Discount Rate (7.25%)	1% Increase (8.25%)
NCTA's proportionate share of the net pension liability	$ 1,049	$ 558	$ 145

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 $37, $28, and $57, for the years ended June 30, 2017, 2016, and 2015, 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 $33, $28, and $37, for the years ended June 30, 2017, 2016, and 2015, respectively.

Note 11—Other post-employment benefits

Health 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 Plan of North Carolina and retirees of TSERS. Coverage eligibility varies depending on years of contributory membership service in their retirement system prior to disability or retirement.

The Medical Plan's benefit and contribution provisions are established by the State Treasurer and the Board of Trustees of the State Health Plan for Teachers and State Employees as authorized by Chapter 135, Article 3B, of the General Statutes. The Medical Plan does not provide for automatic post-retirement benefit increases.

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

Note 11—Other post-employment benefits (continued)

For the period July 1, 2016 through December 31, 2016, the NCTA contributed the required 5.60% and for the period January 1, 2017 through June 30, 2017, the NCTA contributed the required 6.02% of the covered payroll under the Teachers' and State Employees' Retirement System. For the years ended June 30, 2016 and 2015, the NCTA contributed 5.60% and 5.49%, respectively, of the covered payroll under the Teachers' and State Employees' Retirement System. Required contribution rates for the years ended June 30, 2016, and 2015 were 5.60% and 5.49%, respectively. The NCTA made 100% of its annual contributions to the Medical Plan for the years ended June 30, 2017, 2016, and 2015, which were $57, $50, and $48, respectively. The NCTA assumes no liability for retiree health care benefits provided by the programs other than its required contribution.

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

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

Disability income benefits are funded by actuarially determined employer contributions that are established in the Appropriations Bill by the General Assembly. For the year ended June 30, 2017, the NCTA made a statutory contribution of 0.38% of covered payroll and for the years ended June 30 2016 and 2015, the NCTA made a statutory contribution of 0.41% of covered payroll under TSERS to the DIPNC. The NCTA made 100% of its annual required contributions to the DIPNC for the years ended June 30, 2017, 2016, and 2015, which were $4, all three years. The NCTA assumes no liability for long-term disability benefits under the DIPNC.

Additional detailed information about the DIPNC is disclosed in the State of North Carolina's *Comprehensive Annual Financial Report*. An electronic version of this report is available by accessing the North Carolina Office of the State Controller's Internet home page http://www.ncosc.net/ and clicking on "Public Information" or by calling the State Controller's Financial Reporting Section at (919) 707-0500.

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 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 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 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 per occurrence deductible except for theft losses that carry a $1 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 of any loss through a retrospective rated plan. Excess insurance coverage is purchased through a private insurer to cover losses greater than $1,000 up to $10,000. The liability limits for losses occurring in-state are $1,000 per claimant and $10,000 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 per occurrence, with a $75 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.

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 to $50 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 $112,795 and $204,606 as of June 30, 2017 and 2016, 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 (see Note 3). The transfer of the GARVEE related restricted investments are shown on the statements of revenues, expenses, and changes in net position in the amount of $159,205. A related gain on debt reclassification in the amount of $153,260 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, 2017, the NCTA does not have any amounts recorded related to the Series 2011 GARVEE Bonds.

Note 15—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, 2017, through October 23, 2017 which was the date the financial statements were available to be issued.

On August 3, 2017, a financial institution entered into a forward delivery bond purchase agreement with the Local Government Commission of North Carolina (the "Commission") and the NCTA whereby the financial institution will purchase and the Commission will sell, subject to approval of the NCTA, the NCTA's $161,759 Triangle Expressway System Appropriation Revenue Refunding Bond, Series 2018 at the purchase price of par. The proceeds of the sale of the Series 2018 bonds will be used to refund in advance the maturities of all of the NCTA's Series 2009B bonds maturing on January 1, 2039 and to pay certain costs incurred in connection with the issuance of the Series 2018 bonds.

No other subsequent events were noted that required disclosure in the financial statements.

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

	2017	2016	2015	2014
NCTA's proportion of the net pension liability (%)	0.01%	0.01%	0.01%	0.01%
NCTA's proportion of the net pension liability ($)	$ 558	$ 225	$ 69	$ 356
NCTA's covered-employee payroll	1,020	889	882	988
NCTA's proportionate share of the net pension liability as a percentage of its covered-employee payroll	54.7%	25.3%	7.9%	36.0%
Plan fiduciary net position as a percentage of the total pension liability	87.32%	94.64%	98.24%	90.60%

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

	2017	2016	2015	2014
Contractually required contribution	$ 101	$ 75	$ 86	$ 82
Contributions in relation to the contractually required contribution	(101)	(75)	(86)	(82)
Contribution deficiency (excess)	$ -	$ -	$ -	$ -
NCTA's covered-employee payroll	$ 1,020	$ 889	$ 882	$ 988
Contributions as a percentage of covered-employee payroll	9.9%	8.4%	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.

Cherry Bekaert LLP
CPAs & Advisors

Report of Independent 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, 2017 and 2016, 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 October 23, 2017.

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, 2017 and 2016, 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
October 23, 2017

This audit required 330 audit hours at a cost of $62,500.