NORTH CAROLINA AGRICULTURAL FINANCE AUTHORITY

FINANCIAL STATEMENTS AND
REQUIRED SUPPLEMENTARY INFORMATION

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

And Report of Independent Auditor

Cherry Bekaert LLP
CPAs & Advisors

NORTH CAROLINA AGRICULTURAL FINANCE AUTHORITY

TABLE OF CONTENTS

REPORT OF INDEPENDENT AUDITOR 1-2

MANAGEMENT'S DISCUSSION AND ANALYSIS 3-8

FINANCIAL STATEMENTS

Statements of Net Position 9
Statements of Revenues, Expenses, and Changes in Net Position 10
Statements of Cash Flows 11
Notes to the Financial Statements 12-31

REQUIRED SUPPLEMENTARY INFORMATION

Schedule of Proportionate Share of Net Pension Liability –
Teachers' and State Employees' Retirement System 32
Schedule of Contributions –
Teachers' and State Employees' Retirement System 32
Schedule of Proportionate Share of Net Other Post-Employment Benefits Liability –
Retiree Health Benefit Fund 33
Schedule of Contributions –
Retiree Health Benefit Fund 33
Schedule of Proportionate Share of Net Other Post-Employment Benefits Asset –
Disability Income Plan of North Carolina 34
Schedule of Contributions –
Disability Income Plan of North Carolina 34

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* 35-36

Cherry Bekaert LLP
CPAs & Advisors

Report of Independent Auditor

Board of Directors
North Carolina Agricultural Finance Authority
Raleigh, North Carolina

Report on the Financial Statements

We have audited the accompanying financial statements of the North Carolina Agricultural Finance Authority (the "Authority"), which comprise the statements of net position as of June 30, 2018 and 2017, and the related statements of revenues, expenses, and changes in net position and cash flows for the years then ended, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit includes 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 the accounting principles used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Authority, as of June 30, 2018 and 2017, and the changes in financial position and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 12 to the financial statements, the Authority adopted Governmental Accounting Standards Board Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefit Plans Other Than Pensions.* As a result, net position as of June 30, 2017 has been restated. Our opinion is not modified with respect to this matter.

OTHER MATTERS

Required Supplementary Information

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 25, 2018 on our consideration of the Authority's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the Authority's internal control over financial reporting and compliance.

Cherry Bekaert LLP

Raleigh, North Carolina
September 25, 2018

Management's Discussion and Analysis ("MD&A") is intended to give the reader an overview of factors that have affected operations and may affect operations in the future. The Authority is required by the Governmental Accounting Standards Board's ("GASB") Statement No. 34 to present three basic financial statements. Those statements are the Statements of Net Position, Statements of Revenues, Expenses, and Changes in Net Position, and the Statements of Cash Flows. These statements provide both long-term and short-term financial information for the North Carolina Agricultural Finance Authority.

Since the MD&A is designed to focus on the current activities, resulting changes, and currently known facts, please read it in conjunction with the Authority's financial statements.

Financial Highlights

- The assets of the Authority exceeded its liabilities at June 30, 2018 and 2017 by $13,392,953 and $13,970,757 (net positions), respectively. Most of the net positions are unrestricted and may be used to meet the Authority's ongoing obligations to citizens and creditors.
- The Authority's unrestricted net position was $13,380,652 and $13,956,654 at June 30, 2018 and 2017, respectively.
- The Authority's gross notes receivable at June 30, 2018 and 2017 was $1,838,563 and $1,830,273, respectively.
- The liabilities of the Authority totaled $711,908 and $213,734, at June 30, 2018 and 2017, respectively.

Financial Statements

Statements of Net Position

The Statement of Net Position reports all assets and liabilities of the Authority; additionally the statements classifies those assets and liabilities as current and noncurrent depending on the availability of the assets or satisfaction of the obligation within twelve months (current) or longer. These statements also reports the net position, which is the difference between the total assets and total liabilities. The reader may use the net position to gauge the financial position of the Authority as of June 30, 2018 and 2017.

[The remainder of this page was intentionally left blank]

Financial Statements (continued)

Condensed Statements of Net Position

	2018	2017	2016
ASSETS			
Current Assets	$ 12,798,196	$ 12,796,990	$ 11,731,191
Capital Assets	12,301	14,103	20,603
Noncurrent Assets	1,357,404	1,256,421	2,216,148
Total Assets	14,167,901	14,067,514	13,967,942
Deferred Outflows of Resources	128,075	125,860	33,000
LIABILITIES			
Current Liabilities	2,322	4,464	1,884
Noncurrent Liabilities	709,616	209,270	104,345
Total Liabilities	711,938	213,734	106,229
Deferred Inflows of Resources	191,085	8,883	18,984
NET POSITION*			
Investment in Capital Assets	12,301	14,103	20,603
Unrestricted	13,380,652	13,956,654	13,855,126
Total Net Position	$ 13,392,953	$ 13,970,757	$ 13,875,729

*See Note 12 to the financial statements.

As noted earlier, the various components of net position may serve over time as a useful indicator of the Authority's financial condition. The Authority's assets exceed liabilities by $13,392,953, $13,970,757, and $13,875,729 at June 30, 2018, 2017, and 2016, respectively. The Authority's net position decreased by $577,804 increased by $95,028 and decreased by $39,803 for the years ended June 30, 2018, 2017, and 2016, respectively.

As of June 30, 2018, 2017, and 2016, the Authority's total assets were approximately $14.2 million, $14.1 million, and $14.0 million, respectively. Of these totals, $1.8 million, $1.8 million, and $3.2 million, were notes receivable from borrowers for the years ended June 30, 2018, 2017, and 2016, respectively. The amount decreased slightly in 2017 due to an increase in loans sold during the year and remained consistent in 2018.

The Authority's liabilities totaled approximately $712 thousand, $214 thousand, and $106 thousand for the years ended June 30, 2018, 2017, and 2016, respectively. The total current liabilities of $2.3 thousand as of June 30, 2018 and $4.5 thousand as of June 30, 2017, were well covered by current assets of $12.8 million in both 2018 and 2017. This indicates the Authority's ability to pay current liabilities as they become due.

The Authority sells a portion of its notes receivable to other entities and continues to act as the collection agent for borrower payments.

The Authority's net value of capital assets is $12,301, $14,103, and $20,603 for the years ended June 30, 2018, 2017, and 2016, respectively.

Statements of Revenues, Expenses, and Changes in Net Position

The Statement of Revenues, Expenses, and Changes in Net Position reports the revenues earned and expenses incurred during the fiscal year. The increase or decrease of revenues over expenses directly affects (increases/decreases) the total net position reported on the Statement of Net Position. These transactions are classified as operating or nonoperating.

Operating revenues primarily consist of interest earnings on notes receivable, net of amounts paid to other entities for sold notes. Operating revenues increased slightly in 2018 due to an increase in interest rates during the fiscal year. Operating revenues increased slightly during the 2017 fiscal year due to an increase in the Authority's revenues related to sold loans.

Operating expenses primarily consist of personal services and employer benefit costs, contracted personal services, bad debts, and rental expense. Operating expenses increased during the 2018 fiscal year due to an increase in contracted personal services. Operating expenses decreased during the 2017 fiscal year due to a decrease in contracted personal services.

Nonoperating revenues stem from transactions that occur outside of the primary scope of the Authority's existence and for which no goods or services are provided. Investment earnings on pooled investment accounts and income derived from the sale of the Authority's notes receivable portfolio represent the sources of nonoperating revenues. Nonoperating revenues decreased from the 2017 to the 2018 fiscal years due to a smaller gain on assignment related to loan sales. Nonoperating revenues increased from the 2016 to the 2017 fiscal years due to a gain on assignment and increased investment earnings.

[The remainder of this page was intentionally left blank]

Financial Statements (continued)

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

	2018	2017	2016
Operating Revenues	$ 235,434	$ 161,228	$ 157,297
Operating Expenses:			
Personal services and employee benefits	412,337	377,477	405,164
Supplies and materials	2,534	1,765	2,842
Contracted personal services	55,281	56,642	52,942
Travel	265	1,195	1,771
Communication	4,853	5,115	5,389
Other services	1,917	5,943	1,472
Depreciation	1,802	1,990	2,313
Insurance and bonding	391	402	422
Other fixed charges	16,133	10,861	6,953
Capital outlay	8,000	13,647	12,823
Rent expense	53,384	63,517	58,574
Other expenses	50,350	50,591	50,510
Total Operating Expenses	607,247	589,145	601,175
Operating loss	(371,813)	(427,917)	(443,878)
Nonoperating revenues	456,240	522,945	404,075
Change in net position	84,427	95,028	(39,803)
Net position, beginning of year	13,970,757	13,875,729	13,915,532
Cumulative effect of change in accounting principle	(662,231)	-	-
Net position, end of year	$ 13,392,953	$ 13,970,757	$ 13,875,729

Financial Statements (continued)

Statements of Cash Flows

A very useful measure of financial operations is the Statements of Cash Flows. These statements provides the sources of cash inflows and outflows for four major activities: operating, non-capital financing, capital and related financing, and investing activities. The Authority received approximately $213,607, $335,409, and $125,215 from financing activities related to the sale of loans for the years ended June 30, 2018, 2017, and 2016, respectively.

The ending cash and cash equivalents on the Statements of Cash Flows corresponds directly with the sum of the cash and cash equivalents balances on the Statements of Net Position.

Condensed Statements of Cash Flows

	2018	2017	2016
Net cash provided by (used in):			
Operating activities	$ (401,832)	$ 960,719	$ (249,175)
Investing activities	142,374	103,850	77,755
Non-capital financing activities	313,866	419,095	326,320
Net increase	54,408	1,483,664	154,900
Cash and cash equivalents, beginning of year	12,416,820	10,933,156	10,778,256
Cash and cash equivalents, end of year	$ 12,471,228	$ 12,416,820	$ 10,933,156

Cash was provided in operating activities from customer receipts and collections on notes receivables. Cash was used in operating activities for the payment of salaries and benefits, and for the normal payment to vendors. Cash flows were generated in investing activities from interest earnings on investments. Cash was provided in financing activities from the proceeds from the sale of loans.

Economic Factors and Future Outlook

The Authority is affected by both U.S. and North Carolina economic conditions and policies. The Authority attempts to reduce the resulting risk to the loan portfolio by obtaining federal guarantees on loans.

North Carolina is one of the few States to utilize the Qualified Energy Conservation Bond ("QECB") allocation through the Authorities' Green Community program ("GCP"). The $33 million dollar QECB federal allocation received at the state level for renewable energy projects has been exhausted by the Authority. The QECB program was discontinued in 2017. The Authority will implement a new Green Bond Program ("GBP") in fiscal year 2019 for renewable energy projects.

The Authority used $9.35 million of QECB allocations though its GCP to fund a renewable energy project using swine waste. The Optima TH project, closed in December 2017, takes biogas out of the waste lagoon at the Tar Heel processing plant, delivering clean waste to Piedmont Natural Gas for delivery to Duke Energy for renewable electricity.

Economic Factors and Future Outlook (continued)

The Authority has future bond projects that will convert animal and food waste into renewable energy coming in fiscal year 2019. Using the Authority's Agricultural Development Bond (ABD) program and the new GBP the Authority will utilize its GCP along with state allocations for projects to promote renewable energy from animal and food waste.

In fiscal year 2018 the Authority saw an increase over fiscal year 2017 in requests for loan applications and we expect the interest in our loan program to continue into fiscal year 2019 and beyond. In the first quarter of fiscal year 2019 the Authority is working to close over $4.9 million in loans an increase over fiscal year 2018 of $1.4 million. Fiscal year 2018 was a good year economically for the Authority and we expect fiscal year 2019 to continue with an upward momentum.

According to the U.S. Department of Agriculture revolutionary changes are in store for agriculture in the foreseeable future. We will likely see continued specialization and growth in the areas of sustainable agriculture, organic farming, niche farming, and direct marketing. A trend toward bio-based energy products, as an alternative to those made from petroleum, could have a profound impact on the future role of agriculture in this country. The increasing use of technology, such as computers and global positioning systems, in the production and marketing of commodities also provides a glimpse of what is to come.

Twenty-first century agriculture has seen more global competition, increasing risk and added more diversity. Many countries now compete quite favorably with North Carolina as an agricultural exporter, more attention must be given to finding every opportunity to finance "further processing" or "value added" manufacturing for farmers. This increases the farmer's share of the consumer's dollar and provides additional jobs in rural areas. Smaller farm operations not associated with an industrialized system will have increasing difficulty gaining access to technology required to be competitive. Smaller operations with help from the Authority can remain in production for years to come with contracts from large integrators. This should ultimately return an economic opportunity to North Carolina farmers that can be financed by the Authority.

Request for Information

The financial report is designed to provide a general overview of the Authority's finances for all those who have an interest in its finances. Questions concerning any of the information presented in this report or requests for additional financial information should be addressed to the North Carolina Agricultural Finance Authority at 1101 Spring Forest Road, Suite 150, Raleigh, North Carolina 27615.

NORTH CAROLINA AGRICULTURAL FINANCE AUTHORITY

STATEMENTS OF NET POSITION

JUNE 30, 2018 AND 2017

	2018	2017
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 12,471,228	$ 12,416,820
Notes receivable, net	282,156	373,852
Interest receivable	43,234	5,065
Inventories	1,578	1,253
Total Current Assets	12,798,196	12,796,990
Noncurrent Assets:		
Notes receivable, net	1,356,407	1,256,421
Capital assets, net	12,301	14,103
Net OPEB asset	997	-
Total Noncurrent Assets	1,369,705	1,270,524
Total Assets	14,167,901	14,067,514
Deferred Outflows of Resources	128,075	125,860
LIABILITIES AND NET POSITION		
Current Liabilities:		
Accounts payable	522	2,558
Due to primary government	-	458
Accrued vacation leave	1,800	1,448
Total Current Liabilities	2,322	4,464
Noncurrent Liabilities:		
Accrued vacation leave	25,899	21,321
Net pension liability	147,689	187,949
Net OPEB liability	536,028	-
Total Noncurrent Liabilities	709,616	209,270
Total Liabilities	711,938	213,734
Deferred Inflows of Resources	191,085	8,883
Net Position:		
Investment in capital assets	12,301	14,103
Unrestricted	13,380,652	13,956,654
Total Net Position	$ 13,392,953	$ 13,970,757

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

NORTH CAROLINA AGRICULTURAL FINANCE AUTHORITY

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

YEARS ENDED JUNE 30, 2018 AND 2017

	2018	2017
Operating Revenues:		
Interest earnings on notes receivable, net	$ 186,560	$ 121,173
Sales and services	48,874	40,055
Total Operating Revenues	235,434	161,228
Operating Expenses:		
Personal services and employee benefits	412,337	377,477
Supplies and materials	2,534	1,765
Contracted personal services	55,281	56,642
Travel	265	1,195
Communication	4,853	5,115
Other services	1,917	5,943
Depreciation	1,802	1,990
Insurance and bonding	391	402
Other fixed charges	16,133	10,861
Capital outlay	8,000	13,647
Rent expense	53,384	63,517
Other expenses	50,350	50,591
Total Operating Expenses	607,247	589,145
Operating loss	(371,813)	(427,917)
Nonoperating Revenues:		
Investment earnings	142,374	103,850
Gain on assignment	213,607	335,409
Miscellaneous	100,259	83,686
Total Nonoperating Revenues	456,240	522,945
Change in net position	84,427	95,028
Net position, beginning of year	13,970,757	13,875,729
Cumulative effect of change in accounting principle	(662,231)	-
Net position, end of year	$ 13,392,953	$ 13,970,757

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

NORTH CAROLINA AGRICULTURAL FINANCE AUTHORITY

STATEMENTS OF CASH FLOWS

YEARS ENDED JUNE 30, 2018 AND 2017

	2018	2017
Cash flows from operating activities:		
Receipts from customers	$ 196,268	$ 193,674
Receipts from collections of notes receivable	268,255	230,703
Receipts (payments) for loans issued and sold	(276,544)	1,114,409
Payments to employees and fringe benefits	(393,884)	(375,371)
Payments to vendors and suppliers	(195,927)	(202,696)
Net cash from operating activities	(401,832)	960,719
Cash flows from investing activities:		
Interest on investments	142,374	103,850
Net cash from investing activities	142,374	103,850
Cash flows from financing activities:		
Proceeds from sale of loans	313,866	419,095
Net cash from financing activities	313,866	419,095
Net increase in cash and cash equivalents	54,408	1,483,664
Cash and cash equivalents, beginning of year	12,416,820	10,933,156
Cash and cash equivalents, end of year	$ 12,471,228	$ 12,416,820
Reconciliation of operating loss to net cash from operating activities:		
Operating loss	$ (371,813)	$ (427,917)
Adjustments to reconcile change in net position to net cash from operating activities:		
Depreciation expense	1,802	1,990
Loss on disposal	-	4,510
Change in assets and liabilities:		
Notes receivables	(8,290)	1,345,112
Other receivables	(38,169)	32,446
Inventories	(325)	34
Deferred outflows/inflows for pensions	179,987	(102,961)
Accounts payable	(2,494)	2,438
Accrued vacation leave	4,930	2,618
Net OPEB asset	1,181	-
Net OPEB liability	(128,381)	-
Net pension liability	(40,260)	102,449
Net cash from operating activities	$ (401,832)	$ 960,719

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

Note 1—The reporting entity

The North Carolina Agricultural Finance Authority (the "Authority") was established in 1986 by the North Carolina Agricultural Finance Act. The Authority was created and empowered to alleviate the severe shortage of capital and credit available at affordable interest rates for investment in agriculture and for the export of agricultural products, commodities, and services by providing such capital and credit at interest rates within the financial means of persons and businesses engaged in agriculture and agricultural exports. The Authority is a body politic and corporate created within the North Carolina Department of Agriculture and Consumer Services. The Authority is constituted as a public agency and an instrumentality of the state for the performance of essential public functions as established by the General Assembly (*North Carolina General Statutes* - Chapter 122D).

As required by General Statute 122D-4, the governing body of the Authority is composed of 10 members. The Commissioner of Agriculture serves ex-officio, with the same rights and privileges, including voting rights, as other members. The remaining 9 members are appointed by the Governor of North Carolina (3 members), the General Assembly upon recommendation of the Speaker of the House (3 members), and the General Assembly upon recommendation of the President Pro Tempore of the Senate (3 members).

Note 2—Summary of significant accounting policies

Basis of Presentation – The North Carolina Agricultural Finance Authority is accounted for as a proprietary fund type (enterprise fund) in conformity with the accounting and reporting requirements of the Governmental Accounting Standards Board ("GASB"). The measurement focus is upon determination of financial position, net income, and changes in cash flows. The accounting principles used are those generally accepted in the United States of America and applicable to similar businesses in the private sector; thus, the accompanying financial statements have been prepared in accordance with the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recognized when incurred.

Use of Estimates – The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

The allowance for loan losses is established as losses are estimated to have occurred through a provision for loan losses charged to earnings. Loan losses are charged against the allowance when management believes the uncollectability of a loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance.

The allowance for loan losses is evaluated on a regular basis by management and is based upon management's periodic review of the collectability of the loans in light of historical experience, the nature and volume of the loan portfolio, adverse situations that may affect the borrower's ability to repay, estimated value of any underlying collateral, and prevailing economic conditions. This evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available.

While management uses available information to recognize losses on loans, further reductions in the carrying amounts of loans may be necessary based on changes in local economic conditions. It is reasonably possible that the estimated losses on loans may change materially in the near term. However, the amount of the change that is reasonably possible cannot be estimated.

Note 2—Summary of significant accounting policies (continued)

Cash and Cash Equivalents – Cash and cash equivalents include short-term investments with the State Treasurer's Investment Pool (a governmental external investment pool). The short-term investment portfolio maintained by the State Treasurer has the general characteristics of a demand deposit account in that participants may deposit additional cash at any time and also may withdraw cash at any time without prior notice or penalty.

Notes Receivable and Allowance for Doubtful Accounts – The Authority provides the following direct loan programs:

> *Farm Loan Program* – Loans made for the purpose of buying, improving, or enlarging farms. This category comprises the majority of loans made by the Authority. Loan rates are variable based on the Prime rate as published in the *Wall Street Journal* plus an additional percentage. Loan terms and limits vary depending on the type of loan; however, all are secured by liens on the real estate owned or purchased, improvements made with the loan funds, and any other additional security that might be required on an individual loan basis.
>
> *Agribusiness Loan Program* – Loans are made to assist agribusinesses in obtaining capital to start-up, increase, or make changes to their business. Agribusiness loans are designed to provide capital to acquire and build facilities. Loan rates are variable based on the Prime rate as published in the *Wall Street Journal*.
>
> *Agricultural Facilities Disaster Loans* – Loans are made to assist agricultural property owners who have suffered property damage due to natural disasters to repair or replace structures and to return to normal work routines as quickly as possible. These loans are designed to provide for damages to farm facilities (structures) not fully covered for replacement costs or covered by federal disaster funds. Interest rates are fixed for the life of the loan and established on criteria tied to the Prime rate. Maximum length of the loan cannot exceed 10 years.
>
> *Cotton Gin Air Quality Loan Program* – Loans are made to assist modern day cotton gins in complying with changes in the dust emissions regulations. Eligible cotton gins must have been in operation at least one year prior to application and the financed improvements must comply with state and federal air quality standards. Each loan program has specified eligibility that must be met. These loans are normally secured by a first lien on collateral. The loan committee determines the interest rate on the loans and the interest accrues from the original date that the loan is closed.

Principal payments can be made either annually, quarterly, or monthly. The loans are repaid over various term lengths, generally with a maximum of 20 years. Application fees and loan processing fees vary by loan type. Past due status is determined based on contractual terms.

In the normal course of business, the Authority sells notes receivable to other entities and continues to act as the collection agent for the borrower payments. Notes receivable are reported net of notes sold to other entities.

Inventories – Inventories held by the Authority are priced at the lower of cost or market value using the first-in, first-out method. The inventories consist of expendable supplies and postage.

Note 2—Summary of significant accounting policies (continued)

Capital Assets – It is the policy of the Authority to capitalize all capital assets costing more than $5,000 with an estimated useful life of two or more years. In addition, other items that are purchased and used in large quantities are capitalized. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. The Authority uses the straight-line method to depreciate assets over estimated useful lives as follows:

Machinery and Equipment	5 - 10 years
Vehicles	10 years

Compensated Absences – Employees of the Authority are permitted to accumulate earned but unused vacation pay benefits. The Authority's policy is to record the cost of vacation leave when earned. The policy provides for the maximum accumulation of unused vacation leave of 30 days which can be carried forward each January 1st or for which an employee can be paid upon termination of employment. When determining the vacation pay liability due within one year, leave is considered taken on a last in, first out (LIFO) basis. Any accumulated vacation leave in excess of 30 days at December 31st is converted to sick leave. Under this policy, the accumulated vacation leave for each employee at June 30th equals the leave carried forward at the previous December 31st plus the leave earned, less the leave taken between January 1st and June 30th.

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

Full-time permanent, probationary, and trainee employees earn vacation leave ranging from 1.17 to 2.17 days per month, depending upon years of service. Part-time employees earn the same range of leave on a pro rata amount based on the number of hours a week they work. At termination, employees are paid for any accumulated vacation leave up to 30 days. Full-time permanent, probationary, and trainee employees earn sick leave at the rate of one day per month with an unlimited accumulation. Part-time employees earn a percentage of the total of 8 hours per month based on the number of hours a week they work. While payment for accumulated sick leave upon termination is not allowed, additional service credit for retirement pension benefits is given for accumulated sick leave upon retirement.

In addition to vacation leave described above, compensated absences include the accumulated unused portion of the special annual leave bonuses awarded by the North Carolina General Assembly. The bonus leave balance on December 31 is retained by employees and transferred into the next calendar year. It is not part of the 30-day maximum applicable to regular vacation leave and is not subject to conversion to sick leave.

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

> *Investment in Capital Assets* – This represents the Authority's total investment in capital assets, net of any outstanding debt used in the acquisition of those assets.
>
> *Unrestricted Net Position* – Unrestricted net position are all those not included as net investment in capital assets.

Note 2—Summary of significant accounting policies (continued)

Deferred Outflows/Inflows of Resources – In addition to assets, the statement of financial 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 Authority has two items that meet this criterion – deferrals related to pension and other postemployment benefits and contributions made to the pension plan and postemployment benefit plan in the current fiscal year. The statement of financial position also reports 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 Authority has one item that meets this criterion – deferrals related to pension and other postemployment benefits.

Revenue and Expense Recognition – The Authority presents its revenues and expenses as operating or nonoperating based on recognition definitions from GASB Statement No. 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting*. Operating activities are those activities that are necessary and essential to the mission of the Authority. Investment income is considered nonoperating since it is either investing, capital, or non-capital financing activities. Operating expenses are all expense transactions incurred other than those related to investing, capital, or non-capital financing activities.

Note 3—Cash and cash equivalents

At June 30, 2018 and 2017, the $12,471,228 and $12,416,820, respectively, shown on these statements of net position as cash and cash equivalents represents the Authority's equity position in the Short-Term Investment Fund managed by the North Carolina State Treasurer (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). The Short-Term Investment Fund had a weighted average maturity of 1.6 years for both years as of June 30, 2018 and 2017. Assets and shares of the Short-Term Investment Fund are valued at amortized cost, which approximates fair value.

The State Treasurer's External Investment Pool issues a separate report. This separately issued report can be obtained from the Department of State Treasurer, 3200 Atlantic Avenue, Raleigh, NC 27604 or can be accessed from the Department of State Treasurer internet page at https://www.nctreasurer.com/inv/Pages/Government-Operations-Reports.aspx in the Audited Financial Statements section.

Note 4—Notes receivable, net

A summary of notes receivable is presented as follows:

	2018	2017
Notes receivable from borrowers	$ 10,385,799	$ 9,191,653
Notes payable to holders	(8,547,236)	(7,361,380)
	1,838,563	1,830,273
Less allowance	(200,000)	(200,000)
Notes receivable, net	1,638,563	1,630,273
Current portion	(282,156)	(373,852)
Noncurrent portion	$ 1,356,407	$ 1,256,421

Note 5—Capital assets

A summary of changes in capital assets for the years ended June 30, 2018 and 2017 is presented below.

	Balance June 30, 2017	Additions	Deductions	Balance June 30, 2018
Capital assets, depreciable:				
Machinery and equipment	$ 18,690	$ -	$ -	$ 18,690
Vehicles	21,100	-	-	21,100
Total capital assets, depreciable	39,790	-	-	39,790
Less accumulated depreciation for:				
Machinery and equipment	(16,312)	(747)	-	(17,059)
Vehicles	(9,375)	(1,055)	-	(10,430)
Total accumulated depreciation	(25,687)	(1,802)	-	(27,489)
Capital assets, net	$ 14,103	$ (1,802)	$ -	$ 12,301

	Balance June 30, 2016	Additions	Deductions	Balance June 30, 2017
Capital assets, depreciable:				
Machinery and equipment	$ 28,083	$ -	$ (9,393)	$ 18,690
Vehicles	21,100	-	-	21,100
Total capital assets, depreciable	49,183	-	(9,393)	39,790
Less accumulated depreciation for:				
Machinery and equipment	(20,140)	(1,055)	4,883	(16,312)
Vehicles	(8,440)	(935)	-	(9,375)
Total accumulated depreciation	(28,580)	(1,990)	4,883	(25,687)
Capital assets, net	$ 20,603	$ (1,990)	$ (4,510)	$ 14,103

Depreciation expense for the years ended June 30, 2018 and 2017 was $1,802 and $1,990, respectively.

Note 6—Changes in noncurrent liabilities

A summary of changes in noncurrent liabilities for the years ended June 30, 2018 and 2017 is presented as follows:

	Balance June 30, 2017	Additions	Reductions	Balance June 30, 2018	Current Portion
Accrued vacation leave	$ 22,769	$ 30,349	$ 25,419	$ 27,699	$ 1,800
Net pension liability	187,949	50,437	90,697	147,689	-
Net OPEB asset	-	2,178	1,181	997	-
Net OPEB liability	-	664,409	128,381	536,028	-
Total	$ 210,718	$ 745,195	$ 244,497	$ 711,416	$ 1,800

	Balance June 30, 2016	Additions	Reductions	Balance June 30, 2017	Current Portion
Accrued vacation leave	$ 20,151	$ 28,886	$ 26,268	$ 22,769	$ 1,448
Net pension liability	85,500	131,404	28,955	187,949	-
Total	$ 105,651	$ 160,290	$ 55,223	$ 210,718	$ 1,448

Note 7—Retirement plans

Retirement Plans – Each permanent full-time employee as a condition of employment is a member of the Teacher's and State Employees' Retirement System. The Teachers' and State Employees' Retirement System ("TSERS") is a cost-sharing multiple-employer defined benefit pension plan administered by the North Carolina State Treasurer. Benefit provisions are established by General Statute 135-5 and may be amended only by the North Carolina General Assembly.

Benefits Provided – TSERS provides retirement and survivor benefits. Retirement benefits are determined as 1.82% of the member's average final compensation times the member's years of creditable service. A member's average final compensation is calculated as the average of a member's four highest consecutive years of compensation. General employee plan members are eligible to retire with full retirement benefits at age 65 with five years of creditable service, at age 60 with 25 years of creditable service, or at any age with 30 years of creditable service. General employee plan members are eligible to retire with partial retirement benefits at age 50 with 20 years of creditable service or at age 60 with five years of creditable service. Survivor benefits are available to eligible beneficiaries of 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. 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.

Note 7—Retirement plans (continued)

Contributions – Contribution provisions are established by General Statute 135-8 and may be amended only by the North Carolina General Assembly. Plan members are required to contribute 6% of their annual pay. The contribution rate for employers is set each year by the North Carolina General Assembly in the Appropriations Act based on the actuarially determined rate recommended by the actuary.

For the years ended June 30, 2018, 2017, and 2016, the Authority had a total payroll of $370,641, $327,158, and $309,521, respectively, of which $299,308, $258,606, and $290,128, respectively, was covered under the System. Total employer contributions for pension benefits for the years ended June 30, 2018, 2017, and 2016 were $32,570, $27,878, and $28,955, respectively. Total employee contributions for pension benefits were $17,958, $15,516, and $17,408, for the years ended June 30, 2018, 2017, and 2016, respectively.

Required employer contribution rates for the years ended June 30, 2018, 2017, and 2016, were 10.78%, 9.98%, 9.15%, respectively, while employee contributions were 6% each year. The Authority made 100% of its annual required contributions for the years ended June 30, 2018, 2017, and 2016.

The TSERS financial information is included in the State of North Carolina's *Comprehensive Annual Financial Report* ("CAFR"). 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 "Proceed directly to OSC's index page," then "Reports," 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 – At June 30, 2018 and 2017, the Authority reported a liability of $147,689 and $187,949 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2017 and 2016, respectively. The total pension liability used to calculate the net pension was determined by an actuarial valuation as of December 31, 2016 and 2015. The total pension liability was then rolled forward to the measurement date of June 30, 2017 and 2016, utilizing update procedures incorporating the actuarial assumptions. The Authority's proportion of the net pension liability was based on a projection of the Authority'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. At June 30, 2018, the Authority's proportion was 0.001861% and the proportion decreased by 0.00018% from the prior measurement date. At June 30, 2017, the Authority's proportion was 0.002045% and the proportion decreased by .000275% from the prior measurement date.

For the year ended June 30, 2018, the Authority recognized pension expense of $32,265. At June 30, 2018, the Authority 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	$ 3,202	$ 4,832
Changes of assumptions	23,333	-
Net difference between projected and investments (see note below)	19,987	-
Change in proportion and differences between the Authority's contributions and proportionate share of contributions	3,587	-
Contributions subsequent to the measurement date	32,570	-
Total	$ 82,679	$ 4,832

Note 7—Retirement plans (continued)

Deferred outflows of resources related to pensions resulting from Authority contributions subsequent to the measurement date of $32,570 will be recognized as a decrease of the net pension liability in the year ended June 30, 2019. Other amounts reported as deferred inflows of resources and deferred outflows of resources related to pensions will be recognized in pension expense as follows:

Years Ending June 30,		
2019	$	9,912
2020		29,129
2021		14,235
2022		(7,999)
Total	$	45,277

For the year ended June 30, 2017, the Authority recognized pension expense of $27,206 At June 30, 2017, the Authority 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	$ -	$ 8,883
Changes of assumptions	27,718	-
Net difference between projected and investments (see note below)	67,029	-
Change in proportion and differences between the Authority's contributions and proportionate share of contributions	3,235	-
Contributions subsequent to the measurement date	27,878	-
Total	$ 125,860	$ 8,883

Deferred outflows of resources related to pensions resulting from Authority contributions subsequent to the measurement date of $27,878 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	$	15,698
2019		15,842
2020		36,959
2021		20,600
Total	$	89,099

Note 7—Retirement plans (continued)

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

Inflation	3.00%
Salary increases	3.50% to 8.10%, including inflation and productivity factor of 3.50%
Investment rate of return	7.20%, net of pension plan investment expense, including inflation

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

The actuarial assumptions used in the December 31, 2016 valuation was based on the results of an actuarial experience study for the period January 1, 2010 through December 31, 2014. An ad hoc COLA amount of 1% was considered, effective July 1, 2017. Other future ad hoc COLA amounts are, not considered to be substantively automatic and are therefore, not included in the measurement.

The projected long-term investment returns and inflation assumptions are developed through review of current and historical capital markets data, sell-side investment research, consultant whitepapers, and historical performance of investment strategies. Fixed income return projections reflect current yields across the U.S. Treasury yield curve and market expectations of forward yields projected and interpolated for multiple tenors and over multiple year horizons. Global public equity return projections are established through analysis of the equity risk premium and the fixed income return projections. Other asset categories and strategies' return projections reflect the foregoing and historical data analysis. These projections are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class as of June 30, 2017 are summarized in the following table:

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

The information above is based on 30-year expectations developed with the consulting actuary for the 2017 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.

Note 7—Retirement plans (continued)

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	3.00%
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

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

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

Discount Rate – The discount rate used to measure the total pension liability was 7.25%. 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.

Note 7—Retirement plans (continued)

Sensitivity of the Authority's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate – The following presents the Authority's proportionate share of the net pension liability calculated using the discount rate of 7.25%, as well as what the Authority'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:

Authority's proportionate share of the net pension liability (asset) at June 30, 2018	1% Decrease (6.25%)	Discount Rate (7.25%)	1% Increase (8.25%)
	$ 304,006	$ 147,689	$ 16,716

Authority's proportionate share of the net pension liability (asset) at June 30, 2017	1% Decrease (6.25%)	Discount Rate (7.25%)	1% Increase (8.25%)
	$ 353,496	$ 187,949	$ 48,747

Pension Plan Fiduciary Net Position – Detailed information about the pension plan's fiduciary net position can be located in the State of North Carolina's *Comprehensive Annual Financial Report.* An electronic version of this report is available by accessing the North Carolina Office of the State Controller's internet home page http://www.ncosc.net/ and clicking on "Reports" or by calling the State Controller's Financial Reporting Section at (919) 707-0500.

Note 8—Other postemployment benefits ("OPEB")

Health Benefits – The Authority participates in the Comprehensive Major Medical Plan (the "Plan"), a cost sharing, multiple-employer benefit health care plan that provides postemployment health insurance to eligible former employees. Eligible former employees include long-term disability beneficiaries of the Disability Income Plan of North Carolina ("DIPNC") and retirees of the 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 Chapter 135-7 and Chapter 135, Article 3A of the General Statutes and may be amended only by the North Carolina General Assembly. The Medical Plan does not provide for automatic post-retirement benefit increases.

Retiree Health Benefit Fund
Plan Description – The Retiree Health Benefit Fund ("RHBF") has been established as a fund in which the accumulated contributions from employers and any earnings on those contributions shall be used to provide health benefits to retired and disabled employees and applicable beneficiaries. By statute, the RHBF is administered by the Board of Trustees of the TSERS and contributions to the RHBF are irrevocable. Also, by law, RHBF 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 employees making contributions to the RHBF. Contribution rates to the RHBF, which are intended to finance benefits and administrative expenses on a pay-as-you-go basis, are determined by the State Treasurer and the Board of Trustees of the State Health Plan for Teachers and State Employees.

Note 8—Other postemployment benefits (continued)

For the years ended June 30, 2018, 2017, and 2016, the Authority contributed 6.05%, 6.02%, and 5.60%, respectively, of the covered payroll under the TSERS to the RHBF. The Authority made 100% of its annual required contributions to the Plan for the years ended June 30, 2018, 2017, and 2016, which were $18,108, $14,482, and $16,247, respectively. The Authority assumes no liability for retiree health care benefits provided by the programs other than the required contribution.

Additional detailed information about these programs can be located in the State of North Carolina's CAFR. 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 "Proceed Directly to OSC's index page," then "Reports," or by calling the State Controller's Financial Reporting Section at (919) 707-0500.

Benefits Provided – Plan benefits received by retired employees and disabled employees from the RHBF are OPEB. The healthcare benefits for retired and disabled employees who are not eligible for Medicare are the same as for active employees. The plan options change when former employees become eligible for Medicare. Medicare retirees have the option of selecting one of two fully-insured Medicare Advantage/Prescription Drug Plan ("MA-PDP") options of the self-funded Traditional 70/30 preferred provider organization plan option that is also offered to non-Medicare members. If the Traditional 70/30 plan is selected by a Medicare retiree, the self-funded State Health Plan coverage is secondary to Medicare.

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

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

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

Note 8—Other postemployment benefits (continued)

June 30, 2018, the Authority reported a liability of $536,028 for its proportionate share of the net OPEB liability. The net OPEB liability was measured as of June 30, 2017, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of December 31, 2016. The total OPEB liability was then rolled forward to the measurement date of June 30, 2017 utilizing update procedures incorporating the actuarial assumptions. The Authority's proportion of the net OPEB liability was based on a projection of the Authority's present value of future salary, actuarially determined. At December 31, 2016, the Authority's proportion was 0.0016349%.

As of June 30, 2018, the $18,279 reported as deferred outflows of resources related to OPEB resulting from the Authority's contributions subsequent to the measurement date will be recognized as a decrease of the net OPEB liability in the year ending June 30, 2019. Other amounts reported as deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Years Ending June 30,		
2019	$	(32,044)
2020		(32,044)
2021		(32,044)
2022		(32,044)
2023		(31,996)
Total	$	(160,172)

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

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

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

Note 8—Other postemployment benefits (continued)

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

Authority's proportionate share of the net OPEB liability	1% Decrease	6.50% Medical, 7.25% Rx, 3.00% Administrative	1% Increase
	$ 639,451	$ 536,028	$ 453,999

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

Authority's proportionate share of the net OPEB liability	1% Decrease (2.58%)	Discount Rate (3.58%)	1% Increase (4.58%)
	$ 437,886	$ 536,028	$ 666,472

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

Disability Income Plan of North Carolina

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

Disability income benefits are funded by actuarially determined employer contributions that are established in the Appropriations Bill by the General Assembly. For the fiscal years ended June 30, 2018, 2017, and 2016 the Authority made a statutory contribution of 0.14%, 0.38%, and 0.38%, respectively, of covered payroll under the TSERS to the DIPNC. The Authority made 100% of its annual required contributions to the DIPNC for the years ended June 30, 2018, 2017, and 2016, which were $419, $983, $1,102, respectively. The Authority assumes no liability for long-term disability benefits under the DIPNC.

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

Note 8—Other postemployment benefits (continued)

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

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 "Proceed Directly to OSC's index page," then "Reports," or by calling the State Controller's Financial Reporting Section at (919) 707-0500.

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

OPEB Liabilities, OPEB Expense, and Deferred Outflows and Inflows of Resources Related to OPEB – At June 30, 2018, the Authority reported an asset of $997 for its proportionate share of the net OPEB asset. The net OPEB asset was measured as of June 30, 2017, and the total OPEB asset used to calculate the net OPEB asset was determined by an actuarial valuation as of December 31, 2016. The total OPEB asset was then rolled forward to the measurement date of June 30, 2017 utilizing update procedures incorporating the actuarial assumptions. The Authority's proportion of the net OPEB asset was based on a projection of the Authority's present value of future salary, actuarially determined. At December 31, 2016, the Authority's proportion was 0.001631%.

Note 8—Other postemployment benefits (continued)

As of June 30, 2018, the $423 reported as deferred outflows of resources related to OPEB resulting from the Authority's contributions subsequent to the measurement date will be recognized as a decrease of the net OPEB liability in the year ending June 30, 2019. Other amounts reported as deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Years Ending June 30,	
2019	$ 186
2020	186
2021	186
2022	55
Total	$ 613

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

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

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

The Authority's proportionate share of the net OPEB asset	1% Decrease (2.75%)	Discount Rate (3.75%)	1% Increase (4.75%)
	$ 847	$ 997	$ 1,146

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

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

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

Note 8—Other postemployment benefits (continued)

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

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

Total OPEB Expense, OPEB Liabilities, and Deferred Outflows and Inflows of Resources Related to OPEB – The following is information related to the proportionate share and OPEB expense:

	RHBF	DIPNC	Total
OPEB expense	$ 18,108	$ 419	$ 18,527
OPEB liability (asset)	$ 536,028	$ (997)	$ 535,031
Proportionate share of net OPEB liability (asset)	0.001635%	0.001631%	
Deferred Outflows of Resources			
Difference between actual and expected experience	$ -	$ 273	$ 273
Net difference between projected and actual earnings on OPEB plan investments	-	219	219
Change in proportion and differences between agency's contributions and proportionate share of contributions	-	121	121
Change in proportion	26,081	-	26,081
Contributions subsequent to the measurement date	18,279	423	18,702
Deferred Inflows of Resources			
Difference between actual and expected experience	$ 38,434	$ -	$ 38,434
Changes in assumptions	147,620	-	147,620
Net difference between projected and actual earnings on OPEB plan investments	199	-	199

Note 9—Lease

The Authority leases office space under an operating lease expiring May 2020. Monthly lease payments are $4,847 for the first 5 years, then escalating by 2.5% each of the last two years. Rent expense totaled $53,384 and $63,517 for the years ended June 30, 2018 and 2017, respectively.

The following is a schedule by years of future minimum rental payments required under operating leases in excess of one year as of June 30, 2018:

Years Ending June 30,	Amount
2019	$ 58,231
2020	59,104
2021	54,923
Total minimum lease payments	$ 172,258

Note 10—Risk management

The Authority 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.

These exposures to loss are handled by a combination of methods, including participation in various State-administered risk pools, purchase of commercial insurance, and self-retention of certain risks. There have been no significant reductions in insurance coverage from the previous year and settled claims have not exceeded coverage in any of the past three fiscal years.

Public Officers' and Employees' Liability Insurance – In accordance with Chapter 58, Article 32, Part 15, of the General Statutes, public officers' and employees' liability insurance is provided by private insurers for all employees of the state and participating component units. The policy provides $10,000,000 excess insurance over the $1,000,000 statutory limit payable for any one claim under the State Tort Claims Act. The first $150,000 of an award against a state agency is the responsibility of the state agency's general fund budget code or up to $1,000,000 if a non-general fund budget code.

For general fund budget codes, any award greater than $150,000 but less than $1,000,000 is funded by proportionate shares of estimated lapse salaries from all agencies general fund budget codes. Since state agencies and component units are responsible for funding any tort claims of $1,000,000 or less from their budget and/or lapse salaries, total claims liabilities are not measurable.

Employers are charged a premium for the excess insurance based on a composite rate. The employers pay the premiums directly to the private insurer. Settled claims have not exceeded coverage in any of the past three fiscal years.

Comprehensive Major Medical Plan – Authority employees and retirees are provided comprehensive major medical care benefits. Coverage is funded by contributions to the Comprehensive Major Medical Plan ("Plan"), a component unit of the State of North Carolina. The Plan is funded by employer and employee contributions and is administered by a third-party contractor.

Note 10—Risk management (continued)

Statewide Workers' Compensation Program – The Workers' Compensation Program (the "Program") was created by Chapter 97, Article 1, of the General Statutes to provide benefits to workers injured on the job and includes all employees of the state and its component units. An injury is covered under workers' compensation if it is caused by an accident that arose out of and in the course of employment. Also, certain occupational diseases specifically designated in the North Carolina Workers' Compensation Act are compensable.

Losses payable by the Program include medical claims, loss of wages, disability, and death benefits. The state and its component units are self-insured for workers' compensation. State agencies and participating component units contribute to a fund administered by the Office of the State Controller to cover their workers' compensation claims. A third-party administrator handles workers' compensation claims, receives a per case administration fee, and draws down state funds to make medical and indemnity payments on behalf of the state in accordance with the North Carolina Workers' Compensation Act.

Death Benefit Plan of North Carolina – Term life insurance (death benefits) is provided through the Death Benefit Plan to all members of the Teachers' and State Employees' Retirement System who have completed at least 12 consecutive months of membership in the TSERS. Lump-sum death benefit payments to beneficiaries are equal to the employee's highest 12-month salary in a row during the 24 months prior to his/her death, with a minimum benefit of $25,000 and a maximum of $50,000.

Death benefits are funded by actuarially based employer contributions that are established in the biennial appropriation bill by the General Assembly. The benefits are established by Chapter 135, Article 3, Part 3, of the General Statutes and may be amended only by the North Carolina General Assembly. The Plan requires the Authority to contribute 0.16% of covered payroll which amounted to $593, $414, and $464, respectively, for the years ended June 30, 2018, 2017, and 2016, respectively.

Employee Dishonesty and Computer Fraud – Blanket public employee dishonesty and computer fraud insurance is provided for agencies of the state and its component units with a limit of $5 million per occurrence, subject to a $100,000 deductible and a 10% participation in each loss above the deductible. The coverage is placed with a private insurance company and is handled by the North Carolina Department of Insurance. Agencies of the state and its component units are charged premiums by the private insurance company. Settled claims have not exceeded coverage in any of the past three fiscal years.

Automobile, Fire, and Other Property Losses – The State of North Carolina is required by Chapter 58, Article 31, Part 50, of the General Statutes to provide liability insurance on every state-owned motor vehicle. The state is self-insured for the first $500,000 of any loss through a retrospective rated plan. The Plan purchases excess insurance through a private insurer to cover losses greater than $1,000,000.

The liability limits for losses incurring in-state are $1,000,000 per claimant and $10 million per occurrence. For losses incurring out-of-state, the limits are $1 million per claimant and $10 million per occurrence. Users of the state cars are charged premiums to cover the cost of the excess insurance and to pay for those losses falling under the self-insured retention. Premiums charged are also based on the projected losses to be incurred.

The private insurer processes all claims, establishes a reserve for amounts expected to be paid for claims, and pays claims after they are approved by the Attorney General's Office. Settled claims have not exceeded coverage in any of the past three fiscal years.

Note 10—Risk management (continued)

The State Property Fire Insurance Fund (the "Insurance Fund") was also created by Chapter 58, Article 31, of the General Statutes. The Insurance Fund insures state-owned buildings and contents for fire, extended coverage, and other property losses. Coverage for fire losses is free for all operations that are supported by the State's General Fund. Those operations that are not supported by the State's General Fund are charged for fire coverage.

Extended coverage and other property coverage such as sprinkler leakage, business interruption, vandalism, theft, and "all risk" for buildings and contents can be purchased through the Insurance Fund at premiums discounted from industry manual rates.

The Insurance Fund insures losses up to $2.5 million per occurrence. All losses covered by the Insurance Fund are subject to a $500 per occurrence deductible except for theft, which carries a $1,000 per occurrence deductible. The Insurance Fund purchases excess insurance from a private insurer to cover losses over the amounts insured by the Insurance Fund. Settled claims have not exceeded coverage in any of the past three fiscal years.

Additional details on the State-administered risk management programs are disclosed in the State's CAFR issued by the Office of the State Controller.

Note 11—Commitments and contingencies

No Commitment Debt – Since 1995, the Authority has issued Agricultural Development Revenue Bonds to provide financial assistance to North Carolina farmers and agribusinesses for the acquisition, construction, and equipping of various agricultural projects deemed to be in furtherance of the Authority's purpose. The bonds are secured by an Indenture of Trust and a Letter of Credit and are payable solely from payments received on the underlying loan obligations. Neither the Authority nor the State of North Carolina is obligated in any manner for repayment of the bonds. Accordingly, the bonds are not reported as liabilities in the accompanying financial statements. As of June 30, 2018 and 2017, there were three and five series of Agricultural Development Revenue Bonds outstanding with an aggregate principal amount payable of $24,088,873 and $28,180,958, respectively.

Note 12—Restatement

The Authority implemented GASB statement 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions in the fiscal year ended June 30, 2018. The implementation of the statement required the Authority to record beginning net OPEB liability and the effects on net position of benefit payments and administrative expenses paid by the Authority related to OPEB during the measurement period (fiscal year ended December 31, 2017). As a result, net position for the Authority decreased $662,231.

Note 13—Subsequent events

The Authority has evaluated subsequent events through September 25, 2018, in connection with the preparation of these financial statements, which is the date the financial statements were available to be issued. No 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
- Schedule of Proportionate Share of Net OPEB Liability – Retiree Health Benefit Fund
- Schedule of Contributions – Retiree Health Benefit Fund
- Schedule of Proportionate Share of Net OPEB Asset – Disability Income Plan of North Carolina
- Schedule of Contributions – Disability Income Plan of North Carolina

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

	2018	2017	2016
Authority's proportion of the net pension liability (%)	0.001861%	0.002045%	0.002320%
Authority's proportion of the net pension liability ($)	$ 147,689	$ 187,949	$ 85,500
Authority's covered-employee payroll	258,606	290,128	299,751
Authority's proportionate share of the net pension liability as a percentage of its covered employee payroll	57.1%	64.8%	28.5%
Plan fiduciary net position as a percentage of the total pension liability	89.51%	87.32%	94.64%

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

	2018	2017	2016
Contractually required contribution	$ 32,265	$ 27,878	$ 28,955
Contributions in relation to the contractually required contribution	32,265	27,878	28,955
Contribution deficiency (excess)	$ -	$ -	$ -
Authority's covered-employee payroll	$ 299,308	$ 258,606	$ 290,128
Contributions as a percentage of covered employee payroll	10.78%	10.78%	9.15%

The amounts presented for each fiscal year were determined as of the prior fiscal year ended June 30. Information is not available for years prior to those presented.

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

		2018
Authority's proportion of the net OPEB liability (%)		0.001635%
Authority's proportion of the net OPEB liability ($)	$	536,028
Authority's covered-employee payroll		258,606
Authority's proportionate share of the net OPEB liability as a percentage of its covered-employee payroll		207.3%
Plan fiduciary net position as a percentage of the total OPEB liability		3.52%

Schedule of Contributions
Retiree Health Benefit Fund
June 30, *

		2018
Contractually required contribution		18,108
Contributions in relation to the contractually required contribution		(18,108)
Contribution deficiency (excess)	$	-
Authority's covered-employee payroll	$	299,308
Contributions as a percentage of covered-employee payroll		6.05%

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

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

		2018
Authority's proportion of the net OPEB asset (%)		0.001631%
Authority's proportion of the net OPEB asset ($)	$	997
Authority's covered-employee payroll		258,606
Authority's proportionate share of the net OPEB asset as a percentage of its covered-employee payroll		0.39%
Plan fiduciary net position as a percentage of the total OPEB asset		116.23%

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

		2018
Contractually required contribution	$	419
Contributions in relation to the contractually required contribution		(419)
Contribution deficiency (excess)	$	-
Authority's covered-employee payroll	$	299,308
Contributions as a percentage of covered-employee payroll		0.14%

*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 Agricultural Finance 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 financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the statements of net position of the North Carolina Agricultural Finance Authority (the "Authority") as of June 30, 2018 and 2017, and related statements of revenues, expenses, and changes in net position and cash flows for the years then ended, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements and have issued our report thereon dated September 25, 2018.

Internal Control over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

Cherry Bekaert LLP

Raleigh, North Carolina
September 25, 2018

This audit required 115 audit hours at a cost of $19,000.