

NORTH CAROLINA AGRICULTURAL FINANCE AUTHORITY

Financial Statements
And Required Supplemental Information

For the Year Ended June 30, 2019 and 2018



Rives & Associates, LLP
Certified Public Accountants and Consultants

NORTH CAROLINA AGRICULTURAL FINANCE AUTHORITY
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Independent Auditors' Report

To the Board of Directors of
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 statement of net position as of June 30, 2019, and the related statements of revenues, expenses, and changes in net position and cash flows for the year 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.

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from 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 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, based on our audit, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Authority as of June 30, 2019, and the respective changes in net financial position and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

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 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 November 13, 2019 on our consideration of the Authority’s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of the 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 Authority of Benson’s internal control over financial reporting and compliance.

Prior Period Financial Statements

The financial statements of the Authority as of and for the year ended June 30, 2018 were audited by other auditors whose report, dated September 25, 2018, expressed an unmodified opinion on those statements.

Rives & Associates LLP

Raleigh, North Carolina
November 13, 2019

**NORTH CAROLINA AGRICULTURAL FINANCE AUTHORITY
MANAGEMENT’S DISCUSSION AND ANALYSIS
JUNE 30, 2019 AND 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, 2019 and 2018 by \$13,664,368 and \$13,392,953 (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 \$13,654,873 and \$13,380,652 at June 30, 2019 and 2018, respectively.
- The Authority’s gross notes receivable at June 30, 2019 and 2018 was \$2,569,789 and \$1,881,797, respectively.
- The liabilities of the Authority totaled \$678,730 and \$711,938, at June 30, 2019 and 2018, 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, 2019 and 2018.

Condensed Statements of Net Position

	<u>2019</u>	<u>2018</u>	<u>2017</u>
ASSETS			
Current assets	\$ 12,633,473	\$ 12,798,196	\$ 12,796,990
Capital assets, net	9,495	12,301	14,103
Non-current assets	<u>1,782,089</u>	<u>1,357,404</u>	<u>1,256,421</u>
Total assets	<u>14,425,057</u>	<u>14,167,901</u>	<u>14,067,514</u>
Deferred outflows of resources	<u>151,850</u>	<u>128,075</u>	<u>125,860</u>
LIABILITIES			
Current liabilities	6,135	2,322	4,464
Total noncurrent liabilities	<u>672,595</u>	<u>709,616</u>	<u>209,270</u>
Total liabilities	<u>678,730</u>	<u>711,938</u>	<u>213,734</u>
Total deferred inflows of resources	<u>233,809</u>	<u>191,085</u>	<u>8,883</u>
NET POSITION			
Net investment in capital assets	9,495	12,301	14,103
Unrestricted	<u>13,654,873</u>	<u>13,380,652</u>	<u>13,956,654</u>
Total net position	<u>\$ 13,664,368</u>	<u>\$ 13,392,953</u>	<u>\$ 13,970,757</u>

**NORTH CAROLINA AGRICULTURAL FINANCE AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2019 AND 2018**

Financial Statements (continued)

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 \$13,664,368, \$13,392,953, and \$13,970,757 at June 30, 2019, 2018, and 2017, respectively. The Authority's net position increased by \$271,415, decreased by \$577,804, and increased by \$95,028 for the years ended June 30, 2019, 2018, and 2017, respectively.

As of June 30, 2019, 2018, and 2017, the Authority's total assets were approximately \$14.4 million, \$14.2 million, and \$14.1 million, respectively. Of these totals, \$2.2 million, \$1.8 million, and \$1.8 million, were notes receivable from borrowers for the years ended June 30, 2019, 2018, and 2017, respectively.

The Authority's liabilities totaled approximately \$679,000, \$712,000, and \$214,000 for the years ended June 30, 2019, 2018, and 2017, respectively. The total current liabilities of \$6,135 as of June 30, 2019 and \$2,322 as of June 30, 2018, were well covered by current assets of \$12.6 million and \$12.8 million as of June 30, 2019 and 2018, respectively. 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 \$9,495, \$12,301, and \$14,103 for the years ended June 30, 2019, 2018, and 2017, 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 in the 2019 and 2018 fiscal years due to an increase in interest rates.

Operating expenses primarily consist of personal services and employer benefit costs, contracted personal services, bad debts, and rental expense. Operating expenses increased during the 2019 fiscal year due to increased contracted services in regards to the defaulted note receivable and increase in pension/OPEB benefit expenses. Operating expenses increased during the 2018 fiscal year due to an increase 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 2018 to the 2019 fiscal years due to increase on gains on assignment related to loan sales. Nonoperating revenues decreased from the 2017 to the 2018 fiscal years due to a smaller gain on assignment related to loan sales.

**NORTH CAROLINA AGRICULTURAL FINANCE AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2019 AND 2018**

Financial Statements (continued)

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

	<u>2019</u>	<u>2018</u>	<u>2017</u>
Operating revenues	\$ 323,988	\$ 235,434	\$ 161,228
Operating expenses	624,277	607,247	589,145
Operating loss	(300,289)	(371,813)	(427,917)
Non operating revenues	571,704	456,240	522,945
Change in net position	271,415	84,427	95,028
Net position, beginning of year	13,392,953	13,970,757	13,875,729
Cumulate effect of change in accounting principle	-	(662,231)	-
Net position, end of year	<u>\$ 13,664,368</u>	<u>\$ 13,392,953</u>	<u>\$ 13,970,757</u>

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 \$380,000, \$314,000, and \$419,000 from financing activities related to the sale of loans for the years ended June 30, 2019, 2018, and 2017, 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 Revenue, Expenses, and Changes in Net Position

	<u>2019</u>	<u>2018</u>	<u>2017</u>
Net cash provided by (used in):			
Operating activities	\$ (1,620,505)	\$ (401,832)	\$ 960,719
Investing activities	192,788	142,374	103,850
Non-capital financing activities	380,293	313,866	419,095
Net increase (decrease)	(1,047,424)	54,408	1,483,664
Cash and cash equivalents, beginning of year	12,471,228	12,416,820	10,933,156
Cash and cash equivalents, end of year	<u>11,423,804</u>	<u>12,471,228</u>	<u>12,416,820</u>

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.

**NORTH CAROLINA AGRICULTURAL FINANCE AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2019 AND 2018**

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 resultant risk to the loan portfolio by obtaining federal guarantees on loans.

North Carolina being 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 used \$9.35 million of QECB allocations through 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. As of June 2019, the Optima TH project is under construction with expectations of being operational in the first half of 2020.

In FY19 the Authority saw an increase over FY18 in requests for loan applications and we expect the interest in our loan program to continue into FY20 and beyond. In the first quarter of FY20 the Authority is working to close over \$4.2 million in loans. FY19 was a good year economically for the Authority and we expect FY20 to continue with an upward momentum.

This US Department of Agriculture report provides projections for the agricultural sector to 2028. Projections cover agricultural commodities, agricultural trade, and aggregate indicators of the sector, such as farm income. The projections are based on specific assumptions about macroeconomic conditions, policy, weather, and international developments, with no domestic or external shocks to global agricultural markets. The Agricultural Act of 2014 is assumed to remain in effect through the projection period. The projections are one representative scenario for the agricultural sector for the next decade and reflect a composite of model results and judgment-based analyses. The projections in this report were prepared July 2018 through February 2019.

While agricultural prices are tending to trend upwards, ongoing U.S. trade disputes with China have dampened expectations for soybeans. These trade disputes are assumed to last the duration of the projection period. Planted acreage drops slightly overall, primarily due to an expected drop in soybean plantings, while corn and wheat plantings are expected to offset the bulk of the loss in soybean acreage. Energy costs are expected to remain relatively low with crude oil import prices remaining below \$93 per barrel over the coming 10 years. Low feed costs and continued strong global demand provide economic incentives for expansion in the livestock sector. Long-run developments for global agriculture reflect steady world economic growth and continued global demand for biofuel feedstocks, factors which combine to support longer run increases in disappearance, trade, and prices of agricultural products. Although a relatively strong U.S. dollar is expected to dampen growth in U.S. agricultural exports, the United States remains competitive in global agricultural markets, in part due to efficiency and quality margins. Net farm income is expected to increase a little over 8 billion dollars in 2019 to just over 77.5 billion dollars and remain relatively steady, fluctuating between 75 and 80 billion dollars for the remainder of the decade.

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, 2019 AND 2018

	<u>2019</u>	<u>2018</u>
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 11,423,804	\$ 12,471,228
Notes receivable, net	410,122	282,156
Interest receivable	178,078	43,234
Federal agency receivable	294,948	-
Inventories	1,521	1,578
Land and building, available for sale	325,000	-
Total current assets	<u>12,633,473</u>	<u>12,798,196</u>
Non-current assets:		
Notes receivable, net	1,781,589	1,356,407
Capital assets, net	9,495	12,301
Net OEPB asset	500	997
Total non-current assets	<u>1,791,584</u>	<u>1,369,705</u>
Total assets	<u>14,425,057</u>	<u>14,167,901</u>
DEFERRED OUTFLOWS OF RESOURCES		
OPEB deferrals	41,695	45,396
Pension deferrals	110,155	82,679
Total deferred outflows of resources	<u>151,850</u>	<u>128,075</u>
LIABILITIES		
Current liabilities:		
Accounts payable	4,100	522
Accrued vacation leave	2,035	1,800
Total current liabilities	<u>6,135</u>	<u>2,322</u>
Noncurrent liabilities:		
Accrued vacation leave	29,085	25,899
Net OPEB liability	458,695	536,028
Net pension liability	184,815	147,689
Total noncurrent liabilities	<u>672,595</u>	<u>709,616</u>
Total liabilities	<u>678,730</u>	<u>711,938</u>
DEFERRED INFLOWS OF RESOURCES		
OPEB deferrals	231,954	186,253
Pension deferrals	1,855	4,832
Total deferred inflows of resources	<u>233,809</u>	<u>191,085</u>
NET POSITION		
Net investment in capital assets	9,495	12,301
Unrestricted	13,654,873	13,380,652
Total net position	<u>\$ 13,664,368</u>	<u>\$ 13,392,953</u>

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, 2019 AND 2018

	2019	2018
OPERATING REVENUES		
Interest earnings on notes receivable, net	\$ 260,694	\$ 186,560
Sales and service	63,294	48,874
Total operating revenues	323,988	235,434
OPERATING EXPENSES		
Personal services and employee benefits	387,721	412,337
Supplies and materials	2,709	2,534
Contracted personal services	88,606	55,281
Travel	-	265
Communication	3,828	4,853
Advertising	1,874	570
Insurance and bonding	424	391
Rent expense	59,104	53,384
Administrative and general	50,575	50,350
Capital outlay	9,875	8,000
Repairs and maintenance	16,934	16,133
Other expenses	1,198	1,347
Depreciation	1,429	1,802
Total operating expenses	624,277	607,247
Operating loss	(300,289)	(371,813)
NONOPERATING REVENUES (EXPENSES)		
Investment earnings	192,788	142,374
Gain on assignment	381,646	213,607
Loss on capital asset disposal	(1,377)	-
Miscellaneous	(1,353)	100,259
Total nonoperating revenues	571,704	456,240
Change in net position	271,415	84,427
Net position, beginning of year	13,392,953	13,970,757
Cumulative effect of change in accounting principle	-	(662,231)
Net position, end of year	\$ 13,664,368	\$ 13,392,953

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

NORTH CAROLINA NORTH CAROLINA AGRICULTURAL FINANCE AUTHORITY
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2019 AND 2018

	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts received from customers	\$ 431,398	\$ 196,268
Receipts from collections of notes receivables	250,372	268,255
Payments for loans issued and sold, net of receipts	(1,120,258)	(276,544)
Payment for loan sold on defaulted note receivable	(557,954)	-
Payments to employees and fringe benefits	(391,142)	(393,884)
Payments to vendors and suppliers	(232,921)	(195,927)
Net cash used by operating activities	(1,620,505)	(401,832)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest on investments	192,788	142,374
Net cash provided by investing activities	192,788	142,374
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from sale of loans	380,293	313,866
Net cash provided by financing activities	380,293	313,866
Net increase (decrease) in cash and cash equivalents	(1,047,424)	54,408
Cash and cash equivalents, beginning of year	12,471,228	12,416,820
Cash and cash equivalents, end of year	11,423,804	12,471,228
Reconciliation of operating income (loss) to net cash provided by operating activities		
Operating loss	(300,289)	(371,813)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:		
Depreciation	1,429	1,802
Net changes in assets and liabilities:		
Decrease (increase) in notes receivables	(878,148)	(8,290)
Decrease (increase) in interest receivable	(134,844)	(38,169)
Decrease (increase) in Federal agency receivable	(294,948)	-
Decrease (increase) in inventories	57	(325)
Decrease (increase) in net OPEB asset	497	-
Decrease (increase) in deferred outflows of resources for OPEB	3,701	-
Decrease (increase) in deferred outflows of resources for pensions	(27,476)	(2,215)
Increase (decrease) in accounts payable	3,578	(42,754)
Increase (decrease) in accrued vacation	3,421	4,930
Increase (decrease) in net OPEB liability	(77,333)	(86,940)
Increase (decrease) in net pension liability	37,126	(40,260)
Increase (decrease) in deferred inflows of resources for OPEB	45,701	186,253
Increase (decrease) in deferred inflows of resources for pensions	(2,977)	(4,051)
Total adjustments	(1,320,216)	(30,019)
Net cash used by operating activities	\$ (1,620,505)	\$ (401,832)

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

NORTH CAROLINA AGRICULTURAL FINANCE AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018

Note 1 – 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 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 certain reported amounts and disclosures. Accordingly, 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.

NORTH CAROLINA AGRICULTURAL FINANCE AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018

Note 2 – Summary of significant accounting policies (continued)

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.

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.

NORTH CAROLINA AGRICULTURAL FINANCE AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018

Note 2 – Summary of significant accounting policies (continued)

Inventories

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

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 the value of the asset or materiality extend asset lives are not capitalized.

Capital assets are depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Estimated Useful Lives</u>
Vehicles	10 years
Machinery and Equipment	5 -10 years

Compensated Absences

Employees of the Authority are permitted to accumulate earned and 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.

NORTH CAROLINA AGRICULTURAL FINANCE AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018

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 as an expense or expenditure until then. The Authority has two items that meets this criterion, contributions made to the pension plan in the 2019 fiscal year and pension deferrals. In addition to liabilities, the statement of financial position will sometimes 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 as revenue until then. The Authority has several items that met this criterion for this category – deferrals related to pension and other postemployment benefits.

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.

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, 2019 and 2018, the \$11,423,804 and \$12,471,228, 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 1.3 and 1.6 years for years ended June 30, 2019 and 2018, respectively. 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 in the Audited Financial Statements section at <https://www.nctreasurer.com/inv/Pages/Annual-Supplemental-Reports.aspx>.

NORTH CAROLINA AGRICULTURAL FINANCE AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018

Note 4 – Notes receivable

A summary of notes receivable is presented as follows:

	2019	2018
Notes receivable from borrowers	\$12,401,223	\$10,385,799
Notes payable to holders	(10,009,512)	(8,547,236)
	2,391,711	1,838,563
Less: allowance	(200,000)	(200,000)
Notes receivable, net	2,191,711	1,638,563
Current portion	(410,122)	(282,156)
Noncurrent portion	\$ 1,781,589	\$ 1,356,407

During the year ended June 30, 2019, one borrower passed away and the note receivable with an outstanding principal and interest balance due of approximately \$619,948 went into default. The Authority was granted title and ownership to the land and buildings through a deed in lieu of foreclosure. The land and buildings were sold by the Authority in August 2019 for \$325,000 and the land and buildings are reported on the statement of net position as of June 30, 2019 for this amount. The Authority filed loss claims on the value of the defaulted note receivable not covered by the proceeds from the sale of the land and buildings with the United States Department of Agriculture, Farm Service Agency. This agency guarantees 90% of the defaulted loan balance net of any proceeds from the sale of land and buildings. At June 30, 2019, the Authority reported a Federal government receivable of \$294,948 from the loss claims reimbursement and subsequently collected the receivable in October 2019.

Note 5 – Capital assets

Capital asset activity for the Authority for the year ended June 30, 2019, was as follows:

	Balance June 30, 2018	Additions	Deductions	Balance June 30, 2019
Capital assets being depreciated:				
Vehicles	\$ 21,100	\$ -	\$ -	\$ 21,100
Machinery and equipment	18,690	-	(18,690)	-
Total capital assets being depreciated	39,790	-	(18,690)	21,100
Less accumulated depreciation:				
Vehicles	(17,059)	(1,429)	6,883	(11,605)
Machinery and equipment	(10,430)	-	10,430	-
Total accumulated depreciated, net	(27,489)	(1,429)	17,313	(11,605)
Capital assets, net	\$ 12,301			\$ 9,495

NORTH CAROLINA AGRICULTURAL FINANCE AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018

Note 5 – Capital assets (continued)

Capital asset activity for the Authority for the year ended June 30, 2018, was as follows:

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

Depreciation expense for the years ended June 30, 2019 and 2018 was \$1,429 and \$1,802, respectively.

Note 6 – Noncurrent liabilities

A summary of changes in noncurrent liabilities for the years ended June 30, 2019 and 2018 are:

	Balance			Balance	Current
	June 30, 2018	Additions	Reductions	June 30, 2019	Portion
Accrued vacation payable	\$ 27,699	\$ 38,628	\$ 35,207	\$ 31,120	\$ 2,035
Net OPEB liability	536,028	-	77,333	458,695	-
Net pension liability	147,689	44,184	7,058	184,815	-
Total	<u>\$ 711,416</u>	<u>\$ 82,812</u>	<u>\$ 119,598</u>	<u>\$ 674,630</u>	<u>\$ 2,035</u>

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

NORTH CAROLINA AGRICULTURAL FINANCE AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018

Note 7 – Retirement plan

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

Benefits Provided. TSERS provides retirement and survivor benefits. Retirement benefits are determined as 1.82% of the member's average final compensation times the member's years of creditable service. A member's average final compensation is calculated as the average of a member's four highest consecutive years of compensation. General employee plan members are eligible to retire with full retirement benefits at age 65 with five years of creditable service (or 10 years of creditable service for members joining TSERS on or after August 1, 2011), at age 60 with 25 years of creditable service, or at any age with 30 years of creditable service. General employee plan members are eligible to retire with partial retirement benefits at age 50 with 20 years of creditable service or at age 60 with five years of creditable service (or 10 years of creditable service for members joining TSERS on or after August 1, 2011). Survivor benefits are available to eligible beneficiaries of members who die while in active service or within 180 days of their last day of service and who have either completed 20 years of creditable service regardless of age or have completed five years of service and have reached age 60 (10 years for members joining on or after August 1, 2011). Eligible beneficiaries may elect to receive a monthly Survivor's Alternate Benefit for life or a return of the member's contributions. The plan does not provide for automatic post-retirement benefit increases. Increases are contingent upon actuarial gains of the plan. TSERS plan members who are LEOs are eligible to retire with full retirement benefits at age 55 with five years of creditable service as an officer (or 10 years of creditable service for members joining TSERS on or after August 1, 2011), or at any age with 30 years of creditable service. LEO plan members are eligible to retire with partial retirement benefits at age 50 with 15 years of creditable service as an officer. Survivor benefits are available to eligible beneficiaries of LEO members who die while in active service or within 180 days of their last day of service and who also have either completed 20 years of creditable service regardless of age, or have completed 15 years of service as a LEO and have reached age 50, or have completed five years of creditable service as a LEO and have reached age 55, or have completed 15 years of creditable service as a LEO if killed in the line of duty. Eligible beneficiaries may elect to receive a monthly Survivor's Alternate Benefit for life or a return of the member's contributions.

Teachers' and State Employees' Retirement System

Allocation. The Authority is reported with the North Carolina Department of Agriculture contributions to the Teachers' and State Employees' Retirement System.

NORTH CAROLINA AGRICULTURAL FINANCE AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018

Note 7 – Retirement plan (continued)

Contributions. Contribution provisions are established by General Statute 135-8 and may be amended only by the North Carolina General Assembly. Authority employees are required to contribute 6% of their compensation. Employer contributions are actuarially determined and set annually by the TSERS Board of Trustees. The Authority's contractually required contribution rate for the year ended June 30, 2019, was 12.29% of covered payroll, actuarially determined as an amount that, when combined with employee contributions, is expected to finance the costs of benefits earned by employees during the year. The Authority's contractually required contribution rate for the year ended June 30, 2018, was 10.78% of covered payroll, actuarially determined as an amount that, when combined with employee contributions, is expected to finance the costs of benefits earned by employees during the year. Contributions to the pension plan from the Authority were \$37,511 and \$32,570 for the years ended June 30, 2019 and 2018, respectively.

Pension plan fiduciary net position - 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.

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

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At June 30, 2019 and 2018, the Authority reported a liability of \$184,815 and \$147,689, respectively, for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2018 and 2017. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2017 and 2016. The total pension liability was then rolled forward to the measurement date of June 30, 2018 and 2017 utilizing update procedures incorporating the actuarial assumptions. The Authority's proportion of the net pension asset 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. The Authority's pension contributions are reported with the North Carolina Department of Agriculture's total contributions for administrative purposes. At June 30, 2019, the Authority's proportion was 0.001856% and the proportion decreased by 0.000005% from the prior measurement date. At June 30, 2018, the Authority's proportion was 0.001861% and the proportion decreased by 0.00018% from the prior measurement date.

For the year ended June 30, 2019 and 2018, the Authority recognized pension expense of \$6,673 and \$32,265, respectively.

NORTH CAROLINA AGRICULTURAL FINANCE AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018

Note 7 – Retirement plan (continued)

At June 30, 2019, 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
Differences between expected and actual experience	\$ 13,488	\$ 1,855
Changes of assumptions	37,088	-
Net difference between projected and actual earnings on pension plan investments	17,613	-
Changes in proportion and differences between Authority contributions and proportionate share of contributions	4,455	-
Contributions subsequent to the measurement date	37,511	-
Total	<u>\$ 110,155</u>	<u>\$ 1,855</u>

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
Differences between expected and actual experience	\$ 3,202	\$ 4,832
Changes of assumptions	23,333	-
Net difference between projected and actual earnings on pension plan investments	19,987	-
Changes in proportion and differences between Authority contributions and proportionate share of contributions	3,587	-
Contributions subsequent to the measurement date	32,570	-
Total	<u>\$ 82,679</u>	<u>\$ 4,832</u>

A total of \$37,511 was reported as deferred outflows of resources related to pensions resulting from Authority contributions subsequent to the measurement date will be recognized as a decrease of the net pension liability in the year ended June 30, 2020. Other amounts reported as deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30:	
2020	\$ 40,994
2021	26,143
2022	3,976
2023	<u>(323)</u>
Total	<u>\$ 70,790</u>

NORTH CAROLINA AGRICULTURAL FINANCE AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018

Note 7 – Retirement plan (continued)

Actuarial Assumptions used for June 30, 2019 Liability. The total pension liability in the December 31, 2017 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
Investment rate of return	7.0% 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, 2017 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, 2018 are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long - Term Expected Real Rate of Return</u>
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%	

NORTH CAROLINA AGRICULTURAL FINANCE AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018

Note 7 – Retirement plan (continued)

The information above is based on 30 year expectations developed with the consulting actuary for the 2018 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.

Actuarial Assumptions used for June 30, 2018 Liability. 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
Investment rate of return	7.2%, net of pension plan investment expense, including inflation

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

The actuarial assumptions used in the December 31, 2016 valuation were based on the results of an actuarial experience study for the period January 1, 2010 through December 31, 2014.

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:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long - Term Expected Real Rate of Return</u>
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	<u>100.0%</u>	

NORTH CAROLINA AGRICULTURAL FINANCE AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018

Note 7 – Retirement plan (continued)

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 LGERS. 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 7.00%. 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.

Sensitivity of the Authority’s proportionate share of the net pension asset to changes in the discount rate for year ended June 30, 2019. The following presents the Authority’s proportionate share of the net pension liability calculated using the discount rate of 7.00%, as well as what the Authority’s proportionate share of the net pension liability or net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.00%) or one percentage point higher (8.00%) than the current rate:

	1 % Decrease (6.0%)	Discount Rate (7.00%)	1% Increase (8.00%)
Authority's proportionate share of the net pension liability at June 30, 2019	\$ 352,474	\$ 184,815	\$ 44,133

Sensitivity of the Authority’s proportionate share of the net pension asset to changes in the discount rate for year ended June 30, 2018. 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 liability or net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.25%) or one percentage point higher (8.25%) than the current rate:

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

Pension plan fiduciary net position. Detailed information about the pension plan’s fiduciary net position is available in the separately issued Comprehensive Annual Financial Report (CAFR) for the State of North Carolina.

NORTH CAROLINA AGRICULTURAL FINANCE AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018

Note 8 – Other postemployment 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.

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

Management of the plan is vested in the State Health Plan Board of Trustees, which consists of 13 members – eight appointed by the Governor, one appointed by the State Senate, one appointed by the State House of Representatives, and the State Treasurer the State Superintendent and the Director of the Office of State Human Resources who serve as ex-officio members. RHBF is supported by a percent of payroll contribution from participating employing units. Each year the percentage is set in legislation, as are the maximum per retiree contributions from RHBF to the State Health Plan.

The State Treasurer, with the approval of the State Health Plan Board of Trustees, then sets the employer contributions (subject to the legislative cap) and the premiums to be paid by retirees, as well as the health benefits to be provided through the State Health Plan.

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

Benefits Provided. Plan benefits received by retired employees and disabled employees from 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.

NORTH CAROLINA AGRICULTURAL FINANCE AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018

Note 8 – Other postemployment benefits (continued)

Retiree Health Benefit Fund

Those former employees who are eligible to receive medical benefits from RHBF are long-term disability beneficiaries of the Disability Income Plan of North Carolina (DIPNC) and retirees of the TSERS, the Consolidated Judicial Retirement System (CJRS), the Legislative Retirement System (LRS), the University Employees' Optional Retirement Program (ORP), and a small number of local governments, with five or more years of contributory membership service in their retirement system prior to disability or retirement, with the following exceptions: for employees first hired on or after October 1, 2006, and members of the North Carolina General Assembly first taking office on or after February 1, 2007, future coverage as retired employees and retired members of the North Carolina 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.

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. RHBF does not provide for automatic post-retirement benefit increases.

Contributions. By General Statute, accumulated contributions from employers to RHBF and any earnings on those contributions shall be used to provide health benefits to retired and disabled employees and their applicable beneficiaries. By statute, contributions to RHBF are irrevocable. Also by law, fund assets are dedicated to providing benefits to retired and disabled employees and their applicable beneficiaries and are not subject to the claims of creditors of the employers making contributions to RHBF. However, RHBF assets may be used for reasonable expenses to administer the RHBF, including costs to conduct required actuarial valuations of state-supported retired employees' health benefits. Contribution rates to RHBF, which are intended to finance benefits and administrative expenses on a pay-as-you-go basis are determined by the General Assembly in the Appropriations Bill. For the years ended June 30, 2019 and 2018, the Authority contributed 6.27% and 6.05%, respectively, of covered payroll. The Authority made 100% of its annual required contributions to the Plan for the years ended June 30, 2019 and 2018 which were \$19,137 and \$18,108, respectively.

**NORTH CAROLINA AGRICULTURAL FINANCE AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018**

Note 8 – Other postemployment benefits (continued)

At June 30, 2019 and 2018, Authority reported a liability of \$458,695 and \$536,028, respectively, for its proportionate share of the net OPEB liability. The net OPEB liability was measured as of June 30, 2018 and 2017, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of December 31, 2017 and 2016. The total OPEB liability was then rolled forward to the measurement date of June 30, 2018 and 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. The Authority's OPEB contributions are reported with the North Carolina Department of Agriculture's total contributions for administrative purposes. At June 30, 2019, the Authority's proportion was 0.001607% and the proportion decreased by 0.000028% from the prior measurement date. At June 30, 2018, the Authority's proportion was 0.001635%.

A total of \$19,137 was reported as deferred outflows of resources related to OPEB resulting from Authority contributions subsequent to the measurement date will be recognized as a decrease of the net OPEB liability in the year ending June 30, 2020. Other amounts reported as deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Year ended June 30:

2020	\$ (48,545)
2021	(48,545)
2022	(48,545)
2023	(48,496)
2024	<u>(17,138)</u>
Total	<u>\$ (211,269)</u>

Actuarial assumptions for June 30, 2019 Liability. The total OPEB liability in the December 31, 2017, 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
Investment rate of return	7.0%, net of OPEB plan investment expense, including inflation
Healthcare cost trend - medical	5.00% - 6.50%
Healthcare cost trend - prescription drug	5.00% - 7.25%
Healthcare cost trend - Medicare advantage	5.00%
Healthcare cost trend - administrative	3.00%

Discount rate. The discount rate used to measure the total OPEB liability for the RHBF was 3.87%. 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 3.87% was used as the discount rate used to measure the total OPEB liability. The 3.87% rate is based on the Bond Buyer 20-year General Obligation Index as of June 30, 2018.

**NORTH CAROLINA AGRICULTURAL FINANCE AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018**

Note 8 – Other postemployment benefits (continued)

Sensitivity of the total OPEB liability to changes in the discount rate for year ended June 30, 2019. The following presents the total OPEB liability of the Authority, as well as what the Authority’s total OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (2.87%) or 1-percentage-point higher (4.87%) than the current discount rate:

	<u>1 % Decrease in Trend Rate</u>	<u>6.50% Medical 7.25% RX 3.00% Admin</u>	<u>1 % Increase in Trend Rate</u>
Authority's proportionate share of the net RHBC liability at June 30, 2019	\$ 377,579	\$ 458,695	\$ 562,851

Sensitivity of the total OPEB liability to changes in the healthcare cost trend rates for year ended June 30, 2019. The following presents the total OPEB liability of the Authority, as well as what the Authority’s total OPEB liability would be if it were calculated using healthcare cost trend rates that are 1-percentage-point lower or 1-percentage-point higher than the current healthcare cost trend rates:

	<u>1 % Decrease (2.87%)</u>	<u>Discount Rate (3.87%)</u>	<u>1 % Increase (4.87%)</u>
Authority's proportionate share of the net RHBC liability at June 30, 2019	\$ 540,761	\$ 458,695	\$ 391,093

Actuarial assumptions for June 30, 2018 Liability. 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
Investment rate of return	7.20%, net of OPEB plan investment expense, including inflation
Healthcare cost trend - medical	5.00% - 6.50%
Healthcare cost trend - prescription drug	5.00% - 7.25%
Healthcare cost trend - Medicare advantage	4.00% - 5.00%
Healthcare cost trend - 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.

NORTH CAROLINA AGRICULTURAL FINANCE AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018

Note 8 – Other postemployment benefits (continued)

Sensitivity of the total OPEB liability to changes in the discount rate for year ended June 30, 2018. The following presents the total OPEB liability of the Authority, as well as what the Authority’s total 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:

	<u>1 % Decrease in Trend Rate</u>	<u>6.50% Medical 7.25% RX 3.00% Admin</u>	<u>1 % Increase in Trend Rate</u>
Authority's proportionate share of the net RHBC liability at June 30, 2018	\$ 639,451	\$ 536,028	\$ 453,999

Sensitivity of the total OPEB liability to changes in the healthcare cost trend rates for year ended June 30, 2018. The following presents the total OPEB liability of the Authority, as well as what the Authority’s total OPEB liability would be if it were calculated using healthcare cost trend rates that are 1-percentage-point lower or 1-percentage-point higher than the current healthcare cost trend rates:

	<u>1 % Decrease (2.58%)</u>	<u>Discount Rate (3.58%)</u>	<u>1 % Increase (4.58%)</u>
Authority's proportionate share of the net RHBC liability at June 30, 2018	\$ 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.

Disability Income Plan of North Carolina

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

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

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

NORTH CAROLINA AGRICULTURAL FINANCE AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018

Note 8 – Other postemployment benefits (continued)

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 an employee is disabled. An employee is eligible to receive long-term disability benefits provide the following requirements are met: (1) the employee has five or more years of contributing membership service 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 payments cease or after monthly payments for Workers' Compensation cease (excluding monthly payments for permanent partial benefits), whichever is later; (3) the employee must be certified by the Medical Board to be mentally or physically disabled for the further performance of his/her usual occupation; (4) the disability must have been continuous, likely to be permanent, and incurred at the time of active employment; (5) the employee must not be eligible to receive an unreduced retirement benefit from TSERS after (1) reaching the age of 65 and completing 5 years of membership service, or (2) reaching the age of 60 and completing 25 years of creditable service, or (3) completing 30 years of service at any age.

Contributions. Benefit and contribution provisions are established by Chapter 135, Article 6, of the General Statutes and may be amended only by the North Carolina General Assembly. The plan does not provide for automatic post-retirement benefit increases. Disability income benefits are funded by actuarially determined employer contributions that are established in the Appropriations Bill by the General Assembly and coincide with the State fiscal year. For the fiscal years ended June 30, 2019 and 2018, employers made a statutory contribution of 0.14% of covered payroll for each fiscal year which was equal to the actuarially required contribution. The Authority contributions to the plan were \$427 and \$419 for the years ended June 30, 2019 and 2018, 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 other postemployment benefits and employment benefits for active employees. Those individuals who are receiving extended short-term disability benefit payments cannot be separated from the number of members currently eligible to receive disability benefits as another postemployment benefit.

OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

At June 30, 2019 and 2018, the Authority reported an asset of \$500 and \$997, respectively for its proportionate share of the net OPEB asset. The net OPEB asset was measured as of June 30, 2018 and 2017, and the total OPEB asset used to calculate the net OPEB asset was determined by an actuarial valuation as of December 31, 2017 and 2016. The total OPEB asset was then rolled forward to the measurement date of June 30, 2019 and 2018 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. The Authority's OPEB contributions are reported with the North Carolina Department of Agriculture's total contributions for administrative purposes. At June 30, 2019, the Authority's proportion was 0.001635% and the proportion decreased by 0.000004% from the prior measurement date. At June 30, 2018, the Authority's proportion was 0.001631%.

NORTH CAROLINA AGRICULTURAL FINANCE AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018

Note 8 – Other postemployment benefits (continued)

As of June 30, 2019 and 2018, the \$427 and \$423, respectively, 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:

Year ended June 30:		
2020	\$	372
2021		372
2022		243
2023		189
2024		134
Thereafter		134
Total	<u>\$</u>	<u>1,444</u>

Actuarial Assumptions for Year Ended June 30, 2019 Asset – The total OPEB asset in the December 31, 2017, 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
Investment rate of return	3.75%, net of OPEB 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:

	<u>1 % Decrease (2.75%)</u>	<u>Discount Rate (3.75%)</u>	<u>1 % Increase (4.75%)</u>
Authority's proportionate share of the net NCDIP asset at June 30, 2019	\$ 374	\$ 500	\$ 597

Actuarial Assumptions for Year Ended June 30, 2018 Asset – 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
Investment rate of return	3.75%, net of OPEB plan investment expense, including inflation

NORTH CAROLINA AGRICULTURAL FINANCE AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018

Note 8 – Other postemployment benefits (continued)

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:

	1 % Decrease	Discount Rate	1 % Increase
	(2.75%)	(3.75%)	(4.75%)
Authority's proportionate share of the net NCDIP asset at June 30, 208	\$ 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, 2017 and 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, 2018 and 2017. The update procedures incorporated the actuarial assumptions used in the valuation. The entry age normal cost method was utilized.

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

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

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

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

NORTH CAROLINA AGRICULTURAL FINANCE AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018

Note 8 – Other postemployment benefits (continued)

Total Deferred Outflows and Inflows of Resources Related to OPEB – The following is information related to the total deferred outflows and inflows for both OPEB plan as of June 30, 2019:

	<u>RBPF</u>	<u>DIPNC</u>	<u>Total</u>
OPEB expense	\$ (27,107)	\$ (327)	\$ (27,434)
OPEB liability (asset)	\$ 458,695	\$ (500)	\$ 458,195
Authority's proportionate share of the net liability (asset)	0.001607%	0.001635%	

Deferred Outflows of Resources:

Differences between expected and actual experience	\$ -	\$ 851	\$ 851
Changes of assumptions	-	92	92
Net difference between projected and actual earnings on plan investments	49	380	429
Changes in proportion and difference between employer contributions and proportion share of contributions	20,636	122	20,759
Contributions subsequent to the measurement date	19,137	427	19,564

Deferred Inflows of Resources:

Differences between expected and actual experience	\$ 31,299	\$ -	\$ 31,299
Changes of assumptions	198,280	-	198,280
Changes in proportion and difference between employer contributions and proportion share of contributions	2,375	-	2,375

NORTH CAROLINA AGRICULTURAL FINANCE AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018

Note 8 – Other postemployment benefits (continued)

The following is information related to the total deferred outflows and inflows for both OPEB plan for year ended June 30, 2018:

	<u>RBPF</u>	<u>DIPNC</u>	<u>Total</u>
OPEB expense	\$ 18,108	\$ 419	\$ 18,527
OPEB liability (asset)	\$ 536,028	\$ (997)	\$ 535,031
Authority's proportionate share of the net liability (asset)	0.001635%	0.001631%	

Deferred Outflows of Resources:

Differences between expected and actual experience	\$ -	\$ 273	\$ 273
Net difference between projected and actual earnings on plan investments	-	219	219
Changes in proportion and difference between employer contributions and proportion share of contributions	-	121	121
Contributions subsequent to the measurement date	18,279	423	18,702

Deferred Inflows of Resources:

Differences between expected and actual experience	\$ 3,844	\$ -	\$ 3,844
Changes of assumptions	147,620	-	147,620
Net difference between projected and actual earnings on plan investments	199	-	199

Note 9 – Lease obligations

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 \$59,104 and \$53,384 for the years ended June 30, 2019 and 2018, 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, 2019:

Year ended June 30:	
2020	\$ 59,104
2021	54,923
Total	<u>\$ 114,027</u>

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.

NORTH CAROLINA AGRICULTURAL FINANCE AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018

Note 10 – Risk management (continued)

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 provide 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.

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.

NORTH CAROLINA AGRICULTURAL FINANCE AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018

Note 10 – Risk management (continued)

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 for both fiscal years which amounted to \$488 and \$593 for the years ended June 30, June 30, 2019 and 2018 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 two 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.

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 two 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.

NORTH CAROLINA AGRICULTURAL FINANCE AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018

Note 11 – Conduit Debt Information

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, 2019 and 2018, there were three and five series of Agricultural Development Revenue Bonds outstanding with an aggregate principal amount payable of \$22,141,702 and \$24,088,873, respectively.

Note 12 – Subsequent Events

Subsequent events have been evaluated through November 13, 2019, the date which the financial statements were available to be issued and the Authority determined the sale of land and buildings described in footnote 4 of the financial statements required disclosure.

Note 13 – 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.

This audit required 139 hours at a cost of \$16,092.

North Carolina Agricultural Finance Authority
Schedule of the Proportionate Share of the Net Pension Liability
Teachers' and State Employees' Retirement System
For The Last Four Fiscal Years

	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>
Proportion of the net pension liability	0.001856%	0.001861%	0.002045%	0.002320%
Proportionate share of the net pension liability	\$ 184,815	\$ 147,689	\$ 187,949	\$ 85,500
Covered-employee payroll *	\$ 299,308	\$ 258,606	\$ 290,128	\$ 299,751
Proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	61.75%	57.11%	64.78%	28.52%
Plan fiduciary net position as a percentage of the total pension liability	91.63%	89.51%	87.32%	94.64%

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

* The amounts presented for each fiscal year were determined as of the prior fiscal year ending June 30.

See independent auditors' report.

**North Carolina Agricultural Finance Authority
Schedule of Contributions
Teachers' and State Employees' Retirement System
For The Last Four Fiscal Years**

	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>
Contractually required contribution	\$ 37,511	\$ 32,265	\$ 27,878	\$ 28,955
Contributions in relation to the contractually required contribution	37,511	32,265	27,878	28,955
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
 Covered-employee payroll	 \$ 305,212	 \$ 299,308	 \$ 258,606	 \$ 290,128
 Contributions as a percentage of covered-employee payroll	 12.29%	 10.78%	 10.78%	 9.98%

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

See independent auditors' report.

North Carolina Agricultural Finance Authority
Schedule of the Proportionate Share of the Net OPEB Liability
Retiree Health Benefit Fund
For The Last Two Fiscal Years

	<u>2019</u>	<u>2018</u>
Proportion of the net OPEB liability	0.001607%	0.001635%
Proportionate share of the net OPEB liability	\$ 458,695	\$ 536,028
Covered-employee payroll *	\$ 299,308	\$ 258,606
Proportionate share of the net OPEB liability (asset) as a percentage of its covered-employee payroll	153.25%	207.28%
Plan fiduciary net position as a percentage of the total OPEB liability	4.40%	3.52%

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

* The amounts presented for each fiscal year were determined as of the prior fiscal year ending June 30.

See independent auditors' report.

**North Carolina Agricultural Finance Authority
 Schedule of School Contributions
 Retiree Health Benefit Fund
 For The Last Two Fiscal Years**

	2019	2018
Contractually required contribution	\$ 19,137	\$ 18,108
Contributions in relation to the contractually required contribution	19,137	18,108
Contribution deficiency (excess)	\$ -	\$ -
 School's covered-employee payroll	 \$ 305,212	 \$ 299,308
 Contributions as a percentage of covered-employee payroll	 6.27%	 6.05%

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

See independent auditors' report.

North Carolina Agricultural Finance Authority
Schedule of the Proportionate Share of the Net OPEB Asset
Disability Income Plan of North Carolina
For The Last Two Fiscal Years

	<u>2019</u>	<u>2018</u>
Proportion of the net OPEB asset	0.001606%	0.16310%
Proportionate share of the net OPEB asset	\$ 500	\$ 997
Covered-employee payroll *	\$ 299,308	\$ 258,606
Proportionate share of the net OPEB liability (asset) as a percentage of its covered-employee payroll	0.17%	0.39%
Plan fiduciary net position as a percentage of the total OPEB liability	108.47%	116.23%

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

* The amounts presented for each fiscal year were determined as of the prior fiscal year ending June 30.

See independent auditors' report.

**North Carolina Agricultural Finance Authority
Schedule of Contributions
Disability Income Plan of North Carolina
For The Last Two Fiscal Years**

	2019	2018
Contractually required contribution	\$ 427	\$ 419
Contributions in relation to the contractually required contribution	427	419
Contribution deficiency (excess)	\$ -	\$ -
 School's covered-employee payroll	 \$ 305,212	 \$ 299,308
 Contributions as a percentage of covered-employee payroll	 0.14%	 0.14%

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

See independent auditors' report.



Rives & Associates, LLP
Certified Public Accountants

Member:
American Institute of
Certified Public Accountants

Member:
North Carolina Association of
Certified Public Accountants

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**Independent Auditors' Report On Internal Control Over Financial Reporting And On Compliance
And Other Matters Based On An Audit Of Financial Statements Performed
In Accordance With *Government Auditing Standards***

To the Board of Directors of
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 financial statements of the North Carolina Agricultural Finance Authority (the "Authority") as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the Authority basic financial statements, and have issued our report thereon dated November 13, 2019.

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 opinions 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 a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity'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 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 an instance 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 entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Rives & Associates LLP

Raleigh, North Carolina
November 13, 2019