NORTH CAROLINA
Turnpike Authority

Fiscal Year 2014
Annual Report

STATE OF NORTH CAROLINA
DEPARTMENT OF TRANSPORTATION

MESSAGE FROM THE SECRETARY AND TURNPIKE AUTHORITY EXECUTIVE DIRECTOR

Dear North Carolinian:

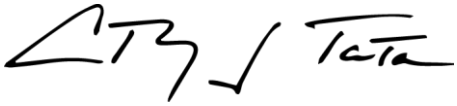
For more than a decade, the North Carolina Turnpike Authority has worked to advance toll facilities in North Carolina, giving drivers more choice in how they reach critical destinations, reducing congestion along heavily traveled routes, and providing an additional revenue stream for important infrastructure improvements.

Since it first opened to traffic in December 2011, the Triangle Expressway—North Carolina's first modern toll road—has continued to exceed traffic and revenue projections. The NC Quick Pass®, which allows drivers to use the Expressway at a discounted rate, is now interoperable with both E-ZPass® and Florida's SunPass®, providing more convenience to drivers than ever before. We are extremely proud of the progress we have made, and continue to look for ways to better serve our customers and meet the needs of our state.

As detailed in Governor McCrory's 25-Year Vision for transportation in North Carolina, we must continue to invest in transportation infrastructure that will help better connect people to economic centers, expand industry and jobs, and improve the overall quality of life for all North Carolinians. Because demand on our infrastructure greatly exceeds available resources, it is essential that we maximize our existing revenue through efforts like the Strategic Transportation Investments law passed in summer 2013 and that we work to identify additional funding for necessary improvements.

The Turnpike Authority plays a central role in these efforts and will continue to be of increasing importance as we invest in solutions for the challenges faced by our state and pursue the resources necessary to ensure North Carolina's ongoing success. Thank you for your partnership as we carry out our mission and continue to make toll facilities a valued option for travelers throughout our great state.

Sincerely,



Anthony J. Tata
Secretary of Transportation

Clayton D. Somers
North Carolina Turnpike Authority Executive Director

INTRODUCTION

The North Carolina Turnpike Authority ("Turnpike Authority") hereby submits its Fiscal Year 2014 Annual Report and Annual Audit pursuant to North Carolina General Statute 136-89.193(b). The Fiscal Year 2014 Annual Report details the Turnpike Authority's activities pursuant to its statutory authorities and is divided into the following three sections:

Section I - Turnpike Projects (Pages 5 – 15)

North Carolina General Statute (G.S.) 136-89.183 grants the Turnpike Authority the powers necessary to study, plan, develop, and undertake preliminary design work on up to nine Turnpike Projects. At the conclusion of these activities, the Turnpike Authority is authorized to design, establish, purchase, construct, operate, and maintain the Triangle Expressway (three projects: NC 540, Triangle Parkway and the Western Wake Freeway) and the Monroe Connector/Bypass. Any other project proposed by the Turnpike Authority requires prior consultation with the Joint Legislative Commission on Governmental Operations pursuant to G.S. 120-76.1 no less than 180 days prior to initiating the process required by Article 7 of Chapter 159 of the General Statutes. With the exception of the four projects described above, additional projects selected for construction by the Turnpike Authority, prior to the letting of a contract, shall meet the following conditions:

- Two of the projects must be ranked in the top 35 based on total score on the NCDOT-produced list entitled "Mobility Fund Project Scores" dated June 6, 2012;
- The projects shall be included in any applicable locally-adopted comprehensive transportation plans;
- The projects shall be shown in the current State Transportation Improvement Program (STIP); and
- The projects must be approved by all affected Metropolitan Planning Organizations and Rural Transportation Planning Organizations for tolling.

Pursuant to these conditions, the Turnpike Authority is currently developing two projects: I-77 Managed Lanes and I-485 Managed Lanes.

Section II – Complete 540 (Pages 16 – 17)

In addition to the Turnpike Projects provided in G.S. 136-89.183, the North Carolina General Assembly enacted Session Law 2013-94 to remove the restriction on the Turnpike Authority's selection of a corridor location for the Southeast Extension of the Triangle Expressway Turnpike Project, also known as Complete 540. Session Law 2013-94 requires the Department of Transportation to strive to expedite the federal environmental impact statement process to define the route for the Complete 540 project by promptly garnering input from local officials and other stakeholders, accelerating any required state studies, promptly submitting permit applications to the federal government, working closely with the federal government during the permitting process, and taking any other appropriate actions to accelerate the environmental permitting process.

Section III - Strategic Transportation Investments (Page 18)

Pursuant to G.S. 136-189.11 (Transportation Investment Strategy Formula), the Turnpike Authority is assisting with the evaluation of other statewide mobility projects as potential toll or managed lane projects. The resulting prioritization will provide a framework for future Turnpike Projects. This section lists the toll and managed lane projects scored in the "Statewide Mobility Category."

Attachment – Annual Audit

Pursuant to G.S. 136-89.193(b), the Turnpike Authority's Financial Statements and Report of the Independent Auditor for the fiscal years ended June 30, 2014, and June 30, 2013, are attached and incorporated herein by reference. It should be noted that the revenue and expense figures presented within the Annual Report are reported on a cash basis and will therefore not directly align with those presented in the Audited Financial Statements, which in accordance with US GAAP standards are reported on an accrual basis.

SECTION I – TURNPIKE PROJECTS

Triangle Expressway - Project Update

North Carolina's first modern toll road, the Triangle Expressway, is a six-lane toll road that utilizes all-electronic tolling technology, while improving regional mobility and setting the stage for future tolling projects in North Carolina. The project earned the America's Transportation Award for the Best Use of Innovation in the Southeastern Region, as presented at the SASHTO (Southeastern Association of State Highway and Transportation Officials) Conference in August 2013.

The 18.8-mile Triangle Expressway was designed and built to eliminate the need for drivers to stop to pay a toll. Customers are identified while traveling at highway speeds through free-flow "toll zones." Customers are encouraged to purchase an NC Quick Pass® electronic transponder that automatically deducts tolls from a pre-paid account and provides a 35 percent discount off the bill by mail toll rate. For travelers without a transponder, high-speed cameras mounted on gantries record the license plates, and invoices are sent by mail based on the vehicle's registration information.

During the project development process the Turnpike Authority made a very concerted effort to ensure public officials, local and state elected officials, local planning organizations, business and community leaders, and others were well-informed. The team leveraged public hearings, community workshops, regularly scheduled media briefings and small group meetings to maintain constant communication and accurate information flow to the public, resulting in public support. Collaborative support paved the way for the successful construction, opening and operations of the Triangle Expressway.

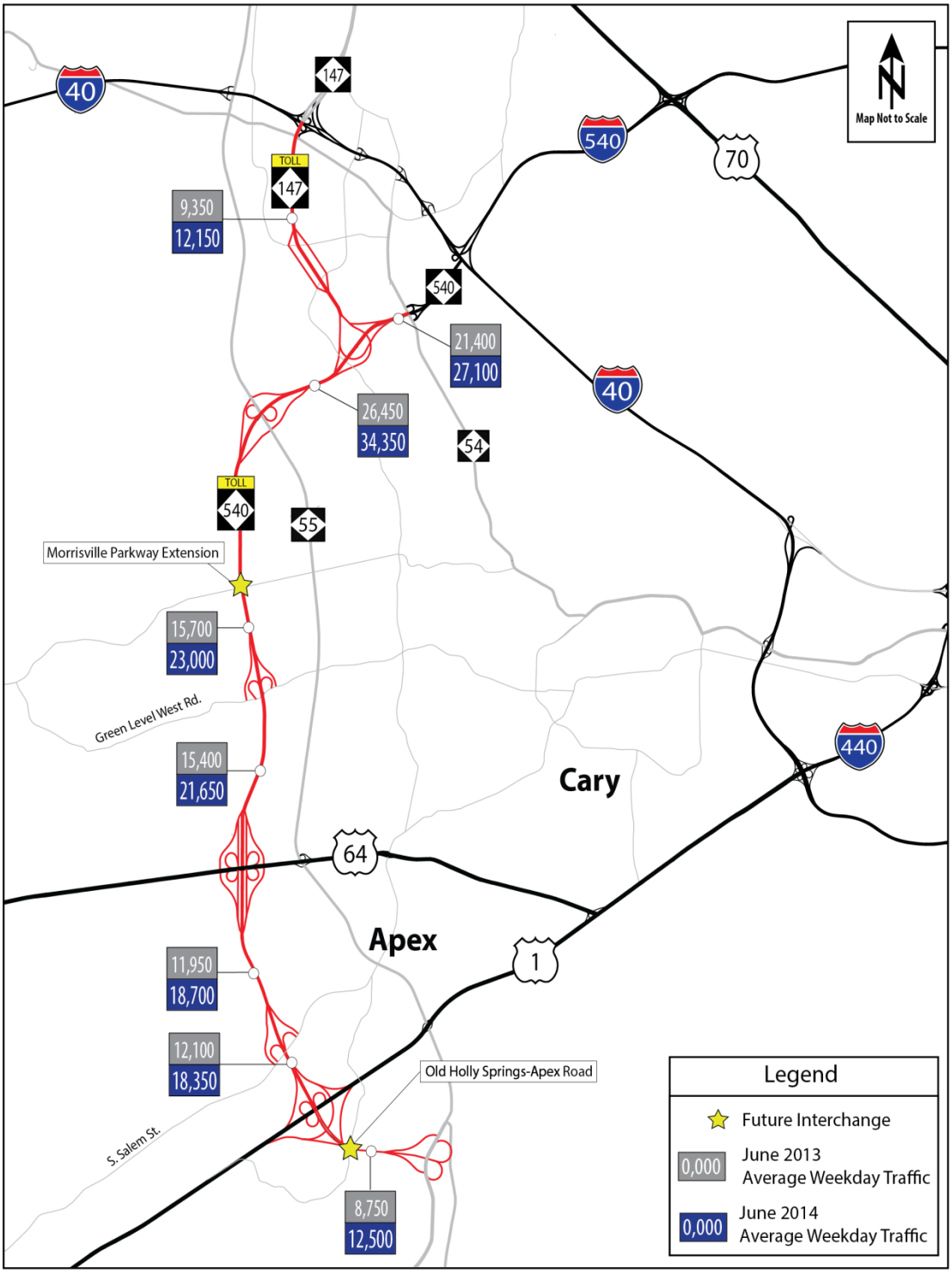
Capital expenditures for the Triangle Expressway were approximately 5 percent under budget. During the latter part of Fiscal Year 2014, the Turnpike Authority developed a fiscally responsible plan to utilize approximately $61.3 million in unallocated bond proceeds. In addition to funding outstanding construction expenditures, reimbursing NCDOT for pre-construction expenses, and reimbursing interest payments to the Turnpike Authority's reserve accounts, this plan includes providing capital contributions for two additional interchanges along the Triangle Expressway: Old Holly Springs-Apex Road and Morrisville Parkway Extension (see Project Map on the following page).

Moving forward, the latest Triangle Expressway financial model projects a positive outlook. The Turnpike Authority will hold in reserves enough funds to cover operations, maintenance, and rehabilitation expenses for three years. In addition, all debt service coverage ratios are projected at or above the minimum allowable, and currently there is no projected need for NCDOT revenue support during the life of the project.

It is clear that the Triangle Expressway has set high standards for future toll projects in North Carolina. From concept development to project completion and operations, the Turnpike Authority is dedicated to maintaining an efficient and effective management process.

TRIANGLE EXPRESSWAY

Project Map

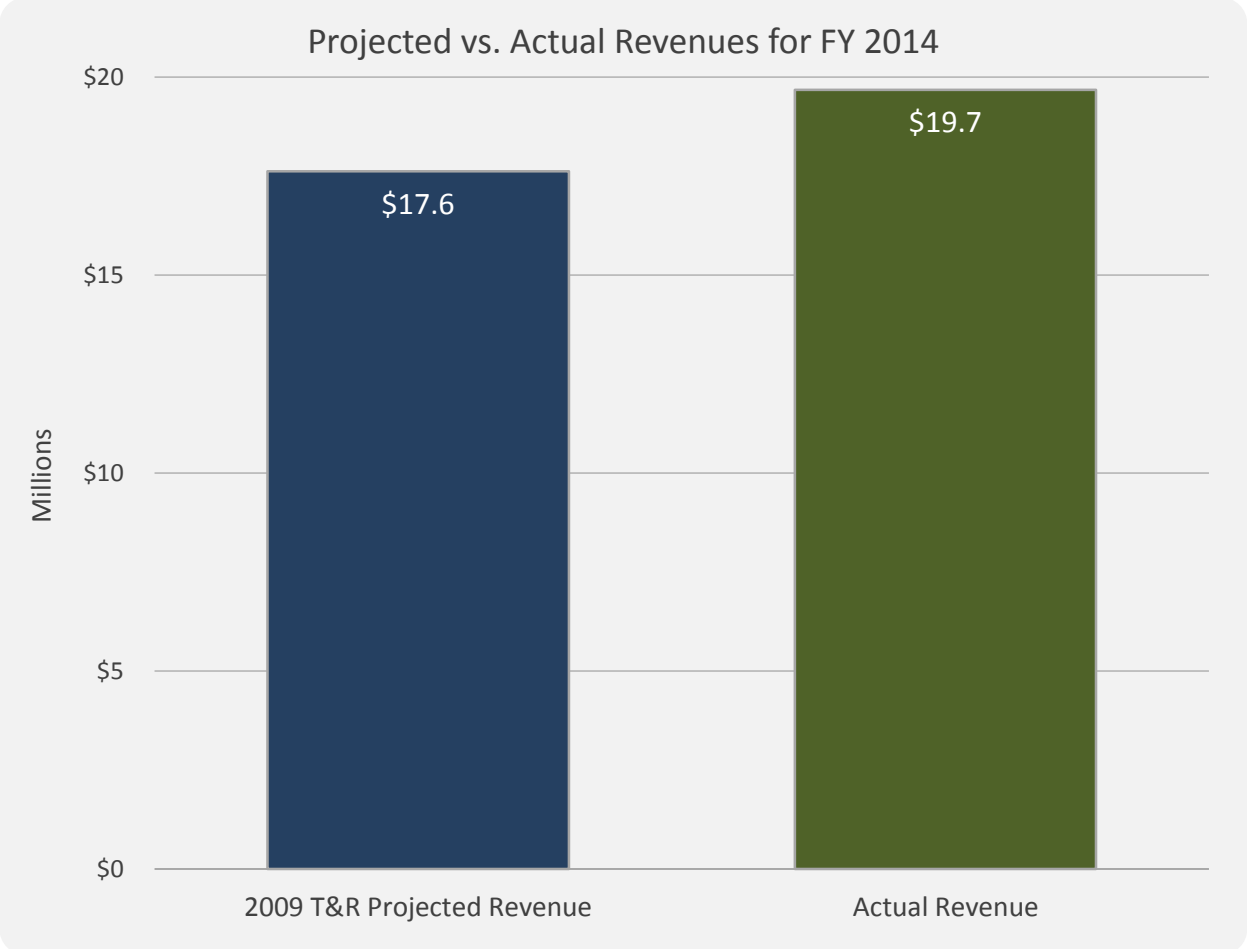


TRIANGLE EXPRESSWAY

Traffic and Revenue

As part of its Intelligent Transportation System operations, the Turnpike Authority maintains a system of vehicle detectors that continuously measure traffic volumes and speeds along the Triangle Expressway. Traffic volumes along the project corridor have continued to increase steadily during Fiscal Year 2014, with year-over-year growth averaging approximately 40 percent. As expected, traffic growth (up to 57 percent) is most evident near the southern end of the project, as more users discover the time-savings benefit of traveling the Triangle Expressway. Average weekday traffic volumes for June 2013 and 2014 are presented on the Project Map on the previous page.

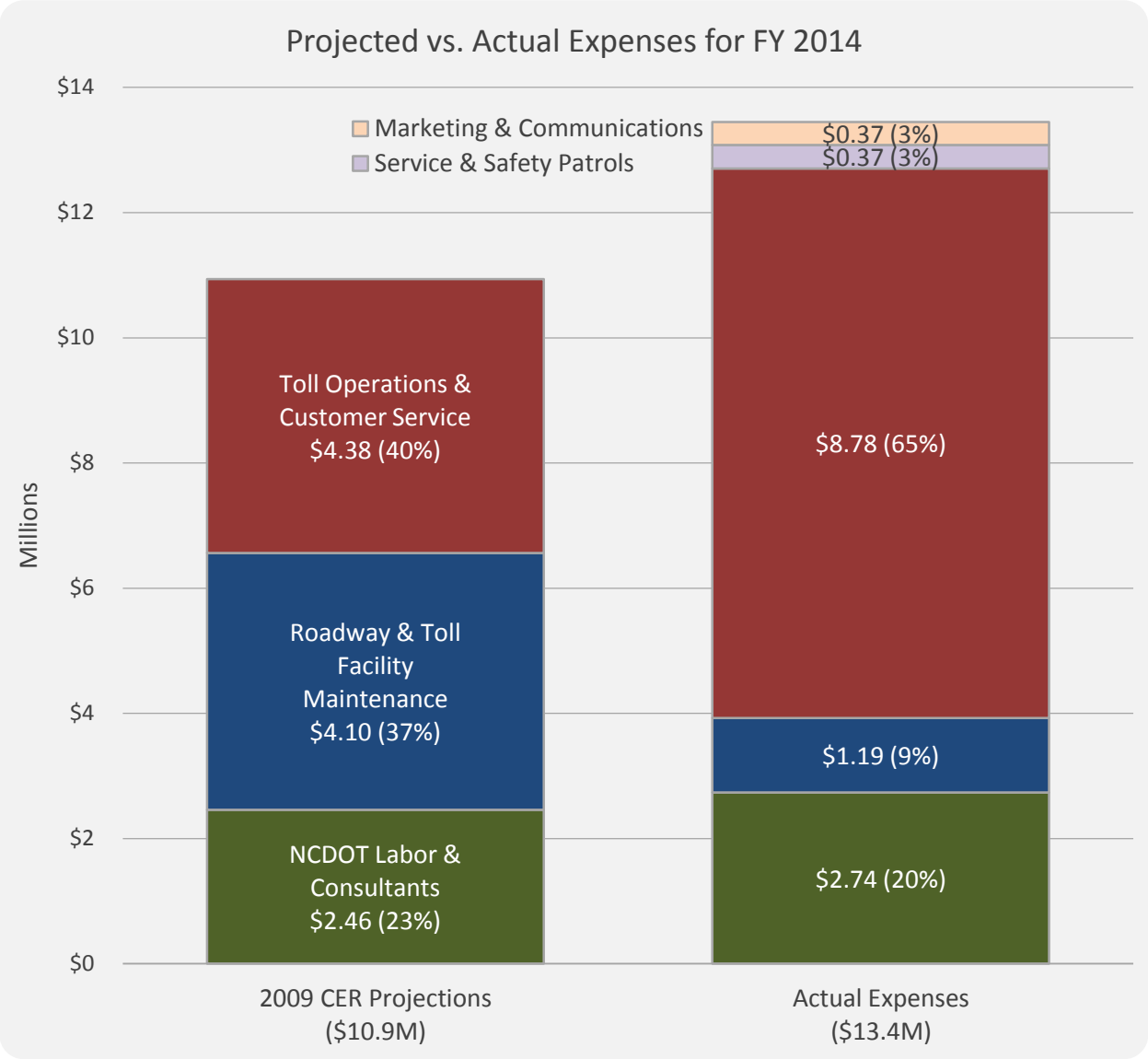
CDM Smith finalized the Comprehensive Traffic and Revenue Study for the Triangle Expressway in April 2009, and this document remains the certified forecast. Receipts totaling $19.7 million for Fiscal Year 2014 have exceeded the 2009 certified revenue forecast by 12 percent (see chart below). It should be noted that all reported revenue is inclusive of processing fees, in compliance with G.S. 136-89.215(b), and actual revenues are reported on a cash basis.



TRIANGLE EXPRESSWAY

Expenses

The initial budget for operations, maintenance, and rehabilitation was prepared prior to financial close in 2009, and was presented in the Consultant Engineering Report (CER). The actual expenses for Fiscal Year 2014 exceed the 2009 budget by 23 percent. Much of the operations excess is due to the associated costs for processing a greater-than-anticipated number of transactions, resulting in the higher revenues presented on the previous page. It should be noted that actual expenses are reported on a cash basis. The Turnpike Authority continues to identify improvements in operational efficiencies.



TRIANGLE EXPRESSWAY

Interoperability

In January of 2013, NC Quick Pass® and E-ZPass® entered into an interoperability agreement allowing all 26 E-ZPass® agencies in 15 states to accept the NC Quick Pass® hard case transponder as a form of payment, and allowing the Turnpike Authority to accept E-ZPass® as a form of payment on the Triangle Expressway. This agreement enables the Turnpike Authority to do business with the more than 26 million drivers who have E-ZPass® transponders.

A similar agreement was executed at the beginning of Fiscal Year 2014 between the Turnpike Authority and Florida's SunPass®. This agreement allows SunPass® customers to utilize the Triangle Expressway, while also allowing NC Quick Pass® customers to use their sticker or hard case transponder wherever SunPass® is accepted in Florida.

The two agreements with E-ZPass® and SunPass® have expanded the versatility of the NC Quick Pass® system and allowed NC Quick Pass® to be the premiere transponder program along the east coast. The interoperable transaction totals for Fiscal Year 14 are presented in the table below.

Interoperability Statistics

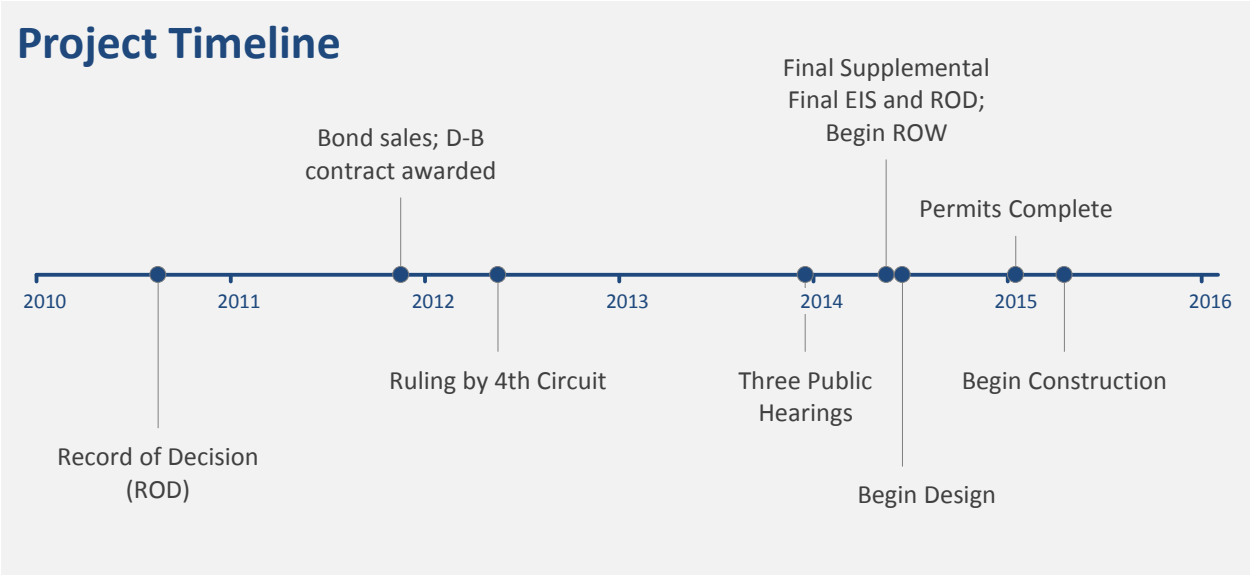
User Status	Transactions
E-ZPass® Customers Using Turnpike Authority Facilities	1,426,344
SunPass® Customers Using Turnpike Authority Facilities	87,049
NC Quick Pass® Customers Using E-ZPass® Facilities	127,577
NC Quick Pass® Customers Using SunPass® Facilities	29,405

MONROE CONNECTOR/BYPASS

Project Update

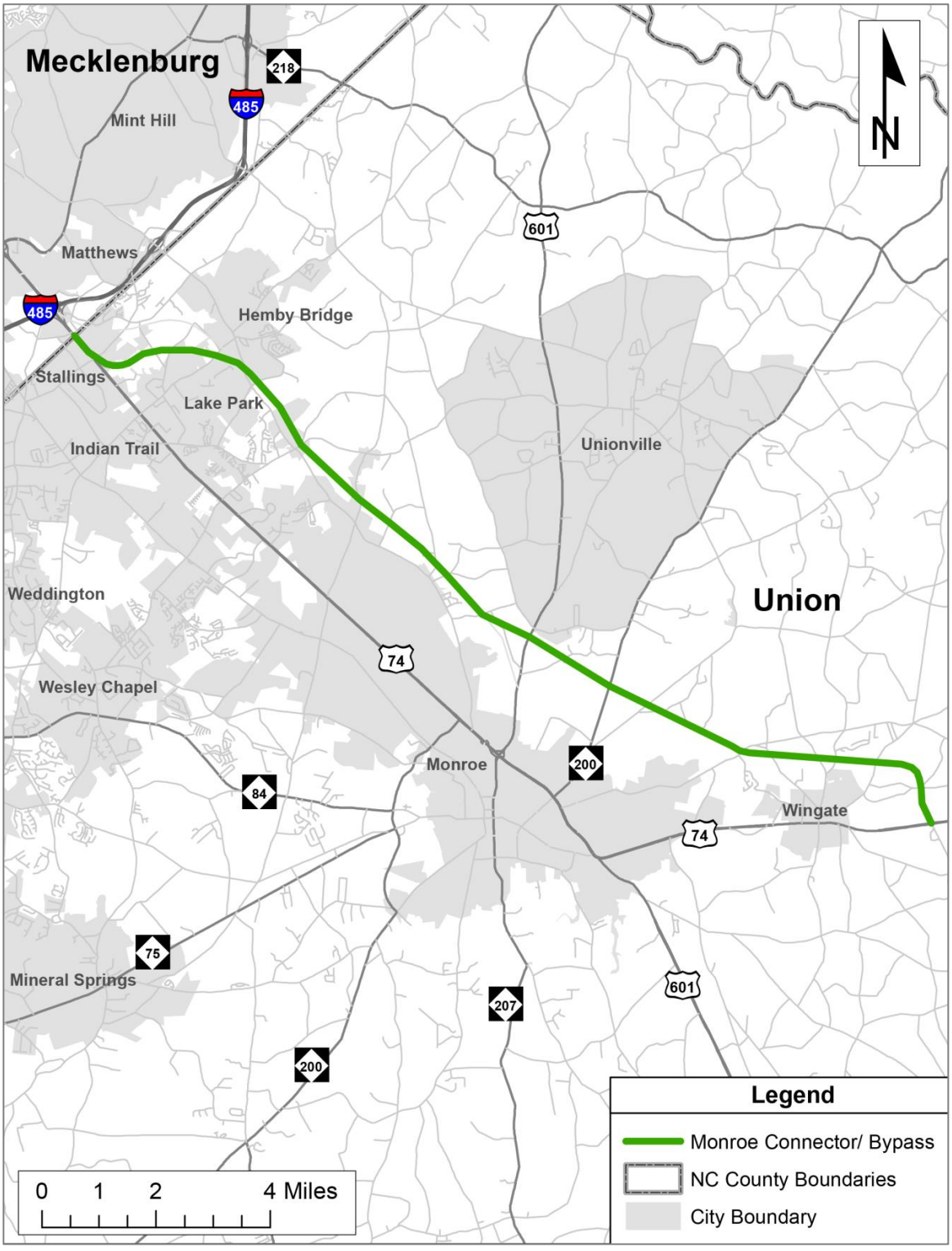
The Turnpike Authority is advancing the approximately 20-mile Monroe Connector/Bypass on a new location from US 74 and I-485 in eastern Mecklenburg County, to US 74 between Wingate and Marshville in Union County. Currently right of way acquisition, design and permitting are underway. Preliminary cost estimates to complete the project are between $640 million and $730 million.

The Final Supplemental Final Environmental Impact Statement (EIS) and Record of Decision (ROD) were approved on May 15, 2014. A lawsuit challenging the environmental documentation was filed in US District Court on June 23, 2014, and is currently pending. The following timeline presents key milestones and activities for this project.



MONROE CONNECTOR/BYPASS

Project Map



I-77 MANAGED LANES

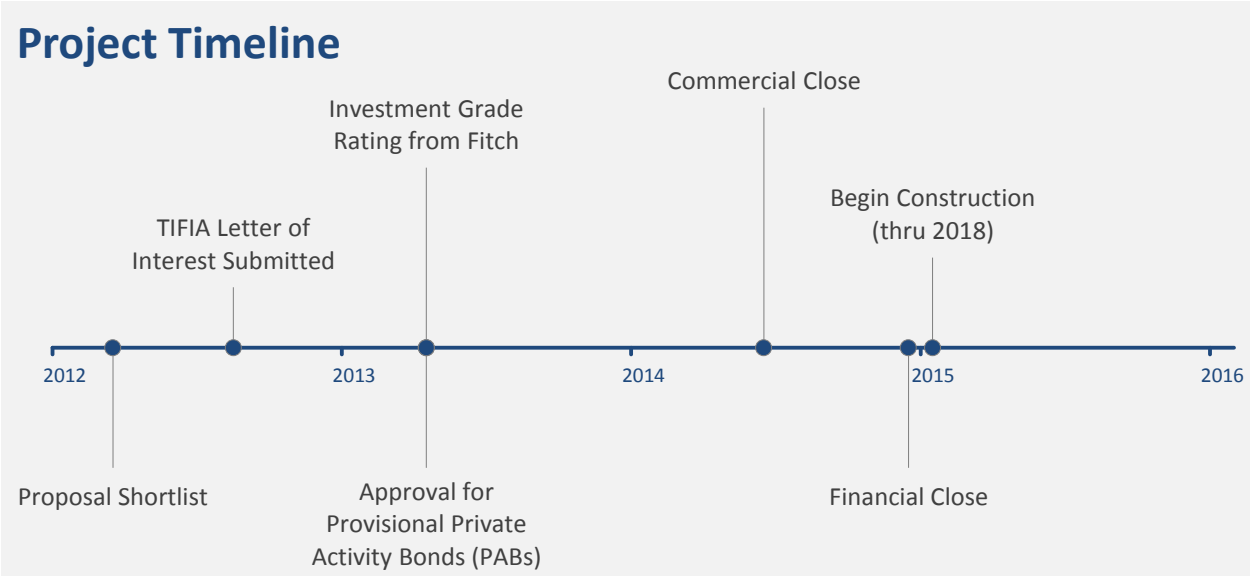
Project Update

NCDOT has identified I-77 as a significant corridor that needs improvement to maintain and enhance current and future mobility in the Charlotte-Mecklenburg region. The I-77 Managed Lanes project includes approximately 27 miles of I-77 corridor improvements between the I-77/I-277 junction in Charlotte and NC 150 in Mooresville. The corridor is of high importance, serving as the primary north-south connector through the region.

This project will be the first toll project in the state to utilize public-private partnership (P3) delivery methods. On April 11, 2014, NCDOT announced Cintra Infraestructures, S.A. (Cintra) as the Apparent Best Value Proposer to design, build, operate, maintain, and finance the project. Cintra has formed a Special Purpose Vehicle for the project called I-77 Mobility Partners, LLC. The project will be designed and built by the design-build joint venture of F.A. Southeast, LLC, and W.C. English, Inc., and the lead design firm, The Louis Berger Group. The concession agreement with I-77 Mobility Partners, LLC, was executed on June 26, 2014.

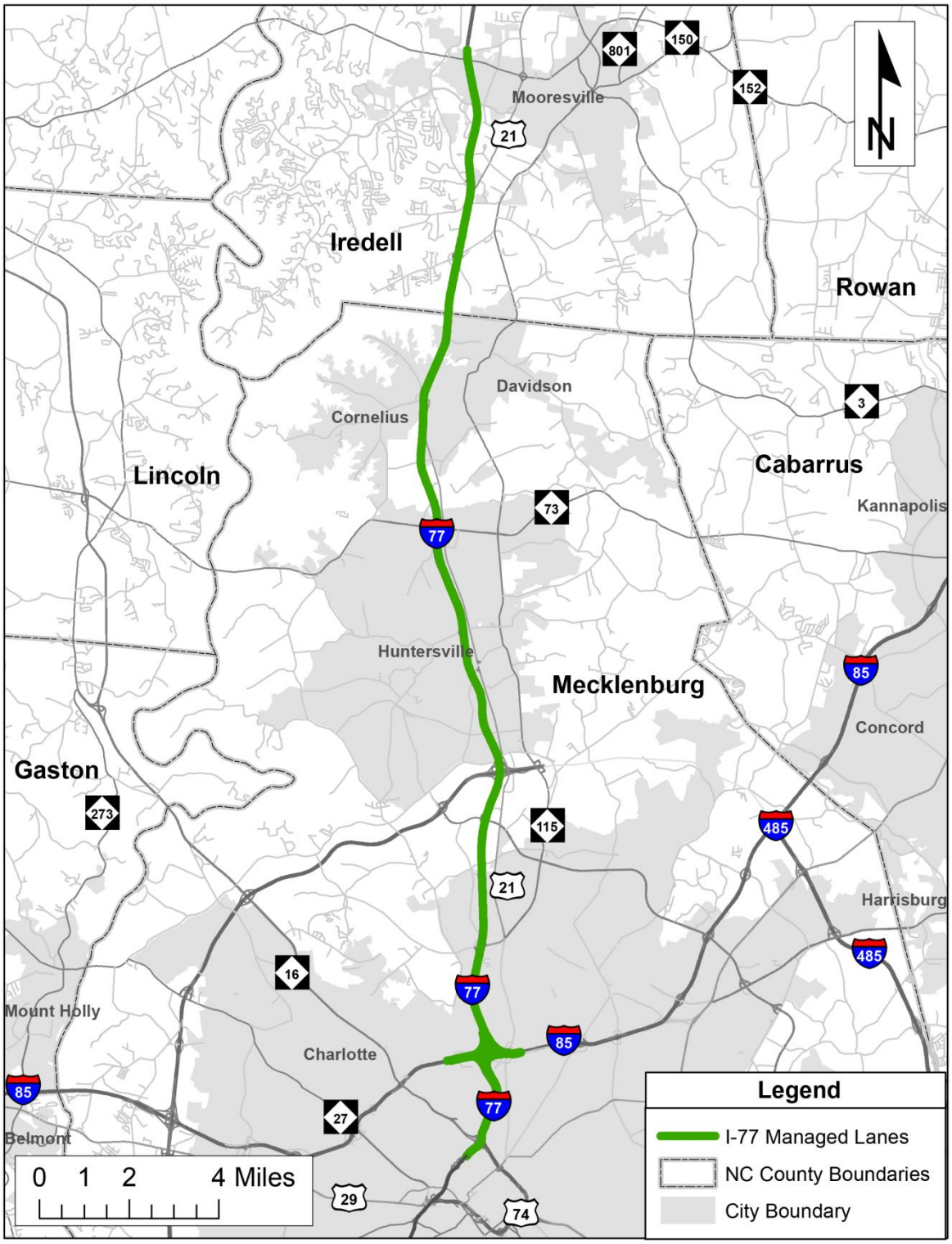
The P3 delivery model leverages new funding sources to lessen financial impacts to the state and completes projects faster through investments by a private firm. I-77 Mobility Partners, LLC, will invest the majority of the $655 million to design, build, operate and maintain the project in exchange for toll revenue generated from the managed lanes. NCDOT will invest about $88 million, which is significantly less than the $170 million originally projected. Further, this funding solution enables the project to be substantially complete by 2018, instead of the estimated 20 years to secure enough state funding to move this project forward.

The project proposes to add managed lanes to the I-77 corridor between I-277 (Exit 11) in Charlotte and NC 150 (Exit 36) in Iredell County and is comprised of three NCDOT State Transportation Improvement Program (STIP) projects: I-3311C, I-5405 and I-4750AA. The following timeline presents key milestones and activities for this project.



I-77 MANAGED LANES

Project Map

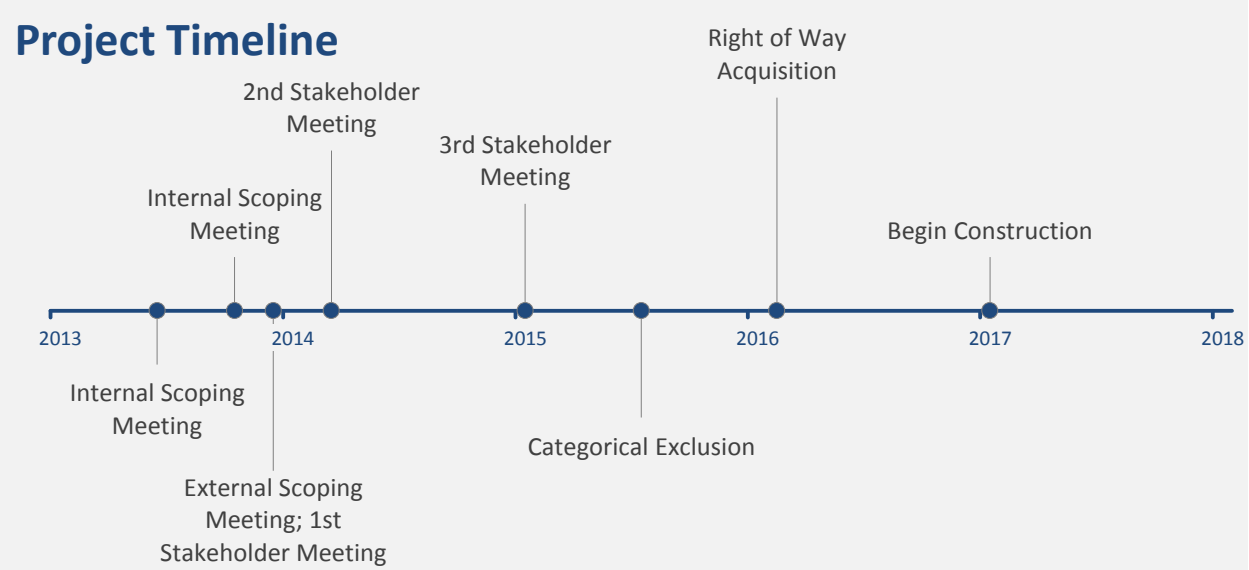


I-485 MANAGED LANES

Project Update

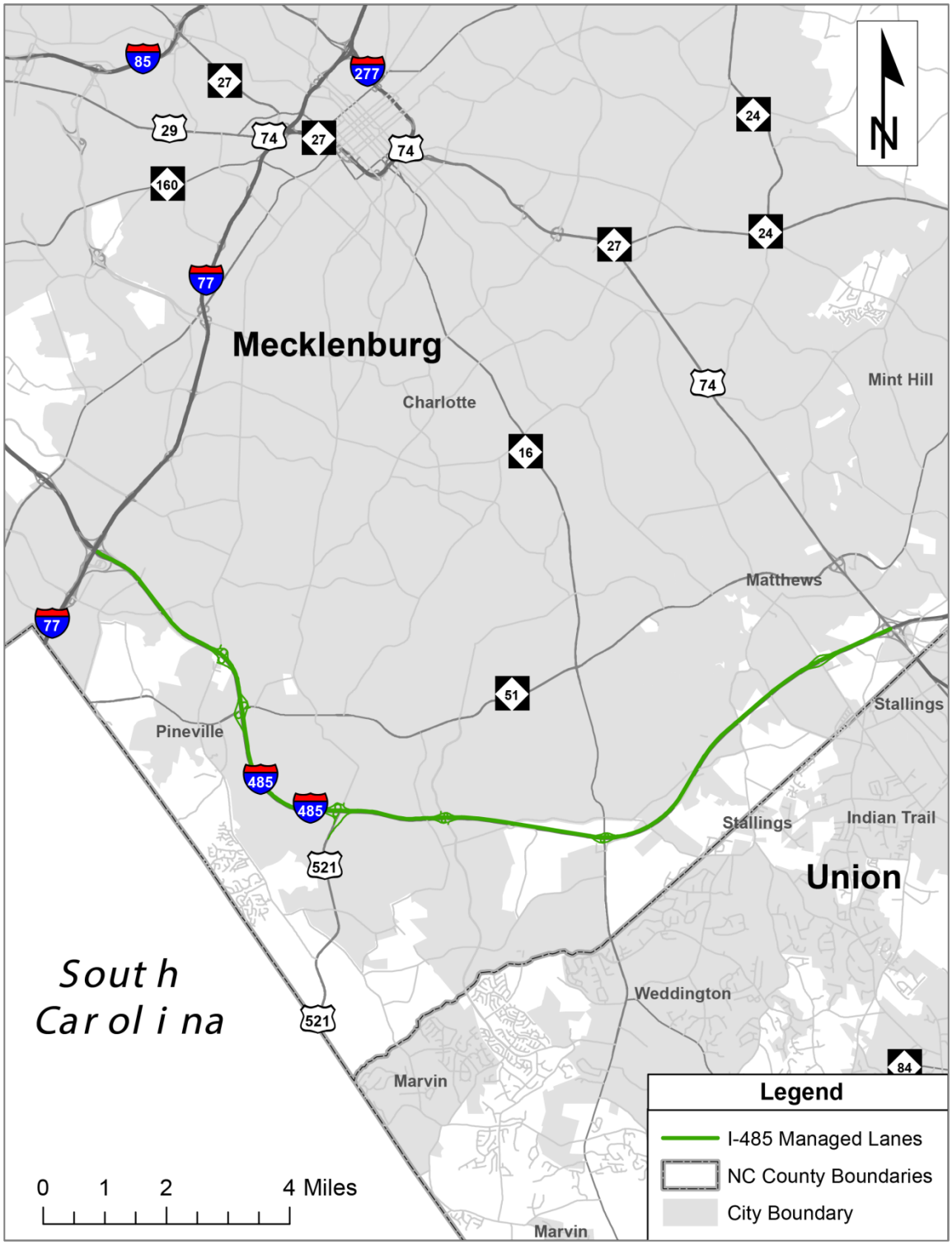
State Transportation Improvement Program (STIP) Project I-5507 proposes adding one managed lane in each direction along I-485 (Charlotte Outer Loop) from I-77 to US 74 (Independence Boulevard). The purpose of this 16-mile project is to provide a reliable travel time option on this section of I-485.

An Alternative Analysis report is anticipated to be complete by December 2014. This report will discuss various Design Concept Options currently being reviewed. Following the Alternative Analysis Report, a Traffic and Revenue Study and Categorical Exclusion will be completed. The following timeline presents key milestones and activities for this project.



I-485 MANAGED LANES

Project Map



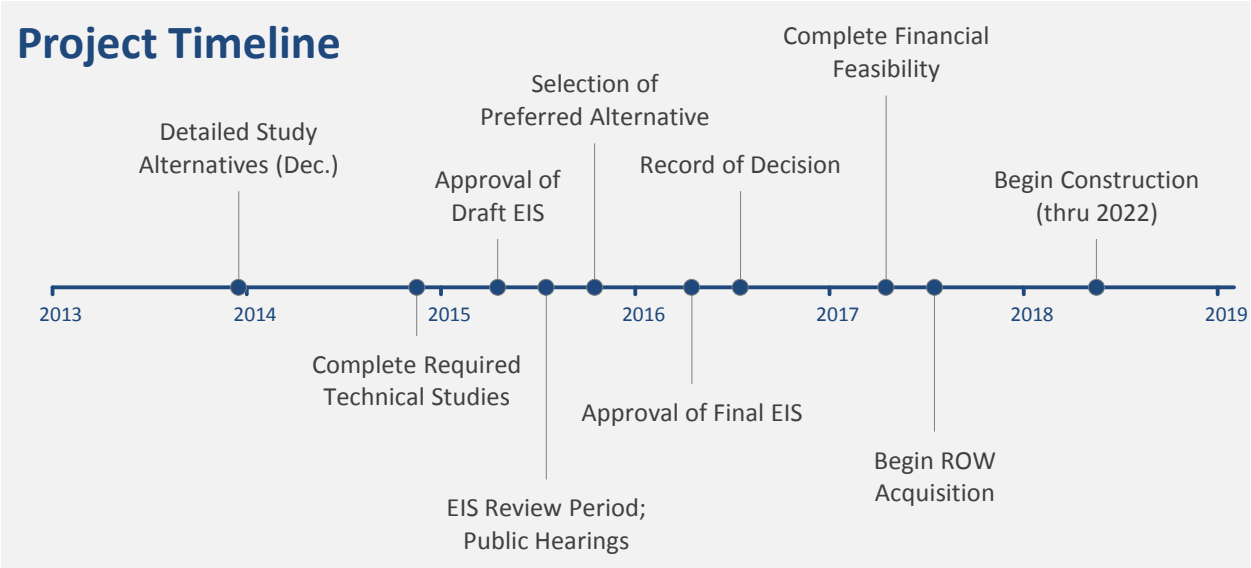
SECTION II - COMPLETE 540

Environmental Permitting Update

As noted in the Introduction, Session Law 2013-94 directed NCDOT to expedite the federal environmental impact statement process to define the route for the Southeast Extension of the Triangle Expressway Turnpike Project. The proposed Southeast Extension of the Triangle Expressway Turnpike Project, or Complete 540, will extend the Triangle Expressway approximately 29 miles from the NC 55 Bypass in Apex to the US 64/US 264 Bypass in Knightdale, completing the 540 Outer Loop around the greater Raleigh area. The project is being evaluated through the new Strategic Transportation Investments process.

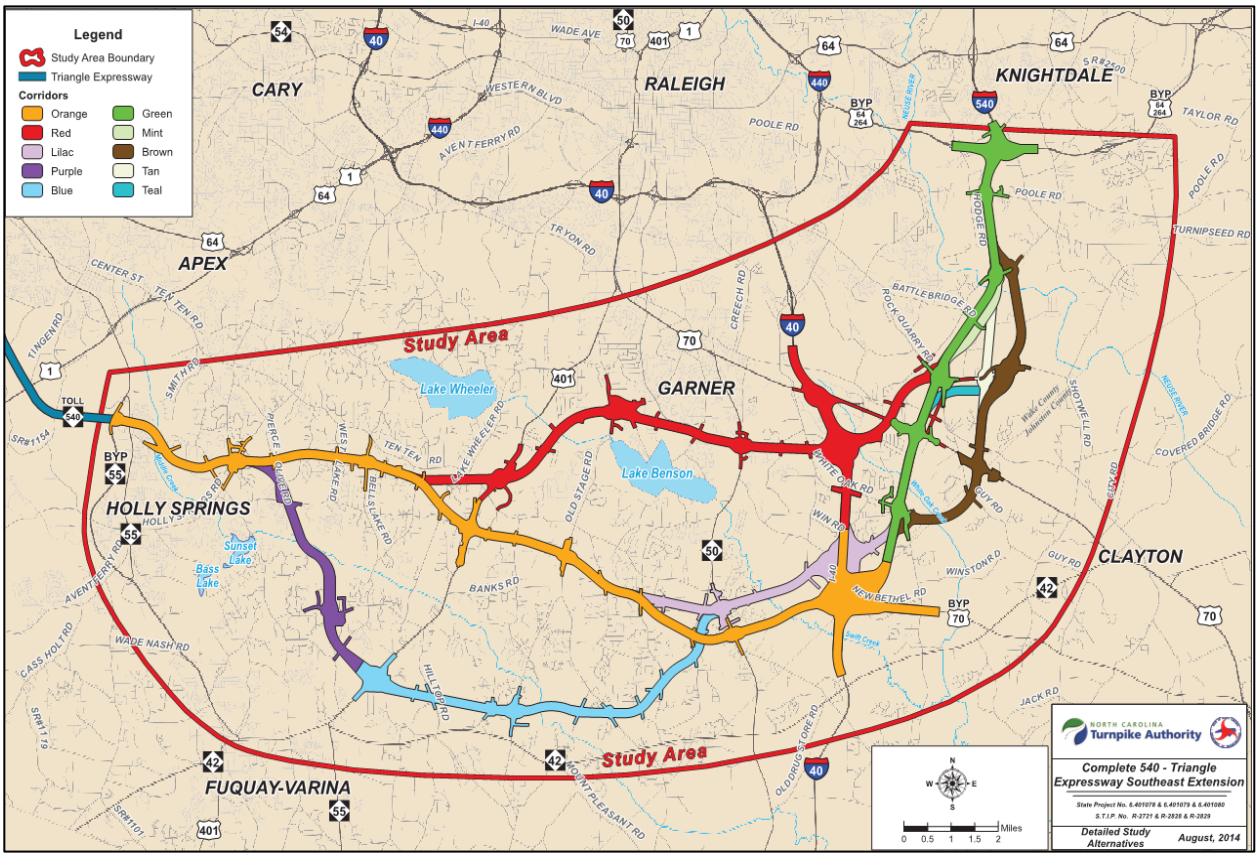
In September 2013, NCDOT published a Draft Alternatives Development and Analysis Report, including a list of 17 alternatives recommended for detailed study (Detailed Study Alternatives or DSAs). A series of public meetings were held in October 2013 regarding the 17 DSAs, which approximately 1,700 people attended and provided more than 1,100 comments. The majority of the comments expressed support for the Orange Corridor (the North Carolina Board of Transportation formally acted to preserve this corridor in 1996 and 1997) while opposing the Purple, Blue, Lilac, and Red Corridors (see Project Map on the following page). The recommended DSAs were also presented to the various state and federal agencies. Additionally, comments were sought from the Capital Area Metropolitan Planning Organization (CAMPO), which includes representatives from local governments within the study area. After careful consideration of all input, NCDOT and the Federal Highway Administration concluded that the study will proceed with the 17 recommended DSAs as the final set of DSAs.

Moving forward with the recommended DSAs, field studies have been conducted and technical reports are being prepared which will support development of the Draft Environmental Impact Statement (EIS). The Draft EIS is anticipated to be ready for publication in the spring of 2015. Following publication of the Draft EIS and subsequent Public Hearings, the Preferred Alternative will be selected for the project in the fall of 2015. The following timeline presents key milestones and activities for this project.



COMPLETE 540

Detailed Study Alternatives



SECTION III - STRATEGIC TRANSPORTATION INVESTMENTS

Transportation Projects Evaluated Through STI

Pursuant to G.S. 136-189.11 (Transportation Investment Strategy Formula), the Turnpike Authority is assisting with the evaluation of other statewide mobility projects as potential toll or managed lane projects. The Strategic Transportation Investments (STI) Law (Session Law 2013-183) allows NCDOT to maximize North Carolina's existing transportation funding to enhance the state's infrastructure and support economic growth, job creation and high quality of life. STI establishes the Strategic Mobility Formula, a new way of allocating available revenues based on data-driven scoring and local input. The following table presents a list of statewide mobility projects that are currently being evaluated as potential toll or managed lane projects. After the evaluations are complete, any proposed projects will be presented for consultation with the Joint Legislative Commission on Governmental Operations as provided in G.S. 136-89.183.

STIP #	Route/Facility	From/Cross Street	To/Cross Street	Description
U-2509	US-74	I-485	Sardis Rd.	Upgrade corridor to provide additional capacity and safety improvements
U-2509	US-74	Sardis Rd.	Conference Dr.	Upgrade corridor to provide additional capacity and safety improvements
FS-1205A	I-40	NC 147	Wade Avenue	Construct managed lanes in each direction
FS-1205A	I-40	NC 147	US 15/501	Construct 1 managed lane in each direction
FS-1305A	I-540	I-40	US 64 Bypass	Convert freeway to tolled facility; widen to 8 Lanes
FS-1305A	I-540	NC 54	US 1	Construct 1 express toll lane in each direction
FS-1305A	I-540	NC 54	US 64	Construct 1 express toll lane in each direction
I-5507	I-485	I-77	US 74	Construct 1 express toll lane in each direction
R-2576	Mid-Currituck Bridge	Coinjock	Corolla	Construct new toll bridge over Currituck Sound
R-2721	NC-540 (Tri Ex)	NC 55 (South)	US 401	Construct freeway on new location (Toll)
R-2828	NC-540 (Tri Ex)	US 401	I-40	Construct freeway on new location (Toll)
R-2829	NC-540 (Tri Ex)	I-40	US 64/264 Bypass	Construct freeway on new location (Toll)
U-3321	Garden Parkway	I-485	I-85	Construct freeway on new location (Toll)
U-4738	Cape Fear Crossing	US 17 (Brunswick Co.)	US 421 (New Hanover Co.)	Construct freeway on new location with bridge over Cape Fear River (Toll)
U-5526	US-74/NC-27 Independence Blvd.	NC 27	I-277	Convert bus lanes to reversible managed (HOT) lanes
FS-0810A	I-77 , US-21	I-277/US 74 (Belk Freeway)	I-277/NC 16 (Brookshire Freeway)	Widen existing freeway from eight lanes to ten lanes with interchange improvements
FS-0810A	I-77 , US-21	I-485	Woodlawn Rd	Construct 2 managed lanes in each direction
FS-0810A	I-77 , US-21	Woodlawn Rd	I-277/US 74 (Belk Freeway)	Construct 2 managed lanes in each direction
U-2579	I-74 W-S Beltway (Eastern Section)	I-74/US 311	US 52	Construct freeway on new location (Toll)
FS-1005A	I-40	Wade Avenue	I-440	Construct managed lanes in each direction

ATTACHMENT – ANNUAL AUDIT

Financial Statements and Auditor Report

Pursuant to G.S. 136-89.193(b), the Turnpike Authority's financial statements and report of the independent auditor for the fiscal years ended June 30, 2014, and June 30, 2013, are attached and incorporated herein by reference.

NORTH CAROLINA TURNPIKE AUTHORITY

FINANCIAL STATEMENTS

As of and for the Years Ended June 30, 2014 and 2013

And Report of Independent Auditor

Cherry Bekaert LLP
CPAs & Advisors

NORTH CAROLINA TURNPIKE AUTHORITY
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Cherry Bekaert LLP
CPAs & Advisors

Report of Independent Auditor

Board of Directors
North Carolina Turnpike Authority
Raleigh, North Carolina

Report on the Financial Statements

We have audited the accompanying statements of net position of the North Carolina Turnpike Authority ("NCTA"), a major enterprise fund of the State of North Carolina, as of and for the years ended June 30, 2014 and 2013, and the related statements of revenues, expenses and changes in net position and cash flows, and the notes to the financial statements which collectively comprise the NCTA's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall financial statement presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the NCTA, as of June 30, 2014 and 2013, and the respective changes in financial position and cash flows for the years then ended in accordance with U.S. GAAP.

Emphasis of Matter

Nature of Reporting Entity
As discussed in Note 1 to the financial statements, the financial statements present only the NCTA and do not purport to and do not present fairly the financial position of the State of North Carolina or the North Carolina Department of Transportation, as of and for the years ended June 30, 2014 and 2013, and the changes in their financial position and their cash flows thereof for the years then ended in conformity with U.S. GAAP.

Change in Accounting Principle
As discussed in Notes 1 and 13 to the financial statements, the NCTA adopted the provisions of Governmental Accounting Standards Board ("GASB") Statement No. 65, Items Previously Reported as Assets and Liabilities, during fiscal year 2014. These provisions were applied retroactively. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information
U.S. GAAP requires that the management's discussion and analysis as listed in the table of contents be presented to supplement the basic financial statements. Such information, although not a required part of the basic financial statements, is required by GASB, 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 September 30, 2014, on our consideration of the NCTA's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the NCTA's internal control over financial reporting and compliance.

Cherry Bekaert LLP

Raleigh, North Carolina
September 30, 2014

The management's discussion and analysis ("MD&A") provides an overview of the North Carolina Turnpike Authority's ("NCTA") activities during the fiscal years ended June 30, 2014, 2013 and 2012. The discussion and analysis also includes condensed financial information comparing the current year to the prior years.

Overview of the Financial Statements

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

Included in this report are the statements of net position as of June 30, 2014 and 2013, the statements of revenues, expenses, and changes in net position for the years ended June 30, 2014 and 2013, and the statements of cash flows for the years ended June 30, 2014 and 2013. These statements use the accrual basis of accounting, which is similar to the accounting used by most private-sector businesses. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid. The statements of net position present assets less liabilities which equals net position, thus presenting the NCTA's financial position at the end of the fiscal year, while the statements of revenues, expenses, and changes in net position present information showing how the NCTA's net position changed during the fiscal year.

Financial Highlights and Analysis

The NCTA was created in October 2002, with financial activity starting late in fiscal year 2004. Budgeted Administrative Activities for fiscal year 2014 and 2013 were limited to salaries, personnel, Board members' per-diem, travel, and other general operating expenditures, while project-related costs were funded by state-appropriated, federal, or project-specific financings.

Funding for administrative expenses is reviewed and advanced as needed from the Highway Trust Fund Administration line item to be repaid by the NCTA from revenue collections. Interest began to accrue on the advance on January 1, 2014 one year after the NCTA begins collecting tolls on a completed Turnpike project at a rate equal to the State Treasurer's average annual yield on its investment of Highway Trust Funds pursuant to G.S. 147-6.1. Turnpike project funding may come from a combination of debt and the NCDOT, Federal Highway Administration ("FHWA"), and public private partnership participation as authorized in G.S. 136-89.189 and G.S. 136-89.191.

New legislation was passed in North Carolina (House Bill 817-An Act to Strengthen the Economy through Strategic Transportation Investments) and was signed into law on June 26, 2013. The new law includes the creation of the Strategic Mobility Formula and includes changes to the annual appropriations (GAP funds) dedicated to the NCTA projects. The Strategic Mobility Formula is a new way to fund and prioritize transportation projects to ensure they provide the maximum benefit to the State of North Carolina. The annual appropriation of $49 million for the Triangle Expressway ($25 million) and Monroe Bypass ($24 million) projects remains under the new law while the annual appropriations for the Mid-Currituck Bridge and Garden Parkway projects were removed.

The NCTA recently executed agreements with E-ZPass® and Florida's SunPass® to ensure compatibility with their electronic toll collection systems. These agreements allow for seamless toll interoperability between North Carolina and the other states along the east coast.

As part of NCDOT, NCTA is working to develop several toll and managed lanes projects across North Carolina. One of these projects, the Triangle Expressway, is fully operational. The Monroe Bypass has been funded and a construction contract has been awarded. The remaining projects are in various stages of study with no funding sources identified. Additional information on the two active projects is included below:

Triangle Expressway
North Carolina's first modern toll road, the Triangle Expressway, is approximately 18.8 miles of new highway construction, extending the partially complete "Outer Loop" around the greater Raleigh area from I-40 in the north to the NC 55 Bypass in the south. The final phase opened to toll traffic on January 2, 2013. The Triangle Expressway project was delivered on schedule and under budget.

Total revenues, inclusive of toll revenue and processing fees but excluding transponder revenues, were $24.3 million and $13.0 million for fiscal year 2014 and 2013. Fiscal year 2014 revenues increased $11.3 million (86.9%) from the prior year. Operating expenses totaled $13.4 million and $9.7 million for fiscal year 2014 and 2013. Fiscal year 2014 operating expenses increased $3.7 million (38.1%) from the prior year. Sales of transponders peaked with the opening of the final phase in January 2013 and remained steady through the end of fiscal year 2014.

A possible extension to the Triangle Expressway is in the study phase, and would complete the Outer Loop around Raleigh.

Monroe Bypass
The Monroe Bypass toll project is a proposed 19.7-mile new location divided highway from U.S. 74 at I-485 in eastern Mecklenburg County to U.S. 74 between the towns of Wingate and Marshville in Union County. The highway is expected to improve mobility and capacity within the project study area by providing a highway for the U.S. 74 corridor that allows for high-speed regional travel consistent with State goals, while maintaining access to properties along existing U.S. 74.

A design-build construction contract was advertised in April 2010 and price proposals were opened the following October. The Monroe Bypass Constructors (a joint venture between United Infrastructure, Boggs Paving, and Anderson Columbia) was selected through the best-value procurement process. In October 2010, the NCTA issued $233,920,000 in State Annual Appropriation Revenue Bonds. In late 2011, $10,000,000 in Senior Lien Turnpike Revenue Bonds, $214,505,000 in State Annual Appropriation Revenue Bonds, and $145,535,000 in GARVEE bonds with State match were sold in conjunction with the award of the design build contract. State Transportation Improvement Program (STIP) funds will complete the funding for the project.

In November 2010, a lawsuit was filed by the Southern Environmental Law Center ("SELC") challenging the environmental documentation for the Monroe Bypass. The NCDOT prevailed in the district court; however, SELC filed an appeal to the 4th Circuit Court, and a three-judge panel of the court in May 2012 overturned the lower court decision. Following the Circuit Court's ruling against the NCDOT and FHWA, standard right-of-way acquisition and work by the design build team was suspended. The FHWA rescinded the Record of Decision in July 2012. Following a period of additional analyses and studies, the Final Supplemental Final Environmental Impact Statement/Record of Decision for the Monroe Bypass was signed by FHWA and NCDOT on May 15, 2014, and work on final designs and right-of-way acquisition has resumed. A lawsuit was filed in US District Court by the SELC on June 23, 2014. As of June 30, 2014, no action has been taken by the court system.

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

For fiscal year 2014, the NCTA ended with positive net position.

Condensed Statements of Net Position

	2014	* Restated 2013	* Restated 2012
Current Assets	$ 72,212,788	$ 48,861,861	$ 55,849,363
Restricted Assets and Prepaid Insurance Costs	842,613,796	869,249,116	884,067,223
Capital Assets	1,134,761,389	1,104,821,562	1,013,042,633
Total Assets	2,049,587,973	2,022,932,539	1,952,959,219
Current Liabilities	124,627,781	97,973,379	131,866,984
Noncurrent Liabilities	1,648,189,848	1,656,534,371	1,569,455,286
Total Liabilities	1,772,817,629	1,754,507,750	1,701,322,270
Net Investment in Capital Assets	383,233,274	340,686,144	327,908,609
Restricted	2,616,292	1,711,674	-
Unrestricted	(109,079,222)	(73,973,029)	(76,271,660)
Net Position	$ 276,770,344	$ 268,424,789	$ 251,636,949

* See Notes 1 and 13 to the Financial Statements.

Current Assets

The increase in fiscal year 2014 is mainly due to an increase in the securities lending collateral. The decrease in fiscal year 2013 is mainly due to a decrease in the securities lending collateral.

Capital Assets

Capital Assets, Non-depreciable – The increase in fiscal year 2014 is due to the increase in the Construction in Progress account for continued work on the various turnpike projects. The decrease in fiscal year 2013 is due to the opening of the final two phases of the Triangle Expressway and the re-classification of costs from the Construction in Progress account to a depreciable asset account.

Capital Assets, Depreciable – The decrease in fiscal year 2014 is due to the annual depreciation of the Triangle Expressway. The increase in fiscal year 2013 is due to the opening of the final two phases of the Triangle Expressway and the resulting re-classification of costs from the Construction in Progress account to a depreciable asset account.

Current Liabilities

Current liabilities include accounts payable, current portion of interest payable, obligations under securities lending, current portion of revenue bonds payable, and other current liabilities. The increase in fiscal year 2014 is due to an increase in the securities lending collateral due to a higher balance with the North Carolina State Treasurer's Investment Fund along with an increase in late payment penalties due to the State Civil Penalty Fund. The decrease in fiscal year 2013 is due to a decrease in accrued construction liabilities due to the completion of the Triangle Expressway, along with a decrease in the securities lending collateral due to a lower balance with the North Carolina State Treasurer's Investment Fund, as well as, a lesser portion of the revenue bonds payable becoming current and due within one year.

Noncurrent Liabilities

Noncurrent liabilities include revenue bonds payable, notes payable, funds advanced to the NCTA from the Highway Trust Fund to cover the administrative expenditures of the NCTA, and they also include the noncurrent portion of accrued vacation and interest payable. The decrease in fiscal year 2014 is due to a portion of revenue bonds payable becoming current and due within one year. The increase in fiscal year 2013 is attributable to the increase in the TIFIA loan.

Net Position

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

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

	2014	* Restated 2013	* Restated 2012
Operating Revenues:			
Charges for Services	$ 24,326,442	$ 13,037,975	$ 495,686
Other Operating Revenues	398,570	462,210	169,175
Total Operating Revenues	24,725,012	13,500,185	664,861
Operating Expenses:			
Personnel Services	1,460,128	1,285,105	1,318,567
Supplies and Materials	150,351	124,206	244,582
Contracted Personnel Services	4,714,974	9,944,289	2,796,599
Travel	32,512	48,057	67,413
Advertising	41,211	136	-
Utilities	289,203	245,013	77,380
Dues and Subscription Fees	12,944	9,247	25,495
Other Services	2,363,217	1,608,471	2,038,719
Cost of Goods Sold	381,919	461,362	169,170
Capital Outlay	8,205,970	962,059	3,481,880
Rental Expense	141,885	113,103	107,035
Depreciation	16,129,812	9,931,285	1,869,952
Total Operating Expenses	33,924,126	24,732,333	12,196,792
Operating Loss	(9,199,114)	(11,232,148)	(11,531,931)
Nonoperating Other Revenue (Expenses) and Capital Grants	(28,839,326)	(24,486,014)	24,381,728
Transfers In	61,201,176	56,245,509	69,912,789
Transfers Out	(14,817,181)	(3,739,507)	(2,745,863)
Change in Net Position	8,345,555	16,787,840	80,016,723
Net Position Beginning, July 1	268,424,789	251,636,949	190,340,478
Cumulative Effect of GASB 65	-	-	(18,720,252)
Net Position Ending, June 30	$ 276,770,344	$ 268,424,789	$ 251,636,949

* See Notes 1 and 13 to the Financial Statements.

Operating Revenues

Operating revenues are revenues derived from the business operations of the NCTA. These include toll revenues, fees, and sales revenue from the sale of transponders. The increase in revenues is due to the completion of the Triangle Expressway and toll collections on the entire roadway. Phase II of the Triangle Expressway opened in August 2012 and Phase III opened in December 2012.

Operating Expenses

Operating expenses are expenses used to acquire or produce goods and services to carry out the mission of the NCTA. The increase in capital outlay is attributed to the expensing of certain costs related to the completed section of the Triangle Expressway instead of capitalizing them during construction. The increase in depreciation expense is due to a full years' worth of depreciation on the Triangle Expressway. The majority of the other services expenses are the costs associated with the standard overhead allocation from the NCDOT.

Non-operating and Other Revenue/Expenses

Non-operating revenues/expenses are revenues received or expenses incurred for which goods and services are not provided or received. They include capital grants, transfers in and out, investment income, and debt service expense. Capital grants are the funds received from the FHWA and the NCDOT for their participation in the initial construction of toll highways and in preliminary studies to determine the feasibility of a toll facility. The amount in fiscal year 2014 increased due to the expensing of debt service related to the completed section of the Triangle Expressway. The amount in fiscal year 2013 decreased due to the expensing of debt service related to the completed section of the Triangle Expressway.

Transfers In

Transfers in include funds received from the NCDOT for gap funding of debt service and funds for the FHWA State match. This amount of State match received from the NCDOT increased in fiscal year 2014 due to the increased expenditures on the Monroe Connector. This amount of State match received from the NCDOT decreased in fiscal year 2013 due to the decreased expenditures on the Monroe Connector.

Transfers Out

Transfers out in fiscal year 2014 increased primarily due to a one-time $14,000,000 transfer to NCDOT for a right of way settlement on the Triangle Expressway extension project.

Economic Outlook

Utilizing innovative financing and engineering initiatives, advanced toll collection technologies, and expedited environmental reviews, the NCTA is moving rapidly to accomplish its mission to advance construction of certain strategic highways as efficiently as possible. With the completion of each project, sound fiscal practices are being reviewed and implemented to allow for efficient and effective operation of the completed projects to safeguard the assets and patrons of the NCTA.

Requests for Information

Any request for information about this report should be sent to the Chief Financial Officer at the North Carolina Turnpike Authority, 1 South Wilmington Street, Raleigh, NC 27601.

NORTH CAROLINA TURNPIKE AUTHORITY
STATEMENTS OF NET POSITION

JUNE 30, 2014 AND 2013

	2014	Restated 2013
ASSETS		
Current Assets:		
Cash and Cash Equivalents	$ 893,819	$ 1,099,452
Securities Lending Collateral	58,201,701	40,722,719
Accounts Receivable	12,136,287	4,927,121
Inventory	573,721	956,973
Intergovernmental Receivable	407,260	1,155,596
Total Current Assets	72,212,788	48,861,861
Noncurrent Assets:		
Restricted Assets:		
Cash and Cash Equivalents	2,616,292	1,711,674
Investments	830,343,581	857,497,362
Total Restricted Assets	832,959,873	859,209,036
Prepaid Insurance Costs	9,653,923	10,040,080
Capital Assets, Nondepreciable:		
Land and Permanent Easements	149,568,351	144,959,001
Construction in Progress	206,617,493	165,157,204
Capital Assets, Depreciable, Net of Depreciation:		
Highway Network	778,575,545	794,705,266
Machinery and Equipment	-	91
Total Capital Assets, Net of Depreciation	1,134,761,389	1,104,821,562
Total Noncurrent Assets	1,977,375,185	1,974,070,678
Total Assets	2,049,587,973	2,022,932,539
LIABILITIES		
Current Liabilities:		
Accounts Payable	1,378,425	2,951,968
Accrued Interest Payable	38,080,184	30,473,159
Accrued Vacation	5,884	3,811
Obligations under Securities Lending	59,021,609	42,312,871
Due to Other Funds	4,742,147	1,938,495
Revenue Bonds Payable, Net	19,720,000	19,150,000
Intergovernmental Payables	135,871	51,895
Unearned Revenue	1,543,661	1,091,180
Total Current Liabilities	124,627,781	97,973,379
Noncurrent Liabilities:		
Revenue Bonds Payable, Net	1,189,274,904	1,211,607,771
Note Payable	372,876,792	372,876,792
Advances from Other Funds	24,494,524	23,605,800
Accrued Interest Payable	61,466,756	48,384,724
Accrued Vacation	76,872	59,284
Total Noncurrent Liabilities	1,648,189,848	1,656,534,371
Total Liabilities	1,772,817,629	1,754,507,750
NET POSITION		
Net Investment in Capital Assets	383,233,274	340,686,144
Restricted	2,616,292	1,711,674
Unrestricted	(109,079,222)	(73,973,029)
Total Net Position	$ 276,770,344	$ 268,424,789

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

NORTH CAROLINA TURNPIKE AUTHORITY

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

YEARS ENDED JUNE 30, 2014 AND 2013

	2014	Restated 2013
Revenues		
Operating Revenues:		
Charges for Services	$ 24,326,442	$ 13,037,975
Other Operating Revenues	398,570	462,210
Total Operating Revenues	24,725,012	13,500,185
Expenses		
Operating Expenses:		
Personnel Services	1,460,128	1,285,105
Supplies and Materials	150,351	124,206
Contracted Personnel Services	4,714,974	9,944,289
Travel	32,512	48,057
Advertising	41,211	136
Utilities	289,203	245,013
Dues and Subscription Fees	12,944	9,247
Other Services	2,363,217	1,608,471
Cost of Goods Sold	381,919	461,362
Capital Outlay	8,205,970	962,059
Rental Expense	141,885	113,103
Depreciation	16,129,812	9,931,285
Total Operating Expenses	33,924,126	24,732,333
Operating Loss	(9,199,114)	(11,232,148)
Nonoperating Revenues (Expenses)		
Investment Earnings	2,125,389	2,476,499
Federal Interest Subsidy on Debt	11,338,065	11,686,271
Interest and Fees	(54,125,117)	(52,185,476)
Miscellaneous	22,939	8,144
Total Nonoperating Revenues (Expenses)	(40,638,724)	(38,014,562)
Loss before Transfers and Capital Grants	(49,837,838)	(49,246,710)
Capital Grants	11,799,398	13,528,548
Transfers In	61,201,176	56,245,509
Transfers Out	(14,817,181)	(3,739,507)
Increase in Net Position	8,345,555	16,787,840
Net Position Beginning July 1	268,424,789	251,636,949
Net Position Ending June 30	$ 276,770,344	$ 268,424,789

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

NORTH CAROLINA TURNPIKE AUTHORITY
STATEMENTS OF CASH FLOWS

YEARS ENDED JUNE 30, 2014 AND 2013

	2014	Restated 2013
Cash Flows from Operating Activities		
Receipts from Customers	$ 17,396,821	$ 8,557,059
Payments to Employees and Fringe Benefits	(1,440,467)	(1,400,659)
Payments to Vendors and Suppliers	(13,267,408)	(9,431,587)
Other Payments	(1,053,536)	(1,019,695)
Net Cash Flows from Operating Activities	1,635,410	(3,294,882)
Cash Flows from Noncapital Financing Activities		
Transfers Out	(14,817,181)	(3,739,507)
Insurance Recoveries	22,939	8,144
Other Noncapital Financing Receipts - Advances	888,723	859,417
Net Cash Flows from Noncapital Financing Activities	(13,905,519)	(2,871,946)
Cash Flows from Capital and Related Financing Activities		
Acquisition and Construction of Capital Assets	(21,146,351)	(96,075,162)
Transfers In	61,201,176	56,245,509
Federal Interest Subsidy on Debt	11,338,065	11,686,271
Capital Grants	12,666,758	12,539,256
Principal Payments	(19,150,000)	(22,725,000)
Interest Expense	(62,585,497)	(63,075,777)
Proceeds from TIFIA Loan	-	89,368,435
Net Cash Flows from Capital and Related Financing Activities	(17,675,849)	(12,036,468)
Cash Flows from Investing Activities		
Proceeds from Sale and Maturities of Investments	6,932,860,067	7,438,816,777
Purchase of Investments	(6,905,625,951)	(7,424,506,034)
Investment Earnings	3,410,827	3,801,378
Net Cash Flows from Investing Activities	30,644,943	18,112,121
Net Change in Cash and Cash Equivalents	698,985	(91,175)
Cash and Cash Equivalents at Beginning of Year	2,811,126	2,902,301
Cash and Cash Equivalents at End of Year	$ 3,510,111	$ 2,811,126
Summary of Cash and Cash Equivalents		
Cash and Cash Equivalents Unrestricted	$ 893,819	$ 1,099,452
Cash and Cash Equivalents Restricted	2,616,292	1,711,674
Cash and Cash Equivalents at End of Year	$ 3,510,111	$ 2,811,126

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

NORTH CAROLINA TURNPIKE AUTHORITY
STATEMENTS OF CASH FLOWS (CONTINUED)

YEARS ENDED JUNE 30, 2014 AND 2013

	2014	Restated 2013
Reconciliation of Operating Loss to Net Cash Flows Provided (Used) by Operating Activities		
Operating Loss	$ (9,199,114)	$ (11,232,148)
Adjustments to Reconcile Operating Loss to Net Cash Flows Provided (Used) by		
Operating Activities:		
Depreciation Expense	16,129,812	9,931,285
Investment Earnings	57	(285)
Management Fees	(52,649)	(55,736)
Changes in Assets and Liabilities:		
Accounts Receivable	(7,329,132)	(4,941,957)
Due from Other Funds	885	(885)
Inventories	383,252	463,198
Prepaid items	386,157	-
Accounts Payable	(1,981,675)	(151,406)
Intergovernmental Payables	83,976	46,397
Due to Other Funds	(1,936,325)	1,937,577
Due to Fiduciary	4,678,024	-
Unearned Revenue	452,481	824,633
Compensated Absences	19,661	(115,555)
Total Cash Provided (Used) by Operating Activities	$ 1,635,410	$ (3,294,882)
Noncash Investing, Capital, and Financing Activities		
Increase in Fair Value of Investments	$ 1,038,182	$ (11,627,678)
Amortization of Prepaid Insurance Costs	-	386,157
Change in Construction in Progress as a Result of Accrual Liabilities	644,098	2,496,147
Assets Acquired through Assumption of a Liability	58,201,701	40,722,719

Note 1—Summary of significant accounting policies

Organization and Purpose – The North Carolina Turnpike Authority ("NCTA") was established by G.S. 136 Article 6H on October 3, 2002. Effective July 27, 2009 the North Carolina General Assembly adopted Session Law 2009-343, transferring the NCTA to the North Carolina Department of Transportation ("NCDOT") to conserve expenditures and improve efficiency. The NCTA is a business unit of the NCDOT and is subject to and under the direct supervision of the Secretary of Transportation. The NCTA is presented as a major enterprise fund in the State of North Carolina. Currently, the NCTA is authorized to construct, operate, and maintain up to nine toll roads in the state.

Financial Reporting Entity – The concept underlying the definition of the financial reporting entity is that elected officials are accountable to their constituents for their actions. As required by accounting principles generally accepted in the United States of America ("U.S. GAAP"), the financial reporting entity includes both the primary government and all of its component units. An organization other than a primary government serves as a nucleus for a reporting entity when it issues separate financial statements. The NCTA is a business unit of the NCDOT. The NCTA is an integral part of the State of North Carolina's *Comprehensive Annual Financial Report*. These financial statements for the NCTA are separate and apart from those of the State of North Carolina or NCDOT and do not present the financial position of the State or NCDOT, or changes in their financial position and cash flows. The NCTA is governed by a nine-member Board of Directors; two members are appointed by the Senate Pro Tempore and two by the Speaker of the House. The remaining five are appointed by the Governor and include the Secretary of Transportation.

Basis of Presentation – The accompanying financial statements are presented in accordance with U.S. GAAP as prescribed by the Governmental Accounting Standards Board ("GASB"). The full scope of the NCTA's activities is considered to be a single business-type activity and accordingly, is reported within a single column in the basic financial statements.

Basis of Accounting – The financial statements of the NCTA have been prepared using the "economic resources" measurement focus and the accrual basis of accounting. Under the accrual basis, revenues are recognized when earned, and expenses are recorded when an obligation has been incurred. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Change in Accounting Principles/Restatement – Effective July 1, 2012, the NCTA adopted the provisions of GASB Statement 63, Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position (Statement No. 63). This implementation required the NCTA to present a Statement of Net Position, replacing the previously presented Statement of Net Assets, in the NCTA's financial statements.

During fiscal year 2014, the NCTA adopted the provisions of GASB Statement 65, Items Previously Reported as Assets and Liabilities (Statement No. 65). The provisions were to be applied retrospectively; therefore, the implementation required the NCTA to restate certain financial statements amounts reported as of and for the year ended June 30, 2013 as detailed in Note 13.

Cash and Cash Equivalents – This classification includes deposits held by the State Treasurer in the short-term investment fund. The short-term investment fund maintained by the State Treasurer has the general characteristics of a demand deposit account in that participants may deposit and withdraw cash at any time without prior notice or penalty. The funds on deposit with the State Treasurer are an advance from the Highway Trust fund and are available on demand for payment of the NCTA's expenses. The cash balances as of June 30, 2014 and 2013 are the result of timing differences between when the expenses are recorded and when the corresponding checks are written.

Note 1—Summary of significant accounting policies (continued)

State Treasurer's Securities Lending Collateral – While the NCTA does not directly engage in securities lending transactions, it deposits certain funds with the State Treasurer's Short-Term Investment Fund which participates in securities lending activities. Based on the State Treasurer's allocation of these transactions, the NCTA recognizes its allocable share of the assets and liabilities related to these transactions on the accompanying financial statements as "Securities Lending Collateral" and "Obligations under Securities Lending." The NCTA's allocable share of these assets and liabilities is based on the NCTA's year end deposit balance per the State Treasurer's records.

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

The collateral is initially pledged at 102 percent of the market value of the securities lent, and additional collateral is required if its value falls to less than 100 percent of the market value of the securities lent. There are no restrictions on the amount of loans that can be made. Substantially all security loans can be terminated on demand by either the State Treasurer or the borrower.

Additional details on the State Treasurer's securities lending program are included in the State of North Carolina's *Comprehensive Annual Financial Report*. An electronic version of this report is available by accessing the North Carolina Office of the State Controller's Internet home page http://www.ncosc.net/ and clicking on "Reports" or by calling the State Controller's Financial Reporting Section at (919) 707-0500.

Receivables – Receivables consist of uncollected toll revenues as well as amounts due from the Federal Highway Administration ("FHWA") and other local Governmental Agencies in connection with reimbursement of allowable expenditures made pursuant to contracts and grants that are verifiable, measurable, and expected to be collected and available for expenditures for which the resource provider's conditions have been satisfied.

Allowance for Doubtful Accounts -– An allowance for doubtful accounts has not been established because there are no indications of significant delinquencies from the collection of toll revenues as of June 30, 2014 and 2013.

Restricted Cash and Cash Equivalents – This classification includes funds received through toll revenue collections. The proceeds are to be used for debt service payment. The funds are held in the North Carolina State Treasurer's Investment Fund, and the securities are valued at amortized cost, which approximates fair value.

Restricted Investments – This classification includes revenue bond proceeds and funds received from the State of North Carolina to be used solely for the construction of the Triangle Expressway and the Monroe Connector. These funds are invested in a money market mutual fund and other designated funds and are valued using the Net Asset Value ("NAV") provided by the administrator of the funds. The NAV is based on the value of the underlying assets owned by the fund, minus its liabilities, and then divided by the number of shares outstanding. The securities are stated at fair market value.

Note 1—Summary of significant accounting policies (continued)

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

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

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

Capital Assets – Depreciable – Capital assets are stated at cost at the date of acquisition or fair value at date of donation in the case of gifts. Assets that have a value or cost in excess of $5,000 at the date of acquisition and have an expected useful life of more than two years are capitalized. This definition conforms to the policy of the North Carolina Office of State Controller.

Depreciation is calculated using the straight-line method over the estimated useful life of 5 years for the machinery and equipment and 50 years for the highway network. Capital assets are carried at cost less accumulated depreciation.

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

Accrued Vacation – The NCTA's policy is to record the cost of vacation leave when earned. The policy provides for a maximum accumulation of unused vacation leave of 30 days which can be carried forward each January 1 or for which an employee can be paid upon termination of employment. Also, any accumulated vacation leave in excess of 30 days at year-end is converted to sick leave. Under this policy, the accumulated vacation leave for each employee at June 30 equals the leave carried forward at the previous December 31 plus the leave earned less the leave taken between January 1 and June 30.

In addition to the vacation leave described above, accrued vacation includes the accumulated unused portion of the special annual leave bonuses awarded by the North Carolina General Assembly. The bonus leave balance on December 31 is retained by employees and transferred into the next calendar year. It is not subject to conversion to sick leave. When classifying accrued vacation into current and noncurrent, leave is considered taken using a last-in, first-out method.

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

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

Restricted – This represents funds received through toll revenue collections. The proceeds are to be used for debt service payment. The funds are held in the North Carolina State Treasurer's Investment Fund, and the securities are valued at amortized cost, which approximates fair value.

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

Note 1—Summary of significant accounting policies (continued)

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

Operating revenues include activity from the toll roads that were open for operations during the fiscal years ending June 30, 2014 and 2013. These revenues include toll revenues, processing fees, and other charges arising from the toll roads.

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

Use of Estimates – The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the dates of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates.

Note 2—Deposits

At June 30, 2014 and 2013, respectively, $3,510,111 and $2,811,126 as shown on the statements of net position as cash and cash equivalents represent the NCTA's equity position in the State Treasurer's Short-Term Investment Fund. The Short-Term Investment Fund (a portfolio within the State Treasurer's Investment Pool, an external investment pool that is not registered with the Securities and Exchange Commission and does not have a credit rating) had a weighted average maturity of 1.3 and 1.6 years as of June 30, 2014 and 2013, respectively. Assets and shares of the Short-Term Investment Fund are valued at amortized cost, which approximates fair value. At June 30, 2014 and 2013, $2,616,292 and $1,711,674, respectively, are classified as restricted. These amounts represent cash collected from toll revenues that is restricted for payments on bonds. Deposit and investment risks associated with the State Treasurer's Investment Pool (which includes the State Treasurer's Short-Term Investment Fund) are included in the state of North Carolina's *Comprehensive Annual Financial Report.* An electronic version of this report is available by accessing the North Carolina Office of the State Controller's Internet home page http://www.ncosc.net/ and clicking on "Reports" or by calling the State Controller's Financial Reporting Section at (919) 707-0500.

Note 3—Restricted investments

At June 30, 2014 and 2013, respectively, $830,343,581 and $857,497,362 are invested in the PFM Funds – Prime Series. The PFM Funds – Prime Series is an SEC-registered money market mutual fund. The fund invests in obligations of the United States government and its agencies, high quality debt obligations of U.S. companies, and obligations of financial institutions. The fund seeks to maintain a constant $1 net asset value and is rated "AAAm" by Standard & Poor's. In addition, the fund maintains a weighted average maturity of 60 days or less.

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

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

Interest Rate Risk – Interest rate risk represents the risk governments are exposed to as a result of changes in interest rates on the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. NCTA's policy to mitigate risk has been to structure the investment portfolio so that securities mature to meet cash requirements reducing the need to sell securities on the open market prior to maturity. In addition, interest rate risk is reduced by investing funds primarily in shorter-term securities. NCTA does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. Information about the exposure of the NCTA's debt type investments to this risk using the segmented time distribution model is as follows for the years ending June 30:

		2014	
		Investment Maturities (in Years)	
Type of Investment	Fair Value	Less Than 1 Year	1 – 5 Years
U.S. Government Securities	$ 25,037,554	$ -	$ 25,037,554
U.S. Government Agencies	69,813,665	10,714,550	59,099,115
STIF	467,689,538	467,689,538	-
Money Market Mutual Funds	136,174,812	136,174,812	-
Total	$ 698,715,569	$ 614,578,900	$ 84,136,669

Note 3—Restricted investments (continued)

	2013		
		Investment Maturities (in Years)	
Type of Investment	Fair Value	Less Than 1 Year	1 – 5 Years
U.S. Government Securities	$ 7,597,376	$ -	$ 7,597,376
U.S. Government Agencies	85,973,447	7,019,815	78,953,632
STIF	465,636,287	465,636,287	-
Money Market Mutual Funds	166,674,372	166,674,372	-
Total	$ 725,881,482	$ 639,330,474	$ 86,551,008

In addition to NCTA bond proceeds, additional debt was incurred by the State of North Carolina and the North Carolina Department of Transportation through Grant Anticipation Revenue Vehicles (GARVEE). Investment of the proceeds of such debt is governed by North Carolina General Statute §147-69.1 and bond covenants that, in general, allow funds to be invested in obligations of the United States or United States government sponsored enterprises, obligations of the State of North Carolina or localities of the State of North Carolina, prime quality commercial paper, shares of certain money market mutual funds, and commingled investment pools. Information about the exposure of the NCTA's GARVEE debt type investments using the segmented time distribution model is as follows for the years ending June 30:

		2014 Investment Maturities (in Years)
Type of Investment	Fair Value	Less Than 1 Year
Asset Backed Securities	$ 4,594,076	$ 4,594,076
HSBC Repurchase Agreements	127,033,936	127,033,936
Total	$ 131,628,012	$ 131,628,012

		2013 Investment Maturities (in Years)
Type of Investment	Fair Value	Less Than 1 Year
Principal Cash	$ 84	$ 84
HSBC Repurchase Agreements	131,615,796	131,615,796
Total	$ 131,615,880	$ 131,615,880

Note 3—Restricted investments (continued)

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

Note 4—Capital assets

A summary of changes in capital assets for the year ended June 30, 2014, is presented as follows:

	July 1, 2013	Additions	Disposals	Transfers	June 30, 2014
Capital Assets, Nondepreciable					
Land and Permanent Easements	$ 144,959,001	$ 4,609,350	$ -	$ -	$ 149,568,351
Construction in Progress	165,157,204	41,460,289	-	-	206,617,493
Total Capital Assets, Nondepreciable	310,116,205	46,069,639	-	-	356,185,844
Capital Assets, Depreciable					
Highway Network	806,486,015	-	-	-	806,486,015
Machinery and Equipment	80,476	-	-	(20,441)	60,035
Total Capital Assets, Depreciable	806,566,491	-	-	(20,441)	806,546,050
Less Accumulated Depreciation for:					
Highway Network	11,780,749	16,129,721	-	-	27,910,470
Machinery and Equipment	80,385	91	-	(20,441)	60,035
Total Accumulated Depreciation	11,861,134	16,129,812	-	(20,441)	27,970,505
Total Capital Assets, Depreciable, Net of Depreciation	794,705,357	(16,129,812)	-	-	778,575,545
Capital Assets, Net of Depreciation	$ 1,104,821,562	$ 29,939,827	$ -	$ -	$ 1,134,761,389

A summary of changes in capital assets for the year ended June 30, 2013, is presented as follows:

	July 1, 2012	Additions	Disposals	Transfers	June 30, 2013
Capital Assets, Nondepreciable					
Land and Permanent Easements	$ 136,406,626	$ 8,552,375	$ -	$ -	$ 144,959,001
Construction in Progress	692,690,918	93,157,839	-	(620,691,553)	165,157,204
Total Capital Assets, Nondepreciable	829,097,544	101,710,214	-	(620,691,553)	310,116,205
Capital Assets, Depreciable					
Highway Network	185,794,462	-	-	620,691,553	806,486,015
Machinery and Equipment	80,476	-	-	-	80,476
Total Capital Assets, Depreciable	185,874,938	-	-	620,691,553	806,566,491
Less Accumulated Depreciation for:					
Highway Network	1,857,945	9,922,804	-	-	11,780,749
Machinery and Equipment	71,904	8,481	-	-	80,385
Total Accumulated Depreciation	1,929,849	9,931,285	-	-	11,861,134
Total Capital Assets, Depreciable, Net of Depreciation	183,945,089	(9,931,285)	-	620,691,553	794,705,357
Capital Assets, Net of Depreciation	$ 1,013,042,633	$ 91,778,929	$ -	$ -	$ 1,104,821,562

Note 5—Advances from other funds

The following is a summary of changes in the NCTA's Advances from Other Funds as of June 30, 2014:

	July 1, 2013	Additions	June 30, 2014
Advances from Other Funds	$ 23,605,800	$ 888,724	$ 24,494,524

The following is a summary of changes in the NCTA's Advances from Other Funds as of June 30, 2013:

	July 1, 2012	Additions	June 30, 2013
Advances from Other Funds	$ 22,746,383	$ 859,417	$ 23,605,800

Pursuant to G.S. 136-176(b), operation and project development costs for the NCTA are eligible for funding from the Highway Trust Fund administration funds. These funds are considered an Advance from Other Funds and are to be repaid from toll revenue as soon as possible. Beginning January 1, 2014, one year after the NCTA began collecting tolls on the completed Triangle Expressway project, the NCTA began accruing interest on the unpaid balance owed to the Highway Trust Fund at a rate equal to the State Treasurer's average annual yield (0.438% as of June 30, 2014) on its investment of Highway Trust Fund funds pursuant to G.S. 147-6.1. The NCTA accrued $61,955 of interest as of June 30 2014.

Note 6—Lease obligations

As of June 30, 2013, the NCTA did not have any operating lease agreements, and the lease expense for the year ended June 30, 2013, was the negotiated price for the NCTA to be released from prior lease obligations. During the year ending June 30 2014, the NCTA entered into lease agreements for road maintenance equipment. Rental expense relating to operating leases during the years ended June 30, 2014 and 2013 was $141,885 and $113,103, respectively.

Note 7—Long-term debt

Revenue Bonds Payable

Long-term debt as of June 30, 2014 and 2013 consists of the following:

Revenue Bonds	2014	2013
Revenue bonds payable, Series 2009A Triangle Expressway Revenue Bonds in the amount of $234,910,000, issued July 29, 2009, with coupon rates of 5.50% and 5.75%, with principal payments beginning January 2019 and a final maturity of January 2039, net of unamortized discount of $1,010,641 at June 30, 2014.	$ 233,899,359	$ 233,833,491
Revenue bonds payable, Series 2009B Capital Appreciation Triangle Expressway Revenue Bonds in the amount of $35,173,109, issued July 29, 2009, with interest ranging from 6.74% to 7.10% compounding semi-annually, with principal payments beginning January 2030, due in full January 2038, net of unamortized discount of $151,323 at June 30, 2014.	35,021,786	35,011,923
Revenue bonds payable, Series 2009B State Appropriation Revenue Bonds in the amount of $352,675,000, issued July 29, 2009, with coupon rates of 6.00% and 6.70%, with principal payments beginning January 2017, final maturity January 2039, net of unamortized discount of $618,179 at June 30, 2014.	352,056,821	352,016,531
Revenue bonds payable, Series 2010A State Appropriation Revenue Bonds in the amount of $233,920,000, issued October 26, 2010, with coupon rates of 5.318% and 5.418%, with principal payments beginning January 2022, final maturity January 2041.	233,920,000	233,920,000
Revenue bonds payable, Series 2011 Monroe Connector System Revenue Bonds in the amount of $10,000,000, issued November 15, 2011, with a coupon rate of 2.48%, with principal payments beginning July 2012 and a final maturity of July 2023.	8,660,000	9,415,000
Revenue bonds payable, Series 2011 State Appropriation Revenue Bonds in the amount of $214,505,000, issued November 30, 2011, with coupon rates of 4.25% and 5.00%, with principal payments beginning July 2012, final maturity July 2041, net of unamortized premium of $15,178,606 at June 30, 2014.	189,148,606	208,783,133
Revenue bonds payable, Series 2011 Grant Anticipation Revenue Vehicle Bonds in the amount of $145,535,000, issued December 15, 2011, with coupon rates of 2.00% and 4.00%, with principal payments beginning March 2019, final maturity March 2023, net of unamortized premium of $10,753,332 at June 30, 2014.	156,288,332	157,777,693
Total Revenue Bonds, Net	$ 1,208,994,904	$ 1,230,757,771

Note 7—Long-term debt (continued)

Note Payable	2014	2013
TIFIA note payable for an amount not to exceed $386,662,363, opened on July 1, 2009, bearing interest of 4.25% per annum, with debt service payments beginning July 2015, due in full July 1, 2042, or the last payment date occurring no later than 35 years after the date of substantial project completion, whichever date is earlier.	$ 372,876,792	$ 372,876,792

Revenue bond payable maturities are as follows:

Year Ending June 30,	Principal	Interest	Total
2015	$ 19,720,000	$ 61,911,662	$ 81,631,662
2016	8,200,000	61,328,068	69,528,068
2017	11,960,000	60,951,103	72,911,103
2018	16,070,000	60,394,070	76,464,070
2019	23,350,000	59,656,354	83,006,354
2020-2024	255,975,000	221,133,871	477,108,871
2025-2029	209,425,000	215,545,382	424,970,382
2030-2034	275,886,320	176,537,323	452,423,643
2035-2039	239,071,789	213,192,385	452,264,174
2040-2042	125,185,000	11,093,687	136,278,687
Total	$ 1,184,843,109	$ 1,141,743,905	$ 2,326,587,014

The TIFIA note payable requires debt service payments commencing July 1, 2015, with a final maturity of July 1, 2042, or the last payment date occurring no later than 35 years after the date of substantial project completion, whichever date is earlier. No payment of principal or interest on the TIFIA note payable is required to be made during the period of July 1, 2009, through January 1, 2015. The time period for payments of principal and interest will commence on January 1, 2015. The amounts of principal and interest will be calculated based on the total amount drawn on the note and outstanding as of January 1, 2015. For the period of January 1, 2015, through December 31, 2024, the payment shall be equal to the interest payable on the TIFIA note payable outstanding balance on the next interest payment date. For the period of January 1, 2025, until the maturity of the TIFIA note payable, the payment shall be 100% of the interest payable on the outstanding TIFIA note payable balance on the next interest payment date and 50% of the scheduled principal amortization as determined by the debtor at such future date. Accrued interest on the loan agreement was $55,100,915 and $37,428,311 as of June 30, 2014 and 2013, respectively.

Note 7—Long-term debt (continued)

TIFIA note payable maturities are as follows:

Year Ending June 30,	Principal	Interest	Total
2015	$ -	$ 7,892,312	$ 7,892,312
2016	-	17,088,417	17,088,417
2017	-	18,317,448	18,317,448
2018	-	18,292,253	18,292,253
2019	-	18,292,253	18,292,253
2020-2024	49,679	91,454,196	91,503,875
2025-2029	19,561,483	93,687,891	113,249,374
2030-2034	57,626,859	90,589,196	148,216,055
2035-2039	114,447,857	80,496,702	194,944,559
2040-2043	181,190,914	44,566,509	225,757,423
Total	$ 372,876,792	$ 480,677,177	$ 853,553,969

Long-term liability activity for the year ended June 30, 2014, is as follows:

	June 30, 2013	Additions	Reductions	June 30, 2014	Due within a Year
Bonds Payable					
Revenue Bonds	$ 1,203,993,109	$ -	$ (19,150,000)	$ 1,184,843,109	$ 19,720,000
Deferred Amounts:					-
For Issuance Premiums	28,660,826	-	(2,728,888)	25,931,938	-
For Issuance Discounts	(1,896,164)	-	116,021	(1,780,143)	-
	1,230,757,771	-	(21,762,867)	1,208,994,904	19,720,000
Note Payable	372,876,792	-	-	372,876,792	-
Accrued Vacation	63,095	64,655	(44,994)	82,756	5,884
Total Long-Term Debt	$ 1,603,697,658	$ 64,655	$ (21,807,861)	$ 1,581,954,452	$ 19,725,884

Long-term liability activity for the year ended June 30, 2013, is as follows:

	June 30, 2012	Additions	Reductions	June 30, 2013	Due within a Year
Bonds Payable					
Revenue Bonds	$ 1,226,718,109	$ -	$ (22,725,000)	$ 1,203,993,109	$ 19,150,000
Deferred Amounts:					-
For Issuance Premiums	31,507,172	-	(2,846,346)	28,660,826	-
For Issuance Discounts	(2,012,162)	-	115,998	(1,896,164)	-
	1,256,213,119	-	(25,455,348)	1,230,757,771	19,150,000
Note Payable	283,508,357	89,368,435	-	372,876,792	-
Accrued Vacation	178,650	39,281	(154,836)	63,095	3,811
Total Long-Term Debt	$ 1,539,900,126	$ 89,407,716	$ (25,610,184)	$ 1,603,697,658	$ 19,153,811

Note 7—Long-term debt (continued)

Total interest cost on indebtedness was $83,274,555 and $81,705,812 for the years ended June 30, 2014 and 2013, respectively. Total capitalized interest represented $25,119,319 and $25,817,422 of this amount at June 30, 2014 and 2013, respectively.

Federal Interest Cash Subsidy
The NCTA has elected to treat the Triangle Expressway System State Annual Appropriate Revenue Bonds, Series 2009B and the Monroe Connector System State Appropriation Revenue Bonds, Series 2010A as "Build America Bonds" for purposes of the American Recovery and Reinvestment Tax Act of 2009 ("Recovery Act"). In adherence with the Recovery Act, the NCTA receives cash subsidy payments from the United States Treasury equal to 35% of the interest payable on the Series 2009B and 2010A State Appropriation Bonds. As part of the 2014 Federal Budget, the payments received during the year ended June 30, 2014 were reduced by 7.2%. Due to federal sequestration, the payments received during the year ended June 30, 2013 were reduced by 8.7%. Cash subsidy payments totaled $11,338,065 and $11,686,271 as of June 30, 2014 and 2013, respectively.

Note 8—Pledged revenues

On July 29, 2009, the NCTA issued State Annual Appropriation Revenue Bonds, Series 2009B in the amount of $352,675,000 and the Triangle Expressway System Revenue Bonds, Series 2009A and 2009B in the amount of $270,083,109. The bonds are secured by and payable from "revenues" which consist of an annual appropriation to the NCTA by the State of North Carolina from the North Carolina Highway Trust Fund, the Interest Subsidy Payments received from the United States Department of the Treasury with respect to the Series 2010A Bonds under the "Build America Bond" program, and the investment income realized from the investment of amounts held under the Trust Agreement. The NCTA has also pledged revenues from the operation of the Triangle Expressway System. Interest paid during the years ending June 30, 2014 and 2013 relating to the 2009 Revenue Bonds totaled $35,649,035 in each year, and no principal payments have been required as of June 30, 2014.

On October 26, 2010, the NCTA issued Monroe Connector System State Appropriation Revenue Bonds, Series 2010A in the amount of $233,920,000. The NCTA has pledged, as security for revenue bonds issued by the NCTA, revenues from the operation of the Monroe Connector System. Interest paid during the years ending June 30, 2014 and 2013 relating to the Monroe Connector System State Appropriation Revenue Bonds, Series 2010A totaled $12,297,007 in each year, and no principal payments have been required as of June 30, 2014.

The NCTA has elected to treat the State Appropriation Revenue Bonds, Series 2009B and 2010A, as "Build America Bonds" for purposes of the American Recovery and Reinvestment Act of 2009 and to receive a cash subsidy from the United States Treasury equal to 35% of the interest payable on those bonds. As part of the 2014 Federal Budget, the payments received during the year ended June 30, 2014 were reduced by 7.2%. Due to federal sequestration, the payments received during the year ended June 30, 2013 were reduced by 8.7%. For the State Annual Appropriation Revenue Bonds, specific revenues pledged consist of State annual appropriations, federal interest subsidy payments, and investment income. For the Senior Lien Revenue Bonds, specific revenues pledged consist of toll revenues and all other income derived from the operation of the Triangle Expressway System.

Note 8—Pledged revenues (continued)

The Monroe Connector System Revenue Bonds, Series 2011 were issued on November 15, 2011, in the amount of $10,000,000. These 2011 Bonds have a coupon rate of 2.48% and a final maturity of July 2023. Interest on these 2011 Bonds is due and payable on each January 1 and July 1, beginning July 1, 2012. Interest paid during the year ending June 30, 2014, relating to the 2011 Bonds totaled $224,130, and $755,000 in principal was repaid during the year then ended. Interest paid during the year ending June 30, 2013, relating to the 2011 Bonds totaled $272,435, and $585,000 in principal was repaid during the year then ended. As of June 30, 2014 and 2013, the outstanding aggregate principal amount of these 2011 bonds was $8,660,000 and $9,415,000, respectively.

The Monroe Connector System State Appropriation Revenue Bonds, Series 2011 were issued on November 30, 2011, in the amount of $214,505,000. These 2011 Bonds are secured by and payable from, in parity with the Series 2010A Bonds, the revenues and, under certain circumstances, the proceeds of the Bonds. The "revenues" consist of an annual appropriation to the NCTA by the State of North Carolina from the North Carolina Highway Trust Fund, the Interest Subsidy Payments received from the United States Department of the Treasury with respect to the Series 2010A Bonds under the "Build America Bond" program, and the investment income realized from the investment of amounts held under the Trust Agreement. Interest on these 2011 Bonds is due and payable on each January 1 and July 1, beginning January 1, 2012. Interest paid during the year ending June 30, 2014, relating to these 2011 Bonds totaled $8,641,925, and $18,395,000 in principal was repaid during the year then ended. Interest paid during the year ending June 30, 2013, relating to these 2011 Bonds totaled $9,083,900, and $22,140,000 in principal was repaid during the year then ended. As of June 30, 2014 and 2013, the outstanding aggregate principal amount of these 2011 bonds was $173,970,000 and $192,365,000, respectively.

The Monroe Connector System Grant Anticipation Revenue Vehicle Bonds, Series 2011 were issued on December 15, 2011, in the amount of $145,535,000. These 2011 Bonds are payable solely from certain federal aid revenues received by or on behalf of the state that are legally available for the payment thereof and moneys held in certain funds under the Indenture. Such federal aid revenues consist of amounts derived from the National Highway System and other federal surface transportation programs. Interest on these 2011 Bonds is due and payable on each March 1 and September 1, beginning March 1, 2012. Interest paid during the years ending June 30, 2014 and 2013 relating to these 2011 Bonds totaled $5,773,400 respectively for both years, and no principal payments have been required as of June 30, 2013.

Proceeds from the bonds will be used to pay the costs of land acquisition, design, construction, and equipping of the Triangle Expressway System and the Monroe Connector System. The total principal and interest remaining to be paid on the bonds is $2,326,587,014, payable through July 2041 (final maturity date). For the year ending June 30, 2014, principal and interest paid, available revenues (federal interest subsidy, toll revenues and fees, and investment revenues), and federal transportation funds (capital grants), were $81,735,497, $36,793,035, and $11,676,700, respectively. For the year ending June 30, 2013 principal and interest paid, available revenues (federal interest subsidy, toll revenues and fees, and investment revenues), and federal transportation funds (capital grants), were $85,800,777, $27,031,251, and $12,364,550, respectively.

Note 9—Pension plans

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

Benefit and contribution provisions for the System are established by North Carolina General Statutes 135-5 and 135-8 and may be amended only by the North Carolina General Assembly. Employer and member contribution rates are set each year by the North Carolina General Assembly based on annual actuarial valuations.

For the years ending June 30, 2014, 2013, and 2012, the NCTA had a total payroll of $1,147,775, $1,231,319, and $1,973,724, respectively, of which $988,337, $950,519, and $1,318,798, respectively, was covered under the System. Total employer contributions for pension benefits for the years ended June 30, 2014, 2013, and 2012 were $82,328, $79,178, and $98,119, respectively. Total employee contributions for pension benefits were $59,300, $57,031, and $79,128 for the years ended June 30, 2014, 2013, and 2012, respectively.

Required employer contribution rates for the years ended June 30, 2014, 2013, and 2012, were 8.33%, 8.33%, and 7.44%, respectively, while employee contributions were 6% each year. The NCTA made 100% of its annual required contributions for the years ended June 30, 2014, 2013, and 2012.

The Teachers' and State Employees' Retirement System's financial information is included in the state of North Carolina's *Comprehensive Annual Financial Report.* An electronic version of this report is available by accessing the North Carolina Office of the State Controller's Internet home page http://www.ncosc.net/ and clicking on "Reports" or by calling the State Controller's Financial Reporting Section at (919) 707-0500.

Deferred Compensation and Supplemental Retirement Income Plans – IRC Section 457 Plan – The state of North Carolina offers its permanent employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457 through the North Carolina Public Employee Deferred Compensation Plan (the "Plan"). The Plan permits each participating employee to defer a portion of his or her salary until future years. The deferred compensation is available to employees upon separation from service due to death, disability, or retirement or financial hardships if approved by the Board of Trustees of the Plan. The Board, a part of the North Carolina Department of Administration, maintains a separate fund for the exclusive benefit of the participating employees and their beneficiaries, the North Carolina Public Employee Deferred Compensation Trust Fund. The Board also contracts with an external third party to perform certain administrative requirements and to manage the trust fund's assets. All costs of administering and funding the Plan are the responsibility of the Plan participants. No costs are incurred by the NCTA. The voluntary contributions by employees amounted to $44,175, $17,469, and $19,266 for the years ended June 30, 2014, 2013, and 2012, respectively.

IRC Section 401(k) Plan – All members of the Teachers' and State Employees' Retirement System are eligible to enroll in the Supplemental Retirement Income Plan, a defined contribution plan, created under Internal Revenue Code Section 401(k). All costs of administering the Plan are the responsibility of the Plan participants. No costs are incurred by the NCTA. The voluntary contributions by employees amounted to $52,037, $40,728, and $32,303, for the years ended June 30, 2014, 2013, and 2012, respectively.

Note 10—Other post-employment benefits

Health Benefits – The NCTA participates in the Comprehensive Major Medical Plan (the "Medical Plan"), a cost-sharing, multiple-employer defined benefit health care plan that provides post employment health insurance to eligible former employees. Eligible former employees include long-term disability beneficiaries of the Disability Income Plan of North Carolina and retirees of the Teachers' and State Employees' Retirement System. Coverage eligibility varies depending on years of contributory membership service in their retirement system prior to disability or retirement.

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

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

For the years ended June 30, 2014, 2013, and 2012, the NCTA contributed 5.40%, 5.30%, and 5.00%, of the covered payroll under the Teachers' and State Employees' Retirement System. Required contribution rates for the years ended June 30, 2014, 2013, and 2012 were 5.40%, 5.30%, and 5.00%, respectively. The NCTA made 100% of its annual contributions to the Medical Plan for the years ended June 30, 2014 and 2013, which were $53,370, $50,377, and $65,940, respectively. The NCTA assumes no liability for retiree health care benefits provided by the programs other than its required contribution.

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

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

Disability income benefits are funded by actuarially determined employer contributions that are established in the Appropriations Bill by the General Assembly. For the years ended June 30, 2014, 2013, and 2012, the NCTA made a statutory contribution of 0.44%, 0.44%, and 0.52%, of covered payroll, respectively, under the Teachers' and State Employees' Retirement System to the DIPNC. The NCTA made 100% of its annual required contributions to the DIPNC for the years ended June 30, 2014, 2013, and 2012 which were $4,349, $4,182, and $6,858, respectively. The NCTA assumes no liability for long-term disability benefits under the DIPNC.

Note 10—Other post-employment benefits (continued)

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

Note 11—Risk management

The NCTA is exposed to various risks of loss related to torts; theft of, damage to, and the destruction of assets; errors and omissions; injuries to employees; and natural disasters. The NCTA carries insurance through the NCDOT for risks of loss. There have been no significant reductions in insurance coverage from the previous year, and settled claims have not exceeded coverage in any of the past three fiscal years.

Tort claims of up to $1,000,000 are self-insured under the authority of the State Tort Claims Act. In addition, the State provides excess public officers' and employees' liability insurance up to $10,000,000 via contract with a private insurance company. The premium, based on a composite rate, is paid by the NCDOT directly to the insurer.

The State Property Fire Insurance Fund ("Fire Fund"), an internal service fund of the state, insures all state-owned buildings and contents for fire and various other property losses up to $2,500,000 per occurrence. The Fire Fund purchases excess insurance from private insurers to cover losses over the amounts insured by the Fund. Losses covered by the Fire Fund are subject to a $5,000 per occurrence deductible except for theft losses that carry a $1,000 per occurrence deductible. There have been no significant reductions in insurance coverage from the previous year, and settled claims have not exceeded coverage in any of the past three fiscal years.

State-owned vehicles are covered by liability insurance handled by the North Carolina Department of Insurance. The State is self-insured for the first $1,000,000 of any loss through a retrospective rated plan. Excess insurance coverage is purchased through a private insurer to cover losses greater than $1,000,000 up to $10,000,000. The liability limits for losses occurring in-state are $1,000,000 per claimant and $10,000,000 per occurrence. The NCDOT covers the cost of excess insurance and pays for those losses falling under the self-insured retention.

The NCTA is protected for losses from employee dishonesty and computer fraud for employees paid in whole or in part from State funds. This coverage is with a private insurance company and is handled by the North Carolina Department of Insurance with coverage of $5,000,000 per occurrence, with a $75,000 deductible and 10% participation in each loss above the deductible. In addition, the NCDOT has a separate public employee dishonesty and faithful performance policy with a limit of $1,000,000.

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

The North Carolina Workers' Compensation Program provides benefits to workers injured on the job. All employees of the State are included in the program. When an employee is injured, the NCTA's primary responsibility is to arrange for and provide the necessary treatment for the work-related injury. The NCTA is responsible to pay medical benefits and compensation in accordance with the North Carolina Workers' Compensation Act. The NCTA is self-insured for workers' compensation.

Term life insurance of $25,000 to $50,000 is provided to eligible employees. This self-insured death benefit program is administered by the State Treasurer and funded via employer contributions. The employer contribution rate was 0.16% of covered payroll for the current fiscal year.

Note 11—Risk management (continued)

Additional details on the state-administered risk management programs are disclosed in the State of North Carolina's *Comprehensive Annual Financial Report.* An electronic version of this report is available by accessing the North Carolina Office of the State Controller's Internet home page http://www.ncosc.net/ and clicking on "Reports" or by calling the State Controller's Financial Reporting Section at (919) 707-0500.

Note 12—Commitments and contingencies

The NCTA has established an encumbrance system to track its outstanding commitments on construction projects and other purchases. Outstanding commitments for engineering and design contracts were $7,793,420 and $8,890,809 at June 30, 2014 and 2013, respectively.

The NCTA at times is involved in litigation in the normal course of business. Although the outcome of any such litigation is not presently determinable, in the opinion of management and the NCTA's General Counsel, the results of the litigation will not have a materially adverse impact on the financial position of the NCTA.

Note 13—Change in accounting principle/restatement

During fiscal year 2014, the NCTA adopted the provisions of GASB Statement 65, Items Previously Reported as Assets and Liabilities (Statement No. 65). The provisions of Statement No. 65 relevant to the NCTA related to changes in the accounting and reporting of bonded debt activities. Specifically bond issuance costs incurred are recorded as current period expenditures as opposed to being deferred and amortized over the maturity period of the debt. Under Statement No. 65, prepaid insurance costs related to the debt continued to be classified as an asset and amortized over the maturity period of the debt. The provisions of this statement were required to be applied retrospectively; therefore, certain financial statement amounts previously reported have been restated as of and for the year ended June 30, 2013 as detailed below:

	As Previously Reported	Adjustments	As Restated
Statement of Net Position			
Assets			
Deferred Charges - remaining balance reclassified as Prepaid Insurance Costs	$ 28,038,297	$ (17,998,217)	$ 10,040,080
Total Assets	$ 2,040,930,756	$ (17,998,217)	$ 2,022,932,539
Net Position			
Net Investment in Capital Assets	$ 358,684,361	$ (17,998,217)	$ 340,686,144
Net Position	$ 286,423,006	$ (17,998,217)	$ 268,424,789

Note 13—Change in accounting principle/restatement (continued)

	As Previously Reported	Adjustments	As Restated
Statements of Revenues, Expenses, and Changes in Net Position			
Nonoperating Revenues (Expenses)			
Interest and Fees	$ (52,907,511)	$ 722,035	$ (52,185,476)
Total Nonoperating Revenues	$ (38,736,597)	$ 722,035	$ (38,014,562)
Loss before Transfers and Capital Grants	$ (49,968,745)	$ 722,035	$ (49,246,710)
Increase in Net Position	$ 16,065,805	$ 722,035	$ 16,787,840
Net Position			
Net Position Beginning July 1, 2012	$ 270,357,201	$ (18,720,252)	$ 251,636,949
Statement of Cash Flows			
Noncash Investing, Capital, and Financing Activities			
Amortization of Bond-Related Costs - Reclassified as Amortization of Prepaid Insurance Costs	$ 1,108,192	$ (722,035)	$ 386,157

Note 14—Subsequent events

In connection with the preparation of the financial statements and in accordance with U.S. GAAP, the NCTA considered for disclosure subsequent events that occurred after the statement of net position date of June 30, 2014, through September 30, 2014, which was the date the financial statements were available to be issued. No subsequent events were noted that required disclosure in the financial statements.

Cherry Bekaert LLP
CPAs & Advisors

Report of Independent Auditor on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards*

Board of Directors
North Carolina Turnpike Authority
Raleigh, North Carolina

We have audited in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to the financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the North Carolina Turnpike Authority ("NCTA"), a major enterprise fund of the State of North Carolina, as of and for the years ended June 30, 2014 and 2013, and the related notes to the financial statements, which collectively comprises the NCTA's basic financial statements as listed in the table of contents, and have issued our report thereon dated September 30, 2014.

The financial statements present only the NCTA and do not purport to and do not present fairly the financial position of the State of North Carolina or the North Carolina Department of Transportation, as of and for the years ended June 30, 2014 and 2013, and the changes in their financial position and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Internal Control over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

Cherry Bekaert LLP

Raleigh, North Carolina
September 30, 2014

This audit required 360 audit hours at a cost of $68,500.